No. 29.

The Loan and Stock Agents to the Colonial Treasurer.

Sir,— 7, Westminster Chambers, London, S.W., 30th September, 1885.

We have the honour to acknowledge the receipt of your letter of the 12th August, informing us that you had been pleased to renew, for a period of twelve months from the 9th September, the authority you had delegated to us for the exercise of certain powers conferred upon you by "The Consolidated Stock Act, 1884."

We have, &c.,

P. G. Julyan,
F. D. Bell,
Loan and Stock Agents.

The Hon. the Colonial Treasurer, Wellington.

No. 30.

The Loan and Stock Agents to the Colonial Treasurer.

Sir,— 7, Westminster Chambers, London, S.W., 7th October, 1885.

We received in due course your telegram of the 23rd September, containing instructions on several matters connected with the loans, and we answered you on the 30th as far as we were then able. We now beg leave to reply more fully.

1. Guaranteed Loan of 1856.

You directed us to try and arrange with the trustees of the sinking fund of this loan for the interest to be now paid out of the yield of the fund; and, if a further margin was required by the trustees, to convert privately a few thousands of the loan of 1863. We are still in communication with the trustees on the subject; but, as we said in our telegram to you, we think we can make an arrangement that will be satisfactory to the Government.

The present state of the trust is this: taking the investments at the mean market prices of to-day, the net value of the fund is close on £511,000, which will be increased to £516,000 on the 1st November by the receipt of the dividends then due. The capital of the fund is therefore safe; but its yield does not quite come up to the necessary amount, being about £19,600, instead of £20,000. The arrangement we shall probably be able to effect is to make up the sum of New Zealand inscribed stock held by the trust to so much as will bring the total yearly yield of the fund up to the required £20,000; and, instead of effecting this by converting bonds of the 1863 loan, we shall give the trustees what is wanted out of the stock created by us (and not yet disposed of) for defraying the cost of the recent conversions. Thereupon further contribution by you will cease.

2. Loan of 1863.

The unconverted balance of this loan, apart from the guaranteed million, consists, as you point out, of £488,000 fives with a 1-per-cent. sinking fund, and £531,400 sixes with a 2-per-cent. sinking fund. We entirely concur with you in thinking that it is very desirable to convert these as soon as possible; but we do not clearly understand the remark in your telegram of the 23rd September, that we should "give notice to pay off the balance," as none of the bonds of the 1863 loan are subject to being paid off by notice. With regard to the method by which this loan may be successfully converted, we think that in the case of the £488,000 fives, which do not expire till 1914, the best chance for an operation that should be successful in itself and at the same time effect a sufficient saving, would be to apply to it the same principle as we advised in the case of the consols; that is to say, offer a new 5-per-cent. bond to the holders, with a seven years' currency, convertible at the end of that time into a specified amount of stock. As for the £531,400 sixes, expiring in 1891, a very profitable operation could be made at relative prices, if the bonds were not so firmly held as to make it unlikely we could buy much of them. We have always had such an operation in our minds, and should have proposed it to you long ago, if your inscribed stock had not been so persistently weak. The sixes are quoted to-day in two series at 109–11 and 110–12; and if we could sell stock at par, we should buy up all the sixes we could at those prices, converting them at once, and creating the necessary stock instead on the principle of the "Reserve Stock," about which we were lately in correspondence with you. We have the matter still under our careful consideration, with the view of giving effect as soon as possible to your present wishes.

3. Consols of 1867.

We need hardly say how entirely we agree with you in the expediency of going on with the conversion of this loan; and the success of the operation of last March and April would lead us to anticipate a like favourable result if it were repeated by-and-by. But we regret to be unable to concur in your view that the currency of any new 5-per-cent. bonds should be reduced. Our opinion to the contrary is, indeed, so strong that we did not hesitate to speak of such a reduction as "hopeless" in our telegram of the other day. The main purpose of the scheme which we submitted to you at the beginning of this year was to bring about the natural extinguishment of the consols sinking fund by the consol holders accepting a new bond, carrying, for the full term of seven years allowed by the Act of 1884, the 5-per-cent. rate, of which they are so tenacious. The scheme rested, of course, on the remaining "life" of a consol bond; and the Actuaries' table, which we sent you last February, showed that in 1886 there will yet be more than twelve years left of the "life." The time will, of course, come round when a seven years' bond will be better than the "life;" and whenever that time arrives, the sinking fund must naturally come to an end, for every holder will then be willing to convert. But as the "life" will not fall to seven years until 1894, we feel sure that some years must yet pass before the currency of the new bond can be successfully reduced. It is not, indeed, in the new bond that a reduction is to be looked for, but