



The future for railway finance in Asia

How the Luxembourg Rail Protocol will transform the rail sector Industry Workshop Kuala Lumpur, 14th January 2016



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How the Luxembourg Rail Protocol will transform the rail sector

Rail finance today and
assessing the economic
benefits of the Protocol



The different finance options

- Examining the different types of finance from the operator perspective
 - Equity
 - State loans and grants
 - Aid
 - Private finance:
- Debt (secured or unsecured)
- leasing (operating or finance)
- PPP structures

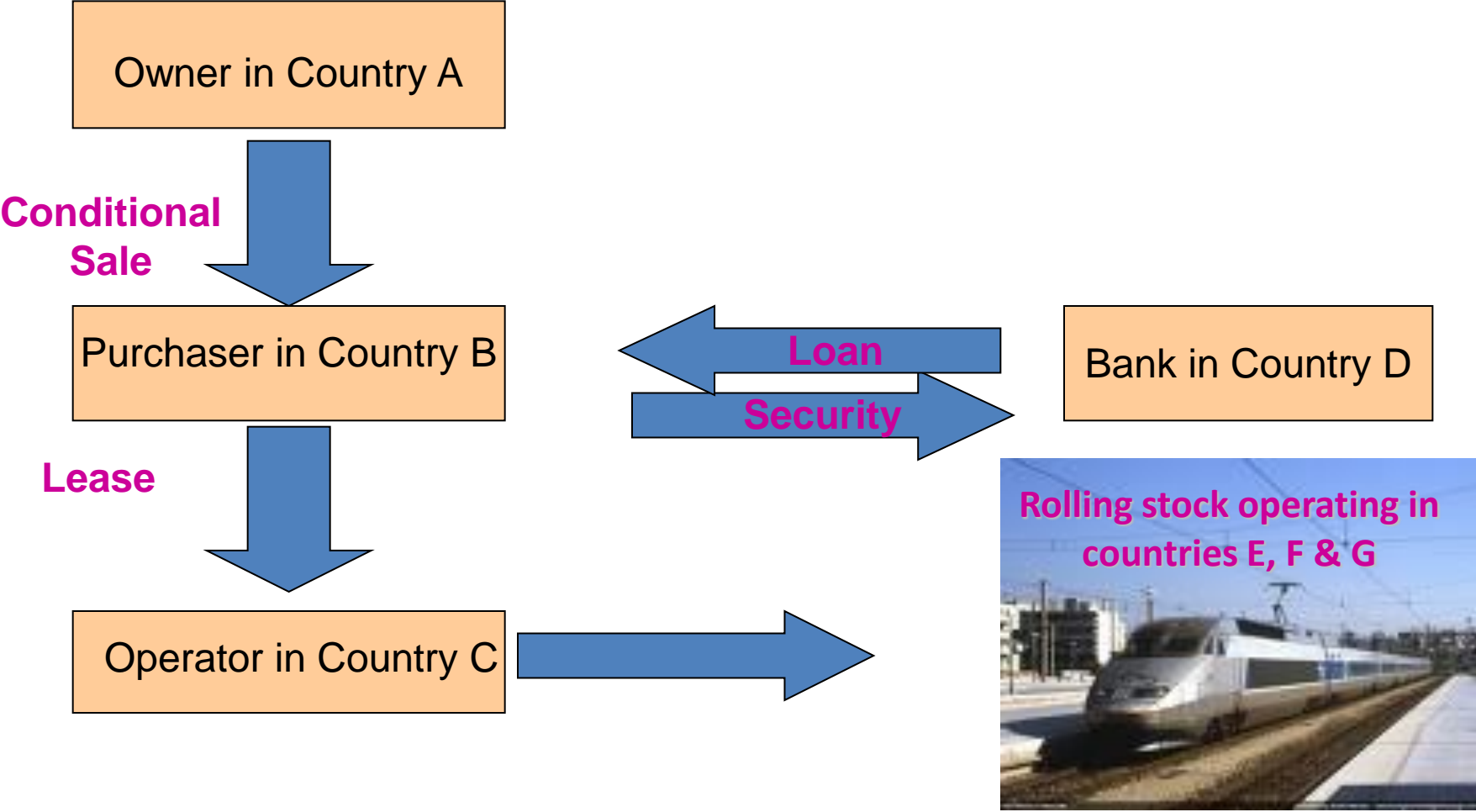


The different finance options

- Sources of private funding:
 - Private equity
 - Manufacturer credit/conditional sales
 - Banks
 - Lessors
 - Institutions
- What are the current strains on private finance capacity?
 - Lack of liquidity
 - Funder security/collateral
 - Political uncertainty
 - Transactional risks



Financing railway rolling stock today





Creditor Transactional Risks

- Lack of legal infrastructure domestically and internationally
- No national title or security registry
- Identifiers unstable
- No clear legal position on repossession for creditors on debtor default or insolvency
- Public Policy and Public Interest
- Cross border risks





Risk = Cost

- Repossession risks on default
- Legal uncertainties and mitigating structures
- Bank's capital requirements and Basel II and III
- Limited tracking of assets
- Maximum tenor of debt
- How the Luxembourg Rail Protocol helps



Cape Town October/November 2001

participants from 58 States and 11 international organisations at the Diplomatic Conference

- adopted the Cape Town Convention on International Interests in Mobile Equipment
- and the Aviation Protocol thereto

THE LUXEMBOURG PROTOCOL TO THE CAPE TOWN CONVENTION ON INTERNATIONAL INTERESTS IN MOBILE EQUIPMENT

Agreed in Luxembourg 2007

Participants from 42 States and 12 international organisations at the Diplomatic Conference



What does the Luxembourg Rail Protocol do?

- A new strategic tool for the public and private sector
- Providing a new pragmatic global regulatory framework which will
 - ✓ facilitate more and cheaper private sector investment in the railways
 - ✓ lower barriers to entry to private operators
 - ✓ stimulate a more competitive and dynamic industry





What does the Luxembourg Rail Protocol do?

The Protocol creates

- ✓ a new type of global security interest for railway rolling stock, internationally recognised with established priorities
- ✓ Registrable and searchable in a public registry, 24/7
- ✓ new uniform system for unique and permanent identification of assets (URVIS)





What does the Luxembourg Rail Protocol do?

The Protocol applies:

- ✓ To all rolling stock (broadly defined)
- ✓ To secured financing
- ✓ By reference to debtor/lessee location





What does the Luxembourg Rail Protocol do?

The Protocol :

- ✓ Creates a new legal framework, even for financing of domestic rail transactions
- ✓ Eliminates complex documentation and structures
- ✓ Resolves cross border security and conflict of laws issues
- ✓ Facilitates operating and finance leasing and other private sector finance



Howard Rosen Solicitors

What does the Luxembourg Rail Protocol do?

Financial Benefits of the Protocol:

- ✓ More financiers (so more supply of debt, therefore cheaper and longer term debt) ↑
- ✓ Lower capital requirements; risk margin ↓
- ✓ Documentation and legal costs ↓
- ✓ (Probably) ECA charges ↓
- ✓ operating leasing ↑
- ✓ Multiplier effect ↑



The Status of the Luxembourg Protocol

- Adopted 2007
- Signed by EU and some States (not yet in force)
- Ratifications needed
- Appointment of Registrar December 2014





www.railworkinggroup.org

Passenger
must not pass
this point or
the line