



LETTER OF COMMENT NO. 18



**NORTEL**

December 8, 2008

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

File Reference No. 1650-100

Re: Going Concern

Dear Technical Director:

Nortel Networks Corporation ("Nortel") appreciates the opportunity to comment on the Financial Accounting Standards Board Exposure Draft on Going Concern ("Exposure Draft"). Nortel supports the Board's attempt to enhance disclosure of information to investors and converge with global standards developed by the International Accounting Standards Board. Nortel is a global supplier of communications equipment, software and services, serving both telephone service provider and business and governmental enterprise customers, with over \$10 billion in revenues. While Nortel is incorporated under the laws of Canada and is headquartered in Toronto, Ontario, our securities are traded on the New York Stock Exchange (in addition to the Toronto Stock Exchange), we follow accounting principles generally accepted in the United States of America, and are considered a U.S. domestic filer and therefore file Annual and Quarterly Reports on Forms 10-K and 10-Q with the Securities and Exchange Commission.

The body of this letter includes our general comments and observations on the Exposure Draft. Appendix A to this letter includes our responses to the specific questions raised.

We agree that management should be responsible for concluding on an entity's ability to continue as a going concern, but request clarification on certain items.

We believe the disclosure requirements in paragraph 7 are not aligned with the stated objectives of the rule-making and request you clarify this apparent inconsistency. Paragraphs 1, A3 and A4 of the Exposure Draft indicate that one objective of the rule-making is to require disclosure when there "is substantial doubt as to an entity's ability to continue as a going concern." However, paragraph 7 states "when management is aware, in making its assessment, of material uncertainties about events or conditions that may cast substantial doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties." Further, the specific disclosure requirements indicate that disclosure of uncertainties and management's plans to mitigate are required even if management, after reviewing the totality of information, concludes there is not substantial doubt about the entities ability to continue as a going concern.

Lastly, the effective date of the proposed guidance is linked to Board ratification of the Codification project but it was not immediately clear to us what the time-line for ratification is currently. We request the Board clarify whether these requirements could be applicable to the issuance of financial statements for the year ending December 31, 2008. While many of the underlying concepts around the evaluation exist in auditing literature today, many companies will be undertaking this formal evaluation for the first time and will need to implement processes to ensure that all pertinent information is aggregated, analyzed and concluded upon in partnership with legal counsel and senior management and appropriately documented given the extreme sensitivity of the information and conclusions involved.

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We appreciate the opportunity to comment on the Exposure Draft. 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](mailto:pkarr@nortel.com).

Sincerely,

A handwritten signature in black ink that reads "Paul W. Karr". The signature is written in a cursive style with a large initial "P".

Paul W. Karr  
Controller

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

## APPENDIX A

### **Time Horizon over Which an Entity Should Evaluate Its Ability to Continue as a Going Concern**

*Do you agree with the Board's decision to remove the bright-line time horizon in AU Section 341 in favor of the guidance in IAS 1? If not, why? Do you believe that this time horizon is helpful and operational? If not, why?*

While we understand the Board's desire to generally move away from bright-lines we do not support adoption of the current IAS guidance. We believe the one-year time horizon promotes clarity and comparability in the analysis and conclusions. If the Board chooses to adopt the IAS guidance we believe more guidance should be provided to both acknowledge the practical difficulties of conducting an analysis over a longer period of time and the reliability of information comprising mitigation plans when those plans must extend beyond one year. The outcomes of possible events or conditions beyond the one-year time frame inherently contain additional uncertainty which could make it impracticable to reach reliable conclusions about an entity's ability to continue as a going concern. For example, though a scheduled debt repayment 2 years from the balance sheet date can be verified by tracing to an existing legal agreement, the ability of the entity to make that payment will depend on a variety of factors that are extremely difficult to forecast over extended periods of time, such as macro economic conditions in the industry and liquidity in the financial markets. Because the debt repayment in this example can be objectively verified while the factors important to the entity's ability to make the schedule repayment are subjective, the analysis will naturally skew towards a conclusion that there is a doubt about an entity's ability to continue.