



World Markets

Structured Notes: Equity Index Linked Notes

Investors who are looking for equity market returns with the safety of principal that bonds offer may wish to consider Equity Index Linked Notes.

What are Equity Index Linked Notes?

Equity Index Linked Notes pay interest based upon the performance of an equity market index, such as the S&P 500 Composite Price Index, measured from a predetermined level. These Notes are issued so that a conservative investor can participate in equity market returns while at the same time ensuring that their principal will be repaid at maturity regardless of the equity market's performance. This feature eliminates the risk of losing principal that is inherent in traditional stock and mutual fund investments.

These Notes usually have a maturity of anywhere between 2 and 9 years. Typical Notes allow an investor the choice of; (i) holding the Note to maturity and receiving any interest at maturity, (ii) selling the Note in the secondary market prior to maturity, or (iii) electing to receive *early* payment of interest prior to maturity based on index performance up to the time of election and receiving the principal amount at maturity.

HIGH INVESTMENT GRADE ISSUERS

These types of notes are generally issued by high investment grade issuers. Typically the issuer is a federal crown corporation such as the Export Development Corporation (EDC), Business Development Bank of Canada (BDC) or Farm Credit Corporation (FCC), each being AAA rated. Amounts owing under all Notes issued by federal crown corporations, including EDC, BDC and FCC, are full obligations of Her Majesty in right of Canada, just like Government of Canada Bonds.

EQUITY MARKET PARTICIPATION

Instead of paying a predetermined coupon, these Notes offer an investor the potential to earn returns that are superior to those of other conventional government bonds by linking the interest payment to the performance of a particular equity market index or basket of stocks or commodities. The interest payment is typically based on the percentage increase in an index from a predetermined level, but alternatively may be based on the decrease in the index. The interest payment may in some cases be leveraged so that, in percentage terms, it exceeds the relative performance of the market. Accordingly, the investor does not have to worry about whether his or her portfolio, or portfolio manager, will underperform the underlying equity market.

For example: Export Development Corporation issued Notes in April 1996 with the following terms:

Issuer:	EDC (AAA rated, federal crown agency)
Principal Protected:	Yes
Maturity Date:	July 18, 2001
Index Linked:	Nikkei 225 Index (Japan's primary stock index)
Payment:	125% of any upside gain
Index Base Level:	21,883.84 (Nikkei 225 Close on April 19, 1996)
Foreign Exchange:	Currency Neutral (Yen/C\$ exchange rate has no effect)
RRSP Eligibility:	Yes, RRSP eligible as Canadian content

Below is an example of pay-out at maturity (assuming no election for early payment of interest) if the Nikkei 225 Index gained 50% from the Index Base Level. *The Noteholder would be paid interest of 62.5% of principal due to leverage of 125% (i.e., 50% x 1.25).*

Payment at maturity assuming C\$10,000 invested:

Principal:	C\$10,000
Interest 62.5%:	C\$ 6,250
Total	C\$16,250

Are these Notes RRSP Eligible?

Yes. These Notes are 100% eligible for RRSP accounts. Since these Notes are obligations of a Canadian issuer, they are not considered foreign content although they may be linked to a foreign market index. This feature allows RRSP investors to further diversify outside domestic markets within their RRSP accounts.

How much do the Notes cost?

These Notes may be purchased generally in the same denominations as other conventional bonds. The per unit denomination is \$1,000. A new Note would be issued at par (100.00% of face amount) and require a minimum order of \$5,000. Once issued, the Notes will fluctuate in price over time with market conditions, including the level of the underlying index, foreign exchange and interest rates changes.

Are there any annual management fees?

No. Unlike mutual funds that charge an annual management fee, there are no annual or other administrative fees charged to hold these Notes.

Do I have to hold the Notes to maturity?

No. The Noteholder can sell the Note on an available secondary market. CIBC World Markets usually provides an active market for the Notes. In addition, typical Notes offer the investor the ability to elect to receive early payment of interest prior to maturity based on the performance of the underlying index at that time.

What about taxes?

These Notes are ideal for tax deferred accounts like RRSPs and RRIFs. However, if held inside a taxable account the investor is not required to declare "accrued" interest annually. Instead, the income must be declared only for the year in which the amount of interest payable is determined (that is, upon maturity or upon election to receive early payment of interest). In the case of Notes held inside a taxable account and *sold* before they mature, Revenue Canada has not clarified how the gain or loss would be treated for tax; in that event, the holder should consult his or her tax advisor.

How do I buy Equity Linked Notes?

Financial Consultants at Wood Gundy Private Client Investments have full details on current issues of Equity Index Linked Notes. Let one of them advise you on a Note issue that suits your financial goals.

**Contact a CIBC Wood Gundy Financial
Consultant today! He or she
will be pleased to demonstrate how
Equity Index Linked Notes can improve
your fixed income returns.**

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