

Citation: 2014 BCSECCOM 334

Headnote

National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions – Securities Act s. 76 – Prospectus Requirements – An applicant seeks approval of a form of strip bond information statement for the purposes of BC Instrument 91-504 *Government Strip Bonds – The form of strip bond information statement has been updated and will be made available to market participants; the form describes the investment attributes of government strip bonds and the executive director has approved the form**

Applicable Legislative Provisions

Securities Act, R.S.B.C. 1996, c. 418, s. 76
BC Instrument 91-504, s. 3

June 4, 2014

In the Matter of
the Securities Legislation of
Alberta, British Columbia, Manitoba, Newfoundland and Labrador,
Nova Scotia, Ontario, and Saskatchewan
(the Jurisdictions)

and

In the Matter of
the Process for Exemptive Relief Applications in Multiple Jurisdictions

and

In the Matter of
the Investment Industry Regulatory Organization of Canada
(the Filer)

and

A Strip Bond Information Statement

Decision

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the Decision Maker) has received an application (the Application) from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) that each Decision Maker approves, accepts or finds satisfactory the form of information statement (the Revised Strip Bond Information Statement) submitted with the Application, and attached as Schedule A (the Information Statement Approval).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a coordinated review application):

- (a) the Ontario Securities Commission is the principal regulator for this application; and
- (b) the decision is the decision of the principal regulator and evidences the decision of each other Decision Maker.

Interpretation

Terms defined in National instrument 14-101 *Definitions* have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. The Filer's mandate is to set and enforce high-quality regulatory and investment industry standards, protect investors and strengthen market integrity while maintaining efficient and competitive capital markets.
2. The Filer's head office is in Toronto, Ontario.
3. The Filer is not in default of securities legislation in any jurisdiction.
4. The Legislation contains exemptions from dealer registration and prospectus requirements for strip securities (strip bonds) that are based on bonds of the Government of Canada, a Canadian province, or certain foreign governments or political subdivisions thereof. These exemptions require that first-time purchasers be provided with an information statement or similar document that is, depending on the Jurisdiction, approved by, accepted by or satisfactory to the Decision Makers (the Information Statement Delivery Requirements).
5. The Filer has prepared the Revised Strip Bond Information Statement and is seeking the Information Statement Approval so that the Revised Strip Bond Information Statement may be used by investment dealers who are regulated by the Filer (Dealer Members) to satisfy the Information Statement Delivery Requirements.
6. Other market participants may also use the Revised Strip Bond Information Statement to satisfy the Information Statement Delivery Requirements, and the Filer does not object to such use.
7. In the Filer's view, having the Filer prepare the Revised Strip Bond Information Statement and obtain the Information Statement Approval is consistent with the Filer's mandate because it permits the provision by Dealer Members of a standardized and accurate information statement that complies with the Information Statement Delivery Requirements and promotes investor protection.

8. The Information Statement Delivery Requirements are contained in:
 - (a) requirements in the Legislation that must be satisfied in order for a person or company to be able to rely upon an exemption from the dealer registration requirement or the prospectus requirement for trading in strip bonds; or
 - (b) requirements in the Legislation applicable to trading by registrants in strip bonds.
9. As required by the Information Statement Delivery Requirements, the Revised Strip Bond Information Statement describes the investment attributes of strip bonds and clearly describes:
 - (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 includes 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.
10. The Revised Strip Bond Information Statement is substantively similar to an earlier information statement dated June 2003 (the Previous Strip Bond Information Statement), which was submitted by the Filer's predecessor, the Investment Dealers Association, to the Decision Makers and, depending upon the Jurisdiction, approved or accepted by, or determined to be satisfactory to, the Decision Makers in Alberta, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, Quebec and Saskatchewan on or around July 28, 2003.
11. The Decision Maker in British Columbia approved the Previous Strip Bond Information Statement on July 31, 2003.

12. The Revised Strip Bond Information Statement differs from the Previous Strip Bond Information Statement in the following respects:

- (a) the table in the Previous Strip Bond Information Statement illustrating the after-commission yield to a strip bond holder with different terms to maturity has been simplified to assume a before-commission yield of 5.5%;
- (b) the tax tables and formulas provided in the Previous Strip Bond Information Statement describing the income tax treatment of strip bonds have been removed to avoid any inconsistencies with official tax guidance issued by the Canada Revenue Agency (the CRA);
- (c) the section in the Previous Strip Bond Information Statement discussing the tax treatment of strip bond packages has been modified to reflect guidance received by the Filer indicating that the CRA may accept alternative tax reporting methods in cases where the strip bond package is issued at or near par and is kept intact; and
- (d) the Revised Strip Bond Information Statement incorporates certain other minor drafting changes of a non-substantive nature to simplify and clarify for average retail investors the essential features and the general risks and tax considerations associated with investing in strip bonds and strip bond packages.

13. Following the issuance of this decision, the Filer will announce a date after which it will encourage its Dealer Members to use the Revised Strip Bond Information Statement instead of the Previous Strip Bond Information Statement in order to comply with applicable Information Statement Delivery Requirements.

Decision

Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Information Statement Approval is granted.

Jo-Anne Matear
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