October 21, 2010

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

Delivered by email to commentletters@ifrs.org

Re: TELUS Corporation Inc. Reply to Request for Comments – Revenue from Contracts with Customers

Dear Ladies and Gentlemen:

TELUS Corporation Inc. ("TELUS") is pleased to provide comment on the June, 2010 Exposure Draft (ED) Revenue from Contracts with Customers.

TELUS is a leading national telecommunications company in Canada, with approximately $10 billion of annual revenue and 12 million customer connections, including approximately seven million wireless subscribers, four million wireline network access lines, one million Internet subscribers and 228,000 TELUS TV customers. TELUS provides a wide range of communications products and services, including data, Internet protocol (IP), voice, entertainment and video.

TELUS is a reporting issuer in both Canada and the U.S. and is currently reporting under Canadian GAAP with a reconciliation to U.S. GAAP. Commencing January 1, 2011, TELUS will be adopting IFRS.

In our remarks below, we have provided general comments relating to the ED and have responded to certain selected questions. Where we disagree with points made in the draft, we have supplied supportive reasoning and suggested alternatives.

We would be happy to provide clarification on any of our comments.
General comments

In general, TELUS is supportive of the joint ED where all entities, whether they are reporting under International Financial Reporting Standards (IFRSs) or U.S. generally accepted accounting principles (GAAP), would apply one standard to revenue recognition and that one standard would replace the multiple revenue accounting standards that currently exist.

The core principle in the ED would require an entity to recognize revenue upon the transfer of goods or services to customers in an amount that reflects the consideration expected to be received in exchange for those goods or services. The ED is intended to remove inconsistencies in existing requirements and provide a more robust framework for addressing revenue recognition issues.

In our view, the ED, similar to the Revenue Discussion Paper, remains too academic and therefore may be subject to significant interpretation or inconsistent application, thus potentially impacting the degree of comparability of companies' financial results both across and within industries. For example, given the number of new assumptions and estimates related to credit worthiness of the customer and contingent consideration that might be required in determining the fair value of a given performance obligation, there would be a high likelihood for divergent application and varying results. In the extreme, such a principles-based approach could lead to more opportunities for manipulation of results. It was for these reasons that more detailed guidance was established in both the U.S. and Canada previously.

The application of the new ED to the telecommunications industry in particular would result in the acceleration of revenue recognition and the creation of very substantial contract assets for which the entity would not have any current legal right to bill and collect. The acceleration of recognition is most prevalent of in a bundled arrangements including a handset and a contractual service period, where a contract asset will be recognized on the delivery of the handset, where handset ownership would have already transferred to the customer and the customer would have provided the predetermined consideration. Standards that potentially could permit, or require, more aggressive revenue recognition as compared to the current standards introduce risk into the understanding and measurement of an entity particularly when the revenue recognition is substantially disconnected with the actual pattern of cash flow from a customer. This would result, in our view, with less relevant financial statement results and more reliance on non-GAAP measures for decision making.

Because of the myriad of diverse industries that would be using this single revenue recognition standard, TELUS is not certain this ED would be adequate in replacing the more detailed and/or industry-specific guidance designed to deal with unique types of transactions. By way of example, the telecommunications industry has, through time, converged its accounting practices and metrics for wireless contracts, resulting in industry standards that ensure a high degree of comparability.

In general, we believe that the ED will have a significant impact on the telecommunications industry and others, and consideration should be given to recommended modifications to the ED as we have described in the responses below. In addition, we recommend a rigorous review of the interpretations and impacts with actual data by major industry group before proceeding any further so as to ensure that the desired results are being achieved and any unintended adverse accounting consequences are avoided.

Other than our comments on selected questions as provided below, we are generally supportive of the remaining concepts and principles in the ED.

Question 2

The boards propose that an entity should identify the performance obligation to be accounted for on the basis of whether the promised good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?
TELUS agrees with the principle of separating a performance obligation; however, we believe that, in some cases, depending on interpretations, assumptions and application of the ED, financial results could be inconsistent, even within a particular industry and, therefore, comparability may not be easily attainable. Our concerns are more fully addressed in our response to Question 7.

Question 5

Paragraph 43 proposes that the transaction price should reflect the customer’s credit risk if its effect on the transaction price can be reasonably estimated. Do you agree that the customer’s credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

TELUS disagrees with reflecting the customer’s credit risk in revenue recognition when the performance obligation is satisfied.

At the commencement of all multi-period service commitments, TELUS performs credit checks and does not knowingly sell to customers who are not credit-worthy. However, customer risk factors can change on an individual basis over time due to economic conditions or personal circumstances, thus leading to bad debts.

We therefore disagree with the principle that an initial assessment of customer credit risk should be recorded as a reduction to the sales price, while any excess over normal credit risk (subsequent re-measurements) charged to bad debt expense. In our view the separation of bad debts into the two components relies heavily on estimates and market changes (which may be outside the control of an entity). These estimates may lead to manipulation or inconsistencies thereby reducing the comparability of financial information. In addition the use of probability-weighted estimates for revenue recognition may result in more aggressive recognition of revenue where collectability is remote. For example, if there is a 10 per cent probability of collection from a particular customer at the time of sale, should 10 per cent of the revenue be recognized? Our opinion is that at the time of sale, there is either an expectation for collection or not and that revenue should be either recognized at the transaction price or not recognized at all. We believe that the proposed method could unduly accelerate revenue recognition and could result in inflated bad debts. TELUS therefore disagrees with applying a probability-weighted approached to recognizing revenue and the associated receivables where there is no reasonable assurance of collection. Under current IAS, Canadian and U.S. GAAP, no revenue is recognized when there is no reasonable assurance of collection.

Rather, we believe the issue of credit risk is better dealt with in the calculation of the provision for the allowance for doubtful accounts and corresponding bad debt expense. Clearly separating sales activity from the credit and collection process allows the user to understand through the revenue disclosure how much has been sold through the application of the entity’s sales and marketing practices. In contrast the bad debt expense account provides the user with information on the success of the entity’s applied credit and collection practices.

Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in the proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We do not agree that Paragraph 50 should be applied without more guidance on the amount that may be recognized. The proposed guidance may result in the acceleration of revenue recognition in certain cases when the actual economics or substance of the transaction would suggest revenue should be recognized over time. This holds especially true for certain telecommunications contracts.
The wireless telecommunications industry often bundles handsets with service contracts, providing in some circumstances the handset for free or at a subsidized rate in exchange for a specified service contract term. Currently, under both Canadian and U.S. accounting standards, handset revenue recognition is limited to the non-contingent consideration received, and costs of the equipment are expensed as incurred. The wireless companies' key performance indicators - such as "cost of acquisition" or "average revenue per subscriber" - are aligned with the revenue recognition policy so interpretation of our financial information is consistent. In addition, the current revenue recognition practice aligns with the cash flow from our customers that again allows the readers to have a consistent understanding of our financial information from reported results, from cash flows and from key performance indicators.

Under the ED, an interpretation would be that handsets and ongoing services would be considered separate performance obligations in a bundled arrangement with handset revenues being recognized upfront. The ED proposes that "the best evidence of stand-alone value is the observable price of a good or service that is sold separately." However, in the wireless telecommunications business, very few handsets are actually sold separately without a contract or prepaid arrangement for services (i.e. airtime, data, features), resulting in very little "stand-alone" pricing data. The ED would suggest that the handset revenue is recognized at the relative fair value as revenue upfront.

While we agree that the delivery of the handset is a separate performance obligation, we disagree with the allocation of the transaction price to all separate performance obligations in proportion to the stand-alone selling price when the performance obligation selling price is not reflective of majority of the transactions being executed.

Specifically, in our opinion, the proposed practice allocates too much revenue to the handset performance obligation by using stand-alone selling prices as a basis for allocating total contract consideration to each component without regard to a limiting cap. A limitation should be in place whereby revenues recognized upfront cannot include consideration that is contingent on the provision of future services and the upfront recognition is limited to the cash received. This is the current guidance under Emerging Issues Committee 142 in Canadian GAAP and ACS 605 in U.S. GAAP.

<table>
<thead>
<tr>
<th>Example:</th>
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<tr>
<td>Customer signs a two-year contract term for $50 per month</td>
<td>$1,200</td>
</tr>
<tr>
<td>Upfront fee for the handset and activation</td>
<td>$300</td>
</tr>
<tr>
<td>Cash paid by customer over contract life</td>
<td></td>
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<tr>
<td>Retail price for the handset (no network/no contract)</td>
<td>$1,300</td>
</tr>
<tr>
<td>Handset revenue recognized under current practice**</td>
<td>$100</td>
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<tr>
<td>Handset revenue recognized under ED *</td>
<td>$260</td>
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<tr>
<td>Increase in revenue</td>
<td>$160</td>
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<tr>
<td>** $300 /($1,200 + $300) x $1,300 = $260. This example does not</td>
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<td>incorporate the impact of the time value of money or the credit</td>
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<td>worthiness of the customer.</td>
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<td>**Emerging Issues Committee 142 in Canadian GAAP and ACS 605 in U.S.</td>
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<td>GAAP</td>
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This ED results in an allocation that does not represent the economics of the transaction nor provide value to the user of the financial statements. The resulting revenue of $260 that would be recognized under this approach represents neither the cash consideration nor the stand-alone selling price, and results in $160 of increased revenues against the real fair value of a phone that is committed to a network. In our view, the $100 cash consideration properly reflects the value to the customer. Application
of the approach will also create inconsistencies between companies and the potential for manipulation as each company develops its own method of determining fair value.

For the user of financial statements, the accounting as proposed under the ED creates a disconnect between the revenues and cash flows which, in turn, results in further reliance on non-GAAP measures, such as cost of acquisition and monthly revenue per unit (adjusted for accounting accruals), to judge the performance of the company.

The ED also results in the creation of a significant, new asset called a contract asset, which represents the accrual for accelerated recognition. This accrual results in inflated assets on the balance sheet. It is an asset for which we have no legal rights to bill or collect. With the potential magnitude of this “soft” asset, we believe that certain financial ratios that are derived from the statement of financial position may be distorted and less useful to the readers of our financial information.

There is also the potential of a significant cost to our industry from system modifications and potential tax implications without improving the relevance of the reported financial information. Systems will need to be modified for tracking the change as currently there is only a need to track the upfront consideration and the ongoing monthly billings. In our circumstance, with twelve million subscribers connections, including seven million wireless subscribers with hundreds of handsets at any one time with different values, varying contract and renewal periods and thousands of rate plans being tracked, the quantification of the upfront revenue recognition will have significant calculation complexities that our systems currently cannot perform. If there is no change in the ED as recommended, consideration to a deferred implementation date is requested to allow for system changes to implement these changes. System changes in our industry are very expensive and generally have a long change time. In addition to system complexities and costs, the acceleration of revenue may cause incremental cash income tax depending on the local tax authorities’ rules. Since revenue will be accelerated and net income is the starting point of income tax filings, there may be an acceleration of cash taxes paid without an acceleration of any cash flow to the respective company.

Furthermore, under the new ED, the residual value is eliminated in favour of a consistently applied relative selling price model. In the absence of a limitation cap, the residual method for allocating revenue to a performance obligation accomplishes a similar goal. The monthly services are sold on a stand-alone basis and are an excellent representation of fair value. If the total contract value for a wireless contract is assigned first to the undelivered service contract using high quality stand-alone selling prices, then the residual value of the contract, being the upfront cash consideration, would be assigned to the wireless handset sale. Thus, a similar accounting treatment would also result if the use of the residual method was permitted.

In conclusion, the Canadian telecommunications industry has discussed this specific issue over time and has found it appropriate to not recognize revenue that is contingent on the provision of future services. Accordingly, our opinion is that the standard should either include a contingent revenue cap or, alternatively, the residual method should be retained.

**Question 9**

Paragraph 57 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in the contract and (b) and additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what would you include or exclude any why?

TELUS disagrees with performing the onerous test at the individual performance obligation level.

Many telecommunications and other industry contracts are large and complex long-term arrangements (i.e. large enterprise contracts for multiple services). Strategic pricing may result in portions of the contract being unprofitable while the overall contract is profitable. Our view is that onerous obligations be
assessed at the overall contract level as that is the level that represents the economic substance of the arrangement and commitment to the customer as a whole. Even during the bid process, certain customers publish their formula for awarding the winning bid. In numerous situations, customers will structure the bid to meet their longer term objectives, which are, in general, cash flow or product based. Our responses to such bids may require us to offer certain performance obligations at a loss with overall profitability on the bundled deal to be competitive and/or increase our chances of winning the business. Both the buyer and seller base their decisions on the economics of the overall bundled deal, so looking at the individual performance obligation in these circumstances does not reflect either the economics of the deal or the intent of the bundled contract.

We recommend that a contract be viewed as its economic whole when performing the onerous test and not at the performance obligation level.

Conclusion
We are pleased to have this opportunity to submit our comments on the ED Revenue from Contracts with Customers. We are especially pleased with the IASB and FASB jointly issuing a position for us to consider. We recognize that this is a difficult topic and applaud you for the commitment you are demonstrating in improving worldwide accounting standards. However, we urge you to give serious reflection to the important issues that we have raised in our response. The ED as currently proposed could weaken the utility and relevance of reported revenues while opening the possibility for reduced comparability both within the telecommunications industry and across all industries. In addition, the ED increases the possibility of aggressive revenue recognition practises that are contrary to the fundamental interest of users to the financial statements.

If you have any questions or require further clarification regarding our response, I would be pleased, along with our TELUS team, to discuss our comments further or to provide you with any additional information you may require.

Sincerely,

Doug French
Vice-President, Corporate Accounting and Financial Reporting

C.C.
Brian MacNeil, Chair, TELUS Corporation Audit Committee
Darren Entwistle, President and CEO, TELUS Corporation
Robert G. McFarlane, Executive Vice-President and Chief Financial Officer
Nelson Kwan, Senior Vice-President, Corporate Controller
Kasey Reese, Vice-President, Risk Management and Chief Auditor
Kerry Merriman, Vice-President, Controller
Audrey Ho, Senior Vice-President, Chief General Counsel and Corporate Secretary
Karen Keilty, Partner, Deloitte & Touche