

Local Policy 3.17

Strip Bonds

Date: October 17, 1984

The Manitoba Securities Commission (the "Commission") has reviewed The Ontario Securities Commission (the "OSC") Policy 1.6 relating to "Strip Bonds" and the ruling of the OSC in the matter of Zero Coupon Strip Bonds. The Commission agrees with the position taken by the OSC that in view of the accelerating pace of sales volumes, the developing secondary markets, and the unusual investment attributes of such instruments, the public interest requires some level of regulation of this market. As a result the Commission is issuing this policy statement which is to take effect immediately.

I. — Interpretation

For the purpose of this policy, the term "Strip Bonds" refers to:

- (i) actual individual interest coupons and bond residues arising from the physical separation of bonds issued or guaranteed by the Government of Canada or any province of Canada or any other political body referred to in sub-clause 19(2)(1)(a) of the Act; and
- (ii) deposit receipts or other certificates representing an interest in certain specific instruments of the type referred to in (i) above ("alter ego receipts"), or an undivided interest in a pool of such instruments ("non-alter ego receipts").

II. — Information Statement

The Commission is of the view that there are certain specific attributes of Strip Bonds which are unusual and may not be understood generally by the investing public. Of particular concern to the Commission are the generic attributes of Strip Bonds relating to:

- (i) the fluctuation in the value of Strip Bonds resulting from fluctuation in prevailing interest rates;
- (ii) the income tax consequences of investing and trading in Strip Bonds;
- (iii) the anticipated secondary market environment; and
- (iv) the custodial arrangements relating to Strip Bonds.

The Commission has determined that all purchasers must be informed of the foregoing investment attributes of Strip Bonds and anticipates that vendors and their agents will institute appropriate procedures to ensure that their sales agents are knowledgeable as to the investment attributes of Strip Bonds. To this end, all first-time purchasers must be provided with an

information statement which sets out, in form satisfactory to the Director of the Commission, the investment attributes of Strip Bonds, including, without limitation, the investment attributes referred to above.

III. — Vendors

The Commission considers that while Strip Bonds have certain unique attributes which the investing public may require some time to become familiar with, Strip Bonds are closely analogous to Government issued or guaranteed exempt securities which are traditionally sold by non-registrants as well as registrants. Accordingly, the Commission has determined that persons other than those registered as investment dealers or brokers who are members of The Winnipeg Stock Exchange but excluding those persons to whom the Commission's Local Policy 3.06 applies (i.e., restricted dealers) may distribute and trade Strip Bonds provided that an approved information document is given to first-time purchasers who acknowledge receipt of the same prior to the distribution or trade. Registered investment dealers and brokers may distribute and trade Strip Bonds provided that an approved information document is forwarded to first-time purchasers not later than with the confirmation of the trade. The Commission expects that in the course of discharging their obligations under the suitability rule, such registrants will take measures to inform purchaser of the contents of the information statement. Those persons who are registered, but are restricted registrants are required to comply with Local Policy 3.06 and the restrictions attached to their registrations.

IV. — Implementation of Policy

The Commission is of the opinion that the distribution and trading of non-alter ego receipts is not exempt from the registration and prospectus requirements by virtue of sub-clause 19(2)(1)(a) and clause 58(2)(a) of the Act. Furthermore there is some doubt as to whether those clauses apply to alter ego receipts. Accordingly, the Commission is issuing concurrently herewith an order under section 20 of the Act (attached as Appendix A) exempting from the registration and prospectus requirements of the Act trades and distributions of alter ego receipts and non-alter ego receipts made in compliance with this policy and the terms and conditions of the order.

The Commission recognizes that the distribution and trading of the actual individual interest coupons and bond residues arising from the physical separation of bonds issued or guaranteed by the Government of Canada or any province of Canada is exempt from the registration provisions of the Act by virtue of sub-clause 19(2)(1)(a) and clause 58(a) and that the effect of this policy is to restrict the availability of such exemption by imposing the requirement for an information statement. However, the Commission consider such action to be in the public interest and the Commission will, in the public interest, issue temporary cease trading orders against persons who distribute and trade Strip Bonds in contravention of the provisions of this policy and the section 20 order relating thereto immediately upon becoming aware of such distribution or trade. In the case of a temporary cease trade order being issued by the Commission notice of hearing will subsequently be given to the person(s) affected in compliance with the statutory provision.

Appendix A

Order No. 5297/2007, (Amended January 31, 2007)

(Section 20(1))

**AMENDED AND RESTATED
STRIP BONDS**

Whereas

(A) The Manitoba Securities Commission (the "Commission") has received application from several parties in relation to the sale and distribution of Strip Bonds in the Province of Manitoba, Strip Bonds being:

(i) actual individual interest coupons and bond residues arising from the physical separation of bonds issued or guaranteed by the Government of Canada or the government of a jurisdiction of Canada, or guaranteed by any municipal corporation in Canada, or secured by or payable out of rates or taxes levied under the law of a jurisdiction of Canada on property in the jurisdiction and to be collected by or through the municipality in which the property is situated; and

(ii) deposit receipts or other certificates representing an interest in certain specific instruments of the type referred to in (i) above, ("alter ego receipts"), or an undivided interest in a pool of such instruments ("non-alter ego receipts");

(B) It appears to the Commission that the exemptions in sub-clause 2.34(2) and 2.34(3) of National Instrument 45-106 *Prospectus and Registration Exemptions* do not, or may not, apply to the distribution and trading of alter ego receipts and non-alter ego receipts;

(C) The Commission has determined that it is in the public interest that the sale of Strip Bonds in Manitoba should be effected only where accompanied by adequate disclosure of the investment attributes of such securities as more particularly described in the Commission's Local Policy 3.17;

(D) In the opinion of the Commission it would not be prejudicial to the public interest to make this order.

IT IS ORDERED

1. THAT sections 6 and 37 of *The Securities Act*, R.S.M. 1988, c. S50 shall not apply to the distribution and trading of alter ego receipts and non-alter ego receipts referred to in paragraph (A) above, provided that an information document, satisfactory to the Director of the Commission, describing the investment attributes of Strip Bonds, including, without limitation, the fluctuations in value of Strip Bonds resulting from fluctuations in prevailing interest rates, the income tax consequences of investing and trading in Strip Bonds, the anticipated secondary market environment, and the custodial arrangements relating to such Strip Bonds, is furnished to, and its receipt is acknowledged by, each first-time purchaser prior to the trade where the vendor

is not registered as an investment dealer or broker under the Act, and concurrently with the delivery of confirmation of the trade to first-time purchasers where the vendor is registered as an investment dealer or broker under the Act.

2. THAT the fee payable upon the filing of the information document referred to in paragraph (1) above shall be the equivalent of a prospectus filing fee.