TORYS LLP

NEW YORK TORONTO

MEMORANDUM

To	407 International Inc.	**Date**	June 22, 2007
From	Torys LLP	**File**	34290-2012

Re **Notice and Request for Comments - Proposed Repeal and Substitution of Form 51-102F6 *Statement of Executive Compensation*, Proposed Amendments to NI 51-102 *Continuous Disclosure Obligations* ("NI 51-102"), Forms 51-102F2 and 51-102F5 and Proposed Consequential Amendments to MI 52-110 *Audit Committees* ("MI 52-110") and NI 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101")**

You have asked us to review the above-referenced Notice and Request for Comments of the Canadian Securities Administrators, with reference to its potential implications for the corporate governance and continuous disclosure practices currently followed by 407 International Inc. (the "Company"). Under the existing versions of the foregoing rules, the Company is considered to be a "venture issuer", as none of its equity or debt securities are listed on a market. Under the proposed changes, the Company (and other substantial debt-only issuers) will no longer qualify as a "venture issuer" - NI 51-102 and MI 52-110 are proposed to be amended to exclude a reporting issuer that has distributed only debt securities to the public (other than an issuer of asset-backed securities), that has total assets in excess of $25 million.

As a general matter, we believe that the proposed amendments related to the venture issuer definition will impose additional compliance costs and regulatory burdens on a limited class of issuers, where there is no evidence that investors or other market participants have been ill-served by the existing disclosure regime. In our view, the existence of a public trading market for an issuer's securities is not the only rationale for differential treatment between venture issuers and non-venture issuers.

Debt-only issuers share a number of common characteristics that, we believe, support a different disclosure approach relative to equity issuers. First, debtholders typically have the benefit of contractual provisions and other information entitlements under a negotiated indenture or other instrument governing their securityholdings. As such, investors or their representatives have access to agreed protections and disclosure, which supplements publicly available information concerning the issuer. Second, substantial debt-only issuers of the scale contemplated by the proposed amendments typically attract a significant market following and external evaluation, including through the credit rating process. This market following is, we believe, a more appropriate discipline on management performance as compared to the focus on executive compensation disclosure and equity performance graphs for non-venture issuers. Third, debt-only issuers in the Canadian marketplace are typically closely-held entities, or controlled subsidiaries of other issuers or investor groups. Requiring such issuers to provide expanded disclosure, or prescribing full governance practices for such issuers, may not be necessary or appropriate from an investor protection perspective, given the rights and entitlements available to their securityholders and the nature of their securityholder (and, in particular, their equity securityholder) base.

I. CONTINUOUS DISCLOSURE CONSIDERATIONS - NI 51-102

We note that the exclusion of large debt-only issuers from the definition of venture issuer will require these issuers to fully comply with the executive compensation disclosure provisions contemplated by Form 51-102F6 *Statement of Executive Compensation*. Most large debt-only issuers currently comply with specific NI 51-102F6 executive comparison disclosure requirements as a consequence of their "voluntary" AIF filings, which enable those issuers to maintain short form prospectus access to the public markets. Many of the proposed additional requirements are not applicable to a debt-only issuer, although in certain cases (such as the performance graph requirement), it is not apparent from the drafting that a "nil" response from a debt issuer is acceptable.

We expect that the additional disclosure requirements arising as a consequence of the proposed amendments will not materially enhance investors' understanding of a debt-only issuer's operations. It is our understanding that the fundamental premise of the executive compensation disclosure requirements is to enhance the role that shareholder democracy can play in governing a reporting issuer. By providing shareholders with detailed disclosure concerning executive compensation, shareholders have an opportunity to correct any perceived inefficiencies through the voting powers attached to their shares. Debtholders, by contrast, do not possess the voting rights enjoyed by shareholders and do not generally have voting entitlements allowing them to "act upon" such disclosure by replacing management. Instead, they may rely upon the contractual disclosure and other rights referred to above. Notably, we believe that extensive compensation discussion and analysis disclosure is irrelevant to the investment decision or assessment by a debtholder. If there were circumstances where executive compensation matters may adversely affect the interests of debtholders, this would almost certainly be reflected in the ratings assigned to such debt by the major rating agencies. As such, we believe that it is extremely unlikely that expanded executive compensation disclosure materially enhances the position of an issuer's debtholders.

In our view, absent any compelling benefit to expanded disclosure relative to the current requirements, debt-only reporting issuers should not be subject to the additional executive compensation disclosure requirements that would result from the removal of their venture issuer status.

II. GOVERNANCE MATTERS − MI 52-110 AND NI 58-101

One of the major consequences of excluding large debt-only issuers from the definition of venture issuer is that such issuers would be required to comply with Part 3 (*Composition of the Audit Committee*) of MI 52-110. Of course, appropriate governance practices and the maintenance and oversight of financial controls are as important to debt-only issuers and their investors as to other market participants. However, as noted above, debt-only issuers are subject to contractual protections through the applicable trust indenture and other market disciplines that further these interests. Accordingly, it seems unnecessary and unduly burdensome to require large debt-only issuers to maintain an audit committee composed only of independent directors.

We believe that the vast majority of large debt-only issuers in Canada are wholly- or majority-owned by a parent corporation that is compliant with MI 52-110. As such, these issuers are exempt from Part 3 (*Composition of the Audit Committee*). However, the proposed amendments may affect certain debt-only issuers, such as the Company, that are not directly or indirectly majority owned by a Canadian or U.S. public company. The Company, for example, has three ultimate shareholders, each holding a non-controlling interest: SNC-Lavalin Group Inc. (a Canadian reporting issuer); Grupo Ferrovial S.A. (a Spanish public company); and Macquarie Infrastructure Group (the securities of which are listed on the Australian Stock Exchange). Since only a small number of debt-only issuers would not be exempt from Part 3 of MI 52-110, it is our view that these non-exempt debt-only issuers should not be unduly burdened by having to comply with Part 3 of MI 52-110. We note that MI 52-110 contemplates exemptive relief from its provisions, where a regulator considers it appropriate to do so. That said, we believe that the legitimate interests of a controlling shareholder group in overseeing its investment through active participation in management, governance and financial oversight should not be constrained in the first instance by the extension of the MI 52-110 audit committee composition requirements.

It is also important to note that in the unique context of debt-only issuers, reconfiguring an audit committee to comprise only independent members may decrease the issuer-specific expertise of the committee, which could adversely affect debtholders. We believe that the major Canadian rating agencies would view having a majority of non-independent directors on an audit committee (i.e., representatives of the controlling shareholder group) as a positive factor that enhances the credit ratings assigned to an issuer's debt. As a result, we consider there to be a risk that if a debt-only issuer must comply with the MI 52-110 independence requirements, rating agencies and other market participants may view this as a weakening of the issuer-specific experience and expertise of the audit committee, which may adversely affect the interests of that issuer's debtholders.

With respect to the additional disclosure requirements that would arise under NI 58-101 from the loss of venture issuer status, we do not anticipate that the Company would face a significant burden as a consequence of the proposed amendments. Consistent with our comments above, we believe that debtholders have a reasonable understanding of their rights as such and the appropriate structure and governance practices of a closely-held debt-only issuer. Unlike the mandatory provisions of MI 52-110, which we believe may interfere with the most effective composition and functioning of a debt-only issuer's audit committee, disclosure responsive to the full list of Form 58-101F1 elements appears to us to be unnecessary (from an investor protection perspective) but not unduly burdensome.

Please do not hesitate to contact us if you require any further information, or clarification on our comments above.

407 *International*

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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission – Securities Division
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Newfoundland and Labrador Securities Commission
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

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Dear Sirs/Mesdames:

Re: Notice and Request for Comments - Proposed Repeal and Substitution of Form 51-102F6 *Statement of Executive Compensation*, Proposed Amendments toNI 51-102 *Continuous Disclosure Obligations* ("NI 51-102"), Forms 51-102F2 and 51-102F5 and Proposed Consequential Amendments to MI 52-110 *Audit Committees*("MI 52-110") and NI 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101")

On behalf of 407 International Inc. (the "Company"), we are pleased to respond to the above-referenced Notice and Request for Comments of the Canadian Securities Administrators.

We have enclosed with this letter a memorandum prepared by our counsel, Torys LLP, in which they provide their assessment of the impact on debt-only issuers of the proposed amendments to the foregoing rules. We are in agreement with their assessment, and strongly reiterate their comments as to the rationale underlying differing treatment between listed equity issuers and debt-only issuers. The existing exemptions available to debt-only issuers - as venture issuers - are appropriate given the availability of contractual protections and other market disciplines to protect debtholders. The extended executive compensation disclosure requirements included in the proposed amendments are properly viewed as an enhancement of shareholder democracy, to assist investors in making voting decisions affecting management - a consideration that is not applicable to debt-only issuers.

We are also concerned by the proposed amendments' implications for the Company's current governance practices. The Company's Board of Directors largely comprises non-independent directors who are nominees of the controlling group of shareholders. Among other things, the Board, as constituted, directly exercises oversight and supervision of management in order to protect the interests of the shareholder group in the Company and to maximize the value that the investors receive from their investment. The reconfiguration of the audit committee of the Board to comprise all independent directors would require significant changes to the structure, size and composition (including the balance of diversity and skills) of the Board and its governance processes. Such a reconfiguration certainly would not serve to provide additional protection for the shareholders and would deprive the audit committee of members who have a keen direct interest in maintaining high standards of financial management and reporting. The proposed amendments could have the perverse effect of undermining the interests of debt holders by depriving the audit committee of participation by knowledgeable executives with financial expertise and experience who are best positioned to understand the financial aspects of the business.

Thank you very much for the opportunity to respond to this Notice and Request for Comments. Should you wish to discuss any of our comments, please do not hesitate to contact either of the undersigned, at our telephone numbers provided below.

Yours very truly,

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