

With regard to the fives of 1914, we considered that, having regard to the market-price of 114 to 116, and to the fact that 5 per cent. interest was assured for many years to come, it would not be worth while including that series, as holders would not be tempted to convert except at too high an equivalent to be conceded. Then, as to the District Railway debentures, we also came to the conclusion that, although it would pay the colony to offer very liberal terms to extinguish the whole amount outstanding, the present conversion had better be confined to the £35,000 falling due in 1896.

The matter had reached this point when I received the telegram of 21st January, saying that it was not deemed desirable to convert at present; but I mistook the meaning of the message, reading it as only applying to Consols, and as an answer to my cable of the 19th. Under that impression I cabled again, asking whether the £35,000 District Railway debentures had actually been issued, because if not they would have to be excluded; and suggesting whether, when Parliament met, the Stock Agents could be allowed to state that no new loan would be raised during 1891. The reply of your predecessor corrected my misreading of his previous message, and stated that it was not intended to convert any loans at present, the resignation of Ministers having been sent in.

Under these circumstances it became necessary for the trustees of the sinking fund of 1863 to go on at once with sales of the stock in the fund, and £25,000 were sold at 106½, the proceeds being placed in deposit at the London and Westminster Bank at seven days' notice; while a further sale of £25,000 was made immediately afterwards for the succeeding Stock Exchange account.

All proceedings relating to the conversion were then suspended until information should be received as to the formation of a new Ministry.

The Hon. the Colonial Treasurer, Wellington.

I have, &c.,

F. D. BELL.

Enclosure 1 in No. 8.

MINUTE FOR THE STOCK AGENTS *re* CONVERSION OF 1891.

THE Government having approved my proposal that an offer of conversion into 3½-per-cent. stock should be made to the holders of the sixes of 1891, and that the opportunity should be taken of also effecting the conversion of any other loan in which the Stock Agents may consider that a favourable operation could be made, it is advisable to examine several points which will have to be considered in determining our course. The Bank of England has agreed to bring out the conversion of the loans maturing between now and 1898.

The following are the loans which I think it may be advisable to include in the conversion:—

	£
1. Consols of 1867 (with annual drawing)	£1,261,800
" (colonial issue)	64,000
	<hr/> 1,325,800
2. Sixes of 1891—	
(a.) Loan of 1860	74,100
(b.) Loan of 1863	417,000
3. Fives of 1914	378,800
4. Old provincial loans—	
(a.) Lyttelton Railway Loan	77,700
(b.) Westland Loan	50,000
(c.) Auckland Loan	31,600
(d.) Nelson Loan	15,000
(e.) Otago Loan	116,700
(f.) Canterbury Loan	22,800
5. District Railways Act	189,600

1. Consols of 1867 (Annual Drawing), £1,261,800.

When, in the conversion of 1885, we offered a 5-per-cent. debenture for seven years, to be converted in 1892 into 107 of 4-per-cent. stock, the operation was very successful, and the conversion of 1886 brought in a large further amount. On the 31st March, 1890, the amount outstanding was only £1,261,800, and after the next drawing the amount that will then be outstanding will be a manageable one. The conversions of 1885 and 1886 were based, of course, on the then remaining "life" of a Consol bond. The Actuaries' tables of February, 1885, showed that there were then nearly fourteen years left of the life, and that after the drawing of 1891 the life would fall to a fraction under nine years. The time is therefore approaching when a seven years' bond would be as good as the "life;" so that if we were now to renew the offer to convert into 4-per-cent. stock (which is quoted about 106, while Consols are 105 to 107), it would be reasonable to expect that a holder would exchange his bond for 4-per-cent. stock at par, though he would not exchange into 3½-per-cent. stock without a premium.

The question is, therefore, whether it would be expedient to renew an offer of seven years' bond, convertible then into 3½-per-cent. stock, and if so at what figure. I am not in favour of it myself. In April, 1886, we advised against it; but in November of that year Sir Julius Vogel was so desirous of a final end being made of the Consols that he thought of offering 5-per-cent. debentures of a currency which would fully represent the remaining "life." He also thought that when the amount outstanding became less than a million the drawings might be finally ended by arranging with the Bank of England to pay off any debentures at the option of the holders whenever they wished it; and that neither the Bank nor the Crown Agents would, provided we lodged in trust with them enough 5-per-cent. debentures, object to undertake to pay off any of the balance brought in, while no Consol-holder could object to the cessation of the annual drawing if he was assured of repayment whenever he asked it. The importance of this proposal of a new 5-per-cent. debenture, representing all the then "life" of Consols, was very great; but there were grave difficulties in the way of giving effect to it at that time, owing to the constantly-recurring menace of a European war, the panic that existed in all the great financial centres, the low price of all our securities, and the necessity to prevent fresh hostile comments on the finances of the colony.

It is remarkable that since that time several cases have happened in which European Governments have forcibly put an end to drawing loans, and called them in for payment; and, although objection has been taken to that process by many holders, the purpose of the Governments concerned has nevertheless been carried out. The latest instance of this is in France, where a compulsory conversion of the trentennial and liquidation bonds, redeemable by drawings up to 1907, has just been made without the consent of the holders, new rentes being offered to them as part of the great conversion loan of nearly nine hundred millions of francs, which is to be brought out immediately.

Generally it may again be said of any Consols conversion, as we said in December, 1885, that the question is how far the immediate reduction in annual charge which would result from the natural extinguishment of the Sinking Fund would compensate for ultimate increase in the capital of the debt, and how much per cent. it would pay the colony to give beyond the proper market equivalent in order to get in the bonds.