

This document is an unofficial consolidation of all amendments to Ontario Securities Commission Rule 91-501 *Strip Bonds* and Companion Policy 91-501CP, applying from **September 28, 2009**. This document is for reference purposes only and is not an official statement of the law.

**ONTARIO SECURITIES COMMISSION RULE 91-501
STRIP BONDS**

TABLE OF CONTENTS

<u>PART</u>	<u>TITLE</u>
PART 1	DEFINITIONS AND INTERPRETATION
1.1	Definitions
1.2	Interpretation
PART 2	REGISTRATION AND PROSPECTUS EXEMPTIONS
2.1	Removal of Exemptions
2.2	Registration Exemption
2.3	Prospectus Exemption
PART 3	DELIVERY OBLIGATION
3.1	Delivery Obligation
PART 4	STRIP BOND INFORMATION STATEMENT
4.1	Contents of Strip Bond Information Statement
4.2	Acceptance of Strip Bond Information Statement
4.3	Revocation of Acceptance
PART 5	EXEMPTION
5.1	Exemption
PART 6	EFFECTIVE DATE
6.1	Effective Date

**ONTARIO SECURITIES COMMISSION RULE 91-501
STRIP BONDS**

PART 1 DEFINITIONS AND INTERPRETATION

1.1 Definitions - In this Rule

“qualified market intermediary” means, for a trade of a strip bond, a market intermediary that, absent this Rule, would be permitted under Ontario securities legislation to make the trade if the strip bond is a security described in paragraphs 2.34(2)(a) or (b) of National Instrument 45-106 *Prospectus and Registration Exemptions*;

"specified purchaser" means, at any specific time, a purchaser of a strip bond to whom a copy of a then-current strip bond information statement has not been delivered;

“specified strip bond” means a strip bond other than a debt security issued by or guaranteed by the Government of Canada or the government of a province or territory of Canada;

"strip bond" means

- (a) an interest in an amount of principal or interest payable under an underlying bond, or in a pool of amounts of principal or interest payable under one or more underlying bonds, in either case in which the sole entitlement of the holder of the interest is to receive, at a specific future date, a sum certain in money that is fixed at the date of issue of the interest,
- (b) a security that consists of at least two or more of the interests referred to in paragraph (a) and that is not an underlying bond, or
- (c) a certificate or receipt representing an interest referred to in paragraph (a) or security referred to in paragraph (b);

"strip bond information statement" means an information statement that

- (a) has been accepted by the Director, if that acceptance has not been revoked,
- (b) contains the information referred to in section 4.1, and
- (c) does not, in a material respect, contain any information that is misleading or untrue or omit to include any information that is necessary to make other information in the information statement not misleading in the light of the circumstances in which it is made; and

"underlying bond" means a bond, debenture or other evidence of indebtedness of or guaranteed by the Government of Canada or any province or territory of Canada or by any foreign country or any political division of a foreign country.

1.2 Interpretation

- (1) For the purpose of the definition of "specified purchaser", a purchaser of a strip bond includes a beneficiary of a defined contribution pension plan for whose benefit a strip bond is purchased, and who made the investment decision to purchase the strip bond.
- (2) References in this Rule to "entering into an agreement of purchase and sale with a specified purchaser", or words to like effect, shall be read with reference to a purchaser referred to in subsection (1) to refer to entering into an agreement of purchase and sale with the defined contribution pension plan of which the purchaser is a beneficiary.

PART 2 REGISTRATION AND PROSPECTUS EXEMPTIONS

2.1 Removal of Exemptions –

- (1) The exemptions from the dealer registration requirement contained in paragraph 8.20(2)(b) [*Specified debt*] of National Instrument 31-103 *Registration Requirements and Exemptions* and paragraph 3.34(2)(b) [*Specified debt*] of National Instrument 45-106 *Prospectus and Registration Exemptions* are not available for a trade in a specified strip bond.
- (2) The exemption from the prospectus requirement contained in paragraph 2.34(2)(b) [*Specified debt*] of National Instrument 45-106 *Prospectus and Registration Exemptions* is not available for a distribution of a specified strip bond.

2.2 Registration Exemption - The registration requirement does not apply to a trade in a specified strip bond made by

- (a) a person or company that is not a market intermediary;
- (b) a qualified market intermediary to a person or company that is not a specified purchaser; or
- (c) a qualified market intermediary to a specified purchaser if the qualified market intermediary delivers a strip bond information statement to the specified purchaser before the specified purchaser enters into an agreement of purchase and sale relating to the trade.

2.3 Prospectus Exemption - The prospectus requirement does not apply to a distribution

- (a) of a type referred to in section 2.2;
- (b) by a qualified market intermediary to a person or company that is not a specified purchaser; or
- (c) by a registrant in accordance with section 3.1.

PART 3 DELIVERY OBLIGATION

3.1 Delivery Obligation - Every registrant, before entering into an agreement of purchase and sale

relating to a trade in a strip bond with a specified purchaser, shall deliver a strip bond information statement to the specified purchaser.

PART 4 STRIP BOND INFORMATION STATEMENT

4.1 Contents of Strip Bond Information Statement - A strip bond information statement shall clearly describe

- (a) the nature of strip bonds, the rights of holders of strip bonds and how strip bonds differ from conventional interest-bearing debt securities;
- (b) the fluctuations, and volatility of fluctuations, in the market price and value of strip bonds resulting from fluctuations in interest rates;
- (c) the effect on the volatility of fluctuations referred to in paragraph (b) associated with the time to maturity of strip bonds;
- (d) the secondary market for strip bonds and underlying bonds;
- (e) custodial arrangements for strip bonds and underlying bonds;
- (f) the Canadian federal income tax consequences of buying, selling and holding strip bonds; and
- (g) the existence of dealer mark-ups or commissions on the purchase and sale of strip bonds and the impact, illustrated in tabular form, of different mark-ups or commissions on the yield to maturity of a strip bond, and shall include a statement inviting the prospective purchaser or seller of a strip bond to compare the yield to maturity of the strip bond, calculated after giving effect to any applicable dealer mark-up or commission, against the similarly calculated yield to maturity of a conventional interest-bearing debt security, and to inquire about the dealer's bid and ask prices for the subject strip bond.

4.2 Acceptance of Strip Bond Information Statement

- (1) The Director shall accept a proposed strip bond information statement if the strip bond information statement complies with section 4.1.
- (2) The Director shall not refuse to accept a strip bond information statement without giving the person or company who submitted the strip bond information statement for acceptance an opportunity to be heard.
- (3) The person or company that submits a proposed strip bond information statement to the Director for acceptance shall file the strip bond information statement within seven days after its acceptance.

4.3 Revocation of Acceptance

- (1) The Director may revoke an acceptance of a strip bond information statement if the strip bond information statement does not comply with section 4.1.

- (2) The Director shall not revoke an acceptance of a strip bond information statement without giving the person or company who filed the strip bond information statement an opportunity to be heard.

PART 5 EXEMPTION

5.1 Exemption - The Director may grant an exemption to this Rule, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

PART 6 EFFECTIVE DATE

[Note: This unofficial consolidation does not include PART 6, which contains the original historical coming-into-force provision for this Rule.]

ONTARIO SECURITIES COMMISSION COMPANION POLICY 91-501CP STRIP BONDS

Part 1 -- Introduction

1.1 Introduction -- The purpose of this Policy is to state the Commission's interpretation of certain provisions of Rule 91-501 Strip Bonds (the "Rule"), and to bring certain matters relating to the Rule to the attention of participants in the strip bond market.

Part 2 -- Definition of Strip Bonds

2.1 Interests in Pools -- The definition of strip bonds includes interests in pools of amounts described in paragraph (a) of the definition. An interest in a pool, in this context, would include an interest in strip bonds held through deposit receipts that represent a non-traceable interest in underlying physical coupons or bonds. The effect of including pools of this nature in the Rule is to permit a depository to hold physical coupons or bonds en bloc, and to issue deposit receipts in various principal amounts that do not necessarily correspond to specific coupons or bonds. Interests in pools can appropriately be treated as strip bonds as long as it is clear that holding an interest in a pool represents a right to receive a sum certain in money at a specific future date rather than amounts determined on the basis of the performance of a portfolio of securities.

2.2 Strip Bond Packages -- The definition of strip bond includes strip bond packages, which are defined to mean a security, other than an underlying bond, consisting of two or more of the interests described in paragraph (a) of the definition of strip bonds. This inclusion has been made to ensure that strip bond information statements contain disclosure about strip bond packages as well as ordinary strip bonds. The Investment Dealers Association of Canada information statement accepted by the Director for use under the predecessor policy to the Rule treats strip bond packages separately from strip bonds in several respects. For instance, the statement discloses that the payment characteristics of strip bond packages may more closely resemble conventional debt than strip bonds. In contrast to strip bonds, the income stream received on a strip bond package prior to maturity or the final payment date may be reinvested at the then prevailing interest rates. Therefore, the market price of a strip bond package will not be as volatile as the market price of a strip bond with the same credit risk and term to maturity or final payment date. However, it may be more volatile than the market price of a conventional interest-bearing debt security with the same credit risk and term to maturity. Also, strip bond packages are treated differently for tax purposes than strip bonds.

Part 3 -- Registration Exemptions

3.1 Removal of Registration Exemptions -- Section 2.1 of the Rule provides that the exemption from the dealer registration requirement and the exemption from the prospectus requirement referred to in that section are not available for a trade in a specified strip bond (as defined in section 1.1 of the Rule). Specified strip bonds are those strip bonds for which a registration or prospectus exemption is not provided in the Act (e.g., foreign government strip bonds).

3.2 Provision of Registration Exemptions –

- (1) The Rule provides registration exemptions for trades of specified strip bonds in three situations.
- (2) First, a registration exemption is provided by paragraph 2.2(a) of the Rule for trades of specified strip bonds by non-market intermediaries; this exemption ensures that persons who are not market intermediaries may trade in specified strip bonds without compliance with the Rule on the same basis as they could trade in other exempt securities under the Act.
- (3) Second, a registration exemption is provided by paragraph 2.2(b) of the Rule for trades of specified strip bonds by a "qualified market intermediary" to a person or company that is not a specified purchaser. A qualified market intermediary is defined in the Rule to be a market intermediary that, in effect, is permitted to trade in government bonds; the effect of this exemption, therefore, is to make available a registration exemption for specified strip bonds to those persons or companies who are permitted to trade in the underlying government bonds.
- (4) The Commission notes that the term "qualified market intermediaries" includes both those market intermediaries that are permitted to trade in government securities pursuant to their registration, or pursuant to an exemption from registration that has not been made unavailable to the intermediary.
- (5) Third, a registration exemption is provided by paragraph 2.2(c) of the Rule for trades of specified strip bonds by a qualified market intermediary to a person or company that is a specified purchaser if that purchaser receives the specified strip bond information statement before the specified purchaser enters into an agreement of purchase and sale relating to the trade.

Part 4 -- Delivery Obligation

4.1 Delivery Obligation -- Paragraph 2.2(c) and section 3.1 of the Rule impose an obligation for the delivery of a strip bond information statement before an agreement of purchase and sale relating to a trade in a strip bond is entered into. The Commission notes that this obligation may be satisfied in a number of ways, so long as delivery of a current strip bond information statement has been made to a specified purchaser by that time. For instance, a registrant could satisfy the obligation by effecting a mass mailing of the statement to all of its clients, or by routinely delivering the statement to each client when the client opens an account with the registrant.

4.2 Beneficiaries of Defined Contribution Pension Plans -- Section 1.2 of the Rule includes in the definition of "specified purchaser" a beneficiary of a defined contribution pension plan for whose benefit a strip bond is purchased, and who made the investment decision to purchase the strip bond. The effect of section 1.2 of the Rule is to ensure that defined contribution pension plan members who make investment decisions to purchase strip bonds are treated as purchasers under the Rule, even though those members likely will not directly enter into an agreement of purchase and sale for the strip bonds with the seller of the strip bonds. Under section 1.2, a seller of strip bonds must provide the pension plan member with a strip bond information statement if a copy of that statement has not been previously delivered to him or her (i.e., if that member is a "specified purchaser"), and that delivery must take place before the seller enters into the agreement of purchase and sale in respect of that sale, even if the agreement of purchase

and sale is with the pension plan rather than the pension plan member.

Part 5 -- Strip Bond Information Statements

5.1 Strip Bond Information Statements –

(1) A strip bond information statement is defined in the Rule as an information statement that has been accepted by the Director, if that acceptance has not been revoked, and satisfies the information requirements of the definition.

(2) The effect of this definition is that a strip bond information statement is not a strip bond information statement for the purposes of the Rule if it does not include information required to be included, or, in a material respect, contains any information that is misleading or untrue or omits to include any information in the information statement that is necessary to make other information in the information statement not misleading in the light of the circumstances in which it is made, even if the Director has accepted the information statement and has not taken the step of revoking his or her acceptance of the statement. The onus is on the person or company using a strip bond information statement to ensure that it satisfies the information requirements of the definition.

Part 6 -- Fees

6.1 Fees -- A submission of a proposed strip bond statement to the Director for acceptance should be accompanied by the fee referred to in item E1 of Appendix C of OSC Rule 13-502 *Fees*.