NORTEL

September 26, 2008

International Accounting Standards Board
1st Floor
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Discussion Paper, *Preliminary Views on Amendments to IAS 19 Employee Benefits*

Nortel Networks Corporation (Nortel) appreciates the opportunity to comment on the Discussion Paper, *Preliminary Views on Amendments to IAS 19 Employee Benefits.* We support the Board's efforts to improve and simplify the accounting for employee 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 USD 10 billion in revenues. Our business is conducted globally with regional organizations in: Europe, the Middle East and Africa; Asia; the Caribbean and Latin America; and North America. We are headquartered in Toronto, Ontario, Canada, our securities are traded on the New York and Toronto Stock Exchanges, and we presently follow accounting principles generally accepted in the United States of America. As a global company, we have company-sponsored defined benefit plans, defined contribution plans, and other post-retirement plans in numerous countries around the world.

The body of this letter includes our general comments and observations on the Discussion Paper, and Appendix A includes our responses to the specific questions set out therein.

We support the Board's initiative related to recognition and presentation of defined benefit plans. The immediate recognition of gains and losses and actual return on assets will introduce financial statement volatility, especially for plans that are traditionally unfunded, but it is a step toward international convergence and more consistent with other accounting pronouncements and the established framework. Of course, this underscores the relationship the Board has noted with the financial statement presentation project, and we also appreciate the opportunity to comment herein on the presentation of cost components within profit and loss and other comprehensive income statements. We are supportive of an approach that allows financial statement users to understand the economics of active management of assets and liabilities and an approach that classifies components of expense consistent with their nature.

We do not support the Board's significant definitional shift from plans to promises in this short-term, limited scope project. We recognize that the post-employment benefit landscape has changed and more complex, hybrid benefits are being offered to employees, and that accounting standards must evolve as the market does to reflect the true economics of the benefits being offered. Further, we acknowledge, there is concern the economics of certain plans, such as cash balance plans with a guaranteed return and "higher of" plans, are not being properly reflected in financial statements. We would support the Board addressing these issues as part of a longer-term, more comprehensive project in which both contribution-based and defined benefit promises can be addressed simultaneously.   We are concerned the Discussion Paper's broad definition of contribution-based promises will expand the scope of benefits that are considered contribution-based to a significantly greater extent than intended by the Board and thereby, introduce inconsistency and complexity into the employee benefit accounting model.

Contribution-based promises as defined in the Discussion Paper are much broader than the current definition of defined contribution plans under IAS 19. Conversely, defined benefit promises appear to be limited to traditional final average pay benefits and traditional retiree medical promises. As a result, a significant number of plans that are today classified as defined benefit would become contribution-based. We believe this is true for plans both inside and outside North America.

One result of this shift is to significantly increase complexity for many plans because of the view to require stochastic measurements of contribution-based promises that require different recognition and measurement principles than defined benefit promises. These will be complex and likely require increased use and cost of external actuarial consultants, and may increase reporting risk.

Another result of this shift is an inconsistency between recognition, measurement and expense classification of contribution-based promises and defined benefit promises. It is expected that the more comprehensive post-employment benefit project that will come in the next several years will address this inconsistency, but we are concerned that introducing that inconsistency in the interim will create additional transparency and comparability issues. The transparency gained from full recognition of the assets and liabilities will be clouded by confusion in understanding the obligations and costs associated with the full array of a company's benefit plans.

We suggest the Board retain existing defined benefit and defined contribution definitions so as not to expand the scope of, and introduce new complexity in, the defined contribution accounting model and to ensure more consistent treatment of employee benefit plans and comparability between companies. The consideration of defined benefit and contribution-based promises, and of the accounting models for employee benefits broadly, could then be addressed comprehensively in the contemplated longer-term project.
We appreciate the opportunity to comment on the Discussion Paper. If you would like to further discuss any of our comments, please do not hesitate to contact me at (905) 863-7356 or pkarr@nortel.com.

Sincerely,

Paul W Karr

Paul W. Karr
Controller

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

Appendix A

Scope of the project

Question 1
Given the objective of the IASB project to address specific issues in a limited time frame, are there additional issues which you think should be addressed by the Board as part of this project? If so, why do you regard these issues as a matter of priority?

We do not believe there are additional issues which should be addressed.

Recognition and presentation of defined benefit promises

Question 2
Are there factors that the Board has not considered in arriving at its preliminary views? If so, what are those factors? Do those factors provide sufficient reason for the Board to reconsider its preliminary views? If so, why?

Nortel is not aware of any factors not considered in arriving at its preliminary views.

Question 3
(a) Which approach to the presentation of changes in defined benefit costs provides the most useful information to users of financial statements? Why?
(b) In assessing the usefulness of information to users, what importance do you attach to each of the following factors, and why;
   i. Presentation of some components of defined benefit costs in other comprehensive income; and
   ii. Disaggregation of information about fair value?
(c) What would be the difficulties in applying each of the presentation approaches?

The removal of deferred recognition will lead to enhanced focus on asset and liability management to address increased potential financial statement volatility. We support a presentation approach that allows companies to reflect the economic results of asset and liability management. We also support a presentation approach that classifies cost components in a way that best describes the nature of the components, thus separating the cost of the promises to the employees from financial gains and losses. Both Approach 2 and Approach 3 employ these concepts. However, the calculation of imputed interest income in Approach 3 introduces complexity we find unnecessary and will possibly contribute to obfuscation rather than transparency. It is also inconsistent with Preliminary View 3, which states the Board believes entities should not divide the return on assets into an expected return and an actuarial gain or loss. We support Approach 2 because it avoids these problems while providing users with useful, discriminated information about plan management and performance.

While the simplest approach, Nortel does not support Approach 1 because it introduces a tremendous amount of discount rate and asset return volatility into profit and loss that is unrelated to the operations of the company, not relevant to many users and likely to confuse some.

Question 4

(a) How could the Board improve the approaches discussed in this paper to provide more useful information to users of financial statements?

(b) Please explain any alternative approach to presentation that provides more useful information to users of financial statements. In what way does your approach provide more useful information to users of financial statements?

We believe Approach 2 should be further developed in conjunction with the project on financial statement presentation.

Definition of contribution-based promises

Question 5

Do you agree that the Board has identified the appropriate promises to be addressed in the scope of this project? If not, which promises should be included or excluded from the scope of the project, and why?

We find the shift from plans to promises to be too great for a short-term, limited scope project. We see a disconnect between this significant definitional change and the desire not to reconsider the measurement model in IAS 19, because as we note in response to Question 6 below many more plans will be within the scope of defined contribution accounting, which model the Board obviously seeks to change. Complexity and inconsistency will be introduced to the accounting models for employee benefits, which we do not believe was the Board's intent.

For instance, the discussion paper scopes in "career average promises" and "average salary promises" and defines these as contribution-based promises because the benefit is not a function of final salary and the return is linked to an asset, group of assets, or an index. Under this proposal two competitor companies could offer very similar pension benefits to their employees, one is a final average salary plan and one is a career average salary plan. The two plans under the proposal would have very different liability and expense measurements during the attribution period. The "final average pay" plan would include future salary increases in the valuation of the liability and expense and the "career average pay" plan would not. Each liability would be discounted using different discount rate methodologies. This adds complexity to pension accounting and introduces an inconsistency when comparing financial statements of the two companies. We do not agree with this inconsistency that the scope of the Discussion Paper introduces.

We suggest that the scope of this short-term project be limited to recognition and presentation of defined benefit plans and that any reconsideration of recognition and measurement models for defined contribution and defined benefit plans as defined in IAS 19 be addressed simultaneously in the more comprehensive long-term project.

Question 6

Would many promises be reclassified from defined benefit to contribution-based under the Board's proposals? What are the practical difficulties, if any, facing entities affected by these proposals?

The definition of contribution-based promises would include a significant number of plans that are considered defined benefit under the current IAS 19 definition. The definition in the Discussion Paper is very broad, such that a plan need only be void of salary risk and with a known contribution at the end of the reporting period to meet the definition, which appears to limit defined benefit promises to final average pay benefits and traditional retiree medical promises with uncapped benefits.

For example, it is not clear from the Discussion Paper whether the new contribution-based promises definition would impact the accounting for other long-term benefits as defined in IAS 19 such as long-term disability, sabbatical, long service bonuses, and jubilee benefits. Nortel defines these benefits as defined benefit plans currently and we think these would move to contribution-based promises under the Discussion Paper definition as there is no future salary risk involved in the calculation of the benefit and the contribution amount is known at the end of the reporting period.

We also note that the Discussion Paper is not clear on how a plan should be classified if it is closed to new entrants and the benefits are frozen since there is no longer an attribution period for these plans. For instance, traditional retiree medical programs remain as defined benefit promises under the Discussion Paper. However, it appears that if a company were to cap its obligation to employees, as Nortel has done in the United States, then this would switch to a contribution-based promise because the amount of the contribution is known and the promised return is zero. Or, if a company that had a traditional "final average pay" plan amended the plan to "freeze" benefits and forego any future benefit accruals, as Nortel has done in the United States and Canada, it appears the promise would switch from a defined benefit to a contribution-based promise.

With the basis of accounting changing from the plan to the promise, and more benefits classified as contribution-based, the complexity of the measurement requirement becomes more important. Significant increased complexity is introduced to the calculation of contribution based promises because of the move to stochastic measurements. These will be complex and likely require the increased use and cost of external actuarial consultants.

Question 7
The Board does not intend this proposal to lead to significant changes in the accounting for most promises that meet the definition of defined contribution plans in IAS 19. Do the proposals achieve that goal? If not, why not?

We believe the proposal would not significantly change the accounting for traditional defined contribution plans.

Recognition issues related to contribution-based promises

Question 8
Do you have any comments on those preliminary views? (Recognition issues related to contribution-based promises PV9 – PV11) If so, what are they?

Nortel agrees with preliminary views 9 and 11 as we believe those are consistent with the recognition methods under IAS 19. However, we do not agree with preliminary view 10 as this recognition method is different than that used for defined benefit plans under IAS 19 and we do not see a basis for the difference. Preliminary view 10 appears to remove for contribution-based promises the requirement under IAS 19 to straight-line a plan's cost that has benefit calculations weighted to the back end, but does not remove this requirement for defined benefit promises. This inconsistency will result in different costs being recognized in the same accounting period for plans that are similar in nature. We suggest that the Board should delay this change in recognition methods until the larger project can be completed encompassing the recognition of both defined benefit and defined contribution plans simultaneously.

Measurement of contribution-based promises

Question 9

a) *Are there alternative measurement approaches that better meet the measurement objectives described in this paper? Please describe the approaches and explain how they better meet the measurement objectives.*
b) *To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?*

The discussion paper proposes a measurement approach for a contribution-based promise that is based on fair value and significantly different than that of a defined benefit promise that is based on the projected unit credit method. The benefit at the date of retirement for the two promises may be identical, but the liabilities recognized would be different. The Board acknowledges this inconsistency, but concludes that issue should be resolved in the next phase of the IAS 19 project which is a longer-term project. We do not believe this is acceptable as it will create comparability issues between companies and additional complexity in an already somewhat obtuse area of accounting.

In addition, the Discussion Paper requires a credit-adjusted risk-free discount rate for valuing contribution-based promises if there is a risk the employer will not be able to fund the obligation. We note that this proscribed discount rate is inconsistent with the high-quality bond rates used for defined benefit promises. The reason for the inconsistency is not clear as there is limited difference in the nature of an unfunded contribution-based promise and an unfunded defined benefit promise. The different discount rate methodologies will result in different costs being recognized in the same accounting period for plans that are similar in nature. The high-quality bond rate has now become a commonly accepted discount rate globally. We would prefer the Board consider maintaining this methodology for contribution-based promises to ensure consistency and reduce the complexity of the calculations.

Question 10

(a) *Do you agree that the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase? If not, why?*
(b) *What are the practical difficulties, if any, of measuring the liability for a contribution-based promise during the payout phase at fair value assuming the terms of the benefit promise do not change?*

We agree the liability for benefits in the payout and deferment phases should be measured in the same way as they are in the accumulation phase. We are not aware of significant practical difficulties in measuring the liability during the payout phase at fair value, but would defer to members of the actuarial profession on this point.

Disaggregation, presentation and disclosure of contribution-based promises

Question 11

(a) What level of disaggregation of information about changes in the liability for contribution-based promises is useful to users of financial statements? Why?

(b) Do you agree that it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises? If not, why not?

We agree it is difficult to disaggregate changes in the contribution-based promise liability into components similar to those required for defined benefit promises. At a minimum, we agree with disaggregating into service cost and all other changes in fair value proposed in the Discussion Paper.

Question 12

Should changes in the liability for contribution-based promises:

(a) be presented in profit or loss, along with all changes in the value of any plan assets; or

(b) Mirror the presentation of changes in the liability for defined benefit promises (see Chapter 3)?

Why?

We support consistent presentation of changes in the liability of contribution-based promises and defined benefit promises. This presentation should be further developed in conjunction with the project on financial statement presentation.

Benefit promises with a "higher of" option

Question 13

(a) What are the practical difficulties, if any, in identifying and measuring the "higher of" option that an entity recognizes separately from a host defined benefit promise?

(b) Do you have any other comments on the proposals for benefit promises with a "higher of" option? If so, what are they?

We do not have plans with this option, so are not in a position to comment.

Other Matters

Question 14

What disclosures should the Board consider as part of that review?

We have no comments on disclosure.

Question 15
Do you have any other comments on this paper? If so, what are they?

We have not other comments on this paper.

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