For example, a person who sells NZD forward against purchase of USD can view the contract as either—

(a) The forward sale of NZD, if the person's base currency is USD, or

(b) The forward purchase of USD, if the person's base currency is NZD.

The choice of base currency merely fixes the direction of the cash flows under the forward contract; it does not affect the amounts reported for tax purposes although it may affect the incidence.

Each party to a forward contract is both a vendor and a purchaser. Since each party is a vendor in relation to the forward contract, each is deemed to be a holder under the definition of "holder" in section 64B (1) of the Act.

(3) This determination also applies to swap contracts for fixed amounts, to be exchanged at a single fixed date.

(4) Under a forward contract, the currency to be purchased is a "deferred asset" of the person and the currency to be sold is a "deferred liability" of the person. This does not depend on which currency is chosen as the base currency. In the example first given, the forward sale of NZD is a deferred liability and the forward purchase of USD is a deferred asset, irrespective of which base currency is chosen. This is because the forward contract can be regarded as equivalent to—

(a) Borrowing in NZD, the currency being sold (creating a "liability"),

(b) Converting the proceeds to USD at the spot rate, and

(c) Lending in USD, the currency being bought (creating an "asset").

However, if the sale and purchase currencies are interchanged, or the position of the other party to the forward contract is considered, then the asset and liability currencies are also interchanged.

(5) The total income derived or expenditure incurred under the forward contract (expressed in the base currency) is the difference between the values of the non-base currency at—

(a) The spot rate when the forward contract is delivered; and

(b) The forward rate at which the contract was entered into.

Because the delivery spot rate will not be known until the actual delivery date of the contract, it is necessary to provide an accrual method during the course of the contract.

(6) Any difference between the forward rate and the spot rate is a reflection of different interest rates in the two currencies. If the spot rate when the contract is delivered has become exactly equal to the forward rate under the contract, then this interest differential will have been exactly offset by the changes in the capital values of the deferred asset and liability.

The accrual method used in this determination follows this expected change in spot rates:

(a) The initial premium or discount, between the spot rate and the forward rate, is accrued over the term of the contract, and

(b) The contract is revalued to current spot rates each year.

(7) The rationale for determining "which way round" these items should be is as follows:—

(a) *Accrual of premium or discount*

(i) At the date the contract is issued the value of the non-base currency is converted into the base currency at the then spot rate.

(ii) If the non-base currency has been bought then it comprises a deferred asset. This asset is being purchased at a discount where the spot value is greater than the forward value, and at a premium where the spot value is less than the forward value. Accrual of a discount is income, and accrual of a premium is expenditure.

(iii) If the non-base currency has been sold then it comprises a deferred liability. This liability is being sold at a premium where the spot value is greater than the forward value, and at a discount where the spot value is less than the forward value. Accrual of a discount is expenditure, and accrual of a premium is income.

(iv) This can be presented in table form as follows:—

Non-base currency	*Base currency*	*Deferred*	*Change in Accrual during year** *(a−b) positive*	*(a−b) negative*
Bought	Vendor	Asset	Premium=Expend	Discount=Income
Sold	Purchaser	Liability	Discount=Income	Premium=Expend

*This is the amount (a−b) in clause 7 (1) where—

a = accrual at year end

b = accrual at year beginning,

of the premium or discount.

This table can be summarised by saying that for a vendor of the base currency, a negative amount of (a−b) is income, and a positive amount is expenditure, and conversely for a purchaser.

(b) *Spot rates*

(i) At each balance date the value of the non-base currency is converted into the base currency at the then spot rate.

(ii) If the non-base currency has been bought then it comprises a deferred asset. In this case an increase in value of the non-base currency is income, and a decrease is expenditure.

(iii) If the non-base currency has been sold then it comprises a deferred liability. In this case an increase in the value of the non-base currency is expenditure, and a decrease is income.

(iv) This can be presented in table form as follows:—

Non-base currency	*Base currency*	*Deferred*	*Change in spot value during year** *Increase (c−d) positive*	*Decrease (c−d) negative*
Bought	Vendor	Asset	Income	Expenditure
Sold	Purchaser	Liability	Expenditure	Income

*This is the amount (c−d) in clause 7 (1) where—

c = spot value at year end

d = spot value at year beginning.

This table can be summarised by saying that for a vendor of the base currency, a positive amount of (c−d) is income, and a negative amount is expenditure, and conversely for a purchaser.

(c) Since the wording at the end of item (a) (iv) is the same as item (b) (iv) except for the words "positive" and "negative", by changing the sign of the latter, the results can be combined as—

$$(a - b) - (c - d)$$

with the conclusion that, for a vendor of the base currency, where this amount is negative it is income and where this amount is positive it is expenditure, and conversely for a purchaser.

(8) In summary, the accrual method is as follows:

(a) *Accrual of premium or discount*—The difference between the value of the non-base currency calculated using—

(i) The spot rate, and

(ii) The contract rate,

as at the contract entry or acquisition date, represents the premium or discount in the base currency.

This premium or discount is accrued over the term of the contract using Method A or B of Determination G10: