

Saskatchewan Local Policy Statement 1.2

Strip Bonds

Part 1 Introduction

The Commission has monitored the growth in sales in Saskatchewan of investment instruments commonly known as "Strip Bonds" that arise from the physical separation of individual interest coupons from underlying bond residues. In Saskatchewan the market for such instruments has to date been restricted to coupons and residues derived from federal and provincial government bonds and has for the most part involved institutional and tax exempt purchasers. In view of the accelerated pace of sales volumes, the developing secondary markets and the unusual investment attributes of such investments, the Commission has determined that some level of regulation of this market is required.

Part 2 Application

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

- 2.1 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 foreign country or political subdivision thereof; and
- 2.2 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").

Part 3 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 and by the investing public. Of particular concern to the Commission are the generic attributes of Strip Bonds relating to:

- 3.1 The fluctuation in the value of Strip Bonds resulting from fluctuations in prevailing interest rates;
- 3.2 The income tax consequences of investing and trading in Strip Bonds;
- 3.3 The anticipated secondary market environment; and
- 3.4 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 Commission, the investment attributes of Strip Bonds, including, without limitation, the investment attributes referred to above.

Part 4 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 dealers in the categories of investment dealer and broker 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 purchasers of the contents of the information statement.

Part 5 Section 83 Ruling

The Commission issued a general order under S.21 of *The Securities Act, R.S.S. 1978, c. S-42* date February 27, 1985 which has been amended under S.83 of *The Securities Act, 1988* (the "Act") on November 7, 1988 (see General Ruling/Order 91-801) exempting from the registration and prospectus requirements of the Act trades and distributions of Strip Bonds made in compliance with this policy, and will deny the registration exemption contained in paragraph 39(2)(a)(i) of the Act and the prospectus exemption contained in clause 82(1)(a) of the Act in connection with any trade of Strip Bonds made after the effective date hereof and not in compliance with this policy.

Adopted by the Commission

Effective February 27, 1985

Amended Effective November 7, 1988

"*Marcel de la Gorgendière*"

Marcel de la Gorgendière, Q.C.

Vice-Chairman