



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF THE *SECURITIES ACT*,
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF
HONG LIANG ZHONG**

**STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff of the Ontario Securities Commission (“Staff”) allege:

I. OVERVIEW

1. Hong Liang Zhong (“Zhong”) is subject to an order made by the British Columbia Securities Commission (“BCSC”) dated December 8, 2015 (the “BCSC Order”) that imposes sanctions, conditions, restrictions or requirements upon him.
2. In its findings on liability and sanctions dated May 5, 2015 (the “Findings”), a panel of the BCSC (the “BCSC Panel”) found that Zhong traded in securities without being registered to do so, made prohibited representations to investors by guaranteeing the return of the principal of their investments, and perpetrated a fraud on investors.
3. Staff are seeking an inter-jurisdictional enforcement order, pursuant to paragraph 4 of subsection 127(10) of the Ontario *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”).
4. The conduct for which Zhong was sanctioned took place between 2009 and 2011 (the “Material Time”).

5. As of the date of the Findings, Zhong was a resident of British Columbia and had never been registered under the British Columbia *Securities Act*, RSBC 1996, c. 418 (the “BC Act”).
6. During the Material Time, Zhong entered into arrangements with 14 investors to buy and sell foreign currencies on the investors’ behalf through accounts at two electronic forex trading platforms: MG Financial Group (“MGF”) and/or Forex Capital Markets, Ltd. (“FXCM”). Either Zhong or his wife were the designated referring broker and were paid referral commissions by MGF.
7. While soliciting investments, Zhong held himself out to be a successful forex trader and told some investors he “never lost” money trading forex. Zhong portrayed the arrangement to investors as a risk-free proposition.
8. The investors relied on Zhong to trade and make money for them. The investors were passive; their role was to authorize the opening of the forex trading accounts and to fund them.
9. While Zhong’s wife was appointed as trading agent for the majority of the investors, the investors had no or minimal interactions with her.
10. Zhong told investors he would make money only by sharing in a percentage of the trading profits. Zhong concealed from investors that either he or his wife would also be paid a referral commission based on trading volume.
11. As part of his solicitation efforts, Zhong also gave guarantees to at least 10 investors that he would repay their principal after one year.
12. Investors lost the majority of the funds they had invested. In total, they invested CDN\$362,980 and US\$148,030, and lost CDN\$250,376.88 and US\$142,987.20.

II. THE BCSC PROCEEDINGS

The BCSC Findings

13. In its Findings, the BCSC Panel found the following:
 - a. Zhong engaged in the business of trading in securities, without being registered, with respect to 14 investors, contrary to section 34 of the BC Act;
 - b. Zhong guaranteed the return of the principal of their investments to at least 10 investors, thereby making prohibited representations contrary to section 50(1)(a)(ii) of the BC Act; and
 - c. Zhong perpetrated fraud on investors, contrary to section 57(b) of the BC Act.

The BCSC Order

14. The BCSC Order imposed the following sanctions, conditions, restrictions or requirements upon Zhong:
 - a. under section 161(1)(b)(ii) of the BC Act, Zhong is permanently prohibited from trading in or purchasing any securities or exchange contracts;
 - b. under section 161(1)(c) of the BC Act, on a permanent basis, no exemption set out in the BC Act, in the regulations or a decision as defined in the BC Act, will apply to Zhong;
 - c. under section 161(1)(d)(i) of the BC Act, Zhong resign any position he holds as a director or officer of any issuer or registrant;
 - d. under section 161(1)(d)(ii) of the BC Act, Zhong is permanently prohibited from becoming or acting as a director or officer of any issuer or registrant;
 - e. under section 161(1)(d)(iii) of the BC Act, Zhong is permanently prohibited from becoming or acting as a registrant or promoter;

- f. under section 161(1)(d)(iv) of the BC Act, Zhong is permanently prohibited from acting in a management or consultative capacity in connection with activities in the securities market;
- g. under section 161(1)(d)(v) of the BC Act, Zhong is permanently prohibited from engaging in investor relations activities;
- h. under section 161(1)(g) of the BC Act, Zhong pay to the BCSC CDN\$401,883.44; and
- i. under section 162 of the BC Act, Zhong pay to the BCSC an administrative penalty of CDN\$250,000.

III. JURISDICTION OF THE ONTARIO SECURITIES COMMISSION

- 15. Zhong is subject to an order of the BCSC imposing sanctions, conditions, restrictions or requirements upon him.
- 16. Pursuant to paragraph 4 of subsection 127(10) of the Act, an order made by a securities regulatory authority, derivatives regulatory authority or financial regulatory authority, in any jurisdiction, that imposes sanctions, conditions, restrictions or requirements on a person or company may form the basis for an order in the public interest made under subsection 127(1) of the Act.
- 17. Staff allege that it is in the public interest to make an order against Zhong.
- 18. Staff reserve the right to amend these allegations and to make such further and other allegations as Staff deem fit and the Commission may permit.
- 19. Staff request that this application be heard by way of a written hearing pursuant to Rules 2.6 and 11 of the *Ontario Securities Commission Rules of Procedure*.

DATED at Toronto, this 25th day of January, 2016.