

The most immediate issue has been a series of alleged frauds revealed as commodity prices slumped in March and April in the face of government measures to try and halt the spread of the pandemic.

The most high profile was Singapore-based [Hin Leong Trading](#), one of Asia's biggest fuel traders. A police investigation is under way after its owner admitted to \$800m of undisclosed losses.

ABN has previously been criticised by analysts for taking excessive risks to make up for a lack of scale across its corporate banking division, which includes trade and commodity finance. This led to several large one-off losses, including more than €200m linked to Hin Leong.

Meanwhile BNP decided to pause lending to commodity trade houses after being hit by losses at Coex Coffee in the US, as well as GP Global Group and Phoenix Commodities in the Middle East.

Clifford Abrahams, chief financial officer at ABN, said the bank did not take on riskier customers than peers, but added that its relatively small size meant any exposure to high-profile frauds had a bigger impact.

"If you've got a big, diverse portfolio you can afford to absorb the occasional big loss – we are a smaller bank in that area so those losses may be more visible," he said.

However, while larger banks may be more insulated from the risks of fraud, the entire sector is exposed to rising regulatory costs.

Under Basel IV reforms, which come into force over the next few years, banks have less leeway to determine the risk weightings attached to their corporate loan books, requiring them to have more capital to protect against losses.

ABN's corporate and investment banking division, for example, would need to have a third more capital than under previous arrangements.

"It makes the risk/return calculations that much tougher," Mr Abrahams said. "That's another reason behind our decision to focus on Europe where we have clear links with our other businesses, so there's a better chance of earning a good return."

Commodity traders are now asking whether the exit of two high-profile European banks will spark a wider trend.

Jean-François Lambert, a former commodity banker and founding partner of consultant Lambert Commodities, said he feared a "herd mentality" could develop.

"Banks are thinking very hard these days about their strategy," he said. "It may not lead to complete withdrawal but some scaling back will definitely happen, so if I was a midsized trader I would be worried."

Mr Lambert said negotiations over the renewal of existing credit facilities could become more difficult with banks demanding additional due diligence or higher fees.

Singapore's commodity trading mishaps

Company	Year	Details
ZenRock	2020	Owes more than \$600m to creditors and accused by HSBC of 'dishonest practices'
Hin Leong	2020	Billionaire founder Lim Oon Kuin admitted hiding \$800m of losses
AgriTrade International	2020	Accused by lenders of fraud, including duplicate bills of lading to multiple banks
Hontop Energy	2020	Trading arm of Shandong-based refiner goes into receivership
Petro-Diamond	2019	Trader loses more than \$300m on crude oil derivatives
Noble Group	2015	Allegations of improper accounting
Olam	2012	Accused of serious accounting problems by Muddy Waters
Mitsui	2006	Loses \$81m in naphtha trading
China Aviation Oil	2004	\$550m loss caused by trading oil derivatives

Source: Bloomberg, FT research