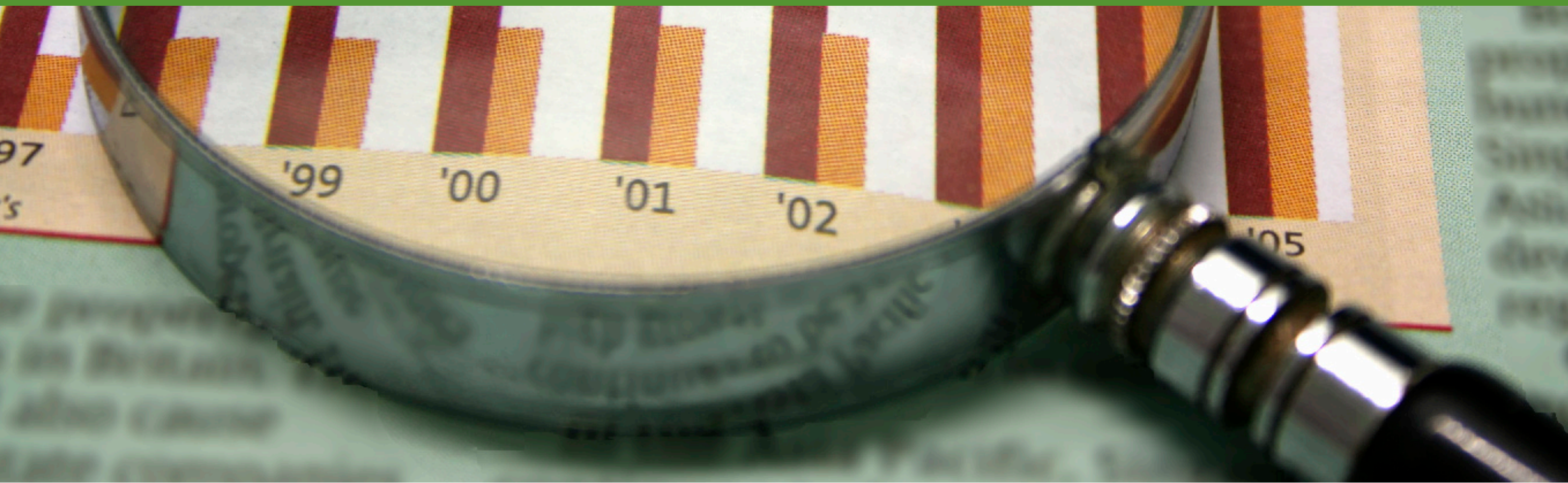


Bonds

More on bond investing

March 2008

The information contained in this publication is for general information purposes only and is not intended by the Investment Industry Association of Canada as investment advice or a recommendation on the appropriateness of bond investing.

Bonds offer investors income predictability, a degree of certainty that interest and principal repayment will be received in full, diversification opportunities and a wide range of investment types, coupon rates and maturity dates to meet your portfolio and personal investment profile.

Building on the bond market fundamentals described in *Bonds: An introduction to bond basics* (available at *www.iiac.ca*), this booklet provides a short bond investing overview before describing in more detail the most common types of bonds available, the special features that bonds may have and the specific types of risk that bond investors should be prepared for as they consider investing.

TABLE OF CONTENTS

Bond trading basics

Trading in the Canadian debt market *4*
Bond pricing *5*
Pricing variations *5*
Checking prices *6*
Commisions and fees *6*

Common types of bonds

Government bonds *8*
Canada and provincial savings bonds *8*
National Housing Act mortgage-backed securities *9*
Strip (zero-coupon) bonds *9*
Real return bonds (RRBs) *9*
Corporate bonds *9*
A bit about other debt instruments *10*

Common bond features

Convertible bonds *11*
Callable bonds *11*
Extendible/retractable bonds *11*
Step-up bonds *12*

Risks of bond investing

Interest rate risk *13*
Default (credit) risk *14*
Liquidity risk *15*
Features risk *15*

A final word *16*

Glossary *17*

BOND TRADING BASICS

For an investor, bonds are one of a wide variety of options available to choose from when building an investment portfolio. The Canadian debt market, which includes bonds and money market instruments, is much larger than Canada's stock market in terms of dollar value, but it is much less known.

The bond market offers a number of benefits that some individual investors may want to consider:

- **Income predictability:** Bonds can provide a series of predictable cash flows with minimal risk to your invested capital
- **Safety:** Bonds have a greater certainty of principal protection when held to term
- **Diversification:** Bonds will complement a portfolio of equities, potentially increasing returns over time because if one class declines in value, there is still potential for an increase in one or more of the other classes
- **Choice:** Bonds come in a wide range of investment types, coupon rates and maturity dates.

Trading in the Canadian debt market

In Canada, there is no public central exchange for trading fixed-income securities like bonds, notes, debentures (with the exception of convertible debentures, which trade on the TSX) and other forms of debt, such as money market securities. Instead, these investments trade in the over-the-counter (OTC) market, that is, usually over the phone or through an electronic trading platform.

Investors may buy bonds as part of an initial public offering (IPO) in the ***primary market*** through their advisor and can buy or sell bonds that have been previously issued in the ***secondary market***. As well, they may invest in bonds through bond or balanced mutual or investment funds or exchange-traded funds (ETFs).

With stock or equity trades, an investment firm or dealer often acts as ***agent*** for the investor by placing a buy or sell order on an exchange, where it is then matched with a counterparty's order. Since bonds are not traded on an exchange, a financial advisor acts as ***principal*** for the investor and typically fills the order through inventory held by the firm. The firm must use internal capital to maintain that inventory and hopes to offset its inventory positions with sufficient proceeds to recover its costs and a return for the risk it carries. If not available from firm inventory, the advisor will find a seller from another firm.

Bond pricing

A bond's price is a function of the bond's coupon rate as compared to the current level of interest, its remaining term to maturity, its credit or default risk and any special features it may have.

Bond prices are quoted in whole numbers that represent a percentage of their face value. A bond quoted at 100 is trading at 100 per cent of its face value or at par. Newly issued bonds are normally priced at par.

The price or market value of a bond fluctuates throughout the bond's lifetime and the bond may be trading at a price greater than (at a premium to), less than (at a discount to) or at its face value.

Frequently, bonds are priced (or valued) against a benchmark. With benchmarking, an individual bond's coupon rate, term to maturity and credit rating are compared to a similar-term bond (usually a Government of Canada bond) and priced accordingly. These prices can fluctuate throughout the day and may also vary slightly from dealer to dealer.

The price at which an investor is willing to buy a bond is known as a **bid**, while the price at which an investor is willing to sell a bond is referred to as an **ask**. For any bond, the ask will always be higher than the bid price. The difference between the bid and ask rates is called the **spread**.

Price variations

Because bonds are traded on a principal basis – and represent a financial risk to the dealer – it is possible for two investment firms to quote slightly different prices for the same bond transaction.

An investment firm that is in short supply of a particular bond is likely to bid more aggressively (i.e., quote a higher price) than a firm that already owns a large position in that security. Generally speaking, prices tend not to vary widely among firms due to the competitive nature of the marketplace in Canada.

Also, the size of the bond trade will have an impact on price. As in most businesses, there are economies of scale in bond trading – because some of the costs associated with trading bonds are fixed, the costs of a $1 million block will be proportionally lower than those of a $10,000 trade and this will be reflected in the price. The smaller trade will thus bear a proportionately higher price to reflect the proportionally higher cost.

Checking prices

Before initiating a bond transaction, investors should review the most recently available quotes to determine a pricing approximation. Since bonds are not traded on an exchange, there is no single location where investors can view live bond quotes from every investment firm. Closing quotes printed in the newspaper provide some guidance on pricing. However, because bond prices are partly a function of dealer market liquidity and the size of the issue being traded, prices quoted in the financial press may not be completely indicative of what an investor should bid or ask.

Bond contracts show both semi-annual yield to maturity and an annual yield to maturity. It is important when comparing yields on different securities to compare annual yields to annual yields and semi-annual to semi-annual yields.

Given growing use of the internet, check with your advisor to find out if his or her firm offers online bond quotes. Also check websites that may provide quotes for free on benchmark federal bonds (see *www.canpx.ca* and *www.tsx.com/HttpController?GetPage=BondsRates&Language=en*). Perimeter CBID (*www.pfin.ca/product_cbid.asp*) provides closing prices for a range of provincial and corporate bonds as well.

How to read bond closing quotes from the newspaper

Issuer	Coupon %	Maturity Date	Bid $	Yield %
Gov't. of Canada	5.500	1-June-09	103.220	4.022
PEI	8.500	27-Oct.-15	129.412	4.395
Bell Canada	7.000	24-Sept.-27	116.802	5.870

Issuer	The government or company issuing the bond.
Coupon	The annual coupon (interest) rate the issuer is paying bond holders.
Maturity date	The date on which the issuer will repay the principal to the bond holder, usually truncated to only show the last two digits. 1-June-09, for example, means a maturity date of June 1, 2009.
Bid price	The highest price someone is willing to pay for the bond – all three bonds above are trading at a premium – above par or $100. Sometimes the ask price – the lowest price at which someone is willing to sell the bond – is also quoted. The difference between the two is the spread.
Yield	The bond's annual return until maturity. It usually represents the yield to maturity rather than the current yield. Notice that because all three of the bonds above are trading at a premium, their yield percentage is less than their coupon rate

Commissions and fees

Financial advisors are compensated either by charging a commission on every transaction (transaction-based accounts) or by charging a fee based on the value of the assets in the account (fee-based or managed accounts). If an account is transaction-based, the commission on a bond trade is embedded in the purchase price and does not appear separately on the buy contract. For fee-based accounts, fees are either billed periodically or debited against the investor's account.

The commission or fee charged on new bond issues is usually fixed. However, there is no set rate for secondary market bond transactions – these may vary by dealer and by bond, based on the liquidity of the bond, size of the issue, size of the order and the amount of the issue a dealer may have in inventory.

As a rule of thumb, the longer the term to maturity and the larger the trade, the less the impact that commissions and fees will have on yield.

When you open an account and in an annual meeting with your advisor – whatever your investment strategy or the type of securities you invest in – discuss compensation. As you would ask a lawyer, accountant, real estate agent or other provider of professional services, ask your advisor about the amount of commission typically charged and about options available to you to determine whether a transaction- or fee-based approach is best suited to your needs.

Calculating commissions and fees

Transaction-based accounts

Commission is charged per transaction based on the par value of the bond. No further commission is charged unless the bond is sold prior to maturity. There is no commission involved when a bond is called for redemption or when it matures.

Commissions are calculated using basis points, a unit of measurement where one basis point is equal to 1/100th of one per cent of yield, or alternatively, 100 basis points equal one per cent of yield.

Example: *A commission of one point on a $50,000 par-value bond is equal to $500, i.e.,* $\frac{50{,}000 \times 1 \text{ basis point}}{100}$

Fee-based (managed) accounts

Fees are usually charged annually based on the current value of the account. The fee is paid to compensate the financial advisor for providing investment advice, managing the portfolio and executing trades.

Example: *An account with a value of $100,000, with an annual fee of 1.5 per cent would charge $1,500 in fees for the year.*

COMMON TYPES OF BONDS

In basic terms, a bond represents a loan by the investor to the issuer. In exchange for the loan, the issuer promises to pay the investor a coupon rate (***interest***) at set intervals and also repay the principal (also known as ***par*** or ***face value***) on a specified date.

As with any loan, there is a risk that the borrower (issuer) will not be able to make its payment commitments. Generally, the higher the risk, the greater the reward investors should expect to receive in terms of bond interest received and possible appreciation in the bond's capital value (known as ***yield*** or ***return***).

One of the benefits of bond investing is that there are a variety of different types of bonds to choose from that offer varying degrees of the risk vs. reward trade-off to suit individual needs, investment objectives and comfort with risk.

Government bonds

Federal, provincial and municipal governments issue bonds as a way of raising capital to fund infrastructure program spending. These bonds are backed by the credit and taxing power of the issuing government and are generally the most secure type of bond investment. But the added safety of these bonds usually comes in exchange for a lower return to investors.

The federal government is the largest single issuer in the Canadian bond market. The Government of Canada issues bonds in its own name and also guarantees bonds issued by federal crown corporations and agencies (e.g., Farm Credit Canada, Business Development Bank of Canada, etc.).

Canada and provincial savings bonds

Canada savings bonds (CSBs) are issued and backed by the Government of Canada – they are not tradable and may only be cashed or redeemed. While they pay only a modest return compared to other bonds, they may be cashed at any time for the full face value plus any accrued interest (except no interest is paid if redeemed within the first three months after the issue date). CSBs are available with either regular or compound interest options.

At the same time as CSBs are issued, the Government also releases Canada premium bonds (CPBs). While these offer a higher rate of interest than CSBs, they may only be redeemed once per year during the 30-day period that follows the anniversary of the issue date.

A number of provinces also issue savings bonds. Visit provincial Finance Ministry websites to find out if your province offers savings bonds.

Because CSBs, CPBs and provincial savings bonds have a number of special features and are low risk, returns are correspondingly low.

National Housing Act mortgage-backed securities

Issued through a federal government program, *National Housing Act* mortgage-backed securities (NHA MBSs) allow for investment in a pool of residential mortgage principal and interest payments that are insured by the Canada Mortgage and Housing Corporation (CMHC).

NHA MBSs are sold in multiples of $5,000. They usually earn returns that are higher than on Government of Canada bonds with equivalent terms and comparable to returns to guaranteed investment certificates (GICs). Interest payments are guaranteed by CMHC and principal repayment terms are available ranging from six months to 25 years.

Strip (zero-coupon) bonds

Strip (or ***zero-coupon***) bonds are bonds where the coupon is "stripped" from the bond and the face value is sold at a discount. Investors do not receive any interest payments but instead earn a return from the difference between the discounted purchase price of the bond and its face value at maturity.

The stripped coupon is also available for investors to purchase as a separate investment.

Example:
A strip bond with a face value of $10,000 maturing in 10 years is purchased for $6,500. No interest is paid during the life of the bond, but at the end of the 10 years, the investor receives the full face value of $10,000.

There are some important tax and risk considerations to be familiar with before investing in strip bonds. To learn more, talk to a financial advisor or visit www.ida.ca for a free copy of the *Strip Bond and Strip Bond Packages Information Statement*.

Real return bonds (RRBs)

Real return bonds are securities with a rate of return that is adjusted for inflation. These bonds pay interest semi-annually and both the interest and principal are adjusted in step with the general level of prices, as measured by the consumer price index.

While the federal government issues most RRBs, there have been occasional issues by some provinces and corporations.

Visit the Bank of Canada website at *www.bankofcanada.ca* for more detailed information on RRBs.

RRBs also have tax implications that need to be considered.

Corporate bonds

Corporations also raise capital by issuing debt. The term ***corporate bond*** is often used to refer to not only bonds, but also other types of debt instruments called ***debentures*** and ***notes***.

If a corporation goes bankrupt, debtholders – bond-, debenture- and noteholders – have a claim to both the income and assets of the corporation ahead of stockholders.

However, each category of debt of a corporation has its own priority ranking:

- In general, bonds are classified as senior debt and rank ahead of debentures and notes. Holders of bonds have a claim against specific assets as collateral.
- Debenture-holders have a general claim on any residual assets left over after higher-ranking claims are met – since debentures carry a higher risk, investors should expect to receive a higher return on debentures compared to on bonds of the same corporation.
- Holders of corporate notes generally have the least claim on assets of corporate debt types, but rank ahead of stockholders should the business fail – they can expect to receive a higher return than debenture- and bond-holders.

The short-term nature of these instruments and their high liquidity generally makes them a conservative investment and a popular substitute for cash holdings in a portfolio. The liquidity and risk of different money market instruments varies, so consult with your investment advisor.

A bit about other debt instruments

There are other forms of short-term fixed-income debt investments, called money market instruments. They commonly include Treasury bills (T-bills), which are issued by the federal government to meet short-term borrowing needs; bankers' acceptances (BAs), which are promissory notes issued by corporations with the unconditional guarantee of a major Canadian bank; and commercial paper, which is short-term debt issued by a corporation.

Money market instruments are typically available in maturity terms of 30, 60 or 90 days; six months; and a year. Generally, they are sold at a discount and mature at par. The difference between the cost of purchase and the maturity amount represents the investor's return that is usually considered interest income.

COMMON BOND FEATURES

Features are terms or conditions a bond issuer may add to bonds to make the debt more appealing to investors or to meet specific needs of the issuer.

The nature of the feature has an impact on yield when comparing bonds with features against bonds without any features that have comparable credit ratings and similar terms.

Convertible bonds

Convertible bonds are bonds or debentures that give investors an option to convert the bond at a future date for a set amount of another class of security issued by the borrower (typically common or preferred shares).

This feature blends the growth potential of stocks with the principle security that bonds usually provide. Because of this benefit, convertible bonds tend to carry a lower coupon rate than comparable "straight" bonds (bonds without special features).

Callable bonds

Callable bonds or debentures give the issuer the option to retire the bond (pay back bondholders) before the maturity date. An issuer may choose to exercise this option if interest rates have fallen. This allows them to issue new bonds at the then prevailing lower rates.

The payback price is pre-specified and is normally set at or above par value. Callable bonds typically carry a higher yield than comparable straight bonds because of the added risk the call feature presents to investors – if a bond is called early, the investor's reinvested funds are subject to the new, lower interest rate.

Extendible/retractable bonds

Extendible and retractable bonds have more than one maturity date. Depending on the terms of the issue, the right to extend or retract can lie with either the investor or the issuer.

An extendible bond can give the investor or issuer the right to extend the initial maturity to a later maturity date. A retractable bond gives the investor or issuer the right, respectively, to receive or make principal repayment(s) on an earlier date than the bond's original final maturity.

If the right to extend or retract lies with the issuer, the issuer will likely have to pay more in interest than on similar bonds without this feature to make the bonds more

In general, when interest rates are rising, bonds that are extendible/retractable at the investors' option provide yields to the earliest date at which the bond can be repaid as the investor will not extend at a lower interest rate than the market is paying – they will exercise the retraction feature and seek to reinvest proceeds in higher-paying instruments. When interest rates fall, bonds that are extendible/retractable at the investors' option will be priced like bonds with longer terms.

appealing to investors. If this right lies with the investor, investors will ordinarily receive a lower return. If investors are given the right to extend or retract, they will accept lower interest (pay a higher price) for the right to extend a bond paying a higher coupon rate when interest rates have fallen. Investors use this type of bond as an attempt to take advantage of movements in interest rates.

Step-up bonds

Step-up bonds or debentures pay a coupon rate that increases over the life of the bond. Upon issue, the coupon is usually set above current interest rates.

Step-up bonds may also contain a call feature. On the date of each coupon payment, the issuer decides whether to call the bond or extend it until the next payment date at the new coupon rate.

RISKS OF BOND INVESTING

Virtually all investments – including bonds – have some degree of risk. Investors should become familiar with the main risks associated with bonds to help evaluate both the appropriateness of this type of investment as a whole and also the suitability of individual bond investments.

Interest rate risk

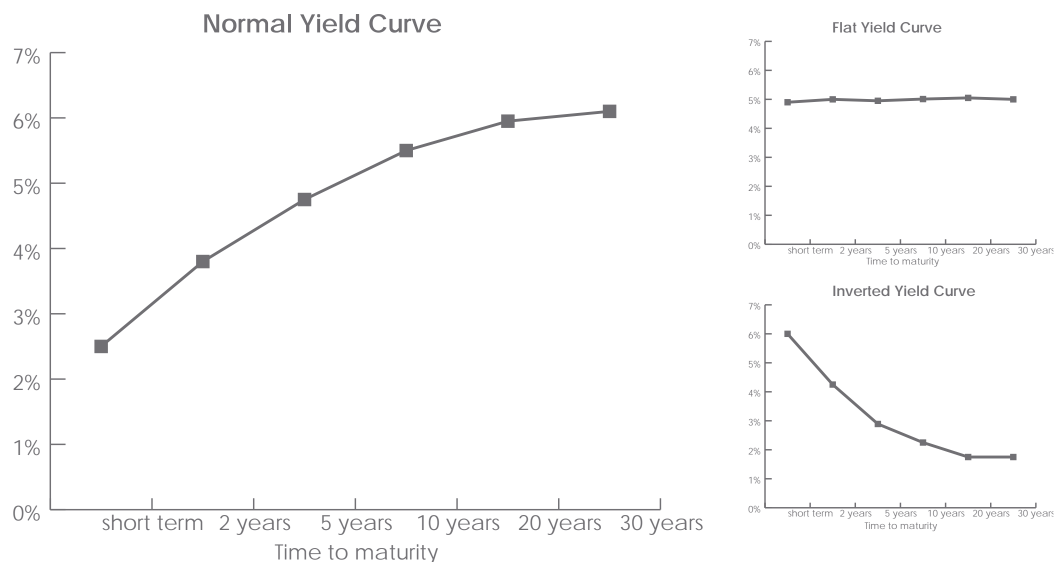
Changes in the level of interest rates generally pose the most significant risk to bond investors. Because a bond bears a coupon rate that remains constant through to maturity, bond prices move inversely with interest rates – the value of a bond rises (it becomes more valuable to the investor) as market interest rates fall, and less valuable as market rates rise.

Generally, the lower the coupon rate and the longer the term to maturity, the greater the impact interest rate changes have on bond price. Prices are also more volatile when interest rates are low, since the impact of a minor change in interest rates is more significant.

There are two other risks related to interest rate levels:

- **Purchasing power (inflation) risk**
  Closely related to interest rate risk is purchasing power (inflation) risk. Rising inflation negatively impacts investors because it reduces their real (inflation-adjusted) return on investment. A bond promises to repay principal at maturity, but if the general prices of goods over the life of the bond increase, the principal received at maturity is able to purchase fewer goods. And since coupon payments on bonds are usually fixed, rising levels of inflation also mean that coupon payments are worth less in real terms than they were previously. Investors who depend on bond cash flows for day-to-day expenses are the most vulnerable to purchasing power risk, as rising inflation may lead to a decline in their standard of living.

- **Maturity (reinvestment) risk**
  Upon bond maturity, investors who want to reinvest the principal repayment in the debt market may face an unfavourable (i.e., lower) interest rate climate. Reinvestments of coupon payments are also subject to this risk. In addition, the longer a bond is held, the greater the chance the investor may be exposed to unfavourable interest rate conditions or a decline in the financial health of the issuer.



The Bank of Canada publishes the Government of Canada yield curve online at *www.bankofcanada.ca* under *Rates & Statistics.*

For information on how yields of different debt instruments are calculated, visit www.iiac.ca.

By monitoring the yield curve, bond investors get a sense of which direction the market expects interest rates to turn over the long run. In general, the longer the term to maturity, the higher the yield will be to compensate investors for bearing additional risk. The yield curve shows this direct relationship between maturity and yield, which usually results in an upward-sloping "***normal***" yield curve. When the difference between short and long-term rates is not expected to change a great deal, the yield curve is said to be ***flat***. When yields on short-term issues are higher than those on longer-term issues, the yield curve is considered ***inverted*** and indicates that investors expect longer-term interest rates to decline.

Default (credit) risk

A bond issuer is in default by failing to repay principal and interest in a timely manner. Federal and provincial government bonds are virtually free of default risk. Debt issued by corporations expose investors to a greater level of default risk, since corporations do not have the ability to raise taxes or borrow to the same extent that governments can. This increased risk is a major reason why corporate bonds offer higher yields than comparable government bonds.

Rating agencies often make their ratings available to the public through their information desks, published reports and on the Internet. For examples, visit www.standardandpoors.com, *www.moodys.ca* or *www.dbrs.ca*.

The quality of the bond – and the level of default risk associated with it – is reflected in the credit rating of the issuer. Credit ratings are assigned by various agencies (e.g., Dominion Bond Rating Service, Moody's Investor Service, Standard & Poor's) that indicate the likelihood that an issuer will default on making its scheduled interest and principal payments.

Most agencies follow a letter-based rating scale. Typically, debt assigned a rating of AAA represents the lowest level of default risk. Debt rated in the BBB category or above is normally considered investment grade, whereas debt with a rating of BB or below is considered speculative or non-investment grade (commonly referred to as junk or high-yield bonds).

Example: Dominion Bond Rating Service long-term debt rating scale

Symbol	Credit Quality	Description
AAA AA A BBB	Highest Superior Satisfactory Adequate	Investment grade
BB B CCC CC C D	Speculative Highly speculative Very highly speculative Very highly speculative Very highly speculative In arrears	Speculative grade

Liquidity risk

Investors sometimes need to sell their holdings quickly, but the secondary (resale) market may be illiquid, delaying the sale or limiting the funds that the sale of the bond generates. Federal and provincial bonds are generally very liquid, while corporate bonds may be much less so. Also, bonds of highly rated publicly traded companies tend to be more liquid than private placements.

The size of the bond issue and the spread between the bid and ask yield are indicators of expected liquidity. Bonds from large issues and bonds with narrower spreads are typically more liquid.

Features risk

Bond features that alter the amount or timing of cash flows expose investors to added risk. For example, the holder of a callable bond may be forced to reinvest the principal sooner than expected, usually at a lower interest rate.

A FINAL WORD

As with any investment, the higher the anticipated return on a bond, the greater the risk.

Key variables such as price, coupon and interest rates, yield, maturity date, features, issuer credit and tax implications all impact the value of bond investments. Market conditions and other risk factors also need to be considered.

Some bond consideratons

Issuer	Corporate bonds are riskier than government bonds and offer higher returns.
Type	Bonds, debentures, notes, etc. give holders different claims on assets.
Maturity	Longer maturity means more risk.
Quality	Higher quality means less risk.
Yield	Higher yield may indicate greater risk or special features that may benefit the issuer.
Interest rates	If rates go up, bond prices usually go down.
Size	Small issues tend to be less liquid, with wider spreads, than larger ones.
Taxes	The type of payments received will determine their tax status, which will impact cash flows and returns.
Features	Convertibles, callables, extendibles, retractables, step-ups, etc. benefit the issuer (expect higher yields) or investor (lower yields).

For expert advice, contact an investment advisor employed by a registered dealer to discuss how bond investing may complement your overall investment strategy and help determine which bonds may best be suited to your individual investment objectives and tolerance for risk.

GLOSSARY

Accrued interest: The amount of interest that has accumulated on a bond since the last coupon payment; added to the total cost of a bond purchase and recouped when the next interest payment is received. For a bond bought on March 31 that pays interest semi-annually on June 30 and December 31, the purchase price is the sum of the bond's market price plus the interest that has accrued since December 31 to compensate the seller of the bond for interest that they have earned but not received. The purchaser will receive the full six-month coupon payment on June 30, which reimburses the investor for the accrued interest paid to the seller for the December 31 to March 31 period.

Basis point: A unit for measuring the bond yield; one basis point is equal to 1/100th of one per cent of yield or, alternatively, 100 basis points are equal to one per cent of yield. If a bond's yield increases from 5.10 per cent to 5.35 per cent, its yield is said to have increased by 25 one-hundredths of a per cent or 25 basis points.

Capital: Wealth, whether in money, property or other assets, that is employed or can be employed to produce more wealth.

Coupon rate: The rate of interest that the bondholder receives stated as a percentage of the bond's face value – a bond with a $1,000 face value and a six-per-cent coupon pays its bondholders $30 every six months (or $60 per year) until the maturity date. While typically bond rates are fixed with interest paid semi-annually, some bonds have variable or floating coupon rates (interest payments change from period to period based on a predetermined schedule or formula) and others pay no interest at all until maturity.

Creditor (also known as investor): The individual or institution that purchases a bond from the issuer.

Current yield: The annual return on the dollar amount paid for the bond, calculated by dividing the dollar amount of the coupon rate by the purchase price. A bond with a $1,000 face value and 6.5 per cent coupon, purchased at par, has a current yield of 6.5 per cent (annual interest of $65 divided by $1,000 purchase price); purchased at $950, it would generate a current yield of 6.84 per cent ($65 interest divided by $950 purchase price); if purchased at $1,100, its current yield would drop to 5.90 per cent ($65 divided by $1,100).

Face value (also known as par or principal):	The initial purchase price of the bond when it is newly issued, representing the amount provided by the lender (the investor or creditor) to the borrower (issuer); the issuer must repay the full face value on the bond maturity date. A bond is trading at a discount when the current market price is below face value and at a premium when the current market price is above face value.
Fixed coupon rate:	Bond interest payments that stay constant throughout the life of the bond.
Issuer:	The entity (usually a government or corporation) that offers bonds for sale.
Maturity date:	The date that specifies when interest (coupon rate) will no longer be paid on the bond and the issuer must repay the principal to the investor.
Settlement date:	The date when the seller must deliver the bond and the purchaser must pay for it. In Canada, money market instruments such as T-bills settle on the same day as the transaction, Government of Canada bonds settle in two or three business days depending on the remaining term to maturity, and most other bonds settle three business days after the transaction date.
Nominee:	Most bondholders hold their bonds through their advisors in electronic nominee form (in the name of their advisor's firm), rather than as certificates in the bondholders' own name to avoid costs and risks of physical certificate-holding.
Variable or floating coupon rate:	Bond interest rate that changes from period to period based on a predetermined schedule or formula, changing the interest payments.
Yield:	The return on a bond; calculated either as the current yield or yield to maturity.
Yield to maturity (YTM):	Indicates the total return a bondholder will receive by holding a bond until it matures; equals all the interest payments to be received (assuming these interest payments are reinvested at the same rate as the current yield on the bond), plus any gain (if the bond was purchased at a discount) or loss (if the bond was purchased at a premium) on the price of the bond. YTM enables bondholders to compare bonds with different maturities and coupons.

The IDA registered investment advisor advantage

When looking to invest money, finding a good investment advisor is critical. There are differences between people *calling* themselves investment advisors and ones *regulated* as advisors, as well as different standards of regulation. Investment Dealers Association of Canada (IDA) registered investment advisors are qualified, trained, regulated and meet high standards of conduct to ensure they provide investors with the best possible service to meet investor needs. The business and financial practices of IDA registered advisors and member investment dealers are regulated by the IDA, Canada's front-line securities regulator.

IDA registered advisors offer:

THE BROADEST CHOICE – IDA registered advisors are able to offer a broad range of investment products and services to meet investors' needs. They can offer not only mutual funds and guaranteed investment certificates (GICs), but also other products only available through registered investment dealers. These include stocks, bonds, options and other more sophisticated alternatives.

FULL UNDERSTANDING OF INVESTOR NEEDS – IDA registered advisors are required to meet rigorous suitability and "know-your-client" rules prior to offering advice. This ensures they understand the investors' financial situation, investment knowledge and objectives, and tolerance for risk.

EXPERT KNOWLEDGE – IDA registered advisors are required to complete extensive training to obtain their registration and meet ongoing education requirements to maintain it. Before being licensed, they are subject to demanding proficiency requirements. They are one of only a few types of advisors subject to mandated continuing education requirements to sustain their expertise as financial products change and capital markets grow.

THE UTMOST IN INTEGRITY – IDA registered advisors are held to strict compliance standards that are monitored at both the firm level and by the IDA.

THE HIGHEST DEGREE OF PROFESSIONALISM – IDA registered advisors are required to act solely in investors' interests to provide investment solutions that meet their clients' specific objectives and needs. They form the only group of investment advisors who must provide clients with written information on how to have complaints addressed through the firm, the IDA and the federal ombudsman – complaint channels to which clients of other types of advisors may not have access. The IDA requires investment dealers across Canada to report all client complaints, even if the complaints are solved at the firm level, through a central database.

PROTECTION – Accounts held at IDA registered investment firms are protected from dealer insolvency by the substantial Canadian Investor Protection Fund (CIPF) to an amount of $1 million or more each (the fund does not cover losses resulting from a decrease in the market value of securities). Visit *www.cipf.ca* for more information.

For a list of IDA registered investment dealers, visit *www.iiac.ca*.

Contact Us

Toronto
11 King St. West
Suite 1600
Toronto, Ontario
M5H 4C7
Tel.: 416.364.2754
Fax: 416.364.4861

Montréal
Place Montreal Trust Edifice A
2112-1800 McGill College Ave.
Montréal, Québec
H3A 3J6
Tel.: 514.843.8083
Fax: 514.843.9763

Vancouver
888 Dunsmuir Street
Suite 1230
Vancouver, British Columbia
V6C 3K4
Tel.: 604.482.1790
Fax: 604.633.1574

www.iiac.ca
capitalmarkets@iiac.ca

The Investment Industry Association of Canada (IIAC), formerly the industry association arm of the Investment Dealers Association of Canada (IDA), advances the position of the Canadian investment industry on regulatory and public policy issues. As the professional association for investment dealers, the Investment Industry Association's mandate is to promote efficient, fair and competitive capital markets for Canada while helping its member firms across the country succeed in the industry. Member firms range in size from small regional brokers to large investment dealers that employ thousands of individuals nationwide. Our members work with Canadian investors to help build prosperity and investment security for them and their families.