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Headnote

Mutual Reliance Review System for Exemptive Relief Applications – relief granted from the substantial securityholder prohibition against a person who has information concerning the investment program of a mutual fund using that information to purchase or sell securities for the person's benefit.

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 120(1), 120(2), 121(2)(a), 128, and 130

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, ONTARIO, NOVA SCOTIA, AND NEWFOUNDLAND AND LABRADOR

AND

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

AND

IN THE MATTER OF COASTAL INCOME CORP.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Ontario, Nova Scotia and Newfoundland and Labrador (the "Jurisdictions") has received an application from Coastal Income Corp. (the "Company") for a decision under the securities legislation (the "Legislation") of the Jurisdictions that:

- (i) the requirements that a mutual fund shall not knowingly make or hold an investment in a person or company who is a substantial security holder of the mutual fund, its management company or distribution company (the "Conflict of Interest Provision") shall not apply to the Company; and
- (ii) the prohibitions contained therein prohibiting trading in portfolio shares by persons or companies having information concerning the investment programs of mutual funds (the "Insider Trading Prohibitions") shall not apply to Coastal Investments Inc. and The Coastal Fund LP (collectively, "Coastal") in connection with the purchase of the Initial Portfolio and Market Purchases and Market Sales (each as hereinafter defined);

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

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

1. The Company was incorporated under the laws of Canada on April 23, 2002. The primary undertaking of the Company will be to invest in a portfolio of securities (the "Portfolio") principally consisting of listed preferred shares diversified by issuer, industry and payment type (the "Portfolio Shares"). The Portfolio Shares and any cash held by the Company from time to time will be the only material assets of the Company.
2. The Company is considered to be a mutual fund as defined in the Legislation. However, since the Company will not operate as a conventional mutual fund, it has made application for a waiver from certain requirements of National Instrument 81-102.
3. The Company has a board of directors (the "Board") consisting of three directors. One of such directors is a director and/or officer of Coastal while the remaining two directors are independent of Coastal (the "Independent Directors").
4. All of the officers of the Company are directors and/or officers of Coastal.
5. The purpose of the Company is to provide a vehicle through which different investment objectives with respect to participation in the Portfolio Shares may be satisfied. This is to be accomplished through the issuance of Capital Shares and Senior Preferred Shares of the Company.
6. The Senior Preferred Shares will be offered to the public pursuant to a prospectus (the "Offering"). For this purpose, the Company has filed the Preliminary Prospectus with the securities regulatory authorities of each Province of Canada.
7. Concurrently with the Offering of Senior Preferred Shares, the Company will issue, on an exempt basis, one Capital Share for each Senior Preferred Share sold. The Capital Shares will have an approximate value per share at the time of issue equal to the value of the Portfolio Shares, less the proceeds of the Senior Preferred Share Offering, divided by the number of Capital Shares to be issued.
8. The Company will invest in Portfolio Shares which will be actively managed in order to generate fixed cumulative preferential dividends for the holders of the

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Senior Preferred Shares and to enable the holders of the Capital Shares to participate in any remaining dividends and any capital appreciation in the Portfolio Shares.

9. An application has been made to have the Senior Preferred Shares listed and traded on the Toronto Stock Exchange (the "TSX") for which a conditional listing approval has been granted by the TSX on May 23, 2003.

10. Coastal Investments Inc. ("Coastal Investments"), a private investment holding company, is the promoter of the Company and is the general partner of The Coastal Fund LP ("Coastal Fund").

11. Pursuant to an administration agreement to be entered into between the Company and Coastal Investments, the latter will be retained to administer the ongoing operations of the Company (other than investment management activities). Coastal Investments will be paid an annual fee equal to 0.01% of the Net Asset Value of the Portfolio in connection with the services provided by it.

12. The net proceeds from the Offering of the Senior Preferred Shares (after deducting the Agents' fees and expenses of the issue) will be used by the Company, together with the proceeds from the exempt distribution of Capital Shares, to fund the purchase of Portfolio Shares to be held by the Company.

13. Pursuant to an agreement (the "Purchase Agreement") to be made between the Company and Coastal Fund, the Company will agree to purchase, on the closing of the Offering, and Coastal Fund will agree to sell the initial portfolio (the "Initial Portfolio") of Portfolio Shares described in the Preliminary Prospectus. The price to be paid by the Company to the Coastal Fund for the Portfolio Shares representing the Initial Portfolio will not be greater than the aggregate of the closing prices of such shares on the TSX on the business day prior to the date of the (final) prospectus (the "Prospectus") for the Offering and where any such shares have not traded on that date, the average of the "bid" and "ask" prices for such shares on the TSX on such date. The acquisition of the Initial Portfolio and the terms thereof will be approved by the Independent Directors.

14. The Initial Portfolio will be purchased for cash, to be funded from the proceeds of the Senior Preferred Share Offering and the exempt distribution of Capital Shares. Entering into the Purchase Agreement in advance of the closing of the Offering will permit the Company and the Agents to fix the price of the Initial Portfolio at the time of the pricing of the Offering and provide certainty that the Company will be able to purchase sufficient Portfolio Shares at closing to complete the transaction.

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15. The Initial Portfolio will include preferred shares of the Canadian Imperial Bank of Commerce and the Royal Bank of Canada. CIBC World Markets Inc. and RBC Dominion Securities Inc. are two of the distribution companies for this Offering allocated approximately 14.4% of the distribution each. Scotia Capital Inc. will be allocated 40% of the distribution, with TD Securities Inc., Dundee Securities Corporation and Thomson Kernaghan & Co Ltd. responsible for the remainder.

16. None of the Portfolio Shares to be sold by Coastal as principal to the Company have been acquired while Coastal had access to information concerning the investment program of the Company.

17. The Company is not, and will not after its acquisition of Portfolio Shares be, an insider of any of the issuers of Portfolio Shares representing the Initial Portfolio.

18. The acquisition of the Initial Portfolio represents the business judgment of the Company's Board, uninfluenced by considerations other than the best interest of the Company. The composition of the Portfolio will vary, from time to time, based upon management's assessment of market conditions.

19. In the absence of the relief granted by this Decision (as hereinafter defined), the Conflict of Interest Provision would prohibit the Company from purchasing preferred shares of any bank that is affiliated with an agent of the Offering.

20. In its investment activities following the acquisition of the Initial Portfolio, the Company is subject to the following investment restrictions:

- (a) any such investment activity must not cause a downgrade in the then current rating of the Senior Preferred Shares;
- (b) any such investment activity must not result in the weighted average rating of the Portfolio, after giving effect to such investment activity, being less than the lesser of: (i) the weighted average rating of the Portfolio immediately prior to such investment activity; and (ii) the weighted average rating of Pfd-3 (low) (or equivalent);
- (c) each of the Portfolio Shares acquired must be (i) a preferred share (or equivalent) that is current on all payments due to the holder thereof, (ii) rated by at least one major rating agency, (iii) listed for trading on a recognized exchange, and (iv) considered "Canadian content" for the purpose of the *Income Tax Act* (Canada);

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- (d) after giving effect to any such investment activity, the dividend coverage on the Senior Preferred Shares must be at least equal to the lesser of: (i) the dividend coverage immediately prior to such investment; and (ii) 1.25 times;
- (e) after giving effect to any such investment activity, no more than 10% of the total assets of the Company will be invested in securities of a single issuer;
- (f) after giving effect to any such investment activity, no more than 40% of the total assets of the Company will be invested in securities of issuers involved in the same industry (as determined by the Board of Directors of the Company); and
- (g) after giving effect to any such investment activity, no less than 35% of the total assets of the Company will be invested in fixed rate preferred shares (or equivalent).

21. The Company will only buy and sell Portfolio Shares through a recognized exchange through an investment dealer or broker.

22. It will be disclosed in the Prospectus that The Coastal Fund may buy or sell for its own account preferred shares that may be included in the Portfolio held by the Company through the facilities of a recognized stock exchange. If the Company is buying or selling ("Market Purchases" or "Market Sales") preferred shares at the same time, the Coastal Fund may unknowingly be trading with the Company but such trades will be at market prices through the facilities of a recognized stock exchange.

23. Coastal and the Company will comply with applicable securities legislation and in accordance with orders obtained from all applicable securities regulatory authorities. The Prospectus will disclose that Coastal may realize a gain or loss on the resale of securities acquired from the Company.

24. The Prospectus will disclose that the Company will require any investment dealer engaged by it to undertake any investment activities to take reasonable steps, such as soliciting bids from other market participants or such other steps as such investment dealer, in its discretion, considers appropriate after taking into account prevailing market conditions and other relevant factors, to enable the Company to obtain the best price reasonably available for the Portfolio Shares so long as the price obtained (net of all transaction costs, if any) by the Company is at least as advantageous to the Company as the price which is available (net of all

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transaction costs, if any) through the facilities of the applicable stock exchange at the time of the trade.

25. Coastal will not receive any commissions from the Company in connection with any trade of Portfolio Shares and, in carrying out any such trade, Coastal shall deal fairly, honestly and in good faith with the Company.

26. The Company's Prospectus will disclose:

- (a) the price to be paid for the Initial Portfolio,
- (b) the fact that the Independent Directors of the Company have determined that the price to be paid for each class of Portfolio Shares in the Initial Portfolio is fair to the Company,
- (c) the general factors, and those facts that are specifically relevant to each Portfolio Share, that were considered by the Independent Directors of the Company in determining that the price to be paid for each Portfolio Share in the Initial Portfolio is fair to the Company,
- (d) information concerning the trading history of the Portfolio Shares,
- (e) information concerning the current credit rating and dividend history of the Portfolio Shares in the Initial Portfolio, and
- (f) details of Coastal's relationship with and economic interest in the Company.

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 pursuant to the Legislation is that:

- A. The Conflict of Interest Provision shall not apply to the Company in connection with the purchase of the Initial Portfolio; and
- B. The Insider Trading Prohibitions shall not apply to Coastal in connection with the purchase of the Initial Portfolio and Market Purchases and Market Sales herein described;

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provided that:

- (a) the Company's Prospectus contains the disclosure referred to in paragraph 24 above;
- (b) the price payable to the Company for any Market Sales to the Coastal Fund is not less than the bid price as reported on the applicable stock exchange; and
- (c) the price payable by the Company for any Market Purchases from the Coastal Fund is not more than the ask price as reported on the applicable stock exchange.

DATED this 18th day of June, 2002.

Paul M. Moore

K. D. Adams