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LETTER OF COMMENT NO. 19

NORTEL

March 2, 2007

Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. 1510-100

RE: Exposure Draft "Proposed Statement of Financial Accounting Standards Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133"

Dear Ms. Bielstein:

Nortel Networks, Inc. (Nortel) is a global supplier of communications equipment, software and services, serving both telephone service provider and business enterprise customers with in excess of $10 billion in revenue. 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. Globally, we purchase more than 1,000 derivatives annually primarily to manage foreign exchange and interest rate risks. A small percentage of our total derivatives are designated hedges. Nortel supports the Board's attempt to provide more complete, transparent, and comprehensible information to users of the financial statements and appreciates the opportunity to comment on the proposed Statement. While the proposed disclosures are very detailed, we agree that the tabular format provides a more complete picture of derivative activities, and in particular their effect on the financial statements. Our principal comments are summarized in the body of this letter, and we have attached an Appendix containing responses to the questions posed in your request for comment.

Operational Concerns and Effective Date
As a global company, we manage the Treasury function using a regionalized model, and as such have multiple locations engaged in the management of currency risk. Gathering the necessary data in the required amount of detail will be a complex coordination effort.

Collecting and analyzing the data necessary to compile the proposed disclosures will require that we design, perform and control a number of manual processes. Our current Treasury system tracks derivatives at the transaction level and provides information to calculate gains and losses by transaction, but does not generate reports that segregate the gains and losses via asset and liability. Implementing this split on the proposed timeline would require a manual process to be put in place. The introduction of manual processes inherently increases internal control risks for preparers and users of the financial statements.

A further challenge for Nortel, and other companies undergoing major system implementations, will be to balance our new system implementation timelines with the system and process changes required to comply with the new disclosures. Nortel is in the final phases of designing and implementing a comprehensive new global financial reporting system that is expected to "go-live" in mid-2007. The current design of the new information system calls for tracking of derivatives at the transaction level, but, as with our current system, does not provide gains and losses split by assets and liabilities. This aspect of the disclosure, in addition to some others described more fully within the Appendix, means we will continue to need manual processes to collect and analyze underlying information for the foreseeable future. When our new financial reporting environment is stable, we estimate that customized reports can be designed and implemented.

In addition to the operational concerns described above, there is an additional burden in the initial year of adoption (2007) in gathering the full year's quantitative data for positions no longer open at period end, even though the final Statement would not be issued until mid 2007. We would prefer to see the effective date changed to fiscal years beginning after December 15, 2007, which would allow registrants time to fully implement any needed process and system changes and have those in place for the full year of initial adoption. This effective date would also alleviate the burden of retroactively gathering 2007 data.

Interim Reporting Periods

Requiring the proposed disclosures at interim periods will multiply the costs of compliance. Additionally, the inherent risk associated with the initially manual processes will be compounded by the cyclical stress associated with the condensed 40-day quarterly reporting cycle for accelerated filers with the Securities and Exchange Commission.

A modified disclosure for interim periods that included only the aggregate fair values and gain/loss amounts, not separated by underlying risk, accounting designation, and purpose, would provide a benefit to users at a more reasonable cost.

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We appreciate the opportunity to comment on the proposed Statement. If you would like to further discuss any of our comments, please do not hesitate to contact me at (905) 863-3653 or pkarr@nortel.com.

Sincerely,

Paul W. Karr

Paul W. Karr
Controller
Nortel Networks, Inc.

C: Michael S. Zafirovski, President and Chief Executive Officer
Peter W. Currie, Executive Vice President and Chief Financial Officer

APPENDIX

Scope

Issue 1 – The Board concluded that prescriptive guidance about how derivative instruments should be presented and classified in the financial statements should be excluded from the project's scope. Including presentation and classification guidance could potentially delay issuing a standard that would significantly improve the transparency about derivative instruments and hedged items. In addition, various presentation and classification issues related to derivatives and hedged items have an impact on the Board's current project on financial statement presentation and also would need to be addressed in the context of that project. Do you agree with the Board's decision to exclude from the scope of this proposed Statement prescriptive guidance about how derivative instruments should be presented for and classified in the financial statements? Why or why not? (See paragraphs B5-B11 for the basis for the Board's conclusions.)

Response 1 – We agree with the decision to exclude prescriptive guidance on the financial statement presentation and classification of derivatives. We believe that the new disclosure provides sufficient information, for users of the financial statements, about the location of the derivatives and the gains and losses on derivatives.

Issue 2 – Statement 133 applies to both public and private entities. The requirements in this proposed Statement also would apply to both public and private entities. Do you agree that this proposed Statement should apply to both public and private entities? Why or why not?

Response 2 – We agree that the proposed Statement should apply to both public and private entities. The consistency in disclosure will make financial statements more comparable and transparent for users.

Costs of Implementing the Proposed Statement's Disclosure Requirements

Issue 3 - This proposed Statement would require an entity to provide information on derivative instruments (including, but not limited to, notional amounts and fair value amounts), hedged items, and related gains and losses, by primary underlying risk, accounting designation, and purpose in the tabular format shown in Appendix A. Do you foresee any significant operational concerns or constraints in compiling the information in the format required by this proposed Statement? Are there any alternative formats of presentation that would provide the data more concisely? (See paragraphs B18-B20 for the basis for the Board's conclusions.)

Response 3 – As a global company, we manage the Treasury function using a regionalized model, and as such have multiple locations engaged in the management of currency risk. Gathering the necessary data in the required amount of detail will be a complex coordination effort.

Collecting and analyzing the data necessary to compile the proposed disclosures will require that we design, perform and control a number of manual processes. Our current Treasury system tracks derivatives at the transaction level and provides information to calculate gains and losses by transaction, but does not generate reports that segregate the gains and losses via asset and liability. Implementing this split on the proposed timeline would require a manual process to be put in place. The introduction of additional manual processes inherently increases internal control risks for preparers and users of the financial statements.

A further challenge for Nortel, and other companies undergoing major system implementations, will be to balance our new system implementation timelines with the system and process changes required to comply with the new disclosures. Nortel is in the final phases of designing and implementing a comprehensive new global financial reporting system that is expected to "go-live" in mid-2007. The current design of the new information system calls for tracking of derivatives at the transaction level, but, as with our current system, does not provide gains and losses split by assets and liabilities. This aspect of the disclosure means we will continue to need manual processes to collect and analyze underlying information for the foreseeable future. When our new financial reporting environment is stable, we estimate that customized reports can be designed and implemented.

Issue 4 - This proposed Statement would require disclosure of (a) the existence and nature of contingent features in derivative instruments (for example, payment acceleration clauses), (b) the aggregate fair value amount of derivative instruments that contain those features, and (c) the aggregate fair value amount of assets that would be required to be posted as collateral or transferred in accordance with the provisions associated with the triggering of the contingent features. Do you foresee any significant operational concerns or constraints in compiling that information for this disclosure? (See paragraphs B39-B42 for the basis for the Board's conclusions.)

Response 4 – We currently do not track the amount of contingent features in our derivative instruments as this information is not required for disclosure purposes today. Implementation of this disclosure would require a manual review of all counterparty contracts across several regions. It would be helpful if the Board provided a more detailed description of the contingent clauses or types of "unique features" (from paragraph B42) that it would consider necessary to disclose. Our counterparty contracts contain many clauses that are considered standard based on the size and type of business of our Company.

In addition, we are not of the opinion that the disclosure of contingent features, their aggregate fair values and settlement amounts increase a users understanding of the timing and probability of a contingent event, or enhance the decision usefulness of the financial statements.

Disclosure of Notional Amounts

Issue 5 – This proposed statement would require disclosure of notional amounts in tables that also will include fair values of derivative instruments by primary underlying risk, accounting designation, and purpose. Do you agree that this proposed Statement should require the disclosure of notional amounts? Why or why not? (See paragraphs B21-B25 for the basis for the Board's conclusions.)

Response 5 – We disagree that disclosure of the gross notional amounts provides a better understanding to the user. This disclosure results in a very granular amount of detail which can distract and confuse the user. An entity's risk management strategy is likely to be based on the net exposure to the entity; therefore the most useful information to the user will be how that net exposure is managed with derivatives, not a listing of every derivative owned.

Issue 6 – This proposed Statement would require disclosure of gains and losses on all derivative instruments that existed during the reporting period regardless of whether those derivatives exist at the end of the reporting period. This proposed Statement would not require disclosure of the aggregate notional amounts related to those derivatives that existed during the period but no longer exist at the end of the reporting period. Do you agree that this proposed Statement should not require the disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period? Why or why not?

Response 6 – We do not have any objection with not disclosing the notional amounts of derivatives that existed during the period, but no longer exist at period end.

Disclosure of Gains and Losses on Hedged Items

Issue 7 – This proposed Statement would require disclosure of the gains and losses on hedged items that are in a designated and qualifying hedging relationship under Statement 133. The Board decided that an entity would not be permitted to include information in the tables on "hedged items" that are not in designated and qualifying Statement 133 hedging relationships because "economic hedging" means different things to different people. Do you agree that information about "hedged items" that are not in designated and qualifying Statement 133 hedging relationships should be excluded from the disclosure tables? Alternatively, should the tables include gains and losses on "hedged items" that are recorded at fair value and are used in hedging relationships not designated and qualifying under Statement 133? Why or why not? Would your answer be affected by the forthcoming FASB Statement on the fair value option for financial assets and financial liabilities, which will provide the option to report certain financial assets and liabilities at fair value? (See paragraphs B33-B35 for the basis of the Board's conclusions.)

Response 7 – We agree with the decision to exclude non-qualifying "hedged items" from the disclosure. We believe the inclusion of these amounts would blur the line between qualifying and non-qualifying relationships under Statement 133 and would decrease the transparency of financial statements given the lack of documentation required for non-qualifying "hedged items." While including these items would provide some added insight into the risks an entity is attempting to manage, that same information can already be disclosed in a qualitative manner under paragraph 45 of Statement 133. Our answer would not be affected by the forthcoming Statement on the fair value option.

Disclosure of Overall Risk Profile

Issue 8 – Under this proposed Statement, quantitative information about nonderivative instruments used as part of an entity's overall risk management strategy would not be included in the disclosure tables. However, paragraphs 44 and 45 of Statement 133 would permit an entity to provide qualitative and quantitative information about the derivatives included in the disclosure tables as those derivatives (a) relate to the overall context of its risk management activities and (b) are related by activity to other financial instruments. Do you agree that information that could be provided in the qualitative and quantitative disclosures encouraged by paragraphs 44 and 45 of Statement 133 would be sufficient to appropriately inform users of financial statements about the risk management strategies of an entity? If not, should additional information about an entity's overall risk management strategies be provided as part of the tabular disclosure required by this proposed Statement?

Response 8 – We believe the current requirements regarding disclosure of risk management strategies is sufficient. A tabular disclosure of those strategies may have no comparability across financial statements given the wide variety of strategies employed by entities.

Examples Illustrating Application of This Proposed Statement

Issue 9 – This proposed Statement includes examples of qualitative disclosures about objectives and strategies for using derivative instruments, contingent features in derivative instruments, and counterparty credit risk. Those examples are intended to illustrate one potential way of communicating information about how and why an entity uses derivatives and the overall effect of derivatives on an entity's financial position, results of operations, and cash flows. The examples are not intended to be construed as the only way to comply with the disclosure requirements. Are those examples helpful in communicating the objectives of providing information on how and why an entity uses derivatives and on the overall effect of derivatives on an entity's financial position, results of operations, and cash flows? Or, do you believe those examples would be viewed as a prescribed method to comply with the requirements of this proposed statement?

Response 9 – We believe that the examples are helpful in understanding the Board's intent of the disclosure and do not think that the examples are presented in a manner that precludes other methods. We would appreciate further examples to ease the transition, including an example of a tabular disclosure of underlying foreign exchange rate risk with derivatives denominated in different currencies.

Amendments Considered but Not Made

Issue 10 – The Board considered but decided against requiring additional disclosures as described in paragraphs B55-B63. Those disclosures focused on providing information on an entity's overall risk management profile, methods for assessing hedge effectiveness, and situations in which an entity could have elected the normal purchases and sales exception. Do you agree with the Board's decisions not to require disclosures in those areas? Why or why not?

Response 10 – We agree with the Board's decision to exclude these items from the disclosure. The inclusion of the overall risk profile would be too broad of a scope for this disclosures stated purpose of understanding derivatives and their affect on an entity.

Also, the disclosure of hedge effectiveness does not provide any additional decision usefulness to the user. The method of testing hedge effectiveness under a qualifying hedging relationship has no bearing on whether or not the relationship actually qualifies under Statement 133.

Effective Date

Issue 11 – The Board's goal is to issue a final Statement by June 30, 2007. The proposed effective date would be for fiscal years and interim periods ending after December 15, 2007. At initial adoption, comparative disclosures for earlier periods presented would be encouraged, but not required. Beginning in the year after initial adoption, comparative disclosures for earlier periods presented would be required. Does the effective date provide sufficient time for implementation? (See paragraphs B50-B53 for the basis for the Board's conclusions.)

Response 11 – In addition to the operational concerns described above, there is an additional burden in the year of initial year of adoption (2007) in gathering the full year's quantitative data for positions no longer open at period end, even though the final Statement is not issued until mid-year 2007. We would prefer to see the effective date changed to fiscal years beginning after December 15, 2007, which would allow registrants time to fully implement any needed process and system changes and have those in place for the full year of initial adoption. This would also alleviate the burden of retroactively gathering 2007 information.