

For discussion
on 6 April 2000

Legislative Council Panel on Security

Establishment and Operation of the Commercial Crime Bureau of the Police Force

Purpose

This paper briefs Members on the establishment and operation of the Commercial Crime Bureau (CCB) of the Police Force.

Charter and Establishment of CCB

2. CCB is mainly responsible for the investigation of serious commercial frauds; syndicated frauds that have a wide implication; counterfeiting and forgery of monetary instruments and identity documents; and computer-related crime. At present, CCB has an establishment of 285 police officers and 69 civilian supporting staff. The latter include Police Translators, Chinese Language Officers and Treasury Accountants. The organization chart of the CCB is at Annex A.

Serious Fraud Cases

3. The fraud cases handled by the Fraud Division of CCB are generally complex and serious that require protracted enquiries. Transactions and events that are the subjects of investigation tend to be occurring up to a few

years before the cases are reported. It is almost a norm that voluminous quantities of documentation and financial records will need to be examined in these cases. In addition, the investigations often necessitate the interview of a large number, or in extreme cases, thousands of witnesses.

4. The subsequent seizure of documents and other exhibits is usually a painstaking and time-consuming process. In most cases, the investigation involves execution of further search warrants in order to take possession of or access lots of exhibits. Multiple tiers of bank and transaction records have to be retrieved and reconstructed before they can be examined properly. The processes of examination are not only manpower intensive, but may also require assistance from accountants, official liquidators and other professionals.

5. Very often, the activities to be investigated involve multiple jurisdictions. These investigations cannot be conducted without the assistance of foreign agencies and overseas enquiries may be required in order to gather the necessary evidence.

6. One of the major difficulties in investigating such cases is to determine whether the activities take place constitute a fraud. Fraud often lies in a grey area between crime and civil disputes. It is rather common that activities that later turn out to be fraudulent form parts of a series of legitimate business dealings. The activities in question only become crimes when certain conditions change. Evidence in support of the fraudulent activities could be formed by small pieces of indirect or circumstantial evidence before a meaningful picture about the investigation can be presented. Given the complexity of these investigations, consultation with the Department of Justice is absolutely necessary at various stages of the investigation.

7. Depending on the complexity and the locality of the investigations, a serious fraud case handled by CCB could take several months to a number of years. In many cases, it takes another several months or even years before the whole judicial process of a particular case can come to a conclusion. It is therefore very difficult, if not impossible, to estimate the average processing time for a case.

8. CCB also deals with syndicated frauds that have a territorial or wide impact. The more serious cases include the Loco-London Gold Scams, Modelling Agency Frauds, Long Firm Frauds and West African Frauds. Long Firm Frauds involve companies being set up for the sole purpose of goods purchase with the intention of defaulting payment at the end. West African Frauds usually feature letters sent from overseas offering partnership for the disposal of dubious funds. The spread of Loco-London Gold and Modelling Agency Frauds and the tricky issues in some of these investigation have necessitated the involvement of CCB. Apart from investigation into the complex and protracted cases, CCB is responsible for the examination of the relevant legal issues, identification of investigation tactics, and formulation of enforcement strategies. The other less serious cases are pursued by front-line formations.

9. As regards Loco-London Gold Scams, it is encouraging to note that, as a result of a CCB investigation that went overt in December 1999, seven individuals have been prosecuted for the related offences. Besides, HK\$13 million worth of assets of one of the defendants, which are allegedly the proceeds in the case, have been restrained under the Organized and Serious Crimes Ordinance (Cap.455). Coupled with other subsequent investigations by CCB and Police Districts that led to additional criminal prosecutions and

applications of the powers under Cap.455, a notable decline in the reports of Loco-London Gold Scams has emerged. In the case of Modelling Agency Frauds, there have been two successful convictions in early March this year resulting in the imprisonment of nine people for up to 3 years and 1 month. Besides, of the over HK\$866,600 that had been restrained in one of the cases, \$654,800 was awarded as compensation for victims while the remaining sum was confiscated.

Counterfeit and Forgery Cases

10. The Counterfeit and Forgery Division of CCB mainly deals with forgery of the following :-

- (a) local and foreign currencies in terms of banknotes and coins, credit cards, travellers cheques, and other monetary instruments; and
- (b) local and foreign travel documents, identity cards, and other documents of identity.

11. The nature of these cases generally necessitates proactive investigations, including cultivation of intelligence; and liaison with the banking industry, credit card industry and overseas enforcement agencies. Enquiries conducted in response to complaints only represent the minority. Although many of the investigations have an international element, they do not involve the analysis of complex financial data and are therefore less time consuming.

Computer-related crimes

12. The Computer Crime Section of CCB was set up in 1993. Its main functions and operation have been reported to the Security Panel when the issue of computer-related crimes was discussed at the meeting on 2 March 2000. The Section mainly deals with investigations into computer-related crimes that are complex or transnational in nature. It is responsible for the recovery of evidence from computers in the investigations handled by CCB and other police formations. Over the years, the CCS has experienced an increased demand for forensic examination of computers for the purpose of evidence gathering.

13. Recognizing the need for maintaining a professional investigation capability within the Police Force, the CCS is also responsible for the tasking and administration of a Computer Crime Investigation Cadre, which is formed with officers from different formations, for assisting the front-line police formations in investigations of computer-related crimes. In addition, the CCS has played a vital role in organizing the Computer Crime Investigation and Forensic Examination of Computers Courses that was conducted by the Hong Kong University of Science & Technology in January 2000. A sum of 2.7 million will be spent for setting up a Computer Forensic Examination Laboratory in order to upgrade the existing capability of forensic examinations of computer systems.

14. The CCS also maintains close liaison with the information technology professionals, computer science academics, local Internet Services Providers, and foreign law enforcement agencies in combating computer-

related crimes. In light of the range and growth of commitments of the CCS, the question of additional resources for handling the tasks is being studied.

Statistics

15. The statistics regarding computer-related crimes were submitted and discussed at the Security Panel meeting on 2 March 2000. As regards the serious frauds and counterfeiting cases, a breakdown of these cases handled by CCB and the conviction rates thereof in the past three years is attached at Annex B.

Security Bureau

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Legend

CSP	Chief Superintendent
SSP	Senior Superintendent
SP	Superintendent
CIP	Chief Inspector
SIP	Senior Inspector
IP	Inspector
S/SGT	Station Sergeant
SGT	Sergeant
PC	Police Constable
STA	Senior Treasury Accountant
PTR	Police Translator
CLO	Chinese Language Officer
EOII	Executive Officer II

Serious Fraud and Counterfeiting Cases
Handled by Commercial Crime Bureau of the Police Force

A) Serious Fraud Cases

<u>Year</u>	<u>Number of Reported Cases</u>	<u>Amount Involved</u> <u>(Reported Losses in HK\$)</u>
1997	108	\$1.6 billion
1998	144	\$3.8 billion
1999	91	\$3.0 billion

Breakdown:

<u>Category</u>	<u>1997</u>		<u>1998</u>		<u>1999</u>	
	(Cases)	HK\$M)	(Cases)	(HK\$M)	(Cases)	(HK\$M)
1. L/C & Documentary Credit Fraud	16	568.8	25	893.8	23	668.8
2. Fraud by Company Director	7	50.1	13	836.5	17	1010.9
3. Property Fraud	10	150	11	383.8	11	277.7
4. Employee Fraud	10	141.7	9	165.2	8	116.8
5. Investment Fraud	1	0	2	120	4	162.2
6. & Shares, Forex & Futures	3	155.8	9	382.8	3	36
6. Bank Fraud	5	306.4	9	244.3	3	114.6
7. Insurance Fraud	3	77.8	1	1.2	1	0
9. Advance Fee Fraud	2	4.5	3	16.3	1	0.8
10. Long Firm Fraud	4	18.3	4	58.2	0	0

11. Pyramid/Inertia Selling	1	6	0	0	0	0
12. Others	46	121.4	58	697.9	20	612.2
Total number of cases and reported losses	108	1.6 billion	144	3.8 billion	91	3 billion

B) Counterfeiting Cases

<u>Year</u>	<u>Cases Concluded in Court</u>	<u>Cases Convicted</u>	<u>Conviction Rate</u>
1997	29	27	93%
1998	37	35	95%
1999	20	19	95%