

In addition to the sum of £303,657 10s. 10d., a further sum of £6,398 0s. 2d. was held in Loans Redemption Account, Part II, Conversion Account, at 31st March, 1933, consisting of amounts received under the New Zealand Debt Conversion Act, 1932-33, to bring premiums on conversion to a multiple of £5. This £6,398 0s. 2d. represents additional public debt, and securities will be issued in due course to cover the amount. As securities had not been issued at 31st March, 1933, and the conversion did not become operative until 1st April, 1933, the amount was treated as in suspense and was not brought into the Public Debt on 31st March, 1933.

New Zealand Debt Conversion Act, 1932-33.

This Act did not come into operation until 1st April, 1933, but, as some difficulties have arisen in connection with the carrying-out of the Act, and as in one respect the accounts for the financial year 1932-33 are affected, it seems desirable that I should refer to the matter in this report.

The magnitude and complexity of the transactions covered by this Act are probably but little realized. In this connection I would point out that usually in the case of conversions one loan only is involved, and the securities to be converted are all of a similar nature. In the case of the conversions under the above Act, however, practically the whole of the internal debt of the Dominion held by the public is affected, and it was necessary to deal with securities of various terms and conditions, and, moreover, the new securities are themselves of various maturity dates, and not only one as is usually the case. As a result, the transactions are not only many in number, but are in many cases extremely complicated, and the work of checking by audit has been correspondingly arduous. At the time of writing this report, though the bulk of the work in connection with the actual cancellation and issue of securities in connection with the conversion has been completed, the accounting entries are not sufficiently advanced to enable me to give any details, but this will no doubt be done in the report for next year.

After the passing of the Act it was found by the Government that in the case of some securities which came within the provisions of the Act it was considered undesirable to deal with such securities in the manner required by the Act, and in the case of other securities, which did not come within the Act, it was desired to convert in the manner provided for in the Act. It seemed to the Audit Office that no action should be taken, however desirable, which was at variance with or not covered by the Act; but, as the Government stated that it was a matter of policy and would be rectified by legislation later on, I agreed to pass the entries desired.

Owing to the wording of the Act, the interest for the period subsequent to the 31st March, 1933, on the new securities issued would be short-paid by one day, so that the holders of securities, in addition to suffering a reduction in the rate of interest, would also suffer the loss of interest for one day. At the request of the Treasury I agreed to the payment of interest for this day on the old securities, for the period to the 31st March, 1933, to correct the error.

This extra day will have a disturbing effect on the various departmental balance-sheets for the year ended 31st March, 1933, for the interest to that date will be calculated on the basis of a day in excess of the basis adopted in previous years, and the profit or loss as compared with previous years will thus be affected.

It is of interest to note that certain securities charged on the public revenues, though domiciled in New Zealand and bearing interest at over 4 per cent. per annum, do not appear to come within the provisions of the New Zealand Debt Conversion Act, 1932-33, nor of the Finance Act, 1932-33 (which provides for a special interest-tax). The holders of the securities in question therefore continue to receive interest at rates of 5 per cent. or over, while the holders of other securities suffer a reduction in the rate of interest to 4 per cent., or 3½ per cent. free of income-tax, or are subject to a special interest-tax of 33¾ per cent. Securities which are not subject to the Act are Treasury bills, a deed of security for £212,500 under section 4 of the Electric-power Works Loan Act, 1919, and a deed of hypothecation securing moneys borrowed under section 7 (2) of the Finance Act, 1931 (No. 4), as amended by section 5 of the Finance Act, 1932-33 (No. 2).

New Zealand Loans Act, 1932.

The New Zealand Loans Act, 1932, consolidated the law relating to New Zealand Government loans, and at the same time made some very important and far-reaching amendments to such law.

After the passing of the Act the Treasury indicated that in the case of loans converted or raised under the Act it is not proposed to insert on the debentures or coupons any reference to the authorizing Act or to the purpose for which the moneys were borrowed. This will mean that it will not be possible to identify particular debentures as issued for the purposes of any particular account, or as issued under any particular statutory loan authority.

Before the passing of this Act it was customary to insert on the securities a reference to the authorizing Act, or to the account for the purpose of which the loan was raised. The failure to record such information in respect of each security will render it impossible to carry out various requirements of law, and in some cases will have the effect of taking away, abridging, or prejudicially affecting the rights or interests of the holders of particular securities in the sinking funds which relate to such securities. It will also affect the accuracy of the departmental balance-sheets.