SHIPPING FINANCE SYLLABUS.

NB. Students are not required to make calculations as part of this course. Instead students should appreciate the topics covered in their practical contexts, being able to relate different ship finance instruments and practices to the cyclical nature of the shipping industry.

Throughout the syllabus students should be able to understand financing techniques and their application in selected case studies provided throughout the materials.

Students should be able to understand the principal terms used in documentation provided and the financing techniques, practices, and security issues to which they relate.

THE NATURE OF THE SHIPPING BUSINESS.

Thoroughly understand the objectives of lenders and borrowers in the shipping business, including the areas where agreement or consensus is usually achieved and potential areas where there is conflict.

Thoroughly understand the basic features of shipping cycles ‘from boom through to bust’, and the implications of this for the principal participants in the ship financing decision.

Be aware of the historical context of ship finance (over the past four decades), and the significance of wider economic phenomena in the shipping finance business.

Thoroughly understand the principal sources of security to lenders to shipping companies.

Understand, by reference to appropriate case studies, the consequences for both borrowers and lenders of failing to take into account the phases of the shipping cycle in which the financing decision is made.

THE LENDER’S PERSPECTIVE IN THE SHIP FINANCING DECISION.

Thoroughly understand the basic principles of good lending, including the importance of proper evaluation of the asset to be financed, the cashflow to be generated, and the significance of ‘name’ or reputation.

Be aware of the Japanese model applied in shipping finance during the 1960’s and 1970’s.

Thoroughly understand ship mortgages, and their importance as a source of bank security.

Understand the legal rights of mortgagees in the event of default by the borrower.

Understand case studies in which mortgagee’s rights have been asserted over assets.
Be aware of standard terms in a ship mortgage.

Understand the purpose of ship mortgage indemnities.

Understand the purpose and practice of assignment of insurances and earnings as sources of banker’s security.

Understand the purpose and practice of charges or liens over shares, and guarantees from parent companies in respect of loans made to subsidiary companies.

Thoroughly understand the crucial importance of value maintenance clauses in ship finance loan agreements.

Understand standard terms in the documentation of a guarantee provided by a parent in respect of a loan made by a bank to its subsidiary.

**EQUITY AS A SOURCE OF FINANCE IN THE SHIPPING BUSINESS.**

Thoroughly understand the historical reasons why it has been difficult to attract external equity financing into the shipping business. Reasons include the volatility of the sector, the perceived secretiveness of ship owners, the single ship company nature of the business, and international jurisdictional issues, including the ultimate remedy of enforcing a court order for the arrest of a ship.

Understand the traditional points of conflict between ship owners and external investors in their companies, and the mechanisms by which these may be resolved.

Be aware of the reasons why ship owners may decide to list their shares on several international stock exchanges rather than one.

Understand the principal characteristics of the main international stock exchanges on which shipping equity is traditionally listed, including the New York Stock Exchange, the Oslo Bourse, and the Tokyo Stock Exchange.

Be aware of international shipping companies which have elected to list their shares on several international stock exchanges.

Thoroughly understand the implications of the US Sarbanes Oxley Act 2002 for shipping companies looking to list on US stock exchanges.

Thoroughly understand the different types of shares which may be issued by shipping companies, and their relative advantages and disadvantages for both issuers and investors, including ordinary shares, partly paid shares, rights issues, cumulative participating preference shares, convertible preferred stock, and participating preferred stock.

Be aware of the rationale of private placements, and the significance of timing.
DEBT FINANCING AND THE BOND MARKETS.

Thoroughly understand the differences between debt and equity financing in terms of payment of mandatory interest versus payment of discretionary dividends.

Be aware of some of the different forms bonds may take, and the significance of different payment schedules.

Be aware of the functions and characteristics of sinking funds.

Thoroughly understand the structure and purposes of convertible bonds.

Thoroughly understand the attractions and implications of conversion of convertible bonds from both the ship owner issuer’s and investor’s perspectives.

Understand the significance of phases of the shipping cycle for the timing of issuance of convertible bonds, and for predicting the likelihood or otherwise of the investor to convert from debt into equity.

Be aware of the principal consequence of conversion of a convertible: the prohibition of re-conversion from equity back into debt.

Understand the basic features of convertible bond issues in case studies provided.

Understand the structure and use of mezzanine finance, and its suitability in shipping finance.

TYPES OF LOANS USED IN SHIPPING FINANCE.

Understand the principal objectives of the participants to the loan decision: the ship owner and lender.

Thoroughly understand the characteristics of the different types of loans used in shipping finance, including plain vanilla loans, moratorium loans, bullet repayment loans, balloon repayment loans, back/front ended loans, and revolving credit facility loans.

Thoroughly understand the rationale for syndicating a loan, and the principal responsibilities of all parties to bond syndications.

Be aware of the objectives of parties to syndications and other loans described in the case studies provided.

Thoroughly understand the principal features, purposes, and participants to the hedging techniques of interest rate and currency swaps.
SECURITISATION.

Thoroughly understand the basic objective of securitisation: the bundling together of homogenous cashflows and their use as collateral for a bond issue.

Thoroughly understand the basic structure of a securitisation, and the role of all participants.

Understand the procedural steps in a securitisation.

Understand the potential benefit of securitisation as a financing technique for Third World shipping companies.

Be aware of the objectives of ship owners in securitisations described in the case studies provided.

KS AND KG SHIP FINANCING.

Be aware of the German government policy rationale for KG ship financing.

Thoroughly understand a typical KG ship financing structure.

Understand the principal advantages of KG finance.

Be aware of case studies in which KG financing has been utilised.

Understand the Norwegian KS system of ship finance.

Be aware of the similarities between KG and KS financing.

Thoroughly understand the structure of a typical KS financing.

SIGNIFICANCE OF THE DEBT-EQUITY STRUCTURE FOR A SHIPPING COMPANY.

Be aware of the history, purposes, and composition of the main international body concerned with the setting of capital adequacy ratios for banks: the Basel Committee.

Thoroughly understand the significance of the capital adequacy ratio for shipping companies.

Understand the basic composition of the Basel capital adequacy ratio in terms of tiers and asset weighting.

Understand capital financing theory, including the basic elements and implications of the Modigliani-Miller theorem.

Be aware of criticisms of the Modigliani-Miller theorem.
Thoroughly understand that in the context of shipping finance; the debt-equity mix is not a static structure.

**ISLAMIC FINANCE IN SHIPPING.**

Thoroughly understand the basic principles of Islamic finance.

Understand the characteristics of the principal Shariah-compliant financial instruments found in shipping finance, including Mudharabah, Murabaha, Ijara, and sukuk.

Be aware of the main components of structures found in the case studies provided.