

June 30, 2005

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

Dear Mr. Stevenson:

Re: *Proposed Multilateral Instrument 52-111*

FocusROI is a specialized consulting firm that is helping public companies prepare for the CEO CFO certification with respect to internal control over financial reporting. We also work with some accounting firms who are gearing up to provide services in this area.

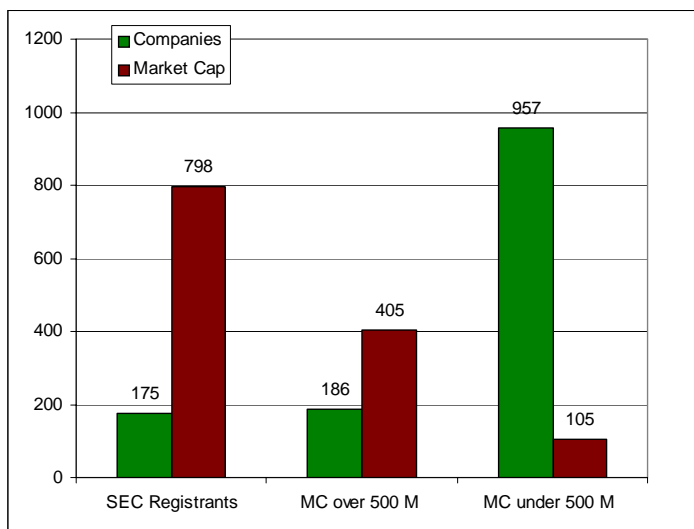
We would like to congratulate the Canadian Securities Administrators (CSA) and the Ontario Securities Commission (OSC) commission for a thoughtful and insightful discussion document.

Our comments are limited to the costs and benefits associated with the Proposed Internal Control Materials.

We fully support the new certification rules and believe that the focus on internal control over financial reporting will improve the quality and reliability of financial reporting and enhance investor confidence. However, the cost of implementing SOX 404 in the US has been much higher than expected and is disproportionately high for smaller issuers who do not have the infrastructure or resources to implement the full COSO internal control framework.

When you analyze where the bulk of this cost was incurred, it would seem that at least 80% relates to the design, documentation and testing of activity related controls. The remaining 20% of the work effort has gone to evaluating entity level controls. However, if you look at the risk factors responsible for fraudulent financial reporting almost 80% of the overall financial reporting risk relates to entity level and anti fraud controls. The unfortunate result is that a mere 20% of the work effort has been directed at 80% of the risk.

Based on the table provided in the discussion document, 175 issuers representing 61% of market capitalization in Canada will be subject to SEC rules in any event. If you add the 186 issuers with a market capitalization over \$500 million, the % market cap covered rises to 92%. The remaining 957 companies have a combined market cap of less than 8%. This is illustrated below.



Based on the facts outlined above, we would like to propose an alternative 7 for your consideration. This approach combines some of your other suggestions but still harmonizes the basic approach with US requirements.

1. Canadian issuers with an SEC registration or a market cap in excess of \$500 million should be required to fully comply with the SEC based rules and requirements, including external auditor attestation. Companies close to the \$500 million market cap should be strongly encouraged to adopt these rules as well.
2. Companies falling below the \$500 million market cap should also be required to prepare the management report on internal control using a suitable internal control framework. However, the COSO internal control framework and particularly the CobIT guidance for IT controls is too complex and onerous for cost effective consideration by smaller companies. Hopefully the proposed document "Implementing COSO in Smaller Businesses" will provide a workable solution. However, for the many very small public companies in Canada there may still be a need for an internal control framework that addresses their particular needs. If this proves to be the case, we recommend that a multi stakeholder group in Canada, possibly led by the CICA, should be asked to prepare guidance on implementing the COSO principles for really small companies.
3. Companies below the \$500 million market cap should be required to have their external auditors complete a full attestation on internal control once every three or possibly four years. Such a concept is recognized in proposed Section 5210 of the CICA handbook-assurance which allows for auditors (in certain circumstances) to use of audit evidence pertaining to the effectiveness of controls obtained in previous audits.
4. In years where a full internal control audit is not required, auditors could be asked to report on the design and operation of the entity level controls. We believe that professional standards for such an engagement could be prepared by the Auditing and Assurance Standards Board of the CICA or as a joint effort with other interested countries. In time, this type of audit may well become the most cost effective way of addressing internal control risk.



We also recommend that additional guidance be provided for both issuers and auditors on what constitutes a significant deficiency and how to meaningfully apply the concept of materiality when it relates to internal control reporting and extent of coverage required. The check the box approach is not helpful.

Summary

We believe that a top-down, risk-based approach, using a workable internal control framework and professional judgment, will result in improved financial reporting and better managed corporations. Small companies will benefit from this process but the cost of compliance must be reasonable. The cost should not deter them from adopting risk management principles even as a private company on their way to going public.

If you require any clarification on the above we would be pleased to discuss our comments in greater detail at your convenience.

Sincerely,

Stuart Hartley FCA CA.IT
President
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