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

3. *Scope*—This determination shall be used to select a yield or interest rate as required by any other determination issued pursuant to section 64E of the Income Tax Act 1976.

4. *Principle*—(1) The specified rate is a market base rate for borrowing in a particular currency for a particular Term.

(2) Where the base rate in a currency is not readily obtainable it may be calculated from spot and forward exchange rates for converting the currency to New Zealand dollars and New Zealand dollar interest rates.

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

Expressions used have the same meanings as in The Act and where a word or expression is given as particular meaning for the purposes of sections 64B to 64M of The Act it shall have the same meaning as in the said sections 64B to 64M:

"Acceptable Present Value Calculation Method" means Method A of Determination G10B: Present Value Calculation Methods, or an alternative method producing not materially different results:

"The Act" means the Income Tax Act 1976:

"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:

"Base Currency" in relation to a financial arrangement means the currency in respect of which a specified rate is to be calculated:

"Forward Rate" means the rate for a forward contract determined in a manner consistent with Determination G6C: Foreign Currency Rates provided that the currency in respect of which the Forward Rate is to be found need not be one of the currencies referred to in Determination G6C:

"Interbank Rate" means the bid or offer rate quoted for deposits in the Base Currency determined in a manner consistent with Determination G13A: Prices and Yields provided that the market in respect of which the rate is to be found need not be one of the markets referred to in Determination G13A:

"Spot Rate" means the rate for a spot contract determined in a manner consistent with Determination G6C: Foreign Currency Rates provided that the currency in respect of which the Spot Rate is to be found need not be one of the currencies referred to in Determination G6C:

"Term" means the Term of the financial arrangement specified in the determination which requires a specified rate to be used.

(2) Any reference in this determination to another determination made by the Commissioner shall be construed as including a reference to any fresh determination made by the Commissioner to vary, rescind, restrict or extend that determination.

(3) For convenience, words or phrases defined in this determination are indicated by initial capital letters, but the absence of a capital letter shall not alone imply that the word or phrase is used with a meaning different from that given by its definition.

6. *Method*—(1) The specified rate at any date in relation to a financial arrangement denominated in New Zealand currency is—

(a) Where the Term of the financial arrangement is 12 months or less, the yield for Bank Bills of a similar Term to the Term of the financial arrangement;

(b) In any other case, the yield for New Zealand Government Stock of a similar Term to the Term of the financial arrangement—

determined in accordance with Determination G13A: Prices or Yields.

(2) The specified rate at any date in relation to a financial arrangement denominated in a foreign currency is—

(a) The Interbank Rate for the Base Currency and the Term of the financial arrangement; or

(b) A rate derived by—

(i) Converting the final amount payable or receivable in relation to the financial arrangement from the Base Currency to New Zealand currency at the forward exchange rate appropriate to the Term of the financial arrangement; and

(ii) Calculating the present value of the amount thus calculated using an Acceptable Present Value Calculation Method and a rate determined in accordance with clause 6 (1) (a) or (b); and

(iii) Converting the amount thus calculated to the Base Currency at the Spot Rate for the currency; and

(iv) Calculating the rate such that if an Acceptable Present Value Calculation Method where applied to the final payment in the Base Currency over the Term of the financial arrangement the present value so calculated would be equal to the amount calculated in subparagraph (iii) above.

7. *Example*—A company is required to calculate the present value of US$100,000 payable on the 30th day of June 1991 as at balance date, 31 March 1991, as part of a method detailed in another determination to ascertain income derived or expenditure incurred from a financial arrangement.

This determination approves two methods of selecting a specified rate:

(a) The US interbank dollar offer rate (LIBOR or SIBOR) on 31 March 1991 for 90 days is 8.6 percent per annum (the specified date) ascertained using a method consistent with Determination G13A: Prices or Yields; or

(b) The company calculates an implied rate by the steps below:

Convert the amount of US$100,000 using a forward exchange rate to New Zealand dollars. The Forward Rate for US dollars ascertained on 31 March 1991 for delivery in 90 days is USD/NZD 0.5688.

US$100,000/0.5688 = NZ$175,809

Assume that the yield for NZ Bank Bills of a 90 day Term is 13.46 percent per annum, ascertained at 31 March 1991 in accordance with Determination G13A: Prices or Yields.

Foreign currency Spot Rate ascertainned in accordance with Determination G6C: Foreign Currency Rates, as at 31 March 1991 is USD/NZD 0.5752.

Method A of Determination G10B: Present Value Calculation Methods, is applied to calculate the present value as at 31 March 1991 as follows—

A = 0
B = NZ$175,809
C = 0
R = 13.46 percent
N = 4
F = 0.03365

$$\text{Present Value} = \frac{A + B - C}{1 + F} = \text{NZ\$170,085}$$

This amount is converted to US dollars using the Spot Rate on 31 March 1991, NZ$170,085 × 0.5752 = US$97,833.

The specified rate is that which results in the US$100,000 when discounted being equal to US$97,827. The rate calculated in accordance with Determination G3: Yield to Maturity Method, is 8.86 percent per annum.