



LETTER OF COMMENT NO. 12



May 2, 2008

Russell G. Golden
Director of Technical Application and Implementation Activities
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 132(R)-a

Dear Mr. Golden,

Nortel Networks, Inc. (Nortel) appreciates the opportunity to comment on the proposed Financial Accounting Standards Board Staff Position (FSP) No. FAS 132(R)-a, *Employers' Disclosures about Postretirement Benefit Plan Assets*. Nortel supports the Board's attempt to improve the transparency of the disclosures related to plan assets held in postretirement defined benefit plans.

Nortel is a global supplier of communications equipment, software and services, serving both telephone provider and business and governmental enterprise customers, with over \$10 billion in revenues. We are headquartered in Toronto, our equity shares are traded on the New York and Toronto Stock Exchanges, and we follow accounting principles generally accepted in the United States of America. As a global company, we have company-sponsored defined benefit plans and other post-retirement plans in numerous countries. We have funded defined benefit plans in seven countries – the United States, Canada, the UK, Ireland, Australia, Taiwan, and Korea. The fair value of plan assets for these funded defined benefit plans was approximately \$8.1 billion at December 31, 2007.

The body of this letter includes our general comments and observations on the proposed FSP. Appendix A to this letter includes our responses to the six specific issues in the Notice for Recipients on which the Board has requested feedback.

Operational Concerns

Collecting the data necessary to compile the proposed disclosures will require we work closely with the plan custodians in each country to ensure reporting and categorization is consistent across plans and countries. While North American custodians are familiar with the SFAS 157 fair value categories and are already working on system changes to designate investments as Level 1, 2 or 3 under the fair value hierarchy, custodians outside of North America may not be as familiar with the U.S. GAAP guidance related to the fair value hierarchy and may be further behind in implementing system changes. Gaining the level of assurance we and our auditors will need from our custodians inside and outside of North America will require education and a significant amount of time to understand their methodologies and system implementations. Collecting and analyzing the data necessary to compile the proposed disclosures will also require that we design,

perform, and control a number of manual processes. Our current data collection system will need to be altered to accommodate these additional asset disclosures. Unlike the current practice where consolidation of summary data is by region and major asset class, under the new proposal we would need to consolidate security-level data, which increases the complexity significantly. With the significant amount of judgment required to determine asset categories, consistency in approach is also an area of concern. In addition to the time needed for gathering the required data for each plan, the foreign plan asset data will need to be translated into USD for reporting purposes and reconciled to the balance sheet. The introduction of manual processes at year-end inherently increases internal control risks and introduces additional days in the annual close calendars, which creates challenges for accelerated filers of the financial statements.

Effective Date

The proposed effective date coincides with the transition required of many large and complex companies to a year-end measurement date under SFAS 158. On top of the operational concerns of that requirement, articulated by preparers and actuaries in the comment process for SFAS 158, the proposed effective date assumes preparers and custodians can address all of the operational concerns described above by the end of the year, which we are concerned may not be the case.

We respectfully request the Board select an effective date that would allow a more measured approach to implementing these disclosure requirements once they are finalized, such as for fiscal years ending after December 15, 2009. This would allow preparers and custodians time to implement system and process changes, agree on methodologies, and have those in place for the full year of initial adoption. This effective date would also alleviate the burden of retroactively gathering 2008 data for the reconciliation of the beginning and ending balances for fair value measurements of plan assets using significant unobservable inputs (Level 3).

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We appreciate the opportunity to comment on the proposed FSP. If you would like to further discuss any of our comments, please do not hesitate to contact me at (905) 863-7253 or pkarr@nortel.com.

Sincerely,



Paul W. Karr
Controller
Nortel Networks, Inc.

C: Paviter S. Binning, Executive Vice President and Chief Financial Officer

Appendix A - Comments on Specific Issues Included in the Notice for Recipients

Disclosure of Categories of Plan Assets

Issue 1: Is the principle of disclosing categories by type of plan asset understandable?

We believe the general principle of disclosing categories by type of plan asset is broadly understandable. However, due to the numerous asset custodians and investment managers a plan sponsor may work with, there will certainly be divergence in practice as judgment must be used for assets that do not naturally fit into any one category. The burden will be on the plan sponsor to ensure consistency in methodologies across this vast population.

In addition, it is not clear how the significant, or major, categories should be determined. It is unclear if the significance judgment should be applied on an overall balance sheet basis, on a consolidated plan asset basis, or on a plan by plan basis. Based on the illustration included in the FSP, it is not clear how significance was determined for the illustration as one category represents 2.5% of total plan assets. Without clarification regarding significance, we believe that there could be varying interpretations of significant by companies and their auditors, which would result in a divergence in practice related to the disclosures.

Issue 2: Are the asset categories that must be disclosed, if significant, representative of the types of assets held in postretirement benefit plans? Should any other categories be added?

We believe that the asset categories that must be disclosed, if significant, which are included in the proposed guidance are generally representative of types of assets held in postretirement benefit plans. We understand the rationale behind including specific categories within the guidance and also allowing companies to include other categories as needed due to diversity in investment strategies. However, we believe that there needs to be more clarity on how to define what goes into each category. As currently written, the new categories included in the proposed guidance have not been defined and will likely require judgment to be applied. The proposed FSP does not provide guidance on the classification of assets which have properties of multiple asset classes, such as preferred stock. For consistency, it would be useful for the guidance to include definitions for each proscribed category.

One other consideration, which is not currently addressed by the proposed guidance, is the treatment of indirect, or passive, investments (i.e. fixed income mutual funds). Under the current definition in SFAS 132(R), fixed income mutual funds would be classified as an equity investment, but this classification could be misleading and not provide useful or relevant information. It is unclear if indirect investments should, or could, be viewed as a “pass-through” and categorized based on the underlying investments.

Disclosure of Concentrations of Risk in Plan Assets

Issue 3: Is the requirement to disclose concentrations of risk arising within or across categories of plan assets from a lack of diversification understandable, and is this information useful? Would another disclosure principle be better?

We believe the requirement to disclose concentrations of risk is understandable as currently written. However, we recognize that significant professional judgment will be required to determine the significance

of concentrations of risk due to the diversity inherent in our investment strategies. We currently have over 3,000 securities with numerous fund managers globally. Each fund manager has an investment policy that diversifies the investments to avoid a concentration of credit risk.

Additionally, this disclosure includes only risks arising within or across categories of plan assets. We currently use a liability-driven investing (“LDI”) strategy for certain countries, which is a risk-reducing strategy from an asset/liability perspective. With the disclosures as currently written, a LDI strategy might be considered a concentration of risk from an asset perspective. If the risk is disclosed only from an asset perspective, readers could be misled if the asset risk is not linked to the overall risk strategy. We recommend consideration be given to disclosure of total pension funded status investment strategies.

Disclosure of Fair Value Measurement of Plan Assets

Issue 4: Would the disclosures about fair value measurements of plan assets provide decision-useful information?

We do not believe that the disclosures as written would provide a reader of the financial statements any significantly relevant information that would help them make decisions regarding the adequacy of pension plan funding. We would prefer to see increased disclosures that are more principle based and focused on total pension funded status investment strategies. The disclosure framework is one sided as it focuses only on the pension plan asset risks and strategies without encompassing liability risk mitigation strategies. In addition, the funding of pension plans is highly regulated by outside parties as well as company sponsor governance councils demonstrating that a framework for asset risk governance is already in place. We do not see that the benefit provided to the reader outweighs the burden placed on the financial statement preparers.

Costs of Implementing the Proposed FSP’s Disclosure Requirements

Issue 5: Would any of the required disclosures impose excessive incremental costs? If so, please describe the nature and extent of the additional costs?

We do not currently believe the incremental costs for preparers and custodians would be excessive. However, it does place a significant burden on accelerated financial statement filers during the annual close process to allocate additional internal resources to gather the necessary data from each plan, consolidate the data, analyze the data for consistency between plans and countries, prepare the disclosure, and arrange for the audit within an already shortened filing window.

Effective Date

Issue 6: Is the time needed to compile the information required to support annual reporting disclosures sufficient given the proposed effective date for fiscal years ending after December 15, 2008? If not, please describe the nature and extent of the effort required and the time needed.

We do not believe that the time needed to compile the information required to support annual reporting disclosures by the proposed effective date (2008 for calendar year companies) is sufficient.

The proposed effective date coincides with the SFAS 158 year-end transition to a year-end measurement date for all plans. We are currently working through the year-end measurement date implementation issues, including rollforward methods to be implemented. One possible method will be to base fair value of assets at a date prior to year end and only true up balance sheet accounts if there are significant market movements. It is unclear how this fair value approach would be treated in the fair value hierarchy.

As previously discussed, we will need to work closely with our custodians to gather the necessary data regarding the breakout of asset categories and the subdivision into Level 1, 2, and 3 under the SFAS 157 fair value hierarchy and ensure consistency in categorization across plans and countries. Per discussions with our North American custodian, they are currently in the process of putting a system in place that will allow for reporting by Level 1, 2, and 3. This system will be able to provide pricing data beginning March 31, 2008. Therefore, we would not have all data required to be able to prepare the rollforward of Level 3 assets for calendar year 2008. Additionally, while North American custodians are familiar with the SFAS 157 fair value categories and are already working on system changes to designate investments as Level 1, 2 or 3 under the fair value hierarchy, custodians outside of North America are not as familiar with the U.S. GAAP guidance related to fair value hierarchy and likely have not started to work on system changes. To be able to obtain the proper data from the custodians outside of North America, it will require education and a significant amount of time to change their systems and reporting.

We would prefer to see the effective date changed to fiscal years ending after December 15, 2009, which would allow registrants time to fully implement any needed process and system changes internally and with their custodians and have those in place for the full year of initial adoption. This would also alleviate the burden of retroactively gathering 2008 information.