



***Digital Securities***  
***Tokenizing shipping debt***

# Structured Finance & Digital Securities

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**AltfinPartners** is an **independent advisory firm developing innovative structured finance solutions**

- ✓ Unique combination of structured finance and DLT expertise
- ✓ Project launched in July 2017 by two ex bankers, each with 15 years experience in finance
- ✓ Fact findings
  - Capital scarcity in structured finance
  - Banking red tape
- ✓ Solutions offered by the DLT/regulated digital securities
  - Open up new **sources of funding**
  - Optimize **issuance and post-issuance management**
  - **Reduce transaction costs**

# Debt versus equity

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**We see greater immediate and long term potential in debt rather than equity tokenizing**

- ✓ Market depth
- ✓ Standardization, scalability and liquidity
- ✓ Less interference with sovereign regulations
- ✓ Shorter deal/risk analysis leadtime
  - Senior to equity
  - Asset or cash flow backed
  - Shorter investment timeframe & enhanced secondary liquidity
  - No governance issues
  - Immediate returns/coupon payment

# Structured Finance Trends

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## Combination of structural changes leading to **capital scarcity**

- ✓ Capital intensive industries have become less attractive for banks
- ✓ New banking regulations will mainly drive capital to investment grade projects
- ✓ Lack of market depth of the secondary markets for bank loans



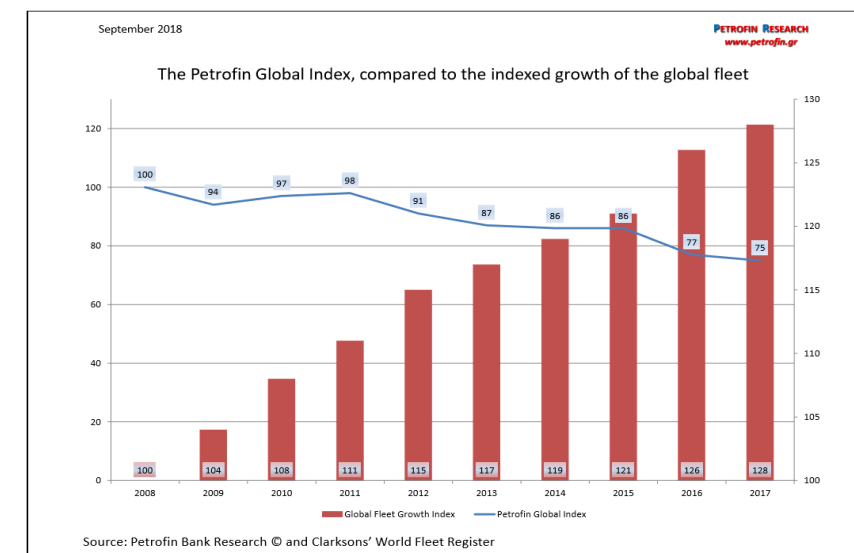
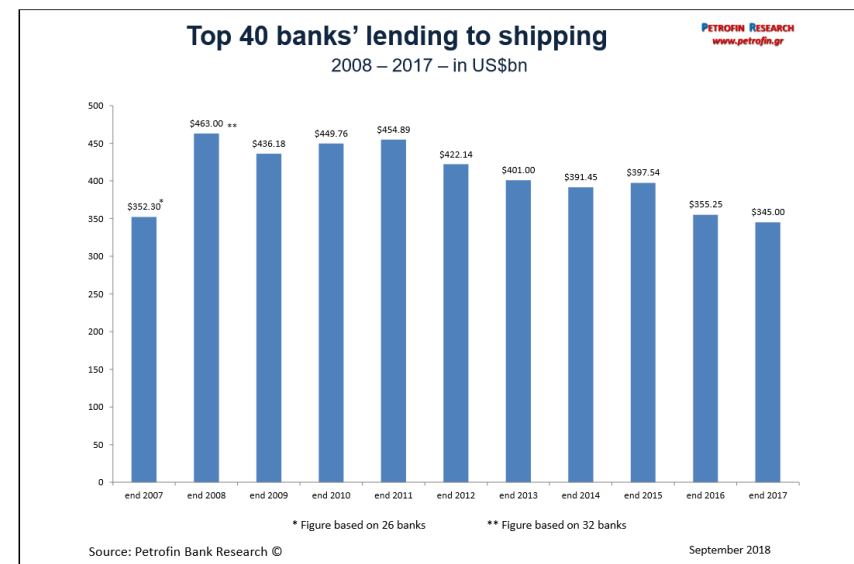
**Shorter tenors, lower Loan to value**

**Higher borrowing costs**

**Funding issues for non investment grade projects**

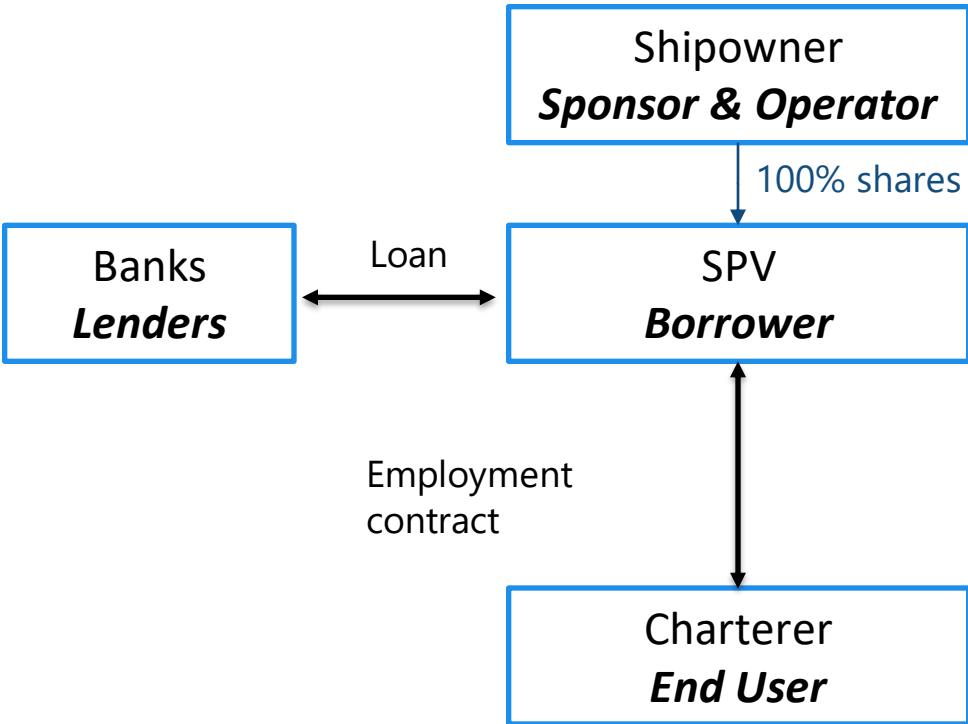
# State of shipping finance

- ✓ Non investment grade environment
- ✓ Global orderbook of \$225bn + Approx. \$25bn/year in second hand transactions
- ✓ Bank financing represents 40% of total funding (down from 80%, 10 years ago)
- ✓ Since 2008, global fleet grew by 28% while bank lending decreased 25%
- ✓ Leasing, secured/unsecured bonds, PE & dedicated funds are increasing their market share
- ✓ Limited traction with public equity market

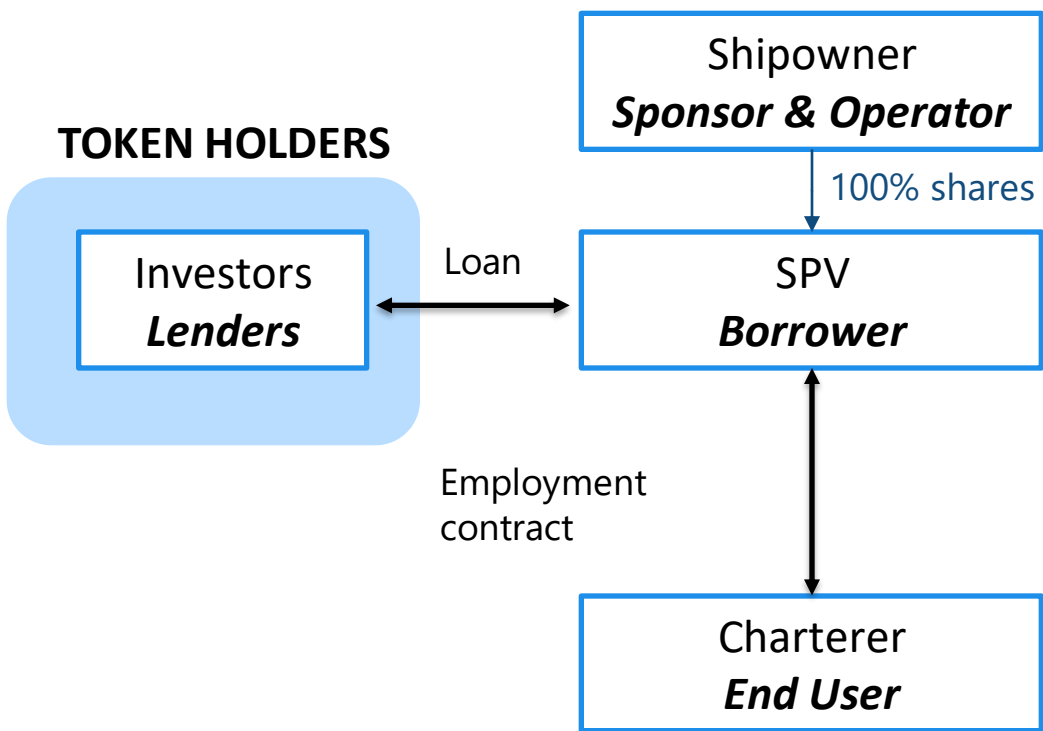


# Case Study: Shipping Finance

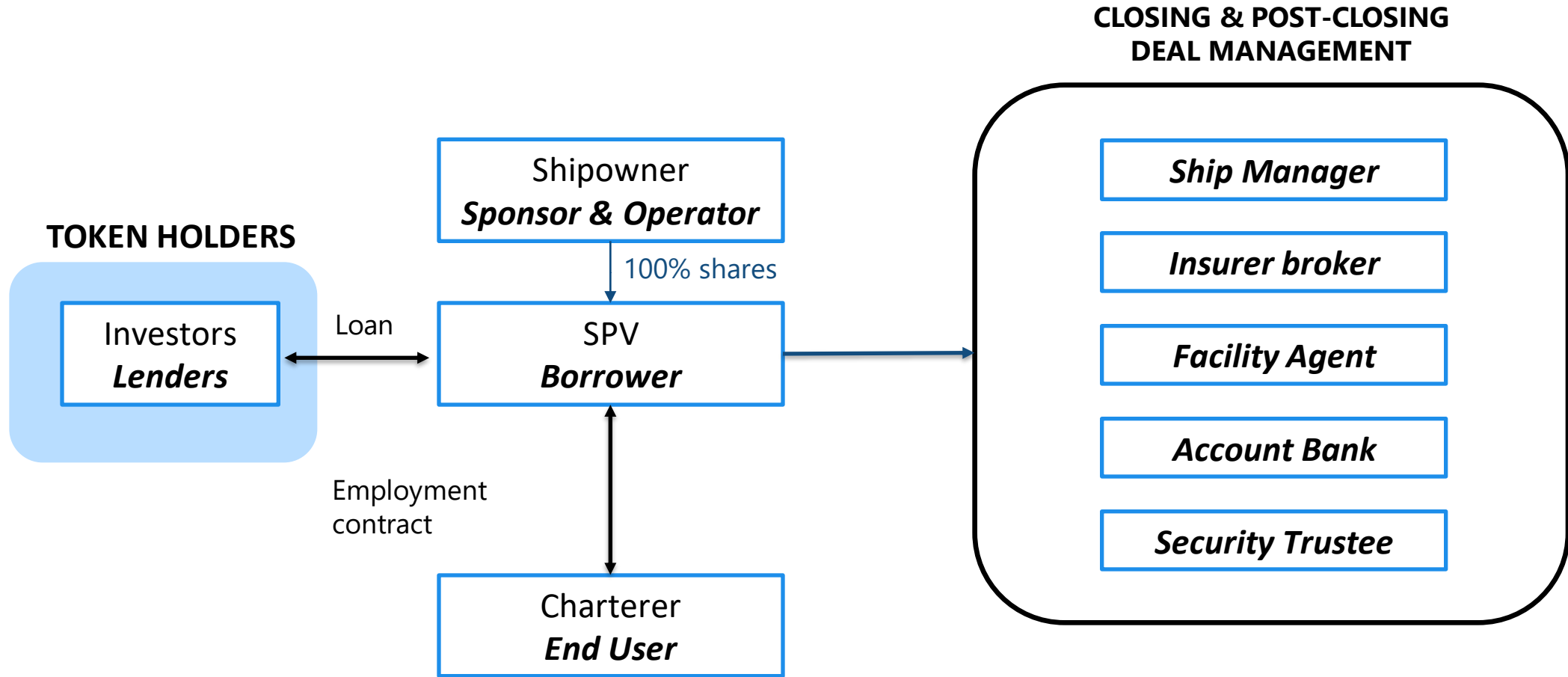
## TODAY - CONVENTIONAL DEBT



## WITH A DLT SOLUTION



# Case Study: Shipping Finance



**Issuing debt with a DLT does not interfere with Vessel's operations**

**It enables to simplify the loan administration and cut costs**

# Digital Securities: how it practically works

The base principal is to add a technological layer on top on the existing loan documentation to facilitate post-closing loan administration and facilitate secondary trading



Layer 1

## Loan Agreement

*Standard Document ruling in case of a credit event (no change to current bank financing)  
Copy paste of current standard*



Layer 2

## Determine the Distributed Ledger Technology (DLT)

*Opt for the most adequate blockchain protocol*



Layer 3

## Code the smart contract that integrates certain elements of the Loan Agreement

*Code key terms and conditions of the Loan Agreement: amount, tenor, rates, etc.  
Integrate a compliance layer to integrate KYC/AML/Sanctions clauses  
Program the cash flow waterfall*



Layer 4

## Security Token Issuance

*Create your digital asset (hybrid token)  
Ensure primary and secondary trading capabilities*



# Case Study: Shipping Finance

**Rights on the asset are captured into a digital asset built using the DLT**

**A dedicated smart contract is written to onboard key terms and conditions and automates deal management**

	BEFORE	AFTER
<b>Contractual commitments</b>	Loan Agreement	Loan Agreement (unchanged)
<b>Securities</b>	Mortgages, relevant guarantees, account pledge, etc.	Mortgages, relevant guarantees, account pledge, etc. (unchanged)
<b>Form of ownership</b>	NA	Dedicated token
<b>Evidence of rights</b>	Party to the Loan Agreement (primary) or accession deed (secondary)	Token holders
<b>Communication to lenders</b>	Through the Agent Bank	Direct access via the platform
<b>Point of contact</b>	Agent Bank	Security Trustee
<b>Cash Waterfall</b>	Manual	Automated (Partly or fully)
<b>Project Accounts</b>	Bank Accounts	Dedicated wallets

# Case Study: Shipping Finance

**Loan administration** is critical for the issuer credibility and ultimately its issuance ability. Yet the process is :

- ✓ Time-consuming
- ✓ Expensive
- ✓ Complex and opaque
- ✓ Non-scalable due to human intervention

**Digital securities** leverage on the distributed ledger technology to :

- **Save costs** : Up to 50-60% reduction (important for a cost driven industry)
- **Save time** : Instant communication to all parties
- **Improve trust** : Fully transparent & auditable flows
- **Enable better liquidity** : Scalable solution facilitating the listing & trading

# Case Study: Shipping Finance

## Digital transition will not happen overnight

### Yet, solutions already exist to ensure smooth execution and validity of securities

#### Legal status of the DLT/blockchain technology

- ✓ DLT already recognized in some jurisdictions as a legal means to store assets
- ✓ Loan Agreement rules in case of conflict
- ✓ Blockchain protocol and smart contracts are audited

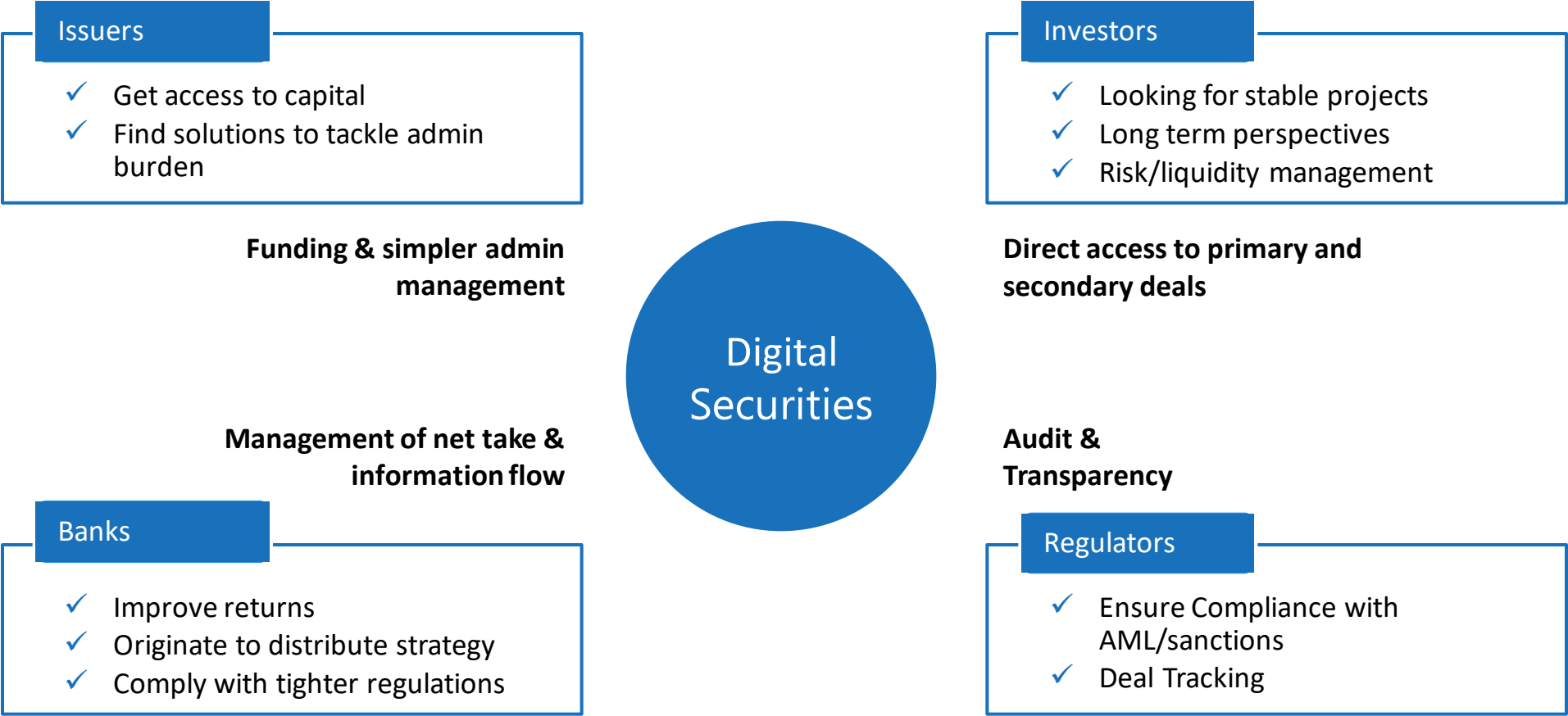
#### Secured solution for storing tokens

- ✓ Solutions have already been deployed and tested (cold vaults, multi-signature wallets) by banks and accredited corporates
- ✓ First dedicated insurance solution has been released by Lloyds/Aon

#### Retain control on cash inflows & outflows

- ✓ Security trustee will remain as deal supervisor
- ✓ Automated calculation of cash flow waterfall
- ✓ Data entered by issuer but claw back clauses remain
- ✓ Multi-signature process to ensure accuracy of the data

# Digital Securities will reshape structured finance



In the short term, particularly relevant for:

- ✓ Capital intensive businesses
- ✓ Non-investment grade debt
- ✓ Liquid Assets or visibility on Cashflow-backed
- ✓ \$[10-50]m funding needs

# Contact Details

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## AltfinPartners

[www.altfin.partners](http://www.altfin.partners)

4, Place de l'Opera  
75002 PARIS  
FRANCE

**Sylvain Pagès, CFA**

**Founding Partner**

Mob : [+33 6 61 73 62 44](tel:+33661736244)

Email : [sylvain.pages@altfin.partners](mailto:sylvain.pages@altfin.partners)

 @sylvainpages

**Olivier Pigeon**

**Founding Partner**

Mob : [+33 6 69 09 54 05](tel:+33669095405)

Email : [olivier.pigeon@altfin.partners](mailto:olivier.pigeon@altfin.partners)

 @olivierpigeon