

You will have seen that the Bank of England insisted on making an initial charge of £600 per million on the amount brought in for conversion, just as they had insisted on the $\frac{1}{2}$ per cent. for bringing out the loan last January. I cannot myself read the agreement of 1875 as allowing such an initial charge to be made; but, as the bank contended that it was the true interpretation of the agreement, I need not say that there was nothing to do but to submit with a good grace, for the cost was not to be put for a moment in comparison with the advantage of the bank's name and sponsorship to the operation, including as it did the short-dated debentures. All the same, we tried very hard, at our conference with the Governor, to get a reduction from the bank of their charge for management; but after a discussion, which I must say was conducted on the part of the Governor and Chief Cashier with much courtesy and patience, we received a definite refusal to our request, coupled, however, with the assurance that no other constituent of the bank had better terms than New Zealand, and that if any reduction was ever made to anybody it should be made to us. This, of course, we knew to be meant with special reference to the other colonial loans now domiciled at the bank.

It is unnecessary to say that we have allowed the inevitable brokerage of $\frac{1}{2}$ per cent. to brokers and bankers on the amount of bonds they may send in for conversion: this will of course come in, like the bank's "initial charge," payment of stamp duty, and so forth, among the expenses of the operation to be covered by the issue of new stock.

The Stock Agents had no time, in their letter of the 21st September, to explain the intermediate process of issuing "conversion scrip," into which the debentures are to be exchanged before the stock itself is actually inscribed. The necessity for this intermediate process arose from the simple fact that the three classes of bonds to be converted had varying dates of interest-payment, which would have obliged the bank, if the debentures were to be inscribed before the next inscribed-stock dividend-day, to create an entirely new set of registers. To this they naturally objected, and for other reasons it was very desirable to avoid it. The alternative was ingeniously presented to us, on behalf of the market, of simply making a present to the bondholders of the interest after the 1st November, and inscribing the stock for them as from that dividend-day: this suggestion, however, we declined.

As regards the stock for the bondholders of the 5-30s, and all that part of the total issue of stock which the custodians of the several funds will hold instead of their short-dated debentures, the time lost by the intermediate process will not be of any consequence. And as regards the short-dated debentures the process is distinctly an advantage to you. If the stock had been inscribed at once we should have proceeded to make the gradual sales of it as we promised you, and however carefully we might have done this it would, to some extent, have put down the stock in the market. Now any drop in the market-price before the 30th November would, of course, have injured the conversion of the 5-30s. As it is, by the intermediate process of scrip, we obtain a "marketable" thing, which the short-dated debentures were not; and upon which, therefore, we can get advances which we could not have done on the debentures. I have arranged with the Bank of England that there shall be no difficulty about these advances when we want them. Besides this, however, I hope there will be another advantage by-and-by in the intermediate process, as it may enable us, when we make our sales, to let the stock be inscribed direct into the actual buyers' names. Nor will the pledge I have had to give, that not more half a million of the stock would actually come upon the market until after the third million of the loan is floated, prevent you from dealing as you wish with from £200,000 to £300,000 more of the scrip, besides that half-million, in the course of 1884; because, as you will be quite free to sell in 1885, when the third million of the loan has been raised, whatever amount may be desired of the total sum of £1,832,000, there will be no serious difficulty in the way of obtaining advances during 1884 to the amount of the difference between the £500,000 we shall presently sell, and the £800,000 you wish to clear out of, on the security of the stock which will be in our hands; the lenders knowing that, upon the third million being safe, the stock they have advanced upon can be put upon the market and their advances be repaid. All this is occupying the careful attention of the Stock Agents, and will be duly reported to you in its order, so that I say no more now on that point.

It is doubtful whether we can get the bank to issue stock certificates direct, without first inscribing the stock in some definite names. I am, indeed, inclined to think they cannot do it. But the Stock Agents are unwilling, if it can be helped, to adopt the alternative of inscribing in their own names, in the first instance, the entire amount of the stock exchanged for the short-dated debentures. In any case, powers of attorney will probably be wanted from the custodians of the funds to the Stock Agents; but of this you will be advised in due time.

With regard to the Bank of New Zealand's £400,000, I stated in my cablegram of the 28th September that I proposed to place scrip to that amount in the hands of the London office; but perhaps a better course will be for me to hold the scrip until complete inscription, giving them due intimation that it is held by the Agent-General for their account pending the actual inscription, and that when the stock certificates are issued by the Bank of England these will be handed to them at once.

We are now engaged, with Mr. Mackrell, in the preparation of the legal instruments necessary for the creation of the stock, declaration for the Inland Revenue, and so forth. We shall, of course, take care to create such a total amount of stock as will cover the combined operation, as well as all the expenses of the operation.

The day after the announcement of the conversion, there appeared in the *Times* a letter from a person signing himself a "Holder of Inscribed Stock," which I enclose for your perusal; and the money article, while calling attention to the letter, referred to complaints of a similar kind being in existence, to the effect that the Government were under large advances, and were seeking, under cover of a conversion scheme, to clear themselves by a large issue of stock; adding that some explanation seemed to be required.