A spokesperson for Société Générale confirms it is a lender to Hin Leong, but says it has no exposure to ZenRock. They add the bank "will remain committed to the trade commodity finance sector, including in Asia".

What went wrong?

Though the initial impetus for Hin Leong's collapse came from its admission of undisclosed losses, brought to a head by the oil price crisis, the source says several examples of fraudulent practices have since emerged.

They say it is now apparent the company inflated its figures and built up leverage by creating fake trades alongside its legitimate activity.

"We've also seen multiple sales of the same cargo," they add. "You end up with a bunch of banks all trying to lay claim to the same assets, like oil that's still in storage tanks. In some cases, these sales are fictitious, where the cargo doesn't exist in the first place."

Hin Leong has since ceded control to PwC. Its exposure to HSBC reportedly stands at an initial US$600mn, with ABN Amro lending US$300mn and Société Générale lending US$240mn. Local banks DBS, OCBC and United Overseas Bank are exposed by around US$680mn in total.

In the case of ZenRock, the company issued a statement shortly after the Hin Leong incident saying it was not facing financial difficulties itself, despite the oil crisis and pandemic. It claimed to be profitable while dismissing rumours it was "under statutory restructuring/insolvency protection".

However, in early May, it emerged that HSBC had applied to Singapore's High Court for the company's management to be removed. The request was granted last week, despite efforts by ZenRock to restructure liabilities itself.

According to *FT* reports, HSBC's court documents included allegations of "dishonest practices" and "shams". Examples included the issuance of duplicate invoices, enabling ZenRock to raise funding from multiple lenders for the same transaction.

One incident cited in court documents was the use of a letter of credit to facilitate the purchase of nearly 1 million barrels of crude oil from Azerbaijan's Socar, for sale to Total. HSBC says it expected to receive a deposit from Total, but when no funds arrived it discovered the payment had already been made to the Bank of China in order for ZenRock to pay off another loan.

The court documents add that these "extremely suspicious" practices came to light after ZenRock was unable to raise fresh financing.

HSBC's filing added: "The company's conduct displays a wanton disregard for its contractual obligations and a willingness to fabricate documents in order to support its attempts at raising financing."

For Blackstone & Gold's Bhinder, such collapses may be triggered by events such as the oil and Covid-19 crises, but should not be viewed as unique to the fuels industry. Instead, banks should pay closer attention to financing arrangements sought by commodities trading houses across the board.

"If you look across the many defaults over the years, they cut across different commodity types and the common theme tends to be an over-concentration of liquidity in the hands of a few select trading companies," he says.

"Once that liquidity is drawn out of the market, for micro or macro reasons, that's where a lot of things unravel.