

James R. MacDonald
4901 Vandorf Road
Stouffville, Ontario, L4A 7X5
Cell: (416) 274-4051
Fax: (416) 987-5966
jamesmacdonald@rogers.com

Wednesday August 29, 2007

Sent by Fax to 613-993-0260

William J.S. Elliott
Commissioner
Royal Canadian Mounted Police
Headquarters Bldg.
1200 Vanier Parkway
Ottawa, Ont. K1A 0R2

Re: Integrity of the Financial Markets in Canada

NOTE: This letter is to be shown ONLY to members of the RCMP and not to the industry association partners of IMET

I am writing to bring to your specific attention the letter I wrote to Sergeant Mandville, IMET, RCMP on 23jul07. A copy of this letter was sent to you by courier. I have received no response and because of the significance of the issues raised, I am asking that you inform yourself personally and provide me with the answers to each of the questions in the letter.

-why has the RCMP effectively hidden the location of its Toronto office in a building where there is no signage and no ability for the public to gain open access to the IMET office?

- With respect to the sharing of information between the IMET partners such as the IDA, MFDA, MRS and the OSC, please certify that each and every person of these partnering organizations that receives any RCMP information has sworn the same oath as you have as an employee of the RCMP.

-Please also confirm that the RCMP has the authority to take its own decisions as to what to investigate and that it does not subordinate its decision making in this regard to what its "partners" may recommend or not.

-What steps do you have in place to ensure that confidential information that has been provided to you is not inadvertently shared with your "partners" who themselves could be part of the problem?

Markarian v. CIBC Decision of the Quebec Superior Court

I am also enclosing a letter that I sent to Paul Bourque, Senior Vice President of the IDA on 24aug07 concerning the Markarian v. CIBC decision of the Quebec Superior Court. As you are no doubt aware, you can obtain a copy of the decision on the following site:

Superior Court, Province of Quebec, District of Montreal
No. 500-05-069668-018
Date: June 14, 2006

<http://www.jugements.qc.ca/>

Or specifically,

<http://www.jugements.qc.ca/php/decision.php?liste=24287685&doc=405F044756421C04>

-Please confirm if the IDA ever brought to the attention of the RCMP the findings of fraud as determined by the Quebec Superior Court. If so, to whom, and on what date?

-Please advise if the RCMP was ever independently aware of the Quebec Superior Court decision and if so, what action, if any, was undertaken.

Having spent twenty years in key senior roles within the federal public service, I am very concerned about the integrity of the financial capital markets. I am available to elaborate as you and your colleagues see fit.

Sincerely,



James R. MacDonald
c.c. Lui Temelkowski, MP, Oak Ridges-Markham

Enclosures

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jamesmacdonald@rogers.com

Privileged and Confidential

Monday July 23, 2007

Sent by Fax to 1-416 790-3203

Sergeant Gary Mandville
Investigator
Integrated Market Enforcement Team
Royal Canadian Mounted Police
3389 Steeles Avenue East, 3rd Floor
Toronto, ON, M2H 3S8

Re: Violation of IDA Policy on Gatekeeper Obligations

NOTE: This letter is to be shown ONLY to members of the RCMP and not to the industry association partners of IMET

I would like to thank you for meeting with me on Friday July 6th at your office in Toronto to discuss my concerns about the lack of implementation by the financial industry controlled "regulators" of a policy and process to ensure the honesty and integrity of Canada's capital markets. While the Investment Dealers Association has in place a policy entitled "Gatekeeper Obligations" (reference enclosed), there are too many examples of the non application of this policy to provide employees within the industry with any sense of confidence as to the integrity of its application. It reads well but does not seem to be systematically applied and the potential for betrayal is clearly evident. The loyalty of the IDA is clearly to its members first and to the integrity of the system perhaps somewhere down the priority list.

What is worse is that when someone phones the IDA to report an alleged illegal activity within a member firm, there is a strongly held perception that the IDA will not investigate independently the matter but will simply report to the employee's member firm that the employee called to report a concern. As I mentioned to you, I have documented prima facie evidence of this practice. During this period, I was an employee of BMO Nesbitt Burns Inc. Initially I telephoned the OSC to report an alleged illegal activity but the OSC said that they were not responsible, that this responsibility was delegated to the IDA and that I should call them. I then phoned the IDA to report alleged illegal activities taking place by management at the firm. As I progressed through the personnel who answered the IDA phones, I was repeatedly asked if I was an employee of a member firm. When I

responded in the affirmative, I was asked why I was phoning the IDA and not speaking with either my firm's Compliance Department or my manager. When I persisted, I was finally transferred to an investigator within the IDA who was unfortunately in a meeting so I was transferred to his voicemail. I left a detailed voicemail stating it was confidential and described my concern about the alleged illegal activities, my employer's name and my office and cell telephone numbers. I asked that he call me back at his earliest opportunity.

Within three hours, I received an email on the subject but it was not an email from the IDA responding to my confidential call. No, it was an email from my boss stating: "We received a "heads-up" call from the IDA today..." To this day, I have received no communication from this IDA officer or any other IDA officer for that matter on this subject.

Shocked at this betrayal of the regulator, I immediately contacted a lawyer who was equally shocked at the IDA action. I followed his advice and downplayed the concern to my manager stating: "No complaint has been launched against me. It was a general question for the IDA to answer." I have shown or described this email to many police, lawyers, personnel within the industry and to other professionals. Without exception, their belief is that there is a serious problem. Fearful of reprisal and betrayal, there is an overwhelmingly strong disincentive to report illegal activities of management in the brokerage industry to the "regulator" that is complicit with the "management" of the same industry. There are no independent members on these industry associations and there certainly are absolutely no independent oversight committees.

I met with the senior members of the Enforcement Department of the IDA on 17Jan07 to discuss this matter and the overall process to ensure the implementation of their gatekeeper obligations policy. I was told there is no process or procedures other than the practice of reporting any employee calls back to the employee's firm. There is no "confidential hot line". When I made reference to parallels that police officers have made to me with regard to the calls police receive from battered housewives, the IDA officials could relate to the fact that the police would not just call the wife's husband to see what the problem was. Since Mr. Popovic could relate to this example cited by some of his former colleagues in policing, I will be interested to determine what he and other senior management of the "regulator" have done to correct their egregious practices.

I have attempted without success to meet with the CEO of the IDA to determine what progress, if any, has been made since my meeting to ensure that the "regulator" has in fact implemented one of its cornerstone policies. Such an implementation might help demonstrate that the industry "regulator" is in fact more than just an industry association bent on solely protecting its members.

With respect to IMET, I was surprised that it was so difficult to actually meet with you. I had been told that the Toronto office was on the third floor of 3389 Steeles Avenue East. However, when I arrived at the building, I took the elevator but it would not stop at the third floor. I tried another elevator with the same result. I then went to the lobby and

checked the directory listing all of the tenants of the building. IMET was not identified on the list. I then went to the reception security desk and was told that yes I was in the correct building but that there is no public access to the third floor nor is there any identification that IMET is in the building. It then took the security officer two phone calls and the passing of over ten minutes for you and a colleague to appear in the lobby to escort me to the third floor.

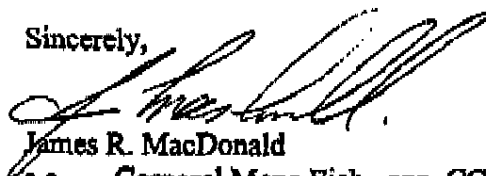
You will recall that I remarked that this seemed very strange for a public agency and I enjoyed your response: "Our location is not a secret, but we don't advertise it either." Why not? Should the public not know about your location? You then confirmed in the boardroom that there is no "intake" capacity in the Toronto office of IMET for members of the public to submit complaints. You were kind enough to arrange for me to contact Corporal Mona Eichmann of the Milton detachment of the RCMP which I did and to whom I am also copying on this letter along with my attachments.

I am also copying the new Commissioner of the RCMP as I am deeply concerned that the integrity of the RCMP could well be compromised through having been co-opted by this partnership that has been struck with the industry, specifically the industry associations that have been assigned the governmental duties and responsibilities as supposed impartial and independent regulators. Are you aware at just how vulnerable the RCMP has become to being influenced or steered in directions away from the problems and how the RCMP has not developed its own forensic capacity since it is relying on these industry sources for trusted and confidential and impartially provided information? Is that even reasonable to expect?

With respect to the sharing of information between the IMET partners such as the IDA, MFDA, MRS and the OSC, please certify that each and every person of these partnering organizations that receives any RCMP information has sworn the same oath as you have as an officer of the RCMP. Please also confirm that the RCMP has the authority to take its own decisions as to what to investigate and that it does not subordinate its decision making in this regard to what its "partners" may recommend or not. What steps do you have in place to ensure that confidential information that has been provided to you is not inadvertently leaked or "shared" with your "partners" who themselves, in whole or in part, could be part of the problem?

Having spent twenty years in key senior roles within the federal public service, I am very concerned about the integrity of the financial capital markets. I am available to elaborate as you and your colleagues see fit.

Sincerely,



James R. MacDonald

c.c. Corporal Mona Eichmann, CCS, Milton Detachment, RCMP
Commissioner William J. S. Elliott, RCMP

Enclosures

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Friday August 24, 2007

Mr. Paul Bourque
Senior Vice President Member Regulation
Investment Dealers Association of Canada
Suite 1600, 121 King Street West
Toronto, Ontario M5H 3T9

Mr. Bourque: Sent by Fax :(416) 364-4878

RE: IDA Action on Quebec Superior Court Decision re Markarian v. CIBC

The purpose of this letter is to address the issue of the action or inaction of the IDA with respect to one of the subjects discussed at our meeting on Thursday July 26, 2007. I will be writing to you separately about the other matters we discussed. This meeting with you was arranged when Joseph Oliver delegated this responsibility to you as he did not make himself available to meet me in response to my letter to him. Attending with you at this meeting was the IDA Vice President of Enforcement, Alex Popovic. Also attending was Dr. Pamela Reeve.

You will recall that I asked you whether you were familiar with the legal case in Quebec of Markarian v. CIBC and the decision and comments of the Court. You stated that you were not familiar with the decision taken in this case. I then mentioned to you that I raised this matter in a meeting with Alex Popovic on 17jan07 and I was interested in what action the IDA was taking. I received no answer then and at our meeting I received no answer from you other than your confirmation that you were not aware of the decision.

On Friday July 27, Alex Popovic phoned me stating that he was calling at your request on another matter, COMSET, which was the subject of my 17aug07 letter to you. I mentioned to Mr. Popovic that I was really surprised that you were not familiar with the Markarian v. CIBC case and the decision, given its significance and given that the decision of Justice Senecal was published on 14jun06, more than a year ago. Mr. Popovic stated that there were many court cases and that, in Ontario law, it would be a precedent

but because the decision was in another province, in this case Quebec, it is useful only for information purposes.

I was somewhat taken aback by this statement from the IDA.

My understanding is that the IDA is structured as a not for profit national organization which various provincial securities commissions/administrators have entrusted with regulatory responsibilities. Furthermore these commissions rely upon the IDA to enforce its own bylaws, albeit by contract, upon its members and member representatives. As a national organization, structured as a SRO, does the IDA not have a duty to monitor all court cases and jurisprudence relevant to its mandate? Why was the IDA therefore not familiar with this case even though the IDA has already banned the broker involved who was a registrant of the IDA?

Why were you not familiar with this case?

As you are no doubt aware, you can obtain a copy of the decision on the following site:

Superior Court, Province of Quebec, District of Montreal
No. 500-05-069668-018
Date: June 14, 2006

<http://www.jugements.qc.ca/>

or specifically,

<http://www.jugements.qc.ca/php/decision.php?liste=24287685&doc=405F044756421C04>

I bring to your attention some of the statements of Judge Senecal in awarding the Markarians not only the immediate return of their \$1.5 million from CIBC but the payment of a \$1.5 million punitive damage award. Judge Senecal stated that CIBC's conduct was reprehensible and it cruelly failed in its duty to protect its investor clients, retirees Haroutioun and Alice Markarian.

(Para 328)

It is surprising, in the circumstances, that Tom Monahan, the president of Wood Gundy, testified in Court that the questions raised by the Compliance Department always received a reply. That is not true at all, which perhaps explains the shortcomings in the past.

(Para329)

On several occasion, the responses given were, on the contrary, incomplete and unsatisfactory, if not simply false. Other times the questions were not answered. Sometimes, the Compliance Department asked the question again (especially toward the end). Sometimes, it did so belatedly. In other instances, it did not follow up.

(Para 339)

In this case, Migirdic was able to unilaterally change the profiles of a large number of clicuts without consulting them and without CIBC exercising the least control over the changes...or even worrying about them.

(Para 400)

The Court concludes that CIBC committed faults, in performing its duties and assuming its responsibilities, that largely contributed to the fraud to which the plaintiffs fell victim and their loss. It deceived the plaintiffs by giving meaningless, but prestigious titles to Migirdic. It has only itself to blame if the plaintiffs were therefore less suspicious of him and gave him their full trust. In addition, it seriously failed to fulfill its duties to supervise and control Migirdic....

(Para 558)

The Markarians were profoundly affected by Migirdic's fraud, for which CIBC is responsible.

(Para 560)

The very way the Markarians were informed of the guarantees and their resulting liability, without also being informed that fraud was involved, added to the contempt and brutality with which CIBC's representatives treated them.

(Para 565)

CIBC thus in bad faith deprived the plaintiffs of the peaceful enjoyment and free disposition of their property. It especially made them go through a dreadful period that is not yet over.

(Para 592)

The refusal or failure to investigate the Markarians' complaints concerning the Intergold and AMCC shares are other demonstrations of

CIBC's lack of respect and its contempt for the Markarians and what they might be experiencing and feeling.

(Para 630)

CIBC even took money from one account to cover a debt that the account did not guarantee. That matter has since been settled but it illustrates the Bank's scandalous conduct.

(Para 646)

The bad faith of CIBC is also apparent in the way it conducted the proceedings and made them last inordinately, as we will see later on.

(Para 671)

The evidence also shows that the defendant's attitude toward the Markarians was not isolated but was repeated in regard to other victims. Given that, the reprehensible nature of CIBC's conduct can only gain in scale.

Surely, as a self-regulatory organization

"that is organized for the purpose of regulating the operations and the standards of practice and business conduct, in capital markets, of its members and their representatives with a view to promoting the protection of investors and the public interest,"

you had a duty to be not only informed but to act on the decision of the Court. Upon first learning about the issues in this matter, did you take this matter to the police to independently investigate and prosecute this fraud? If so, to which police force and on which date did the IDA take this action? If not, why not?

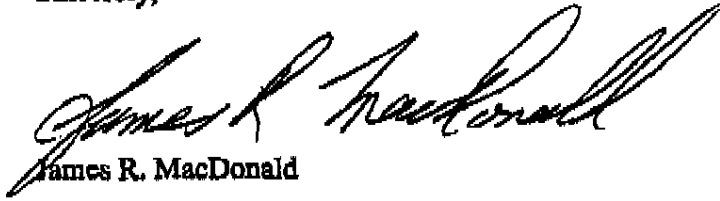
Why has the IDA, which claims to have the authority and the jurisdiction over its members to enforce securities laws, failed to fulfill its self-proclaimed mandate to protect Canadian investors, people like the Markarians who are in their 70s?

I look forward to your response outlining the action that the IDA, as the regulator, has taken or is planning on taking. I brought this matter formally to the attention of the IDA via my meeting with the Vice President of Enforcement, Alex Popovic, on 17Jan07. It would also seem, based on the composition of your Board of Directors, that you might have been aware of this issue much earlier.

The tactics described in this case are not unique to the one firm that is mentioned. I am sure you know that well. But you are not just a trade association; you are the professional,

independent, honest, transparent regulator acting to protect the investor and public interest are you not?

Sincerely,



James R. MacDonald

Enclosures

**CC: Susan Wolburgh Jenah, President and CEO, IDA
David Wilson, Commissioner, Ontario Securities Commission, (OSC)
Honourable Gerry Phillips, Minister Responsible for the OSC
Honourable James Flaherty, Federal Minister of Finance
M.P. Lui Temelkowski
M.P.P. Joseph Tascona, Critic to the Minister of Government Services
M.P.P. Michael Prue, Critic to the Minister of Government Services
M.P.P. Frank Klees**