In Brief podcast

Topic:	Retractable or Mandatorily Redeemable Shares Issued in a Tax Planning Arrangement – Addressing Implementation Questions Podcast #3
Presenters:	Armand Capisciolto, FCPA, FCA, CPA (MI) (AcSB Vice-chair) and Mohamed Hassanali, CPA CA (AcSB staff)

Script

Speaker	
Voiceover	You're listening to an In Brief podcast. In this episode, Mohamed Hassanali, Principal with the Accounting Standards Board, speaks with Armand Capisciolto, Vice Chair of the Accounting Standards Board, about questions received on the amendments to section 3856, financial instruments, relating to retractable or mandatorily redeemable shares issued in a tax planning arrangement.
Mohamed	We're into our third podcast on redeemables. We've covered the questions on the control condition in the first podcast and no consideration other than shares condition in the second podcast. If you haven't already, be sure to check out those podcasts first. Let's now talk about the third condition for equity classification of redeemables. Paragraph .23(c) of Section 3856 states that if there is a contractual arrangement, such as a redemption schedule, that requires the enterprise to redeem the shares at the request of the holder at a specified date or time, the shares are a liability. We've received a few questions around what if there is a redemption schedule for some of the redeemables, but not all of them. Armand, if I were to give you a scenario here where let's say an enterprise issued 1,000 redeemables in a tax planning arrangement in year 1. Then in year 2, a redemption schedule is drawn up for 100 of those shares. Does that taint the remaining 900 shares for which there is no redemption schedule?
Armand	That's a great question Mohamed! If we look at the words closely in paragraph 23, it says "If any of the above conditions are not met for any or all of the shares issued, the issuer shall classify those shares as a financial liability." The reason I point out is that the guidance indicates that only those shares for which there is a redemption schedule should be classified as a liability. So, in the scenario you've described where you've got 1000 redeemables issued and 100 have a redemption schedule, only the 100 shares are a liability and the remaining 900 shares are equity assuming the other conditions are also met. But let's say you have a similar scenario but in year 1 there is a redemption schedule for 100 shares and then in year 3 there is another redemption schedule for 100 shares and again in year 5. Now you have a pattern of redemptions. Here is where judgement needs to be applied and one can conclude that the rest of the shares at this point should also be classified as a liability – not just the 100 shares each time for which there is a redemption schedule.
Mohamed	That's fantastic Armand! One more question here. In this scenario, the transaction was done and then soon after there is a redemption schedule drawn up for some of the shares. The Board included guidance in the standard in paragraph .23D of section 3856 that if redeemables are

	issued in a series of transactions, those transactions collectively make up a tax planning arrangement. What should stakeholders be considering when looking at this guidance?
Armand	That's an interesting question. The guidance on the series of transactions as one tax planning arrangement is very much an area of judgement where stakeholders have to consider all the facts and circumstances. So, let's say you have an estate freeze transaction where in step 1 you exchange common shares for redeemables and in step 2 new common shares are subscribed for by either the same individual or someone else. In most cases those would be contemplated all at once and you have one tax planning arrangement. Now let's say those two steps occurred months apart instead of one after another. Does that time lag affect whether you decide that its one tax planning arrangement or two? You really have to look at all the facts and circumstances for why there was the time lag and make that judgement call. But the time difference alone does not mean that you have two separate tax planning arrangements. Building on the same example, let's say you issued the redeemables in step 1 and the new common shares are subscribed to in step 2 right after. Now a year or more later somebody else comes along and subscribes to new common shares. In this scenario, you likely have separate tax planning arrangements if the new person was not part of the discussions when the first series of transactions were conducted. I hope that helps! This area though is very much an area of judgement and plenty of thought needs to go into all the facts and circumstances surrounding the transaction.
Mohamed	One more question, Armand, before we close off this podcast. A question that we've received is around some of the guidance in .23A of Section 3856 that talks about the option to classify the redeemables as either liability or equity. The question that's come up is whether that option is to be applied on a per share basis, per class of share basis, per tax planning arrangement basis, or is it a policy choice? So, let's say for example if you issue Class B redeemables in a transaction on day 1 and you've chosen to classify those shares as a liability. Let's say 5 or 10 years down the road you do another tax planning arrangement where you issue redeemables, and again, you issue Class B shares. On day 1 if you classified the first set of Class B redeemables as a liability, are these new Class B redeemables also supposed to be a liability?
Armand	So many good questions today! Let's look at the guidance in paragraph .23A is "The issuer of retractable or mandatorily redeemable shares in a tax planning arrangement may choose to present the shares issued in that arrangement as a financial liability." The use of the word "that" is deliberate and it's to be applied on a per transaction basis, not as a policy choice or by class of shares. So, in this scenario you described, they would have the choice in each transaction.
Mohamed	Thank you, Armand. Thank you for taking that question. That brings us to the end of our third podcast. We thank you for your time.