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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 Mr. John Stevenson, Secretary
Ontario Securities Commission
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Suite 1900, Box 55
Toronto, Ontario M5H 3S8

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

Dear Sirs and Madames:

Re: Proposed Multilateral Instrument 52-111 and Companion Policy 52-111CP – *Reporting on Internal Control Over Financial Reporting* and Proposed Repeal and Replacement of Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*

The Canadian Bankers Association ("CBA") appreciates the opportunity to provide comments on the proposed Multilateral Instrument 52-111 and Companion Policy 52-111CP (collectively, "MI 52-111") *Reporting on Internal Control Over Financial Reporting* and the proposed repeal and replacement of Multilateral Instrument 52-109 ("MI 52-109") *Certification of*

Disclosure in Issuers' Annual and Interim Filings.

As you may well appreciate, the CBA is the professional industry association representing over 50 domestic and foreign Chartered banks in Canada with different capital markets profiles. Several major domestic banks list their securities in Canada and the U.S. and as such are subject to Canadian securities law as well as the rules of the U.S. Securities and Exchange Commission ("SEC"). Other domestic banks list their securities solely in Canadian capital markets and are subject only to Canadian securities law. As a result, our comments are written from each of their perspectives and reflect the differing capital market profiles of our members. Both sets of views are equally important, valid and are not intended to detract one from the other.

The CBA endorses the establishment and use of a proven internal control model for purposes of providing users of financial information with reasonable assurance as to the integrity of an entity's financial statements. We recognize that a structured control framework is useful in order to provide management with an appropriate tool to manage business risk.

The CBA generally agrees with the direction chosen by the participating Canadian Securities Administrators ("CSA") to harmonize the internal control and amended certification requirements contained in MI 52-109 and MI 52-111 with the requirements of Section 404 ("SOX 404") and Section 302 ("SOX 302") of the U.S. *Sarbanes-Oxley Act of 2002* ("SOX") as adopted by the SEC. We also recommend that the participating CSAs ensure that such harmonization reflects the principles articulated in the U.S. SEC's Statement and the Public Company Accounting Oversight Board ("PCAOB") Guidance that were published on May 16, 2005 regarding the implementation of Section 404 of the *Sarbanes-Oxley Act of 2002*. This is discussed more fully in Question 5 of Appendix 2.

Based on the significant time and expense companies have undertaken to implement the provisions of the *Sarbanes-Oxley Act* in the United States and Canada, particularly the internal control reporting provisions of SOX 404, the recent concerns on the efficiency of the measures raised by issuers in the United States and Canada, and the SEC's recent decision to postpone by one year to July 15, 2006, the effective date of SOX 404 for foreign private issuers we make the following comments.

Exemptive Relief

With respect to Section 7.5 of MI 52-111, which provides an exemption for issuers compliant with the internal control report requirements of SOX 404, we strongly believe this is an important provision that relieves regulatory burden on companies that list their securities in Canada and the U.S. In addition, our members endorse the exemption provided in Section 7.1 of MI 52-109 for issuers that comply with the annual report certification requirements of SOX 302.

We believe that such exemptions are necessary and appropriate to minimize the potential for uncertainty and inconsistency that could result from having two different sets of corporate governance standards applicable to Canadian public companies that are interlisted in the U.S.

We also recommend that the subsidiaries of a bank that issue innovative Tier 1 capital instruments be exempt from the filing, reporting and certification requirements of proposed MI 52-111. Not providing these entities with such exemptions would be unduly burdensome. This matter is discussed more fully in Appendix 1 under point number 3 and is reiterated in Appendix 2 under Question 13.

Avoiding Prescriptive Compliance

The SEC rules do not prescribe rules regarding the language to be used in the internal control report. Nor do the rules specify where the internal control report must appear in the company's annual report. It is intended that management should determine how to write its report in a way that is most appropriate for the company's circumstances and where to place the report in a company's annual financial statements.

We recommend that the proposed requirements in MI 52-111 regarding the wording and filing of the internal control report should be no more onerous or prescriptive than the requirements of SOX 404.

Delay of the Effective Date for MI 52-111

To understand our non-interlisted members' recommendation to delay the implementation of MI 52-111, a brief background of the actions and initiatives undertaken to date by the banks is required. Members have focused their attention on meeting the requirements laid out in the original MI 52-109. Members have met the requirements of the "bare" certification process and have been working towards meeting the "full" certification requirements.

Our non-interlisted members have been actively tracking the SOX 302 and 404 requirements, amendments and impacts to ensure they are learning from the best practices and experiences of other companies. However, Canadian non-interlisted companies with equity above $500 million have not sufficiently developed the documentation required to satisfy the proposed MI 52-111 rules prior to their issuance in February 2005.

Non-interlisted banks have assessed the impact of MI 52-111 on their project plans and have identified three significant issues:

1. The requirement for internal control reports and internal control audit reports, starting with financial years ending on or after June 30, 2006 is not realistic. Without an adequate and appropriate timeframe to implement MI 52-111, non-interlisted banks would be exposed to significant risks and costs. This issue is addressed more fully in Appendix 2 under Questions 15 and 16.

2. The cautious and conservative interpretation by external auditors of the concepts of "materiality" and "likelihood" is gradually moving away from the traditional concept of materiality. This issue is addressed more fully in Appendix 2 under questions 5 and18.

3. While we support transparency and the importance of strong internal controls, there are limits to the efficacy of internal controls. Leading authorities in the auditing and fraud prevention area have long held that internal controls are not effective at detecting and preventing fraud. Given that the fraud detection and prevention requirements in SOX 404 have been causing significant difficulties in the U.S., it is recommended that the equivalent provisions in MI 52-111 be deferred until after the SEC has resolved this issue.

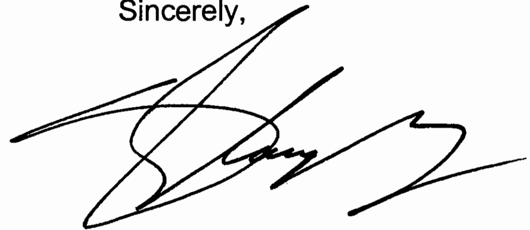
We therefore recommend that the proposed effective date for MI 52-111, starting with financial years ending on or after June 30, 2006 be delayed by at least one year to June 30, 2007, or preferably to a date no sooner than twenty-four months after the adoption of the final Instrument.

Detailed Technical Comments

We attach two appendices that outline in detail our members' technical comments. Appendix 1- *Technical Comments, SOX 302 and 404 Domestic Compliant Banks*, addresses the concerns of the major domestic interlisted banks and Appendix 2 – Technical Comments, *Domestic Non-interlisted Banks*, speaks to the concerns of banks that list solely in Canada.

We appreciate the opportunity to express our views on this matter and would be pleased to answer any questions that you may have in respect of our comments.

Sincerely,



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Appendix 1

Technical Comments - SOX 302 and 404 Compliant Banks

1. Exemption for SOX 404 Compliant Banks

As mentioned earlier, our members support and fully endorse the exemption allowed in proposed MI 52-111 for SOX 404 compliant issuers.

Comment: We would however want to ensure that the recommendations and comments made in Appendix 2 do not jeopardize the qualification of SOX 404 compliant issuers to be exempt from the requirements of proposed MI 52-111.

2. Location of Management's Report

The SEC's General Instructions to Form 40F require a company's annual report to include an internal control report of management that contains:

(i) a statement regarding the effectiveness of disclosure controls and procedures,
(ii) management's report on the effectiveness of the company's internal control over financial reporting, and
(iii) a statement disclosing any change in internal control over financial reporting.

For fiscal year 2004, several of our members included the disclosure required by (i) and (iii) above in their MD&A. The disclosure required by (ii) was also included by a member in its MD&A.

The Canadian certification rule, MI 52-109 contemplates that items (i) and (iii) above would be included in the MD&A.

However, under the proposed internal control rule, MI 52-111, it is unclear how management's report should be provided. The exemption in Section 7.4 states:

> "***Exemption for issuers that comply with U.S. laws** – An issuer is exempt from the requirements in this Instrument for a financial year if:*
>
> *(a) the issuer is in compliance with U.S. federal securities laws implementing the internal control report requirements in section 404(a) and (b) of the Sarbanes-Oxley Act; and*
> (b) *management's annual report on internal control over financial reporting and the attestation report on management's assessment of internal control over financial reporting included in the issuer's annual report for the financial year is filed promptly after it is filed with the SEC."*

We also note the provision in Section 2.4 of MI 52-111 which states,

> "***Filing of internal control report** – An issuer must file an internal control report separately but concurrently with the filing of its annual financial statements and annual MD&A."*

Comment: The above suggests that management's annual report must be filed as a separate document.

However, the SEC's final rules do not specify where management's internal control report must appear in the company's annual report. The SEC however states that it is important for management's report to be in close proximity to the corresponding public accounting firm's attestation report. The SEC expects that many companies will choose to place the internal control report and attestation report near the companies' MD&A disclosure or in a portion of the document immediately preceding the companies' financial statements.

Given the flexibility the SEC allows regarding the location of the management's annual report and in order to retain consistency between Canada's provisions and that of the U.S., we ask that the same flexibility be provided in MI 52-111 to allow management's annual report to be included in the MD&A along with the other controls and procedures disclosure contemplated by the certification rule be allowed. Alternatively, issuers can choose where to include or locate management's annual report.

3. Exemption for Tier 1 Capital Issuers

Several banks establish subsidiaries that operate as special purpose vehicles and are reporting issuers under Canadian securities law. These subsidiaries issue a range of innovative capital instruments that under stringent conditions qualify as Tier 1 regulatory capital. Exemptive relief from the continuous disclosure requirements, including the preparation and filing of an annual information form ("AIF"), annual and interim financial statements, annual and interim management's discussion and analysis of the financial condition and results of operation of such issuers ("MD&A") and the applicable certification requirements have been applied for and provided to these subsidiaries by securities regulators.

The exemptive relief is provided on the basis that the entity is a subsidiary of a bank that remains a reporting issuer and complies with the requisite continuous disclosure, AIF, MD&A and certification requirements of securities legislation. As such, the entity relies on its parent's disclosure record and filings to comply with its disclosure and filing obligations.

Comment:

To maintain consistency with other Instruments and in the interest of efficient and focused regulation, we recommend that proposed MI 52-111 be amended to include an exemption that would apply to such subsidiary entities. The requested exemption would be similar to the exemption included in the Application section of MI 52-110, *Audit Committees* and in the Application section of draft National Instrument 58-101, *Disclosure of Corporate Governance Practices* and would maintain consistency between these instruments.

If the suggested amendments to the Application section are not an acceptable revision, we would request, in the alternative, that an exemption be included in the exemption section of proposed MI 52-111 to allow reporting issuers who have exemptive relief orders which allow them to rely on the financial statements of another reporting issuer to be able to rely on that issuer's internal control report as well.

Appendix 2

Technical Comments – *Domestic Non-interlisted Banks*

1. Timeline to Implement MI 52-111

Considering the very short timeline to implement MI 52-111, the CBA's non-interlisted banks have invested significant resources since the beginning of the year to understand the new concepts and evaluate the scope of the project. However, the work done so far was based on the proposed rules. For projects of this magnitude, the planning stage should be performed on the basis of final and not proposed rules. Given that the proposed rules would most likely not be finalized until the fall, this would leave only twelve months to (a) comprehensively understand the final rule, (b) modify the scope of the project, and (c) complete the field work. As such, any change made to the proposed rules could jeopardize the non-interlisted banks' planning and their ability to meet deadlines.

The timeline to implement MI 52-111 should also leave sufficient time for the external auditors to perform their work. Based on initial discussions, the external auditors have advised that they would require a 3 to 6-month period to complete their report. Non-interlisted banks have limited leverage with respect to the availability of external auditors to ensure that external auditors would devote the necessary resources to meet the timing requirements. Further, until the high demands that have been placed on the external auditors for SOX work is over, including the recent delayed requirements for foreign private filers, it is difficult for smaller companies to compete for very scarce resources to staff internal positions and obtain external auditor involvement.

In addition, the proposed regulation would require information systems' modifications. These changes have to be planned at least 12 to 18 months in advance. Information systems for financial institutions are extremely sensitive and complex. Any change must be planned thoroughly to ensure the integrity of data. Even on the basis of the proposed regulation, the timeline is barely sufficient, not to speak of additional changes that would be required in the event amendments to the regulation are made in the fall. American companies have had three years to implement the requirements of SOX 404. Non-interlisted banks do not see how Canadian companies can efficiently implement similar changes within a 12-month period.

A change of this nature implies change in the culture of the organization. Specifically, managers will be requested to formally take ownership of processes, operations and information. Trying to implement this kind of change requires careful planning and time. The short timeline to implement MI 52-111will likely not be sufficient to make this type of change and would result in unnecessary tension and strain on management. This could well add to the indirect costs to implement MI 52-111.

A longer implementation period would enable our non-interlisted banks to plan the work more efficiently. A longer timeframe would also reduce costs as more work could be performed by the bank's internal team, instead of having to hire external consultants. This would also result in additional benefits, as banks would be able to retain the expertise within the organization.

2. Constraints on Resources

Resources involved with accounting and risk management responsibilities in the financial services industry have been under pressure over the last four years, as many regulatory changes required implementation. Since 2001, new guidelines from the Canadian Institute of Chartered Accountants (hedging relationships, securitization and variable interest entities, for instance) had to be adopted. As well, the new guidelines on financial instruments would need significant involvement from these groups even before their adoption in November 2006. In addition, the major banks are heavily invested in the implementation of the new Accord from the Basel Committee which would also need to be applied in 2006. The scope of the proposed regulation and the implementation period should consider these other quasi-legal obligations.

To add to this recruiting and staffing challenge, our Quebec based member banks work in a French environment. They are limited in their ability to hire experienced resources from the United-States or Ontario because of the language barrier and knowledgeable resources in Montreal are scarce. Given the delay allowed foreign private issuers by SOX, this would result in additional difficulties in recruiting, as professionals would be retained by bigger interlisted companies. This same challenge would also be experienced by the external auditors. External auditors would also be faced with serious staffing problems that could directly affect their ability to meet deadlines. Non-interlisted banks have already noticed that the availability of external auditors has decreased and it is expected that this would not ease off in the foreseeable future.

3. Experience in the United-States

Non-interlisted banks' general understanding is that proposed MI 52-111 is equivalent to the U.S. *Sarbanes-Oxley Act of 2002* and as such these banks would face similar issues. As has been largely publicized in the U.S. the actual implementation costs have significantly exceeded expectations. In addition, management was required to spend a considerable amount of time supervising the implementation of SOX 404. The audit of management's internal control report by external auditors has also raised significant concerns. We believe that these issues should be addressed in more detail before the Canadian proposed Instrument becomes effective.

4. Confusion Between Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Further details should be provided to clarify the distinction between disclosure controls and procedures and internal control over financial reporting. Our non-interlisted banks perceive a risk that future interpretations could result in additional, unforeseen responsibilities for the certifying officers.

5. Forms 52-109 – Wording

Form 52-109 reads:

> "The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
>
> (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance ..."

Certifying officers would not necessarily be involved in the *design* of disclosure controls and procedures and internal control over financial reporting. In most circumstances, they benefit from the internal control processes that were put in place over the years by their predecessors. The wording should be reviewed.

6. Unique Canadian Differences

The financial environment in Canada is significantly different from that of the United-States. For one, the size of companies is smaller in Canada. In addition, Canadian companies have limited access to venture capital and other sources of funding compared to their American counterparts. MI 52-111 could further constrain access to capital. Imposing additional burdens when accessing capital markets could limit the ability of Canadian companies to fund their operations.

7. Change in Definition

To widen the scope of the exemption provision given to 'transition 1 issuers' and provide those companies within the expanded category the benefit of securities regulators learning from the U.S. experience and auditors having more time to evaluate the issues relating to the scope of their audits, we propose that the

threshold of that category be raised from $500,000,000 to $1,000,000,000. As such, the definition of a transition 1 issuer would read as follows:

> "52-111 transition 1 issuer" means an issuer whose listed equity securities have an aggregate market value of $250,000,000 or more but less than $1,000,000,000 on the market capitalization date";

SPECIFIC REQUEST FOR COMMENT

Outlined below are the non-interlisted banks' responses to the questions listed in the 'Specific Request for Comment' sections.

Questions	Comment
Scope of Application	
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?	We agree with the scope of application.
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?	No.
Management's assessment of internal control over financial reporting	
3. Should the term "management" be formally defined? If so, what would be an appropriate definition?	No, we do not see the need for a more precise definition of the term "management".
4. If "management" is not defined, is the guidance in the Proposed Internal Control Policy adequate and appropriate?	The guidance is adequate and appropriate and leaves the chief executive officer and chief financial officer some latitude to assess, based on their corporate structure and governance practices, the involvement required of other members of management in order to provide them with the comfort needed to sign off on the certification.
Scope of Evaluation	
5. Is the guidance set out in the Proposed Internal Control Policy with respect to the scope of the evaluation of internal control	The scope of evaluation as described in the Policy Statement to MI 52-111 is similar in many respects to that described in point 40 of Audit Standard No. 2 – Internal Control of the PCAOB.

Questions	Comment
over financial reporting in relation to each of the circumstances set out above adequate and appropriate?	However, it is vague on the concept of significant accounts and does not include some already controversial aspects such as assessing the likelihood of a deficiency, determining the entities to cover and the use of the work of internal audit. In our opinion, this brief description will not make it possible to adequately restrict the scope of the work recommended by the firms of external auditors, who are very cautious and conservative when interpreting the more detailed recommendations of the U.S. PCAOB. Important representations have already been made to the SEC concerning these interpretations with a view to reducing the adverse effect of these requirements on reporting issuers. Canadian issuers may face similar issues if an effort is not made to more precisely define the concept of materiality and the scope of work. In the banking industry, where assets are very important, the single concept of materiality based on a percentage of pre-tax net earnings increases coverage to more than 99% in 75% of balance sheet items. Furthermore, coverage for all items exceeds 80%, which, in our opinion, is excessive. This is a direct consequence of the fact that the "scope of evaluation" description is not precise enough. We recommend that future guidance published by participating CSAs should reflect the May 16, 2005 U.S. SEC's and PCAOB's Policy Statements' principles which provide management and auditors with guidance on how to properly plan and perform an effective audit in respect of internal controls over financial reporting. These include: • Bringing and exercising reasoned judgment to the SOX 404 compliance process. "A one-size fits all, bottom-up, check-the-box approach that treats all controls equally is less likely to improve internal controls and financial reporting than reasoned, good faith exercise of professional judgment focused on reasonable, as opposed to absolute, assurance". Auditors should "tailor their audit plans to the risks facing individual audit clients, instead of using standardized "checklists" that may not reflect an allocation of audit work weighted toward high-risk areas (and weighted against unnecessary audit focus in low-risk areas)" ; • Auditors should "integrate their audits of internal control with their audits of the client's financial statements, so that evidence gathered and tests conducted in the context of either audit contribute to completion of both audits". • Using a "top-down, risk-based approach that begins with company-level controls, to identify for further testing only

Questions	Comment
	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 a material misstatement." "Internal controls over financial reporting should reflect the nature and size of the company to which they relate. Particular attention should be paid to making sure that implementation of [CSA MI 52-111] is appropriately tailored to the operations of smaller companies." • Auditors should "take advantage of the significant flexibility that the standard allows to use the work of others." • Auditors should engage "in direct and timely communication with audit clients when those clients seek auditors' views on accounting or internal control issues before those clients make their own decisions on such issues, implement internal control processes under consideration, or finalize financial reports".
Suitable Control Framework	
6. Are there any other control frameworks that should be identified in the Proposed Internal Control Policy as satisfying the criteria for a suitable control framework?	Yes. As the required controls include IT controls, it would appropriate for the instrument to identify suitable IT control frameworks (e.g., COBIT).
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?	Certain bodies have established a correspondence between the COBIT and COSO models in order to identify IT aspects pertinent to financial data. The draft instrument should make reference to the documents the financial market authorities deem pertinent.
Evidence	
8. Is the guidance in the Proposed Internal Control Policy regarding the content of the evidence adequate and appropriate?	The guidance in section 2.5 (2) (b) provides for the evidence to cover initiation and authorization. In many instance, the initiation and authorization will have no impact on the financial statements as such. For instance, an un-authorized transaction could be properly recorded, processed and reported to the financial statements. The same thing could be said for the initiation phase. For example, a loan application process may not generate any entry to general ledger accounts. This may be done only at a later stage, before the disbursement of the loan. The requirement could refer only to "how significant transactions are recorded, processed and reported".

Questions	Comment
9. Are the requirements in the Proposed Internal Control Instrument regarding the manner in which the evidence must be maintained adequate and appropriate? Is the guidance in the Proposed Internal Control Policy regarding the manner in which the evidence may be maintained adequate and appropriate?	Yes.
10. Is the requirement in the Proposed Internal Control Instrument on the period of time during which the evidence must be maintained adequate and appropriate?	Yes.
Internal Control Audit Report	
11. Is it appropriate to require disclosure of any limitations in management's assessment of the effectiveness of an issuer's internal control over financial reporting extending into a joint venture, VIE or acquired business? If not, are there alternative ways of providing transparency with respect to any limitations in management's assessment?	To the extent that the data relating to such businesses are material in the bank's consolidated balance sheet and there are actual limitations in management's assessment of the effectiveness of internal control in those businesses, we feel that disclosure of any limitations in the assessment is justified. In fact, a significant interest is not always synonymous with a material amount. Lastly, if the acquired business enjoyed exemption privileges, the acquiring business should retain those privileges.
12. Are there any other circumstances under which management may reasonably limit its assessment? Should disclosure of these circumstances be required?	If an entity acquires or merges with a business not previously subject to this instrument, limiting the assessment should be permitted for a minimum of two years as of the acquisition or merger date, i.e., the time required to integrate the business and to review and improve its processes in order to subsequently document and assess its controls.
Exemptions	
13. Are the exemptions from the Proposed Internal Control Instrument appropriate?	We agree with the exemptions provided for under the instrument. As discussed in Appendix 1 under Point #3, we also recommend that the exemptions provided in the Application sections of MI 52-110 and NI 58-101 be extended and made to apply to the final version of proposed MI 52-111.
14. Are there any other classes of issuers that should be exempt from the Proposed Internal Control Instrument?	See question 13.

Questions	Comment
Effective Date and Transition	
5. Is the phased-in implementation of the Proposed Internal Control Instrument appropriate?	The phased-in implementation of the Instrument is commendable and gives non-venture issuers with a lower market capitalization reasonable time to comply. However, several factors lead us to conclude that the deadline of June 30, 2006 (for non-venture issuers with a market capitalization of more than $500 million) is too ambitious. These factors are: • the late date on which the Instrument will be adopted (fall 2005 at the earliest); • the fact that the compliance date in the U.S. market has been deferred from July 2005 to July 2006 for foreign issuers, demonstrating that they are facing major compliance challenges. • the scope of the work to be performed in a context where materiality and the level of risk are strongly influenced by highly • cautious and conservative external auditors; • expected changes in the scope of the work to be performed, in light of the American experience, post mortems and current pressures on the U.S. capital markets; • the effect of carrying out this work simultaneously with the work required by the Basel Accord; • the need for the business to continue operating. We strongly recommend that the effective date be delayed by at least one year to June 30, 2007, or preferably no sooner than twenty-four months after the adoption of the final Instrument. Also, to facilitate the implementation, the regulation could waive the necessity for an internal control audit report for the first year of adoption. This would still enhance the focus on internal control over financial reporting to some extent and would lower costs of compliance. In addition, we would support having the Certification requirements phased in first with the Reporting on Internal Controls Over Financial Reporting by management and the external auditor to come into effect at the same time as proposed MI 52-111 (which we have recommended come into effect preferably no sooner than twenty-four months after the adoption of the final Instrument). Also, please refer to the first section.

Questions	Comment
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?	The costs of implementing this instrument are related more to the scope of the work to be performed than to the time required to complete the work (see response to question 5). Nonetheless, spreading the work out over time results in lower costs by reducing the need for overtime and the massive hiring of external consultants. It also alleviates, without eliminating it altogether, the problem of there being a limited pool of expertise available. The effect of these advantages is far less pronounced for businesses required to comply by June 30, 2006. Consequently, by deferring the deadline to at least June 30, 2007 or preferably no sooner than twenty-four months after the adoption of the final Instrument, we could achieve several objectives: • benefit better from the American experience and more effectively target the level of documentation and assessment of the scope of work; • improve the quality of information produced; • reduce implementation costs; • alleviate the problem of there being a limited pool of expertise available. We would also like to point out that there have been many articles written on the cost/benefits of these regulations. Unquestionably there are benefits for those companies where the control environment and control activities have not been given a priority. However, as a federally regulated industry, subject to the *Banks Act*, OSFI and CDIC regulations, with regular external monitoring, the potential benefits are not nearly as large. The ability of mid-sized banks to attract and hold the attention of a public accounting firm or to even compete to find temporary resources for this task is costly and difficult. These challenges become more evident as the huge demand from the U.S. and other world-wide SEC filers continues. As reported in the December 2004 issue of 'The Bottom Line', ".... sharply increased attestation has created a looming auditor shortage." Also, please refer to the first section.
Anticipated Costs and Benefits	

Questions	Comment
17. Are there any costs or benefits associated with the Proposed Internal Control Materials that have not been identified in the Internal Control CBA? If so, what are they?	The following advantage is omitted from the study: The creation of structured risk and control documentation should reduce the risk related to the turnover rate and facilitate staff succession and training. The study also does not mention the following disadvantage: In the banking sector, the combined effect of the work required by MI 52-111 on internal control, the requirements by the OSFI for purposes of compliance and the activities related to the new Basel Accord may take away from the time management would normally devote to strategic sales and business development. Therefore, in addition to the costs associated with compliance, there is an opportunity cost related to the potential loss of revenues.
18. Do you believe that the benefits (both quantifiable and unquantifiable) justify the costs of compliance (both quantifiable and unquantifiable) for: (a) issuers with a market capitalization of less than $75 million? (b) issuers with a market capitalization of $75 million or more but less than $250 million? (c) issuers with a market capitalization of $250 million or more but less than $500 million? (d) issuers with a market capitalization of greater than $500 million? (e) all issuers? Why?	We believe that the short timeline to implement the new regulation, as discussed earlier, adds serious constraints, which will induce significant additional costs. This would substantially limit the ability of the banks to reap any benefits from the project. We further believe that the benefits will justify the costs of compliance if, and only if, the draft texts on internal control are applied in an effective and responsible manner in order to maintain a reasonable cost/benefit ratio and to enable a realistic assessment of risks that takes into account the commercial and business imperatives of the issuer.
Alternatives Considered	
19. Do you agree with our assessment of the identified alternatives?	Yes, we agree with your assessment.
20. What other alternatives, if any, would achieve the objectives identified above?	No. We generally agree that we should harmonize our approach with U.S. regulations in order to keep methodology development and implementation costs to a minimum. Moreover, harmonization will put Canadian business on an equal footing with American businesses.
Significant Changes to Current Certification Instrument and Current Certification Forms	

Questions	Comment
21. Is it necessary or appropriate to require a venture issuer to refile its annual certificates for a financial year when it voluntarily files an AIF for that financial year after it has filed its annual financial statements, annual MD&A and annual certificates for that financial year?	Does not apply in our case.
22. Since the AIF may be voluntarily filed several months after the issuer's annual financial statements and annual MD&A, there may be a significant gap between the time that the annual financial statements and annual MD&A are filed and the time that the annual certificates are refiled. Is this timing gap problematic?	Does not apply in our case.
Significant Changes to Current Certification Policy	
23. Is the guidance regarding the treatment of underlying entities set out in the Revised Certification Policy adequate and appropriate?	The guidance provided is clear.