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Headnote

Mutual Reliance Review System for Exemptive Relief Applications – relief from registration and prospectus requirements in connection with issuer distributing common shares on certain automatic conversions of previously issued security

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 34(1)(a), 45(2)(12)(iii)(A), 48, 61, 74(2)(11)(iii)(A), 76

Multilateral Instrument 45-102, *Resale of Securities*, ss. 2.6(3), (4) or (5), 2.10

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA, MANITOBA, NEW BRUNSWICK, PRINCE EDWARD ISLAND, THE NORTHWEST TERRITORIES, THE YUKON TERRITORY AND THE TERRITORY OF NUNAVUT

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF NORTEL NETWORKS CORPORATION

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Manitoba, Prince Edward Island, New Brunswick, the Northwest Territories, the Yukon Territory and the Territory of Nunavut (the “Jurisdictions”) has received an application (the “Application”) from Nortel Networks Corporation (“Nortel”) for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that the requirements contained in the Legislation to be registered to trade in a security, to file a preliminary prospectus and a prospectus and to receive receipts therefor (the “Registration and Prospectus Requirements”) shall not apply to certain trades of common shares of Nortel;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the British Columbia Securities Commission is the principal regulator for this Application;

AND WHEREAS Nortel has represented to the Decision Makers that:

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1. Nortel is a corporation incorporated under the laws of Canada, is a reporting issuer in each of the Jurisdictions where such concept exists and, to the best of its knowledge, is not in default of any requirement of the Legislation.
2. Nortel is qualified to file a prospectus in the form of a short form prospectus under National Instrument 44-101 *Short Form Prospectus Distributions* (“44-101”).
3. Nortel Networks Limited is a corporation incorporated under the laws of Canada, is a reporting issuer in each of the Jurisdictions where such concept exists and, to the best of its knowledge, is not in default of any requirements of the Legislation. All of the outstanding common shares of Nortel Networks Limited are held by Nortel.
4. Nortel Networks Limited is eligible to file a prospectus in the form of a short form prospectus under section 2.6 of 44-101 for a distribution of debt securities or preferred shares convertible into securities of a credit supporter, including Nortel.
5. On May 30, 2002, Nortel and Nortel Networks Limited filed a short form base shelf prospectus (the “Canadian Base Shelf”) with the Decision Makers in accordance with 44-102 *Shelf Distributions*. The Canadian Base Shelf is an “unallocated shelf” and effectively incorporates a prospectus (the “U.S. Shelf Prospectus”) filed by Nortel and Nortel Networks Limited with the United States Securities and Exchange Commission.
6. Under the Canadian Base Shelf, Nortel may issue various types of securities, including share purchase contracts. Share purchase contracts may be issued by Nortel separately or as part of units consisting of a share purchase contract and debt securities of Nortel or obligations of third parties (including U.S. treasury securities).
7. Nortel is contemplating qualifying for sale in Canada and the U.S. (the “Offering”) certain equity units (the “Equity Units”) which would each initially evidence a holder’s ownership of:
 - (a) a prepaid forward purchase contract entitling the holder to receive a determinable number of common shares (“Common Shares”) of Nortel (the “Purchase Contract”); and
 - (b) a number of specified United States zero-coupon treasury securities (the “Treasury Component”).

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8. In connection with the Offering, the Equity Units would be qualified for sale in the Jurisdictions under the final Canadian Base Shelf, as supplemented by a shelf prospectus supplement to be filed in accordance with 44-102. The Purchase Contract is a “specified derivative” within the meaning of 44-102. Accordingly, Nortel filed a draft of the shelf prospectus supplement (the “Equity Units Supplement”) in substantially final form with each Decision Maker. Under an MRRS decision dated May 31, 2002, the Decision Makers confirmed acceptance of the Equity Units Supplement as required under 44-102 for any offering of novel specified derivatives.
9. In accordance with the terms of a purchase contract agreement (the “Purchase Contract Agreement”) to be entered into between Nortel and a purchase contract agent (the “Purchase Contract Agent”), on behalf of the holders of the Purchase Contracts, each Purchase Contract would entitle the holder to delivery (without any further consideration) of a number of Common Shares to be determined by reference to the average of the closing prices of the Common Shares on the New York Stock Exchange during a period of time shortly before the settlement date (the “Settlement Date”), which is expected to be three years from the closing date of the Offering (unless an acceleration event occurs prior to such date or the holder has elected an early settlement option, as described below).
10. A representative of the underwriters of the Offering would purchase United States zero-coupon treasury securities (the “U.S. Treasury Strips”) with the portion of the Equity Unit price allocable to the Treasury Components and deliver them to a custodian (the “Custodian”) who would hold them as agent for the holders of the Equity Units, in accordance with the terms of a custodial agreement to be entered into between the Custodian and the Purchase Contract Agent, on behalf of the holders of the Equity Units.
11. The U.S. Treasury Strips will be in face amounts and have semi-annual maturity dates structured to provide holders of Equity Units with a semi-annual distribution in an amount to be fixed at the time of pricing of the Offering. Each semi-annual distribution would consist of the maturity of a U.S. Treasury Strip payable by the U.S. Government to the Custodian, which would then be remitted by the Custodian to the Purchase Contract Agent for payment to holders of the Equity Units. Nortel will not have any obligations or liabilities in respect of the Treasury Components.
12. Holders of Equity Units may choose to hold their Purchase Contracts and their Treasury Components separately, rather than in the form of Equity Units, in which case the corresponding Equity Units would be cancelled. Equity Units

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may also be recreated at any time by depositing with the Purchase Contract Agent and the Custodian, as the case may be, for each Equity Unit being recreated, one Purchase Contract and each of the U.S. Treasury Strips which has not yet matured and remains in the Treasury Component.

13. The Purchase Contract Agreement will provide that a holder of Equity Units may elect to accelerate the Settlement Date (the "Early Settlement Option") in respect of such holder's Purchase Contracts and receive a specified number of Common Shares per Purchase Contract which will depend upon the date of election. Upon the exercise of the Early Settlement Option by a holder of Purchase Contracts held in the form of Equity Units, such holder will receive the U.S. Treasury Strips evidenced by such holder's Treasury Components.
14. The Purchase Contract Agreement will also provide that a holder of Equity Units may elect to accelerate the Settlement Date in respect of such holder's Purchase Contracts in certain circumstances where Nortel is involved in a merger, amalgamation or arrangement (such election, also the "Early Settlement Option").
15. The Purchase Contract Agreement will also provide that, upon the occurrence of certain specified events of bankruptcy, insolvency or reorganization with respect to Nortel (each such event, an "Acceleration Event"), the Settlement Date will automatically accelerate and the holders of Equity Units will be entitled to receive a specified number of Common Shares per Purchase Contract. Upon the occurrence of an Acceleration Event, holders of Purchase Contracts held in the form of Equity Units will receive the U.S. Treasury Strips evidenced by the holder's Treasury Components or cash.
16. Trades in Common Shares issued on settlement of the Purchase Contracts upon exercise of the Early Settlement Option will be exempt from the Registration and Prospectus Requirements of the Jurisdictions, other than New Brunswick and the Yukon Territory (the "Non-exempt Early Settlement Trades").
17. There are no exemptions from the Registration and Prospectus Requirements in respect of trades in Common Shares issued on settlement of the Purchase Contracts on the Settlement Date or upon the occurrence of an Acceleration Event (the "Non-exempt Automatic Settlement Trades").

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

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AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers under the Legislation is that the Registration and Prospectus Requirements of the Jurisdictions shall not apply to the Non-exempt Automatic Settlement Trades, provided that no commission or other remuneration is paid or given to others for the trades except for administrative or professional services or for services performed by a registered dealer.

AND THE FURTHER DECISION of the Decision Makers in New Brunswick and the Yukon Territory under the Legislation is that the Registration and Prospectus Requirements of such Jurisdictions shall not apply to the Non-exempt Early Settlement Trades, provided that:

- (i) no commission or other remuneration is paid or given to others for the trades except for administrative or professional services or for services performed by a registered dealer; and
- (ii) the trade is not a distribution from the holdings of a control person.

AND THE FURTHER DECISION of the Decision Makers is that any trade in Common Shares acquired under this decision is deemed to be a distribution or primary distribution to the public unless the conditions in section 2.10 or subsections (3), (4) or (5) of section 2.6 of Multilateral Instrument 45-102 *Resale of Securities* are satisfied.

DATED June 6, 2002

Brenda Leong
Director