

Trafigura

Trafigura under fresh scrutiny after scandals hit profits

Commodities trading house hit by repeated failures of risk controls that have taken financial and reputational toll



Richard Holtum will become Trafigura's new chief executive on January 1 © FT montage/Bloomberg

Leslie Hook in London 4 HOURS AGO



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Commodities trader Trafigura is coming under heightened scrutiny by some of its lenders after a series of scandals hit earnings and dented the company's value.

The privately held group uncovered a "massive problem" at its Mongolian oil division this year, which cost it \$1.1bn and contributed to a steep decline in profits and dividend payouts. It is the second such issue to hit Trafigura in two years after it said in 2023 that it had been the victim of a \$600mn nickel fraud.

The trouble in Mongolia was significant enough to trigger questions from the risk committees at some of Trafigura's lenders, according to bankers, although it did not result in any suspensions of credit lines.

In a sign of the business impact, banks have asked Trafigura to include an explanation of events in Mongolia and its remediation plan in the presentation for its upcoming European revolving credit facility to be launched next month.

“We don’t expect Trafigura to have any form of liquidity distress, but that shouldn’t serve as an excuse to be complacent,” said one banker.

As Trafigura prepares to shake up its top management, its annual results released on Friday underscored the [financial toll](#) of the repeated failures of controls. The Mongolia scandal as well as hefty fines from regulatory authorities cost the group more than \$500mn this year, paring down net profits to \$2.8bn for the period.



Current chief executive Jeremy Weir’s tenure draws to a close at the end of a difficult year © F. Carter Smith/Bloomberg

Incoming chief executive Richard Holtum, who currently runs the gas and power division, will take up his new role on January 1, while chief executive Jeremy Weir will become chair.

Weir’s tenure draws to a close at the end of a difficult year, dealing not only with the Mongolia scandal but also with [a high-profile corruption trial](#) that has been running for the past two weeks in Switzerland and a series of settlements with US regulators.

A person close to Trafigura said it had been tackling issues that were “hanging over” the company to give Holtum a clearer playing field when he takes over.

Trafigura reached a \$127mn settlement with the US justice department in March, pleading guilty to a scheme to pay bribes in Brazil between 2003 and 2014. Two months later it agreed a \$55mn settlement with US regulators over charges of fraud and market manipulation. Trafigura neither admits nor denies those charges.

The company, the largest independent metals trader alongside rivals such as Vitol and Mercuria, has also embarked on a hiring spree to bulk out its risk department under Ignacio Moyano, who was appointed chief risk officer last year.

Trafigura blamed “gross misconduct” for the problems in Mongolia, saying employees colluded with its trading partner to perpetrate the deceit over five years. It said it spotted the problem because of tighter risk controls in the wake of the nickel fraud.



As new leadership takes the helm, Trafigura will seek to ensure that the new compliance measure will prevent losses in future © Fabrice Coffrini/AFP via Getty Images

The incident forced Trafigura to book a \$358mn loss this year, restate earnings in two prior years and restate the value of its equity at the end of 2023 to \$15.8bn, down from \$16.5bn originally.

The repeated scandals have raised questions among its bankers about why risk controls failed.

“From a bank perspective, the key question is, ‘Is it a one-off, or not?’,” said Jean-François Lambert, a former commodity trade finance banker who now runs a consultancy.

“The banks didn’t like it, nobody likes it. But what matters is that it’s a one-off, and this is not harming the financial strength of the company.”

Bankers are often the toughest masters for independent commodity trading houses, because they rely on credit lines to finance the trades that move raw materials around the world.

Trafigura has lines of credit worth \$77bn with about 150 different banks. That is up slightly from \$75bn last year.

Banks’ risk committees are often more conservative than the trading houses themselves. As the nickel scandal began to spiral, Citi was among the earliest to spot the crisis, cutting off the credit facility that Trafigura used for the trades.

Trafigura says it was tricked into buying more than 1,000 containers of purported nickel, which did not actually contain the material, and is suing its counterparty Prateek Gupta and his affiliated companies in London courts. Gupta's lawyers accuse Trafigura of being complicit in the fraudulent scheme.

The company says the compliance overhaul it undertook as a result of the nickel fraud led to the discovery of the problems in its Mongolia oil division.

The \$1.1bn writedown booked by Trafigura is vast in comparison to the size of the Mongolian oil market, which is one of the smallest in the world, trading about \$1bn of oil and oil products a year.

"We are confident that these issues are isolated to a self-contained operation in Mongolia," Weir, the outgoing chief executive, said in the company's annual report.

He added that Trafigura was responding to the challenges by urgently extending its work "to review, test and improve our end-to-end control framework, systems, risk and governance structures". An external audit of the Mongolia incident is under way.

As new leadership takes the helm, Trafigura will seek to ensure that the compliance measures put in place will be enough to prevent similar losses in future.

"They [Trafigura] seem to have taken the right steps," said Lambert. "The only pain for them, of course, is their reputation."

Additional reporting by Malcolm Moore in London