

Upon a careful review of the whole circumstances of the case, having regard to the various points at issue which have been urged on either side at the interviews which I have had with His Grace, and recognizing the advantage which a prompt and conclusive settlement of outstanding claims is calculated to confer on the Colony just now, when it is about to enter upon extensive financial operations, I consider that I shall be consulting the best interests of the Colony by acceding to the terms proposed in your letter.

I therefore request you to be good enough to convey to His Grace my definite acceptance, on behalf of the Colony, of the proposals of Her Majesty's Government, as expressed in your letter.

Sir F. Rogers.

I have, &c.,

WILLIAM FITZHERBERT.

### Enclosure No. 13.

MESSRS. JULYAN and SARGEANT to the Hon. W. FITZHERBERT.

SIR,—

Spring Gardens, 16th January, 1869.

The project for the conversion and consolidation of the various Loans of New Zealand having now been closed, it becomes our duty to make a final report to you on the subject before you take your departure for the Colony. Although we have from time to time informed you of the progress made, and have been in daily personal communication with you on the many points which it has been necessary to discuss and determine in carrying out an important undertaking of this magnitude, yet we think it may be advisable briefly to review our proceedings from the commencement, and to place on record the various measures which, with your approval, have been carried out under the authority of "The Public Debts Act," and "The Consolidated Loan Act, 1867."

Under the first of these Acts we created, as you are aware, debentures having but one year to run, representing £500,000, upon the security of which we negotiated for you a loan of £450,000 on very favourable terms, which enabled you to extinguish other pressing liabilities bearing a higher rate of interest, without waiting for the issue of the New Consolidated 5 per cents. authorized by the same Act, which it was necessary to delay until the conversion scheme was placed before the public. This transaction was highly advantageous to your Government in a pecuniary point of view, and gave ample time for maturing our plans for the much more important operation which was to follow. These bonds, as you are aware, were subsequently redeemed and cancelled.

The Consolidation project was then pressed forward; and as we had been studying the subject in all its bearings, in conjunction with the most experienced advisers, during the previous twelve months, we were enabled to submit our plans to you very shortly after you had determined to place the matter in our hands. The principles upon which those plans were based were very similar to those set forth in the schedule originally submitted to the Government of New Zealand in our letter of the 30th March, 1867 (of which a copy is enclosed), the only material differences being those which the altered state of the markets, and the terms granted to the holders of Provincial debentures by "The Public Debts Act, 1867," rendered necessary. The leading features of our plan were embodied in a confidential memorandum which we submitted to you at the time (a copy of which is annexed), and which with some slight modifications (noted therein) you subsequently approved. Sub-Enclosure A. Sub-Enclosure B.

Beyond these general principles, the points most difficult of solution were those touching the rates at which the proposed new 5 per cents. should be exchanged for the old debentures, bearing various rates of interest from 5 to 10 per cent., and having various periods to run, ranging from one to forty-six years. Preliminary to any decision on these points, it became necessary to establish an absolute measure of value for the new stock—not a retail price at which a few hundreds might have been disposed of, but a wholesale rate upon which dealers might count upon working off the large amount of such new stock as the conversion would evidently throw into the market.

It was, as you will recollect, after mature consideration, determined by yourself that the offer to exchange new debentures for old, and the offer to sell new debentures for cash, should be simultaneous. This being so, it became absolutely necessary (as the exchangeable quantities of new for old depended on the market value of the former) to invite tenders at a given price, and on the determination of that point chiefly depended the success or failure of the whole measure. It was manifestly important that the price should be fixed as high as possible without incurring unnecessary risk of its rejection by the market. At the same time it was obviously advisable to act quickly, in order not to give time for speculators unfairly to alarm the public by exaggerating the unfavourable effects likely to be produced by the creation of more 5 per cents. under the conversion project. It was for these reasons, and after having given the subject the most careful consideration, that we advised you to fix the selling rate at 97, and on that rate we based all our calculations for the exchanges of old for new stock, making due allowances for the difference of interest, for the longer or shorter periods for which the bonds of the former were current, and for various other considerations which were fully discussed with you at the time. It was not, we believe, without some misgivings, that you consented to so high a limit as 97. Subsequent results, however, may be said to have fully confirmed the soundness of the advice we then offered; but it is no less clear that, in fixing that limit, we very nearly approached the extreme verge of possibility.

The minimum published was within three quarters of 1 per cent. of the highest retail price previously obtained for the 5 per cents. created under "The Loan Act, 1863;" whereas for a wholesale operation, like the one in question, the rate is not usually expected to come within 2 or 2½ per cent. of the previous retail quotations. We need scarcely add that there is a vast difference between an occasional sale of £500 or £1,000 of stock, which may be seen quoted in the daily prices current, and the disposal by one operation of debentures representing £1,114,000. The best proof of the comparative excellence of the price at which the latter were sold is to be found in the fact that some persons who then bought on speculation have been unable, up to the present moment, to re-sell at a profit, and we know of one original purchaser who is still the unwilling holder of £200,000 of those debentures. Indeed, it may be said that so high a price for unguaranteed Colonial 5 per cents. is unprecedented in the London market. Those of New South Wales, which have always enjoyed the