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Johnny Says — This crisis, while tragic, is just another crisis

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Foreword

But, what a crisis!

We have never seen an event in the modern history of commercial aviation where nearly every airline in the world has grounded a majority, or even all, of their fleet.

This crisis has shattered the notion that global commercial aviation can easily survive as a whole, even if there is disruption in certain parts of the industry, on the basis that other areas will remain unaffected.

Now many are speculating whether the market will ever return to normal, and as of early June 2020, there is no clearer picture of where we will end up.

We have been through the 1987 stock market crash, the 1991 oil price shock (and again in 2004 and 2008), the 1998 Asian financial crisis, the 9/11 attacks, the 2003 SARS epidemic and the 2008 global financial crisis. The aviation industry renewed itself and recovered each time and the downturns lasted for 6-18 months. Asset prices regained their lost ground. But "will we experience the same again?" is the billion-dollar question.

Industry fundamentals tell us there should be no difference compared to what happened in the past. The supply side is still basically a duopoly and overall the OEM concentration has become even greater due to mergers. Governments by and large remain supportive to airlines and operators. There are still no good transport substitutes for global aviation… with the ultra-expensive Hyperloop firmly staying on the drawing board and teleportation a sci-fi fantasy.

So, how do we position ourselves in this current market?

As an investor

If you have money, please buy. History should repeat itself with no surprises. Those who have made the brave investment decisions during market downturns win the competition when it reverts to normal. Of course, investors are advised to have ample liquidity and new capital supply, and must have the patience to wait for the harvest.

Some sceptics point out that COVID-19 is different. There will be fundamental corrections to global traffic growth. Many fewer people will travel due to matured technology which leads to more virtual interaction. These perspectives ignore the fact that face-to-face meetings remain pre-requisite for major decisions between business leaders. Also, leisure travel is the market growth driver. As soon as compulsory quarantine requirements are lifted for international travellers, tourists will come back. Yields may remain depressed for some time but traffic volumes may not ultimately be significantly impacted. People will still need to fly.

We know that a few lessors are boldly buying assets. Chinese leasing companies adopted an anti-cyclical strategy and took advantage of the 2008 global financial crisis to become powers in the marketplace. Aircraft values currently have dropped 20-30% (at historical lows) but an even further dip can be expected before a swing back up, probably within the next two years.

However, extreme caution is warranted if the investment is directly with the airlines. It would require in-depth analysis of the financial position of the investment target as valuation can be affected by many factors, including available or accessible government support and financial leverage. If airline executives can look beyond survival – no easy task – to taking market share post-recovery, it is a good time for self-reformation, restructuring, and re-strategising.

We may not see many trading deals in the near term as there is a pricing gap between buyers and sellers, and not many are “willing” on either side. This discrepancy will eventually narrow and result in more deals closing. It is interesting to see that a new breed of investors are showing interest in aviation although some of them are unrealistic about the discount they can achieve in this market despite the dislocation. Owing to the unique nature of aviation, which sees governments and financial markets continuing to support a strategically important industry, the market never becomes too disrupted and one would find it difficult to locate a deeply distressed asset at the right quality-price balance.

Two areas are worth noting. The cargo business has emerged to become a highly in-demand service, and hence cargo airlines, freighter aircraft and passenger-to-cargo conversion capabilities should be popular investment targets. In addition, private jets are now priced at good bargain levels and play an important role in relocating families and executives to hometowns when commercial passenger aircraft schedules cannot meet the urgent, sometimes evacuation, needs of customers.

As a CFO

One lesson all CFOs are re-learning in this crisis (if they ever forgot) is the forever-valid and long-believed traditional wisdom: “Cash is king”.

We have seen the best performers in this crisis (and many previous ones) holding ample cash. Many aggressive managements would consider this financial strategy old-fashioned, inefficient, or even negligent but they may now regret such a stance. Companies do not die because they are not profitable (at least not in short term) but surely do owing to insufficient access to liquidity.

An alternative to holding cash is to pay your banks the necessary fees for a real committed contingency working capital facility such that you can draw at any time. Diversified funding sources are also critical; experienced bond issuers and/or those with access to public equity markets often differentiate the successful versus failed companies.

Airline treasurers must also learn a lesson regarding oil hedging. A disciplined hedging programme with monthly dealings in plain vanilla financial products is still important as risk management should be encouraged. However, if future oil prices can be negative, and 99.9% of the aircraft fleet is not flying, one will be betting their career and possibly their company if one still chooses to speculatively hedge with fancy derivatives. Obviously, a disciplined hedger will take advantage to hedge some exposure in the last couple months as crude oil traded below $20 per barrel.

As a frequent traveller

Like myself, many friends are complaining about the inability to fly to meet clients. Business is lost because of lack of easy communication and momentum. We, however, can gain better health with more sleep, more exercise, and more time with family – and with less stress, coffee, drinking and entertainment. Opportunities are still around, but they just need more time and patience to nurture them into something real.

I wish you well, and I will fly again to meet you soon.

Accounting for COVID-19-related rent concessions

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Turning on all green lights allowing a 14-day commentary period, the International Accounting Standards Board (IASB) issued an amendment to IFRS 16, 'Leases' on 28 May 2020, to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. The objective of the amendment is to give timely relief to lessees when applying IFRS 16 to COVID-19-related rent concessions while still enabling them to provide useful information about their leases to investors. The revised standard will come into effect on 1 June 2020.

Lessees

IFRS 16 specifies how lessees should account for changes in lease payments. However, applying those requirements to an unexpectedly large volume of COVID-19-related rent concessions could be practically difficult, especially in light of the many challenges stakeholders face during the pandemic. The Standard requires lessees to assess individual lease contracts to determine whether the concessions are to be considered lease modifications. If it is a lease modification, the lessee must re-measure the lease liability using a revised discount rate and then adjust the right of use asset. In other words, the impact of the rent concession would be akin to being 'spread' over the remaining lease term. Only if a change does not result from a lease modification, would the lessee be able to recognise the effect of the rent concession in the profit or loss.

The amendment would exempt lessees (and lessees only) from having to consider whether particular COVID-19-related rent concessions are lease modifications but allow them to recognise any COVID-19-related rent concessions in the profit and loss. The amendment would apply to concessions that reduce lease payments due prior to 30 June 2021.

Lessors

Among the 96 comment letters received prior to the deadline, many respondents asked for similar practical relief for lessors on the basis that (a) similar practical challenges faced by lessees also exist for lessors (b) the practical expedient reflects economics of COVID-19 rent concessions (c) without the relief, lessee and lessor accounting would be asymmetrical, with particular concern over the accounting for sub-leases and (d) without such relief IFRS preparers would be disadvantaged when compared to US GAAP preparers as the Financial Accounting Standards Board (FASB) has granted such relief to lessors.

Despite overwhelming requests and after significant deliberation, the IASB decided not to grant a similar relief to lessors. Whilst being sympathetic, the Board's view is that providing the practical expedient to lessors would not provide enough relief for them with regards to keeping track of concessions granted via spreadsheets or billing systems. Also, the accounting for lessors and lessees were not symmetrical to begin with. Lastly, any change in IFRS 16 would impact how it interacts with IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and it would take a considerable amount of time to develop a relief that is effective, timely and carries no risk of unintended consequences.

In light of no relief, a lessor with a finance lease would adjust its measurement of finance lease receivables to reflect any reduction in COVID-19-related rent concessions. A lessor with an operating lease would treat a lease modification as a new lease and recognise lease income on a systematic basis that represents the pattern in which benefits are consumed. If the concession is not the result of a lease modification, an operating lessor would generally recognise lower rental income in the period the rent is due.

Insights:

Lessees – Compared to the exposure draft, the final amended standard provides significant relief to lessees until 30 June 2021 on COVID-19-related rent concessions. This is six months more than what the exposure draft intended to provide and is the result of respondents' comments that relief is well expected to impact the earlier parts of 2021.

Lessors and Force Majeure – Lease contracts or applicable laws may contain clauses that result in changes to payments if particular events occur or circumstances arise. Government action (for example, requiring the closure of retail stores for a period of time because of COVID-19) might be relevant to the legal interpretation of clauses, such as force majeure, that were in the original contract. If the reduction of rental payments reflects the force majeure clause in the original contract, then it is not a lease modification. And the lessor recognises lower rental income in the period affected.

Intra-group leases – Under the current leasing standard, lessee and lessor accounting is already not symmetrical. The amended standard could potentially give rise to additional differences which make consolidation work even more challenging.

Sublease arrangements – This is an area that could be the most complicated in terms of application. On one hand, accounting relief is granted to lessees, but on the other hand accounting relief is not granted to lessors. To make matters even more complicated, because the sub-lessor deals with at least two counterparties, the ‘upstream’ and the ‘downstream’ rent concessions may not always be the result of lease modifications. Care must be given to analyse each contract (upstream vs. downstream) on their own accord.

Chinese Accounting Standards – The PRC Ministry of Finance has issued an exposure draft on this topic. The exposure draft provides relief not only to lessees but also to lessors. In addition, lessors are not required to reconsider the classification of the lease. Furthermore, lessees can continue to apply the same discount rate instead of having to determine a new discount rate. The relief provided by the Ministry of Finance will be much easier to implement. That said, it would require some careful consideration for those entities that prepare both IFRS financial statements and CAS financial statements if no GAAP difference is desired.

Recommendation

The amendment certainly simplifies the decision process for lessees. For lessors, with no relief under IFRS, the decision process is not as straightforward. Care must be taken to determine how the original contract terms (including force majeure) apply. Systems and processes may need to be modified in order to accommodate the change. In certain circumstances, professional accounting and legal advice should be sought to assist with the implementation and/or to mitigate any application differences under different GAAP and PwC stands ready to assist.

Chinese Finance Lease Companies: Getting ahead of the curve on the new regulations issued by CBIRC

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Background

The establishment and ongoing activities of Financial Leasing Companies in China is tightly regulated within a dedicated regulatory regime not unlike that which applies to banks who typically own them (hence, for convenience, referred in this article as bank-owned financial leasing companies or BFLCs), with oversight from the China Bank and Insurance Regulatory Commission (CBIRC).

The robust regulatory requirements on BFLCs fall into three categories:

- Restrictions around the establishment of BFLCs;
- Liquidity support obligations of their promoters/founders and shareholders; and
- Risk management and reporting obligations of BFLCs.

Many aviation banks and financiers who finance BFLCs find comfort in this regulatory oversight, and the regime often forms the basis for credit approvals for transactions involving the BFLCs.

The regulatory oversight over general leasing companies, often known as Finance Lease Companies (FLCs) has recently fallen into a regime that has been less defined.

In the past, FLCs were regulated by the Ministry of Commerce. However, in April 2018, all FLCs were brought under the supervision of CBIRC, leading to much speculation and debate as to a unification of the regulatory oversight of both BFLCs and FLCs.

On 8 January 2020, the CBIRC issued the Interim Measures for the Supervision and Administration of Finance Lease Companies (Draft for Comments) (the **“Draft Measures”**), and began soliciting opinions from the public. The CBIRC has taken this important measure to more clearly define their expectations as to compliance by FLCs with the aim and goal of ensuring the smooth and orderly development of the finance lease business since the supervision function on FLCs was transferred to the CBIRC.

Here, we share insights to FLCs, prospective financiers of FLCs and the aviation industry on the potential impact of the new regulation, and draw comparisons to the regulatory regime which apply to the BFLCs as against what is proposed for the FLCs.

We hope FLCs may take this opportunity to review their business operations from a future-proofing and sustainability perspective.

Rui Bai Law Firm through its association with PwC China is able to advise on all legal, accounting, tax and risk assurance aspects of the forthcoming regulatory developments in this area for FLCs and their credit counterparties.

It is also the authors' view that these reforms will be unlikely to affect the regime currently applying to the BFLCs, although, conceptually, there may be some convergence over time.

New measures are expected to bring more steel to the balance sheets of the FLCs

I. More stringent regulatory indicators introduced

The Draft Measures specify more robust financial supervision indicators, guiding FLCs to focus on their main business and sustainable development, such as:

i. **Ratio between lease assets and total assets:** The proportion of finance lease assets and other lease assets of a FLC must not be less than 60% of its total assets. This means FLCs are explicitly required to take finance lease and other leasing businesses as their core business. FLCs with a ratio lower than 60% due to higher proportion of non-leasing business, will be asked to clean up their company's main business mix as soon as possible by accelerated exit from non-core business, and shift their focus to finance lease and other leasing businesses. For "lending dressed up as a leasing" activity, the Draft Measures can also be seen as an encouragement for the finance lease industry back towards its core business.

ii. **Ratio between risk capital and net assets:** The Draft Measures state that the total risk capital of a leasing company may not exceed eight times of its net assets, which significantly deviates from the ten times ratio under the Measures for the Supervision and Management of Finance Lease Enterprises issued by the Ministry of Commerce (MOFCOM) in 2013. We believe this may help to control financial risks, but also have great impact on the FLCs engaged in aircraft leasing. Given the Chinese government is considering controlling financial risks of the FLCs, no doubt this will impose great restrictions on the business development of many FLCs. In order to meet the regulatory requirements, some FLCs will be under pressure to exit certain businesses they are currently engaging in. They may also need to consider increasing their net assets by capital increase or stock issue in order to maintain their existing business scale.

iii. **Ratio between investment in fixed income securities and net assets:** The Draft Measures stipulate that fixed-income securities investment of a FLC may not exceed 20% of its net assets. We believe the 20% limit will have some impact on those leasing companies with large cash flow, but will not have a significant impact on most leasing companies.

From the above regulatory requirements, it can be seen CBIRC is trying very hard to guide FLCs to concentrate on their core leasing business in an orderly and prudent operation.

In comparison, while BFLCs are not subject to the above financial supervision indicators, they must adopt a more sophisticated system similar to the classic risk-based loan classification used by commercial banks in China.

iv. **Customer concentration and correlation:** The Draft Measures require FLCs to strengthen management of key lessees and control the proportion of a single lessee and related-party lessees to prevent and diversify operational risks. FLCs must comply with the following regulatory indicators:

- Single client financing concentration. The total finance lease balance of a single lessee of a FLC must not exceed 30% of the net assets of such FLC.
- Financing concentration of single group client. The total finance lease balance of a single group client of a FLC must not exceed 50% of the latter's net assets.
- Single customer correlation. The total balance of finance lease business of a connected party to a FLC may not exceed 30% of the net assets of the latter.
- All correlation. The finance lease balance of all connected parties of a FLC must not exceed 50% of the net assets of the FLC.
- Single shareholder correlation. The finance lease balance of a single shareholder of a FLC and all the connected parties of that shareholder must not exceed the shareholder's capital contribution to the FLC, and the requirements of single client correlation under the Draft Measures must also be satisfied.

It should be noted this is the first time when regulatory indicators of business concentration for FLCs are introduced. Also, the "single client financing concentration", "financing concentration of single group client" and "single customer correlation" indicators are applicable to BFLCs. Moreover, CBIRC has introduced more stringent governance rules on related party transactions to ensure prudent operations of BFLCs.

We believe this will have a big impact on those aircraft leasing companies with a high concentration of high-quality airline customers, or are overly dependent on their affiliated companies or group companies to grow their business. This is relevant to those captive or quasi-captive leasing companies that mainly serve the needs of their group companies, as such internal service functions will be weakened and they will face more intense market competition. These leasing companies need to review their current customer mix and business concentration percentage, customer correlation ratios, and single shareholder correlation in their current business operation as soon as possible.

Once the Draft Measures are officially promulgated, the affected FLCs will have to complete business transformation within a prescribed transition period, and some FLCs could be under pressure to adapt to such change.

To a certain extent, the regulation will not only bring leasing companies with single type of customers motivation and opportunities to explore new markets, but impose higher requirements on business development.

II. Other new requirements and measures

i. **New prohibited business operation:** With regard to business scope, in addition to the existing prohibition of financial services such as taking deposits, offering loans, and interbank lending, the Draft Measures specifically state FLCs are not allowed to seek financings or asset transfer through such channels as online lending intermediaries, private equity funds, etc.

ii. **"Shell" company clean up:** The Draft Measures define "uncontactable" and "shell" FLCs as leasing companies with abnormal operation, thus requiring local financial regulatory authorities to ensure these abnormal or noncompliant leasing companies to make rectifications. It is expected that a large number of companies without substantial business operations will be cleaned up or closed down. Such clean-ups and rectifications have been carried out in various parts of China.

Therefore FLCs operating as a group company are advised to check the business operations of their subsidiaries, and take the initiative to communicate their business conditions with local market regulatory authorities and financial regulatory authorities to avoid being inadvertently included in the list of "uncontactable" or "shell" companies. Where a group company does have a shell company, it should evaluate the purpose of maintaining such a company as soon as possible, and either re-activate it with live finance lease business or deregister it. However, considering the robust regulation in the future, FLC licenses may become very valuable, it will be useful for the leasing company to make the maximum use of such a scarce resource from a business perspective, and to unlock its commercial value.

iii. **Transition period arrangement:** Given that the Draft Measures have introduced many new regulatory requirements, CBIRC will provide a transition period of up to two years for the implementation of the new regulations. FLCs established prior to the implementation of the Draft Measures must need to comply with the Draft Measures within the transition period stipulated by the provincial financial regulatory authorities. The transition period must end no later than 31 December 2021.

III. Conclusion

The Draft Measures have demonstrated a trend of robust regulation of the finance lease industry. Compared with the previous Measures for the Supervision and Administration of Finance Lease Enterprises (Draft for Comments) issued by MOFCOM, the Draft Measures have imposed more stringent regulatory requirements for FLCs and their businesses.

As mentioned, a number of new regulatory indicators are formulated with reference to those for financial leasing companies established by the banks. However, unlike the BFLCs[1], there is no capital adequacy ratio requirement for the FLCs. This shows that FLCs are still treated as junior league players whilst BFLCs are regarded as more systematically important.

In the future, regulation of finance lease companies may gradually move closer to the regulatory model of BFLCs.

It is likely that CBIRC may further revise the Draft Measures before formal promulgation.

Early insight and action into legislative trends will not only ensure compliant operations of the FLCs, but also help them to improve their business management, seize market opportunities, improve their overall quality of business operations, and achieve new market breakthroughs ahead of the potential industry change.

[1] The capital adequacy ratio required of BFLCs is 8%, very similar to a commercial bank.

Japanese tax reform impacting the JOL and JOLCO market has come into effect – what you need to know

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The 2019 Tax Reform legislation in Japan amended the "earnings stripping rules" to align better with recommendations in BEPS Action 4 (Limiting Base Erosion Involving Interest Deductions and Other Financial Payments).

The changes include:

- A significant expansion in the scope of what constitutes non-deductible interest under the relevant rules. Although interest that is subject to Japanese income tax in the hands of the recipient (whether the recipient is a Japanese company or a branch of a non-resident) is excluded from the restriction, interest paid to third parties may now be non-deductible in a much wider set of circumstances;
- A substantial lowering of the benchmark fixed ratio for the percentage of deductible interest to "adjusted income", from 50% to 20%;
- A general lowering of the threshold for application of the new rule; and
- Various other amendments to elements of the formula for calculating the restriction (please refer to the summary).

Summary of the revised earnings stripping rules

Factor	The amendments
Scope of interest potentially subject to deductibility restriction	**Net interest expense = interest expense (other than "excluded interest expense" below) less interest income** <u>Excluded interest expense (not subject to deductibility restriction)</u> (1) Interest expense on specified bonds (excluding bonds issued to a limited number of parties) which is paid to unrelated parties where: • The interest payment on the specified bonds is subject to Japanese taxation in the hands of the recipient or paid to qualifying public service corporations, or • 95% of the interest expense is for bonds issued in Japan or 25% of the interest expense is for bonds issued outside Japan. (2) For other interest expense: • The interest payment is subject to Japanese taxation in the hands of the recipient or paid to qualifying public service corporations; or • Interest on back-to-back repos
Adjusted Income	• Adjusted income continues to be computed as taxable income, adding back interest expense and depreciation. However, exempted dividends will no longer be included in adjusted income, while withholding tax claimed as a tax credit will be included.
Limitation of deduction	**Net interest expense exceeding 20% of Adjusted Income**
Thresholds for application (*de minimis* and group basis)	(1) Net interest expense in a fiscal year is 20 million yen or less; or (2) The aggregated net interest expense on a Japanese corporate group basis (where there is more than a 50% capital relationship) is 20% or less of the aggregated adjusted income on the same group basis.
Carry over of non-deductible interest expense	The non-deductible interest incurred in the past seven years will be deductible up to 20% of the current adjusted taxable income (though if economics in a structure stay stable through the life of the transaction this may be of limited benefit as the capacity to deduct the interest may be exceeded on an ongoing basis).
Timing	The changes are applicable to tax years beginning on or after 1 April 2020. We are at the start of the first year for some affected structures. For others with later account period end dates, the first year where the rules may have any affect could be 2021.

The amendments to the earnings stripping rules adopted in Japan are, in some ways, more restrictive than many other jurisdictions.

The rules have introduced a lower threshold for deductible interest (20% of Adjusted Income) compared to other jurisdictions, including many EU Member States that introduced a 30% of EBITDA restriction.

In addition, only interest that is not subject to local taxation is restricted in Japan whereas the restriction applies regardless of the location or taxation of the lender in most other jurisdictions.

Implications for aviation financing and leasing business

The new rules may result in increased tax liabilities for Japanese companies with interest expenses subject to the restriction. While the ability to carry forward any excess non-deductible interest for a number of years may offset this to some degree, it may not be possible to fully utilise the restricted interest in subsequent years.

The new earnings stripping rules are cause for concern for many aviation businesses, particularly those with significant debt financing from non-Japanese lenders.

For the non-Japanese lenders, given the possible impact on the attractiveness of their financing offering if there are negative tax effects for the borrower, this may lead to a commensurate loss of attractiveness to their offering.

The Japanese aircraft leasing market and its related debt financing market are likely to be most affected given the high level of gearing of leasing SPVs in such structures and the existing participation of non-Japanese lenders in that space.

Therefore, Japanese Operating Lease with Call Option (JOLCO) and Japanese Operating Lease (JOL) structures are exposed to the potential adverse effects of the rule changes.

No grandfathering for existing structures

There are no grandfathering provisions included in the new rules meaning that all existing deals that closed prior to the introduction of the new rules will be subject to the changes.

Subject to the individual circumstances, the new rules could result in a loss of deductibility for a proportion of the interest expense in such structures, with a possible loss of some of the tax deferral benefits associated with such structures. While the transaction documentation will have certain boilerplate change in law provisions, as the changes will not have actually been factored in at the inception of many of the older structures, without proactive action, this could negatively impact the economics of the deal for the equity investors (or other parties, depending on who contractually bears the risk) in common JOLCO and JOL structures. The scale of any impact will depend on the economics of the specific transaction and the tax profile of the investors involved.

Higher funding costs or loss of return for equity investors expected going forward

While non-Japanese lenders currently provide a significant proportion of funding to such JOLCO and JOL structures, in recent years there has been an abundance of debt financing available in the market from domestic Japanese lenders and from non-Japanese lenders with local banking branches (although some of those have booked the loans outside of Japan).

Broadly, as the interest deductibility restriction should not apply if the lender is subject to corporate income tax in Japan (whether through a Japanese company or branch of an overseas company), there was an expectation that domestic Japanese lenders and non-Japanese lenders booking loans locally in Japan could step into the breach left by any decrease in participation of non-Japanese lenders.

However, these expectations may not be realised given the impact of COVID-19 related nervousness especially among domestic banks. Debt funding costs for airlines and certain lessors are already rising globally with some debt providers reducing or stalling lending to the aviation industry generally.

At the end of last year, it appeared that many of the opportunities no longer available to foreign lenders who are unable or unwilling to book loans locally in Japan would simply be taken up by lenders unaffected by the rule changes and particularly local banks.

With the current state of the market, it is increasingly likely that the rule change will add, at least in the short term, additional pressure to pricing of debt, thereby resulting in a reduction of benefits for equity investors in JOL and JOLCO structures as they compete for a further limited pool of debt providers.

Existing participants should check existing deals

It is important for companies in the aviation industry in Japan to review their financing arrangements and assess the relevant impact, if any, of the rule changes for existing structures.

Even where there is an impact, it may be of limited concern in some cases.

If a particular structure is significantly impacted, it may be possible to explore options for restructuring the financing arrangements to mitigate the adverse effects.

Parties should consider their strategy for tapping the JOL and JOLCO market in 2020 and beyond

For prospective transactions, opportunities still exist for affected lenders to participate in financing JOL and JOLCO structures alongside Japanese lenders and/or lenders providing finance from local branches. Some offshore banks are looking to change strategies in the market to favour sell downs into the Japanese market or to partner with certain local debt providers to manage their risk of triggering the limitations.

In addition, even where such joint lending opportunities are not available, in a market with increasing debt financing costs, the use of affected lenders should not be dismissed. It is possible that the commercial terms on offer from some affected lenders, or generally the availability of financing at all from such lenders, may outweigh the drawbacks resulting from the impact of the rules.

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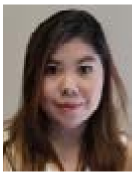

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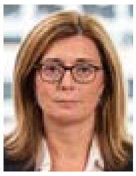

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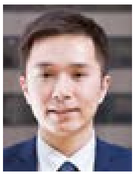

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