

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA,
ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO, QUÉBEC, NEW BRUNSWICK,
NOVA SCOTIA, PRINCE EDWARD ISLAND, NEWFOUNDLAND AND LABRADOR,
YUKON TERRITORY, NORTHWEST TERRITORIES AND NUNAVUT

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE
RELIEF APPLICATIONS

AND

IN THE MATTER OF RBC DOMINION SECURITIES INC.

AND

IN THE MATTER OF THE COUPONS AND RESIDUALS ("CARS"TM) AND PAR
ADJUSTED RATE STRIPSTM ("PARS"TM) PROGRAMME
OF RBC DOMINION SECURITIES INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Prince Edward Island, Nova Scotia, Newfoundland and Labrador, Yukon Territory, Northwest Territories and Nunavut (collectively, the "Jurisdictions") has received an application from RBC Dominion Securities Inc. (the "Filer") for a decision pursuant to the securities legislation of the Jurisdictions (the "Legislation") that the following requirements shall not apply, in respect of any Underlying Issuer (as defined below) whose Underlying Obligations (as defined below) are purchased by the Filer on the secondary market, and separate components of interest, principal or combined principal and interest components derived therefrom sold under the CARS and PARS Programme (as defined below):

- (a) Section 2.1 of National Instrument 44-102 *Shelf Distributions* ("NI 44-102") and section 2.1 of National Instrument 44-101 *Short Form Prospectus Distributions* ("NI 44-101") so that a preliminary short form prospectus which is a preliminary base shelf prospectus and a short form prospectus which is a base shelf prospectus together with the appropriate prospectus supplements (the "Prospectus") can be filed to offer the Strip Securities (as defined below) in the Jurisdictions
- (b) the requirements of the Legislation that the Prospectus contain a certificate of the issuer; and
- (c) the requirements of the Legislation that the Prospectus incorporate by reference documents of an Underlying Issuer.

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 *Definitions* or in Québec Commission Notice 14-101;

AND WHEREAS the Filer has represented to the Decision Makers that:

1. The Filer proposes to establish a new strip bond product programme (the "CARS and PARS Programme") to be offered by shelf prospectus;

2. The CARS and PARS Programme would be established by purchasing, on the secondary market, publicly-issued debt obligations of Canadian corporate and/or trust issuers ("Underlying Issuers"), which obligations will carry an "approved rating" (as such term is defined in NI 44-101 (the "Underlying Obligations"), at the time of the closing of the discrete offering in respect of the related strip securities (the "Offering Date"), and deriving separate components therefrom, being:

(a) separate components of principal ("Strip Residuals") and interest ("Strip Coupons"), and/or

(b) packages of strip securities ("Strip Packages"), including packages of:

(i) Strip Coupons; and

(ii) Par Adjusted Rate Strips("PARS"). PARS will comprise an entitlement to receive the principal amount of, and a portion, equal to a market rate (at the time of issuance of the PARS), of the interest payable under the Underlying Obligations,

The Strip Residuals, Strip Coupons and Strip Packages (including packages of Strip Coupons and PARS) are each referred to as "Strip Securities").

3. The relevant Underlying Issuer would, to the best of the Filer's knowledge, be eligible to file a short form prospectus under NI 44-101 at the Offering Date;

4. The Underlying Obligations will have been distributed under a prospectus for which a receipt was granted by the regulator in British Columbia, Alberta, Ontario, and Quebec;

5. A single short form base shelf prospectus would be established for the CARS and PARS Programme as a whole, with a separate series of Strip Securities being offered under a discrete prospectus supplement for each distinct series or class of Underlying Obligations;

6. It is expected that the Strip Securities will be predominantly sold to retail customers;

7. The CARS and PARS Programme is designed to provide a mechanism for retail investors to

participate in the secondary market for corporate debt. The PARS component of the CARS and PARS Programme is designed to make available a strip package that is priced at or about par by way of including an interest component reflective of a current market rate plus return of principal at maturity;

8. It is expected that the Filer would periodically identify, as demand indicated, series of outstanding debt obligations of Canadian corporations or trusts and would purchase and "repackage" individual series of these for sale under the CARS and PARS Programme as discrete series of Strip Securities. In purchasing the Underlying Obligations and creating the Strip Securities, the Filer will not enter into any agreement or other arrangements with the Underlying Issuers;

9. The Prospectus will refer purchasers of the Strip Securities to the System for Electronic Document Analysis and Retrieval ("SEDAR") website maintained by The Canadian Depository for Securities Limited ("CDS") (currently located at www.sedar.com) where they can obtain the continuous disclosure materials of the Underlying Issuer;

10. The Filer may, from time to time, form and manage a selling group consisting of other registered securities dealers to solicit purchases of and sell the Strip Securities to the public;

11. The Strip Securities will be sold in series, each such series relating to separate Underlying Obligations of an Underlying Issuer. The base shelf prospectus for use with the CARS and PARS Programme will describe the CARS and PARS Programme in detail. The shelf prospectus supplement for any series of Strip Securities that are offered will describe the specific terms of the Strip Securities;

12. Each series of Strip Securities will be derived from one or more Underlying Obligations of a single class or series of an Underlying Issuer. The Filer intends to separate the Underlying Obligations for each series into separate principal and interest components, or strip bonds. These components will, in connection with each series, be re-packaged if and as necessary to create the Strip Securities;

13. The Strip Residuals of a particular series will consist of the entitlement to receive payments of a portion of the principal amounts payable under the Underlying Obligations, if, as and when paid by the Underlying Issuer on the Underlying Obligations, in accordance with their respective terms;

14. The Strip Coupons of a particular series will consist of the entitlement to receive a payment of a portion of the interest payable under the Underlying Obligations, if, as and when paid by the Underlying Issuer on the Underlying Obligations, in accordance with their respective terms;

15. The Strip Packages will consist of the entitlement to receive (a) in the case of PARS, both payments of a portion of the principal amounts payable and periodic payments of a portion equal to a market rate (at the time of issuance of the PARS) of the interest payable under the Underlying Obligations, and/or (b) in the case of packages consisting of Strip Coupons, periodic payments of portions of the interest payable, or the principal amounts payable, under the

Underlying Obligations, in each case, if, as and when paid by the Underlying Issuer on the Underlying Obligations, in accordance with their respective terms;

16. Holders of a series of Strip Securities will be entitled to payments from cash flows from the related Underlying Obligations if, as and when made by the respective Underlying Issuer. The Strip Securities of one series will not be entitled to receive any payments from the cash flows of Underlying Obligations related to any other series. As the Underlying Issuers will be the sole obligors under the respective Underlying Obligations, holders of Strip Securities will be entirely dependent upon the Underlying Issuers' ability to perform their respective obligations under their respective Underlying Obligations;

17. The Strip Securities will be sold at prices determined by the Filer from time to time and, as such, these may vary as between purchasers of the same series and during the offering period of Strip Securities of the same series. In quoting a price for the Strip Securities, the Filer will advise the purchaser of the annual yield to maturity thereof based on such price;

18. The Underlying Issuers will not receive any proceeds, and the Filer will not be entitled to be paid any fee or commission by the Underlying Issuers, in respect of the sale by the Filer of the Strip Securities. The Filer's overall compensation will be increased or decreased by the amount by which the aggregate price paid for a series of the Strip Securities by purchasers exceeds or is less than the aggregate price paid by the Filer for the related Underlying Obligations;

19. The maturity dates of any particular series of Strip Coupons and the interest component of Strip Packages will be coincident with the interest payment dates for the Underlying Obligations, with terms of up to 30 years or longer. The maturity date of a particular series of Strip Residuals and the principal component of Strip Packages, if any, will be the maturity date of the Underlying Obligations for the series;

20. The Strip Securities will be issuable in Canadian and U.S. dollars and in such minimum denomination(s) and with such maturities as may be described in the applicable shelf prospectus supplement;

21. The Underlying Issuers will be Canadian corporations or trusts. The Underlying Obligations are securities of the Underlying Issuers. The Strip Securities will be derived without regard, except as to ratings and eligibility to file a short form prospectus under NI 44-101, for the value, price, performance, volatility, investment merit or creditworthiness of the Underlying Issuers historically or prospectively;

22. To be eligible for inclusion in the CARS and PARS Programme, the Underlying Obligations must have been qualified for distribution under a prospectus for which a receipt was issued by the regulators in British Columbia, Alberta, Ontario and Québec, at least six months must have passed from the date of closing of the original issue of the relevant class or series of Underlying Obligations and the distribution of the Underlying Obligations must be complete;

23. The Filer will cause all Underlying Obligations from which the Strip Securities will be derived and which are not already in the CDS system to be delivered to CDS and registered in

the name of CDS. The Underlying Obligations from which the Strip Securities will be derived will, except in very limited circumstances, be held by CDS until their maturity and will not otherwise be released or removed from the segregated account used by CDS to maintain the Underlying Obligations. A separate security identification number or ISIN will be assigned by CDS to each series of Strip Securities;

24. Pursuant to the operating rules and procedures of its Debt Clearing Service, or any successor operating rules and procedures, CDS will maintain book based records of ownership for the Strip Securities, entering in such records only in the names of participants ("Participants") in the depository system of CDS. No purchaser of Strip Securities will be entitled to any certificate or other instrument from the Underlying Issuer, the Filer or CDS evidencing the Strip Securities or the ownership thereof, and no purchaser of Strip Securities will be shown on the records maintained by CDS except through the book entry account of a Participant. Upon the purchase of Strip Securities, the purchaser will receive only the customary confirmation slip that will be sent to such purchaser by the Filer or other Participant;

25. Transfers of beneficial ownership in Strip Securities will be effected through records maintained for Strip Securities by CDS or its nominee (with respect to interests of Participants) and on the records of Participants (with respect to interests of persons other than Participants). Beneficial holders who are not Participants, but who desire to purchase, sell or otherwise transfer beneficial ownership of, or any other interest in, such Strip Securities of a series, would do so only through Participants;

26. Payments in respect of a principal component (if any), interest component(s) (if any), or other amounts (if any) owing under a series of Strip Securities will be made from payments received by CDS in respect of the related Underlying Obligations from the relevant Underlying Issuer. Amounts payable on the maturity of the Strip Securities will be payable by the Underlying Issuer to CDS as the registered holder of the Underlying Obligations. Following receipt thereof, CDS will pay to each of its Participants shown on its records as holding matured Strip Securities the amount to which such Participant is entitled. The Filer understands that each Participant who holds such Strip Securities on behalf of a purchaser thereof will pay or otherwise account to such purchaser for the amounts received by it in accordance with the instructions of the purchaser to such Participant. Holders of a series of Strip Securities will not have any entitlement to receive payments under any Underlying Obligations acquired in connection with the issue of any other series of Strip Securities;

27. As the registered holder of the Underlying Securities, CDS will receive any voting rights in respect of the Underlying Obligations for the Strip Securities. CDS will allocate these rights to the holders of the Strip Securities in accordance with the operating rules and procedures of its Debt Clearing Service, or any successor operating rules and procedures, in effect at the time. These procedures currently provide for the distribution of the voting rights based on the "proportionate economic interest", determined as described in the base shelf prospectus for use with the Programme CARS and PARS. Such voting rights will be vested on a series by series basis and the holders of one series of Strip Securities will not have any entitlements via-□is voting rights in respect of another series. In order for a holder of Strip Securities to have a legal right to attend a meeting of holders of Underlying Obligations, or to vote in person, such holder

of Strip Securities must be appointed as proxyholder for the purposes of the meeting by the CDS Participant through whom he or she holds Strip Securities;

28. In the event that an Underlying Issuer repays a callable Underlying Obligation prior to maturity in accordance with its terms, CDS will allocate the amount of proceeds it receives as the registered holder of the Underlying Obligations to the holders of the Strip Securities in accordance with the operating rules and procedures of its Debt Clearing Service, or any successor operating rules and procedures, in effect at the time. These procedures currently provide for the distribution of proceeds on the repayment of a callable Underlying Obligation based on the "proportionate economic interest"; and

29. Any other entitlements received by CDS with respect to the Underlying Obligations upon the occurrence of an event other than in respect of maturity, including entitlements on the insolvency or winding-up of an Underlying Issuer, the non-payment of interest or principal when due, or a default of the Underlying Issuer under any trust indenture or other agreement governing the Underlying Obligations, will be processed by CDS in accordance with the operating rules and procedures of its Debt Clearing Service, or any successor operating rules and procedures, in effect at the time. These procedures also currently provide for CDS to distribute the resulting cash and/or securities to the holders of the Strip Securities based on "proportionate economic interest". In addition, if the Underlying Issuer offers an option to CDS as the registered holder of the Underlying Obligations in connection with the event, the Filer understands that CDS will attempt to offer the same option to the holders of the Strip Securities, where feasible.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers under the Legislation is that in respect of the CARS and PARS Programme:

1. An exemption is granted from section 2.1 of NI 44-102 and section 2.1 of NI 44-101 to permit a preliminary short form prospectus which is a preliminary base shelf prospectus and a short form prospectus which is a base shelf prospectus for the Strip Securities to be filed and receipts issued therefor;
2. The requirements in the Legislation that the Prospectus contain a certificate of the issuer shall not apply; and
3. The requirement in the Legislation that the Prospectus incorporate by reference any document of an Underlying Issuer shall not apply ;

provided that:

A. The Underlying Obligations were qualified for distribution under a prospectus for which a receipt was issued by the regulators in British Columbia, Alberta, Ontario and Quebec, at least six months have passed from the date of closing of the original issue of the relevant class or series of Underlying Obligations and the distribution of the Underlying Obligations is complete;

B. To the best of the Filer's knowledge the relevant Underlying Issuer is eligible to file a short form prospectus under NI 44-101 at the Offering Date;

C. A receipt issued for a base shelf prospectus in reliance on this Decision Document is not effective after the date 25 months from the date of its issue;

D. The offering and sale of the Strip Securities complies with all the requirements of NI 44-102 and NI 44-101 as varied by NI 44-102, other than those from which an exemption is granted by this Decision Document or from which an exemption is granted in accordance with Part 11 of NI 44-102 by the securities regulatory authority or regulator in each of the Jurisdictions as evidenced by a receipt for the Prospectus;

E. The Filer issues a press release and files a material change report in respect of:

(i) a material change to the CARS and PARS Programme which affects any of the Strip Securities other than a change which is a material change to an Underlying Issuer; and

(ii) a change in the operating rules and procedures of Debt Clearing Service of CDS which may have a significant effect on a holder of Strip Securities.

F. The Filer files the Prospectus, the material change reports referred to above, and all documents related thereto on SEDAR under a SEDAR profile for the Strip Securities and pays all filing fees applicable to such filings.

DATED October 31, 2002.

Margo Paul
Manager, Corporate Finance

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - offering of corporate strip bonds; exemption granted from the eligibility requirements of National Instrument 44-102 *Shelf Distributions* and National Instrument 44-101 *Short Form Prospectus Distributions* to permit the filing of a shelf prospectus and prospectus supplements (the "Prospectus") qualifying for distribution strip residuals, strip coupons and strip packages (the "Strip Securities") to be derived from debt obligations ("Underlying Obligations") of Canadian corporations and trusts; exemption also granted from the requirements that the Prospectus contain a certificate of the issuer and that the Prospectus incorporate by reference documents of the Underlying Issuer.

The exemptions are subject to the following conditions (i) all of the Underlying Obligations from which the Strip Securities are derived were qualified under prospectuses filed in British Columbia, Alberta, Ontario, Quebec, at least six months have passed from the sale of the Underlying Obligations and the distribution of the Underlying Obligations is complete; (ii) when the Strip Securities are sold the Underlying Issuer is eligible to file a short form prospectus; (iii) a base shelf prospectus for the Strip Securities is not effective for more than 25 months; (iv) the Prospectus complies with all the requirements of NI 44-101 and NI 44-102 except those from which an exemption is granted by the decision document or granted by the regulators as evidenced by the receipt for the Prospectus; (v) the Filer issues a press release and files a material change report for each material change which affects the Strip Securities but not an Underlying Issuer and any change in CDS's Debt Clearing Procedures which may have a significant effect on a holder of Strip Securities; and (vi) the Filer files the Prospectus, the required material change reports and all other documents related thereto to on SEDAR under a SEDAR profile for the Strip Securities and pays all SEDAR filing fees.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c.s S.5, as am., subsection 58(1)

Applicable National Instruments

National Instrument 44-101 *Short Form Prospectus Distributions*

National Instrument 44-102 *Shelf Distributions*