The present value is $48,789. The contingent fees of $1,000 are added to this amount giving a total present value of $49,789 on 28 April 1993.

The amount of the core acquisition price attributable to the option to acquire shares is:

$$y - s = \$6,211$$
$$y = \$56,000$$
$$s = \$49,789$$

determined in accordance with clause 6 (1) of this determination. The amount $6,211 relates to the excepted financial arrangement and is excluded from calculations to determine income derived or expenditure incurred under the accrual rules.

In order to calculate accrual expenditure Determination G3: Yield to Maturity Method (or alternatively Determination G11A: Present Value Based Yield to Maturity Method) is applied. The relevant cashflows for calculating the yield to maturity determined in accordance with The Act and clause 6 (4) of this determination are—

28 April 1993	(48,789)	payment for bond
	(6,211)	payment for option
	(1,000)	brokerage
28 October 1993	3,000	interest
28 April 1994	3,000	
28 October 1994	3,000	
28 April 1995	3,000	
28 October 1995	3,000	
28 April 1996	53,000	

The yield of the financial arrangement is 12.1721 percent. (The cashflow excluded from the yield calculation is the amount of the core acquisition price attributable to the excepted financial arrangement which is $6,211). This rate is used to calculate income derived from the issue of Convertible Notes in accordance with Determination G3: Yield to Maturity Method. Income derived is spread between income years in accordance with Determination G1A.

In the final period the base price adjustment is calculated—

a = all consideration paid to the person
 = $50,000 + $18,000
b = acquisition price determined in accordance with The Act and clause 6 (4) of this determination
 = $49,789
c = income derived less expenditure incurred in previous income years
 = $17,755
a − (b + c) = $456

As this is a positive amount it is income derived by the holder of the Convertible Notes in the final income year.

(ii) The institution, the vendor of the notes and original holder, would use The Act and this determination to calculate the base price adjustment in the year the convertible notes were sold.

For the vendor of the Convertible Note the amount of the sale price that is attributable to the debt component of the Convertible Note is equal to the acquisition price of the "new holder" calculated as if the only consideration provided by the "new holder" was the sale price. This amount is part of variable "a", the amount of all consideration that has been paid to the holder, of the base price adjustment.

Brokerage fees of $1,500 were paid on the sale. This amount is accounted for in variable "b" of the base price adjustment which is the value of all consideration provided by the holder in relation to the financial arrangement.

Therefore, the core acquisition price is $55,000 being the sale price of the notes, and the only consideration provided by the "new holder", determined in accordance with section 64BA (1) (d) (i) of The Act and this determination.

The present value of the future cashflows determined in accordance with Method A, Determination G10B, where R = 13 percent, N = 2 and F = 0.065, is $48,789.

The amount of the core acquisition price attributable to the option to purchase shares is $55,000 less $48,789 which is $6,211.

As the sale price is the only consideration provided by the "new holder" the amount of consideration received in respect of the convertible note on sale is $48,789.

The base price adjustment is calculated:

a = all consideration paid to the holder
 = $48,789 + $12,000 (interest)
b = acquisition price determined in accordance with The Act and clause 6 (4) of this determination
 = $50,000 [acquisition price as calculated in example (b)] + $1,500 [brokerage fees on sale]
c = income derived in previous income years less expenditure incurred
 = $11,541 − 0
a − (b + c) = −$2,252

The amount of $2,252 being a negative amount is deemed to be an allowable deduction in the year of sale of the financial arrangement.

This determination is signed by me on the 24th day of October in the year 1990.

R. D. ADAIR, Deputy Commissioner of Inland Revenue.
go12592

Determination G23: Specified Rate

This determination may be cited as "Determination G23: Specified Rate".

1. *Explanation*—(which does not form part of the determination).

(1) This determination applies where for the purposes of calculating income or expenditure it is necessary to determine an annual yield or interest rate for valuation purposes. This rate is called the specified rate. The rate may be required where the present value of an amount payable or receivable under a financial arrangement is to be calculated. Such a calculation is necessary, for example, in Determination G22: Optional Conversion Convertible Notes Denominated in New Zealand Dollars Convertible at the Option of the Holder.

(2) When a financial arrangement is denominated in New Zealand dollars the specified rate is the market yield applying to Bank Bills of a similar Term to the Term of the financial arrangement; if the Term is longer than 12 months the market yield on New Zealand Government Stock must be used.

(3) When a financial arrangement is denominated in a currency other than New Zealand dollars the specified rate is—

(a) The interbank bid or offer rate for the currency and the Term of the financial arrangement; or

(b) An implied foreign currency interest rate calculated by reference to appropriate forward and spot exchange rates and the New Zealand Bank Bill or New Zealand Government Stock rates appropriate to the Term of the financial arrangement.

(4) An implied foreign currency interest rate will generally be calculated when it is not easy to find a quoted interbank interest rate for the currency and Term of a financial arrangement.

(5) The specified rate will be required by other determinations which will detail the method or methods to be applied to determine income derived or expenditure incurred in relation to a particular class of financial arrangement. That method will include the date at which the specified rate is to be determined, the currency of the financial arrangement and the Term.