

Ontario Securities Commission

Rule 91-501

Unofficial consolidation current to 2015-05-05.

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Any forms referenced in this document are available separately on the Ontario Securities Commission website.

**OSC RULE 91-501
STRIP BONDS**

Contents

Part 1 Definitions and Interpretation

Definitions
Interpretation

Part 2 Registration and Prospectus Exemptions

Removal of Exemptions
Registration Exemption
Prospectus Exemption

Part 3 Delivery Obligation

Delivery Obligation

Part 4 Strip Bond Information Statement

Contents of Strip Bond Information Statement
Acceptance of Strip Bond Information Statement
Revocation of Acceptance

Part 5 Exemption

Exemption

Part 6 Effective Date

PART 1 DEFINITIONS AND INTERPRETATION

Definitions

1.1 In this Rule

"qualified market intermediary" means, for a trade of a strip bond, a market intermediary that, absent this Rule, would be permitted under Ontario securities legislation to make the trade if the strip bond is a security described in paragraphs 2.34(2)(a) or (b) of National Instrument 45-106 *Prospectus Exemptions*;

"specified purchaser" means, at any specific time, a purchaser of a strip bond to whom a copy of a then-current strip bond information statement has not been delivered;

"specified strip bond" means a strip bond other than a debt security issued by or guaranteed by the Government of Canada or the government of a province or territory of Canada;

"strip bond" means

- (a) an interest in an amount of principal or interest payable under an underlying bond, or in a pool of amounts of principal or interest payable under one or more underlying bonds, in either case in which the sole entitlement of the holder of the interest is to receive, at a specific future date, a sum certain in money that is fixed at the date of issue of the interest,
- (b) a security that consists of at least two or more of the interests referred to in paragraph (a) and that is not an underlying bond, or
- (c) a certificate or receipt representing an interest referred to in paragraph (a) or security referred to in paragraph (b);

"strip bond information statement" means an information statement that

- (a) has been accepted by the Director, if that acceptance has not been revoked,
- (b) contains the information referred to in section 4.1, and
- (c) does not, in a material respect, contain any information that is misleading or untrue or omit to include any information that is necessary to make other information in the information statement not misleading in the light of the circumstances in which it is made; and

"underlying bond" means a bond, debenture or other evidence of indebtedness of or guaranteed by the Government of Canada or any province or territory of Canada or by any foreign country or any political division of a foreign country.

Interpretation

1.2 (1) For the purpose of the definition of "specified purchaser", a purchaser of a strip bond includes a beneficiary of a defined contribution pension plan for whose benefit a strip bond is purchased, and who made the investment decision to purchase the strip bond.

(2) References in this Rule to "entering into an agreement of purchase and sale with a specified purchaser", or words to like effect, shall be read with reference to a purchaser referred

to in subsection (1) to refer to entering into an agreement of purchase and sale with the defined contribution pension plan of which the purchaser is a beneficiary.

PART 2 REGISTRATION AND PROSPECTUS EXEMPTIONS

Removal of Exemptions

2.1 (1) The exemptions from the dealer registration requirement contained in paragraph 8.20(2)(b) [*Specified debt*] of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* and paragraph 3.34(2)(b) [*Specified debt*] of National Instrument 45-106 *Prospectus Exemptions* are not available for a trade in a specified strip bond.

(2) The exemption from the prospectus requirement contained in paragraph 2.34(2)(b) [*Specified debt*] of National Instrument 45-106 *Prospectus Exemptions* is not available for a distribution of a specified strip bond.

Registration Exemption

2.2 The registration requirement does not apply to a trade in a specified strip bond made by

- (a) a person or company that is not a market intermediary;
- (b) a qualified market intermediary to a person or company that is not a specified purchaser; or
- (c) a qualified market intermediary to a specified purchaser if the qualified market intermediary delivers a strip bond information statement to the specified purchaser before the specified purchaser enters into an agreement of purchase and sale relating to the trade.

Prospectus Exemption

2.3 The prospectus requirement does not apply to a distribution

- (a) of a type referred to in section 2.2;
- (b) by a qualified market intermediary to a person or company that is not a specified purchaser; or
- (c) by a registrant in accordance with section 3.1.

**PART 3
DELIVERY OBLIGATION**

Delivery Obligation

3.1 Every registrant, before entering into an agreement of purchase and sale relating to a trade in a strip bond with a specified purchaser, shall deliver a strip bond information statement to the specified purchaser.

**PART 4
STRIP BOND INFORMATION STATEMENT**

Contents of Strip Bond Information Statement

- 4.1** A strip bond information statement shall clearly describe
- (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 shall include 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.

Acceptance of Strip Bond Information Statement

4.2 (1) The Director shall accept a proposed strip bond information statement if the strip bond information statement complies with section 4.1.

(2) The Director shall not refuse to accept a strip bond information statement without giving the person or company who submitted the strip bond information statement for acceptance an opportunity to be heard.

(3) The person or company that submits a proposed strip bond information statement to the Director for acceptance shall file the strip bond information statement within seven days after its acceptance.

Revocation of Acceptance

4.3 (1) The Director may revoke an acceptance of a strip bond information statement if the strip bond information statement does not comply with section 4.1.

(2) The Director shall not revoke an acceptance of a strip bond information statement without giving the person or company who filed the strip bond information statement an opportunity to be heard.

PART 5 EXEMPTION

Exemption

5.1 The Director may grant an exemption to this Rule, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

PART 6 EFFECTIVE DATE

[Note: This unofficial consolidation does not include PART 6, which contains the original historical coming-into-force provision for this Rule.]