Private sector finance for rolling stock

Viet Transport 2010 Conference
Hanoi, Vietnam
4th – 5th November 2010

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Putting things in Context
The different finance options

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

• What are the current strains on finance capacity
  – Lack of liquidity
  – Funder security/collateral
  – Aid budgets
Looking for financial flexibility/credit lines

• The basic challenge: to match
  – Revenue with cost
  – Usage term with credit
• New forms of capital
  – Alternative equity
  – Alternative debt (sales aid, term debt)
• Farebox or other asset securitisations
• ECA and other agency guarantees
• Recourse Debt or Leasing
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
Advantages of Leasing

• Relieves credit lines and can be cheaper
• Fixed cost
• Flexibility
• Can be effective use of aid/ECA guarantees
• 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

- 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

Lease

Operator in Country C

Loan

Security

Bank in Country D

Rolling stock operating in countries E, F & G

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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
  – Lowers barriers to entry
  – Facilitates operating leases
The Luxembourg Protocol
Protecting creditor (and debtor) rights

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

• Looking at the issue from both perspectives
Repossession of rolling stock
Lessee rights

• Quiet possession (assuming no default)
• Registerable interest
• Priority over subsequent creditors
• Recourse to courts in certain cases
Conclusion

• Various types of Private Finance
• Not inconsistent with government or aid agency support
• They can be innovative
• Key decision will often be whether to buy on credit or to lease
• Each have their advantages and disadvantages
• But “Luxembourg” will make it easier
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