

December 12, 2007

Via Courier and e-mail

Department of Finance
140 O'Connor Street
Ottawa, Ontario
K1A 0G5

Attention: Timothy C. Sargent, Director, Financial Institutions Division

Dear Mr. Sargent:

Subject: Principal Protected Notes - Regulations Published November 24, 2007 in Canada Gazette Part 1

I am writing on behalf of staff of the Canadian Securities Administrators (CSA) PPN Committee. As you know, the Committee has been considering investor protection issues relating to how PPNs are being issued and sold to the public.

We would like to thank you for the opportunity to have consulted with Department of Finance staff on this matter. We have reviewed the recently published Regulations and are of the view that they will substantially enhance the current disclosure regime governing PPNs issued by federally regulated deposit-taking institutions.

We have the following comments on the proposed Regulations:

Section 12 – “knock-out events”

We consider it important for issuers of PPNs to provide timely disclosure to investors regarding material changes to their PPNs, such as the occurrence of an event where (perhaps very early in the term of the note) a PPN will no longer have exposure to its reference investment, resulting in the repayment of only the principal amount upon maturity of the PPN (sometimes referred to as a "knock-out event"). We note that section 12 of the Regulations requires an institution to provide prompt disclosure of the fact that an index or reference point that was to be used for determining the interest payable under the PPN "can no longer be used for that determination". It is not, however, clear whether the occurrence of a "knock-out event" would constitute an event where the index or reference point "can no longer be used" for determining the interest payable under the PPN. Accordingly, we recommend that the Regulations be clarified to require prompt disclosure upon the occurrence of a "knock-out event". This disclosure would alert investors that from the date of the knock-out event going forward, the performance of their PPN will not be tied to the performance of the underlying index or reference point, i.e., that investors can expect only the return of their principal investment at maturity. In our view this information would be material to an investor's decision to continue to hold the PPN and should be disclosed to an investor without delay.

Compliance

Where PPNs are sold on the basis that they are bank “deposits” (that are not also “securities”) it follows that they will be sold on the corresponding assumption that they are not governed by the statutory civil liability provisions in provincial and territorial securities legislation – and without the resulting market discipline on the quality of disclosure. This, in our view, heightens the importance of ensuring strict compliance with the Regulations. We would be pleased to continue our consultation with you about your approach to monitoring and enforcing compliance with the Regulations with the goal of ensuring that investors who are sold these complex products are able to make informed investment decisions.

We thank you again for the opportunity to comment.

Yours very truly,

“Erez Blumberger”

Erez Blumberger
Chair, CSA PPN Committee

cc: James Turner, Vice-Chair, Ontario Securities Commission

CSA Policy Coordination Committee:

David Wilson, Chair, Ontario Securities Commission
Douglas M. Hyndman, Chair, British Columbia Securities Commission
William S. Rice, Chair, Alberta Securities Commission
Donald G. Murray, Chair, Manitoba Securities Commission
Jean St-Gelais, President and CEO, L’Autorité des marchés financiers du Québec
H. Leslie O’Brien, Chair, Nova Scotia Securities Commission
David Wild, Chair, Saskatchewan Financial Services Commission
Donne W. Smith, Chair and CEO, New Brunswick Securities Commission