

# **Thai Baht Bond Markets**

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**ASEAN Capital Markets Forum**

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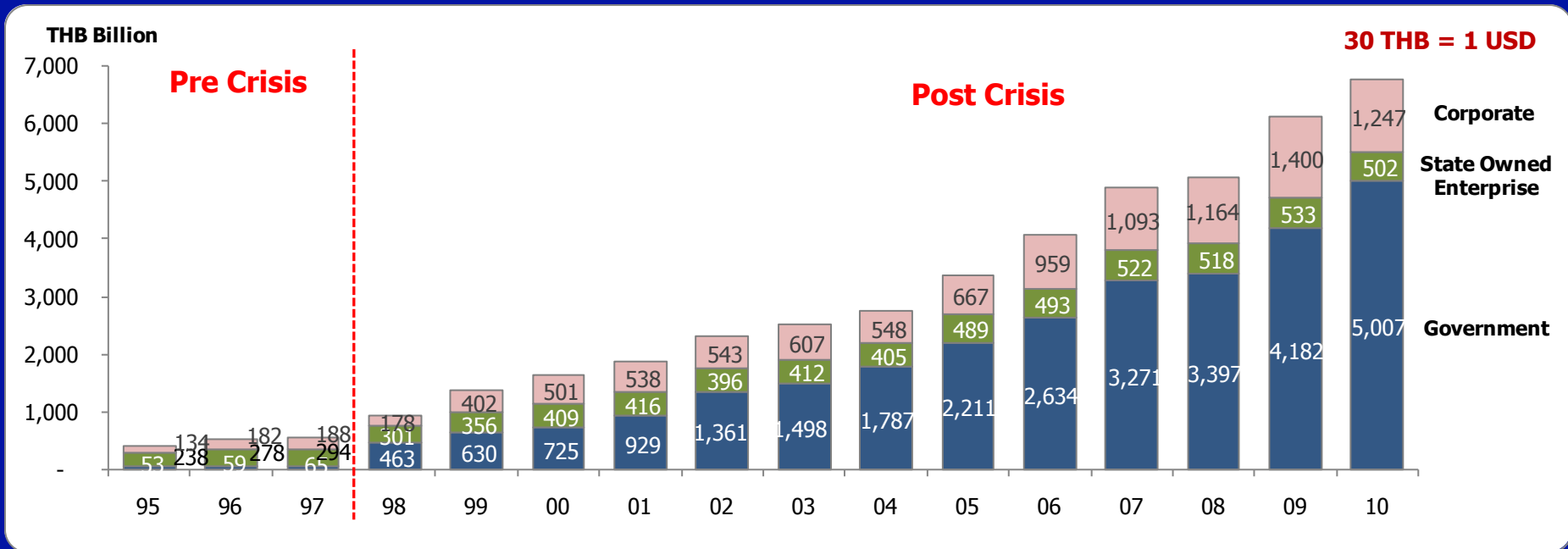
A blue 3D-style arrow pointing to the right, highlighting the first item in the outline.

**I. Market overview**

**II. Measures taken to grow the bond market**

**III. Key development in the future**

# Outstanding Value



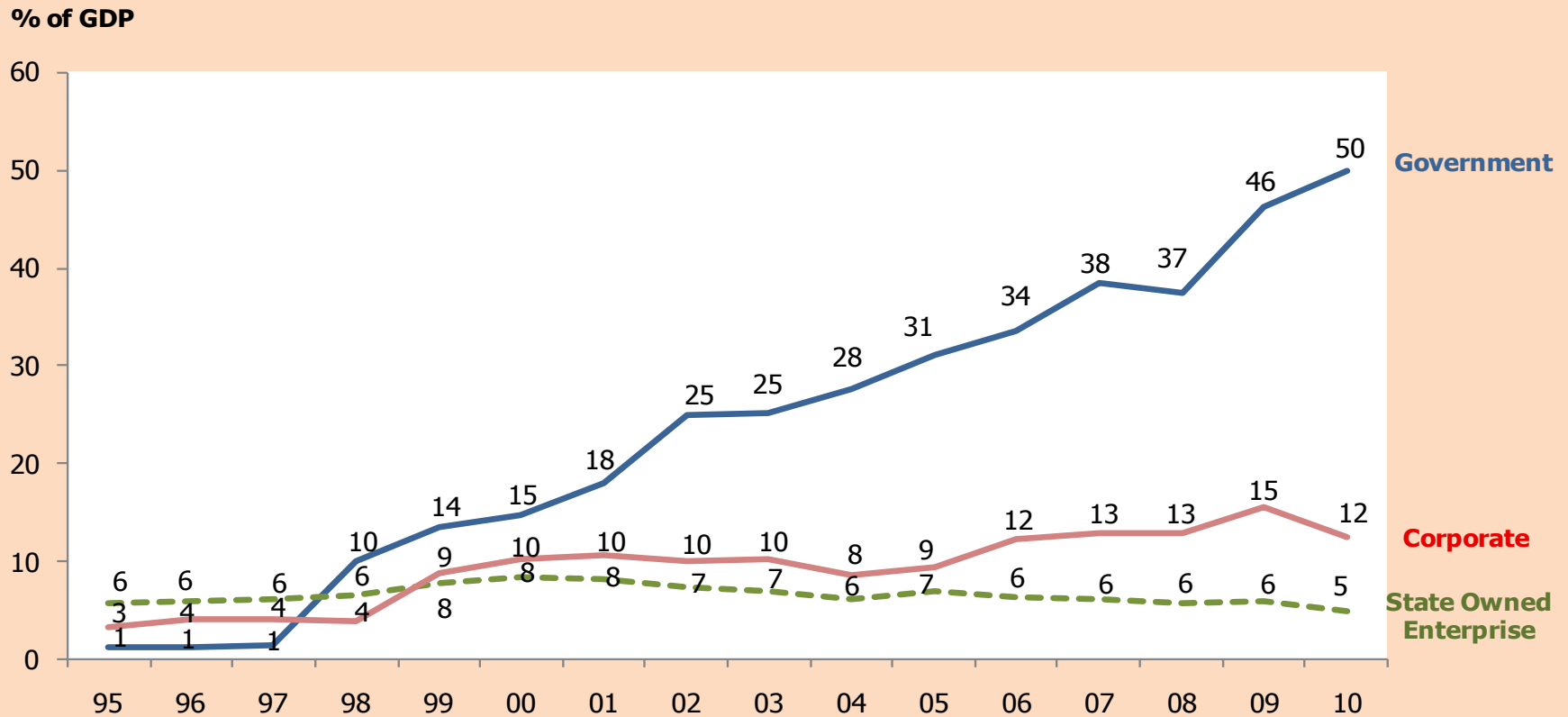
Source: ThaiBMA

- No need to issue government bond due to continued fiscal surpluses
- Lack of a risk-free benchmark to price corporate bond
- Few issue of corporate bonds
- Bank loans were main source of corporate funding

- Government had to issue bonds to fiscalize financial restructuring and to finance government projects
- Benchmark now available for market reference
- Corporate bond market has become an alternative for corporate funding
- Limited deposit guarantee will open way for more corporate bonds

# Outstanding Value per GDP

➤ The proportion of corporate bonds is still low

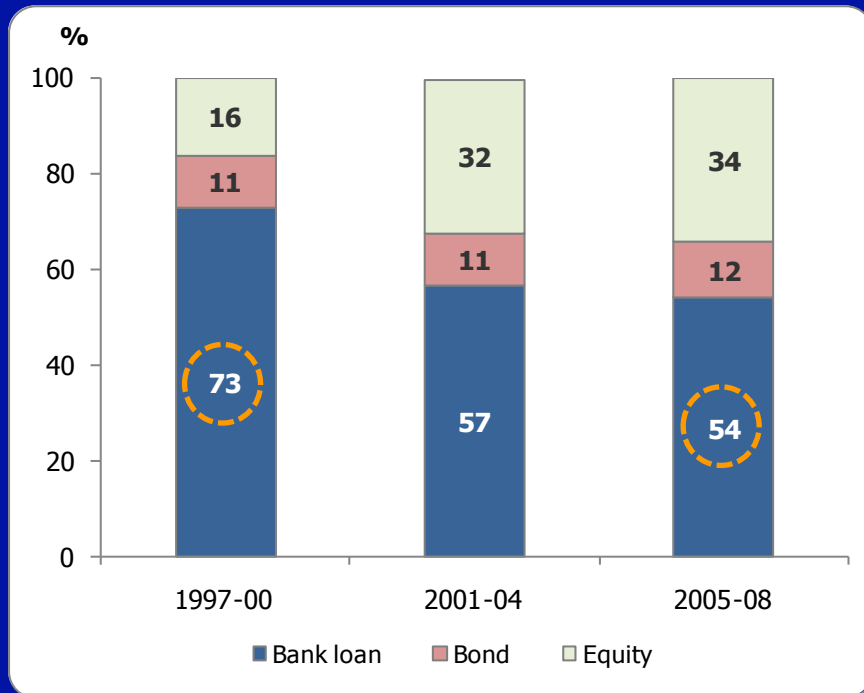


Source: ThaiBMA, NESDB

# Corporate Financial Structure

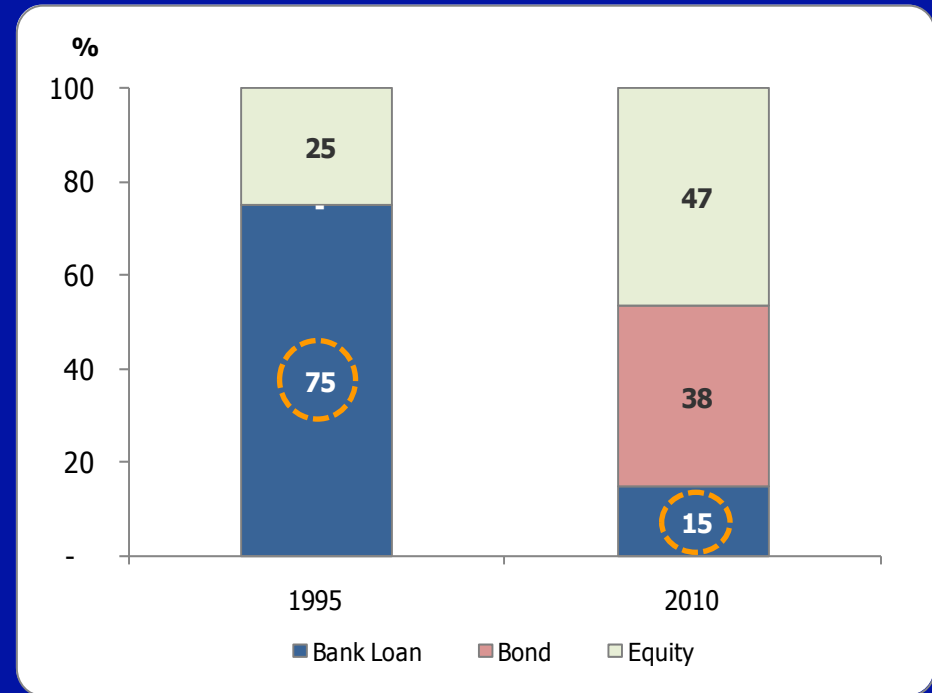
- Proportion of bank loans has decreased steadily
- Large listed cos. (such as Siam Cement Group) continually switched to bond financing after 1997 crisis

## Thai Financial Assets



Source: IMF, World Federation of Exchanges, BIS

## Financial Structure of Siam Cement Group

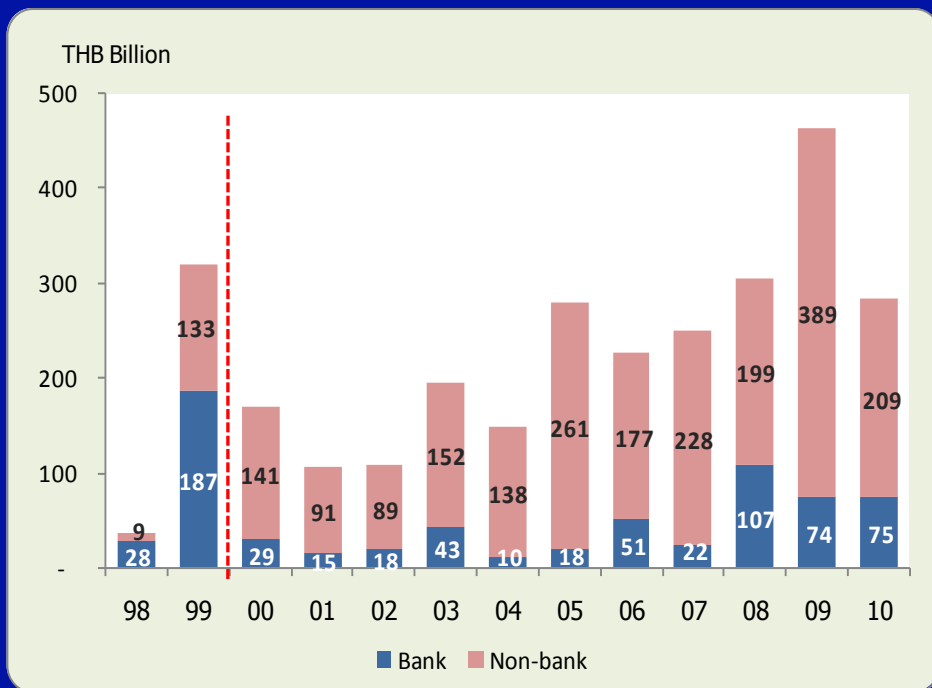


Source: Stock Exchange of Thailand

# Profile of Corporate Bond Issuers

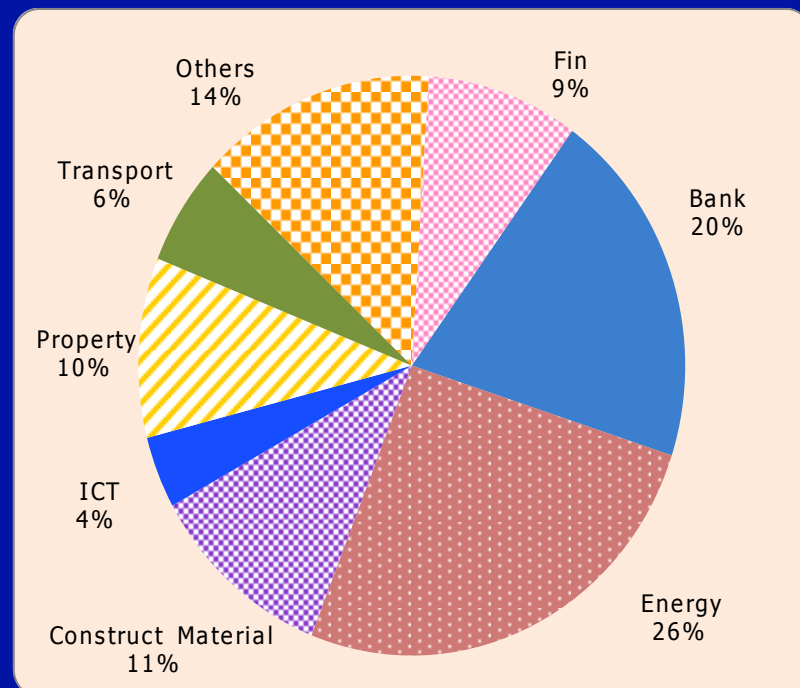
- The market gained momentum after 1997 crisis, starting with banks recapitalization bonds in 1998-1999
- Issuance is dominated by bank and energy sectors, reflecting their weights in the stock exchange

## Issuance Value Classified by Business Sector



Source: Securities and Exchange Commission

## Outstanding Value Classified by Business Sector : 2010

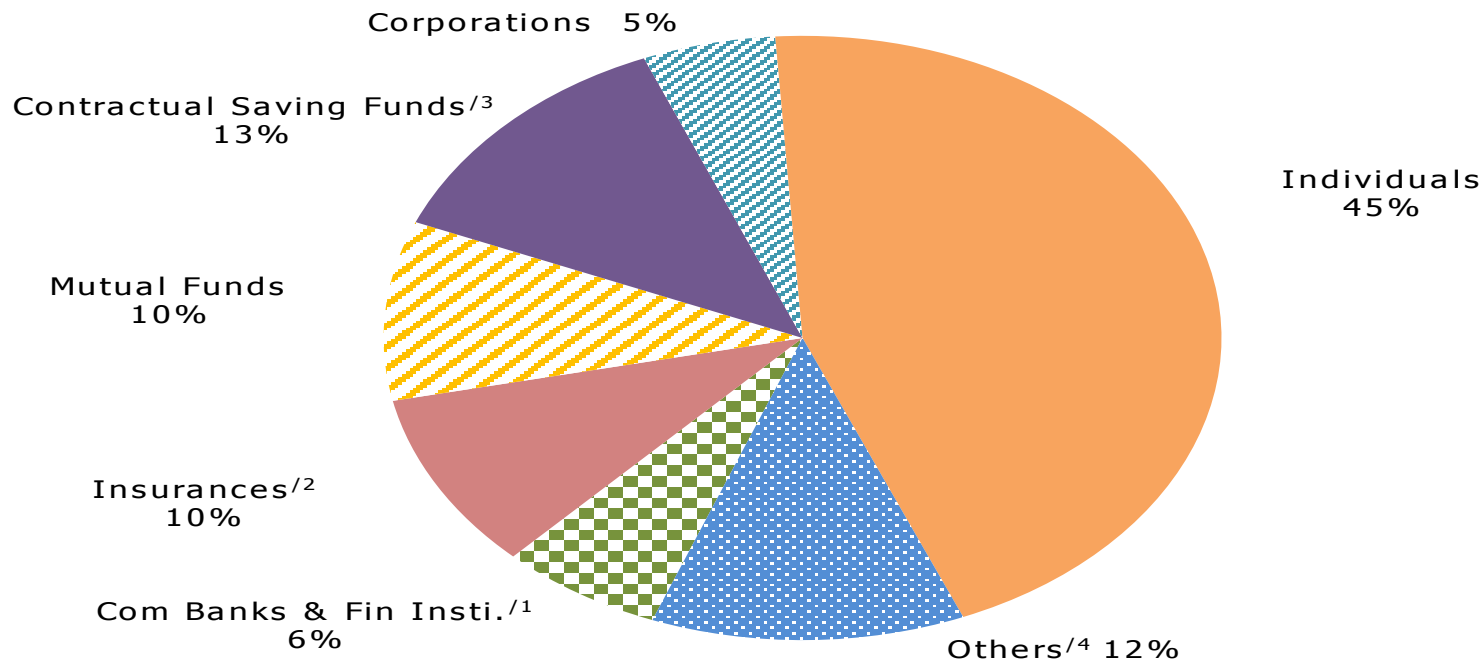


Source: ThaiBMA

# Profile of Corporate Bond Holders

- Almost half are held by individuals who buy-and-hold

## Corporate Bond Holders: 2010



Source : ThaiBMA

Note : /1Financial Institutions include EXIM, GHB, GSB banks

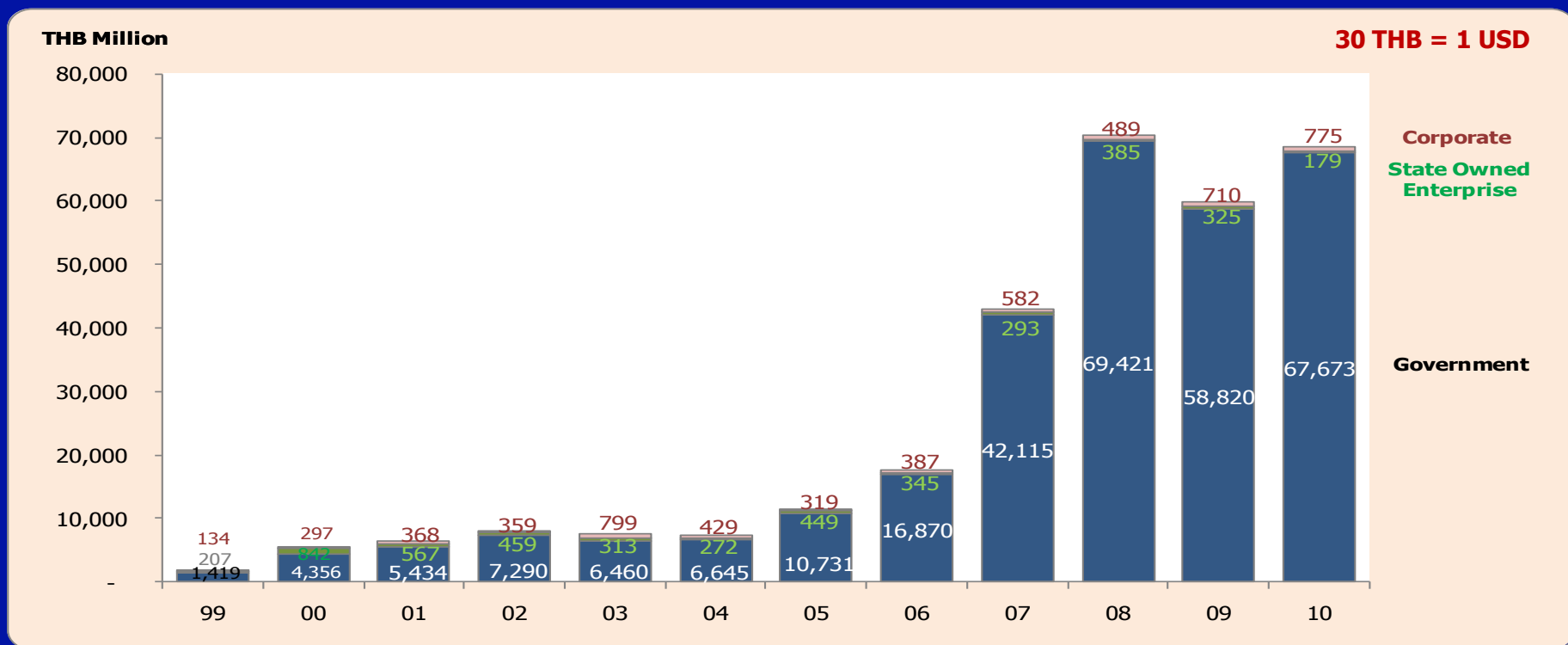
/2 Including life and non-life insurance companies

/3 Including government pension fund, provident funds and social security fund

/4 Including the government sector, foundation, co-operatives, temples etc.

# Daily Average Trading Value

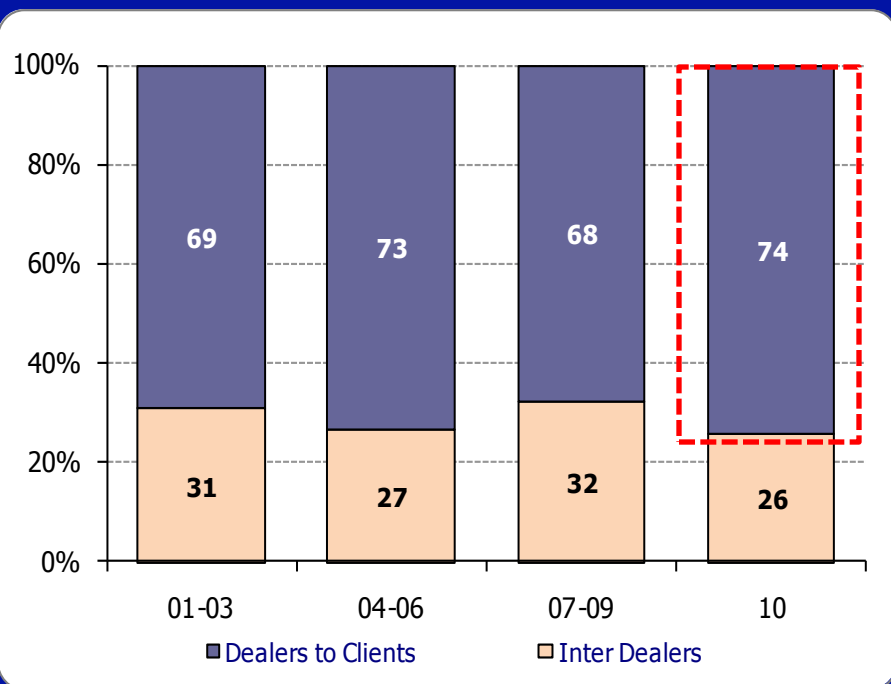
- Market liquidity took time to improve
- Trading active on government bonds
- Corporate bonds still inactive due to relatively small issue size and investors' buy-and-hold strategy



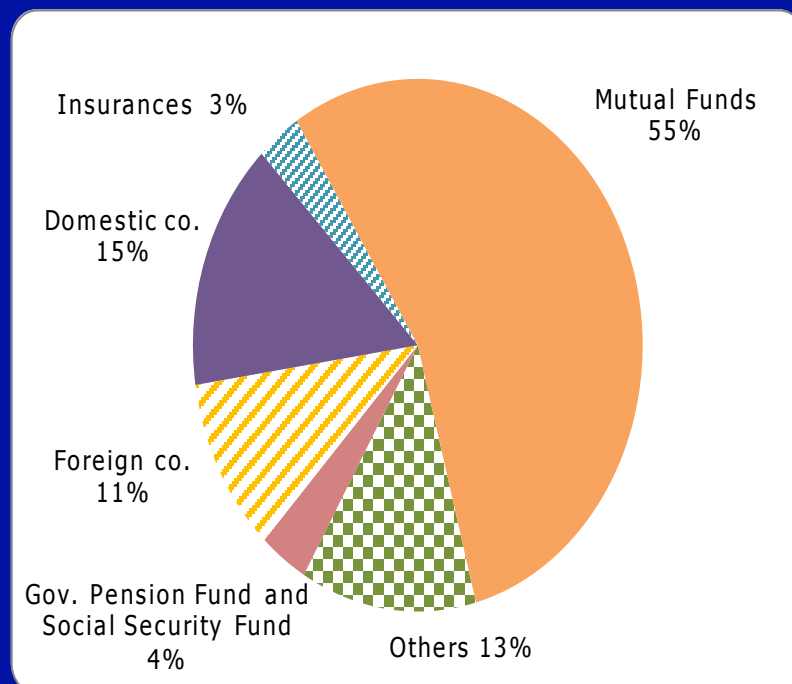
# Profile of Trading Participants

- A major part of total transactions came from trading value between dealers and their clients
- Mutual funds are major players in the secondary bond market

## Outright Trading Value



## Dealers to Clients: 2010



Source: ThaiBMA

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# Developing benchmark yield curve

- Enacting law allowing government to issue bond during a fiscal surplus
- Regular issuance of 5, 10, and 15-yr government bonds
- Pre-announcement of auction calendar on a quarterly basis without cancelation
- Reopening of benchmark issues to ensure critical issue sizes
- Active two-way quotation by primary dealers

# Introduction of Primary Dealer System

- Introduced in 2000, currently there are 9 PDs in the market
- Biannual performance review by the Bank of Thailand
- PDs' obligations:
  - Always bid for their shares of government securities allotted in the primary market
  - Act as market makers and to provide daily two way quotations for outstanding government bond issue
- PDs' privileges:
  - Rights to submit Non-Competitive Bids (NCB) on behalf of their customers
  - Act as advisors to the Ministry of Finance for planning of government bond issuance and to Bank of Thailand in developing the bond market

# Reforming Bond Issuance Rules



- In 2001, introduced 1-year shelf approval and shortened timeline for filing from 45 days to
  - 15 days for listed company
  - 30 days for non-listed company
- In 2006, extended shelf filing from 1 to 3 years
  - Initial filing became effective within 30 days
  - Subsequent filings became effective within 3 days
- In 2009, further shortened timeline for filing :
  - For PO,
    - Initial filing, shortened from 30 to 14 days
    - Subsequent filings, shortened from 3 to 1 day
  - For PP, shortened from 3 to 1 day

# Improving Disclosure Requirement

- Changing from merit-based to disclosure-based
- Risk assessment from financial and operational perspectives must be disclosed in greater details
- Large financial exposures must be highlighted with accompanying explanation and assessment of their impacts on the company's financial position

# Developing Accounting Standards and Quality Assurance of Audit

## Accounting Standards

- International Reporting Standards (IFRS) to be fully adopted in Thailand
- Currently, there are 19 Thai accounting standards in accordance with IFRS, most of which will take effect this year and the rest by 2013

## Quality Assurance of Audit

- Audit firms of listed companies are required to have quality assurance system according to the international standards
- SEC conducts regular inspection on Quality Assurance

# Promoting Asset Management Business

- Minimum fund size of THB 50 Billion (US\$ 1.5 Billion) was lifted
- Auto approval of mutual funds with non-complicated investment policy
- Allowing more types of assets for fund investments such as structured notes and interest rate derivatives for hedging purpose
- Allowing mutual funds to participate as bond lenders in repo transaction

# Enhancing Market Transparency and Surveillance

## Market Transparency

- SEC designates Thai Bond Market Association (ThaiBMA) to be bond information center, pricing agency
- All corporate bonds must be registered at ThaiMBA where public disclosure is centralized
- Dealers must report daily trading transactions to ThaiBMA for further disclosure to the public
- Closing prices are screened daily by ThaiBMA before announcement for use in marking to market

## Market Surveillance

- ThaiBMA conducts off-site market surveillance on daily trading transactions, and also on-site inspection of dealer members
- If there is a breach of securities law, ThaiBMA has to inform SEC immediately

# Allowing Foreign Firms to Issue Local Currency Bond

- Began in 2004, outstanding value as of 2010 was US\$ 2.4 Billion
- Annual quota set by the Bank of Thailand is increased this year from US\$ 1.6 Billion to US\$ 4.8 Billion due to high demand
- Issuers include ADB, JBIC, Citigroup, Deutsche Bank, Korea Exim Bank, etc.
- SEC works closely with the Ministry of Finance and the Bank of Thailand to revise the annual quotas and conduct market consultation with issuers

# Development of New Products

- Government is planning to issue inflation-linked bond to the public in Q3 this year
- PTT group, the Thai largest conglomerate, has successfully pioneered the following bonds in local market Q4 2010:
  - Century bond
  - Foreign currency bond
- The rules for Islamic Sukuk bonds was issued in January this year
- SEC is also drafting rules to allow municipal authorities to issue bonds, expected to be announced this year

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# Enhancing Liquidity of Corporate Bonds



- Amending rules to allow reopening of old issues for corporate bonds in the same way as government bonds
- Encouraging corporate bond underwriters to act as market makers in a secondary market
- Exploring the possibility of using corporate bonds with the highest rating as collateral for repo transaction
- Making regular consultation with stakeholders to improve related rules

# Supervision of Credit Rating Agencies

To increase competition and strengthen credit rating business, SEC plans to do the following by H2 this year:

- Allowing foreign CRAs to provide ASEAN scale rating for domestic bond issuance
- Reviewing rules governing CRAs to be fully in line with the new IOSCO Code
- To waive rating requirement for bond offering to high net-worth individuals and institutional investors

# Providing Investor Education



- Introducing “product fact sheet” that highlights the main features in short simple language to help investors understand the investment risks
- “Financial Literacy” has been set as a national agenda involving various agencies and will be rolled out nationally this year. It will cover all types of securities, equities and bonds included.

# Developing Hedging Instruments

- Interest rate futures were launched Q4 last year but as yet no active trading
- Major problems are:
  - Major investors still hold bonds to maturity
  - May have to review capital charges for banks' OTC interest rate swap with their counterparties
  - Banks hold bonds mostly in long term book, with no need to mark to market their portfolios
- SEC is coordinating with TFEX (derivative exchange) and the Bank of Thailand to address these issues

# Integrating ASEAN Capital Markets

- Paving the way to launch debt issues simultaneously across ASEAN countries by using the same set of documents
- Measures that are being worked on:
  - Adoption of a common ASEAN Disclosure Standards
  - Additional requirements by each jurisdiction caused by different business and legal environments (Plus Standards) are to be systematically reduced
  - Mutual recognition of credit rating agencies within ASEAN
  - Acceptance of the ASEAN scale rating

# Q & A