Singapore

Singapore gets tough on commodity trading practices after series of scandals

Long jail sentence for 82-year-old former oil trader is sign of ‘zero tolerance’ for fraud

OK Lim, who attended court in a wheelchair, received 17 and a half years for helping to defraud HSBC © Reuters

Owen Walker in Singapore DECEMBER 3 2024

After a series of scandals at the height of the Covid-19 pandemic, Singapore’s efforts to rein in its commodity trading sector have culminated in a lengthy prison sentence for a former oil trader now in his 80s.

Lim Oon Kuin — known as OK Lim, and once one of Singapore’s richest men — was found guilty in May of defrauding HSBC and abetting forgery. The 82-year-old was sentenced in November to 17 and a half years in jail in a ruling the judge said was designed to act as a “deterrent”. Lim’s defence lawyer has appealed, citing his wheelchair-bound client’s age and poor health.

The tough sentencing exemplifies how Singapore has tried to crack down on dodgy dealing in its commodities market. It has launched initiatives aimed at digitising the documentation that is the backbone of the commodities market, while encouraging wider information sharing among market players to prevent fraud.

“Singapore has realised they need to step up and rebuild some credibility,” said Jean-François Lambert, founding partner of Lambert Commodities, a consultancy. “They are taking these scandals more seriously.”

Singapore owes its reputation as a global commodities hub to its position on sea lanes that connect China with global markets, along with its government's business-friendly approach.

Global trading houses including Trafigura, Vitol Group, Gunvor and Mercuria all have bases in the city, which is Asia's largest oil trading hub and one of the largest in the world for trading agricultural commodities. The city state has also set its sights on becoming a hub for rapidly growing carbon trading.

Its need to set itself apart has become more acute after Dubai's rapid rise as a commodities trading hub, especially for Russian goods under sanctions by western governments.

"The long arc of global history is full of stories of ports that have flourished and thrived for decades, only to decline amidst changing circumstances," said Prime Minister Lawrence Wong during an event at Singapore's mega Tuas Port project in October. "The lesson is that we cannot be complacent."

The Lim case, along with several others in Singapore, came to light in 2020, when commodity prices slumped at the outbreak of the pandemic. Lim's company, Hin Leong, collapsed in April 2020 and he admitted hiding $800mn in losses from creditors, which included some of the world's biggest banks.

His was the largest of several trading houses in the city state that imploded that year. Others included the oil dealer ZenRock and Agritrade International, a trader accused of fraud by its lenders. Hontop Energy, the trading arm of a Shandong-based refiner, went into receivership and was accused by its biggest lender of "suspicious transactions".

A common theme of the scandals was dubious paperwork, used to secure credit from financial institutions in order to hide losses and make leveraged bets on commodity prices. Banks were willing to lend to the traders in expectation of chunky fees.

"Paper documents have always been the Achilles heel of international trade," said Baldev Bhinder, managing director of Blackstone & Gold, a specialist energy and commodities law firm in Singapore.

Lim was found guilty of encouraging his executives to forge two documents that purported to be oil sales contracts, which led to HSBC disbursing nearly $112mn to the company.

At the time of its collapse, Hin Leong owed $3.85bn. HSBC had the biggest exposure at $600mn, followed by ABN Amro at $300mn, while French lender Société Générale had lent the company $240mn. Singaporean banks — DBS Group, OCBC Bank and United Overseas Bank — had exposures worth $680mn.

HSBC also lent $49mn to ZenRock, but reported the collapsed trader to Singaporean police over what it described as "dishonest practices".

Agritrade was found to have been granted $1.5bn of credit from 26 lenders. Its creditors accused the business of fraud through issuing duplicate bills of lading — the legal documents issued by transportation companies to shippers — to multiple banks as security against loans.

"Prosecutors are taking a more proactive approach," said Kit Smith, a UK-based lawyer specialising in global fraud and trade disputes at Keidan Harrison. "There is a push to be more stringent on big-ticket frauds and make examples of the perpetrators."

Enterprise Singapore, the government agency charged with promoting business, said there was "zero tolerance for fraudulent activities in Singapore".

"The fraud cases seen in the commodities trading sector in the past have been attributed to weak disclosure practices and internal controls among a minority of the trading companies," it said in a statement to the Financial Times.

"When Singapore authorities discover financial fraud in the trading sector, we will take immediate action to bring perpetrators to task as seen in the case of Hin Leong."

The government has also launched a series of initiatives in recent years aimed at impeding fraudsters' ability to rip-off creditors.

Among them is a trade finance registry to prevent the same asset being pledged as a security for more than one loan to different institutions. The government has also tried to encourage traders to move away from paper documentation, instead exchanging digital records on a public blockchain to reduce forgeries.

While Lambert said Singapore was "raising the stakes in terms of compliance and regulatory requirements", he added that regulators should have been firmer in previous accounting scandals.

The scandals have also forced banks to take a much more stringent approach to lending to commodity traders. Several lenders announced they were pulling out of the market in 2020.

"Banks are approaching their customers with a great deal more vigilance now, which is a good thing, but it has meant smaller traders are finding it harder to attract financing," said Bhinder.

"Lim's sentencing closes a chapter for Singapore and the commodities trading market — it has been a learning experience for everyone."