IX

Thai Bond Market Challenges and Opportunities

This chapter discusses some of the real and perceived challenges facing the Thai bond market and its participants, and describes potential mitigating factors or market developments that could address these challenges in an appropriate manner.

A. Challenges

1. Limited Investor Universe

Corporate investors remain few. Therefore, transactions occur within the cluster of a small number of major investors. At the same time, retail investors lack a sound understanding of the Thai bond market. They are content with commercial bank deposits rather than with other kinds of investment. As the government presently provides an unlimited guarantee on deposits at commercial banks; thus, many depositors choose a lower return for the security of their deposits. Meanwhile, the government has already endorsed the setting up of the DPA. As a consequence, there will likely be a shift of deposits away from small banks, and some of these deposits should flow into the bond market

2. Limited Issuance of Corporate Bonds and Notes

Compared to the number of companies listed on the SET, only a limited number of private enterprises (about 200 as of January 2015) issue bonds or notes, though the number has trended higher in recent years. At the same time, commercial banks have been offering loans at relatively low interest rates and under attractive conditions to maintain their corporate customers of good credit standing. Hence, these companies may not see the benefit of a bond or note issuance relative to reducing funding costs.

3. Interest Rate Hedging Opportunities

Interest rate hedging opportunities in the Thai market exist. The futures exchange, TFEX, which is a subsidiary of SET, trades 3-month, 6-month, and 5-year interest rate futures based on the BIBOR interest rate and Thai government bonds. Details on TFEX and its offerings are available in Chapter IV.

The challenge for interest rate hedging relates to limited futures trading volume and the general lack of participation by corporate issuers and investors

4. Thai Financial Reporting Standards

Thai Accounting Standards and Thai Financial Reporting Standards (TFRS) are announced and maintained by the Thailand Federation of Accounting Professions.

TFRS substantially converge with International Financial Reporting Standards (IFRS), yet revisions to the treatment of financial instruments and other accounting categories are still pending and expected to be addressed in 2016.[45]

While this poses no challenge for Thai corporates that would like to issue and list bonds and notes in Thailand only, it can be a hindrance for those issuers in the Thai market (both Thai and foreign) that would like to pursue a listing at a regional or overseas listing place, for example, to achieve higher visibility and/or attract a different investor universe. In case such a listing place does not accept TFRS, a listing may not be possible without additional efforts toward adoption of acceptable standards.

Issuers, intermediaries, and listing places in ASEAN+3 markets have spent considerable energy on mapping and understanding financial reporting standards from each other's jurisdictions. ABMF research indicates that the treatment and disclosure of relevant information is often the same, or very similar, across jurisdictions, particularly with respect to bond and note issuance.

At the same time, foreign issuers have been able, for THB-denominated issuances, to elect whether to submit and report financial and disclosure information according to IFRS, International Standards on Auditing, United States Generally Accepted Accounting Principles, TFRS, reconciled IFRS, or any other accounting standard recognized by the SEC.

B. Opportunities

1. Accessing Additional Investor Universes

A number of regional initiatives in ASEAN and ASEAN+3 are targeting the inclusion of investor types, which have previously focused their attention on government bonds issued in Thailand and other markets in the region. The intention of these initiatives is to enhance transparency and accessibility for different investor types, including mutual funds and unit trusts, pension funds, and provident funds. In many markets, these funds are subject to prudential regulations that may prescribe the listing or registration of any securities, including bonds and notes, to be considered as investments.

At the same time, the emergence of high net worth investors as a dedicated investor class and their eligibility to access more complex products has led to the creation of specific products aimed at such investors alongside traditional professional investors. The inclusion of high net worth investors and the catering to their specific investment needs is seen as a major step toward broadening and deepening the available investor base in the Thai bond market.

2. General Regulatory Developments

Since the global financial crisis, regulators have been strengthening laws and regulations across many areas of capital and financial markets. Of particular interest have been banking regulations and the focus on risk-weighted capital. The outcomes for financial

[45] The IFRS application profile for Thailand is available from the website of the IFRS Organisation at http://www.ifrs.org/Use-around-the-world/Documents/Jurisdiction-profiles/Thailand-IFRS-Profile.pdf

markets include a limitation on what banks can or are willing to lend, to whom, and under what circumstances. A number of these regulatory initiatives may, in consequence, lead to a rebalancing of funding options in the corporate sector from bank loans to the capital markets.

While not unique to Thailand, this development could raise the level of interest among potential domestic issuers to consider raising funds via bond or note issuance and to diversify their debt portfolio. Increased interest, coupled with a broader and deeper investor base, might also have a beneficial impact on funding costs.

3. Increasing Demand for Investable Assets

Recent research indicates that the Thai economy annually generates investment liquidity amounting to approximately USD10 billion. These funds are seeking adequate opportunities among available investment and savings products in the market. As Thailand's savings pool expands, a large portion of these savings is expected to flow into mutual funds and unit trusts, many of which will in turn invest in debt securities. Yet, research suggests that market participants are concerned with the shortage of quality THB-denominated issuances.

4. Introduction of a Medium-Term Note Program

The SEC is in the process of evaluating the introduction of an MTN Program, or a Note Issuance Program, in the Thai market in line with established standards and practices in international bond markets.

Presently, MTN issuances are not available in the Thai market. At the same time, current regulations offer the availability of a shelf-registration concept for the issuance of THB-denominated bonds and notes by domestic issuers.

Due to the familiarity of international issuers—including large Thai corporates with a regional or international profile—with international bond markets, particularly MTN issuance, this move could contribute to the increased attractiveness of the Thai market.

5. Mekong Subregional Bond Issuance

A key opportunity for the Thai bond market manifested itself in 2013 when the Lao PDR issued a government bond in Thailand, which was the first of its kind. The success of the Lao PDR issuance and the nascent state of bond markets in Cambodia, the Lao PDR, and Myanmar—despite the rapid development of these economies—may lead more government and corporate debt issuers in these neighboring countries to tap the well-established Thai bond market.

Investor interest in the Mekong subregional markets and the opportunity to buy bonds in either Thai baht or US dollars rather than in domestic currencies with limited convertibility, coupled with a general familiarity with the culture and business environment of the subregion, can help facilitate the creation of a receptive investor and issuer universe centered around the bond market in Thailand.

6. ASEAN+3 Multi-Currency Bond Issuance Framework

The implementation of AMBIF is expected to benefit not only AMBIF issuances, but the Thai bond market at large. ABMI and Thai policy bodies and regulatory authorities are focused on achieving a suitable balance between bank loans and capital market funding opportunities for corporates. AMBIF was created to provide an additional bond and note issuance avenue for these corporates. In Thailand, AMBIF focuses on the issuance of PP-AI, which was introduced by the SEC in 2012. The Thai market continues to generate the most interest from potential AMBIF bond and note issuers who may already have substantial commercial operations in the country and would like to issue bonds or notes and use the Thai baht proceeds to diversify into baht-funding options, eliminate foreign exchange risk, or more effectively manage their debt portfolio. At the same time, the nature of AMBIF and the specific provisions for professional investors are likely to attract attention from new institutional (professional) investors in Thailand and other regional markets.