



**Revised rules capital requirements --**

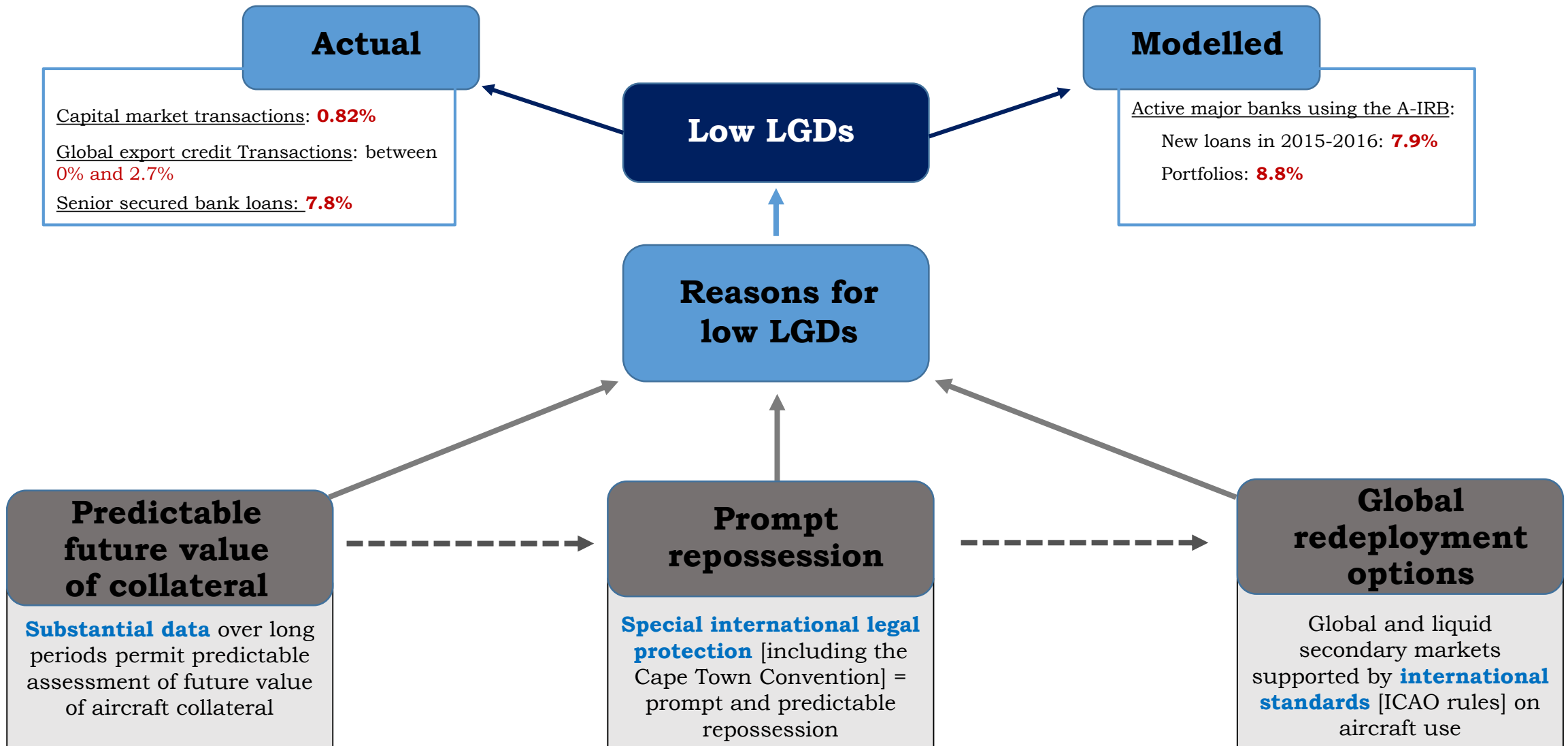
**Unique features and data supporting low LGDs for aircraft-backed loans**

**December 2016**

## Key points

1. The BCBS is currently revising draft proposals on future capital requirements.
2. AWG has submitted documents dated 10 March 2016, 21 June 2016, and 14 October 2016 explaining current and historical LGDs for aircraft-backed loans (extremely low) and the effects of the current proposals (substantial increase in required capital, in some cases requiring more capital for aircraft-backed secured, than for unsecured, loans). AWG has stated, and provided substantial data supporting, these points.
3. In this PowerPoint (next slide) we depict these low LGDs, and the unique features of, and data supporting LGDs for, aircraft-backed loans (amplified in the subsequent three slides).
4. These points should be considered in connection with the finalisation of the new capital rules, including as support for the retention of internal modelling and in setting out parameters for slotting of aircraft-backed loans.

## Unique features and data supporting low LGDs for aircraft-backed loans



## Predictable future value of collateral

1. Unlike many asset classes, there is substantial data, collected over a long period of time, permitting predictable assessment of future value of aircraft collateral.
2. That predictable future value data includes valuations made, assessed and regularly revised by experts with large volumes of point in time, mark-to-market type information and over time information, viewing aircraft collateral through economic cycles.
3. That predictable future data has been substantiated in the actual LGDs (figures noted on the previous chart), and taken into account and endorsed after close scrutiny by national regulators in the context of reviewing internal models.
4. Aircraft financing has conservative financing structures, as evidenced in the actual LGDs (figures noted on the previous chart). Such structuring includes conservative LTVs, amortisation profiles, and durations (which, in light of predictable residual values, facilitate loss-avoiding restructuring possibilities, as needed), and other collateral enhancing provisions.

## Prompt repossession

1. Prompt and predictable repossession are key elements of aircraft-backed loans.
2. In most jurisdictions, there are special and enhanced laws which facilitate repossession. In particular, the Cape Town Convention (CTC) is in force in 65 countries for aircraft-backed loans. The number of countries is growing. A substantial majority of the world's aircraft transactions are already covered by CTC.
3. CTC is a best practice based treaty – an international *lex specialis* – that is specifically designed to enhance the clarity, predictability, and timeliness of repossession, including and most importantly in bankruptcy. Specific timetables are provided, subject to a declaration by countries. CTC materially enhances the strong security packages for aircraft-backed loans developed and tested over many years.
4. As a treaty, CTC also helps address political and sovereign risk, by substantially increasing the costs of non-compliance. This is reinforced by a specific cross-reference in the OECD's aircraft sector understanding which links export credit pricing to implementation of, and compliance, with CTC.

### Global redeployment options

1. Among major asset classes, aircraft-backed loans benefits from one of the largest, and most diverse and geographically distributed pool of users of the subject collateral. Markets for such collateral are active, global and liquid, providing hedges against national, regional, and other localised disruptions or restrictions.
2. Such global and liquid markets will only expand over time, as air transport services continue to expand by all metrics. The highly credible and regularly revised market forecasts of the major manufacturers provide transparent details about such expanding markets.
3. One reason for such global and liquid markets is the existence of international standards for the transfer, re-deployment, and use of aircraft around the world by the International Civil Aviation Organization (ICAO), a United Nations specialised agency. As with the legal protections afforded by CTC, the international standards issued by ICAO provide a global, internationalised regime that warrant enhanced recognition of the use and value of aircraft collateral.