PARA BELLUM ADVISORS

PROJECT FINANCE · REFINANCING PHASE

Refinancing Derivatives Transition – Operating Asset Debt

SCENARIO TYPE	Infrastructure / Project Finance – Refinancing Phase
ASSET CLASS	Transport, Utilities, Regulated Infrastructure
RISK FOCUS	Derivative termination costs, embedded value loss, execution sequencing risk
PRIMARY OFFER	Hedge Rebuild™
RELEVANT SERVICES	Hedge Rebuild™ · Structuring-as-a-Service™ · Derivative novation · Refinancing execution sequencing · Hedge accounting continuity

THE SITUATION

The asset is mature. Operating history is clean. Covenants are comfortable. Debt was put in place years ago – often five, seven, ten years back – when rates were materially lower and lenders were competing aggressively for infrastructure balance sheet.

Interest rate risk was hedged properly at close: long-dated floating debt swapped to fixed, vanilla structures, documented cleanly under ISDAs with relationship banks. Nothing exotic. Conservative, lender-approved, investment-grade.

Now markets have moved. Credit spreads are tighter. New lenders are offering lower margins, longer tenors, lighter covenants, and more flexibility around distributions. On paper, refinancing is obvious. The model works. The IC is supportive. Advisors are instructed.

Then someone remembers the swaps.

HOW THE TRAP FORMS

At first, derivatives are treated as an administrative line item. The refinancing workstream focuses on margins, tenor, covenants, and syndicate composition. Derivatives are parked as something to deal with once the debt is settled.

Banks reinforce this separation. New lenders talk about wanting a clean structure. Relationship banks quietly remind you the swaps sit under their ISDAs.

Then the first indicative termination numbers land. They are always worse than expected. The swaps were entered years ago at fixed rates that now look absurdly attractive. Funding adjustments. Close-out mechanics. Documentation nuances nobody has looked at since financial close.

What should be a large receivable, turns into a much smaller payment – or in some cases a payable. Annual interest savings still look good, but upfront termination costs eat years of benefit. The refinancing economics start to wobble.

WHAT TYPICALLY BREAKS

The derivative book holds real, fragile value

Legacy swaps are often the most valuable financial asset attached to the project. That value only exists if the swaps survive the refinancing. Terminate them clumsily and it disappears instantly – transferred to the counterparty bank.

Documentation favours the banks

Additional Termination Events tied to debt prepayment. Broad close-out language. Funding cost adjustments that look innocuous until applied. None of this was controversial at close. It becomes lethal at refinancing.

Relationship banks have leverage and know it

Banks holding the swaps are often also losing lending exposure. The swaps are their last anchor. They will use them to defend syndicate positions, extract termination economics, or force retention in the new deal.

Timing pressure kills negotiating leverage

Refinancings operate under commitment deadlines. Once credit approvals are issued, the clock is running. Derivative decisions get rushed. That is when value gets handed away – not through bad intent but through compressed optionality.

THE STRUCTURAL INSIGHT

The core problem is sequencing. Derivatives are treated as secondary to debt. In reality, they often dictate whether the refinancing works at all. By the time swaps are addressed, commitments are live, banks know you cannot walk away easily, and the choice set has collapsed.

The starting point is not how do we terminate the swaps. It is how do we preserve value while changing the debt.

Many ISDAs contain under-used novation provisions or transfer mechanics. Swaps do not always need to die because the debt does. With the right counterparties, it is often possible to move, resize, or economically replicate them without crystallising losses.

The biggest hidden risk is cashflow timing. Derivative settlements, loan prepayments, and new drawdowns do not need to occur simultaneously – but are often assumed to. Careful sequencing can eliminate bridge funding, reduce liquidity risk, and preserve optionality if markets move mid-process.

INTENDED OUTCOMES

- Refinancing proceeds as planned – embedded derivative value preserved rather than surrendered to counterparty banks at termination.
- Termination fees minimised or avoided – through novation, reallocation, or structured transfer rather than forced close-out.
- New lenders aligned, old lenders exit cleanly – without the swap book becoming a blocking mechanism or extraction point.
- Accounting stability maintained – hedge designation, effectiveness, and documentation continuity preserved through the transition.
- The refinancing delivers its intended economic benefit – without derivatives quietly undoing the value the exercise was designed to create.

WHERE THIS APPLIES

Most relevant where assets are refinancing after long periods of lower rates; existing swaps are materially in-the-money; multiple relationship banks are involved; and refinancing timelines are tight.

Less relevant where swaps are short-dated or near maturity, termination economics are genuinely immaterial to the refinancing thesis, or derivatives were never meaningfully embedded in the original financing structure.

TYPICAL ENGAGEMENT PATH

Hedge Rebuild™ – Refinancing-linked derivative transition and novation structuring. Secondary: Structuring-as-a-Service™, execution sequencing, accounting continuity, counterparty negotiation support. Scope confirmed following a focused diagnostic review.

Illustrative scenario based on common refinancing-phase project finance patterns. Details have been anonymised. Outcomes depend on structure, documentation, counterparties, market conditions, and accounting constraints. Not investment advice.