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Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Nova Scotia Securities Commission
New Brunswick Securities Commission
Office of the Attorney General, Prince Edward Island
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Government of Yukon
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

Ontario Securities Commission (OSC)
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8
Attention: John Stevenson, Secretary

Autorité des marchés financiers
Tour de la Bourse
800, square Victoria
C.P. 246, 22e étage
Montréal Québec, H4Z 1G3
Attention: Anne-Marie Beaudoin, Directrice du secrétariat

Dear Ladies and Gentlemen:

General comments

Please find attached the TELUS response to the proposed Multilateral Instrument 52-111 Reporting on Internal Control over Financial Reporting ("52-111"). Our comments are provided for your consideration and if required we would be pleased to provide clarification. We have also enclosed a diskette containing our submission as requested in your Request for Comments.

TELUS generally supports 52-111 as opportunity to improve on SOX 404 precedent experience and advocates high level of accountability for ethical standards

In general, TELUS is supportive of the need for regulation to improve the quality and reliability of financial reporting by requiring reporting issuers to provide audit opinions on the adequacy of internal controls over financial reporting. The Canadian recommendation is also welcomed as it closely parallels the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 (SOX 404) acknowledging the current North American market synergies and necessity to maintain confidence in Canadian capital markets by generally harmonizing with U.S. regulation in this area. While we are generally supportive of the need for 52-111 and the fact that for the most part 52-111 mirrors the U.S. SOX 404 rules, it is important to realize that the implementation of SOX 404 for U.S. issuers has been associated with rushed implementations and significant controversy over the cost effectiveness of this regulation. So we believe that it is critical that the Canadian approach to setting regulations for assuring the quality and reliability of internal controls should build off the lessons of the U.S. experience to improve on the cost effectiveness of such compliance activity for the benefit of overall capital market efficiency as well as for issuers. Consistent with such an objective, below we provide suggestions to improve the proposed 52-111 regulation based in part on our direct experience with implementing SOX 404 at TELUS.

It is important to keep in mind that regulation such as SOX 404 and 52-111 cannot guarantee the effectiveness of internal control over financial reporting. TELUS believes that irrespective of the size of the issuer, effective internal control begins at the top. TELUS believes that effective financial controls start with promoting and demonstrating ethical behavior that is visible to the entire organization and to its investors. Unfortunately, Canada has not been immune to corporate fraud and scandal. Management of Canadian public companies need to be accountable for and be measured on a highest level of standards of ethical behavior.

U.S. SOX 404 experience reveals lack of interpretation guidelines and risk based approach are adversely affecting cost effectiveness

TELUS is supportive of 52-111 regulation, however due to a combination of a rushed implementation schedule for domestic issuers in the United States and a lack of adequate interpretation on the application of the rules under SOX 404 in the United States, among other factors, we observe that:

- (i) significant costs have been incurred by issuers to comply with SOX 404 without an effective assessment of risk and a risk based application of the rules;
- (ii) there is a lack of understanding of specific requirements by issuers and their auditors;
- (iii) an insufficient weighting and reliance is being placed on higher level company controls; and
- (iv) as a consequence of these aforementioned factors, the expense of implementing SOX 404 has been much higher than expected straining the resources of issuers, displacing other value-added activities and leading to the widespread criticism of whether SOX 404 regulation is justifiable on a cost effective basis.

The somewhat vague nature of the SOX 404 rules has resulted in reporting issuers and auditing firms taking conservative interpretations regardless of risk and cost effectiveness. Since company level controls by their nature are more difficult to assess, test and link to specific financial statement account balances, accounting firms have focused their audit procedures on substantive based

assurance of controls at the lowest level. In our opinion, SOX 404 costs have been significantly inflated due to this excessive emphasis on documenting and testing such lower level controls which have minimal value to the overall objective. The amount of documentation and testing has not been adequately based on the amount of risk and financial statement materiality of those lower level processes.

A specific example would be the initial interpretation of our SOX advisors (a big 4 CA firm) and our external auditors that all TELUS processes irrespective of risk need to be documented if they impact our financial statements by more than \$6 million pre-tax. TELUS expects to have revenues of \$7.95 to \$8.05 billion, EBITDA of \$3.25 to \$3.325 billion and net earnings in the hundreds of millions in 2005 as publicly disclosed. In our opinion, the \$6 million threshold being proposed by our advisors and auditors is an overly conservative interpretation of material risk to our financial statements, which would add significant additional costs in complying with SOX 404. While materiality is higher for disclosure of significant deficiencies and material weaknesses under our external auditor's methodologies, their initial internal policies required a \$6 million threshold for each process to be documented, assessed and tested to achieve their required coverage irrespective of risk. This is a very costly and inefficient consequence that 52-111 regulation needs to address.

TELUS advocates risk based approach to process controls and more guidance

Consistent with the May 16, 2005 SEC "Staff Statement on Management's Report on Internal Controls over Financial Reporting" and the May 16, 2005 PCAOB "Staff Questions and Answers", TELUS believes more reliance should be placed on (i) company level controls; (ii) a risk based approach to process and control identification and testing; and (iii) a focus on an "ethical environment". We believe that the application and associated testing of SOX 404 and 52-111 should be based on an assessment of risk and not a quantitative only approach. The 52-111 guidance should build on the May 16, 2005 SEC SOX 404 interpretations and where possible, provide additional guidance to allow for an effective and efficient application.

Currently the interpretations are very broad and significantly impact the levels of documentation required. Some specific suggestions would be to (i) enhance and be more specific on the requirements for and reliance on company level controls; (ii) clarify testing requirements of low risk but material processes; and (iii) introduce a measurement for the promotion of an ethical environment. Training in the areas of ethics and ethics policies, financial reporting and entity governance should be a top priority from the entry level employee to the Board of Directors. In addition, we recommend the implementation of an ethics hot line that is safe and confidential to use. We see this as another example of a cost effective tool to promote and enforce accountability within an organization. Companies should not hide behind the detailed controls but should be tested first on the tone at the top and then move down the risk areas as required. A continuation of the adoption of the guidance and learning's from the SOX 404 experience to guide Canadian company's management and auditors to implement an effective and efficient approach to Reporting on Internal Controls over Financial Reporting should be maintained (see our response to question 15 and 16 regarding implementation dates).

Response to the May 16 guidance remains uncertain

As of the date of this letter, we are disappointed that the impacts on the audit firm methodologies addressing the May 16, 2005 guidance by the Securities & Exchange Commission (SEC) "Staff Statement on Management's Report on Internal Controls over Financial Reporting" and the May 16,

2005 Public Company Accounting Oversight Board (PCAOB) "Staff Questions and Answers" has not yet been formally conveyed to us by our auditors or advisors. Preliminary feedback from our advisors and auditors has been that the approach has not really changed from their initial methodology but their final conclusion has not yet been determined. That being said, there appears to be an expectation gap between businesses and the audit firms on what a "risk based approach" is interpreted to mean.

We believe a more defined view of what "top down" approach means and how it can be aligned to the Public accounting firms approach is required. In particular the following questions require some guidance: what reliance can be based on company level controls; how does the identification and testing of company level controls impact the requirements for more specific transactional process control documentation, assessment and testing; what account risk profile requires detailed process assessment and testing; how is materiality used in determining account identification and testing sizes when you have already considered risk, past experience and company level controls?

We are not advocating a specific rule based as opposed to principle based approach. However, we do believe more specific guidance on expectations and acceptable applications of the guidance is required for both public accounting firms and reporting issuers. A specific suggestion is to have a joint audit firm and business leader committee be formed with a mandate to discuss and resolve these specific issues and help set a viable and decisive methodology. This team could be structured as an advisory body to the Canadian Public Accountability Board ("CPAB") or the Canadian Audit & Assurance Standards Board or any other organization you see fit. The business leader members of such a committee should be comprised from companies that are or have been involved in the SOX 404 process and audit firm representatives should present methodologies to address the risk and reliance on company level controls issues. TELUS would be willing to participate in such a forum with the objective of obtaining clarity in implementation standards while not compromising the fundamental objectives of 52-111 which TELUS supports.

Specific requests for comment

1. Do you agree that the Proposed Internal Control Instrument should apply to all reporting issuers other than investment funds and venture issuers? If not, which issuers do you believe should be subject to the Proposed Internal Control Instrument?

TELUS response:

- We believe the proposed Instrument should apply to all reporting issuers.
- Investment funds are widely held by consumers who are outsourcing the investment of their money to professional fund managers. Accordingly, this group of investors could be largely unsophisticated and deserve the additional care of 52-111 and accordingly investment funds should be included. In the event that income trusts could be considered investment funds, the widespread conversion of many Canadian public corporations into income trusts means that the 52-111 exemption would apply to income trusts and a significant portion of public issuers who are income trusts would be exempt by virtue of legal structure even though their underlying control risks remain the same as corporations. The rules around income trusts should be defined and the recommendation from TELUS is that income trusts not be exempt from 52-111.

- We believe that venture issuers should be required to comply with 52-111 however the scope of their inclusion needs to be modified (see 2 below). Due to the number of employees and segregation of duties, Venture issuers can be at a high risk of weaker controls over financial reporting.

2. Do you believe that venture issuers should be subject to different requirements relating to internal control over financial reporting beyond what is required by the Revised Certification Materials? If so, what should be the nature of any different requirements?

TELUS response:

- Venture issuers arguably may not have the cost structure to comply with the full requirements of 52-111. None the less, certain of the scandals have occurred from companies listed exclusively on the Venture Exchange and it is likely that there is a negative correlation between firm size and the potential for control weaknesses. So we believe that venture issuers should report on their overall corporate governance approach, ethics guidelines and their oversight on financial reporting. The rules could be made less onerous but the demands on these companies to perform and the potential resource limitations could put the financial reporting inconsistencies at a higher risk. Strong governance and controls over financial reporting are essential to even smaller public organizations and enforcement to restore public faith in financial reporting and prevent the Canadian venture exchange from becoming the North American listing choice for those issuers whose governance and reliability of financial reporting is not acceptable to be a public company.

3. Should the term "management" be formally defined? If so, what would be an appropriate definition?

4. If "management" is not defined, is the guidance in the Proposed Internal Control Policy adequate and appropriate?

TELUS response:

- The term "Management" needs to have a clear definition and the guidance provided is too broad and may make litigation significantly more complex.
- We concur that "Management" in the new Canadian rules is not just the CEO and CFO, but could be anyone else the company may deem as responsible for implementing/maintaining internal control, thus it increases the range of accountability.
- The broad and undefined term of management increases inclusion, but we think that the rule should prescribe a definition of management and permit a company to extend the scope if it wishes. We suggest that "management" be defined as the CEO and CFO or such other persons as the board of directors determine are performing similar functions to the CEO and CFO.

5. Is the guidance set out in the Proposed Internal Control Policy with respect to the scope of the evaluation of internal control over financial reporting in relation to each of the circumstances set out above adequate and appropriate?

TELUS response:

- As scope depends on the entity size, locations and complexity of operations and is a matter of professional judgment, we concur that it cannot be prescribed.
- As discussed throughout this letter the implementation of the requirements and the level of documentation, assessment and testing of controls over financial reporting throughout

an organization and how to effectively utilize a risk based approach with more reliance on entity level controls does need to be clarified. We are still advocating good professional judgment over prescribed definitions as there is still not enough clarity to move forward efficiently. This will also help reduce the interpretation gap between companies and their auditors.

6. Are there any other control frameworks that should be identified in the Proposed Internal Control Policy as satisfying the criteria for a suitable control framework?

7. Are there any specific aspects of the identified control frameworks on which additional guidance is required to assist in their application by issuers that have limited formal structures for internal control over financial reporting?

TELUS response:

- We specifically suggest the US (COSO), Canadian (CoCo) and England / Wales (Turnbull) standard are appropriate and should be the only acceptable standards.
- CSA should consider a focus on specifically addressing the weighting and reliance on entity-level controls versus reliance on transactional controls within the respective framework. This will direct management and external auditor efforts to a more risk based approach instead and reliance on the company level controls which are more difficult to test than their traditional and easier to audit transaction testing. Implementation and ongoing compliance costs including consulting and auditing costs could be reduced if this was done effectively.
- More time needs to be spent on reliance on tone at the top and assessing and testing financial statement impacting processes based on risk by management that can be relied on by the company's auditor. We believe the company level controls and risk based approach are essential to 52-111 being implemented in an effective and efficient manner.
- Consideration should be given to a more refined requirement for smaller organizations.

8. Is the guidance in the Proposed Internal Control Policy regarding the content of the evidence adequate and appropriate?

9. Are the requirements in the Proposed Internal Control Instrument regarding the manner in which the evidence must be maintained adequate and appropriate? Is the guidance in the Proposed Internal Control Policy regarding the manner in which the evidence may be maintained adequate and appropriate?

10. Is the requirement in the Proposed Internal Control Instrument on the period of time during which the evidence must be maintained adequate and appropriate?

TELUS response:

- Once the specific requirements on risk and company level controls and been adequately defined and represent a risk based approach, then the proposed instrument is adequate. Given the degree of judgment that is required and the fact that 52-111 does not prescribe the content of the evidence supports our belief that evidence may vary depending on the issuer's size, nature of business and complexity of operations.
- Maintaining evidence over the same period as determined by the income tax act is logical and consistent with the practices followed by most companies.

11. Is it appropriate to require disclosure of any limitations in management's assessment of the effectiveness of an issuer's internal control over financial reporting extending into a joint venture, VIE or acquired business? If not, are there alternative ways of providing transparency with respect to any limitations in management's assessment?

12. Are there any other circumstances under which management may reasonably limit its assessment? Should disclosure of these circumstances be required?

TELUS response:

- Disclosure of any limitations is essential. There may be many situations that could exist such as a recently acquired business. We would not want 52-111 to modify business behavior (for example – if it is overly restrictive all acquisitions would be delayed until the first day of the new reporting period which would run counter to the strategic timing of most acquisitions).
- When there are limitations, disclosure should include a description of the reasons for the limitation and management's action plan and expected timetable to deal with the limitation presented.

13. Are the exemptions from the Proposed Internal Control Instrument appropriate?

14. Are there any other classes of issuers that should be exempt from the Proposed Internal Control Instrument?

TELUS response:

- SOX 404 has specific foreign issuer rules. TELUS recommends that the rules under this regulation be conformed to the SOX 404 rules. Specifically, foreign issuers in Canada should need to comply but should be given extra time to implement.

15. Is the phased-in implementation of the Proposed Internal Control Instrument appropriate?

16. Does the phased-in implementation adequately address the concerns regarding the cost and limited availability of appropriate expertise within reporting issuers and among external advisors and auditors? If not, how can these concerns be addressed?

TELUS response:

- 52-111 was issued prior to the one-year deferment of the implementation deadline by the SEC for foreign private issuers (FPI) under section 404.
- The years chosen by the SEC for FPI (July 2006 year ends) and the Canadian (June 2006 year ends) date are now approximately the same for SEC registrants with a market capitalization in excess of \$500 million.
- Resources for SOX are scarce and as a result the costs for resources are increasing.
- TELUS recommends the Canadian dates be shifted one year except for U.S. Foreign Private Issuers to allow the Canadian business community to benefit from further learnings and ensure qualified resources are available for all business segments at reasonable costs. Recommended dates are as follows:
 - 2006 52-111 filing for issuers also filing under 404 as foreign private issuer.
 - 2007 for all Canadian issuers greater the \$500M
 - 2008 etc...
- Not that we can speak on behalf of various auditing firms but their resources for both SOX and audit services are already resource constrained and any opportunity to relieve pressures for the first year implementation may save in premiums required on these services.

17. Are there any costs or benefits associated with the Proposed Internal Control Materials that have not been identified in the Internal Control CBA? If so, what are they?

18. Do you believe that the benefits (both quantifiable and unquantifiable) justify the costs of compliance (both quantifiable and unquantifiable) for:

- (a) issuers with a market capitalization of less than \$75 million?*
- (b) issuers with a market capitalization of \$75 million or more but less than \$250 million?*
- (c) issuers with a market capitalization of \$250 million or more but less than \$500 million?*
- (d) issuers with a market capitalization of greater than \$500 million?*
- (e) all issuers?*

TELUS response:

- US experience with the implementation of the SOX 404 rules has been costly including substantial resources (dollars and headcount) having to be deployed.
- There has been an increase already in the external audit fees and audit related services as well as an increase in consulting costs to prepare for SOX 404.
- Companies need to put in place their “52-111 program” first and then focus on the benefits second. We need to move from skepticism to creating value by making this a sustainable program.
- Testing guidance should be established on what reliance can be placed on entity versus transactional controls with an effective reliance on a risk based approach rather than a quantitative materiality calculation. Audit firms are doing the interpretation and there is no incentive for them to be efficient or not overly conservative. This is a major deficiency with the SOX 404 approach to date and we strongly encourage you to provide sufficient guidance for management and auditors to contain their requirements to reasonable levels of materiality based on risk. This should have a significant impact on lowering, compliance costs without compromising the compliance effort. Such a result would be a significant positive factor in obtaining broader support for 52-111 by making it more cost effective.

19. Do you agree with our assessment of the identified alternatives?

20. What other alternatives, if any, would achieve the objectives identified above?

TELUS response:

- The described Alternative #4, *the Evaluation of entity-level controls only* comes closest to the TELUS recommendation, albeit, a modification would be required as outlined below.
- Prescribing management to evaluate only entity level controls relating to financial reporting as at the end of the issuer’s financial year and requiring the issuer to file a report of management’s assessment of such controls aligns with our ethics, code of conduct and “tone at the top” thinking. Cost, although an important consideration should not be the primary driver – rather a focus on what matters, the overall underlying ethics of an organization. We do still feel it is important to drill beyond the entity level controls and focus on additional areas where inherent risks exist that could not be addressed by company level controls alone. At minimum companies need to perform a risk assessment and high risk areas should be addressed at a lower level than just entity-level controls. Due to the nature of some of the judgment that may be included, the financial statement close process should be one such area.

21. Is it necessary or appropriate to require a venture issuer to refile its annual certificates for a financial year when it voluntarily files an AIF for that financial year after it has filed its annual financial statements, annual MD&A and annual certificates for that financial year?

22. Since the AIF may be voluntarily filed several months after the issuer’s annual financial statements and annual MD&A, there may be a significant gap between the time that the annual financial statements and annual MD&A are filed and the time that the annual certificates are refilled. Is this timing gap problematic?

23. Is the guidance regarding the treatment of underlying entities set out in the Revised Certification Policy adequate and appropriate?

TELUS response:

- No we do not see this as problematic. Any subsequent information obtained including updates on controls over financial reporting would need to be looked at if it impacted the financial statements already issued and what appropriate actions, if any, would need to

be taken. Assessment of the significant deficiencies and material weaknesses disclosures required, if any, would be taken into consideration.

- Most companies are complex, with subsidiaries, equity interests and venture investments. The guidance on the boundaries cannot override judgment and applying the risk based approach discussed earlier in this letter.

Final Comments

Compliance with SOX 404 and the proposed 52-111 is a major undertaking for TELUS and there still is a considerable amount of important work to complete in order to satisfy our responsibilities for compliance. We are still learning and intend to use our learnings to further enhance our goal of sustainability. We are confident that the TELUS team will satisfy its compliance requirements related to this regulation and hopefully derive related operational benefit as well.

We applaud the CSA for putting forth the proposed 52-111 and for considering the comments of business leaders in Canada. The direction the CSA is taking on the proposal generally aligns with our view that Canada, much like the US needs to address the financial reporting issues that have plagued investor confidence in the investor marketplace.

Addressing the rule interpretation issues to facilitate a meaningful risk based approach should improve the reputation of Canadian issuers, align and optimize the compliance investment with the payback that can be obtained by issuers and investors. The payback to issuers would be from a focused effort on effective and efficient controls over financial reporting, promotion of an ethical environment and clear ownership and accountability for managements' actions.

Our TELUS SOX team or I will be happy to discuss with you any questions or clarification you require.

Sincerely,

Robert G. McFarlane
Executive Vice President &
Chief Financial Officer

- c. -Darren Entwistle, President and CEO, TELUS Corporation
- Brian MacNeil, Chairman, TELUS Corporation Audit Committee
- Brian Canfield, Chairman, TELUS Corporation
- Douglas French, VP Corporate Accounting & Financial Reporting, TELUS Corporation
- Audrey Ho, VP General Counsel & Corporate Secretary
- Olin Anton, Deloitte & Touche