



# **KINGSWAY FINANCIAL SERVICES INC.**

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June 2, 2005

Ontario Securities Commission  
20 Queen Street West  
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M5H 3S8

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**JUN - 6 2005**

Ontario Securities Commission  
SECRETARY'S OFFICE

**Attention: Mr. John Stevenson, Secretary**

Dear Mr. Stevenson:

The Canadian Securities Administrators (excluding British Columbia) ("CSA") have requested comments on a proposal to require public companies to have financial reporting control system audits within the next four to five years. In broad terms we are in favour of strengthening financial reporting in Canada. We agree that a move forward is essential to protect our Canadian financial markets.

However, we see many serious flaws in the CSA's current proposal, which to us is a variation of Sarbanes Oxley Section 404 ('SOX 404'). These flaws include, but are not restricted to:

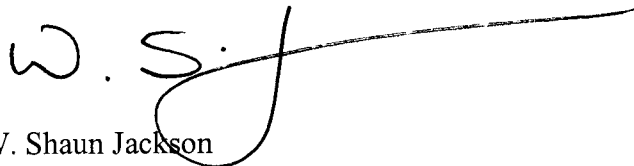
- The introduction of the SOX 404, Internal Control Report has lead to a significant increase in professional fees. During the last few years we have seen a significant increase in the hourly rates charged by the major public accounting firms due to the fact that they now operate in a monopoly position providing services to larger public companies. The additional work that has been created through the SOX 404 reports have significantly increased the number of professional hours spent for the attestation process. This has in turn lead to a significant increase in auditing costs, which again has been borne by shareholders.
- We believe that the costs would be an unwarranted charge against the profits for shareholders without the commensurate benefits. This is supported by the modest number of material internal control weaknesses that have been reported under SOX 404 in the United States.

- The current proposals seem to protect auditors against litigation rather than focusing on the manner in which auditors conduct assessments of internal controls. Public companies are being exploited by the major accounting firms who are using their monopoly position to significantly increase their fee levels. Ultimately, our shareholders pay.
- More attention should be focused on the calibre of the personnel conducting audits and the quality of the time spent in conducting such audits rather than the quantity of billable hours to increase audit fees. Over the past few years we have seen a noticeable decline in the calibre of personnel attracted to the major accounting firms as a result of the quantity of hours that these young professionals are working. Without question, the CA firms are having recruiting problems and as such have lowered their qualifications standards. We believe that competent controlled system audits will not result simply by requiring that they be performed. As a result we see the increased costs with minimal benefits in your proposal.
- We would suggest that should the consensus be to implement the current CSA proposal which we believe would be a significant burden on public companies in Canada, we would strongly urge you to regulate or set maximum caps on the hourly rates that the public accounting firms could charge for these services.

In summary, we are opposed to your current proposals for many reasons, only a few of which have been stated above. You have seen the backlash against this type of proposal in the U.S., where a tighter regulatory system exists. Canada does not have the infrastructure to deal with your proposals.

We strongly believe that your proposals should be promptly withdrawn. Auditors are already urging companies to prepare; we are not in favour of incurring fees where the capital market benefit is small, and where our shareholders will have to absorb significant additional fees.

Yours truly,

A handwritten signature in black ink, appearing to read 'W. S. J.', with a long horizontal line extending to the right.

W. Shaun Jackson  
*Executive Vice President & Chief  
Financial Officer*