



**AEROSPACE**

# **CONVENTIONAL AND ISLAMIC PDP FINANCE STRUCTURES**

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**SHYAMAL JEEWOOLALL  
PARTNER  
HFW**



## OVERVIEW OF PDP FINANCING

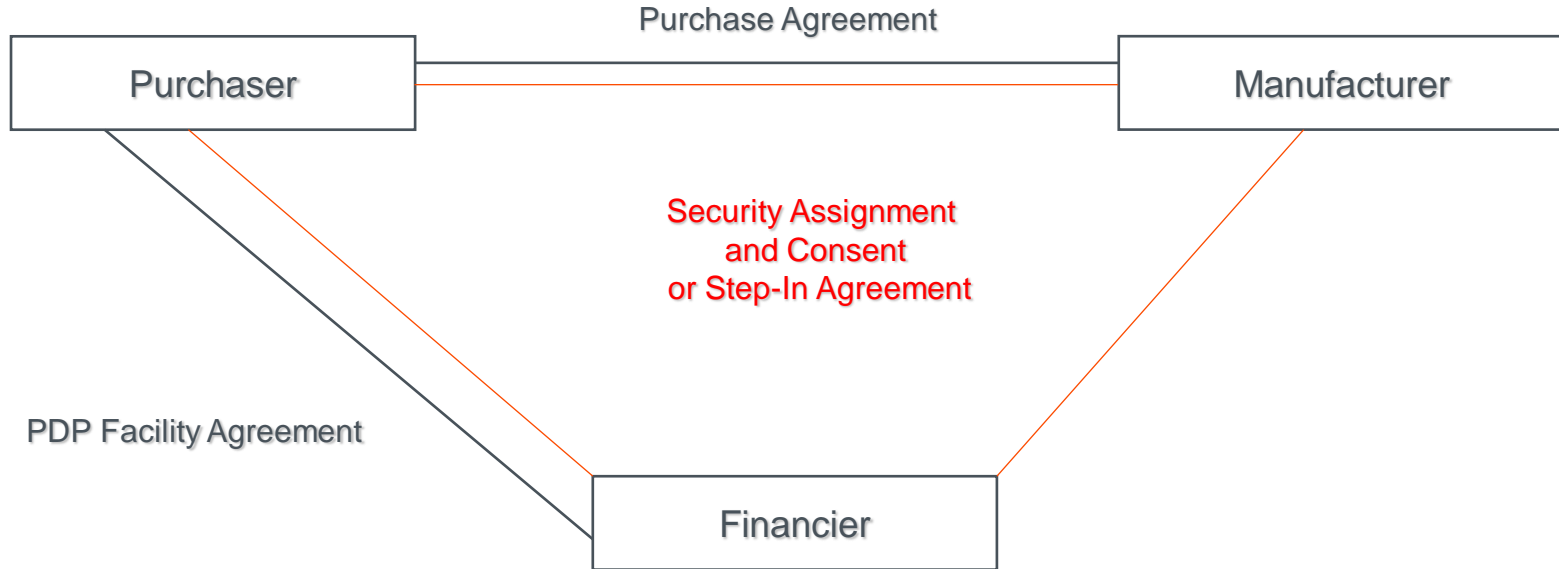
- Pre-delivery payments (**PDPs**) are the amounts due by a purchaser to an aircraft manufacturer from the moment the parties enter into the purchase agreement up to the delivery of the aircraft
- PDP facility is typically advanced in favour of an aircraft purchaser to finance a portion of the PDPs due by the purchaser
- PDP facility is divided in various tranches with each tranche corresponding to a specific aircraft
- Each tranche is drawdown according to the schedule of payments agreed between the purchaser and the manufacturer
- Each tranche of the PDP facility is generally repaid to financier on or around the delivery date of the relevant aircraft



## SECURITY - ASSIGNMENT OF CONTRACTS/STEP-IN RIGHTS

- As the aircraft has not been manufactured at this stage, the most likely security available to a financier will consist of an assignment of certain rights under the purchase agreement including:
  - Right to take title to the aircraft subject to paying the balance of the final purchase price
  - Airframe warranties
  - Product and other support
- Any separate engine agreements will be assigned as well
- In certain cases, specific assignment can be agreed to cover major BFE contracts.

CONVENTIONAL STRUCTURE

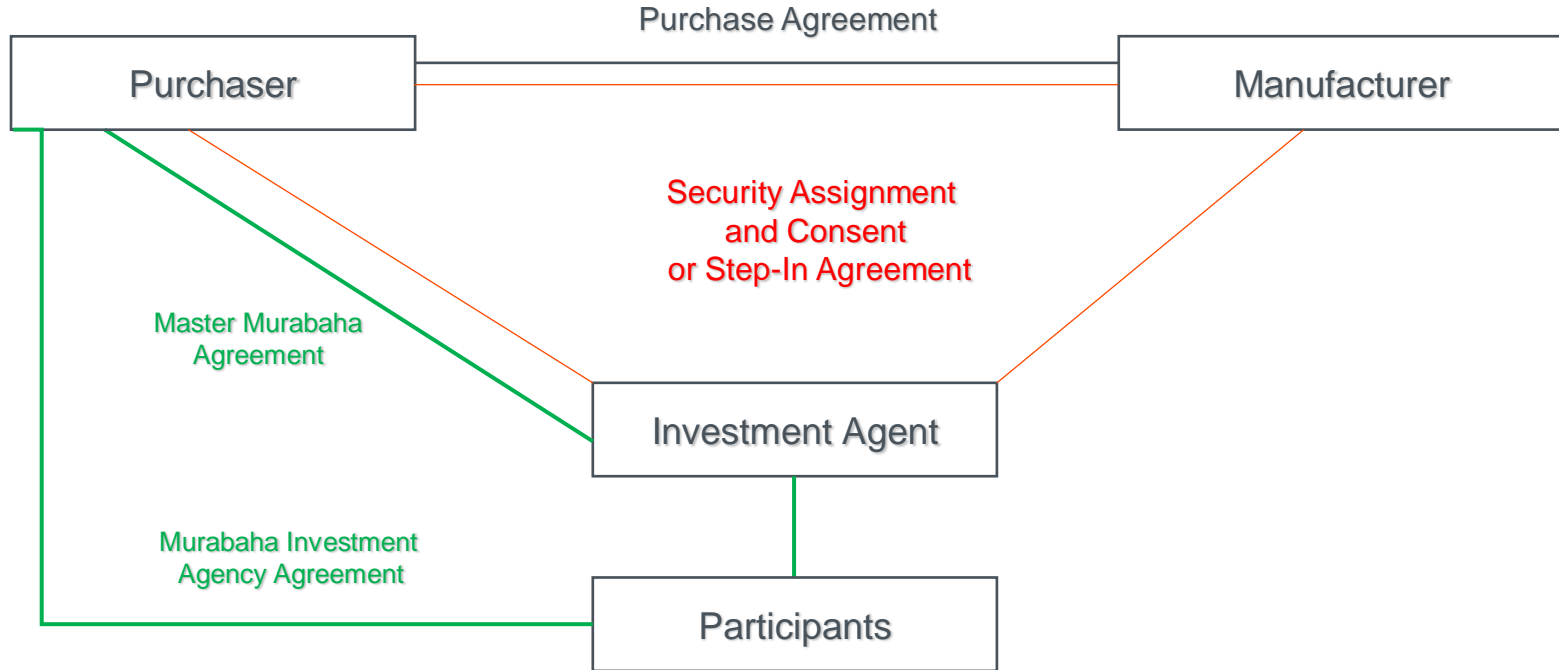




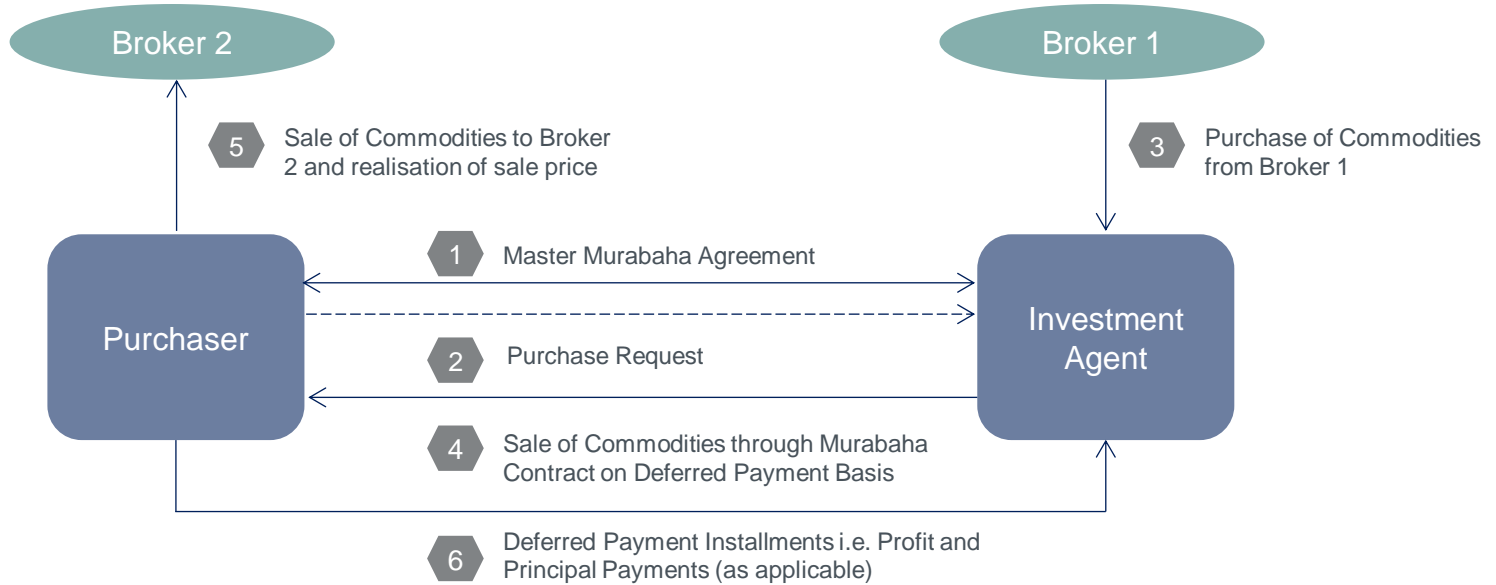
## SHARIA PRINCIPLES

- From an Islamic finance perspective, a conventional structure would not be sharia compliant for a number of reasons including:
  - No loan repayment above the amount of principal is allowed i.e. Only interest-free loans are acceptable
  - Requirement for profit and loss sharing between the parties
  - Requirement for any financing to be asset-backed

ISLAMIC STRUCTURE



## COMMODITY MURABAHA





### EXPOSURE FOR FINANCIER

- In a PDP financing, a financier will determine its exposure by reference to amount of PDPs advanced as well as the purchase price the financier will have to pay to take title to the aircraft in case of a default by purchaser
- Price agreed between purchaser and manufacturer is strictly confidential
- Manufacturer and financier agree discount from list price
- Final price of the aircraft will depend on a number of factors such as:
  - Cherry picking
  - Timing for manufacturer to exercise its buy-out right
  - Escalation and excusable/non excusable delays
  - Warranties and product support
  - Options and configurations





## MAIN ISSUES ARISING FROM PURCHASER DEFAULT

- Clawback risk
- Cherry-picking
- Option price payable by the manufacturer for release of assignment will depend on the elements agreed between manufacturer and financier:
  - All PDPs or only the financed portion
  - Interest
  - Breakage costs
  - Other amounts



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