



World Markets

Structured Notes: Multi-Callable Notes

Investors looking for enhanced yields over traditional government bonds may wish to consider Multi-Callable Notes. These notes are bonds issued by both the federal and provincial governments, as well as various high-grade banks and corporations.

What are Multi-Callable Notes?

Multi-Callable Notes enable the note issuer (for example, a province) to “call” or retire the note at the note issuer’s option on specified dates in the future. These “call option” dates are specified at issuance and the note can only be called on those dates. In return for this flexibility of term to maturity, the issuer is willing to pay investors a higher than usual rate of interest.

For example, each Multi-Callable “Step Up” Note issue has the following “call option” dates.

INITIAL MATURITY DATE

The earliest date at which an issue may be called.

EXTENDED MATURITY DATES

Subsequent call option dates.

FINAL MATURITY DATE

The maximum date at which the note must be retired.

There are two principal types of Multi-Callable Notes:

MULTI-CALLABLE STEP UP NOTES

Typically the coupon paid on these notes increases or “steps up” if the notes are not called by the note issuer. If not called, the investor is compensated with increased coupon payments. Multi-Callable Step Up Notes are suitable for both RRSP and non-RRSP accounts. Coupon payments on most issues are made semi-annually or quarterly, while a few issues make coupon payments monthly or annually.

ACCRUAL NOTES

Here, the note’s interest rate remains flat and accrues interest at a constant rate. No payments are made to the investor until the note is called or matures, whichever comes first. This structure is very much like a strip, or zero coupon bond. The primary difference is that it begins life at par (\$100.00) and accrues forward according to a payout table. These notes are most suitable for tax sheltered accounts such as RRSPs.

Why is there such a yield enhancement?

The call feature gives the note issuer increased financing flexibility. In return for this flexibility, the investor is compensated with higher yields than are available elsewhere in the marketplace.

How much do Multi-Callable Notes cost?

Multi-Callable Notes cost the same as any other bond. The per unit denomination is a face value of \$1,000, and a newly issued note would come to market at par (\$100.00). The value of the notes may fluctuate as the bond market changes over time. One special feature of Accrual Notes is that they begin life at \$100.00 and mature to a figure greater than \$100.00 (for example, \$120.00). Over time, their value marches forward toward their redemption or "call" price.

Do I have to hold these notes until maturity?

No. There is a very active secondary market for these notes and CIBC Wood Gundy is the most active market maker in this segment. Because of the notes' callable feature, the price movement will be different than the movement of other bonds with similar terms to maturity and credit risk. For example, if prevailing interest rates fall, the market price of the notes may be limited to the call price. Issuers are more likely to exercise their right to call these notes during periods of relatively low interest rates.

What about taxes?

MULTI-CALLABLE STEP UP NOTES

Step Up Notes pay coupons at least once per annum and the coupon interest received is considered income. If the note is sold at a price greater than the purchase price, capital gain regulations will apply.

ACCRUAL NOTES

Accrual Notes are designed primarily for non-taxable accounts because they do not pay any interest until the notes are redeemed or mature, whichever occurs first.

Are Multi-Callable Notes riskier than traditional bonds?

No. Multi-Callable Notes have the same credit and market risks as traditional bonds. Investors looking for predictable maturity dates should be aware that a Multi-Callable Note may not mature on the initial maturity date, but that this risk is compensated for by increased coupon payment.

How do I buy Step Up and Accrual Notes?

All Wood Gundy Private Client Investments Financial Consultants have full details on current Multi-Callable Note issues. Let one of them advise you on a note that suits your financial needs.

**Call a Wood Gundy
Private Client Investments Financial
Consultant today! He or she
will be pleased to demonstrate how
Multi-Callable Notes can improve
your fixed income returns**

Research Disclaimer

This report is issued by (i) in Canada, CIBC World Markets Inc., a member of the IDA and CIPF, (ii) in the US, CIBC World Markets Corp., a member of the NYSE and SIPC, and (iii) in the UK, CIBC World Markets plc, which is regulated by the SFA. Any questions should be directed to your sales representative.

Every province in Canada, state in the US, and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, some of the securities discussed in this report may not be available to every interested investor. Accordingly, this report is provided for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. No part of any report may be reproduced in any manner without the prior written permission of CIBC World Markets.

The information and any statistical data contained herein have been obtained from sources which we believe to be reliable, but we do not represent that they are accurate or complete, and should not be relied upon as such. All opinions expressed and data provided herein are subject to change without notice. A CIBC World Markets company or its shareholders, directors, officers and/or employees may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. A CIBC World Markets company may have acted as initial purchaser or placement agent for a private placement of any of the securities of any company mentioned in this report, may from time to time solicit from or perform financial advisory, investment banking or other services for such company, or have lending or other credit relationships with the same. The securities mentioned in this report may not be suitable for all types of investors; their prices, value and/or the income they produce may fluctuate and/or be adversely affected by exchange rates. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is no guarantee of future results.

Although each company issuing this report is a wholly-owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation, the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

©1999 CIBC World Markets Corp. and CIBC World Markets Inc. All rights reserved.

