

**A.S.C. POLICY 5.4
STRIP BONDS**

1. INTRODUCTION

1.1 As a result of

1.1.1 the growth in sales of Strip Bonds (as defined in item 2.1);

1.1.2 some applications to the Alberta Securities Commission (the "Commission") under section 116 of the Alberta Securities Act (the "AW") for exemptions from the registration and prospectus requirements of the Act to trade in "non-alter ego receipts" (as defined in item 2.1.2) in Strip Bonds; and

1.1.3 the policies relating to the trading of certain Strip Bonds adopted by the Ontario Securities Commission, the Commission des Valeurs Mobilières du Québec, and the Manitoba Securities Commission,

the Commission considers it appropriate to adopt this policy and issue the blanket order (attached as Schedule A) to regulate the trading of Strip Bonds.

2. INTERPRETATION

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

2.1.1 the actual individual interest coupons and bond residues arising from the physical separation of coupons from bonds issued or guaranteed by the Government of Canada or any province of Canada or any foreign or political subdivision thereof, and

2.1.2 deposit receipts or other certificates representing an interest in certain specific instruments of the type referred to in item 2.1.1 ("alter ego receipts"), or an undivided interest in a pool of such instruments ("non-alter ego receipts").

3. INFORMATION STATEMENT

3.1 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:

- 3.1.1 the fluctuation in the value of Strip Bonds resulting from fluctuations in prevailing interest rates;
 - 3.1.2 the income tax consequences of investing and trading in Strip Bonds;
 - 3.1.3 the anticipated secondary market environment; and
 - 3.1.4 the custodial arrangements relating to Strip Bonds.
 - 3.2 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 Director of the Commission, the investment attributes of Strip Bonds, including, without limitation, the investment attributes referred to in item 3. 1.
4. VENDORS
 - 4.1 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 information document satisfactory to the Director 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.
5. SECTION 185
 - 5.1 The Commission considers that it is in the public interest to regulate the trading and distribution of Strip Bonds both through the trading and distribution of non-alter ego receipts and alter-ego receipts.
 - 5.2 The Commission has issued an order under section 185 of the Act (attached as Schedule A), exempting from the registration and prospectus requirements of the Act trades and

distributions of Strip Bonds made in compliance with this policy. Pursuant to section 166 of the Act the Commission will deny the registration exemption contained in section 66(a)(i) of the Act and the prospectus exemption contained in section 115(l)(a) of the Act in connection with any trade of Strip Bonds made after April 1, 1985 and not in compliance with this policy.

The Commission, where it considers it to be in the public interest, will issue temporary cease trade orders against persons who distribute and trade in Strip Bonds in contravention of the provisions of this policy and the section 185 order relating thereto.

Effective date: March 15, 1987

Note: The section 185 order referred to as Schedule "A" in the above ASC Policy reproduced in the ASC Blanket Orders section of this book.

See ASC Staff Notice 91-701 for a revised information form for this policy.