

What is a Security?

Prepared for: Legal Education Society of Alberta
Securities Law for Legal Support Staff

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For presentation in:
Calgary, Alberta – January 7, 2016

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In order to be successful, a business needs access to many resources. Therefore, one of the most important activities of a business is raising capital. How does a business do this? The simple answer, is by issuing securities. This leads us to the question that is the topic of this seminar paper, namely, what is a “security”?

A “security” is a share or debt obligation of an “issuer”. An “issuer” is a person or company that has outstanding securities, is issuing securities or proposes to issue securities of any kind. The definition of issuer encompasses not just corporate entities but also individuals, partnerships, trusts, syndicates, administrators and other unincorporated organizations that have, are or will be issuing securities.

Thus, a security is a very broad concept and there are many types of securities; however, the most common types are equity securities, debt securities and convertible securities. A brief description of each of these most common types of securities follows with examples to help illustrate not only what a security is, but also what a security does.

EQUITY SECURITIES

An issuer may raise money by issuing equity. This is commonly referred to as the issuance of shares or other equity claims in the issuer. Equity securities grant rights to share in the distribution of profits of the issuer, commonly referred to as “dividends”. Equity securities may also grant rights to a share in proceeds, net of the payments of debts, on a sale of the assets of the issuer when it is wound up or dissolved.¹ These are just two rights that may be included in the bundle of rights provided to a shareholder in return for their provision of funds to the issuer.

A securityholder’s specific bundle of rights will depend on the type of equity security that they hold, as equity securities are often issued in classes. Two of the most commonly used classes of equity securities used by corporations are the common share and the preferred share.

Common Shares

Common shares are the most frequently used class of share. Common shares carry three essential rights: (i) the right to vote at shareholder meetings, (ii) the right to share in any dividends available

¹ Mark Gillen, *Securities Regulation in Canada*, 3rd ed (Toronto: Thomson Canada Limited, 2007) [Securities Regulation] at 7.