INVESTMENT DEALERS ASSOCIATION OF CANADA
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Compliance Conformité

interpretation bulletin bulletin d'interprétation

TO: CHIEF FINANCIAL OFFICERS - IDA MEMBER FIRMS

PANEL AUDITORS - IDA AUDIT JURISDICTION FIRMS

June 14, 1996

C-99

GOVERNMENT OF CANADA - REAL RETURN BONDS

This summary is designed to explain the margin requirement for the Government of Canada 4.25% Real Return Bond issues which mature December 1, 2021 and December 1, 2026 ("GOC RRB's") and future issues, if any, of GOC R**RB's.**

1. What are the payment characteristics of the GOC RRB's?

GOC RRB's are bonds which bear interest adjusted in relation to the All items Consumer Price Index for Canada ("the CPI"). Interest on the GOC RRB's consists of both (i) an inflation compensation component ("Inflation Compensation") which, in effect, causes the nominal principal amount of the GOC RRB's ("the Principal"), payable on maturity, to be increased or decreased based on changes in 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 of each year. At Maturity, in addition to Coupon Interest payable on such date, a final payment equal to the sum of Principal and Inflation Compensation (whether positive or negative) will be made.

2. What are the margin requirements for GOC RRB's?

The margin requirement for GOC RRB's is calculated based on the margin requirements for bonds and money market instruments guaranteed by the GOC as stipulated in IDA Regulation 100.2(a)(i).

3. Is there a margin reduction for offsets involving GOC RRB's?

Where a Member is long (short) GOC RRB's and short (long) GOC straight bonds within the same maturity band, the margin requirement may be calculated based on the **"greater of"** the margin requirement applicable to each position on a stand alone basis. The margin requirement is calculated on a "greater of" basis instead of a "net" basis due to the fact the return distributions of these two types of bonds is too dissimilar and as the result the calculation of the margin requirement on a "net" basis would not provide sufficient margin coverage.

Any questions concerning this interpretation bulletin should be directed to Louis P. Piergeti, Director of Compliance at (416) 364-6133.

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