

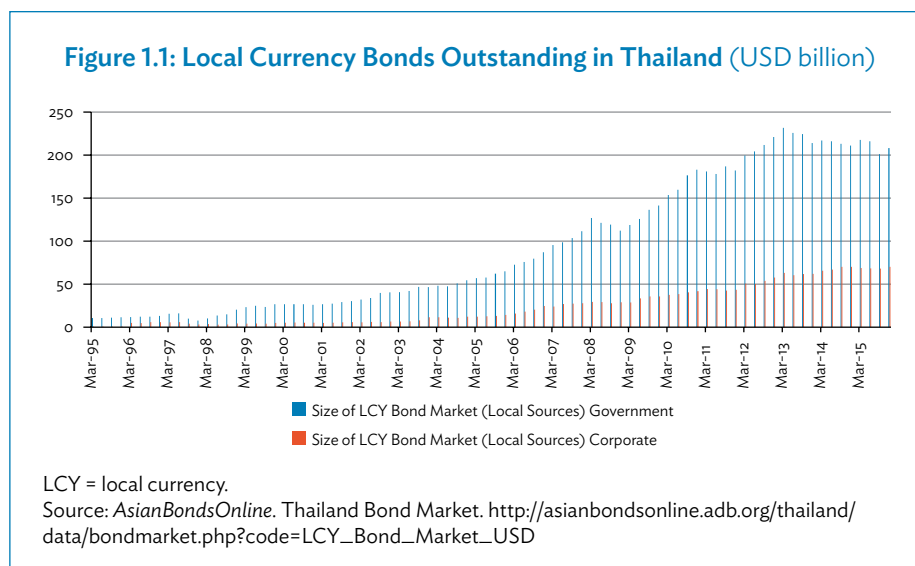
# Overview

## A. Introduction

The Thai bond market has experienced rapid growth in the years since the 1997/98 Asian financial crisis. To help support cash-strapped financial institutions, the Government of Thailand issued bonds for the first time in June 1998. The total amount of government bonds issued under this program was THB500 billion.

The government has continued to issue bonds since then with the primary objectives being to finance the annual budget deficit, support social and economic development, and restructure public debt.<sup>1</sup> The substantial amount of new government bonds coupled with declining interest rates has contributed to the robustness of the bond market as evidenced by a significant increase in both market size and trading volume. At the same time, the Thai economy is generating significant disposable funds, which are expected to drive a corresponding demand for investment assets.

According to data published by *AsianBondsOnline*, the amount of local currency bonds outstanding was THB10.0 trillion (USD278 billion) at the end of December 2015. Government bonds still dominate the market, comprising approximately 75% of all bonds and notes outstanding at the end of December 2015. At the same time, there has been a gradual increase in corporate bond and note issuance as a proportion of total issuance in recent years (Figure 1.1).



<sup>1</sup> Details of government bond issuance in the Thai market may be found at <http://www.thaibma.or.th/EN/Home.aspx>

With the introduction of regulations governing corporate bond note issuance, a variety of issuers have entered the market, including multinationals, supranationals, ASEAN+3 governments, and local companies.<sup>2</sup>

Foreign issuers may issue bonds or notes under the so-called Baht Bond issuance approval concept for the debt securities of foreign issuers, which is supervised by the Public Debt Management Office (PDMO) of the Ministry of Finance (MOF). Any issuance of debt securities in the Thai market is subject to the regulatory framework put in place by the Securities and Exchange Commission, Thailand (SEC) and other regulatory authorities. For more details on the legal and regulatory framework, please refer to Chapter II.

Thailand's regulatory environment is conducive to the implementation of the proposed ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) that was developed by the ASEAN+3 Bond Market Forum (ABMF) under the guidance of the Asian Development Bank (ADB). Key features of the Thai market, such as a Private Placement for Accredited Investors (PP-AI), are further enhanced by the acceptance of English documentation and disclosure items for issuance approvals sought from the regulatory authorities, including use of the Single Submission Form (SSF). For more details on the SSF, please refer to Chapter II.F.

An investment in government bonds by nonresident (foreign) investors is tax exempt, while the taxation of corporate bonds and notes for nonresidents may attract tax concessions, depending on applicable double taxation agreements (DTAs).

Bond trading is conducted either over-the-counter (OTC) or via the Thailand Bond Exchange (TBX), which was established by the Stock Exchange of Thailand (SET) in November 2003.

All OTC and TBX trades are reported to the Thai Bond Market Association (ThaiBMA) within 30 minutes of execution. ThaiBMA collects and distributes both intraday and end-of-day data, and also publishes relevant daily summary reports on its website and through a number of other channels.<sup>3</sup>

## B. Historical Development of the Thai Bond Market

Thailand's bond market has developed significantly since the 1997/98 Asian financial crisis, with increased local currency bond issuance and trading today. The MOF has stepped up issuance of government bonds for its financing requirements and built a reliable yield curve that adequately prices market risk. Government bonds still dominate the market. Since the late 1990s, both government and corporate issuers have increasingly used bonds to raise capital.

A number of government initiatives since the 1997/98 Asian financial crisis have contributed to the development of the Thai bond market. Building on the two previous Capital Market Master Plans launched in 2002 and 2006, the Capital Market Master Plan, 2009 continues to have a bearing on the development of the Thai bond market.

<sup>2</sup> ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.

<sup>3</sup> ThaiBMA. Daily Market Summary. <http://www.thaibma.or.th/compositerpt/dailyreport.aspx>

### a. Capital Market Master Plan, 2009

The most recent Capital Market Master Plan was detailed in an MOF press release on 4 November 2009.<sup>4</sup> The Economic Cabinet approved the Capital Market Master Plan, 2009 as proposed by the Capital Market Development Committee, which is chaired by the Minister of Finance. For easy reference and a good summary of the proposed measures, a portion of the text of the press release is reproduced in the following:

The capital market is important to a country's economic and social system. It plays the crucial roles of capital raising for both public and private sectors, promoting balance and stability in the financial system, decreasing dependency on the banking sector, driving the economy forward and creating jobs, as well as being an alternative method for savings. A strong capital market will lessen the impact of economic fluctuations which can be compounded by the fast-flowing nature of capital. However, there are still many issues besetting the Thai capital market. Few institutional investors, a small retail investor base, limited financial products, high transaction costs, and lack of efficient regulatory enforcement are some examples. Moreover, Thailand's capital markets in recent times have grown at a very slow pace. The size of the stock market compared to the gross domestic product [was] only 51% as of June 2009, which is smaller than other [markets] in the region such as [Hong Kong, China] (845%); Singapore (202%); Malaysia (104%); and [the Republic of Korea] (66%). Should this trend continue, Thailand's capital market will stagnate and become increasingly marginalized. Various studies have shown that inadequate development of the capital markets will impact its ability to raise, channel, and monitor resources efficiently. In the end, this will lead to loss of growth opportunities, standard of living, and prosperity.

In recognizing the importance of the capital market, Prime Minister Abhisit Vejjajiva appointed the Capital Market Development Committee (Committee) on 27 January 2009. This appointment is a continuation from the committee appointed on 25 March 2008. The Committee is tasked with formulating an overall master plan for the development of the Thai capital market as well as monitoring the implementation of such a plan. The Committee comprises of the Minister of Finance as the chairperson and experts from public and private sectors.

In formulating the Capital Market Development Master Plan (Master Plan), the Committee solicited inputs and opinions from all stakeholders, and formed the vision and the 5-year development objectives (2009–2013) as follows:

- (i) The Thai capital market is the primary mechanism for aggregating, channeling, and monitoring economic resources.
- (ii) The goal of the capital market is to perform these tasks efficiently to increase overall competitiveness of Thailand.

The Committee has formulated six primary missions and objectives to realize this vision:

- (1) Six Primary Missions
  - (a) The capital market must be easily accessible to investors seeking investment opportunities and corporations seeking funds;

<sup>4</sup> See [http://www2.mof.go.th/press\\_releases\\_detail.php?id=21](http://www2.mof.go.th/press_releases_detail.php?id=21)

- (b) increase quality and variety of products and services;
- (c) reduce cost of funds to issuers and any intermediary and transaction costs to investors to enable Thai companies to become more competitive;
- (d) develop efficient infrastructure framework in legal, regulations, accounting, tax, information, technology, and enforcement;
- (e) educate investors and ensure that adequate protection mechanisms are in place; and
- (f) promote competition in the Thai capital market and build links with the global market system.

## (2) Eight Important Reform Measures

The Master Plan consists of eight important reform measures that will affect the course of development and bring about major changes in the system.

### Measure 1: Abolish the Monopoly and Improve Competitiveness of the Stock Exchange of Thailand

Liberalization of capital flows and competitive pressure increase the chances of the SET being marginalized. To make the SET responsive to fast-changing business environments, its business structure must be transformed to increase efficiency and promote competitiveness. The first step is to demutualize the SET, convert it into a public company (Exchange Company), separate the exchange business from capital market development work, and establish a Capital Market Development Fund with the mission of long-term capital market development. The SET's monopoly on exchange businesses will also end. Therefore, there may be other trading platforms permitted to trade listed stocks.

The Exchange Company will be allowed to permit persons other than securities firms incorporated in Thailand to have direct access if it wishes to in order to increase liquidity and expand the investment base to promote linkage with the global capital market, and decrease limitations which currently obstruct the growth of Thai capital market.

### Measure 2: Liberalization of Securities Business to Promote Market Efficiency

This measure, while in line with recent trends of liberalization in the financial system, also aims to increase the competitiveness of the Thai capital market and enable it to withstand the impact of fast capital flows. Liberalization of licenses will foster market competition. Securities firms will have to adjust by forming alliances with strategic partners to increase its efficiency by offering new products in the long-run.

### Measure 3: Reforming Legal Framework

Currently, there are draft laws relating to the capital market being proposed to the House of Representatives:

- (1) Amendment Act to Royal Enactment on Special Purpose Juristic Persons for Securitisation B.E.
- (2) Draft of Commercial Collateral Act B.E.
- (3) Amendment Act to the Civil and Commercial Code B.E.

The government should keep pushing for passage of these laws. The Committee also [passed a] resolution to propose further reforms, including

- (1) laws to facilitate mergers and acquisitions activities;
- (2) adopt [a] civil penalty; and
- (3) amend the Civil Procedure Code to include class action lawsuits, which would help make enforcement of the Securities and Exchange Act (SEA) more efficient.

#### Measure 4: Streamline the Tax System

This measure aims to make the tax system more efficient [for] transactions, improve fairness, and provide tax incentives for transactions that the state would like to promote for the development of the capital market. Taxation areas to streamline include those related to mergers and acquisitions, investments in debentures, elimination of double taxation on dividends, equalization of tax incentives on direct investment and investment through intermediaries, transfer of investments in provident funds, public savings funds, life insurance premiums, Islamic bonds, securities borrowing and lending of the Bank of Thailand (BOT), and venture capital.

#### Measure 5: Develop Financial Products

Currently, the Thai capital market has few financial products to choose from, which cannot take care of the diverse needs of investors, thus making the market relatively unattractive. This measure aims to push for the development of new products which would help increase the variety of instruments and consequently help develop the market.

Examples of new products are an infrastructure fund to promote investments by the private sector, life annuities, interest rate derivatives, inflation-indexed government bonds, Islamic bonds, venture capital, and divestiture of the MOF shares of publicly traded companies.

#### Measure 6: Establishment of a National Savings Fund

The MOF proposed a National Savings Fund Act, and the Cabinet, in a meeting on 20 October 2009 agreed to the first draft. The National Savings Fund will cover workers outside the formal system, comprising approximately 70% of the total labor force of Thailand. The objective is to institutionalize savings for retirement, create equality of opportunity, and ensure that these informal sector workers are provided with some income after retirement. The National Savings Fund will become a major source of savings and investments in Thailand and will contribute to the development of Thai capital markets. It will help lessen the volatility of capital movements and also indirectly promote new financial products.

#### Measure 7: Developing a Culture of Savings and Investments

This measure aims to provide choices when investing in provident fund[s] and [the] Government Pension Fund, so that investors' needs are met. It will also encourage investors to be proactive about acquiring new knowledge on financial products so that investors can truly determine what types of products suit them.

#### Measure 8: Development of the Domestic Bond Market

This measure aims to develop the government's cash management methods and study alternatives to amending laws relating to [T]reasury reserves, so that the government can issue [T]reasury bills efficiently. The government should also be able to manage [T]reasury reserves for yields by such means as depositing the reserves with other institutions instead of the BOT. This will help decrease the cost of funds that the government faces. Moreover, the BOT will take the lead in developing and promoting the private repo and securities borrowing and lending markets, providing the bond market with another tool to manage liquidity efficiently with low risks. Overall, this would lead to further growth in the market.

Aside from the eight reform measures, the Master Plan consists of 34 additional measures that should be implemented. These measures are important in changing the basic framework, developing new infrastructures in the long run, and leading to the fulfillment of the Master Plan's main objectives.

Success in implementing the Master Plan, aside from directly benefiting the capital market, will have far-ranging benefits to society and the economy as a whole. It will improve competitiveness, promote savings and retirement planning, improve linkages between Thai and global capital markets, and benefit all sectors of society. The results will be reflected in the Thai capital market, which will grow larger, gain liquidity, and strengthen the balance and stability of the financial market. It will become a key driver in economic development, which will be observable in the increased prosperity of the Thai people in the long run.