



Credit Guarantee &  
Investment Facility

An Asian Bond Markets Initiative

# CORPORATE BOND MARKET REPORT

# THAILAND



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## Abbreviations

ADB	Asian Development Bank
ADR	American depository receipts
AIMC	Association of Investment Management Companies of Thailand
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus the People's Republic of China, Japan, and Republic of Korea
ASEAN6	ASEAN member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam
ASEAN6+3	ASEAN6 plus the People's Republic of China, Japan, and Republic of Korea
BOT	Bank of Thailand
CGIF	Credit Guarantee and Investment Facility
CRA	Credit Rating Agency
DAD	Dhanarek Asset Development Company SPV
EPF	Employee Pension Fund
EUR	European Union euro
ETF	Exchange Trade Fund
FCY	foreign currency
FIPF	Financial Institution Pension Fund
GDP	gross domestic product
GPF	Government Pension Fund
HNW	high-net worth
JPY	Japan yen
LCY	local currency
MOF	Ministry of Finance Thailand
MYR	Malaysian ringgit
NAV	net asset value
OIC	Office of Insurance Commission Thailand
PDMO	Public Debt Management Office
REIT	Real Estate Investment Trust
SAA	strategic asset allocation
SET	Stock Exchange of Thailand
SMC	Secondary Mortgage Corporation
SME	small- and medium-sized enterprise
SOE	state-owned enterprise
SPV	Special Purpose Vehicle
SRO	Self-Regulatory Organization
SSF	Social Security Fund
SSO	Social Security Office of Thailand
TAA	tactical asset allocation
Thai BMA	Thailand Bond Market Association
THB	Thailand baht
THBFIX	Thailand Baht Interest Rate Fixing
TRIS	Thailand Rating and Information Services
USD	United States dollar

## Data Description

This report utilizes available information from Bloomberg and other secondary sources to arrive at the market size of the corporate bond market in Thailand. The industry classification of this report follows those of Bloomberg's. Specifically, the Financials sector from Bloomberg is composed of Banks, Financial Services, Commercial Finance, Consumer Finance, and Real Estate. Due to the significance of Real Estate's value, this is separated from the Financials sector. Ratios mentioned in Chapter 2 were based on the number of outstanding bonds.

Market players were also interviewed from 18 to 21 November 2019 to substantiate the information gathered from secondary sources.

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This paper is part of the ASEAN corporate bond market research under the Finance Department of CGIF. Led by Dong Woo Rhee, Chief Financial Officer, with assistance from Soleil Corpuz, Research Analyst, this research effort aims to show the characteristics of corporate bond markets in the region of the Association of Southeast Asian Nations (ASEAN). For any questions or comments on the contents of this report, please contact [research@cgif-abmi.org](mailto:research@cgif-abmi.org).

# Report Summary

## 1. Thailand's Corporate Bond Market Characteristics

- The corporate bond market of Thailand grew by 5.72% from 2018 to 2019 as reported by Thailand Bond Market Association (ThaiBMA). Corporate bonds (comprised of commercial papers and long-term bonds) took 29% of the total outstanding bonds in Thailand.
- In comparison with other corporate bond markets in the ASEAN+3 region—Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China (PRC), Japan, and the Republic of Korea—, Thailand's corporate bond market was about 22% of gross domestic product in 2019. This was way higher than those of regional peers such as Indonesia and the Philippines.

## 2. Specific Characteristics of Thailand's Corporate Bond Market

- Thailand's corporate bond market strongly prefers a simple structure in terms of coupon type, maturity type, and payment rank.
- The corporate bond market in Thailand is generous to credit ratings in comparison with its peers. While only AAA and AA rated issuances are active in most ASEAN6 countries—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—, A ratings are dominant and even a significant share of BBB ratings are observed in Thailand.

## 3. Investors

- Thai BMA reported that individual investors (of which, some high net worth are also included) comprised 31% of the total corporate bond market in 2019. Insurance companies followed, holding 18% of total corporate bonds. Other top institutional investors included contractual savings funds (i.e., the Government Pension Fund and the Social Security Fund), which held 12% of the total corporate bonds and mutual funds, which held 13% of corporate bonds.
- Life insurance companies are active investors of corporate bonds in Thailand. They do not have specific preference between bonds offered via private placement and public offers. Insurance companies have an appetite for bonds rating A- and above, based on their own credit rating requirements and mandates from the regulator.
- In 2018, there were 1,649 mutual funds in Thailand and 23 asset management companies. In the same year, the mutual fund industry in Thailand reached THB5.06 trillion. In terms of investment policy, fixed-income funds captured the highest share in the total net asset value (NAV) of the industry (at 49%), while mixed funds followed next (at 29%).
- One recent regulation which challenged the activity of the mutual fund industry was the imposition of 15% income tax on mutual funds. Based on data from Thai BMA, this hampered the trading of corporate bonds within the first few weeks of its implementation. However, market players noted that a “new normal” will come in the near term.

## 4. Other Market Participants

- Other market participants include issuers, credit rating agencies, and regulatory bodies such as Thai BMA.
- Most of the issuers were from the Financials sector (31%). This was followed by companies in Consumer Staples (21%) and Consumer Discretionary (13%). Within the Financials sector, companies from the real estate formed one of the top issuer group.

## 5. Credit Spreads

- There is a big difference in the credit spreads between bonds with A- and BBB+ ratings. The reason for this is that most of institutional investors (e.g., mutual funds, insurance companies, and other financial institutions) can invest corporate bonds from A- rating.
- Incremental credit spreads from one notch difference above A- are very tight in comparison with those between A- and BBB+.

## 6. Guaranteed Bonds

- Based on available data, in 2019, about 9.6% of the corporate bonds have credit guarantees in terms of outstanding value. Thailand is next to Viet Nam in terms of guaranteed corporate bonds market.
- The bond partially guaranteed by a private bank is a unique characteristic in Thailand corporate bond market. They are the products which took advantage of the minimum credit rating requirement of institutional investors and the unique credit spread situation in Thailand.
- The Secondary Mortgage Corporation (SMC) is another specialized financial institution in Thailand. Based on available data, bonds guaranteed by SMC are residential mortgage-backed securities. In fact, the two-fold mission of SMC includes investing in a housing loan portfolio and issuing securitized products in the market.

## 7. Cross-Border Corporate Bonds

- Products issued by foreign issuers in Thailand that are THB-denominated are known as “Baht bonds”. Application for Baht bonds are open three times a year, and each issuance application should be completed within 9 months. Baht bonds enhance the positioning of Thailand as a regional corporate bond market hub.
- Between 2010 and 2019, there were years when there were no foreign currency (FCY) issuances, which points that issuing FCY bonds is not a regular practice among Thai issuances. A major reason for FCY issuances is to support their operational requirements.

## 8. Securitization

- The concept of securitization was introduced in 1997, under the Royal Enactment on Special Purpose Juristic Persons for Securitization or more commonly known as the Special Purpose Vehicle (SPV) Act. The SPV Act provides tax privileges to issuers of securitization products. Securitization is regulated by the Securities and Exchange Commission (SEC) of Thailand. However, if the originator is a bank, the Bank of Thailand jointly regulates the securitization.
- Securitization has yet to achieve its popularity in Thailand despite its long history. Investors acknowledge such securitized products as potential investments. However, many remain cautious in investing in these products.

## 9. Regulatory Direction

- One notable direction in Thailand’s corporate bond market is to further increase and expand its local investor base. Under the Capital Market Development Plan (2019–2021), SEC Thailand would like to increase the participation of more retail investors, including those in the corporate bond market.
- Other regulators, such as the Public Debt Management Office (PDMO), have also supported cross-border bond transactions in Thailand. The PDMO is in charge of the approvals of Baht bonds. Previously, a limiting factor for potential foreign issuers of Baht bonds is the restriction on using the proceeds overseas. There is now a relaxation of this rule, where foreign issuers of Baht bonds are allowed to swap the proceeds in the foreign exchange market, and use these proceeds outside Thailand.

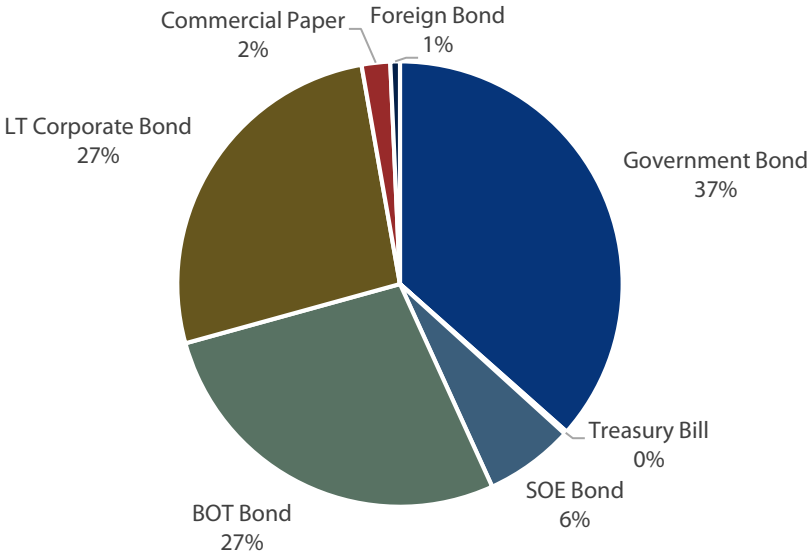
# 1 Thailand Corporate Bond Market Characteristics

## 1.1 Overall Characteristics

The Thailand Bond Market Association (Thai BMA) reported that the total outstanding value of the bond market in the country grew by 5.72% from 2018 to 2019. Within the bond market, government bonds still comprised the largest share, at 37%. On the other hand, corporate bonds contributed 29% of total bonds in Thailand.<sup>1</sup>

Bond products in Thailand include government bonds (issued by the Ministry of Finance, Thailand), Bank of Thailand Bonds (for open market operations of Bank of Thailand, BOT), State-Owned Enterprise Bond (SOE Bond), corporate bond, and foreign bond. For corporate bonds, it is important to note that this is further divided into two segments: the long-term corporate bond and the commercial paper. The difference lies in the tenor of these two segments. The long-term corporate bond has a maturity of 1 year and above; while commercial paper has less than 1 year of maturity or an average of 270 days. Bill of Exchange is also considered part of the commercial papers. The breakdown of the composition of Thailand’s bond market is illustrated in Figure 1.1.

**Figure 2.1: Thailand’s Bond Market Overview, 2019**



BOT = Bank of Thailand, LT = long-term, SOE = State-Owned Enterprises  
Source: Thai Bond Market Association (Thai BMA).

Thailand continues to improve its overall capital market. The Securities and Exchange Commission (SEC) of Thailand is now implementing the Strategic Plan 2019–2021 for its capital market development. The plan has five strategic directions. One important aspect in this plan is the encouragement of a wider investor base in the country. In 2019, the SEC implemented new regulations aimed to improve the corporate bond market landscape in the country (see the section on Regulatory Direction).

<sup>1</sup> Thailand Bond Market Association (Thai BMA). 2019. *Annual Report*. <http://www.thaibma.or.th/pdf/annualreport/Annual2019.pdf> (13 April 2020).

## 1.2 Corporate Bond Market Size

As shown in Table 1.1, Thailand has a generally modest corporate bond market, wherein the corporate bond market was about 22.43% of its gross domestic product (GDP) as of 2019—comparable with other markets in ASEAN+3.<sup>2</sup> This was twice the ratio of Thailand’s corporate bond market to GDP ratio in 2008 (at 11%). Most of the recent issuances in its corporate bond market came from the local conglomerates which were seeking business expansion or forming mergers and acquisitions.<sup>3</sup>

**Table 2.1: Corporate Bond Market, Market Capitalization, and Gross Domestic Product of ASEAN6+3, 2019**

Country	LCY Corporate Bond Market (A)	Market Capitalization <sup>1</sup> (B)	GDP (C)	A/B	A/C
<b>Thailand</b>	<b>127.44</b>	<b>541.38</b>	<b>568.22</b>	<b>23.54%</b>	<b>22.43%</b>
Philippines	29.70	270.54	367.45	10.98%	8.08%
Viet Nam	4.41	187.48	260.53	2.30%	1.69%
Indonesia	32.10	523.42	1,141.93	6.13%	2.81%
Malaysia	174.08	399.86	347.22	43.53%	50.14%
Singapore	127.34	495.39	377.12	25.71%	33.77%
People’s Republic of China	4,336.99	7,340.33	14,230.02	59.08%	30.48%
Japan	791.87	6,278.67	5,105.08	12.61%	15.51%
Republic of Korea	1,259.44	1,441.51	1,595.80	87.37%	78.92%

ASEAN6+3 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam plus People’s Republic of China, Japan, and Republic of Korea; GDP = gross domestic product; LCY = local currency

Note: Values in USD billion.

<sup>1</sup> Bloomberg’s estimates on market capitalization are calculated from all shares outstanding in a country’s exchange(s). These do not include exchange traded funds (ETFs) and American depository receipts (ADRs) as they do not directly represent companies. Estimates include only actively traded, primary securities on the country’s exchange(s) to avoid double counting. Bloomberg’s estimates may deem lower than those reported in other sources.

Sources: Asian Bonds Online for corporate bond market size and gross domestic product (as of December 2018); Market capitalization in domestic exchanges (in current values, 2018) from Bloomberg.

Thailand’s corporate bond market size stood at 66.03% of its government bond market size in 2019 as shown in Table 1.2. Thailand fared well compared to other markets such as Indonesia and the Philippines. Corporate loans remain as an immediate financing route for corporates in Thailand. Corporate bonds only took up 26.14% of the total corporate loan market in 2019.

**Table 2.2: Corporate Bond Market, Government Bond Market, and Corporate Loan Market of ASEAN6+3, 2019**

Country	LCY Corporate Bond Market (A)	Government Bond Market (B)	Corporate Loan Market (C)	A/B	A/C
<b>Thailand</b>	<b>127.44</b>	<b>192.99</b>	<b>487.44</b>	<b>66.03%</b>	<b>26.14%</b>
Philippines	29.70	101.49	171.19	29.26%	17.35%
Viet Nam	4.41	49.24	N/A	8.96%	N/A
Indonesia	32.10	198.52	238.10	16.17%	13.48%
Malaysia	174.08	186.81	179.29	93.19%	97.09%
Singapore	127.34	135.75	317.22	93.80%	40.14%

<sup>2</sup> The computation of the ratio was based on data found in Asian Bonds Online. ASEAN+3 means Association of Southeast Asian Nations plus People’s Republic of China (PRC), Japan, and Republic of Korea.

<sup>3</sup> From an interview with Thailand Bond Market Association (Thai BMA).

People's Republic of China	4,336.99	7,749.89	13,900.72	55.96%	31.20%
Japan	791.87	10,196.64	18,430.81	7.77%	4.30%
Republic of Korea	1,184.25	654.39	992.29	180.97%	119.35%

ASEAN6+3 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam plus People's Republic of China, Japan, and Republic of Korea; LCY = local currency

Notes:

1) Values are in USD billions.

2) Data for Republic of Korea is as of 3Q of 2019, since the data for corporate loan market in the country is reported as of 3Q of 2019.

Source: Asian Bonds Online for corporate bond market size and government bond market size (as of December 2018); Corporate loan market size (as of December 2018) from central bank of each country.

## 2 Specific Characteristics

### 2.1 Issuance Methods

Thailand allows both public offering and private placement offering in the corporate bond market. Both issuance methods need prior approval from SEC Thailand. There are two types of private placements in Thailand. First is the PP10, in which issuance is offered to a maximum of 10 investors within any 4-month period. Second is the PP-AI, in which the bond is offered to institutional investors and high-net worth (HNW) investors considered to be Accredited Investors.<sup>4</sup>

The issuance via private placements were deemed easier in terms of filing and documentary requirements to SEC Thailand. In addition, unrated bonds can be offered via private placements to Accredited Investors. As explained later in this report, unrated bonds (which are usually high-yield bonds) are specifically offered to HNW investors in Thailand.

### 2.2 Issue Size

Average issue size in Thailand in December 2019 was around USD65.11 million which was considered in the middle among ASEAN6 during the same time period. In the same manner, maximum issue size of Thailand reached USD1,360 million, which was the second biggest next to Malaysia.

**Table 2.1: Comparison of Average Issue Sizes of Corporate Bonds in ASEAN6, 2019 (USD million)**

Country	Average Issue Size	Minimum Issue Size	Maximum Issue Size
<b>Thailand</b>	<b>65.11</b>	<b>0.14</b>	<b>1,360</b>
Philippines	132.77	1.86	670.54
Viet Nam	60.55	0.50	414.27
Indonesia	36.03	0.75	634.87
Malaysia	57.49	>0.01	3,430.00
Singapore	157.80	248.96	1,100.00

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam, USD = United States dollar

Source: Bloomberg.

<sup>4</sup> Asian Development Bank (ADB). 2016. ASEAN+3 Bond Market Guide 2016: Thailand.

<https://www.adb.org/sites/default/files/publication/198606/asean3-bond-market-guide-2016-tha.pdf> (23 October 2019);

Additional reference on the concept of Accredited Investors in Thailand corporate bond market: Securities and Exchange Commission (SEC) Thailand. 2012. SEC News Release No. 65/2012. News release. 26 June.

[http://capital.sec.or.th/webapp/webnews/news.php?cboType=5&lq=en&news\\_no=65&news\\_yy=2012](http://capital.sec.or.th/webapp/webnews/news.php?cboType=5&lq=en&news_no=65&news_yy=2012) (12 December 2019).

## 2.3 Maturity Distribution<sup>5</sup>

As shown in Table 2.2, the average maturity of Thailand's corporate bonds was around 5.4 years as of 2019. Though having larger issuance sizes, the maturity distribution of corporate bonds in Thailand was relatively shorter than those of other countries, such as Malaysia, Singapore, and the Philippines. As observed in the table, the average maturity of corporate bonds in Thailand is the second shortest next to Indonesia. The tenors of outstanding bonds were relatively dispersed between less than 3 years to 10 years. Bond issuance of more than 10 years in tenor was not so dominant.

**Table 2.2: Comparison of Maturity Distribution of Corporate Bonds in ASEAN6, 2019**

Country	Up to 3 years (%)	>3 to 5 years (%)	>5 to 10 years (%)	>10 years (%)	Perpetual (%)	Average Maturity (Y)
<b>Thailand</b>	40	26	27	6	1	<b>5.4</b>
Philippines	13	8	69	10	0	7.1
Viet Nam	39	27	28	6	0	5.8
Indonesia	44	32	20	4	0	5.0
Malaysia	15	15	35	33	2	9.3
Singapore	10	21	46	9	13	7.7

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam; Y = year

Note: Figures may not add up to 100% due to rounding off. Average maturity refers to simple average of original maturities of bonds.

Source: Bloomberg.

Table 2.3 shows that in terms of industry, most of the bonds in the Financials, Real Estate, and Consumer Discretionary recorded a sizable number of issuances in shorter tenor bonds (up to 3 years maturity distribution). However, companies in the Consumer Staples industry recorded longer tenor bonds with maturities from 5 to 10 years. Some companies in the Consumer Staples included the more recognized companies in Thailand, such as CP All and Thai Beverage which have extensive experience in the corporate bond market.

**Table 2.3: Maturity Distribution of THB Corporate Bonds by Industry, 2019 (%)**

Industry	Up to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Perpetual
Financials	43	32	21	3	--
Real Estate	53	23	20	1	3
Consumer Discretionary	53	25	16	6	0
Consumer Staples	16	18	51	13	2
Others	29	24	35	10	1
<b>Total</b>	<b>40</b>	<b>26</b>	<b>27</b>	<b>6</b>	<b>1</b>

THB = Thailand baht

Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.

Source: Bloomberg.

<sup>5</sup> This section does not follow the definition of Thailand for corporate bonds in terms of maturity definition, as mentioned in Chapter 1.1 of this report. The reason for doing so is to be able to compare across other ASEAN6 countries (ASEAN6 is the collective name for Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam).

## 2.4 Maturity Type

Similar to other ASEAN markets, straight bonds were common in Thailand (79% of outstanding bonds in the market as seen in Table 2.4). While callable bonds in Thailand were not as common as the Philippines, these occupied 19% of total outstanding corporate bonds in Thailand.

**Table 2.4: Comparison of Maturity Type of Corporate Bonds in ASEAN6, 2019 (%)**

Country	Straight	Callable	Sinkable	Convertible	Others
<b>Thailand</b>	79	19	1	0	2
Philippines	40	57	2	--	2
Viet Nam	83	8	1	7	--
Indonesia	99	1	0	0	0
Malaysia	90	4	0	2	3
Singapore	73	11	0	1	15

ASEAN6 = Association of Southeast Asian Nations member countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.

Source: Bloomberg.

Callable bonds had an average maturity of 6.5 years. Callable bonds were issued in tenors of 5 years, 7 years, and 10 years. In terms of maturity type structure, about 43% of the callable bonds had variable rate structure, while 57% of the callable bonds had fixed rate structure. Table 2.5 shows maturity types of corporate bonds across industries.

**Table 2.5: Ratio of THB Corporate Bonds by Industry and Maturity Type, 2019 (%)**

Industry	Straight	Callable	Sinkable	Convertible	Others
Financials	64	36	0	--	0
Real Estate	81	15	0	0	3
Consumer Discretionary	94	5	--	--	0
Consumer Staples	88	9	--	--	4
Others	82	13	1	0	3
Total	79	19	1	0	2

THB = Thailand baht

Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.

Source: Bloomberg.

The concentration of callable bonds was seen in the Financials sector. Within the Financials sector, banks would be a major issuer of callable bonds, issuing 52% of the callable bonds as of 2019. Those issued bonds with 10-year and 10.5-year maturities (which accounted for about 21% of callable bonds by banks) were issued for the Basel III Tier 2 capital.

## 2.5 Coupon Type

The popularity of fixed coupon type across ASEAN6 countries was also seen in the corporate bond market of Thailand. Fixed coupon type took up 88% of total outstanding corporate bonds in Thailand, while only 11% had variable coupon structure. Upon investigating, the variable coupon bonds mirror a floating rate structure. The coupon of some variable bonds is linked to THBFIX-6M. From the Bank of Thailand website, the Thai Baht Interest

Rate Fixing (THBFIX) means the synthetic rate for deposits in Thailand baht (THB). This rate represents the effective cost of borrowing THB by borrowing USD for the same maturity, and swapping out the USD in return for the THB.<sup>6</sup>

**Table 2.6: Comparison of Coupon Type of Corporate Bonds in ASEAN6, 2019 (%)**

Country	Fixed	Floating	Step Coupon	Variable	Zero	Others
<b>Thailand</b>	<b>88</b>	--	<b>1</b>	<b>11</b>	<b>0</b>	--
Philippines	93	1	0	3	3	--
Viet Nam	39	45	3	11	1	--
Indonesia	97	0	1	0	2	--
Malaysia	73	16	2	1	8	0
Singapore	77	1	3	19	--	--

ASEAN6 = Association of Southeast Asian Nations member countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.

Source: Bloomberg.

As mentioned earlier, in terms of industries, variable coupon bonds were mainly issued by companies in the Financials sector (specifically, banks). Other industries such as the Real Estate, Consumer Discretionary, and Consumer Staples were heavily leaning towards a fixed coupon type structure, as shown in Table 2.7.

**Table 2.7: Ratio of THB Corporate Bonds by Industry and Coupon Type, 2019 (%)**

Industry	Fixed	Variable	Step Coupon	Zero
Financials	68	31	0	0
Real Estate	96	3	1	0
Consumer Discretionary	98	0	0	0
Consumer Staples	97	2	1	--
Others	98	1	1	0
Total	88	11	1	0

THB = Thailand baht

Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.

Source: Bloomberg.

Meanwhile, in terms of coupon payment frequency, semiannual relatively dominated the market. One characteristic to note is that of the Real Estate, since quarterly coupon frequency is more common compared to semiannual. Based on information on outstanding THB corporate bonds, there were very small amount of annual and monthly coupon frequency.

**Table 2.8: Ratio of THB Corporate Bonds by Industry and Coupon Frequency, 2019 (%)**

Industry	Monthly	Quarterly	Semiannual	Annual	No Information
Financials	0	28	67	0	5
Real Estate	--	59	41	--	1
Consumer Discretionary	--	26	72	--	2
Consumer Staples	--	10	90	--	--
Others	--	42	58	--	0
Total	0	35	63	0	2

THB = Thailand baht

Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.

Source: Bloomberg.

<sup>6</sup> This is due to the differences in sources. Thai BMA reports floating rate notes and bonds. When compared with data found in Bloomberg, the bonds are the same.

## 2.6 Payment Rank

Unsecured bonds were common in Thailand, similar to other markets in ASEAN6. About 92% of total outstanding bonds in Thailand were considered as unsecured bonds as seen in Table 2.9.

**Table 2.9: Comparison of Payment Rank of Corporate Bonds in ASEAN6, 2019 (%)**

Country	Secured	Unsecured	Subordinated
<b>Thailand</b>	5	92	3
Philippines	4	89	7
Viet Nam	8	90	1
Indonesia	19	77	4
Malaysia	54	41	6
Singapore	3	83	13

ASEAN6 = Association of Southeast Asian Nations member countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Note: Figures may not add up to 100% due to rounding off.

Source: Bloomberg.

Throughout the sectors, unsecured bonds dominated the corporate bond market in Thailand, as seen in Table 2.10. While the Real Estate sector had relatively larger secured bonds ratio of 11%, it was also dominated by unsecured bonds.

**Table 2.10: Ratio of THB Corporate Bonds by Industry and Payment Rank, 2019 (%)**

Industry	Secured	Unsecured	Subordinated
Financials	3	90	6
Real Estate	11	86	3
Consumer Discretionary	8	92	0
Consumer Staples	2	96	2
Others	2	97	0
Total	5	92	3

THB = Thailand baht

Note: Figures may not add up to 100% due to rounding off. "0%" denotes < 1% ratio.

Source: Bloomberg.

## 2.7 Credit Ratings

In terms of credit ratings, Table 2.11 shows that overall, 99% of the rated corporate bonds in Thailand received a rating of BBB and above. One distinct characteristic of Thailand's corporate bond market is the generosity to credit ratings in comparison with its peers. While only AAA and AA rated issuers are active in most of ASEAN6 countries, A ratings are dominant and even a significant share of BBB ratings are observed in Thailand.

**Table 2.11: Comparison of Credit Ratings Across ASEAN6 Countries, 2019 (%)**

Country	AAA	AA	A	BBB	BB	Below BB
Thailand	6	15	65	13	1	0
Indonesia	52	16	23	6	1	2
Malaysia	35	55	6	0	1	4
Philippines	94	6	--	--	--	--
Singapore	--	6	22	72	--	--

ASEAN6 = Association of Southeast Asian Nations member countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Note: The calculation of the dispersion of credit ratings is based on the number of rated corporate bonds. Unrated corporate bonds are not included.

Source: Bloomberg.

While A rated bonds are dominant throughout the sectors or industries in Thailand, the financial and consumer related industries have better rated bonds or issuers on average than other industries, as shown in Table 2.12.

**Table 2.12: Ratio of THB Corporate Bonds by Industry and Credit Ratings, 2019 (%)**

Industry	AAA	AA	A	BBB	BB	B	WR
Financials	13	2	76	8	--	--	1
Real Estate	--	18	67	11	4	1	--
Consumer Discretionary	18	2	76	3	--	--	1
Consumer Staples	--	18	82	1	--	--	--
Others	1	25	45	29	0	--	--
Total	6	15	65	13	1	0	0

THB = Thailand baht

Notes:

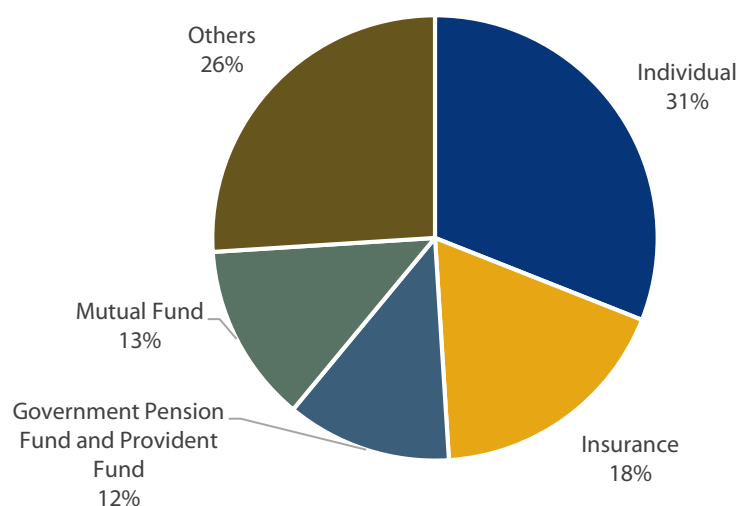
1. Figures may not sum up to 100% due to rounding off.
2. Ratings refer to the latest TRIS Rating (Thai Rating and Information Services Co., Ltd.) for each bond per sector.
3. "0%" denotes > 1% ratio.

Source: Bloomberg.

### 3 Investors

One interesting feature of Thailand's corporate bond market is its investor base. The biggest investor group of corporate bonds in Thailand is individual investors, who are not active corporate bond investors in most of other countries. Insurance companies are next, holding 18% of the total corporate bonds. Other top investors include asset management companies and government pension funds.

**Figure 3.1: Corporate Bond Investors in Thailand, 2019**



Source: Thai BMA Annual Report 2019.

A summary of investment appetite among select investor groups is found in Table 3.1.<sup>7</sup> Life insurance companies have a relatively longer tenor appetite compared to other investor groups, which follows their liability requirements. On the other hand, HNW investors have a generally diverse appetite on tenor of corporate bonds. Across the different types of investors, it is seen in the table that there is no preference on issuer names or issuer groups. Investors, however, are more sensitive on identifying potential investments through credit ratings.

**Table 3.1: Summary of Investment Appetite for Corporate Bonds Among Select Investor Groups**

	Mutual Funds	Pension Funds	Life Insurance	High Net Worth
Tenor	3–5 years	3–5 years	5–10 years	1–10 years
Currency	THB and FCY <sup>a</sup>	THB	THB and FCY <sup>a</sup>	THB and FCY <sup>a</sup>
Credit Rating	A- and above	A- and above	A- and above	BBB+ on average

FCY = foreign currency, THB = Thailand baht

<sup>a</sup> FCY means United States dollar (USD), European Union euro (EUR), Japan yen (JPY), and ASEAN currencies.

Source: Information gathered from market interviews.

One distinct difference is in the credit rating preferences. Mutual funds, pension funds, and life insurance companies—all of which are included in the institutional investor group in Thailand—prefer bonds with a credit rating of at least A-, as directed by their respective internal credit policies. Meanwhile, HNW investors have a credit rating preference of BBB+ on average. Though being open to accept bonds higher than BBB+, HNW investors have stronger preference for lower rated bonds in order to take advantage of higher yields, compared to institutional investors whose yield preferences are restricted by their respective internal policies on credit rating requirements.

### 3.1 Individual Investors

Referring to Figure 3.1 shown previously, individual investors hold a significant share of corporate bonds in Thailand. These “individuals” also include the HNW investors. In Thailand, HNW investors may refer to juristic entities or natural persons who have satisfied several financial requirements. To provide more guidance on the concept of HNW investors, SEC Thailand passed the *Notification of the SEC Kor Jor. 4/2560*, which determines the definitions of institutional investor, ultra-high net worth investor, and high net worth investors.<sup>8</sup>

Based on the notification, ultra-high net worth and high net worth investors referring to individuals should fit any of the description indicated in Table 3.2.<sup>9</sup>

**Table 3.2: Definition of High-Net Worth Investors Referring to Individuals**

	Ultra-High Net Worth	High-Net Worth
Net Asset Value	At least THB70 million (~USD2.31 million)	At least THB50 million (~USD1.65 million)
Annual Income	At least THB10 million (~USD0.33 million)	At least THB4 million (~USD0.13 million)
Direct Investments in securities and	Between THB25 million and THB50 million, when combined with deposits (~USD0.83million to USD1.65 million)	Between THB10 million and THB20 million when combined with deposits (~USD0.33 million to USD0.66 million)

THB = Thailand baht, USD = United States dollar

Source: Securities and Exchange Commission (SEC) Thailand. 2019.

<sup>7</sup> Information gathered through market interviews.

<sup>8</sup> SEC Thailand. Notification of the Securities and Exchange Commission No. Kor Jor. 4/2560, *Determination of the Definitions of Institutional Investor, Ultra-high Net Worth Investor and High Net Worth Investor*. Unofficial English Translation. <http://capital.sec.or.th/webapp/nrs/data/7186se.pdf> (23 October 2019).

<sup>9</sup> To simplify the notification described in this section, “individuals” refer to a natural person including the spouse.

A privilege of HNW investors is better accessibility to capital markets compared to other retail investors. Furthermore, one reason for introducing the concept of ultra-high net worth is to be able to target them for specific mutual fund products.

The investment appetite of HNW investors is mainly defined by the yield. There is no specific preference for tenor or issuer name. As long as the yield is high, an HNW would invest. As will be explained in the later chapters, those bonds rated BBB+ and below (or, even the unrated bonds) would have higher yields.<sup>10</sup>

## 3.2 Insurance Companies

Insurance companies are traditionally a key investor group for corporate bonds. As insurance companies can be segmented according to life and non-life categories, they have different asset management strategies. Life insurance companies have liabilities with durations that are very long because they sell pensions and whole life insurances. As a result, they need to invest in long term bonds to reduce the tenor mismatch between assets and liabilities. On the other hand, non-life insurance companies have liabilities with durations that are short because one of their main products is automobile insurance, of which maturity is generally 1 year. Therefore, they invest in shorter-maturity bonds than life insurance companies.

Table 3.3 below presents some information on the insurance industry in Thailand. Based on the table, the top 5 life insurance companies already took 69% of the total market share, while the top 5 non-life insurance companies comprised 41%.

**Table 3.3: Top 10 Life and Non-Life Insurance Companies in Thailand by Total Revenues, 2018**

Ranking	Life Insurance Companies		Non-life Insurance Companies	
	Company	% of Total Revenue	Company	% of Total Revenue
1	AIA	21	Viriyah	16
2	Muang Thai Life	15	Dhipaya	8
3	Thai Life Insurance	14	Bangkok	7
4	Krung Thai AXA Life	11	Muang Thai	5
5	SCB Life	8	Southeast	5
6	Bangkok Life	7	Symunkong	5
7	Allianz Ayudhya	5	Chubb	4
8	FWD Thailand	4	The Safety	4
9	Prudential	4	Tokio Marine	4
10	Ocean Life	2	Thanachart	4
	Others	9	Others	38

Source: Thai General Insurance Association. <https://www.tgia.org/index-EN>.

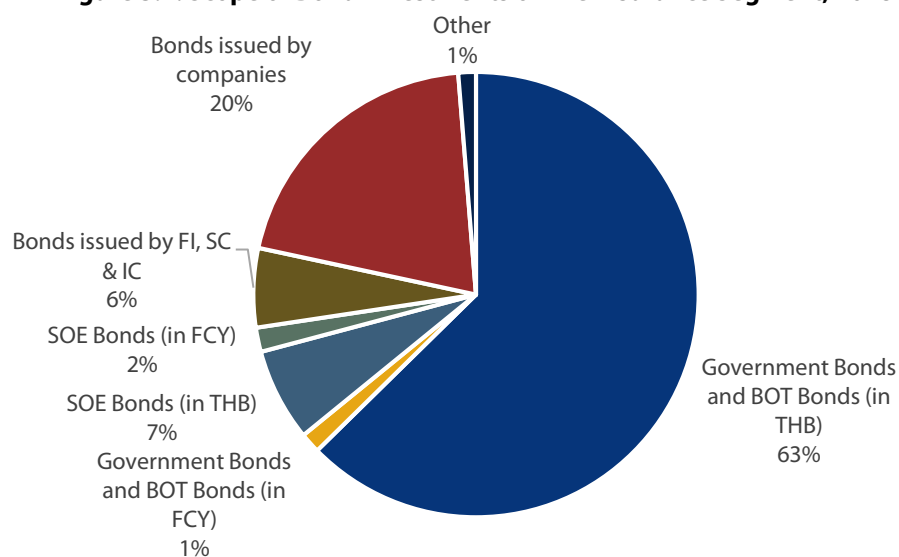
### *Life Insurance*

Based on available data from the Office of Insurance Commission of Thailand (OIC Thailand), life insurance companies were investing in three main product categories—investments in securities, loans, and cash. Total investments in the life insurance segment reached THB3,250 billion in 2018.

Investments in securities totaled to THB3,060 billion, wherein THB2,830 billion were invested in bonds and THB230 billion were invested in equities. Within bond investments, 63% were invested in THB-denominated government bonds and Bank of Thailand (BOT) bonds. Investments on bonds issued by companies (or, corporate bonds) took up 20% of the total investments in bonds.

<sup>10</sup> It was previously known that the ratio of individual investors had been high in Thailand. Recently, there were cases of default in unrated bonds. With this, market regulators have been active on educating retail investors on unrated bonds.

**Figure 3.2: Scope of Bond Investments of Life Insurance Segment, 2018**



BOT = Bank of Thailand, FCY = foreign currency, FI = financial institution, IC = insurance companies, SC = securities companies, SOE = state-owned enterprises, THB = Thailand Baht

Source: Office of Insurance Commission (OIC) Thailand. <https://www.oic.or.th/en/home>.

Life insurance companies would have more appetite for corporate bonds. In summary, their investment appetite for corporate bonds is explained in Table 3.4.

**Table 3.4: Investment Preferences for Corporate Bonds of Select Life Insurance Companies in Thailand**

	<b>Investment Preference</b>
Issuance Method	There is no specific preference between PP and PO.
Tenor	Though some insurers prefer more than 10 years, most of them are investing in bonds with tenor of 5–10 years.
Credit Rating	A- is the minimum credit rating requirement. Unrated bonds are not allowed to be invested, regardless of the creditworthiness of the issuer.
Currency	THB and FCY. About 10%–15% of portfolio is invested in FCY, mostly in USD, EUR and JPY. FCY investments are fully hedged to THB.
Guaranteed Bonds	Generally, life insurance companies consider the rating of the guarantor especially for issues with BBB- and lower. In terms of the yield, life insurance companies accept yield from guaranteed bond as much as plain vanilla bond with same rating.

EUR = European Union euro, JPY = Japan yen, FCY = foreign currency, PP = private placement, PO = public offering, THB = Thailand baht, USD = United States dollar

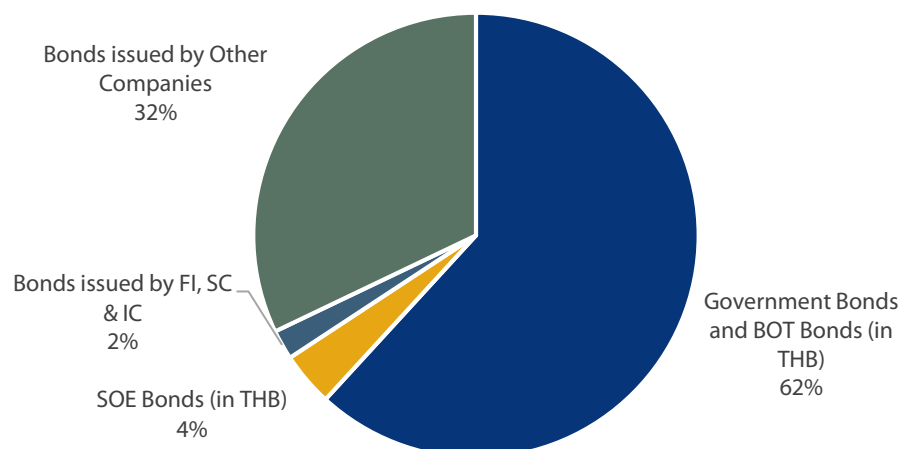
Source: Interviews with market players in Thailand (2019).

#### *Non-Life Insurance*

Non-life insurance companies recorded a total investment of THB319 billion in the fourth quarter (Q4) of 2018. Out of these, securities investments amounted to THB231 billion, or 72% of total investments. Other investments

included loans as well as cash and deposits in banks. For bonds, non-life insurance companies invested around THB116 billion in Q4 of 2018. In fact, investments in bonds were about 36% of total investments. About 34% of total bond investments were corporate bonds. As reference, Figure 3.3 shows the scope of bond investments among non-life insurance companies.

**Figure 3.3: Scope of Bond Investments of Non-Life Insurance Segment, 2018**



BOT = Bank of Thailand, FI = financial institutions, IC = insurance companies, SC = securities companies, SOE = state-owned enterprises, THB = Thailand baht  
Source: OIC Thailand.

### 3.3 Contractual Savings Funds

Contractual savings funds (CSF) include the social security fund, the government pension fund, and provident funds. This section of the report focuses on the social security fund and the government pension fund, since provident funds are managed by asset management companies and life insurance companies which have a private fund management license. Table 3.5 shows a summary of the investment appetite of CSF in Thailand.

**Table 3.5: Summary of Investment Preferences of Contractual Savings Funds**

	<b>Investment Preference</b>
Issuance Method	No preference for PP or PO
Tenor	Prefer 5 to 7 years for corporate bonds; CSF can accommodate a maximum tenor of up to 10 years
Credit Rating	Can start investments from BBB
Currency	THB and FCY
Guaranteed Bonds	<ul style="list-style-type: none"> <li>• Consideration on investing in fully guaranteed bonds</li> <li>• Preference for guarantors to have a direct business relationship with the issuer (e.g., parent company)</li> </ul>

CSF = Contractual Savings Funds, FCY = foreign currency, PO = public offering, PP = private placement, THB = Thailand baht  
Source: Interviews with market players in Thailand (2019).

### *Social Security Fund*

The Social Security Office (SSO) of Thailand manages the social security fund (SSF) in the country. The SSF is a mandatory contribution among the government, employers, and formally employed population in Thailand. The SSF was established to provide welfare for formal workers. Benefits under the SSF include pensions, disability benefits, unemployment benefits, sickness, and death benefits.

The current investment mix of the SSO consists of: 74% domestic fixed income 11% domestic equity, 5% foreign fixed income, 3% foreign equity, and 7% other investments. Other investment preference of the SSO for corporate bonds are summarized in Table 3.6.

**Table 3.6: Investment Preferences of Social Security Office of Thailand**

	<b>Investment Preference</b>
Issuance Method	No specific preference, as SSO can invest in PP and PO. SSO has a 50:50 ratio in terms of investments between PP and PO.
Tenor	Ranges from 1 year to 10 years. Current duration of corporate bonds is 2–3 years.
Credit Rating	A- is a minimum credit rating requirement. SSO does not invest in unrated bonds. About half of the corporate bonds in SSO's portfolio are rated AAA.
Currency	THB and FCY FCY investments are in the form of fixed income ETF in USD.
Issue Size	Up to 25% of the issue size
Guarantees	SSO considers investing in fully guaranteed bonds only. Having a credit guarantee is part of SSO's decision factors, especially if it is a parent guarantee, or if the guarantor is a major shareholder of the issuer.

ETF = exchange trade fund, FCY = foreign currency, PO = public offering, PP = private placement, SSO = Social Security Office, THB = Thailand baht, USD = United States dollar

Source: Interviews with market players in Thailand (2019).

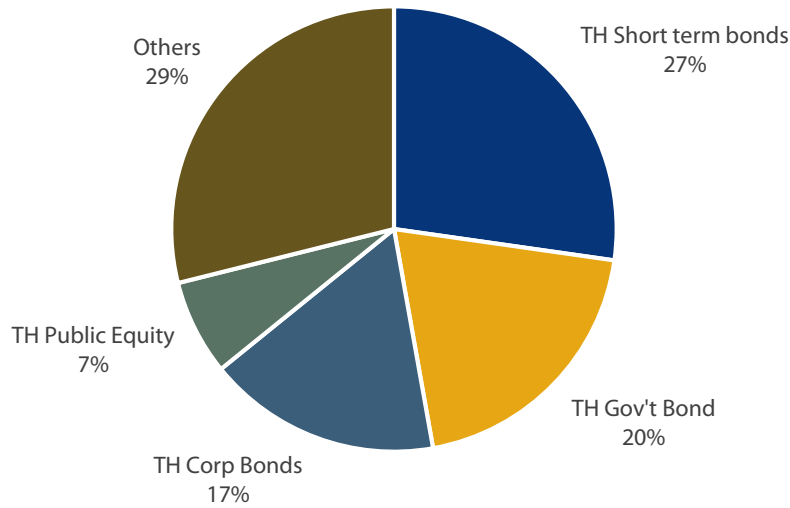
The SSO maintains a very prudent stance in case of potential downgrades in their bond holdings. They will analyze any credit downgrades and will sell the securities as necessary.

### *Government Pension Fund*

The government pension fund (GPF) is a defined contribution system, which is a mandatory savings scheme for government employees only. The long-term target return of GPF is set to be higher than the long-term inflation.

As shown in Figure 3.4 on the specific breakdown of investments as of December 2018, investments made by GPF in Thai corporate bonds was about 17%, making it the third largest asset class in its investment portfolio. Total assets reached THB382.12 billion in 2018.

**Figure 3.4: Investments of Government Pension Fund, 2018**



Source: Government Pension Fund. [https://www3.gpf.or.th/eng2012/invest\\_growth.asp](https://www3.gpf.or.th/eng2012/invest_growth.asp)

### 3.4 Asset Management Companies

In Thailand, asset management companies handle three specific businesses—mutual funds, provident funds, and private funds. Among these three, mutual funds are the biggest institutional investor class. A summary of investment appetite among asset management companies is shown in Table 3.7.

**Table 3.7: Summary of Investment Appetite Among Select Asset Management Companies**

	<b>Investment Preference</b>
Issuance Method	No preference for PP-AI, PP-10 or PO
Tenor	Ranging from 3 to 5 years for THB rated bonds Up to 2 years for THB unrated bonds Up to 3 years for FCY bonds
Credit Rating	Up to BBB in terms of local rating Unrated bonds may also be considered, depending on the yields
Currency	Mostly THB; with some investments in USD, EUR, JPY, and AED
Guaranteed Bonds	Considers investing on the following conditions: <ul style="list-style-type: none"> <li>• Bond carries a 100% guarantee, if the issuer is a new name in the industry</li> <li>• Partial guarantees can be accepted, depending on the credit quality of the guarantor and the issuer</li> </ul>

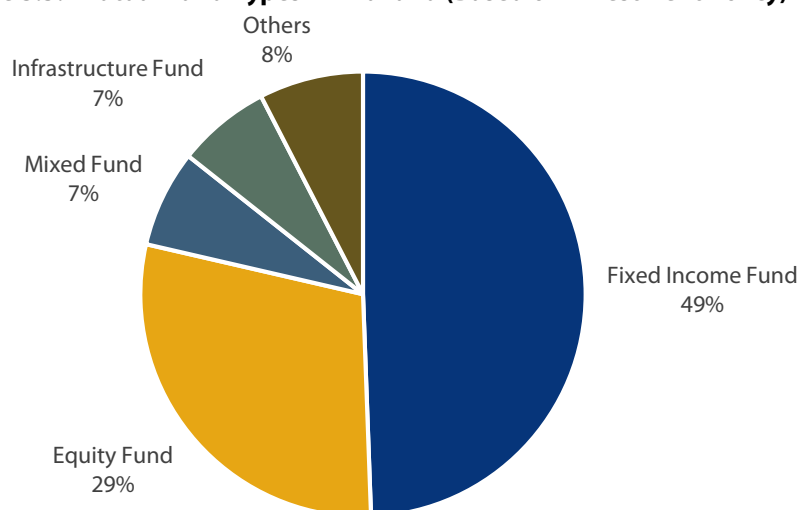
AED = United Arab Emirates dirham, EUR = European Union euro, FCY = foreign currency, JPY = Japan yen, PO = public offering, PP-AI = Private Placement to Accredited Investors, PP-10 = Private Placement to maximum of 10 investors, THB = Thailand baht, USD = United States dollar

Source: Interviews with market players in Thailand (2019).

## Mutual Funds

In 2018, there were 1,649 mutual funds in Thailand being managed by 23 asset management companies. In the same year, the entire mutual fund industry in Thailand reached THB5.06 trillion.<sup>11</sup> Mutual funds can be categorized in terms of its investment policy in fixed income, equities, and mixed funds [which may be composed of commodities, property funds, real estate investment funds (REITs), among others]. As seen in Figure 3.5, fixed income fund shows the highest share in the total NAV of the mutual fund industry (~49%), followed by the equity fund (~29%).

**Figure 3.5: Mutual Fund Types in Thailand (Based on Investment Policy)**



### Notes:

1. Data as of the last working day of January 2019.
2. Data for 2018 is not available for downloading at the Association of Investment Management Companies (AIMC) website at the time of writing this report.
3. See [http://oldweb.aimc.or.th/en/21\\_overview\\_detail.php?nid=16&subid=0&ntype=2](http://oldweb.aimc.or.th/en/21_overview_detail.php?nid=16&subid=0&ntype=2) for data breakdown.

Source: Association of Investment Management Companies (AIMC), Thailand.

The growth of mutual funds was affected by the implementation of new taxes for mutual funds, starting on 20 August 2019. Previously, mutual funds managed by asset management companies enjoyed a tax privilege not given to other investors, as they were exempted from 15% income tax.

In 2019, there had been a change in the tax treatment for mutual funds. Any interest income of mutual funds received from bond investments acquired since 20 August 2019 is subject to 15% income tax rate.<sup>12</sup> This change is expected to reduce the market share of the mutual funds as investors would receive less amount on the coupon payments of issuers. Within the short span of implementation, the new regulation negatively affected the trading of bonds.

<sup>11</sup> Association of Investment Management Companies (AIMC). 2020. Net asset value and growth of mutual funds 1992-2019. *Mutual Fund's Business Overview*. 3 January. [http://oldweb.aimc.or.th/en/21\\_overview\\_detail.php?nid=14&subid=0&ntype=2](http://oldweb.aimc.or.th/en/21_overview_detail.php?nid=14&subid=0&ntype=2) (accessed 28 October 2019).

<sup>12</sup> The interest income of Retirement Mutual Funds and provident funds remain exempt.

### *Private Fund Business*

Private funds started in 1996. Private fund management means, “the management of funds of a person or group of persons who has authorized the asset management company to acquire benefit from securities, whether or not investment in other assets is also made, which management is conducted as an ordinary course of business, in consideration of a fee or other remuneration.”<sup>13</sup> A group of person may consist of 2–35 members.

The Association of Investment Management Companies (AIMC) reports that in 2018, there were 6,505 private funds being managed by 23 asset management companies. Total asset value reached THB989.41 billion. Investment policy of a private fund depends on its member(s). As this may vary, an asset management company may invest in bonds ranging from money market securities to bonds with tenor of up to 10 years.

### *Provident Fund Business*

The main regulation for provident funds is the Provident Fund Act B.E. 2530 (1987). Provident funds are established on voluntary basis. Provident funds serve the objective of retirement planning among employees in Thailand.<sup>14</sup> As of December 2018, there were 16 companies which have license to manage provident funds. Out of these 16 companies, 15 are asset management companies and one is a life insurance company.<sup>15</sup>

In the same period, there were 382 provident funds established. The NAV of provident funds reached THB1.13 billion. Provident funds were mostly invested in corporate bonds (about 29% of total NAV), followed by government bonds (28%). Other investments include equities and certificate of deposits.

Investment policies of provident funds differ from one another, depending on the preference of each provident fund committee. In some of the funds, there is an “employee choice” concept, in which employees (or members) can select the proportion of their investment that suit their preference. Based on the experience of an asset management company, their unit holders in provident funds are typically conservative, in which the duration of the portfolio would be within 3–5 years.

## **3.5 Foreign Investors**

Holdings of foreign investors (non-residents) are almost negligible in Thailand’s corporate bond market. In 2019, non-resident investors had ~0% of corporate bond holdings. Foreign investors are mostly investing in benchmark government bonds in Thailand. One concern of foreign investors is the liquidity of corporate bonds. Corporate bonds are not actively traded since about 31% were held by individual investors. Another important factor which limits foreign investors in participating in the corporate bond market is taxation. When foreign investors buy corporate bonds, the interest income, capital gains and earned discount are subject to 15% withholding tax. However, if they invest in government bonds, there is no withholding tax.

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<sup>13</sup> AIMC. 2020. Private Fund. *Fund Information*. 29 April. [http://oldweb.aimc.or.th/en/22\\_infostats\\_personal\\_about.php](http://oldweb.aimc.or.th/en/22_infostats_personal_about.php) (28 October 2019).

<sup>14</sup> Provident funds may be formed as a single fund or pooled fund. A single fund is dedicated to only one employer, while a pooled fund is for multiple employers.

<sup>15</sup> The management of provident funds is not necessarily confined to asset management companies. Since majority of licensed provident fund managers are asset management companies, the discussion on provident funds is placed in this section.

## 4 Other Market Participants

### 4.1 Issuers

Out of 811 companies in Thailand which have issued corporate bonds outstanding as of 31 December 2019, 170 companies are listed in the Stock Exchange of Thailand (SET), while 641 are unlisted. Although the number of unlisted companies is more than that of the listed ones, the total value of the bonds issued by listed companies is greater because each listed company issues more bonds than each of the unlisted company on average. This is shown in Table 4.1. However, the average issue size of unlisted companies is larger compared to those listed. The largest issuance in 2019, amounting to THB 44,895 million, was issued by Thai Beverage, an unlisted company.

**Table 4.1: Listed and Unlisted Bond Issuers in Thailand, 2019**

	Listed Companies	Unlisted Companies
Number of Companies	170	641
Value of Bonds (THB Billion)	2,481.49	956.25
Number of Outstanding Bonds	1,264	355
Issue Amount (THB Million)		
Average	1,963.20	2,693.67
Minimum	5	13
Maximum	30,000	43,895

THB = Thailand baht

Source: Bloomberg; Author's calculations.

Furthermore, Table 4.2 shows the number of listed companies with outstanding bonds according to its market capitalization ranking. Companies belonging in the higher tier of market capitalization are seen to have experience in issuing bonds, as 58% of the top 100 companies had outstanding bonds. Meanwhile, the lower tiers had a smaller number of companies with outstanding corporate bonds.

**Table 4.2: Number of Listed Companies in Stock Exchange of Thailand with Outstanding Bonds, by Every 100 rankings, 2019**

Market Capitalization Ranking	Number of listed companies having outstanding bonds
1 to 100	58
101 to 200	36
201 to 300	21
301 to 400	16
401 to 500	12
501 to 600	15
600 to 811	12

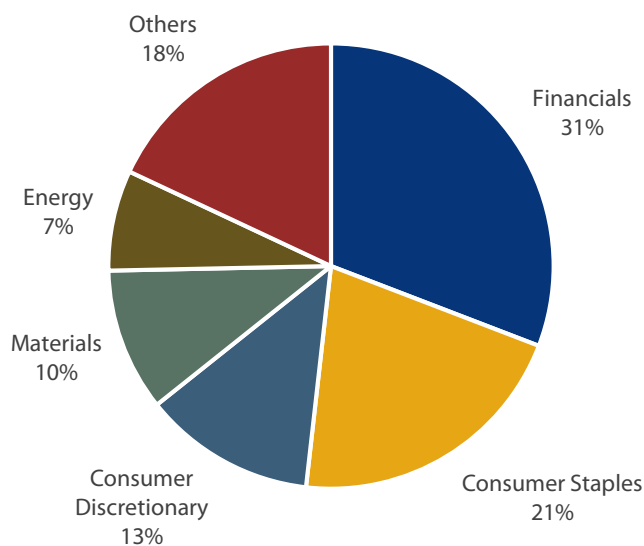
SET = Stock Exchange of Thailand

Source: Bloomberg; Author's calculations.

Some of the top companies which had extensive experience in issuing corporate bonds include established firms such as PTT Public Company Limited, CP All Plc., Siam Commercial Bank, and Kasikornbank.

In terms of industries, as shown in Figure 4.1, about 31% of outstanding issued amount of corporate bonds were contributed by companies in the Financials sector. This was followed by Consumer Staples, which contributed to 21% of the total issued amount. Other major sectors of corporate bond issuers include Consumer Discretionary, Materials, and Energy.

**Figure 4.1: Distribution of Issuers in Thailand According to their Industries (Based on Issued Amount), 2019**



Source: Bloomberg.

## 4.2 Thailand Bond Market Association

The Thailand Bond Market Association (Thai BMA) is a securities business-related association in the country. It is a self-regulatory organization (SRO) for a fair and efficient operation of the bond market. Thai BMA also acts as an information center for the Thai bond market.<sup>16</sup>

As an SRO, Thai BMA performs market monitoring and surveillance on trading activities to comply with relevant rules and regulations. In line with the regulatory functions, Thai BMA also formulates market rules and guidelines for its members. Thai BMA can also penalize those market traders that do not comply with the regulations.

Thai BMA also acts as a bond pricing agency by providing model yield and pricing data for mark-to-market purpose of investors. Aside from yield pricing data, Thai BMA also reports data on registered bonds which includes government and corporate bonds. Table 4.3 provides some information on Thai BMA found in the organization's website.

**Table 4.3: Thailand Bond Market Association**

Function	Some available information
Information center for corporate bonds	<ul style="list-style-type: none"> <li>• Details of corporate bonds</li> <li>• Yield curve</li> <li>• Bond indices</li> </ul>
Bond pricing agency	<ul style="list-style-type: none"> <li>• Bond price data per registered corporate bond</li> <li>• Bond calculation</li> </ul>
Market monitoring and surveillance on trading activities	<ul style="list-style-type: none"> <li>• List of rules and regulations</li> <li>• Market conventions</li> <li>• Market trading summaries</li> </ul>

Thai BMA = Thailand Bond Market Association

Source: Thailand Bond Market Association. <http://www.thaibma.or.th/EN/About/Background.aspx>.

<sup>16</sup> Thailand Bond Market Association (Thai BMA). <http://www.thaibma.or.th/EN/About/Background.aspx> (20 October 2019).

### 4.3 Credit Rating Agency

Corporate bonds are required to have at least one credit rating in Thai when they are issued through public offering. However, they are not mandatorily required to have a credit rating when they are issued through private placement. Ratings of issuers can be alternatively accepted in some cases and no credit rating is required in other cases.<sup>17</sup> As a result, THB bonds can have an issue rating, issuer rating, both or nothing depending on the bonds.

The two main credit rating agency (CRA) in Thailand are Thai Rating and Information Services (TRIS) and Fitch Ratings (Thailand) Limited. TRIS Rating seems to be the most popular CRA in Thailand. TRIS Rating is a strategic partner of S&P for the Thai debt capital market.<sup>18</sup> As of November 2019, TRIS Rating already evaluated a total of 235 issues.

## 5 Credit Spreads

Table 5.1 presents the corporate bond yield matrix of Thailand for a given date. Yield matrix indicates the yields of bonds from a specific credit rating across specific maturities. Thailand's yield matrix shows tight spreads from AAA to A- credit ratings per each tenor.

**Table 5.1: THB Corporate Bond Yield Matrix, as of 31 December 2019 (%)**

	1Y	3Y	5Y	7Y	10Y
Sovereign	1.19	1.23	1.31	1.41	1.55
AAA	1.48	1.70	1.88	2.08	2.32
AA+	1.59	1.92	2.17	2.41	2.70
AA	1.63	1.96	2.21	2.45	2.74
AA-	1.76	2.08	2.33	2.57	2.86
A+	1.76	2.09	2.33	2.58	2.87
A	1.78	2.12	2.37	2.63	2.92
A-	1.88	2.32	2.64	2.93	3.27
BBB+	2.70	3.14	3.45	3.74	4.08
BBB	3.45	3.88	4.19	4.48	4.82

THB = Thailand baht, Y = year

Source: Bloomberg.

The same trend is observed if credit spreads between corporate bonds and THB sovereign bonds are generated, as shown in Table 5.2.

**Table 5.2: THB Corporate Bond Credit Spread, as of 31 December 2019 (%)**

	1Y	3Y	5Y	7Y	10Y
AAA	0.29	0.47	0.57	0.67	0.77
AA+	0.40	0.69	0.86	1.00	1.15
AA	0.44	0.73	0.90	1.04	1.19
AA-	0.57	0.85	1.02	1.16	1.31

<sup>17</sup> According to the regulations associated with credit rating, (i) public issues need to have issue ratings, (ii) private placement issues can choose to have either issue or issuer ratings, and (iii) private placement with limited distribution (not exceeding 10 investors) is exempted from ratings.

<sup>18</sup> S&P Global Ratings acquired 49% of TRIS Rating in 2016.

A+	0.57	0.86	1.02	1.17	1.32
A	0.59	0.89	1.06	1.22	1.37
A-	0.69	1.09	1.33	1.52	1.72
BBB+	1.51	1.91	2.14	2.33	2.53
BBB	2.26	2.65	2.88	3.07	3.27

THB = Thailand baht, Y = year

Note: Figures refer to mid-YTM (yield-to-maturity) against corresponding THB benchmark sovereign bonds.

Source: Bloomberg.

The following observations can be noted from the figures presented in the table.

- Additional spread required for one notch difference is dramatically increased below A-.
- Spreads in AAA-rated bonds do not tend to have so much fluctuations across different tenors. It can be said that bonds with AAA rating are well accepted in the market.
- There is a significant difference between the spreads of bonds with BBB and A ratings. The reason for this trend is the difference in the target markets. In Thailand, BBB+ and below rated bonds are offered to HNW investors, who have greater preference for bond yields. On the other hand, institutional investors have greater appetite for A- and above rated bonds, which are aligned with their respective investment criteria.
- The difference between the spreads of A+ and AA- bonds was only marginal. For instance, for 1Y bonds, there was not really a difference between the presented figures (if expanded to a 4-digit decimal, the difference is about 0.4 bps). For 10Y bonds, the difference is just about 1 basis point.

## 6 Guaranteed Bonds

The ratio of guaranteed bonds in Thailand is about 9.2% of total value of the country's outstanding bonds (Table 6.1). This ratio was considered moderate together with Viet Nam in ASEAN6, neither substantial like Singapore and Malaysia, nor marginal like the Philippines and Indonesia.

**Table 6.1: Overview of Local Currency Guaranteed Corporate Bonds in ASEAN6 Markets, as of December 2019 (%)**

Country	Ratio of Value of Guaranteed Bonds	Ratio of Number of Guaranteed Bonds
<b>Thailand</b>	<b>9.2</b>	<b>7.5</b>
Philippines	0.7	2.5
Viet Nam	15.8	20.0
Indonesia	1.6	0.8
Singapore	41.6	46.2
Malaysia	36.6	36.5

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, Viet Nam, LCY = local currency

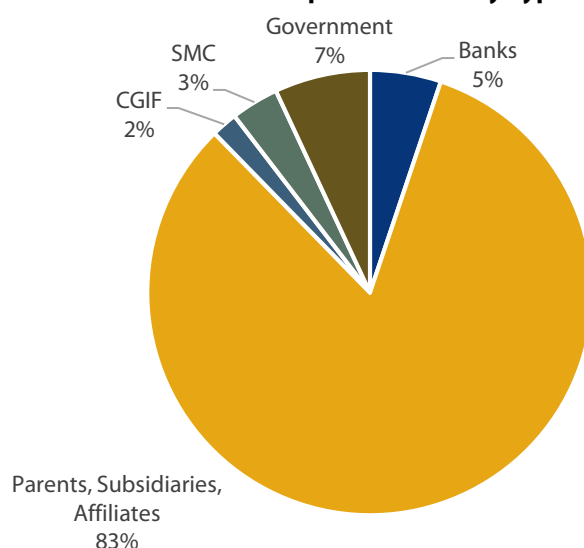
Source: Bloomberg; Authors' calculations.

### 6.1 Characteristics of THB Guaranteed Corporate Bond Market

Based on available data from Bloomberg, guaranteed bonds accounted for THB316.75 billion of Thailand's corporate bond market. Guarantors in the Thai market can be grouped as banks, parent companies, subsidiaries and affiliates, government, and other third-party guarantors such as the Credit Guarantee and Investment Facility (CGIF) and the Secondary Mortgage Corporation (SMC). The guarantor group of parent companies, subsidiaries and affiliates took up 83% of the total guaranteed corporate bonds, 7% was guaranteed by the national

government, and 5% was guaranteed by banks. CGIF guaranteed another 2% and SMC 3%. Figure 6.1 shows the distribution of guaranteed THB corporate bonds among the group of guarantors.

**Figure 6.1: Distribution of Guaranteed THB Corporate Bonds by Type of Guarantor, as of December 2019**



CGIF = Credit Guarantee and Investment Facility, SMC = Secondary Mortgage Corporation, THB = Thailand baht

Note: One of CGIF-guaranteed bond was co-guaranteed with Kasikornbank, with bond issuance worth THB2 billion.

Source: Bloomberg.

Table 6.2 shows some of the issuers which was reported to have guarantors on their respective bond issuances. As shown in the table, Toyota Leasing Thailand Co. Ltd. had the greatest number of outstanding guaranteed bonds, amounting to a total issue size of THB73.7 billion. The 20-year bond of PTT PCL was the outstanding bond that was guaranteed by the Thai government. CGIF provided guarantees for three bonds—two from Siamgas & Petrochemicals PCL and one from Boonthavorn Ceramic 2000 Co. Ltd. The THB2 billion-bond of Boonthavorn was co-guaranteed by CGIF and Kasikornbank.

**Table 6.2: Select THB Guaranteed Corporate Bond Issuers, 2019**

Issuer	Industry	Guarantor	Number of Issues	Total Amount Issued (THB million)	Average Maturity (Y)
Toyota Leasing Thailand Co. Ltd.	Consumer Discretionary (Financial leasing services)	Toyota Motor Finance	34	86,620	3.1
PTT PCL	Energy	National Government	1	1,000	20
Siamgas & Petrochemicals PCL	Energy	CGIF	2	4,000	5
Boonthavorn Ceramic 2000 Co. Ltd. <sup>a</sup>	Consumer Discretionary (Retail)	CGIF and KasikornBank	1	2,000	5
KNM Group Bhd <sup>b</sup>	Industrials	CGIF	1	2,780	5

Yoma Strategic Holdings Ltd. <sup>b</sup>	Diversified	CGIF	1	2,220	5
True Corporation PCL	Communications (Wireless Telecommunication)	Kasikornbank	1	8,330	7
Energy Absolute PCL	Utilities (Power Generation)	SCB	2	7,000	4.5
Loxley PCL	Technology (Communications Equipment)	SCB	2	1,000	6.0

CGIF = Credit Guarantee and Investment Facility, PCL = Public Company Limited, SCB = Siam Commercial Bank, THB = Thailand baht, Y = year

<sup>a</sup> This bond is co-guaranteed by CGIF and Kasikornbank.

<sup>b</sup> The bonds issued by KNM Group and Yoma Strategic Holdings are not included in the computation for Table 6.1 since it shows guaranteed bonds of local entities per each ASEAN6 country, issued in their respective local currencies.

Source: Bloomberg.

CGIF also provided guarantees for non-Thai entities which issued bonds in THB. These are the bonds issued by KNM Group (Malaysia) and Yoma Strategic Holdings (Myanmar). Such bonds can be considered as cross-border bonds, which will be discussed in the next section of this report.

In the Thai corporate bond market, guarantees from parent or group companies, banks and other third-party guarantors help increase the credit rating of the bond from the issuer rating. Even partial guarantees can improve the bond rating of at least 1 notch. Table 6.3 shows such comparison as well as the spread between the yields of guaranteed bonds and those of comparative corporate bonds with the same maturity and credit rating.<sup>19</sup>

**Table 6.3: Comparison of Guaranteed Bonds According to Type of Guarantees and Gap between Comparative THB Corporate Bonds**

Type of Guarantor	Guarantee Percentage	Issuer Rating <sup>b</sup>	Issue Rating <sup>b</sup>	Spread against comparative corporate bond yields
Parent / Subsidiary	100%	A+	A+	-0.09 to 0.16
		A	A	-0.04 to 0.11
		A-	A-	-0.05 to 0.14
		No rating	A(tha)	-0.06 to 0.18
Bank	100%	BBB+	AA-	-0.04 to -0.03
	45%-65%	BBB+	A-	0.09 to 0.45
CGIF	100% <sup>a</sup>	No rating	AA+	0.45
	70%	BBB+	A	0.66
	85%	BBB+	A+	0.55

CGIF = Credit Guarantee and Investment Facility, THB = Thailand baht

<sup>a</sup> This refers to the co-guarantee structure between CGIF and Kasikornbank for the corporate bond of Boonthavorn Ceramic.

<sup>b</sup> Ratings with "(tha)" suffix indicate rating from Fitch National Thailand. Otherwise, ratings were given by TRIS Rating Agency.

Note: For this table, a total of 40 guaranteed THB corporate bonds were surveyed.

Source: Bloomberg.

It is observed that the narrowest gaps are generally found in those bonds guaranteed by the parent or group company. In fact, the gaps imply that the coupon rates were nearly at par with the comparative corporate bond yield. This may indicate that investors do not require additional spread from the guaranteed bond against the ordinary bond with the same credit rating when the guarantor is the parent of the issuer. In addition, similar ratings

<sup>19</sup> The coupons of guaranteed bonds were compared with the yields indicated in the yield curve of a particular credit rating and maturity on the issuance date.

for both the bonds and the issuer may also reflect the strength of the issuer and subsidiaries or parent companies in terms of their collective assets and liquidity in fulfilling their debt obligations.

The spreads of bank-guaranteed bonds were also generally low.

## 6.2 Local Guarantors

### *Secondary Mortgage Corporation*

One notable guarantor is the Secondary Mortgage Corporation (SMC). SMC is a special financial institution, 100% owned by the Ministry of Finance. Its mission is to promote the Thai secondary mortgage market. SMC has a competitive advantage, since it received a special legal and regulatory support as well as tax privileges. The bonds guaranteed by SMC are residential mortgage backed securities issued by an SPV (Special Purpose Vehicle) originated by SMC. Table 6.4 provides basic information of SMC.

**Table 6.4: Secondary Mortgage Corporation**

Items	Details
History	Since 1997
Ownership	Fully owned by the Ministry of Finance
Missions	(i) Invest in a housing loan portfolio (ii) Issue securitization to the market
Target Issuance	One issuance per year
Main Partners	Siam Commercial Bank (SCB), Kasikornbank, and Bangkok Bank
Tax Privilege	All transfer of assets from banks to SPVs are tax exempt or tax neutral
Underlying Assets	Housing loans only
TRIS Rating <sup>a</sup>	AA-

SPV = special purpose vehicle

<sup>a</sup>Even though Secondary Mortgage Corporation (SMC) is fully-owned by the Ministry of Finance Thailand, the rating still stood at AA-. The reason for having this standalone credit profile was constrained by the deterioration in the asset quality of SMC over the past 2 years, in addition to steadying its financial performance and maintaining adequate capital levels. Based on a TRIS Rating report (<https://www.smc.or.th/images/pdf/SMC160-e.pdf>), the asset quality of SMC had deteriorated since 2015 as seen in its increasing non-performing loans.

Source: <https://www.smc.or.th/index.php/>.

### *Local Banks*

Commercial banks provide guarantees to the companies in Thailand. One distinctive characteristic of the guarantees provided by commercial banks is the partial guarantee. At the end of 2019, among the five outstanding bonds guaranteed by commercial banks, two bonds were 100% guaranteed and the other three bonds were partially guaranteed. Details of the partially guaranteed bonds are briefly described in Table 6.5. While Kasikornbank is the only partial guarantor left from the outstanding bonds at the end of 2019, Siam Commercial Bank is the other active bank providing partial guarantees.

**Table 6.5: List of Partially-Guaranteed Bonds by Commercial Banks**

Issuer	Guarantor	Issue Date	Maturity	Issuer Rating	Issue Rating	Guarantor Rating	% of Guarantee
True Corporation PCL	Kasikornbank	10 Nov 15	10 Nov 22	BBB+	A-	AA+	45%
Loxley Public Company Ltd.	Kasikornbank	18 Dec 15	18 Dec 20	BBB+	A-	AA+	45%
Loxley Public Company Ltd.	Kasikornbank	18 Dec 15	18 Dec 20	BBB+	A-	AA+	45%

PCL = Public Company Limited

Note: Issue and issuer ratings are from TRIS Rating and guarantor rating is from Fitch National Rating.

Source: Bloomberg.

Partial guarantee of banks is linked to the unique yield matrix situation of Thailand. Table 5.1 of Chapter 5 has shown that the spread between BBB+ and A- is much wider than the spread between AA+ and A- even if the former has only one notch difference whereas the latter has 5 notches difference. This unique spread situation was much more prominent in late 2015 when partial guaranteed bonds were actively issued. Three partial guaranteed bonds in Table 6.5 are still alive, while others have already matured as of the end of 2019. As shown in Table 6.6, the spread between AA+ and A- is only 0.30% despite 5 notches difference while the spread between A- and BBB+ is 1.17% despite only one notch difference.

**Table 6.6: THB Corporate Bond Yield Matrix, as of 30 November 2015 (%)**

	<b>1Y</b>	<b>3Y</b>	<b>5Y</b>	<b>7Y</b>	<b>10Y</b>
AA+	1.78	2.20	2.94	3.28	3.62
AA	1.83	2.25	3.00	3.33	3.68
AA-	1.84	2.27	3.02	3.36	3.71
A+	1.90	2.37	3.14	3.50	3.87
A	1.95	2.44	3.21	3.57	3.94
A-	1.97	2.46	3.24	3.60	3.97
BBB+	3.10	3.62	4.41	4.78	5.16

THB = Thailand baht, Y = year

Source: Bloomberg.

Based on rating results from TRIS, the bonds issued by BBB+ rated issuers are rated A- when they are guaranteed by AA+ rated banks with around 50% of guarantee rate. With this perspective, partial guarantees may be advantageous for both BBB+ rated issuers and banks as guarantors. BBB+ rated issuers would be able to issue higher-rated bonds, resulting to exposure to more institutional investors. In addition, banks would be able to charge more guarantee fee rate on partial guarantee than full guarantee.<sup>20</sup>

<sup>20</sup> Following is the example given to understand why more guarantee fee rate can be charged to partial guarantee than full guarantee. Assume that BBB+ rated issuer's bond can be rated A- if 50% guaranteed and AA+ if 100% guaranteed by an AA+ bank. Also assume that 4.41%, 3.24%, and 2.94% (numbers taken from Table 6.6) are required as coupon rates of this issuer's 5-year stand-alone bond, 50% guarantee bond and full guaranteed bond, respectively. The guarantor, AA+ bank, can charge 1.47% (4.41%–2.94%) guarantee fee rate at maximum for full guaranteed bond. However, the same can charge 2.34% [(4.41%–3.24%)\*2] guarantee fee rate at maximum for partial guaranteed bond under the assumption that there are no other costs.

## 7 Cross-Border Corporate Bonds

Inbound bonds discussed in this report mean the local currency bonds issued by foreign entities. They can be settled in the same local currency or in major currencies such as USD. The ratio of inbound bonds means the ratio of local currency bonds (in this context, THB-denominated bonds) of foreign entities to total local currency bonds issued by both local and foreign entities. Thus, this ratio implies how much foreign entities participate in the local currency bond market of the country. On the other hand, outbound bonds mean the foreign currency bonds issued by local entities. The ratio of outbound bonds refers to the ratio of FCY bonds of Thai corporate entities to total bonds issued by Thai entities. Thus, this ratio implies how much local entities rely on offshore markets for their bond financing. As shown in Table 7.1, Thailand did not record high inbound or outbound bond ratios relative to other ASEAN6 countries.

**Table 7.1: Cross-Border Corporate Bonds in ASEAN6 Countries, 2019 (%)**

Country	Ratio of Inbound Bonds	Ratio of Outbound Bonds
Thailand	1	5
Indonesia	39	8
Malaysia	1	4
Philippines	18	12
Singapore	44	77
Viet Nam	3	4

ASEAN6 = Association of Southeast Asian Nations member states Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

Note: The ratios are based on the number of corporate bonds issued.

Source: Bloomberg; Authors' calculations.

### 7.1 THB Bonds of Foreign Entities

There were nine non-Thai issuers which had outstanding THB-denominated corporate bonds as of December 2019 (Table 7.2). In total, there were 21 outstanding THB-denominated corporate bonds from these non-Thai issuers. Out of these 21 bonds, two bond issuances would be redeemed in USD, while the rest would be redeemed in THB. In this regard, THB bonds issued by foreign entities are mostly real inbounds which are the bonds issued and traded in Thailand. These THB-denominated bonds with THB as the redemption currency could indicate the presence of cross-border corporate bond transactions. This could also signify the potential of Thailand to host more cross-border corporate bonds for non-Thai companies using THB as the currency of issuance.

**Table 7.2: List of THB Corporate Bonds of Foreign Companies, as of December 2019**

Issuer Name	Country	Number of Outstanding Issues	Total Issued Amount (USD million)	Average Issued Amount (USD million)	Average Maturity (Y)
Central American Bank for Economic Integration	Supranational	1	40	40	10
EDL-Generation PCL	Lao PDR	11	683	62	8
European Bank for Reconstruction & Development	Supranational	1	9	9	3
KNM Group Bhd	Malaysia	1	78	78	5
Morgan Stanley Finance LLC	United States	1	6	6	5
Nam Ngum 2 Power Co Ltd	Lao PDR	7	464	66	7
Sumitomo Mitsui Banking Corp	Japan	2	181	91	3
Woori Bank	Republic of Korea	1	68	68	7
Yoma Strategic Holdings Ltd.	Singapore	1	70	70	5

Lao PDR = Lao People's Democratic Republic, THB = Thailand baht, USD = United States dollar, Y = year

Notes:

1. Average maturity refers to simple average maturity, based on original maturity of the bond.
  2. “Country” is based on the country of incorporation as recorded in Bloomberg.
  3. Issuances from European Bank for Reconstruction and Development (EBRD) and Morgan Stanley Finance LLC would be redeemed in USD.
  4. As a reference, CGIF provided guarantee to USD96 million equivalent THB-denominated bonds of Noble Group, a Hong Kong-based commodities supply chain manager. This bond had already matured.
- Source: Bloomberg.

Though not shown in Table 7.2, 18 out of these 26 bonds (~62% to total outstanding THB bonds from non-Thai entities) were issued for the Power Generation sector. This came from two issuers: EDL-Generation PCL and Nam Ngum 2 Power Co Ltd. On another note, out of these THB-denominated bonds from foreign entities, two bonds were guaranteed by CGIF— USD78-million equivalent corporate bond of KNM Group Bhd and USD70- million equivalent corporate bond of Yoma Strategic Holdings Ltd.

The THB bonds of foreign entities are also known as “Baht bonds”. Promoting these types of bonds serves the objective of increasing the proportion of foreign issuers and variety of products in the domestic market. It also encourages domestic investors to invest in good quality bonds. By regulation, Baht bonds can only be applied and issued three times a year to MOF Thailand. Each round of issuance should be completed within 9 months.

Spread in the last column of Table 7.3 shows some indication of how much foreign issuers pay funding costs compared to the Thailand government bond rate. Except for European Bank for Reconstruction and Development (EBRD), other foreign issuers are required to pay funding cost more than that of the Thai government even if they are better rated. Among the issuers whose ratings are higher than the Thai government, the spread seems to be more affected by individual name than its credit rating.

**Table 7.3: Comparison of Spreads Among Foreign Issuers and their Issuances**

Issuer	Issue Date	Maturity (Y)	Issue Rating at Issue Date	Thai Rating at Issue Date	Coupon Rate (YTM)	Thai Government Rate	Spread
EDL-Generation PCL	30 Jan 19	3.50	BBB+(T)	Baa1(M)	4.5	1.90	+2.60
Nam Ngum 2 Power	07 Mar 19	4	A(T)	Baa1(M)	3.44	2.07	+1.37
KNM Group Bhd	18 Nov 16	5	AAA(T)	Baa1(M)	3	2.09	+0.91
Yoma S. H.	25 Jan 19	5	AAA(T)	Baa1(M)	3.38	2.09	+1.29
SMBC Bangkok	8 Nov 18	3	AAA(FN)	Baa1(M)	2.66	2.01	+0.65
Morgan Stanley Finance	05 Nov 19	5	A3(M)	Baa1(M)	1.88	1.41	+0.47
Central American Bank for Economic Integration	17 Feb 11	10	A2(M)	Baa1(M)	4.88	3.89	+0.99
Woori Bank	28 Mar 13	17	A1(M)	Baa1(M)	4.31	3.41	+0.90
EBRD	08 Jul 19	5	AAA(F)	Baa1(M)	0.82	1.72	-0.90

Y = year, YTM = yield to maturity Note: (T) means rating given by TRIS Rating Agency; (F) means rating given by Fitch Ratings; and (M) means rating given by Moody's.  
Source: Bloomberg; Authors' calculations.

## 7.2 Foreign Currency Bonds of Thai Companies

In 2019, there were 23 Thai companies with outstanding 80 FCY bonds, mostly in USD, and to lesser extent in Malaysian ringgit (MYR) and EUR currencies. These Thai companies issued FCY bonds to support their operations, such as expansion to overseas locations. As iterated by market players, these issuers maximized operations within Thailand and some are now moving to seek opportunities outside the country. Table 7.4 lists the companies which issued FCY bonds.

**Table 7.4: List of Foreign Currency Bonds of Thai Companies**

<b>Issuer Name</b>	<b>Issuance Currency</b>	<b>Number of Issues</b>	<b>Total Issued Amount (USD million)</b>	<b>Average Issued Amount (USD million)</b>	<b>Average Maturity (Y)</b>
<b>Banks</b>					
Bangkok Bank PCL	USD	7	4,950	70	13
Bank of China Thai PCL	USD	1	70	70	10
CIMB Thai Bank PCL	MYR	3	377	126	10
Kasikornbank PCL	USD	6	1,741	290	6
Krung Thai Bank PCL	USD	1	230	230	5
	MYR	1	262	262	10
Siam Commercial Bank PCL	USD	32	1,918	60	3
TMB Bank PCL	USD	2	700	350	5.50
	EUR	4	579	145	2.75
<b>Consumer Discretionary</b>					
Minor International PCL <sup>1</sup>	USD	2	350	350 <sup>1</sup>	-
	EUR	1	92	92	15
Singha Estate PCL	USD	1	180	180	5
<b>Energy and Materials</b>					
Banpu PCL	USD	2	200	100	10
Indorama Ventures Global Services Ltd.	USD	1	300	300	5
PTT Global Chemical PCL	USD	1	1,000	1,000	10
PTT PCL	USD	2	950	950	30
PTTEP Treasury Center Co Ltd.	USD	2	1,150	575	40
GC Treasury Center Co Ltd.	USD	1	496	496	4.23
Thai Oil PCL	USD	2	1,000	500	15
Thaioil Treasury Center Co Ltd.	USD	5	2,176	435	20
<b>Consumer Staples</b>					
Thai Union Group PCL	USD	1	75	75	10

EUR = European Union euro, MYR = Malaysian ringgit, PCL = Public Company Limited, USD = Unites States dollar

<sup>1</sup> For Minor International PCL, out of the USD350 million issued bonds, USD50 million was issued as a perpetual callable bond. Source: Bloomberg.

Two examples of recent FCY issuances of Thai companies included those of Minor International PCL and Thai Union Group PCL. The issuance of Minor International was to support its recent mergers and acquisitions (M&A) This M&A was a takeover of NH hotel group in Spain in 2018. Thai Union’s issuance supported its M&A with Red Lobster, a leading seafood restaurant. With this perspective, it can be said that the FCY issuances of Thai entities were due to their respective business situations.

As seen in Table 7.4, most of the issuances are in USD. There are mainly two reasons why Thai companies issue USD bonds. First, they need USD funding which corresponds to USD revenue from their businesses. In this case, they do not convert into THB funding through swap transaction. Second, they issue USD bond when its THB funding cost after swap transaction is cheaper than that of the THB bond issuance.

Another important matter among FCY bonds is the “treasury centers” found in the Energy and Materials sectors. The concept of Treasury Centers was promoted to reduce transaction costs and help increase efficiency and

competitiveness of the companies through cash pooling and netting. This also facilitates companies—either parent companies overseas or in Thailand—to centralize treasury management in the country.<sup>21</sup>

Not all companies are eligible to establish its treasury center. A Treasury Center is defined as a Thai juristic person not engaging in financial business which manages foreign currency funds for its group companies both in Thailand and overseas.<sup>22</sup> Group companies wanting to establish a treasury center must also fulfill the following qualifications:

- A company operating as treasury center and the group companies shall be affiliated companies.<sup>23</sup>
- Group company must have either of the following: 3 group companies in Thailand, Viet Nam, or neighboring countries, or 2 group companies in Thailand and 2 affiliated companies in other countries
- The group company must have sufficient international trade or service volumes.

A Treasury Center has four main scope of business operation: (1) Payment and Collection, (2) netting of FX transactions, (3) FX Transactions & Risk Management, and (4) Liquidity Management. With these functions, a Treasury Center can pursue liquidity management strategies for the company or its group.

## 8 Securitization

Thai authorities have been working hard to provide an environment that would make securitization possible in accordance with the Capital Market Development Plan of 1992. Most notable in this regard was the passage of the Royal Enactment on Special Purpose Juristic Persons for Securitization (commonly known as the SPV Act) in 1997.<sup>24</sup> Issuers of securitized debentures under the SPV Act are entitled to tax privileges, provided that all remaining benefits of the securitization program (net of debt repayment and related expenditures of the program) are transferred to the originator to ensure that the real purpose of the securitization is to mobilize funds for the originator.

Securitization is regulated by SEC Thailand, which means that every securitization transaction needs to be approved by the agency. When the originator is a deposit-taking institution, the BOT jointly regulates the transaction.<sup>25</sup> The BOT's main role is to make sure that the structure is compliant with current banking regulations of the BOT and BIS guidelines. If securitization is issued as debt instrument, the dealer must report it to the Thai BMA. Since securitization is a structured instrument, the issuer must provide information related to its pricing to the Thai BMA.

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<sup>21</sup> As of September 2019, there were 34 Treasury Centers registered at the Bank of Thailand.

<sup>22</sup> Bank of Thailand (BOT). *Corporate Treasury Center*.

[http://www.boi.go.th/newboi/upload/content/03%20Treasury%20Center%2030062015%20\(Bank%20of%20Thailand\)%20ENG\\_15144.pdf](http://www.boi.go.th/newboi/upload/content/03%20Treasury%20Center%2030062015%20(Bank%20of%20Thailand)%20ENG_15144.pdf) (10 January 2020); BOT. 2020. Treasury Center. *Summary of Rules and Practices of Treasury Centers*. [https://www.bot.or.th/English/FinancialMarkets/ForeignExchangeRegulations/ForeignMeansOfPaymentBusinesses/TC\\_English%20Version/1.3%20Summary%20of%20rules%20and%20practices%20of%20Treasury%20Centers%20\(Last%20update%20as%20of%205%20September%202019%20\).pdf](https://www.bot.or.th/English/FinancialMarkets/ForeignExchangeRegulations/ForeignMeansOfPaymentBusinesses/TC_English%20Version/1.3%20Summary%20of%20rules%20and%20practices%20of%20Treasury%20Centers%20(Last%20update%20as%20of%205%20September%202019%20).pdf) (10 January 2020).

<sup>23</sup> "Affiliated companies", by BOT's definition, are:

- A subsidiary of the parent company, with shareholding of more than 50%; and
- An associate of the parent company, in which the shareholding of a subsidiary company to the associate is 10%–50% and shareholding to associate is more than 50%.

<sup>24</sup> ThaiLaws.com. *Emergency Decree on the Specific Purpose Juristic Person for Securitization*, B.E. 2540 (1997). Translation. [http://thailaws.com/law/t\\_laws/tlaw15150.pdf](http://thailaws.com/law/t_laws/tlaw15150.pdf) (12 December 2019).

<sup>25</sup> BOT. Notification of the Bank of Thailand No. FPG. 08/2551, *Permission for Financial Institutions to Conduct Securitization Business*. Unofficial English Translation. <https://www.bot.or.th/Thai/FIPCS/Documents/FPG/2551/EngPDF/25510298.pdf> (12 December 2019).

## Dhanarek Asset Development Company SPV

Dhanarek Asset Development Company (DAD) SPV is the first securitization program initiated by the government and is backed by the 30-year lease and fee payments of the new government office center at Chaeng Wattana from the Treasury Department (TD). In 2005, DAD entered into a 33-year land lease agreement with the department (3 years for construction, plus a 30-year building lease) and then leased the properties back to TD for those 30 years. On the closing date in late 2005, DAD transferred the rights to receive cash flows under the lease and service agreements, worth around THB40 billion, to DAD SPV as collateral. The purchase price of the rights was funded by the THB20.4 billion net proceeds of DAD SPV's seven series of bond issuances during 2005 and 2007, with the remaining balance met by the issuance of subordinated promissory notes to DAD. In addition, DAD SPV issued THB100,000 worth of subordinated bonds to a specific group of investors to maintain its SPV status for 33 years. The series of bond issuances by DAD have been rated at AAA by Fitch Rating (Thailand) according to its available committed stable cash flows from TD and the structure of the transaction. Although all tranches are different in terms of issue date, maturity, coupon, and issue amount, they have many things in common. They were issued through public offering and rated AAA from both TRIS and Fitch National. In addition, they are all senior unsecured bonds. Out of seven tranches issued, five are still unredeemed as of the time of writing.

Table 8.1 shows their details besides the common characteristics. In addition, it shows the initial credit spread of this bond over Thai Government rate with same maturity. The spreads range widely, from 0.63 to 1.20 percent depending on the issue time and tenor. It is unfortunate not to know the initial spread between securitized AAA bond and ordinary AAA bond as AAA rates are available only after November 2009.

**Table 8.1: Issue Details of Dhanarek Asset Development Company SPV**

ThaiBMA Symbol	Issue Date	Maturity Date	Coupon Rate (%)	Government Rate (%)	Spread (%)
DAD20NA	29 Nov 05	29 Nov 20	7.50	6.30	+1.20
DAD20NB	17 Oct 06	29 Nov 20	6.05	5.31	+0.74
DAD25NA	29 Nov 05	29 Nov 25	7.99	N/A	N/A
DAD25NB	17 Oct 06	29 Nov 25	6.50	5.39	+1.11
DAD25NC	20 Nov 07	29 Nov 25	6.05	5.42	+0.63

DAD = Dhanarek Asset Development Company SPV, SPV = Special Purpose Vehicle, ThaiBMA = Thailand Bond Market Association

Source: Thai BMA.

## SPV SMC 6, 7, 8

SPV SMC 6, 7, 8 are the issuers of outstanding residential mortgage backed securities guarantee by SMC. As already addressed in the section of guaranteed bond, SMC is a special financial institution, 100% owned by the Ministry of Finance, with a mission to promote the Thai secondary residential mortgage market. The issue details of SPV SMC series are very different from those of DAD SPV.

**Table 8.2: Comparison Between Dhanarek Asset Development SPV and SPV Secondary Mortgage Corporation**

	DAD SPV	SPV SMC
Underlying Assets	Lease and fee payments of office	Residential mortgage
Secured Type	Secured	Secured by guarantor (SMC)
TRIS Rating	AAA	AA-
Principal Payment	At maturity	Amortizing issue
Coupon Payment Frequency	Quarterly	Monthly
Distribution	Public Offering (PO)	Private Placement (PP) to 13 types of institutional investors, plus high net worth investors

Initial Maturity

10–15 years

3–5 years

DAD = Dhanarek Asset Development Company SPV, SMC = Secondary Mortgage Corporation, SPV = Special Purpose Vehicle  
Source: Interviews with market players for Distribution, Bloomberg for all other information (2019).

Issuance of securitization products in Thailand is considered rare. Aside from the mentioned DAD and SMC SPV, one issuer of securitization product was AEON Thana Sinsap PCL (AEONTS). AEONTS issued its 3-year asset-backed bond in 2010. The underlying assets were credit card receivables in Thailand.

From the market interviews, some institutional investors remain cautious to the concept of securitization as potential investment. Another reason is the complicated legal structure for the investors. On the other hand, issuers may also encounter higher costs compared to issuing corporate bonds. Investments on securitization may not come in the short term, but possibly in the future, when securitization products have been more established.

## 9 Regulatory Direction

### *Capital Market Development Plan*

The SEC Thailand released the 3-Year Capital Market Development Plan for 2019–2021, with the primary aim of increasing the activity of the country's capital market.<sup>26</sup> The Plan includes five strategic directions:

1. Democratized access to wealth advice;
2. Funding opportunities for growth and stability;
3. Digitalization of the capital market;
4. Future of supervision; and
5. Reform of regulation and regulators.

Of these strategic directions, the first strategy—democratized access to wealth advice—seems to be the most immediate direction. This strategy focuses its efforts on enlarging the investor base in Thailand. Even though individual investors have been active in Thailand's corporate bond market, the SEC is eager to explore more potential individual investors to channel savings to investments in corporate bonds.

### *Cross-Border Issuances*

Some market players expect that there will be more corporate bond issuances in the coming years, since companies are keen to expand operations. More financing will be done through corporate bonds. Issuances may not only come from local issuers, but also from other countries. Thailand has already opened its doors to cross-border issuances, as seen in the Baht bond issuances coming from issuers in the Mekong region.

Regulations for Baht bond issuances would be relaxed by the start of 2020. Back in 2016, proceeds from Baht bonds are directed to be used in Thailand, thus, limiting the remittance of proceeds to offshore markets. In a news brief by IFR News in 2020, the PDMO said that the agency would allow foreign issuers to swap the proceeds in the foreign exchange market and remit the proceeds offshore.<sup>27</sup>

### *Green Bonds Market Development*

The issuance of green bonds of Thai corporates began in 2018. However, the earlier bonds issued were offered to overseas markets. For example, TMB PCL issued a green bond in June 2018, but this issuance is denominated in

<sup>26</sup> Securities and Exchange Commission, Thailand. 2019. *Strategic Plan 2019–2021*.

<https://www.sec.or.th/EN/Documents/AboutSEC/StrategicPlan2019-2021.pdf> (25 October 2019).

<sup>27</sup> International Financing Review (IFR). 2020. *Thailand reopens bond market*. News. 23 January.

<https://www.ifre.com/story/2217696/thailand-reopens-bond-market-l4n29r1oy> (14 April 2020).

USD. The THB5 billion green bond by B.Grimm, issued in December 2018, was fully invested by the Asian Development Bank. The goal was to develop the green bond market in the country.<sup>28</sup>

In 2019, the green bonds from the BTS Group (with an issue amount of THB13 billion and maturities ranging from 2Y to 10Y) was issued for the local market. Most of the investors were institutional investors and HNW. It was also reported that this bond was 8.41 times oversubscribed, which could indicate some appetite from investors.<sup>29</sup> In addition, Energy Absolute PCL issued green bonds in 2019, with a total issue amount of THB10 billion. ADB is also among the investors for this bond, investing around THB3 billion.<sup>30</sup>

The SEC Thailand issued a guideline on the issuance or sale of green bonds.<sup>31</sup> In this guideline, SEC Thailand noted that green bonds are not a new product, and thus should follow the regulations for corporate bonds. In addition, green bond offerings should comply with internationally recognized standards. SEC Thailand also encourages the appointment of an external reviewer. The issuer of green bonds is required to disclose the credentials of the external reviewer and scope of review on the issuer's website or any other designated channel throughout the tenure of the bond.

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<sup>28</sup> ADB. 2018. ADB Invests 5 Billion Thai Baht in B.Grimm Power's Green Bond to Develop Clean Energy in Thailand. News Release. 11 December. <https://www.adb.org/news/adb-invests-5-billion-thai-baht-bgrimm-power-s-green-bond-develop-clean-energy-thailand> (14 April 2020).

<sup>29</sup> BTS Group Holdings PCL. *Towards the Sustainable Finance & Investment in Thailand*. A BTS Group Green Bond Presentation. <https://www.sec.or.th/TH/Documents/Seminars/seminar-bond-050862-01.pdf> (14 April 2020).

<sup>30</sup> ADB. 2019. ADB Invests 3 Billion Thai Baht in Energy Absolute's Green Bond for Wind Farm Development. News Release. 17 October. <https://www.adb.org/news/adb-invests-3-billion-thai-baht-energy-absolutes-green-bond-wind-farm-development> (14 April 2020).

<sup>31</sup> This paragraph refers to the unofficial English translation provided in SEC Thailand website, "Guidelines on Issuance and Offer for Sale of Green Bond and Sustainability Bond," <https://capital.sec.or.th/webapp/nrs/data/7874ae11.pdf> (14 April 2020). The guideline in original Thai language can be accessed at the following link: <https://capital.sec.or.th/webapp/nrs/data/7874a11.pdf>.

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  2. The Securities and Exchange Commission, Thailand. Regulations on Mutual Fund.  
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## Notes

Credit ratings are based on local credit rating agencies in respective ASEAN 6 countries. As reference, the following links provide the definition for credit ratings per each country in this report.

- Indonesia, PEFINDO: <http://www.pefindo.com/index.php/fileman/file?file=95>
- Malaysia, RAM Ratings: <https://www.ram.com.my/ratings/?morph=callpage&catid=90>
- Singapore, Moody's: <https://www.moody's.com/Pages/amr002002.aspx>
- Thailand, TRIS: [https://www.trisrating.com/files/3515/3795/8152/Symbol-e\\_Apr18.pdf](https://www.trisrating.com/files/3515/3795/8152/Symbol-e_Apr18.pdf)
- Philippines, PhilRatings: [http://www.philratings.com/\(S\(yf1prav3ubqqip55fkkitl45\)\)/issue.htm](http://www.philratings.com/(S(yf1prav3ubqqip55fkkitl45))/issue.htm)

### **About This Paper**

This research provides an overview of the corporate bond market in Thailand and its specific characteristics. Among other ASEAN countries, Thailand has a relatively developed corporate bond market. Its investor base is dominated by individual investors, followed by institutional investors such as insurance companies, mutual funds and contractual savings fund. Over the years, Thailand has welcome non-Thai issuers in its market through the promotion of "Baht Bonds". Other market development in the country includes the promotion of green bonds.

### **About CGIF**

CGIF is a multilateral facility established by the Association of Southeast Asian Nations ("ASEAN") members, China, Japan, Korea ("ASEAN+3") and Asian Development Bank ("ADB"). It is established as a trust fund of ADB with paid-in capital of USD1,078 million from its Contributors (as of April 2020). As a key component of the Asian Bond Markets Initiative, CGIF was established to develop and strengthen local currency and regional bond markets in the ASEAN+3 region. CGIF commenced its guarantee operations on 1 May 2012 and seeks to provide credit enhancements, mainly in local currencies, issued by credit worthy ASEAN+3-domiciled bond issuers.

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