Misinformation and Security Markets

Prosecution for trading violations caused by the exploitation of misinformation[1] is a problem of great concern to most Canadian regulatory authorities.[2] Law enforcement agencies have estimated that approximately twenty to thirty percent of the mines and local junior industrial stocks listed on the Vancouver Stock Exchange are manipulated.[3] The problem, especially for instances of stock price manipulation, arises from the difficulties encountered in both operationally defining[4] and in prosecuting such violations.[5] In addition, while the effect of information on the security market has been well documented in the important works of Demsetz, Fama and Laffer, Friend, Hirshleifer, Manne and Marshall,[6] the effect of misinformation on stock prices has not been extensively researched.

Given these difficulties, the primary objectives of this paper are to discuss the types of manipulative techniques employed, and then to inquire into the non-controllable constraints encountered by manipulators (with specific emphasis on regulatory and legal actions). However, it is first necessary to formulate a definition of stock price manipulation.

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[1] Misinformation is defined here as any information that is untrue, false, misleading, deceitful or fraudulent.

[2] "Squad goes after high class crime", *The Montreal Star*, April 13, 1974, A-1 and A-8.

[3] Coordinated Law Enforcement Unit, *Initial Report on Organized Crime in B.C.*, Dept. of A.G. of B.C., Oct., 1974, 26.

[4] "At what point is 'maintaining an orderly market' a 'manipulation'?", *The Financial Post*, July 29, 1972, 24.

[5] "Behind the stock scandals: weird web of odd deals", *The Financial Post*, Feb. 19, 1972, 1, 5, 8, and 9.

[6] Demsetz, *Information and Efficiency: Another Viewpoint* (1969) 12 J. of L. and Econ. 1; and "Perfect Competition, Regulation, and the Stock Market" in Manne (ed.), *Economic Policy and the Regulation of Corporate Securities* (1969), 1; Fama and Laffer, *Information and Capital Markets* (1971) 44 J. of Bus. of U. of Chi. 289; Friend, "Discussion and Comments on Papers by Professor Demsetz and Professor Benston: Discussion and Questions from the floor", in Manne, *ibid.*, 115; Hirshleifer, *The Private and Social Value of Information and the Reward to Inventive Activity* (1971) 61 Amer.Econ.Rev. 561; Manne, *Insider Trading and the Stock Market* (1966); and Marshall, *Private Incentives and Public Information* (1971), unpublished manuscript, Vanderbilt University.

In an economic sense, manipulation of a stock's price entails the intended dissemination of misinformation by a disseminator(s) in order to create abnormal profits for the disseminator(s) or abnormal losses for others. In this definition, an abnormal profit is one which is in excess of the competitive rate of return. However, it should be noted that the earning of abnormal profits by individuals does not by itself imply that manipulation has taken place, for abnormal profits can be earned in an uninfluenced security market by individuals exploiting superior trading acumen.

Manipulative techniques[7]

The dissemination of misinformation by a manipulator is intended to change investor expectations about the manipulated security in a desired direction. Since supply can be taken to be fixed in the short run, these changed expectations will be reflected in a shift in demand (and, in turn, price) for the manipulated security.

Some effective manipulative techniques include: market trading techniques such as "wash sales" and "matched orders" that are designed to deceive tape watchers; the employment of a network of misinformation disseminators whose task is to induce investors to buy securities; and manipulation of the generation and release of information on company activity.

"Wash sales" and "matched orders"[8]

In the standard "wash sale" the manipulator arranges for an associate to "purchase" a given number of board lots at increasing prices above the present market price. By agreement, no change of ownership takes place. Therefore, the buyer incurs no financial obligation to the seller and the transaction is purely fictitious.

"Matched orders" take place when a manipulator enters an ordcr with a broker for the purchase (or sale) of a security, knowing that an order of substantially the same size, time and price for the sale (or purchase) of the security has been or will be entered with another broker by or for the same or different persons. Each broker, not knowing that the other broker has an offsetting order from the same principal, executes his order upon the floor of the exchange.

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[7] Fraudulent manipulation in the stock market has been described as involving "payment of secret commissions to create a demand for a security; pre-arranged sales so the promoter can receive the benefits, and trades between parties involved in the conspiracy to create an illusion of active public trading". See. "R.C.M.P. tracks swindles", *The Montreal Star,* Nov. 26, 1974, B-2.

[8] For an early discussion of these concepts, see Dice, *The Stock Market* (1926), 421-22.

According to Friend and Herman, "[T]here are both theoretical and empirical grounds for believing that the demand schedule of investors in the stock market is greatly influenced by price movements".[9] If their statement is true, manipulators can earn abnormal profits by artificially generating increased trading activity and price movement. For example, if manipulators trade a security using "wash sales" or "matched orders" during a period when its price has risen moderately as a result of the dissemination of misinformation,[9a] the added trading activity and increase in price may entice other investors to buy the stock at artificially higher prices. This, in turn, may force the price of the security much higher than it would otherwise have gone. As long as the manipulators dispose of their holdings before the price declines, their activity will be profitable.

Thus, manipulative activity can influence the "equilibrium" prices of individual securities. For example, on July 10, 1964, a certain Viola MacMillan asked her broker to effect a sale through an exchange of 244,000 shares of Consolidated Golden Arrow at 25 cents a share. As the shares were to be bought for certain accounts directed by her, the broker advised her that a $3,660 commission could be avoided by concluding the transaction off the exchange. Despite these potential cost savings, the broker was instructed to proceed, and did so by effecting a series of large "put through" transactions. When these transactions appeared on the ticker, they represented an extraordinary increase in the daily trading volume, and the market price increased rapidly. Later that day, Viola MacMillan ordered sales from her accounts at 65 cents per share.[10]

Although prohibited by section 340 of the *Criminal Code*,[11] it is doubtful if legislation can curtail the use of "wash sales" or

[9] Friend and Herman, *The SEC Through a Glass Darkly* (1964) 37 J. of Bus. of U. of Chi. 382.

[9a] To be discussed in the following section, *infra*, p.126.

[10] See *Report of the Royal Commission to Investigate Trading in the Shares of Windfall Oils and Mines Limited* (1965), Prov.of Ont., 85-86 (Kelly J., commissioner).

[11] R.S.C. 1970, c.C-34. S.340 provides:

"Every one who, through the facility of a stock exchange, curb market or other market, with intent to create a false or misleading appearance of active public trading in a security or with intent to create a false or misleading appearance with respect to the market price of a security,

(a) effects a transaction in the security that involves no change in the beneficial ownership thereof,

(b) enters an order for the purchase of the security, knowing that an order of substantially the same size at substantially the same time "matched orders". Not only do brokers and regulators find it extremely difficult to distinguish between such orders and legitimate buy or sell orders but successful criminal prosecution requires the Crown to prove beyond a reasonable doubt that corresponding purchase and sale orders were entered with intent to create a false or misleading appearance of active public trading.[12] Thus, proof of a clear and prolonged matching of specific orders in amount, time and price is essential. It is evident that such a strict interpretation covers few instances of actual stock price manipulation and will therefore result in few convictions under section 340.

Misinformation disseminators

Misinformation disseminators used by manipulators include "distributors", "touts", and some members of the printed media.

Distributors are account executives (registered representatives) who are remunerated by the manipulator to "favourably bias" the expectations of potential clients so that these clients will buy shares of the manipulated security. Distributors are remunerated secretly by the manipulator whenever they initiate and conclude a purchase transaction for the manipulated security. Generally, this remuneration ("bribe"), which can be in the form of cash, free stock or a fixed-price option on stock, is paid to the distributor only if the stock is held by the distributor's clients for a specific period of time (such as six months). This minimum holding period requirement is designed to restrict the "true" number of potential future sellers of the manipulated stock.

Some distributors have been prosecuted. For example, in the *Somed Mines* case, the Crown alleged that between January 1 and

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and a substantially the same price for the purchase of the security has been or will be entered by or for the same or different persons, or

(c) enters an order for the sale of the security, knowing that an order of substantially the same size at substantially the same time and at substantially the same price for the purchase of the security has been or will be entered by or for the same or different persons, is guilty of an indictable offence and is liable to imprisonment for five years."

[12] *R.* v. *Jay* [1966] 1 C.C.C. 70, 71 (Ont.C.A.). Roach J., speaking for the Court, pointed out that "[i]n order to succeed the Crown would have to prove, with respect to each of those purchase orders, that a substantially corresponding sale order had been entered by the accused at substantially the same time so that when the purchase and sale of the quantity specified would be completed they would offset one another with no profit to the accused", *ibid.*

September 30, 1974, nine persons conspired to pay secret commissions to account executives (distributors) in order to promote sales of Somed shares. The group was also accused of conspiring to raise the market price of Somed shares through pre-arranged sales to create an illusion of market strength and of buying and selling Somed shares through controlled accounts in order to present the appearance of active public trading.[13]

Touts are individuals who induce people to buy but cannot process transactions because they are unlicensed.[14] Generally, at the outset, the tout is given a secret option on a certain quantity of stock which is exercisable at a price that is less than the current market price. The tout's gross remuneration for services rendered is the difference between the market and call prices at the time he sells his call stock. Touts generally are not paid in cash because the manipulator finds it difficult to accurately identify the amount of buying which they generate.

In the *Buffalo Gas and Oil* trial, a Crown witness indicated that he was involved in a plan to increase a security's market price from $2 to approximately $5 a share by creating a market. The witness claimed that he and an associate were to receive a fixed fee of $2000 plus a 20 percent commission on any business they initiated. An integral part of the plan involved the promotion of the stock through bribes to stock salesmen. He stated that in one week the price of the stock increased from $2 to $3.30 a share due to the efficacy of the scheme.[15]

Some members of the print media participate in dispersing misinformation for manipulators. For example, by means of "tip-sheets" the manipulator can gain wider circulation and credence for the misinformation that he wants dispersed to the public.

In 1974, a former executive editor for *Value Line,* an investment advisory service, was indicted in connection with receiving a $15,000 bribe from two former securities dealers for touting a stock. The accused allegedly accepted the bribe to write a bullish article on Power Conversion Inc., then a high-flying over-the-counter issue. The article was published in *Value Line Selection and Opinion* in

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[13] "Kott charged again", *The Montreal Star,* Oct.17, 1974, D-10.

[14] Individuals who tout stock without being remunerated are referred to as "pooches". For a more extensive discussion of "pooches", see Schaffer, *The Stock Promotion Business: The Inside Story of Canadian Mining Deals and the People Behind Them* (1967).

[15] "Former 'con man' insists telling truth", *The Gazette,* Montreal, Nov.12, 1974, 25. See, also, "Kirsch is guilty on Buffalo count", *The Montreal Star,* Nov. 26, 1974, B-5.

1972. Power Conversion stock, issued at $5 a share in March 1972, had reached $38 by the date of publication and its market price quickly rose to $45.25 before plummeting to $5 in two days of frantic selling.[16]

Notwithstanding the prohibition under section 358 of the *Criminal Code*,[17] it is extremely difficult to prosecute a paid misinformation disseminator. Successful prosecution depends to a large extent upon the testimony of one or more of the participants in the dissemination process, or upon wire tap evidence. The regulatory task becomes even more difficult when the dissemination of misinformation occurs outside of Canada. The regulation of touters and tipsheets in Europe has proven to be extremely difficult.[18]

Control of information

The manipulator who can control the generation and dissemination of the nature and quality of news concerning company activity will use such information as a focal point for manipulative endeavours.

For example, in the case of mining companies, the manipulator often resorts to one or more of the following five company activities.

The first company activity is a "location" play which occurs when the firm obtains a mining or oil prospect that is in close proximity to a major discovery. The prospect is interesting because the ore body on the discovery may extend onto the company's holding.

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[16] "Former Editor for Value Line Is Charged With Concealing Bribe to Tout Stock", *Wall Street Journal*, Oct. 25, 1974, 10.

[17] R.S.C. 1970, c.C-34. S.358(1) provides:

"(1) Every one who makes, circulates or publishes a prospectus, statement or account, whether written or oral, that he knows is false in a material particular, with intent
(a) to induce persons, whether ascertained or not, to become shareholders or partners in a company,
(b) to deceive or defraud the members, shareholders or creditors, whether ascertained or not, of a company,
(c) to induce any person to entrust or advance anything to a company, or
(d) to enter into any security for the benefit of a company,
is guilty of an indictable offence and is liable to imprisonment for ten years."

[18] For a list of stocks that were promoted in Germany during 1972, see "Some Canadian Stocks promoted in Germany", *The Financial Post*, July 29, 1972, 9. See also, "Europeans are stung by another Canadian stock promotion", *The Financial Post*, June 8, 1974, E-1 and E-9; and "Controlling tipsheet publishers is difficult", *The Financial Post*, July 29, 1972, 9.

The second company activity involves the entering of a "hot" area, that is, an area with high exploratory activity.[19]

The third activity is the commencement of drilling. When drilling begins on the property, investor interest heightens because the investor's uncertainty about the prospect will soon be resolved. While a negative drill result does not rule out the possibility of a favourable outcome, a drill core exhibiting high percentages of metal over a substantial length is sufficient to generate frenzied buying at rising prices.

The fourth activity is the location of drilling within a property which has better *a priori* prospects, thus resulting in the inflation of investor expectations. As well, altering the timing of the public release of core results can affect investor expectations.

The fifth company activity involves "salting", that is, adding (or removing) anything from an existing mine, mining claim or oil well with a fraudulent intent to affect the result of an assay, test or valuation.

If any of the first four company activities are used as focal points for false, deceitful, or fraudulent statements, section 358 of the *Criminal Code* is infringed. The fifth company activity is a violation of section 354 of the *Criminal Code*.[19a]

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[19] A measure of activity in a new area is the number of claims recorded. A measure of activity in a well-staked area is the number of exploration dollars to be spent during the year.

[19a] R.S.C. 1970, c.C-34. S.354 provides:

"(1) Every one who

(a) adds anything to or removes anything from an existing or prospective mine, mining claim or oil well with a fraudulent intent to affect the result of an assay, test or valuation that has been made or is to be made with respect to the mine, mining claim or oil well, or

(b) adds anything to, removes anything from or tampers with a sample or material that has been taken or is being or is about to be taken from an existing or prospective mine, mining claim or oil well for the purpose of being assayed, tested or otherwise valued, with a fraudulent intent to affect the result of the assay, test or valuation,

is guilty of an indictable offence and is liable to imprisonment for ten years.

(2) For the purposes of proceedings under subsection (1), evidence that

(a) something has been added to or removed from anything to which subsection (1) applies, or

(b) anything to which subsection (1) applies has been tampered with,

is, in the absence of any evidence to the contrary, proof of a fraudulent intent to affect the result of an assay, test or valuation."

In the *Windfall* affair[19b] manipulative activity centred on two company activities. Specifically, the manipulation of Windfall shares from the 40 to 50 cent range in April of 1964 to a high of $4.75 in July depended upon the purchase of mining claims near those on which Texas Gulf had found significant mineralization, and market deception, that is, letting the market believe that the results of drill core assays were favourable. The public release of unfavourable results late in July brought about an immediate decline in price to the 80 cent level.[20]

For industrial and commercial companies, the manipulator uses periodic corporate releases, for example, earnings reports, as a focal point for manipulative effort. If the manipulator can induce an officer of a company to "leak" inflated (or deflated) earnings estimates to the public when earnings are increasing (or decreasing), the price of the stock should respond accordingly. By this technique the manipulator may create fluctuations of sufficient magnitude to generate abnormal profits.

Non-controllable operational constraints

The distortion in valuation, or "manipulation bubble", caused by manipulative activities generally continues for anywhere from three or four weeks to twelve months.[21] At some point in time, one or more of the non-controllable operational constraints will restrict, or even eliminate, the market effects of the manipulator's activities. The "manipulation bubble" will then begin to deflate. The rate of deflation will depend upon both the strength of the following five non-controllable operational constraints, and on whether deflation is consistent with the manipulator's self-interest.

Limited financial resources

Most manipulations must be financed at their initiation and during their gestation period. Consequently, as the manipulation develops, the manipulator must expend funds at an increasing rate so as to conclude "wash sales" and "matched orders", to remunerate misinformation disseminators and to provide market support for the manipulated stock during periods when investor support is lacking or when investors or shorting groups short the incorrectly priced manipulated stock.

[19b] *Supra*, note 10.

[20] *Ibid.*

[21] This conclusion is derived from observation and various private discussions with a number of regulators.

In addition to the personal capital which the manipulator is both willing and able to risk, most manipulators raise additional working capital in the following manner: a vendor will sell a property (or process) to a company for as much money and "free" stock as allowed by a provincial securities commission or exchange.[22] The vendor is then required by prior agreement to "kick back" a sizeable portion of the money and "free" stock to the manipulator.

In general, other sources of funds such as "margin"[22a] are not available to a manipulator since a stock trading at a market price less than one dollar cannot by law be margined. Therefore, the total amount of capital available to most manipulators for perpetuating a manipulation is constrained to a small fixed sum (perhaps in the twenty to one hundred thousand dollar range).

Short sales and professional shorting groups

If either the market support for the manipulated stock begins to appear weak or the manipulated stock becomes grossly overvalued, investors will short sell the stock (that is, they will sell borrowed shares now with the expectation of covering the short position later at a lower market price). Since short sales have a depressing effect upon both market overvaluation and the activities of misinformation disseminators if there is no concurrent increase in market demand, the manipulator must offset the unfavourable price effects of the short sales by either buying for his own account or by generating sufficient additional public demand.

If the short sales are being made by a professional shorting group, then the group may continue to short the stock and generate additional public supply (either short or long sales) and the manipulator may continue to buy for his own account and generate additional public demand until one of the opponents depletes its allocated financial resources.

"Back dooring" or "leaking"

Distributors are remunerated for distributing stock to investors who will hold the stock for a specified period of time. Sometimes, however, distributors will circumvent the distribution process by using a practice called "back dooring" or "leaking". Here, the

[22] The stock is "free" in the sense that no restrictions are imposed on the transferability of the stock.

[22a] Buying on margin involves borrowing part (typically 50 per cent) of the purchase price (usually from a brokerage house). By partly financing the purchase with borrowed money, the purchaser can purchase an increased number of securities with a given investment of his own. Lusztig and Schwab, *Managerial Finance in a Canadian Setting* (1977), 223.

distributor will buy shares for a nominee account, resell the shares in the manipulator-supported market through the same or a different nominee account, inform the manipulator that the shares have been distributed and then collect the distributor's fee. The practice undermines the manipulator's operation because it depletes his capital resources without adequately "placing" any shares.

To detect "leaking", a manipulator will maintain a detailed list of the certificate numbers of all certificates held by investors of the manipulated stock. By checking the certificate number of each sell transaction against his list, the manipulator can easily determine if the transaction is of the "leaking" variety.[23]

Regulatory action

The primary regulatory actions are moral suasion, discriminate (or selective) interruptions of the regular trading privileges of designated individuals or brokerage firms, indiscriminate (or general) interruptions of all regular floor trading, and fines levied against individuals or brokerage houses. Regulatory action can cause the prices of allegedly manipulated stocks to deflate through publication of such information during a trading suspension.[24]

The discriminate interruption of the regular floor trading privilege of a broker can be highly effective in deflating alleged manipulation. For example, on January 8, 1973, Astra Securities Corp. Ltd had its broker-dealer registration suspended. The removal of the professional bid behind such stocks as Kallio Iron Mines, Flint Rock Mines and North Rock Mines, and the resultant drop in market prices revealed to the German shareholders how little was the public support behind these companies.

The Kallio stock closed on Friday at $2.05 bid and $2.15 asked. On Monday (the day of the suspension) and for most of the week there was no bid or offer (some stock was offered at 80 cents on Tuesday). Flint Rock also fared badly. The stock closed Friday at $1.10 to $1.15 and on Monday at the close it was quoted at no bid, 80 cents asked. At week's end it was selling at 30 cents. North Rock was selling at $1.15 on Friday and on Monday fell to 90 cents. By Thursday it was selling at 65 cents.[25]

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[23] Most manipulators (like many market-makers) can correctly identify over 95 percent of the participants.

[24] Kryzanowski, *Some Tests of the Efficacy of Security Regulation in Canadian Capital Markets*, unpublished Ph.D. dissertation, University of British Columbia, 1976, 133.

[25] "Sudden disaster for four stocks", *The Gazette* (Montreal), Jan. 13, 1973, 21.

A number of detection mechanisms are available to and are used by the regulatory bodies. These include surveillance over the activities of firms in the brokerage industry by the use of stringent reporting procedures, direct supervision of house accounts and firm accountability for the actions of both their members and clients; and surveillance of the market behaviour of securities by the use of informers and simple mechanical methods, referred to as "stock-watch" programs, in order to flag situations that require more intensive investigation and possible punitive action.[26]

The tremendous number of market participants and individual transactions makes the detection of a conspiracy to manipulate the price of a stock an extremely difficult task.[27] The regulatory task is further complicated because the market effects of manipulative activity may be camouflaged by the market effects of other market actions that are not legally classified as being manipulative.

One such activity is the earning of abnormal profits by individuals through market actions taken merely to stabilize the market price of shares. For example, during and after a share distribution, an underwriter may transact for his own account in order to ensure the success of the new issue distribution and the liquidity of the post-issue market. The courts have ruled that an offence has not been committed under section 340 if the purpose of such transactions was merely to stabilize the market price.[28]

Legal action

The investigation of alleged manipulation is undertaken by the commercial crime section of the R.C.M.P. and the fraud squads of the municipal police departments. Generally, since security regulation is under provincial jurisdiction, such an investigation is initiated by a provincial attorney-general. This does not, however, restrict the R.C.M.P. or the municipal police from independently initiating an investigation if they have reasonable cause for believing a crime has been committed.

To date, both the number of attempted and successful prosecutions has been small. Six reasons for this situation are suggested.

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[26] "Stock Watch, Protecting Investor and Broker", *Toronto Stock Exchange Review*, Sept., 1970, 6.

[27] The author is presently conducting a preliminary study on the effectiveness of detection techniques.

[28] *Supra*, note 12, 72.

First, the investigating units seem to lack the necessary manpower, resources and sophistication to conduct such investigations. As of August 1977, the R.C.M.P. commercial crime section consisted of only 492 officers to police all areas of corporate and bureaucratic fraud and corruption such as stock market manipulation, stolen securities, counterfeit securities and money, loan sharking, and bankruptcy fraud. Furthermore, the complexity of such financial investigations generally requires the expenditure of many man-days per case. For example, eighteen months were expended by two R.C.M.P. officers and various personnel from a Provincial Securities Commission for the prosecution of a single case.[29]

Second, there appears to be a shortage of judges and prosecuting attorneys that both comprehend and have experience in dealing with cases of stock price manipulation.

Third, opposing viewpoints exist among members of the judiciary and the public on the desired relation between law and stock price manipulation. At one extreme are those individuals who believe that the victims of a manipulation are both sophisticated and avaricious and therefore should receive little or no protection from the courts. Others assert that the victims of a manipulation are naive but not avaricious and therefore should receive the full protection of the courts.

Fourth, the procedure for obtaining a criminal prosecution is often extremely protracted and costly. For example, the two major Crown witnesses in *Buffalo Gas and Oil*,[30] along with their families, were kept under separate R.C.M.P. protective custody at public expense for almost three years. A conservative estimate of the cost incurred by the public for this protective custody is one million dollars.[31]

Fifth, jurisdictional disputes hamper both the investigation and prosecution of manipulations perpetrated from foreign jurisdictions. In particular, the Crown has legal jurisdiction to prosecute only if the manipulation or the conspiracy to manipulate was perpetrated in Canada. Also, few foreign financial institutions are willing to testify in Canada on matters relating to manipulative activities. The lack of such testimony can prevent determination of the con-

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[29] "White-collar crime pays too well", *The Montreal Star*, Sept. 20, 1975, H-1.

[30] *Supra*, note 15.

[31] It should also be noted that a protracted prosecution period tends to decrease the probability of successful prosecution since elapsed time and the accurate recollection of specific events in detail by witnesses seems to be inversely related.

tinuity of related events which is generally necessary to obtain a conviction.

Sixth, the relevant sections of the *Criminal Code* have remained constant and unaltered. In the last decade we have seen neither the introduction of new provisions nor the modification of old sections. For example, no clear differentiation exists in the Code between market stabilization actions and instances of actual stock price manipulation.

Conclusion

The numerous regulatory actions available to control manipulation, when employed, have generally been effective in deflating instances of stock price manipulation. Unfortunately, the extent and duration of manipulations identified in this paper would seem to indicate that the detection mechanisms utilized by the regulatory bodies are clearly inadequate. Such agencies should therefore strive to devise, verify and then employ more efficient market surveillance techniques.

The basic legal weapon used by law enforcement agencies is prosecution under the *Criminal Code*. However, it seems that legal action has not been effective. Changes that could be made in order to broaden the role of the legal process include: provision of increased manpower and resources, and greater sophistication of investigating units; education of judges, prosecuting attorneys and the public as to the nature and severity of the offences; encouragement of greater co-operation between Canadian law enforcement agencies and those in foreign jurisdictions; and modernization of the relevant sections of the *Criminal Code*.

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