

June 22, 2005

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Alberta Securities Commission
Saskatchewan Financial Services 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 Northwest Territories
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

Dear Sirs/Mesdames:

Re: Proposed Multilateral Instrument 52-111 and Companion Policy 52-111CP

We are writing in response to your Request for Comments with respect to the proposed Multilateral Instrument 52-111 (the "Proposed Instrument") and the proposed Companion Policy 52-111CP (the "Proposed Policy") Reporting on Internal Control over Financial Reporting (collectively, the "Proposed Materials"). We participated in the *CICA Policy Forum 2005: Are Internal Controls out of Control?* held in Toronto on May 26, 2005 and welcome this opportunity to formally express our concerns to the Canadian Securities Administrators ("CSA").

We support the CSA's efforts to maintain investor confidence in our markets through an enhanced focus on internal control over financial reporting ("Internal Controls"). However, we believe that there is an opportunity to improve the development and application of the rules in Canada under the Proposed Materials by learning from the U.S. experience under Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404").

1. Scope of Evaluation and Evidence

The evidence required by the Proposed Materials to support management's assessment of effectiveness of Internal Controls is account and process focused and would result in detailed documentation of a considerable number of processes. We have reached this conclusion based on a review of the following provisions of the Proposed Materials:

- The definition of “*internal control over financial reporting*” in the Proposed Instrument describes a comprehensive scope to Internal Controls.
- Section 2.3(2) of the Proposed Policy, and in particular, paragraphs (a) (controls over initiating, authorizing, recording, processing and reporting significant accounts and disclosures), (b) (controls related to the initiation and processing of non-routine and non-systematic transactions), and (e) (controls, including information technology general controls, on which other controls are dependent), describes a broad scope of controls subject to assessment.
- Section 2.2 of the Proposed Instrument requires that management’s assessment be based on a suitable control framework. Section 2.4 of the Proposed Policy suggests that CoCo and COSO are suitable control frameworks, both of which contemplate very detailed transaction level controls.
- Section 3.2(1)(a) of the Proposed Instrument requires that the Internal Control Audit Report be prepared in accordance with the CICA Standard. The proposed CICA Standard (which is substantially the same as the Public Company Accounting Oversight Board’s (“PCAOB”) Auditing Standard No. 2) contemplates a detailed approach that limits the application of professional judgement. See for example the “*Additional Performance Guidance and Extent of Testing Examples*” set forth in Appendix B to the proposed CICA Standard which steers auditors towards detailed aspects of processes and controls.

For Great-West Lifeco Inc., this approach would result in documenting over 600 processes, each of which have a significant number of Internal Controls. Such an approach does not sufficiently take into account key risk mitigating features stemming from entity level controls. The evidence with respect to the majority of the headlined corporate failures shows that the highest risk of significant deficiencies in Internal Controls occur at entity level controls. However, the Proposed Materials and the proposed CICA Standard focus the auditor on transaction level controls. **We believe that this detailed emphasis on processes and transaction level controls, applied without judgement filters, is ineffective because it lacks focus on risk.**

The exercise of reasoned judgement is necessary in a risk-based approach but has not prevailed under SOX 404 largely because U.S accounting standards follow a rules based methodology. In contrast, accounting standards in Canada follow a principles based approach which necessitates the exercise of judgement. **Accordingly, we feel it would not be appropriate for Canada to follow the prescriptive nature of SOX 404.**

At the time that SOX 404 was adopted, the PCAOB adopted Auditing Standard No. 2 which requires issuers and auditors to implement SOX 404 in a detailed and prescriptive manner. However, it was recently recognized by the Staff of the U.S. Securities and Exchange Commission that a detailed approach without regard to risk was not the intent of SOX 404 but that a “top-down risk-based approach” is appropriate:¹

“The feedback indicated that one reason why too many controls and processes were identified, documented and tested was that in many cases neither a top-down nor a risk-

¹ SEC Staff Statement on Management’s Report on Internal Control Over Financial Reporting (May 16, 2005).

based approach was effectively used. Rather, the assessment became a mechanistic, check-the-box exercise. This was not the goal of the Section 404 rules, and a better way to view the exercise emphasizes the particular risks of individual companies. **Indeed, an assessment of internal control that is too formulaic and/or so detailed as to not allow for a focus on risk may not fulfill the underlying purpose of the requirements.** The desired approach should devote resources to the areas of greatest risk and avoid giving all significant accounts and related controls equal attention without regard to risk.

The assessment of internal control over financial reporting will be more effective if it focuses on controls related to those processes and classes of transactions for financial statement accounts and disclosures that are most likely to have a material impact on the company's financial statements. Employing such a top-down approach requires that management apply in a reasonable manner its cumulative knowledge, experience and judgment to identify the areas of the financial statements that present significant risk that the financial statements could be materially misstated and then proceed to identify relevant controls and design appropriate procedures for documentation and testing of those controls. For instance, the application of judgment by management and the auditor will typically impact the nature, extent and timing of control testing such that the level of testing performed for a low risk account will likely be different than it will be for a high risk account. In performing these steps, management and auditors should keep the "reasonable assurance" standard in mind."

Similarly, the PCAOB also recently stated that auditors should use a "top-down approach that begins with company level controls, to identify for further testing only those accounts and processes that are in fact, relevant to internal control over financial reporting, and use the risk assessment required by the standard to eliminate from further consideration those accounts that have only a remote likelihood of containing material misstatement".²

It is important to recognize that the central purpose of the assessment of Internal Controls is to identify material weaknesses that have more than a remote likelihood of leading to a material misstatement in the financial statements. This purpose may be defeated or impaired if issuers apply a rule-based checklist or compliance approach. Rather, we believe that a risk-based approach that focuses attention and resources on key areas of the financial statements that pose the most significant risks for material misstatements would be more effective in identifying material weaknesses in Internal Controls.

As such, we believe that entity level controls (as described in your "Alternative #4 – Evaluation of entity level controls only") can be part of a top-down risk-based approach. Entity level controls can be used as a risk assessment filter to identify which accounts and processes pose the most risk, accordingly limiting the scope of the detailed documentation and testing requirements to those accounts and processes that have more than a remote likelihood of leading to material misstatements. **We recommend that the Proposed Materials be amended, particularly the sections referred to above, to permit issuers to conduct an assessment that is not a detailed "mechanistic, check-the-box exercise". We believe that this will result in a more effective assessment which will enhance the value of the Internal Control Report for investors and at the same time reduce implementation costs for issuers.**

² PCAOB Release 2005-009 (May 16, 2005).

In considering the above, we urge you to keep in mind that the Staff of the SEC has recognized that an assessment which is *“too formulaic and/or so detailed as to not allow for a focus on risk may not fulfill the underlying purpose of the requirements”* and results in considerable implementation costs for issuers, with little or no incremental value for investors.

2. Internal Control Audit Report and the Role of the Auditor

The requirement to prepare and file an Internal Control Audit Report has been a major contributor to the significantly high implementation costs under SOX 404 and the value of such an audit report is debatable. **If it is appropriate for the auditor to be involved in the process, we believe that something less than a formal audit engagement, such as an engagement to express an opinion on the design and existence of control procedures, would be reasonable for issuers and of equivalent value for investors.**

We are of the view that an engagement to express an opinion on the design and existence of control procedures is appropriate and would be sufficient as an integral part of the audit of financial statements to provide comfort to investors, given that the existence of controls over non-routine transactions, selection of accounting policies and period-end financial reporting processes would be reviewed.

Alternatively, we suggest that a limited scope special engagement of entity level controls (combined with a management assessment of controls identified through a risk analysis of entity level controls) would be appropriate. We are of the view that the auditor should not be required to review controls underlying the entity level controls unless the auditor found the entity level controls to be inadequate.

Both of the above alternatives are consistent with a top-down risk-based approach which would result in auditor involvement that is more effective and cost efficient.

In considering possible improvements to the implementation of the Proposed Materials over the U.S. experience, we also urge the CSA to provide guidance to the CICA in setting the CICA Standard. Paragraph .017 of the proposed CICA Standard states that *“reasonable assurance includes the understanding that there is a remote likelihood that material misstatements will not be prevented or detected on a timely basis”* which sets the tone for a detailed approach. The word “material” sets a threshold that requires a comprehensive review, and “remote” requires extensive testing and review to reach a level of assurance that cannot be attained at the entity level of controls. **Unless the proposed CICA Standard is significantly modified, the auditors, and similarly management, will still be required to carry out an extremely detailed exercise which we believe is not the intent of the Proposed Materials.**

In our view, CSA guidance is necessary to ensure that the CICA Standard does not duplicate the inherent difficulties created by the PCAOB Auditing Standard No. 2. We believe that this will lead to a functional standard that will allow the auditor to perform its work within a top-down risk-based framework.

3. Scope of Application

We are of the view that the Proposed Instrument should not apply to subsidiary reporting issuers which do not have equity securities trading on a marketplace and whose parent company is subject to and complies with the Proposed Instrument. This exemption would parallel the existing exemption under Multilateral Instrument 52-110 (Audit Committees) and National Instrument 58-101 (Disclosure of Corporate Governance Practices).

In the case of a conglomerate with multiple reporting issuers where only the parent company has equity securities traded on a marketplace, the implementation costs would be considerable and would not result in any incremental benefit for investors. **Rather, we believe that applying the Proposed Instrument to the parent equity-traded reporting issuer is satisfactory and consistent with a top-down, risk based approach which recognizes the existence and benefits stemming from entity level controls.** In this manner, resources would be devoted to accounts and processes that would most likely have a material impact on the financial statements.

4. Phased-In Implementation

We applaud the CSA for proposing to phase-in the implementation of the Proposed Materials. **However, we do not believe that the current phased-in implementation schedule adequately addresses concerns regarding the cost and limited availability of resources to comply with the Proposed Instrument, particular for companies such as Great-West Lifeco Inc., with a market capitalization of greater than \$500 million.** Due to market demands, knowledgeable external resources have become scarce and very expensive. In part related to the heavy compliance component of the workload, it has also become increasingly difficult to recruit internal resources with the necessary expertise.

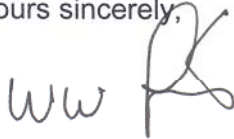
As such, we request that the Proposed Instrument apply no earlier than for financial years ending on or after June 30, 2007 (instead of June 30, 2006). This will provide issuers with the necessary lead time to comply with the new requirements and will allow time for the adoption of the risk-based approach herein contemplated. We believe that a longer implementation schedule will allow issuers to become adequately resourced without impairing management's ability to perform its other duties, particularly those relating to risk management generally.

We also believe that Canadian reporting issuers and investors will benefit from delaying implementation and letting the SOX 404 process mature. As we have seen with the recent SEC Staff Statement and PCAOB Release, much can be learned from the U.S. experience which continues to evolve. Allowing the U.S. experience to mature would allow Canadian regulators to avoid some of the difficulties encountered (including the significant implementation costs) resulting in a more reasoned approach to regulation in Canada.

We urge the CSA to seize this opportunity to leverage the U.S. experience to improve the cost-benefit relationship of this initiative in Canada rather than impose a compulsory and compliance oriented regulatory regime with punitive undertones.

We thank you for this opportunity to provide comments on this CSA initiative. If you have any questions or concerns, please do not hesitate to contact Mr. W.W. Lovatt at (204) 946-7341.

Yours sincerely,

A handwritten signature in black ink, consisting of the letters 'ww' followed by a stylized, cursive flourish that loops back to the right.

W.W. Lovatt
Vice-President, Finance, Canada