

Lordships have stated that they consider that they are justified in acceding to your proposal on the guarantee you have offered that we (the Crown Agents) will from time to time, out of moneys that come under our control in the management of that portion of the New Zealand debt which is domiciled with us, apply whatever sum may be necessary to make up the £20,000 a year for the bondholders' dividends.

The Agent-General for New Zealand, &c.,
7, Westminster Chambers, S.W.

I have, &c.,
W. C. SARGEANT,

No. 49.

The LOAN and STOCK AGENTS to the COLONIAL TREASURER.

SIR,— 7, Westminster Chambers, London, S.W., 18th December, 1885.

1. In our letter of the 26th November, No. 1,488, we promised to send you, before the close of the year, the proposals we should make for resuming operations in conversion early in 1886.

2. The first question to decide is whether it would be advisable that the announcement we proposed to make in February, for a renewal of the offer to holders of your consols, should be extended so as to include other loans. After much consideration, we think it would. The decision not to raise more money next year than the North Island Railway Loan of one million will be of assistance to any conversions, and at present there are no indications of financial disturbance such as would act unfavourably upon the market in February and March. On the whole, therefore, we would advise your taking the opportunity of the consols conversion to make a general announcement comprising the other loans; and one advantage of this course would be that there would only be one creation of stock covering all the loans; so that it would be unnecessary to have any separate "Reserve Stock," such as you and ourselves have had in contemplation; while the Government would be free to deal afterwards, as they thought best, with future conversions of the same loans, the stock having already been formally "created." Assuming for our present purpose that you concur in our views, we proceed to state, as succinctly as we can, the proposals we would make in each case.

I.—Guaranteed Loan of 1856.

3. As we have been able to gain the special object you had, of relieving the colony from further accumulations of the sinking fund, the only question connected with this particular loan is whether any offer should be made now to the holders. We would not, for our own parts, recommend it. These guaranteed bonds are held too firmly for any substantial number to be brought in at any price that it would be profitable for the colony to give; and we think it would be better to wait until the near approach of the time for paying them off, when such an offer could be made to the holders as might then be considered expedient. On this point we shall have to address you again later on.

II.—Consols of 1867.

4. We have explained our views so fully already that we need only say a few words here. We still think it will be necessary to repeat the offer of a new seven years' 5-per-cent. bond, and the only question will be as to the amount of stock to be inscribed at the end. This we cannot, of course, propose now, as it must depend upon the state of the market at the last moment before the announcement is made; but we should think it most likely to be either 106 or 106½, although it is, of course, possible that we might find ourselves obliged even to repeat the offer of 107 for one year more. We should again propose that holders who notify their acceptance of the offer before the annual drawing should not be affected by it; but, having regard to the small number who availed themselves of the opportunity we gave to holders who did not notify till after the drawing to come in on paying £4 per cent. in cash, we should not repeat it this time to any one.

III.—Loan of 1863.

5. Next in importance to the consols, are the Fives of 1914 and the Sixes of 1891, belonging to this loan.

6. We confirm the recommendation we made to you in October, to extend to the holders of the Fives the same offer of a new seven years' 5-per-cent. bond as in the case of consols; but as respects the amount of stock to be inscribed at the end of the seven years, that can only be settled at the last moment. These bonds are quoted at about 112; and we lately had an offer of £30,000 at that price, which we should now have been able to exchange into inscribed stock—to the same amount—at par. We shall of course have to give more at the end of the seven years' new bond than we have to give in the case of the consols, because the Fives of 1914 are not subject to annual drawing, and 107 would certainly not bring any of them in; but we shall have the arithmetical equivalents computed by the actuaries, and these, together with the state of the market for the time being, will—within such margin as you may approve—be our guide in fixing the precise terms of the offer in February.

7. As regards the Sixes of 1891, the small operation we lately made to test relative prices, has given you the measure of the equivalents; and—speaking of course subject to any alteration of the markets in February—it seems pretty certain that, having regard to the way in which the bonds of this series are held, not less than 112 would bring in any of them.

8. This seems, therefore, the best place to raise the real question which the Government have to decide, not only in regard to the loan of 1863, but generally in regard to loans bearing a sinking fund. The first point to be determined is the arithmetical equivalents of a £100 bond in each loan and £100 of inscribed stocks, at given market rates. There can, of course, be no present pecuniary advantage to the colony in converting a sinking-fund loan by purchasing the bonds at a higher price than this equivalent. But the question is, whether the immediate reduction in annual charge which would result from the abolition of the sinking fund, does or does not more than compensate for