



Rebuilding Capital Efficiency for a Regional Airport Financing Stack

SCENARIO TYPE	Infrastructure – Operating Phase
ASSET CLASS	Transport Infrastructure (Regional Airport)
RISK FOCUS	Collateral drag, CSA asymmetry, liquidity constraint, financing optionality loss
PRIMARY OFFER	Capital Efficiency Rebuild™
RELEVANT SERVICES	CSA redesign · Collateral optimisation · Cleared vs bilateral review · Portfolio netting framework · Refinancing integration

THE SITUATION

An Australian infrastructure fund acquired a regional Queensland airport in 2019 for AUD \$850m. The financing was standard: AUD \$520m senior secured debt, floating rate, hedged to fixed via bilateral interest rate swaps with two banks.

The hedges performed exactly as designed. The problem was never the hedge economics.

When the RBA hiking cycle pushed rates from 0.10% to 4.35%, both swaps moved sharply out-of-the-money. By Q4 2023, the airport had posted \$71m in cash collateral – roughly 9.5x the original investment committee estimate of \$8-12m.

That \$71m was not an economic loss. It was trapped. And it was competing directly with capex, distributions, and acquisition headroom.

HOW THE TRAP FORMS

This is not a mistake. It is a documentation failure that compounds silently.

The ISDA/CSA terms negotiated at closing were asymmetric: zero collateral thresholds for the fund, \$20-25m thresholds for the banks. Cash-only eligible collateral. Daily valuation. Material independent amounts.

Under these terms, every basis point of rate movement translated directly into trapped cash – with no ability to post government securities, no netting between the two bilateral trades, and no mechanism to recover collateral until rates reversed.

The IC approved the financing without modelling what this structure would look like under a 400bp rate move. The financing memo mentioned collateral once, in passing.

WHAT TYPICALLY BREAKS

Growth capex froze \$63m of value-accretive terminal works, route incentives, and parking expansion – at projected IRRs of 18–24% – became unreachable with \$71m locked in margin accounts.	Acquisition was lost A bolt-on airport deal required lenders to see \$40m of minimum liquidity headroom. The fund had the equity. It did not have the visible liquidity. The deal was lost.
Distributions stopped In Q3 2023, a \$9m margin call redirected cash that would have flowed through the distribution waterfall. Investors received nil distributions and filed complaints.	IC governance failed The committee approved documentation it did not understand. CSA terms that looked like legal boilerplate were a mechanism for trapping tens of millions under foreseeable market conditions.

THE STRUCTURAL INSIGHT

The hedge intent was never the issue. The issue was that collateral had never been treated as a balance-sheet allocation problem.

Benchmarking against market-standard infrastructure CSA terms – two-way thresholds, government securities as eligible collateral, weekly valuation, consolidated netting under a single ISDA – indicated a collateral requirement closer to \$22m under the same rate scenario. Not zero. Not painless. But manageable.

The gap between \$71m and \$22m was not market risk. It was documentation risk.

INTENDED OUTCOMES

- ▶ Release trapped collateral and restore deployable liquidity without terminating or re-striking the underlying hedge.
- ▶ Eliminate one-way CSA asymmetry so collateral behaves as a mutual risk control, not a capital drain.
- ▶ Restore governance visibility – boards should know how much cash can be trapped under a rate shock before approving any financing activity.
- ▶ Recover strategic optionality: refinancing timing, bolt-on acquisitions, and high-IRR capex should not be constrained by documentation mechanics.
- ▶ Establish a repeatable portfolio standard so future financings do not embed the same trap.

WHERE THIS APPLIES

Works best where the asset is financed with material floating-rate debt hedged via bilateral swaps; CSA terms are asymmetric with low or zero thresholds; interest-rate volatility has created non-trivial margin requirements; and the fund has active capital deployment needs – capex, acquisitions, or distributions.

Less relevant where derivatives are already centrally cleared under symmetric CSAs, debt is predominantly fixed-rate, or collateral requirements are explicitly governed and forecast as part of liquidity planning.

TYPICAL ENGAGEMENT PATH

Capital Efficiency Rebuild™ – Collateral & Liquidity Efficiency module. Secondary: CSA renegotiation, cleared vs bilateral execution review, counterparty consolidation, portfolio netting framework, refinancing integration.