

The Legislative Council meeting on 21 December 2011
Motion on “Expediently regulating the investment and
over-the-counter trading activities of Loco London gold”

Progress Report

Purpose

On 21 December 2011, the Legislative Council (“LegCo”) carried the motion on “Expediently regulating the investment and over-the-counter trading activities of Loco London gold” moved by Hon WONG Kwok-hing. Wording of the motion is at **Annex**. This report updates Members on the Administration’s follow-up actions taken in respect of the aforementioned motion.

Regulating the trading of Loco London gold by legislation

2. Regarding Members’ concern about the frauds related to London gold, as we highlighted at the above motion debate, the complaints related to London gold mainly concentrate on a few companies, and nearly all of these cases involve situations where the relevant brokers conduct trading activities very frequently within a short period of time after obtaining the authorization from the victims, thus causing the victims bearing monetary losses. In this regard, stepping up enforcement actions and strengthening investor education, rather than introducing legislation on the entire industry, are more effective in dealing with the fraudulent acts involving London gold.

Stepping up enforcement actions

3. The Police will assess all reported fraud cases and take appropriate follow-up actions, taking into account the nature of each individual case. Prosecution will be initiated in accordance with the law if there is sufficient evidence. The Police have set up a Focus Group 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.

4. The Police are actively investigating 17 cases categorised as suspected London gold trading fraud between 2007 and 2011. So far, a total of 16 persons have been arrested in connection with ten cases. Investigation of the remaining cases is still in progress.

Strengthening investor education

5. Regarding investor education, we are focusing on: (i) enhancing the awareness of the public on the fraudulent acts related to London gold and remind them not to authorize third parties to operate their accounts without good reasons; and (ii) enhancing public understanding on the international gold market and the risks involved in investing in such market.

6. We are now working with the Police to prepare a new TV and radio Announcement of Public Interest (“API”) to provide information on the latest trend of the London gold-related fraudulent acts, and to remind investors of the risks arising from authorizing third parties to operate their own accounts, and that such authorization should not be made without good reasons. We target to launch the API on TV and radio in the second quarter of this year to raise public awareness.

7. We will also work with the Consumer Council to explain the latest trend of the fraudulent acts and unscrupulous practices of some financial companies, as well as the risks associated with London gold investment, through a new feature article published on its Choice magazine.

Conclusion

8. The Government will closely monitor the latest trend of the deceptive acts relating to London gold, and assess the effectiveness of the existing measures in combating these illegal activities. If needed, the Government will consider taking further actions, including legislation, to

tackle these unlawful acts.

**Financial Services and the Treasury Bureau
February 2012**

(Translation)

**Motion on
“Expediently regulating the investment and
over-the-counter trading activities of Loco London gold”
moved by Hon WONG Kwok-hing
at the Council meeting of 21 December 2011**

Wording of the Motion

That in recent years, fraudulent investment cases involving over-the-counter (“OTC”) trading of Loco London gold are increasingly rampant, and many members of the public have been deceived and victimized, with cumulative losses amounting to more than \$10 million, but there are at present no laws and statutory bodies in Hong Kong to regulate OTC trading of Loco London gold; this not only deprives victims of complaint avenues and means of recovering losses, but at the same time, results in fraud cases persisting and severe damage to Hong Kong’s reputation and status as an international financial centre, because the financial firms and practitioners engaged in OTC trading of Loco London gold are of mixed standards and they make use of the vacuum created by the lack of legislative regulation to operate; in this connection, this Council urges the Government to expediently study the enactment of legislation to regulate OTC trading activities of Loco London gold, so as to expediently bring the operation of this industry back to the right and healthy track for the protection of investors’ interests; the relevant measures should include:

- (a) to proactively study the formulation of specialized rules and regulations and the establishment of a statutory regulatory body, so that the trading of precious metals, including OTC trading of Loco London gold, can be brought under legislative regulation and protection;
- (b) to proactively study the introduction of a licensing system to regulate the trading bodies engaged in the aforesaid business, including

imposing penalties on and instituting prosecutions against companies contravening the relevant licensing rules;

- (c) to proactively study the further expansion of the existing voluntary registration system for practitioners of the Chinese Gold and Silver Exchange Society to form a central registration system covering practitioners of the entire industry, stipulating that persons with no registration are not permitted to engage in OTC trading of the relevant precious metals, so as to regulate the professional expertise and conduct of practitioners; and while implementing a central registration system, to make reference to the experience of the Chinese Gold and Silver Exchange Society and organize training programmes on relevant professional expertise for practitioners, so as to upgrade practitioners' conduct and quality;
- (d) to assist the industry in formulating model sales documents and procedures on making investments in OTC trading of Loco London gold, including the requirement that at the time of signing an investment agreement, the salesperson must clearly explain to the investor the rights and liabilities as well as the investment risks associated with OTC trading of Loco London gold;
- (e) to request the Police to conduct in-depth investigations into fraudulent investment cases involving OTC trading of Loco London gold, set up a task force designated for follow-up work, enhance enforcement efficiency, and rigorously eradicate related fraud cases; and
- (f) to strengthen education and information on OTC trading of Loco London gold for investors, raise public understanding about the operational details and risks of OTC trading of Loco London gold, enhance public alertness, and disclose the various tactics employed in similar fraud cases.