

CANADIAN PAYMENTS ASSOCIATION
ASSOCIATION CANADIENNE DES PAIEMENTS

RULE H5

**REDEMPTION OF CANADIAN DOLLAR BONDS,
DEBENTURES AND COUPONS**

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Rule H5 - Redemption of Canadian Dollar Bonds, Debentures and Coupons

Implementation and Revisions

Implemented

February 1983

Amendments Pre-November 2003

January 1984, September 18, 1986, May 13, 1992, April 14, 1994, October 14, 1997, December 1, 1997 and December 7, 1998.

Amendments Post-November 2003

1. Amendments to reflect consistency with the new CPA Payment Items and ACSS By-law, approved by the Board November 27 2003, effective January 27, 2004.
2. Section 9(c), approved by the Board June 29, 2004, effective January 5, 2005.
3. Amendment to replace references to “General Manager” with “President”, consequential to amendments to the *Canadian Payments Act* (Bill C-37) that came into effect on March 1, 2010.
4. Amendments to reflect the removal of certain default procedures, consequential to amendments to By-law No. 3 – Payment Items and ACSS, which came into effect on August 17, 2012. Approved by the Board October 3, 2013, effective December 2, 2013.
5. Amendments to appendix I, sections 2 and 3 to replace operational committee names (‘National Clearings Committee’ to ‘Senior Operational Committee’) to reflect the restructuring of operational committees. Approved by the Board December 1, 2016, effective January 3, 2017.

Redemption of Canadian Dollar Bonds, Debentures and Coupons

Introduction

1. This Rule outlines the procedures for the redemption of Canadian dollar bonds, debentures and coupons. Procedures for joining the Bond and Coupon Exchange are documented in Appendix I.

Definitions

2. (a) "Matured Instruments" or "Instruments" means Canadian dollar bonds, debentures and coupons, including eurobonds and coupons issued in Canadian dollars and are payable in Canada, which have reached the date where they become due and payable.
(b) "Negotiated Institution" means the Financial Institution of encashment or deposit.
(c) "Originating Direct Clearer" means the direct participant in the Bond and Coupon Exchange which introduces Instruments to the exchange.
(d) "Paying Agent" means the Financial Institution at which the Instrument is payable.
(e) "Receiving Direct Clearer" means the direct participant in the Bond and Coupon Exchange which receives Instruments for which it or one of its client Financial Institutions is Paying Agent.

Participation

3. Only Direct Clearers may participate in the Bond and Coupon Exchange. A Direct Clearer may participate in the Bond and Coupon Exchange through another Direct Clearer. The Clearing Agent of an Indirect Clearer that is a Paying Agent or is a Negotiation Institution for Matured Instruments, shall participate in the Bond and Coupon Exchange on behalf of the Indirect Clearer.

Stamping

4. Matured Instruments shall be stamped (not punched) by the Negotiating Institution.

Registered Bonds

5. Registered bonds shall be accompanied by properly completed documentation to make them eligible for payment.

Partial Redemptions

6. Partially redeemed bonds shall be accompanied by a letter requesting the return of over delivery. Partial redemptions should be dealt with in accordance with internal redemption procedures.

Redemption of Canadian Dollar Bonds, Debentures and Coupons

Delivery to Paying Agent

7. Matured Instruments payable locally may be presented to the local Paying Agent during normal banking hours of business on the date that such Instruments mature or on any day thereafter. The Paying Agent shall provide a Settlement Voucher in return.

Bond and Coupon Exchange at Regional Exchange Points, Exchange Points, Bond/Coupon Envelopes, Bulk Deliveries of Unmatured Instruments at Regional Exchange Points

8. (a) Matured Instruments shall be exchanged at Regional Exchange Points on Business Days. The Regional Clearing Association shall determine which one of the following three methods of exchange shall be used at the Regional Exchange Point:
- (i) Where formal exchange procedures are not in place, Matured Instruments shall be delivered to the appropriate Receiving Direct Clearers and
 - the Receiving Direct Clearer shall provide the Originating Direct Clearer with a Settlement Voucher which shall be Exchanged, for the purpose of Clearing and Settlement on the date of exchange of the Instruments; or
 - the Originating Direct Clearer shall Exchange an Inter-Member Debit (see Appendix II for a sample) for the purpose of Clearing and Settlement, on the date of exchange of the Instruments.
 - (ii) Participating Direct Clearers shall meet at a preselected time and location to exchange Matured Instruments. Originating Direct Clearers shall Exchange Inter-Member Debits for the purpose of Clearing and Settlement, on the date of exchange of the Instruments.
 - (iii) Matured Instruments shall be placed in clearly identified bond and coupon bags which shall be exchanged at an evening Exchange according to procedures agreed upon by the Regional Clearing Association. Inter-Member Debits shall be Exchanged by the Originating Direct Clearers for the purpose of Clearing and Settlement, on the date of exchange of the Instruments.

Where the method of exchange as outlined in paragraphs (ii) or (iii) is used, it shall be the responsibility of any participating Direct Clearer not present at the exchange to arrange for the pickup of its Matured Instruments from the other participating Direct Clearers. The absentee participating Direct Clearer shall not, however, deliver Matured Instruments to another participating Direct Clearer without the latter's approval.

- (b) (i) Instruments delivered at Regional Exchange Points shall be contained in a sealed envelope, parcel or canvas bag with the dollar amount shown on the outside thereof. A duplicate of the debit slip, as illustrated in Appendix II, shall be included with the Instruments and the listings.
- (ii) A pro forma bond/coupon envelope is illustrated in Appendix III.
- (iii) A completed bond/coupon envelope shall be attached to each bond, or bundle of binds from the same issue, introduced to the Bond and Coupon Exchange.

Redemption of Canadian Dollar Bonds, Debentures and Coupons

- (c) Unmatured Instruments may be delivered to the Receiving Direct Clearer at a Regional Exchange Point several days prior to maturity provided that:
- (i) all coupons are stamped to identify the Negotiating Institution;
 - (ii) the deliveries are clearly marked “Unmatured Instruments” and show the amount;
 - (iii) a separate parcel is provided for each maturity date; and
 - (iv) a separate debit slip, in duplicate, accompanies each parcel with the original debit to be receipted by the Receiving Direct Clearer and given to the Originating Direct Clearer.

Settlement for such Instruments shall be obtained by debiting the Paying Agent on the date of maturity via pre-encoded debit slip.

Returned Items

9. (a) A bond or coupon shall be returned no later than 60 days following the date of receipt of the Instrument by the Paying Agent for reason of irregularity. Irregularity may be the result of missing endorsements, signatures or stamps; or for the reason of counterfeit, lost, or stolen. Subsequent to this deadline, the return of a bond or coupon shall be dealt with through correspondence between the Paying Agent and the Negotiating Institution. Any return of a debit slip which is used to effect settlement in the Bond and Coupon Exchange (e.g., for the reason “NSF” or “Payment Stopped”) is subject to the return timeframes set out in Rule A4 “Returned and Redirected Items.”
- (b) Where a bond or coupon is returned, the “Returned Item Carrier Envelope” specified in Rule A4 shall be completed. The Instrument shall be returned through the Bond and Coupon Exchange.
- (c) Where there are errors in the contents of an envelope (e.g. missing, misdirected, post-dated Instrument(s)), only the Instrument(s) in error shall be returned and debited to the Originating Direct Clearer. The associated Returned Item Carrier Envelope shall contain sufficient information for tracing purposes and shall be accompanied by the original envelope and listing. Photocopies of the envelope and listing should be retained for a period of one year by the Receiving Direct Clearer for its records.

Free Instruments

10. Free Instruments shall be returned to the Originating Direct Clearer.

Interest Claims

11. Where a participating Direct Clearer has an interest claim on another participant for the reason that the latter participant failed to comply with a provision of this Rule, where initiated, the claim shall be subject to Rule J10 “Intermember Domestic Interest Charges” of this Manual.

Joining the Bond and Coupon Exchange

Mutilated Instruments, Provision of Missing Information

12. (a) Where any of the following information does not appear on an Instrument:
- (i) Name of issuer;
 - (ii) Amount in words or in figures;
 - (iii) Date of maturity or coupon number;
 - (iv) Bond number; or
 - (v) Name of Paying Agent;
- the Instrument shall be deemed mutilated.
- (b) Mutilated Instruments presented by an Originating Direct Clearer should be accompanied by an intermember bond/coupon certificate, as illustrated in Appendix IV, completed by the Negotiating Institution. A Negotiating Institution not prepared to provide the intermember bond/coupon certificate shall deal directly with the Paying Agent to obtain settlement.

Lost Instruments

13. Instances of lost Instruments shall be referred by the Financial Institution which lost the Instrument(s) directly to the Paying Agent for resolution. The former may be required to complete an indemnity agreement such as the sample agreement contained in Appendix V.

Government of Canada Debit Instruments, Lost Government of Canada Bonds

14. (a) Government of Canada debt Instruments shall not be included in the Bond and Coupon Exchange.
- (b) Matured Government of Canada Instruments shall be packaged and presented for settlement to the Bank of Canada (Ottawa) in accordance with Rule G3.
- (c) To obtain reimbursement for all lost Government of Canada bonds, including Canada Savings Bonds redemption certificates, Members of the CPA shall provide the Bank of Canada (Ottawa) with the following:
- (i) A letter setting out the details of the bond(s) and outlining the circumstances of the loss. This letter is to be provided by the Branch or Data Centre involved.
 - (ii) An "Undertaking to Indemnify" signed at the Member's head office/central under seal as required by Section 29 of Domestic Bonds of Canada Regulations.

Intermember Domestic Interest Claims

I. At least one month prior to new participant joining the exchange:

1. New participating Direct Clearer:
 - (a) gives notice to the President of the CPA of:
 - (i) its target date for joining the exchange;
 - (ii) the Regional Exchange Points at which it will participate, and of its representative at Regional Exchange Points at which it will not participate; and
 - (iii) its Bond and Coupon Exchange contact for each of the Regional Exchange Points at which it will participate.
2. CPA:
 - (a) gives notice to members of the Senior Operational Committee of the new participating Direct Clearer's plans; and
 - (b) supplies Senior Operational Committee members with the list of contacts provided by the new participating Direct Clearer.
3. Senior Operational Committee members of participating Direct Clearers:
 - (a) each member ensures that internal Bond and Coupon Exchange contacts are advised of the new participating Direct Clearer's plans and of its Bond and Coupon Exchange contacts.

II. To be completed at least one week prior to new participant joining the exchange:

1. Participating Direct Clearers:
 - (a) each participating Direct Clearer ensures that its Bond and Coupon Exchange contacts approach those of the new participating Direct Clearer at the applicable Regional Exchange Points (i.e. those at which both it and the new participating Direct Clearer participate) to address all operational matters in preparation for the entry of the new participating Direct Clearer, including the Exchange of Inter-Member Debits and the provision to the new participating Direct Clearer of formal regional Exchange procedures, where they exist.
2. New participating Direct Clearer:
 - (a) acquires an adequate supply of bond/coupon envelopes (see Appendix III of this Rule for a sample envelope); and
 - (b) acquires an adequate supply of Inter-Member Debits (see Appendix II of this Rule for a sample) and provides same to each participating Direct Clearer at each Regional Exchange Point.

Example of Debit Slip

FROM _____		DATE _____	1741-82
FINANCIAL INSTITUTION DOMICILE			
IN SETTLEMENT OF COUPONS - BONDS			
DEBIT: FINANCIAL INSTITUTION		TOTAL	
Street Address			
City, Province			
			_____ AUTHORIZED SIGNATURE

- i) Shall conform to CPA Standards and Specifications for MICR Encoded Documents;
- ii) Shall be at least 2 parts; and
- iii) The clearing copy shall be MICR encoded.

- i) Doit être conforme aux normes et directives concernant les chèques et l'encodage à l'encre magnétique de l'ACP.
- ii) A établir en deux exemplaires.
- iii) La copie utilisée pour la compensation doit être encodée à l'encre magnétique.

Pro Forma Bond/Coupon Envelope

<input type="checkbox"/> Bonds/Obligations		<input type="checkbox"/> Coupons				
FROM		Date				
_____		_____				
BRANCH - SUCCURSALE						
Name of Bonds/Coupons - Nom des obligations /coupons	Due Date Échéance			Bonds-Obligations/Coupons		
	D-J	M	Y-A	Number Nombre	Value Valeur	Total
Negotiated For - Négocié Pour	Pre. By Pré. Par		Check By Vér. Par	@		•
				@		•
				@		•
Payable At - Name and Address of Paying Agent Payable à - Nom et adresse de l'agent payeur				@		•
				@		•
				TOTALS TOTAUX	\$	•

Enclose/**attach** only Bonds/Coupons of one Debtor & Maturity
 Cette enveloppe doit contenir **ou doit être attachée qu'à** des Obligations/
 Coupons d'un même débiteur et d'une même échéance

RETURN THIS ENVELOPE WITH ANY UNPAID BOND/COUPON
 RETOURNER CETTE ENVELOPPE AVEC LES OBLIGATION/COUPON IMPAYÉS

ENDORSEMENT STAMP
 TIMBRE D'ENDOSSEMENT

- | | |
|---|--------------------------|
| 1. Paper Colour - Kraft | 2. Paper Weight - 20 lb. |
| 3. Envelope Size - 6" x 3½", right hand end opening | 4. Bilingual throughout |

Note: Coupons shall be enclosed within the envelope. Bonds or bundles of bonds shall be attached to the envelope.

Pro Forma Intermember Bond/Coupon Certificate

INTERMEMBER BOND/COUPON CERTIFICATE

(Negotiating Institution's Logo)

We certify that the attached bond(s) no.(s) _____/
coupons no.(s) _____, detached from the bond(s)
no.(s) _____
due _____
in the amount of _____
issued by _____
and payable at _____
were cancelled/mutilated in error.

(Branch Name)

(Signature)

Lost Coupon(s) Indemnity Agreement

The undersigned _____ hereby certifies that the coupon(s) described below have been lost or destroyed in the circumstances hereinafter mentioned after having been paid and stamped as negotiated.

Circumstances of
Loss of destruction:

Name of Issuer:

Description of Issue:

Name of Trustee: (if known)

Name of Paying Agent:

<u>Serial Number</u>	<u>Coupon Number</u>	<u>Due Date</u>	<u>Amount</u>
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In consideration of the payment to the undersigned of the sum of \$ _____ in payment of the coupons described above, the undersigned hereby undertakes and agrees:

- i) To indemnify the Issuer, its Trustee and Paying Agent herein mentioned and each of them against and hold each of them harmless from any and all loss, costs, damages and expense whatsoever that they may suffer or incur by reason of, or in any way arising out of the loss of the coupon(s) herein described or the payment of the aforementioned sum; and
- ii) To make good on demand any deficiency of funds which may occur in the bank accounts maintained for the purpose of effecting payment of the coupon maturities described above up to, but not exceeding, the sum of \$ _____ ; and
- iii) To deliver to any of the coupon(s) herein described which may subsequently come into the possession of the undersigned, it being understood that the sum in "(ii)" above will be reduced by the face amount of any coupon(s) so delivered.

Signed _____

on _____.

(Date)

Lost Bond(s)/Debenture(s) Indemnity Agreement

The lost bond/debenture indemnity agreement should contain the following information and incorporate the exact wording set forth below:

- i) name of issuer (corporate, municipal, etc.);
- ii) type of issue (sinking fund, mortgage, etc.);
- iii) maturity date;
- iv) rate of interest;
- v) bond, debenture number(s);
- vi) value (show denominations if more than one);
- vii) registration - "Bearer" or registered name; and
- viii) if coupons attached, state "with (date) and SCA."

In consideration of your reimbursing (Negotiating Financial Institution) in the sum of (Amount) we undertake to hold you harmless against all claims and demands of any persons and also from all action, suits or other proceedings whatsoever which at any time or times hereafter shall or may be brought or presented against you or (Issuer) in connection with the aforementioned.