

1.1.2 CSA Staff Notice 55-312 – Insider Reporting Guidelines for Certain Derivative Transactions (Equity Monetization) (Revised)

CANADIAN SECURITIES ADMINISTRATORS STAFF NOTICE 55-312

INSIDER REPORTING GUIDELINES
FOR CERTAIN DERIVATIVE TRANSACTIONS
(EQUITY MONETIZATION) (REVISED)

[First published February 27, 2004, revised June 11, 2010]

Purpose

The purpose of this notice is to provide guidance to reporting insiders¹ in relation to the reporting of certain derivative-based transactions, including transactions that are commonly referred to as “equity monetization” transactions.

The staff of the Canadian Securities Administrators have prepared this notice to assist reporting insiders who have entered into such transactions and to promote consistency in filings. The notice contains a number of examples of arrangements and transactions involving derivatives together with examples of how to report these arrangements and transactions. The instructions contained in this notice are guidelines only, and do not necessarily represent the only way that such arrangements and transactions may be reported.

If you have questions or comments with respect to the contents of this notice, please feel free to contact a member of staff. Contact information is included at the end of this notice. This notice is dated June 11, 2010. We may from time to time reissue this notice to reflect frequently asked questions or concerns.

Background

1. *What are equity monetization transactions?*

Equity monetization transactions are derivative-based transactions that allow an investor to receive a cash amount similar to proceeds of disposition, and to transfer part or all of the economic risk and/or return associated with securities of an issuer, without actually transferring ownership of or control over such securities. (The term “monetization” generally refers to the conversion of an asset (such as securities) into cash.)

You can find more information about how to file insider reports, including insider reports about equity monetization transactions and other derivative-based transactions, in the following materials:

- National Instrument 55-102 *System for Electronic Disclosure By Insiders (SEDI)* (NI 55-102)
- Companion Policy 55-102CP *System for Electronic Disclosure By Insiders (SEDI)* (55-102CP)
- National Instrument 55-104 *Insider Reporting Requirements and Exemptions* (NI 55-104)
- Companion Policy 55-104CP *Insider Reporting Requirements and Exemptions* (55-104CP)
- CSA Staff Notice 55-315 *Frequently Asked Questions about National Instrument 55-104 Insider Reporting Requirements and Exemptions*
- CSA Staff Notice 55-316 *Questions and Answers on Insider Reporting and the System for Electronic Disclosure by Insiders (SEDI)* (SN 55-316)
- SEDI online help relating to Third-Party Derivatives (available by clicking “help” at any time once you are in the SEDI website (www.sedi.ca)).

These materials are available at the websites of the securities regulatory authorities indicated below:

¹ Prior to April 30, 2010, Canadian securities legislation generally required all persons and companies who are “insiders” (as defined in securities legislation) to file insider reports unless they had an exemption from the insider reporting requirement. On April 30, 2010, the Canadian Securities Administrators introduced a new insider reporting regime established by NI 55-104. Under NI 55-104, the insider reporting requirement is generally limited to “reporting insiders” (as defined in NI 55-104) and certain persons who may be designated insiders for certain historical transactions (see s. 3.5 of NI 55-104). For convenience, this notice will refer to insiders subject to a reporting requirement as “reporting insiders”.

- www.bcsc.bc.ca
- www.albertasecurities.com
- www.sfsc.gov.sk.ca
- www.msc.gov.mb.ca
- www.osc.gov.on.ca
- www.lautorite.qc.ca
- www.nbsc-cvmnb.ca

2. *How are these transactions reported in SEDI?*

We have set out below a number of examples of arrangements and transactions involving derivatives together with examples of how to report these arrangements and transactions in SEDI.

The first example is considered in detail. The subsequent examples generally refer the reader back to the step-by-step approach taken in the first example, highlighting necessary changes.

The examples discussed in this notice have necessarily been simplified and are for illustrative purposes only. The examples assume the following set of facts:

ABC Inc. is a reporting issuer. John is a director of ABC Inc. and is therefore a reporting insider (as defined in NI 55-104) of ABC Inc. On March 1, 2010, John acquired 10 shares of ABC Inc. at a fair market value (FMV) price of \$10 per share. On March 1, 2011, shares of ABC Inc. have a FMV of \$100 per share. John does not wish to sell the shares, but is concerned that the shares might fall in value, and wishes to protect at least \$80 of the gain (that is, to “lock in” the share price at at least \$90).

The examples also assume that the following necessary preliminary steps have been taken:

- ABC Inc. has completed an issuer profile supplement;
- John has a valid SEDI user ID and password;
- John has created his insider profile in SEDI and has his insider access key; and
- John has previously added ABC Inc. to his insider profile.

For additional information about filing an insider report under SEDI, please refer to 55-102CP, SN 55-316 and the SEDI online help available on the SEDI website (www.sedi.ca).

Example 1

On March 1, 2011, John enters into a **forward contract** with InvestBank under which John agrees to sell, and InvestBank agrees to purchase, 10 shares of ABC Inc. at a price of \$109.50 per share.² The sale will take place on March 1, 2016. The parties may settle their obligations under the forward contract on a cash settlement basis or by physical delivery of 10 ABC Inc. shares. This contract may be settled at an earlier date, subject to an adjustment to the settlement price. InvestBank hedges its risk under the forward contract through a hedging strategy involving short sales into the secondary market.

Insider Reporting Requirement: John is required to file an insider report within five (calendar) days of March 1, 2011. (See Part 3 of NI 55-104.) For an example of how this transaction would be reported, see below. Unless InvestBank is also a reporting insider of ABC Inc., InvestBank is not required to file an insider report.

Instructions for Example 1

Note: John has accessed the SEDI website at www.sedi.ca, selected “English” as his language of preference, selected “login” at the “Welcome to SEDI” screen, and has logged in by entering his SEDI user ID and his password. John will now see the following screen: “Insider home page”.

1. Enter your **insider access key** and click **Next**.

SCREEN: *Insider activities*

² In this example, \$90 is assumed to represent the present value of \$109.50 on March 1, 2016. Assuming an annual compounding of 4%, John and InvestBank are in the same position (absent any consideration of taxes) whether they proceed by way of a sale today at \$90 or a sale five years from today at \$109.50. In the case of a sale today, John receives \$90, which he may then invest at 4%. Assuming an annual compounding return of 4%, at the end of five years, John will have received cash in the amount of \$109.50. In the case of the forward sale at the end of five years, John will have received cash in the amount of \$109.50.

2. Click **Insider report** (at the top of the screen).

SCREEN: Introduction to insider report activities (Form 55-102F2)

3. Click **File insider report** (on the navigation bar at the left of the screen)

SCREEN: File insider report (Form 55-102F2) – Select issuer

4. Select and highlight “ABC Inc.” in the list of issuers from the insider profile.

5. Click **File insider report**.

SCREEN: File insider report – Select security designation

6. Click on **Add insider-defined security** (at the bottom of the screen).

Note: Since the forward contract is not a class of security defined by the issuer in its issuer profile supplement, it will be necessary for John to create a new insider-defined security designation for the forward contract.

Note: In SEDI, third-party derivative arrangements are considered to be “securities”. Such arrangements may or may not be considered “securities” under securities law generally, depending upon the facts and circumstances of the arrangement in question. To the extent derivative instruments do not, as a matter of law, constitute securities, they will generally be related financial instruments. See commentary in subsection 1.4(6) of 55-104CP. For insider reporting purposes, it is not necessary to determine whether a derivative instrument is a security or a related financial instrument since both are subject to insider reporting requirements under Part 3 of NI 55-104.

SCREEN: Pop-up warning

Note: At this point, a warning pop-up box should appear: “Warning: You are about to specify an insider-defined security. You must ensure that the security is not already listed.”

7. Click **OK**.

SCREEN: File insider report – Add insider-defined security designation

8. Use the drop-down menu under the heading **Security category**, select and highlight **Third Party Derivatives**.

9. Under the heading **Security designation**, in the drop-down menu under the subheading **Security name**, select and highlight **Forward Sale**.

10. Then, for the **Additional description**, briefly describe. For example, “10 common shares – settlement date March 2016”.

Note: This adds the security designation “Forward sale (10 common shares – settlement date March 2016)” to your list of insider-defined securities.

*Note: Not all of this text will currently be visible in the **Additional description** box. (The box will only show a limited number of characters at any one time.) However, the full text in this example will be accepted, and will be visible at later stages of the filing process.*

11. Under the heading **Underlying security designation**, in the drop-down menu under the subheading **Security category**, select and highlight **Equity**.

12. Then, in the drop-down menu under the subheading **Security name**, select and highlight **Common Shares**.

Note: In the context of a forward sale, the underlying security is the security that is the subject of the forward sale.

13. Click **Next**.

SCREEN: File insider report – Select ownership type

14. In the drop-down menu **Ownership type**, select and highlight **Direct Ownership** and click **Next**.

SCREEN: File insider report – opening balance on initial SEDI report

Note: SEDI requires an opening balance for each type of security. This has to be entered before a report can be filed about a transaction in the security. If the reporting insider has never filed a report about this specific type of security, the reporting insider must enter 0 (zero) as the opening balance. If John has previously entered into another forward contract that has different terms (e.g., a different settlement date or price) from the present forward contract, the present contract would be considered a separate type of security.

15. In the field **Opening balance of securities or contracts held**, enter **0**.

16. In the field **Opening balance of equivalent number or value of underlying securities**, enter **0**.

*Note: This screen contains additional fields: **General remarks** and **Private remarks to securities regulatory authorities**. In this example, it is not necessary to include any information here.*

17. Click **Next** (at the bottom of the screen).

SCREEN: File insider report – Final review

18. Click **Certify**.

SCREEN: Certification

19. Click **OK** to Accept.

SCREEN: File insider report – Completed

Note: John has now filed his opening balance for the security designated “Forward sale (10 common shares – settlement date March 2016)”. It is now necessary to file a report about the transaction involving this security entered into on March 1, 2011.

20. At the prompt “File another transaction?” click **Yes**.

SCREEN: File insider report – Select a transaction option

Note: Make sure “Same security & holder” is selected.

SCREEN: File insider report – Enter transaction information

21. In the **Date of transaction** field, select **March 1, 2011**.

Note: Since John entered into the forward contract on March 1, 2011, enter this date. Do not enter the date of the anticipated settlement (i.e., March 1, 2016) here.

22. In the drop-down menu **Nature of transaction**, select and highlight the appropriate code. Since John has acquired rights and obligations under a derivative contract, select “70 – Acquisition or disposition (writing) of third party derivative”.

Note: For information about “nature of transaction” codes, see the online help function on SEDI.

23. Enter a number in the **Number or value of securities or contracts acquired** field. Enter **1** here.

*Note: Since John has acquired rights and obligations under a derivative contract, enter 1 after the field **Number or value of securities or contracts acquired**. Leave the **Number or value of securities or contracts disposed of** field blank.*

Note: Since John has specified a derivative as the security, there are additional fields in which to enter the equivalent number or value of the underlying securities to which the derivative relates.

24. Enter a number in the **Equivalent number or value of underlying securities disposed of** field. Enter **10** here.

25. Next to the field **Unit price or exercise price**, click the **Not Applicable** box.

26. In the field **Conversion or exercise price**, enter **109.50**.

*Note: Since John has not paid any consideration (in this example) for the forward contract, he would click the **Not Applicable** box next to the field **Unit price or exercise price**. Since the forward contract obliges John to sell 10 ABC Inc. shares at \$109.50 per share on March 1, 2016, John would enter **109.50** in the field **Conversion or exercise price**.*

27. In the **Date of expiry or maturity** field, select **March 1, 2016**.

Note: Since the anticipated date of settlement is March 1, 2016, this will be the date of expiry or maturity.

28. Enter the following information in the **General remarks** field:

Forward contract to sell 10 shares at \$109.50 per share on March 1, 2016. Contract may be settled by cash or by delivery of 10 shares. Contract may be settled at earlier date, subject to price adjustment.

Note: If it is not possible to adequately describe a transaction or to include all of the material terms of a transaction in the space provided, consider making reference to a public document (e.g., a news release issued by the issuer) that further describes the transaction. Alternatively, this information may be included in a schedule that may be filed in paper format by facsimile in accordance with the provisions of Part 3 of NI 55-102. Fax the schedule to the facsimile number of the securities commission set out on Form 55-102F6. We recommend that you make reference to this filing by facsimile in the **General remarks** field on SEDI. Staff will make this schedule available to the public on request.

29. Enter additional information, as necessary, in the **Private remarks to securities regulatory authorities** field.

Note: This is an optional field. These remarks will only be accessible by securities regulatory authorities. Leave this field blank if no remarks are necessary.

SUMMARY – The information should appear as follows:

File insider report - Enter transaction information

[Guidelines on derivatives](#)

Security designation: Forward Sale 10 common shares - settlement date March 2016 (Common Shares)

Date of transaction: 2011-03-01 YYYY-MM-DD

Nature of transaction: 70 - Acquisition or disposition (writing) of third party derivative

Enter the number or value of securities or contracts acquired or disposed of:

Number or value of securities or contracts acquired: 1 **or** Number or value of securities or contracts disposed of: 10

Enter the equivalent number or value of underlying securities acquired or disposed of:

Equivalent number or value of underlying securities acquired: **or** Equivalent number or value of underlying securities disposed of: 10

Unit price or exercise price: Not Applicable Currency: Canadian Dollar

Conversion or Exercise price: 109.50 Not Applicable Currency: Canadian Dollar

Date of expiry or maturity: 2016-03-01 YYYY-MM-DD Not Applicable

General remarks (if necessary to describe the transaction): Forward contract to sell 10 shares at \$109.50 per share on March 1, 2016

Private remarks to securities regulatory authorities:

30. Click **Next**.

SCREEN: File insider report – Final review

31. Ensure that the details of your report are complete and accurate.

32. Click **Certify** (at the bottom of the screen).

SCREEN: Certification Pop-Up

33. Review the certification information carefully.
34. Click **OK** to accept.

SCREEN: File insider report – Completed

35. At the prompt “*File another transaction?*” click **No**.
36. Logout

John has now completed the filing of his insider report relating to the forward contract. This report will normally be publicly available on SEDI within five minutes of filing.

Note: Generally, where a reporting insider files an insider report in respect of a third-party derivative such as a forward contract, the reporting insider will be required to file a second report at the time the derivative is settled, matures or otherwise closed out. For example, John in this example will be required to file an insider report within five days of March 1, 2016 (assuming that the contract settles on that date and that John is still a reporting insider on that date). The report will show i) a disposition of the forward contract, and ii) a disposition of the underlying common shares.

Example 2

On March 1, 2011, John purchases a **put option** from InvestBank which gives John the right, but not the obligation, to sell to InvestBank, at any time between March 1, 2011 and March 1, 2016, 10 shares of ABC Inc. at a price of \$90 per share.³ The put option is not transferable. John pays \$10 to InvestBank in consideration for the put option. InvestBank hedges its risk under the contract through a hedging strategy involving short sales into the secondary market.

Insider Reporting Requirement: John is required to file an insider report within five (calendar) days of March 1, 2011. (See Part 3 of NI 55-104.) For an example of how to report this transaction, see below. Unless InvestBank is also a reporting insider of ABC Inc., InvestBank is not required to file an insider report.

Instructions for Example 2

- Repeat steps 1 to 8, inclusive, under example no. 1.

SCREEN: File insider report – Add insider-defined security designation

9. Under the heading **Security designation**, in the drop-down menu under the subheading **Security name**, select and highlight **OTC Puts (including Private Options to Sell)**.
10. Then, for the **Additional description**, briefly describe. For example, “10 common shares - expires March 2016”.

Note: This adds the security designation “OTC Puts (10 common shares - expires March 2016)” to your list of insider-defined securities.

*Note: Not all of this text will currently be visible in the **Additional description** box. (The box will only show a limited number of characters at any one time.) However, the full text in this example will be accepted, and will be visible at later stages of the filing process.*

- Repeat steps 11 to 24, inclusive, under example no. 1 (substituting references to “OTC Put” for references to “Forward sale” in the text of the example).
25. Under the field **Unit price or exercise price**, enter **10**.
 26. Under the field **Conversion or exercise price**, enter **90**.

³ This example and the subsequent examples assume a fixed exercise price of \$90 per share for the sake of simplicity. If the exercise price is based upon a formula, a note to this effect can be included in the **General remarks** field.

*Note: Under the put option, John has the right, but not the obligation, to sell to InvestBank 10 ABC Inc. shares at \$90 per share at any time up to March 1, 2016. Since John paid \$10 in consideration (in this example) for the put option, he would enter **10** in the field **Unit price or exercise price**. Since the put option exercise price is \$90 per share, John would enter **90** in the field **Conversion or exercise price**.*

27. In the **Date of expiry or maturity** field, select **March 1, 2016**.

Note: Since the anticipated date of settlement is March 1, 2016, this will be the date of expiry or maturity.

28. Enter the following information in the **General remarks** field:

Private option contract to sell 10 shares of ABC Inc. at a price of \$90 per share at any time between March 1, 2011 and March 1, 2016. Consideration paid for option was \$10.

*Note: If it is not possible to adequately describe a transaction or to include all of the material terms of a transaction in the space provided, consider making reference to a public document (e.g., a news release issued by the issuer) that further describes the transaction. Alternatively, this information may be included in a schedule that may be filed in paper format by facsimile in accordance with the provisions of Part 3 of NI 55-102. Fax the schedule to the facsimile number of the securities commission set out on Form 55-102F6. We recommend that you refer to this filing by facsimile in the **General remarks** field on SEDI. Staff will make this schedule available to the public on request.*

- Repeat steps 29 to 36, inclusive, under example no. 1, with necessary changes (i.e., substituting references to “OTC Puts” for references to “forward sale” in the text of the example).

Example 3

On March 1, 2011, John purchases a **put option** from InvestBank and simultaneously sells a **call option** to InvestBank. (The combination of a put option and call option is sometimes referred to as a **collar**.) The put option gives John the right, but not the obligation, to sell to InvestBank, at any time between March 1, 2011 and March 1, 2016, 10 shares of ABC Inc. at a price of \$90 per share. The call option gives InvestBank the right, but not the obligation, to require John to sell to InvestBank at any time between March 1, 2011 and March 1, 2016, 10 shares of ABC Inc. at \$115 per share.

The options are not transferable. John finances the purchase of the put option by the simultaneous sale of the call option. InvestBank hedges its risk under the contract through a hedging strategy involving short sales into the secondary market.

Insider Reporting Requirement: John is required to file an insider report within five (calendar) days of March 1, 2011. (See Part 3 of NI 55-104.) For an example of how to report this transaction, see below. Unless InvestBank is also a reporting insider of ABC Inc., InvestBank is not required to file an insider report.

Instructions for Example 3

In the above example, a separate report will be filed for the **put option** component and the **call option** component.

Instructions for filing a report in respect of the **put option** component are contained in example 2. Under the **General remarks** field (step 28), a reference to the call option can be made as follows:

Private option contract to sell 10 shares of ABC Inc. at a price of \$90 per share at any time between March 1, 2011 and March 1, 2016. Acquisition of put option financed by simultaneous sale of call option (see separate report).

The following instructions relate to the **call option** component.

- Repeat steps 1 to 8, inclusive, under example no. 1.

SCREEN: *File insider report – Add security designation*

9. Under the heading **Security designation**, in the drop-down menu under the subheading **Security name**, select and highlight **OTC Calls (including Private Options to Purchase)**.

10. Then, for the **Additional description**, briefly describe. For example, “10 common shares - expires March 2016”.

Note: This adds the security designation “OTC Calls (10 common shares - expires March 2016)” to your list of insider-defined securities.

*Note: Not all of this text will currently be visible in the **Additional description** box. (The box will only show a limited number of characters at any one time.) However, the full text in this example will be accepted, and will be visible at later stages of the filing process.*

- Repeat steps 11 to 22, inclusive, under example no. 1 (substituting references to "OTC Calls" for references to "Forward sale" in the text of the example (step 11)).

23. Enter a number in the **Number or value of securities or contracts disposed of** field. Enter **1** here.

*Note: Since John has entered into a new contract that requires John to sell, if and when called upon, 10 shares of ABC Inc. at a price of \$115 per share at any time between March 1, 2011 and March 1, 2016, enter a **1** after the field **Number or value of securities or contracts disposed of**. Since John has sold a call option (i.e., written an option to purchase shares of ABC Inc.), John is considered to have "disposed" of an OTC Call contract for the purposes of this field. Leave the field **Number or value of securities or contracts acquired** blank.*

Note: Since John has specified a derivative as the security, there are additional fields in which to enter the equivalent number or value of the underlying securities to which the derivative relates.

24. Enter a number in the **Equivalent number or value of underlying securities disposed of** field. Enter **10** here.

25. Next to the field **Unit price or exercise price**, click the **Not Applicable** box.

*Note: In example no. 2, John paid \$10 as a premium for the acquisition of the put option. Accordingly, in example no. 2, John would enter **10** in the field **Unit price or exercise price**. In the present example, the consideration for the put option component of the collar is the sale of the related call option. Accordingly, John will click the **Not Applicable** box next to the field **Unit price or exercise price**, and make reference to the related put option in the **General remarks** field.*

26. Under the field **Conversion or exercise price**, enter **115**.

*Note: Since the call option exercise price is \$115 per share, John would enter **115** in the field **Conversion or exercise price**.*

27. In the **Date of expiry or maturity** field, enter **March 1, 2016**.

Note: Since the anticipated date of settlement is March 1, 2016, this will be the date of expiry or maturity.

28. Enter the following information in the **General remarks** field:

Private option contract requiring John to sell 10 ABC Inc. shares at \$115 per share at any time between March 1, 2011 and March 1, 2016. Proceeds from sale of call option used to finance acquisition of put option (see separate report).

*Note: If it is not possible to adequately describe a transaction or to include all of the material terms of a transaction in the space provided, consider making reference to a public document (e.g., a news release issued by the issuer) that further describes the transaction. Alternatively, this information may be included in a schedule that may be filed in paper format by facsimile in accordance with the provisions of Part 3 of NI 55-102. Fax the schedule to the facsimile number of the securities commission set out on Form 55-102F6. We recommend that you refer to this filing by facsimile in the **General remarks** field on SEDI. Staff will make this schedule available to the public on request.*

- Repeat steps 29 to 36, inclusive, under example no. 1, with necessary changes.

Example 4

On March 1, 2011, John enters into a secured loan arrangement with InvestBank under which John agrees to borrow, and InvestBank agrees to lend, an amount equal to 90% of the FMV of the ABC Inc. shares, or \$900. The loan bears interest at 6 per cent per annum. The loan has a term of approximately five years, and matures on March 1, 2016. As security for the loan, John pledges the 10 ABC Inc. shares. Recourse under the loan is limited to the pledged securities (or identical collateral substituted therefor). (In other words, John may settle his obligations under the loan on a cash settlement basis or by physical delivery of 10 ABC Inc. shares.) InvestBank hedges its risk under the contract through a hedging strategy involving short sales into the secondary market.

Insider Reporting Requirement: John is required to file an insider report within five (calendar) days of March 1, 2011. (See Part 3 of NI 55-104.) For an example of how to report this transaction, see below. Unless InvestBank is also a reporting insider of ABC Inc., InvestBank is not required to file an insider report.

Instructions for Example 4

In the above example, the term of the loan agreement limiting recourse to the collateral (or to identical collateral delivered in substitution for the original collateral) effectively operates as a “put” option. John can repay the principal amount of \$900 at the term of the loan. Alternatively, John can satisfy his obligation under the loan agreement to repay the principal amount of \$900 by releasing his interest in the collateral (or by delivering another 10 ABC Inc. shares in substitution for the pledged shares), regardless of their value at the term of the loan.

John can report this transaction in a number of ways. One approach would be to report this transaction as an acquisition of an OTC Put Option. (See example no. 2 for instructions as to how this may be reported.)

Another approach would be to define the secured loan agreement as an insider-defined derivative, as follows.

- Repeat steps 1 to 8, inclusive, under example no. 1.

SCREEN: File insider report – Add insider-defined security designation

9. Under the heading **Security designation**, in the drop-down menu under the subheading **Security name**, select and highlight **Other**.
10. Then, for the **Additional description**, briefly describe. For example, “Loan secured by pledge (limited recourse) matures March 2016”.

Note: This adds the security designation “Loan secured by pledge (limited recourse) matures March 2016” to your list of insider-defined securities.

- Repeat steps 11 to 24, inclusive, under example no. 1, with necessary changes.
25. Under the field **Unit price or exercise price**, enter **0**.
 26. Under the field **Conversion or exercise price**, enter **900**.

*Note: Under the loan agreement, John can repay the principal amount of \$900 at the term of the loan. Alternatively, John can satisfy his obligation under the loan agreement to repay the principal amount of \$900 by releasing his interest in the collateral (or by delivering another 10 ABC Inc. shares in substitution for the pledged shares), regardless of their value at the term of the loan. Effectively, John has an option to put 10 shares to InvestBank at a notional price of \$900 (or \$90 per share). Since the put option exercise price is \$900, John would enter **900** in the field **Conversion or exercise price**.*

27. In the **Date of expiry or maturity** field, select **March 1, 2016**.

Note: Since the anticipated date of settlement is March 1, 2016, this will be the date of expiry or maturity.

28. Enter the following information in the **General remarks** field:

Pledge of shares as collateral for loan (principal amount \$900; interest at 6 per cent per annum). Loan may be repaid in cash or settled by delivery of 10 shares.

*Note: If it is not possible to adequately describe a transaction or to include all of the material terms of a transaction in the space provided, consider making reference to a public document (e.g., a news release issued by the issuer) that further describes the transaction. Alternatively, this information may be included in a schedule that may be filed in paper format by facsimile in accordance with the provisions of Part 3 of NI 55-102. Fax the schedule to the facsimile number of the securities commission set out on Form 55-102F6. We recommend that you refer to this filing by facsimile in the **General remarks** field on SEDI. Staff will make this schedule available to the public on request.*

SUMMARY – The information should appear as follows:

The screenshot shows a web browser window with the URL https://uat.sedi.ca/sedi/SVTITRTransactionF?&pageName=com/sedi/jsp/tr/trViewTransactionsF.jsp&locale=en_CA. The page title is "File insider report - Enter transaction information".

Fields visible in the form include:

- Security designation: Loan secured by pledge (limited recourse) matures March 2016 (Common Shares)
- Date of transaction: 2011-03-01 (YYYY-MM-DD)
- Nature of transaction: 70 - Acquisition or disposition (writing) of third party derivative
- Enter the number or value of securities or contracts acquired or disposed of:
 - Number or value of securities or contracts acquired: []
 - or
 - Number or value of securities or contracts disposed of: 1
- Enter the equivalent number or value of underlying securities acquired or disposed of:
 - Equivalent number or value of underlying securities acquired: []
 - or
 - Equivalent number or value of underlying securities disposed of: 10
- Unit price or exercise price: 0 (Not Applicable) Currency: Canadian Dollar
- Conversion or Exercise price: 900 (Not Applicable) Currency: Canadian Dollar
- Date of expiry or maturity: 2016-03-01 (Not Applicable)
- General remarks (if necessary to describe the transaction): Pledge of shares as collateral for loan (principal amount \$90)
- Private remarks to securities regulatory authorities: []

Buttons: "Next", "Cancel filing", "Guidelines on derivatives"

- Repeat steps 29 to 36, inclusive, under example no. 1, with necessary changes.

Example 5

On March 1, 2011, John enters into a swap agreement with InvestBank whereby he agrees to pay InvestBank, on March 1, 2016, an amount equal to dividends paid on the 10 shares of ABC Inc. plus any appreciation in value over \$100 per share. In return, InvestBank agrees to pay John the London interbank offered rate (LIBOR) on a notional principal amount of \$1,000 (i.e., the FMV of the 10 ABC Inc. shares) plus any depreciation in the value of the shares below \$100 per share. InvestBank hedges its risk under the contract through a hedging strategy involving short sales into the secondary market.

Insider Reporting Requirement: John is required to file an insider report within five (calendar) days of March 1, 2011. (See Part 3 of NI 55-104.) For an example of how to report this transaction, see below. Unless InvestBank is also a reporting insider of ABC Inc., InvestBank is not required to file an insider report.

Instructions for Example 5

- Repeat steps 1 to 8, inclusive, under example no. 1.

SCREEN: File insider report – Add insider-defined security designation

- Under the heading **Security designation**, in the drop-down menu under the subheading **Security name**, select and highlight **Equity Swap – Short Position**.
- Then, for the **Additional description**, briefly describe. For example, “10 common shares - expires March 2016”.

Note: John is considered to have the short position on the equity swap since John has swapped the cash flows associated with ownership (i.e., a long position) for cash flows generated by another instrument, a notional investment of \$1,000 at the LIBOR rate.

Note: This adds the security designation "Equity Swap – Short Position (10 common shares - expires March 2016)" to your list of insider-defined securities.

*Note: Not all of this text will currently be visible in the **Additional description** box. (The box will only show a limited number of characters at any one time.) However, the full text in this example will be accepted, and will be visible at later stages of the filing process.*

- Repeat steps 11 to 24, inclusive, under example no. 1, with necessary changes.
25. Under the field **Unit price or exercise price**, enter **0**.
 26. Under the field **Conversion or exercise price**, enter **0**.
 27. In the **Date of expiry or maturity** field, select **March 1, 2016**.

Note: Since the anticipated date of settlement is March 1, 2016, this will be the date of expiry or maturity.

*Note: If the terms of a derivative cannot easily be expressed in the fields noted above, or if a description is necessary to clarify ambiguity, include additional information in the **General remarks** field.*

28. Enter the following information in the **General remarks** field:

Equity swap involving exchange of payments on March 1, 2016: an amount equal to dividends paid on 10 shares of ABC Inc. plus any appreciation in value over \$100 per share, for LIBOR rate on \$1,000 notional principal amount plus any depreciation in value below \$100 per share.

*Note: If it is not possible to adequately describe a transaction or to include all of the material terms of a transaction in the space provided, consider making reference to a public document (e.g., a news release issued by the issuer) that further describes the transaction. Alternatively, this information may be included in a schedule that may be filed in paper format by facsimile in accordance with the provisions of Part 3 of NI 55-102. Fax the schedule to the facsimile number of the securities commission set out on Form 55-102F6. We recommend that you refer to this filing by facsimile in the **General remarks** field on SEDI. Staff will make this schedule available to the public on request.*

- Repeat steps 29 to 36, inclusive, under example no. 1, with necessary changes.

If you have questions or comments with respect to the contents of this notice, please feel free to contact a member of staff. Questions may be referred to any of:

Questions

Please refer your questions to any of:

British Columbia Securities Commission

Sheryl Thomson
Senior Legal Counsel, Corporate Finance
604-899-6778
sthomson@bcsc.bc.ca

April Penn
Assistant Manager
Financial, Insider and Exemptive Reporting
604-899-6805
apenn@bcsc.bc.ca

Alberta Securities Commission

Agnes Lau
Senior Advisor, Technical and Projects
403-297-8049
agnes.lau@asc.ca

Saskatchewan Financial Services Commission

Patti Pacholek
Legal Counsel, Securities Division
306-787-5871
patti.pacholek@gov.sk.ca

Manitoba Securities Commission

Chris Besko
Legal Counsel, Deputy Director
204-945-2561
chris.besko@gov.mb.ca

Ontario Securities Commission

Paul Hayward
Senior Legal Counsel, Corporate Finance
416-593-3657
phayward@osc.gov.on.ca

Colin Ritchie
Legal Counsel, Corporate Finance
416-593-2312
critchie@osc.gov.on.ca

Julie Erion
Supervisor of Insider Reporting
416-593-8154
jerion@osc.gov.on.ca

Autorité des marchés financiers

Livia Alionte
Insider Reporting Analyst
514-395-0337, ext. 4336
livia.alionte@lautorite.qc.ca

New Brunswick Securities Commission

Susan Powell
Senior Legal Counsel
506-643-7697
susan.powell@nbsc-cvmnb.ca

Nova Scotia Securities Commission

Shirley Lee
Director, Policy and Market Regulation
902-424-5441
leesp@gov.ns.ca

June 11, 2010