ASPE At a Glance

Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement (RoMRS)





Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement (RoMRS)

Effective Date Fiscal years beginning on or after January 1, 2021

Classification and Measurement		
•	•	
Initial	Subsequent	
 Per paragraph .23 of Section 3856, <i>Financial Instruments</i>¹, when an entity issues retractable or mandatorily redeemable shares in a tax planning arrangement² (RoMRS), it may choose to present those shares at par, stated or assigned value as a separate line item in the equity section of the Balance Sheet <u>only</u> when <u>ALL</u> of the following conditions are met: Control (refer to Section 1591, <i>Subsidiaries</i>, for guidance on determining control) of the entity issuing the RoMRS is retained by the individual shareholder³ receiving the shares in the arrangement; If an entity issues RoMRS to two or more related parties, an assessment of which related party, if any, controls the entity (control assessment is performed in accordance with Section 1591) is needed to determine whether control of the entity is retained by the shareholder receiving the shares in the arrangement. In the arrangement, either: No consideration is received by the entity issuing the RoMRS; or Only shares of the entity issuing the RoMRS are exchanged; and No other written or oral arrangement (such as a redemption schedule) exists, that gives the holder of the shares the contractual right to require the entity to redeem the shares on a fixed or determinable date or within a fixed or determinable period. If any of the above conditions are <u>not met</u> for any or all of the shares issued, the issuer must classify those shares as a financial liability, present them separately on the Balance Sheet and measure them at their redemption amount. Any resulting adjustment is recognized in either retained earnings or a separate component of equity. An entity can choose to initially present RoMRS as a financial liability, even if the criteria for equity classification outlined above are met. However, once RoMRS have been classified as a financial lability they <u>cannot</u> subsequently be reclassified as equity. 	 RoMRS initially classified as equity, are not subsequently reclassified to liability unless an event or transaction occurs that indicates the conditions for equity classification are no longer met. Examples of indicators that equity classification may no longer be met include, but are not restricted to: The death of the holder of the RoMRS; A change in ownership of the entity that may affect the assessment of control of the entity that issued the RoMRS; A change in the shareholders' agreement that may affect the assessment of control of the entity that issued the RoMRS; Redemption of some or all of the RoMRS; The creation of a written or oral arrangement that gives the holder of the RoMRS the right to require the entity to redeem the shares within a fixed or determinable period; or Modifications to the RoMRS. When an event or transaction gives rise to a reclassification of RoMRS from equity to a financial liability, the entity measures the reclassified shares at the redemption amount on that date and presents them separately on the Balance Sheet. Any resulting adjustment is recorded in retained earnings or a separate component of equity in accordance with Section 3251, <i>Equity</i>. Once RoMRS have been classified as a financial liability they cannot subsequently be reclassified as equity. RoMRS classified as a financial liability are not permitted to use the callable debt presentation outlined in the illustrative example in Section 1510, <i>Current Assets and Current Liabilities</i>. 	

¹ See also our publication ASPE At a Glance: Section 3856, Financial Instruments

² If an entity issues RoMRS through a series of transactions in contemplation of one another, the transactions are viewed as one tax planning arrangement when assessing the conditions in paragraph 3856.23. ³ Refer to the example in paragraph 3856.23C.



Transition Options

- The amendments made to Section 3856 for RoMRS are effective for fiscal years beginning on or after January 1, 2021. An entity can chose to apply the amendments either at:
 - The beginning of the fiscal year in which the amendments are first applied, with the cumulative effect of applying the amendments recorded in opening retained earnings or a separate component of equity of the fiscal year in which the amendments are first applied; or
- The **beginning of the earliest period presented**, with the cumulative effect of applying the amendments recorded in opening retained earnings or a separate component of equity of the earliest period presented. In this situation, the entity is not required to make retrospective adjustments in respect of RoMRS that were extinguished prior to the beginning of the fiscal year in which the amendments are first applied.

▼	▼
Shares Issued <u>on or After</u> January 1, 2018	Shares Issued <u>Prior</u> to January 1, 2018
 When the amendments are applied for the first time, an enterprise that issued RoMRS can choose to present the shares as: A financial liability measured at their redemption amount; or 	 When the amendments are applied for the first time, an enterprise that issued RoMRS can choose to present the shares as: A financial liability measured at their redemption amount; or
 In a separate line in the equity section of the balance sheet if: 	 In a separate line in the equity section of the balance sheet if:
 The RoMRS were issued <u>on or after</u> January 1, 2018, and all the following conditions are met; Control (refer to Section 1591, <i>Subsidiaries</i>, for guidance on determining control) of the entity issuing the RoMRS is retained by the individual shareholder receiving the shares in the arrangement; In the arrangement, either: No consideration is received by the entity issuing the RoMRS; or Only shares of the entity issuing the RoMRS are exchanged; and No other written or oral arrangement (such as a redemption schedule) exists, that gives the holder of the shares the contractual right to require the entity to redeem the shares on a fixed or determinable date or within a fixed or determinable period. If any of the above conditions are <u>not met</u> for any or all of the shares issued, the issuer must classify those shares as a financial liability, present them separately on the Balance Sheet and measure them at their redemption amount. 	 The RoMRS were issued prior to January 1, 2018, and all the following conditions are met: Control (refer to Section 1591, Subsidiaries, for guidance on determining control) of the entity that issued the RoMRS is held by the party that owns the shares in the arrangement at the date of initial application. The entity does not need to assess if control has been retained from the date of the initial transaction that gave rise to the shares. No other written or oral arrangement (such as a redemption schedule) exists that gives the holder of the shares the contractual right to require the entity to redeem the shares within a fixed or determinable period. If both of the above conditions above are not met for some or all of the shares issued, the issuer must classify those shares as a financial liability, present them separately on the Balance Sheet and measure them at their redemption amount.

About **BDO**

BDO Canada LLP is a leading provider of professional services to clients across a variety of sectors and segments. For over 100 years, our team has served communities across Canada through a comprehensive range of assurance, tax, and consulting services, complemented by deep industry knowledge. With over 5000 people across 100 offices in Canada, and more than 1,800 offices in 164 countries, BDO is well-positioned to assist clients with both domestic and global needs.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO member Firms.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO Canada LLP to discuss these matters in the context of your particular circumstances.

BDO Canada LLP, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it. BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

