

Press release

LCQ1: Loco London gold investment activities

Wednesday, November 2, 2011

Following is a question by the Hon Wong Kwok-hing and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 2):

Question:

I have recently received one after another 70 cases requesting for assistance which involve Loco London gold investment fraud, and the persons seeking help indicated that the investment companies or brokers had deceived them using improper practices to obtain their authorisation to conduct transactions on their behalf, causing them to ultimately lose nearly all their investments, which amounted to more than \$17 million. However, when I accompanied these persons to seek assistance from a number of regulatory and enforcement departments, such departments refused to take up the cases on the ground that the trading of Loco London gold was not within their ambits, or used the excuse that as there was no existing legislation to regulate such kind of investment product, it was difficult to take any enforcement action. In this connection, will the Government inform this Council:

(a) of the numbers of complaints and reported cases involving Loco London gold investment fraud received by the various government departments concerned over the past five years; the number of companies providing Loco London gold trading services involved in these cases, and among them, the number of those which were involved in similar reported cases or complaints for more than once; of the respective numbers of cases in respect of which thorough investigation were conducted and prosecution were instituted by the relevant government departments; and the number of convicted persons involved;

(b) given that at present, companies providing Loco London gold trading services in Hong Kong are not required to register with or apply for a license from the Hong Kong Monetary Authority (HKMA) or the Securities and Futures Commission (SFC), whether the authorities will consider putting these companies under the regulation of the regulatory authorities, as well as regulating the investment activities of precious metals (such as Loco London gold, etc.) by means of legislation and licensing; if they will, of the specific timetable; if not, how the authorities effectively regulate such investment activities to safeguard the interests of investors; and

(c) which government department or regulatory authority members of the public can approach to lodge complaints or seek help at present when they suspect that they have been deceived or encountered problems relating to Loco London gold investment or other investments not regulated by HKMA and SFC; how such government department will help them and follow up the cases; whether the Government will set up a dedicated organisation to deal with such investment activities which are currently not regulated by HKMA and SFC?

Reply:

President,

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

(a) From 2007 to August this year, there were 12 cases categorised by the Police as suspected London gold trading fraud. Six companies were involved, among which five were subjects of complaints more than once. A person involved in one of the cases was charged by the Police and was subsequently convicted and sentenced to eight-month imprisonment by the court. Investigation of the remaining 11 cases is still in progress.

From 2007 till now, the Financial Services and the Treasury Bureau has received complaints regarding the trading of London gold from 18 members of the public. Most of these complaints were about loss inflicted by suspected fraud. In early September 2011, we received a number of cases involving 55 complainants referred by Legislative Council Members. The cases were handed over to the Police for analysis and follow-up actions.

(b) Currently, the public can invest in gold or gold-related products through various channels. Among them, gold exchange-traded funds (ETFs) and gold futures traded on the exchange, paper gold schemes, and funds invested in gold derivatives and gold mining companies must be authorised or 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 with or obtain a license from the SFC. These gold trading activities are conducted through direct negotiation between buyers and sellers over-the-counter (OTC).

London is currently the largest OTC gold trading centre in the world. London gold refers to a product based on the standards of the London Bullion Market Association and is primarily traded OTC. Information shows that neither Hong Kong nor other international financial centres such as London have specific regulation over this type of gold trading.

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 such factors as the London market gold fixing prices, Tokyo Commodity Exchange gold futures prices, and the supply and demand for gold in the Asian markets.

Complaints related to London gold are primarily concerned with suspected deceptive and fraudulent acts operating under the name of London gold trading, which have nothing to do with the trading system of the genuine Loco London gold market.

Deceptive and fraudulent acts are criminal offences regulated under the Theft Ordinance (Cap. 210) and the Police have been taking active enforcement actions. For cases suspected of involving criminal offences like deception or theft, the Police will investigate thoroughly and initiate prosecution if there is sufficient evidence.

Given that deceptive and fraudulent acts are already regulated by legislation, we consider that the most effective way to deal with these unlawful acts is to enhance enforcement and public education instead of introducing new legislation to regulate the Loco London gold market.

(c) To step up enforcement efforts, the Police have set up a team under the Commercial Crime Bureau that specialises in preventing and combating London gold trading fraud. This is done through closely monitoring the trend and the change in the modus operandi of London gold trading fraud, enhancing public awareness by education through the mass media and other means, liaising with the Consumer Council to collect intelligence, and investigating suspicious cases or providing assistance to relevant investigative units.

Regarding investor education, the SFC currently provides information on product selection, market operation and risks related to gold investment through its Dr Wise investor education column. The Consumer Council reminds the public of the risks in London gold trading through providing information on fraud cases and unscrupulous practices under the name of London gold in its Choice magazine. The SFC's proposed establishment of the Investor Education Council will also strengthen education on investment in gold. We submitted the Securities and Futures (Amendment) Bill 2011 to the Legislative Council in June 2011. We look forward to Members' support for the Bill.

In addition, the Police publicise common fraudulent practices related to London gold from time to time through different publicity channels, including their website and the Police Report TV programme, so as to enhance public awareness. Recently, in the October 8, 2011 episode of Police Report, the Police explained the unscrupulous practices of certain financial companies to bring home crime prevention messages. Drawing on their experience, we will produce more targetted educational programmes on an on-going basis, including TV Announcement in the Public Interest.

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