



General Comments

In this examination session, there were some very high marks, mainly from candidates who had read around the topics appropriately; these candidates had decided to focus upon in their revision comprehensively. Marks were routinely lost because of a lack of detail, particularly regarding four issues: risks, procedures, documentation, and practical application. The importance of briefly discussing covenants was also an important omission from some answers. References to the cycle, and to finance theory even if in brief could have been made across most of the questions; candidates who were able to make this linkage, to pull these issues together, scored high marks.

Question One

This question was reasonably well answered with most students scoring a solid pass. However, it was surprising how many candidates failed to discuss the role of the underwriters in a syndicated loan, or who were incorrect in their discussion of their functions. The underwriters are not there to 'insure' the issue, as several candidates suggested; they are there principally to take up unplaced paper or bonds should the market not completely absorb the issue. Candidates should have briefly mentioned the risks to underwriters, the need for adequate financial resources to take up the unplaced bonds, and the fees they charge. Some candidates correctly discussed the method by which the lead manager is appointed, and the commitment to work on a 'best efforts' basis. Fee structure should have been addressed, even if briefly. For discretionary marks several candidates mentioned the types of investors, instead of just giving this as a generic term. For example, pension funds, sovereign wealth funds, insurance funds, could have been mentioned. Shipping finance is essentially a very detailed subject: any assumption by the candidate of understanding of a topic on the part of the examiner will result in answers being superficial or lacking in depth. The examiner knows the topic- the question is, does the candidate?

The KG part of the question was well answered, with some high quality diagrams provided by candidates. However, it was surprising how many candidates failed to explain the tonnage tax in any sort of acceptable detail. Discretionary marks were awarded for discussion of closed funds, and briefly mentioning why KG finance has rapidly declined recently in terms of popularity and effectiveness.

Overall, a well answered question but with candidates losing marks because of lack of detail in places.

Question Two

This was a popular question with candidates. Nearly all answers contained an explanation of the MM hypothesis, although several candidates missed out a discussion of the underlying assumptions. Several candidates failed to develop their answers by discussing the limitations of the hypothesis, as was specifically required in the question. So, general critique was expected here, and this is well set out in the Institute book as well as the academic literature. (In this regard several candidates showed evidence of having read around this subject as part of their revision preparation, for example by searching on google scholar. This is a sure way to obtain higher marks). After discussing the general limitations of the theory, candidates were then expected to discuss limitations in the specific context of the shipping industry, again as required in the question. Several candidates failed to make this linkage, and lost marks as a consequence. Those candidates who placed the MM theory in the context of each phase of the shipping cycle, for example by looking at how debt is more expensive during a slump than a boom whereas equity finance is easier to obtain when there is market 'exuberance', obtained high marks. The hypothesis should have been contextualised in each phase of the cycle; candidates who did this obtained high marks, and indeed some obtained maximum marks and others came very near to this. This sort of question requires thinking: candidates need to show an understanding of theory, an ability to critique it and not simply regurgitate the information, and then apply it in the context of shipping, which is ultimately what this paper is all about.



Question Three

This was a popular question with nearly all candidates passing and many scoring high marks. It was very descriptive in its requirements, and did not require much critical thinking. That said, candidates who discussed the risks associated with each type of loan from both the borrower's and lender's perspective gained high marks. For example, balloon payments are premised on the assumption that the borrower will have the funds to meet it, or will be able to dispose of a vessel in order to pay it. If there is a recession at the time when this obligation is to be met, then the lender may face difficulties. Some candidates discussed residual value insurance in the context of some of the types of loans: it was perfectly right to do so and gained additional marks. Those candidates who provided examples of types of covenants which might arise in the context of some of the loans gained high scores for giving this practical dimension. Again, this last point shows the importance of reading around a subject and also looking at the documentation provided at the appendices of the Institutes' textbook, where terms and covenants in loans are well described.

Question Four

Again, this was a very descriptive question with nearly all students passing. That said, some students simply set out a description of the type of share but did not follow this through with contextualisation within the shipping cycle, as was specifically asked for in the question. Some students missed the point about the risk to investors of holding partly paid shares: that if the company goes bankrupt, they will have to pay any shortfall on their holdings. Also, the powers to issue these shares, and the rights of existing shareholders to subscribe, will be set out in the company's articles: some students missed discussing this location of the power to issue. Students could have also briefly mention the concept of dilution, both in terms of voting powers and future dividend payments.

Question Five

There were a number of low marks and fails on this question. Some students did not attempt all parts of the question, losing considerable marks for this omission. The legal rights of mortgage holders were dealt with poorly; this part could have been answered in point format, including issues such as arrest, insurance, but several candidates missed this out completely. The powers are well set out in the Institutes' documentation in the shipping finance book, but a simple google search beforehand as part of the revision would have equipped students to deal with what was essentially a very easy part of this question. Again, risks associated with each type of security should have been discussed, as well as illustrative covenants. Procedural aspects of taking each form of security in terms of for example the need to register, the need to put into writing (re guarantees), was missed by a number of students. Security and procedure go hand in hand, and should always be discussed in such a question. Part b of the question also lacked detail in some answers; for example, what is a one ship company? This would have been a useful starting point. Other issues to consider would be enforcement of judgements, jurisdiction, possibly exchange rate exposure. Several students specifically mentioned the point that such companies tend not to be transparent in terms of ownership; this was an excellent point. They then suggested that lenders could require re-registration of all assets within one company or jurisdiction, or alternatively ask for a parent guarantee (assuming the parent has strong assets) in respect of loans to a one ship subsidiary. Lack of detail in a number of answers resulted in some poor marks for this question.



Question 6

Results for this question were mixed, with some students obtaining high marks but a number failing to even pass. There was no set list of points to be raised; instead candidates were required to set out principles and then apply them from a practical perspective. Of course the shipping cycle downturn and its main characteristics should have been at the heart of the answer given that it was specifically asked for, but otherwise candidates were free to put forward rational and well-argued suggestions as to how a company can prepare for and cope with a downturn. Moratorium loans were discussed well in several answers, as were back-ended loans. But these would have a cost; if the market is already falling then the cost of such arrangements can be prohibitive. Other fair suggestions were leasing, lay-up, scrapping of vessels. Candidates should also have described in detail the characteristics of the market during a downturn; for example, falling freight rates, greater spot market activity as charterers 'shop around' and avoid long term commitments in charterparties, or go for these but at very low rates. Falling asset values are also a feature of the market at this time. The shipping finance paper is not entirely prescriptive: candidates get good marks for raising fair points or for addressing practicalities of the market.

Question 8

This question was generally not well answered. Some candidates failed to discuss the underlying principles of Islamic finance, which would have been a good starting point in any answer given that instruments are founded upon these principles. Candidates should have discussed specific instruments; some simply gave one or two, and this was not enough. This question demonstrates the importance of reading around a subject being revised; there is plenty of information on the internet regarding the different types of Islamic instruments. Candidates who then considered (and critiqued the suitability or otherwise) of the instruments to shipping finance gained maximum marks, since this was specifically asked for in the question.