

Nortel Networks Corporation
8200 Dixie Road Suite 100
Brampton ON L6T 5P6 · Canada
Tel 905.863.6059
Fax 905.863.8686
Email dbeatty@nortelnetworks.com

www.nortelnetworks.com

Douglas C. Beatty
Controller

June 29, 2001

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
The Manitoba Securities Commission
Ontario Securities Commission
Office of the Administrator, New Brunswick
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland
Securities Registry, Government of the Northwest Territories
Registrar of Securities, Government of the Yukon Territory
Securities Registry, Government of the Nunavut Territory

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 800, Box 55
Toronto, Ontario
M5H 3S8

&

Claude St. Pierre, Secrétaire
Commission des valeurs mobilières du Québec
800 Victoria Square
Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montréal, Québec
H4Z 1G3

Reference: Canadian Securities Administrators Discussion Paper 52-401 - Financial Reporting in Canada's Capital Markets

Dear Sirs:

Nortel Networks Corporation (“Nortel Networks”) is pleased to submit the following comments in response to the Canadian Securities Administrators (“CSA”) Discussion Paper 52-401 - Financial Reporting in Canada’s Capital Markets.

Nortel Networks is a global Internet and communications leader with capabilities spanning Optical Metro, Optical Long-Haul, Wireless Internet, Intelligent Internet, and Voice over IP.

Nortel Networks common shares are listed on both the Toronto (the “TSE”) and New York (the “NYSE”) stock exchanges. The daily volume of trading in Nortel Networks common shares on the NYSE is significantly higher than on the TSE. Nortel Networks competition and markets, while global in nature, are predominately in the United States. Approximately 60 percent of Nortel Networks consolidated revenues in the last three fiscal years were generated from United States customers. As a result, Nortel Networks is followed by a large number of United States-based investment analysts. In order to be fairly compared to our main competitors and increase our profile in the United States marketplace, we decided to use United States GAAP financial information as the primary basis of Nortel Networks external communications effective January 1, 2000.

Nortel Networks is required to adhere to the rules and regulations of both Canadian provincial securities legislation and the United States Securities and Exchange Commission (“SEC”). While Nortel Networks is the most widely-held company in Canada, registered shareholders residing in the United States hold more than 50 percent of our outstanding common shares. As a result, Nortel Networks is required to provide complete financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) of the United States as part of our SEC filings, in addition to preparing complete financial statements prepared in accordance with Canadian GAAP as required by Canadian provincial securities legislation and the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended.

Nortel Networks main operating subsidiary, Nortel Networks Limited, is also a reporting issuer across Canada as a result of issuing preferred shares and maintaining a public debt shelf, and in the United States as a result of issuing registered debt and the registration of its common shares in connection with the BCE Plan of Arrangement which was effective May 1, 2000. Nortel Networks Limited is therefore also subject to the same reporting requirements as Nortel Networks.

In connection with our fiscal 2000 continuous disclosure requirements, at year-end Nortel Networks prepared, printed and mailed in excess of 2 million copies of our December 31, 2000 Annual Report. The Annual Report was 144 pages in length and included both full Canadian and United States GAAP financial statements, with management’s discussion and analysis (“MD&A”)

based on the United States GAAP financial statements and a Canadian GAAP MD&A supplement outlining the impact on the United States GAAP MD&A of any material differences between the Canadian and United States GAAP financial statements. Nortel Networks Limited's December 31, 2000 Annual Report was 128 pages in length, and included the same level of disclosure in its financial statements, MD&A and Canadian MD&A supplement.

Nortel Networks commends the CSA for its efforts to review the current state of financial reporting, and request comments thereon, in order to improve the efficiency of the Canadian capital markets. Nortel Networks strongly supports the evolution of financial reporting within Canada to allow Canadian companies to follow a reporting system consistent with that of their competitors in the United States, while not creating additional costs for Canadian companies that have accessed both the Canadian and United States capital markets.

In responding to the questions posed in the discussion paper, we have attempted to balance the following factors:

- (a) investor protection through effective and efficient financial disclosure to shareholders and the capital markets;
- (b) comparability of financial reporting, both between Canadian companies and between Canadian companies and their United States-based competitors;
- (c) the cost, time and materials required to produce, print and mail required financial disclosures, and the associated value of such activities to shareholders; and
- (d) the resources presently available to prepare, audit and review foreign-based GAAP financial statements in Canada.

Nortel Networks supports a financial reporting system that allows for ease of access to Canada's capital markets and eliminates the cost involved in filing different sets of financial statements in multiple capital markets. We believe that the requirement for a foreign company filing in accordance with United States GAAP to prepare a Canadian GAAP reconciliation in offering documents and information circulars should be removed and replaced with a discussion in the MD&A of the significant differences which would result in applying Canadian GAAP. This requirement should not be removed for foreign companies applying other forms of foreign GAAP in offering documents and information circulars at this time. Given the current harmonization projects by the Canadian Institute of Chartered Accountants ("CICA") with United States GAAP and the similarities of the Canadian and United States economies, Nortel Networks believes that United States GAAP and Canadian GAAP will be sufficiently similar to be an acceptable alternative while at the same time not compromising comparability. In addition, Nortel Networks supports allowing Canadian companies that are also SEC registrants to file United States GAAP financial statements in Canada, subject

to the same level of disclosure in the MD&A as would be required by a foreign registrant utilizing United States GAAP, in addition to an explanation as to why United States GAAP is the appropriate measure for Canadian investors to be utilizing in making investment decisions regarding the Canadian company. Continuous disclosure requirements should also be consistent with the above for those foreign companies choosing to file in accordance with United States GAAP, as well as Canadian SEC registrants.

The CSA has identified a number of issues that must be considered in the context of this discussion paper. One key practical issue is that unless the Regulations under the *Canada Business Corporations Act* are also amended to allow the above, such initiatives by the CSA will not result in a change to the financial reporting requirements of Canadian companies governed by that Act. However, Nortel Networks believes that action by the CSA to update financial reporting requirements to reflect the current realities of the Canadian capital markets will be a strong impetus for amending the *Canada Business Corporations Regulations*.

We believe that it is imperative that the CICA continues its current initiative to eliminate the differences between Canadian and United States GAAP which currently exist, unless the CICA identifies any unique Canadian circumstances that would necessitate a different Canadian GAAP standard.

We appreciate the opportunity to respond to this discussion paper and we wish to thank the CSA for its efforts in improving financial reporting in the Canadian capital markets.

Please see the following for comments relating to the specific questions posed in the discussion paper. Nortel Networks experience with IASC standards is limited and therefore Nortel Networks has respectfully declined to provide comments on questions 11 through 17.

Please do not hesitate to contact the undersigned at (905) 863-6059 if you have any questions regarding this letter.

Yours truly,

D.C. Beatty
Controller

Question 1

Nortel Networks believes that the financial reporting requirements of

reporting issuers participating in Canadian capital markets should be modified for both foreign and domestic companies as follows. We believe that the requirement for a foreign company filing in accordance with United States GAAP to prepare a Canadian GAAP reconciliation in offering documents and information circulars should be removed and replaced with a discussion in the MD&A of the significant differences which would result in applying Canadian GAAP. This requirement should not be removed for foreign companies applying other forms of foreign GAAP in offering documents and information circulars at this time. Given the current harmonization projects by the CICA with United States GAAP and the similarities of the Canadian and United States economies, Nortel Networks believes that United States GAAP and Canadian GAAP will be sufficiently similar to be an acceptable alternative while at the same time not compromising comparability. In addition, Nortel Networks supports allowing Canadian companies that are also SEC registrants to file United States GAAP financial statements in Canada, subject to the same level of disclosure in the MD&A as would be required by a foreign registrant utilizing United States GAAP, in addition to an explanation as to why United States GAAP is the appropriate measure for Canadian investors to be utilizing in making investment decisions regarding the Canadian company. Continuous disclosure requirements should also be consistent with the above for those foreign companies choosing to file in accordance with United States GAAP, as well as Canadian SEC registrants.

Question 2

As described above, Nortel Networks believes that both Canadian and foreign issuers should be subject to the same financial reporting requirements. In addition, we believe that our proposal would enable Canadian investors to more easily and efficiently compare the financial information of Canadian SEC registrants to their United States-based competitors in specific industry sectors such as the telecommunications industry of which Nortel Networks is a part. Nortel Networks current experience with GAAP reconciliations is that they can lead to confusion and may not enhance the ability of users to analyze financial information. Additional confusion can be created for Nortel Networks shareholders and the capital markets as a result of the publication of both Canadian and United States GAAP financial statements in Canada, which may be compared to the financial results published in our press releases and other disclosures with the public that are based only on United States GAAP.

Questions 3 & 9

Current reconciliation processes can be confusing and of minimal use to a reader. Nortel Networks, as discussed above, believes that the CSA should eliminate all quantitative reconciliation requirements, regardless of the basis on which a foreign issuer prepares its financial statements, and instead allow a narrative discussion in the MD&A of the qualitative differences between the basis of accounting used in preparing the financial statements and Canadian GAAP. This approach should also be allowed for Canadian issuers filing with the SEC under United States GAAP.

Question 4

Nortel Networks believes that Canadian companies required to prepare United States GAAP financial statements to fulfill SEC requirements should be allowed to file those statements in Canada in satisfaction of Canadian securities law requirements. Given the current harmonization projects by the CICA with United States GAAP and the similarities of the Canadian and United States economies, Nortel Networks believes that United States GAAP and Canadian GAAP will be sufficiently similar to be an acceptable alternative. Nortel Networks believes that many Canadian companies participating in the United States capital markets are competing against United States companies in the global marketplace and generating a substantial proportion of their revenue from non-Canadian (particularly United States) sources. As a result, and as is the case for Nortel Networks, comparisons by investors and analysts are done against United States-based companies reporting in accordance with United States GAAP.

Questions 5 & 8

Nortel Networks believes that, at this time, only Canadian companies that are also SEC registrants should be permitted to file United States GAAP financial statements to satisfy Canadian provincial securities legislation requirements. In our view, at this time the knowledge base within Canada of United States GAAP is not broad enough to support the preparation, auditing, and regulation of United States GAAP financial statements by all Canadian issuers. Nortel Networks has recruited and trained our corporate accounting function, which is located in both Canada and the United States, to have a sound knowledge of both Canadian and United States GAAP. This learning has been achieved through internal training, interaction with our auditors, external courses and on-the-job experience. Nortel Networks size and the complexity of the transactions we undertake require us to maintain an internal technical research group dedicated to both Canadian and U.S GAAP issues, and the potential differences between the two GAAPs. However, we believe this capability is both unique and an incremental cost for Canadian companies. In addition, we believe that both issuers and auditors in Canada currently involved in the preparation and

audit of United States GAAP financial statements generally utilize the resources of the Canadian auditor's United States affiliate to resolve technical issues. We believe that such resources currently would have difficulty supporting a larger number of clients distributing United States GAAP financial information.

As a result of the CICA's initiative to harmonize Canadian GAAP with United States GAAP, and Canada's proximity to the United States, the knowledge base within Canada of United States GAAP continues to grow, and we believe will eventually become capable of supporting a greater number of United States GAAP filings in Canada.

Given the current limited United States GAAP knowledge base in Canada, we believe that another foreign GAAP basis in addition to United States GAAP could not be supported to the degree required to provide confidence to the Canadian capital markets.

Question 6

By allowing only Canadian-based SEC registrants to file United States GAAP financial statements, Nortel Networks does not believe that the CSA's ability to provide appropriate regulatory oversight in the Canadian capital markets would be compromised. The current regulatory environment requires the CSA to review United States GAAP financial statements of United States-based issuers. The additional Canadian companies preparing full United States GAAP financial statements would be limited and therefore should not place a substantial additional burden on current resources. We also believe that the review capabilities of regulatory agencies for United States GAAP-based filings is and will continue to be stronger in the United States. Allowing only those Canadian-based companies who also file in the United States to use United States GAAP-based financial statements to meet their Canadian securities law filing requirements would ensure appropriate diligence and oversight of the United States GAAP-based financial statements

In order to reduce the cost of financial reporting for Canadian companies that report in both Canadian and United States GAAP, the Regulations under the Canada Business Corporations Act must be amended to allow financial statements prepared in accordance with a foreign GAAP to be provided to shareholders as part of the annual report requirements. A change to the tax statutes would not be required as the financial statements required for tax purposes are based only on an entity's Canadian operations for which source books and records would continue to be maintained in Canadian GAAP.

Question 7

Nortel Networks believes that the use of a foreign GAAP other than United States GAAP is not advisable at this time given the resource limitations outlined in our response to questions five and eight.

Question 10

Our proposal would not result in any transitional issues, as the companies involved would have previously commenced filing financial statements prepared in accordance with United States GAAP.