(a) The cashflows are—

(i) Coupon Interest Payments during the Term Of The Convertible Note; and

(ii) Contingent fees; and

(iii) Non contingent fees to the extent that they exceed 2 percent of the core acquisition price; and

(iv) The Cash Redemption Amount:

(b) If future Coupon Interest Payments are not known at the date of acquisition or issue, as the case may be, because the Convertible Note has a reviewable or variable coupon rate determined by a fixed relationship to a market or indicator rate, it is to be assumed, for the purpose of determining the present value of the cashflows, that the coupon rate applicable to the first period also applies to future periods:

(c) The present value shall be calculated using the Specified Rate determined in accordance with Determination G23: Specified Rate:

(d) An Acceptable Present Value Calculation Method must be used to calculate the present value of the cashflows during the Term Of The Convertible Note.

(3) For the purposes of calculating the amount that shall be deemed to be income or expenditure of a Convertible Note of any person pursuant to section 64C of The Act regard shall be had to all consideration provided to the person and by the person in relation to the Convertible Note except—

(a) The amount of consideration not contingent on the financial arrangement provided it is less than 2 percent of the core acquisition price (item "z" as defined in section 64BA (2) or (3)); and

(b) The amount of (y − s) being the part of the core acquisition price attributable to the excepted financial arrangement calculated in accordance with subclauses (1) and (2) of this clause.

(4) For the purposes of the base price adjustment the amount of the acquisition price of a Convertible Note shall be the amount calculated in accordance with sections 64BA (2) or (3) of The Act less the amount of the core acquisition price attributable to the excepted financial arrangement calculated in accordance with subclauses (1) and (2) of this clause. This amount is variable "b" of the base price adjustment.

(5) For the purposes of determining the amount of the consideration receivable by the holder or payable by the issuer for the purposes of the base price adjustment—

(a) No part of the Coupon Interest Payments is attributable to the excepted financial arrangement; and

(b) No part of the Cash Redemption Amount is attributable to the excepted financial arrangement; and

(c) Where a Convertible Note is converted into, redeemed or paid by the issue or delivery of, shares the value of the shares is deemed to be equal to or greater than the Cash Redemption Amount; and

(d) Where a Convertible Note is converted into, redeemed or paid by the issue or delivery of, shares any excess in value of the shares over the Cash Redemption Amount is attributable to the excepted financial arrangement.

(6) Where a Convertible Note is acquired other than at issue the amount of income derived or expenditure incurred and the acquisition price of the Convertible Note shall be determined by the new holder of the note in accordance with The Act and subclauses (1) to (4) of this clause.

Position of Vendor on Sale of Convertible Note

(7) Where a Convertible Note is sold by a holder to any person before the Redemption Date the amount of the sale price that is attributable to the debt component of the Convertible Note shall be equal to the acquisition price of the new holder calculated in accordance with subclauses (1) to (4) of this clause as if the sale price were the only consideration provided by the new holder.

(8) Any amount of fees paid by the holder in relation to the sale shall then be deducted from the acquisition price for the purposes of the base price adjustment.

(9) The amount calculated in accordance with subclause (7) of this clause shall be treated as a part of variable "a" in the base price adjustment for the vendor. The vendor will already have calculated the acquisition price at the time of acquisition of the Convertible Note in accordance with subclauses (1) to (4) of this clause.

7. *Examples*—A New Zealand public company, XYZ Limited, raises $100 million through an optional conversion Convertible Note issue dated 28 April 1991. XYZ Limited has a 31 March balance date.

The notes were issued at a par value of $1.00. Coupon interest of 12 percent per annum is payable half-yearly in arrears. The earliest possible conversion date is 5 years from the date of issue. The conversion terms are 1:1 or cash at par.

The rate for like term Government Stock at the time of issue, determined in accordance with Determination G13A: Prices or Yields, is 10 percent.

The cost of the issue (arrangement fees etc.) to XYZ Limited was $1,100,000 being contingent fees of $1,000,000 and non-contingent fees of $100,000.

(a) XYZ Limited is an "issuer" for the purposes of the accruals legislation.

The cashflows in relation to the Convertible Note issue are:

28 April 1991	100,000,000	principal
	(1,000,000)	contingent fee
	(100,000)	non-contingent fee
28 October 1991	(6,000,000)	interest
28 April 1992	(6,000,000)	
28 October 1992	(6,000,000)	
28 April 1993	(6,000,000)	
28 October 1993	(6,000,000)	
28 April 1994	(6,000,000)	
28 October 1994	(6,000,000)	
28 April 1995	(6,000,000)	
28 October 1995	(6,000,000)	
28 April 1996	(106,000,000)	cash redemption amount plus interest

[N.B. Brackets denote payments made by the issuer.]

The core acquisition price, being the value of all consideration provided to the issuer, is $100 million determined in accordance with section 64BA (1) (d) (ii) of The Act.

The present value of the cashflows is determined in accordance with Method A, Determination G10B with variables:

$$R = 10.0\%$$
$$N = 2$$
$$F = 0.05$$

The Specified Rate, R, is selected using Determination G23: Specified Rate.

The present value is $107,721,734. The contingent fees of $1,000,000 must be added to this amount giving a total present value of $108,721,734.

Therefore, the amount of the core acquisition price attributable to the option to acquire shares is zero determined in accordance with clause 6 (1) of this determination. Note that the result is zero due to the operation of the proviso in clause 6 (1):

$$y - s = 0$$
$$y = \$100,000,000$$
$$s = \$108,721,734$$

In order to calculate accrual expenditure the yield to maturity method is applied, i.e., Determination G3: Yield to Maturity