

## Pre-Cleared Canadian Structured Product Emerges

National Bank Financial Group, a branch of the National Bank of Canada, has obtained pre-cleared regulatory approval for three structured note programs for principal at risk notes from the **Autorité des Marchés Financiers**. “This is a game-changer for Canadian markets because it offers an adviser the opportunity to crystallize a view quickly,” **François Rivard**, managing director in the financial products solutions group at the bank in Montreal, told *Derivatives Week*. “They won’t have to wait weeks because of the regulatory or legal framework.”

Canadian regulations require that novel structured notes with principal at risk be pre-cleared with the AMF. A structure is considered novel if the issuing bank has never issued that structure before, whether due to a new underlying or payout structure. That means that every new structure must be cleared through a relatively lengthy legal process. In those cases, the AMF has a 10-day working period to respond to a request for clearance, at which point it often has comments and questions regarding the issuance or structure of the notes.

Considering the time it takes to structure the note and fill out the paperwork beforehand, a customized note generally is not issued until a month after its original inception. “This means an investor sometimes misses his window of opportunity,” said **Jean-Pierre Chamberland**, partner at **Fasken Martineau** in Montreal and adviser to NBF on the pre-clearance initiative.

Essentially, NBF and its lawyers at **Fasken Martineau** in Montreal went through a lengthy legal process of documenting three different types of structures; reverse convertibles, tracking certificates, and accelerators, for clearance by the AMF. They included several different types of modified payout structures,

such as maturity-monitored barriers, daily-monitored barriers, and a buffer on the accelerator notes. Each structure and its set of modifiers are grouped into what is called a Program, and the Programs have been grouped together under the moniker NBC Bespoke Notes.

The blessing allows the NBF to sell the structures within 48 hours of an investment advisers’ request, instead of the previous standard time of about one month. The NBC Bespoke Notes represent the first time a Canadian bank has pre-cleared specific structures with the AMF. Other Canadian banks have

been rumored to pre-clear for a set of underlyings, such as index-linked structures, but not specific structures. NBF is also now in the process of clearing underlyings as well, according to Chamberland.

The most popular of the bespoke structures so far have been buffered accelerators on stocks or Canadian indices, said Rivard. One particular note was based on the stock of **Cameco Corp**, a Canadian uranium

company, and had a maturity-monitored

barrier, meaning the maximum redemption amount at maturity was set at 29.5% per note. The downside buffer was set at -15%.

The notes can be issued with a minimum notional of CAD1 million (USD1.04 million), and individual investors can contribute a minimum of CAD5,000. NBF began exploring investor demand in January, and began actively selling notes over the last few weeks. They have since sold five or six notes, said Rivard, through their various investment advisers, which include **RBC Dominion Securities** and **TD Bank**.

