



POSTPONED MAY 2020 EXAMINATION SESSION

WEDNESDAY 15TH JULY 2020 – MORNING

SHIPPING FINANCE

Time allowed – three hours

Answer any FIVE questions – all questions carry equal marks

Please read the questions carefully before answering

1. Answer **BOTH** parts of the question.
 - a) Discuss the characteristics of convertible bonds, and the advantages of these from the perspectives of investors and issuers.
 - b) Discuss how the peak and depression stages of the shipping cycle affect issuer and investor attitudes towards convertibles.
2. Shipowners sometimes hold vessels in a corporate structure of 'one ship companies'. Itemise and briefly discuss the terms, restrictions, and representations which would be included in a typical loan guarantee given by a parent shipping company in respect of a loan given to one of its subsidiaries.
3. Answer **ALL** parts of the question
ABC Shipping is a diverse shipowner in terms of trades in which it is active. It holds its vessels through several companies registered in different jurisdictions. The company is looking to make a syndicated bond issue, and asks your advice on the following matters:
 - a) What factors should it take into account when deciding between competing financial institutions as to which of them it should award the mandate to lead the issue?
 - b) Which costs will be associated with the issue?
 - c) Which corporate structural changes, if any, may be recommended by the lead manager, and why?
 - d) The functions of the individual participants in the syndicated structure. Use a diagram to support your answer.

PLEASE TURN OVER

4. Describe and explain the duties and responsibilities of the borrower and lender in a typical ship mortgage.
5. Answer **BOTH** parts of the question.
 - a) Explain the traditional reasons for investor scepticism in shipping company equity and debt instruments. In the case of each reason, describe which steps you, as a shipowner, could take to allay these concerns (you may wish to refer to investor behaviour at different stages of the shipping cycle here).
 - b) Discuss the reasons why a shipowner would want to list its shares on several as opposed to one international exchange.
6. Answer **BOTH** parts of the question.
 - a) You are the Chief Executive Officer of a tanker owner which has charter parties in place with several state oil companies in the Middle East. You are looking to make an initial public offering on the New York Stock Exchange. Discuss the risks and opportunities which will need to be disclosed in the issue prospectus to investors.
 - b) Discuss the relative merits for a shipowner of taking a private placement route rather than a full open market issue for its shares in the above circumstance.
7. A Panama registered cash-rich shipowner owns a dozen bulk carriers, some of which are newbuilds and the other vessels are older and prone to mechanical breakdown. There are mortgages on a few of the vessels but otherwise the majority of the fleet is debt-free. It has several contracts with major grain houses for the transportation of their seasonal product. All of the vessels are fully insured. The most highly valued in the fleet, was involved in a collision three months earlier and liability has yet to be determined in court proceedings which are anticipated to continue for the next year.

The company now wants to raise finance through a loan from a bank. Discuss the various forms of security which it may be able to make available to the bank, and the concerns which the lender may raise with regard to some of your suggestions.
8. With reference to specific financing instruments, discuss the advantages and disadvantages Islamic finance has, relative to mainstream finance, for a traditional shipping company trading in the carriage of oil and grain.