



สำนักงานบริหารหนี้สาธารณะ
PUBLIC DEBT MANAGEMENT OFFICE

Evolution of Thai Bond Market and PDMO Set Up

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Director of Project Financing Division 2
Public Infrastructure Project Financing Bureau
21st June 2017

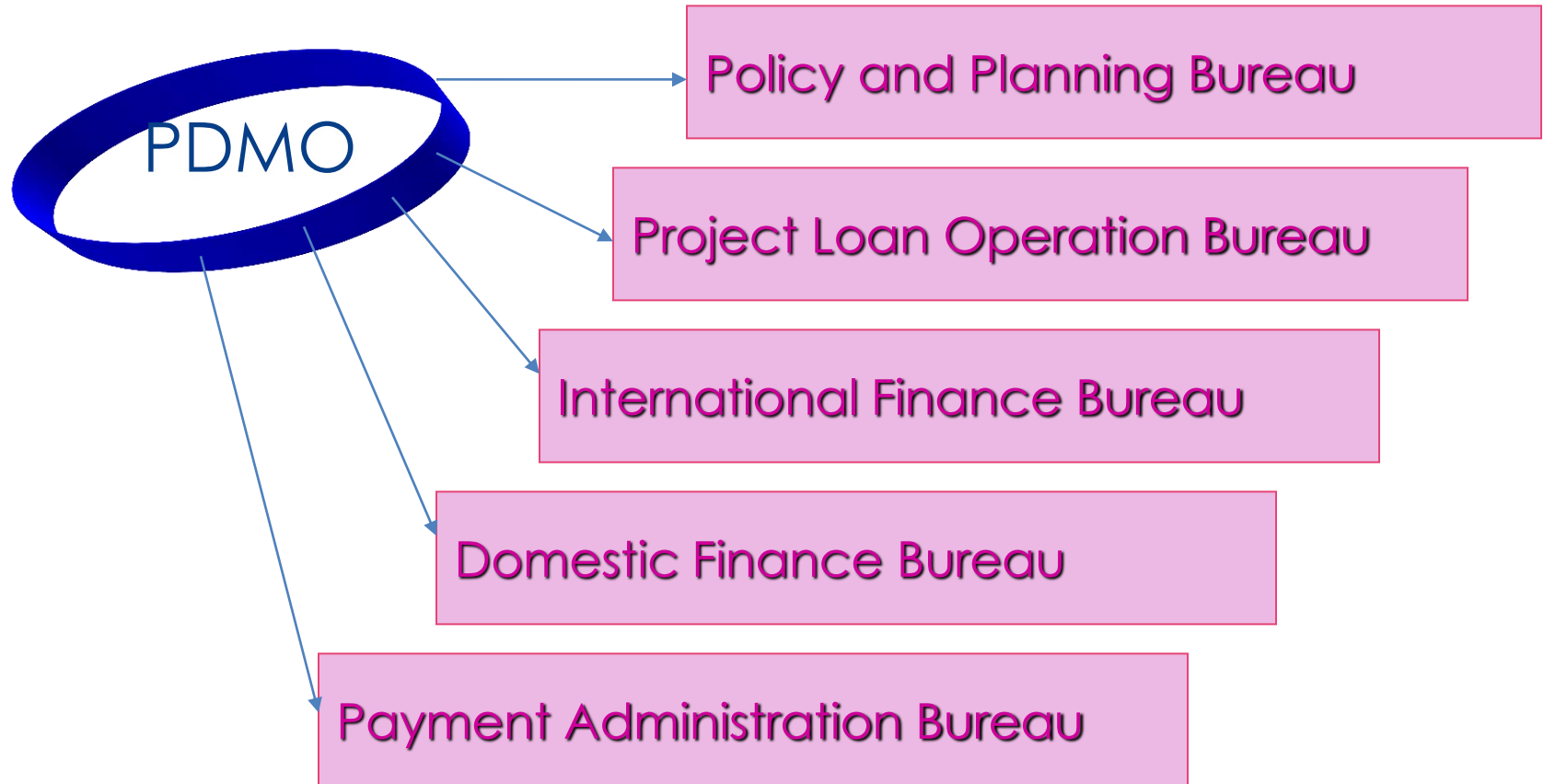


Outline

- **Institutional Framework**
- **Legal Framework**
- **Thailand Public Debt Overview**
- **Domestic Bond Market Development**
- **Baht-Denominated Bonds in Thailand**
- **Sovereign Credit Rating**
- **Process of**



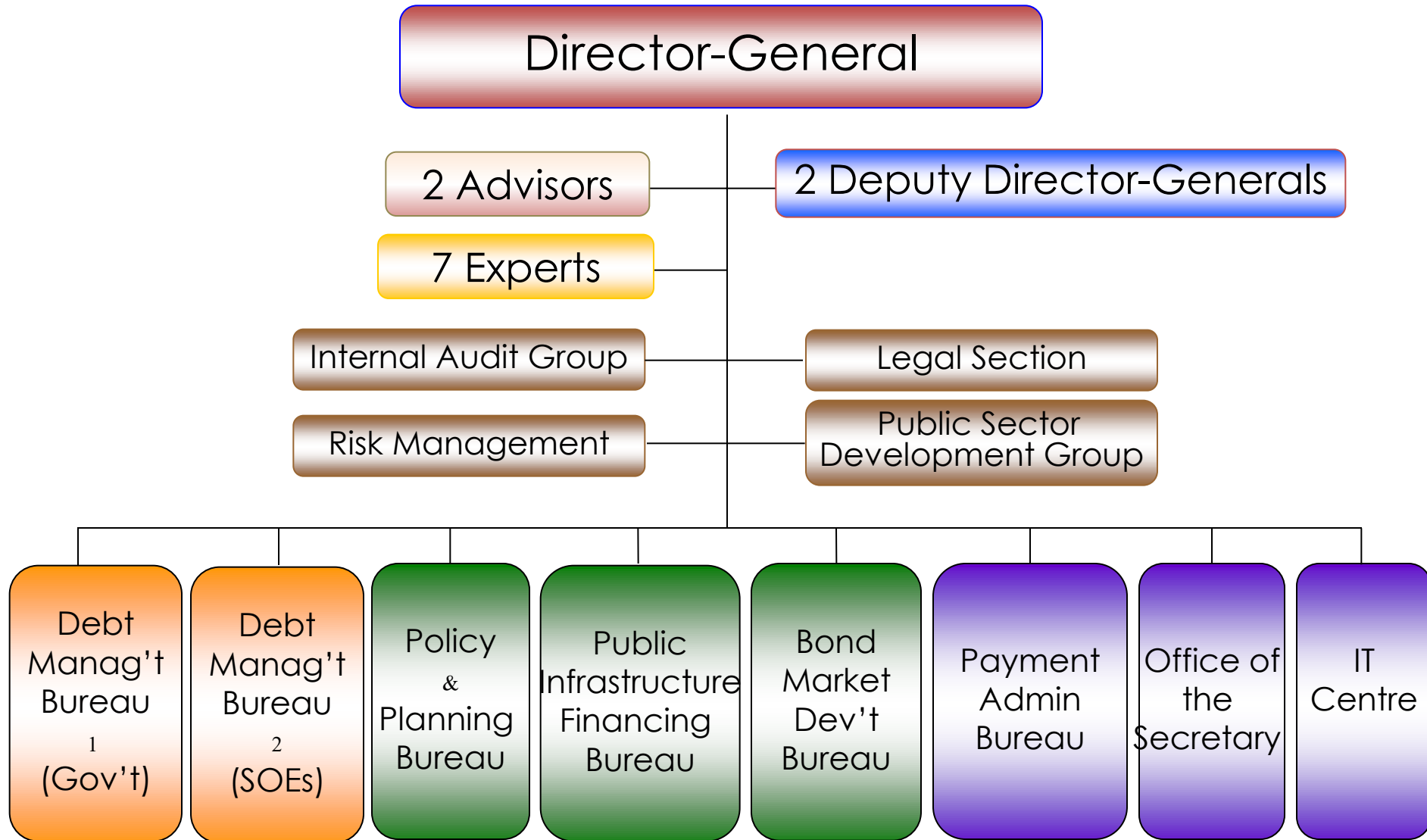
1st organisation structure



Re-organisation due to many duplicated tasks in function-based structure

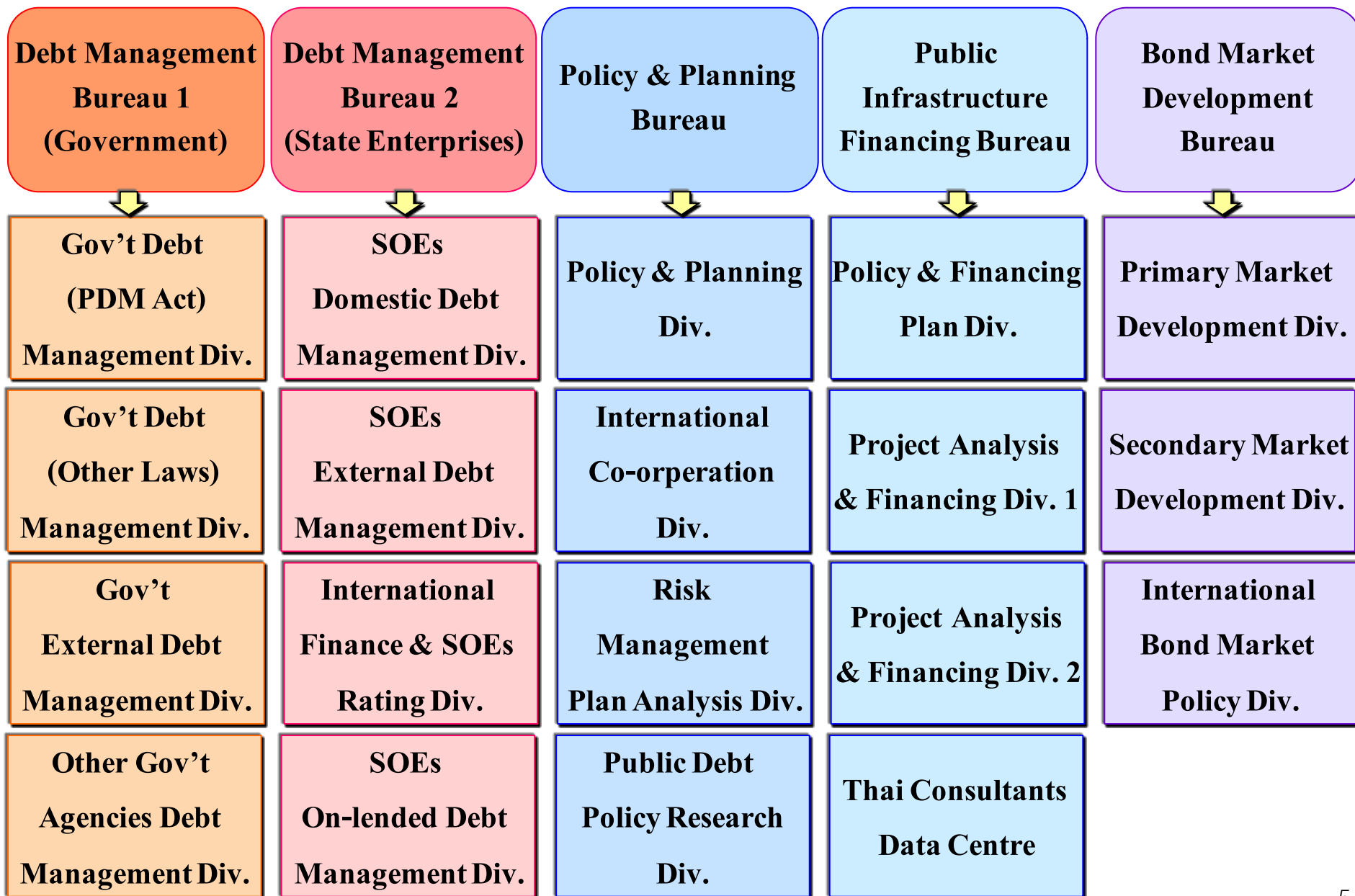


Organisation Chart





Organisation Chart





Our Missions

- **Providing policy advise and initiating plan for public debt management, as well as issuing and managing public debt in order to generate economic and social benefits**
- **Preparing and managing government annual debt service including monitoring debt service of state-owned enterprises and other government agencies so that all obligations are met on a timely basis**
- **Guiding, monitoring, and assessing operation and management of public debt including evaluating ongoing project loan operation**





Our Missions

- **Formulating and executing plan in acquiring financial and/or technical assistance from lending sources and closely co-operating and working in tandem with credit ratings agencies in order to provide an up-to-date information necessary for analytical country's credit ratings**



- **Developing fully integrated public debt database as well as early warning system**
- **Developing domestic bond market infrastructure to enhance efficiency in capital mobilisation and providing investment alternatives for public and private sectors**



Our Vision and Objectives

Vision

- A professional in public debt management, with the goal of fostering Thailand's sustainable economic and social development.

Objectives

- To ensure government's financing needs
- To manage public debt at lowest cost possible with acceptable risk level
- To promote efficiency in fund mobilisation and competitiveness
- To enhance creditworthiness of the country



Legal Framework

Public Debt Management Act B.E. 2548 (2005)

Public Debt Definition:

1. Direct government debts: budget deficit, infrastructure investment projects, economic stimulation, crisis management, on-lend to government agencies and State Owned Enterprises (SOEs)
2. Non-financial SOEs debts, both government guaranteed and non guaranteed (SOEs include privatised companies)
3. Financial SOEs debt that government guaranteed
4. Other public organisation debts such as Energy Fund
5. Not included local government debts

Public Debt Management :

- incur debt through loans or guarantees
- debt repayment
- debt restructuring
- other activities involving public debt



Public Debt Management Act is the MAIN borrowing framework

A Borrowing Ceiling to Finance Budget Deficit

20% of Annual Budget



80% of Principal Repayment
Expenditure

B Ceiling for Government Guaranteed + Borrowing for THB On lending

20% of Annual Budget

- Support SOEs Investment Project

C Borrowing Ceiling to promote Economic and Social Development

10% of Annual Budget

- Enable government's long-term investment project
- Borrow in foreign currency and have import content
(avoid crowding out and FX neutral)
- Or borrow in THB if domestic market allowed



Public Debt Management Act

Public Debt Restructuring

- Shall be made for the purpose of economies, minimising foreign exchange risk, or diversifying debt repayment burden.
- Shall raise loan for repayment debt incurred by MOF in an amount of not exceeding the outstanding debt
- Shall raise loan for repayment debt incurred by MOF guarantee in an amount of not exceeding the guaranteed debt
- In case the amount of public debt which will be restructured is large and MOF considers that it is not appropriate to restructure in one time, MOF is able to restructure the debt 12 months in advance before the due date.
- The proceeds from the advanced debt restructuring shall be transferred to the Debt Restructuring and Bond Market Development Fund



Public Debt management act

Debt Restructuring Methods

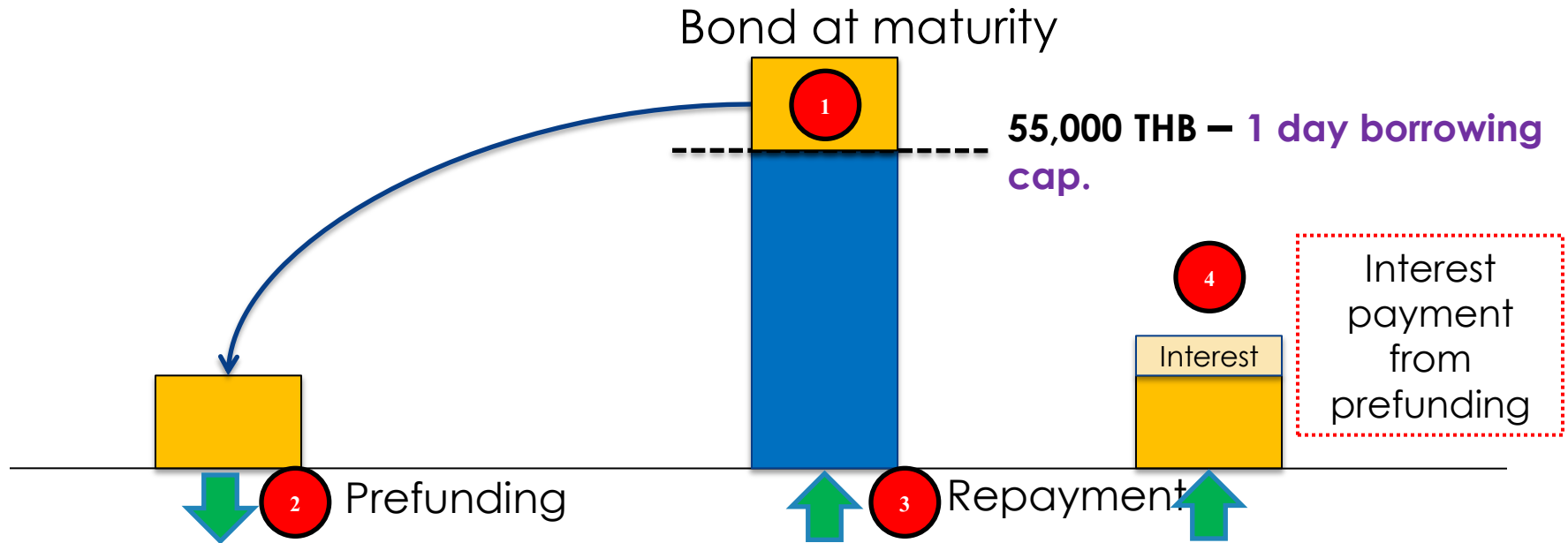
MOF shall have the power to restructure public debt by means of:

- ✓ Refinancing the existing debt
- ✓ Repayment of debt before the repayment period
- ✓ Extending or shortening repayment period
- ✓ Roll over
- ✓ Buy back
- ✓ Redeeming government debt instrument, or
- ✓ Undertaking any financial transaction which is beneficial to public debt restructuring specified in the Ministerial Regulation



Prefunding

- Will temporarily increase public debt due to double counting **BUT** it will eventually lower to original amount on redemption date



Prefunding Investment Options

Domestic

- Gov't Bond/SOEs bond guaranteed by MOF
- Other securities with AAA Rating
- Reverse Repo

External

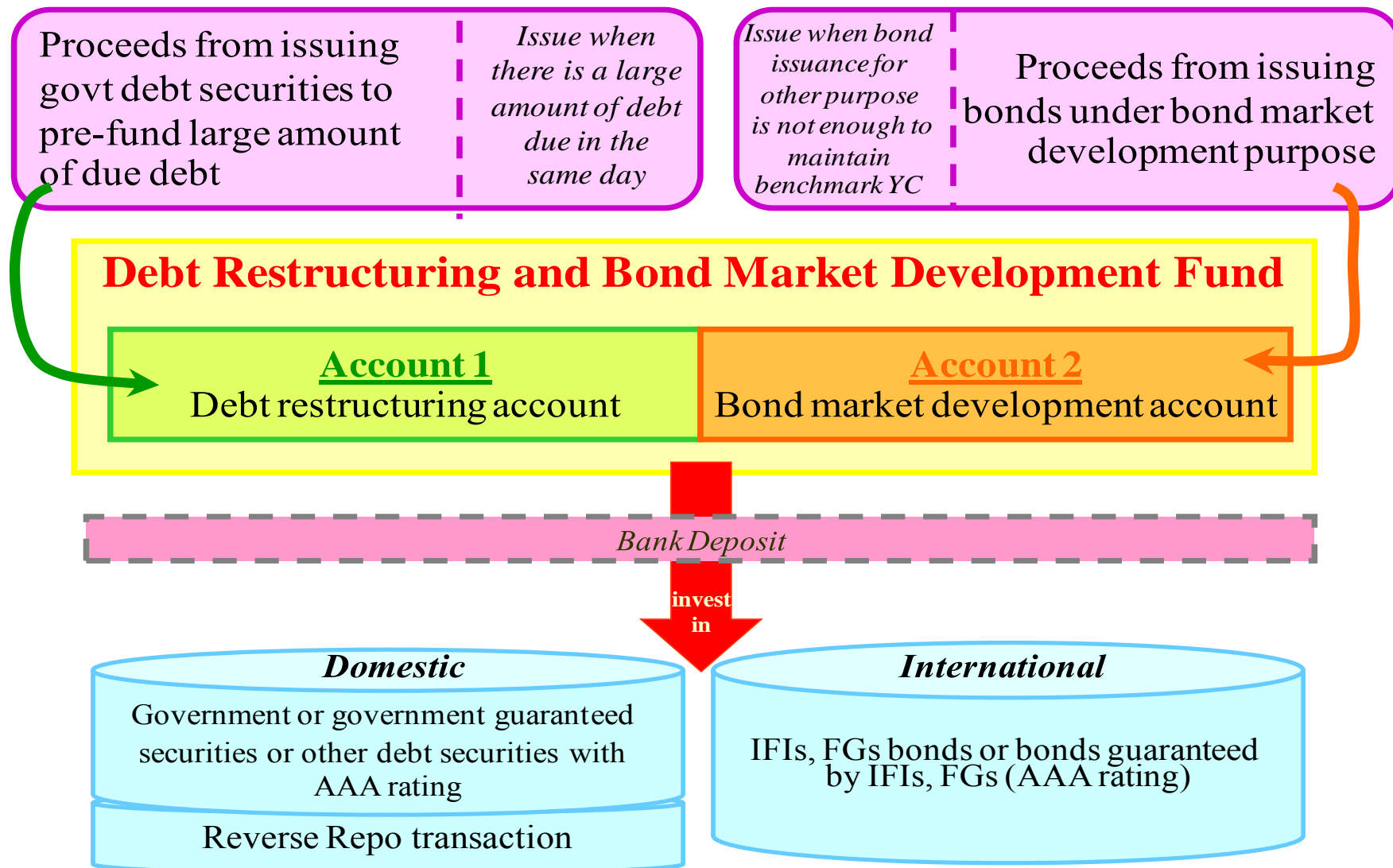
- Gov't securities/ Gov't or International Financial Institution/ with AAA Rating and major currency denominated securities

Risk Management Transaction

1. Cross-Currency Swap – Exchange rate management
2. Interest Swap – Interest rate management



Debt Restructuring & Bond Market Development Fund





Government, under parliament's approval and public awareness, can issue **the emergency decrees** to maintain economic stability and stimulate economy



Emergency Decree authorizing the MOF to Secure Loans for Economic Restoration and Development Fund B.E. 2541 (A.D. 1998) 500 billion THB



Emergency Decree authorizing the MOF to Secure Loans for Restoring and Strengthening the Financial Institutions System Development B.E. 2541 (A.D. 1998) 300 billion THB



Emergency Decree authorizing the MOF to Secure Loans for Strengthening and Developing the Financial Institutions System Phase II B.E. 2545 (A.D. 2002) 780 billion THB



Emergency Decree authorizing the MOF to Secure Loans for Restoring and Strengthening Economic Security B.E. 2552 (A.D. 2009) 400 billion THB



Water Resource Management and Country Development Decree B.E. 2555 (A.D. 2012) 350 billion THB



Disaster Insurance Fund Decree B.E. 2555 (A.D. 2012) 50 billion THB





Sustainability Framework

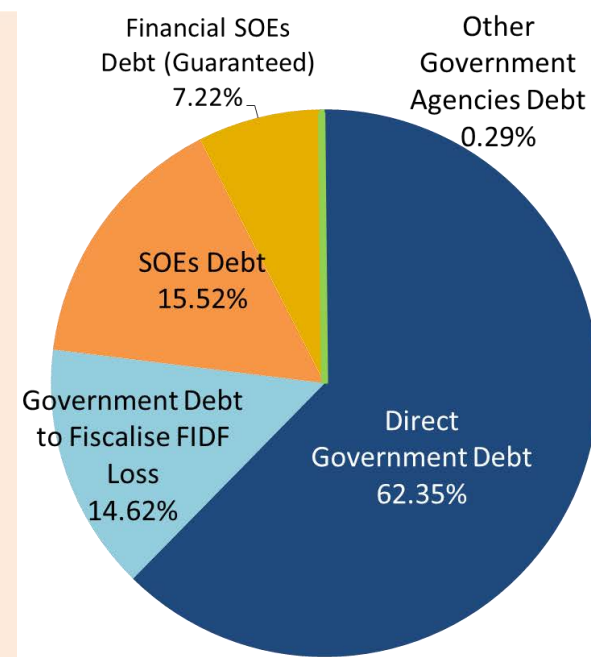
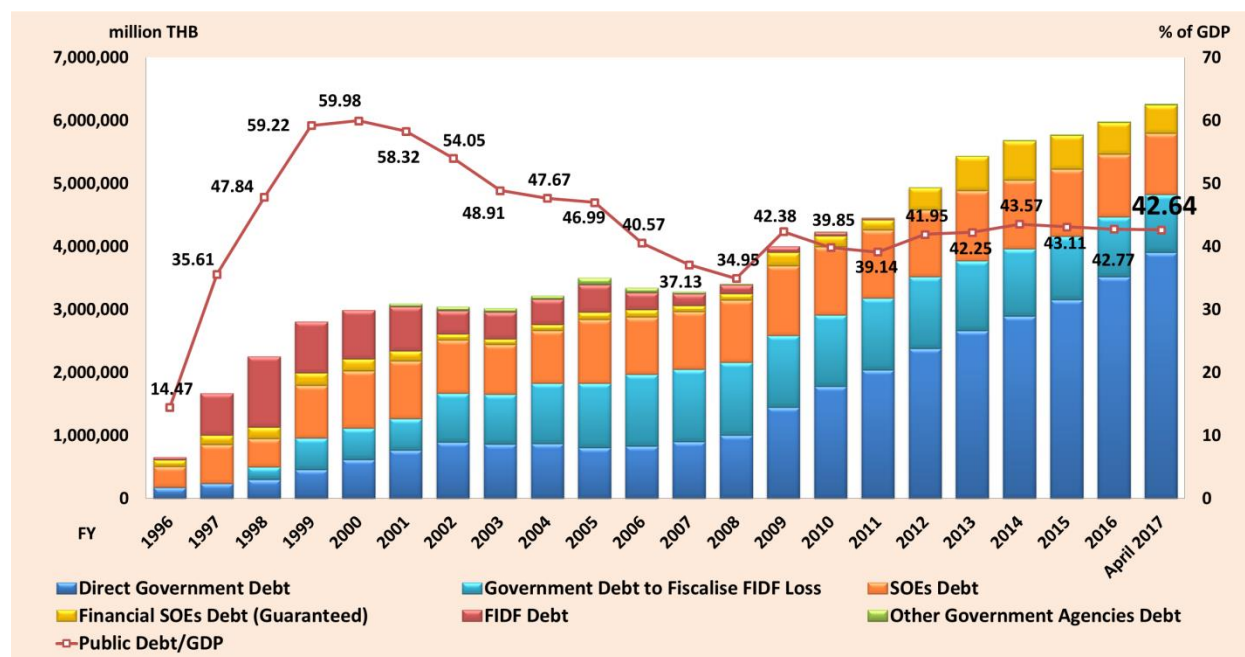
Public Debt/GDP: $< 60\%$

Principal and Interest Payment/Budget Expenditure: $< 15\%$

Investment Expenditure/Budget Expenditure: $> 25\%$



Thailand Public Debt Overview (end of April 2017)



Thailand's public debt composition

Public Debt Outstanding as of April 2017	Amount (million THB)	% of GDP
Direct Government Debt	3,907,905.09	26.58
Government Debt to Fiscalise FIDF Loss	916,090.73	6.23
SOEs Debt	972,750.61	6.62
Financial SOEs Debt (Guaranteed)	452,740.79	3.08
Other Government Agencies Debt	18,433.66	0.13
Total	6,267,920.88	42.64

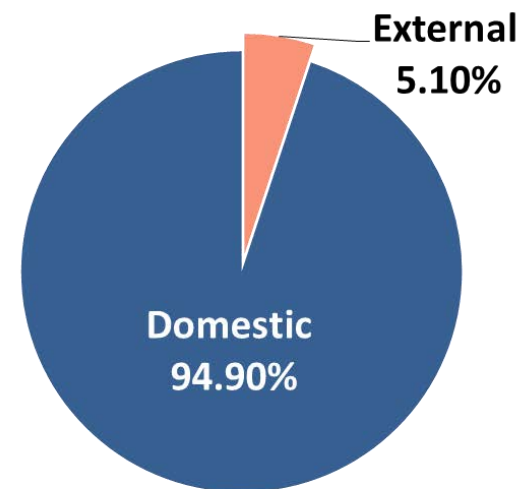


Most of public debt is long term, both by instruments and remaining maturity

By Instrument...

Unit : million THB

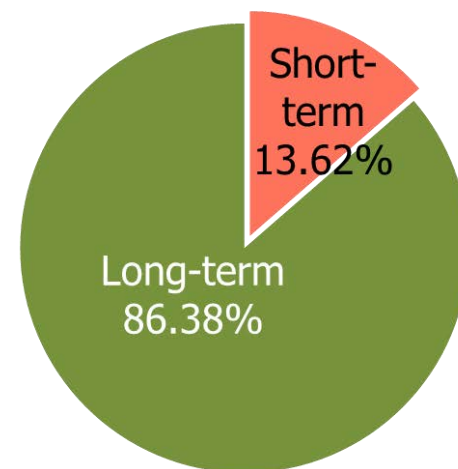
Public Debt Outstanding as of April 2017	Domestic	External
Government Debt	4,726,704.99	97,290.83
SOEs Debt	751,173.69	221,576.92
Financial SOEs Debt (Guaranteed)	452,165.41	575.38
Other Government Agencies Debt	18,433.66	-
Total	5,948,477.75	319,443.13



By remaining maturity

Unit : million THB

Public Debt Outstanding as of April 2017	Long-term*	Short-term*
Government Debt	4,227,833.74	596,162.08
SOEs Debt	832,118.75	140,631.86
Financial SOEs Debt (Guaranteed)	335,760.68	116,980.11
Other Government Agencies Debt	18,377.41	56.25
Total	5,414,090.58	853,830.30



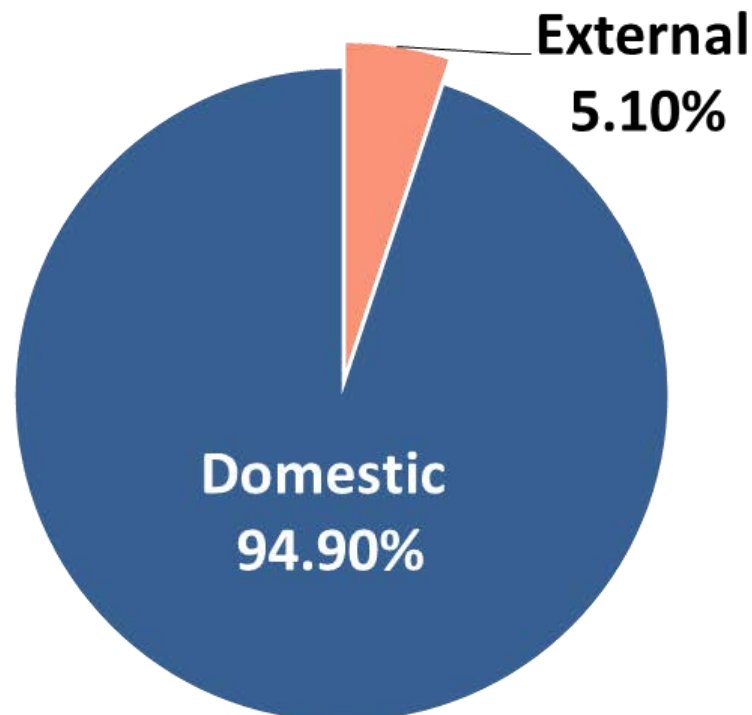
* Classified by remaining maturity: Short term debt = The debt outstanding figures having the remaining maturity less than 12 months.



95% of Public Debt is Domestic Borrowing

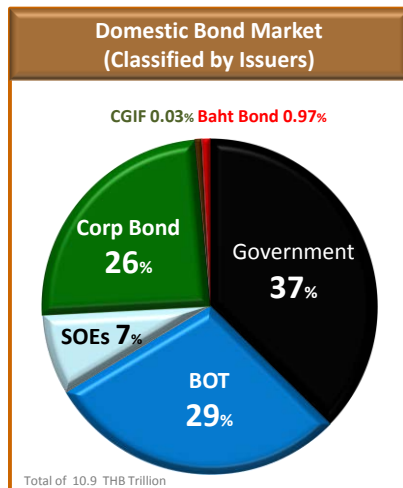
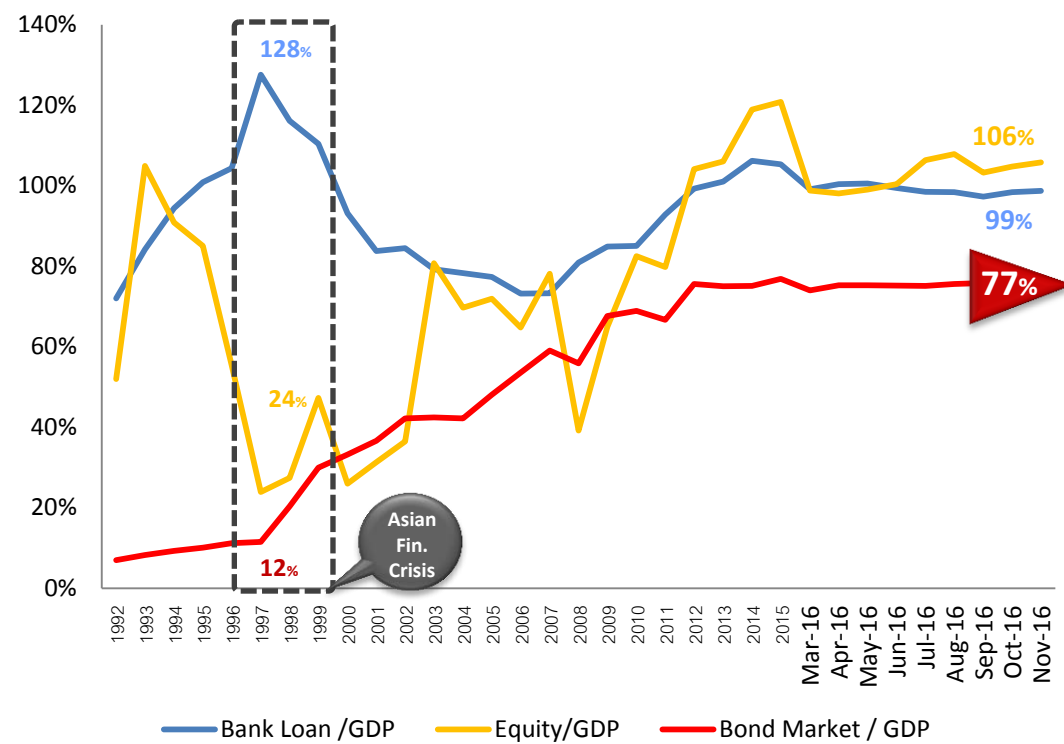
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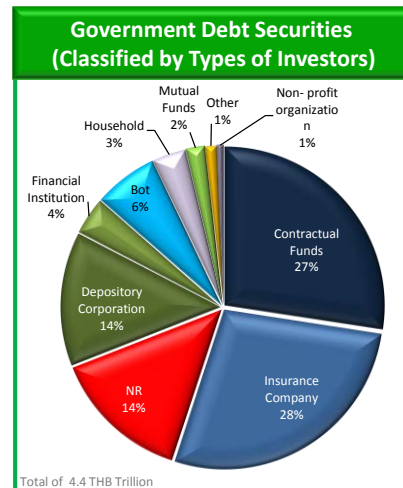


Thai Bond Market

- ✓ Well-developed market to support larger fundraising
- ✓ Variety group of investors → Develop new products for market
- ✓ Variety of Govt. funding instruments to absorb all investors' demand.

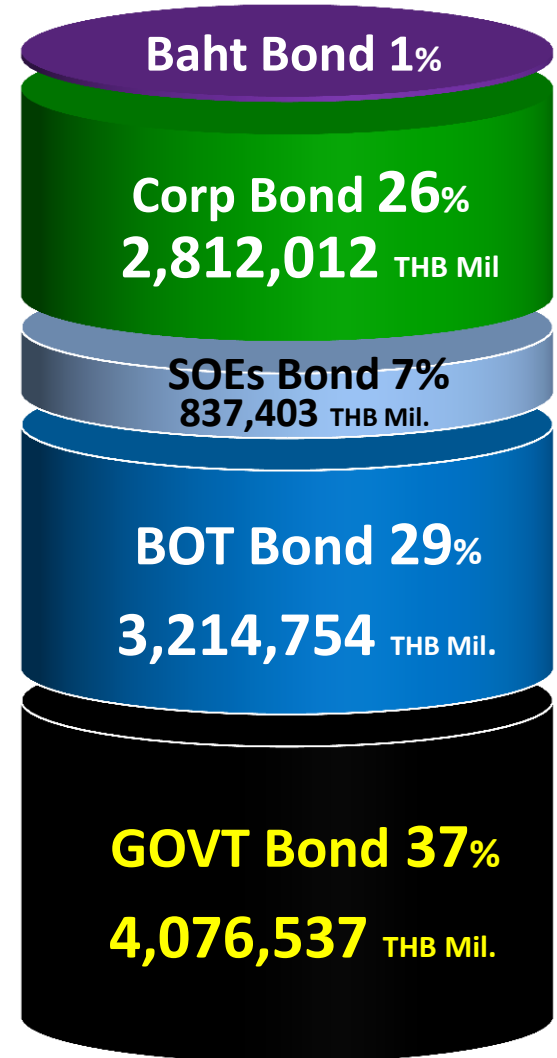


Source : ThaiBMA (End of Dec 2016)



Source : BOT (End of Nov 2016)

Bond Market Cap.= 10.9 THB Trillion



Bond Market Development... “The National Agenda”

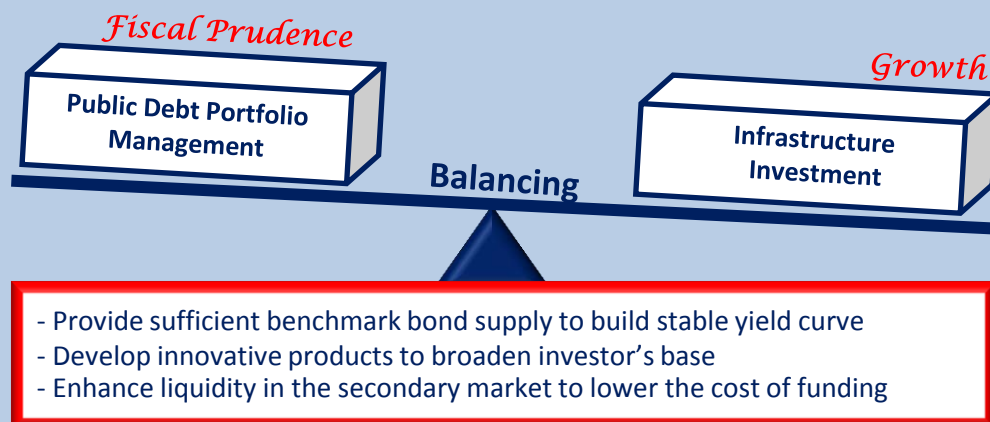
PARTNERS

“Trust & Confidence”



STRATEGIES

“Market Deepening”



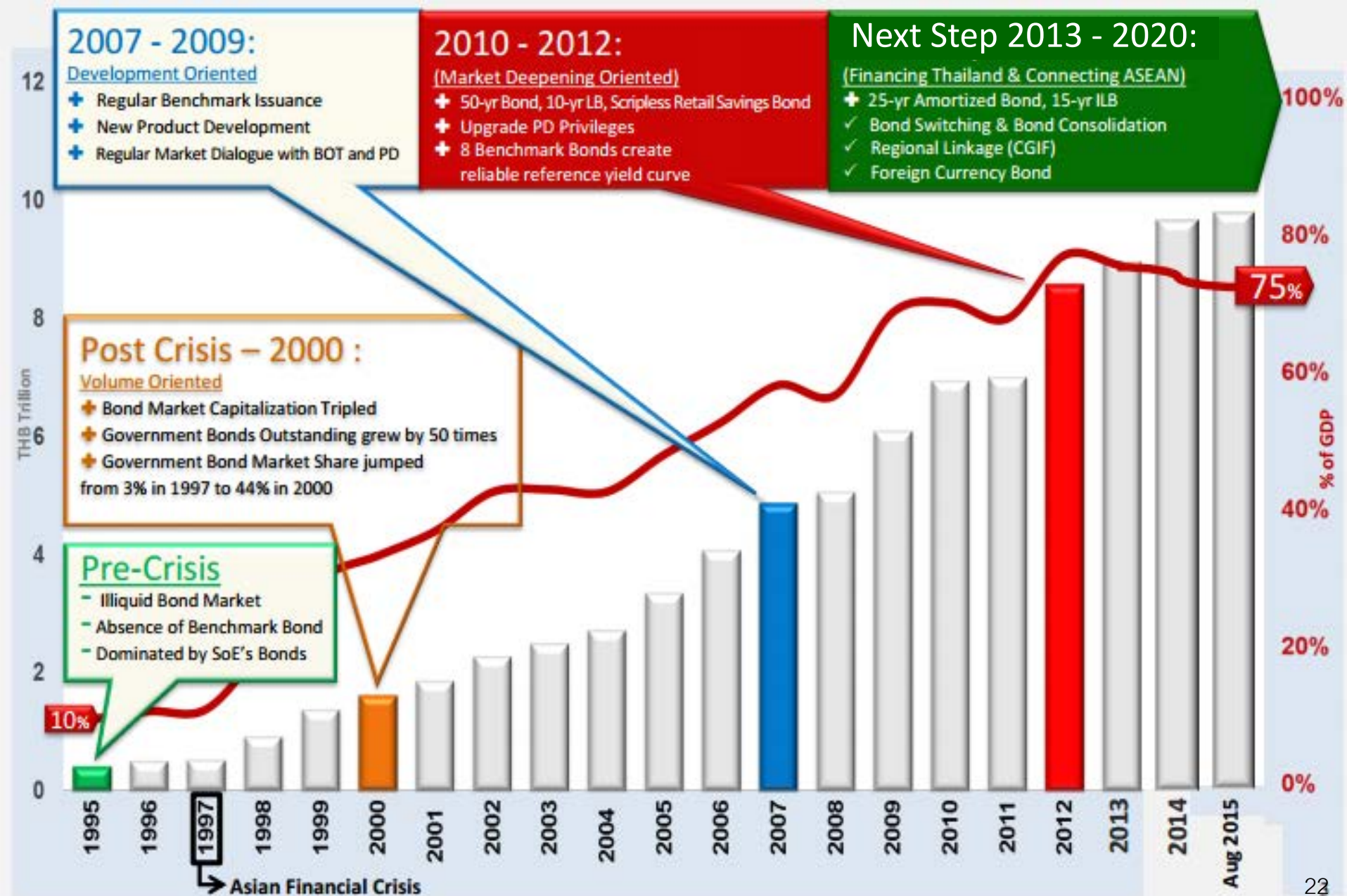
OUTCOMES

“Resilient to Shocks”





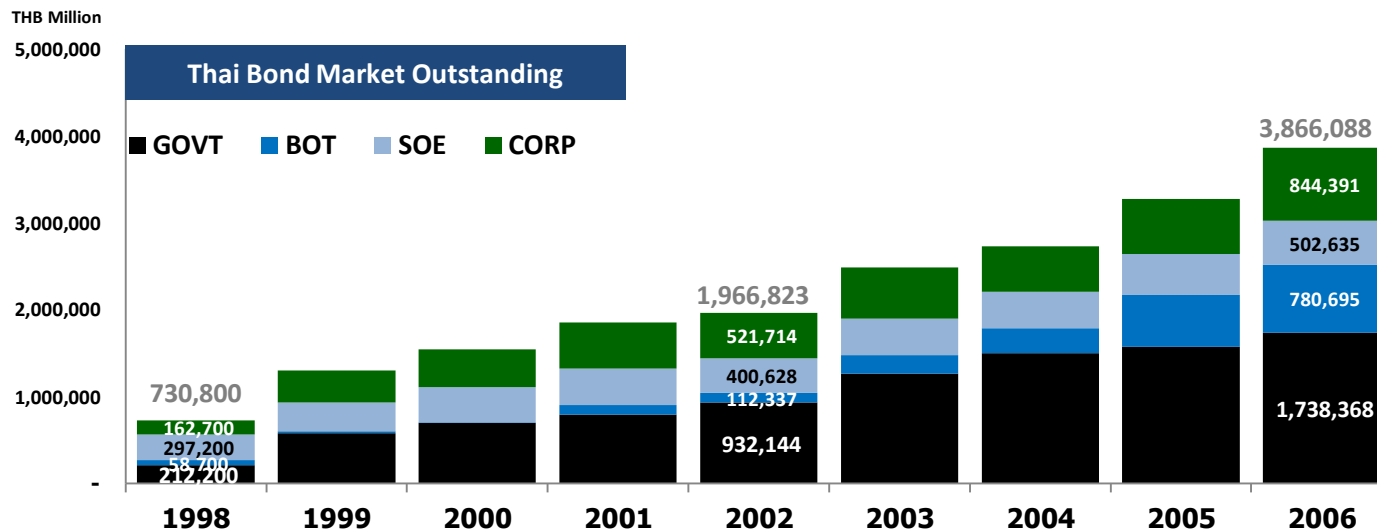
Domestic Bond Market has Developed Rapidly and Efficiently





Objective : Develop Domestic Bond Market as Government's Source of Funding

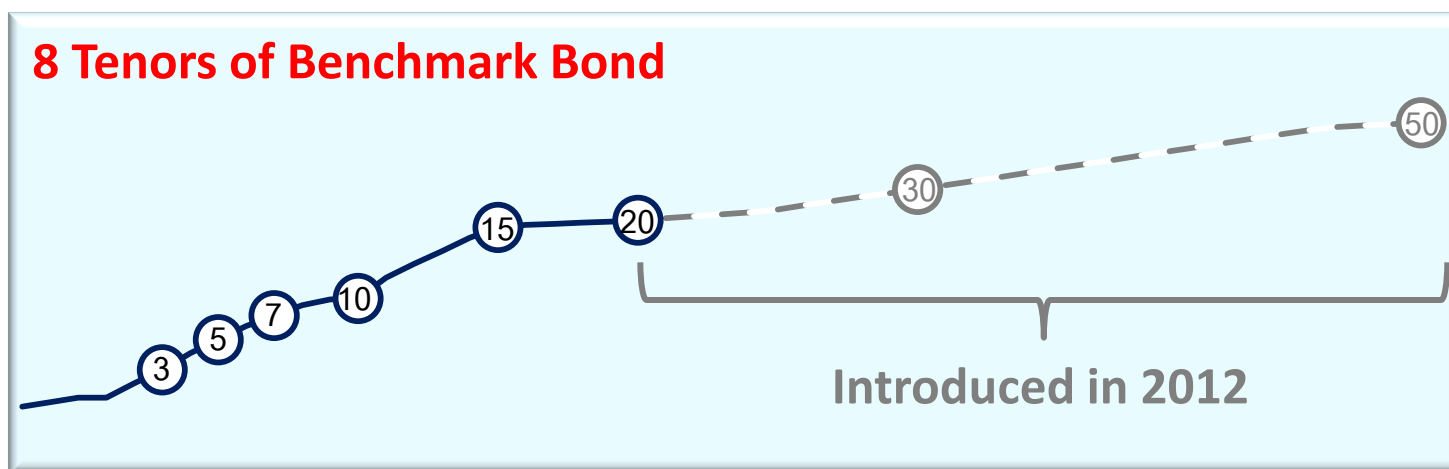
- Introduced Savings Bond to Capture Retail Investor's Demand (Main Funding Source for Economic Recovery Package)
- Bond has become the Main Funding Tool for Government
- Government dominated the Bond Market (44% of Bond Mkt Cap. In 2002)
- Rapid Growth in Domestic Bond Market Capitalization (~50% of GDP)



- Wide range of Investor base : Banks, Mutual Funds, Long Term Investors and Retail Investor

Objective : Promote Thai Bond Market as an Investment Channel

- Government Yield Curve : Benchmark Bond Issuance (Tenor : 3Y 5Y 10Y 15Y 20Y)
- Predictable Bond Auction Schedule and Larger Size Benchmark Bond
- Promote Liquidity in Secondary Market : Less Auction Frequency
- PDMO Market Dialogue : Communication with the Market Participant



Objective : Strengthen Thai Bond Market as a Sustainable Source of Fund

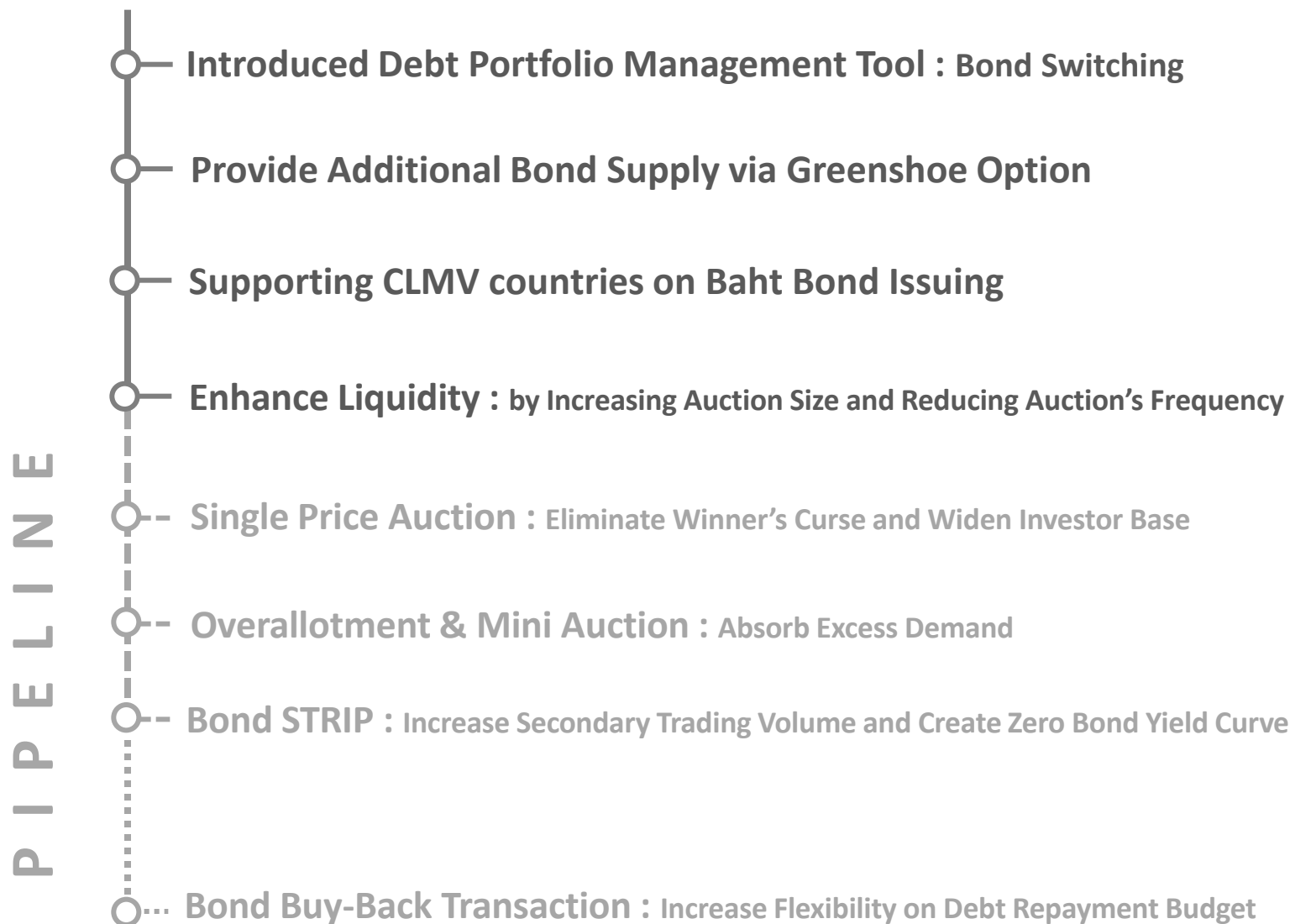
Demand Side

- Broadening Investor Base : Super Long Bond, Inflation-Linked Bond, Amortized Bond
- Enhancing Market Liquidity : Enlarge both Benchmark Bond Issuance and Auction Size
- Put Thai Bond into International Perspective : Inclusion of Benchmark Bond into International Bond Index

Market Infrastructure and Debt Management Tools

- Upgrade MoF Primary Dealer System : Duties and Privileges
- Set Up PDDF : Reduce Refinancing Risk for Super Size Benchmark Bond
- Regional Hub for Fund Raising : Relaxing Baht Bond Requirement

Objective : Thai Bond Market as Regional Hub, supporting “ASEAN’s Inclusive Growth”





Bond Market Development during 1998-2004

Domestic Bond Market Development Committee

➤ Task Force: solving problems in

- Primary Market
- Secondary Market
- Clearing and Settlement System
- Taxation on Debt Instrument Transaction
- Bond Market Information
- Market Convention and Code of Conduct
- Debt Management Office
- Private Repo Market

➤ Composition:

- MOF
- BOT
- SEC
- Thai BDC
- Commercial Banks



The establishment of Public Debt Management Office (1 Oct 99)

1st Domestic Bond Market Development Plan (2001-2004)



Bond Market Development Achievement

Market Communication

1) Direct Communication

- Annually and Quarterly Market Dialogue
- Quarterly Publication

2) Indirect Communication

- Primary Dealers (14 PDs)
- Thai Bond Market Association (ThaiBMA) as an Info. Center (Bond info, Yield Curve, Spread Matrix, Auction Schedule, etc.)

Investor Oriented Strategy

1) Create Government Bond Yield Curve

- Expand Investor Base / Create an efficient reference rate

2) Auction Schedule Announcement

- Investors are able to predict and plan the strategy for investment

3) Fungible Benchmark Bond Issuance

- Enhance secondary trading liquidity

4) Variety of Product

- Loan Bond, Inflation-Linked Bond, Amortized Bond, Retail Bond, Treasury Bill, and Promissory Note

Predictable & Transparency

1) Transparent Fund Raising Plan Process

- Debt Management plan approved by the public debt policy and supervision committee (chaired by Finance Minister)
- Always announce next FY fund raising plan in every September
- Revised auction schedule every quarter

2) Cost/risk Trade-off

- Balancing the cost of funding and the refinancing risk

3) Bond Switching Program

- Always announce the period, method and amount before the transaction executed

Diversified Issuer

1) Government

- Provide variety of debt securities
- Safe and high liquidity asset
- Distributed through competitive and transparent channel

2) Bank of Thailand

- Provide high liquidity securities
- Distributed through competitive and transparent channel

3) State Owned Agency :SOE

- Guaranteed by Government
- Introduced Electronic Auction in 2017

4) Corporation

- More than 92% of Corp bond are classified as investment grade 28



Bond Market Development during 1998-2004

1st Domestic Bond Market Development Plan

✉ Objectives

- To stabilise the overall financial market and economy
- To provide alternative channel and instruments for public and private sectors in order to reduce risk and cost of fund mobilisation and investment
- To create efficient channel for liquidity management

✉ Strategic goals

- To increase efficiency of government securities issuance
- To increase liquidity in secondary market
- To diversify debt instrument products
- To reduce investment risk
- To develop market information
- To diversify investor base for government funding and create efficient investment channel for investor



GOALS



- To promote bond market to gain the market capitalisation close to GDP
- To increase the share of foreign issuers and investors to be not less than 5% of total outstanding value



Strategies



Primary Market Development

Secondary Market Development

Market Infrastructure Development

IT and HR Development



Thai Bond Market Development

Primary Market Development

- ✓ Issued regular benchmark bonds with 5 and 10 years maturity to create a reliable yield curves
- ✓ Expanded issuer base by allowing Foreign Entities (IFIs, FGs & MNCs) to issue Baht-denominated bonds in Thailand
- ✓ Issued saving bonds regularly
- Local government bond market development
- Improvement of government bond distribution system

Secondary Market Development

- ✓ Set up Central Clearing & Settlement Securities Depository
- ✓ Set up Collateral Management Unit & Bond Lending Unit
- ✓ Promoted repo market
- ✓ Developed OTC interest rate derivative market
- Increase efficiency of market maker through PDs system improvement



Thai Bond Market Development

Market Infrastructure Development

- ✓ Removed tax obstacle
 - waived withholding tax for NR investors
 - waived SPV income tax for securitisation transactions
- ✓ Develop bond futures market
- ✓ Develop credit ratings service
- ✓ Revision of related regulations and laws
 - 3 years shelf filing
- Securitisation promotion

IT and HR Development

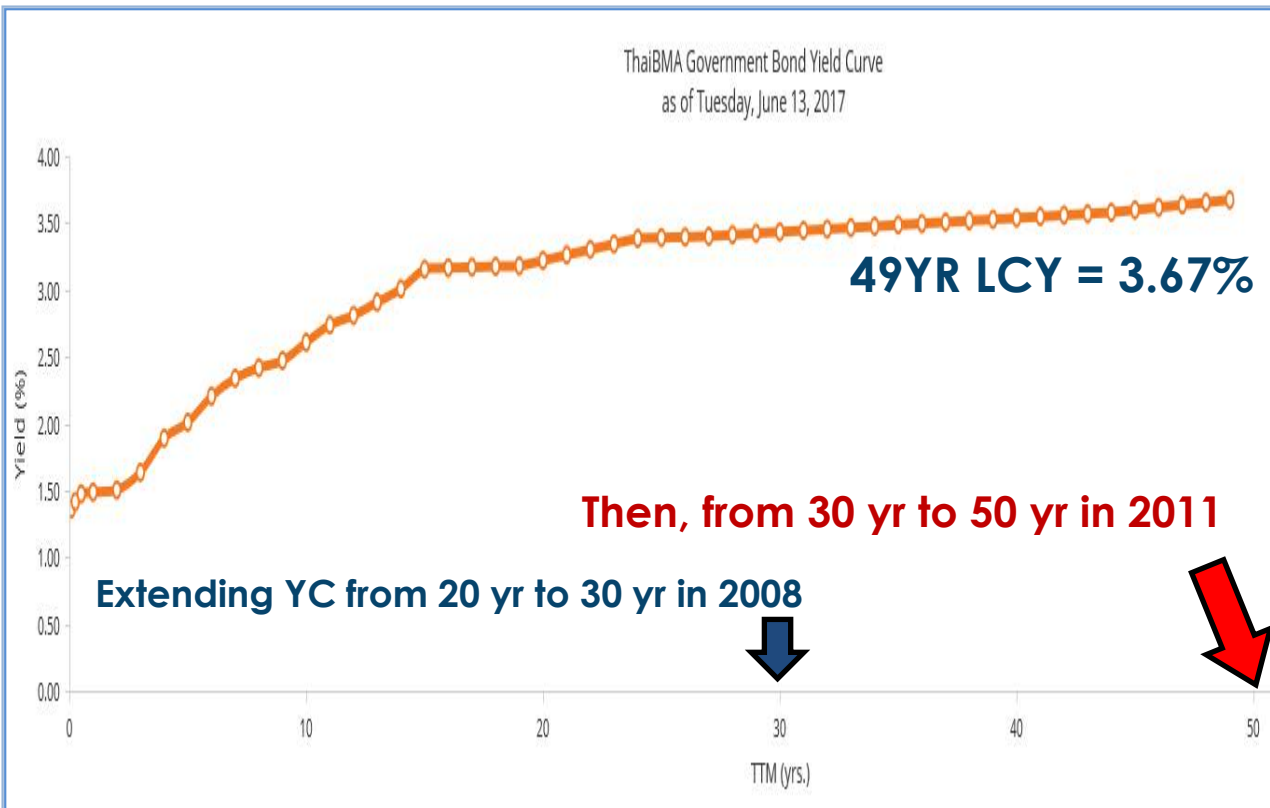
- ✓ Established ThaiMBA as a Self Regulatory Organisation and data information centre
- ✓ Acted as bond pricing agency
- ✓ Provided market information and understanding to foreign participants
- ✓ Provided knowledge about bond market to interested public
- Develop traders, market analysts & product designers



Developing Benchmark Yield Curve

Previous (FY2007) - Only had 7 and 10 yr as benchmark bond

FY2008 - Now 5, 10, 15, 20, 30 and 50 as benchmark bond



◀ By spreading benchmark issues across popular standard maturities we can build benchmark bond yield curve

◀ Use as benchmarks for the pricing of other financial instruments

◀ Provide valuable info. about market expectations

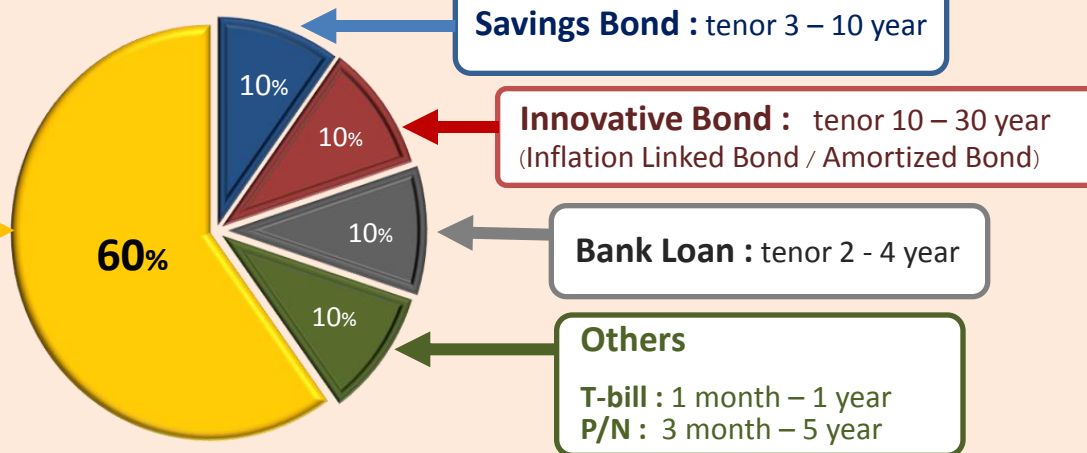


Benchmark Bond Issuance

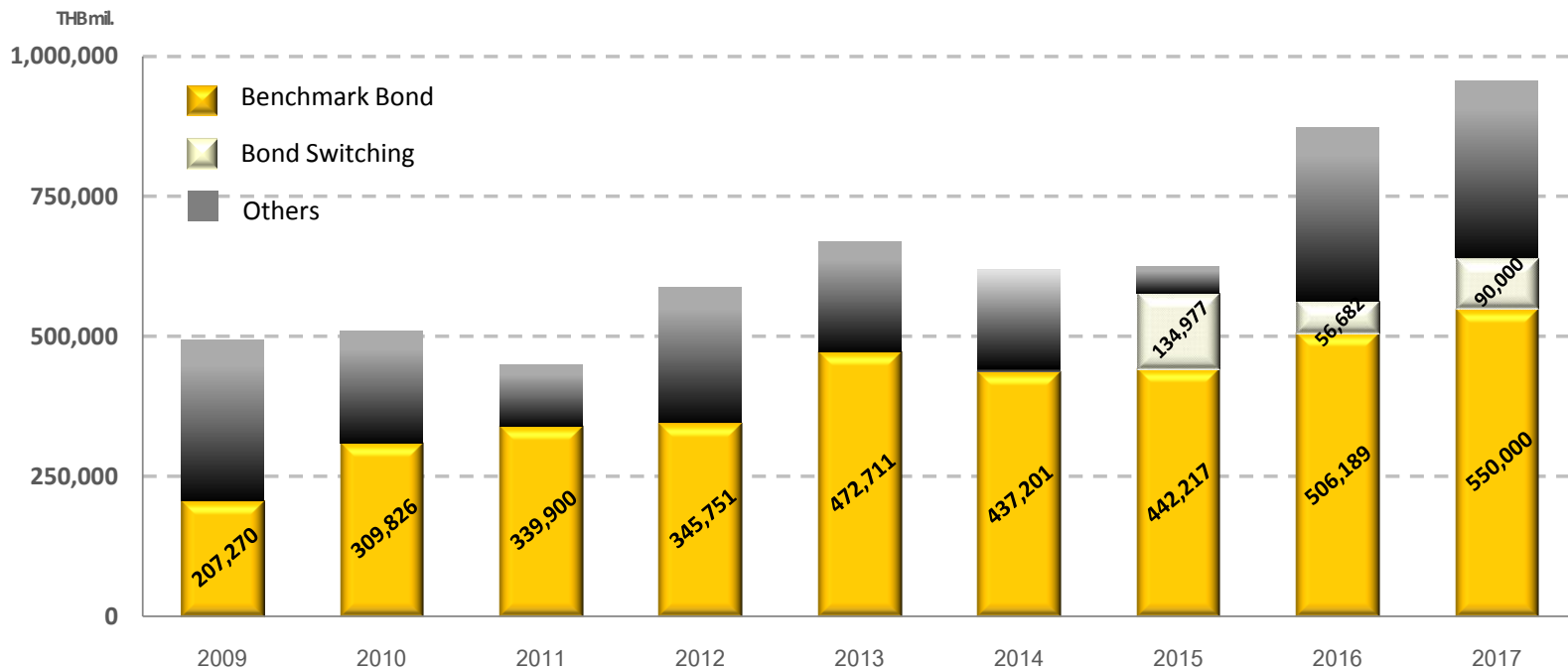
Funding Strategy

Major government funding instrument is **Benchmark Bonds**

Comprising 8 tenors
such as 3-5-7-10-15-20-30-50 year



Keep Bond Issuance at Optimum level





Quarterly Auction Schedule Announcement

Auction Date	Benchmark Bond						Total
	LB226A 5-yrs	LB26DA 10-yrs	LB316A 15-yrs	LB366A 20-yrs	LB466A 30-yrs	LB666A 50-yrs	
5 April 2017							-
12 April 2017					13,000		13,000
19 April 2017	25,000						25,000
26 April 2017				12,000			12,000
3 May 2017		20,000					20,000
9 May 2017						14,000	14,000
17 May 2017			11,000				11,000
24 May 2017							-
31 May 2017							-
7 June 2017					11,000		11,000
14 June 2017							-
21 June 2017				12,000			12,000
28 June 2017		20,000					20,000
Total	25,000	40,000	11,000	24,000	24,000	14,000	138,000
Coupon	1.875%	2.125%	3.65%	3.40%	2.875%	4.00%	
Maturity Date	17-Jun-2022	17-Dec-2026	20-Jun-2031	17-Jun-2036	17-Jun-2046	17-Jun-2066	



FY 2007-10

30-yr Benchmark Bond

- Lengthen average-time-to-maturity of Total Government Debt Portfolio
- Meet Long-term investors' demand

Floating Rate Bond

- Increase floating debt ratio of Total Government Debt Portfolio
- Promote BIBOR (Bangkok Interbank Offered Rate)

Step-up Savings Bond

- Broaden investor base – Retail investors
- Low interest burden at the initial periods of bond

FY 2011

Fixed Rate Promissory Note

- Broaden investor base – Insurance / Long-term investors
- Non-Benchmark tenors

50-yr Benchmark Bond

- Combat low interest rate + Lengthen average time-to-maturity
- 4th country in the world (1st : UK 2nd : France 3rd : China)

10-yr Inflation-Linked Bond (ILB)

- Strong anti-inflationary signal
- Deepen the Development of the Bond market
- 1st country in Emerging Asian Economies

Electronic Retail Savings Bond

- Lower Minimum Amount to Purchase / Offer throughout the year
- Develop the retail bond into an electronic form → Scripless System
- Can be purchased via ATM, in addition of Bank Retail Branches

FY 2012-2016

Amortized Bond

- Suitable financing instrument for the government's investment mega-project in the form of PPP
- Pay back the bond principal by installments → Promote the government's fiscal discipline

Bond Switching & Consolidation

- Allow both issuer and investors to improve their portfolio
- Larger outstanding size + Less bond series → Enhance liquidity in the secondary market


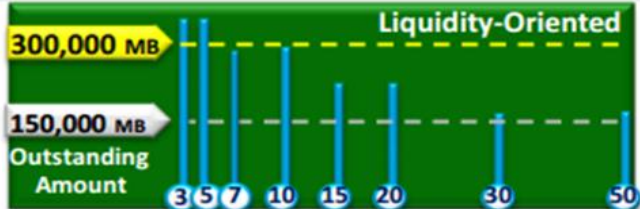
**Upgrade
PD Privileges**

PDDF Activated
(Public Debt Restructuring
and Domestic Bond Market
Development Fund)

**15-yr ILB
30-yr ILB**

**Baht
Bond**

CGIF Activated
(Credit Guarantee and
Investment Facility)

	Market Deepening Oriented (2010 - 2012)	Funding Infrastructure Investment Connecting ASEAN (2013 - 2016) Ongoing Project
Sustainable Source of Fund	<div>Water Decree (350,000 THB Mil.)</div> <div>Thai Khem Khang (350,000 THB Mil.)</div>	<div>2,000,000 THB Mil. Long-Term Infrastructure Inv't</div> <div>2,400,000 THB Mil. Long-Term Infrastructure Inv't</div> <div>Full Funding Capacity : 1,150,000 THB Mil.</div>
Regional Connectivity / AEC	<div>Baht Bond (Foreign Issuers Bond)</div>	<div>Credit Guarantee Investment Facility (CGIF)</div> <div>Foreign Currency Bond</div> <div>Baht Bond (CLMV)</div>
Debt Folio Enhancement	<div>ATM Lengthened</div> <div>Cost Lowered</div> <div>FIDF Decree Passed = 70,000 THB Mil. Fiscal Space</div>	<div>Well-Distributed Investor Base</div> <div>Well-Balanced Fixed-Floating Ratio</div> <div>Well-Distributed Maturity Profile / Bond Switching</div>
Market Infrastructure	<div>Appointed 14 MOF-Outright PD</div> <div>Activated Public Debt Management Fund</div>	<div>Bond Switching (1st execution: 28 Nov 14)</div> <div>Strengthening PD system (Exclusivity, League Table, Greenshoes Option)</div> <div>STRIPS Bond</div>
Innovation / Product Development	<div>Inaugural 10-yr Inflation-Linked Bond (10-yr)</div> <div>Long-term Fixed Promissory Notes (25-35-45-yr)</div> <div>Electronic Retail Savings Bond (3-5-yr)</div>	<div>Scripless Retail Savings Bond → Liquidity</div> <div>Super-Size Inaugural 25-yr Back-End Amortized Bond</div> <div>Re-open ILB 7-yr or Launch ILB-30yr</div> <div>STRIPS Transaction</div>
Market Consultation	<div>Annual PDMO Market Dialogue</div> <div>Quarterly PDMO one-on-one PD Dialogue</div>	<div>Annual PDMO Market Dialogue</div> <div>Quarterly PDMO one-on-group "MOF Outright PD" Dialogue</div>
Building Yield Curve / Enhancing Liquidity	 <p>8 Tenors of Benchmark Bonds</p>	 <p>Liquidity-Oriented</p> <p>300,000 MB</p> <p>150,000 MB</p> <p>Outstanding Amount</p>



14 MOF Outright Primary Dealers

- ❖ BBL : Bangkok Bank PCL.
- ❖ BNPP : BNP Paribas, Bangkok Branch
- ❖ BofA : Bank of America N.A., Bangkok Branch
- ❖ CIMBT : CIMB Thai Bank Public Company Limited
- ❖ CITI : Citibank N.A., Bangkok Branch
- ❖ DBBK : Deutsche Bank AG., Bangkok Branch
- ❖ JPMCB : JPMorgan Chase Bank, Bangkok Branch
- ❖ KBANK : Kasikornbank PCL.
- ❖ KGI : KGI Securities (Thailand) PCL.
- ❖ KTB : Krung Thai Bank PCL.
- ❖ SCB : Siam Commercial Bank PCL.
- ❖ SCBT : Standard Chartered Bank (Thai) PCL.
- ❖ HSBC : The Hongkong and Shanghai Banking Corporation Limited
- ❖ TMB : TMB Bank PCL.



Duties and Privileges of MOF Outright PD

Duties

Duties in the primary market

1. Maintain Benchmark Bond allocation in the primary market at least 5%
2. Participate in PD Exclusivity auction at least 10%
3. Participate in every auction of determined Benchmark Bond with appropriate amount (5Yrs, 10Yrs and ILB)

Duties in secondary market

1. Maintain Benchmark Bond trading volume in secondary market at least 5% of entire trading volume
2. Quote Government bond yield curve to ThaiBMA within 16.00 every working day

Encourage on bond market development

1. Assist Ministry of Finance's policy on developing bond market
2. Remain BOT bond allocation and trading volume both in primary and secondary market
3. Quote indicative price of Corporate bond
4. Develop Electronic Trading Platform system



Privileges

- 1. PD Exclusivity Benchmark bond auction**
- 2. BOT counterparty on bond trading in secondary market**
- 3. Non-competitive Bid auction**
- 4. MOF Preferred Counterparty**
- 5. Right to participate quarterly dialogue with MOF**
- 6. Right to additionally obtain bond allocation (Greenshoe Option) in determined bond**



Current Debt Management Plan in FY2017

Bond Switching

Exchange Method

Multiple-to-Multiple

Platform

Syndication and E-Switching

Timeline

April – September 2017

Overallotment

Objective

- Absorb excess demand
- Flexible fund raising schedule

Method

MOF is able to accept additional 10% of each auction size

Timeline

Begin in Q3FY2017



Single Price Auction

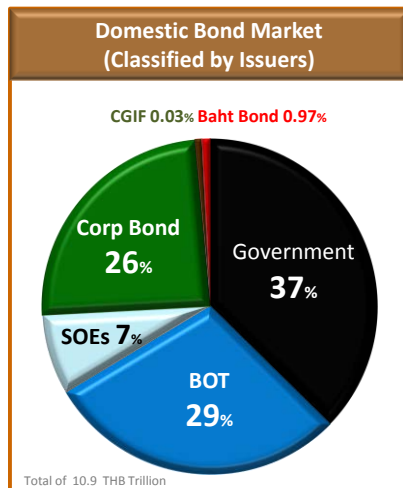
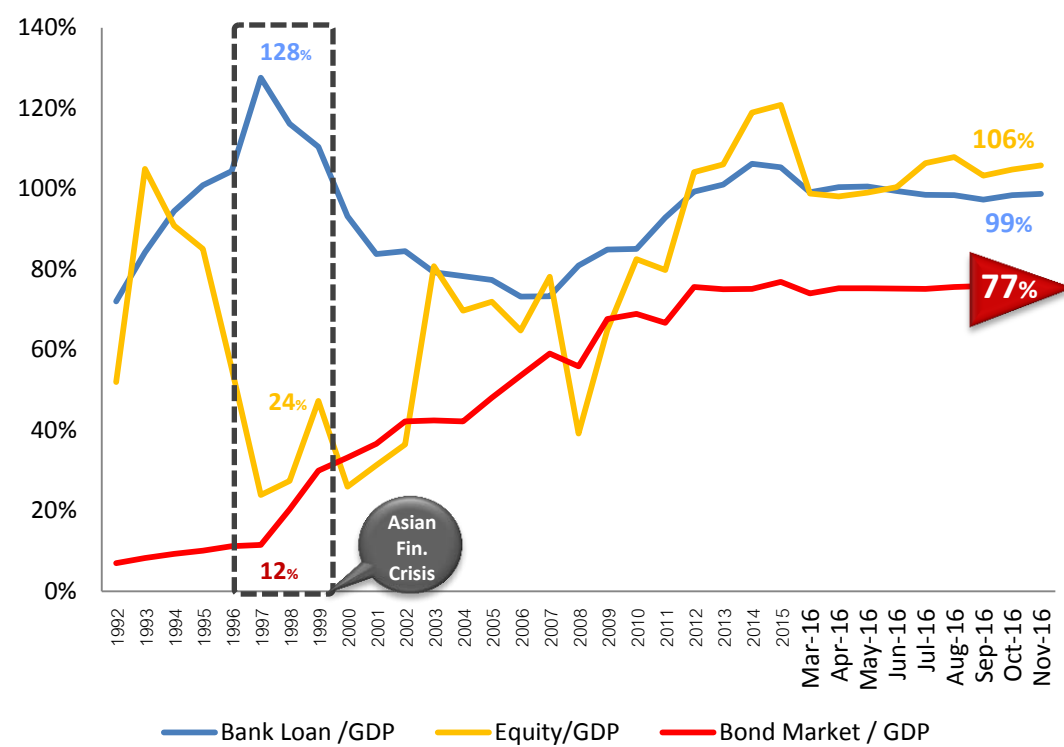
- Encourage more aggressive bidding
- Eliminate winner's curse
- Widen investor base
- Endorse the fair price

Bond Buy-Back Transaction

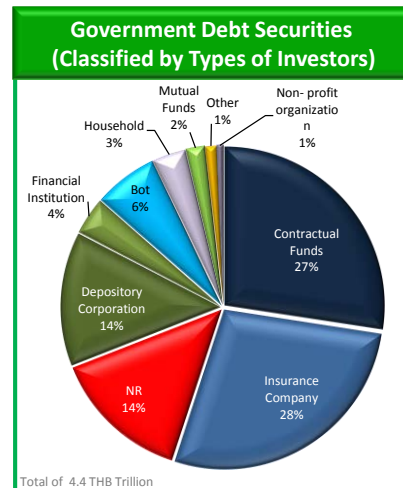
- Increase flexibility on managing debt repayment budget
- Reduce refinancing risk
- Reduce illiquid bond

Thai Bond Market

- ✓ Well-developed market to support larger fundraising
- ✓ Variety group of investors → Develop new products for market
- ✓ Variety of Govt. funding instruments to absorb all investors' demand.

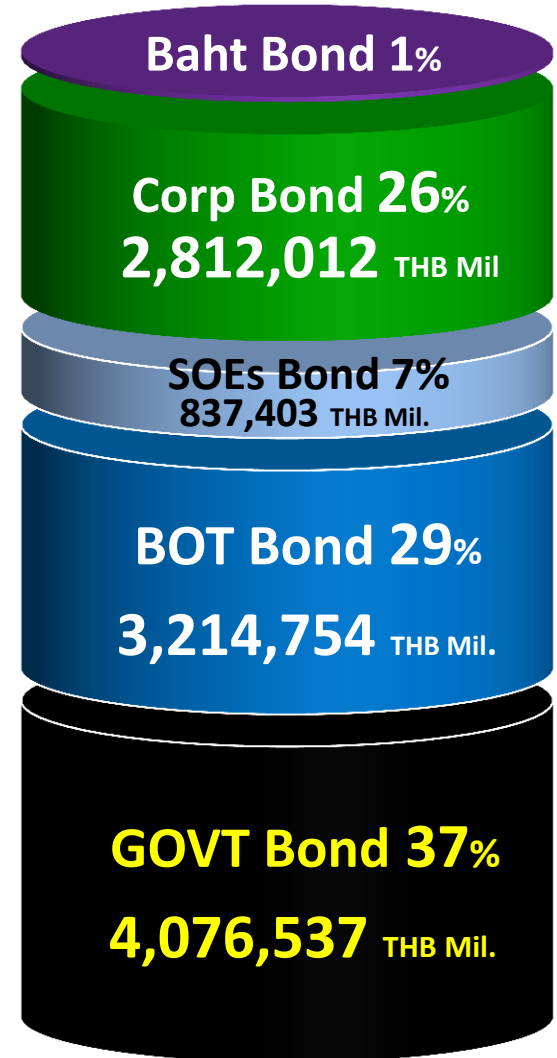


Source : ThaiBMA (End of Dec 2016)



Source : BOT (End of Nov 2016)

Bond Market Cap.= 10.9 THB Trillion





Equilibrium of Domestic Bond Market

Issuers

- 76 percent of Thailand's debt securities are issued by Government, Bank of Thailand and State-Owned Enterprises

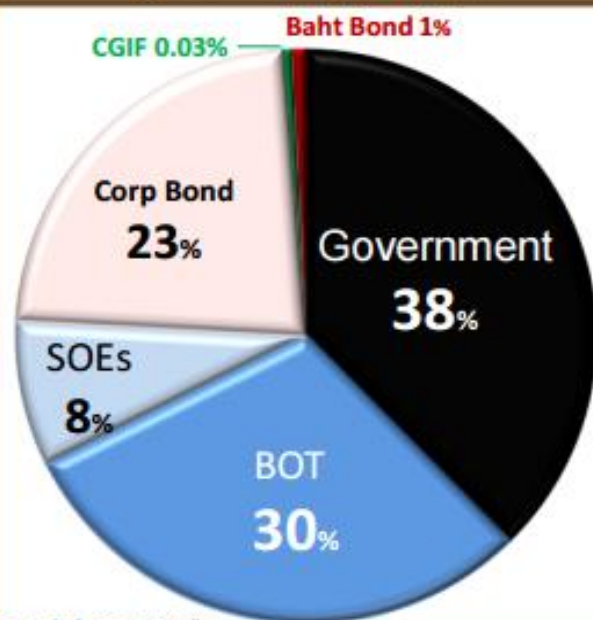
Credit Rating

- 99 percent of Thailand's debt securities are classified as Investment Grade

Investors

- Thailand's government debt securities are held by a wide group of investor types

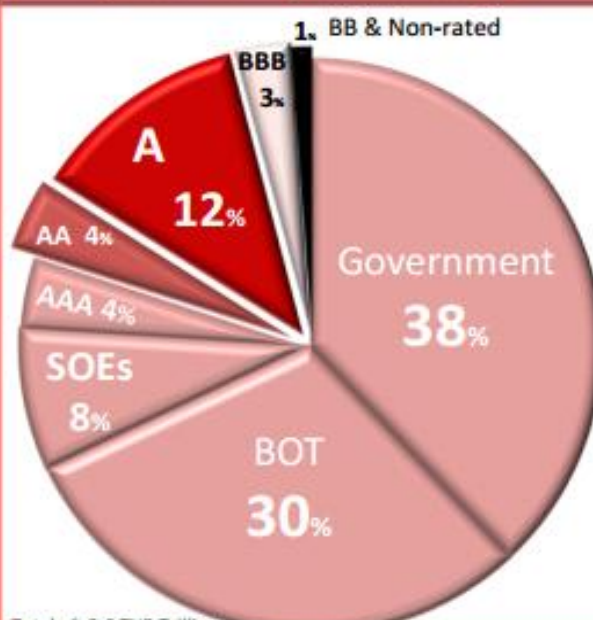
Domestic Bond Market
(Classified by Issuers)



Total of 9.6 THB Trillion

Source : ThaiBMA (End of June 2015)

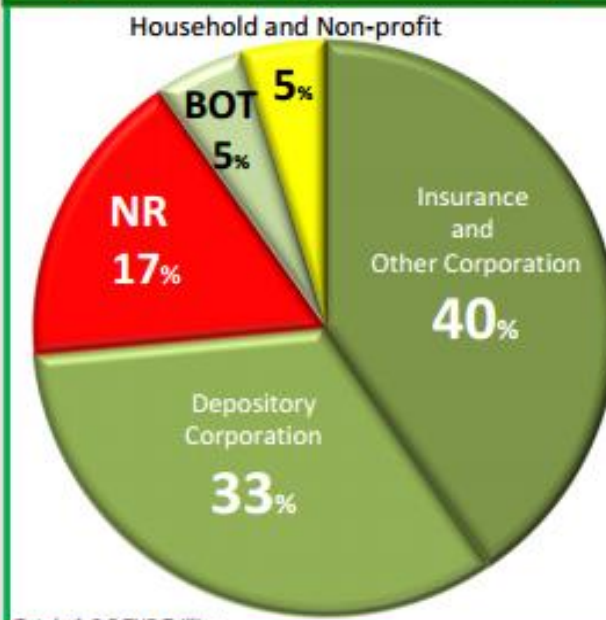
Domestic Bond Market
(Classified by Credit Rating)



Total of 9.6 THB Trillion

Source : ThaiBMA (End of June 2015)

Government Debt Securities
(Classified by Types of Investors)



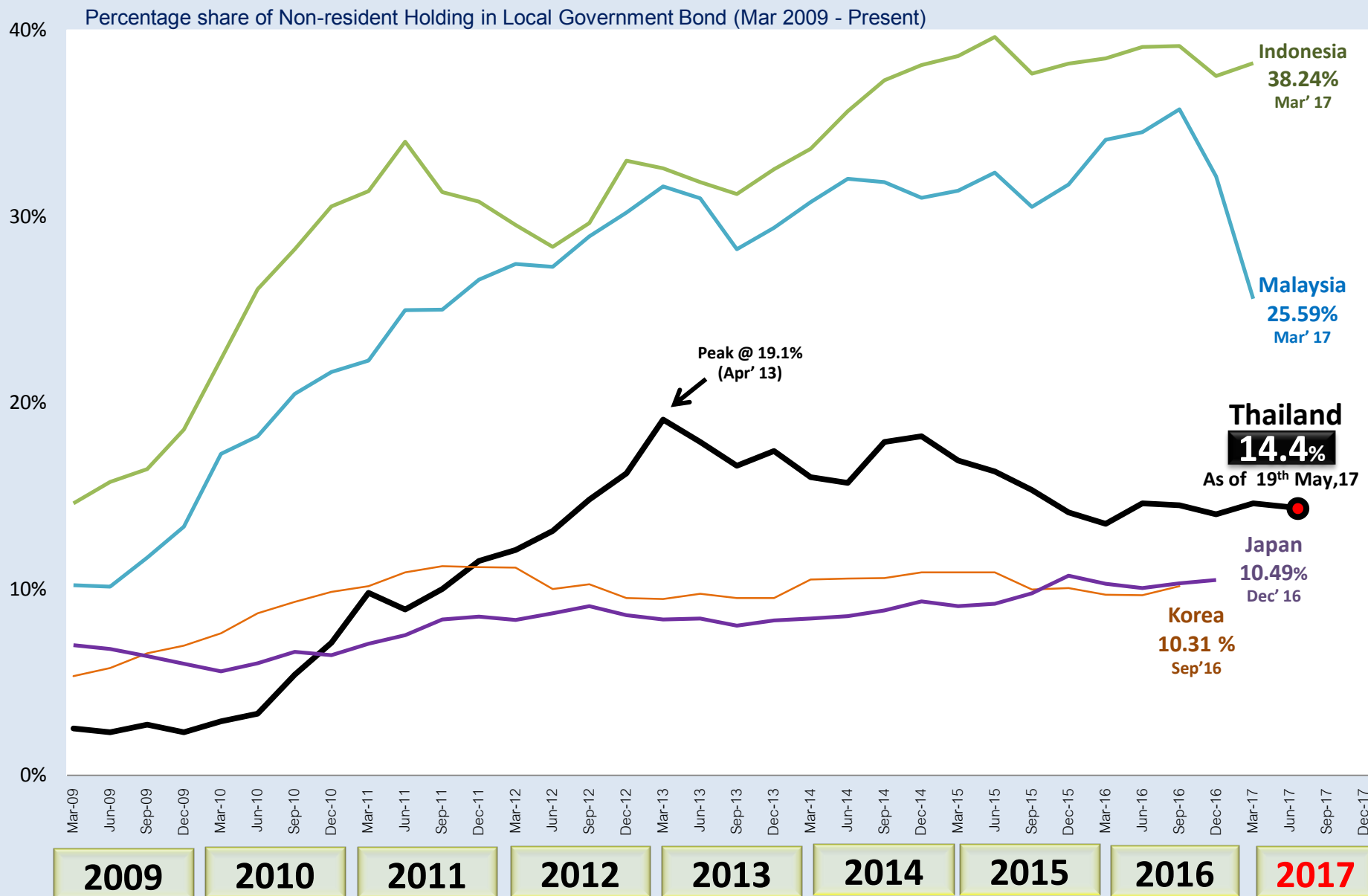
Total of 3.5 THB Trillion

Source : BOT (End of May 2015)

Peers Comparison

Non-Resident Holding in Thai GOVT Bond is 635,822 THB mil.

or **14.4 %** of Total GOVT Bond Outstanding

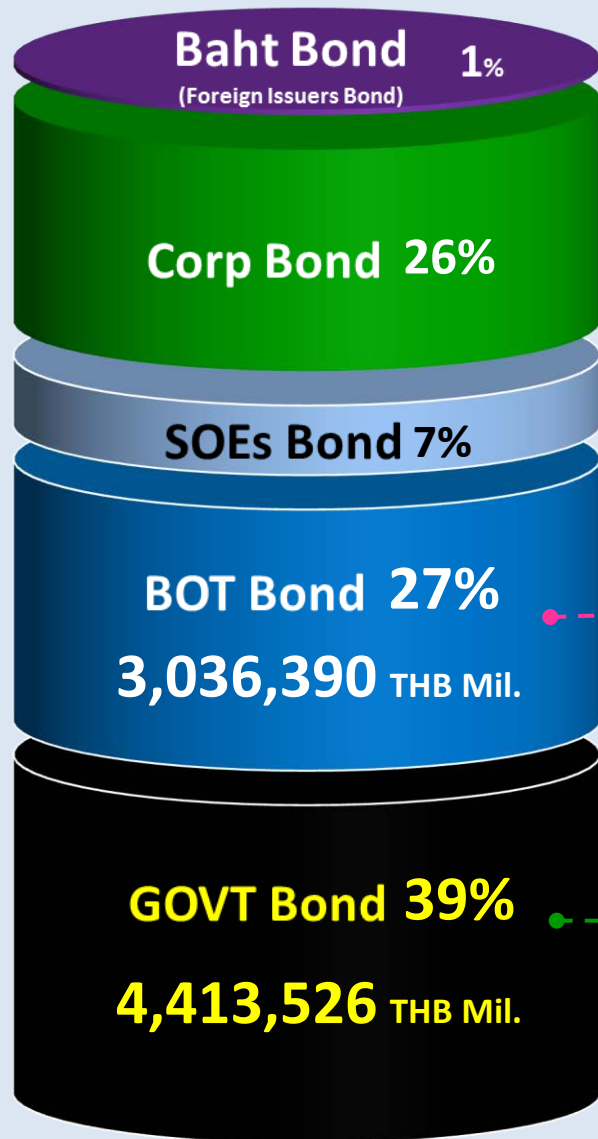


As of 19th May, 2017

**2017
Outstanding**

Non-Resident Holding in THB Bond = 710,504 THB Mil.

Thai Bond Market Cap.
= 11,208,545 THB Mil.



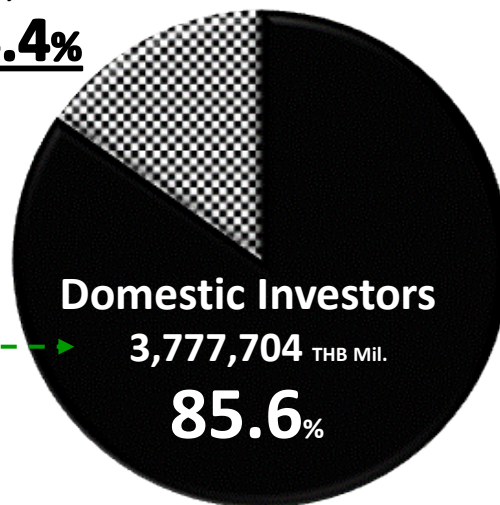
Issuer	Non-Resident Holding (THB Million)	% Share of Thai Bond Market Cap.
GOVT Bond	635,822	5.673%
BOT Bond	74,042	0.661%
SOE Bond	0	0.000%
Corp Bond	640	0.006%
TOTAL	710,504	6.340%

GOVT Bond Outstanding

4,413,526 THB Mil.

Non-Resident
635,822 THB Mil.

14.4%



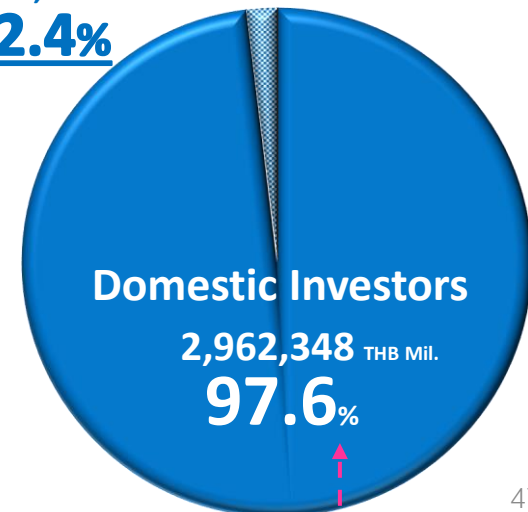
BOT Bond Outstanding

3,036,390 THB Mil.

Non-Resident

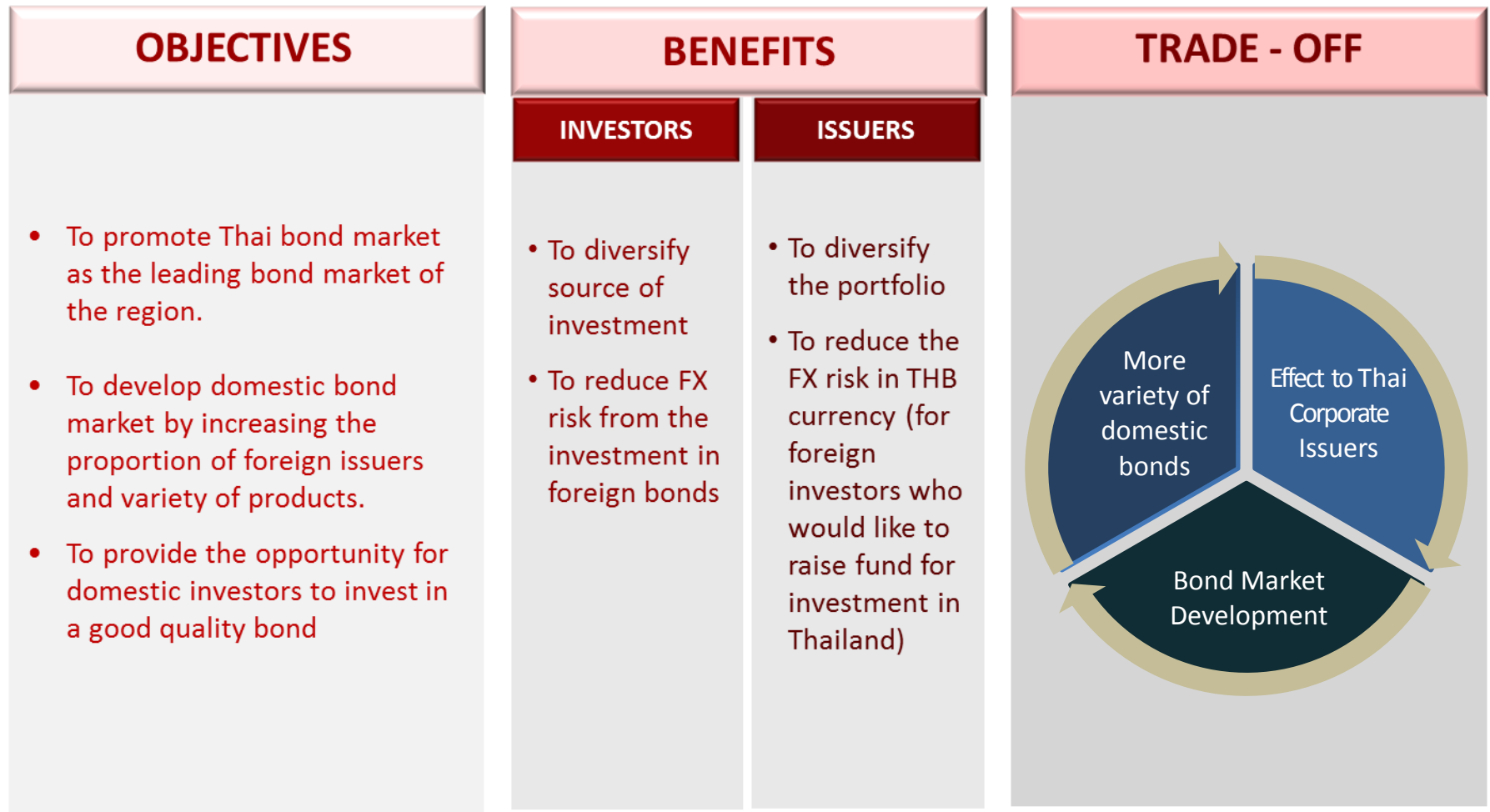
74,042 THB Mil.

2.4%



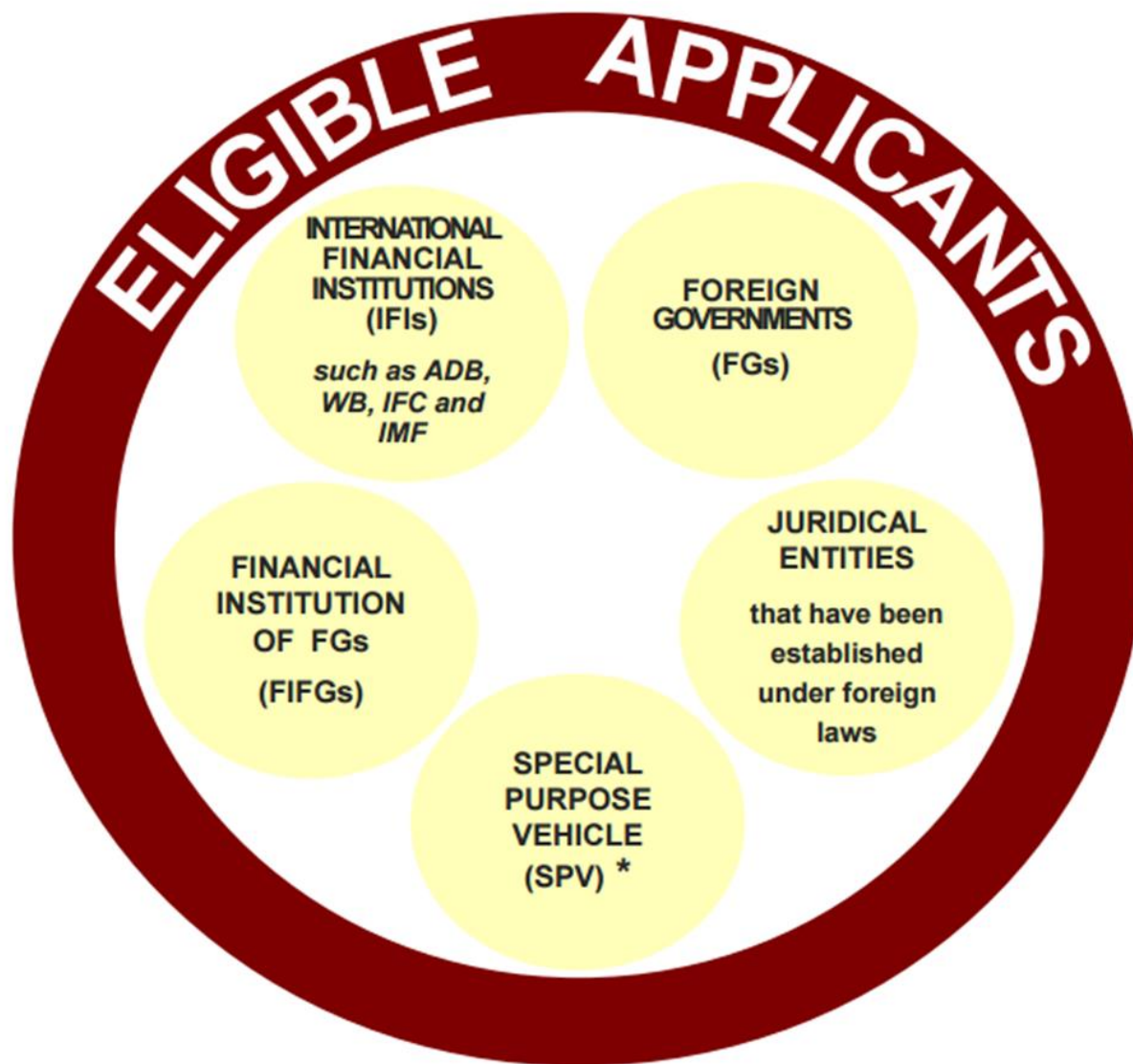


Baht-denominated Bond in Thailand (Baht Bond)





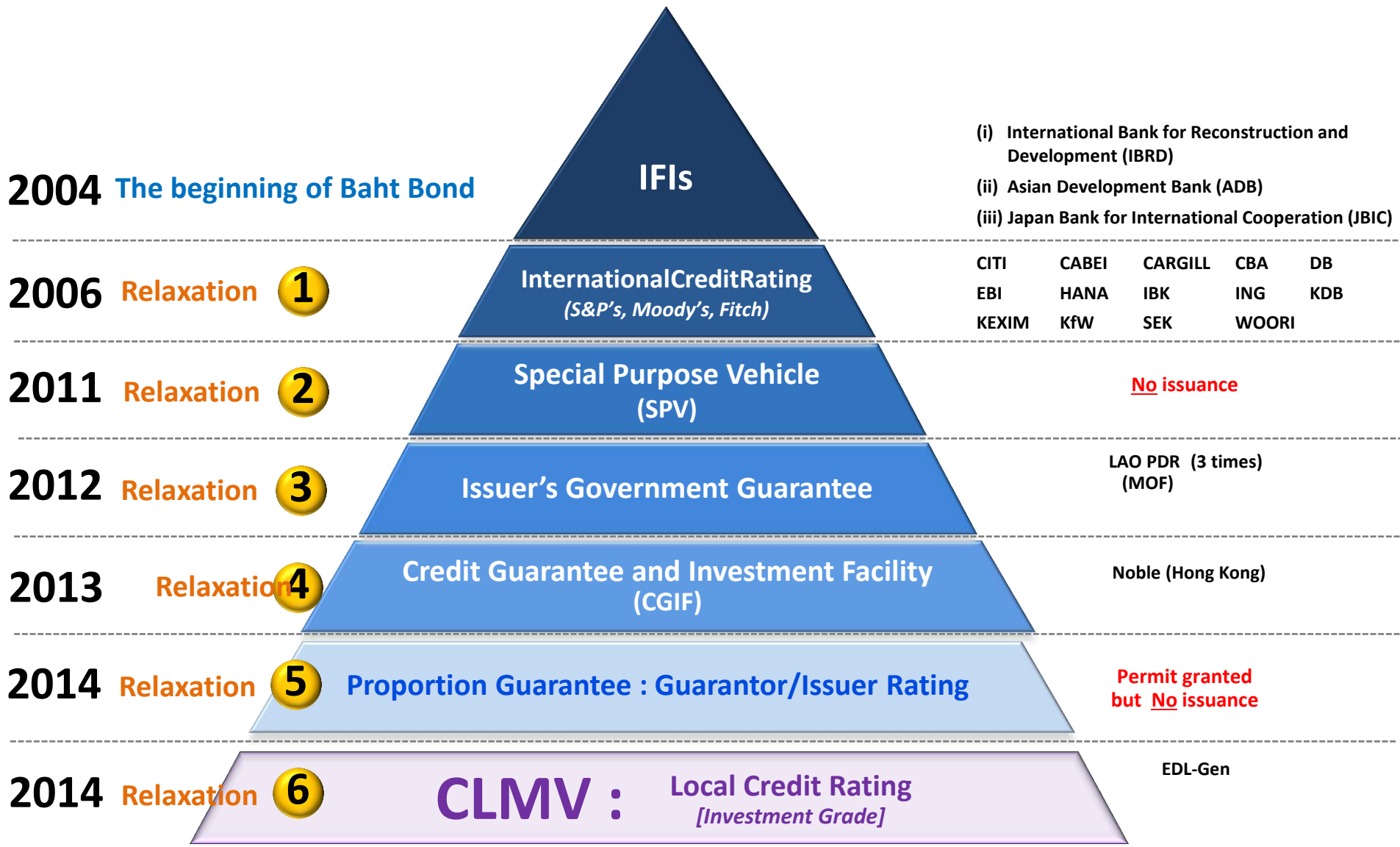
Eligible Applicants for Baht Bond



* Remark: Special Purpose Vehicle (SPV) is established for the purpose of the securitization in which the originator is foreign government agency or organization and/or foreign juridical person.



The Relaxation on Eligible Thai Baht-denominated bonds and debentures applicants





Rules & Regulations of Baht Bond

- There are 3 rounds of Baht Bond application process. The applicants can submit the letter of application, including all the relevant documents, to the Minister of Finance as followed:

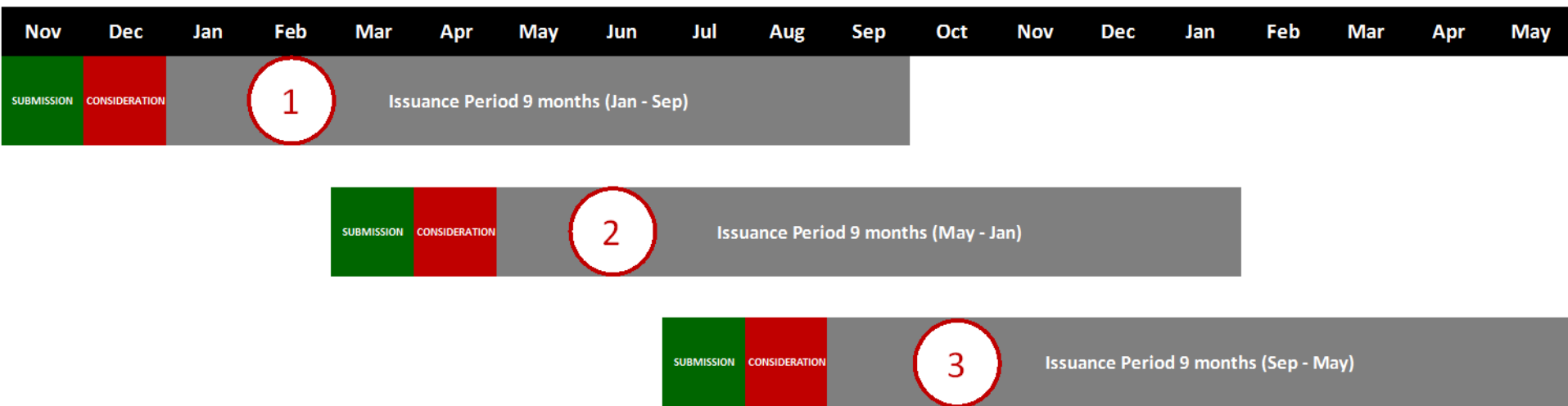
Round	Submission Period	Consideration Period	Issuance Period
1	November	December	1 January – 30 September
2	March	April	1 May – 31 January
3	July	August	1 September – 31 May

OTHER TERMS AND CONDITIONS

- The permitted institutions must exercise their rights within the granted period.
- Any permitted institutions that could issue full authorized amount of Baht Bond before granted period expires are eligible to submit their new application prior to the expiration of the granted period. (Ex. The AA institution is allowed to issue Baht Bond during Jan-Sep, and it could issue full authorized amount before end of July. In this case, it could submit the new application to MOF by July, if desired.)
- Any permitted institutions that could issue partial authorized amount of Baht Bond are eligible to submit their application only when the granted period is expired.
- Any permitted institutions that did **not** issue Baht Bond within the granted period are not allowed to submit the application in the succeeding round but they can do so in the one after. (Ex. The AAA institution is allowed to issue Baht Bond during Jan-Sep, but it could not issues Baht Bond. This institution could submit the new application to MOF by next March at the earliest time.)
- Due to limited Baht Bond quota, any rejected applicants could resubmit their applications at any rounds.
- If the applicants resubmit their application within the same calendar year, some documents, such as financial statement or credit rating report provided in the last submission may not be required to resubmit if there is no change in detail and information.



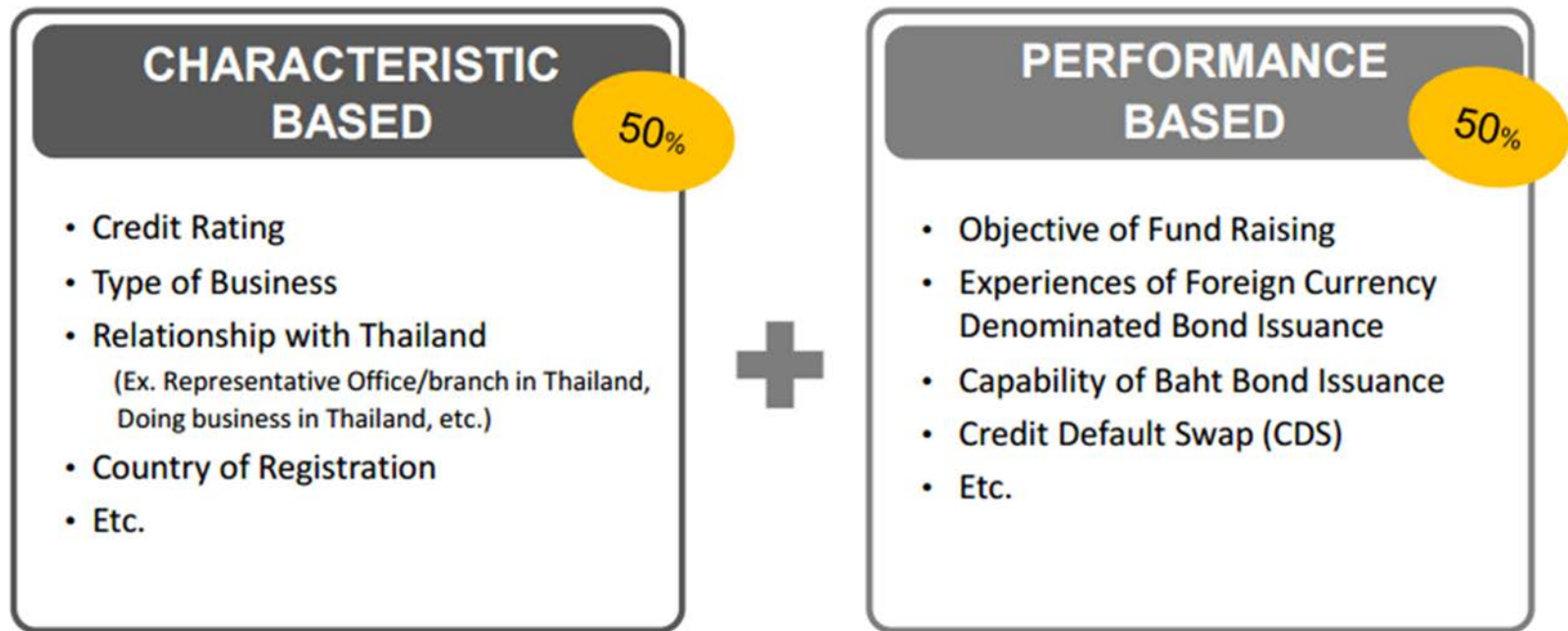
Timeline For Baht Bond Application Process



APPLICATION PROCESS: 3 rounds per year (9-mth issuance period for each round)

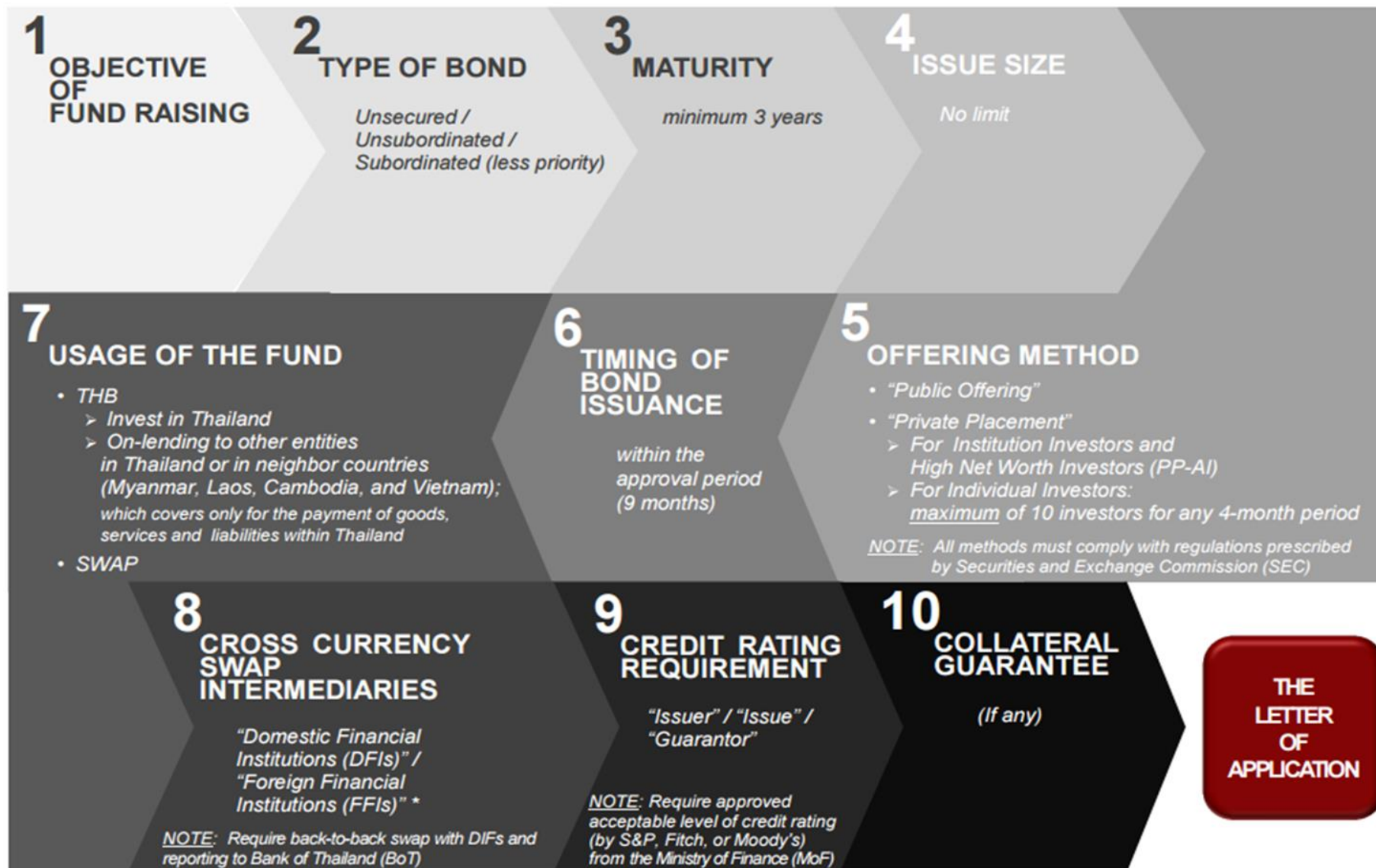


Criteria of The Consideration





“THE LETTER OF APPLICATION” must include...





The Requirements Under the Notification of Ministry of Finance

ENFORCING LAWS AND COURT JURISDICTION	<ul style="list-style-type: none">• Thailand's laws and Thai court jurisdiction• Other laws and court jurisdiction approved by Finance Minister
WAIVER OF IMMUNITY	<p>Any immunities from the legal proceedings or enforcements must be surrendered except for immunity in respect to the following properties that grantee may decide not to waive;</p> <ol style="list-style-type: none">(1) Property used by a diplomatic or consular mission in Thailand(2) Property of a military character(3) Property located in its territory and dedicated to public or government use as distinguished from the property dedicated to commercial use.
DISCLOSURE OF INFORMATION	Must comply with SEC regulations and notifications
BOND OR DEBENTURE HOLDER REPRESENTATIVE *	Shall appoint the bond or debenture holder representative in Thailand during the tenure of bond or debenture for the benefits to the holders
CONTACT PERSON IN THAILAND *	Shall appoint a representative in Thailand to act as a person during the tenure of the bond or debenture in order to receive letters, orders, notices, and documents, or to contact the relevant authorities
REGISTRAR	Shall appoint Thailand Securities Depository Company Limited (TSD) or other registrar designed by Finance Minister
REGISTRATION	Grantee shall have their bonds or debentures registered with Thai Bond Market Association (ThaiBMA)
UPDATES OF DISCLOSURE INFORMATION*	<ul style="list-style-type: none">• Within 180 days from the end of each fiscal year or financial year• Immediately when the financial status or structure of the permitted entities, or where the economy undergo significant changes
DUTIES UNDER OTHER RELATED LAWS*	<ul style="list-style-type: none">• Seeking an approval for the use of the proceeds from the issuance of Baht-denominated bonds or debentures from Bank of Thailand (BoT)• Obligation to tax liability and tax withholding

* Must be specified in the rights and obligations of bond/debenture issuers and holders



Steps to be done at Securities and Exchange Commission (SEC)

**APPROVAL
FROM
MoF**



STARTING OF EFFECTIVE DATE

- PO- after 10 business days cooling and when SEC receives completed information on bond's features
- PP-AI – after 1 business day cooling and when SEC receives completed information on bond's features

STEP 1

DOCUMENT SUBMISSION TO SEC BEFORE EACH ISSUANCE

- 1) Draft of terms and conditions stating the rights and duties of the bond/debenture holders
- 2) Filing *
- 3) Prospectus *

* These processes are not required if;

- i. The offer is made to fewer than 10 investors
- ii. IBRD, IFC, ADB and IMF

* These processes must include;

i. Rating :

PO – Issue / Guarantor rating

PP-AI – No rating requirement

ii. Financial statement complying with IFRS, FAS, and US GAAP accounting standards or approved by SEC (case by case basis)

iii. Recent national macroeconomic data both fiscal and monetary terms (foreign government issuer) dated back 5 years

iv. Necessary and sufficient information for investors to make an informed decision

v. Name and address of contact person in Thailand

vi. Authorized Board of Directors who can certify documentation

Remark: The issuers can shelf – filling for up to 2 years

STEP 2

BOND ISSUANCE

(issue within 9-month period as MOF's approval date)

STEP 3

REPORT OF ISSUANCE RESULT TO THE SEC

STEP 4

FINANCIAL POSITION REPORT AND ANNUAL REPORT TO SEC

- Audited Financial Statement – same period of time as home regulators, but not exceed 180 days from year ended
- Updated information disclosed in prospectus annually (only in case of offering to retail investors)

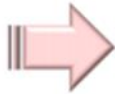
Note:

II&HNW = specified institutional and high net worth investors



Steps to be done at Bank of Thailand (BOT)

**APPROVAL
FROM
MoF**



STEP 1

OPENING SPECIAL NON-RESIDENT BAHT ACCOUNT (SNA) WITH BoT

STEP 2

**OPENING A SNA WITH A FINANCIAL INSTITUTION
WHO ACTS AS A CUSTODIAN OF THE ACCOUNT**



**THE CONFIRMATION OF NOT HAVING SNA
WITH OTHER FINANCIAL INSTITUTIONS**

DEPOSIT OF THB CURRENCY TO SNA

Must be the THB currency proceeding from
the issuance of Baht-denominated bond
or debentures

***WITHDRAWAL OF THB CURRENCY
FROM SNA***

- 1) For commercial business or investment purpose in Thailand or neighbor countries
- 2) Currency swap transaction with domestic financial institutions
- 3) Short-term lending domestic financial institutions in swap, short-term securities investment private repo, negotiable certificated of deposit or fixed deposit less than 6 months

STEP 3

REPORTING TO BoT



Objectives

- 1) To develop deep and liquid local currency and regional bond markets
- 2) To enable investment-grade ASEAN+3 issuers to access local currency bond markets
- 3) to promote the issuance of debt securities with longer term maturities to match the gestation of investment projects

Functions

- 1) Guaranteeing bonds that are denominated in local currencies and issued by ASEAN+3 entities rated investment-grade
- 2) Guaranteeing bonds that are not denominated in local currencies and issued by ASEAN+3 entities rated investment-grade, provided the entities concerned are naturally hedged in such currency
- 3) Making investments for the development of the bond markets (no such investments shall be made until after the Meeting of Contributors has determined that CGIF is in a position to commence such operations); and
- 4) Undertaking such other activities and providing such other services consistent with CGIF objectives

Benefits

- 1) A reduction of cost of financing of issuers
- 2) An efficient fund raising and a conformity with financial requirement of the business
- 3) A reduction of currency & Maturity Mismatch



What are initial criteria?

- **Who is eligible ?**
 - All current issuers of corporate bonds
- **Exposure limits**
 - Country Limit
 - Currency Limit
 - Sector Limit

What are the benefit to issuers and bond market?

- **To issuers**
 - Lower cost of financing saving
 - Gain creditability
 - Easier market access
- **To the development of bond market**
 - Solve double mismatch : Currency and Maturity
 - Increase in quality supply
 - Expand Thailand bond market



Sovereign Credit Rating

- **Bond Rating**

- A forward-looking assessment of the risk of default conducted by an independent agency
- Bond ratings are based on the debt servicing capacity of the borrower and on the legal characteristics of the bond

- **Default**

- Failure to pay a debt on time and in full

- **Sovereign Bond Rating**

- An assessment of the risk of default on debt issued by a government borrower
- Based on an analysis of a government's “**willingness**” and “**capacity**” to repay its debts

- **Country Ceiling**

- The highest rating that can be assigned to any borrower in a specific country
- Based on assessment of economic and political conditions affecting any borrower's capacity to service its debt
- Government debt usually carries the highest rating in a country since government's have legal powers that can be used to enhance the government's debt servicing capacity



What a Rating Is and Is Not

Definition and Process

A Credit Rating is ...

- ▲ A rating agency's opinion of the relative creditworthiness of an obligor with respect to a debt security or any other financial obligation
 - Assessment of timely debt service and default probability (Issuer Rating)
 - Additional assessment of the relative financial loss of a specific debt obligation upon default (Issue Rating)
- ▲ Based on both qualitative and quantitative factors
- ▲ Based on public and non-public information
- ▲ Expressed by universally recognised notation scales that allow comparability across industry sectors and regions

A Credit Rating is not ...

- ▼ A judgement on the quality of a country's performance or prospects
- ▼ A way to differentiate “good” countries from “bad” ones
- ▼ A recommendation to buy, sell or hold a debt security
- ▼ An audit
- ▼ The automatic result of economic and financial ratios analysis against pre-set benchmarks. The analyst's judgment counts.



Rating Notations

- The notation system has three broad benefits:
 1. Puts countries into 17 groups according to broad risk characteristics
 2. Facilitates comparisons for determining appropriate level of reward relative to a given level of risk
 3. Simple to remember
- The term “investment grade” originated in the insurance industry. Insurance companies were given permission to invest in securities with lowest risk of default, deemed to be bonds rated from triple-A down to triple-B minus. Bonds rated lower were off-limits.
- All three systems have their roots in the development of ratings by John Moody.

	FitchRatings	Moody's Investors Service	STANDARD & POOR'S
Investment Grade	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
Non-Investment Grade	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
	B+	B1	B+
	B	B2	B
	B-	B3	B-
	CCC	Caa	CCC



Why Sovereign Ratings Matter ?

Ratings Will Enhance the Government's Access to Global Bond Markets

- Ratings will enhance the Government's access to global bond markets, reducing the cost of funds, and broadening the investor base.
- Ratings, despite the recent questions regarding whether they remain relevant, continue to be a major criterion influencing investor decisions in the bond market; the better the rating, the better the access.
- ***Investors continue to prefer, if not require, that bonds they purchase are rated. They want an independent assessment of default risk and look to the agencies for that.***

Sovereign Ratings Influence the Cost of Foreign Borrowing for all Borrowers

- Just as a stronger rating will greatly enhance the Government's access to foreign funding, sovereign ratings also exert a strong influence on the cost of funds paid by other borrowers from the same country, for example, banks and companies, whether they borrow through international bond issuance or through commercial bank lending.

Sovereign Ratings Can Assist in Attracting Direct Foreign Investment

- Sovereign ratings frequently serve as a proxy for the discount rate that direct investors apply in calculating the risk-weighted returns generated by an investment in the rated country.
- Also, research published by rating agencies can serve to highlight developments in the rated country that could have an effect on the investment climate and on the expected rate of return from a specific investment, making investment more attractive for foreign companies.

Ratings Help Shape a New Image

- Ratings will send a powerful message to the global financial community regarding the investment climate .
- Rating agencies frequently position themselves as being able to see through headlines, to discern conditions in a country as they really are, rather than as the press reports them to be.
- Ratings will help the Government counter either the lack of in-depth reporting about economic conditions , or reporting that focuses on sensational developments that can adversely influence investor sentiment.



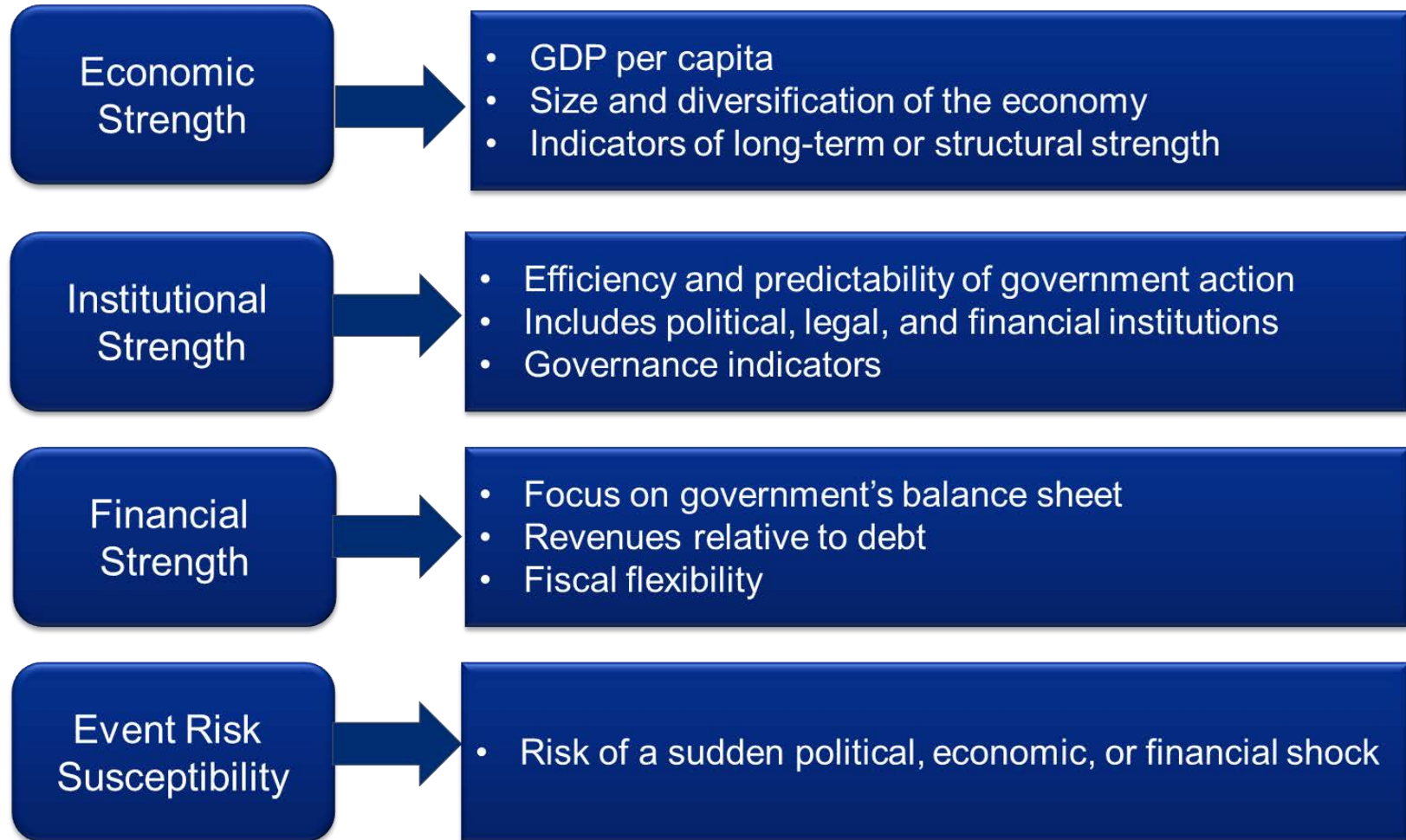
Overview of the Major Rating Agencies

	STANDARD & POOR'S <small>RATINGS SERVICES</small>	MOODY'S	FitchRatings
General Background	<ul style="list-style-type: none"> • 1941 merger of Standard Statistics and Poor's Publishing Company • Owned by McGraw-Hill Companies, Inc. (US) • Widely accepted and influential 	<ul style="list-style-type: none"> • Founded by John Moody in 1900 • Part of Moody's Corp. a publicly listed company spun-off from Dun & Bradstreet in 2000 with a current market cap of approx. US\$10 billion • Widely accepted and influential 	<ul style="list-style-type: none"> • 1998 merger of Fitch and IBCA, further strengthened by acquisitions of Duff & Phelps and Thomson BankWatch in 2000; majority owned by Fimalac SA (France) • Strong in bank and structured finance markets
European Presence	<ul style="list-style-type: none"> • Offices in London, Frankfurt, Paris, Milan, Moscow and Stockholm 	<ul style="list-style-type: none"> • Offices in London, Frankfurt, Paris, Madrid, Limassol, Milan and Prague 	<ul style="list-style-type: none"> • Offices in London, Paris, Frankfurt, Milan, Madrid, Barcelona, Istanbul and Moscow
Analytical Approach	<ul style="list-style-type: none"> • Uses scorecard approach • Fairly transparent analytical framework, most frequent research publications and analysis • Often lower ratings in emerging markets and for financial institutions 	<ul style="list-style-type: none"> • Radically changed its image and approach since 2003–2004 from being the most qualitative, “black-box” agency to the steady introduction of detailed, quantitative models and practices • More explicit recognition of external support generally results in higher ratings for government related entities 	<ul style="list-style-type: none"> • Uses a statistical model to develop a rating based on quantitative data, then adjusts the rating up or down based on analysts' judgment about qualitative data • Quality research and transparent methodology • Lowest ratings-per-analyst ratio
Flexibility and Confidentiality	<ul style="list-style-type: none"> • Does not assign unsolicited ratings • Only publishes rating with the issuer's consent 	<ul style="list-style-type: none"> • Does assign unsolicited ratings • Publishes rating without the issuer's consent 	<ul style="list-style-type: none"> • Many ratings assigned during the last 3–5 years were Fitch-initiated; however, this strategy has only been pursued in developed markets • Reserves the right to publish, although in practice it will only do so if another agency makes a rating public



Case Study: Moody's Sovereign Rating Methodology

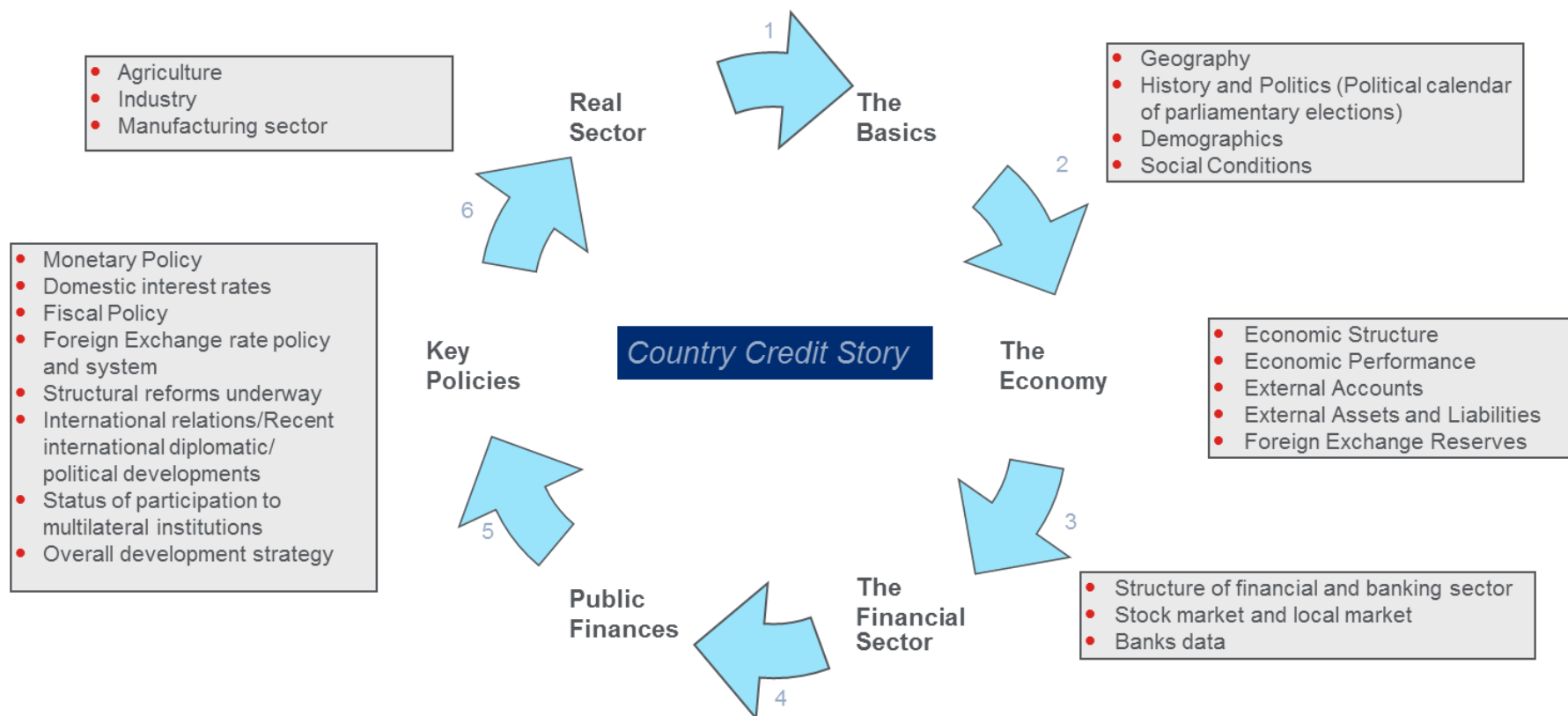
Each factor rated: Very High, High, Medium, Low, Very Low





Key Indicators Used by the Rating Agencies for Sovereign Ratings

The agencies will supply the government with a detailed list of data requirements, questions and concerns that will be driving the agencies' analysis of the country's sovereign credit quality. The following is an outline of the data that the government will typically need to gather as part of the ratings process.





A

**Financing budget deficit
& refinance gov't guaranteed debt**

20% of annual budget expenditure



80% of principal repayment budget

▶ Ceiling : 649.55 billion THB ◀

Estimated Plan : 552.92 billion THB

Leftover Amount : 96.63 billion THB

- FY 2017 Annual Budget Expenditure
(2.92 trillion THB)
*including additional budget
expenditure (190 billion THB)*

- FY 2017 Principal Repayment Budget
(81.19 billion THB)

B

**Undertaking guaranteed
& THB on lending up to 20% of annual budget**

▶ Ceiling : 584.60 billion THB ◀

Estimated Plan : 319.87 billion THB

Leftover Amount : 264.73 billion THB

C

**Promoting Economic
& Social Development up to 10% of annual budget***

▶ Ceiling : 273.30 billion THB ◀

Estimated Plan : 24.00 billion THB

Leftover Amount : 249.30 billion THB

*Excluding additional budget expenditure (190 billion THB)

* Including ECP loan (Gov't on-lending to Thai Airways
approx. 6,196.16 million THB)



Summary of Public Debt Management Plan FY2017 (1st revision)

Detail	FY 2017 Management Plan 1st revision			
	Domestic	External	Total million THB	Total (million USD)
1. New Borrowing	744,519.83	28,710.37	773,230.20	22,564.21
1.1 Government	607,480.02	17,806.23	625,286.25	18,246.94
1.2 State-Owned Enterprises	134,530.10	10,904.14	145,434.24	4,244.03
1.3 Other State Agencies	2,509.71	-	2,509.71	73.24
2. Debt Management	862,572.28	113,781.74	976,354.02	28,491.71
2.1 Government	607,061.25	45,786.38	652,847.63	19,051.23
- Refinancing	607,061.25	5,100.00	612,161.25	17,863.93
- CCS	-	40,686.38	40,686.38	1,187.30
2.2 State-Owned Enterprises	255,511.03	67,995.36	323,506.39	9,440.48
- Refinancing	228,267.03	627.28	228,894.31	6,679.54
- CCS	27,244.00	67,368.08	94,612.08	2,760.94
Total Public Debt Management Plan	1,607,092.11	142,492.11	1,749,584.22	51,055.92

1USD = 34.268 THB as of May 31, 2017

Cabinet approved on February 28, 2017



Government Financing Instruments

Instruments

Short-Term Securities

Long-Term Securities

**Promissory Note (PN)/
R-Bill**

- For restructuring debt (refinancing ST debt and prepayment)

Treasury Bill (T-Bill)

- Cash Management for the mismatch of Gov't revenue and expenditure (1, 3 and 6 months)

Benchmark Bond

5-10-15-30-50 yrs.

- Main Government's financing instrument (5-50 yrs)
- Building the benchmark yield curve for SOEs and private sectors
- Building liquidity in secondary market

Innovation Bonds

Inflation-Linked Bond (ILB),
Amortized Bond (LBA)

- Create alternative option for investment and broaden investors base
- Suitable financing instrument for government mega-project investment

Saving Bond

- Promote private saving (3-10 yrs)
- Sustainable Government financing instrument

Term-Loan (Bank loan)

- Correspond with project disbursement which depend on progress of implementation


**Foreign Currency Bond
(FX bond)**

(\$USD, Euro, Yen, Yuan,...)
Last issuance in 2006

- In case of tight liquidity
- Absorb the gov't mega-project investment (import content)
- Prevent the crowding out effect



Borrowing Instruments Selection Guideline

PROS		CONS
INTERNAL	Suit with the situation that country has high liquidity.	Affecting market liquidity. Causing the crowding out effect.
Term Loan	<ul style="list-style-type: none"> • Enable country to disburse gradually as the project progresses. • Flexible prepayment • The process takes shorter time than that of bonds 	<ul style="list-style-type: none"> • The interest rate is higher than that of bonds and P/N • Limit and term funding cost depend on bank liquidity
Government Bond, SOE Bond	<ul style="list-style-type: none"> • The interest rate is often lower than for other internal tools • Medium to long-dated tenors • Bullet / amortizing structures available • Allows issuer to lock-in fixed rate • Cash flow matching with domestic assets • Supporting the development of domestic bond market 	<ul style="list-style-type: none"> • Relatively limited size / liquidity • Term funding cost likely to exceed cost of shorter-dated amortizing loans • Investor base largely constrained domestically • Repayment may mismatch with disbursement • Limited international visibility • More complicated amendment process
P/N	<ul style="list-style-type: none"> • Flexible prepayment + Transferable <div style="border: 1px solid black; padding: 5px; margin: 10px 0; text-align: center;">  Term funding cost is lower than that of Term Loan </div> <ul style="list-style-type: none"> • The process takes shorter time than that of bonds 	<ul style="list-style-type: none"> • Repayment may mismatch with disbursement

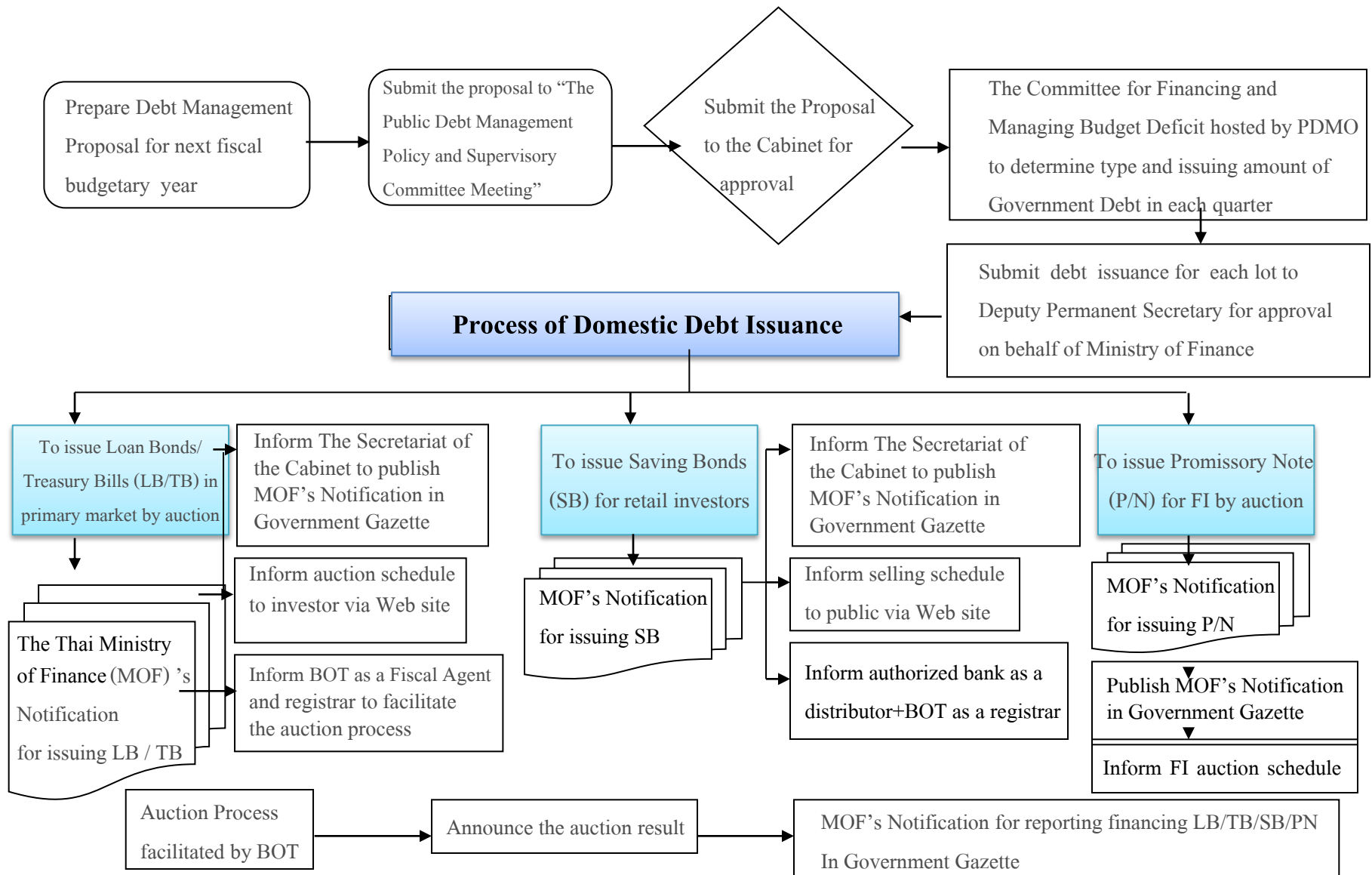


Borrowing Instruments Selection Guideline

PROS		CONS
EXTERNAL	Suit with the situation that country has tight liquidity.	Risk exposure management is A necessity
Loan	<ul style="list-style-type: none"> • Enable country to disburse gradually as the project progresses. • Considerable flexibility to amend terms at a later date to accommodate changes in strategy / financial policies • Flexible prepayment / Soft Loan • Attractive pricing • The existence of Project Evaluation. 	<ul style="list-style-type: none"> • Taking 18 months to proceed • Relatively limited size / liquidity • Shorter tenor • Investor base constrained to banks • Generally more restrictive with maintenance-based covenants • Amortizing maturity profile • Cannot manage risk immediately <p>Difficult to estimate term funding cost</p>
International Bond	<ul style="list-style-type: none"> • Largest sizing / liquidity • Longer tenors available • Establishing benchmark • Bullet / amortizing structures available • Funding sources risk can be distributed <p>Competitive pricing due to broader and deepest investor base</p> <ul style="list-style-type: none"> • Allows issuer to lock-in fixed rate funding cost • Building credit and profile to quality global fixed income investors <p>Visibility in the international financial community</p> <ul style="list-style-type: none"> • Absorb the gov't mega-project investment (import content) 	<ul style="list-style-type: none"> • Fund Flow may make pressure to value of money • Exchange Rate Risk • Loan fee <ul style="list-style-type: none"> • Repayment may mismatch with disbursement • Fund Flow may make pressure to value of money • Term funding cost likely to exceed cost of loans • Negative carry ahead of capital / project expenditure and refinancing • More complicated amendment process



Process of Public Sector Domestic Bond Issuance

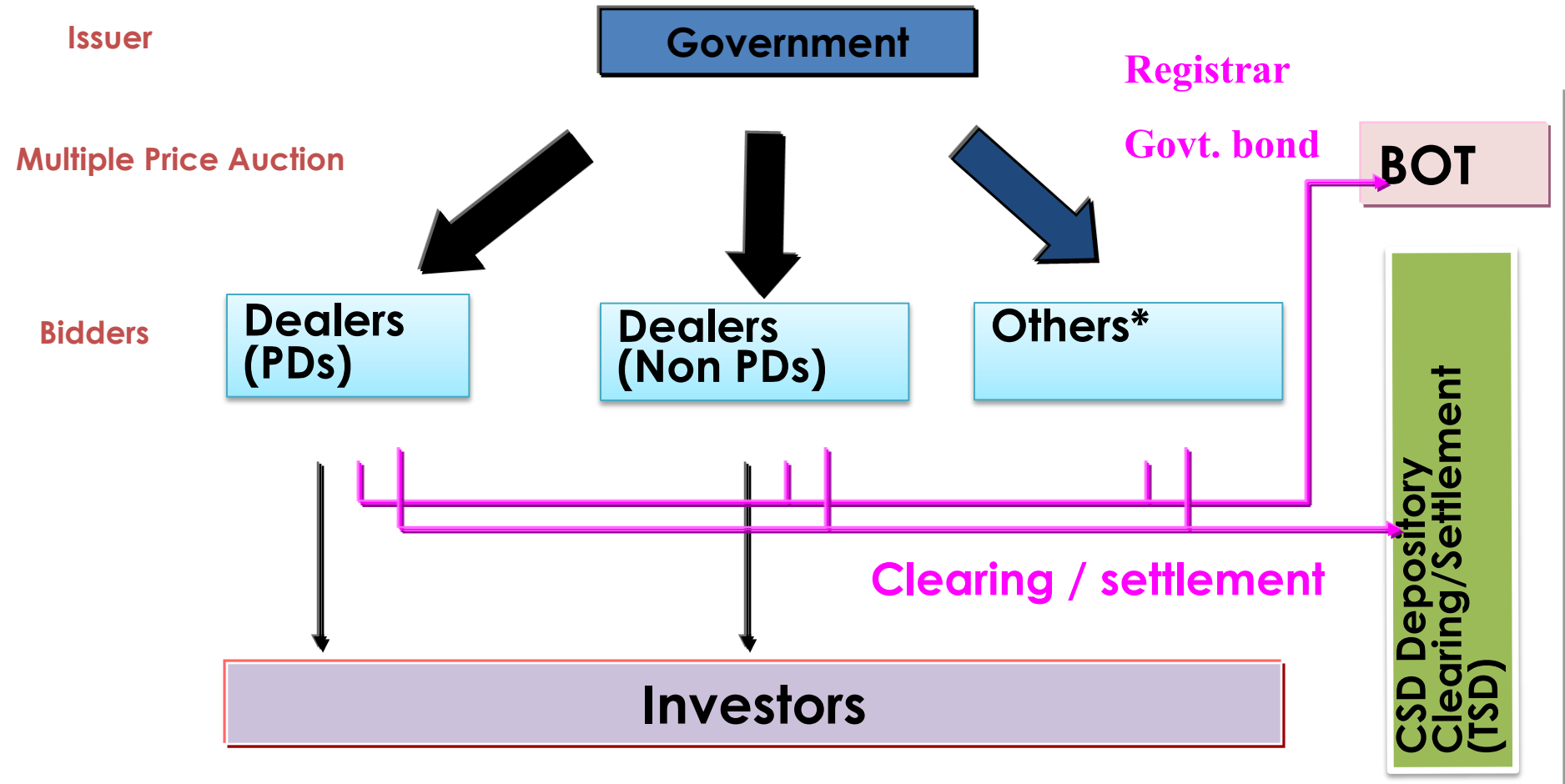




Process of Public Sector Domestic Bond Issuance

Government Bonds

Primary Market Transaction Flow



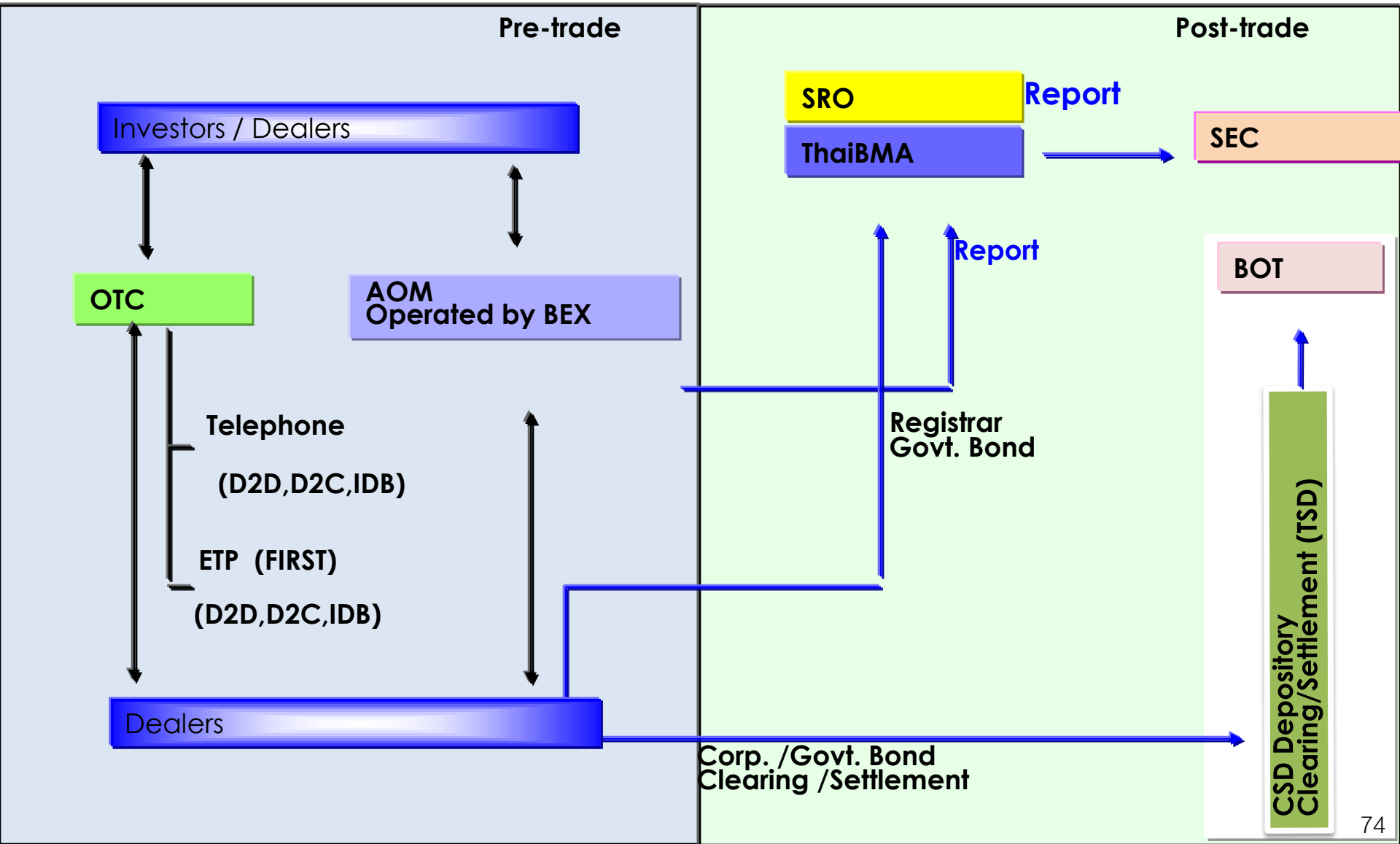
* Others institution investors who have accounts with BOT



Process of Public Sector Domestic Bond Issuance

Government Bonds

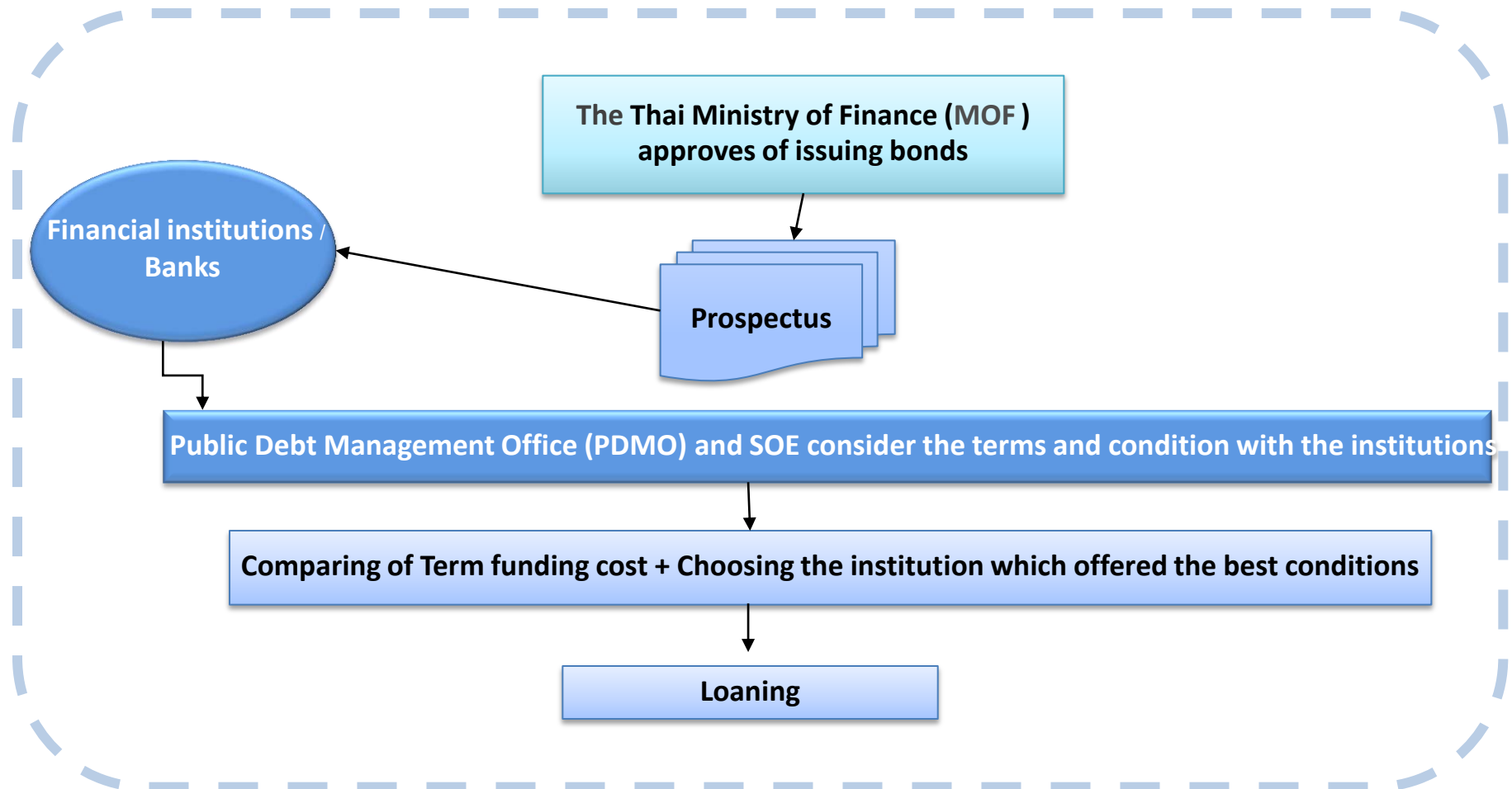
Secondary Market Transaction Flow





Process of Public Sector Domestic Bond Issuance

SOE Bonds





สำนักงานบริหารหนี้สาธารณะ
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