

Geneva after 2020

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The Geneva financial centre drew its own particular lessons from the frauds of 2020. The banks that remained active strengthened their procedures and concentrated their financing on first-tier traders. The Banque cantonale de Genève and mid-sized institutions expanded their business. Non-bank financiers established themselves. The professional associations promoted standards of good conduct and training programmes.

The debate on the regulation of trade finance continued. In Switzerland, the activity falls under ordinary banking supervision, without specific rules, whereas in Singapore the authorities tightened the requirements after the scandals.¹ The question of a register of pledges over goods, which would make it possible to prevent multiple financing, remains open.

The frauds of 2020 recalled a lesson that the history of the centre has repeated since the medieval fairs: documentary trust is worth something only if the documents are genuine, and verification is its price. The money-changers who weighed coins, the inspectors who checked weights and the bankers who kept their books in double entry knew that trust is built through control. The banks that forgot this in 2020 paid dearly for it.

Worked example. A trader obtains from three banks, against the same oil cargo worth 100 million dollars, three financings of 90 million each, presenting to each of them a bill of lading and an inspection certificate. It thus has 270 million at its disposal for goods worth 100. When prices fall by 30 per cent, the cargo is worth only 70 million. The trader, which has used the surplus funds to cover other losses, is then unable to repay. The three banks discover that they hold the same security and share 70 million between them against 270 million of claims: each loses around 67 million. The figures are fictitious, but the mechanism is that of the frauds of 2020.

1 Notes

1. Association of Banks in Singapore, press release of 30 November 2020, “ABS launches Code of Best Practices for Commodity Financing”: a code drawn up by a working group of 28 banks “together with the support of the Monetary Authority of Singapore (MAS), Enterprise Singapore (ESG) and the Accounting and Corporate Regulatory Authority (ACRA)”, dealing with the governance and risk management of traders and with “sufficient transparency and control over financed transactions, goods and receivables”; GTR, “Singapore banks unveil tougher commodity finance standards after fraud scandals”, 1 December 2020 (prohibition of multiple financing of the same goods without the banks’ agreement, treatment of letters of indemnity); GTR, “Singapore goes live with anti-fraud registry to eliminate duplicate financing”, 23 June 2023 (the ABS Trade Finance Registry, MonetaGo technology).
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