

5. According to the authority previously quoted, the consolidated loan 1868-72 shows an amount of £6,300,000 unredeemed out of £7,283,000. The same authority gives the rate to investors at present prices as £4 16s. 1d. per cent. per annum. The colonial return before quoted shows that on this loan, up to the 30th June, 1879, sinking fund to the amount of £863,300 had accrued; it is now £979,800. Strictly speaking, however, this is not a sinking fund. The loan is a drawing one, and the amounts mentioned indicate the bonds that have been drawn. If, for example sake, a third of the loan were to be converted, it would not set free a third of the sinking fund; but, nevertheless, the operation would be a very good one for the Government.

We doubt if, under the Act, supposing the debentures to be converted, and for convenience sake cancelled, they yet could be deemed non-existent. Nominally the Government would have to put apart the total amount of interest and sinking fund. But the converted bonds would enjoy interest, and participate in the drawing; and, supposing they averaged with the rest a third of the drawing, and all the interest on the undrawn, would revert to the Government, so that, practically, in reducing the yearly charge for sinking or drawing fund, the effect would be the same.

6. Our present opinion, then, is that, whilst we should have full power to deal with the 1856 loan, our negotiations with respect to it would have to be very quietly set about. But, respecting a public and large operation, we recommend the consolidated loan as the one to first engage our attention.

7. We have previously pointed out that conversion must never be made at such a rate as to flood the market with inscribed stock and cause it to lose its relatively higher value to debentures. To convert at once the whole of the consolidated debentures would have the effect of so increasing the amount of inscribed stock as to probably much reduce its superiority in price to debentures. We believe it would be better not to attempt to convert more than two millions at one operation, possibly not so much. The effect also of inscribing a limited amount will be to create a competition amongst the holders of the debentures to be converted, which may be used in a novel but, we believe, effective manner by letting them compete for conversion at and over a minimum price named, or at a fixed price if, on consideration, it should be found preferable. We cannot bind ourselves to exact details, because to make the inquiry necessary to such details would have a mischievous consequence in giving a clue to our intentions and causing speculation in advance; but we propose some such plan as this: viz., to invite, on a given day, or for a limited and very short period, tenders from holders of consolidated bonds for inscribed stock at and over a minimum; or a fixed price to be named for every hundred of inscribed stock. For example, and without the figures expressing any conclusion, we might fix the minimum at 90 for each hundred of inscribed stock, and invite tenders in debentures, each debenture of 5-per-cent. to represent a fixed value of £103. Of course figures like these would be very profitable, and we do not express the opinion that they can be adopted, but the price can be so fixed as to leave a good profit. The operation must be discreetly managed, and advantage taken of an opportunity when inscribed stock may be high and consolidated debentures low in value. It would clearly be understood that the price of the then conversion would not fix the rates of future conversions.

8. We have been thus explicit in order that you may see what is in our minds, and, as these operations would require great thought and much preparation in advance, we will ask you, if we have your consent to go on with them, to telegraph as soon as you can after the receipt of this letter.

9. It would fatally prejudice the success of our plans that the least inkling of their nature should creep out. If it were suspected, for example, that we were going to operate on the consolidated loan, the price would so rise as to make such action difficult if not impossible. We therefore attach some phrases, with code words to represent them, which we think will enable you to convey to us your wishes free of any risk of premature disclosure, and we need not add that the greatest secrecy should be observed in the colony.

10. We venture to throw out for your consideration another suggestion: Some time since you telegraphed to the Agent-General asking if you could convert some debentures held in the colony for post-office and sinking fund, to which we replied that, if the debentures referred to had not been issued in London, they could not be inscribed here without breaking the promise made not to issue new loans in England for three years, as to all intents and purposes such newly-introduced indebtedness would be a fresh loan. It has, however, occurred to us that your object might be carried out without the objection alluded to by your converting in the colony, or in the Australian Colonies. We believe there is no inscribed stock to any extent at either Melbourne or Sydney, or in New Zealand; and, viewing the risk entailed by the custody of debentures, possibly a limited amount of inscribed stock in the colonies would be favourably received. It is not for us to suggest how you should carry out the operation, but we may be excused for saying that its success will probably depend upon its being judiciously conducted, and especially upon its being kept quite secret at all the places concerned until the whole of the arrangements are made and the issue announced. If the idea were mooted in advance opposition from various influential quarters might be looked for. Another point to which we must specially draw attention is this: No power should be given to transfer from the colonial to the London registry.

11. If you wish us, in respect to the colonial operations, to more fully state our views and tender advice we will be glad to do so; but you should, in that case, furnish us with detailed particulars of all outstanding debentures in the colony.

We have, &c.,

P. G. JULYAN,

JULIUS VOGEL,

W. C. SARGEANT,

New Zealand Stock Agents.