

DETERMINATION > FINANCIAL ARRANGEMENTS > GENERAL

Prices or Yields

Issued: 24 October 1990

G13A

This Determination may be cited as "Determination G13A: Prices or Yields".

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

1. This determination rescinds and replaces Determination G13: Prices or Yields made on the 8th day of February 1989.
2. This determination applies where for the purpose of calculating the income or expenditure of a person it is necessary to determine a price or yield for valuation purposes. This may arise where a person wishes to calculate income or expenditure in relation to a financial arrangement pursuant to section 64C(4) of the Act. (For example, in the application of a market valuation method for calculating the amount of 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 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 obtained 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 Ltd 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;
- b) A forward market;
- c) An options market;
- d) A futures market approved by either Determination G7B: New Zealand Futures and Options Markets or Determination [G18](#): International Futures and Options Markets:

"Multicontributor Page" means a multicontributor page of information that is displayed on a screen provided by Reuters New Zealand Limited or Telerate New Zealand Limited:

"Shorter 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 before the maturity of the first-mentioned financial arrangement:

"Reuters New Zealand Limited" means Reuters New Zealand Limited or any company that is an associated person in relation to Reuters New Zealand Limited and is in the business of providing financial information in the form of multicontributor screens or contributor screens:

"Telerate New Zealand Limited" means Telerate New Zealand Limited or any company that is an associated person in relation to Telerate New Zealand Limited and is in the business of providing financial information in the form of multi-contributor screens or contributor screens.

2. For convenience, words and 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 this determination.
3. In this determination, unless the context otherwise requires, expressions used except those expressions defined in paragraph (1) of this clause have the same meanings as in sections 2 and 64B to 64M of the Act.
4. Any reference in this determination to another determination made by the Commissioner shall be construed as referring to any fresh determination made by the Commissioner to vary, rescind, restrict, or extend that determination.

6 Method

1. *Approved Domestic Markets* — The Markets in the following securities are approved—
 - a) New Zealand Government Treasury Bills;
 - b) New Zealand Government Stock;
 - c) Bank bills.
2. *Approved Foreign Markets* — The Markets in the securities issued by the central governments of the following countries are approved—
 - Canada
 - Commonwealth of Australia
 - Federal Republic of Germany
 - French Republic
 - Japan
 - Kingdom of the Netherlands

Republic of Italy

Swiss Confederation

United Kingdom of Great Britain and Northern Ireland

United States of America.

3. *Approved sources of information* — In relation to an approved Market referred to in the preceding sub-clauses of this clause, the following sources of information are approved—
- a) A Multicontributor Page that quotes prices or yields for securities traded in the Market;
 - b) A Contributor Page or other noticeboard that quotes prices or yields at which the persons posting prices or yields are prepared to buy from and sell to any other person;
 - c) A person active in the Market.
4. *Selecting prices or yields* — Where, for the purpose of determining the income or expenditure of a person in respect of a financial arrangement and an Income Year, it is necessary to refer to the price or yield for an Identical Financial Arrangement and a Market referred to in this determination, the price or yield shall be determined—
- a) Where the first mentioned financial arrangement is—
 - i. A debt or debt instrument, and the person is a holder of the financial arrangement, by reference to the price or yield at which the person could sell or otherwise dispose of the financial arrangement (i.e., the market “bid” or buy price);
 - ii. A debt or debt instrument, and the person is not a holder of the financial arrangement, by reference to a price or yield at which the person could purchase or otherwise acquire the financial arrangement (i.e., the market “sell” price);
 - iii. A forward or futures contract, by reference to the price at which the person could close out the contract;
 - iv. An exchange-traded option, by reference to the price at which the person could make an offsetting contract;
 - b) Notwithstanding paragraph (a) of this sub-clause, but subject to the other provisions of this determination, the price or yield selected may be determined where the first mentioned financial arrangement is—

- i. A debt or debt instrument, by reference to a price or yield which falls at a point between the price or yield at which the person could sell or otherwise dispose of the financial arrangement and a price or yield at which the person could buy or otherwise acquire the financial arrangement;
- ii. A forward or futures contract, by reference to a price which falls at a point between the price at which the person could close out the contract and the price at which the person could enter into an Identical Financial Arrangement;
- iii. An exchange-traded option, by reference to a price which falls at a point between the price at which the person could make an offsetting contract and the price at which the person could enter into an Identical Financial Arrangement;

Provided that the point at which the price or yield falls is adopted by the person and is or will be consistently applied in respect of all such financial arrangements for financial reporting purposes and gives a price or yield which results in the allocation to each Income Year of amounts which are no more favourable to the person for tax purposes than the amounts that would be allocated using a price or yield determined in accordance with paragraph (a) of this sub-clause.

5. *Application of Cut-off Time* — Where the price or yield of any financial arrangement is used by a person for the purpose of calculating the income derived or expenditure incurred by the person in respect of any financial arrangement in an Income Year pursuant to this determination, the price or yield shall be determined at the Cut-off Time in relation to the person and Income Year:

Provided that where there is no active market in financial arrangements of the same class at the Cut-off Time in relation to the person and the Income Year, the price or yield applied shall be the price or yield determined at—

- a) The end of trading in the Market in the class of financial arrangements by the person in the Income Year; or
 - b) The commencement of trading in the Market in the class of financial arrangements by the person in the immediately succeeding Income Year.
6. *Method for determining Cut-off Time* — The method adopted by a person for the purpose of determining the Cut-Off time in respect of an Income Year shall be adopted and consistently applied by that person in respect of every Income Year.
 7. *Approved methods* — Where for the purpose of determining the income or expenditure of a person in respect of a financial arrangement and an Income Year, it is necessary to

refer to the price or yield for an Identical Financial Arrangement and a Market referred to in this determination, the price or yield shall be determined—

- a) By reference to the price or yield quoted, in relation to the Identical Financial Arrangements and the Market, on a Multicontributor Page;
- b) Where the price or yield cannot be determined pursuant to the preceding paragraph of this sub-clause, by reference to the arithmetic mean of three prices or yields quoted in relation to the Identical Financial Arrangements and the Market on a Contributor Page or by a broker active in the Market;

Provided that—

- i. Where quotes are available on Contributor Pages these shall be used in preference to quotes from persons active in the Market;
 - ii. All quotes used shall be from persons acting independently of any other.
- c) Where—
 - i. The price or yield cannot be determined pursuant to the preceding paragraphs of this sub-clause; and
 - ii. The prices or yields for Shorter Maturing Financial Arrangements and for Longer Maturing Financial Arrangements in relation to the Identical Financial Arrangements and the Market are quoted on a Multicontributor Page;

by Interpolation between the price or yield so quoted for the Shorter Maturing Financial Arrangement that matures closest in time to the maturity of the financial arrangement and the price or yield so quoted for the Longer Maturing Financial Arrangement that matures closest in time to the maturity of the financial arrangement.

- d) Where—
 - i. The price or yield cannot be determined pursuant to the preceding paragraphs of this sub-clause; and
 - ii. The price or yield for a Shorter Maturing Financial Arrangement and for a Longer Maturing Financial Arrangement in relation to the Identical Financial Arrangements and the Market are quoted on not less than three Contributor Pages;

by Interpolation between the arithmetic mean of the prices or yields quoted on not less than three Contributor Pages for the Shorter Maturing Financial Arrangement that matures closest in time to the maturity of the financial arrangements and the arithmetic mean of the prices or yields quoted on not less than three Contributor Pages for the Longer Maturing Financial Arrangement that matures closest in time to the maturity of the financial arrangement;

- e) Where the price or yield cannot be determined pursuant to the preceding paragraphs of this sub-clause, and the price or yield for any Shorter Maturing Financial Arrangement or any Longer Maturing Financial Arrangement is quoted on a Multicontributor Page, by Extrapolation from the price or yield so quoted for—
- i. The Shorter Maturing Financial Arrangement; or
 - ii. The Longer Maturing Financial Arrangement;

as the case may be, that matures closest in time to the maturity of the financial arrangement.

- f) Where the price or yield cannot be determined pursuant to the preceding paragraphs of this sub-clause, and the price or yield for—
- i. A Shorter Maturing Financial Arrangement; or
 - ii. A Longer Maturing Financial Arrangement;

is quoted on not less than three Contributor Pages, by Extrapolation from the arithmetic mean of the prices or yields quoted on not less than three Contributor Pages for the Shorter Maturing Financial Arrangement that matures closest in time to the maturity of the financial arrangement, or the arithmetic mean of the prices or yields quoted on not less than three Contributor Pages for the Longer Maturing Financial Arrangement that matures closest in time to the maturity of the financial arrangement as the case may be.

8. Where the price or yield cannot be determined pursuant to the preceding sub-clause, no method is approved by this determination for the purposes of subsection 64C(4) of the Act.

7 Example

On its balance date of 30 September 1991, a corporate investor held \$2,000,000 face value of New Zealand Government Stock maturing 15 August 1994 bearing a coupon of 14%.

- a) At the Cut-off Time on 30 September 1991 the Reuters Multicontributor Page, NZGS, had quotes of 16.42% (buy) and 16.38% (sell).

A rate of 16.42% would be appropriate for the valuation of this holding as at 30 September 1991 in accordance with clause 6(3)(a), clause 6(4)(a), and clause 6(7)(a) of this determination.

Note: To obtain the value of the Government Stock it is necessary to use this rate in an appropriate valuation formula.

- b) At the Cut-off Time on 30 September 1992 there were no Multicontributor quotations available.

However, for an identical issue of Government Stock the following quotes were obtained from a broker active in the market and from Contributor Pages supplied by brokers active in the market:

	Buy	Sell
Broker's quote	15.90%	15.85%
Contributor page 1	15.85%	15.80%
Contributor page 2	15.89%	15.85%

The appropriate rate, determined in accordance with clause 6(7)(b) of this determination, is the arithmetic mean of the buy quotes, i.e. 15.88%.

- c) At the Cut-off Time on 30 September 1993 there were no Multicontributor quotations available for this particular stock.

The following quotations were available from the Multicontributor Page, NZGS, for two similar stocks:

	Buy	Sell
14% coupon maturity 15/6/94	15.10%	15.05%
14% coupon maturity 15/9/94	15.06%	15.00%

Clause 6(7) of this determination applies and a form of Interpolation between these quotations is to be used.

If the corporate investor chooses to use linear interpolation, the required yield is calculated as follows:

The relevant buy quotes and terms are:

	Buy	Term Relative to 15/8/94
14% coupon maturity 15/6/94	15.10%	61 days
14% coupon maturity 15/9/94	15.06%	31 days

From 15/6/94 to 15/9/94: 92 days

The required valuation yield is calculated under straight line interpolation:

$$((31 \times 15.10) + (61 \times 15.06))/92 = 15.07\%$$

- d) *An alternative method* At the Cut-off Time on 30 September 1991 the Reuters Multicontributor Page, NZGS, had quotes of 16.42% (buy) and 16.38% (sell).

The corporate investor uses the mid point between the buy and sell rate for financial reporting purposes and a rate of 16.40% would be appropriate for the valuation of this holding as at 30 September 1991 in accordance with clause 6(3)(a), clause 6(4)(b) and clause 6(7)(a) of this determination.

Note: To obtain the value of the Government Stock it is necessary to use this rate in an appropriate valuation formula.

About this document

General determinations set out the Commissioner's view on how the financial arrangements rules apply to a specific type of financial arrangement. All general determinations are binding on the Commissioner and some are also binding on taxpayers.