

June 30, 2005

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

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West, Suite 1900, Box 55
Toronto, Ontario
M5H 3S8

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

Ladies and Gentlemen:

Re: Proposed Multilateral Instrument 52-111 *Reporting on Internal Control over Financial Reporting*, Companion Policy 52-111CP (collectively, Proposed 52-111 or the Proposed Rule)

We have read the Proposed Rule and are pleased to provide you with our comments herein. Proposed 52-111 is a very important legislation, and its effect on the marketplace is far-reaching. Being the Canadian equivalent of section 404 of the Sarbanes-Oxley Act 2002 (“SOX 404”), Proposed 52-111 is expected to be controversial, as SOX 404 has been in the United States.

We are pleased to share our experience in connection with the implementation of SOX 404 and Auditing Standard No. 2 (“AS2”) of the Public Company Accounting Oversight Board (“PCAOB”) by some of our Canadian clients, as well as that of our U.S. firm. The last section of this letter will address some of the questions you posed in your request for comments. Capitalized terms in this letter have the same meaning as those in the Proposed Rule, except as otherwise indicated.

While our comments will focus on the broad principles and implications of Proposed 52-111, they may also be relevant to the Ballot Draft issued on April 15, 2005 by the Canadian Institute of Chartered Accountants (“CICA”) on “An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements” (the “CICA Draft Standard”), as the two proposals are interrelated. Hence, a copy of this comment letter has been provided to CICA at their request.

Benefits of SOX 404 and Perceived Benefits of Proposed 52-111

Our firm’s overall experience from the implementation of SOX 404, both in Canada and in the U.S., has been a positive one. Undeniably, SOX 404 resulted in significant costs incurred by issuers. Nonetheless, as discussed in further detail below, we believe the costs associated with SOX 404 in subsequent years will come down and the Canadian initiative will cost less to Canadian issuers in relative terms, since we all benefited from the U.S. experiences. On the other hand, we believe the benefits from SOX 404 and from Proposed 52-111 will outweigh the costs in the long run. Investors, whom this rule seeks to protect, will obviously benefit from more reliable financial reporting. Furthermore, although it may be less apparent, issuers and auditors will also derive benefits from this rule.

SEC Chairman William Donaldson recently observed that the 404 requirement “offers significant long-term benefit in helping to prevent fraud and misdirection of corporate resources and in improving the accuracy of financial reporting.” We agree with this statement, as we believe that strong internal controls help increase the reliability of financial statements, reduce misstatements and hence the risk of restatements, and lessen the risk of corporate fraud. As a result, investors are better protected from inaccurate financial reporting, and their confidence in the market place is increased.

Issuers stand to benefit from increased investor confidence. When investors have confidence in the market, the cost of capital is reduced, an outcome that would bring direct economic benefits to all issuers. Moreover, issuers will be more likely to avoid liabilities or legal costs associated with restatements of financial statements. From the experience we had with our clients implementing SOX 404, we found that the attitude adopted by a company in the process significantly influences the benefits derived from it. Those who saw it as a compliance exercise found themselves incurring significant costs with little perceived value, while those who took a proactive approach to the process found this a valuable opportunity to strengthen their policies

and improve their risk management capabilities. Benefits realized by some of our clients from implementation of SOX 404 include:

- raised profile and company-wide awareness of governance and control;
- upgraded membership of board of directors and audit committee;
- positive impact on company-wide or entity-wide controls;
- improved financial statement close process;
- significantly increased attention on information technology general controls, particularly those related to logical access;
- clarified accountability for key financial process controls;
- improved documentation; and
- improved business processes.

In addition, Canadians currently enjoy and place a high value on ready access to U.S. capital markets through the Multijurisdictional Disclosure System. We believe that Canada's adoption of an internal control reporting process that is at least as robust as the U.S. requirements is critical to the preservation of our favoured access to U.S. capital markets.

In the long run, we believe these benefits will translate into operational efficiencies and cost reductions.

Auditors also have much to gain from SOX 404 and Proposed 52-111. In the past few years, auditors have been working diligently to regain investor confidence and public trust. SOX 404 and Proposed 52-111 provide auditors with a larger mandate that significantly enhances the effectiveness of the external audit process. Audit firms have reviewed and improved their audit methodologies since the introduction of SOX 404. More importantly, SOX 404 and AS2 introduced the concept of an integrated audit, which, when fully implemented, will enable an audit to be performed much more efficiently and effectively. All of these factors should lead to a reduction in the number of restatements of financial statements, and consequently a reduction in auditors' liabilities associated with restatements.

To summarize, there are significant benefits for all market participants from SOX 404 and Proposed 52-111. The Canadian market place is in a great position to reap the benefits while minimizing the costs as we carefully analyze the factors leading to the success and failures experienced by our U.S. counterparts and learn from them.

Costs Associated with Implementation of SOX 404

The first year experience of SOX 404 was that costs incurred generally were much higher than initially anticipated. As discussed in more detail in the Suggestions section below, some of these costs can likely be avoided in Canada. Other costs, while probably unavoidable, are expected to be considerably lower in the second and subsequent years.

Our experience indicates that approximately 50 percent of the costs incurred by issuers were internal costs spent by companies on the documentation of controls and the identification and remediation of control deficiencies. Approximately 25 percent of the costs were spent on third parties other than auditors to assist them in the 404 process. The remaining 25 percent of total costs incurred were spent on audit fees associated with reporting under SOX 404. Much of the internal costs incurred in the year of initial implementation represent up front costs that will not be incurred every year. For example, documentation will only need to be updated going forward, rather than built from scratch. Moreover, another factor that led to the significant costs incurred in year one was the huge learning curve for issuers and their advisors. We have seen some companies investing significant costs and time in an initial approach, only having to toss that out entirely and adopt another approach. Similarly, audit firms went through a first year learning curve with some audit teams encountering similar needs for alteration and rework. All of these costs are expected to be lower when Canadian companies implement Proposed 52-111, as Canadian issuers learn from the experiences of SEC registrants, and larger audit firms develop an improved integrated audit methodology based on their U.S. counterparts' working experiences.

A “Canadian Solution”

We are aware of suggestions that Canada should adopt its own model of internal control reporting that is better tailored to the characteristics of the Canadian market. We do not support a Canadian model that differs significantly from the U.S. model (other than those discussed below), for several reasons. First, Proposed 52-111 already incorporates two important differences from SOX 404: the scoping out of venture issuers, and the staggered effective dates for issuers of different sizes. These two provisions already take care of one of the most important differences between the Canadian and the U.S. market – a much bigger proportion of Canadian reporting issuers are smaller issuers when compared to the U.S. Secondly, having two sets of rules and processes could be hugely confusing to issuers and auditors and will unavoidably translate into incremental costs. Finally, the SEC Advisory Committee on Smaller Public Companies is studying how the internal control model is to be applied to smaller companies, and their recommendations will likely alleviate some of the current concerns.

Suggestions

Timing of Implementation and the Availability of Guidance Materials

One of the more important causes for significant costs incurred in the initial year of SOX 404 implementation was the timing of the release of guidance materials. PCAOB's AS2 was adopted by the PCAOB in March 2004 and approved by the SEC in June 2004. By then, issuers with calendar year ends only had the remaining six months to ensure their approaches met the standards. In addition, audits of the 2004 year ends of SEC issuers in most cases were not fully integrated audits, since planning for audits for large enterprises usually begins shortly after the completion of the prior year's audits, and much of the audit work was already underway when AS2 was finalized. This has led to some of the rework we mentioned above for issuers and auditors.

Given the effective dates that are currently proposed, the finalization of Proposed 52-111 becomes an urgent matter, if Canada is to avoid similar difficulties in the first year of implementation. Proposed 52-111 is effective for financial years ending on or after June 30, 2006 for the largest Canadian companies. For companies with a June 30 year end, this effective date means issuers and auditors will need to begin their implementation as soon as possible. We therefore suggest that the Publishing Jurisdictions put a high priority on having Proposed 52-111 finalized and approved in the near term.

Guidance to Issuers

Another factor leading to significant costs incurred in the first year is the lack of guidance for issuers. While AS2 was issued by the PCAOB to establish the requirements for auditors, it has also been used by issuers as reference for the process they must follow in assessing controls, as no other detailed guidance is available.

Similar to the SOX 404 approach, Proposed 52-111 contains little detailed guidance for issuers. We suggest more guidance be made available to issuers in the form of either FAQs, or guidelines in the Companion Policy. In particular, guidance with respect to management's testing of controls in support of its assertions is needed. Most issuers have not placed much emphasis in their first year of implementation on the use of ongoing monitoring and self-assessment controls to support assertions. In addition, issuers will find it helpful if more guidance is provided as to the scope of documentation, and how entity level controls affect the nature, timing and extent of transaction level tests of controls, or to what extent management may rely on its entity level controls as a basis for its assertions.

Risk Based Approach

A common experience from the implementation of SOX 404 is that AS2 is very prescriptive and sometimes does not allow any room for professional judgment in the process of determining the extent of testing or documentation based on risk level. This resulted in excessive work in lower risk areas, contributing to the high costs incurred. Areas where a more risk-based approach can be beneficial include: the ability to rotate the testing of key controls based on risk assessment, the ability to perform tests of controls during the year for lower risk processes as opposed to performing the tests substantially at year end, the ability to vary the extent of testing between routine low-risk processes, and the use of internal auditors to provide principal evidence in certain areas.

The CICA Draft Standard should take this suggestion into consideration. At the same time, the Publishing Jurisdictions should also consider guidance materials for issuers, who will also benefit from a more risk-based approach to determine the extent of their own testing and documentation.

Other Developments in the U.S.

Subsequent to the publication of Proposed 52-111 for comments, the SEC and PCAOB have held roundtables with market participants to discuss their experience from implementing SOX 404. Additional guidance has since been published, and more meetings will be held in the near future by PCAOB's Standing Advisory Group to discuss implementation issues. Moreover, the SEC Advisory Committee on Smaller Public Companies will likely put forward recommendations that will be relevant to a number of Canadian public companies given their size.

It is crucial for the Publishing Jurisdictions to closely monitor these developments in the U.S. The Publishing Jurisdictions need to consider all the information available and carefully consider all of the experiences learned in the U.S. when developing our own Canadian legislation. As indicated earlier, one of the contributors to significant costs in SOX 404's first year of implementation is that practitioners were working towards a moving target. In Canada, we are in a good position to prevent this happening to us by finalizing and approving Proposed 52-111 in the near term.

RESPONSES TO QUESTIONS LISTED IN REQUEST FOR COMMENTS

Our responses to some of the questions listed in the Request for Comment with respect to the Proposed Rule are included below. We have no comments on the other questions. The numbers for the responses below correspond to the numbers of the questions in the Request 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?*
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?*

We agree with the current scope of application at the present stage. Under current Canadian securities requirements, there are already a few exemptions available to ventures issuers, and hence investors are already aware of the increased risk profile of such issuers. In the longer term, however, we believe that there are benefits for venture issuers to be subject to internal control reporting. In fact, we would expect that the benefits of internal control reporting to investors over a longer period of time would be proportionately higher with respect to smaller public companies. Nevertheless, we still need more information to assess how the rule and the COSO model is to be applied to smaller companies, and the recommendations from the SEC Advisory Committee on Smaller Public Companies will be useful.

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

As indicated earlier, one common experience among issuers in their adoption of SOX 404 was the lack of specific guidance provided to issuers. One area identified as requiring more guidance is with respect to management's extent of testing. On May 16, 2005, the SEC published additional guidance related to the implementation of SOX 404, and among other things, the SEC guidance addressed the issues of reasonable assurance, risk-based approach, and scope of testing and assessment. The Publishing Jurisdictions should consider incorporating some of this guidance into the Proposed Internal Control Policy.

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

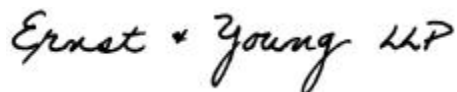
Another example of a circumstance under which management may reasonably limit its assessment is a subsidiary that has gone into bankruptcy protection. Disclosure of the circumstance should be required.

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?*

We support the phased-in implementation of the Proposed Internal Control Instrument. In addition to the benefits discussed in the Request for Comment, we find this approach helpful to smaller companies by allowing more lead time for preparation. Furthermore, this allows more studies to be performed on the application of the internal control frameworks to smaller companies.

Should you have any questions or comments on this letter, we would be pleased to hear from you.

Yours sincerely,



Gord Briggs/Charlmane Wong
(416) 943-3257/3620

c.c. The Auditing and Assurance Standards Board of the CICA (ed.assurancestds@cica.ca)