



The Future of Trading

The current manner in which aircraft equipment is traded is inefficient. The Global Aircraft Trading System (GATS) provides a secure, live and searchable electronic ledger that aims to streamline the process for all parties.

by Alexa Schlosser

In a world where air travel and the number of commercial aircraft are on the rise, this means aircraft leasing — which accounts for more than 45% of commercial aircraft — is also expanding. Aircraft trading, which used to be a relatively niche market in the industry, has become a much more regular part of the life of a leased aircraft. Thus, ownership is changing hands much more often. This increase in activity has led to a greater focus on inefficiencies in the process, of which airlines, lessors and financiers have all felt the consequences.

“The way aircraft trading is done today is very time consuming and involves far too much paper. It’s unsustainable,” says David Swan, chief operating officer of SMBC Aviation Capital.

Increasing Efficiencies

Swan arranged a gathering of a handful of industry leaders in January 2017 to discuss a possible solution to the problem. The group — which included Greg Lee, managing director at

Goldman Sachs; Drew Fine, partner at Milbank Tweed; Tom Woods, head of aviation finance and leasing at KPMG; David Walton, chief operating officer at BOC Aviation; John Ludden, general counsel of GECAS; and Jeffrey Wool, secretary general of Aviation Working Group (AWG) — knew there were easier ways assets were being traded around the world. In fact, the practice of holding aircraft equipment in trusts was already a well-established process in the United States and had also been used in Ireland.

With this in mind, the group came up with the idea of a Global Aircraft Trading System, or GATS. GATS modernizes aircraft equipment trading and financing through a fully electronic and secure ledger that displays the details of ownership and security interests in GATS trusts.

“This will be a first in our industry,” Wool says. “AWG has been working in this space for a long time; we standardized novations and other documents. GATS builds on that but takes the efficiencies to a new level with the move to trust structures. This embodies a fundamentally different way to trade aircraft: through electronic transfers of beneficial interest in trusts rather than document intensive, labor

“Whatever is in the lease is retained and strengthened through GATS. GATS strengthens the legal position of airlines through reinforcing their lease rights through the e-platform,” Wool says. “There will be no ‘automatic transfers.’ The system has a standard set of forms between the trade partners, but everything must be done in accordance with the lease. Critically, any conditions to transfer that exist in the lease would become part of the electronic process and would have to be approved by the airline. The airline is fully protected; in fact, they are more protected than how it is today.”

Wool continues: “Today, lease conditions are on paper; under GATS, they will be electronic and under the airline’s control. This is reflected in the concept of GATS ‘advance requirements,’ e-conditions from the lease that must be approved by the airline.”

Modernizing the Process

For as technical an industry as aviation is, its processes are surprisingly old-fashioned. “The whole aircraft leasing industry is ripe for innovation,” Swan says. “It’s crazy we’re still doing

things the way they were done in the 1980s. We can streamline a lot of processes with better use of technology.”

Helping with that streamlining is Fexco, which will build, support and operate the GATS platform. “Our near 40-year experience building technology-based payment and transaction solutions for global partners, combined with user and stakeholder inputs from the aviation industry, will ensure a customer-centric GATS platform providing the

simplicity, ease-of-use and security demanded by the sector,” says Karl Aherne, director of strategic business development at Fexco.

However, the modernization of aircraft leasing doesn’t stop with the launch of GATS. “There are many additional potential uses of GATS, which will work well once the industry is comfortable with the platform,” Wool says.

Swan is more specific about what those additional uses might be. For one, with GATS providing a central place where you can record the owners of all leased aircraft, it’s not much of a stretch to consider that it might also securely store all the documents relating to that aircraft.



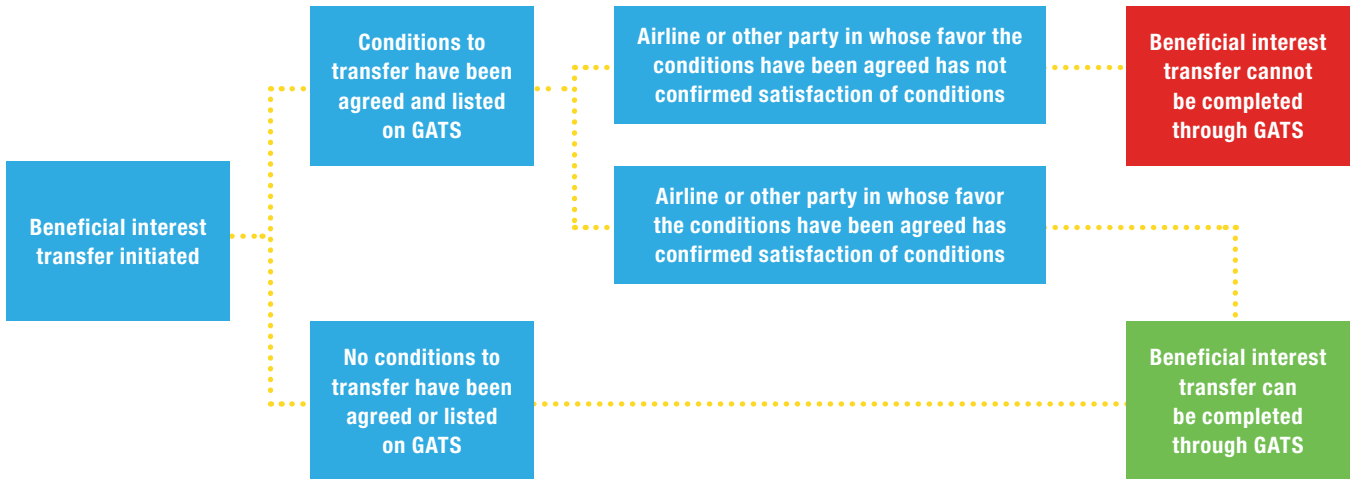
GATS strengthens the legal position of airlines through reinforcing their lease rights through the e-platform.

intensive and legal intensive individual novations and assignments of leases.”

Protecting Rights

A key principle of GATS is that users can create, transfer and secure interests without disturbing the existing lease agreements. In other words, it protects the rights of all parties involved, especially the lessees. “We wanted to be proactive and try to find ways to preserve all our lessee’s rights, keeping them in the same position in terms of increased costs but making it much simpler for them,” Swan says.

FIGURE 1: CONFIRMATION OF SATISFACTION OF AGREED CONDITIONS TO TRANSFER



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“Not just the transaction documents, but the ownership documents, the manufacturer documents, the records of all the maintenance, the letters of credit,” Swan says. “Effectively, in its fullest form, it could become a real electronic exchange of aircraft.”

Swan also thinks it could broaden the capital base for aviation and aircraft leasing by selling a percentage or tranches of aircraft. “If you have an electronic exchange, and you’re only exchanging beneficial interest, then why not sell tranches of aircraft and mix the airline credits and aircraft types together for different portfolios the way PE funds do with real estate and other investments? Improved liquidity of aircraft ownership will support values and attract new investors. That’s why Airbus and Boeing are also big supporters of GATS,” Swan says.

This, of course, is further down the line. For now, Wool says, “AWG is focusing on ‘Day 1 GATS.’ This is such a substantial project. We are moving to an electronic process with all that that entails. We are focusing 100% on that.”

“This won’t be the only way aircraft are traded. People can do it the old-fashioned way. There could be another way someone comes up with. This is the beginning of addressing the issue that the current way of trading aircraft is too costly, too time consuming and too impactful on our airline customers,” Swan says.

Next Steps

With the launch of GATS planned for Q2 2020 and transition to the new system underway, everyone involved is working hard on their respective tasks. “We have four major international law firms helping us; we have an exceptionally strong internal working lessor team; we have been consulting

Key GATS Facts

- Each aircraft will be owned by a trust in a U.S., Ireland or Singapore branch.
- The sale of aircraft equipment will be performed by an e-transfer of the beneficial interest in a trust.
- There is no need for a lease novation, which reduces time and cost burdens.
- The transfer and related documents will be standardized and executed and delivered electronically.
- Any “advanced requirement” to a transfer or financing may be integrated into a GATS transaction, which preserves all rights and protects all parties.
- It is a voluntary system open to all industry players.

Source: Aviation Working Group

with thought-leading airlines; we have worked closely with the FAA; and KPMG gives us day-to-day guidance,” Wool says.

For his part, Swan says his company, SMBC Aviation Capital, is already working with some of their lessees to make their leases GATS compliant so they are ready to go when it launches.

To GATS skeptics, Swan asks that they keep an open mind. “What I would ask from the different stakeholders at the moment is to engage. Don’t knock GATS down without first trying to understand what it is. Have an open mind. There might be a better way, maybe a GATS 2.0, but this is a good starting point. Let’s innovate, because this industry needs it.”

Wool agrees: “Implementation is linked to and dependent on understanding. The more one knows about GATS, the more one likes it.”

Let’s innovate, because this industry needs it.

He suggests browsing through the Guidance Materials on the AWG website. “The guidance document is a handbook on how this system can be fully implemented and understood by all parties. We’ll be updating it on a quarterly basis, as any kind of a new system goes through practical iterations as it is developing.”

For more information about GATS, including an FAQ document and the aforementioned Guidance Materials, go to www.awg.aero/projects/gats. ▲



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