The retreat of lenders after 2020

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The year of the frauds

The year 2020 was the worst in the modern history of Singapore's trade finance market. The collapse of oil prices in March and April, combined with the pandemic, exposed traders that had concealed losses or financed the same goods several times. On 17 April Hin Leong Trading, one of the largest independent oil traders in Asia, applied to the High Court for protection from its creditors. Bloomberg reported that 23 banks were owed about 3.5 billion dollars, while other accounts put the debt to the 23 lenders at 3.85 billion dollars.[1] Sixty letters of credit worth 1.5 billion dollars had financed cargoes that either did not exist or had been pledged to more than one party. Of 273 letters of credit spread across the 23 banks, the assets available covered about 7 per cent of the liabilities.[2]

Other failures followed. ING sued Agritrade International, accusing it of overlapping shipping lists to obtain financing from several banks for the same cargo. Some eighteen banks faced combined losses of about 670 million dollars. HSBC accused ZenRock Commodities Trading of using the same cargo for several loans, leaving banks owed 166 million dollars. Bloomberg tallied potential losses of about 9.26 billion dollars for banks and creditors of commodity traders over six years.[3] The details of these cases, their insolvency proceedings and the prosecutions that followed belong to Chapter H.II.

The losses showed in the credit statistics. MAS reported that the non-performing loan ratio of the general commerce sector, which includes wholesale trade and commodity trading, rose from 1.5 per cent in the third quarter of 2019 to 5.9 per cent a year later. The corporate non-performing loan ratio of the banking system rose from 2.5 to 3.4 per cent over the same period.[4] MAS also observed that trade financing volumes had moderated.[5]

The exits

Several European banks drew conclusions that reached beyond Singapore. By July 2020 Société Générale had halted new funding to oil trading firms in Asia, while ABN AMRO had classified the sector as high risk.[6] In August 2020 ABN AMRO announced that it would withdraw entirely from trade and commodity finance. BNP Paribas later closed its Swiss-based commodity trade finance team.[7] Other lenders reduced their limits for mid-sized traders.

The exits also reflected the economics of the business. Commodity finance demands specialised staff, systems for monitoring collateral and an expensive compliance function. It consumes capital under the Basel rules, which treat short-term trade exposures only partly in line with their low default rates, although the Basel Committee relaxed the treatment of certain trade finance instruments as early as 25

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October 2011.[8] When a bank adds to these costs the risk of a single fraud that wipes out years of margin, a withdrawal from the business can appear rational. The ICC's Trade Register nevertheless reported in October 2024 low default rates across trade finance products, based on a data set representing nearly a quarter of global trade finance transactions.[9] The losses of 2020 resulted from fraud concentrated in a few borrowers, which ordinary credit statistics do not capture.

The industry response: the Code of 2020

The response in Singapore was collective and fast. In May 2020 an industry working group of 28 banks, comprising the vast majority of commodity finance lenders in Singapore, was formed with the support of MAS, Enterprise Singapore and the Accounting and Corporate Regulatory Authority. In November 2020 it published the *Code of Best Practices – Commodity Financing*, developed in consultation with commodity traders.[10]

The Code rests on two themes. At the macro level, lenders should understand the trader's corporate governance, risk management, business and transactions through due diligence. At the transactional level, they should obtain sufficient transparency and control over the financed transactions, goods and receivables. Five principles give these themes content: corporate governance, risk management, business due diligence, transparency and control, and industry collaboration. The appendices give examples of good practice. They include a board with a majority of non-executive directors, the separation of the roles of chairman and chief executive, an independent risk controller, segregation of front and back office and trading limits monitored independently.[11]

These governance expectations target the weaknesses of family-controlled trading houses in which the founder concentrated power. Hin Leong was the obvious example. The Code consists of guidelines without statutory force, yet MAS may refer to it in its supervision of lenders' business and risk management.[12] It thus acquires indirect binding force, in the manner typical of Singapore's regulatory style, where industry codes developed with the regulator's support set standards that the regulator then enforces through supervision. Its fifth principle, industry collaboration, foreshadowed the Trade Finance Registry launched three years later.

Return, concentration and the squeeze on mid-sized traders

The retreat proved partial and temporary for the largest borrowers. The commodity price boom of 2021 and 2022 brought record profits to the trading houses and renewed appetite among banks, especially Asian and Middle Eastern ones. The Trafigura facilities of 2026, raised from 40 institutions with strong Chinese participation, show that first-tier traders face no shortage of bank finance in Singapore. Their financing has become more expensive in compliance terms, but it remains available.

The picture differs for mid-sized and smaller traders. Banks now ask for audited accounts, independent directors, verified stock and transparent hedging, conditions that many family-owned firms find hard to meet. Some have turned to non-bank lenders at higher cost. Others have merged or left the business. The Asian Development Bank estimated the global trade finance gap, the difference between requests for financing and approvals, at 2.5 trillion dollars in 2022, up from 1.7 trillion dollars

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in 2020.[13] Small and medium-sized firms in developing Asia bear a large share of that gap. The concentration of bank finance on the largest traders therefore has consequences for the structure of the commodity hub itself, which Part G examines.

Notes

1. Wikipedia, "Hin Leong" (accessed November 2026): application for protection under section 211B of the Companies Act to the High Court of Singapore on 17 April 2020; the company "owes $3.85 billion to 23 lenders".
2. "After $9 billion credit hit, banks seek trade finance revamp", Bloomberg via AJOT, 9 July 2020: Hin Leong collapse in April leaving 23 banks "on the hook for $3.5 billion"; "Sixty letters of credit worth $1.5 billion financed cargo that either didn't exist or was pledged to multiple buyers"; assets worth 7 per cent of liabilities across 273 letters of credit.
3. "After $9 billion credit hit, banks seek trade finance revamp", Bloomberg via AJOT, 9 July 2020: ING lawsuit against Agritrade alleging "overlapping" shipping lists; about 18 banks facing combined losses of $670 million; HSBC accusing ZenRock of "highly dishonest transactions", banks owed $166 million; potential losses of about $9.26 billion over six years.
4. Monetary Authority of Singapore, *Financial Stability Review*, December 2020, p. 14: corporate NPL ratio of 3.4 per cent in Q3 2020 compared to 2.5 per cent in Q3 2019; general commerce NPL ratio rising from 1.5 per cent to 5.9 per cent, reflecting wholesale trade and oil-related industries affected by the collapse of oil prices.
5. Monetary Authority of Singapore, *Financial Stability Review*, December 2020, Chart Panel 4A, p. 58: "trade financing volumes have moderated".
6. "After $9 billion credit hit, banks seek trade finance revamp", Bloomberg via AJOT, 9 July 2020: Société Générale halted new funding to oil trading firms in Asia; ABN AMRO "now considers the sector high risk".
7. GTR, 12 August 2020, on the exit of ABN AMRO from trade and commodity finance; Zonebourse/Reuters, 23 September 2020, on the withdrawal of BNP Paribas (Suisse) from commodity trade finance in Geneva (sources cited in the Geneva volume, partie H, chapitre I).
8. Basel Committee on Banking Supervision, "Treatment of trade finance under the Basel capital framework", press release, 25 October 2011: agreement "to waive the one-year maturity floor for certain trade finance instruments" under the advanced internal ratings-based approach and to "waive the so-called sovereign floor for certain trade-finance related claims on banks".
9. International Chamber of Commerce, "Trade finance resilience and low credit risk persist amid global challenges, confirms ICC", 29 October 2024: default rates "remaining low across all regions and asset classes overall"; data set representing "nearly a quarter of all global trade finance transactions".
10. Association of Banks in Singapore, *Code of Best Practices – Commodity Financing*, November 2020, Introduction: industry working group of 28 banks "which comprises the vast majority of commodity finance lenders in Singapore" established in May 2020, supported by MAS, Enterprise Singapore and ACRA; Code developed "in consultation with commodity traders".
11. Association of Banks in Singapore, *Code of Best Practices – Commodity Financing*, November 2020, Appendix 1, items 5 and 8 (majority of non-executive directors; separation of chairman and chief executive) and Appendix 2, items 4, 5 and 10 (segregation of duties, independently monitored trading limits, independent risk controller). Association of Banks in Singapore, *Code of Best Practices – Commodity Financing*, November 2020, Introduction and General Principles 1–5 (corporate governance, risk management, business due diligence, transparency and control, industry collaboration).
12. Association of Banks in Singapore, *Code of Best Practices – Commodity Financing*, November 2020, "Application": the Code "serves as a set of guidelines"; "MAS may refer to the Code in its supervisory oversight of the Lenders' business

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and risk management activities".

13. Asian Development Bank, *2023 Trade Finance Gaps, Growth, and Jobs Survey*, September 2023: global trade finance gap of $2.5 trillion in 2022, up from $1.7 trillion in 2020, defined as "the difference between requests and approvals for financing to support imports and exports".

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