"Financial arrangement" has the same meaning as in section 64B to 64M of the Act:

Provided that, where a financial arrangement creates obligations in two or more currencies and the consideration to be given and received in respect of the obligations in each of the currencies is separately identifiable, the consideration to be given and received in respect of the obligations in each currency shall be treated as relating to separate financial arrangements:

"NZD" means the currency of New Zealand:

"Opening tax book value", in relation to an income year and the rights and obligations of a person under a financial arrangement, means the closing tax book value of the person's rights and obligations under the financial arrangement at the end of the last preceding income year:

"Spot rate" means the exchange rate for a spot contract as defined in Determination G6A: Foreign Currency Rates.

6. *Method*—(1) The income or expenditure of the person in respect of a financial arrangement and an income year shall be calculated in accordance with the following formula:

$$a + b - c - d$$

Where—

a = the value of NZD of the closing tax book value; and

b = the sum of the value in NZD of all consideration given during the income year to or for the benefit of the person in relation to the financial arrangement; and

c = the value in NZD of the opening tax book value; and

d = the sum of the value in NZD of all consideration given during the income year by or on behalf of the person in relation to the financial arrangement—

and the amount so calculated shall,—

(a) where it is a positive amount be deemed to be income derived by the person in the income year:

(b) Where it is a negative amount be deemed to be expenditure incurred by the person in the income year.

(2) Where—

(a) An amount at any time is expressed in a currency other than NZD or the base currency in relation to a financial arrangement; and

(b) It is necessary to convert the amount to NZD or the base currency or otherwise to calculate the value of the amount in NZD or the base currency—

the exchange rate for the purpose of the calculation shall be,—

(c) Where the matter is dealt with in a determination made by the Commissioner under section 64E (1) of the Act, the price or spot rate at the time and so determined:

(d) Where the exchange rate is not dealt with in a determination made by the Commissioner under section 64E (1) of the Act and the amount is expressed in a currency for which there is an accessible and active market in—

(i) NZD or the base currency, as the case may be; or

(ii) Another currency that satisfies the requirements of this sub-paragraph,—

an exchange rate determined in a manner consistent with determinations made by the Commissioner for the purpose of ascertaining the price or rate for any currency.

(e) In any other circumstance, a price or spot rate at which an arm's-length dealing would be expected to take place at the time.

(3) Determination G2: Requirements as to Precision shall apply to the calculation of income and expenditure under clause 6 (2) of this Determination.

7. *Examples*—

EXAMPLE 1. DISCOUNTED BOND

A NZ investor has a United States Treasury bond on its balance date of 30 June 1989. The bond has a term of 5 years and bears 10% interest payable semi-annually on 1 September and 1 March. It has a face value of USD $10 million. The bond was purchased at issue for USD $8,300,000 and matures on 1 September 1993.

For the purposes of this example USD refers to the currency of the United States of America and NZD refers to the currency of New Zealand. Suppose the spot rates on important dates in this example are:

Date	*Rate (1NZD =USD)*
1 September 1988	.6310
1 March 1989	.6455
30 June 1989	.6580
1 September 1989	.6500
1 March 1990	.6550
30 June 1990	.6500
1 September 1990	.6570
1 March 1991	.6580
30 June 1991	.6460
1 September 1991	.6400
1 March 1992	.6380
30 June 1992	.6200
1 September 1992	.6150

The accrued income in USD associated with the bond is given in the following table—this is calculated in accordance with Determination G3: Yield to Maturity Method and allocated to income years according to Determination G1.

ALL ITEMS IN USD

Date	*Cashflows*	*Income*	*Year Ending*	*Accrued Income*
01-Sep-88	(8,300,000)			
01-Mar-89	500,000	620,316		
01-Sep-89	500,000	629,308	30-Jun-89	1,034,154
01-Mar-90	500,000	638,972		
01-Sep-90	500,000	649,358	30-Jun-90	1,281,465
01-Mar-91	500,000	660,521		
01-Sep-91	500,000	672,518	30-Jun-91	1,325,110
01-Mar-92	500,000	685,411		
01-Sep-92	500,000	699,268	30-Jun-92	1,375,520
01-Mar-93	500,000	714,161		
01-Sep-93	10,500,000	730,167	30-Jun-93	1,433,748
			30-Jun-94	250,003
	6,700,000	6,700,000		6,700,000

Y-T-M 14.9474 p.a.

At first balance date—30 June 1989

The Closing Tax Book Value (CTBV) is given by:

$e + f + g - h - i.$

e is 0 since the investor was not a party to this financial arrangement at the beginning of this income year.

f is USD 8.3m the price paid for the bond on 1 September 1988, being the sum of all consideration given by the investor during the income year.

g is USD 1,034,154 the base currency income accruing to the person in this income year calculated in accordance with the provisions of sections 64B to 64M of the Act.

h is USD 500,000 (the interest payment of 1 March 1989) the sum of all consideration given to the person in the income year.

i is 0 as there is no expenditure incurred by the investor.

The formula gives a CTBV of:

$0 + 8{,}300{,}000 + 1{,}034{,}154 - 500{,}000 - 0 =$ USD 8,834,154.

The income or expenditure in respect of the bond for the income year is calculated according to $a + b - c - d$.

Where:

a is the NZD value of the CTBV = 8,834,154 / .658 = $13,425,766.