

2003 BCSECCOM 464

Headnote

Mutual Reliance Review System for Exemptive Relief Application – relief from the registration and prospectus requirements for securities underlying trust units being qualified by prospectus – underlying securities being issued by another issuer – relief granted for first trades of underlying securities provided prospectus qualifying trust units is receipted

Applicable British Columbia Provisions

Securities Act, R.S.B.C.1996, c. 418, ss. 48 and 76

**IN THE MATTER OF THE SECURITIES LEGISLATION OF
NOVA SCOTIA, BRITISH COLUMBIA, MANITOBA, NEWFOUNDLAND
AND LABRADOR, PRINCE EDWARD ISLAND AND NEW BRUNSWICK**

AND

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

AND

**IN THE MATTER OF INDUSTRIAL ALLIANCE INSURANCE AND
FINANCIAL SERVICES INC.**

AND

INDUSTRIAL ALLIANCE CAPITAL TRUST

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of Nova Scotia, British Columbia, Manitoba, Newfoundland and Labrador, Prince Edward Island and New Brunswick (collectively, the “Jurisdictions”) has received an application on behalf of Industrial Alliance Insurance and Financial Services Inc. (“Industrial Alliance”) and Industrial Alliance Capital Trust (the “Trust”) for a decision, pursuant to the securities legislation of the Jurisdictions (the “Legislation”), that the requirements under the Legislation to be registered to trade in a security (the “Registration Requirement”) and to file and obtain a receipt for a preliminary prospectus and a prospectus (the “Prospectus Requirement”) shall not apply to certain Trades (as defined herein), subject to certain conditions;

2003 BCSECCOM 464

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the Nova Scotia Securities Commission is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meanings set out in National Instrument 14-101 Definitions;

AND WHEREAS Industrial Alliance and the Trust have represented to the Decision Makers that:

1. The Trust is an open-end trust established under the laws of the Province of Ontario by Computershare Trust Company of Canada (the “Trustee”), as trustee, pursuant to a declaration of trust dated June 16, 2003. The Trust’s principal office is located in Toronto, Ontario and its executive offices are located in Montreal, Quebec. Industrial Alliance, whose head office is located in Quebec, will be the administrative agent of the Trust pursuant to an Administration Agreement (as defined herein) between the Trustee and Industrial Alliance.
2. Following completion of the Offering described below, the authorized capital of the Trust will consist of an unlimited number of : (i) Special Trust Securities (the “Special Trust Securities”); and (ii) Industrial Alliance Trust Securities – Series A (the “IATS – Series A”). The Special Trust Securities and the IATS – Series A are collectively referred to herein as the “Trust Securities”.
3. The Trust was established solely for the purpose of effecting a public offering of IATS – Series A (the “Offering”) and possible future offerings of securities in order to provide Industrial Alliance with a cost effective means of raising capital by means of: (i) creating and selling the Trust Securities; and (ii) acquiring and holding assets, which, on completion of the Offering, will consist primarily of one senior debenture issued by Industrial Alliance (the “IA Series A Debenture”). The IA Series A Debenture will generate income for distribution to holders of the Trust Securities. The Trust does not and will not carry on any operating activity, other than in connection with the Offering and any future offerings.
4. Subject to regulatory approval, the IATS – Series A will qualify as Tier 1 Capital of Industrial Alliance for the purposes of the capital adequacy guidelines issued by the Inspector General of Financial Institutions of Quebec or its successor (the “Inspector General”). The Trust will also issue and sell Special Trust Securities, which are voting securities of the Trust, to Industrial Alliance in connection with the Offering.

2003 BCSECCOM 464

5. Industrial Alliance is a life insurance company governed by *An Act respecting insurance* (Québec), Part 1A of the *Companies Act* (Québec) and *An Act respecting Industrial Alliance, Life Insurance Company* (Québec).
6. Industrial Alliance is a reporting issuer or the equivalent in each of the provinces of Canada that provides for a reporting issuer regime (or its equivalent) and is not, to its knowledge, in default of any reporting requirement under the Legislation.
7. The share capital of Industrial Alliance consists of (i) an unlimited number of class A preferred shares without nominal or par value, issuable in series (the “IA Class A Preferred Shares”), (ii) 10,000,000 preferred shares with a nominal or par value of \$25 per share, issuable in series (the “IA Preferred Shares”), and (iii) an unlimited number of common shares without nominal or par value (the “IA Common Shares”). As of June 13, 2003, 39,237,230 IA Common Shares and 7,500,000 IA Preferred Shares, Series 1 (the “IA Preferred Shares Series 1”) were issued and outstanding. It is intended that IA Class A Preferred Shares, Series A (the “IA Class A Preferred Shares Series A”) will be created and issued prior to or at the closing of the Offering. In addition, as of June 13, 2003, 3,000,000 IA Preferred Shares, Series 2 (the “IA Preferred Shares Series 2”) and 3,000,000 IA Preferred Shares, Series 3 were created and reserved for issuance upon the respective conversion of the IA Preferred Shares Series 1 and the IA Preferred Shares Series 2. This summary is qualified in its entirety by the articles of Industrial Alliance.
8. Pursuant to the terms of the IATS - Series A and a Share Exchange Agreement to be entered into among Industrial Alliance, the Trust and a party acting as exchange trustee (the “Share Exchange Agreement”), the IATS – Series A may be exchanged (the “Holder Exchange Right”), at the option of the holder of the IATS - Series A, for IA Class A Preferred Shares, Series YY (the “IA Class A Preferred Shares Series YY”) . The IATS – Series A will be automatically exchanged, without the consent of the holder, for IA Class A Preferred Shares, Series ZZ (the “IA Class A Preferred Shares Series ZZ”) upon the occurrence of certain stated events relating to the solvency of Industrial Alliance or actions taken by the Inspector General in respect of Industrial Alliance (the “Automatic Exchange”). The IA Class A Preferred Shares Series YY and the IA Class A Preferred Shares Series ZZ are collectively referred to herein as the “IA Exchange Class A Preferred Shares”.
9. The IA Series A Debenture will be convertible at any time at the option of the holder into IA Class A Preferred Shares Series YY (such right of conversion being referred to herein as the “Debenture Conversion Right”), exercisable by

2003 BCSECCOM 464

the Trust in circumstances in which holders of IATS – Series A exercise the Holder Exchange Right, to enable the Trust to satisfy its obligation to deliver IA Class A Preferred Shares Series YY to holders of IATS – Series A in connection with the Holder Exchange Right.

10. Pursuant to the Share Exchange Agreement, Industrial Alliance will grant to the Trust the right to subscribe (the “Subscription Right”) for IA Exchange Class A Preferred Shares of the appropriate series in order to enable the Trust to redeem the IATS – Series A (if any remain outstanding) in circumstances where: (i) the Automatic Exchange is triggered and, for any reason, the Automatic Exchange does not result in the exchange of all outstanding IATS – Series A for IA Class A Preferred Shares Series ZZ or (ii) the Holder Exchange Right is exercised following maturity of the IA Series A Debenture (in which case, the Trust would not have the benefit of the Debenture Conversion Right).
11. The Holder Exchange Right will be effected through the conversion by the Trust of the corresponding principal amount of the IA Series A Debenture into IA Class A Preferred Shares Series YY, or the acquisition by the Trust of such shares through the exercise of the Subscription Right. Holders of IATS – Series A exercising the Holder Exchange Right will, upon surrendering the IATS – Series A to be exchanged, receive from the Trust 40 IA Class A Preferred Shares Series YY in respect of each IATS – Series A so exchanged and the IATS – Series A surrendered for exchange will be cancelled.
12. The Automatic Exchange will be effected pursuant to the terms of the Share Exchange Agreement. As of the time of the exchange, each holder of IATS – Series A shall be deemed to have exchanged and transferred to Industrial Alliance all of such holder’s rights, title and interest in and to its IATS – Series A in exchange for 40 IA Class A Preferred Shares Series ZZ and: (i) such holder shall cease to be a holder of any IATS – Series A; (ii) all rights of such holder as a securityholder of the Trust will cease; and (iii) such holder shall therefrom be deemed to be and shall be for all purposes a holder of IA Class A Preferred Shares Series ZZ. If, for any reason, the Automatic Exchange does not result in the exchange of all outstanding IATS – Series A for IA Class A Preferred Shares Series ZZ, the Automatic Exchange will be effected through the exercise by the Trust of the Subscription Right pursuant to which the Trust will acquire IA Class A Preferred Shares Series ZZ and will subsequently redeem each IATS – Series A not so exchanged for 40 IA Class A Preferred Shares Series ZZ and following such redemption, the IATS – Series A so redeemed will be cancelled.

2003 BCSECCOM 464

13. The terms of the IA Exchange Class A Preferred Shares provide that the IA Exchange Class A Preferred Shares are convertible at the option of the holder into IA Common Shares at certain times and in certain circumstances, except where an event giving rise to the Automatic Exchange in respect of the IATS - Series A has occurred and is continuing (the "IA Common Share Conversion Right"). The IA Exchange Class A Preferred Shares are not convertible into IA Common Shares until June 30, 2014.
14. In addition, Industrial Alliance may redeem the IA Exchange Class A Preferred Shares and pay the redemption price thereof by delivering cash or IA Common Shares to holders of redeemed IA Exchange Class A Preferred Shares (the entitlement of Industrial Alliance to issue IA Common Shares for such purpose being hereinafter referred to as the "IA Class A Preferred Share Redemption Right"). The IA Exchange Class A Preferred Shares are not redeemable into IA Common Shares until December 31, 2008, subject to Inspector General approval and certain other terms and conditions.
15. In addition to qualifying the IATS – Series A for distribution, the (final) prospectus in respect of the Offering (the "Prospectus") will also qualify the Holder Exchange Right, the Automatic Exchange, the Debenture Conversion Right, the Subscription Right, the IA Class A Preferred Share Redemption Right and the IA Common Share Conversion Right (collectively, the "Conversion and Exchange Rights"). Information concerning the Trust and Industrial Alliance will be included, or incorporated by reference, in the Prospectus.
16. There may be no registration or prospectus exemptions available under the Legislation for certain of the trades contemplated by the Conversion and Exchange Rights (the "Trades").

AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each of the Decision Makers (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 the Registration Requirement and the Prospectus Requirement shall not apply to the Trades, provided that the first trade in IA Exchange Class A Preferred Shares and IA Common Shares acquired pursuant to the Decision, other than a trade by the Trust or Industrial Alliance pursuant to the Conversion and Exchange Rights, shall

2003 BCSECCOM 464

be deemed to be a distribution or a primary distribution to the public under the Legislation of the Jurisdiction in which the trade takes place (the “Applicable Legislation”) unless:

- (a) Industrial Alliance has filed and obtained a receipt for the Prospectus under the Applicable Legislation;
- (b) Industrial Alliance is a reporting issuer or the equivalent under the Applicable Legislation at the time of the trade, to the extent that the Applicable Legislation provides a reporting issuer regime; and
- (c) the trade is not a control distribution as defined in Multilateral Instrument 45-102 *Resale of Securities*.

DATED this 26th day of June, 2003.

H. Leslie O’Brien