

Business

Hin Leong Bust Latest to Mar Singapore's Oil Trading Haven

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- ▶ Fabled trading house said it hid \$800 million in losses
- ▶ Noble Group, Agritrade and Hontop also had recent collapses

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CL1
WTI Crude
 12.59 USD/bbl.
 ▼ -0.19 -1.49%

NOBL
NOBLE GROUP LTD
 SGD ▼ +null +null%

3460878Z
AGRITRADE INTERNATIONAL PTE
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XW1
Generic 1st 'XW' Future
 51.00 USD/MT
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ENTERPRISE SINGAPORE
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Singapore has long touted itself as the ideal home for a commodity trading house, with low taxes, light regulation and a view of one of the world's busiest shipping channels.

That hard-earned reputation is now taking a hit after a spate of financial scandals and failures, culminating in the dramatic demise of [Hin Leong Trading Pte](#), the fabled marine fuel trader that has confessed to hiding about \$800 million in losses and selling off oil inventories that were backstopping loans.

Just weeks before Hin Leong's failure, [Agritrade International Pte](#), whose businesses span palm oil and coal mining, collapsed amid allegations of fraud. [Hontop Energy Pte](#), an oil trader linked to a Chinese refiner, entered receivership around the same time, blaming cratering demand due to the coronavirus pandemic.

And it's been just a couple of years since Noble Group Ltd., a Singapore-listed firm that was once Asia's largest commodities house, spiraled into a court-appointed restructuring after allegations of overly aggressive accounting practices.

"The collapse of commodities traders like Noble, Hin Leong and Agritrade hurts our reputation," said Mak Yuen Teen, an accounting professor who specializes in corporate governance at the National University of Singapore. "Our rules, monitoring and enforcement for companies are weak - and we are now paying a heavy price."

For observers such as Mak, it raises questions over the strength of Singapore's regulatory and legal oversight of trading houses, which need vast amounts of bank financing to buy, blend, store and transport raw materials. For others, the problems are inherent in the necessarily secretive and risky modus operandi of the traders themselves, who cultivate every edge to succeed on often razor thin margins, and it just so happens that Singapore is home to a lot of them.

Either way, when a trading house goes down, it creates collateral damage across the system.

Financial Scandals

Financial scandals are nothing new to Singapore, dating back to the original rogue trader, Nick Leeson, whose unauthorized bets on Japanese stock futures resulted in the bankruptcy of Barings Bank in 1995. There have been a string of commodity scandals since, from China Aviation Oil losing \$550 million in 2004 to a Mitsubishi Corp. trader losing \$314 million last year.

WHO	WHEN	WHAT
Hin Leong	2020	Hid \$800 million in oil trading losses
Agritrade	2020	Forged bills of lading hiding potential losses on \$600 million of liabilities
Hontop Energy	2020	Trading arm of Chinese refiner went into receivership
Petro-Diamond	2019	'Rogue trader' lost \$314 million on oil trades
Noble Group	2015	Allegations of improper accounting foreshadowed firm's demise
Olam	2012	Muddy Waters accused it of Enron-like accounting problems
Mitsui	2006	\$81 million in bad naphtha trades led to closing of Singapore office
China Aviation Oil	2004	\$550 million loss in oil derivatives

The country's Trade and Industry Minister Chan Chun Sing said in a [Bloomberg TV interview](#) last week that he doesn't think Hin Leong's collapse would affect the wider market, and that he doesn't think the case has dented the country's reputation at this point.

The government takes a firm stance against unlicensed and illegal trading activity, with penalties including fines and imprisonment, said a spokesperson for Enterprise Singapore, the agency that promotes international trade. Otherwise the country remains an attractive location for trading houses, and has a clear and tested set of insolvency laws that allows for the orderly winding down of companies to ensure there's no systemic contagion, the spokesperson said in an emailed statement.

Traders in Singapore of everything from zinc to oil said their bankers were [pulling back](#) from short-term financing. Lenders are asking for more collateral, financing costs have jumped, and in some cases the banks simply won't issue letters of credit to some smaller companies. That's echoed by the lenders themselves, who have said they're reducing their exposure to commodities by cutting short-term loans to some clients and only lending to the biggest traders.

Low Taxes

Singapore courts trading firms around the world to rent office space and

hire well-educated locals. The government offers traders corporate tax rates of just 5%, even better than the 13% rates offered to the trading houses that populate the cantons of Switzerland.

It means that between 60% and 80% of the world's top oil, metals and agricultural companies are operating in the city state, according to Enterprise Singapore's [website](#).

"You see Singapore showing up in the commodity problems because they have gone out and provided aggressive financial incentives for people to locate these commodity trading businesses in Singapore," said Michael Dee, a former senior managing director at Singapore state investment firm Temasek Holdings Pte. "So you have a higher propensity for those businesses to be in Singapore."

Dee was a high profile critic of both Noble Group and agricultural trader [Olam International Ltd.](#), which survived a short-selling attack by Muddy Waters LLC after being rescued by Dee's former firm.

And Singapore certainly has its defenders. The city-state's regulations are no more lax than any other major financial hub, according to Jean-Francois Lambert, an industry consultant and former trade finance banker with HSBC Holdings Plc. The fundamental issue is that physical and financial commodity trading is difficult to understand and monitor from outside the company, he said.

Singapore has to walk a fine line between being agile and resourceful in attracting new traders, while not tolerating bad behavior, said John Driscoll, a veteran oil trader and analyst who now lectures on the topic at Singapore Management University.

"They're supportive, but at the same time it's not the Wild West," he said.

Police Investigations

Regulators in the city state have drawn criticism for being slow to react to problems. Noble had been under fire from an ex-employee and short-sellers such as Muddy Waters for three years when authorities [opened an investigation](#) in 2018.

No charges or allegations have come out of the probe. Investigations are ongoing and no other information is available right now, a Singapore Police Force spokeswoman said by email.

Police are now also investigating Hin Leong, after the firm told creditors that its liabilities were \$4.05 billion as of early April against assets of just \$714 million, leaving a hole of about \$3.34 billion.

On Tuesday, Singapore's High Court [approved](#) PricewaterhouseCoopers LLC as interim judicial manager of Hin Leong, meaning the firm will oversee the company's finances and negotiate with creditors.

Hin Leong doesn't have to file financial statements because of its classification as “an exempt private company” with fewer than 20 members and does not have any corporations holding beneficial interest in its shares. It declared revenue of more than \$20 billion in its 2019 financial year.

“How can a company with \$20 billion revenue and this amount of assets and liabilities be an exempt private company?” Mak said. “This is a serious deficiency in our regulation. There are so many stakeholders who will be affected by this.”

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– *With assistance by Chanyaporn Chanjaroen, Alfred Cang, and Serene Cheong*

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(Updates with court approval of interim judicial manager in third paragraph from the end)

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