Trade Finance in Singapore: practical consequences

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For traders

A trader seeking finance in Singapore today must expect scrutiny of its governance and controls that goes far beyond the review of a decade ago. The Code of 2020 has become the reference point, even for banks that apply it in a proportionate manner. Traders that cannot show a credible board, independent risk control and audited accounts will find their access to bank lines narrowed. Transparency also has a commercial value, since banks price their facilities according to the quality of the information they receive.

The legal infrastructure for electronic documents is now in place. Traders that move their bills of lading and warehouse receipts onto recognised platforms reduce their own exposure to document fraud by counterparties and may obtain better terms from their banks. The choice of law matters. Singapore and English law recognise electronic transferable records, while many other jurisdictions do not, so that a transaction governed by such a law may give a controlling holder rights that a court elsewhere would refuse to enforce.

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For banks and other lenders

Banks remain exposed to the risks that the frauds of 2020 revealed: forged or duplicated documents, fictitious receivables, circular trades and undisclosed liabilities. The Registry and the Bill of Lading Genuineness Check reduce these risks without removing them. *Winson Oil* has clarified the fraud exception in the banks' favour, although a bank that refuses payment must still establish the beneficiary's fraud or recklessness on the evidence. Non-bank lenders that enter the market should recognise that they stand outside the Registry and the Code and must build equivalent controls of their own.

Checklist: structuring a commodity financing in Singapore

- Assess the trader's governance: board composition, separation of chairman and chief executive, independent risk control, audited accounts and related-party transactions.
- Obtain full information on the trader's other financing, including buy-back, repurchase and discounting arrangements and transactions without physical movement of goods.
- Register the transaction with the Trade Finance Registry where it exceeds the threshold, and use the Bill of Lading Genuineness Check where available.
- Take title and transport documents to the order of the lender, or endorsed in blank, and where possible in electronic form recognised under Part 2A of the Electronic Transactions Act.
- Accept a letter of indemnity in place of a bill of lading only with a copy of the bill of lading, from a creditworthy issuer and with a short redemption period.
- Verify stock through an independent inspector or collateral manager, and check the storage provider's independence from the trader.
- Notify every assignment of receivables to the debtor and obtain its written acknowledgement and payment undertaking.

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- Put a tripartite agreement in place with the trader and its broker for any hedge of financed goods.
- Screen all parties, vessels and routes for sanctions and trade-based money laundering risks (see Chapters H.III and H.IV).
- Document the transaction under Singapore or English law, with arbitration at SIAC or jurisdiction in the Singapore courts (see Chapters F.II and F.III).

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