



British Columbia Securities Commission

Citation: 2013 BCSECCOM 303

Notice of Hearing

Hong Liang Zhong

Section 161 of the *Securities Act*, RSBC 1996, c. 418

¶ 1 The British Columbia Securities Commission (Commission) will hold a hearing (Hearing) at which the Executive Director will tender evidence, make submissions and apply for orders against Hong Liang Zhong (Zhong) under sections 161, 162 and 174 of the *Securities Act*, RSBC 1996, c. 418 (the Act), based on the following facts:

Background

1. Zhong is a resident of British Columbia. He is a self-employed trader in foreign exchange (Forex), and he has never been registered to trade in securities under the Act.

Concealing Commissions

2. Between April 2009 and June 2011, Zhong met with fourteen British Columbia residents about trading Forex on their behalf (the Forex Clients). Zhong filled out the electronic applications to open trading accounts for the Forex Clients at two online broker firms (the Forex Firms).
3. In the account applications, Zhong listed himself as a Referring Broker so he could receive commissions from the Forex Firms based on the volume of trading in the Forex Clients' accounts.
4. As Zhong would not be eligible for the Referring Broker commission if he had trading authority over the accounts, he made his spouse the apparent trading agent for the Forex Clients. However, it was Zhong and not his spouse who executed trades on the clients' behalf.
5. Zhong told his clients that he would only get paid by taking a share of the profits, while concealing from them that he was actually receiving commissions as a Referring Broker based on trading volume alone.
6. Zhong conducted high volume trading in the client accounts and he earned at least US \$108,408 in commissions as a Referring Broker.
7. Zhong's trading did not produce a profit for his Forex Clients as he lost US \$268,305 of the US \$403,012 that they invested.



8. In August 2010, one of the Forex Firms unilaterally terminated its Referring Broker arrangement with Zhong.
9. In September 2011, the other of the Forex Firms unilaterally terminated Zhong's trading authority over client accounts.

False Guarantee

10. With respect to at least four of the Forex Clients, Zhong guaranteed the return of their full principal if they suffered trading losses.
11. These clients invested US \$115,062 and Zhong lost US \$102,721 of their money. Despite being asked to do so, Zhong has not reimbursed them for their losses.

Misconduct

Unregistered Trading

12. By engaging in the business of trading Forex contracts without being registered, Zhong contravened section 34 of the Act.

Prohibited Representation

13. By guaranteeing the return of their principal investment, Zhong made a prohibited representation contrary to section 50(1)(a)(ii) of the Act.

Fraud

14. By engaging in the conduct described in this Notice of Hearing, Zhong perpetrated a fraud contrary to section 57(b) of the Act.
15. Zhong's conduct described in this Notice of Hearing is contrary to the public interest.

Orders Sought

16. It is in the public interest that the Commission issue orders under sections 161 and 162 of the Act.

Hearing Process

- ¶ 2 The Respondents or their counsel are required to attend at the 12th Floor Hearing Room, 701 West Georgia Street, Vancouver, British Columbia, on **Tuesday, September 3, 2013, at 9:00 a.m.** if they wish to be heard before the Commission sets a date for the Hearing. Relevant information gathered by Commission Staff in the investigation of this matter will be disclosed to the Respondent upon request to the Executive Director.



- ¶ 3 At the Hearing, the Respondents may be represented by counsel, make submissions and tender evidence. The Respondents are requested to advise the Commission of their intention to attend the Hearing by informing the Secretary to the Commission at PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver, BC V7Y 1L2 phone: (604) 899-6500; email: commsec@bcsc.bc.ca.
- ¶ 4 If the Respondents or their counsel do not appear at the Hearing, the Executive Director will apply to have questions of liability and sanction heard at the same time. Determinations adverse to the Respondents may be made in their absence.
- ¶ 5 August 6 , 2013.
- Paul C. Bourque
- ¶ 6 Paul C. Bourque, Q.C.
Executive Director