

Press release

LCQ5: Trading of Loco London gold

Wednesday, May 12, 2010

Following is a question by Dr Hon Pan Pey-chyou and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 12):

Question:

I have recently received complaints from members of the public that some investment companies telephoned them to promote investment activities related to Loco London gold, but the companies did not provide sufficient information, including detailed explanation of the contract terms, the risks involved and the operation mode of trading, etc. Some investors who had signed the authorisation lost all their capitals within a short period of time. There have been comments that such investment activities involve unscrupulous sales practices but lack regulation. In this connection, will the Government inform this Council:

(a) of the respective numbers of fraud cases received by the Police in relation to the trading of Loco London gold, and the respective numbers of persons prosecuted in connection with such cases, in each of the past five years;

(b) whether it knows why the Securities and Futures Commission (SFC) does not regulate the investment activities related to Loco London gold and the professional qualifications of traders; whether SFC will regulate such investment activities and draw up relevant statutory regulations and model sales documents, as well as set up a trader licensing system and draw up a relevant code of conduct; and

(c) whether the authorities will provide support for members of the public who were engaged in the trading of Loco London gold and suffered losses because of unscrupulous sales practices, and investigate the sales practices and procedure adopted by such investment companies; whether the Police will set up a task force to combat such unscrupulous sales practices?

Reply:

President,

My reply to the three parts of the question is as follows-

(a) In the past five years, there were two cases that were categorised by the Police as suspected London gold trading fraud. The investigation of the case in 2009 involves 19 informants, and four persons have been arrested. The investigation of another case in 2010 involves one informant. The cases are still under investigation.

(b) & (c) Currently, the public can invest in gold or gold-related products through many channels. Among these, gold ETFs (exchange-traded funds) and gold futures traded on the Stock Exchange of Hong Kong, paper gold schemes, and funds investing in gold derivatives and gold mining companies need to be approved by the Securities and Futures Commission (SFC). As for companies providing gold trading services in general in Hong Kong, they are not required to register or obtain a license from the SFC. These over-the-counter (OTC) gold trading activities are a matter of direct negotiation and trading on the part of the buying and selling parties. As we understand, other international financial centres such as London also do not have special regulation over this type of gold trading.

London is currently the largest OTC gold trading centre in the world. London gold refers to a type of product which follows the standards of the London Bullion Market Association (LBMA) and is primarily traded by OTC means. The buying and selling parties will negotiate directly and make trades using the gold fixing prices in the London market.

Gold fixing prices in the London market are determined by the five members of the LBMA, with prices fixed twice daily at 6.30pm and 11pm Hong Kong time. The major participants in the London gold market include banks and large international precious metals companies, with trades conducted at the wholesale level.

According to our understanding, the major active participants in the Loco London gold market in Hong Kong are international banks. Due to time zone differences, market participants will adjust prices at different time in a trading day having regard to factors such as the London market gold fixing prices, Tokyo Commodity Exchange gold futures prices, and the supply and demand for gold in the Asian markets.

In fact, past complaint cases related to London gold are primarily concerned with improper trading practices and suspected fraudulent and deceptive acts operating under the name of London gold trading, but are actually unrelated to the current system of the genuine Loco London gold market. In most cases in recent years, the complainants were persuaded to sign a "customer contract", authorising the companies concerned to trade gold on their behalf. The companies concerned would use improper means such as falsely reporting market prices and deliberately increasing the number of trades to boost the amount of commissions earned. There were also situations in which the complainant's instructions were ignored by the companies concerned, and the complainant was therefore unable to lock in profits or liquidate positions, raising suspicions that no actual trades were carried out by the companies concerned.

Deceptive and fraudulent acts are criminal offences regulated under the Theft Ordinance (Cap. 210) which is enforced by the Police.

We consider that the most effective ways to deal with these improper and unlawful acts are enhanced enforcement and public education, instead of the introduction of new regulation over the genuine Loco London gold market.

Regarding investor education, the SFC currently provides information such as product selection, market operation and risks related to gold investment through its Dr. Wise investor education column. Through the "Choice" magazine, the Consumer Council also reminded the public on the relevant risks when engaging in Loco London gold trading, including information on fraud cases and improper trade practices under the name of London gold. Besides, the Administration published in February this year a consultation document on the "Proposed Establishment of an Investor Education Council and a Financial Dispute Resolution Centre". The proposed IEC will holistically oversee the needs of investor education and delivery of related initiatives. The objective is to improve the financial literacy and capability of the general public to assist them to make better financial decisions.

Regarding law enforcement, a Focus Group has been set up since 1999 under the Commercial Crime Bureau of the Police for steering the prevention of and assisting in combating against cases involving London gold trading fraud. The measures adopted include closely monitoring the trend and the change in modus operandi of London gold trading fraud, educating members of the public to enhance their alertness through mass media and other means, liaising with the Consumer Council and Labour Department in collecting relevant intelligence, investigating suspicious cases or providing assistance to relevant investigative units.

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