DETERMINATION > FINANCIAL ARRANGEMENTS > SPECIAL

Interest Reduction for Dividend Eligible Period on Conversion of Specified Mandatory Convertible Notes

Issued: 17 November 1995

S3

This determination by be cited as "Special Determination S3: Interest Reduction for Dividend Eligible Period on Conversion of Specified Mandatory Convertible Notes".

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

Convertible notes

1. A Mandatory Conversion Convertible Note ("MCCN") is a financial arrangement in which the holder of the Note provides money to a company, and the debt is discharged at a future date by the issue of shares in any company. Interest may be payable for the period between the issue of the Note and conversion into shares. Such payments are called Coupon Interest Payments.

Amounts Attributable to Excepted Financial Arrangement

2. As a share is an excepted financial arrangement under section OB 1 of the Act, only the Coupon Interest Payments and amounts attributed to those payments by Determination G5C are usually regarded as income or expenditure for the purposes of calculating accrual income or expenditure.

Determination G5C

3. Determination G5C prescribes the method to be used when calculating for accrual purposes the income derived or expenditure incurred in respect of MCCNs. It also details which amounts are to be included for this calculation, and which are attributable to an excepted financial arrangement. That Determination applies where, among other requirements, Coupon Interest Payments are of equal amount, or are set in relation to a market interest rate indicator. This Determination applies to Specified Mandatory Conversion Convertible Notes ("Specified MCCNs") which do not meet that requirement of Determination G5C.

Reason for Special Determination

4. The Specified MCCNs were issued by Amalgamating One Ltd to Holdings Ltd and were within the scope of Determination G5C. The issuer, Amalgamating One Ltd, proposes to enter into an amalgamation. As a consequence of the amalgamation, the MCCNs issued by the issuer are to convert into shares in the amalgamated company, rather than into shares in the issuer. The amalgamated company wishes to avoid having more than one class of shares traded on the stock exchange. The issuer therefore proposes that shares issued on the conversion of its MCCNs will have a full entitlement to dividends from the date of conversion, regardless of the fact that dividends may relate

to a period prior to conversion. In return for this entitlement, in the event of any early conversion, the Notes will lose their Coupon Interest entitlement for a period not exceeding two months prior to the date of conversion. The alteration to coupon entitlement takes the Specified MCCNs outside the scope of Determination G5C.

Proposed Transactions in Respect of Which This Determination Applies

5. The proposed transactions are part of an amalgamation of Amalgamating One Ltd, ("One Ltd"), Amalgamating Two Ltd, ("Two Ltd"), and Amalgamating Three Ltd, ("Three Ltd"). The amalgamation will be a long form amalgamation under Part VA of the Companies Act 1955. The proposed transactions are as follows:

    I. Pursuant to the amalgamation arrangements, those shareholders in One Ltd who elect to do so ("the Electing Shareholders"), will receive from One Ltd Holdings ("Holdings"), on the day the amalgamation becomes effective, one MCCN for each One Ltd share they hold.

    II. Holdings' inducement to transfer its MCCNs to the Electing Shareholders will be that it will have agreed with Two Ltd, by an agreement entitled "Agreement For Transfer Of Mandatory Conversion Capital Notes", that it will receive x number of shares in Two Ltd for each MCCN transferred. These shares will be issued by Two Ltd the day before the amalgamation is intended to become effective. From the time of issue of the shares Holdings will hold the MCCNs on the basis that it will transfer them to the Electing Shareholders immediately the amalgamation becomes effective.

    III. The consideration provided by the Electing Shareholders is that they will agree to an amalgamation proposal under which their shares in One Ltd will be cancelled and they will not be issued shares in the amalgamated company.

    IV. Three Ltd will be the surviving or "amalgamated" company. Shareholders in Two Ltd (other than One Ltd whose shares must be cancelled) will receive 1/x number of shares in the amalgamated company for each Two Ltd share held. This means that Holdings will in effect receive one amalgamated company share for each MCCN transferred.

    V. The amalgamated company will succeed to the obligations of the issuer of the MCCNs. The MCCNs will be convertible into shares in the amalgamated company.

    VI. Under the proposed transactions the value of the consideration received by Holdings on its disposal of the MCCNs will be the same in principle as if Holdings had converted the MCCNs in terms of the original issue; and the value of the consideration provided on receipt of the MCCNs, by the Electing Shareholders, will be the same as if they had been issued the MCCNs for a consideration equal at that time to the value of the shares into which they convert.

How This Determination Differs from Determination G5C

6. Special Determination [S3] differs from Determination G5C by:

   a) having a broader scope so that it applies to Specified MCCNs even though:

      i Coupon Interest is not always payable in respect of a period not exceeding two months prior to the date of conversion; and

      ii The Coupon Interest Payment relating to the period during which the issuer amalgamates, and the holder changes as a consequence of the amalgamation arrangements, may be split between the person who was the holder prior to the amalgamation and the person who is the holder after the amalgamation. For the purposes of determining the identity of the holder prior to the amalgamation, it may be necessary to set a record date some number of days before the amalgamation takes place;

   b) having a narrower scope so that it only applies to Specified MCCNs, as defined in clause 5—Interpretation.

2 Reference

This Determination is made pursuant to section 90(1)(c) and (g) of the Tax Administration Act 1994.

3 Scope of the Determination

This determination applies to income derived or expenditure incurred after the date this determination is made in respect of every Specified MCCN which:

1) Is issued subject to The Trust Deed and
2) Meets the following criteria:
   a) conversion into shares of a company is at a predetermined ratio; and
   b) Coupon Interest Payments are payable at regular intervals of not more than 12 months; and
   c) Either:

i) Coupon Interest Payments are of equal amount, or are set in relation to a market interest rate indicator: or

ii) the condition in (i) would be met but for either:

(A) the first or last Coupon Interest Payment being for a period which is shorter than the other periods; or

(B) the terms of the Note providing that if it is converted prior to the maturity date specified, Coupon Interest Payments are not payable in respect of a period prior to conversion not exceeding two months, and that the shares into which the Note converts are entitled to rank uniformly in all respects with other shares of the same class for all dividends or other distributions after the date of conversion, notwithstanding the fact that such dividends or other distributions may relate to a period for which interest has already been paid; and

d) the constant annual rate R calculated using Determination G3: Yield to Maturity Method, applied to the MCCN is:

i) not less than the lessor of:

(A) 5% p.a.; or

(B) half the annual coupon which the company issuing the Note would have had to pay on similarly secured borrowings of similar amount as at the date of issue; and

ii) not more than the greater of:

(A) 15% p.a.; or

(B) twice the annual coupon which the company issuing the Note would have had to pay on similarly secured borrowings of similar amount as at the date of issue; and

taking into account the amount or amounts payable by the holder consequent upon issue and assuming that—

iii) Coupon Interest Payments will be paid to the holder in accordance with the terms of the Note provided that if the Coupon Interest Payments are set in relation to a market interest rate indicator, the value of that indicator as at the issue date shall be assumed to apply for the term of the Note; and

iv) the only payment (other than a coupon payment) made to the holder on the conversion of the Note is a cash payment equal to the issue price of the Note; and

e) the Note is not part of another financial arrangement.

4 Principle

1) A MCCN has both debt and equity components. It can be regarded alternatively as:
   a) a loan to a company with repayment in shares (debt component); or
   b) a forward purchase of shares (in which case the holder of the Note is buying a share of a business and has equity in it).

   The accruals rules are not intended to deal with equity, and therefore classify a share (equity in a business) as an excepted financial arrangement (see section OB 1).
2) As a MCCN has this dual character, when calculating income/expenditure in relation to the Note it is first necessary to separate the debt and equity components of the Note.
3) This determination specifies that, apart from the Coupon Interest Payments and amounts attributed to those payments by this determination, all amounts relate to the underlying shares (equity component), and will not be dealt with under the accruals rules when calculating assessable income.
4) Income and expenditure in respect of the Note is calculated by pro-rata daily apportionment of the Coupon Interest Payment to income years.
5) For the purposes of this determination it is assumed that any change in the market value of the shares between the issue date of the Note and conversion into shares is due to the equity component. Therefore the difference in share price can be ignored when calculating income and expenditure for the purposes of the accruals rules.
6) This approach may not be appropriate where the coupon interest rate is so much above or below market rates at the time of issue that it may represent an adjustment between the acquisition price of the MCCN and the expected value, as at the time of issue, of the underlying shares at the time of conversion. This determination has therefore been limited as set out in paragraph (d) of subclause 3(2).

5 Interpretation

In this determination, unless the context otherwise requires:

1. Expressions used, except expressions defined differently in this determination, have the same meaning as in section OB 1 of the Income Tax Act 1994, and where the Act gives a word or expression a particular meaning for the purposes of the qualified accruals rules, it shall have the same meaning as in the said qualified accruals rules.
    a. the "Act" means the Income Tax Act 1994 and the "Administration Act" means the Tax Administration Act 1994.

b. "Coupon Interest Payment" means any amount payable on the Note by the Note issuer (borrower) to the Note holder (lender) other than payments relating to the redemption or conversion of the Note, and where any such amount that would have been payable to one person as holder, if the original terms on which the Note was issued had not been changed, is paid, as separate amounts, to more than one person, by reason that the terms of the Note have been changed and such persons were at different times holders in respect of the same Note, means the total of such separate amounts.
c. "Income Year"
    i. when a taxpayer furnishes a return of income under section 38 of the Administration Act for an accounting year ending with a balance date other than 31st day of March, "Income Year" means the period of twelve months ending on that balance date.
    ii. for any other person, "Income Year" means the year ending on the 31st day of March in which the income has been derived or expenditure has been incurred by that person.
d. "Mandatory Conversion Convertible Note", "MCCN", and "Note", mean any debenture, bond, certificate, document, note or writing issued or given by a company:
    i. which provides evidence that the company is indebted to the holder of the Note, whether for a loan to the company, money subscribed to the company or any other liability of the company (whether or not the amount for which the company has issued the Note is secured over the undertaking or any of the assets of the company); and
    ii. which provides for the debt to be discharged only by the issue of shares in the capital of any company. This may be pursuant to a trust deed.
e. "Specified Mandatory Conversion Convertible Note", and "Specified MCCN", mean a Mandatory Conversion Convertible Note that is issued pursuant to the Trust Deed.
f. "The Trust Deed" means the deed entitled "Trust Deed Constituting Up to *N number* of Mandatory Convertible Capital Notes" entered into between One Ltd (as issuer) and Trustee Limited (as trustee) and dated the *Xth day of Month, Year,* as amended from time to time, and including the amendments made in 1995 in anticipation of the amalgamation of One Ltd, Three Ltd, and Two Ltd.
g. "Underlying Shares" in relation to a Note means the shares into which the Note is convertible, or in which it must be redeemed or paid.

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 its definition.

6 Method

1) Amounts to be included when calculating income or expenditure with regard to a Specified MCCN:
   a) in respect of income, gain or loss, or expenditure, and also of any other consideration receivable by the holder or payable by the issuer, the amounts taken into account to calculate income/expenditure consist of:
      i) Coupon Interest Payments
      ii) amounts attributed to Coupon Interest Payments as set out in subclause 6(3).
   b) in respect of the acquisition price, the amounts to be included when calculating income/expenditure are those attributed to Coupon Interest Payments as set out in subclause 6(4).
2) The income derived or expenditure incurred in respect of a Specified MCCN shall be calculated by daily apportionment of the Coupon Interest Payments to Income Years. For the method, see Determination G1A: Apportionment of Daily Income and Expenditure.
3) If a Specified MCCN on which interest is payable is sold part way through an interest period, then usually the buyer will receive the entire Coupon Interest Payment for the interest period in which the sale falls. In that case it is necessary to apportion the Coupon Interest Payment between the seller and purchaser. The seller is allocated interest, on a daily straight line basis, that accrues before the date of sale. (See Example C).
   Note: If the Coupon Interest Payment is not known until after the date of sale, it shall be assumed to be equal to the Coupon Interest Payment for the previous period (adjusted for any difference in the length of the period).
4) The portion of the sale price thus attributed to accrued interest and allocated to the seller is, in turn, treated as the purchaser's acquisition price of the financial arrangement. If the purchaser later receives the Coupon Interest Payment for the sale period, then this portion attributed to accrued interest may be immediately offset against the amount received when calculating the amount of income derived from the financial arrangement in that year. (See Example C).
5) Where a new issuer succeeds to the obligations of the issuer under a specified MCCN, on an amalgamation or otherwise, part way through an interest period, then usually the new issuer will be responsible for paying the entire Coupon Interest Payment for the interest period in which the succession occurs. In that case, the issuer is deemed to have paid an amount to the new issuer in consideration for the new issuer agreeing to undertake the obligation to pay the portion of the Coupon Interest Payment accruing in the period of

the succession. This is treated as the new issuer's acquisition price of the specified MCCN for the purposes of the accrual rules. When the new issuer later makes the Coupon Interest Payment for the period, this acquisition price must be immediately offset against the amount paid when calculating the amount of expenditure incurred from the financial arrangement in that year.

6) Paragraphs (3) and (4) will not apply if the Specified MCCN itself provides for the Coupon Interest Payment to be allocated between the buyer and the seller on a basis which reflects the time for which each party held the Specified MCCN during the interest period in which the sale was made.

7 Examples

Example A

On 27 June 1995 Specified MCCNs with a five year term, are issued for $100 with an interest coupon of 9% p.a. payable half-yearly in arrears. Pursuant to a notice given by the noteholder on 27 April 1996, the Notes are converted on 27 June 1996 to 100 shares in the issuing company. Interest is not payable for the 56 day period prior to any conversion arising before the specified maturity date.

The market value of each share on 27 June 1995 is $0.90. By conversion date this has risen to $1.50.

Both the issuer and the holder use a 31 March balance date and apply Determination G1A on a 365 day basis when apportioning daily income and expenditure.

The Coupon Interest Payments are made as follows:

27 December 1995	$4.50
27 June 1996	$3.12
	$7.62

(a) Year ended 31 March 1996

Coupon payment 27/12/95		$4.50
Apportionment of coupon payment due on 27/6/96 (the apportionment is based on the position as at 31 March 1996 when the coupon expected to be paid is still $4.50 as no notice has been given by the noteholder at that date). There are a total of 182 days in the period between payments. Of these, 94 are in the year ended 31 March 1996.		
94/182 x $4.50	=	$2.32
Income/Expenditure		**$6.82**

(b) Year ended 31 March 1997

As the Note matures in this year the base price adjustment (section EH 4 of the Act) is required. The formula a − (b + c) is applied:

a = the sum of all amounts paid ($7.62)

b = acquisition price

c = income/expenditure in previous years ($6.82).

As all amounts other than the coupon payments are attributable to the underlying shares, the issue price and sharemarket value can be ignored for the purposes of calculating income and expenditure. This effectively gives the Notes an acquisiton price of nil (for accrual purposes). Therefore, in this example "b" has a value of zero.

Income/expenditure = a − (b + c)

= $7.62 − (0 + $6.82)

= $0.80

Example B

On 27 June 1994 Specified MCCNs are issued for $100 with an interest coupon of 9% p.a. payable half-yearly in arrears. The Notes are mandatorily convertible on 27 June 1999 to 100 shares in the issuing company. Interest is not payable for the 56 day period prior to any conversion arising before the specified maturity date. The issuing company amalgamates with another company, which is not a member of the same wholly owned group, on 30 September 1995, the other company being the surviving amalgamated company of a qualifying amalgamation. The Notes will now convert into shares in the amalgamated company.

Upon amalgamation the original holder of the Notes transfers the Notes to a new holder, who is a shareholder in an amalgamating company. The Coupon Interest Payment for the period in which the amalgamation takes place, which will be paid on the usual date, is split between the original holder and the new holder. The original holder is entitled to receive interest covering the period from the last interest date prior to the amalgamation up to the date of the amalgamation (ie $4.50 × 95/183 = $2.34. There are 183 days in the coupon period, and there are 95 days from the beginning of the period until the day the Notes are transferred.) Interest accruing from the amalgamation date until the next coupon payment date, (being $2.16), will be paid to the new holder on the Coupon Interest Payment date.

The market value of each share at issue date of the Specified MCCNs is $0.90. By amalgamation date this has risen to $1.50, and on conversion date to $4.00.

The original issuer, the amalgamated company and the holder all use a 31 March balance date and apply Determination G1A on a 365 day basis when apportioning daily income and expenditure.

The Coupon Interest Payments are made as follows:

27 December 1994	$4.50
27 June 1995	$4.50
27 December 1995	$4.50
27 June 1996	$4.50
27 December 1996	$4.50
27 June 1997	$4.50
27 December 1997	$4.50
27 June 1998	$4.50
27 December 1998	$4.50
27 June 1999	$4.50
	$45.00

(a) Year Ended 31 March 1995

Coupon Payment due on 27/12/94	$4.50
Apportionment of Coupon Payment due on 27/6/95. There are a total of 182 days in the period between payments. Of these, 94 are in the year ended 31 March 1995.	
94/182 x $4.50	$2.32
Income/Expenditure	$6.82

(b) Year Ended 31 March 1996

The Trust Deed, as varied for the amalgamation, provides for the coupon payment relating to the period in which the issuer amalgamates to be split between the holder prior to the amalgamation and the holder after the amalgamation.

(i) *Income for the Original Holder*

Since this is the final year of the arrangement from the point of view of the original Holder, the base price adjustment is applied to the transfer of the Notes on the amalgamation date, 30 September 1995, using the following values:

a = all consideration paid ($4.50 + $4.50 + $2.34* = $11.34)

*see below

b = acquisition price

c = income/expenditure returned in previous years

($6.82)

Income = a − (b + c)

= $11.34 − (0 + $6.82)

= $4.52

As all amounts other than the coupon payments are attributable to the underlying shares, the issue price and value attributable to the underlying shares on amalgamation can be ignored for the purposes of calculating accrual income and expenditure. This effectively gives the Notes an acquisition price of nil (for calculation purposes). Therefore, in this example "b" has the value of zero.

The coupon payment due on 27/6/95 is paid to the Holder prior to the amalgamation.

(88/182 x $4.50 = $2.18)	$2.18
*Of the coupon payment due on 27/12/95 the holder prior to the amalgamation is paid the portion that relates to the period prior to the amalgamation. (95/183 x $4.50 = $2.34)	$2.34
Income for the original Holder	$4.52

(ii) *Income for the New Holder*

The portion of the coupon payable on 27/12/95 that relates to the period after the amalgamation is paid to the new Holder. (88/183 x $4.50 = $2.16)	$2.16
The coupon payment due on 27/6/96 is paid to the new Holder. (94/182 x $4.50 = $2.32)	$2.32
Income for the new Holder	$4.48
Total income (both holders) in year ending 31 March 1996	$9.00

(iii) *Expenditure for the Original Issuer*

As amalgamation occurs in this year income and expenditure will need to be apportioned between the original issuer and the amalgamated issuer, in a manner consistent with the provisions of section FE 7(b). That section deems the consideration for the succession to be such an amount which results in a fair and reasonably allocation of expenditure or income.

Allocation

Apportionment of the coupon payment due 27/6/95. There are a total of 182 days in the period between payments. Of these, 88 are in the year ended 31 March 1996.

88/182 x $4.50 = $2.18	$2.18
Apportionment of the coupon payment due 27/12/95. There are a total of 183 days in the period between payments. Of these, 95 days are in the period to 30 September 1995 (being the date of amalgamation). 95/183 x $4.50	$2.34
Fair and Reasonable Allocation	$4.52

The formula a – (b + c) is applied so as to result in such allocation:

a = the sum of all amounts paid ($11.34)

b = acquisition price

c = income/expenditure in previous years ($6.82)

As all amounts other than the coupon payments are attributable to the underlying shares, the issue price and value attributable to the underlying shares on amalgamation can be ignored for the purposes of calculating income and expenditure. This effectively gives the Notes an acquisition price of nil (for calculation purposes). Therefore, in this example "b" has a value of zero. Similarly the sum of all amounts paid is $11.34 as it excludes amounts attributable to the underlying shares.

Expenditure = a − (b + c)

= $11.34 − (0 + $6.82)

= $4.52

(iv) *Expenditure for the Amalgamated Issuer*

Coupon Payment due on 27/12/95.	$4.50
From this, the issuer subtracts the acquisition price (after excluding amounts attributable to the underlying shares) calculated above pursuant to section FE 7(b). That section provides that the consideration for the succession is deemed to be an amount that will result in a base price adjustment that results in a fair and reasonable allocation of the expenditure between the amalgamating and amalgamated companies. The original issuer is treated as having paid the new issuer an amount ($2.34) equal to the outstanding accrued interest prior to the amalgamation date, for taking over its obligations under the Notes.	($2.34)
	$2.16
Apportionment of the coupon payment due 27/6/96. There are a total of 182 days in the period between payments. Of these, 94 are in the year ended 31 March 1996. 94/182 x $4.50	$2.32
Expenditure	$4.48

(c) *Year Ended 31 March 1997*

Apportionment of coupon payment due on 27/6/96	
There are a total of 182 days in the period between payments. Of these, 88 are in the year ended 31 March 1997. 88/182 x $4.50	$2.18
Coupon payment due on 27/12/96.	$4.50

Apportionment of coupon payment due on 27/6/97. There are a total of 182 days in the period between payments. Of these, 94 are in the year ended 31 March 1997. 94/182 x $4.50	$2.32
Income/Expenditure	$9.00

(d) Year Ended 31 March 1998

Apportionment of coupon payment due on 27/6/97.	
There are a total of 182 days in the period between payments. Of these, 88 are in the year ended 31 March 1998. 88/182 x $4.50	$2.18
Coupon payment due on 27/12/97.	$4.50
Apportionment of coupon payment due on 27/6/98. There are a total of 182 days in the period between payments. Of these, 94 are in the year ended 31 March 1998. 94/182 x $4.50	$2.32
Income/Expenditure	$9.00

(e) Year Ended 31 March 1999

Apportionment of coupon payment due on 27/6/98.	
There are a total of 182 days in the period between payments. Of these, 88 are in the year ended 31 March 1999. 88/182 x $4.50	$2.18
Coupon payment due on 27/12/98.	$4.50
Apportionment of coupon payment due on 27/6/99. There are a total of 182 days in the period between payments. Of these, 94 are in the year ended 31 March 1999. 94/182 x $4.50	$2.32
Income/Expenditure	$9.00

(f) Year Ended 31 March 2000

As the Note matures in this year the base price adjustment (section EH 4 of the Act) is required in respect of both the holder and amalgamated issuer. The formula a − (b + c) is applied:

(i) *Expenditure for the Amalgamated Issuer*

a = sum of all amounts paid (8 x $4.50 x $36.00)

b = acquisition price (calculated pursuant to FE 7(b) = $2.34)

c = income/expenditure in previous years ($4.48 + $9.00 + $9.00 + $9.00 = $31.48)

As all amounts other than the coupon payments are attributable to the underlying shares, the value attributable to the underlying shares on amalgamation and the sharemarket value on conversion can be ignored for the purposes of calculating income and expenditure. This effectively gives the Note an acquisition price, calculated pursuant to FE 7(b), of $2.34 (for accrual purposes).

Expenditure = a − (b + c)

= $36.00 − ($2.34 + $31.48)

= $2.18

ii) *Income for the New Holder*

a = sum of all amounts paid to (1 x $2.16 + 7 x $4.50 = $33.66)

b = acquisition price

c = income/expenditure in previous years (1 x $4.48 + 3 x $9.00 = $31.48)

As all the amounts other than the coupon payments are attributable to the underlying shares, the issue price and share market value 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 in this example "b" has a value of zero.

Income = a − (b + c)

= $33.66 – (0 + $31.48)

= $2.18.

Example C

The new (post-amalgamation) Holder ("Holder Two") of the Notes described in Example B sells the Notes on 3 August 1996, for $120, to a new holder ("Holder Three"). The sale of the

Notes takes place part way through an interest period, so it is necessary to apportion the Coupon Interest Payment between the seller and the purchaser.

The Coupon Interest Payment for this period amounts to $4.50. Using a straight-line apportionment, $0.91 of the $4.50 is attributable to that portion of the period ending 3 August 1996 during which the Notes are owned by Holder Two ($4.50 x 37/183). There are 183 days in the coupon period, and there are 37 days from the beginning of the period until the day that the Notes are sold. This amount of $0.91 is income to Holder Two and acquisition price to Holder Three. Holder Two would be considered to have sold the equity portion of the convertible Notes for $119.09.

Holder Three elects on 27 April 1998 to convert the Notes on 27 June 1998. Interest is not payable for the 56 day period prior to any conversion arising before the specified maturity date, 27 June 1999. The last coupon payable on conversion is therefore reduced from $4.50 to $3.12. (183 – 56 = 127. 127/183 x $4.50 = $3.12)

a) Year ended 31 March 1995

As for example B.

Income/Expenditure	$6.82

b) Year ended 31 March 1996

As for example B.

Income for Original Holder	$4.52
Income for New Holder (Holder Two)	$4.48
Expenditure for the Original Issuer	$4.52
Expenditure for the Amalgamated Issuer	$4.48

c) Year ended 31 March 1997

(i) Income for the Original Holder

Since this is the final year of the arrangement from the point of view of Holder Two, the base price adjustment is applied to the sale on 3 August 1996, using the following values:

a = the sum of all amounts paid ($2.16 + $4.50 + $0.91)

b = acquisition price

c = income/expenditure in previous years ($4.48)

Income = a − (b + c)

= $7.57 − (0 + $4.48)

= $3.09

(ii) *Income for the New Holder*

Coupon Payment Due on 27/12/96	$4.50
From this, the holder subtracts the acquisition price	($0.91)
=	$3.59
Apportionment of coupon payment due on 27/6/97. There are total of 182 days in the period between payments. Of these, 94 are in the year ended 31 March 1997. 94/182 x $4.50	$2.32
Income	$5.91

(iii) *Expenditure for the Amalgamated Issuer*

As for example B.

Income/expenditure	$9.00

(d) Year Ended 31 March 1998

As for example B.

Income/expenditure	$9.00

(e) Year Ended 31 March 1999

As the Note matures in this year the base price adjustment (section EH 4 of the Act) is required in respect of both Holder Three and the amalgamated issuer. The formula a – (b + c) is applied:

(i) *Income for the Holder Three*

a = sum of all amounts paid ($16.62, including the final coupon of $3.12 (reduced due to early conversion)).

b = acquisition price

c = income/expenditure in previous years ($14.91)

As all the amounts other than the coupon payments are attributable to the underlying shares, the purchase price attributable to the underlying shares and sharemarket value on conversion can be ignored for the purposes of calculating income and expenditure. This effectively gives the Note an acquisition price of $0.91 (for calculation purposes).

Income = a − (b + c)

= $16.62 − ($0.91 + $14.91)

= $0.80

(ii) *Expenditure for the Amalgamated Issuer*

a = sum of all amounts paid ($25.62)

b = acquisition price

c = income/expenditure in previous years ($22.48)

As all the amounts other than the coupon payments are attributable to the underlying shares, the value attributable to the underlying shares on amalgamation and the share market value on conversion can be ignored for the purposes of calculating income and expenditure. This effectively gives the Note an acquisition price of $2.34 (for accrual purposes).

Expenditure = a − (b + c)

= $25.62 − ($2.34 + $22.48)

= $0.80

This determination is signed by me on the 14th day of February 1997.

Martin Smith

General Manager (Adjudication & Rulings)