6. Method—(1) Subject to subclause (2) of this clause, the income or expenditure in respect of a forward contract and an income year (other than an income year to which section 64F of the Act applies) shall be calculated according to the following formula:

\[ (a - b) - (c - d) \]

where—

- **a** is the amount of the present value of the forward contract in relation to the person at the end of the income year;
- **b** is the amount of the present value of the forward contract in relation to the person at the later of the end of the immediately preceding income year, or the commencement date;
- **c** is the spot value of the forward contract in relation to the person at the end of the income year;
- **d** is the spot value of the forward contract at the later of the end of the immediately preceding income year or the commencement date—

and the amount so calculated shall be deemed to be

(a) Expenditure incurred if—

(i) The amount is positive and the person is the vendor of the base currency, or

(ii) The amount is negative and the person is the purchaser of the base currency.

(b) Income derived, in any other case.

(2) Where the base currency adopted by the person in relation to a forward contract and an income year is not New Zealand currency, the amount of the income derived or expenditure incurred by the person in respect of the forward contract shall be the amount calculated in the base currency pursuant to subclause (1) of this clause, converted into NZD as at the end of that income year in accordance with subclause (3) of this clause.

(3) Where—

(a) An amount at any time is expressed in a currency other than NZD and;

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

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 spot price 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 NZD, and exchange rate determined in a manner consistent with determinations made by the Commissioner for the purpose of ascertaining the spot price for any currency;

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

7. Examples—For convenience in these examples when calculating the base price adjustment, the same buy/sell spot rates have been used at date of delivery. In practice this would not normally be the case.

**EXAMPLE A: SELLER OF BASE CURRENCY; APPRECIATING NON-BASE CURRENCY**

(a) A New Zealand corporate borrower enters into a long term forward foreign exchange contract to buy 1 million US dollars (USD) against delivery of New Zealand dollars (NZD) in three years time (This could be the forward leg of a swap, where the other leg is a spot exchange on 30 April 1988 at the market spot rate). The contract was entered into on 30 April 1988 and the corporate has a balance date of 30 June. The contract forward rate is 0.5300 USD to 1 NZD, so settlement will require delivery of NZD 1,886,792.

The corporate chooses NZD as the base currency for this contract.

Suppose that over the term of the contract the spot USD/NZD rates are:

<table>
<thead>
<tr>
<th>Date</th>
<th>Spot USD/NZD</th>
<th>Spot Value in NZD</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 April 1988</td>
<td>0.6350</td>
<td>1,574,803</td>
</tr>
<tr>
<td>30 June 1988</td>
<td>0.6200</td>
<td>1,612,903</td>
</tr>
<tr>
<td>30 June 1989</td>
<td>0.5940</td>
<td>1,683,502</td>
</tr>
<tr>
<td>30 June 1990</td>
<td>0.5750</td>
<td>1,739,130</td>
</tr>
<tr>
<td>30 April 1991</td>
<td>0.5570</td>
<td>1,795,332</td>
</tr>
</tbody>
</table>

Using Method A of Determination G10: Present Value Calculation Methods, at yearly intervals, the annual yield to maturity rate is 6.210% p.a., at which rate the present value of NZD 1,886,792 payable on 30 April 1991 is equal to NZD 1,574,803, the spot value of 30 April 1988.

(b) The present values of NZD 1,886,792 at the three subsequent balance dates are as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Present Value in NZD</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 1988</td>
<td>1,590,349</td>
</tr>
<tr>
<td>30 June 1989</td>
<td>1,689,110</td>
</tr>
<tr>
<td>30 June 1990</td>
<td>1,794,003</td>
</tr>
</tbody>
</table>

**Notes:**

(1) Discount by the 304 days from 30 April 1991 to 30 June 1990:

\[ 1,886,792/(1 + 0.06210 \times 304/365) = 1,794,003 \]

(2) Discount by a further year to 30 June 1989:

\[ 1,794,003/(1 + 0.06210) = 1,689,110 \]

(3) And by a further year to 30 June 1988:

\[ 1,689,110/(1 + 0.06210) = 1,590,349 \]

The following schedule sets out the calculations. Since the corporate is a vendor of the base currency, positive amounts are expenditure incurred and negative amounts are income derived:

<table>
<thead>
<tr>
<th>Income Year ending 30 June</th>
<th>a</th>
<th>b</th>
<th>c</th>
<th>d</th>
<th>Amount = (a - b) - (c - d) in NZD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>1,590,349</td>
<td>1,574,803</td>
<td>1,612,903</td>
<td>1,574,803</td>
<td>22,554</td>
</tr>
<tr>
<td>1989</td>
<td>1,689,110</td>
<td>1,590,349</td>
<td>1,683,502</td>
<td>1,612,903</td>
<td>28,162</td>
</tr>
<tr>
<td>1990</td>
<td>1,794,003</td>
<td>1,689,110</td>
<td>1,739,130</td>
<td>1,683,502</td>
<td>49,265</td>
</tr>
</tbody>
</table>

\[ I = \text{Income derived}; \quad E = \text{Expenditure incurred} \]

(c) In the 30 June 1991 income year, the Base Price Adjustment given in section 64F is calculated by applying the formula:

\[ a - (b + c) \]

where—

- **a** = Consideration paid or payable to the holder (section 64F (2))
  \( = 1,795,332 \)
- **b** = Acquisition price
  \( = \text{consideration provided by the holder (section 64B (1) d) and (2)} \)
  \( = 1,886,792 \)
- **c** = Income already derived — Expenditure already incurred
  \( = 22,554 - 77,427 \)
  \( = 54,873 \)

Therefore, the Base Price Adjustment

\[ a - (b + c) = \text{NZD} - 36,587 \]

and since this is negative, the amount of NZD 36,587 is deemed to be an allowable deduction (section 64F (4) (a)).

Note that in the final 30 June 1991 income year, the formula set in this determination would have given the same result, since—