

DETERMINATION > FINANCIAL ARRANGEMENTS > GENERAL

Futures and Options Markets

Issued: 22 January 1993

G7C

This Determination may be cited as "Determination G7C: Futures and Options Markets".

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

1. This determination rescinds and replaces Determination G7B: New Zealand Futures and Options Markets and Determination G18: International Futures and Option Markets, both of which were made by the Commissioner on 4 December 1989. This determination differs from Determinations G7B and G18 by amalgamating the two, updating the terminology used in relation to the New Zealand Futures & Options Exchange and members thereof, adding to the list of approved markets on that exchange and to the list of approved overseas futures and options markets, modifying the approved sources of information in respect of those overseas markets and substituting more relevant and up-to-date examples.
2. This determination applies where, for the purpose of calculating the income or expenditure of a person in respect of a Futures Contract or Option Contract, it is necessary to determine the price of that contract.
3. This determination sets out the approved markets, sources of information, and method, used for determining the prices for Futures Contracts and Option Contracts that are either traded on the New Zealand Futures Exchange or denominated in a foreign currency. It does not apply in relation to Option Contracts in respect of shares, as such contracts are "excepted financial arrangements" (as defined in subsection 64B(1) of the Act) and are not subject to the accrual provisions.

2 Reference

1. This determination is made pursuant to Subsections 64E(1) and (6) of the Income Tax Act 1976.
2. This determination rescinds and replaces Determination G7B: New Zealand Futures and Options Markets and Determination G18: International Futures and Option Markets, both of which were made on 4 December 1989.

3 Scope of Determination

This determination applies where, for the purpose of calculating the income or expenditure of a person in respect of a Futures Contract or Option Contract, it is necessary to determine the price of that contract. It does not apply in relation to Option Contracts in respect of shares, as such contracts are "excepted financial arrangements" (as defined in subsection

64B(1) of the Act) and are not subject to the accrual provisions. It does, however, apply to options relating to share price indices (such as the NZSE-40 Capital Share Price Index Option Contract).

4 Principle

1. Markets are approved having regard to the following criteria—
 - a) The number of participants in the market or having access to the market;
 - b) Frequency of trading in the market;
 - c) The nature of trading in the market — how the price or rate is determined and how the financial assets are traded on the market;
 - d) The existence, in relation to the market, of an appropriate regulatory body established by law;
 - e) The potential or demonstrated capacity of a person or group of persons to significantly influence the market;
 - f) Significant barriers to entry; and
 - g) Discrimination on the basis of quantity bought and sold unless based on the risks involved or the transaction costs or economies of scale.
2. Sources of information are approved having regard to the following criteria—
 - a) Reliance on the sources of information by the market; and
 - b) The accessibility of the sources of information by participants in the market.
3. A method of obtaining a price for Futures Contract or Option Contract is approved if it is determined by an independent source and is adopted by participants in the market.

5 Interpretation

1. In this determination, unless the context otherwise requires—

Expressions used, except the expression "Income Year", have the same meaning as in the Act, and where a word or expression is given a 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.

"The Act" means the Income Tax Act 1976.

"Approved Exchange" means the New Zealand Futures & Options Exchange and any exchange listed in subclause 6(3) of this determination.

"Futures Contract" means a futures contract traded on the New Zealand futures and options market or on a futures market outside New Zealand.

“Income Year” means—

- a) Where a taxpayer furnishes a return of income under Section [15](#) of the Income Tax Act 1976 for an accounting year ending with an annual balance date other than the 31st day of March, the period commencing in the day after the end of the immediately preceding accounting year and ending on that balance date;
- b) In respect of the income of any person, the year in which that income has been derived by that person.

“New Zealand Dealer” means a public broker or principal trader on the New Zealand Futures & Options Exchange:

“New Zealand Futures and Options Market” means the market in futures and option contracts administered by the New Zealand Futures & Options Exchange Limited.

“Option Contract” means an option contract traded on the New Zealand futures and options market or on an organised and regulated option market outside New Zealand.

“Subscriber Screen Broadcast” means a screen broadcast by any subscriber to the ticker price feed of the relevant approved exchange.

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 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. Determination G7B: New Zealand Futures and Options Markets and Determination G18: International Futures and Option Markets are hereby rescinded with effect from the day on which this determination is signed.
2. The New Zealand futures and options markets in the following contracts are approved:

Any contracts (other than Option Contracts in respect of shares) listed for trading on the New Zealand Futures & Options Exchange.

3. In relation to Futures Contracts or Option Contracts traded in foreign markets, the following futures and options markets are approved:

Any contracts (other than Option Contracts in respect of shares) listed for trading on any of the following Approved Exchanges:

American Stock Exchange (AMEX)
Australian Options Market (AOM)
Belgian Futures & Options Exchange (Belfox)
Bolsa de Mercadorias & Futuros (BM & F)
Budapest Commodity Exchange (BCE)
Chicago Board of Trade (CBOT)
Chicago Board Options Exchange (CBOE)
Chicago Mercantile Exchange (CME)
Chicago Rice & Cotton Exchange (an affiliate to MidAm)
Citrus Associates of the New York Cotton Exchange Inc
Commodity Exchange, Inc (COMEX)
Copenhagen Stock Exchange
Deutsche Terminbourse (DTB)
European Options Exchange (EOE)
Financial Futures Market Amsterdam (FTA)
Financial Instruments Exchange (FINEX — a division of NYCE)
Finnish Options Market Exchange and Clearing House (FOM)
Guarantee Fund for Danish Futures & Options (FUTOP)
Hokkaido Grain Exchange
Hong Kong Futures Exchange Ltd (HKFE)
Index & Options Market (IOM — a division of CME)
International Monetary Market (IMM — a division of CME)
International Petroleum Exchange (IPE)
Irish Futures & Options Exchange
Kansas City Board of Trade (KCBT)
Kobe Raw Silk Exchange
Kobe Rubber Exchange

Kuala Lumpur Commodity Exchange
Kuala Lumpur Options & Financial Futures Exchange (KLOFFE)
London Futures & Options Exchange (London Fox)
London International Financial Futures Exchange (LIFFE)
London Metal Exchange (LME) Exchange (CBOE)
Maebashi Dried Cocoon Exchange
Manila International Futures Exchange
Marche a Terme International de France (MATIF)
Marche des Options Negociables de Paris (MONEP)
Meff Rent a Fila
Meff Rent a Variable
Mercado de Futuros y Opciones S.A (Merfox)
Mid America Commodity Exchange (MidAm)
Minneapolis Grain Exchange
Montreal Exchange
Nagoya Textile Exchange
New York Coffee Sugar & Cocoa Exchange (CSCE)
New York Cotton Exchange (NYCE)
New York Futures Exchange (NYFE)
New York Mercantile Exchange (NYMEX)
New York Stock Exchange (NYSE)
OM London Ltd
OM Stockholm Ltd
Osaka Grain Exchange
Osaka Securities Exchange (OSE)
Osaka Sugar Exchange
Osaka Textile Exchange

Oslo Stock Exchange
Oesterische Termin Und Optionenbouse (OTOB)
Pacific Stock Exchange (PSE)
Philadelphia Board of Trade (PBOT)
Philadelphia Stock Exchange (PHLX)
Singapore International Monetary Exchange (SIMEX)
South African Futures Exchange (SAFEX)
Swiss Options & Financial Futures Exchange AG (SOFFEX)
Sydney Futures Exchange (SFE)
Tokyo Commodity Exchange
Tokyo Grain Exchange
Tokyo International Financial Futures Exchange (TIFFE)
Tokyo Stock Exchange
Tokyo Sugar Exchange
Toronto Futures Exchange
Toyahashi Dried Cocoon Exchange
Vancouver Stock Exchange
Winnipeg Commodity Exchange
Yokahama Raw Silk Exchange

4. The following sources of information for futures and options prices are approved in relation to Futures Contracts or Option Contracts traded on the New Zealand Futures & Options Exchange:
- a) For New Zealand Dealers — the Statement of Open Position provided by a New Zealand Dealer.
 - b) For persons other than New Zealand Dealers — advice as to the price for a Futures Contract or Option Contract given to that person by a New Zealand Dealer, which price shall be obtained from a source approved in paragraph 6(4)(a) of this determination.

5. For persons other than New Zealand Dealers — advice as to the price for a Futures Contract or Option Contract given to that person by a New Zealand Dealer, which price shall be obtained from a source approved in paragraph 6(4)(a) of this determination.
 - a) A Subscriber Screen Broadcast that quotes prices for Futures Contracts or Option Contracts;
 - b) Where a person does not have access to a Subscriber Screen Broadcast, advice as to the price of a Futures Contract or Option Contract from a member of the exchange at which the contract is traded. The price shall be derived from a source approved in paragraph 6(5)(a) of this determination, and shall be the price at which the member would buy or sell the Futures Contract or Option Contract.

6.
 - a) Where, for the purposes of determining the income or expenditure of a person in respect of a financial arrangement, it is necessary to determine the price for a Futures Contract or Option Contract at the end of an Income Year the price for the Futures Contract or Option Contract shall be the market price for that contract in the market in which it is traded on the same exchange, as advised by an approved source of information (in respect of that exchange), at the close of trading on the last permitted day for trading in the person's Income Year. If the relevant contract has not been traded on that day, the price shall be the closing call price as determined by the relevant exchange's clearing house, or the exchange, for margin purposes at the end of that day.
 - b) Where, for the purposes of determining income or expenditure of a person in respect of a financial arrangement, it is necessary to determine in New Zealand dollar value of the futures or option contract at the end of the Income Year, the spot rate for the currency in which the Futures Contract or Option Contract is quoted shall be ascertained in accordance with Determination G5D: Foreign Currency Rates, and used to convert the value of the Futures Contract or Option Contract to New Zealand dollars.

7 Example

1. The Statement of Open Position referred to in paragraph 6(4)(a) of this determination will generally set out information relevant to the particular Futures Contract or Option Contract, including delivery month, number bought or number sold. The following are illustrative examples of advice as to the market price of Futures Contracts and Option Contracts which may be obtained from the New Zealand futures and options market's

clearing house by New Zealand Dealers who subscribe to an optional "brokers package" system:

(a)

MERCHANT BANK
18TH FLOOR, MERCHANT BANK HOUSE
105 SYMONDS STREET
AUCKLAND
TEL -09-123456

FAX -09-1234567

OPEN POSITION
STATEMENT

DATE: 01/05/92

TO []

TRADING ACCOUNT

ACCOUNT No 222

PAGE No.
MARKET
LOT SIZE & CONTRACT

PRICE/RATE**

:1
:NEW ZEALAND FUTURES & OPTIONS EXCHANGE LIMITED
:NZ\$500,000 FACE VALUE
:90 DAY BANK ACCEPTED BILL
:INDEXED YIELD PER ANNUM

No. OF LOTS

DELIVERY MONTH	SOLD/ GRANTED	BOUGHT/ TAKED	TRADE TYPE	DATE OF TRADE	PRICE	REFERENCE NUMBER	PREMIUM RATE	DECLARATION DATE	DEPOSIT	MARKET PRICE	MARGIN	PREMIUM VALUE
SEP 92		20	Open	12/12/91	90.85					93.13	54062.80CR	
SEP 92	10		Open	20/03/92	92.78					93.13	4168.90	
SEP 92		10	Open	01/04/92	93.14					93.13	119.30	
SEP 92	10	30	TOTAL								49774.60CR	
DEC 92		20	Open	04/02/92	90.80					92.98	51666.80CR	
DEC 92	0	20	TOTAL								51666.80CR	
DEC 92	10	50	ACCOUNT TOTAL									101441.40CR

THIS STATEMENT LISTS ALL CONTRACTS AND/OR OPTIONS HELD OPEN BY US ON YOUR ACCOUNT ON THE MARKET AS INDICATED AS AT THE CLOSE OF BUSINESS ON THE DATE HEREON. THE MARKET PRICE IS THE QUOTATION FOR THE APPROPRIATE MONTH(S) FIXED ON THE DATE HEREON. ISSUED SUBJECT TO THE CORRECTION OF ERRORS AND OMISSIONS

In this example, Merchant Bank has positions in the September 92 and December 92 BBC contracts, which it has acquired at different times.

The market price for September 92 contracts at 1/5/92 was 93.13, and for December was 92.98. The margin column states the unrealised profit in terms of margin deposited, and variable margin accumulated and eroded.

Therefore the transaction of 20 bought BBC futures contracts on 12/12/91 has an unrealised profit of \$54,062.80. Merchant Bank has an unrealised profit of \$49,774.60 for the September 92 maturity, and \$51,666.80 for the December 92 maturity, giving a total of \$101,441.40.

(b)

MERCHANT BANK
18TH FLOOR, MERCHANT BANK HOUSE
105 SYMONDS STREET
AUCKLAND
TEL -09-123456

FAX -09-1234567

OPEN POSITION
STATEMENT

DATE: 01/05/92

TO []
TRADING ACCOUNT []

ACCOUNT No 2222

PAGE No. :2
MARKET :NEW ZEALAND FUTURES & OPTIONS EXCHANGE LIMITED
LOT SIZE & CONTRACT :NZS VALUE OF 20 X INDEX
PRICE/RATE** :NZSE40 CAPITAL SHARE INDEX
:SHARE PRICE INDEX

No. OF LOTS

DELIVERY MONTH	SOLD/ GRANTED	BOUGHT/ TAKEN	TRADE TYPE	DATE OF TRADE	PRICE	REFERENCE NUMBER	PREMIUM RATE	DECLARATION DATE	DEPOSIT	MARKET PRICE	MARGIN	PREMIUM VALUE
JUN 92		50	Call Option	15/04/91	1400		87	29/06/92		91	4000.00CR	
JUN 92	3		Call Option	01/04/92	1450		45	29/06/92		62	1020.00	2700.00
JUN 92	4		Call Option	13/04/92	1450		53	29/06/92		62	720.00	4240.00
JUN 92		3	Call Option	20/04/92	1475		50	29/06/92		50	.00	
JUN 92	6		Put Option	27/04/92	1375		22	29/06/92		23	120.00	2640.00
JUN 92	13	53	TOTAL								2140.00CR	9580.00

THIS STATEMENT LISTS ALL CONTRACTS AND/OR OPTIONS HELD OPEN BY US ON YOUR ACCOUNT ON THE MARKET AS INDICATED AS AT THE CLOSE OF BUSINESS ON THE DATE HEREON. THE MARKET PRICE IS THE QUOTATION FOR THE APPROPRIATE MONTH(S) FIXED ON THE DATE HEREON. ISSUED SUBJECT TO THE CORRECTION OF ERRORS AND OMISSIONS

In this example, Merchant Bank has a position of 53 bought, and 13 sold call and put options on the NZSE-40 Share Price Index.

The net unrealised profit position of Merchant Bank is indicated in the margin column. The premium value indicates the maximum profit that could be received by the option writer (seller) at the expiration of the option contracts (the declaration date).

If, on the expiration date, there is a debt margin (ie, loss), that amount will be deducted from the premium value before any profit is realised.

- Subclause 6(5) of this determination refers to a Subscriber Screen Broadcast that quotes prices for Futures Contracts or Option Contracts. Such a service is commonly provided by companies such as Reuters, Telerate and Bloomberg LP. The following are examples of Subscriber Screen Broadcast pages provided by Telerate New Zealand Limited and Reuters New Zealand Limited:

a)

06/08	0.19 GMT		[SFE 3 YR T-BOND FUTURES]						PAGE 6182		
MONTH	GMT	BID	ASK	[LAST]	PREV 1	PREV 2	PREV 3	HIGH	LOW	VOL	P SET
Sep92	00:19	93.57	93.58	93.58	93.58	93.58	93.58	93.60	93.55	4568	93.60
Dec92	00:19	93.12	93.14	93.13	93.13			93.13	93.13	25	93.14
Mar93	21:03										
June93	21:03										

1500 Official Cash Settlement Price for Jun92 is 92.68

S = Settlement Price

P SET = Previous Settlement Price

This is an example of a Subscriber Screen Broadcast page provided by Telerate New Zealand Limited. It shows price information for the three year T-Bond futures contract traded on the Sydney Futures Exchange.

Two maturities are quoted — the September 1992 contract, and the December 1992 contract.

The market price for the September 1992 three year T-Bond futures contract is 93.58 (or 6.42%) being the LAST price at which trades occurred.

b)

O#YTT	3YR T BOND							SFE AUD				
MTH	LAST	BID	ASK	HIS.CL	SETTLE	CL.BD	CL.AS	OPEN	HIGH	LOW	VOLUM	TIME
Sep2	93.58	93.58	93.58	93.60		93.59	93.60	93.58	93.60	93.55	4571	12:20
Dec2	93.13	93.12	93.14	93.14		93.13	93.15	93.13	93.13	93.13	25	11:02

This is an example of a Subscriber Screen Broadcast provided by Reuters New Zealand Limited, relating to the same Futures Contract as in paragraph 7(2)(a) above. The market price for the September 1992 three year T-Bond futures contract is 93.58 (or 6.42%), being the LAST price.

c)

FSEZ9	EURODOLLAR	DEC9	0	LIF USD	15NOV89 02:58		
LAST	LAST 1	LAST 2	LAST 3	LAST 4	BID	ASK	
91.70	91.70	91.70	91.70	91.69	91.69	91.70	
NET.CHNG	CLS:14NOV 89	OPEN	HIGH	LOW	OPE.BID	OPE.ASK	
-0.02	91.68	91.69	91.71	91.69	91.69	91.70	
SETTLE	VOLUME	OPEN.INT	CNT.HIGH	CNT.LOW	RTR.NEWS	N.TIME	
91.70	1674	24459	130.01	71.24			
CNT.XPRY	LOT.SIZE	LIMIT	STATUS			BKGRND	
18DEC89	IM USD		OCL/			****	

This is a different example of a Subscriber Screen Broadcast page provided by Reuters New Zealand Limited. It shows market prices for a Eurodollar Futures contract maturing in December 1989 as traded on the London International Financial Futures Exchange.

The market price of the contract is 91.70, being the last traded price and identified by the description "LAST" (as distinguished from "LAST 1", "LAST 2" etc.). The closing price for the previous trading day is 91.68.

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.