1. Abacus Shipping Corporation is the parent company of a group of shipping companies registered in various jurisdictions, including Panama, Cyprus and the British Virgin Islands. As parent, Abacus Shipping holds all shares in each company. Some of the vessels held by each company are owned outright by that company, and there is no debt remaining or mortgage. Some of the vessels are still mortgaged to various ‘boutique’ ship finance banks. Several of the companies have long term charter parties arranged with high quality charterers, including well-known commodities transportation companies. However, several of the vessels are trading spot, in the absence of charters. Abacus is looking to raise finance for expansion of its fleet and is considering securitisation as a possible means of achieving this.

Answer all parts:

(a) What is meant by securitisation, and which assets may be used to collateralise an issue by Abacus?
(b) Discuss the structure of a typical securitisation (you may use a diagram).
(c) What are the reasons for incorporating a special purpose vehicle within a securitisation structure?
(d) In the context of Abacus’s plan, which practical issues need to be addressed before the securitisation can proceed? (In this context, you may wish to consider the structure of the company).

2. Answer all parts:

(a) What is meant by the shipping cycle? In what ways does it lag behind the wider economic cycle?
(b) Discuss the main reasons why niche ship finance banks and shipping companies are adversely affected by the negative phases of the shipping cycle.
(c) Identify and discuss the main strategies which may be pursued by niche ship finance banks and shipping companies to prepare for the downturn in the shipping cycle.

3. Answer all parts:

(a) Describe the main features of a typical Kommanditgesellschaft or KG structure (you may use a diagram).
(b) Discuss the main benefits of the KG policy to the German shipping industry. To what extent has this policy distorted normal market mechanisms in the shipping sector?
4. Answer all parts:
   
   (a) Discuss the functions of all participants in a three tier syndicated bond issue (you may use a diagram).
   (b) Describe the main factors which can lead to an increase or decrease in the level of syndication activity in the shipping sector.
   (c) Identify the jurisdictional and asset security issues which may be of concern to investors in a syndicated bond issue by a global shipping company.

5. Identify the main clauses, including covenants and undertakings, in a typical ship mortgage deed and discuss the importance of jurisdiction in the context of registration of a mortgage.

6. Answer both parts:
   
   (a) With full reference to the Modigliani-Miller capital financing theory, discuss the extent to which the debt-equity mix in a shipping company is irrelevant, if at all, bearing in mind the cyclical nature of the shipping industry?
   (b) Discuss the implications to banks of loans to shipping companies from a Basel Capital Adequacy perspective.

7. Discuss the characteristics of any three of the following types of loans. In the context of each, you should consider its suitability or otherwise, and cost, at each stage of the shipping cycle:
   
   (a) Moratorium loans
   (b) Bullet repayment loans
   (c) Balloon repayment loans
   (d) Back/Front ended loans
   (e) Revolving credit facility loans

8. GoodSeas Shipping is a global shipping company which is currently trading in a depressed market. The Chief Executive Officer anticipates that the market will start to recover soon, and is anxious to take advantage of an anticipated rise in interest in the sector amongst investors. He believes that a share issue will not be possible for now, and is interested in exploring the bond markets. As Chief Finance Officer to the company you have been asked to prepare a briefing note for him describing the possible advantages and disadvantages of issuing convertible bonds at this stage of the cycle, from the viewpoint of both investors and the company itself, including potential implications of future bond conversion for GoodSeas. The CEO has also asked you to explain the function of a sinking fund. If the convertible is eventually converted, the CEO has raised concerns that this may have ‘dilution implications’; you should address this concern in your briefing note.