

## Canadian Business Trusts: A New Organizational Structure

Paul Halpern, Oyvind Norli

First published: 04 October 2006

<https://doi.org/10.1111/j.1745-6622.2006.00099.x>

The authors want to thank Gordon Tait, BMO Capital Markets for his invaluable advice and access to data.

### Abstract

The focus of this paper is a subset of income trusts called business trusts, a Canadian financial innovation that has experienced remarkable success in the Canadian market, but not in the U.S. At the end of 2005, there were more than 170 business trusts (most of them in Canada, but a handful in the U.S.) with an aggregate market value of over \$90 billion.

Like income trusts generally, which include REITs and oil & gas trusts, business trusts are designed in large part to avoid taxation at the corporate level by distributing a substantial proportion of a business's operating cash flow. The business trust structure provides investors (called "unit holders") with what amounts to a combination of subordinated, high-yield debt and high-yielding equity. But unlike the subordinated debt in most highly leveraged transactions (HLT's), the "internal" debt in a business trust unit is effectively "stapled" to the equity part of the security. And this kind of "strip financing" (which was a common practice in U.S. LBOs during the '80s) means that, besides providing stable cash-generating companies with a tax-minimizing way of paying out excess cash, the business unit structure also limits the "financial distress costs" associated with HLT's. In the event of financial trouble, the unit holders are likely to be much more cooperative than ordinary subordinated debt holders in restructuring interest payments since the benefits of so doing accrue to the equity portion of their units.

The original income trust structure has also been used by a number of U.S.-based companies that listed their shares on the TSX. But, in the attempt to make the securities suitable for listing on the AM EX, and in response to auditor demands intended to address potential IRS concerns, the instruments were modified in ways that sacrificed one of the important benefits of the original

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

## ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)[Terms of Use](#)[About Cookies](#)[Manage Cookies](#)[Accessibility](#)[Wiley Research DE&I Statement and Publishing Policies](#)

## HELP & SUPPORT

[Contact Us](#)[Training and Support](#)[DMCA & Reporting Piracy](#)[Sitemap](#)

## OPPORTUNITIES

[Subscription Agents](#)[Advertisers & Corporate Partners](#)

## CONNECT WITH WILEY

[The Wiley Network](#)[Wiley Press Room](#)

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

**WILEY**

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



**Manage Preferences**

**Accept All**

**Reject Non-Essential**