

A photograph of two women sitting at a table in a modern office setting. The woman on the left has long red hair and is looking at a laptop. The woman on the right has dark curly hair and is looking at the laptop while holding a pen. There are glasses of water and papers on the table. The background shows a bright office with large windows.

# 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

- Per paragraph .23 of Section 3856, *Financial Instruments*<sup>1</sup>, when an entity issues retractable or mandatorily redeemable shares in a tax planning arrangement<sup>2</sup> (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 only when ALL of the following conditions are met:
  - Control (refer to Section 1591, *Subsidiaries*, for guidance on determining control) of the entity issuing the RoMRS is retained by the individual shareholder<sup>3</sup> 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 not met 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 liability they cannot subsequently be reclassified as equity.

### SUBSEQUENT

- 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, *Equity*.
- 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, *Current Assets and Current Liabilities*.

<sup>1</sup> See also our publication ASPE AT A GLANCE: Section 3856, *Financial Instruments*

<sup>2</sup> 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.

<sup>3</sup> 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 choose 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 ON OR AFTER 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
    - In a **separate line in the equity section** of the balance sheet if:
      - The RoMRS were issued on or after January 1, 2018, and **all** the following conditions are met;
        - Control (refer to Section 1591, *Subsidiaries*, 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 not met 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.

### SHARES ISSUED PRIOR 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
  - In a **separate line in the equity section** of the balance sheet if:
    - 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.



20 Wellington Street East  
Suite 500  
Toronto ON M5E 1C5  
416-865-0111  
[www.bdo.ca](http://www.bdo.ca)

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