

RCMP



ROYAL CANADIAN MOUNTED POLICE

IMET

2007/2008 INTEGRATED MARKET ENFORCEMENT PROGRAM

Annual Report



Royal Canadian Mounted Police
Gendarmerie royale du Canada

Canada

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Message from Director General

MESSAGE FROM DIRECTOR GENERAL

Exciting developments are on the horizon for the Integrated Market Enforcement Team (IMET) Program and for Canadian capital markets enforcement as a whole. We remain committed to the IMET mission while continually looking at ways to improve the program.

This spring, Budget 2008 reaffirmed the current federal government's commitment to enforcement as a key priority of its Capital Markets Plan. Clearly, significant focus and priority is being placed on the IMET program.

It has been five months since Mr. Nick Le Pan submitted his report on the IMET program to RCMP Commissioner William Elliott. It has been four months since the Securities Fraud Enforcement Working Group submitted its final report to the Federal/Provincial/Territorial Ministers responsible for Justice.

In order to address the recommendations made within these reports, the IMET initiative's federal partner agencies are currently putting the finishing touches on a plan to enhance the IMET program.



This plan outlines a structured, phased-in approach. However, progress is being made on all fronts.

In the first phase of implementation, we are focusing on issues of accountability, leadership, governance and oversight. Largely, these are initiatives that do not require additional funding to be implemented and, in fact, significant progress has already been made. Subsequently, we have planned measures designed to alleviate operational bottlenecks, enhance our ability to obtain proactive intelligence, and enhance capital markets expertise, among others.

The RCMP is focusing on IMET-related issues with an enhanced sense of urgency. We will continue to work closely with our many partners in aligning ourselves to better meet the needs and expectations of Canadians.

IMET will continue to be an important and effective partner in ensuring the integrity of Canada's capital markets. I am proud to be a part of this dynamic program and look forward to updating you on our progress.

**Stephen White, Chief Superintendent
Director General, Financial Crime**

INTEGRATED MARKET ENFORCEMENT TEAMS (IMETs)

"We are committed to deterring perpetrators of criminal capital market fraud by ensuring that there is a genuine risk of being discovered, investigated, prosecuted and incarcerated".

IMET mission statement

The RCMP manages the IMET program and works in partnership with Public Safety Canada and the Public Prosecution Service of Canada. The IMET program is also supported by the Department of Finance Canada. The investigative teams work closely with securities regulators, representatives of other federal enforcement agencies, law enforcement agencies of local jurisdiction and forensic accountants.



IMETs, which are an integral part of the RCMP's Financial Crime Program, were created five years ago¹ as part of a concerted strategy by the Government of Canada to protect the integrity of the Canadian economy and its capital markets. Specifically, IMETs:

- are committed to working in partnership with Canada's public and private sectors to protect Canada's economy;
- show potential perpetrators in the corporate community that the teams are dedicated to detecting and enforcing capital market fraud offences thus strengthening general deterrence; and
- signal to stakeholder organizations such as security exchanges and market regulators that these types of offences are taken seriously.

1. THE FIRST IMETS WERE ESTABLISHED IN 2003 IN TORONTO AND VANCOUVER. IN ADDITION TO A NATIONAL SUPPORT CENTRE IN OTTAWA, THE PROGRAM NOW HAS NINE TEAMS ACROSS THE COUNTRY:

- THREE IN TORONTO AND ;
- TWO EACH IN MONTREAL, VANCOUVER AND CALGARY.

STRATEGIC INITIATIVES

The IMET program has been the subject of review at the most senior levels of government. Most significantly, potential influences on the program include: recommendations for the IMET program as submitted to the RCMP Commissioner in the Le Pan report (2007), the announcement in the federal government's Budget 2007 which potentially earmarked an additional \$10 million for the IMET initiative beginning in the new fiscal year 2008-2009, and the reaffirmation of capital markets enforcement as a federal government priority in Budget 2008.

In order to ensure that the overarching strategic direction of all IMET initiatives remain consistent with the future of capital market enforcement within the RCMP (as envisioned by RCMP senior management) progress on certain initiatives listed within this section were awaiting Mr. Le Pan's report. It is likely that some initiatives may change in future reporting periods as the plan to enhance the IMET program evolves.

Following are a few of the most important IMET program initiatives for the fiscal year 2007-2008:

Creation of a Nationally Coordinated In-take Capacity

Objective: To collaborate with other law enforcement agencies and securities regulators to ensure that all complaints and inquiries received by the RCMP pertaining to market offences are addressed by the appropriate body.

Status: The RCMP is committed to implementing the recommendations of the Federal/Provincial/Territorial (F/P/T) Ministers Responsible for Justice Securities Fraud

“The RCMP has implemented a number of recommendations from Mr. Le Pan's report to ensure the enhancement of the IMET program. We remain committed to protecting Canada's capital markets.”

Dean Buzza, Superintendent
Director - Integrated Market
Enforcement Team (IMET)



Enforcement Working Group. This is with respect to the harmonization of in-take and referral of criminal securities fraud complaints within both the IMET program and within the context of financial crime in general. This will be achieved by leveraging the existing infrastructure within the RCMP; in particular within Commercial Crime Sections (CCS). In doing so, changes can be implemented in a timely and efficient fashion given that both the infrastructure and assets are already in place (both in the IMETs and CCS).

Potential Legislative Enhancements for IMET Program

Objective: To identify potential legislative enhancements to improve the effectiveness of investigations that can be supported under the Canadian constitutional framework.

Status: Both the Le Pan Report and the report of the F/P/T Working Group stated that the ability of police to compel third party testimony would contribute to strengthening Canadian criminal capital markets enforcement. Further support of this initiative came forward in Federal Budget 2008 when it was stated that “This is a complex issue that requires careful study. Therefore, federal and provincial-territorial experts will be examining this proposal and other enforcement measures for the consideration of federal and provincial-territorial ministers responsible for Justice later this year.”

IMET is currently in the initial stages of research to begin the proposal of compelled testimony as a key tool to be available to financial crime investigations.

Establish Life-Long HR Career Stream within IMET

Objective: To address the concerns that while IMET may have been successful in attracting expertise, the program may not be well positioned to retain such expertise.

Status: Following the recommendations in the Le Pan Report and in light of experience to date in the IMET program, the RCMP has organized a committee to review and develop IMET Human Resource (HR) policy recommendations for consideration by RCMP management. The IMET HR Committee's work has focused on some of the practical challenges that were inherent within the original IMET HR model and on what could be done to address them. In doing so, it proposes a revised model that will increase the pool of available Regular Member applicants, while retaining the best qualified police investigators beyond the current limitations imposed by a structure that exclusively relies on the Sergeant rank. Additionally, the committee recommends enhancements to the career path for the IMET program's Civilian Member contingent beyond what is currently available.

Resource Time Spent on Mandate and Project Status Initiatives

Objective: To extend the metrics of person-hours to an objective evaluation of time dedicated to project-status investigations. Accordingly, the IMET program will establish a baseline and set appropriate targets for time dedicated to project-status investigations.

Status: This initiative is designed to enhance person-hour reporting shown in the Operations section of this document. The goals & targets for each locale, and the program as a whole, is to have 90% of resources dedicated to mandated activities and 70% of operational time dedicated to project-status investigations. Person-hours results are reported in the Operations section of this document.

Operations

OPERATIONS

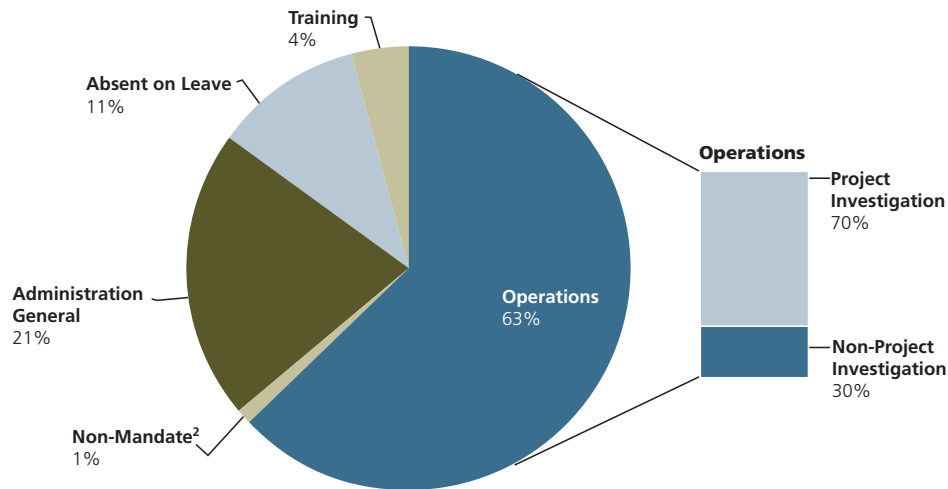
The IMET program operates nine teams which investigate instances of serious corporate and capital markets crime across Canada. IMETs conduct project investigations, each of which has a dedicated project team assigned. The project investigative teams implement the integrated model approach making use of expertise such as regular member police officer investigators, forensic accountants, provincial securities commissions investigators, and embedded Public Prosecution Service of Canada counsel.

The Integrated Market Enforcement Branch (IMEB) in Ottawa has worked closely with the IMET locales in focusing investigative resources on project investigations consistent with the program mandate. The IMEB strives to ensure that each investigative team has sufficient financial and human resources available to undertake project investigations in keeping with the “one project per investigative team” concept.

RCMP INTEGRATED MARKET ENFORCEMENT PROGRAM

2008 Person Hours

For period of January 1 - March 31, 2008



Results to Date

Since program inception in December 2003, five investigations have led to nine individuals being charged with a total of 29 Criminal Code of Canada offences. Charges laid in respect of these investigations relate to criminal activity such as; accounting fraud, stock market manipulation, theft, fraud over \$5000, laundering proceeds of crime, and possession of property obtained by crime. A number of these investigations remain before the courts. However, in two

of the investigations, the principals accused were sentenced to six and seven year prison terms respectively.

Since the issuance of the last public report, the IMET program investigations have steadily progressed. As such, it is anticipated that in calendar 2008, a number of IMET program investigations will culminate in the laying of criminal charges.

². SUPPORT TO NON IMET OPERATION FILES AND TACTICAL TROOP / EMERGENCY RESPONSE TEAM.

Intelligence

INTELLIGENCE

Securities Intelligence Units

The IMET program continues to develop and support the Securities Intelligence Units (SIUs) across the country. The Toronto and Montreal units are operating as Joint Securities Intelligence Units with IMET investigators co-located within the offices of the Ontario Securities Commission and the Autorité des marchés financiers.

The Calgary and Vancouver offices rely heavily on their SIUs to conduct preliminary research on tips and referrals to assist ongoing operations and determine viability of new operations. They also communicate closely with provincial securities regulators and have jointly worked and numerous files with successful results.

The Le Pan Report calls for increased funding to the IMET program. The intelligence component of IMET would be substantially enhanced with the addition of more regular members which would facilitate proactive human resource development.

Nationally Coordinated In-take Capacity

Recommendations stemming from both the Federal/Provincial/Territorial Ministers Working Group Report



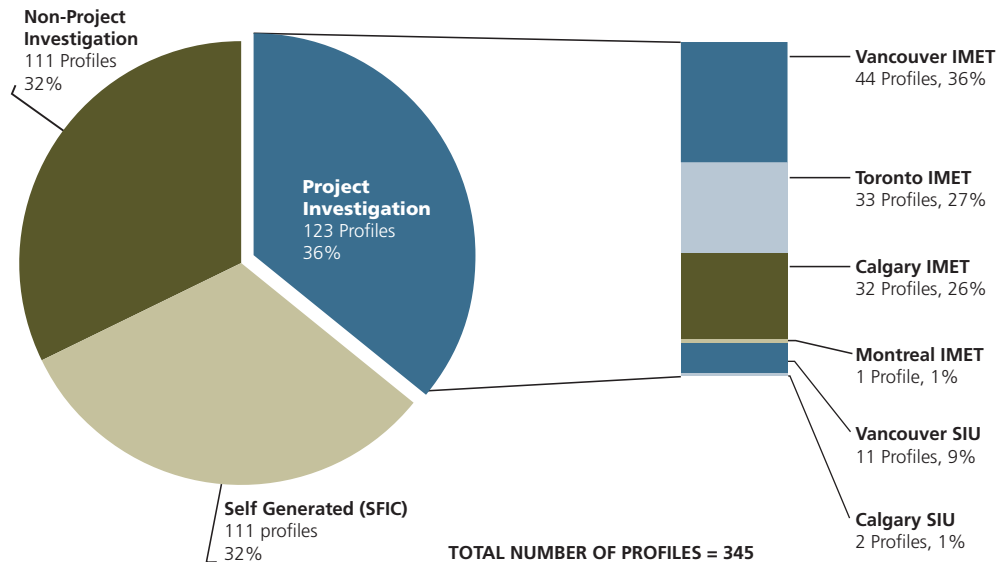
(F/P/T Working Group) and the Le Pan Report call for a more formal, harmonized in-take system for criminal securities fraud complaints across the country, with closer review and communication between the securities regulation community. In light of these recommendations, a plan has been set out which calls for closer coordination between the existing national infrastructure of the Commercial Crime units and the IMET offices.

The F/P/T Working Group set out a principles-based framework for the receipt, review and assessment, referral and national police coordination. Accordingly, the RCMP has taken the initial steps of setting in place an intake procedure which effectively coordinates the resources of the Commercial Crime unit and the IMET in order to best address these principles.

The RCMP Commercial Crime units act as the first point of contact for the public to report criminal securities fraud complaints and the IMET offices will also dedicate a resource to address any direct complaints. In either case, once a point of contact has been made, a file number will be generated in order to ensure accountability and

SECURITIES FRAUD INFORMATION CENTRE (SFIC) PROJECT INVESTIGATION ECONOMIC PROFILES BY IMET LOCALE

For period of April 1, 2007 - March 31, 2008



auditing metrics to be able to measure the success rate of our efforts.

Each Division will be responsible for arranging the specific methodology by which the coordinated review and referral of securities fraud complaints will be handled between local securities regulators and law enforcement.

Economic profiling services provided to locales across the country to assist in investigations are the main service provided by the Intelligence unit at the Integrated Market Enforcement Branch (IMEB) located in Ottawa. The chart shown illustrates the number of profiles that have been generated for major project investigations for each locale.



Human Resources

HUMAN RESOURCES

The IMET program is composed of various investigative units and a branch function. Currently there are two teams in each of Vancouver, Calgary and Montreal, and three teams in the Greater Toronto Area. The Integrated Market Enforcement Branch is located in Ottawa.

The human resources that make up the IMET program are knowledgeable on topics surrounding the securities market. Team members have significant experience in fraud-related cases and financial investigations.

The unique team composition aims to have people from various financial and legal backgrounds tackle the most complex and labor intensive market-related investigations. Investigative teams are composed of regular members, civilian members, legal advisors, securities regulators, forensic accountants, and various support staff.

Due to the integrated team approach adopted by the program, all employee working-hours are carefully recorded against various activities in which each person might be assisting. In turn, this allows the program to better track the person-hour allocation given to specific projects, hence increasing accountability.

All IMET personnel are encouraged to take specialized training or refresher courses relevant to their role and duties. Training is obtained through the Canadian Police College, RCMP internal training, conference and/or workshops, and external academic institutions.

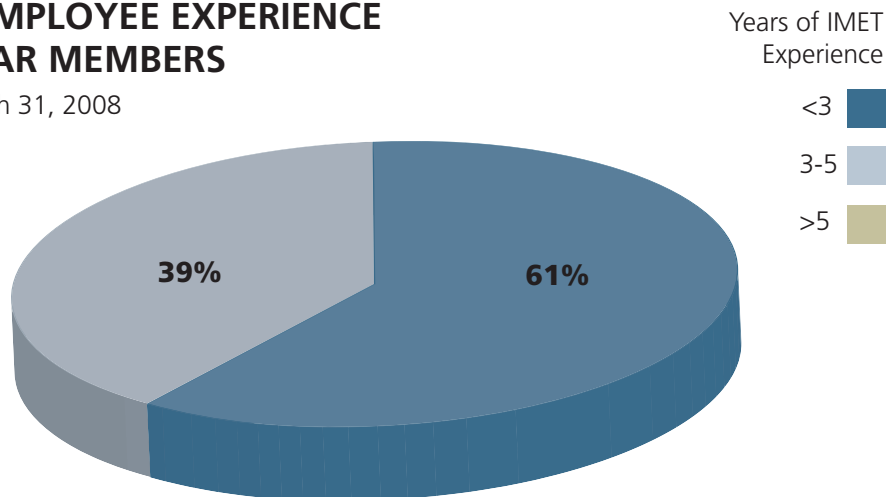
IMET Employee Experience

The attraction and retention of expertise is a critical success factor for the IMET

program. In the past few years that factor has been often highlighted as a risk to the RCMP's effectiveness in investigating complex capital markets crimes in a host of independent reviews such as the Cory/Pilkington Report³. In fact, this concern has been voiced for some time as evidenced in the 1998 KPMG review of the Economic Crime Program⁴.

Chart 1 IMET EMPLOYEE EXPERIENCE REGULAR MEMBERS

As of March 31, 2008



3. TASK FORCE TO MODERNIZE SECURITIES LEGISLATION IN CANADA PAPER ENTITLED CANADA STEPS UP – CRITICAL ISSUES IN ENFORCEMENT (OCTOBER 2006).

4. KPMG PROJECT REPORT – STRATEGIC STUDY OF RCMP ECONOMIC CRIME PROGRAM (SEPTEMBER 1998)

IMET is competing for an investigator skill-set that is highly valued and sought after by other service lines within the RCMP and by external regulatory agencies.

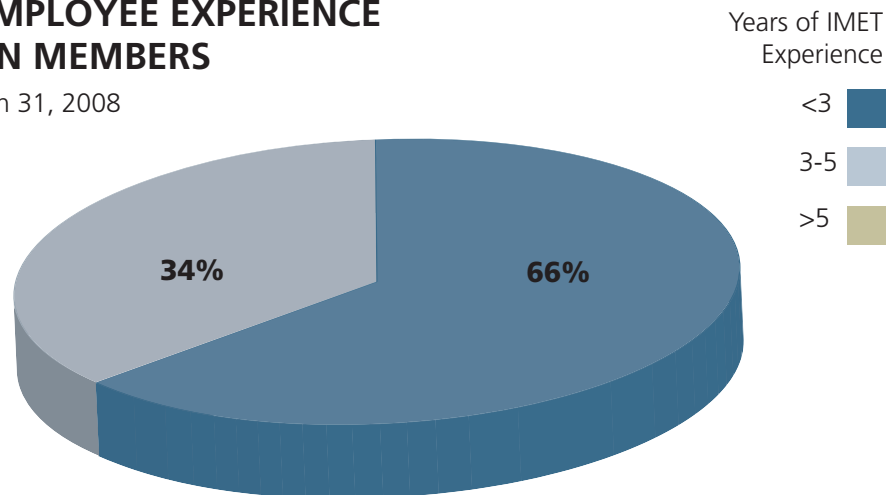
In this reporting period, IMET has commenced reporting on the distribution of expertise amongst RMs and CMs – to monitor how the program measures up to our target. It is important to note that as of this quarter, the IMET program is three quarters through its fourth year of operation.

Chart 1 (shown on previous page) indicates that 39 percent (39%) of the IMET police investigators have over three (3) years experience in the program and Chart 2 (shown below) indicates the 34 percent (34%) of the IMET civilian staff have over three (3) years experience in the program.

Chart 2

IMET EMPLOYEE EXPERIENCE CIVILIAN MEMBERS

As of March 31, 2008





Learning & Development

IMET regular members and staff continue to have access to training opportunities that enhance their ability to deliver results and meet the priorities of both the program and the Force. The training for IMET is coordinated nationally, an approach that is expected to be maintained following support generated by the Le Pan report.

IMET training consists of two parts:

I - the \$1,000 allocation for general training for regular member police officers

These funds are allocated directly to each of the divisions where IMET has a permanent team in place and is an agreed upon amount for the reimbursement of division costs for such training as firearms qualifications, first aid, etc.

II - an allocation of \$5,000 for Subject Matter Expert (SME) training for authorized Full-Time Equivalent (FTE) regular members

This funding is managed by IMEB in Ottawa and covers the following four types of training:

Canadian Police College (CPC) courses

Courses at the CPC assist in the development of law enforcement personnel as they carry out their duties. Courses can include enhanced file management methods, computer and intelligence analysis and managerial development.

Individual Learning Plan

All IMET employees are required to complete a personal annual learning plan in consultation with their manager. This enables the employee to participate in a development program designed to meet their goals while meeting the overall needs of the IMET program. Completed courses include the Certified Fraud Examiners course, the Canadian Securities Course and the Income Trust course.

RCMP Internal Training

RCMP employees are required to continually maintain and upgrade their skills as internal programs are introduced, developed, and enhanced. Examples of this include Alternative Dispute Resolution, Operational Intelligence course and Human Source Management course.

Conferences and Workshops

On a regular basis, IMET employees participate in various financial and capital market conferences and workshops. In the 2007/08 fiscal year, IMET was invited to speak at numerous conferences worldwide. These presentations included the Cambridge International Symposium on Economic Crime, an international conference on current and upcoming economic crime trends. IMET staff also attended conferences and workshops in order to enhance investigative skills by learning not only the latest trends, but the most recent case law and methods of investigating white collar crime.

For the fiscal year 2007/08, actual expenditures for Subject Matter Expert training totaled \$209,010.



Financial Position

FINANCIAL POSITION

The IMET program budget for the 2007/2008 fiscal year totals \$18.9 million, encompassing Public Safety and Anti-Terrorism (PSAT) funds for the Securities Intelligence Units (SIUs) and Organized Crime initiative funding for the Market Integrity by Computer Analysis (MICA) system.

Contingency funds in the amount of \$3,750,000 were available to the IMET program for the 2007/2008 fiscal year. The program has risk-managed exceptional operational expenses, such as forensic accountant services and operational travel, with the intent of submitting a single application to the Fund. The program incurred Contingency Fund expenses in the amount of \$705,483 but did not seek access to the Contingency Fund as the program absorbed the deficit from within the program's own surplus.

PSAT funds in the amount of \$1,042,800 were originally allocated to the IMET Program for fiscal year 2007/2008 for the SIU initiative. This initiative has similar accountability requirements and unexpended funds in the amount of \$148,000 were returned to the PSAT Program at year end.

The financial statements for the IMET program indicate a surplus of \$600,107. However, it should be noted that this figure encompasses \$705,483 in Contingency Fund related expenses and a PSAT surplus of \$307,655. Had the IMET program actually charged the Contingency Fund related expenses to the Contingency Fund, the program would have incurred a surplus of \$1,305,590 less the PSAT funds, leaving an overall IMET program free balance of \$997,935.

FINANCIAL POSITION

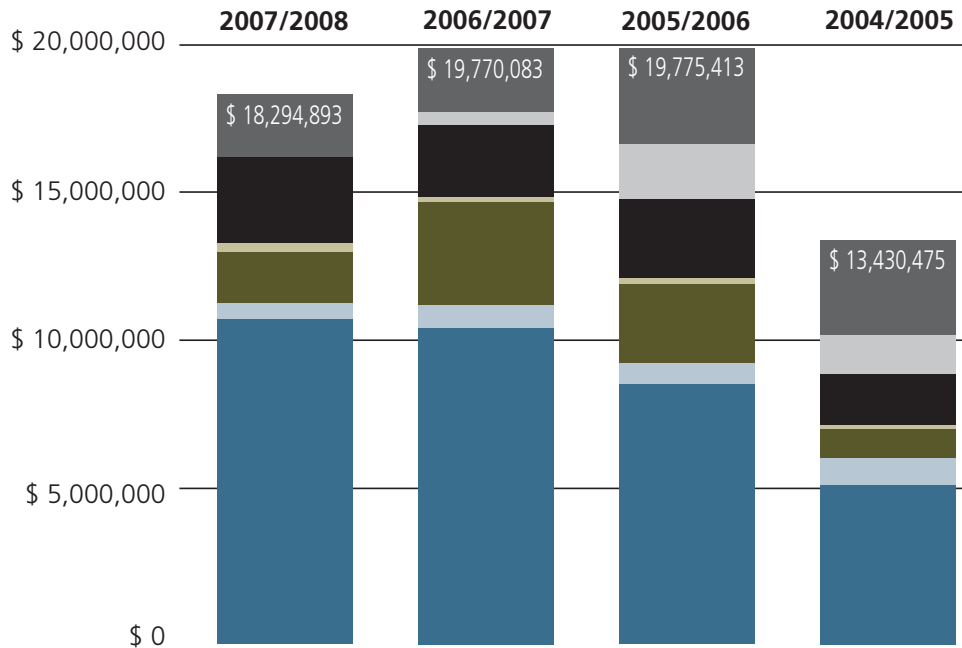
Year Ending March 31, 2008

| | FISCAL 2008 | FISCAL 2007 | FISCAL 2006 | FISCAL 2005 |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
| SALARY | | | | |
| SALARY | 8,750,212 | \$ 8,157,206 | \$ 6,722,975 | \$ 3,920,862 |
| OVERTIME | 444,210 | 380,469 | 518,908 | 328,006 |
| EMPLOYEE BENEFIT | 1,610,848 | 1,991,547 | 4,439,813 | 1,039,169 |
| TOTAL | \$ 10,816,270 | \$ 10,529,222 | \$ 8,681,696 | \$ 5,288,037 |
| OPERATING AND MAINTENANCE | | | | |
| TRAVEL AND RELOCATION | \$ 469,694 | \$ 761,271 | \$ 692,305 | \$ 886,753 |
| CONSULTING & FORENSIC SERVICES | 1,785,911 | 3,400,351 | 2,579,688 | 1,015,338 |
| TRAINING | 212,703 | 233,227 | 244,260 | 81,123 |
| OFFICE SPACE | 2,894,538 | 2,372,372 | 2,579,195 | 1,719,626 |
| SET-UP & REPAIRS | 69,641 | 381,305 | 1,806,400 | 1,280,263 |
| OTHER EXPENSES ⁵ | 2,046,136 | 2,092,335 | 2,191,869 | 3,159,335 |
| TOTAL | \$ 7,478,623 | \$ 9,240,861 | \$ 11,093,717 | \$ 8,142,438 |
| GRAND TOTAL | \$ 18,294,893 | \$ 19,770,083 | \$ 19,775,413 | \$ 13,430,475 |
| BUDGET | \$ 18,895,000 | \$ 19,586,286 | \$ 20,315,446 | \$ 13,188,000 |
| TOTAL FREE BALANCE AVAILABLE | \$ 600,107 | (\$ 183,797) | \$ 540,033 | (\$ 242,475) |

5. OTHER EXPENSES INCLUDE ITEMS SUCH AS SUPPORT SERVICES, VEHICLES, MATERIALS & SUPPLIES, AND COMPUTERS

FINANCIAL POSITION TOTAL ANNUAL EXPENSES

Year ending March 31, 2008



6. OTHER EXPENSES INCLUDE ITEMS SUCH AS SUPPORT SERVICES, VEHICLES, MATERIALS & SUPPLIES, AND COMPUTERS