Transactional trade finance

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The self-liquidating principle

The core idea of transactional trade finance is simple. The bank finances a specific transaction and takes security over the goods that are its subject, usually by holding or controlling the documents that represent them. When the goods are sold, the buyer pays into an account controlled by the bank, which repays itself from the proceeds. The credit arises with the purchase and disappears with the sale. Bankers call it self-liquidating, since its source of repayment is built into the transaction itself.

This logic distinguishes trade finance from ordinary corporate lending. Besides the creditworthiness of the trader, the bank examines the quality of the transaction: the goods, their market value and liquidity, the identity of the buyer, the route, the storage and the documents. A medium-sized trader with sound transactions and transparent flows can obtain financing far larger than its balance sheet would justify. A large trader may be refused financing for a transaction that the bank judges unsound. The same principle underlies the Geneva practice, which the parallel volume describes as a credit that "arises with the purchase and is extinguished with the sale".[1]

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Margins are thin. Bloomberg reported in 2020 that trade finance margins could be as low as 0.25 per cent, in a business it estimated at 18 trillion dollars worldwide.[2] A bank therefore earns its return through volume, rapid turnover and very low losses. Any failure of controls, even on a small share of the book, can erase years of income.

Documentary credits and the autonomy principle

The documentary credit, or letter of credit, remains the classic instrument. The buyer's bank undertakes to pay the seller on presentation of documents that comply with the terms of the credit: typically a commercial invoice, a bill of lading or other transport document, an inspection certificate, a certificate of origin and an insurance document. The seller obtains the security of a bank's promise, while the buyer obtains assurance that payment will be made only against documents showing that the goods have been shipped as agreed. Credits issued in Singapore normally incorporate the ICC's Uniform Customs and Practice for Documentary Credits, in the revision known as UCP 600, which took effect on 1 July 2007.[3] No Singapore statute governs letters of credit. Their legal force comes from contract and from the common law developed by English and Singapore courts.

The credit is independent of the sale contract on which it rests. Banks deal in documents. A bank must therefore pay against conforming documents even if the buyer complains about the quality of the cargo. The Court of Appeal summarised the point in 2024: "autonomy" refers to "the notion that the credit is to be treated as an independent transaction".[4] The principle gives the credit its commercial value. It also creates the risk that a fraudulent beneficiary presents forged or false documents and obtains payment for goods that never existed.

The law answers that risk with the fraud exception. A bank may refuse payment, and a court may restrain it, where the beneficiary has presented documents fraudulently. The *Winson Oil* case, which arose from the collapse of Hin Leong, gave the Court of Appeal occasion to define the exception. Hin Leong had applied for two letters of credit, issued by OCBC and Standard Chartered, in favour of Winson Oil Trading. The underlying chain was circular. Within a single afternoon Hin Leong sold two shipments of 780,000 barrels of gasoil to Trafigura at the Singapore

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benchmark plus US$2.30 a barrel, Trafigura sold them to Winson at plus US$2.35 and Winson sold them back to Hin Leong at the same price.[5] Winson presented letters of indemnity in place of bills of lading, although no valid bills of lading existed and no cargo had been shipped as described.

The Court held that the fraud exception is engaged when a beneficiary presents documents with a false representation made knowingly or without belief in its truth, which includes recklessness in the sense of indifference to the truth. It thus adopted the common-law test of deceit for letters of credit and declined to follow the narrower view taken by the Singapore International Commercial Court in *Credit Agricole Corporate & Investment Bank v PPT Energy Trading*, which had held that recklessness did not suffice. The Court pointed to the red flags of the transaction: a pre-structured circular trade, missing loading documents and original bills of lading, a change in the quantity stated in a bill of lading after its issue and doubts about clean title. It dismissed Winson's appeals and ordered it to pay costs of $200,000 to the two banks.[6] The judgment strengthens the position of banks that refuse payment in the face of suspicious documents, which is the practical lesson of 2020.

Collections, trust receipts and letters of indemnity

Much trade between established partners moves without a credit. In a documentary collection the seller's bank sends the documents to the buyer's bank, which releases them against payment or against the buyer's acceptance of a bill of exchange. The banks act as agents and give no payment undertaking. Cheaper than credits, collections suit counterparties who trust each other and remain common in regional trade with Indonesia, Malaysia and Thailand.

The trust receipt is the characteristic instrument of import financing in Singapore and Malaysia. A bank that has paid for imported goods holds the documents of title as security. It releases them to the importer so that the goods can be cleared, stored and sold, while the importer acknowledges that it holds the goods and their proceeds on trust for the bank. The device allows the trader to deal with the goods while the bank retains a proprietary claim. Its weakness is obvious: the bank

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depends on the honesty of the trader, who has physical control of the goods and of the proceeds. MAS counts trust receipts expressly among the forms of trade financing that banks report under its statistical returns.[7]

The oil trade adds a further practice. Cargoes are often resold several times while the vessel is at sea, faster than the original bills of lading can travel through the chain. Sellers therefore present a letter of indemnity, by which they promise to hold the buyer or the bank harmless if the bill of lading turns out to be defective or is presented by someone else. The Court of Appeal noted in *Winson Oil* that letters of indemnity are typically used "because the original BL is in circulation". It regarded their use as unusual where all the parties were in Singapore.[8] An indemnity is only as good as the party that gives it. The banks' Code of Best Practices of 2020 therefore asks that any letter of indemnity be accompanied by a copy of the bill of lading it refers to and be redeemed on the lender's demand within a prescribed period.[9]

Guarantees, standby credits and receivables finance

Bank guarantees and standby letters of credit secure performance and payment obligations: the delivery of a cargo, the payment of a price, the return of an advance. Like the documentary credit, they are independent undertakings subject to a fraud exception. Singapore law also recognises a separate ground for restraining a call on a performance bond, unconscionability, which distinguishes Singapore from English law. The Court of Appeal reaffirmed it in *JBE Properties Pte Ltd v Gammon Pte Ltd* in 2011. *Winson Oil* noted that this less stringent standard for performance bonds has no bearing on the fraud exception for letters of credit.[10] The doctrine goes back to a decision of the Court of Appeal in 1995.[11] The ground is applied mainly in construction disputes. Commodity traders meet it when they give performance guarantees under supply contracts.

Receivables finance has grown alongside the traditional instruments. A trader that sells on open account, with payment thirty, sixty or ninety days after delivery, can sell or assign its receivables to a bank by factoring, forfaiting or invoice discounting. In supply chain finance the bank pays the suppliers of a large buyer early, relying on the buyer's promise to pay at maturity. These products shift the credit risk from the

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trader to its customer. They also create a specific risk of fraud, since a receivable can be invented or assigned to several financiers at once. The Code of 2020 asks lenders to notify every assignment to the debtor and to obtain its acknowledgement, so that the debtor knows whom to pay.[12]

Public support for smaller traders

The state supports the trade finance of smaller firms through Enterprise Singapore, the agency formed on 1 April 2018 from the merger of IE Singapore and SPRING Singapore.[13] Its Enterprise Financing Scheme includes a Trade Loan that covers inventory and stock financing, structured pre-delivery working capital, factoring with recourse, receivables discounting, overseas working capital loans and bank guarantees. The government shares 50 per cent of the default risk with the participating bank, or 70 per cent for young enterprises and borrowers in challenging markets. The maximum quantum is S$50 million per borrower group across all facilities of the scheme. Loans run for a maximum of one year, and guarantees for up to two years.

Eligibility is limited to firms registered and operating in Singapore with at least 30 per cent local equity and a group turnover not exceeding S$500 million.[14] The scheme therefore serves local small and medium-sized traders. The international houses that dominate the commodity hub fall outside it and depend entirely on private finance.

Notes

1. Ressos, *Genève, place financière internationale*, partie H, chapitre I, section « La logique du financement transactionnel »: « Le crédit est ainsi autoliquidatif : il naît avec l'achat et s'éteint avec la vente. » ↩
2. "After $9 billion credit hit, banks seek trade finance revamp", Bloomberg, reproduced by *American Journal of Transportation* (ajot.com), 9 July 2020: "Trade finance margins can be as low as 0.25%"; trade finance described as an $18 trillion business. ↩

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3. Wikipedia, "Uniform Customs and Practice for Documentary Credits" (accessed November 2026): UCP 600 approved by the ICC Banking Commission in Paris on 25 October 2006 and "formally commenced on 1 July 2007"; International Chamber of Commerce, *Uniform Customs and Practice for Documentary Credits*, 2007 Revision, ICC Publication No. 600. ↩

4. *Winson Oil Trading Pte Ltd v Oversea-Chinese Banking Corp Ltd and another appeal* [2024] SGCA 31 (Sundaresh Menon CJ, Steven Chong JCA and Belinda Ang Saw Ean JCA; judgment delivered by Steven Chong JCA), on the autonomy principle: "'Autonomy' in this context is used to refer to the notion that the credit is to be treated as an independent transaction." ↩

5. *Winson Oil Trading Pte Ltd v Oversea-Chinese Banking Corp Ltd* [2024] SGCA 31, at [6]–[7]: SCB credit issued on 2 April 2020 and OCBC credit on 6 April 2020, Hin Leong as applicant of both and Winson as beneficiary; contracts concluded at 2.54pm (Hin Leong to Trafigura, MOPS plus US$2.30/bbl), 3.19pm (Trafigura to Winson, MOPS plus US$2.35/bbl) and 5.10pm (Winson to Hin Leong, MOPS plus US$2.35/bbl), each for two shipments of 780,000 barrels of gasoil. ↩

6. *Winson Oil Trading Pte Ltd v Oversea-Chinese Banking Corp Ltd* [2024] SGCA 31, at [140]–[141]: "we dismiss the appeals"; costs to OCBC and SCB fixed at $200,000 inclusive of disbursements. *Winson Oil Trading Pte Ltd v Oversea-Chinese Banking Corp Ltd* [2024] SGCA 31, at [61]: the fraud exception "may be engaged if, in presenting documents for payment, a beneficiary makes a false representation knowingly, or without belief in its truth (which includes the beneficiary being reckless in the sense of being indifferent to the truth)"; at [53]–[54], adoption of the *Derry v Peek* formulation for letters of credit; at [41]–[43], disagreement with *Credit Agricole Corporate & Investment Bank, Singapore Branch v PPT Energy Trading Co Ltd and another suit* [2022] 4 SLR 1 (SICC) on recklessness. ↩

7. Monetary Authority of Singapore, *Financial Stability Review*, December 2021, Annex, p. 117: under the new MAS 610/1003, trade financing "now specifically includes factoring loans, trust receipts, buyers' credit, forfaiting, invoice

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financing and other facilities for the purpose of trade financing to non-banks". ↩

8. *Winson Oil Trading Pte Ltd v Oversea-Chinese Banking Corp Ltd* [2024] SGCA 31, at [100]–[101]: "LOIs are typically used because the original BL is in circulation"; use treated as unusual "where all the relevant parties were based in Singapore". ↩
9. Association of Banks in Singapore, *Code of Best Practices – Commodity Financing*, November 2020, Appendix 4, item 7: a letter of indemnity used in lieu of original title or transport documents should be "accompanied by a copy of the title and/or transport document referenced thereunder" and be "redeemed on demand by Lenders within such prescribed period". ↩
10. *Winson Oil Trading Pte Ltd v Oversea-Chinese Banking Corp Ltd* [2024] SGCA 31, at [51]: "a less stringent standard … can justifiably be adopted for determining whether a call on a performance bond" should be restrained, citing *JBE Properties Pte Ltd v Gammon Pte Ltd* [2011] 2 SLR 47 (CA) on unconscionability as a separate ground. ↩
11. *Bocotra Construction Pte Ltd v Attorney-General (No 2)* [1995] 2 SLR(R) 262 (CA), on unconscionability as a ground for restraining a call on a performance bond. ↩
12. Association of Banks in Singapore, *Code of Best Practices – Commodity Financing*, November 2020, principle 4.3 and Appendix 4, item 8: notification of any assignment of receivables to the debtor and acknowledgment of the notice of assignment by the debtor. ↩
13. Wikipedia, "Enterprise Singapore" (accessed November 2026): formed on 1 April 2018 by merging International Enterprise Singapore and SPRING Singapore. ↩
14. Enterprise Singapore, "Enterprise Financing Scheme – Trade Loan" (accessed November 2026): eligibility criteria of 30 per cent local equity held by Singaporeans or permanent residents and group annual sales turnover not exceeding S$500 million; enhancements effective 1 April 2026. Enterprise

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Singapore, “Enterprise Financing Scheme – Trade Loan” (enterprisesg.gov.sg, accessed November 2026): instruments covered; “Risk share is at 50%”, 70 per cent for young enterprises or challenged markets; “S$50 million maximum loan quantum per Borrower Group across all EFS facilities”; repayment period of one year; bank guarantees “capped at 2 years’ tenure”. ↩

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