



Strategic and Practical Issues Financing Rolling Stock

**Roadex-Railex 2010
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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

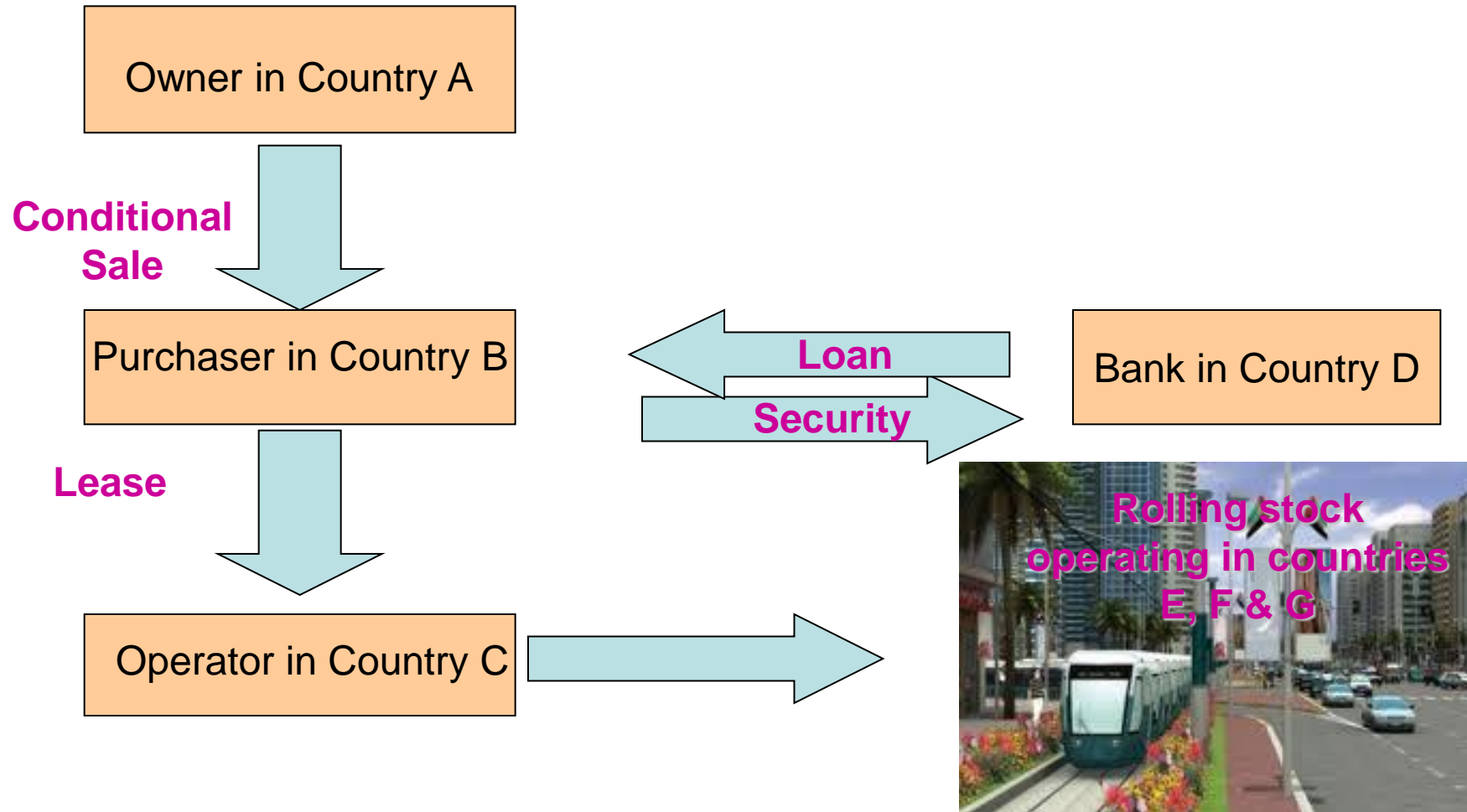
The normal contractual considerations

- **Quiet possession but...**
- **Termination on default or insolvency**
- **Other liabilities**
- **Conflicts of rights**





Financing rolling stock today





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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