

At our interview on the 23rd instant, I proposed that the Bank should grant the Government an overdraft of say £90,000 sterling, for next month's requirements; that £50,000 of debentures be put upon the New Zealand market, £200,000 on the Australian market, and (adopting your own figures as to the amount to be negotiated) that the balance, £450,000, be remitted for negotiation in London. That before the expiry of another month we would have some indication of the value of the debentures in Australia; if favorable, we would continue to make advances to the Government, not only against any unsold portion in Australia, but also against the amount remitted to London; if unfavorable, the Bank would ask the Government to make another arrangement, and if it was found impossible for us to agree to it, the unsold debentures, or the proceeds of those sold, would be held to the order of the Government for delivery to any other establishment with which they might deal. In the event of the debentures proving unsaleable, the Bank to have the power on behalf of the Government to pledge them, the Government paying any extra cost of such pledging beyond the rate of interest allowed us; the proceeds realised being available to repay advances made by the Bank, and to make further advances until advices of the sale of the debentures be received from London.

Your objections to this were—1st. That you must have your wants provided for during the next three months. 2nd. That a month was not enough fairly to test the Australian market. 3rd. That the successful manner in which paltry loans of Provincial Governments had been sold did not justify the apparent doubt of the value of your debentures.

To these objections I urged that it was not the Bank's intention to thrust £200,000 of debentures on the Australian market in one month, that only a small portion would at first be offered; that however successfully Provincial loans might have been sold, the state of the money market was altogether different now, and such loans were quite unsaleable.

You then proposed to give us £100,000 of debentures, with which to test the Australian market; that against these we should advance you £75,000 for next month, during which you would be enabled to "look about you" with a view to make propositions elsewhere, so that should we not be willing to make farther advances you would know to what quarter to apply.

To this I objected, that such an arrangement was so manifestly to our disadvantage it could not be agreed to, as it would bind us to increase the Government's indebtedness to the Bank by £75,000, on the security only of what might prove unnegotiable debentures; and this advance was suggested confessedly with the view to make proposals to another Bank, and thus terminate the Government connexion with the Bank to maintain which the Bank had made such great sacrifices.

At our interview on the 24th instant you repeated the last proposition, which was finally made the ultimatum of the Government.

On Mr. Sewell's making a memorandum of what he professed to understand as the conditions proposed by both parties, I at once took exception to, and entered my strongest protest against, the interpretation sought to be placed on the propositions of the Bank, and stated my regret that our negotiations had not been conducted by letter, requesting that such a course should still be adopted. You expressed a great aversion to correspond on such a subject, and distinctly declined to put your propositions in writing. I therefore requested you to allow me to write this letter; and on review of the various propositions I still trust the course suggested by the Bank will be considered calculated to meet the requirements of the Government, and that without entailing a too heavy responsibility on the Bank.

I have, &c.,

D. L. MURDOCH,
Inspector.

The Hon. the Colonial Treasurer.

No. 3.

The Hon. the COLONIAL TREASURER to the INSPECTOR, Bank of New Zealand.

DEAR SIR,—

Treasury, Auckland, 27th December, 1864.

There are a few points in your letter which I do not think are stated quite accurately.

The proposal that, in case our bills were found not to be marketable, you should borrow temporarily on their security (the Government paying the difference of interest and charges to which you might be put) was made by us to you, not as you state it, conversely.

Also, when we asked you to carry on our account for one month, so as to give you time to test the negotiability of our bills in the Australian market, we gave you our positive assurance that we did so in good faith, not meaning to transfer our account to another Bank, unless we should fail to make our arrangements with you.

I regret very much that we have been unable to make those arrangements. I will state briefly our view of what has taken place. We undertook, in the first place, to restore our London account with you by remitting £200,000 Treasury bills by the next mail to the Crown agents, and at your particular request, we conceded the point that these Treasury bills should be placed in your hands for negotiation (instead of those of the Crown agents) with instructions to sell, or failing that, to hypothecate them; and further, to instruct them, in case of absolute necessity, as an ultimate resort, to fall back upon the unlimited power, given them by Mr. Reader Wood, over the quarter-million 5 per cent. debentures, and pay over the proceeds to our credit with your bank in London, so as to cover that account. By these arrangements we in fact proposed to cover our liabilities to you in London, which in your letter you state at £495,000, to the extent of three quarters of a million, viz., £450,000 bonds, and £300,000 instalments payable to the Crown agents, already directed to be paid to our credit with you in London.

Having proposed this ample provision for the London account, our next care was to make proposals for carrying on our operations in the colonies. Our overdrawn account with you may be stated at this date at £22,836 19s. 6d., exclusive of interest on overdrawn accounts. We offered to give you £500,000 of our 8 per cent. Treasury bills, to be negotiated by you in Australia or London, as you might think best, and at the charges proposed by you, you undertaking to carry on the Govern-