

## MAS' Information Paper on Governance and Risk Management of Commodity Financing

April 2025



Commodity trading plays a significant role in Singapore's economy, accounting for 4.5% of the nation's gross domestic product. In light of recent financial challenges faced by several commodity traders, including Hin Leong Trading Pte Ltd, following the impact of crashing oil prices and the COVID-19 pandemic on fuel demand. The Straits Times [reported](#) that a working group comprising of around 20 banks in Singapore, European lenders and government bodies has been set up to improve transparency and lending standards in the sector.

Following massive unpaid debts by Hin Leong and Agritrade International, banks, such as HSBC, DBS, and OCBC, have already tightened credit and increased the scrutiny of loans, contributing to a decrease in trade volumes. Similarly, the Financial Times [reported](#) Singapore's rigorous efforts to combat fraud in commodity trading, including steps to digitalise documentation for increased transparency. In this context, we are pleased to share the latest updates from the Monetary Authority of Singapore's (MAS) [information paper](#) on the governance and risk management of commodity financing (CF).

The information paper details the MAS's observations and supervisory expectations from thematic inspections conducted on selected banks in 2024. These inspections evaluated the effectiveness of banks' governance and risk management in their CF activities, focusing particularly on lending standards and practices in the oil and gas sector. Key areas inspected include governance and management oversight, customer-level controls and monitoring, and transactional-level controls and monitoring.

We have summarised the MAS' supervisory expectations below:

### 1. Governance and Management Oversight:

- a. **Governance Structure:** Banks should establish management committees or forums with clearly defined mandates and terms of reference. These management committees should meet regularly to oversee risk exposures in CF activities and address issues promptly.
  - i. The MAS noted the lack of a holistic approach, which has led to inconsistencies in a bank's risk management of CF exposures across portfolios/business units even where the products and transactions involved were similar. For instance, the MAS noted that there were different exceptional approval frameworks and transactional risk thresholds and control processes that were implemented within the bank to manage the same type of risks across its CF portfolios without due justification.
- b. **Risk Appetite and Strategies:** Banks should set out clear risk appetite and strategies for their CF activity, taking into account the scale, nature and complexity of their CF portfolio/segments, and market/industry developments that could have potential impact on their portfolio.
- c. **Portfolio Reviews:** Banks should perform timely periodic portfolio reviews and stress tests to assess macroeconomic and industry influences on CF risk exposures.
- d. **Implementation of Code Principles (at Governance Level):** Banks should apply the [Code of Best Practices – Commodity Financing](#) ("Code") on their CF portfolios in a risk proportionate manner, as part of good risk management practices and exercise prudence if any customer segments are assessed to be out-of-scope.
- e. **Organisational Set-Up and System Support:** Banks should ensure adequate resourcing. Clear mandates are essential for functions overseeing credit and transactional risk controls.
  - i. The MAS observed the adoption of different reporting structures by the banks reviewed. A few banks had structured their credit control and monitoring units to report directly or ultimately to the business head (i.e., front office), posing potential conflicts of interests that may undermine the effectiveness of checks on compliance with lending terms and conditions.

## 2. Customer-Level Controls and Monitoring:

- a. **Credit Approving Authorities:** Banks should establish clear authorisation structures for granting CF facilities, ensuring that discretionary powers align with risk. Credit risk manager should provide effective review during the credit approval process.
- b. **Credit Risk Assessment and Lending Structure:** Banks should structure their credit facilities according to their credit risk assessments and appetites for the commodity sector and establish key lending principles and risk parameters to guide staff. In addition, banks are expected to holistically assess fraud risk at the customer level and identify customers with heightened risk for appropriate mitigation.
- c. **Implementation of Code Principles (at Credit Due Diligence Level):** Banks are expected to incorporate key principles of the Code on the conduct of business due diligence on their commodity trading customers and assessment of their corporate governance and risk management practices. Banks are also expected to have processes to monitor implementation of the Code principles at the customer level.
- d. **Credit Risk Control and Monitoring (at Facility Level):** Banks should have processes to ensure that credit is granted within their risk appetites and allow them to monitor the incremental impact of exceptions and deviations (if any) on their credit risk exposures.
  - i. The MAS found that credit risk monitoring systems at some banks were found to be lacking as the systems were unable to generate effective consolidated reports on credit limit excesses for independent review and escalation. The MAS concluded that there is a need for banks to improve their credit monitoring and tracking processes and strengthen their independent oversight, to properly manage the risks arising from exceptions and deviations to lending terms and conditions.

## 3. Transactional-Level Controls and Monitoring:



**a. Transactional Control/Middle Office Function:** Banks should establish a proper control function to conduct effective transactional control and monitoring processes, with the support of adequate systems and tools.



**b. Compliance Checks with Transactional Terms and Conditions:** Banks should have processes to verify that customers' CF transactions are in line with approved terms and conditions prior to processing, as well as during the transaction lifecycle to the completion of the transaction flow and liquidation of financing. Exceptions from approved terms and conditions should be properly risk assessed and flagged to appropriate parties for approval.



**c. Price Checks and Monitoring Processes:** Banks should have collateral monitoring systems and processes to robustly manage their risk exposures that are subject to price risk.

- i. The MAS found that although all banks performed some level of price checks as part of their processing of transactions, there were gaps observed on various aspects that impeded the control effectiveness of this process. The MAS observed that the controls to manage credit risk from commodity price fluctuations could be strengthened, for example, the MAS noticed that collateral valuation or mark-to-market (MTM) were not performed at a transactional level on an ongoing basis, price escalation risks were not robustly monitored and the MTM process lacked independence.



**d. Controls over Warehouse/Storage Financing:** Banks should closely monitor the inventory level and value of the physical collateral held in storage, and exercise rigor in their third-party due diligence to safeguard their interest.

- i. The MAS found that despite the risks of theft and deterioration of physical commodities, some banks did not establish baseline due diligence and acceptance criteria requirements for the onboarding and ongoing reviews of warehouse/storage operators and facilities. Inadequacies were also noted in the due diligence conducted and inconsistencies in risk assessment, standards application, and onsite visits.



**e. Vessel Movement Checks:** Banks should perform vessel movement checks as part of transactional due diligence to verify the authenticity of shipments and guard against credit and fraud risks, in addition to sanctions and money laundering risks.

- i. Amongst the banks reviewed, the MAS found that the coverage of vessel movement checks was limited, where some banks only conducted vessel movement checks if there was a direct loan exposure to the customer. The MAS also noted that there is scope to improve checks to ensure that the end-to-end voyage of a shipment is in line with expected trajectory, where such checks are warranted.



**f. Post Transaction Reviews:** Banks should have processes in place to track and report trade exceptions and deviations, including red flags and anomalies, to facilitate the analysis of transactional trends and patterns and support transactional reviews at the customer level. As part of customer surveillance, banks should also develop capabilities to systematically detect potential anomalies and red flags in the transactions between customers and their counterparties.

- i. The banks reviewed were found not to have adequate mechanisms to track trade exceptions and anomalies on a consolidated basis. While regular reports might be available, they were largely prepared at a transactional level and did not facilitate trend analysis from a customer view. Further the coverage of such reports was also inadequate or lacked granularity in data capture, limiting their usefulness.



**g. Implementation of Code Principles (at Transactional Level):** Banks should establish clear guidance that will allow transactional transparency and controls over the underlying receivables and goods.

Commodity trade financing involves considerable risks, necessitating effective controls at both the portfolio and transaction levels. The MAS expects banks to establish comprehensive frameworks, control systems, and robust risk monitoring processes to address these challenges. The findings from this thematic review highlight opportunities for banks to enhance their risk management standards. This sends a clear signal to the industry that the MAS is actively monitoring this area, and firms should tighten their practices and ensure adherence to best practices.

Our Financial Regulation Group practice in Linklaters has extensive experience working with the MAS in Singapore and we have provided guidance to a large spectrum of financial institutions, including banks, financial advisers, payment service providers, and other Capital Markets Services license holders on all aspects of financial regulation.

Should you wish to discuss any of these points further, please feel free to contact Evan or Peiyong:

## Key Contacts



**Peiyong Chua**  
Partner  
Singapore  
Tel: +65 6692 5869  
[peiyong.chua@linklaters.com](mailto:peiyong.chua@linklaters.com)



**Evan Lam**  
Partner  
Singapore  
Tel: +65 6321 5289  
[evan.lam@linklaters.com](mailto:evan.lam@linklaters.com)

Linklaters Singapore Pte. Ltd.

One George Street

#17-01 Singapore 049145

Telephone: +65 6692 5700

Fax: +65 6692 5708

[www.linklaters.com](http://www.linklaters.com)

This publication is intended merely to highlight issues and not to be comprehensive, nor to provide legal advice. Should you have any questions on issues reported here or on other areas of law, please feel free to contact us.

© Linklaters Singapore Pte. Ltd. All Rights reserved 2022

Linklaters Singapore Pte. Ltd. (Company Registration No. 200007472C) is a licensed foreign law practice, incorporated with limited liability in Singapore. Linklaters Singapore Pte. Ltd. is affiliated with Linklaters LLP, a limited liability partnership registered in England and Wales with registered number OC326345. Linklaters LLP is a law firm authorised and regulated by the Solicitors Regulation Authority. The term partner in relation to Linklaters LLP is used to refer to a member of Linklaters LLP or an employee or consultant of Linklaters LLP or any of its affiliated firms or entities with equivalent standing and qualifications. A list of the names of the members of Linklaters LLP together with a list of those non-members who are designated as partners and their professional qualifications is open to inspection at its registered office, One Silk Street, London EC2Y 8HQ, England or on [www.linklaters.com](http://www.linklaters.com) and such persons are either solicitors, registered foreign lawyers or European lawyers. This document contains confidential and proprietary information. It is provided on condition that its contents are kept confidential and are not disclosed to any third party without the prior written consent of Linklaters. Please refer to [www.linklaters.com/regulation](http://www.linklaters.com/regulation) for important information on our regulatory position.

This document contains confidential and proprietary information. It is provided on condition that its contents are kept confidential and are not disclosed to any third party without the prior written consent of Linklaters.

We process your data in line with our Global Privacy Notice. You can view this at [www.linklaters.com/en/legal-notices/privacy-notice](http://www.linklaters.com/en/legal-notices/privacy-notice).

To opt-out of receiving any marketing emails from us, or to manage your email preferences and the personal details we hold for you, please contact: [marketing.database@linklaters.com](mailto:marketing.database@linklaters.com).