

SHIPPING FINANCE – Syllabus

Note: 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 CURRENT STATUS OF THE SHIP FINANCE MARKET

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 cash flow to be generated, and the significance of 'name' or 'reputation'.

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.

Be aware of the purpose of ship mortgage indemnities.

Understand the purpose and practice of assignment of insurances and earnings as sources of banker's security in a loan agreement.

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.

Understand banks' and lenders' credit risk analysis of borrowers, for example the 6 'C' of credit risk analysis by Grammenos.

Be aware of the characteristics and structure of special purpose companies.

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 shipowners, 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 shipowners and external investors in their companies, and the mechanisms by which these may be resolved.

Be aware of the reasons why shipowners may decide to list their shares on more than one international stock exchange.

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 NASDAQ.

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

Be aware of 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.

Understand trends of private equity companies investing in the shipping market.

Understand the principles of public offerings and initial public offerings (IPO).

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 shipowner 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 use of high yield bonds in shipping finance.

ALTERNATIVE SOURCES OF SHIP FINANCE

Understand the principles and characteristics of shipyard credit as a source of finance.

Understand the principles, structure and purpose of government subsidies.

Understand the role and importance of export credit agencies in ship finance.

Understand the principles, structure and use of leasing-finance and operating.

TYPES OF LOANS USED IN SHIPPING FINANCE

Understand the principal objectives of the participants to the loan decision: the shipowner 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.

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

SECURITISATION

Understand the basic objective of securitisation: the bundling together of homogenous cash flows and their use as collateral for a bond issue.

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

Understand the procedural steps in a securitisation.

Be aware of the objectives of shipowners 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.

Be aware of new finance products such as baby bonds.

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.

Understand the effects of the Basel regulations on shipping finance including the significance of the capital adequacy ratio.

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

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.

LEGAL ISSUES IN SHIPPING FINANCE

Ship Registry, corporate veil and one-ship companies

Be aware of the shipownership and registry implications.

Mortgage Priorities

Understand that, unlike other aspects of shipowning, mortgages are still covered under English law in many jurisdictions.

Be aware of the main legal issues arising under English mortgage law, namely the difference between a legal mortgage and an equitable mortgage, and understand the consequential difference between registered and unregistered mortgages.

Be aware of the international conventions of maritime liens and mortgages, namely, the International Convention for the Unification of Certain Rules Relating to Maritime Liens and Mortgages 1926, 1967 & 1993.

Jurisdiction

Thoroughly understand the rights of those courts dealing with shipping matters to entertain a claim against a ship or other maritime property.

Be aware of the application of awards of costs and how these may vary between jurisdictions.

Ship Liens and Ship Arrest

Understand the procedure to arrest *in rem*. Understand the application of the Brussels Arrest Convention 1952 including the types of liens.

Understand the use of freezing orders previously known as Mareva injunctions.

Arbitration

Be aware of the main locations for arbitration and the significant differences between their procedures.

Understand the acts and rules governing arbitration.

Be aware of the main terms of the English Arbitration Act (1996).

Be aware of the use of LMMA Terms in UK arbitration and SMAA in US arbitration.

Understand the structure of the English court system and their rules.
