



MONDAY 7<sup>th</sup> APRIL 2014 – AFTERNOON

## SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. Answer **all** parts of the question:

- a) What are the basic requirements of a series of cashflows such as freight receipts before they become suitable for securitisation?
- b) What are the functions of a special purpose vehicle in a securitisation structure, and what assets might it hold in the context of a shipping company collateralised bond issuer?
- c) Draw a diagram showing the principal components of a securitised bond issue by a shipping company (discussion of the functions of these components is not required).

2. Answer **both** parts of the question:

- a) Explain the Miller-Modigliani capital irrelevance theory.
- b) Discuss the extent to which this theory is applicable in the context of the shipping sector, and how the relevance of the debt-equity mix alters across the shipping cycle.

3. Answer **both** parts of the question:

- a) Discuss the roles and responsibilities of the main parties to a syndicated loan (use a diagram in your answer).
- b) Describe the risks to investors in a syndicated bond issue made by an international shipping company operating through a large number of 'one ship companies' established across multiple jurisdictions.

**PLEASE TURN OVER**

4. Critically evaluate the suitability of Islamic financial instruments of your choice as forms of financing to a shipping company active in the international transportation of oil, identifying underlying guiding principles where appropriate.
5. Identify and discuss (in terms of purpose) the main covenants and terms in a typical mortgage in respect of a bilateral loan between a financial institution and a shipping company borrower.
6. Discuss a typical Kommanditgesellschaft (KG) structure in German shipping finance, comparing and contrasting this with the Norwegian Kommandittselskap (KS) alternative (use a diagram for the KG structure in your answer).

Include in your answer the main incentives for **both** of these forms of finance.

7. Answer **both** parts of the question:
  - a) Identify and discuss the potential obstacles which may be encountered by a shipping company located in a developing country when attempting to raise equity or debt finance in both the domestic and international markets.
  - b) What financing techniques or risk hedging methods may be available to accommodate or overcome these obstacles?
8. Answer **all** parts of the question:
  - a) Discuss the characteristics of a typical convertible bond issue made by a shipping company.
  - b) How is the decision to convert or not affected by phases of the shipping cycle?
  - c) Discuss the benefits and risks of convertibles from both the issuer's and investor's perspectives.