

September 25, 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 John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

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

Ladies and Gentlemen:

Re: Proposed Multilateral Instrument 52-110 *Audit Committees*, its related forms and companion policy (together, Proposed 52-110)

We have read Proposed 52-110 and provide you with our comments herein. Capitalized terms in this letter have the same meaning as those in Proposed 52-110, except as otherwise indicated.

Part 1.1 – Definition of audit committee financial expert

Part (b) of the definition refers to the application of accounting principles to "estimates, accruals and reserves". We recommend that this Part be amended to read "the ability to assess the general application of such accounting principles to the activities and the affairs of issuer". We believe that the proposed language is far too narrow since the issuers' accounting principles must be applied to all its activities, not simply its "estimates, accruals and reserves".

We also question whether Part (e) of the definition is required. This Part requires the expert to have an understanding of audit committee functions. Surely such an understanding would be expected of all directors and senior officers.

Part 1.1 – Definition of non-audit services

The definition of non-audit services provided in Proposed 52-110 is not specific. Nor is further guidance provided regarding the types of services constituting non-audit services. We believe this definition would lead to different interpretations and practices, or cause confusion to practitioners.

The Canadian Institute of Chartered Accountants (CICA) is in the process of formulating a rule on auditor independence, which, we anticipate, will include a definition or an interpretation of non-audit services. The CSA should ensure that the definition in Proposed 52-110 is consistent with that to be proposed by the CICA.

Part 1.4(4) – Prescribed Period

We believe that a prescribed period of three years is unnecessarily long and recommend a period of one to two years. The SEC has issued detailed rules about cooling off periods before auditors may join the staff of audit clients, which generally involve a period of one to two years. The very broad definition of material relationship in Part 1.4 will present a challenge to issuers when recruiting audit committee members. Reducing the prescribed period would be one means of allowing issuers greater latitude without compromising the independent judgment of audit committee members.

Part 2.3(4) – Pre-approval

We noted that Part 2.3(4) refers only to non-audit services, and not audit services. This appears to be inconsistent with Section 202 of the Sarbanes Oxley Act and the SEC rule on auditor independence, which require audit committees to pre-approve all audit services and non-audit services. We believe Proposed 52-110 should state explicitly that both types of services need to be pre-approved by audit committees.

Part 2.3(7) – Complaints and Anonymous Concerns

This Part does not refer to fraud and possibly illegal acts. We believe that the procedures mandated by this Part should address the reporting of alleged fraud and illegal acts in addition to accounting, auditing and internal control matters.

Part 3.1(4) – Financial Literacy

We note that this Part would require all audit committee members to be financially literate but the committee is not required to have a financial expert among its members. We believe that having a financial expert (as defined in Part 1.1) on the audit committee would significantly increase the effectiveness of the audit committee and better equip the committee to understand concerns communicated to it by the auditor. We recommend that a financial expert be required on audit committees of issuers that are not Venture Issuers.

Part 6 – Exemption for Venture Issuers

We believe that the exemptions provided to Venture Issuers in Part 6 are too broad. Requiring Venture Issuers to have an audit committee comprised of three independent directors who have some degree of financial literacy is reasonable in our view. We do not believe that Venture Issuers would experience significant cost or difficulty in complying with these requirements which we regard as simple, basic characteristics of good corporate governance. We are also mindful of the fact that Canadians are equally at risk of significant financial loss from Venture Issuers as from more senior issuers.

52-110 CP Part 5.1 – Audit Committee Pre-Approval

Part 5.1 of the companion policy is similar to a provision in the SEC rule on auditor independence.

The SEC published a Frequently Asked Questions document (FAQs) on August 13, 2003 regarding the SEC auditor independence rule. Among the FAQs, the SEC clarified a couple of issues with respect to pre-approval of non-audit services by audit committees. The SEC staff indicates that monetary limits cannot be the only basis for establishing pre-approval policies and procedures, and that broad categorical approvals are not appropriate. The questions and answers also provide additional clarifying guidance about the pre-approval process and the use of pre-approval policies and procedures. (See questions 22-24 of the SEC document “Office of the Chief Accountant: Application of the January 2003 Rules on Auditor Independence Frequently Asked Questions”.)

We believe such clarification is helpful to issuers and their audit committees, and the CSA should consider incorporating guidance similar to the above in the companion policy.

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

Yours sincerely,

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