

The same peculiarities have attended all large colonial loans since offered to the market, but we have never heard it suggested that those loans were undervalued by the borrowers; but the great and unexpected success which attended the issue of your loan elicited expressions of surprise and astonishment from the money market, and from all those here best acquainted with New Zealand.

We have only further to add under this head, that the duties devolving upon us as Loan Agents have now been brought to a close, and we hope to forward to you by next mail, if not by this, complete accounts showing how the money has been dealt with. The total cost to the Government for commissions paid, including one-half per cent. to the bank and one-quarter per cent. to brokers, will not altogether exceed 1 per cent., which is a much lower rate than that usually charged for similar services by financial agencies of much less repute.

#### *Conversion of Debentures into Stock.*

We enclose for your information a printed paper containing the deed-poll authorizing the conditional inscription of six millions of 4-per-cent. stock\*; correspondence showing what arrangements have been made between the Commissioners of Inland Revenue, the bank, and ourselves for paying the commuted stamp duty, and generally for carrying the measure into operation.

The stock already inscribed, amounting to £1,392,360, has never in reality been represented by debentures. In order to save the expense of stamping, printing, and paper, those purchasers who at once wanted stock received it in exchange for their scrip, and debentures were only issued to those who were not so minded, representing altogether a sum of £3,839,700.

Conversion proper will commence on the 1st proximo, after which date it will be open to all holders of debentures of the five-million loan to exchange them for stock in the terms of the prospectus. The process may be more or less expeditious, according to the market demand for the latter security; but we do not think the whole amount will be brought in during the twelve months allowed for conversion.

Whether or not it may be expedient during this period to endeavour to convert some of the older loans, and thus bring other stockholders into competition, calls for careful consideration. Such a step would have the effect of retarding operations under the loan last issued; but it would also, by throwing more stock on the market, tend to diminish the margin of difference between the selling price of stock and debentures, and if that margin disappeared, conversion at a profit to the Government would become an impossibility.

As we have already stated, the primary consideration by which we were influenced in giving to purchasers the option of converting 100 five-per-cents into 120 4-per-cents for a limited period, was the necessity of raising by one financial stroke the unprecedentedly large sum of five millions; but we were not unmindful at the time that certain collateral advantages might fairly be expected to accrue to your Government by popularizing the stock, and creating a market for this new form of colonial security at an enhanced price, which must necessarily form a standard by which to measure the relative proportions which stock should bear to the debentures of all other convertible loans; and we now clearly foresee important prospective advantages in this direction.

We never for a moment contemplated extending the operation on equally favourable terms to the holders of other debentures. A valuable margin has already been established by which you may benefit, and we shall not fail to avail ourselves of it to the greatest extent consistent with success. We fully recognize the inutility of converting, unless it can be done with substantial advantage to the colony; but the terms must be mutually beneficial to induce holders to unite freely in the operation. Anything which fell short of that would be worse than useless.

We shall of course comply with your desire, before extending our operations, that the proposals to be offered to the public, with our reasons for offering them, should from time to time be forwarded to the Government, whose assent we should obtain before proceeding to act.

Our communication by post and your reply by telegraph (supposing no interruption of the cable to intervene) would probably occupy about seven weeks, and during that time the fluctuations of the market might in all probability render such changes in our propositions necessary as would counteract all possible advantages that you may count upon securing by the adoption of such a course.

We would suggest as preferable, either that a code should be established between us, and that both parties should communicate by telegraph; or that your Government should fix a minimum rate in respect of each existing loan, below which you would not wish any transaction to take place.

We take it for granted that your desire would be that we should first operate on such of the old loans as at present involve contributions to sinking funds, giving precedence to those on which considerable sums already accumulated would be released by their conversion.

It should also be borne in mind that the 5-30 loans, repayment of which may be made on notice given, may offer favourable opportunities for redemption and conversion.

Until it becomes more clear than it is at present to what extent the market is likely to absorb the new four-per-cents, it would, in our opinion, be unwise to hurry the operation. There is undoubtedly a limit to this power, and whenever that limit is overstepped and the supply exceeds the demand, the price will recede, and the margin in market value between your inscribed and non-inscribed debt will so diminish as to suspend conversion altogether, or necessitate the offer of such terms as would render it undesirable to your Government.

Much will depend on the soundness of the judgment brought to bear upon these several points. The subject will call for very careful and delicate handling; but our long and extensive experience in such matters will, we have no doubt, enable us to deal with it successfully.

#### *Commission to be paid to Stock Agents.*

On this point we do not propose to trouble you with any lengthy remarks. A copy of the telegram sent by us, in accordance with the desire expressed by you in your letter to Sir Julius Vogel, to which we are now replying, is hereunto annexed.

There is no fixed scale of remuneration in existence here for such services as these operations will involve.

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\* A proof copy (incomplete) only, can be sent by this mail. A revise will follow by the next.