Lessons for controls and due diligence

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The official response

The authorities responded through the banking industry and avoided new legislation. On 2 July 2020 MAS, Enterprise Singapore, the Accounting and Corporate Regulatory Authority and the Association of Banks in Singapore issued a joint statement announcing that the sector was developing best practices for commodity financing. In October 2020 Tharman Shanmugaratnam, then Senior Minister in charge of MAS, told Parliament that the government did not take the cases lightly. He attributed them to "weak disclosure practices and internal controls" at a small number of trading houses and announced the aim of digitalising trade finance by replacing paper with electronic documents and data flows.[1]

On 30 November 2020 the Association of Banks in Singapore published its Code of Best Practices for Commodity Financing, developed by a working group of 28 banks with the support of MAS, Enterprise Singapore and ACRA. MAS indicated that it might refer to the code in its supervision of lenders. The code asks banks to require sufficient transparency over the trade, the goods and the receivables, and an explanation of the full trade cycle. Traders should undertake not to finance the same

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goods elsewhere without the bank's written consent. Where letters of indemnity are used, banks should obtain copies of the title or transport documents on which they rely. Banks should also assess the governance of their clients, including remuneration that reflects a sound risk culture and channels for whistleblowers.[2]

The Trade Finance Registry and the verification of bills of lading

The second response was technological. A pilot registry led by Standard Chartered and DBS, with fourteen international banks, the Association of Banks and Enterprise Singapore, was tested in June 2020. After a tender in 2022, the Association chose MonetaGo as the technology provider. The Trade Finance Registry went live on 23 June 2023. Banks submit selected data from trade documents, which the system converts into digital fingerprints by hashing. The registry flags full or partial matches in near real time, so that a bank learns whether the same transaction has already been financed without seeing a competitor's confidential data.[3]

In February 2025 the Association and SGTraDex, a trade data platform, added a tool for the real-time verification of bills of lading. It matches the data submitted by banks against information from shipping lines, replacing the earlier practice of verification by telephone or email. Ocean Network Express was the first carrier to join, while about 70 % of the banks in the registry planned to use the tool.[4] The two tools address the two techniques of 2020 directly: duplicate financing of the same trade and documents that describe shipments that never took place.

What the cases teach about documents

The case law adds a third set of lessons, which concern the documents themselves. A bank that pays against a letter of indemnity, without the original bills of lading, gives up the security that the bills would provide and with it the claim against the shipowner that UOB pursued with success. A bank that relies on the receivables from an onward sale, as BCP did, depends on the honesty of its borrower. A trader that takes part in a circular trade without asking for loading documents risks being

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found reckless and losing payment under a letter of credit, as Winson did. Recourse against counterparties in the chain is possible only where they knew or must have known of the fraud, a threshold that the Singapore courts have set high. The decisions taken together allocate the risk of borrower fraud firmly to the financing bank unless it holds and controls the documents of title.

The accounts of the borrower require the same scrutiny as its cargoes. Agritrade's banks accepted financial statements that had never been audited. Hin Leong's banks relied on audited accounts that concealed losses of hundreds of millions of dollars. The Deloitte decision shows that the auditor will rarely answer for the lender's loss. A lender must therefore form its own view of the borrower's solvency, its hedging and its related parties, using sources that the borrower does not control.

Checklist for banks and traders

- Hold the original bills of lading where the finance is secured on the cargo, and treat payment against a letter of indemnity as unsecured lending unless copies of the transport documents and an independent confirmation of the shipment are available.
- Check every financed transaction against the Trade Finance Registry and verify bills of lading against carrier data and vessel positions.
- Identify circular trades and ask who the original seller and the final buyer are. A chain that returns the goods to the borrower is a financing transaction and should be priced and secured as one.
- Verify the existence and independence of suppliers and buyers through company registers and direct contact, since related parties disguised as suppliers were central to the Agritrade fraud.
- Obtain the audited accounts directly from the auditor and compare reported inventories, receivables and hedging positions with independent data.
- Require an undertaking against double financing and monitor stock levels through independent inspection where several banks finance the same location.

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- Treat the sudden departure of a founder or a senior financial officer, a refusal to provide loading documents or repeated amendments to documents after a bank query as warning signs that call for immediate review.
- Report suspected fraud promptly to the Commercial Affairs Department and coordinate with other lenders before the insolvency proceedings begin, since the first weeks decide the preservation of documents and assets.

Notes

1. GTR, 22 July 2020 (above): joint statement of 2 July 2020 by MAS, Enterprise Singapore, ACRA and the Association of Banks in Singapore on work towards best practices for the commodities sector; Ho Hern Shin, assistant managing director of MAS: MAS "strongly supports the development of best practices in commodity financing" – GTR, 14 October 2020 (above): Tharman Shanmugaratnam: "We do not take this lightly"; cited "weak disclosure practices and internal controls" at a small number of trading houses; aim "to digitalise trade financing, and replace the current paper-based systems with electronic documents and data flows"; parliamentary question by Murali Pillai MP. ↩
2. GTR, "Singapore banks unveil tougher commodity finance standards after fraud scandals", 1 December 2020: 28 banks; backed by MAS, which "may refer to the code in its supervisory oversight", and by ACRA; the ABS calls it a "benchmark for banks' lending standards in the sector"; Ressos, *Genève, place financière internationale*, partie H, chapitre II, citing the ABS media release of 30 November 2020 – GTR, 1 December 2020 (above): transparency over transactions, goods and receivables; explanation of the end-to-end trade cycle; no other financing on the same goods without prior written consent; copies of title or transport documents where letters of indemnity are used; policies suited to the trader's size, pay reflecting a "sound risk culture" and whistleblowing avenues. ↩
3. GTR, "Singapore goes live with anti-fraud registry to eliminate duplicate financing", 26 June 2023: the Trade Finance Registry went live on 23 June

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2023; MonetaGo selected after a 2022 tender; initial project led by Standard Chartered and DBS with 14 international financial institutions, ABS and Enterprise Singapore; pilot in June 2020 – GTR, 26 June 2023 (above): document information hashed into electronic fingerprints and sent to a unified repository that flags duplicate financing attempts in near real time; full or partial matches; privacy-preserving techniques allowing banks to share information without exposing competitively sensitive data. ↩

4. GTR, "Singapore ups fight against fraud with real-time BL verification tool", 12 February 2025: tool announced by ABS and SGTraDex as part of the Trade Finance Registry; matching against data from shipping companies; previously a "manual process that involves banks calling or sending emails"; Ocean Network Express the first carrier; around 70 % of TFR banks plan to use it. ↩

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