Global aircraft trading system (GATS) - preparing to go live

Modernising aircraft transfers
Why is GATS important?

- 96% growth in new aircraft deliveries between 2000-2018; expected to rise by 31% over the next two years
- Installed fleet likely to double over the next 20 years
- Lessor market share has grown almost 20 percentage points to 46% over the last 20+ years
- c.35% of new aircraft deliveries traded via sale and leaseback
- Secondary market trades understood to exceed 1,000 per year

>22,000 new aircraft delivered since 2000

>44,000 new aircraft needed over the next 20 years

Source: Airbus, Boeing

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How has AWG worked to improve aircraft ownership transfers?

Aircraft Ownership Transfers

Standard Novation Forms

Global Aircraft Trust System (GATS)

Simpler and Easier
Momentum building for successful launch of GATS

- Initial transactions using GATS transitional forms have been completed
- Over a dozen airlines have signed GATS-compliant leases, from Asia-pacific, Europe, North America, Middle East, and Latin America
- Many other airlines, across all regions, in final assessment and expected to be supportive
- Nearly 100 GATS trust numbers already requested and allocated by the GATS system
- FAA opinion confirming compliance of the GATS forms with US federal law and FAA requirements
- GATS forms are compliant for use in ABS
- User testing of beta version of GATS begins in January 2020
- Simulated Transaction Period – 1-31 March 2020
What is GATS?

- A global aircraft trading system developed by the Aviation Working Group
- Fully electronic, with e-signatures, e-delivery of documents, and use of a secure e-ledger to record transactions
- Makes the buying, selling, and financing of aircraft and engines on lease simpler and more efficient
- Reducing touch points with, and burdens on, airlines while enhancing their lease rights and protections
- Future electronic applications of GATS platform to include subleasing approvals and other functions directly beneficial to airlines
How does GATS work?

- Each aircraft is owned by a trust – created online – in a US, Irish or Singapore branch. Trust structures have been used for decades covering a substantial part of the industry, and have proved efficient.
  - The trusts are designed to be transparent for tax purposes, though transactional advice on that is required.
- Sales of aircraft equipment are effected by an electronic transfer of the beneficial interest in a trust – rather than a metal transfer, leaving the lease and other basic transaction documents in place.
  - No need for a lease novation, thus significantly reducing time and cost burdens.
- Select transfer and related documents are standardized, simple, and executed and delivered electronically.
  - Lease documents not effected (form of transfer clause suggested, as negotiated by parties).
  - Conditions to transfer are as negotiated and are not standardized.
- Any ‘advanced requirement’ to a transfer or financing, agreed between the airline and its lessor, may be integrated into an electronic GATS transaction, preserving all rights and protecting all parties.
- Voluntary system open to all industry players.
GATS Support

- The GATS Platform will have a Legal Advisory Board and a Tax Advisory Panel each formed under the auspices of the Aviation Working Group.

- The GATS Platform Legal Advisory Board functions are to:
  - assist and advise on queries related to GATS platform
  - suggest modifications to informational and educational materials on the platform
  - provide general assistance and advice relating to GATS matters and its platform

- All work of the GP-LAB is purely advisory in nature and not transaction-specific. AWG may accept or follow the foregoing or not in its sole discretion

- The initial administrator of the GP-LAB is Dominic Pearson of WFW
The GATS Platform Tax Advisory Board functions are to:

- assist and advise on general tax issues related to GATS platform
- ensure a consistent view on core taxation items, for AWG’s general planning relating to the Platform and for the benefit of the industry

All such work is purely advisory in nature and not transaction-specific. AWG may accept or follow the foregoing or not in its sole discretion.

The initial chair of the GP-TAB is Tom Woods, and its initial administrative coordinator is Joe O’Mara, each of KPMG. That firm is the first member of the GP-TAB. Other major firms will be invited to join the GP-TAB prior its effective date of 1 March 2020.

Each of the GATS Advisory Boards is coordinated by an administrative Coordinator appointed by AWG.
Status Update

Documentation

- Best in class mechanical instruments
- No edits permitted
- Greater transparency
- Feedback on exposure drafts
- Rating Agency compliant for use in ABS
- Reflect FAA requirements
- No standardisation of lease agreements or finance documents
Status Update

Platform

01 Timing on track to meeting original estimates

02 ‘Go live’ at 11:59pm (GMT) on 31 March 2020

03 Mock-up version being tested by GATS Legal Advisory Panel

04 Beta version to be tested by expanded group of industry professionals in January / February

05 Simulated Transaction period in March 2020
Status Update

Getting GATS-ready / migration of pre-GATS trusts

- Updates to precedent form Lease Agreements
- Examining portfolio to identify good candidates for GATS
- Transfer of off-lease and new delivery aircraft into trusts
- Use of Transition Period GATS Form instruments
- Reservation of Unique Identification Numbers (UINs)
- Migration of existing trusts into GATS Trusts
  - Transition Period GATS Form trusts or any other existing trust
  - GATS specifically designed to accommodate migration
  - Migration Fee is 50% lower than Establishment Fee
- GATS-ready leases entered into by SMBC Aviation Capital
Status Update

Airlines

1. Over a dozen airlines have signed GATS-compliant leases

2. Many other airlines expected to be supportive

3. Addressing items which have been raised by airlines

4. Benefits, future uses and features attractive to airlines
Status Update

Tax

01
Core tax features of GATS Trusts (tax depreciation, tax treaties, transfer taxes)

02
OECD submission seeking authoritative support of fiscal transparency of trusts

03
Update on KPMG global tax analysis for AWG
Status Update

Global recognition of trusts

1. Cape Town Convention jurisdictions

2. AWG addressing the few major leasing and financing jurisdictions where not recognised
Status Update

Simulated Transaction Period 1-31 March 2020

01  Commences on 1 March 2020

02  GATS Platform available to create ‘fictional’ transactions

03  Opportunity to get comfortable with look and feel before effecting transactions

04  Helpdesk function available
<table>
<thead>
<tr>
<th>Designated Transaction</th>
<th>Platform Fee</th>
<th>Trustee Fee**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment/Migration of a GATS Trust</td>
<td>2500 (1250 for migration)</td>
<td>0</td>
</tr>
<tr>
<td>Annual fee</td>
<td>0</td>
<td>2,500</td>
</tr>
<tr>
<td>Beneficial Interest Transfer</td>
<td>2500</td>
<td>1,500</td>
</tr>
<tr>
<td>Beneficial Interest Transfer (Partial)</td>
<td>1250</td>
<td></td>
</tr>
<tr>
<td>Beneficial Interest Transfer (Residual)</td>
<td>1250</td>
<td></td>
</tr>
<tr>
<td>Successor Trustee Transaction</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Permitted Amendment (Trust Instrument)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Trust branch Transfer</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Termination of a GAT Trust</td>
<td>500</td>
<td>2,500 (only if before 5th anniversary)</td>
</tr>
<tr>
<td>Security Interest Grant</td>
<td>500</td>
<td>2,000*</td>
</tr>
<tr>
<td>Security Interest Transfer</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Permitted Amendment (Security Instrument)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Permitted Amendment (Security Instrument (Version upgrade)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Security Interest Release</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Security Interest Release (Partial)</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Unilateral Notice of Non-GATS Security Interest Release</td>
<td>250</td>
<td></td>
</tr>
</tbody>
</table>

* If materially more work is required than customarily required in similar transactions, the GATS Trustee and Beneficiary may agree a separate fee.

** Any Designated Transactions not listing a Trustee Fee are for the GATS Trustee and Beneficiary to agree.
Creating a new GATS Entity

Step 1 – Individual Identity Verification

- In order to create a user account, an individual must first have completed a one-time* identity verification process
- Identity verification is a two-step process using a newly developed app:
  1) take a photograph of your passport or other government issued photo I.D.
  2) take a ‘selfie’
- The GATS Platform uses face recognition technology to verify
- Once verified, the individual signs-up the GATS Platform's terms of use
- The GATS Platform then issues the user with a unique digital certificate

*Please note that annual updates of this identity verification will be required.
Creating a new GATS Entity

Step 2 – Application to become a GATS Entity

- Through the GATS Platform, an entity can apply to become a GATS Entity.

- The GATS Platform prompts the applicant to provide certain information including:
  1) Name of the entity applying to become a GATS Entity
  2) The type of GATS Entity it wishes to become (GATS Participant/GATS Trustee/GATS Professional User Entity)
  3) The names of its ‘Administrators’ (at least two) each of whom has completed the identity verification process
  4) If the entity is applying to become a GATS Participant (i.e. a leasing company or a bank), the name of the GATS Trustee who will ‘clear’ it

- The applying entity needs to be ‘cleared’ for KYC and other purposes by either the relevant GATS Trustee or AWG (as applicable).

- Once cleared, the applicant signs-up electronically to the GATS e-Terms through one of its Administrators.

- The entity then becomes a GATS Entity and will appear on the e-Ledger.
Creating a new GATS Entity

Step 3 – Edits to GATS Entity profile

- Once an entity has been established as a GATS Entity, any administrator can edit the profile to add or remove Administrators, Signatories and/or Users (each of whom must have first completed the individual identity verification process)
- A GATS Entity can have up to 99 Administrators but must have at least 2 in order to effect any Designated Transactions
- Administrators are permitted to:
  - add/remove other Administrators, Signatories and/or Users
  - execute GATS Instruments
  - release signatures from escrow and manage Advance Requirements
- Signatories are permitted to:
  - execute GATS Instruments
  - release signatures from escrow and manage Advance Requirements
- Users are permitted to:
  - release signatures from escrow and manage Advance Requirements
Creating a new GATS Entity

Step 4 – Appointing a GATS Professional Entity

- A GATS Professional Entity (e.g. law firm) can be created on the GATS Platform
- Must be ‘cleared’ by a GATS Trustee, GATS Participant or AWG
- Like other GATS Parties, GATS Professional Entities will have Administrators, Signatories and Users associated with them
- GATS Professional Entities can act as Escrow Coordinators on any Escrow Facility
- Any GATS Entity can add a GATS Professional Entity as its Administrator, Signatory and/or User if it so chooses
- If a GATS Professional Entity is appointed as an Administrator of another GATS Entity, each Administrator of that GATS Professional Entity will be permitted to act as an Administrator of the appointing GATS Entity
- GATS Professional Entities are appointed on a per GATS Entity basis and not per piece of aircraft equipment (distinguished from PUE on the IR)*

*May develop further
Creating a new GATS Entity
Creating a new GATS Entity

Step 5 - Controlled Entities

01. Similar to the IR, the GATS Platform permits a streamlined process for appointing SPC subsidiaries as controlled entities.

02. This feature is available only to GATS Participants and not to GATS Trustees or GATS Professional Entities.

03. The relevant GATS Trustee still needs to ‘clear’ each subsidiary (KYC etc.).

04. The parent company’s Administrators, Signatories and Users are automatically inherited by the controlled entity.
Populating a GATS Instrument

- Select the type of Designated Transaction to be effected
- If creating a new GATS Trust, select the GATS Participant and the GATS Trustee
- If working on an existing GATS Trust, find the relevant GATS Trust by name or Unique Identification Number (UIN)
- Select the parties to the Designated Transaction from a dropdown list of GATS Parties
Populating a GATS Instrument

- GATS Platform tracks status of Advance Requirements
- Through an Administrator or Signatory each party signs digitally in escrow
- Each digitally signed counterpart is held in an Escrow Facility pending closing
Using an Escrow Facility

- Every Designated Transaction (DT) is effected through the GATS Platform using an Escrow Facility
- Any GATS Entity (a GATS Participant, a GATS Trustee or a GATS Professional Entity) can act as Escrow Coordinator
- The Escrow Coordinator:
  > creates the Escrow Facility
  > is authorised to act as such by each transacting GATS Entity being notified by the Escrow Coordinator of its identity and role and subsequently electronically executing its signature page
  > populates and orders each Designated Transaction in the Escrow Facility
  > monitors the progress and status of the Escrow Facility
  > releases signature pages and is responsible for all DTs in the Escrow Facility going live
- Advance Requirements (ARs) are not visible to Escrow Coordinator, but only visible to, for each Designated Transaction, the AR Organiser, the AR Beneficiary and any AR Observer
**Using an Escrow Facility**

<table>
<thead>
<tr>
<th>Steps to creating an Escrow Facility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Steps 1</strong> Escrow Coordinator:</td>
</tr>
<tr>
<td>• Populates each Designated Transaction (DT)</td>
</tr>
<tr>
<td>• Orders or re-orders DTs as required</td>
</tr>
<tr>
<td><strong>Steps 2</strong></td>
</tr>
<tr>
<td>• Each transacting GATS Entity and each AR Organiser notified of Escrow Facility</td>
</tr>
<tr>
<td>• Pre-populated Advance Requirements (ARs) added automatically</td>
</tr>
<tr>
<td>• AR Organiser for each DT any additional ARs</td>
</tr>
<tr>
<td><strong>Steps 3</strong></td>
</tr>
<tr>
<td>Each transacting GATS Entity:</td>
</tr>
<tr>
<td>• Electronically executes each document</td>
</tr>
<tr>
<td>• Electronically consents to release of its signature page</td>
</tr>
<tr>
<td>(Both actions can be done together or sequentially)</td>
</tr>
<tr>
<td>Each AR Beneficiary confirms satisfaction of its ARs</td>
</tr>
<tr>
<td><strong>Steps 4</strong></td>
</tr>
<tr>
<td>Escrow coordinator releases signature pages / DTs effective / entry onto e-Ledger</td>
</tr>
</tbody>
</table>
Using an Escrow Facility

Sign Document for GCAS

Escrow Facility

In Wytton Weekday, the escrow account was duly executed by the parties herein on the day and year the same written.
Search Function

- Any person with a GATS account can search the e-Ledger
- Do not need to have completed the identity verification process to open a GATS account
- In order to open a GATS account, an individual is required to provide certain information, including:
  - name
  - email address
- The e-Ledger can be searched by:
  - GATS Trust Unique Identification number
  - aircraft equipment MSN (exact matches only)
  - the name of the current (or any previous) GATS Participant who is or was the beneficiary of a GATS Trust
- For a fee, the GATS Platform will issue a search certificate describing every DT effected in relation to that GATS Trust