

NOVA SCOTIA SECURITIES COMMISSION

LOCAL POLICY

1.2 - STRIP BONDS

**1. Introduction**

Investment instruments commonly known as "Strip Bonds" arise from the physical separation of individual interest coupons from underlying bond residues. The market for such instruments is primarily limited to coupons and residues derived from federal and provincial government bonds. The Commission has determined that some level of regulation of this market is required.

**II. Interpretation**

For the purposes 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 foreign country or political subdivision thereof; 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").

**III. 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 fluctuations 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 Registrar of Securities, the investment attributes of Strip Bonds, including, without limitation, the investment attributes referred to above.

#### **IV. Vendors**

The Commission considers that while Strip Bonds have certain unique attributes, 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 dealers in the category of investment dealer, broker or securities dealer 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, brokers and securities dealers may distribute and trade Strip Bonds provided that an approved information document is forwarded to first-time purchasers not later than the time of sending or delivering 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 purchasers of the contents of the information statement.

#### **V. Section 59 Ruling**

The Commission has issued a ruling under Section 59 of the Securities Act (the "Act") (attached as Appendix A) exempting from the registration and prospectus requirements of the Act trades and distributions of Strip Bonds made in compliance with this Policy, and will consider denying the registration exemption contained in paragraph 21(2)(a)(i) and the prospectus exemption contained in clause 58(1)(a) in connection with any trade of Strip Bonds made after February 1, 1987 and not in compliance with this Policy.

Blanket Order No. 3

APPENDIX A

IN THE MATTER OF THE SECURITIES ACT,  
S.N.S. 1984, CHAPTER 11, as amended

AND

IN THE MATTER OF ZERO COUPON STRIP BONDS

**RULING**  
(Section 59)

UPON the application of the Registrar of Securities (the "Registrar") to the Nova Scotia Securities Commission (the "Commission") pursuant to section 59(1) of the Securities Act, S.N.S. 1984, c. 11, as amended, (the "Act");

AND UPON it being recognized by the Commission that there are being sold in Nova Scotia certain bonds, debentures and other evidences of indebtedness referred to in section 21(2)(a)(i) of the Act where the purchaser's sole entitlement is to receive a fixed amount of money at a specific future date, and certificates or receipts representing the same (collectively "Strip Bonds"), such Strip Bonds generally being derived from the physical separation of individual interest coupons from the underlying bond residue;

AND UPON the Commission having determined that it is in the public interest that the sale of Strip Bonds in Nova Scotia should be effected only where accompanied by adequate disclosure of the investment attributes of such securities;

AND UPON being satisfied that the following ruling would not be prejudicial to the public interest;

AND THEREFORE IT IS RULED THAT a trade of Strip Bonds is not subject to section 11 of the Act and a distribution of Strip Bonds is not subject to section 38 of the Act, provided that an information document satisfactory to the Registrar 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, a first-time purchaser prior to the trade where the vendor is not registered in the category of investment dealer, broker or securities dealer under the Act, and

prior to or concurrently with the sending or delivery of confirmation of the trade to first-time purchasers where the vendor is registered in the category of investment dealer, broker or securities dealer under the Act.

Dated at Halifax, Nova Scotia, the 13th day of January, 1988, effective the 11th day of January, 1988.

Robert B. MacLellan

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