Strategic and Practical Issues
Financing Rolling Stock

Roadex-Railex 2010
Leaders in Rail Conference
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Abu Dhabi, UAE

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Strategic Analysis
The starting points

• Who owns the operator?
• Passenger or freight
• Politics of Private Finance
Putting things in Context
The different finance options

• Examining the different types of finance from the operator perspective
  – Equity, state loans and grants, aid
  – Private debt and leasing
  – Securitisations/BOT

• What are the current strains on finance capacity
  – Government budget cuts
  – Lack of private sector liquidity
  – Funder security/collateral
The key private finance issue
lease or buy

- Do you buy rolling stock and finance through private sector debt?
- Or do you lease?
- What types of leases?
  - Finance lease or operating lease
  - Type of operating lease
  - Service leasing
Leasing as an option

- Relieves credit lines and can be cheaper
- Fixed cost
- Flexibility
- Risk transfer
- Balance sheet treatment
- Transparency and discipline
- Eliminates RV risk
Transparency and asset risk allocation

• Transparency
  – Cost per day analysis
  – Add on costs for enhancements

• Asset risk
  – Depends on lease type
  – Watch out for inertia
  – Impact on asset strategy
Weighing the burdens on a lessee

- Matching repayments with revenue
- Fixed costs and variable income?
- Legal review and costs
- Asset maintenance
- The “sticky factor”
More downsides for the lessee

- Lack of ownership
- Limited not complete control - operational: restrictions on asset management
- Financial: limited stake in (residual) value
- Availability
- Balance sheet - the Health Warning
Lessor and lessee rights and repossession of rolling stock

The normal contractual considerations

- Quiet possession but...
- Termination on default or insolvency
- Other liabilities
- Conflicts of rights
Financing rolling stock today

Owner in Country A

Conditional Sale

Purchaser in Country B

Loan

Security

Operator in Country C

Bank in Country D

Rolling stock operating in countries E, F & G

Howard Rosen Solicitors, Zug, Switzerland
The Luxembourg Protocol
Protecting creditor (and debtor) rights

• What the Protocol does
  – a new type of security internationally recognised with established priorities
  – registerable in a publicly searchable 24/7 registry
  – Additional creditor rights, facilitating collateralised (and cheaper) debt

• It lowers barriers to entry and facilitates operating leases
The Luxembourg Protocol
Protecting creditor (and debtor) rights

• Application of the Protocol
  – All rolling stock
  – Applies to security under leases, loans and conditional sales
  – Debtor location

• Looking at the issue from both perspectives
Conclusion

• The strategic issues of public or private finance
• Practical considerations: The various types of Private Finance; key question is whether to buy on credit or to lease
• Real benefits of leasing but also some downsides
• But “Luxembourg” will make private sector finance easier and will be an industry game changer
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