

CORRESPONDENCE RELATIVE TO

In anticipation of the possibility of that operation the undersigned had informal communication with the Bank of Montreal, the substance of which is contained in the correspondence and telegrams herewith submitted.

It will be seen that the Bank is willing either to sell the Bills of Exchange of the Government for a Brokerage, and place the proceeds to the credit of the Dominion at Ottawa, or themselves to purchase the Exchange at the rate specified in the Manager's letter placing the proceeds to the credit of the Government at once to bear 4 per cent. interest.

The undersigned has considered the propriety, first, of importing gold from England, and, secondly, of asking public tenders for Bills of Exchange. In the former way the money could not be laid down here except at a considerable loss as compared with the present quoted rates of Exchange in New York, and if the latter course were adopted he believes it would lead to a serious decline in the rates as well in Canada as in New York. He is of opinion that the same result would follow if the Government were to offer its own Bills drawn on the financial agents in London, for sale through any broker, or through the agency of the Bank of Montreal, and he thinks it would be for the interest of the Government to allow the Bills of the Bank of Montreal on the Union Bank of London, its agents there, to be used. This course will subject the Government to the payment of a brokerage to the Bank of Montreal on the sale of the Bills in New York, and the transfer of the funds thence to Canada, as well as to the cost of recouping that institution for the commission it may have to pay to its London agents on their acceptance and payment of the Bills it may draw. But he considers it probable that the cost to the Government of that plan would be less than the loss which would be occasioned by the decline in the rate of Exchange were the Government to draw its own bills on Messrs. Baring and Glyn.

From the best information within his reach, the undersigned is inclined to the opinion that the price of Exchange is less likely to rise than to decline for some time to come.

The present demand for American securities in Europe, the probable heavy export of grain and other products in the autumn, the prospect of a considerable cotton crop, and the light fall importations into Canada, are among the causes which prompt this belief, and he thinks it improbable that the Government would gain as much by waiting for a rise, as it would lose in the way of interest which the deposit of money on the sale of the bills would otherwise give. He therefore submits, for the consideration of Council, the expediency of realising the exchange as expeditiously as practicable in New York, and placing the amount at 4 per cent. interest.

But, in view of the impossibility of making any certain calculations with reference to the result, and in order that the Government may have the advantage of any rise in exchange, and at the same time place a considerable sum at once at interest, he proposes:—

1st. That the offer of the Bank to purchase, at the rate specified in Mr. King's letter, be accepted as to the half of the 500,000 *l.* sterling only.

2nd. That the other half be sold by the Bank on Commission on the terms stated by him, either *pari passu* with the purchased half, or at a minimum rate to be fixed from day to day by the Government when apprised of the daily quotations in New York.

3rd. That the sum of 500,000 *l.* be placed by the Financial Agents in London at the disposal of the Bank of Montreal, by letter of instruction to that effect, to meet the drafts of the Bank, and on the understanding that if the payment of stamps and commission to the Bank Agents is thereby avoided, these charges will be allowed to the Government.

Ottawa, 27 August 1868.

(signed) *John Rose,*
Minister of Finance.