Also at that date the quotations of forward foreign exchange points for the United States Dollar against the New Zealand Dollar by three market participants were (as provided on their Reuters screens):

FORWARD POINTS:

FX DEALER 1:		
Delivery in 1 year	585	555
Delivery in 2 years	1030	960
FX DEALER 2:		
Delivery in 1 year	580	530
Delivery in 2 years	1040	970
FX DEALER 3:		
Delivery in 1 year	575	540
Delivery in 2 years	1035	965

Note that to obtain the forward rates the forward points need to be subtracted from the spot rate.

The mid-rates for use in the interpolation formula are therefore:

	Buy	Sell	Mid-Rate
Forward Rate:			
FX DEALER 1:			
Delivery in 1 year	0.5510	0.5545	0.55275
Delivery in 2 years	0.5065	0.5140	0.51025
FX DEALER 2:			
Delivery in 1 year	0.5515	0.5570	0.55425
Delivery in 2 years	0.5055	0.5130	0.50925
FX DEALER 3:			
Delivery in 1 year	0.5520	0.5560	0.55400
Delivery in 2 years	0.5060	0.5135	0.50975

The arithmetic mean of the midpoints of the forward rates is calculated to be:

Delivery in 1 year	0.55366
Delivery in 2 years	0.50975

A suitable formula for straight line interpolation to obtain the required rate is:

$$\text{So } P_X = P1 + \frac{(T_x - T1)}{(T_2 - T_1)} *(P1 - P2)$$

P_1 is the mid-rate for the forward contract with the shorter term (= 0.55366).

P_2 is the mid-rate for the forward contract with the longer term (= 0.50975).

P_x is the required rate.

T_1 is the term till delivery (expressed in days) of the forward contract with the shorter term (= 365).

T_2 is the term till delivery (expressed in days) of the forward contract with the longer term (= 730).

T_x is the term till delivery of the contract held (= 398).

The required rate is therefore calculated as follows:

$$\text{So } P_X = P1 + \frac{(T_x - T1)}{(T_2 - T_1)} *(P1 - P2)$$

$$= 0.55366 + \frac{(398 - 365)}{(730 - 365)} * (0.50975 - 0.55366)$$

$$= 0.55366 + \frac{33}{365} * -0.04391$$

$$= 0.54969$$

The current value of $612,000 United States Dollars receivable on the 1st of August 1988 is therefore $1,113,354.800 New Zealand Dollars.

This determination is signed by me on the 30th day of September 1987.

JOHN SIMCOCK, Commissioner of Inland Revenue.

20

Futures Market

DETERMINATION G7: This determination may be cited as "Determination G7: Futures Market".

1. *Explanation* (which does not form part of the determination). This determination applies where, for the purpose of calculating the income or expenditure of a person in respect of a futures contract, it is necessary to determine the price of a futures contract.

This determination sets out the approved markets, sources of information and method, used for determining the prices for futures contracts.

2. *Reference*—This determination is made pursuant to section 64E (1) (a) to (f) of the Income Tax Act 1976.

3. *Scope of Determination*—This determination applies where, for the purpose of calculating the income or expenditure of a person in respect of a futures contract, it is necessary to determine the price of a futures contract.

4. *Principle*—(1) Markets are approved having regard to the following criteria—

(a) The number of participants in the market or having access to the market:

(b) Frequency of trading in the market:

(c) The nature of trading in the market—how the rate is determined and how the financial assets are traded on the market:

(d) The potential or demonstrated capacity of a person or group of persons to significantly influence the market:

(e) Significant barriers to entry:

(f) Discrimination on the basis of the quantity bought and sold unless based on the risks involved or the transaction costs or economies of scale.

(2) Sources of information are approved having regard to the following criteria—

(a) Reliance on the sources of information by the market:

(b) The accessibility of the sources of information by participants in the market.

(3) A method of obtaining a price for a futures contract is approved if it is determined by an independent source and is adopted by participants in the market.

5. *Interpretation*—In this determination, unless the context otherwise requires—

(a) Expressions used, except the expression "income year", have the same meanings as in sections 2 and 64B to 64M of the Income Tax Act 1976:

(b) "Futures contract" means a contract traded on the New Zealand Futures market:

(c) "Income year" means—

(i) Where a taxpayer furnishes a return of income under section 15 of the Income Tax Act 1976 for an accounting year ending with an annual balance date other than the 31st day of March, the period of 12 months ending on that balance date;

(ii) In respect of the income of any other person, the year in which that income has been derived by him:

(d) "New Zealand futures market" means the market in futures contracts administered by the New Zealand Futures Exchange Limited.

6. *Method*—(1) The New Zealand futures markets in the following contracts are approved:

The Five Year Government Stock contract.

United States Dollar contract.

Barclays Share Price Index contract.

90 Day Bank Accepted Bill contract.

New Zealand Crossbred Wool contract.

(2) (a) The following source of information is approved for trading members of the New Zealand Futures Exchange and clearing members of the International Commodities Clearing House Limited—

The Statement of Open Position compiled by the International Commodities Clearing House Limited.

(b) The following source of information is approved for persons other than Trading Members of the New Zealand Futures Exchange or Clearing Members of the International Commodities Clearing House—

Advice as to the price for a futures contract given to that person by a Trading Member of the New Zealand Futures Exchange or Clearing Member of the International Commodities Clearing House which price shall be obtained from a source approved in paragraph 6 (2) (a) of this determination.