

INTERNATIONAL LOAN FINANCE

EURO LOAN MARKET – HISTORICAL DEVELOPMENT

LOAN STRUCTURES	(1) Principal Amount
1. <i>Lenders</i>	(2) Term Duration
2. <i>Borrowers</i>	(3) Drawdown Tranches
3. <i>Term Loan</i>	(4) Interest Fixed/Float
	(5) Repayment Bullet Obligations

AGENT BANK	<i>Agent Lenders</i>	(a) Partnership	(b) Security	(c) Dealing/Arranging	(d) US SE/SEA Notes	(e) Consumer Credit
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LOAN FACILITIES	(1) Euro Loans [participated]
	(2) Multi-Purpose Facilities [MOFFs]
	(3) Term / Revolving Facilities [RCF]
	(4) Credit Lines
	(5) Title Finance
	(6) Project Finance
	(7) Property Finance
	(8) Acquisition Finance
	(9) Securitisation
	(10) Subordinated Debt

(i) Senior	(ii) Mezzanine	(iii) Junior
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BORROWER [AND BORROWER'S GROUP]

ARRANGING OR LEAD BANK

SYNDICATE

ISSUE PROCEDURE	(1) 'Mandate Letter'
(a) <i>Approach</i>	(2) 'Term Sheet'
(b) <i>Fee Letter/Quote</i>	(3) 'Information Memorandum'
(c) <i>Award Mandate</i>	(4) Procedure <i>Subject to Contract</i>
(d) <i>Solicit Interest</i>	(5) Fees <i>Edwards v Skyways [1964]</i>
(e) <i>Instruct Solicitor to Draft Docs</i>	

SYNDICATION	(1) Severality
PRINCIPLES	(2) Proportionality
	(3) Equality
	(4) Democracy
	(5) Limited Agency Function

LIABILITY	(1) Theft
	(2) Fraud
	(3) Negligent
	(4) Innocent
	(5) Regulation

LIMITATION	(1) Legal at CL
	(2) Nec Express
	(3) Construction / 'CP'
	(4) Oral Warranty/Repug
	(5) Exclusions

BORROWER GROUP COMPANIES

GUARANTOR [S]

(f) <i>Comment, Negotiate and Finalise</i>	(i) <i>Publication [Tombstone]</i>
(g) <i>Conditions Precedent Docs</i>	(j) <i>Transfers</i>
(h) <i>Signing</i>	

(a) Receipt Duties	(b) Payment Duties	(c) Banking Duties	(d) Notification Duties	(e) Default Duties
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(i) Suspension	(ii) Cancellation	(iii) Acceleration	(iv) Rescission	(v) Enforcement
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(a) Limited Role	(b) Gen Immunity	(c) Specific Imm	(d) Fiduciary	(e) Loss
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LOAN CONDITIONS AND OBLIGATIONS

LOAN DEFAULT - SYNDICATION

(1) Conditions Precedent <i>Pre-Advance</i>
(a) Constitutional Documentation
(b) Sovereign Confirmations
(c) Security
(d) Legal Opinions
(e) Confirmations or other Evidence
(f) Conditions Subsequent

EVENTS DEFAULT	(a) Non-Payment
	(b) Financial Covenants
	(c) Non-financial Breach
	(d) Misrepresentation
	(e) Cross-Default
	(f) Insolvency

(a) Credit Risk	(b) Capital Charge	(c) Large Exposure	(d) Liquidity / Funding	(e) Diversification	(f) Reputation
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(g) Business Expansion	(h) Country Expansion	(i) Improved Terms	(j) Fee Income LB 0.5%/Commit 0.75%
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Representations and Warranties

Legal Warranties

(3) Covenants <i>Fact / Undertaking or Promise</i>
(a) Corporate Covenants
(b) Financial Covenants
(c) Information
(d) General Undertakings

(a) Negative Pledge	(b) Pari Passu	(c) Disposals
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(g) Creditor Processes	(h) Control	(i) Illegality	(j) Repudiation
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CONTROLS	(1) Fraudulent Misrep
	(2) Criminal Activity
	(3) Statutory Liability
	(4) UCTA 77 / EU Regs
	(5) Misrep Act

R&W only damages & not rescission

Only if express condition or default

(a) Assignment	(b) Novation	(c) Participation	(d) Risk Participation	(e) Securitisation
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(a) Rescheduling	(b) Paris/London 1956/1976	(c) IMF/WB HIPC/CACs
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Material Adverse Change [MAC]

(i) Legal Warranties	(ii) Legal Warranties	(iii) Legal Warranties
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LOAN TRANSFERS	(a) Assignment	(b) Novation	(c) Participation	(d) Risk Participation	(e) Securitisation
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LOAN RESTRUCTURING

RESTRUCTURING

INTERNATIONAL FINANCIAL MARKETS AND INSTRUMENTS

This summaries 'International Financial Markets' Module 1 (Additional Reading)

(1) MONEY MARKETS

- (1) **Primary Money Market** [maturities of less than 1 year] (2)
- (i) **CDs**
 - (ii) **TBs** (a) **Bank of England**
 - (iii) **CP** (b) **Discount Houses** (i) **Investment Banks**
 - (iv) **BAs** (c) **Clearing Banks** (ii) **Commercial Banks**
 - (v) **Bank Deposits** (iii) **Complex Groups/ Conglomerates**
- (2) **Secondary Money Markets**
- (a) **Local Authority Market**
 - (b) **Finance House Market**
 - (e) **Sterling Inter-Bank Market** *Eurodollar Market*
 - (c) **Inter Company Market**
 - (d) **Sterling Certificate of Deposit Market**
 - (e) **Sterling Commercial Paper Market**

GILT MARKETS [GOVERNMENT DEBT MARKETS]

- (i) **Consols 1752** [US T Bills <1, Notes 1-10 and Bonds >10 years]
- (ii) **War Loans** (a) **Government Gilts** *UK CGO CREST [GEMMs/IDBs/SEMBS]* (3)
- (iii) **DD Stock** (b) **Treasury Bills**
- (iv) **Convertible** (c) **Sale and Repurchase Agreements (Repos)**
- (v) **T Bills**

BANKING MARKETS

Syndicated Loan Market *Euroloan Market [Inter-bank Market]*

- DEPOSIT TAKING AND LOAN MARKET** *Commercial Bank Market*
- (a) **Corporate Loans** (d) **Commercial Property**
 - (b) **Consumer Credit** (d) **Residential Mortgages**
 - (e) **Trade Finance**
 - (a) **Subsidiary** **Credit Transfers** (a) **Assignment**
 - (b) **Branch** (b) **Novation**
 - (c) **Joint Venture** (c) **Participation**
 - (d) **Consortia** (d) **Risk Participation**
 - (e) **Representative Office** (e) **Securitisation** (5)

- KEY TRENDS**
- (1) **MARKET INTEGRATION (CROSS-BORDER AND SECTOR)**
 - (2) **GENERAL 'DISINTERMEDIATION' (COMMERICAL PAPER) AND 'SECURITISATION' (LOANS TO BONDS)**
 - (3) **'REPACKAGING' AND 'STRUCTURED FINANCE'**
- SEPARATION**
- (4) **'PRIVITISATION' AND 'DECONSTRUCTION' OF RISK**
 - (5) **COMPLEX RISK MANAGEMENT, STANDARD DOCUMENTATION AND EXTENDED MARKET SUPPORT**

CAPITAL MARKETS

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- SECURITIES AND CAPITAL MARKETS**
- (a) **Debt** (a) **FRNs** *71 10-20 years*
 - (b) **Equity** (b) **NIFs** *5-7 years >70s*
 - (c) **Warrants and Hybrids** (c) **MTNs** *85 9mth-15 year*
 - (d) **Depository Receipts** (d) **MOF[MOFF/MLF/BONUS]**
 - (e) **Eurodollar** (e) **CP/SCP/ECP**
- (i) **Bonds** (Duration Ladder)
- (ii) **Notes**
- (iii) **Commercial Paper**
- (iv) **'Convertibles' and 'Callables'**
- (v) **Structured Finance**
- (i) **Repackaging [synthetic]**
 - (ii) **CMOs/ABSs/MBSs**
 - (iii) **CBOs/CLOs/CEOs**
 - (iv) **CLNs**
 - (v) **SIVs/Conduits**
- (disintermediation)

FINANCIAL DERIVATIVES MARKETS

- (a) **Swaps** (i) **Risk Cover/Hedging**
- (b) **Futures** (ii) **Trading/Speculation**
- (c) **Options** (I) **Financial Contracts**
- (d) **Credit Derivatives** (ii) **Indices**
- (e) **Hybrids** (iii) **Oil and Gas**
- (i) **TRSs** (iv) **Energy**
- (ii) **CSSs** (v) **Commodities**
- (iii) **CDSs**

ALTERNATIVE INVESTMENT MARKETS <http://www.riskglossary.com>

- (a) **Hedge Funds** (a) **Pension Funds**
- (b) **Private Equity** (b) **Collective Investment**
- (c) **Sovereign Wealth Funds** (c) **US Mutual Funds**

CURRENCY MARKETS

- (a) **Spot**
- (b) **Forward**

GOLD MARKET *London Gold Fixing*

- INSURANCE MARKETS**
- (a) **Life** [Assurance]
 - (b) **Non-life** [Contingent Liability]

COMMODITY MARKETS **Auction Rooms** **G A WALKER**

EUROLOAN & EUROBOND LAW

STRUCTURAL SUMMARY

INTERNATIONAL SYNDICATED LOAN (EUROLOAN)

INTERNATIONAL BOND OFFERING (EUROBOND)

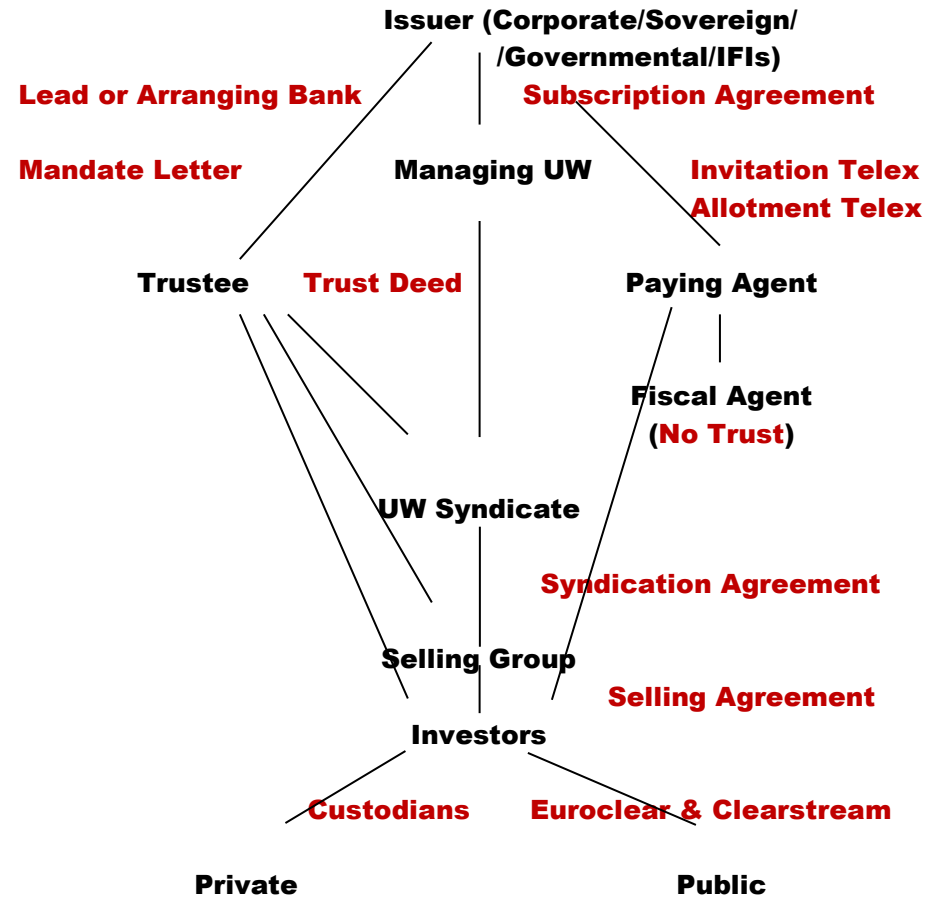
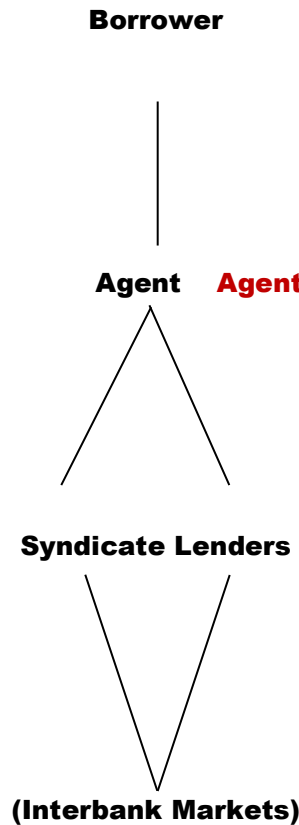
Lead or Arranging Bank

Intermediaries (Fees)

- (1) **Mandate Letter**
- (2) **Information Memorandum**
- (3) **Loan Agreement [Multiple Draw Down]**

Credit Providers/Investors

10 cos 10 syn A/B facilities = 100 / 200 loans but JointS
12 draw downs A 1/2 years = 120/240(1,200/2,400)+10 B
20 year drawdown on B = A 240 (2,400) + B 2,400 (24,000) = 2,640 (26,4000) total governed by single Loan Agreement



Loan Finance

**EUROBOND ISSUE
TIME LINE**

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Beginning of 'Grey Market' until Closing

MARKETING

D DAY - 7

D DAY

D-DAY +14

D-DAY+21

*Lead or Arranging
Bank Approach*

PRE-LAUNCH

**LAUNCH AND
SYNDICATION**

SIGNING

CLOSING

**Initial Client Request
or Approach**

**Mandate Letter
and Due Diligence**

**Invitation and
Allotment Telex
or Fax**

**Subscription
Agreement**

Manager's Agreement

(1) Private Placement
Managers subscribe whole issue and place directly.

Key terms except Coupon and Price
(Par, Discount or Premium)

1 week after signing SA
**Agency Agreement
(Fiscal or Paying Agent)**

(2) Preliminary Prospectus Offering
Use '**Red Herring**' or '**Pathfinder**' Prospectus to test market
with subsequent public offering.

**Preliminary Offering
Circular**

Offering Circular

Underwriting Agreement

Conditions Precedent

(3) Impact Day Offerings *UK Domestic*
Managers fix issue terms and announce offering by public
advertisement on impact day.

Subject to Contract
Pagman Spa V Feed Products Ltd
[1987] 2 Lloyds Rep 601

**Signing Auditor's
Comfort Letter**

Closing Letter

Trust Deed

'Bought Deals'

No preliminary prospectus with managers buy themselves and on-sell.
Possibly announce to market on dealers screen at time terms fixed with
invitational telexes follow. Managers place issue with clients and other dealers.

[Guarantees]

Listing

Payment

Structures -

- (1) Immobilisation**
- (2) Dematerialisation**
- (3) Disintermediation**
- (4) Demutualisation**
- (5) Consolidation**

Instruments -

- (1) Short Dated**
- (2) Bearer (Anonymous)**
- (3) Unsecured (6) Listed or Unlisted**
- (4) Negotiable (7) Committed or Uncommitted**
- (5) Withholding Tax Free (8) Promissory Notes**

[Common Depositary]

Tax Equity and Fiscal Responsibility Act of 1982 [TEFRA]

Global Bonds TGB

[40 Day Lockdown]

Delivery global and final bonds

Closing Certificate

INTERNATIONAL BOND FINANCE

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EURO BOND MARKET – HISTORICAL DEVELOPMENT		TRUSTEE	CUSTODIAN	BOND OPTIONS	(1) Euro Bonds Plain Vanilla /Variable
		PAYING AGENT		(2) Floating Rate Notes (NTFs)	
BOND STRUCTURES	(1) Principal Amount	FISCAL AGENT		(3) Note Issuance Facility (NIFs)	
1. Loans & Bonds	(2) Term Duration		BOND STRUCTURES	(4) Medium Term Notes (MTNs)	
2. Structures	(3) Interest Fixed/Float	(1) <i>Private Placement</i>	(a) Issue/Sale Formality	(5) Euronotes	
3. Issue Procedure	[Drawdown 'Taps']	(2) <i>Prelim Prospectus</i>	(b) Doc Complexity	(6) Perpetuals	
4. Special Issues	(4) Repayment	(3) <i>Impact Day Offering</i>	(c) Transferability	(7) Warrants	
5. Form & Comment	(5) Obligations		(d) Credit Control	(8) Convertibles	
ISSUER [ISSUER'S GROUP]		ARRANGING BANK	(e) Default/Recovery	(9) Equity Linked	
	<i>Mandate Letter</i>	(a) <i>Appoint Parties</i>	PUBLIC INVESTORS	(10) Eurocommercial Paper (ECP)	
ISSUE PROCEDURE	DOCUMENTATION	(b) <i>Draft Documentation</i>	PRIVATE INVESTORS	(11) Certificates of Deposit (CDs)	
(1) Mandate	(1) Prospectus of Offering Circular	(c) <i>Negotiate Doc</i>	(12) Multi-Purpose Facilities [MOFFs]		
(2) Launch * Telex	(2) Subscription Agreement	<i>Issuer</i>	MARKET TRENDS		
(3) Documentation	(3) Underwriting Agreement	<i>Issuer & Managers</i>	(1) Immobilisation	MULTI-OPTION FUNDING FACILITY	
(4) Final Terms	(4) Selling Agreements	<i>Managers & Under</i>	(2) Dematerialisation	(1) Short-term Multi Advance	
(5) Signing 7/14 Days	(5) Managers' Agreement	SELLING GROUP	(3) Disintermediation	(2) Medium Term Notes (MTN)	
(6) Stabilisation	(6) Trust Deed	UW SYNDICATE	(4) Demutualisation	(3) Euro & Dom Commercial Paper	
(7) Allotment IPMA	(7) Fiscal/Agency Agreement		(5) Consolidation	(4) Banker's Acceptances	
(8) Trust Deed	(8) Global Bond (TGB)			(5) Swingline Facility	
(9) Listing Market/Trading/Liquidity	620 members 65 countries Swiss Verein				
(10) Closing TEFRA 1982	ICMA 2005 [AIBD / IPMA (1985) / ISMA]		PARTIES	<i>Euroclear (JP Morgan 1968) / Clearstream (Cedel 1970)</i>	
(11) Global Bond (TGB) 40	(a) Standards	(d) Regulatory Engage	(1) Issuer	INSTRUMENTS	
(12) Definitive Bonds	(b) Sust Finance	(e) Network	(2) Investors	(1) Short Dated	
	(c) Info & Dialogue	(f) Profession Standards	(3) Arranger	(2) Bearer (Anonymous)	
BOND STRUCTURES	(a) <i>Gilt-Edged Securities</i>		(4) Selling Group	(3) Unsecured	
	(b) <i>Local Authority Stocks</i>		(5) Underwriters	(4) Negotiable	
(1) UK Gilts, Stocks and Bonds	(c) <i>Public Sector Board Bonds</i>		(6) Trustee	(5) Withholding Tax Free	
(2) US Treasury, Agency and Municipal Bonds	(a) <i>Registered/Bearer</i>		(7) Payment Agent /Trust	(6) Listed or Unlisted	
(a) <i>Treasuries</i>	(b) <i>Global/Permanent</i>		(8) Fiscal Agent /	(7) Committed or Uncommitted	
(b) <i>US Federal Agency Securities</i>	(c) <i>Immobilised/Custody</i>		(9) Guarantor (<i>Calculation, Transfer or Exchange Agent</i>)	(8) Promissory Notes	
(c) <i>Municipal Bonds</i>	(d) <i>Dematerialised</i>		(10) Euroclear		
(3) Japanese Government Bonds and Debentures	(c) <i>Exchange/OTC</i>		(11) Clearstream	NEGOTIATION	
(4) German Government Bonds and Debentures			(12) Sub-Custodians	(1) Stabilisation	
(5) Other Government Securities			(13) Lawyers	(2) Listing	
(6) Corporate Bonds	(a) <i>UK Debentures and Loan Stock</i>		(14) Accountants/Audit	(3) Negotiability	
(7) Foreign Bonds	(b) <i>US Corporate Bonds</i>		(15) Tax Experts	(4) Clearing Systems	
(8) Bond Variants	(c) <i>Japanese Bond Market 'Samurais'</i>			(5) Governing Law	

Loan Finance

HISTORICAL	1300s	EURONOTE & CP (<1 year)	BOND YEILDS (Return on Bond or Coupon Payments over Life Bond)	INVESTOPEDIA
(1) <i>Monte Commune</i> Florence	(1) Underwritten / Discount	(1) Coupon Rate	<i>Annual Coupon / Face Value</i>	
(2) <i>Annuities Habsburgs Neth</i>	(2) Issue Days / Hours	(2) Current Yield	<i>Annual Coupon / Bond Price</i>	
(3) <i>Shares East India 1609</i>	(3) Maturities Fixed 7/365	(3) Yield to Maturity (YTM)	<i>Future Cash Flows</i>	<i>Price = Discounted Cash Flow</i>
(4) <i>3% Ann 1726 / Consols 1751</i>	(4) Settle 7 / Same Day	(4) Bond Equivalent Yield (BEY)	<i>Half YTM (6 months)</i>	<i>Yield to Maturity</i>
(5) <i>Eurobonds Auto 1 7 1963</i>	(5) £500,000 / £100,000	(5) Effective Annual Yield (EAY)	<i>Total Profit or Return (including Compound Returns)</i>	

Aberdeen Harbour 1136 King David I of Scotland Autostrade 1 7 1963 (SG Warburg \$15m 5½% Guaranteed 1972/78) through Bondholder Reinvestment)

ADVANTAGES	DISADVANTAGES	EUROBOND VARIATIONS	FRN VARIATIONS
(1) Transferability <i>Negotiable</i>	(1) Cost	(1) Zero Coupon Bonds	(1) Floor FRNs
(2) Anonymity <i>Bearer</i>	(2) Complexity	(2) Foreign Currency Bonds	(2) Drop Lock FRNs
(3) Flexibility Management	(3) Constraint but Choice	(3) Reverse Dual Currency	(3) Double Drop Lock FRNs
(4) Liquidity	(4) Regulation & Taxation	(4) First Coupon on Partly Paid	(4) Cap FRNs
(5) Disposability <i>Sell</i>	(5) Market Volatility	(5) Currency Change Bond	(5) Caller (Minimax) FRNs
		(6) Annuity Bonds	(6) Inverse FRNs
			(7) Step Down FRNs
			(8) Step Up FRNs
			(9) Margin as a percentage FRN
			(10) Floating then Zero FRNs
			(11) Fixed then Floating FRNs
			(12) Variable Rate Notes (VRNs)
			(13) Zero Coupon (or Deep Discount)
			(14) Rolling Rate Notes (RRNs)
			(15) Bunny (or Multiplier)
			(16) Lender's Option-Borrower's

OPERATIONAL LOAN & BOND PROVISIONS	TERMS OF BONDS	Par/Premium/Discount
(1) Disclosure requirements	Comply Registration Oblig	(1) Face of Bond /
(2) Documentation	More Complex Documents	(2) Fiscal Agency or PA TD
(3) Advance of funds	Single Advance (Tap Issue)	(3) Form & Transfer
(4) Currency Conversion	Impracticable	(4) Covenants
(5) Interest	Fixed of Floating / No Penalty	(5) Pari Passu Clause
(6) Repayment	Limited Bullet, Instal, Fund	(6) Negative Pledge
(7) Voluntary prepayment	Excluded (Selection by Lot)	(7) Information
(8) Margin protections	No Increase Costs / Illegality	(8) Interest
(9) Payments & Equality	Coupons & No Pro Rata	(9) Redemption
	(Agent of Issuer)	<i>Single Instalment</i>
	<i>Coupons (interest), Receipts (principal), Talons (27 = 2 coupons)</i>	(a)
	Limited poss Cancellation (Not Default)	(b)
		(c)
(10) Warranties	Subscription Agreement	(10) Perpetuals
(11) Covenants	Limited (Accts / Listing or SE)	(11) Vol Redemption
(12) Events of Default (MAC)	Less Strict / Grace / No-action	(12) Early Redemption
(13) Modifications	Consent unless BH Meetings	(13) Purchase by Issuer
(14) Transfer (Assign / Nov)	Fully Negotiable	(14) Payments
(15) Prescription Statutory	Contractual Cancellation	(15) Prescription
(16) Events of Default	Generous	(16) Events of Default
		<i>Bankruptcy, Dissolution, Other Creditor's Processes & possibly Substantial Disposals</i>
(17) Acceleration (Consent)	BH Action unless Trustee	(17) Enforcement
(18) Notices & Governing Law	Standard	(18) Governing Law

No Restriction unless by Trustee (No-action clause & powers Tr)
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PROJECT FINANCE

indivisible investment in single purpose project asset

STRUCTURES		CORE ELEMENTS	(1) PROJECT CONCESSION, SINGLE PROJECT ASSET AND SINGLE PURPOSE PROJECT COMPANY
(1) BOT	(4) DMOB	(2) LIMITED RECOURSE FINANCING WITH DEFINED SUPPORT DEVICES [SPONSORS AND OFF BS]	(3) EXTENDED PROJECT CYCLE (below)
(2) BOL	(5) BOOST	(4) RISK ASSESSMENT AND ALLOCATION - COMPLEX RISK MANAGEMENT AND CONTROL (below)	(5) CONTRACTUAL INTEGRITY - COMPLEX DOCUMENTATION
(3) BOO			(1) Completion Risk

HOST GOVERNMENT

CONCESSION

- (1) **Equity Subscriptions**
- (2) **Subordinated Debt**

SHAREHOLDERS' AGREEMENT

- (1) **Pre-Development Agreements**
- (2) **Shareholders' Agreement**
- (3) **Sponsors' Agreement**

PROJECT SPONSORS (Guarantees)

- (1) **Subordinated Debt**
- (2) **Completion Guarantees**
- (3) **Investment or Purchase Agreements**
- (4) **Management Guarantee**
- (5) **Interest Guarantee**
- (6) **Environmental Guarantee**

ACCOUNTS (Cover Ratio)

- (1) **Disbursements Account**
- (2) **Loan Proceeds Account**
- (3) **Maintenance Retention Account**
- (4) **Compensation Account**
- (5) **Credit Lines**

PROJECT OFFTAKERS / SUPPLIERS

(Purchasers and Sponsors)
Offtake/Sales Agreement

Syndicated Loan Agreement

ISSUER [SPV / SPC]

- (1) **Banks**
- (2) **Multilateral Banks**
- (3) **Export Credit Agencies**

CONTRACTOR

PROJECT MANAGEMENT COMPANY

- (1) **Construction Contract**
- (2) **Equipment Contracts**
- (3) **Supply Agreements (Fuel / Raw Materials)**
- (4) **Operation and Maintenance Agreement**
- (5) **Purchase Contracts (Forward Purchase)**
 - (a) **Electricity Connection Agreements**
 - (b) **Steam Supply Agreements**
 - (c) **Interconnect Agreements (telecommunications)**

SECURITY

- (1) **Land and Fixtures**
- (2) **Plant and Equipment**

Direct Agreement

INSTITUTIONAL LENDERS

Direct Agreement

SECURITY TRUSTEE

Direct Agreements

ADDITIONAL DOCUMENTATION

- (1) **Feasibility Study and Info Memo**
- (2) **Independent Expert Reports**
- (3) **Insurance Policies**
- (4) **SPV Memo/Arts**
- (5) **Administration Agreement**
- (6) **Legal Opinions**
- (7) **Interest Hedge Agreements**
- (8) **Interest Hedge Agreements Swap Agreement (ISDA Master)**

RISK CONTROL

- (1) **Security**
- (2) **Collateral Warranties**
- (3) **Intercreditor Agreement**
- (4) **Guarantees**

- (2) **Permitting Risk**
- (3) **Price Risk**
- (4) **Recourse Risk**
- (5) **Operating Risks**
- (6) **Casualty Risk**
- (7) **Technology Risk**
- (8) **Political Risk**
- (9) **Environmental**
- (10) **Exchange Rate Risk**
- (11) **Interest Rate Risk**
- (12) **Insolvency Risk**

PROJECT FINANCE

HISTORICAL DEVELOPMENT

- (1) Greece and Rome
- (2) Railway and Canal Construction
- (3) North Sea Oil Exploration 1970s
- (4) Infrastructure Construction 1980s
- (5) New Infrastructure Financing

PROJECT CYCLE

- (1) Initial Identification and Preparation
- (2) Licence or Concession
- (3) Construction and Equipment Contracts
- (4) Performance - Construction and Completion
- (5) Evaluation and Assessment

PARTIES

- (1) Project Vehicle
- (2) Sponsors, Shareholders and Private Equity Contributors
- (3) Host Government
- (4) Project Banks
- (5) Project Contractor
- (6) Project Manager and Operator
- (7) Project Suppliers and Purchasers
- (8) Project Advisors and Experts
- (9) Project Insurers
- (10) Multilateral or Development Banks
- (11) Export Credit Agencies
- (12) Other Project Parties

ADVANTAGES

- (1) Funding and debt separation
- (2) Sponsor Insulation
- (3) Off-Balance Sheet Financing
- (4) Project Separation /Credit Assessment
- (5) Credit Standing and Rating
- (6) Project Security
- (7) Taxation, Legal and Regulatory Advantage
- (8) Covenant Compliance
- (9) Investment and Expertise
- (10) Maximum Leverage

DOCUMENTATION

- (1) Sponsor Documentation
- (2) Project Company Docs
- (3) Project Documentation

- (4) Financial Documentation
 - (i) Project Loan Agreement
 - (ii) Security Issue or Lease Finance
 - (iii) Interest Rate and Currency Hedges
 - (iv) Direct Agreements and Collateral Warranties
 - (v) Inter-Creditor Agreement

- (5) Security, Insurance and Credit Support
 - (i) Security / Collateral
 - (ii) Credit Support
 - (iii) Insurances
 - (iv) Third Party Rights
 - (v) Inter-Creditor Agreements

DISADVANTAGE AND RISK

- (1) Project Complexity
- (2) Documentation Complexity
- (3) Negotiation Delay and Cost
- (4) Project Length and Service Costs
- (5) Insurance and Credit Support Costs
- (6) Overall Costs and Commitment
- (11) Political Risk Mitigation
- (12) Project Completion

SECURITISATION (STRUCTURED RECEIVABLES FINANCING)

	CORE ELEMENTS	(1)	ASSET TRANSFER	CREDIT / LIQUIDITY	(1)	'Over-collateralisation'
MARKET ADVANTAGE -		(2)	SPV FUNDING	ENHANCEMENT	(2)	Share Capital and Tranches
(1) Capital Asset		(3)	SERVICING AND PROFIT EXTRACTION		(3)	Subordinated Loan
(2) High Grade Debt (Ratings and Enhancement)		(4)	COLLATERAL	'First Loss' Policy	(4)	Financial Guarantees
(3) Income Stream (Remove payment 'lumps')		(5)	CREDIT ENHANCEMENT	Profit Extraction	(5)	Surety Bonds
(4) Adjust Payment Profile					(6)	Insurance
(5) Portfolio Diversification					(7)	Letters of Credit
(6) Asset Management					(8)	Reserve Fund Account
					(9)	Interest Rate Cap or Swap
					(10)	Credit Lines (Liquidity Risk)
	'Finality' ('True Sale')		ISSUER [SPV]	'Matching'		INSTITUTIONAL INVESTORS
ORIGINATOR						[CAPITAL MARKET]
'Servicer'	> asset income			'Funding Credit or Lines'		SECURITY RATING AGENCY
	< surplus				(1)	Standard & Poor's
(7) Off-Balance Sheet Treatment					(2)	Moody's
(8) Tax Relief	(1)	ASSIGNMENT	(2)	BANKRUPTCY REMOTE	(3)	REGULATION
(9) Capital Allowance		'Recharacterisation'				CRA's
(10) Credit Protection				(1)	Ratings	(1) Assets
(11) Bankruptcy Remote	(1)	Registration Risk	Re Inglefield Exfnico	(2)	Capital Adequacy	(2) Collateral
(12) Last Resort Funding	(2)	Equitable Assignment		(3)	Taxation	(3) Credit Enhan
	(3)	Fixed Security		US/UK	(4)	Securities, Listing and CIS
				(5)	Deposit Taking Business	(5) All Docs
ASSET POOL						
		(1)	Public Company			
(1) Residential Mortgage Receipts		(2)	Trust			
(2) Consumer Credit Receivables		(3)	Sub-participation			
(3) Property Rentals						
(4) Car Rentals						
(5) HP Payments						
	LEGAL ISSUES		SWAP COUNTERPARTY			DOCUMENTATION
PROFIT EXTRACTION	(1)	Transfer (Finality)	(7)	Ratings	(1)	Financing Agts (Loan, Bonds or Notes)
	(2)	Recharacterisation	(8)	Accountancy	(2)	Transfer Agreement
	(3)	Bankruptcy Remote	(9)	Taxation	(3)	SPV Memo/Articles/Resols/Filings/Trust
(1) Servicing Fees	(4)	Matching	(10)	Capital	(4)	Administration Agreement
(2) High Yield Subordinate Debt	(5)	Profit Extraction	(11)	Securities	(5)	Credit Enhancement Agreements
(3) Dividends ('Golden Shares')	(6)	Enhancement	(12)	Bank	(6)	Security Trust Deed
(4) Receivables Sale or Trust		and Collateral		Regulation	(7)	Offering Circular/Prospectus (Supplement)
(5) Interest Swap					(8)	Programme Agreement
					(9)	Agency Agreement
					(10)	Swap Agreement (ISDA Master)

SECURITISATION

HISTORICAL

- (1) 1930s NHA 1934
- (2) 1970 MBSecs DHUD and GNMA
- (3) 1968/70s MPTSecs GNMA and ARMs
- (4) 1977 CMOs by FHLB
- (5) 1985 SRFs wider asset pools

PARTIES

- (1) SPV
- (2) Originator
- (3) Servicer
- (4) Investors
- (5) Security Trustee
- (6) Financial Guarantors
- (7) Liquidity Provider
- (8) Funding Manager
- (9) Investment Manager
- (10) Swap Counter Party and Guarantor
- (11) Arranger
- (12) Credit Rating Agency (CRA)

REGULATION AND SECURITY OFFERINGS

- (1) Asset Transfer
- (2) Collective Investments
- (3) Financial Promotion
- (4) Listing
- (5) Deposit-taking and Loan Provision (Consumer Credit)

DOCUMENTATION

- (1) SPV Establishment
 - (a) Memorandum and Articles
 - (b) Declaration of Trust SPV shares
 - (c) Administration Agreement
 - (d) Board Resolutions
 - (e) Company's Registration Forms

- (2) Transfer Agreement

- (3) Funding Agreements
 - (a) Loan or Syndicated Loan Agreement
 - (b) Prospectus or Offering Circular
 - (c) Subscription Agreement
 - (d) Agency Agreement
 - (e) Trustee Agreement
 - (f) Supplemental Circular and Pricing Supplement
 - (g) ISDA Master Agreement Schedule and Confirmation

- (4) Enhancement
 - (a) Subordinated Loan Originator and SPV
 - (b) Financial Guarantees
 - (c) Letters of Credit
 - (d) Surety Bonds
 - (e) Interest Rate Caps or Swaps
 - (f) Tranching Arrangements
 - (g) Pool Policy
 - (h) Reserve Fund Policy

- (5) Security Trust Deed

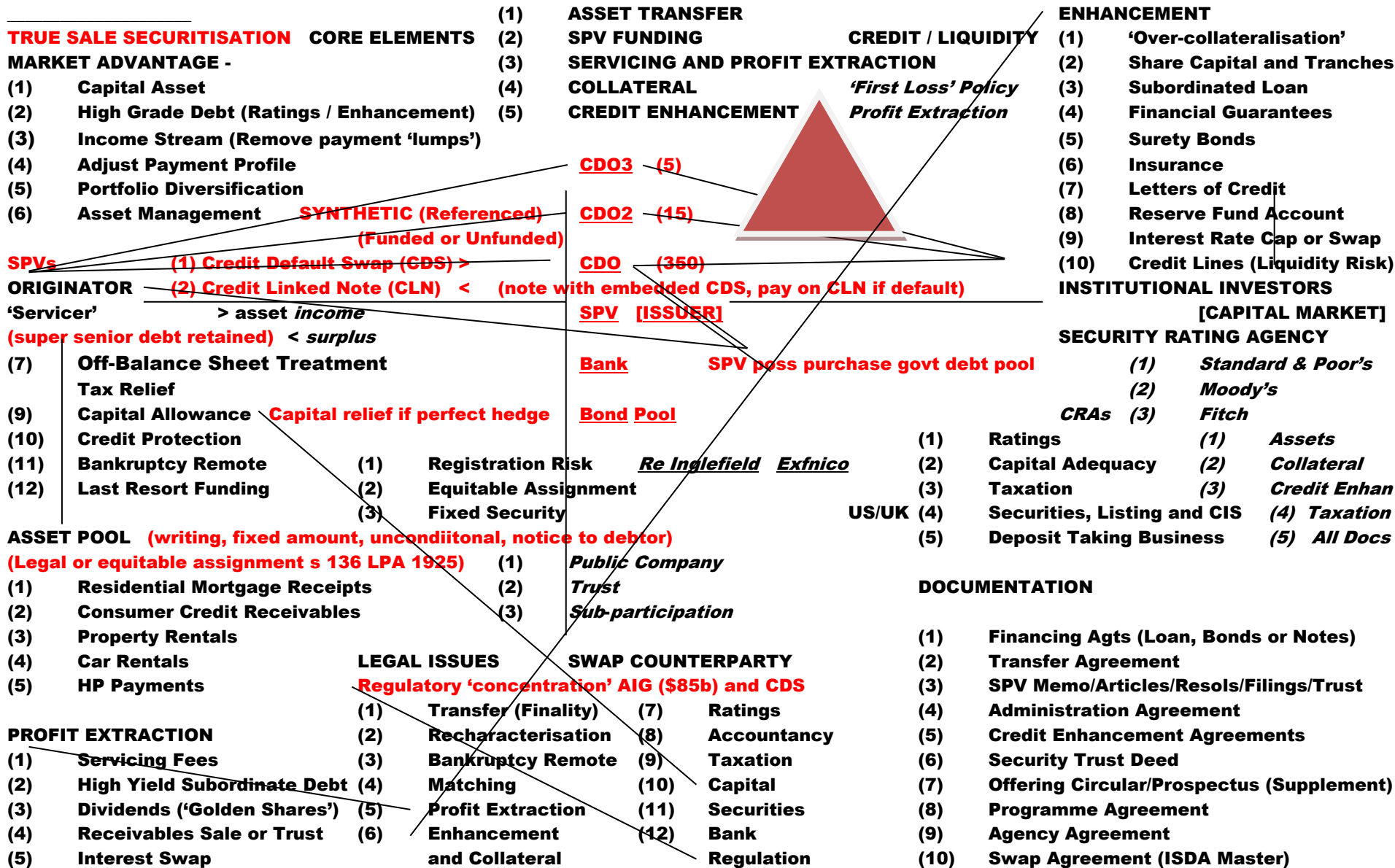
G A WALKER

LEGAL AND DOCUMENTATION ISSUES

- (1) Assignment and Transfer
- (2) Re-characterisation
 - (a) Sales and secured loans
 - (b) Trusts and Equitable Assignments
 - (c) Fixed Charges
- (3) Bankruptcy Remote
 - (a) Separate Incorporation
 - (b) Non-Consolidation
 - (c) Undervalue and Preferences
 - (d) Legal Transfer
 - (e) Re-characterisation
- (4) Matching
- (5) Profit Extraction
 - (a) Servicing Fees
 - (b) Subordinated Debt
 - (c) Dividends
- (6) Receivables
- (6) Enhancement and Collateral
 - (a) Over-Collateralisation
 - (b) Share Capital and Security Tranching
 - (c) Subordinated Loan
 - (d) Financial Guarantees
 - (e) Surety Bonds or Insurance
 - (f) Insurance
 - (g) Letters of Credit
 - (h) Reserve Fund Account
 - (i) Interest Rate Cap or Swap
 - (j) Credit Lines
- (7) Ratings
- (8) Accountancy
 - (a) True sale
- (9) Taxation
 - (b) BS Treatment
- (10) Capital Adequacy
 - (c) Consolidation
- (11) Security Offerings
- (12) Financial Crisis

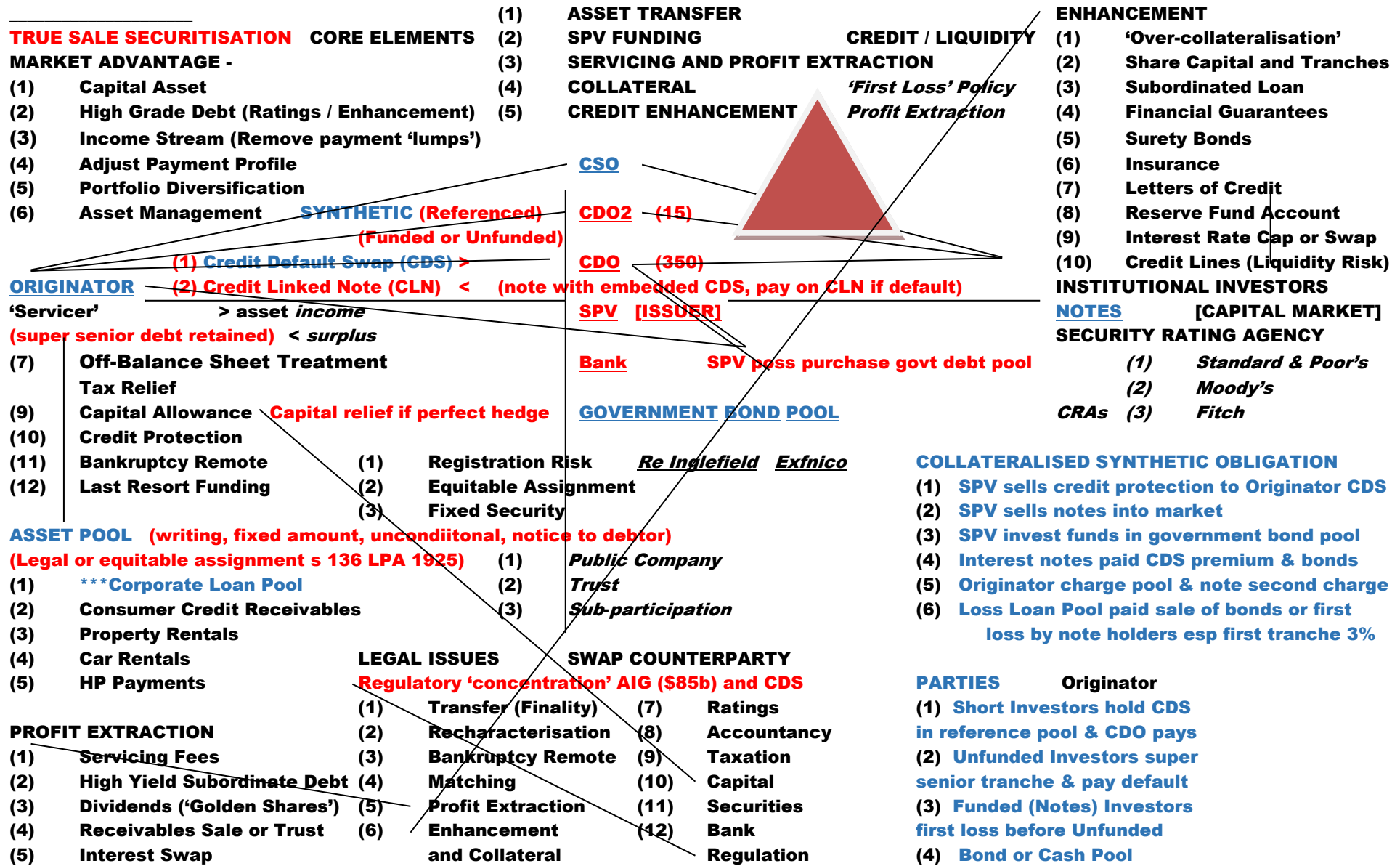
SECURITISATION (STRUCTURED RECEIVABLES FINANCING)

STRUCTURED FINANCE (SECURITISED SECURITIES) Structured Product (fixed income security with embedded derivative)



SECURITISATION (STRUCTURED RECEIVABLES FINANCING)

COLLATERALISED SYNTHETIC OBLIGATION (CSO) Synthetic Credit Swap package with Government Bond Pool



**HEDGE FUNDS AND
ALTERNATIVE INVESTMENT VEHICLES**

G A WALKER

US\$1.225 T END 2006 4.843T 2022/ 10,000/9000 GLOBAL FUNDS

Alfred Winslow Jones \$100,000m 1949 Short Sales & Leverage

ADVANTAGES

- (1) Higher Investment Returns
- (2) Portfolio Risk Management (Reduce Portfolio Risk)
- (3) Portfolio Diversification
- (4) Identify and Correct Market Distortions and Imbalances
- (5) Reduce Market Volatility
- (6) Increase Market Liquidity
- (7) Increase Market Information
- (8) Market Efficiency
- (9) Financial Engineering
- (10) Financial Innovation

CORE ELEMENTS

- (1) SPONSOR
(GENERAL PARTNER)
- (11) Market Return or Profitability
- (12) Ultimate Market Stability

- (1) LIMITED PRIVATE COLLECTIVE INVESTMENT VEHICLE
- (2) ACTIVE INVESTMENT MANAGEMENT (WITH PERFORMANCE FEES)
- (3) COMPLEX INVESTMENT STRATEGIES (SHORT / LXEVERAGE AND FDs)
- (4) LEGAL AND REGULATORY ADVANTAGE ('LITE') (CONCESSIONARY UNPREDICTABLE MARKET AND SOCIAL EFFECTS BENEFICIAL TREATMENT)

PRIVATE INVESTORS

- (4) US FUND
Limited Partnership
- (1) ICA 1940 3(c)(1)
- (2) ICA 1940 3(c)(7)
- (3) SE 33 4(2) & Reg D
- (4) SEA 34 s12
- (5) IAA (SEC 2006)

- OFFSHORE FUND
- (1) 100 investors or
- (2) 'qualified purchasers' 5/25m
- (3) 'private placement'
- (5) 499 participants avoid regtn
- (3) 14 'clients' 203(b)(3) Goldstein

- UK FUND
- (1) FSMA
- (2) FSA Docs
- (3) Takeover Panel
- (4) HM RC Interpretations

HEDGE FUND

- (2) BOARD OF DIRECTORS
- (5) CUSTODIAN
- (6) ADMINSTRATOR
- (7) REGISTRAR AND TRANSFER AGENT

- (8) INVESTMENT ADVISER
- (9) INVESTMENT MANAGER
- (10) PRIME BROKER
- (11) TRANSACTION BROKER (CLEARING BROKER)

STRATEGIES

- (1) Market Neutral
- (2) Global Macro
- (3) Event Driven
- (4) Directional
- (5) Arbitrage
- (6) Long/Short
- (7) Short Bias
- (8) Emerging Markets
- (9) Managed Futures
- (10) Fund of Funds

REGULATORY DIFFICULTIES

- (1) Convertible
- (2) Fixed Income
- (3) Risk
- (4) Statistical
- (5) Derivative
- (1) Regulatory Omission and Avoidance (Cross-Border Access, Cooperation and Coordination)
- (2) Complex Investment Strategies, Leverage and Lack Transparency and Understanding
- (3) Aggressive Market Positions
- (4) Market Distortion (Commodity and Oil Markets)
- (5) Market Concentration (Counterparty Risk)
- (6) Market Herding and 'Crowded Trades'
- (7) Conflicts of Interest
- (8) Market Abuse and Insider Trading
- (9) Operational/Settlement Risk
- (10) Closure and Winding-up

- (12) AUDITOR
- (13) MARKET OR MONEY MANAGER
- (14) LEGAL ADVISER
(Market Contagion, Crisis and Support)
- (11) Cross Sector Loss Transfer and Intra-Market Contagion
- (12) National, Regional and Global Systemic Risk

Loan Finance

HEDGE FUND TREATMENT

(1)	US	PWG 2007 / SEC 2003							
(2)	UK	august 2002 / March 2003 / June 2005 / March 2006	FSA 2005	(1)					
(3)	INTERNATIONAL		FSF 2000	(1)	Counterparty	(2)			
				(2)	Risk Management	(3)			
(a)	German BaFin 2003		BASEL 2001	(3)	Credit Providers	(4)			
(b)	Australia FSRA 2001		CRMPG 2005	(4)	Capital Adequacy	(5)			
(c)	Canada 2007		MFA/AIMA	(5)	Industry Progress	(6)			
(d)	Italy 2003/2005		2005/2002	(6)	Infrastructure	(7)			
(e)	Rating Agencies 2006			(7)	HLI Disclosure	(8)			
(f)	Wyman 2006	(i)	DNB 2005/07	(8)	Disclosure Practice	(9)			
(g)	Deloitte 2007	(j)	APRA 2007	(9)	Surveillance	(10)			
(h)	ComBancaire 2007	(k)	OSFI 2006	(10)	FX guidelines	(11)			
						(12)			
(4)	COMMONWEALTH		FSF 2007	(1)	Core Intermediary Risk Management				
				(2)	Strengthen Core Intermediary Market Liquidity				
(5)	EU	ECB report 2005		(3)	Consolidated Counterparty Data Collection				
		ESCB report 2005 (large exposures)		(4)	Enhance Market Discipline				
		AIFMD 2011/61/EU		(5)	Review and Enhance Global Industry Standards				

HEDGE FUND CRISES

	and Loss Confidence	(1)	LCTM \$5-1b (3-5b)
	*Market Disruption	(2)	AMARANTH \$9/6b
	Liquidity Disruption	(3)	PHILLIPE JABRE
	Info and Regulatory Action	(4)	LOSS / £750,000
	*Control and	(5)	FRAUD
	Operational Risk		dp 16
	Risk Management	UKFSA (1)	<i>* Hedge Funds 2002</i>
	*Miss-Valuation	(2)	<i>Feedback 2003</i>
	*Market Abuse	(3)	<i>Prime Brokers 2004</i>
	Fraud	dp 05/4(4)	<i>* Engagement 2005</i>
	Money Laundering	dp 05/3(5)	<i>Retail Products 2005</i>
	Conflicts Interest	fs 06/2 (6)	<i>* Engagement 2006</i>
	*Retailisation	(7)	<i>Managers Impact 2006</i>
		fs 06/3 (8)	<i>Retail Products 2006</i>

REGULATORY CONCERN [FSF 2007]

(1)	Expansion of Fund Activity
(2)	Core Intermediary Key Role
(3)	Market and Product Complexity
(4)	Direct and Indirect Systemic Risk
(5)	Significant Indirect Exposures
(6)	Erosion of Counterparty Discipline
(1)	Greater Risk Taking
(2)	Increased Complexity
(3)	Uncertain Correlations / Volatilities
(4)	Revenue Linkage and BS Exposure
(5)	HLI Liquidity Impact in Shock
(6)	Information Uncertainty if Stress
(7)	Increased Market Making Concentration

REGULATORY CHALLENGE

(1)	Regulatory Omission
(2)	Lack Transparency and Understanding
(3)	Risk Management
(4)	Market Liquidity
(5)	Market Concentration and Herding
(6)	Market Linkage and Distortion
(7)	Conflicts of Interest and Fraud
(8)	Market Abuse, Insider Trading and ML
(9)	Operational/Settlement Risk (Infrastructure)
(10)	Closure and Winding-up
(11)	Loss Transfer and Contagion
(12)	Systemic Risk

REGULATORY RESPONSE “focus hlis, pbs and cis (with enhance oversight and guidance)

(1)	Intermediate and Market Based Response
(2)	Counterparty Risk Management & Oversight
(3)	Risk Management (capital & credit providers)
(4)	Concentration, Leverage and Conduct Guides
(5)	Asset and Portfolio Valuation Rules
(6)	Disclosure and Transparency (open access)
(7)	Financial Promotion and Retail Protection
(8)	Conflicts of Interest, Fees and Preference
(9)	Market Abuse [Insider Dealing] Fraud and ML
(10)	Infrastructure [Clearing and Settlement]
(11)	Regulatory Cooperation and Coordination
(12)	Market Support [FSF AIM Committee] [EU MoU] - HFs, SF and EF]

PRIVATE EQUITY FINANCE

G A WALKER [2007]

(1) MEMBERS/SHAREHOLDERS	(7) ADVISORY COMMITTEE	(a) Pension Funds
(2) FUND MANAGER [FSA regulated] [English Limited Partnership (LLP) or Private Limited Company (PLC)]	(3) EXECUTIVES	(b) Insurance Cos
(4) GENERAL PARTNER [English Limited Company] (Unlimited Liability)	(5) FOUNDER LIMITED [LLP] PARTNER [Carry Vehicle]	(c) Endow Foundations
		(6)(a) US INVESTORS
		(d) Banks and FIs
		(6)(b) US EXEMPT INVESTORS
		(e) Individuals
	(6) LIMITED PARTNERS	(6)(c) NON-US INVESTORS
	10% CGT IR LOU 1987/2003/Taper Relief >40-10, 2 years 2002	[SECONDARY PE MARKET]

PE MARKET

- (1) 80b 1983-2007 / 29,000 deals
- (2) 8% work force / 19%
- (3) 1500 deals PA
- (4) £3.3b fees 2005 UK 7% turnover
- (5) UK lower 27>15% but bigger deals

- (8) PRIVATE EQUITY FUND [LPA 2007]
- (9) [NOMINEE]

FUND STRUCTURES

(limited partnership unregulated CIS s 235 FSMA)

- (1) Onshore limited partnerships [LPA 2007]
- (2) Offshore limited partnerships
- (3) UK quoted private investment trusts [PITS]
- (4) UK quoted venture capital trusts [VCTs]
- (5) Offshore tax exempt corporate entities

(10) PRIVATE EQUITY [MBOS/MBIS]	INVESTMENT (a) PE Market (growth and ads)	INVESTMENT (a) Funding	INVESTMENT (11) HOLDING COMPANY [equity]	INVESTMENT [INVESTEES COMPANY] (j) 'Toggles' ['PIKs']
(a) Management	(b) PE Structure	(b) distribution	(i) Pay-in-kind Loans/Debts	(i) Pay-in-kind Loans/Debts
(b) Investors (PE)	(c) PE Advantage/Risk	(c) Transformation	(h) Mezzanine Debt	(h) Mezzanine Debt
(c) Share Sale	(d) PE Response	(d) Re-financing	(g) Tranche C	(g) Tranche C
(d) Trade Sale [Financial Ratios]	(e) PE Response [PLACEMENT AGENTS]	(e) Exit	(f) HOLDING COMPANIES [Debt]	(f) Bridge Loans
(e) Company Listing	(15) BANK		(e) Second Lien Debt	(e) Second Lien Debt
(14) LEVERAGE FINANCE SYNDICATE			(d) Tranche B	(d) Tranche B
	FEES (a) Priority Profit 1-2%		(c) High Yield Bonds	(c) High Yield Bonds
	(b) Success 0-5-1%		(b) Other Senior Debt	(b) Other Senior Debt
(16) BRIDGE FINANCE SYNDICATE	(c) Monitoring Fees		(a) Tranche - A Senior Debt	(a) Tranche - A Senior Debt
	(d) Income and Bonuses			
[10% of 20% after 'hurdle' / 80% co]	(e) Performance (Carry)			
		(13) OPERATING ENTITY [Senior Debt]		
		Equity		
		[Shareholder Loans] (hybrid equity)]		
		Senior (Amortising - repayment principal) Debt (collateral)		
		Subordinated Debt (collective postponement)		
		[Non-amortising Debt (8 years repayment with roll-over)]		

Loan Finance

PRIVATE EQUITY STRUCTURE

(1) FUNDING [PRIVATE POOL]	(1)	Private capital pool	'PE MODEL'	(a)	Non-quoted co medium/long term capital
(2) ACQUISITION [DISTRIBUTION]	(2)	Used acquisition interest in non-quoted co		(b)	Private equity capital (from PE fund)
(3) ENGAGEMENT [RE-FINANCING]	(3)	Objective generate increased growth/performance		(c)	Bank debt (which then further distributed)
(4) TRANSFORMATION	(4)	Continuing active involvement and poss refinancing		(d)	Transformation
(5) DISPOSAL [EXIT]	(5)	But with view longer term disposal rather than		(e)	Exit

permanent relationship with target co

PRIVATE EQUITY IMPORTANCE [FSA Trends]

- (1) Significant growth
- (2) Leveraged finance increase
- (3) Extend reach private equity
- (4) Availability Secondary markets
- (5) Equity market shrinkage
- (6) Lack understanding models and risk

VIABILITY AND PROFITABILITY

- (1) Economic environment
- (2) Political environment (2)
- (3) Commercial environment
- (4) Merges and acquisitions
- (5) Market environment
- (6) Legal environment
- (7) Regulatory environment

FINANCIAL RATIOS

- (1) Purchase price / EBITDA
- (2) Debt / equity
- (3) Debt / EBITDA
- (4) EBITDA / cash interest
- (5) EBITDA / maintenance capex
- (6) EBITDA / capex

PRIVATE EQUITY ADVANTAGE

(lower cost of capital)

- (1) Capital (Start-up and investment) TC26
- (2) Committed Investment (Stability) TC21
- (3) Engagement (PE risk) **OWNERSHIP** TC17
- (4) Reduced Service Costs/ Unsecured Lending (4)
- (5) Management Incentive and Efficiency TC25
- (6) Regulatory Burden TC24
- (7) Business Performance and Growth
- (8) Shareholder Value and Return FSA
- (9) Employee Development TC29 FSA
- (10) Market Efficiency (Corporate Control)
- (11) Capital Investment Market Growth (AIM)
- (12) Wealth Generation (Taxation/Employment)

PRIVATE EQUITY DISADVANTAGE

FSA 4.13-22

- (1) Excessive Leverage TC(5)
- (2) Market Opaqueness 4.67-73
- (3) Ownership Economic Risk 4.23-28
- (4) Asset Withdrawal ('stripping')
- (5) Excessive Reward (tax distortion)
- (6) Company and Shareholder Loss
- (7) Employment/Pension Loss TC29/30
- (8) Market Efficiency 4.29-42
- (9) Market Access 4.62-66
- (10) Market Abuse 4.43-57 TC36
- (11) Conflicts of Interest 4.59-61 TC37
- (12) Financial Stability FSA 4.3-5

PRIVATE EQUITY REGULATION

- (1) Leverage [monitor and capital cover]
- (2) Transparency and Disclosure [Walker]
- (3) Data Collection Review/Coop
- (4) Corporate Governance [strengthen]
- (5) Taxation Review (carry interest)
- (6) Company Law Review [PLCs]
- (7) Employment Protection
- (8) Pension Protection [segregation]
- (9) Retail Review
- (10) Market Abuse [FSA]
- (11) Conflicts of Interest [FSA]
- (12) Stability Review [FLR] [LLR]

INVESTMENT AREAS

(a) 'Buy Out'

(b) 'Mega BO'

- (1) Family and private (c) *Venture*
- (2) Foreign parent
- (3) Local parent (6) Secondary buyout
- (4) Public to private (7) Retail/Public Quity
- (5) Receivership (8) Venture

FSA PE 2005 / DP 06/6 Nov 2006

- (1) Excessive leverage
- (2) Unclear ownership of economic risk
- (3) Reduction of market efficiency
- (4) Market abuse
- (5) Conflicts of interest (6)

PARTIES AND CAPITAL

- (1) *Equity capital providers*
- (2) *Debt capital providers*
- (3) *Service providers*
- (6) Market Transparency and Opacity [Market Access]