

FOSVAs & other new products and services for shipping

prepared by Pierre Aury for

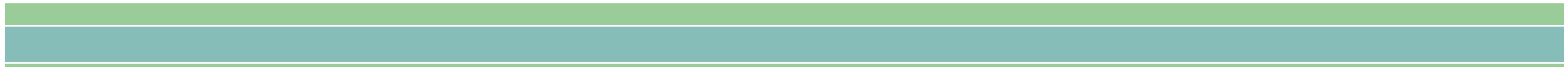
TANKEROperator

London February 2004



Summary of presentation

- **FOSVAs**
 - **What are “Forward Ship Value Agreements”?**
 - **Definition of BaSVAs**
 - **How does it work ?**
 - **Who may use them?**
 - **Advantages, Issues & potential solutions**
 - **Practical examples**





Summary of presentation (Cont)

- **Other products and services**
 - **Covered Warrants**
 - **Structured transactions**
 - **Restructuring of existing transactions**
 - **Advisory services**



What are Forward Ship Value Agreements (FOSVAs)?



- **Type of contract : OTC swaps & options**
- **Underlying : second hand value of selected types of ships**
- **Markets covered : dry bulk and tanker**
- **Settlement : cash settled against BaSVA**

FOSVA = FFA with a different underlying market





Definition of BaSVAs

- Baltic Ship Value Assessments
- 4 types of ships :

Vessel Type	Dwt	Age
DH VLCC Tanker	305,000 dwt	5 Year Old
DH Aframax Tanker	105,000 dwt	5 Year Old
Capesize Bulker	172,000 dwt	5 Year Old
Panamax Bulker	74,000 dwt	5 Year Old

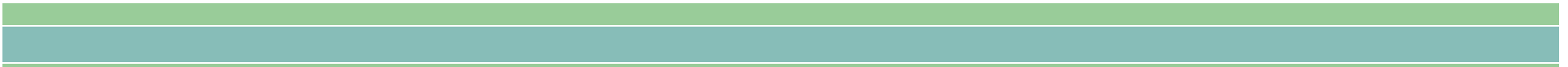
- Prompt delivery, SS passed, Charter free & 2 pct com
-
-

Definition of BaSVAs (Cont)

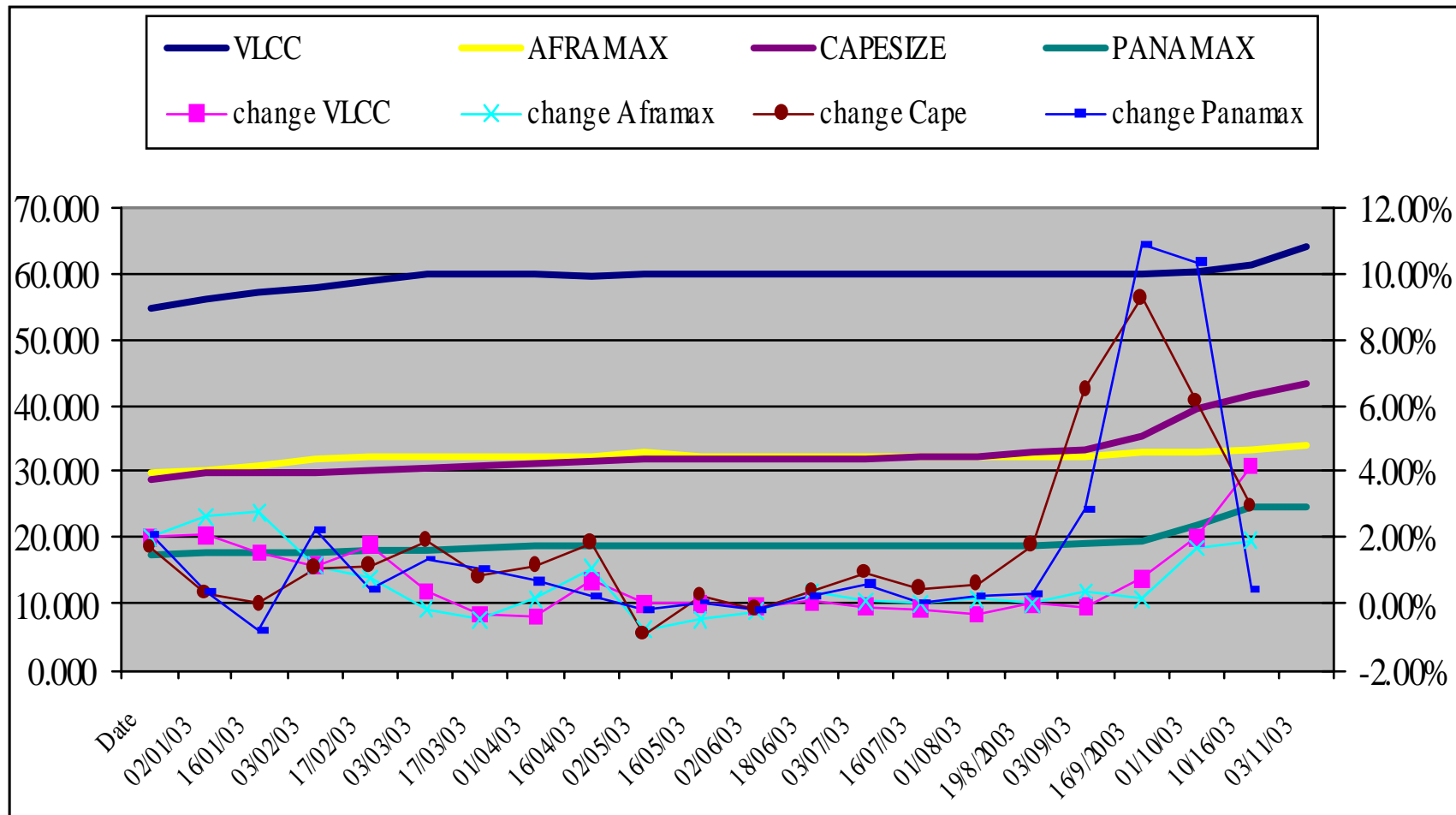


-
- **Frequency of assessments : twice a month using the same robust procedures developed by the Baltic Exchange for the dry bulk and tanker freight indices**

 - **Panellists : 10 S and P brokerage firms**
 - ACM
 - Arrow
 - Banchemo Costa
 - BRS
 - Clarkson
 - Fearnleys
 - Lorentzen Stemoco
 - MJLF
 - Platou
 - SSY

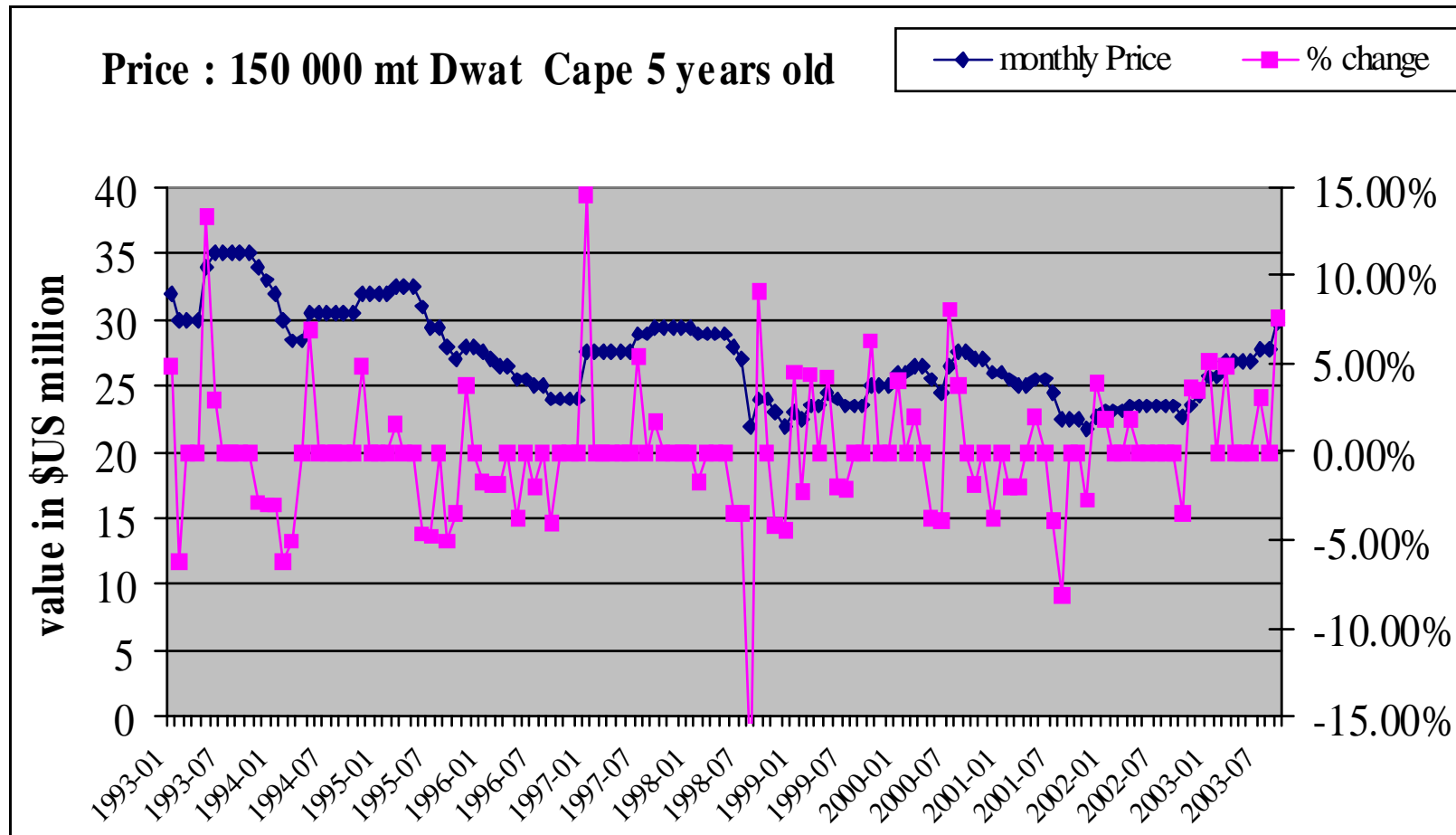


Definition of BaSVAs (Cont)





Definition of BaSVAs (Cont)





How does it work ?

- Trades in multiple of units : 1 unit = 5 % of vessel

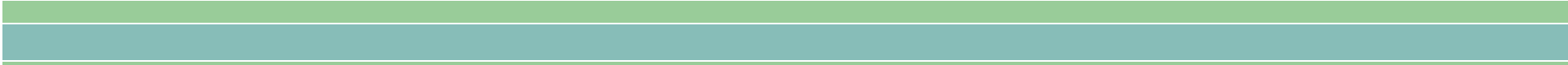
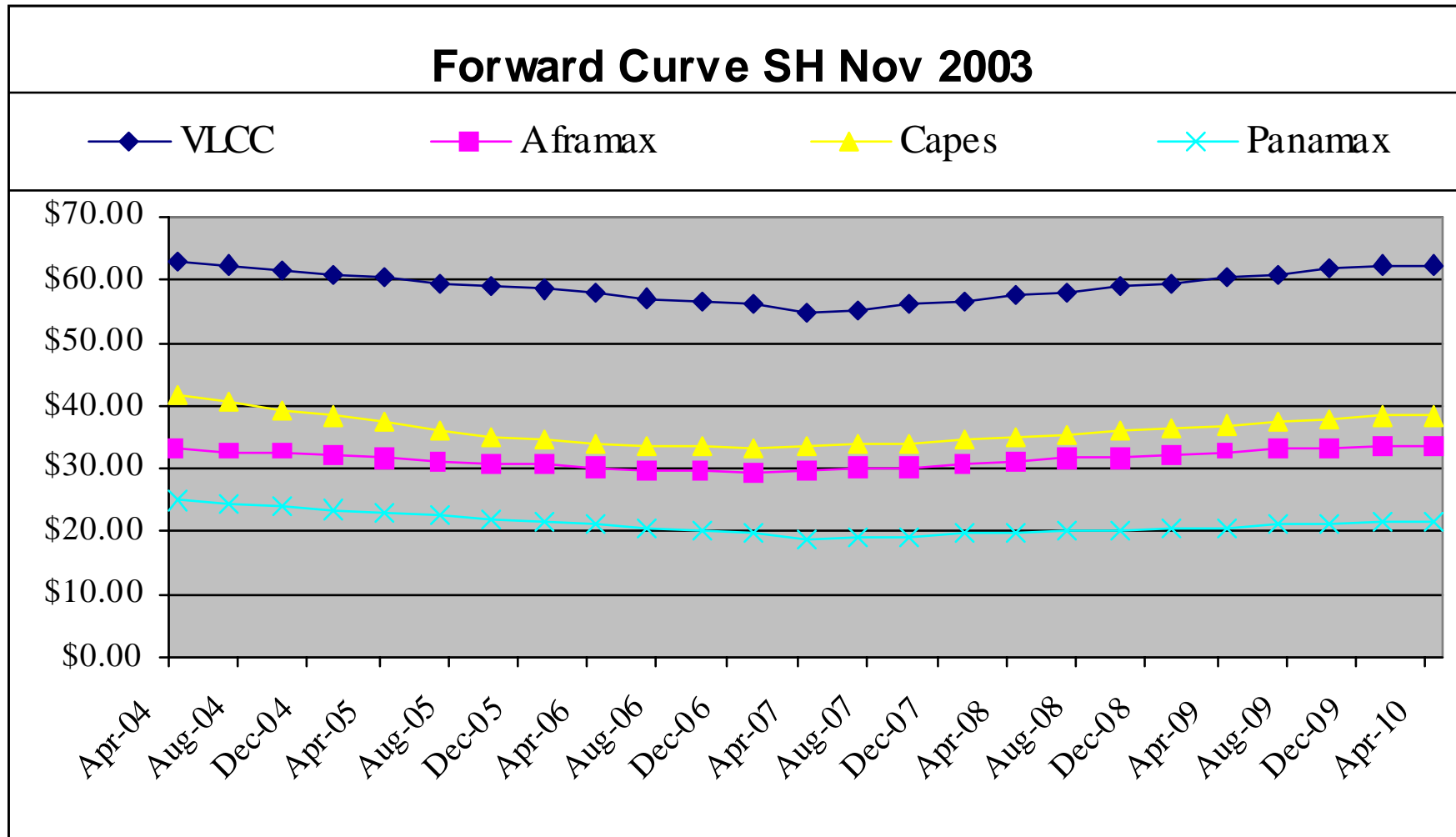
1 vessel = 20 units

- Settlement : average of the quarter

A Q1 2006 FOSVA will settle against the average of the 6 indices published during Q1 2006 (2 per months)



How does it work ? (Cont)



Who may use them ?



Anybody who is willing to invest in ships without the operational risk :

Get this



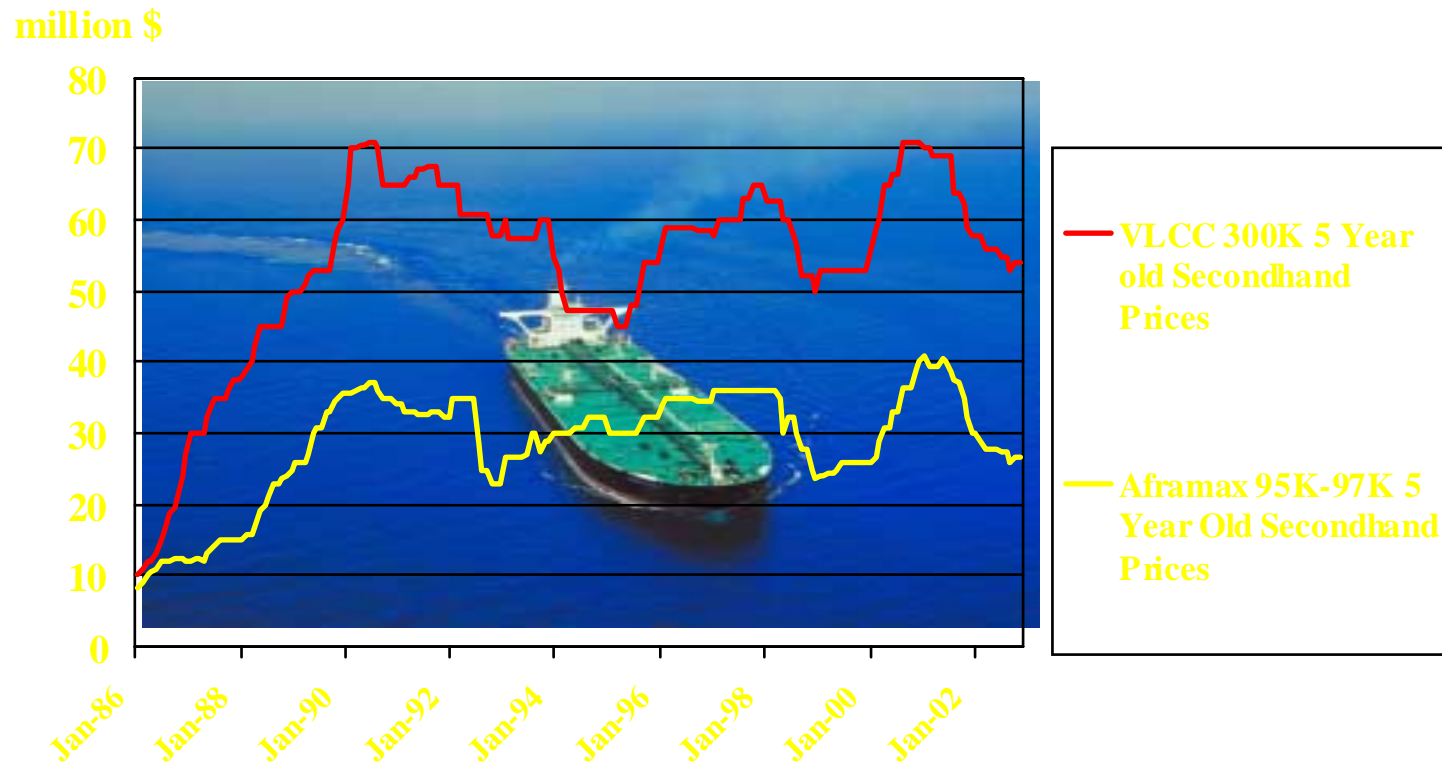
Without this



Who may use them ? (Cont)



Anybody who is willing to hedge against fluctuation of the value of ships (financial hedge and/or EFP)

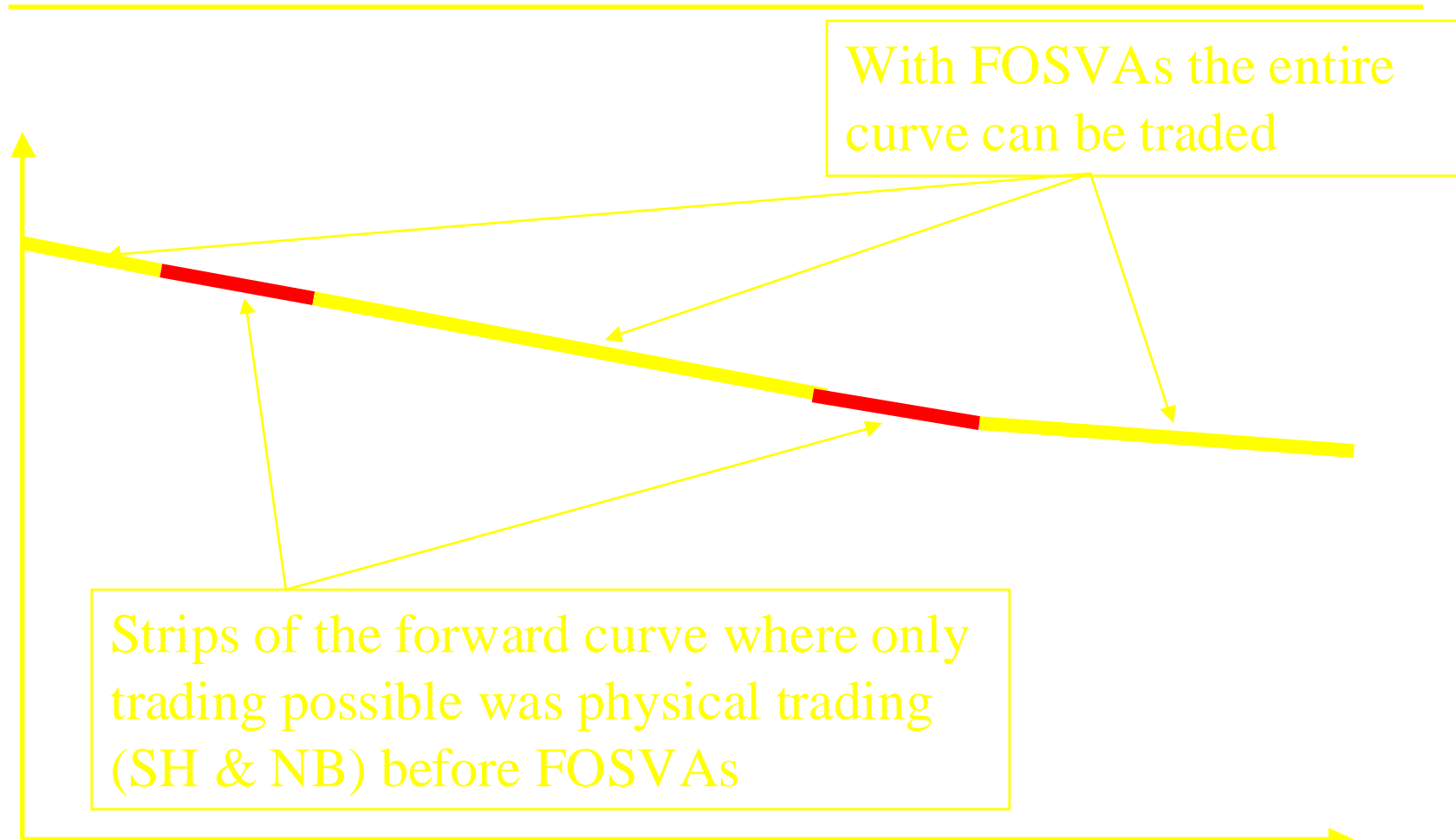


Advantages, Issues & Potential Solutions



- Size of the contract : 5 % of the size of a similar physical transaction as opposed to 100 in physical transactions
- Maturity : will enable to take positions or hedge or arbitrage along all the curve as opposed to only short dated trades in physical
- Exposure only to price and credit risks
- Robustness of indices
- Valuation of options
- Speed of execution
- Structured deals

Advantages, Issues & Potential Solutions (Cont)



Advantages, Issues & Potential Solutions (Cont)



Main Issues : Liquidity, Basis risk & Credit

Basis risk :

- **Modelling**
- **Simulation**

Potential solutions for credit issues :

- **Credit language in contract (margin, security...) or Clearing**
 - **Sleeving**
 - **Bank guaranties**
 - **Credit derivatives**
-
- A decorative footer consisting of two horizontal bars: a light green bar on top and a teal bar on the bottom.

Practical Examples



- **Forward purchase options : lock in profit taking advantage of the strong market**
- **Purchase of a vessel : “risk free” n years maturity investment**

At the same time :

- **Purchase the physical vessel**
 - **Sell TC (physical or FFA) from the effective date until maturity**
 - **Sell 20 FOSVA units at maturity**
-
-

Other products and services



- **Structured transactions including introduction to investors/leasing companies ...**
- **Restructuring of existing transactions**
- **Cover warrants**
- **Advisory services**
 - **Strategy and tactical matters**
 - **Risk management**
 - **Bespoke reports**



Other products and services (Cont)



Structured transaction : using internal resources within Clarkson,

Clarkson Capital Limited can be a one stop shop to

- **Purchase a ship**
- **Hedge fully or partly her first years of trading**
- **Hedge fully or partly her residual value**

Restructuring of existing transactions

Turn a 3 years option one physical TC out into a 4 year physical index

TC out combined with a 3 years swap and the sale of a call option

on the paper market

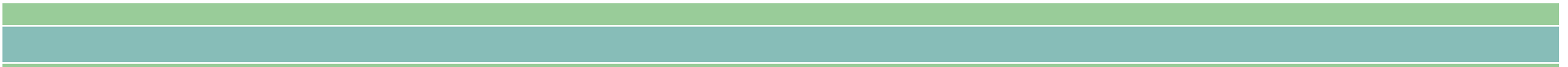


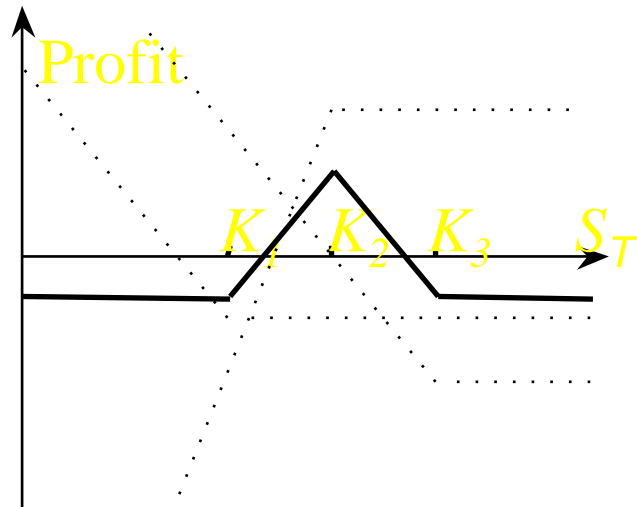
Other products and services (Cont)



Covered warrants: provide a bridge between retail and wholesale markets

Risk management : ensure at all time that risks taken are commensurate with capital base!





Clarkson Capital Ltd
Pierre Aury
12 Camomile Street
London EC3A 7BP

Email : pierre.aury@clarksons.co.uk

Tel : +44 207 334 3441

Fax : + 44 207 626 2930

Mobile : +44 7776 22 7776