



## Class Ruling

### Suncorp Group Limited – Suncorp Capital Notes 4

#### **📌 Relying on this Ruling**

This publication (excluding appendix) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

If this Ruling applies to you, and you correctly rely on it, we will apply the law to you in the way set out in this Ruling. That is, you will not pay any more tax or penalties or interest in respect of the matters covered by this Ruling.

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#### **What this Ruling is about**

1. This Ruling sets out the income tax consequences for Australian-resident investors who acquired perpetual, convertible, subordinated and unsecured notes issued by Suncorp Group Limited (Suncorp), called Suncorp Group Limited Capital Notes 4 (Capital Notes 4).
2. Full details of this scheme are set out in paragraphs 44 to 94 of this Ruling.
3. All legislative references in this Ruling are to the *Income Tax Assessment Act 1997* (ITAA 1997) unless otherwise indicated.
4. In this Ruling, unless otherwise indicated, capitalised terms take on the same meaning as in the Suncorp Group Limited Capital Notes 4 Prospectus dated 7 September 2021 (the Prospectus), the Capital Notes 4 Terms (as included in the Prospectus) (the Terms) and the Suncorp Capital Notes 4 Trust Deed dated 30 August 2021 (the Trust Deed).

**Note:** By issuing this Ruling, the ATO is not endorsing this product. Potential participants must form their own view about the product.

#### **Who this Ruling applies to**

5. This Ruling applies to you if you:
  - are an investor who acquired Capital Notes 4 by initial application under the Prospectus

- are a 'resident of Australia' within the meaning of that term in subsection 6(1) of the *Income Tax Assessment Act 1936* (ITAA 1936) during the period in which you hold Capital Notes 4
- do not hold Capital Notes 4 as revenue assets (as defined in section 977-50) or as trading stock (as defined in subsection 995-1(1)); that is, you hold Capital Notes 4 broadly on capital account, and
- are not subject to the taxation of financial arrangements (TOFA) rules in Division 230 in relation to gains on losses made on your Capital Notes 4.  
**Note:** Division 230 will not apply to individuals, unless they have made an election for it to apply.

6. The investors described in paragraph 5 of this Ruling are referred to in this Ruling as Holders.

#### **When this Ruling does not apply**

7. This Ruling does not deal with:
- how the taxation law applies to Suncorp in relation to the issue of Capital Notes 4
  - how the taxation law applies to Holders who hold their Capital Notes 4 as trading stock or revenue assets
  - the tax implications of the Conversion of Capital Notes 4 on a Non-Viability Trigger Event
  - how the taxation law applies to the Nominated Purchaser who acquires their Capital Notes 4 under Resale
  - the tax implications of the purchase in the open market or otherwise of Capital Notes 4 by Suncorp or any Related Entity of Suncorp
  - how the gross-up and tax offset rules in Division 207 apply to partnership or trustee Holders, or to indirect distributions to partners in a partnership, or beneficiaries or trustees of a trust, and
  - the tax implications for Holders for whom gains and losses from Capital Notes 4 are subject to the TOFA rules in Division 230.

#### **When this Ruling applies**

8. This Ruling applies from 1 July 2021 to 30 June 2031.

## **Ruling**

#### **Acquisition time of Capital Notes 4**

9. Holders acquired their Capital Notes 4 on 23 September 2021, being the date of issue of Capital Notes 4 (table item 2 of section 109-10).

**Cost base and reduced cost base of Capital Notes 4**

10. The first element of the cost base and reduced cost base of each Capital Note 4 is A\$100, being the money paid by the Holder to acquire the Capital Note 4 from Suncorp (subsections 110-25(2) and 110-55(2)).

**Inclusion of Distributions and franking credits in assessable income**

11. Distributions paid in respect of each Capital Note 4 are non-share dividends under section 974-120 and must be included in the Holders' assessable income (subparagraph 44(1)(a)(ii) of the ITAA 1936), unless the Distribution is exempt income or non-assessable non-exempt income in the hands of the relevant Holder.

12. Holders must also include in their assessable income an amount equal to the franking credits attached to the Distribution (subsection 207-20(1)), unless the Distribution is exempt income or non-assessable non-exempt income in the hands of the relevant Holder.

**Entitlement to a tax offset**

13. Holders will be entitled to a tax offset equal to the franking credit received on Distributions paid in respect of Capital Notes 4 (subsection 207-20(2)), unless the Distribution is exempt income or non-assessable non-exempt income in the hands of the Holder and none of the exceptions in Subdivision 207-E apply.

**Franking credit subject to the refundable tax offset rules**

14. Holders who are entitled to a tax offset under subsection 207-20(2), in respect of the franking credits received in relation to Capital Notes 4, will be subject to the refundable tax offset rules in Division 67, unless they are specifically excluded under section 67-25.

**Imputation benefits – streaming**

15. The Commissioner will not make a determination under paragraph 204-30(3)(c) to deny the whole, or any part, of the imputation benefits received by a Holder in relation to Distributions paid in respect of Capital Notes 4.

**Section 177EA of the ITAA 1936**

16. The Commissioner will not make a determination under paragraph 177EA(5)(b) of the ITAA 1936 to deny the whole, or any part, of the imputation benefits received by Holders in relation to Distributions paid in respect of Capital Notes 4.

**Gross-up and tax offset rules**

17. Section 207-145 will not apply to the whole, or any part, of the Distributions paid to Holders. Accordingly, section 207-145 will not adjust the gross-up of the Holders' assessable income to exclude the franking credit, nor will it deny the tax offset to which the Holders would have otherwise been entitled.

18. For the purposes of determining whether a Holder is a 'qualified person' in relation to the Distributions under Division 1A of former Part IIIA of the ITAA 1936 (which is relevant to paragraph 207-145(1)(a)), the Resale and Conversion mechanism will not of themselves affect a Holder's risks of loss or opportunities for gain in respect of Capital

Notes 4 on the basis that they do not constitute separate 'positions' for the purposes of that Division (former sections 160APHJ and 160APHM of the ITAA 1936).

#### **Capital Notes 4 are not traditional securities**

19. Section 26BB of the ITAA 1936 will not apply to include any amount in the assessable income of Holders upon disposal or Redemption of their Capital Notes 4.
20. Section 70B of the ITAA 1936 will not apply to allow a deduction to Holders upon disposal or Redemption of their Capital Notes 4.

#### **Capital Notes 4 are not qualifying securities**

21. Capital Notes 4 are not securities as defined in subsection 159GP(1) of the ITAA 1936 and are, therefore, not qualifying securities as defined in that subsection.

#### **Conversion of Capital Notes 4 for Ordinary Shares**

22. Each Capital Notes 4 is a convertible interest.
23. CGT event C2 happens on Conversion (section 104-25).
24. A capital gain or capital loss you make from CGT even C2 happening on Conversion will be disregarded (subsection 130-60(3)).
25. Ordinary Shares acquired on Conversion will be taken to have been acquired when the Conversion happens on the relevant Conversion Date (subsection 130-60(2)).
26. The first element of the cost base and reduced cost base of Ordinary Shares acquired on Conversion will be equal to the cost base and reduced cost base of the relevant Capital Notes 4 at the time of Conversion (table item 2 of subsection 130-60(1)).
27. As you hold your Capital Notes 4 on capital account, no amount will be included in your assessable income on the Conversion of a Capital Note 4 under section 6-5.
28. In addition, you will not incur a deductible loss under section 8-1 as a consequence of Conversion.
29. On the Conversion Capital Notes 4 for Ordinary Shares in Suncorp, you will not be taken to have received a dividend or a non-share dividend.

#### **Redemption of Capital Notes 4 – capital gains tax implications**

30. CGT event C2 happens when a Capital Note 4 is Redeemed because the Capital Note 4 is terminated at that time (section 104-25).
31. The capital proceeds received by Holders on Redemption of Capital Notes 4 will be replaced with the market value of Capital Notes 4 on the date of Redemption, worked out as if the Redemption had not occurred and was never proposed to occur, if the capital proceeds are more or less than the market value of Capital Notes 4 (subparagraph 116-30(2)(b)(ii)).
32. You will make a capital gain (or capital loss) on Redemption of your Capital Notes 4 if the capital proceeds you receive are greater than (or less than) the cost base of your Capital Notes 4.
33. As you hold your Capital Notes 4 on capital account, no amount will be included in your assessable income on Redemption under section 6-5.

34. You will not incur a deductible loss under section 8-1 as a consequence of the Redemption.

#### **Capital Notes 4 that are Written Off**

35. CGT event C2 happens when a Capital Note 4 is Written Off because the Capital Note 4 is terminated at that time (section 104-25).

36. For the purposes of determining whether you make a capital gain or a capital loss from CGT event C2 happening in respect of your Capital Notes 4, you are taken to have nil capital proceeds from CGT event C2 happening. This is because you receive no capital proceeds in respect of a write-off happening, and your Capital Notes 4 have a market value of nil at that time.

#### **Resale of Capital Notes 4**

37. CGT event A1 in section 104-10 happens on the Resale of a Capital Note 4. The Resale of a Capital Note 4 to the Purchaser will be for the Issue Price of the Capital Note 4.

38. As the capital proceeds you receive will not be more than the cost base of Capital Notes 4, you will not make a capital gain as a result of the Resale.

39. As you hold your Capital Notes 4 on capital account, no amount will be included in your assessable income on the Resale under section 6-5.

40. You will not incur a deductible loss under section 8-1 as a consequence of the Resale.

#### **Section 45 of the ITAA 1936**

41. Section 45 of the ITAA 1936 will not apply to treat an amount equal to the Ordinary Shares issued on Conversion as an unfrankable dividend paid by Suncorp.

#### **Section 45A of the ITAA 1936**

42. The Commissioner will not make a determination under subsection 45A(2) of the ITAA 1936 that section 45C of the ITAA 1936 applies to treat the whole, or part of, a capital benefit that arises on Conversion or Redemption of Capital Notes 4 as an unfranked dividend in the hands of Holders.

#### **Section 45B of the ITAA 1936**

43. The Commissioner will not make a determination under paragraph 45B(3)(b) of the ITAA 1936 that section 45C of the ITAA 1936 applies to treat the whole, or part of, a capital benefit that arises on Conversion or Redemption of Capital Notes 4 as an unfranked dividend in the hands of Holders.

#### **Scheme**

44. The following description of the scheme is based on information provided by the applicant. If the scheme is not carried out as described, this Ruling cannot be relied upon.

**Suncorp Group Limited**

45. During the term of the scheme, Suncorp will be a resident of Australia under the income tax laws of Australia and of no other jurisdiction.

46. Suncorp is a non-operating holding company (NOHC) that is the Australian Securities Exchange (ASX)-listed parent company of the Suncorp Group. Suncorp is also authorised in Australia as a NOHC of Suncorp Group under the *Insurance Act 1973* and is subject to prudential regulation by the Australian Prudential Regulation Authority (APRA).

47. Suncorp Group delivers insurance, banking and wealth products and services across Australia and New Zealand. Suncorp Group has three core businesses – Insurance (Australia), Banking & Wealth and New Zealand.

48. Wholly-owned NOHCs have been established for each of the APRA-regulated general insurance and superannuation businesses. Suncorp–Metway Limited operates a regulated banking business and AAI Limited operates a regulated insurance business. Suncorp also holds capital in respect of centralised corporate service entities.

**The offer of Capital Notes 4**

49. In the Prospectus which was lodged with the Australian Securities and Investments Commission on 7 September 2021 pursuant to subsection 713(1) of the *Corporations Act 2001* (Corporations Act), Suncorp announced its intention to undertake an offer of Capital Notes 4 to raise A\$350 million, with the ability to raise more or less (the Offer).

50. The Prospectus expires on the date which is 13 months after 30 August 2021 (Expiry Date) and no Capital Notes 4 will be issued on the basis of the Prospectus after the Expiry Date.

51. The classes of Applicants who can apply for Capital Notes 4, as described in the Prospectus, are:

- Broker Firm Applicant – an Australian-resident retail or high net worth client of a Syndicate Broker invited to participate through the Broker Firm Offer
- Institutional Investors – an investor to whom offers or invitations in respect of Capital Notes 4 can be made without the need for a lodged prospectus (or other formality, other than a formality which Suncorp is willing to comply with), including in Australia to a person to whom offers or invitations can be made without the need for a lodged prospectus under section 708 of the Corporations Act and who has been invited by the Joint Lead Managers to bid for Capital Notes 4 in the Bookbuild, provided that such investor was not in the United States of America (USA) or acting for the account or benefit of a person in the USA, and
- Eligible Securityholder Applicant – a person who is
  - a registered holder of Ordinary Shares, Capital Notes 1, Capital Notes 2 or Capital Notes 3 at 7:00pm (Sydney time) on 24 August 2021
  - shown on the applicable register as having an address in Australia, and
  - not in the USA or acting for the account or benefit of a person in the USA.

52. The Prospectus states that no action has been taken to register or qualify Capital Notes 4 or the Offer or to otherwise permit a public offering of Capital Notes 4 outside Australia. It further states that subject to Suncorp's approval, Capital Notes 4 may be

offered in certain permitted jurisdictions outside Australia under the Institutional Offer where such offer is made, and accepted in accordance with the laws of such jurisdictions.

53. Capital Notes 4 were issued on 23 September 2021 (Issue Date).

54. Suncorp applied for Capital Notes 4 to be quoted on the ASX and Capital Notes 4 trade under ASX code 'SUNPI'.

#### **Reasons for issuing Capital Notes 4**

55. Capital Notes 4 were issued as part of Suncorp's ongoing funding and capital management strategy, the proceeds of which were predominantly used to fund the capital needs of one or more Regulated Entities within the Suncorp Group and for general and corporate funding purposes.

56. APRA has confirmed that Capital Notes 4 are capable of being recognised as Additional Tier 1 Capital of Suncorp for the purposes of its regulatory capital requirements.

#### **Terms of Capital Notes 4**

57. Capital Notes 4 are perpetual, convertible, subordinated and unsecured notes issued by Suncorp.

58. The issue price of each Capital Note 4 is A\$100 (Issue Price) and on issue is fully paid.

59. Capital Notes 4 do not have voting rights except in the limited circumstances described in the Terms and Trust Deed.

#### ***Distribution calculation***

60. Subject to the Distribution Payment Conditions outlined in paragraphs 63 to 66 of this Ruling, the Holder of each Capital Note 4 will be entitled to receive on the relevant Distribution Payment Date a distribution (Distribution) calculated using the following formula:

$$\text{Distribution} = \frac{\text{Distribution Rate} \times \text{A\$100} \times \text{N}}{365}$$

Where:

**Distribution Rate** (expressed as a percentage per annum) is calculated as follows:

$$\text{Distribution Rate} = (\text{Bank Bill Rate} + \text{Margin}) \times (1 - \text{T})$$

Where:

**Bank Bill Rate** means:

- (a) subject to paragraph (b) below:
  - (i) for a Distribution Period, the rate (expressed as a percentage per annum) designated 'BBSW' in respect of prime bank eligible securities having a tenor of three months, which ASX (or its successor as administrator of that rate) publishes through information vendors at approximately 10:30am Sydney time (or such other time at which such rate is accustomed to be so published) on the first Business Day of the Distribution Period; and

- (ii) if Suncorp determines that such rate as is described in paragraph (i) above:
  - (A) is not published by midday (or such other time that Suncorp considers appropriate on that day); or
  - (B) is published, but is affected by an obvious error, such other rate (expressed as a percentage per annum) that Suncorp determines having regard to comparable indices then available; and
- (b) if Suncorp determines that a Rate Disruption Event has occurred, then, subject to APRA's prior written approval, Suncorp:
  - (i) shall use as the Bank Bill Rate such Replacement Rate as it may determine;
  - (ii) shall make such adjustments to these Capital Notes Terms as it determines are reasonably necessary to calculate Distributions in accordance with such Replacement Rate; and
  - (iii) in making the determinations under paragraphs (i) and (ii) above:
    - (A) shall act in good faith and in a commercially reasonable manner;
    - (B) may consult with such sources of market practice as it considers appropriate; and
    - (C) may otherwise make such determination in its discretion.

**Margin** (expressed as a percentage per annum) means the margin determined under the Bookbuild

**Rate Disruption Event** means that, in Suncorp's opinion, the rate described in the definition of 'Bank Bill Rate':

- (a) has been discontinued or otherwise ceased to be calculated or administered; or
- (b) is no longer generally accepted in the Australian market as a reference rate appropriate to floating rate debt securities of a tenor and interest period comparable to that of Capital Notes.

**Replacement Rate** means a rate (expressed as a percentage per annum) other than the rate described in the definition of 'Bank Bill Rate' that is generally accepted in the Australian market as the successor to the Bank Bill Rate, or if Suncorp is not able, after making reasonable efforts, to ascertain such rate, or there is no such rate:

- (a) a reference rate that is, in Suncorp's opinion, appropriate to floating rate debt securities of a tenor and interest period most comparable to that of Capital Notes; or
- (b) such other rate as Suncorp determines having regard to available comparable indices.

**T** (expressed as a decimal) means the Australian corporate tax rate applicable to the franking account of Suncorp at the relevant Distribution Payment Date; and

**N** means in respect of:

- (a) the first Distribution Payment Date, the number of days from (and including) the Issue Date until (but not including) the first Distribution Payment Date; and
- (b) each subsequent Distribution Payment Date, the number of days from (and including) the preceding Distribution Payment Date until (but not including) the relevant Distribution Payment Date.



61. If a Distribution is not franked to 100%, the Distribution will be calculated according to the following formula:

$$\text{Distribution} = \frac{D}{(1 - [T \times (1 - F)])}$$

Where:

**D** means the Distribution calculated under clause 3.1 of the Terms

**T** has the meaning given under clause 3.1 of the Terms, and

**F** means the applicable Franking Rate.

62. The Distribution Payment Dates are each 17 June, 17 September, 17 December and 17 March commencing on 17 December 2021 until (but not including) the date on which Capital Notes 4 are Converted or Redeemed in accordance with the Terms. A Distribution will also be paid on the date on which an Exchange of that Capital Note 4 (other than a Conversion on a Trigger Event Date) occurs in accordance with the Terms.

### ***Distribution payment conditions***

63. Pursuant to clause 3.3 of the Terms, payment of a Distribution on the Distribution Payment Date is subject to:

- Suncorp's absolute discretion
- not resulting in Suncorp becoming, or being likely to become, insolvent for the purposes of the Corporations Act
- not resulting in the Eligible Capital of Suncorp not complying with APRA's then-current prudential capital requirements as they are applied to the Suncorp Group at the time (unless APRA nevertheless approves, in writing, paying the Distribution), and
- APRA not otherwise objecting to the Distribution being paid on the Distribution Payment Date.

64. A Distribution is only payable to those persons registered as the Holders on the Record Date for that Distribution.

65. Distributions are non-cumulative, as stated in clause 3.4 of the Terms. If all or any part of a Distribution is not paid, Suncorp has no liability to pay the unpaid amount, and the Holders have no claim or entitlement in respect of the non-payment, nor will it constitute an event of default.

66. No interest will accrue on any unpaid Distributions and the Holders have no claim or entitlement in respect of interest on any unpaid Distributions.

### ***Restrictions in the case of non-payment of Distributions***

67. If a Distribution is not paid in full on a Distribution Payment Date (the Relevant Distribution Payment Date), unless the Distribution is paid in full within three Business Days of the Relevant Distribution Payment Date (clause 3.7 of the Terms), Suncorp must not (without the approval of a Special Resolution) until and including the next Distribution Payment Date:

- declare, determine to pay or pay a dividend on Ordinary Shares, or
- undertake any Buy-Back or Capital Reduction.

68. The restrictions do not apply in certain limited circumstances as described in clause 3.8 of the Terms.

### ***Mandatory Conversion***

69. Pursuant to clause 4.1 of the Terms, subject to the occurrence of a Non-Viability Trigger Event, Optional Exchange or an Acquisition Event, Suncorp must Convert all (but not some) Capital Notes 4 on issue on the Mandatory Conversion Date into Ordinary Shares in accordance with clauses 4 and 8 of the Terms.

70. The Mandatory Conversion Date will be the first of the following dates (each a Relevant Date) on which the Mandatory Conversion Conditions, as set out in clause 4.3 of the Terms, are satisfied:

- 17 December 2030 (the Scheduled Mandatory Conversion Date), and
- a Distribution Payment Date after the Scheduled Mandatory Conversion Date.

71. The Mandatory Conversion Conditions to be satisfied (as set out in clause 4.3 of the Terms) are:

- The VWAP on the First Test Date is greater than 55% of the Issue Date VWAP (First Mandatory Conversion Condition).
- The VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Relevant Date is greater than 50.505% of the Issue Date VWAP (Second Mandatory Conversion Condition).
- No Delisting Event applies in respect of the Relevant Date (Third Mandatory Conversion Condition).

### ***Non-Viability Conversion***

72. Conversion of Capital Notes 4 may occur at a time before a Scheduled Mandatory Conversion Date on the occurrence of a Non-Viability Trigger Event.

73. Suncorp must Convert Capital Notes 4 on the Trigger Event Date, in accordance with clauses 5 and 8 of the Terms, should a Non-Viability Trigger Event occur. Conversion due to a Non-Viability Trigger Event is not subject to the Mandatory Conversion Conditions or any other conditions being satisfied.

74. The Non-Viability Trigger Event is defined in clause 5.1 of the Terms as an event where APRA provides a written determination (Non-Viability Determination) to Suncorp that:

- the conversion to Ordinary Shares or write-off of Relevant Securities (including Capital Notes 4) in accordance with their terms or by operation of law is necessary because without the conversion to Ordinary Shares or write-off, APRA considers that Suncorp would become non-viable, or
- without a public sector injection of capital into, or equivalent support with respect to Suncorp, APRA considers that Suncorp would become non-viable.

75. If a Non-Viability Trigger Event occurs, Suncorp must Convert Capital Notes 4 to Ordinary Shares or write-off all Relevant Securities or an amount of Relevant Securities that APRA is satisfied would be sufficient to ensure Suncorp does not become non-viable. Where a Non-Viability Trigger Event occurs because APRA determines that without a

public sector injection of capital (or equivalent support) Suncorp would become non-viable, all Capital Notes 4 must be Converted.

76. Clause 5.2(d) of the Terms requires Suncorp to give notice to Holders if a Non-Viability Trigger Event occurs (Trigger Event Notice). The Non-Viability Trigger Event Notice must state the Trigger Event Date, the number of Capital Notes 4 Converted and the relevant number of other Relevant Securities that will be Converted or Written-off.

### **Write-Off**

77. If Conversion has not been effected within five Business Days after the relevant Trigger Event Date for any reason (including an Inability Event), Conversion of those Capital Notes on account of the Non-Viability Trigger Event will not occur and those Capital Notes 4 shall be Written-Off with effect on and from the Trigger Event Date in accordance with clause 5.5 of the Terms and the provisions of clauses 5.2(b), (c) and (d) shall apply in respect of that Write-Off and those Capital Notes as if each reference in those clauses to 'Conversion' or 'Convert' were a reference to 'Write-Off'.

78. In clause 5.5 of the Terms, Written-Off in respect of Capital Notes 4 and a Trigger Event Date is defined as the:

- Capital Note 4 will not be Converted in respect of a Trigger Event Date and will not be Converted, Redeemed or Resold under the Terms on any subsequent date, and
- relevant Holders' rights (including to payment of Distributions and Redemption Price) in relation to such Capital Note 4 are immediately and irrevocably terminated and written off.

### **Optional Exchange of Capital Notes 4 by Suncorp**

79. Under clause 6.1 of the Terms, Suncorp may, with APRA's prior written approval, elect to Exchange (Holders of Capital Notes 4 do not have a right to request Exchange):

- all, or some, Capital Notes 4 on an Exchange Date following the occurrence of a Tax Event or a Regulatory Event
- all (but not some only) Capital Notes 4 on an Exchange Date following the occurrence of a Potential Acquisition Event, or
- all, or some, Capital Notes 4 on an Optional Exchange Date being 19 June 2028, 18 September 2028 and 15 December 2028.

80. If Suncorp elects to Exchange Capital Notes 4 in accordance with clause 6.1 of the Terms, it must elect which of the following it intends to do, as specified by clause 6.3(a) of the Terms:

- Convert Capital Notes 4 into Ordinary Shares in accordance with clause 8 of the Terms
- Redeem Capital Notes 4 in accordance with clause 9 of the Terms, or
- Resell Capital Notes 4 in accordance with clause 10 of the Terms.

81. Subject to clauses 6.4 and 6.5 of the Terms, in the election under clause 6.3(a) of the Terms, Suncorp may specify which of Conversion, Redemption and Resale applies to a particular Capital Note 4, and Suncorp may select:

- any one or more of Conversion, Redemption or Resale to apply to Capital Notes 4 held by a Holder, and

- a different combination of Conversion, Redemption and Resale in respect of Capital Notes 4 held by different Holders.

### **Conversion on an Acquisition Event**

82. Upon the occurrence of an Acquisition Event, Suncorp must, in accordance with clauses 7 and 8 of the Terms, Convert all (but not only some) Capital Notes 4 on the Acquisition Conversion Date by notice to the Trustee and Holders. An Acquisition Event is defined in clause 22.2 of the Terms as a:

- takeover bid being made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and either (i) the bidder has a relevant interest (as defined in the Corporations Act) in more than 50% of the Ordinary Shares on issue or (ii) the Directors issue a statement that at least a majority of Suncorp's directors who are eligible to do so recommend acceptance of the offer, or
- court approves a scheme of arrangement which, when implemented, will result in a person other than Suncorp having a relevant interest (as defined in the Corporations Act) in more than 50% of the Ordinary Shares.

### **Conversion Mechanics**

83. 'Conversion' means the conversion of Capital Notes 4 into Ordinary Shares in accordance with and subject to clause 8 of the Terms.

84. If Suncorp Converts Capital Notes 4, under clause 8 of the Terms:

- each Holder's rights (including to payment of the Redemption Price and Distributions other than the Distribution, if any, payable on a date (other than a Trigger Event Date) on which Conversion is required to occur) in relation to each Capital Note 4 that is being Converted will be immediately and irrevocably terminated in full for an amount equal to the Issue Price
- Suncorp will apply the amount equal to the Issue Price by way of payment for the subscription for Ordinary Shares to be allotted and issued on Conversion, and
- each Holder will be allotted and issued a number of Ordinary Shares for each Capital Note 4 being Converted on the relevant date equal to the Conversion Number (but no greater than the Maximum Conversion Number), calculated as follows:

$$\text{Conversion Number} = \frac{\text{Issue Price}}{99\% \times \text{VWAP}}$$

Where:

**VWAP** (expressed in dollars and cents) means the VWAP during the VWAP Period.

The **Maximum Conversion Number** is calculated as follows:

$$\text{Maximum Conversion Number} = \frac{\text{Issue Price}}{(\text{Issue date VWAP} \times \text{Relevant Fraction})}$$

Where:

**Relevant Fraction** means, in the case of a Mandatory Conversion, 0.5 or in the case of any other Conversion, 0.2.

85. Subject to the operation of the limitation imposed by the Maximum Conversion Number, the total market value of the Ordinary Shares held by a Holder immediately after the Conversion of Capital Notes 4 will be approximately A\$101 (based on the VWAP at the time of Conversion), which is slightly above the Issue Price of Capital Notes 4 (that is, A\$100).

86. Pursuant to clause 8.9 of the Terms, the Ordinary Shares issued upon Conversion of Capital Notes 4 will rank equally with all other fully-paid Ordinary Shares.

87. Should a Holder not wish to receive Ordinary Shares if Suncorp has elected or is required to Convert Capital Notes 4 (and has notified Suncorp of this fact), under clause 8.11 of the Terms, on the date for Conversion, the relevant Ordinary Shares will be issued to the Trustee and or other nominee appointed by Suncorp who will sell the Ordinary Shares and pay a cash amount equal to the Proceeds to the relevant Holder.

### ***Redemption Mechanics***

88. Suncorp may elect to Redeem Capital Notes 4 in accordance with clause 9 of the Terms and subject to APRA's prior written approval.

89. Capital Notes 4 will be Redeemed by payment on the Exchange Date of an amount equal to the Issue Price (Redemption Price).

90. Where Suncorp has elected to Redeem Capital Notes 4, on the Exchange Date the only right the Holders will have with respect to Capital Notes 4 will be to obtain the Redemption Price payable in accordance with the Terms and, upon payment of the Redemption Price all other rights conferred, or restrictions imposed, by Capital Notes 4 will no longer have effect (clause 9.3 of the Terms).

### ***Resale Mechanics***

91. Suncorp may (subject to APRA's prior written approval) elect to Resell Capital Notes 4 by appointing one or more Nominated Purchasers as set out in clauses 10.2 and 10.3 of the Terms.

92. Under clause 10.4 of the Terms, if an election to Resell is made by Suncorp, each Holder is taken to irrevocably offer to sell Capital Notes 4 the subject of Resale to the Nominated Purchaser for a cash amount equal to each Capital Note's Issue Price (the Resale Price) on the Exchange Date. In accordance with clause 10.5 of the Terms, subject to payment by the Nominated Purchaser of the Resale Price to the Holders, all right, title and interest in such Capital Note 4 (excluding the right to any Distribution payable on that date) will be transferred to the Nominated Purchaser free from Encumbrances.

### ***Ranking of Capital Notes 4 on winding-up***

93. Under clause 2.1 of the Terms, in a winding-up of Suncorp, Capital Notes 4 will rank as follows for the payment of the Redemption Price:

- (a) in priority to Ordinary Shares
- (b) equally among themselves and with all Equal Ranking Instruments, and
- (c) behind the claims of Senior Ranking Creditors.

**Other matters**

94. This Ruling is made on the following basis.
- (a) The Transaction Documents represent a complete and accurate description of the scheme, are intended by the parties to have their legal effect and were implemented according to their terms.
  - (b) All parties to the Transaction are dealing with each other on arm's length terms and fair value consideration was provided by the Holders to acquire Capital Notes 4.
  - (c) Capital Notes 4 are 'equity interests' pursuant to Division 974.
  - (d) The Ordinary Shares issued in the event of a Conversion of Capital Notes 4 will be 'equity interests' pursuant to Division 974.
  - (e) Distributions on Capital Notes 4 will be non-share dividends under section 974-120 and will be frankable distributions pursuant to section 202-40.
  - (f) The Distributions are expected to be fully franked; however, if any distribution is not franked or only partially franked, the Distribution will be grossed up to the extent that the franking percentage of the Distribution is less than 100% as calculated in accordance with clause 3.2 of the Terms.
  - (g) Suncorp will not differentially frank distributions payable to different Holders of Capital Notes 4, or to holders of any other frankable interest in Suncorp, according to the tax status of the holders of those respective instruments or on any other basis.
  - (h) The extent to which a Holder receives franked Distributions will be determined solely by each Holder's proportionate ownership of Capital Notes 4 irrespective of the Holder's tax profile and regardless of the extent to which any particular Holder will actually benefit from the franking credits attached to the Distribution.
  - (i) The Distributions on Capital Notes 4 are expected to be franked in the same proportion as dividends paid on Ordinary Shares.
  - (j) Any Capital Notes 4 held by non-residents that acquired Capital Notes 4 under the Institutional Offer will be franked in the same manner as Capital Notes 4 held by residents.
  - (k) The share capital account of Suncorp will not become tainted within the meaning of Subdivision 197-A by an issue of Capital Notes 4 or the allotment of Ordinary Shares on Conversion of Capital Notes 4.
  - (l) No Distributions paid in respect of Capital Notes 4 will be sourced, directly or indirectly, from Suncorp's share capital account or its non-share capital account.
  - (m) Immediately before payment of a Distribution on Capital Notes 4, Suncorp will have sufficient available frankable profits (worked out under section 215-20) to pay the Distribution.
  - (n) Capital Notes 4 are expected to be characterised as a liability for Australian International Financial Reporting Standard purposes.
  - (o) For the purposes of determining whether a Holder is a qualified person in relation to a Distribution for the purposes of Division 1A of former Part IIIAA of the ITAA 1936, neither a Holder nor an associate of the Holder will take any positions in relation to their Capital Notes 4 that would cause a Holder

- not to be a qualified person and will not make, be under an obligation to make, or be likely to make a related payment (within the meaning of former section 160APHN of the ITAA 1936) in relation to the Distributions.
- (p) Holders in receipt of Distributions on Capital Notes 4 will have held their Capital Notes 4 for a period of at least 90 days (excluding the day of disposal), within the period beginning on the day after the day on which the Holder acquired Capital Notes 4 and ending on the 90th day after the day on which Capital Notes 4 go ex-distribution.
  - (q) It is reasonable to expect that the dividend/distribution payout ratios and the franking credits in relation to the Ordinary Share capital and other equity interests in Suncorp will not change as a result of the issue of Capital Notes 4.
  - (r) Distributions will not be funded directly or indirectly by Suncorp issuing new equity interests.
  - (s) On Conversion, Suncorp will debit the Issue Price of Capital Notes 4 to its non-share capital account.
  - (t) On the date of Conversion of Capital Notes 4 into Ordinary Shares, the rights and obligations attached to the Ordinary Shares will be the same as those contained in the Constitution of Suncorp.
  - (u) The Holders (or their connected entities) will not engage in distribution washing (within the meaning of section 207-157) in relation to Distributions on Capital Notes 4 (unless entitled to the exception under subsection 207-157(4)).
  - (v) Suncorp does not have any foreign branches through which it carries on its businesses.

**Appendix – Explanation**

**ⓘ** *This Explanation is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

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**Acquisition time of Capital Notes 4**

95. An equity interest that is issued or allotted by a company is acquired when the contract is entered into or, if there is no contract, when the equity interests are issued or allotted (table item 2 of section 109-10).

96. Capital Notes 4 are equity interests in Suncorp. When an investor's application for Capital Notes 4 is accepted by Suncorp, this leads to the formation of a contract for the issue of Capital Notes 4 to the investor (who will become a Holder). The contract is not formed prior to the Issue Date as Suncorp has the right not to proceed with, or withdraw, the Offer at any time before Capital Notes 4 are issued. Therefore, for the purposes of table item 2 of section 109-10, a Holder will acquire their Capital Notes 4 on 23 September 2021.

**Inclusion of Distributions and franking credits in assessable income**

97. Subsection 44(1) of the ITAA 1936 provides that the assessable income of a resident shareholder in a company includes all dividends and non-share dividends paid to the shareholder by the company.

98. Capital Notes 4 are 'non-share equity interests' as defined in subsection 995-1(1) and the Holders are 'equity holders' as defined in subsection 995-1(1). Paragraph 43B(1)(b) of the ITAA 1936 provides that Subdivision D of Division 2 of Part III of the ITAA 1936 (which governs dividends) applies to an equity holder in the same way as it applies to a shareholder.



99. Distributions paid in respect of Capital Notes 4 are frankable non-share dividends in accordance with sections 202-40 and 974-120. Accordingly, Holders must include Distributions paid in respect of Capital Notes 4 in their assessable income under subparagraph 44(1)(a)(ii) of the ITAA 1936, unless the Distribution is exempt income or non-assessable non-exempt income in the hands of the relevant Holder.

100. Under the Australian imputation system, where an Australian-resident company makes a franked distribution directly to a shareholder, the assessable income of the shareholder must also include the amount of the franking credit on the distribution pursuant to subsection 207-20(1). The inclusion of both the dividend and the attached franking credit in a shareholder's assessable income is known as 'grossing-up' the dividend.

101. Distributions on Capital Notes 4 are expected to be fully franked. Where the distributions are franked, the Holders must include in their assessable income the amount of any franking credit attached to a Distribution in the income year in which the Distribution is made, unless the Distribution is exempt income or non-assessable non-exempt income in the hands of the relevant Holder.

#### **Imputation benefits – streaming**

102. Subdivision 204-D enables the Commissioner to make a determination where distributions with attached imputation benefits are streamed to a member of a corporate tax entity in preference to another member.

103. Section 204-30 prescribes the circumstances that are required to exist before the Commissioner may make such a determination. Section 204-30 applies where an entity 'streams' the payment of distributions in such a way that:

- an 'imputation benefit' is, or apart from section 204-30 would be, received by a member of the entity as a result of the distribution or distributions (paragraph 204-30(1)(a))
- the member (favoured member) would derive a greater benefit from franking credits than another member of the entity (paragraph 204-30(1)(b)), and
- the other member (disadvantaged member) of the entity will receive lesser imputation benefits, or will not receive any imputation benefits, whether or not the other member receives other benefits (paragraph 204-30(1)(c)).

104. 'Streaming' is not defined for the purposes of Subdivision 204-D. However, the Commissioner understands it to refer to a company '... selectively directing the flow of franked distributions to those members who can most benefit from the imputation credits' (paragraph 3.28 of the Explanatory Memorandum to the New Business Tax System (Imputation) Bill 2002).

105. Capital Notes 4 are listed on the ASX and hence will be available for investment by different types of investors. The extent to which a Holder receives franked Distributions will be determined solely by each Holder's proportionate ownership of Capital Notes 4 irrespective of the Holder's tax profile and regardless of the extent to which any particular Holder will actually benefit from the franking credits attached to the Distribution. The dividend/distribution payout ratios and the franking credits arising in relation to the ordinary share capital and other equity interests in Suncorp are not expected to be affected by the issue of Capital Notes 4 and Distributions on Capital Notes 4 are expected to be franked in the same proportion as dividends paid on Ordinary Shares.

106. Based on the information provided, the Commissioner has concluded that the requisite element of streaming does not exist in relation to the franked Distributions to be

paid by Suncorp to Holders. Accordingly, the Commissioner will not make a determination under paragraph 204-30(3)(c) to deny the whole, or any part, of the imputation benefits received by a Holder in relation to Distributions paid in respect of Capital Notes 4.

### **Section 177EA of the ITAA 1936**

107. Section 177EA of the ITAA 1936 is a general anti-avoidance provision that applies to a wide range of schemes designed to obtain imputation benefits. In essence, it applies to schemes for the disposition of membership interests or an interest in membership interests, where a franked distribution is paid or payable in respect of the membership interests or an interest in membership interests.

108. Where section 177EA of the ITAA 1936 applies, the Commissioner has a discretion pursuant to subsection 177EA(5) of the ITAA 1936 to make a determination to either debit the company's franking account or deny the imputation benefit on the distribution that flowed directly or indirectly to each shareholder.

109. The Commissioner can make a determination if the following conditions in subsection 177EA(3) of the ITAA 1936 are satisfied:

- (a) there is a scheme for a disposition of membership interests, or an interest in membership interests, in a corporate tax entity; and
- (b) either:
  - (i) a frankable distribution has been paid, or is payable or expected to be payable, to a person in respect of the membership interests; or
  - (ii) a frankable distribution has flowed indirectly, or flows indirectly or is expected to flow indirectly, to a person in respect of the interest in membership interests, as the case may be; and
- (c) the distribution was, or is expected to be, a franked distribution or a distribution franked with an exempting credit; and
- (d) except for this section, the person (the *relevant taxpayer*) would receive, or could reasonably be expected to receive, imputation benefits as a result of the distribution; and
- (e) having regard to the relevant circumstances of the scheme, it would be concluded that the person, or one of the persons, who entered into or carried out the scheme or any part of the scheme did so for a purpose (whether or not the dominant purpose but not including an incidental purpose) of enabling the relevant taxpayer to obtain an imputation benefit.

110. It is considered that the conditions in paragraphs 177EA(3)(a) to 177EA(3)(d) of the ITAA 1936 are satisfied because:

- the issue of Capital Notes 4 constitutes a scheme for the disposition of membership interests in a corporate tax entity; paragraph 177EA(12)(a) of the ITAA 1936 applies to treat non-share equity interests in the same way as membership interests for the purposes of section 177EA of the ITAA 1936
- Distributions are frankable distributions and are expected to be payable to Holders in respect of their Capital Notes 4
- Distributions are expected to be franked distributions, and
- the Holders could reasonably be expected to receive an imputation benefit as a result of the Distributions, as Suncorp intends to fully frank the Distributions on Capital Notes 4.

111. Accordingly, the issue is whether, having regard to the relevant circumstances of the scheme, it would be concluded that a person, or one of the persons, who entered into or carried out the scheme, did so for a purpose (whether or not the dominant purpose but not including an incidental purpose) of enabling the relevant taxpayer to obtain an imputation benefit.

112. In arriving at a conclusion, the Commissioner must have regard to the relevant circumstances of the scheme which include, but are not limited to, the factors listed in subsection 177EA(17) of the ITAA 1936.

113. The relevant circumstances listed encompass a range of circumstances, which taken individually or collectively could indicate the requisite purpose. Due to the diverse nature of these circumstances, some may or may not be present at any one time in relation to a particular scheme.

114. Based on the information provided and the qualifications set out in this Ruling, and having regard to all of the relevant circumstances of the scheme, the Commissioner has concluded that the purpose of enabling the Holders to obtain imputation benefits is no more than incidental to Suncorp's primary purpose of raising additional Tier 1 capital for the Suncorp Group to meet its capital adequacy/prudential requirements and otherwise to meet its ongoing funding and capital management requirements.

115. Accordingly, the Commissioner will not make a determination under paragraph 177EA(5)(b) of the ITAA 1936 to deny the whole, or any part, of the imputation benefits received by Holders in relation to Distributions paid in respect of Capital Notes 4.

### **Gross-up and tax offset rules**

116. Subdivision 207-F creates the appropriate adjustment to cancel the effect of the gross-up and tax offset rules where the entity concerned has manipulated the imputation system in a manner that is not permitted under the income tax law.

117. Pursuant to subsection 207-145(1), this adjustment will occur where a franked distribution is made to an entity in one or more of the following circumstances:

- the entity is not a qualified person in relation to the distribution for the purposes of Division 1A of former Part IIIAA of the ITAA 1936 (paragraph 207-145(1)(a))
- the Commissioner has made a determination under paragraph 177EA(5)(b) of the ITAA 1936 that no imputation benefit is to arise in respect of the distribution for the entity (paragraph 207-145(1)(b))
- the Commissioner has made a determination under paragraph 204-30(3)(c) that no imputation benefit is to arise in respect of the distribution for the entity (paragraph 207-145(1)(c))
- the distribution is made as part of a dividend stripping operation (paragraph 207-145(1)(d))
- the distribution is one to which section 207-157 of the ITAA 1997 (which is about distribution washing) applies (paragraph 207-145(da)), or
- the distribution is one to which section 207-158 of the ITAA 1997 (distributions entitled to a foreign income tax deduction) applies (paragraph 207-145(db)).

118. This Ruling is made on the assumption that the distribution washing provision does not apply. The remaining circumstances are discussed in paragraphs 119 to 139 of this Ruling.

119. Generally, a person is a qualified person for the purposes of Division 1A of former Part IIIAA of the ITAA 1936 if they satisfy the holding period rule in former paragraph 160APHO(1)(a) of the ITAA 1936 or the related payments rule in former paragraph 160APHO(1)(b) of the ITAA 1936.

120. By virtue of former section 160AOA of the ITAA 1936, the holding period rule and the related payments rule apply to non-share equity interests, equity holders and non-share dividends in the same way as they apply to shares, shareholders and dividends respectively.

121. The holding period rule applies where neither the holder nor an associate of the holder has made, is under an obligation to make or is likely to make a related payment in respect of the dividend (or non-share dividend), and requires the shares (or non-share equity interests) to have been continuously held at risk throughout the primary qualification period (former paragraph 160APHO(1)(a) of the ITAA 1936).

122. The related payments rule applies where the holder or an associate of the holder has made, is under an obligation to make or is likely to make a related payment in respect of the dividend (or non-share dividend) and requires the shares (or non-share equity interests) to have been continuously held at risk throughout the secondary qualification period (former paragraph 160APHO(1)(b) and former section 160APHN of the ITAA 1936).

123. This Ruling is made on the basis that neither a Holder, nor associates of the Holder, will make, is under an obligation to make or is likely to make, a related payment in relation to the Distributions within the meaning of former section 160APHN of the ITAA 1936.

124. A Holder will be a qualified person in relation to Distributions received in respect of their Capital Notes 4, provided the Holder continuously held their Capital Notes 4 at risk for a period of at least 90 days (excluding the day of acquisition and the day of disposal, and any days on which the Holder has materially diminished risks of loss or opportunities for gain in respect of the shares or interest) throughout the primary qualification period.

125. The primary qualification period begins on the day after the day on which the Holder acquired their Capital Notes 4 and ends on the 90th day after the day on which Capital Notes 4 became ex dividend (former subsections 160APHO(2) and 160APHO(3) of the ITAA 1936 and former sections 160APHM and 160APHJ of the ITAA 1936).

126. In determining whether a shareholder is a qualified person in relation to a distribution paid on their shares, every 'position' (defined in former subsection 160APHJ(2) of the ITAA 1936) in relation to the shares is taken into account in calculating the 'net position' (defined in former subsection 160APHJ(5) of the ITAA 1936) in relation to the shares. The net position determines whether a shareholder has materially diminished risks of loss or opportunities for gain on a particular day in respect of shares held by the shareholder (former section 160APHM of the ITAA 1936). Under former subsection 160APHJ(2) of the ITAA 1936, a position in relation to shares is anything that has a delta in relation to the shares.

127. An embedded share option is a position in relation to a share if it is exercisable by or against a party other than the issuer of the share (refer to Taxation Determination TD 2007/29 *Income tax: holding period rule: is an embedded share option a position in relation to the share if it is exercisable by or against a party other than the issuer of the share?*).

128. Under the Terms, Suncorp may (subject to certain conditions) elect to require the Holders to sell all or some of their Capital Notes 4 to one or more Nominated Purchasers. Until Suncorp appoints an entity as a Nominated Purchaser, that entity has no right or ability to call for Capital Notes 4 from the Holders. Holders have no right to elect Resale of Capital Notes 4.

129. Suncorp is not required to elect to Resell Capital Notes 4. It follows that Resale is an option that is held by Suncorp, the issuer of Capital Notes 4, and not by a third party. Therefore, the Resale does not constitute a separate position in relation to Capital Notes 4 under former subsection 160APHJ(2) of the ITAA 1936.

130. Similarly, although the Conversion mechanism results in the exchange of Capital Notes 4 for Ordinary Shares, the Conversion mechanism does not constitute a separate position for the purposes of former Division 1A of Part IIIAA of the ITAA 1936 as the Holders have no right to elect Conversion.

131. Therefore, for the purposes of determining whether a Holder is a qualified person in relation to the Distributions under Division 1A of former Part IIIAA of the ITAA 1936, neither the Resale nor the Conversion mechanism of themselves affects a Holder's risks of loss or opportunities for gain in respect of Capital Notes 4.

132. The Commissioner has confirmed that a determination will not be made under paragraph 177EA(5)(b) of the ITAA 1936 or paragraph 204-30(3)(c) to deny the imputation benefit that arises in respect of a Distribution that is made (see paragraphs 107 to 115 of this Ruling).

133. Distributions on Capital Notes 4 are being issued in circumstances where Suncorp requires the injection of Tier 1 capital for the purposes of applicable prudential standards for Suncorp. Accordingly, subsection 207-158 does not apply to the Distributions on Capital Notes 4.

134. A distribution will be taken to be made as part of a dividend stripping operation, pursuant to section 207-145, where the distribution arose out of or was made in the course of a scheme or substantially similar arrangement that was in the nature of dividend stripping.

135. Section 207-155 defines a dividend stripping operation as a scheme by way of or in the nature of dividend stripping or that has substantially the effect of a scheme by way of or in the nature of dividend stripping.

136. The term dividend stripping has no precise legal meaning. Paragraph 9 of Taxation Ruling IT 2627 *Income tax: application of Part IVA to dividend stripping arrangements* states that dividend stripping would include a situation:

... where a vehicle entity (the stripper) purchases shares in a target company that has accumulated or current years' profits that are represented by cash or other readily-realizable assets. The stripper pays the vendor shareholders a capital sum that reflects those profits and then draws off the profits by having paid to it a dividend (or a liquidation distribution) from the target company.

137. Paragraph 10 of IT 2627 further states that:

... an important element to be looked at will be any release of profits of a company to its shareholders in a non-taxable form, regardless of the different methods that might be used to achieve this result.

138. The Prospectus and Terms provide no indication that the offering of Capital Notes 4 and the associated payment of franked Distributions to Holders in any way constitutes a dividend stripping arrangement. As such, the dividend stripping provisions do not apply.

139. Accordingly, section 207-145 will not apply to adjust the Holders' assessable income to exclude the franking credit, nor will it deny the tax offset to which the Holders would otherwise be entitled.

#### **Capital Notes 4 are not traditional securities**

140. A 'traditional security' is defined in subsection 26BB(1) of the ITAA 1936 as a security held by the taxpayer that was acquired by the taxpayer after 10 May 1989, is not trading stock of the taxpayer, and either does not have an eligible return, or has an eligible return that satisfies the conditions listed in subparagraph (b)(ii) of the definition of traditional security in subsection 26BB(1) of the ITAA 1936.

141. The term 'security' is defined in subsection 26BB(1) of the ITAA 1936 by reference to subsection 159GP(1) of the ITAA 1936. Pursuant to subsection 159GP(1), security means:

- (a) stock, a bond, debenture, certificate of entitlement, bill of exchange, promissory note or other security;
- (b) a deposit with a bank or other financial institution;
- (c) a secured or unsecured loan; or
- (d) any other contract, whether or not in writing, under which a person is liable to pay an amount or amounts, whether or not the liability is secured.

142. Each Capital Note 4 is not a stock, bond, debenture, certificate of entitlement, bill of exchange or a promissory note.

143. The term 'or other security' in paragraph (a) of the definition of security in subsection 26BB(1) of the ITAA 1936 only encompasses instruments that evidence an obligation on the part of the issuer or drawer to pay an amount to the holder or acceptor, whether during the term of the instrument or at its maturity. The types of securities referred to in paragraph (a) of the definition will generally be recognised as debt instruments (refer to Taxation Ruling TR 96/14 *Income tax: traditional securities*).

144. Paragraphs (b) and (c) of the definition of security in subsection 26BB(1) of the ITAA 1936 do not apply because Capital Notes 4 are neither a deposit with a bank or other financial institution nor a secured or unsecured loan.

145. Only those contracts that have debt-like obligations will usually fall under paragraph (d) of the definition of security in subsection 26BB(1) of the ITAA 1936 (refer to TR 96/14).

146. The Terms do not evidence a liability by Suncorp to pay an amount or amounts to Holders of Capital Notes 4 during the term of the instrument or at maturity. Capital Notes 4 are perpetual and Holders do not have a right to require Redemption. The payment by Suncorp of Distributions is subject to the Distribution Payment Conditions. Distributions are discretionary and non-cumulative and if a Distribution is not paid, Suncorp has no liability to pay the Distribution and Holders have no claim in respect of non-payment.

147. Upon Conversion, Suncorp will allot and issue a number of Ordinary Shares based on a formula set out in the Terms for each Capital Note 4 held by the Holder. Each Holder's rights in relation to each Capital Note 4 that is being converted are immediately and irrevocably terminated for an amount equal to the Issue Price and Suncorp will apply that amount by way of payment for the subscription for Ordinary Shares issued to Holders. Suncorp cannot be said to have a liability to pay an amount under the Terms pursuant to the Conversion.

148. Early Redemption of Capital Notes 4 is possible. However, it is at the option of Suncorp and will only occur upon the happening of certain events, at Suncorp's option, and requires the prior written approval of APRA. This does not establish a liability on Suncorp to pay an amount.

149. Suncorp will not become liable to pay an amount under Capital Notes 4 upon a wind up as it would be expected that, before a wind up commences, Capital Notes 4 would either be converted into Ordinary Shares pursuant to a Non-Viability Trigger Event (in which case any distribution would be made to the Holders as Ordinary Shareholders as opposed to under the Terms), or Holders' rights would be terminated where Suncorp is not able to issue Ordinary Shares within the time stated in the Terms.

150. As each Capital Note 4 is not a security within the meaning of subsection 159GP(1) of the ITAA 1936, Capital Notes 4 are not traditional securities under subsection 26BB(1) of the ITAA 1936.

151. As Capital Notes 4 are not 'traditional securities' within the meaning of that term in subsection 26BB(1) of the ITAA 1936:

- subsection 26BB(2) of the ITAA 1936 will not apply to include the amount of any gain in the assessable income of the Holder upon disposal of their Capital Notes 4, and
- subsection 70B(2) of the ITAA 1936 will not apply to allow a deduction for any loss to Holders upon disposal of their Capital Notes 4.

#### **Capital Notes 4 are not qualifying securities**

152. A 'qualifying security' is defined in subsection 159GP(1) of the ITAA 1936 as a security issued after 16 December 1984, is not part of an exempt series as defined in subsection 159GP(9A) of the ITAA 1936, with a term reasonably likely to exceed one year, and has an eligible return that satisfies the requirement in paragraph (e) of the subsection 159GP(1) definition.

153. Capital Notes 4 are not securities as defined in subsection 159GP(1) of the ITAA 1936, as explained at paragraphs 141 to 150 of this Ruling.

154. Accordingly, Capital Notes 4 are not qualifying securities as defined in subsection 159GP(1) of the ITAA 1936.

#### **Capital Notes 4 are convertible interests**

155. Subsection 995-1(1) defines a 'convertible interest' in a company as an interest of the kind referred to in table item 4 of subsection 974-75(1). Paragraph (b) of table item 4 of subsection 974-75(1) provides that an interest is an equity interest if it is an interest issued by the company and the interest will, or may, convert into an equity interest in the company.

156. Under section 974-165, an interest is an interest that will or may convert into another interest if:

- the interest must be or may be converted into another interest (paragraph 974-165(a)), or
- the interest must be or may be redeemed, repaid or satisfied by the issue or transfer of the other interest (subparagraph 974-165(b)(i)).

157. Each Capital Note 4 is a convertible interest because it will or may be redeemed, repaid or satisfied by the issue of Ordinary Shares upon Conversion.

#### **Conversion of Capital Notes 4 for Ordinary Shares**

158. The Conversion of Capital Notes 4 for Ordinary Shares in Suncorp will not result in Holders being taken to have received a dividend or a non-share dividend.

159. Holders are not shareholders of Suncorp in respect of their Capital Notes 4 holdings. Accordingly, the Holders will not receive a dividend as defined in subsection 6(1) of the ITAA 1936.

160. The application of the Issue Price to subscribe for Ordinary Shares on Conversion of Capital Notes 4 is a crediting of that amount to the Holder and, therefore, a non-share distribution under section 974-115.

161. All non-share distributions are non-share dividends unless they are debited against the distributing company's non-share capital account or its share capital account (section 974-120).

162. The issue of Ordinary Shares to Holders on Conversion of Capital Notes 4 will not be a non-share dividend as defined in section 974-120, as the Issue Price of Capital Notes 4 will be debited against Suncorp's non-share capital account.

#### **Market value of Capital Notes 4 on Redemption**

163. The capital proceeds received by Holders on Redemption will be replaced with the market value of Capital Notes 4 on the date of Redemption, worked out as if the Redemption had not occurred and was never proposed to occur, if the capital proceeds are more or less than the market value (subparagraph 116-30(2)(b)(ii)).

164. If Suncorp elects to Redeem Capital Notes 4 on an Exchange Date before the Mandatory Conversion Date, the market value of Capital Notes 4 which are Redeemed will need to be determined in accordance with Practical Compliance Guideline PCG 2021/1 *Application of market value substitution rules when there is a buy-back or redemption of hybrid securities – methodologies for determining market value for investors holding their securities on capital account*.

165. Simply put, if Suncorp elects to Redeem all Capital Notes 4 before the Mandatory Conversion Date, all on the same date, then the market value of the redeemed Capital Notes 4 is equal to the Issue Price. If Suncorp elects to Redeem some, but not all, Capital Notes 4 before the Mandatory Conversion Date, then the market value of the redeemed Capital Notes 4 will need to be calculated in accordance with the methodology set out in PCG 2021/1.

#### **Section 45 of the ITAA 1936**

166. Section 45 of the ITAA 1936 applies where a company streams the provision of shares and the payment of minimally franked dividends to its shareholders in such a way that the shares are received by some shareholders and minimally franked dividends are received by other shareholders. Minimally franked dividends are dividends which are franked to less than 10%.

167. Suncorp has consistently paid fully franked distributions and has stated that it expects to continue to pay fully franked distributions, including to the Holders, to the extent of the franking credits in its franking account. Furthermore, the Terms do not allow



Suncorp to issue Ordinary Shares to all or some of the Holders in satisfaction of their distribution entitlements in relation to Capital Notes 4.

168. Based on the information provided and having regard to the circumstances of the scheme, section 45 of the ITAA 1936 will not apply to treat an amount equal to the value of the Ordinary Shares issued on Conversion as an unfrankable dividend in the hands of Holders.

#### **Section 45A of the ITAA 1936**

169. Section 45A of the ITAA 1936 applies in circumstances where a company streams the provision of capital benefits to certain shareholders (the advantaged shareholders) who derive a greater benefit from the receipt of capital and it is reasonable to assume that the other shareholders (the disadvantaged shareholders) have received or will receive dividends.

170. If these conditions are satisfied, the Commissioner may make a determination under subsection 45A(2) of the ITAA 1936 that section 45C of the ITAA 1936 applies. The effect of such a determination is that all or part of the capital benefit is taken to be an unfranked dividend.

171. A provision of capital benefits includes the provision to the shareholder of shares in the company pursuant to paragraph 45A(3)(a) of the ITAA 1936. The issue of Ordinary Shares to Holders on Conversion of Capital Notes 4 will constitute the provision of capital benefits in the form of shares in substitution for a non-share equity interest. It represents the replacement of one type of equity interest with another.

172. In the absence of any other factors that would contribute to an alternative conclusion, the issue of Ordinary Shares on Conversion will not be considered to be streaming as contemplated by section 45A of the ITAA 1936.

173. The Redemption of Capital Notes 4 involves the provision of a capital benefit within the meaning of paragraph 45A(3)(b) of the ITAA 1936 as it is a non-share capital return (subsection 45A(3A) of the ITAA 1936). The amount paid to Holders on Redemption is limited to the amount of the Issue Price of Capital Notes 4 and is made in respect of the termination of an equity interest. Any Distribution entitlements on Capital Notes 4 will be separately paid as Distributions given that each date on which Redemption occurs will also be a Distribution Payment Date under the Terms.

174. Accordingly, it cannot be said that Holders would derive a greater benefit from the receipt of the capital benefits than other Suncorp shareholders. Therefore, the issue of Ordinary Shares on Conversion or the Redemption of Capital Notes 4 will not trigger the application of section 45A of the ITAA 1936.

175. As such, the Commissioner will not make a determination under subsection 45A(2) of the ITAA 1936 that section 45C of the ITAA 1936 applies to treat the whole, or part of, a capital benefit that arises on Conversion or Redemption of Capital Notes 4 as an unfranked dividend in the hands of the Holders.

#### **Section 45B of the ITAA 1936**

176. Section 45B of the ITAA 1936 applies where the conditions in subsection 45B(2) of the ITAA 1936 are met and it is concluded that certain capital benefits are provided to shareholders in substitution for dividends.

177. Where the requirements of subsection 45B(2) of the ITAA 1936 are met, paragraph 45B(3)(b) of the ITAA 1936 empowers the Commissioner to make a

determination that section 45C of the ITAA 1936 applies in relation to the whole, or a part, of the capital benefit such that it will be treated as an unfranked dividend, so that it can be included in the assessable income of the relevant taxpayer.

178. The issue of Ordinary Shares to Holders on Conversion will constitute a scheme under which the Holders are provided with a capital benefit by Suncorp (paragraph 45B(5)(a) of the ITAA 1936). Similarly, Redemption of Capital Notes 4 will also constitute a scheme under which the Holders are provided with a capital benefit by Suncorp (paragraph 45B(5)(b) of the ITAA 1936 and subsection 45B(7) of the ITAA 1936).

179. For the provision to apply, among other things, paragraph 45B(2)(c) of the ITAA 1936 requires that, having regard to the relevant circumstances of the scheme, it would be concluded that the person, or one of the persons, entered into the scheme or carried out the scheme or any part of the scheme for a purpose, other than an incidental purpose, of enabling a taxpayer to obtain a tax benefit. A non-exhaustive list of relevant circumstances of the scheme is provided in subsection 45B(8) of the ITAA 1936.

180. Having regard to the relevant circumstances surrounding the issue of Ordinary Shares on Conversion and Redemption of Capital Notes 4, it cannot be concluded that Suncorp, the Holders or any other person entered into or carried out the scheme for the purpose of enabling Holders to obtain a tax benefit.

181. The allotment of Ordinary Shares on Conversion is not in satisfaction of the Holders' entitlement to Distributions, but rather a product of the Conversion of Capital Notes 4 held by the Holders according to the Terms. Conversion simply involves a change in the type of equity interests that are held by the Holder; an instrument paying franked distributions (Capital Notes 4) is replaced with another instrument paying franked distributions (Ordinary Shares). Any Distribution entitlements on Conversion will be separately paid as a Distribution given that each date on which Conversion occurs will also be a Distribution Payment Date under the Terms.

182. Similarly, it cannot be said that Redemption involves any benefit provided to Holders that is in substitution for Distributions. The amount paid to Holders on Redemption is limited to an amount equal to the Issue Price of Capital Notes 4. Upon payment of the Redemption Price the non-share equity interests represented by Capital Notes 4 will cease to exist and all other rights conferred, or obligations imposed, by Capital Notes 4 will no longer have effect. Any Distribution entitlements on Capital Notes 4 are separately paid as a Distribution given that each date on which Redemption occurs will also be a Distribution Payment Date under the Terms.

183. Accordingly, the Commissioner will not make a determination under paragraph 45B(3)(b) of the ITAA 1936 that section 45C of the ITAA 1936 applies to treat the whole, or part of, a capital benefit that arises on Conversion or Redemption of Capital Notes 4 as an unfranked dividend in the hands of Holders.

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