



MACQUARIE

The Role of Securitisation in Project Financing

By

Phillip Crossman

Division Director

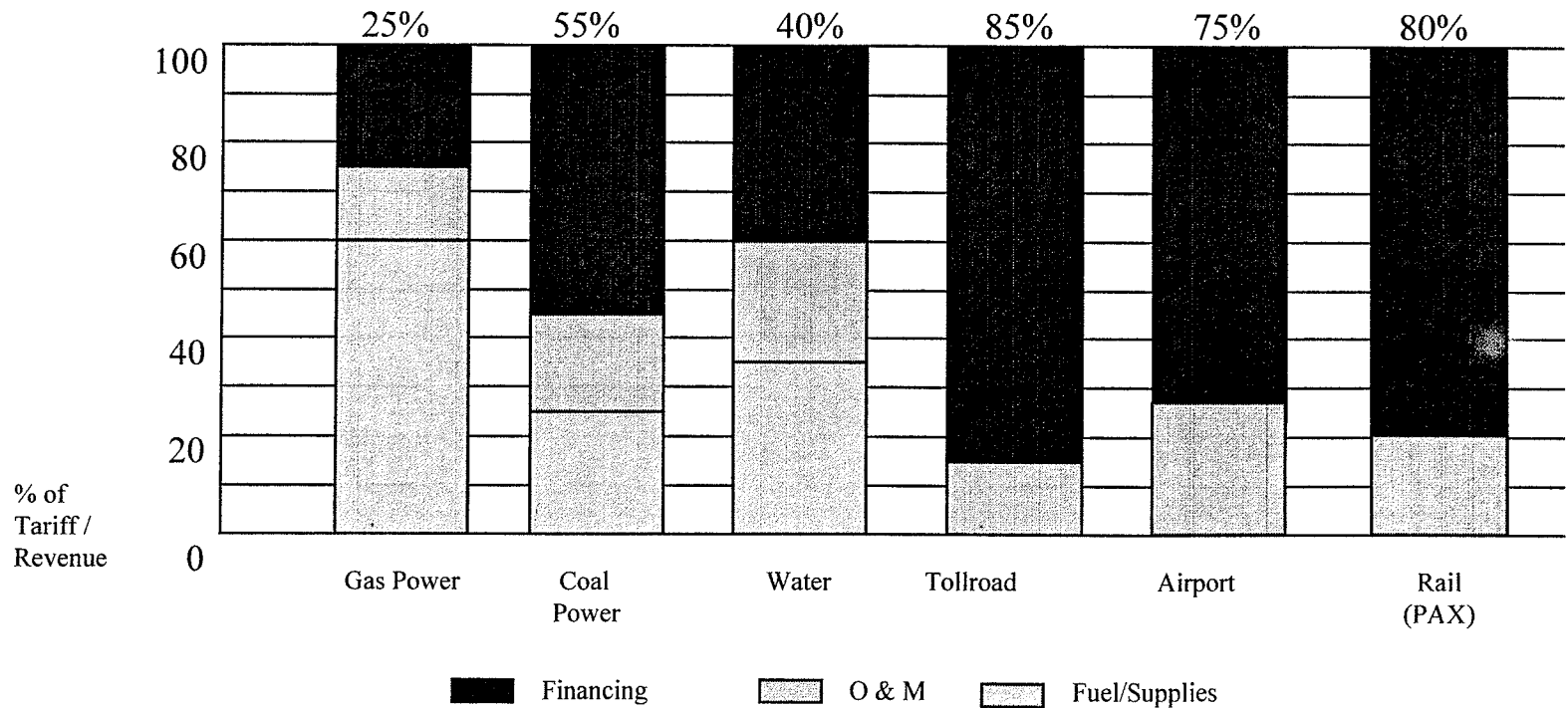
Macquarie Bank

June 2000



Finance Critical

Funding costs are crucial in infrastructure deals



**Smart thinking on finance can make
a huge difference !**



Introduction

- **Access to the Domestic and International Capital Markets**
- **Infiltrating traditional bank financed markets domestically**
 - **retail products**
 - **business assets eg. receivables**
 - **hire purchase and lease receivables**
 - **commercial and retail property**
 - **project financing**



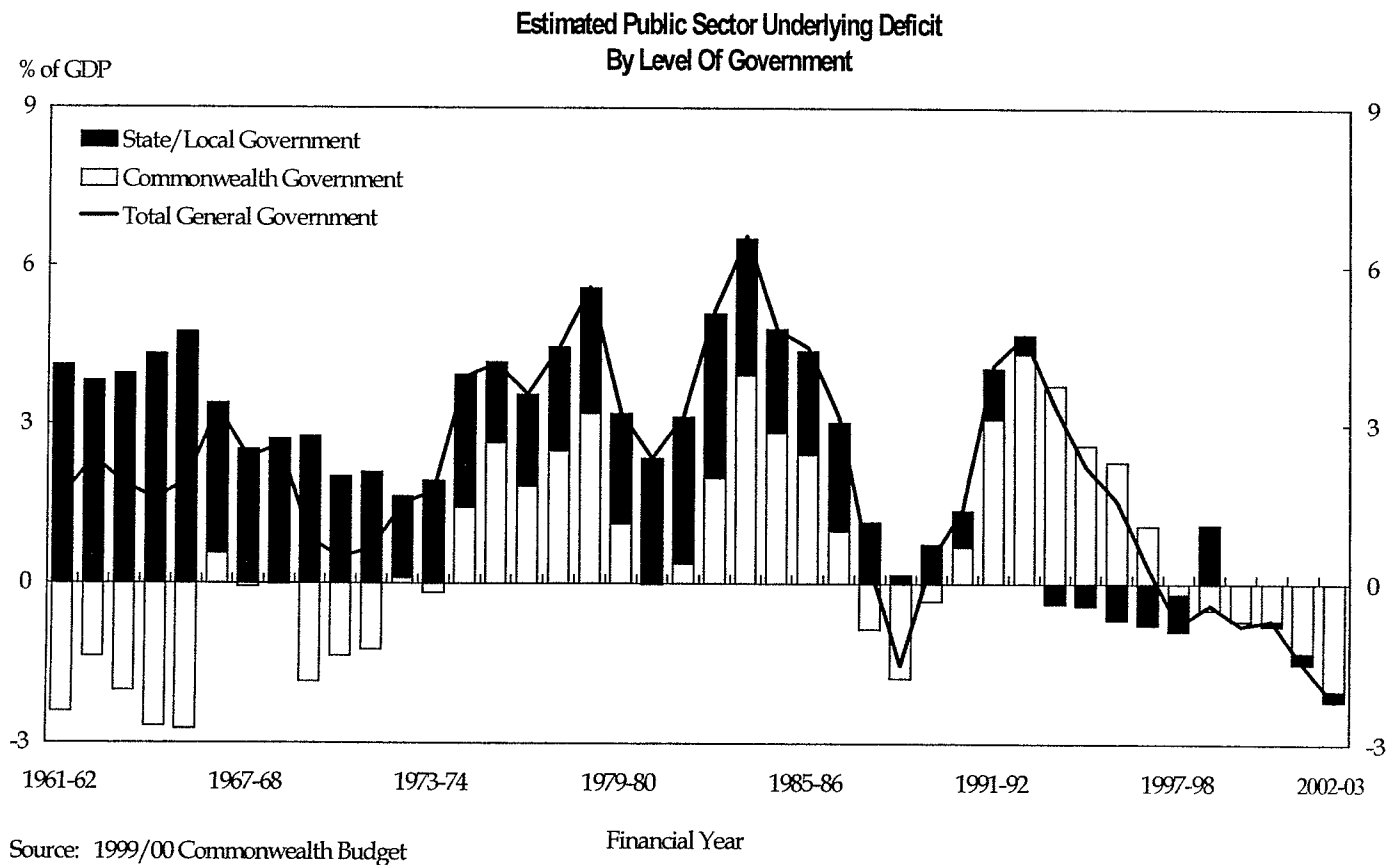
Introduction (cont)

- **Demand from Retail and Wholesale Managers of Funds**
- **Rated securities can be created and serviced from project cash flows**
 - **rated counterparty cash flows**
 - **diversified cash flows**
 - **residual asset values**
 - **future flows**



Capital Market Drivers

Reduction in Supply of Government Bonds

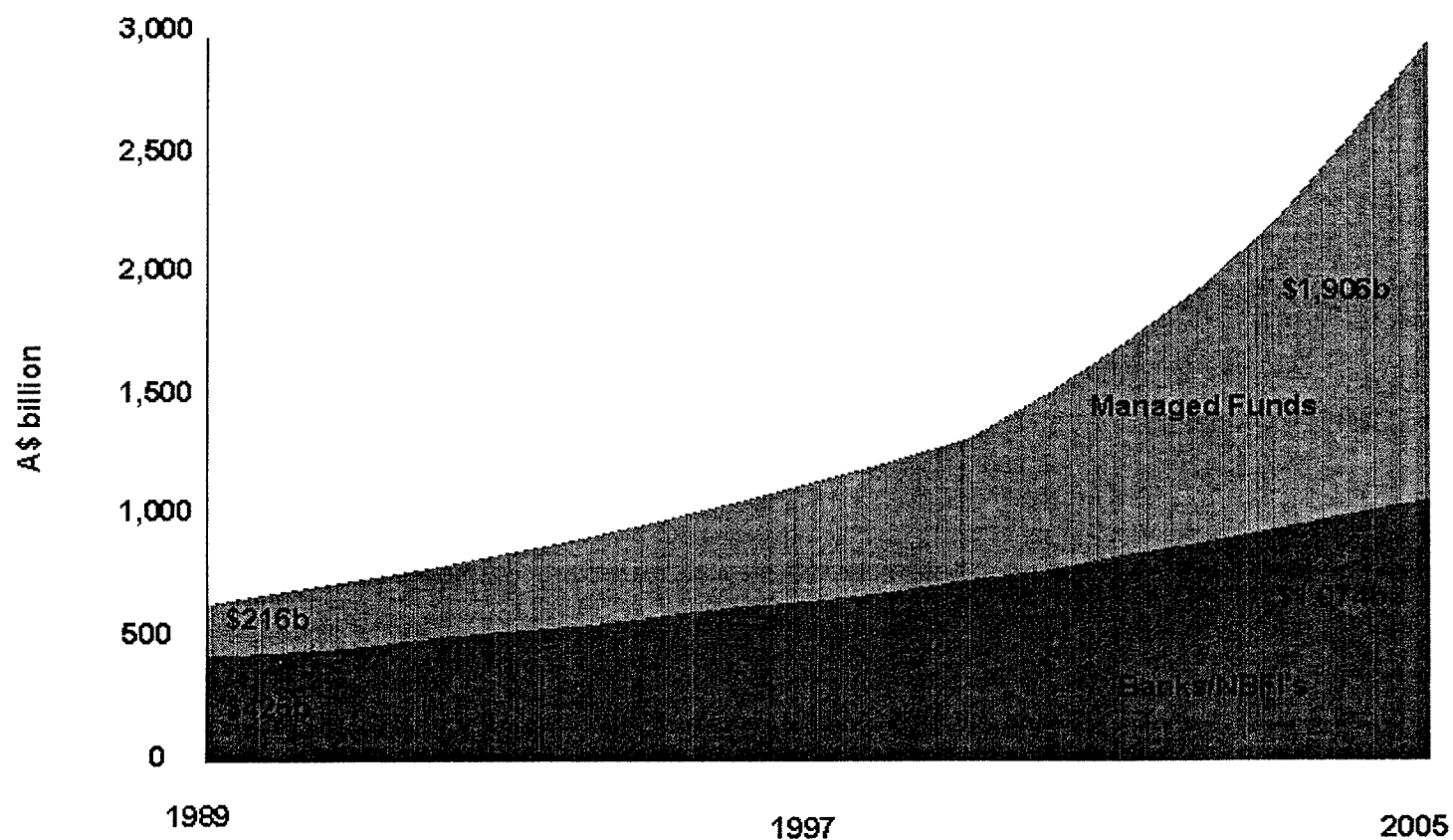




MACQUARIE

Capital Market Drivers (cont.)

Increased Flow of Funds to Superannuation



Source: APRA



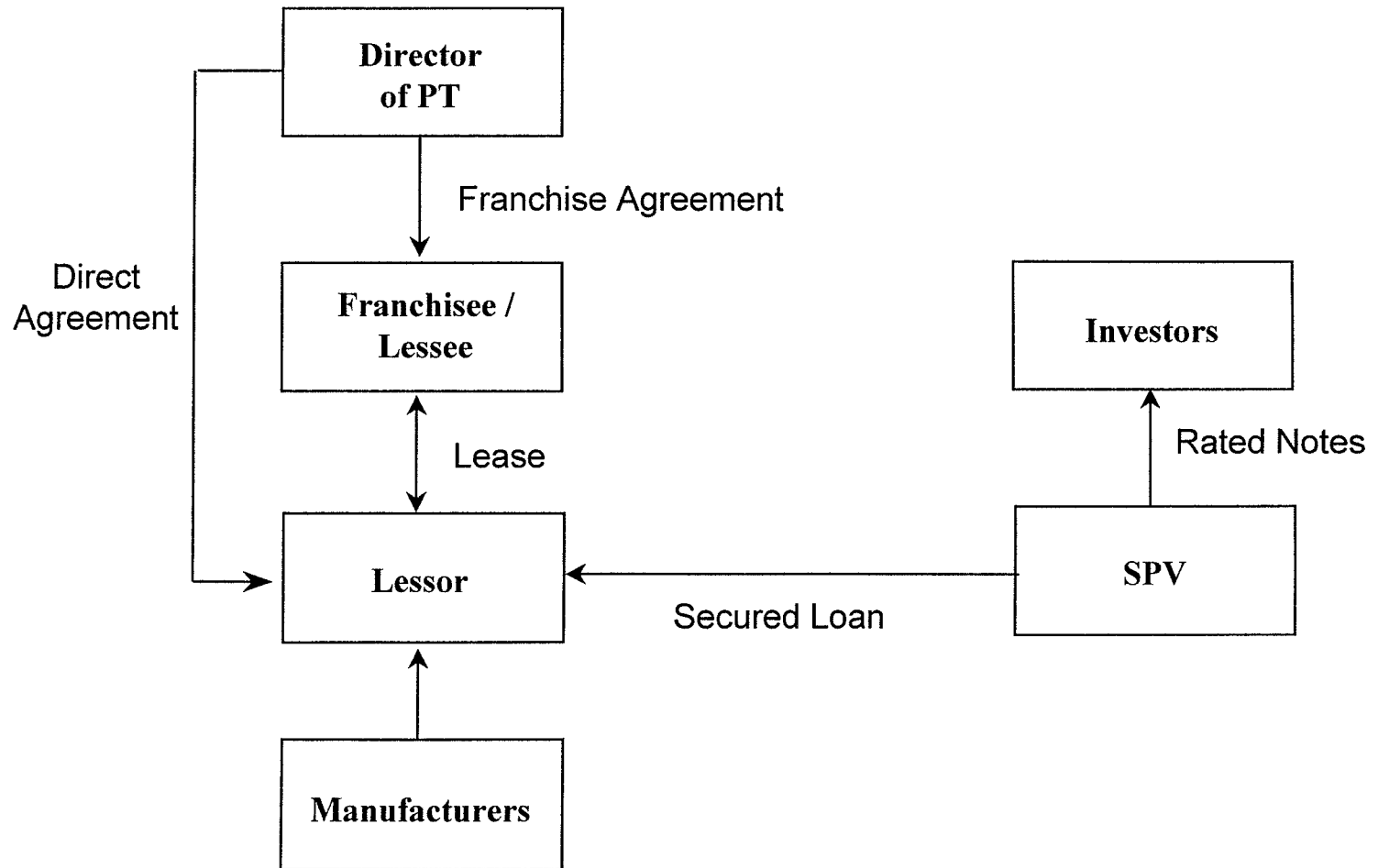
Securitisation Process

- **Identify Risks**
- **Find most efficient counterparty to assume risk**
- **Cost / benefit analysis - cover risk or not**
- **Ratings process**
- **Identification of target investor markets**
- **Structuring the securities**
- **Documentation**
- **Underwriting**
- **Distribution and settlement**



Case Study - Virtue

Securitisation of Rolling Stock Leases





Case Study - Virtue (cont.)

Identify Risks (not exhaustive)

- **Construction risk**
- **Abatement risk in lease**
- **Residual risk**
- **Reinvestment risk**
- **Interest rate risk**