

into 4-per-cent. inscribed stock of the short-dated debentures for £1,832,000 just created by your delegates, and also of a similar conversion of that part of the public debt known as the 5-30s.

Your letter to the Agent-General, under date the 7th October last, gave a timely intimation of the decisions to which the Government were likely to come, and these have since been formally communicated to ourselves in your two letters of the 4th November last, addressed to us in our character of Stock Agents under the Acts of 1877 and 1881.

In the first of these letters, referring to the intended creation of the short-dated debentures, you informed us that when the Treasury Bills Acts were being passed an intimation was made to the New Zealand Parliament that such debentures were meant to be ultimately converted into stock, with the view of their removal from the floating debt, and their addition to the permanent debt of the colony. You intimated to us the desire of the Government that this conversion should take place as soon after the creation of the debentures as we should think prudent, due regard being had to the necessity of abstaining from any action calculated to interfere with the success of the million loan; and you instructed us at the same time that the amount of stock to be given for every £100 of debentures was not to exceed £102; the exact terms within that limit being left to our discretion, as well as period of currency and other formal details.

In the second of the two letters we are reciting, you instructed us that if, in our opinion, there was a prospect of our being able to convert the 5-30s on terms equivalent to those you had fixed for the short-dated debentures, we were to proceed with such conversion whenever, in our estimation, it was possible to do so.

The position was made still clearer by your letter to the Agent-General, also bearing date the 4th November last, in which you reminded him that the Treasury bills in substitution for which the short-dated debentures were to be created had been chiefly held as securities for the investment of Public Trust Funds; and you informed him that it was intended, upon the debentures being converted, to sell a large portion of the stock at an early date, with the view of making other investments; further, you desired him to bear in mind that this intention of making sales of the stock was one of the things to be taken into consideration by the Stock Agents in fixing the terms of conversion, because it was desirable that the stock should sell at about par.

In our letters to you of the 28th December last, Nos. 321 and 322, acknowledging the receipt of yours of the 4th November, we confined ourselves to assuring you that the whole subject should receive our most careful consideration. But the Agent-General, in a letter by the same mail (28th December), thought it his duty to point out at once, as that mail was the first leaving after the receipt of your instructions, that the intention of selling the inscribed stock into which the short-dated debentures were to be converted involved questions materially affecting not only all the operations to be made for the Three-Million Loan, but the market price of the whole of the inscribed stock, and also any conversion of the 5-30s; nor will you have failed to gather from his letter that our first impression was that these conversion operations, under the circumstances announced to us by the Government, might turn out to be so adverse to their finance that we could not feel sanguine of being able to carry them into effect.

This first impression has ripened into a clear conviction that there are grave difficulties in the way, which must receive your consideration before any conversion whatever is attempted.

It is true that as regards the 5-30s our views were so fully explained in the Agent-General's letter of the 25th August, 1881, that if only a 5-30 conversion were now the question we should have little to say beyond bringing the figures, which were of course based upon the market-rates of that time, into harmony with the prices of to-day. But the aspect of all the questions affecting the 5-30s is entirely changed, when it is proposed to make a conversion of the short-dated bonds; and it is practically this latter conversion which we propose to examine in this letter. Now, we are met at the threshold of the matter by the consideration that nothing can be done in a conversion of the short-dated bonds without full publicity of the conversion; and the best way to test the result of making an announcement of such a conversion is to look at what we have just had to do, in our character of Loan Agents, in regard to the million loan. The Agent-General, when preparing his statement to accompany the Bank of England's prospectus of the loan, proposed at first to insert a paragraph, in the nature of a preliminary notice, that the short-dated bonds were to be converted. But, as Loan Agents, we had to request him to strike out any reference of the kind, for the simple reason that it would most likely have been disastrous to the loan. New stock to the extent of £1,832,000 would have had to be created for the conversion, and this creation would to all intents and purposes have been, so far as the market was concerned, exactly the same thing as if a new issue to the same amount was being launched without the market being told of it; for of course the fact of such a conversion having been intimated to the New Zealand Parliament would not for a moment be accepted here as an intimation of it to the market in London. The conversion of the Treasury bills into stock is really what would have been effected, though passed through the conduit-pipe of the short-dated bonds; and this would have been looked upon by the market in the light of what is called a "forced loan," which would not only have inflicted a serious blow on the credit of the colony, but have so much depreciated the possible price of any new loan, as to more than counterbalance any possible advantage to be derived from the conversion. The Stock Exchange would instinctively have seen in such an announcement the sudden creation of a new class of holders, who were in fact to be more or less sellers, and who would throw an amount of new stock upon the market, which the market itself could not measure, but which might, for aught it knew, extend to the whole inscription of £1,832,000. The chance, therefore, of the market being able to get any considerable portion of its subscriptions to the million loan absorbed by the public would have been lessened to an indefinite degree; and the same effect would have been produced as the one which so damaged the Victorian loan, namely, the creation of a vague dread that new stock in large quantities would be hanging over the market, waiting only a favourable moment for effecting sales. The market, therefore, which had been well-disposed towards the loan, would have turned