

2002 BCSECCOM 516

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – relief from requirements of National Instrument 44-102 where US Government is issuing part of an equity unit – acceptance of draft shelf prospectus supplement relating to equity units that are novel specified derivatives – post decision confidentiality

Applicable British Columbia Provisions

National Instrument 44-102 *Shelf Distributions*, ss. 3.1, 4.1, 11.1

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO, QUEBEC, NEW BRUNSWICK, NOVA SCOTIA, PRINCE EDWARD ISLAND, NEWFOUNDLAND AND LABRADOR, 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, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, 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:

- (a) Nortel be exempt from the requirements of section 3.1 of National Instrument 44-102 *Shelf Distributions* (“44-102”) such that Nortel may distribute certain securities under a base shelf prospectus as supplemented by a shelf prospectus supplement; and
- (b) The Decision Makers have accepted a draft shelf prospectus supplement pertaining to the distribution of certain of such securities;

2002 BCSECCOM 516

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

AND WHEREAS Nortel has represented to the Decision Makers that:

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 section 2.2 of 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 requirement 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 13, 2002, Nortel and Nortel Networks Limited filed a preliminary short form base shelf prospectus (the “Canadian Base Shelf”) with the Decision Makers in accordance with 44-102. It is anticipated that Nortel and Nortel Networks Limited will file the Canadian Base Shelf in final form with the Decision Makers on or about May 30, 2002. 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 on May 13, 2002.
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:

2002 BCSECCOM 516

- (i) a prepaid forward purchase contract entitling the holder thereof to receive a determinable number of common shares (“Common Shares”) of Nortel (the “Purchase Contract”); and
 - (ii) a number of specified United States zero-coupon treasury securities (the “Treasury Component”).
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 with each Decision Maker a draft preliminary shelf prospectus supplement on May 29, 2002 (the “Equity Units Supplement”) in respect of the Offering for pre-clearance as contemplated by subsection 4.1(2) of 44-102. The Equity Units Supplement is in substantially final form.
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

2002 BCSECCOM 516

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 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, 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.
15. Pursuant to section 3.1 of 44-102, an issuer is permitted to establish a base shelf prospectus pertaining to one or more securities for which the issuer is qualified to file a prospectus in the form of a short form prospectus. Nortel is not qualified to file a prospectus in the form of a short form prospectus for the Treasury Components and therefore is not qualified to file a prospectus in the form of a short form prospectus for the Eligible Units. Nortel is therefore unable to effect the Offering under the Canadian Base Shelf without relief from the eligibility requirements of 44-102.
16. Nortel is of the view that prospective purchasers of Eligible Units will not derive any additional benefit or protection from the disclosure required by a long form prospectus. The risks associated with holding U.S. treasury securities in the form of the Treasury Components are limited to the creditworthiness of the U.S. Government.

2002 BCSECCOM 516

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

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 Nortel is exempt from the requirements of section 3.1 of 44-102, such that Nortel may distribute units (“Eligible Units”) consisting of “share purchase contracts” (as defined in the Canadian Base Shelf) and United States Treasury securities under the final Canadian Base Shelf, as supplemented by a shelf prospectus supplement; provided that Nortel shall file before or concurrently with the filing of the final Canadian Base Shelf an undertaking with the Decision Makers that it will not distribute under the final Canadian Base Shelf any Eligible Units in a Jurisdiction, unless:

- (a) the draft shelf prospectus supplement or, if more than one shelf prospectus supplement is to be used, each of the draft shelf prospectus supplements, pertaining to the distribution of the Eligible Units have been delivered to the applicable Decision Maker in substantially final form; and
- (b) either (i) the Decision Maker has confirmed his or her acceptance of each draft shelf prospectus supplement in substantially final form or each shelf prospectus supplement in final form, or (ii) 21 days have elapsed since the date of delivery to the Decision Maker of each draft shelf prospectus supplement in substantially final form and the Decision Maker has not provided written comments on the draft shelf prospectus supplement.

THE FURTHER DECISION of the Decision Makers under the Legislation is that, in accordance with clause 4.1(2)(b) of 44-102 and the undertaking of Nortel referred to above, the Decision Makers have accepted the Equity Units Supplement pertaining to the distribution of Equity Units.

Dated May 31, 2002

Iva Vranic, Manager, Corporate Finance

2002 BCSECCOM 516

AND THE FURTHER DECISION of the Decision Makers under the Legislation is that the Application and the Decision shall be held in confidence by the Decision Makers until the earlier of (a) the public announcement of an offering of Equity Units under the Equity Unit Supplement, and (b) September 1, 2002.

Dated May 31, 2002

Paul M. Moore

Howard I. Wetston