acopy of the correspondence which has taken place between the Agent-General and Mr. Bailey andMr. Hardy, in which that computation is described.

We trust that the results of the operation will be considered satisfactory by the Government.

We have, &c.,
F. D. Bell,
P. G. Julyan,
Stock Agents.

The Hon. the Colonial Treasurer, Wellington.

Enclosure 1 in No. 36.

CONVERSION OF NEW ZEALAND DEBENTURES.

The Agent-General to Mr. Bailey and Mr. Hardy.

Gentlemen,— 7, Westminster Chambers, 12th November, 1883.

I have the honour to request your valued assistance to the New Zealand Government in the following matter.

It will be in your recollection that when I had the pleasure of seeing you some time ago in connection with your inquiry into the affairs of the Government Insurance, we had some conversation about a large financial operation then contemplated by my Government, in the conversion of a further part of the public debt of the colony into 4-per-cent. stock.

The operation was postponed at that time for various reasons; but it is now in the course of being effected under the conditions expressed in a notice issued by the Bank of England, of which I enclose a copy. The object with which I now address you, is to ask you to favour me with an actuarial determination of the value of the operation to the colony.

You will observe that the proposal is to convert altogether rather more than £9,000,000 of the debt. This amount consists of three several series of stock, as follows:—

1. £1,250,000,	bearing 5 per cent. interest	} These two are commonly called "the 5-30s."	
2. £6,000,000	,, 4½ ,, ,,		
3. £1,832,000	,, 5 ,, ,,	... Short-dated bonds.	

Total, £9,082,000

In the third series the offer is to exchange at par; but in the other two series the offer is £103 of stock for a £100 4½-per-cent. bond, and £103 10s. for a £100 5-per-cent bond. The first question is what saving will be got in annual interest by reducing the rates of interest to a uniform one of 4 per cent. But there are several other points to be considered.

The currency of the three series is as follows:—

5-30 4½ per cents.,	£2,000,000,	currency extending to	February 1, 1904.
,, ,, ,,	£4,000,000	,, ,,	February 1, 1905.
,, 5 ,,	£1,250,000	,, ,,	July 15, 1906.
Short-dated bonds,	£1,832,000	,, ,,	January 1, 1886.

As regards the two series of 5-30s, the Government has the right to pay off the bonds on giving six months' notice from any dividend day.

The inscribed stock into which the bonds will be converted is to be paid off at par on the 1st November, 1929.

There is a considerable difference between the cost of managing the debenture debt and managing the inscribed stock. The charge of the Crown Agents and the London and Westminster Bank for management of the debenture debt is ¼ per cent. on the amount of interest paid; the Bank of England charge for managing the inscribed stock, over a total exceeding ten millions, is £550 per million. The difference, therefore, between the two charges has to be set against the gross saving in interest effected by the conversion. The charge for paying off the debt being the same in all cases, neither saving nor loss results in that respect.

The conversion, however, causes a saving in the management of other stock inscribed at the Bank of England. There are £6,371,200 of stock already inscribed at the bank, the management of which now costs (being under ten millions) £600 per million; but as the present operation will bring up the total amount of stock beyond ten millions, and thereby bring down the charge to £550 per million over the whole sum, its effect is to make a saving of the difference between £550 per million and £600 in the annual cost of managing the £6,371,200. This has to be added to the saving effected by the conversion itself.

On the other hand, the cost of making the conversion has to be taken into consideration in estimating its value to the colony; because this cost of conversion will be paid out of stock to be created for the purpose, and the stock so created has to be added to the augmentation of debt which the operation itself involves. Now this cost may be taken as consisting of the following items:—

1. An initial charge of £600 per million made by the Bank of England; and ¼ per cent. to brokers on the amount of 5-30 bonds sent in by them for conversion:
2. Commuted stamp duty at 12s. 6d. per cent.:
3. Advertising and other contingencies, which for convenience I will take at £4,000.

The computation, therefore, which I am asking you to make of the net value of the operation to the colony requires in the first instance to bring out the following result:—

The total amount of debentures to be converted being as above stated, £9,082,000, what is the effect of the conversion:—

1. Augmentation of debt;
2. Annual charge for the augmented debt
3. Gross saving in annual interest?