

**IN THE MATTER OF THE SECURITIES ACT  
R.S.N. 1990, CHAPTER S-13, AS AMENDED (the "Act")**

**AND**

**IN THE MATTER OF  
REAL RETURN BOND STRIP BONDS**

**RULING  
(Subsection 75(1))**

**UPON** the application of certain interested parties to the Director of Securities (the "Director") pursuant to the powers conferred on the Director by section 146 of the Act for a ruling pursuant to subsection 75(1) of the Act exempting from sections 26 and 54 of the Act the distribution of RRB Strip Bonds (as hereinafter defined);

**AND UPON** it being represented to the Director that:

1. the Government of Canada has distributed 4.25% real return bonds due December 1, 2021 (the "Underlying Bonds") in the aggregate principal amount of \$1.525 billion, and intends to distribute a further \$600 million principal amount of Underlying Bonds for settlement on December 1, 1993. The Government of Canada may, from time to time, distribute additional tranches of Underlying Bonds;
2. the Underlying Bonds bear interest adjusted in relation to the All-items Consumer Price Index for Canada (the "CPI"). Interest on the Underlying Bonds consists of an inflation compensation component ("Inflation Compensation") which, in effect, causes the nominal principal amount of the Underlying Bonds ("Principal") payable on December 1, 2021 ("Maturity"), to be increased or decreased based upon changes to the CPI, and a cash entitlement ("Coupon Interest") calculated based on Principal and accrued Inflation Compensation, which Coupon Interest is payable in semi-annual instalments on June 1 and December 1 in each year. At Maturity, in addition to Coupon Interest payable on such date, a final payment equal to the sum of Principal plus Inflation Compensation accrued from December 10, 1991 to Maturity (whether positive or negative) will be made;
3. the Underlying Bonds constitute direct, unsecured, unconditional obligations of Her Majesty in Right of Canada, and are direct charges on, and payable out of, the Consolidated Revenue Fund of Canada. The Underlying Bonds rank *pari passu* and are payable rateably, without any preference or priority, with other obligations in respect of borrowed money payable from the Consolidated Revenue Fund;
4. from time to time certain registered dealers and financial intermediaries (as defined in subsection 2(1) of the Act) (a "Financial Intermediary")) may establish a strip securities

program in relation to the Underlying Bonds, whereby investors will be able to purchase either a specified Coupon Interest payment or the ultimate payment of Principal and accrued Inflation Compensation (collectively, "RRB Strip Bonds") which shall be derived from the Underlying Bonds;

5. absent this ruling, a Financial Intermediary would be precluded from trading in RRB Strip Bonds;

**AND UPON** the Director being satisfied that to so rule would not be prejudicial to the public interest;

**IT IS RULED** pursuant to subsection 75(1) of the Act that (i) section 26 of the Act shall not apply to trades of RRB Strip Bonds by a Financial Intermediary, and (ii) section 54 shall not apply to the distribution of RRB Strip Bonds, provided that:

- A. no trades are confirmed and no funds are accepted from prospective purchasers of RRB Strip Bonds until an information statement (the "Information Statement") relating to the RRB Strip Bonds approved by the Investment Dealers Association of Canada has been approved by the Director;
- B. the Information Statement is sent by the vendor by prepaid mail or otherwise to each first-time purchaser of RRB Strip Bonds on or before such purchaser entering into an agreement of purchase and sale for RRB Strip Bonds; and
- C. each subsequent trade in an RRB Strip Bond (other than a trade to a registered dealer or Financial Intermediary) shall be a distribution, unless the Information Statement is sent by the vendor by prepaid mail or otherwise to each first-time purchaser of RRB Strip Bonds on or before such purchaser entering into an agreement of purchase and sale for RRB Strip Bonds.

**DATED** at St. John's, Newfoundland this 25th day of November, 1993.

GEORGE F. KENNEDY  
Director of Securities