

VIA COURIER – Hard Copy and Diskette

September 12, 2003

Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Commission des valeurs mobilières du Québec
Nova Scotia Securities Commission
Securities Administration Branch, New Brunswick
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 Ontario Securities Commission
20 Queen St. W.
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

Attention: John Stevenson, Secretary

- and -

c/o Commission des valeurs mobilières du Québec
Tour de la Bourse
800, square Victoria
C.P. 246, 22e étage
Montréal, Québec, H4Z 1G3

Attention : Denise Brosseau, Secretary

Dear Sirs:

RE: REQUEST FOR COMMENTS - Proposed Multilateral Instrument 52-110

Further to our recent telephone conversation, please find herein our response to the Ontario Securities Commission Request for Comments to the Notice of Proposed Multilateral Instrument 52-110, Forms 52-110, Forms 52-110F1 and 52-110F2 and Companion, Policy 52-110CP, Audit Committees:

The Issue

We are writing about the proposal that all members of the Audit Committee be independent.

Under the proposed Instrument, section 1.4 indicates, among other things, that (i) a member of an audit committee is independent if the member has no direct or indirect material relationship with the issuer, and (ii) a person will be deemed to have a material relationship with the issuer if the individual is, or has an immediate family member who is, or at any time during the prescribed period has been, an officer or employee of the issuer. An "immediate family member" is defined as an individual's spouse, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an employee of the individual or immediate family member) who shares the individual's home.

As drafted, this would mean that none of the Leon family members who are directors of Leon's Furniture Limited ("**Leon's**") could sit on its audit committee, notwithstanding that the Leon family holds about 62% of the shares in Leon's. More generally, it would mean that individuals who own the majority of shares in a company could not sit on the audit committee if they have immediate family members working in the business.

Background

Leon's is a closely held public corporation trading on the TSX under the symbol LNF. Leon's has been in business for almost one hundred years (since 1909) and has been a public company since 1969. Leon's is controlled by the Leon family, which owns approximately 62% of both the equity and voting control of the company. The Leon family has managed and directed the company for its entire existence. Leon's is without debt. Its expansion is funded from its own funds. It owns most of its real estate. It has maintained a balance of between \$80 and \$100 million dollars in cash and marketable securities for the past several years. It has had a consistent dividend policy, which ensures that its shareholders are able to share in the company's success on an annual basis. Leon's also shares its profits with the employees (both full time and part time) every year.

There are currently seven directors on Leon's Board: Anthony Leon, Dr. Joseph Leon, Peter B. Eby, Alan J. Lenczner, T. Iain Ronald, Mark Leon and Edward Leon, all of whom (including the 'independent' directors), endorse the contents of this letter. There have been at least four Leon family members on the Board since its inception and at least one family member on the Audit Committee. There are currently nine Leon family members actively working in the business, most of which are first cousins, siblings or children of the Leon directors. All of our employees, including the Leon family members, are important contributors to the success of our business. It is fair to say that the Leon family members have been the guiding light of this business since 1909 and in fact the commitment shown by the family to the business and the degree of the family's involvement in the business is one of the factors cited by our shareholders as the reason we have been successful, when other businesses controlled by passive family holdings have failed. There are nine Leon family member employees (all of whom own Leon's shares) and thirty-eight Leon family principle shareholders in the family group that owns the 62% control. The financial success of the Leon family is dependent on the value of the Leon's shares. In our company, there has not been a conflict between management and shareholder rights because shareholder interests have always taken precedence, no matter whether the company was private or public. The family shareholders would not tolerate any activity which, although in the interests of management, was not in the interests of the shareholders.

Leon's Audit Committee is composed of Peter B. Eby, T. Iain Ronald and Dr. Joseph Leon. All are "financially literate" under the proposed definition, with which we agree. It would not surprise us if both Peter B. Eby and T. Iain Ronald were considered to be financial experts by

their peers. Mr. Ronald is a former Vice Chairman of the CIBC. Mr. Eby is a former Vice Chairman with Burns Fry, which eventually became BMO Nesbitt. Dr. Joseph Leon is a retired Medical Doctor who has never worked for Leon's, but whose family is one of the principle shareholders of Leon's. Dr. Joseph Leon has immediate family members working at Leon's. It is Dr. Leon's role along with his other committee members to ensure that the financial statements and affairs of the company are in accordance with generally accepted practice and present fairly the financial condition and results of the company.

Discussion Regarding Proposed Instrument

The stated goal of the new proposals is to "encourage reporting issuers to establish and maintain strong, effective and independent audit committees". It is our understanding that the independence relates to independence from management, in order to prevent management from influencing the auditing function. We believe that this concept is too broadly based in that it assumes that a lack of independence, as presently defined, is more likely to lead to inaccurate reporting in all circumstances.

While the situation that Leon's is in is not as commonly found in the United States, it is far from unique in Canada. There are many corporations which exist where a family group owns the control over voting and equity interests of the corporation. This should be distinguished from the situation where, through multiple share classes, the family maintains voting control, but does not have a majority of the equity in the corporation.

In the case of Leon's, and other corporations where a family group owns the control over the voting and equity interests in the corporation, there are likely to be situations where one or more of the directors would be related to individuals who are employed by the company. **We believe that a director who is an audit committee member and who holds, or represents, a significant interest in the corporation, but is not a member of management, will ensure that the audit is performed properly and that the financial statements present a fair and proper picture about the financial health of the business. To assume that representatives of a shareholder group which owns the majority of the equity and voting control will act on an audit committee in a way that is prejudicial to the shareholders (including themselves) to protect questionable inter-corporate actions by members of management if they are related family members is too broad a generalization. It would be unfair to the major shareholders not to allow their board nominees to be involved in the audit committee if they are otherwise qualified, merely because a family member is (or recently has been) an officer.**

One must also consider the very different positions of such a controlling shareholder group audit committee member and an 'independent' audit committee member. While we do not believe it to be of any concern in our case, one could argue that an 'independent' audit committee member might be affected by the management of the corporation, considering that their actions may jeopardize their position on the audit committee if those actions are not looked on favourably by those who manage the corporation. **The reality is that the family owner audit member is more likely to take the long-term interests of the corporation into account due to the fact that his or her future well-being and that of his or her family will be affected by the long term viability of the company.**

In our view, to deem an individual as non-independent merely because he has an “immediate family member” employed in the business is too broad and discriminatory. The determination of independence of an individual based on being related to an employee or officer of the issuer could be left up to those members of the board charged with compliance with corporate governance or by those members of the committee who are clearly independent through their ownership of the majority of the equitable interest in a company. It well may be that there are situations in which an individual who is related to an officer should not sit on the audit committee. One such example would be the father of the CEO of the issuer where the father has no shares in the business. The board of directors would be able to conclude that independence was not likely to exist. Presumably the membership of an individual representing a 62% shareholder who happens to have some relatives in the business is not such an example since the protection of the shareholding would take priority over the family relationship.

As a suggestion, the reference to family relationships in section 1.4(3)(a) of the Proposed Instrument could be moved to a companion policy as an example of a relationship that the board of directors should consider in determining independence.

The investing public tells us that the very strength of our company has been based on the active participation of the Leon members of the Board, and the audit committee, along with the non-Leon members. We are very proud of the strength and clarity of our financial statements. In fact, we operate primarily on the basis of 1) preserving our capital and 2) achieving the best capital and equity returns possible for all our shareholders. We are very pleased that our performance in these areas is amongst the best in our industry in North America. It would be unfortunate indeed if the public were to perceive our company’s greatest strength as being a non-complying weakness in relationship to the proposed independence rules.

It is for all of the above reasons that we respectfully request and strongly recommend that the Proposed Multilateral Instrument 52-110 be amended so that, in those cases where a family owns voting control and at least an equal equity interest, a person with an immediate family member who is an employee or officer of the issuer (regardless of whether the immediate family member serves on the entity’s compensation committee), shall not be restricted from acting on the audit committee solely due to such familial relationship provided that there is a majority of ‘independent’ audit committee members.

In our opinion, it would be beneficial to all concerned if in dealing with companies like ours in the Canadian capital markets, the Securities Commission highlighted the fact that Directors related by their strong equity ownership in a corporation can be an advantage to public shareholders, even if they are also related by blood, especially where their past performance both as Managers and Directors has established a successful historical rate of return for all shareholders, as well as a very strong debt free balance sheet. We think this is important as otherwise it appears that there is presumption that family controlled businesses will always seek to serve themselves at the expense of the other shareholders. This does a disservice to the many men and women who have created jobs and livelihoods for countless Canadians by building successful businesses.

Please do not hesitate to contact the undersigned should you have any questions or concerns with respect to the above.

Yours truly,

LEON'S FURNITURE LIMITED

Terrence T. Leon
President

TTL/tp/jac