



Organized crime in business

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Abstract

Purpose – To provide a viewpoint and a stronger awareness of the increased involvement of criminal activities in the capital markets through organized crime and the need for integrated policing.

Design/methodology/approach – The writer has over 25 years of experience with the Royal Canadian Mounted Police with over 15 of those years conducting white collar crime investigations and/or managing teams of investigators.

Findings – Canada is having good success in using the concepts of integrated policing in the implementation of our Integrated Market Enforcement Teams (IMETs) to detect, investigate and prevent capital markets crime.

Originality/value – This paper identifies the need for integrated policing in order to facilitate and foster close working relationships with key stakeholders in the various levels of regulatory enforcement and disciplinary agencies in order to target those who commit some of the larger organized financial crimes.

Keywords Crimes, Fraud, Canada

Paper type Viewpoint

The integrity of business, in particular the banking and financial services marketplace, depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is one of the most valuable assets of big business.

The world of corporate governance and underlying stock trading has undergone significant change. The criminal element involved in the markets has adapted very well. They can very effectively orchestrate billion dollar frauds that span the globe from financial cyber-havens. In 2002, we witnessed the collapse of a few large corporate entities in the USA with devastating affects on mutual funds and the retirement savings of citizens spanning the globe. Canada was not immune to these “financial disasters”. Shortly after the Enron collapse, there were media reports that organized crime groups were using Canadian markets to launder their ill-gotten proceeds. All of this was, of course, harmful to Canada’s reputation as a safe place to invest and do business. The subsequent conclusion as suggested by a leading Canadian financial paper just this past Friday, was that the workings of business cannot be left to business alone, least of all to the crooked executives who run corporations (Corcoran, 2005).

The Canadian Government has taken steps to discourage business from getting involved in organized crime and these actions may be of interest to law enforcement strategists from across the globe.

Let me begin by saying that the Royal Canadian Mounted Police (RCMP) uses the following definition with which to prioritize organized financial crime investigations. Organized crime is defined as any group of five or more persons participating in structured ongoing criminal activities that are financially motivated, often through various forms of intimidation and corruption. Now, I ask that you consider the types



of business people that get involved in organized crime and, to what degree. For exemplary purposes, I will classify all of the potential business partners to organized crime as falling within three general categories.

Firstly, there are full partners – those businesses that get – directly involved with organized crime – they have their eyes open, know and appreciate the risks, and are not concerned with breaking the law. The rewards are significant and they do not face any genuine threat of criminal investigation, prosecution or incarceration. Essentially these businesses are, for all intents and purposes, organized crime.

Secondly, there are silent partners – those businesses that are indirectly involved with organized crime. They keep on the peripheral and do not really want to know who they are “in bed” with. It is of paramount importance to these types of business people that they can claim innocence and will deny that they had any knowledge of illegal activity. They try very hard to keep their eyes closed and strive to mitigate the risk to reputation and of any possible criminal prosecution, by maintaining a position of being able to claim they do not have any direct knowledge of any illegal activity. They will often think of themselves as very moralistic and ethical business people.

Finally, there are those business people who make a genuine effort to maintain a high level of corporate ethics and strive to stay very clear of organized crime. Should they identify corrupt or illegal business practises, they will immediately remove themselves and may take steps to report such activity to the appropriate investigative authority.

A key point that I would like to make is that it does not go without saying that the economic impact of business doing business, in any of the first two categories, is significant. There are strong economic arguments to encourage all levels of government to protect the integrity of their corporate culture. Those countries that allow business to become close partners with organized crime not only suffer a reputation problem that is harmful to foreign investment, but also suffer from a deprived state of economic allocative efficiency. Suffice it to say, that organized crime in business or economic crime is a serious problem for all countries, including Canada. While its impact is subjective and difficult to measure, the magnitude of economic crime in Canada has been valued at anywhere from \$3.1 to \$5.0 billion. We know that our economy depends on the integrity of our underlying business activity and, therefore, we can appreciate that we require strong and effective control over economic crime.

All of this said, even the strongest economies have some citizens willing to do business in the first two categories – i.e. are quite willing to take the risk to partner with organized crime – either directly or indirectly. Quite simply, the risk is too little and the reward is too great. Therein lays the problem. Organized crime will continue to seek out the aiders, abettors or facilitators, and exploit every opportunity to corrupt unless there is a genuine threat to all levels of participation. It is the silent partners that all too often go unpunished.

So what is the solution to this issue? I would like to tell you of the approach we use in Canada that we refer to as “integrated policing”. The “integrated policing” philosophy involves all levels of law enforcement working cohesively with each other, exchanging strategic and criminal intelligence, sharing tactical and operational knowledge, planning joint and individual actions and communicating effectively.

On 12 June 2003, the Honourable Wayne Easter, Solicitor General of Canada, announced the creation of the Integrated Market Enforcement Teams (IMETs) to be

located in Toronto, Vancouver, Montreal and Calgary. The teams are composed of investigators, investigative assistants, major case managers, analysts, counsel and forensic accountants, drawn from the RCMP and its partners – Department of Justice legal advisors, securities regulators, representatives of the Canada Revenue Agency and law enforcement agencies of local jurisdiction. These highly skilled teams were designed to enhance the ongoing efforts of other RCMP units, to detect and prevent corporate and market crime. The defining feature of the IMETs is their adherence to an integrated approach to investigations.

An IMET is a group of highly specialized investigators and support staff dedicated to ensure that those who commit serious capital markets fraud offences will be detected, charged and prosecuted in an effective and timely fashion.

As the Director of the IMET Program, I wish to tell you that one of my personal goals is to ensure that we use the integrated nature of the IMETs to target the first two types of business groups and maintain a significant level of deterrence in their consideration of “partnering” with organized crime. The mission statement of the IMETs is to “strive to deter perpetrators of criminal securities fraud by ensuring that there is a genuine risk of being discovered, prosecuted, and incarcerated . . .” What I am saying to you today is that our mission extends far beyond the perpetrators themselves but is intended to also include the business facilitators of such crime.

The key to targeting the facilitators of organized financial crime is in the integrated nature of the teams. While the RCMP component of the IMETs may not necessarily lay criminal charges against some of the aiders/abettors or facilitators, some of our seconded partners may definitely have an interest in pursuing regulatory and code of conduct investigations with their home agencies. In other words, it is not so much about the types of crimes that we target as it is about what we do not do. For example, having investigators from our national revenue service (Canada Revenue Agency or “CRA”) formally seconded to the IMET teams ensures that the tax department will follow up on any incidents of tax evasion/avoidance by facilitators that may be identified. Other examples range from secondments from the provincial securities commissions or the Canadian Investment Dealers Association. The spirit of integration also ensures that our investigators and managers are continually cognizant of the interests of such groups and the various law societies that might be interested in the behaviour of their members.

Finally, I also wish to present the argument that law enforcement must make every effort to protect our large corporations, and be careful not to destroy them. Similar to how we only charge the driver of a vehicle when we encounter someone driving under the influence of alcohol, or impaired driving as we refer to it in Canada, we should weed out the drivers of large-scale corporate frauds and never charge the corporation itself. To do so, in my opinion is as ridiculous as charging the actual vehicle in an impaired driving case. The goal of our IMETs is to protect corporate Canada from harm, not to destroy the corporations. Consider a large corporation with thousands of employees – whatever the criminal conspiracy involved, it will undoubtedly be limited to a few drivers and these perpetrators should be investigated and prosecuted vigorously while protecting the economic value of the underlying corporation.

Conclusion

It is the spirit of integrated policing that can be used to ensure that there is indeed a genuine risk to would be facilitators of organized crime. Police from around the world

all know that we have to work together to combat international organized crime. What I am stressing today is that we similarly have to work closely with key stakeholders in the various levels of regulatory enforcement and disciplinary agencies in order to ensure that we target all of those who work together to commit some of the larger organized financial crimes. Business must be made to stay out of organized crime. The reward is too great for us to rely on their corporate moral and ethical responsibility – we must use integrated policing to ensure everyone involved is discovered, investigated and punished appropriately.

Reference

Corcoran, T. (2005), “A perfect case of government failure”, *National Post*, Friday, 2 September, p. 15.

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