

The mechanisms in detail: documents, stocks, counterparties

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The frauds of 2020 used three families of mechanisms which Geneva practitioners have since learned to recognise. The first is documentary fraud: presentation of the same bill of lading to several banks, in the form of copies or duplicate originals, forgery of inspection certificates, invoices for non-existent cargoes, and bills of lading issued for vessels that were not at the port indicated, which vessel positioning data would have revealed.¹ The second is fraud on stocks: goods pledged several times over, stocks sold without repaying the financiers, and fictitious inventories certified by warehouse keepers who were either complicit or deceived. The third is counterparty fraud: circular sales between related companies, which created apparent flows and receivables serving as a basis for financing, and shell companies acting as buyers.

These mechanisms have one thing in common: they exploit the separation between the bank, which sees documents, and the goods, which it never sees. The countermeasures aim to reduce this separation: verification of bills of lading with the carriers, cross-checking of vessel positions, independent inspections of stocks, sharing of information between financiers on the cargoes financed, and the electronic document registers described in Part K. Although none of them eliminates fraud, together they increase its cost and the likelihood of detection, which is all that a financing system can do.

1 Notes

1. Wikipedia (en), art. “Hin Leong”: 800 million dollars of concealed losses on futures contracts, debts of 3.85 billion to 23 banks, first forgery charge on 14 August 2020, conviction of Lim Oon Kuin on 18 November 2024 for cheating and forgery (“one of the most serious cases of trade financing fraud” according to the prosecution); GTR, 14 July 2020, “Banks nervous over fraud losses as Singapore oil traders collapse”: ZenRock (May 2020, fraudulent business practices discovered by HSBC), Agritrade International (March 2020, exposures of 600 million dollars); GTR, 23 June 2023: multiple financing of the same transaction and non-existent cargoes alleged against Hin Leong, fabricated transactions at ZenRock, Sugih Energy and Hontop Energy. ↩

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