

income derived by a person in respect of New Zealand Government Stock in an income year.)

(3) Apart from minor amendments, this determination differs from Determination G13: Prices or Yields by allowing the use of prices or yields other than those at which the person could deal. The method for finding such an alternative price or yield must be adopted for financial reporting purposes and must produce a price or yield that does not result in a more favourable result for tax purposes. For example where the holder of Government Stock values its holdings, for financial reporting purposes, by taking the price mid-way between the buy and sell price it may also use this method for calculating its income or expenditure for tax purposes.

(4) The criteria for approval of a market for this purpose are similar to those required for the approval of a foreign currency market (Determination G6C: Foreign Currency Rates refers). These are the indicators of a "free" and accessible market.

(5) Where it is necessary to ascertain a price or yield for the purpose of section 64C (4) of the Act (market value methods of accounting), the price or yield to be used is found by reference to a market in which the person could deal. For example, where there is a Euromarket and a domestic market in the same class of securities, the person is required to use prices from the market to which the person has access. It is assumed that where a person has access to two such markets, arbitrageurs will ensure that prices in the two markets will not differ materially.

(6) Where a person owns securities or has bought securities for forward delivery (i.e. is "long in the security"), the price to be used is the buying or bid price (i.e. the price at which the market would be prepared to buy the security for the appropriate delivery date). Where the person has "short sold" securities, the price to be used is the selling or offer price (i.e. the price at which the market would be prepared to sell the security for the appropriate delivery date). Alternatively, in either case, the person may use a method which finds a price which falls between the two prices. This method must be adopted for financial reporting purposes and produce a result which is no more favourable for tax purposes.

(7) Where sources of information for approved markets do not show price or yield quotations for the maturity of the security to be priced, commercially acceptable forms of interpolation or extrapolation may be used based on quoted prices or yields for securities of different maturities that are otherwise identical to the security in question.

(8) Section 64C (4) of the Act may not be applied in relation to a financial arrangement if no market or method or source of information for the financial arrangement is approved in a determination made by the Commissioner.

2. *Reference*—(1) This determination is made pursuant to section 64E (1) (d) and section 64E (6) of the Income Tax Act 1976.

(2) This determination rescinds and replaces Determination G13: Prices or Yields made on the 8th day of February 1989.

3. *Scope of Determination*—This determination shall apply where it is necessary for the purposes of section 64C (4) of the Act to determine the price or yield of a financial arrangement.

4. *Principle*—(1) For the purposes of the calculation of the income or expenditure of a person, pursuant to section 64C (4) of the Act, markets are approved having regard to the following criteria—

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

(b) The frequency of trading in the market;

(c) The nature of trading in the market, how the prices or yields are determined and how the financial arrangements 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 transaction costs or economies of scale.

(2) Sources of information in relation to a market are approved having regard to the following criteria—

(a) Reliance on the source of information;

(b) The accessibility of the source of information to participants in the market;

(c) Whether the persons providing the information at a source are prepared to act upon the information supplied at the source.

(3) Methods of obtaining prices or yields at the end of the income year for the purpose of valuing a financial arrangement are approved if—

(a) The price or yield is obtained at the Cut-off Time; and

(b) The method for determining the Cut-off Time adopted by the person will be consistently applied in respect of each income year.

(4) Transactions that take place after Cut-off Time shall be accounted for in the next income year.

5. *Interpretation*—(1) In this determination, unless the context otherwise requires—

"the Act" means the Income Tax Act 1976;

"Approved Source of Information" means a source of information approved in this determination;

"Bank Bill" means an order to pay drawn upon and accepted by a person who is a registered bank for the purposes of the Reserve Bank Act 1989;

"Contributor Page", in relation to a Market in financial arrangements, means a page of information, provided by a person that is active in the Market, that is displayed on a screen provided by Reuters New Zealand Limited or Telerate New Zealand Limited;

"Cut-off Time", in relation to a person and an income year, means the New Zealand Standard Time chosen by the person on the last day of the income year when, in terms of this determination, all financial arrangements, in relation to which the person is a holder or an issuer, are valued for the purpose of determining the assessable income of the person in the income year;

"Extrapolation" means extrapolation on a linear or curvilinear basis according to the practice of persons active in the market;

"Identical Financial Arrangement", in relation to a financial arrangement, means a financial arrangement similar, in all respects material to investors, to the first-mentioned financial arrangement;

"Income Year" means—

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

(b) In respect of the income of any other person, the year in which that income has been derived by that person;

"Interpolation" means interpolation on a linear or curvilinear basis according to the practice of persons active in the Market;

"Longer Maturing Financial Arrangement", in relation to a financial arrangement, means another financial arrangement similar in all respects material to investors to the first-mentioned financial arrangement, except that the maturity of the other financial arrangement will occur after the maturity of the first-mentioned financial arrangement;

"Market", in relation to a financial arrangement, includes—

(a) A spot market;