the other coupon interest payments required under the convertible note, this determination shall apply as if the condition were met; and

(c) The market value of the underlying shares at the date of issue of the note is not less than 80 percent of the acquisition price of the note on that date; and

(d) The note is not part of another financial arrangement.

4. *Principle*—A mandatory conversion convertible note is a hybrid of debt and equity. It can be regarded alternatively as a loan with repayment in shares or as a forward purchase of shares. As a share is an excepted financial arrangement (section 64B of the Act) it is necessary to arbitrarily separate the debt and equity components of the note.

This determination treats all amounts in respect of a note other than the coupon interest payments as relating to the underlying shares. Income and expenditure in respect of the note is calculated by pro rata daily apportionment of the coupon interest payments to income years.

Changes in market conditions may impact on the value of a note on a secondary market. Due to the difficulty in accurately attributing the effects of such market changes between the debt and equity components of the note it is assumed that any changes in value on a secondary market are due to the equity component.

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

(a) Expressions used, except the expression "income year", have the same meanings as in section 2 and section 64B of the Income Tax Act 1976:

(b) "Coupon interest payment" means any amount payable on the note by the note issuer to the note holder other than payments relating to the redemption or conversion of the note:

(c) "Income year" means—

(i) Where a taxpayer furnishes a return of income under section 15 of the Income Tax 1976 for an accounting year ending with a balance date other than the 31st day of March, the period of 12 months ending on that balance date; or

(ii) In respect of any other person, the year in which the income has been derived by the person:

(d) "Mandatory conversion convertible note", or "note", means any debenture, bond, certificate, document, note, or writing issued or given by a company—

(i) Evidencing, acknowledging, creating, or relating to a loan to the company or any money subscribed to the company or any other liability of the company, whether or not there is a charge over the undertaking or any of the assets of the company securing the whole or any part of the amount in respect of which the company has issued or given the note; and

(ii) Providing, pursuant to a trust deed or otherwise, and whether exclusively or not, for that amount, with or without interest thereon and whether at par or otherwise, to be converted into, or to be redeemed or paid by the issue of, shares or stock in the capital of a company, where the conversion, redemption, or payment by the issue of shares or stock is mandatory.

(e) "Underlying shares", in relation to a note, means the shares or stock into which the note is convertible, or in which it may be redeemed or paid.

6. *Method*—(1) The part of a mandatory conversion convertible note that is attributable to the underlying shares shall be—

(a) In respect of income, gain or loss, or expenditure, and also in respect of consideration receivable by the holder or payable by the issuer: all amounts other than coupon interest payments;

(b) In respect of the acquisition price: the acquisition price of the note.

(2) The income derived or expenditure incurred in respect of a mandatory conversion convertible note shall be calculated by daily apportionment of the coupon interest payments to income years pursuant to Determination G1A: Apportionment of Daily Income Expenditure.

7. *Example—EXAMPLE A*

On 13 September 1987 a convertible note is issued for $100 with an interest coupon of 12 percent payable semi-annually in arrears. The note is mandatorily convertible in ten shares in the issuing company on 13 September 1988. The market value of each share at issue date is $9 and by conversion date this has risen to $15. Both the issuer and holder use a 31 March balance date and apply Determination G1A on a 365 day basis.

The coupon interest payments are made as follows:

13 March 1988	$6.00
13 September 1988	$6.00

(a) *Year ended 31 March 1988*

Coupon payment 13/3/88		$6.00
Apportionment of coupon payment 13/9/88		
There are 18 days between 13 March and 31 March 1988, and 184 days between 13 March and 13 September 1988		
18/184 × $6.00	=	$0.59
Income/Expenditure		$6.59

(b) *Year ended 31 March 1989*

As the note matures this year the base price adjustment (section 64F of the Act) is required. The formula a − (b + c) is applied using the following values:

a	(all consideration paid)	= $12.00
b	(acquisition price)	= 0
c	(amounts in previous years)	= $ 6.59

Income/Expenditure = a − (b + c)
= $12.00 − (0 + $6.59)
= $5.41

As all amounts other than the coupon payments are deemed to be attributable to the underlying shares, the issue price and share market values can be ignored for the purposes of calculating income and expenditure. This effectively gives the note an acquisition price of nil (for accrual purposes) hence the zero value of "b" in the above base price adjustment.

EXAMPLE B

On 13 November 1991 a convertible note is issued for $100 with an interest coupon of 10 percent payable semi-annually in arrears with the exception of the first period which is of 5 months. The note is mandatorily convertible to ten shares in the issuing company on 13 October 1993. The market value of each share at issue date is $9 and by conversion date this has risen to $15. Both the issuer and holder use a 31 March balance date and apply Determination G1A on a 365 day basis.

The coupon interest payments are made as follows:

13 April 1992	$4.14
13 October 1992	$5.00
13 April 1993	$5.00
13 October 1993	$5.00

(a) *Year ended 31 March 1992*

Apportionment of coupon payment 13/4/92		
There are a total of 152 days in the first period. Of these 139 are in the year ended 31 March 1992.		
139/152 × $4.15	=	$3.80
Income/Expenditure		$3.80