

The following text is a speech delivered by RCMP Commissioner Giuliano Zaccardelli at the Self Regulatory Organization Conference in Toronto. January 27, 2005

The audience consisted of representatives from the Investment Dealers Association(IDA), Mutual Fund Dealers Association(MFDA), Market Regulations Services Inc. (RS Inc.), the Bourse de Montreal, and Canadian Investment Protection Agency (CIPF).

Thank you

And thank you to Canada's Self-Regulator Organizations for inviting me today.

I am delighted to join you for this important - and very timely - conference. I believe that it has never been so important to take the time to analyze and assess both the impacts of, and the necessary responses to, wrongdoing and crime in a corporate context.

It seems that everyday our newspapers and televisions bring us new reports or corporate scandals, questionable dealings and sophisticated financial crimes.

And while this causes an inevitable dip in our comfort levels - not to mention challenges for corporate overseers and managers, as well as law enforcement, to respond - I believe the real cost of the growing perception of corporate corruption is more long-term and ultimately more damaging.

The single most important factor needed for societies to work effectively and for citizens to flourish is—trust.

Trust is the bedrock of a civilized world.

Trust between individuals.

Trust in government, public institutions.

Trust in the economy and the engines of business - big and small business - and their oversight bodies.

When trust is diminished the ability of the collective to act for, protect and foster what is good and creative in our society, dissipates.

People turn evermore inward.

The practical ramifications are obvious: increased crime, less social and economic stability, greater gaps between “have’s” and “have-not’s”.

In this context I come to speak to you today as someone who SHARES the challenges you face:

to deal with actual, and potential, situations of corporate wrongdoing;

to identify prevention and response strategies

and to forestall the growing perception that mismanagement, greed and even corruption are part of corporate Canada.

Law enforcement plays only one part in the corporate regulatory environment.

We need to work with oversight bodies, and all levels of the business community-leaders, managers and practitioners, in order to effectively achieve the goal of ensuring a safe, law abiding and successful corporate sector.

The timing is right and the imperative is evident.

As I prepared for this speech I found myself pondering a few questions.

Do we really share the desire to grapple with these matters, together?

Do we have enough knowledge, technical capacity, resources and energy to do so?

And, do we fully understand the most challenging aspect of all this—the motivations, behaviors and strategies of those who represent the greatest threat to the stability of the Canadian business community? That is those who engage in large scale and serious criminal

behavior of an order and magnitude that puts the whole system at risk.

I always find it helpful to use questions to guide the process of thinking through a thorny or emerging issue.

You know in some ways, this issue returns me to my roots, because I served for more than 14 years on the R.C.M.P. commercial crime program.

It is an area I know well.

My career has brought me to a place where I have no choice now but to take a “big picture” approach, to comprehend and develop law enforcement in a larger context.

This is why I started today by talking about trust and whole-system challenges.

But it is also true, that given where I started, I vividly recall the small and deeply personnel stories of harm and pain caused by financial crime.

I have seen the economic devastation it can wreak on individuals, many of them seniors, who saw savings patiently accumulated over a lifetime, callously wiped out in a heart beat.

The small picture is almost as important to look at as the big one.

Because of financial crime, investors lose their savings, pension plans lose their assets, companies lose their reputation and the markets lose the trust of investors.

Because of corporate corruption societies’ trust and confidence is undermined, business practices become suspect and the economic potential of Canada is compromised.

Clearly it is time for us to focus our attention.

So if I may, I’d like to return to my three questions

[1] Do we share the desire to really grapple with these matters, together?

The answer from an R.C.M.P. perspective is a resounding YES.

The R.C.M.P. is committed to, and has adopted a conscious strategy for integrated policing.

An integrated approach takes as its starting point the understanding that we can not identify, deal with, or manage criminal activity and crime prevention, alone.

We need to work across all levels of the law enforcement community and, in the case of commercial and corporate crime, with the business community and especially regulatory and self-regulatory organizations.

Introducing integration into our organization means that we commit to establishing a shared framework and shared strategic priorities, to the free-flow of intelligence at all levels, and to more interoperable systems in order to create a seamless law enforcement service delivery system without duplication, fragmentation and turf wars.

Of course our readiness to embrace integrated approaches is not necessarily shared.

“Going it alone” is always easier, eliminates concerns about the impossibility of ever really sharing responsibility or accountability and it can be, in many ways, a whole lot more efficient.

So I don't know for sure that the business and corporate regulatory community is ready to work with us.

To share information, intelligence, systems even.

You are on the front lines, every day, acquiring intelligence, spotting trends, hearing rumors, receiving complaints. And your expertise, your insight, your in-depth knowledge of markets

can be key to uncovering illegal schemes quickly and shutting them down permanently.

Criminals count on a failure to cooperate - on victims not cooperating with authorities and authorities not cooperating with one another.

We need to frustrate that expectation by breaking down traditional barriers to the exchange of information, by working in sync instead of in silos.

So we have to gather intelligence better, share it more quickly and use it more effectively.

This means coordinating as never before - across jurisdictions, across borders, across the world.

It means working together on developing prevention strategies, on investigation and on prosecution.

Most of all it means pursuing and living up to a shared sense of responsibility and accountability.

Are we prepared to accept the demands of an integrated approach? I hope so. I do know that we don't have much choice - if we are to truly move forward.

[2] My second question is:

Do we have enough knowledge, technical capacity, resources and energy to address the goal of combating financial crime?

In point of fact, I think we do have MANY of the resources and capacities that we need. And some we're working toward.

First let's consider our knowledge base.

The irony is that the same knowledge that your sector uses to carry out sophisticated business practices, audits and oversight, the same knowledge that we are using in law enforcement to

deal with cybercrime, terrorism and organized crime, is also in the hands of those who commit commercial crimes.

We know what they know and this gives us an edge.

But it's also downright scary - because they know what we know.

It is amazing to consider how quickly the technical knowledge of our time is applied, and how radically it changes the way we do everything.

We have seen the swift and breathtaking evolution of technology that now helps us to manage almost all aspects of our work. Computer networks, electronic transfers of vast sums of money, virtual businesses - all taking place in a cyber world that provides untold opportunity but also the virtual anonymity and possibilities for rip-offs of a reach and dimension that would not have been possible even a decade ago.

In a world where borders have, for all intents and purposes, disappeared, and where distances have collapsed into irrelevance, business can flourish and crime has become interconnected as never before.

We need to understand and use our knowledge of this new "borderless world" to out-think, outsmart and outwit the criminals in our midst.

Not a small or easy task I am afraid.

But this is where the second element of the question comes in.

For this is the context within which we must properly allocate our resources and capacities in order to respond.

We need to think more strategically about the allocation of human and financial resources and find better ways of working in the new environment I am talking about.

At the R.C.M.P. we've created some strategies that are taking us a lot closer to being able to effectively respond.

Some of you may be familiar with these - indeed, some of you have been instrumental in helping to develop them.

I'd like to take just a moment to describe one of them to you as a "real life" example of the steps we're taking.

About a year and a half ago, the Sol. Gen. and I announced the creation of what we called Integrated Market Enforcement Teams, or IMET's for short.

This was really a response to the staggering impact of the Enron, WorldCom and Arthur Anderson scandals in the United States and the realization that we here in Canada were far from immune.

IMETS represented a radical departure from existing practices in fraud investigation.

We have IMET teams in four cities - Toronto, Montreal, Vancouver and Calgary. Each team is composed of well-educated and seasoned investigators, working alongside subject matter experts in law, accounting, major case management and securities.

The teams are integrated with key partners - securities commissions, police forces and others. The teams in Toronto and Vancouver have been in operation for just over a year and already taking on major cases - the Royal Group and Nortel come to mind.

In creating IMET we recognized that we were going to have to find some new approaches in terms of both operations and human resources .

We identified that a key operational challenge lies in our need to provide enforcement capacity across the country and not simply in four large cities.

Although we have very able commercial crime investigators in all provinces, the demand of

their day to day work and the focus they have on local and ongoing cases makes it more difficult for them to respond when the new and external crisis hits.

So to assist them, we have created the “Quick Start” strategy for the IMETS.

As the name implies, Quick Start allow us to bring together an ad hoc team, on very short notice, and dispatch it to any corner of the country. There, the team will set up shop, begin an intensive investigation and eventually turn the file over to local investigators.

We will also be using more sophisticated Major Case Management software on all IMET cases, both as an integral part of the investigation and for disclosure after charges are laid.

At their heart, IMETS have been established as partnerships - the integration I have already discussed, working in reality.

They are basically partnerships with you the industry, and you the regulators and another key partner - the Crown.

Although we already had strong relationship with the provincial prosecution services, the fact is they often have capacity issues when dealing with large scale cases.

The introduction of capital markets legislation now allows for the Federal Department of Justice to also prosecute fraud cases and the IMETS Strategy specifically includes lawyers from the Department of Justice on its teams.

I think that we’ve taken some massive steps forward with the establishment of IMETS. We’ve more to do of course and we continue to learn and adjust our approach based on our experiences with them. And we are aware that IMETS are, but one aspect of a much greater picture. They will only take on the tip of the proverbial iceberg.

We have also introduced a number of other approaches which I won’t describe in detail but that include:

The establishment of Joint Management Teams to select which cases to investigate and which cases to pursue through to a charge.

A fundamental transformation of the Commercial Crime Sections of the R.C.M.P. with a focus on strategic targeting and more use of partnerships.

The creation of a joint-intelligence unit and the Ontario Securities Commission, with plans to expand this partnership across the country.

Working with government to address our environmental, capacity and resource needs, vis a vis, commercial and corporate crime and crime prevention.

With the passing of Bill C-13 police have been given additional powers, especially in the area of searches. It also provides new protection for corporate whistle blowers and, for the first time, makes insider trading a criminal code offense.

So as you can see there's a lot going on in the sphere of "resources and capacities"

The final element of my question about our ability to proceed asks whether we have the "energy" to move ahead?

I guess what I am thinking about here is the sense of urgency, the commitment of leadership, to put fighting financial crime and corporate corruption high on the agenda.

In my review any issues you can think of requires thinking and implementation at three levels: the tactical, the strategic and the philosophical.

Without signals, and resources, from the leadership level it can be well nigh impossible for the ground level of any organization to push forward new ways of thinking, planning and doing.

Without leadership we won't be able to properly allocate the knowledge, resources and capacities that I have discussed - including developments like IMETS.

And without leadership those who are determined to contribute, in an integrated fashion, from both of our sectors, will be hampered in their efforts.

I want to bring this discussion to a close by addressing my final question and to explore the most dramatic aspect of these discussions.

While we would all agree that mistakes in business practice, questionable or unethical behavior, a lack of self-regulation or the failure of regulatory bodies to properly monitor, are all of serious concerns, by far the most frightening specter we face is that of corruption.

Corruption - in your world or in mine - is the thing that brings all the issues I've raised to a head:

The undermining of trust,

The concomitant heightened focus on accountability and answerability.

The violation of values, standards and rules that we depend on to ensure ethical business, effective law enforcement.

And worse of all, the damage and destruction that occurs to good people and good places when corruption takes hold.

In the law enforcement sector we are keenly aware that the crimes we investigate and pursue to conclusion, that come about as a result of corruption, only highlight the old adage "physician heal thyself".

Because in the police community in Canada and around the world, we have identified, and are struggling to respond to, concerns about corruption from INSIDE our ranks as much as in other spheres.

So I speak to you about this element of our discussion on financial crime as someone who

has given the issue a lot of thought.

It seems to me that corruption has two fundamental characteristics that we need to understand in order to be able to combat it.

First, corruption is fundamentally about greed.

At the core of any story of corruption is the choice that one or more individuals makes to take money or benefit of some kind in return for breaking faith, usually breaking the law.

The fact is that greed exists in all of us.

There isn't a person in this room who doesn't have need and desire for things they don't have: material things, power, influence.

And yet, the vast majority of people resist these all too human vulnerabilities proudly, or even sometimes without any real thought at all, naturally conforming to the values and ideals that society and humankind have hammered out over centuries of moral development.

But some don't, and that's what we need to learn to understand and be prepared to challenge swiftly and irrevocably.

My second observation is that corruption is insidious.

Most corruption is more a matter of a subtle slide into the unacceptable than a dramatic leap, like with a violent crime or an act of terrorism.

It usually takes the form of small day-to-day acts that undermine or abuse operations.

In business, particularly, corruption sits at the end of a continuum that moves across from:

The creative and innovative (though maybe risky) decision-making of a
"maverick"

To the questionable actions of someone with poor judgement or even just making a mistake

To a level of conscious and regular cutting of corners in order to make the quick and easy buck and finally,

To deliberate and constant violation and wrong doing.

How do we ensure that we understand this continuum of behavior? This “slippery slope”?

If they condone, or even encourage on occasion, the risky behavior that nets the higher profit does management undermine their ability and responsibility to stem the slide into out and out corruption?

Corruption is also insidious because we don’t usually see it happening.

Think of the analogy of a computer virus.

The computer looks the same, the software mostly works, but some part of it gets “corrupted” and you find yourself in danger of losing the whole system.

What is more difficult to perceive or respond to than the slow and silent insertion of corruption into our midst? And yet, what costs will be paid for such blindness?

CONCLUSION

I started this discussion by remarking on the fundamental importance of trust.

I speak to you as peers and colleagues who stand at the front of the line that holds that trust

as our highest goal.

Trust can never be taken for granted.

It depends upon the commitment of individuals and organizations to establish standards that reflect ethics and values, and to ensure that whatever needs to be done to operate under them, is.

That is where we come in, both law enforcement and the self-regulatory and regulatory community.

We represent both the first and last resort that citizens and society expect.

The LAST resort in that in fulfilling our mandates we will take the steps necessary to equip the corporate sector to regulate itself.

And when, and if, such steps fail, we will bring to bear the law and the response that holds organizations and individuals to account.

And we are the FIRST resort because within our own communities we too will be held to account. We too will establish and adhere to ethics, values and standards that commit us to the highest level of behavior, the highest level of trust possible.

I am proud to be part of an institution that stands out here, at the front of this line.

I am proud of the men and women of the R.C.M.P. and of all of our colleagues who have made the decision to be part of something that helps us to achieve the greatest dream of all:

A Canada and a world where good people and good places flourish, and where right and justice lie at the heart of what we do and who we are.

Thank you very much ladies and gentlemen. Merci beaucoup Mesdames et Messieurs.

