Institute of Chartered Shipbrokers

TUESDAY 17TH APRIL 2012 – AFTERNOON

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. Discuss the implications of the different stages of the shipping cycle for the following:
   a) The Sale and Purchase (S&P) market
   b) Scrapping activity
   c) Availability of debt as a source of financing to shipping company borrowers
   d) Newbuilds.

2. Describe the main features of a typical Kommanditgesellschaft or 'KG' structure. To what extent has this method of financing been tax-driven? What have been the consequences for the German domestic shipping sector and its owners and investors?

3. *FairSeas Corporation* is a Bahamas-registered shipping company which is part of a larger group of companies owned by a cash-rich Cyprus-registered parent company, *Cyprus Ship Inc. FairSeas* owns outright a variety of vessels, some recently delivered newbuilds, others older and near the end of their useful life. All vessels are insured with a reputable London-based company. In terms of business the company has a five year contract with a state-owned West Indies based oil producer to transport oil to the West European markets. *FairSeas* also holds a small shareholding in a West Indies based shipping company with which it has a local equally owned joint venture.

FairSeas intends applying to its bank for a loan. Discuss the various forms of security which the company may be able to provide in respect of such a loan, discussing procedural steps where appropriate. With regard to the value of existing vessels, discuss the clause which may be incorporated into the loan documentation at the insistence of the lender.

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4. Discuss the main components of a typical securitisation, and the functions of each. In the context of the shipping sector, which assets may be securitised, what are the main risks associated with these assets, and how might these risks be reduced or removed altogether?

5. Discuss the type of loan which may be appropriate in each of the following scenarios, giving full reasoning for your recommendation:

a) A shipowner who will have stable and predictable cashflows throughout the life of the loan
b) A shipowner who is in severe financial difficulties and whose vessels have declined in value during a cyclical downturn in the market
c) A ship owner who anticipates that he will make a good profit on disposal of a vessel at the end of the loan term but will be trading it in the unpredictable spot market prior to this point
d) A ship owner who has a lucrative charter for the first three years of a five year loan, but nothing fixed for the remainder, necessitating spot trading
e) A ship owner who cannot predict his borrowing requirements over the next five years, but who wants the security of having some sort of loan arrangement in place to cover this period.

6. Discuss the functions of the participants in a typical syndicated loan arrangement. What issues would be of concern to bond investors in a syndicated loan arrangement by a shipowner trading through a 'one ship company' registered in a number of jurisdictions?

7. In the context of the Basle Committee's recommendations on capital-risk relationships, evaluate the issues which should be of concern to banks when lending to shipping companies. To what extent is the debt-equity structure irrelevant given the cyclical nature of the shipping business, and the volatility and unpredictability of both asset values and earnings?

8. Explain the characteristics of any **four** of the following types of equity, relating each, where appropriate, to the needs and trading characteristics of a shipping company issuer:

a) Cumulative participating preference shares
b) Convertible preferred stock
c) Private placements
d) Ordinary shares
e) Participating preferred stock
f) Rights issues.