

I presume that Sir Penrose Goodchild Julyan, Sir Julius Vogel, and Montagu Frederic Ommannney, Esq., continue Loan Agents under the authority of the Order in Council dated the 15th August, 1879, made in pursuance of "The New Zealand Loan Act, 1879."

The Agent-General for New Zealand,
7, Westminster Chambers.

I have, &c.,
S. O. GRAY,
Chief Accountant.

Enclosure 2 in No. 4.

The AGENT-GENERAL to the BANK of ENGLAND.

SIR,— 7, Westminster Chambers, London, S.W., 19th August, 1881.
I have the honour to acknowledge the receipt of the Chief Accountant's letter of the 13th instant, acquainting me that the notification I addressed to the bank on the 11th had been duly recorded.

With reference to the last paragraph of Mr. Gray's letter, I have to state that no revocation has been made of the appointments of Sir P. Julyan, Sir J. Vogel, and Mr. Ommannney as Loan Agents under "The New Zealand Loan Act, 1879," but their special functions under that Act ceased upon the completion of the arrangements made for the issue and inscription of the loan.

The Governor of the Bank of England.

I have, &c.,
F. D. BELL,
Agent-General.

No. 5.

The AGENT-GENERAL to the Hon. the PREMIER.

SIR,— 7, Westminster Chambers, London, S.W., 25th August, 1881.
Since writing to you on the 11th and 12th instant on the question of conversion I have had several further consultations with Sir Penrose Julyan.

My letter of the 12th will have informed you of his concurrence in my opinion of the expediency of making the first operation in the 5-30s. It was not that I failed to recognize how much there was to be said in favour of beginning with consols, especially having regard to the relief that would be got by setting free a part of the Sinking Fund; nor was it from any disrespect for the argument contained in the Stock Agents' letters to you of 15th July, 1880, and 2nd June, 1881, that I leaned, for my own part, towards the policy of beginning with the 5-30s; but it may be as well that I should say what the reasons were which, on a balance of considerations, inclined me to that policy.

1. In attempting a conversion of the consols you have no means of forming a reliable judgment beforehand as to the extent to which the operation will succeed. In whatever loan you may be choosing your operation what you seek is to induce the bondholder to give up income for the sake of increased capital. Now, the instinctive tendency of the ordinary investor is against this. He says to himself, "I am asked to give up part of my income: why should I? I want no more capital; I want my income to live upon. What good will it be to me to have an addition to my capital at the end of fifty years? I shall be dead before that." Another form of antagonism is that there will always be a class of holders who prefer the possession of their bonds to any inscribed stock: another class who will not take the trouble to exchange their bonds for stock, even if they got some advantage by it: another who have tied up their securities in some way, and are unwilling to disturb what has been done.

Now, in converting consols, each of these holders has the power to refuse your offer: and his instinctive hesitation soon turns into a refusal, unless he sees a very appreciable bait held out to him. Thus your knowledge that he is sure to hesitate and very likely to refuse tempts you to offer him that bait, because you are afraid that unless you do it only a few of his class will come in.

On the contrary, in converting the 5-30s you know you can force every holder to come in. You would not attempt the operation at all without making sure of being able to sell enough stock to raise the money for paying him off; but, having fixed the minimum at which you will sell it, you know exactly how to measure the inducement which will tempt him to exchange his bond for stock rather than be paid off in cash.

2. Again, if you want to convert a consols debenture, you must calculate its value over the whole period it has still to run; whereas in converting the 5-30 bond you can take its value at £100, simply because its currency can be made to cease at your pleasure.

3. Nor have you, in converting the 5-30s, to take into consideration at all the fact of one bondholder's rate of interest being $4\frac{1}{2}$ while the other's is 5, or to offer them different terms on that account, because each of them alike can only get his £100 if you give him notice to pay off; and therefore, although there is a difference of nearly 2 per cent. in price to-day between the $4\frac{1}{2}$ s and the 5s, they will both be worth exactly the same on the day you fix to pay them off.

4. In their letter of 15th July, 1880, the Stock Agents pointed out that conversion ought not to be made at a rate to flood the market with inscribed stock and make it lose its higher value relatively to debentures, and it was on that account that they advised you not to attempt the conversion of more than two millions of consols at first. Nor would Sir Penrose and I, if we were proposing to deal with any ~~loan~~ but the 5-30s, have now recommended (especially as the money-market is to-day) an operation involving so large an amount as is covered by the 5-30s; but, having in their case the force at your command to make every one come in, you may safely venture to operate on the whole of them at once. Indeed, you could hardly, in their case, properly operate