

With regard to my telegram concerning the guaranteed loan of 1856, you have not quite correctly interpreted my meaning; though I do not know that the difference is of much consequence. You say that I suggest to convert privately a few thousands of the loan of 1863. If you will refer again to the telegram you will see that the "1863" refers to the next sentence; and, indeed, in the copy which you send me out you divide the telegram into sentences in the way which, as I have just indicated, was intended. My suggestion was not to convert a few thousands of the loan of 1863, but, if the Sinking Fund Commissioners had any doubt as to there being a sufficient margin, that you might have converted ten or twenty thousand pounds of the guaranteed loan of 1856, and thus have left the sinking fund with an ample margin. It appears, however, from what you say, that there is now a considerable margin, and by the substitution of 4-per-cent. inscribed stock for some other stock, the amount will be sufficient to meet the interest falling due. I feel that it is quite unnecessary to pursue this subject further, since you assure me it has your consideration. I have only to say that I hope you will see your way to settle it before the next payment of interest comes round, and that you will be kind enough to cable whenever it is settled.

With regard to the loan of 1863, the sentence which you do not understand has, by some strange mistake, been substituted for that which I really telegraphed. Instead of the words which you have "Give notice to pay off the balance," the words I telegraphed were "Give liberal terms." The word "balance" belongs to the following sentence, and reads "Balance of consolidated loan." You will understand, therefore, my meaning was that it was so important to convert the outstanding balance of the 1863 loan, bearing interest at 5 and 6 per cent., and having a sinking fund respectively of 1 and 2 per cent., that I said in my telegram it was desirable to offer "liberal terms."

I notice what you say with regard to the conversion of the 5 and 6 per cents. I should be content to adopt the plan you propose with regard to the 5 per cents., and also agree with you as to the desirability of getting hold of the 6 per cents. in the best manner you can. I must leave the matter in your hands, merely adding that I am glad you agree with me as to the importance of dealing with these outstanding debentures, and that I hope you will give the matter constant attention.

With regard to the 1867 loan, I cannot understand why you think it necessary to offer the same terms as last year, seeing that the average life of the debentures is shortened owing to the time which has expired in the interim. If you were to offer the same terms as last year you would really be giving much better terms to the holders than you did then. It seems to me that should be altogether unnecessary. I did not make an actuarial calculation as to what is the average life of the debentures beginning with next year, but assumed that, as a year had expired, the average would be about a year less. In that, however, I may be mistaken, and I have not the means of getting an actuarial calculation, as I am away from the Treasury offices, and am too ill to make the calculation myself; but, broadly speaking, there can be no doubt that the average life is shorter than it was last year, and therefore it is of more importance to the holders to convert. In other words, the same terms as last year would be more favourable to the holders now than they were at the time we offered them last year. If you consult your Actuaries I am sure you will find I am correct. For the rest I must leave it to you either to shorten the term of the 5-per-cent. debentures or to reduce the amount of inscribed stock that you will give at the end of the currency of the 5-per-cent. debentures; or if there is any reason which I do not know for giving better terms than were offered last year, it may be necessary that you should offer the same terms notwithstanding that, as I have said, they will be more favourable to the holders. In any case I think it most desirable that you should proceed with the conversion, but if you think it necessary to delay that until near the drawing time I must, of course, defer to your wish. I have only to say that I hope you will do it at as early a time as you think consistent with success. I hope also that the Crown Agents will see their way to have the drawing as early as possible, so that the transaction may, if practicable, be brought within the financial year ending the 31st March, and that we may know what amount of drawn bonds may be considered to come within the year. I will ask you, after the drawing, to telegraph to me rather fully so that I may know (1) how much of the drawn bonds belong to the conversion we made last year; (2) how much of the drawn bonds belong to the new conversions which you will make prior to the drawing; and (3) how much is represented by bonds drawn by holders who elect to come in and pay the 4-per-cent. premium.

Respecting the five-thirty $4\frac{1}{2}$ per cents., I think it is better to postpone dealing with them for the present.

With regard to the old provincial loans, I am glad you agree with me as to the expediency of converting them, and I hope you will allow no opportunity to pass when they can be purchased with advantage.

I await with interest your promised communication upon the question of the creation of a reserve stock.

With regard to the North Island Trunk Railway Loan, I am not sure that we shall offer it on the market after March. A strong feeling prevails against its negotiation, because of its coming into use for other purposes than the special one for which it was designed. If it was negotiated it would be available for the ordinary votes of the Public Works Fund. I shall try, if possible, to find a plan by which I may obtain temporary advances upon it, and wait the decision of Parliament as to further borrowing. You must not, however, consider that this course has been absolutely decided upon. I merely mention it so that you may understand that it is not by any means certain that we shall offer this loan for public negotiation after the 31st March.

I have, &c.,

JULIUS VOGEL.

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