

IIROC NOTICE

Rules Notice Technical

Dealer Member Rules

Please distribute internally to:

Corporate Finance
Credit
Legal and Compliance
Operations
Retail
Senior Management

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Revised Strip Bond Information Statement

The Investment Industry Regulatory Organization of Canada (“IIROC”) has recently received approval from the applicable Canadian Securities Administrators (“CSA”) jurisdictions for a revised strip bond information statement (the “Information Statement”) that IIROC Dealer Members may use to comply with applicable provincial securities regulations.¹ The joint decision approving the revised Information Statement (the “Joint Decision”) is available [here](#).

¹ Pursuant to regulations that apply in seven of the CSA jurisdictions—namely, Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, and Saskatchewan—an investor must be provided with a strip bond information statement, which must contain certain specified disclosures about the characteristics and risks of strip bonds, before or at the time when the investor first purchases a strip bond, and the statement must be approved by the appropriate decision-maker within each jurisdiction. See Alberta Securities Commission Rule 91-504; BCSC Instrument 91-504; Manitoba Securities Commission Local Policy 3.17; *Securities Act* (Newfoundland & Labrador), s. 75(1), as interpreted in Blanket Order No. 33; Nova Scotia Securities Commission Local Policy 1.2; OSC Rule 91-501; Saskatchewan Securities Commission General Ruling/Order 91-906. Market participants other than IIROC Dealer Members may also use the revised Information Statement to satisfy obligations they have to deliver a strip bond information statement under the aforementioned regulations, and IIROC does not object to such use.



The Information Statement was last updated in 2003.² Since that time, certain information set forth in the Information Statement regarding Canadian federal tax treatment of strip bonds became outdated due to interpretive guidance issued by the Canadian Revenue Agency (the “CRA”) indicating that the CRA may accept alternative tax reporting methods in cases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. As a result, IIROC determined that the Information Statement should be revised to reflect this guidance, since federal tax treatment of strip bonds is one of the elements of information that the applicable regulations specifically require to be disclosed in the Information Statement.³

In the course of updating the federal tax element of the Information Statement, IIROC also took the opportunity to simplify and clarify other aspects of the Information Statement, as follows:

- (a) the table in the previous 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 Information Statement describing the income tax treatment of strip bonds have been removed to avoid any inconsistencies with any future official tax guidance issued by the CRA; and
- (c) the revised 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.

Dealer Members are requested to begin using the revised Information Statement no later than January 2, 2015; however, they are free to begin using the revised Information Statement immediately. For details on how to order the revised Information Statement, please see the information below.

² See IDA Bulletin # 3179, *Revised Strip Bond Information Statement* (July 29, 2003), online: <http://iiroc.knotia.ca/Knowledge/View/Document.cfm?Ktype=445&linkType=toc&dbID=200706344&toCID=514&nc=716015299821>.

³ The other elements of information that must be contained in the Information Statement are: the nature of strip bonds, the rights of holders of strip bonds and how strip bonds differ from conventional interest-bearing debt securities; the fluctuations, and volatility of fluctuations, in the market price and value of strip bonds resulting from fluctuations in interest rates; the effect on the volatility of fluctuations referred to above associated with the time to maturity of strip bonds; the secondary market for strip bonds and underlying bonds; custodial arrangements for strip bonds and underlying bonds; and 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 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. See e.g. OSC Rule 91-501, s. 4.1.



Please note:

- Dealer Members are not required to distribute the revised Information Statement to all existing clients. Only clients purchasing strip bonds for the first time on or after January 2, 2015 must receive the revised Information Statement. Until that date, use of the previous Information Statement is permitted.
- Dealer Members should be aware that, at this time, there is no requirement to distribute an Information Statement in the province of Quebec, and the seven provincial regulatory authorities that have issued the Joint Decision have approved only the English-language version of the revised Information Statement. Nevertheless, as a courtesy, IIROC has prepared an unofficial French-language translation of this document. When dealing with an investor in one of the seven relevant provinces (Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, and Saskatchewan) who prefers to receive documentation in French, Dealer Members are advised to provide the investor with both the unofficial French-language translation and the officially-approved English-language version to ensure compliance with applicable provincial securities regulations.

How to Obtain the Revised Statement

Dealer Members can obtain copies of the Revised Statement in two ways:

- (1) Dealer Members who wish to obtain copies of the revised Information Statement from our pre-selected printer may order electronically via OrderNet at www.ordernet.ca. Click [here](#) for step-by-step instructions on using OrderNet.
- (2) For Dealer Members who wish to print the revised Information Statement themselves, or simply provide it in electronic form, a standard PDF format of the Information Statement is available here:
 - [English version](#)
 - [French version](#)

Questions regarding this Notice may be referred to:

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