

Domestic Bond Market Development



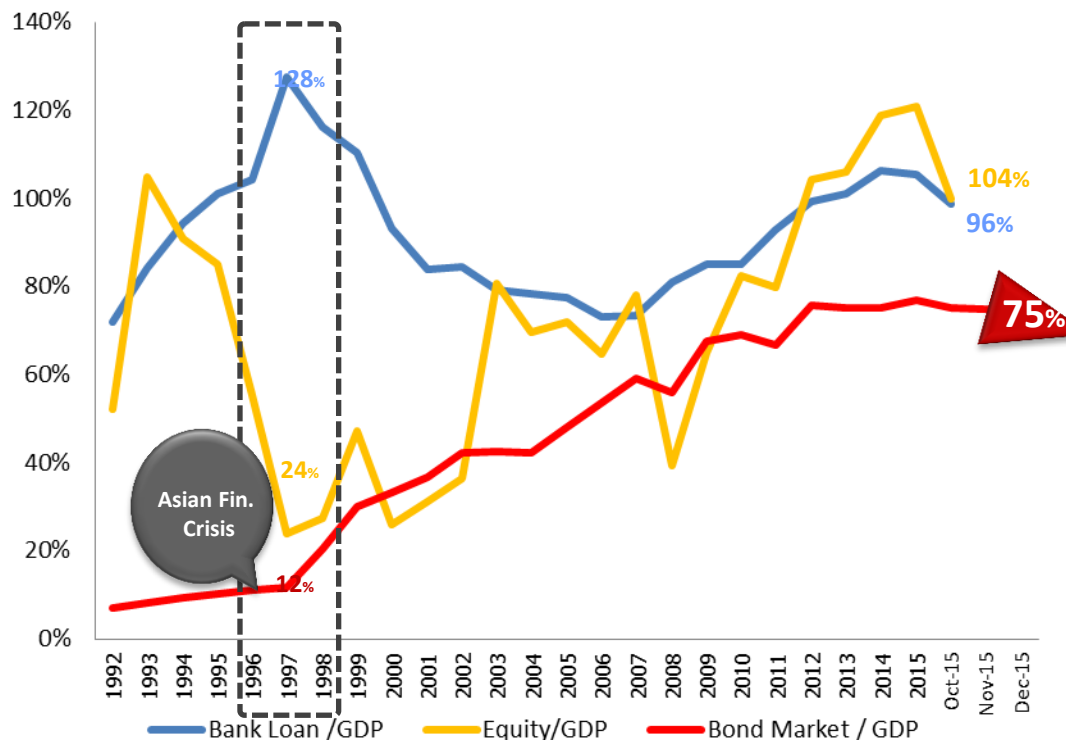
Bond Market Cap.= 10.2 THB Trillion

(\$290 Bil.)*

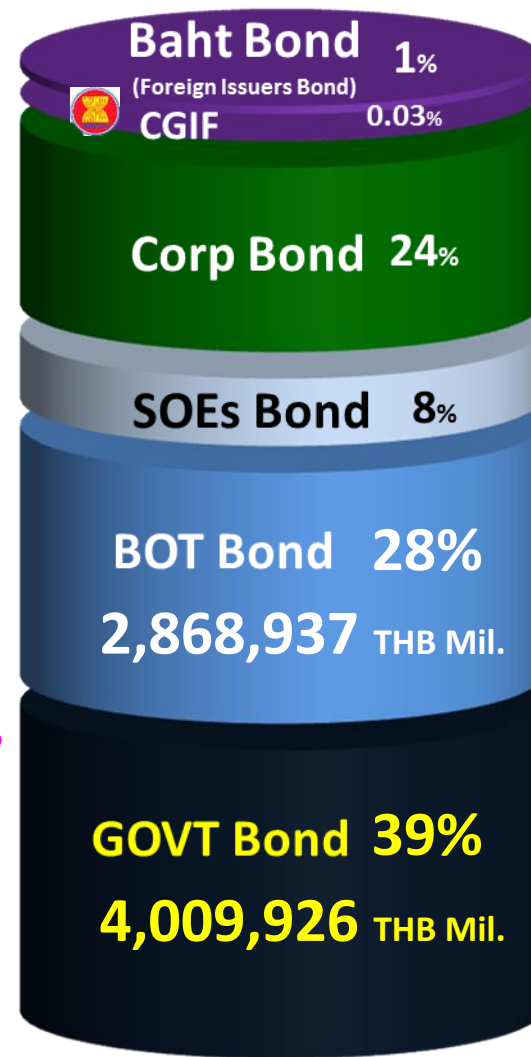
GOVT Bond = 4.0 THB Trillion

(\$114 Bil.)*

% Share of GDP

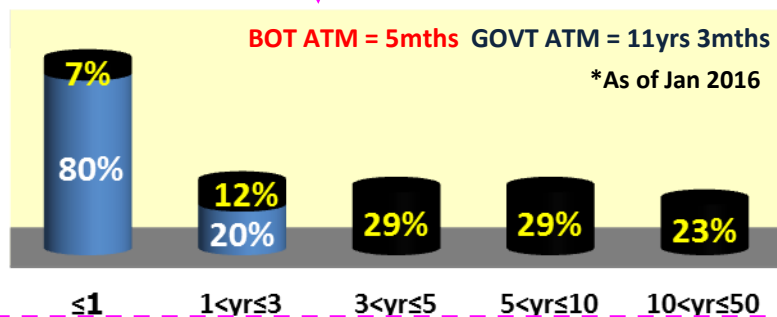


Domestic Bond Market Classified by Issuer



Maturity Profile

BOT vs GOVT Bond



*Source: BOT Exchange rate as of 1 Apr 2016

As of 1 Apr, 2016



Equilibrium of Domestic Bond Market

Issuers

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

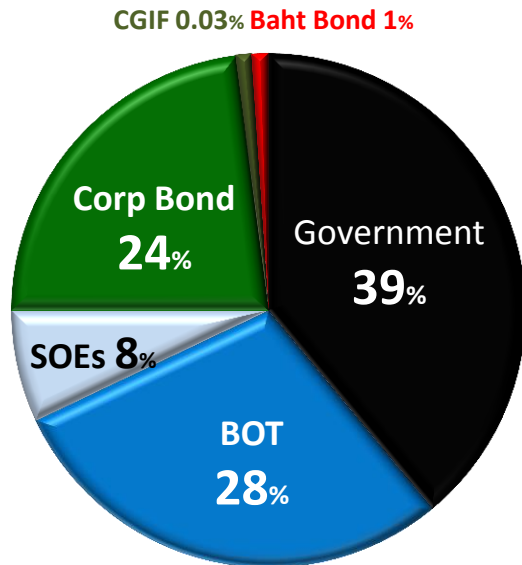
Credit Rating

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

Investors

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

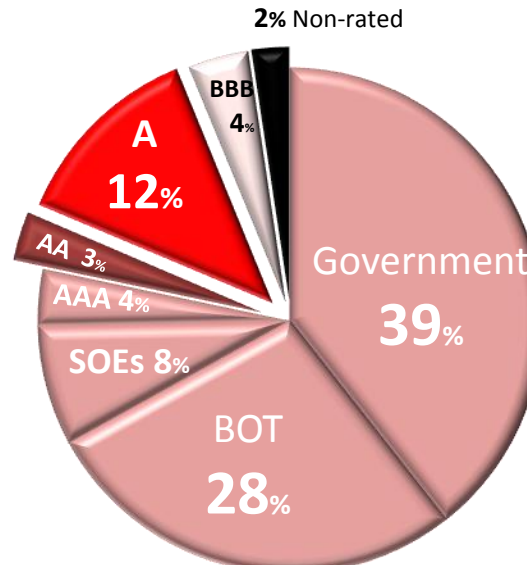
Domestic Bond Market
(Classified by Issuers)



Total of 10.0 THB Trillion

Source : ThaiBMA (End of March 2016)

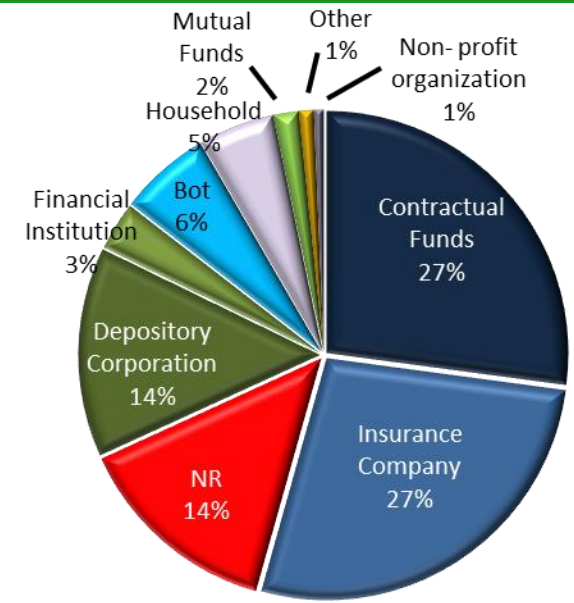
Domestic Bond Market
(Classified by Credit Rating)



Total of 10.0 THB Trillion

Source : ThaiBMA (End of March 2016)

Government Debt Securities
(Classified by Types of Investors)



Total of 4.2 THB Trillion

Source : BOT (End of March 2016)

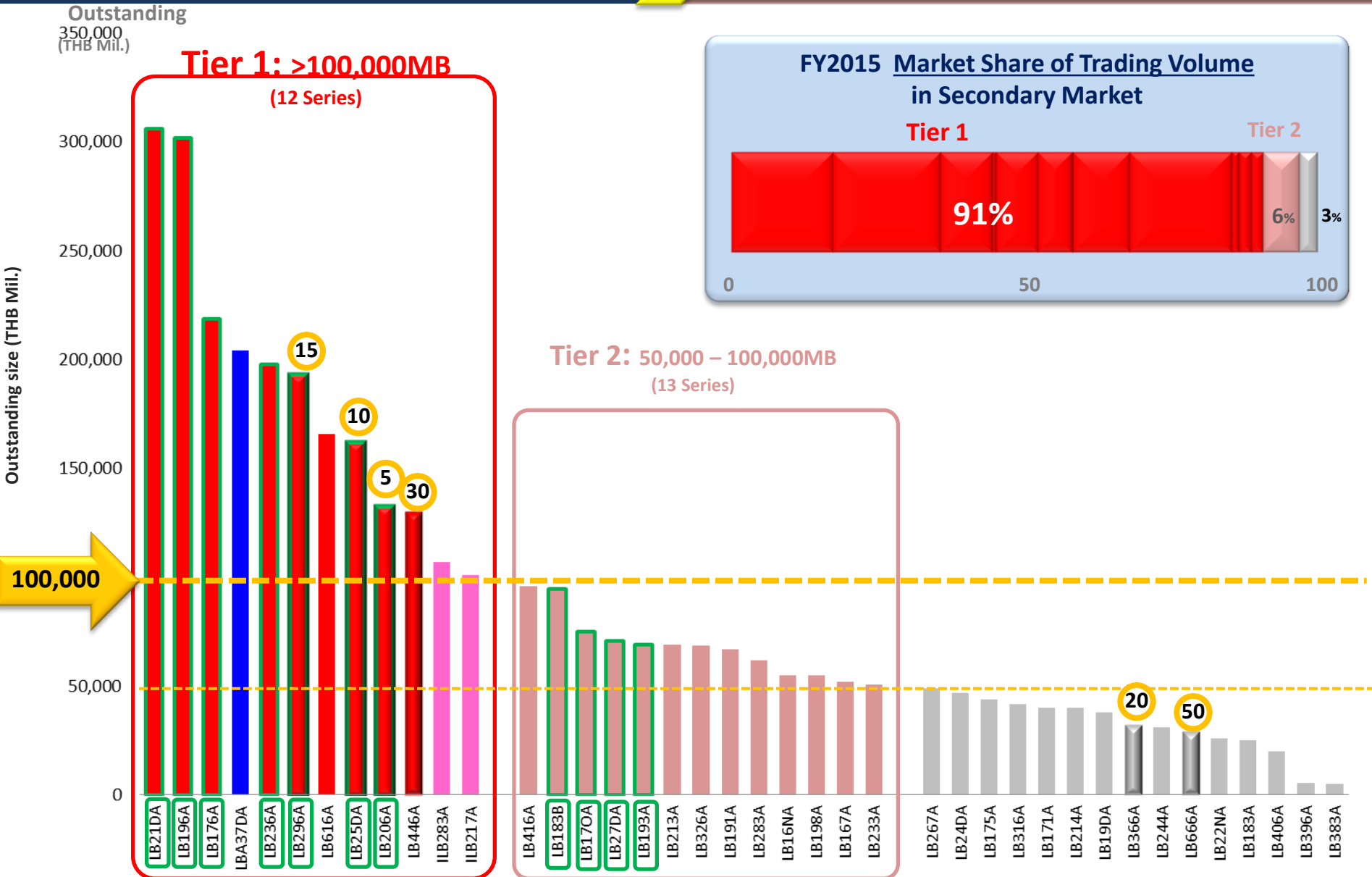


Total Gov't Bond = 40 Series

(End of March 2016)

Tier 1 > 100,000 THB Mil. in Size (91% of Trading Volume)

Tier 2 > 50,000 THB Mil. in Size (6% of Trading Volume)



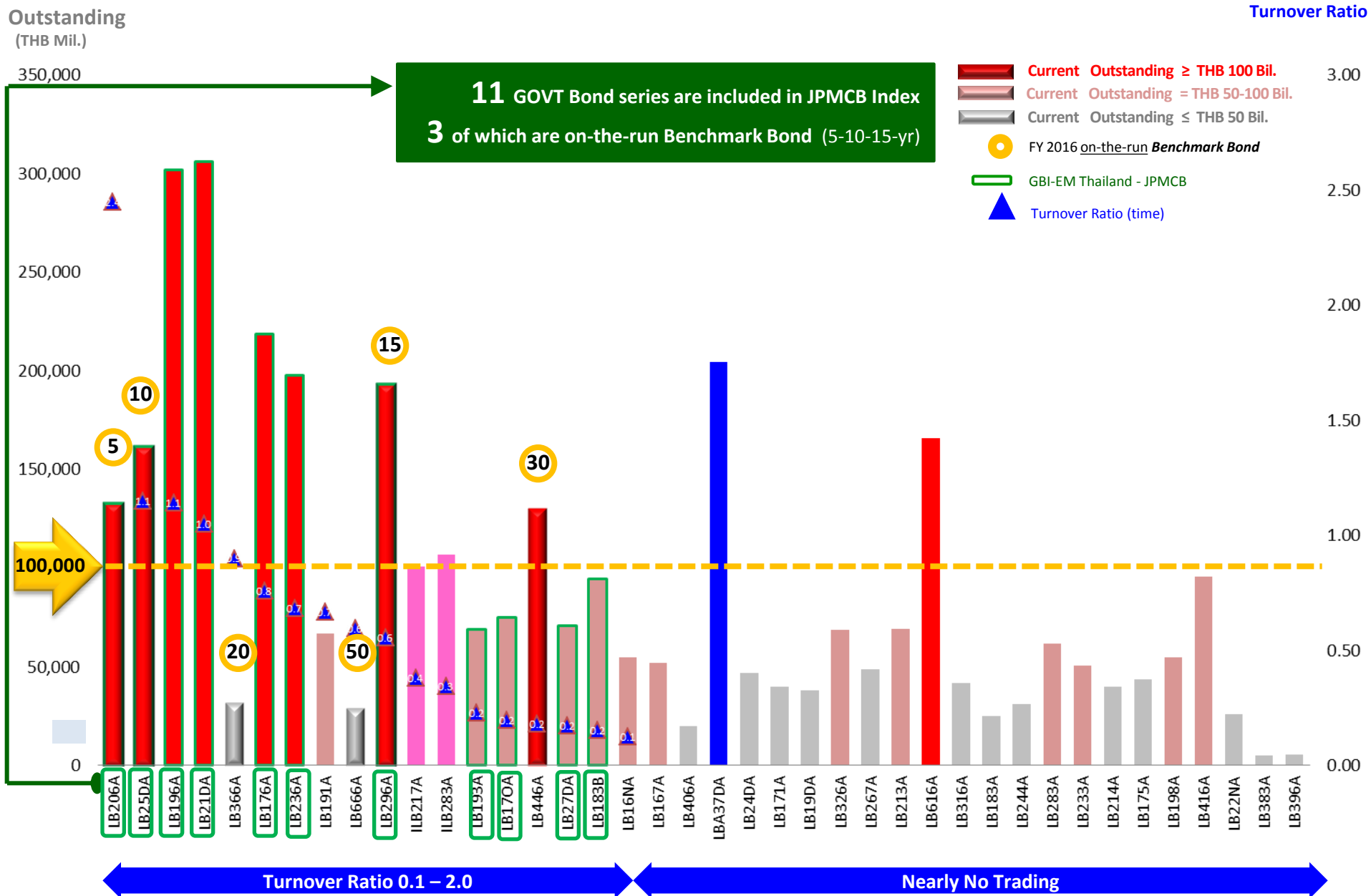


FY2016 Secondary Trading Volume

Classified by Turnover Ratio

As of March 2016

Top 10 Turnover Ratio includes 3 series of **on-the-run Benchmark Bond** (5-10-15-yr)



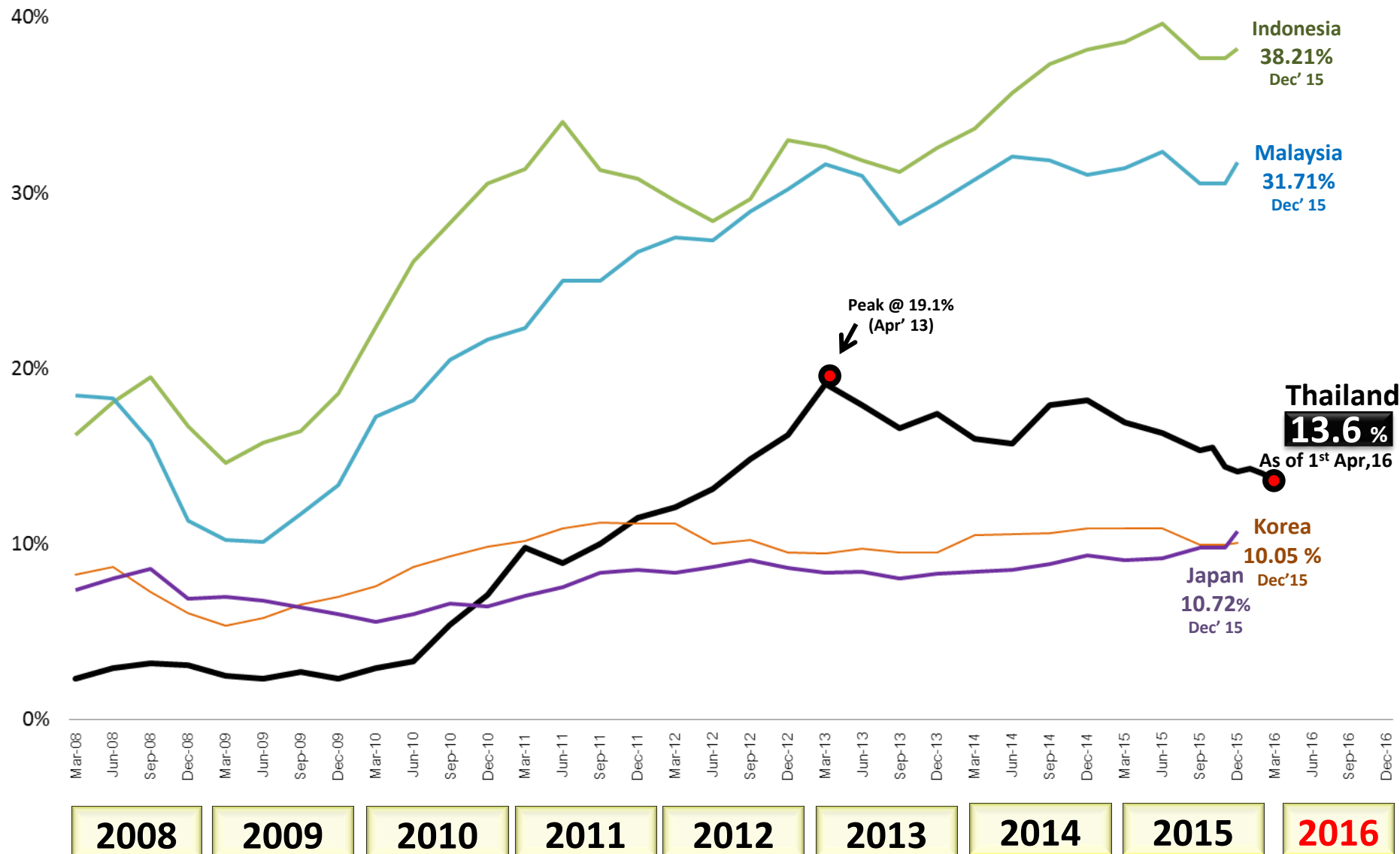
Peers Comparison

Non-Resident Holding in Thai GOVT Bond is 543,844 THB mil.

or **13.6 %** of Total GOVT Bond Outstanding

As of 1st Apr, 2016

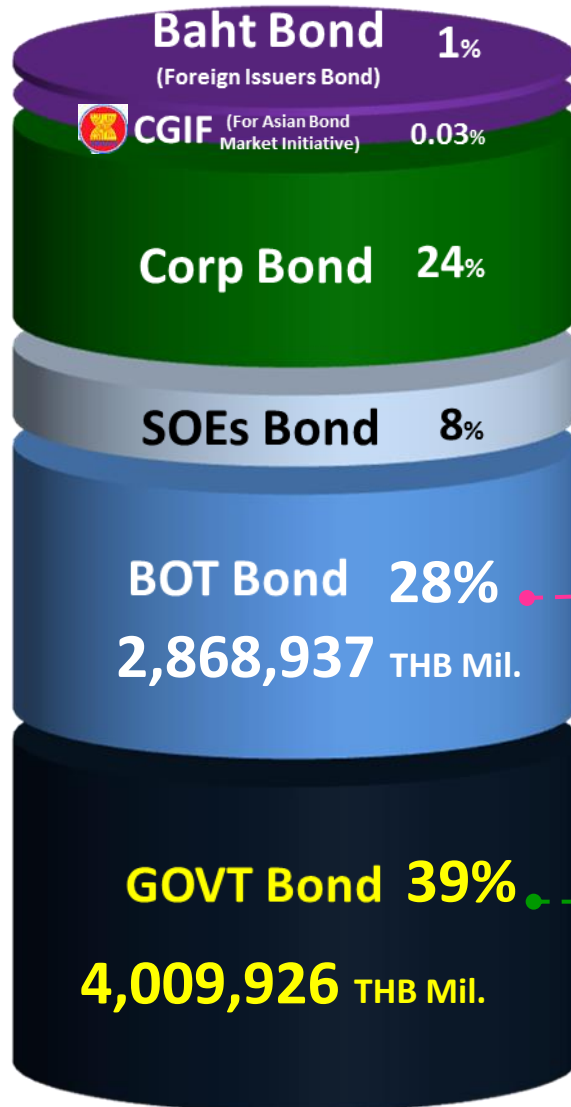
Percentage share of Non-resident Holding in Local Government Bond (Mar 2008 - Present)



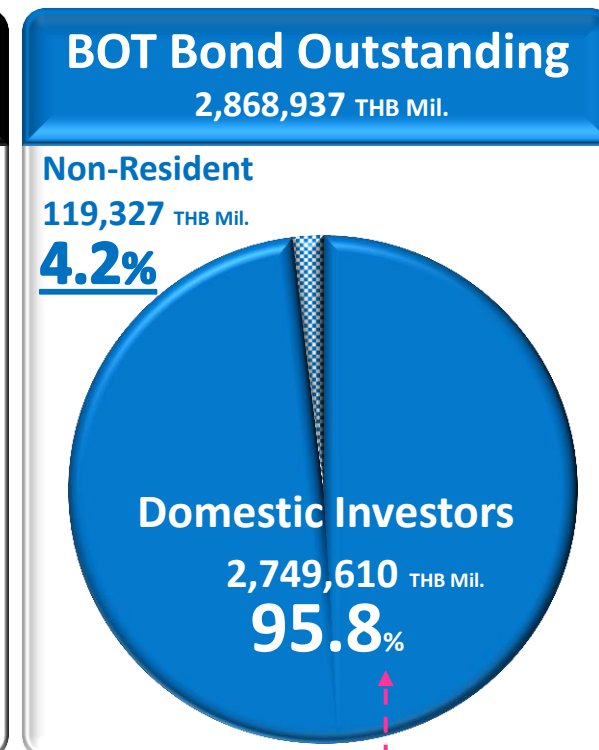
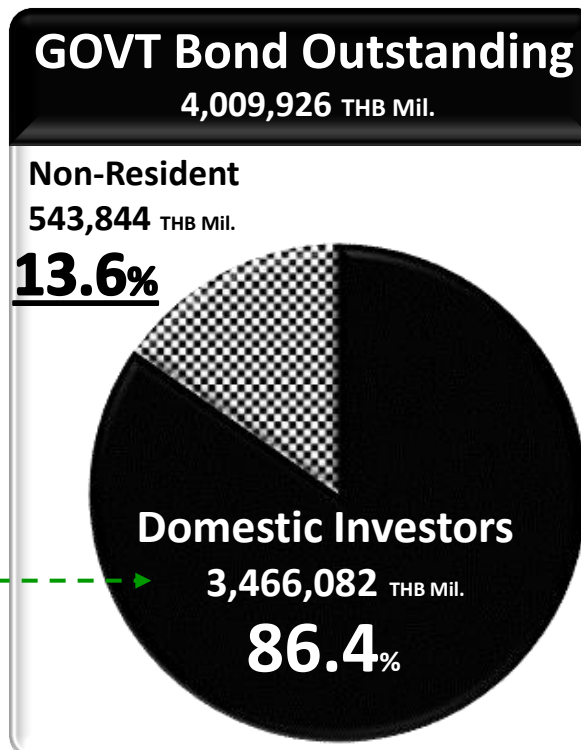
2016 Outstanding

Non-Resident Holding in THB Bond = 664,034 THB Mil.

Thai Bond Market Cap.
=10,245,968 THB Mil.



Issuer	Non-Resident Holding (THB Million)	% Share of Thai Bond Market Cap.
GOVT Bond	543,844	5.338%
BOT Bond	119,327	1.171%
SOE Bond	66	0.001%
Corp Bond	797	0.008%
TOTAL	664,034	6.518%



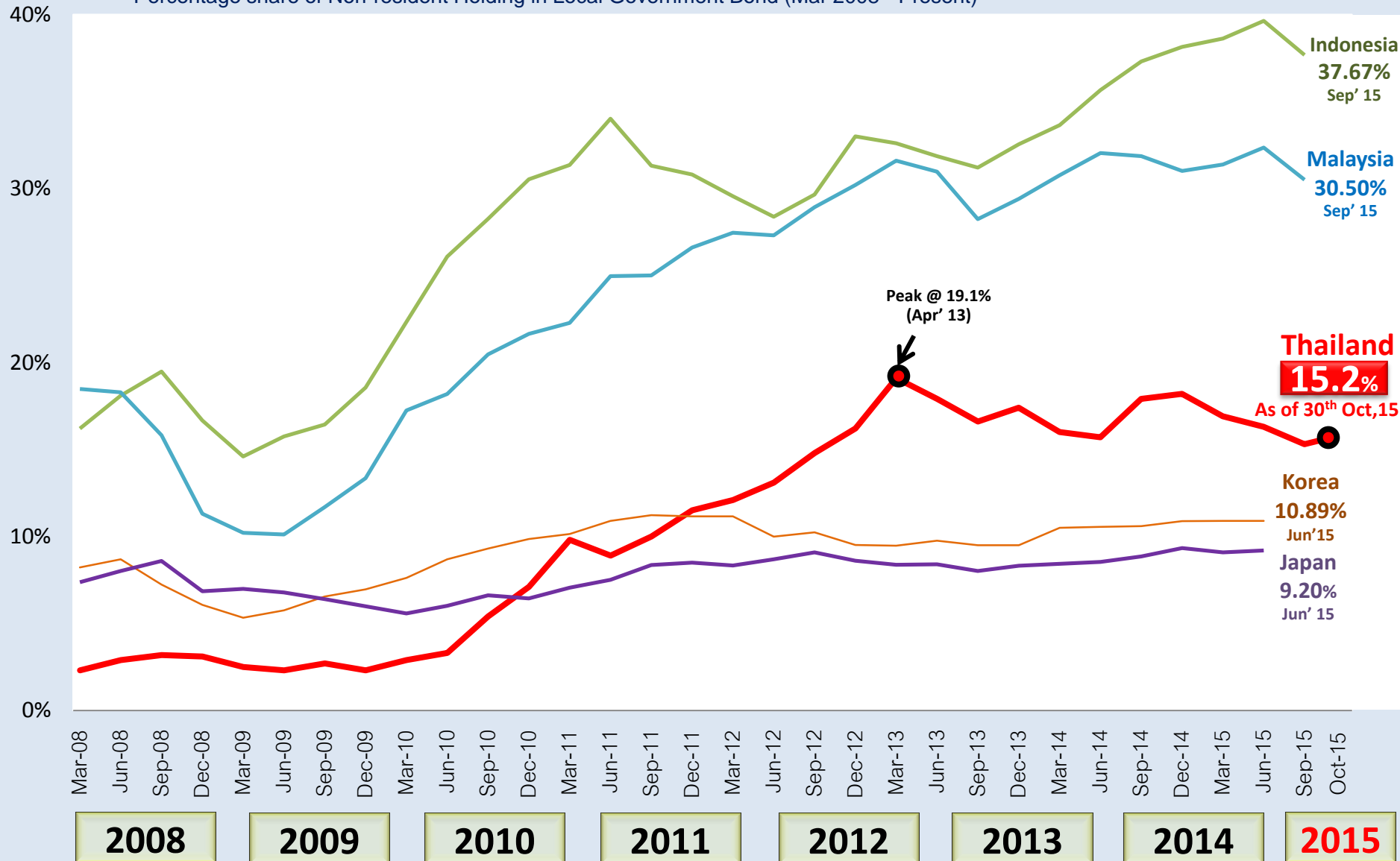
As of 1st Apr, 2016

Peers Comparison

Non-Resident Holding in Thai GOVT Bond is 585,652 THB mil.

or **15.2%** of Total GOVT Bond Outstanding

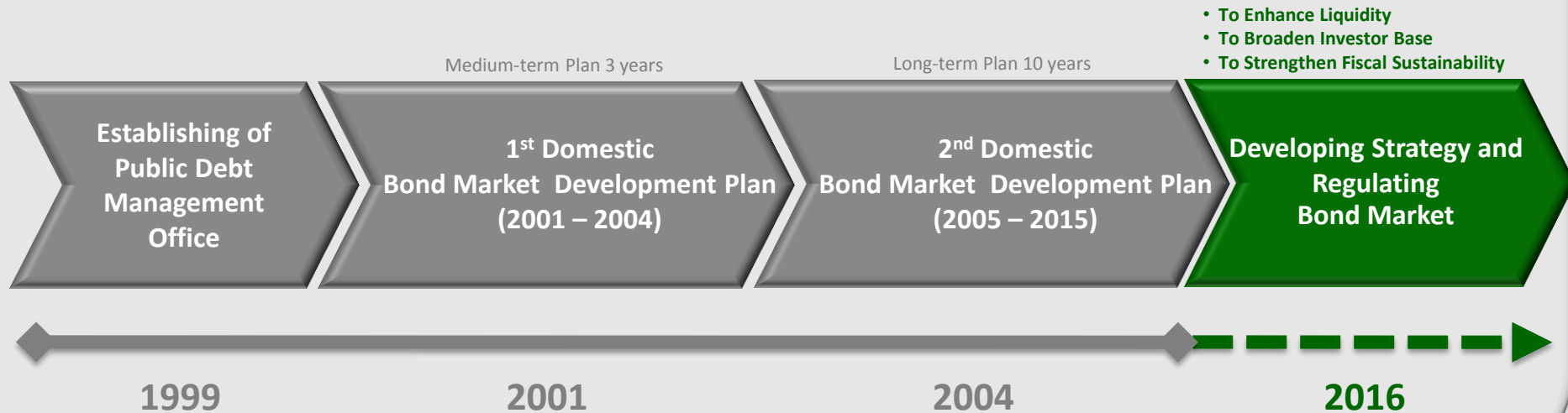
Percentage share of Non-resident Holding in Local Government Bond (Mar 2008 - Present)





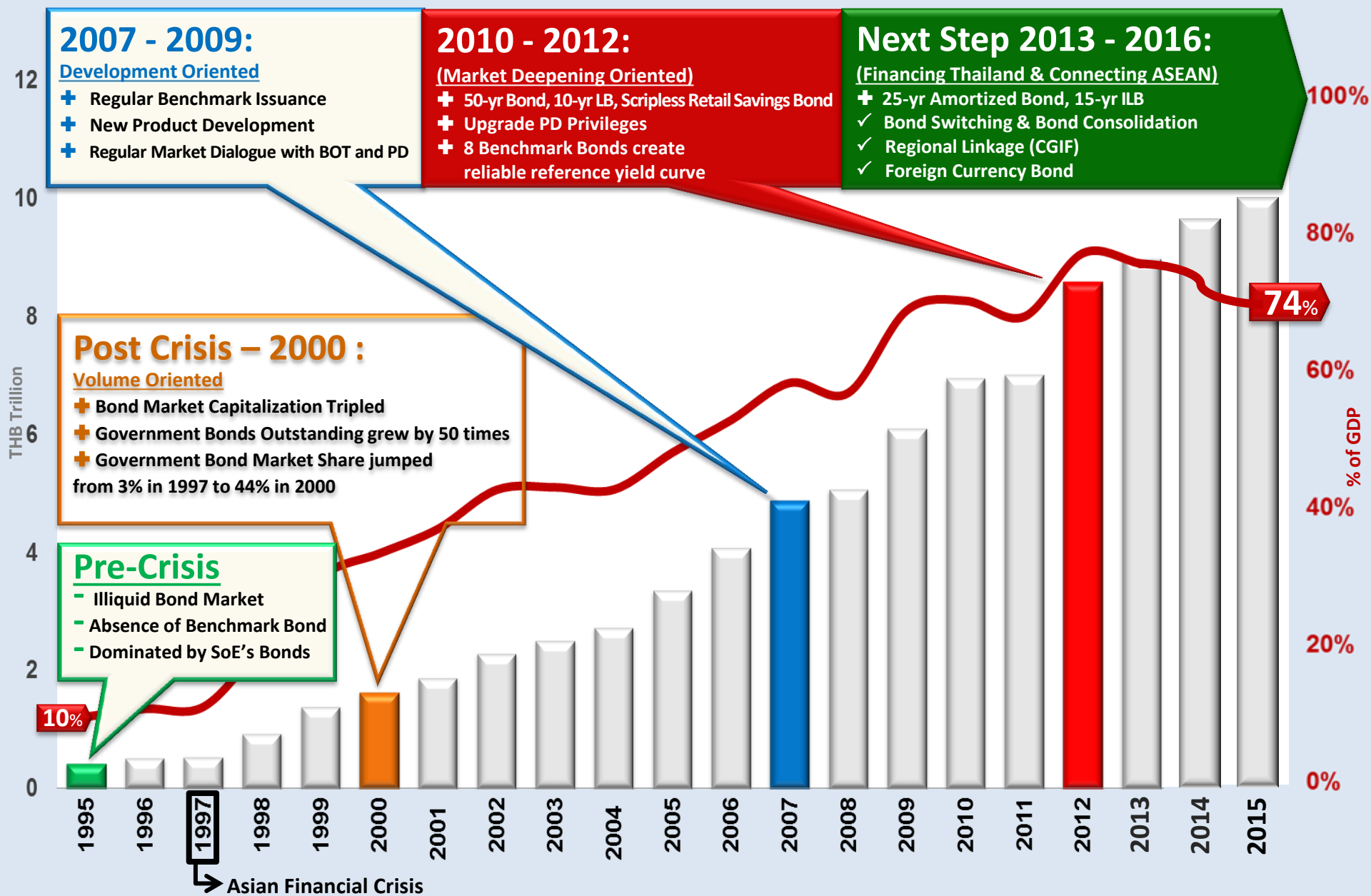
Bond Market Development during 1999 - 2016

Timeline





Thai Bond Market has Developed Rapidly and Efficiently





Establishing of Public Debt Management Office

Domestic Bond Market Development Committee

➤ Task Force: solving problems in

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

➤ Composition:

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



The establishment of Public Debt Management Office (1 Oct 1999)



สำนักงานบริหารหนี้สาธารณะ
PUBLIC DEBT MANAGEMENT OFFICE



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

✉ Objectives

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

✉ Strategic goals

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



Development of Thai Bond Market

Supporting Primary Bond Market

Auction System

- Introduced Competitive Multiple Price Auction in 1998
- Introduced Non-competitive Bidding in 2002
- Introduced Electronic Bidding in 2003

Benchmark Bond

- Committed supply of Benchmark Bond and sufficient in size to build liquidity and develop a reference rate in the market

Diversify Product

- Enhance the varieties of bond products to meet funding need in every market condition and broaden investor base

Market Dialogue

- Building Transparency and Efficiency in Government's bond issuance plan in the market



Development of Thai Bond Market

Improving Market Infrastructure

RTGS / DVP

- Introduced Real Time Gross Settlement Delivery VS. Payment (RTGS/DVP) in 2001

ThaiBMA

- Developed bond information services through Thai Bond Dealing Centre in 1997 which later becomes ThaiBMA as a Self Regulatory Organisation (SRO) and data information centre

Primary Dealer

- Introduced Primary Dealers system in 2002 by appointing 9 primary dealers to participate in primary auctions for government bond and to act as market maker

Tax System

- Solved related tax problems i.e. tax treatment for outright and repo transactions

Clearing & Settlement

- Set up Central Clearing & Settlement Securities Depository

Collateral and lending

- Set up Collateral Management Unit & Bond Lending Unit

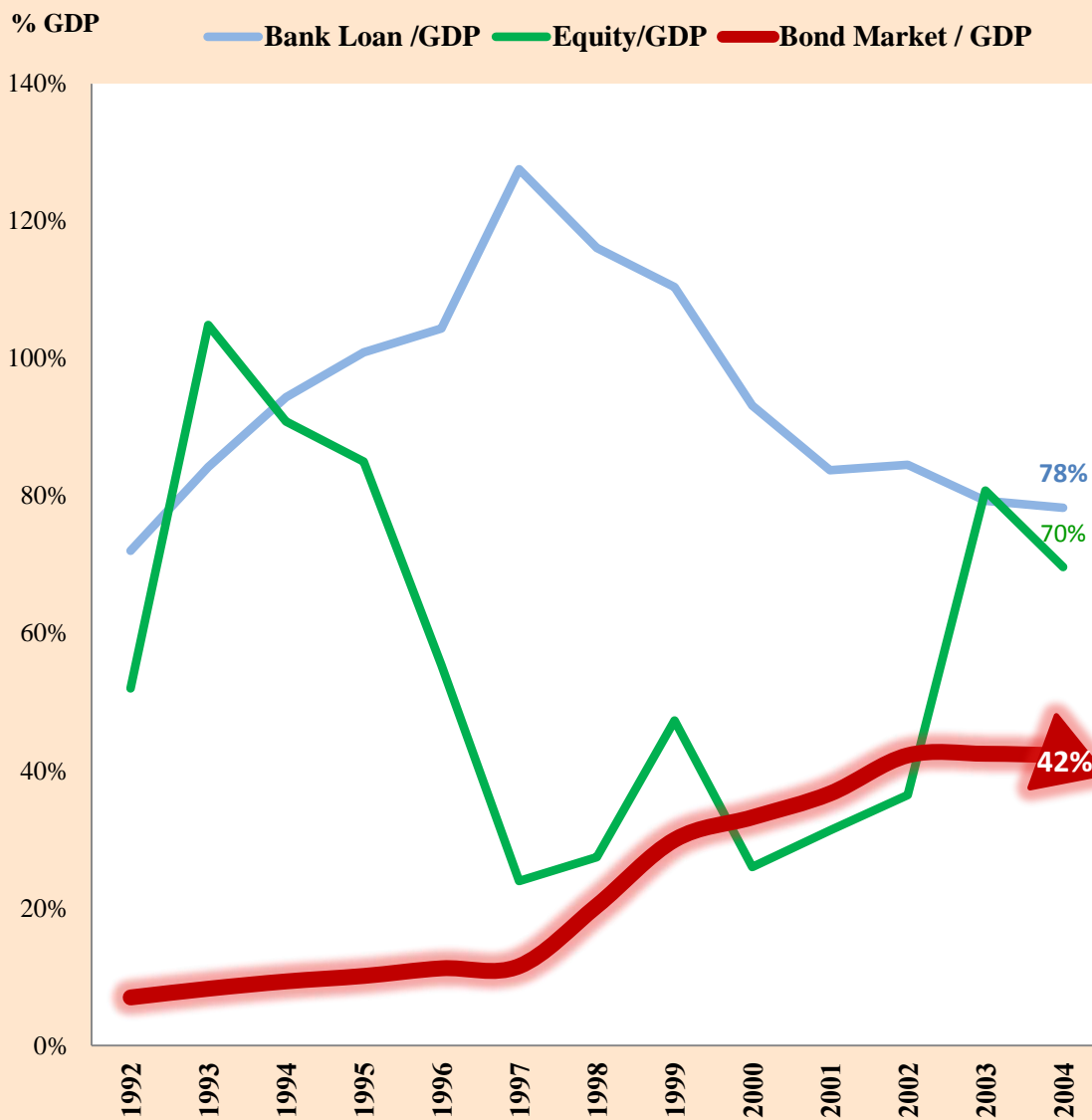
Government Yield Curve

- Established a government yield curve up to 30 years



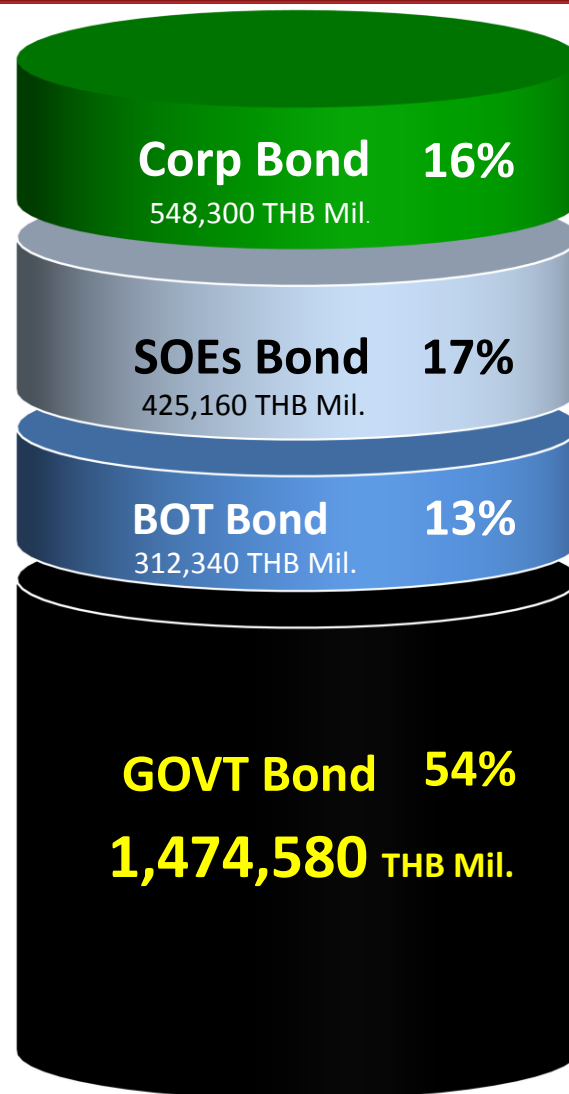
Bond Market Cap. = 2.69 THB Trillion

GOVT Bond = 1.47 THB Trillion



Source: ThaiBMA Government Bond Yield Curve

Domestic Bond Market Classified by Issuer



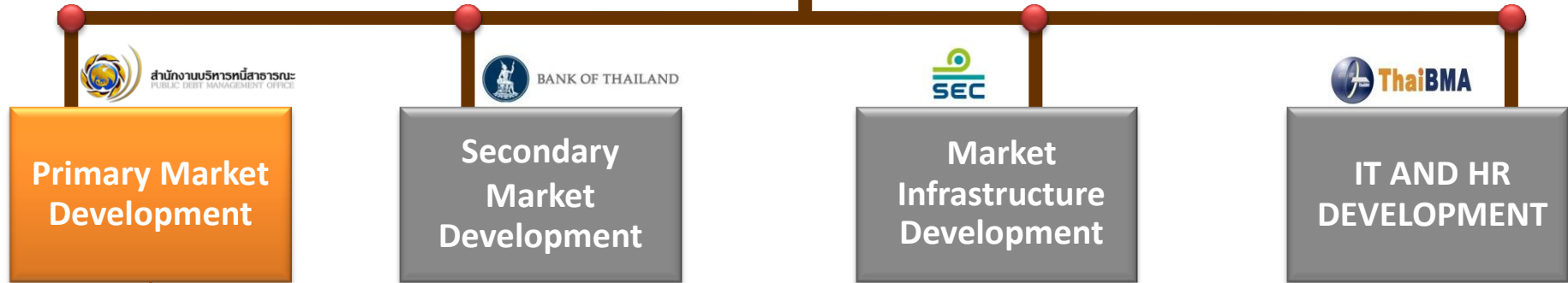
As of December 30th, 2004

GOALS



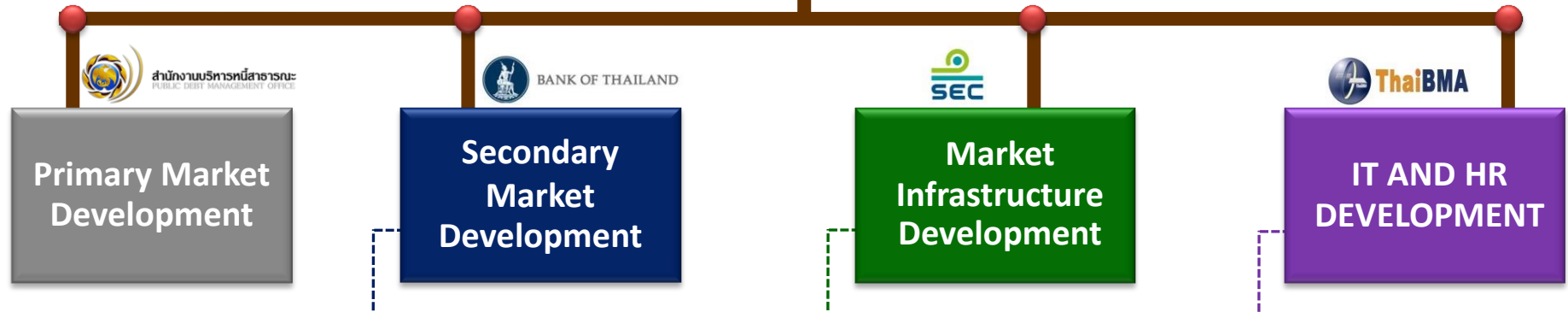
- To promote bond market to gain the market capitalisation close to GDP
- To increase the share of foreign issuers and investors to be not less than 5% of total outstanding value

4 WORKING GROUPS



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

4 WORKING GROUPS



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

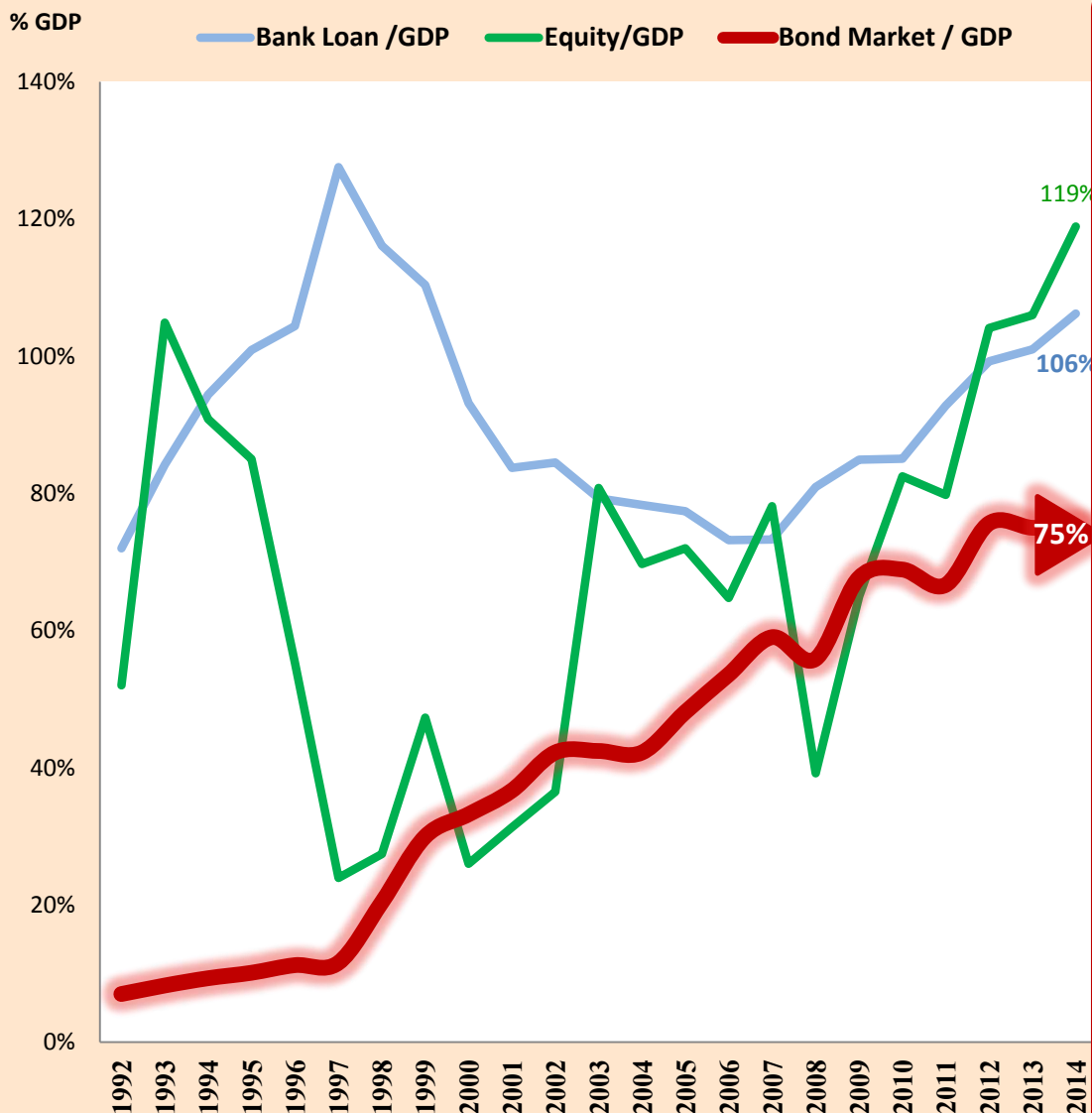
- ✓ Removed tax obstacle
 - waived withholding tax for NR investors
 - waived SPV income tax for securitisation transactions
- ✓ Develop bond futures market
- ✓ Develop credit ratings service
- ✓ Revision of related regulations and laws
 - 3 years shelf filing
- Securitisation promotion

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



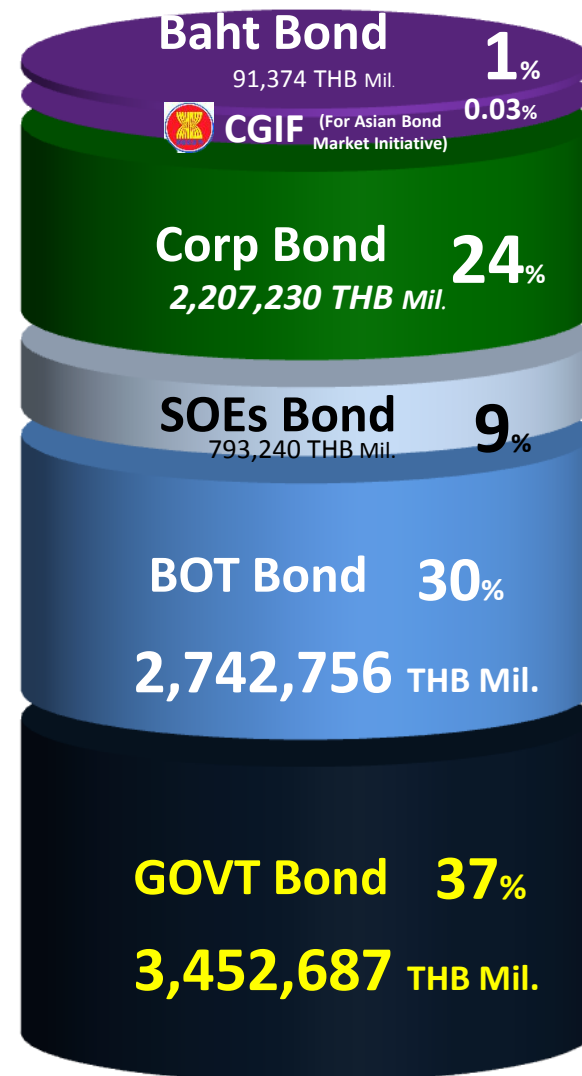
Bond Market Cap. = 9.29 THB Trillion

GOVT Bond = 3.45 THB Trillion



Source: ThaiBMA Government Bond Yield Curve

Domestic Bond Market Classified by Issuer



As of December 30th, 2014



FY2007 – FY2016



Innovation of Gov't Debt Securities

FY 2007-10

30-yr Benchmark Bond

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

Floating Rate Bond

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

Step-up Savings Bond

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

FY 2011

Fixed Rate Promissory Note

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

50-yr Benchmark Bond

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

10-yr Inflation-Linked Bond (ILB)

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

Electronic Retail Savings Bond

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

FY 2012-2016

Amortized Bond

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

Bond Switching & Consolidation

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

**Upgrade
PD Privileges**

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

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

**Baht
Bond**

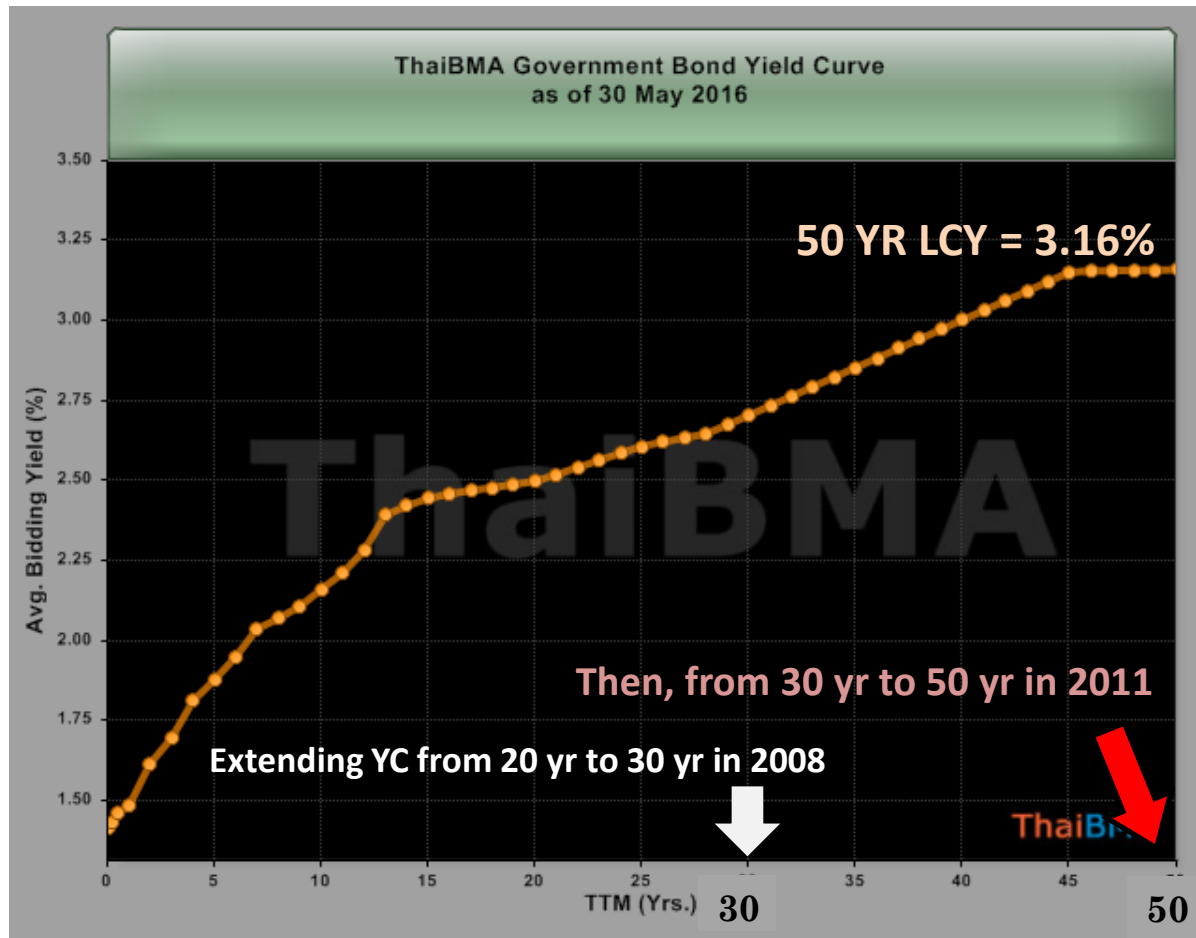
CGIF Activated
(Credit Guarantee and
Investment Facility)



Developing Benchmark Yield Curve

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

Now 3, 5, 7, 10, 15, 20, 30 and 50 as benchmark bond



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

◀ Use as benchmarks for the pricing of other financial instruments

◀ Provide valuable info. about market expectations

Benchmark Bond

LB 3 yrs	150,000 THB Mil.
LB 5 yrs	120,000 THB Mil.
LB 7 yrs	80,000 THB Mil.
LB 10 yrs	80,000 THB Mil.
LB 15 yrs	60,000 THB Mil.
LB 20 yrs	60,000 THB Mil.
LB 30 yrs	30,000 THB Mil.
LB 50 yrs	20,000 THB Mil.



Quarterly dialogue with

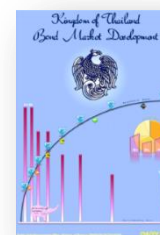
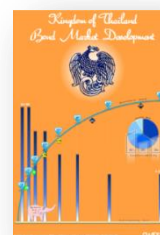
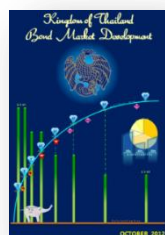
: **BOT & ThaiBMA & SEC**
14 MOF Outright PDs

Half Annually

: **Long-Term Investors**

Annually dialogue with

: **All Market Participants**
Retail Investors @ Money Expo



FY 2013



FY 2014



FY 2015

**Quarterly
Publication**



Duties and Privileges of MOF Outright PD

Duties

Duties in the primary market

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

Duties in secondary market

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

Encourage on bond market development

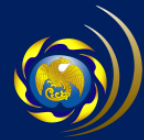
1. Assist Ministry of Finance's policy on developing bond market
2. Remain BOT bond allocation and trading volume both in primary and secondary market
3. Quote indicative price of Corporate bond
4. Develop Electronic Trading Platform system



Duties and Privileges of MOF Outright PD

Privileges

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



Linking CGIF & BAHT BOND to Bond Market Development

CGIF



**Inaugural
(Noble, Hong Kong)**

THB 2,850 Mil.

2013 2014 2015 2016 2017 2018 2019 2020

Inside-out

Outside-in

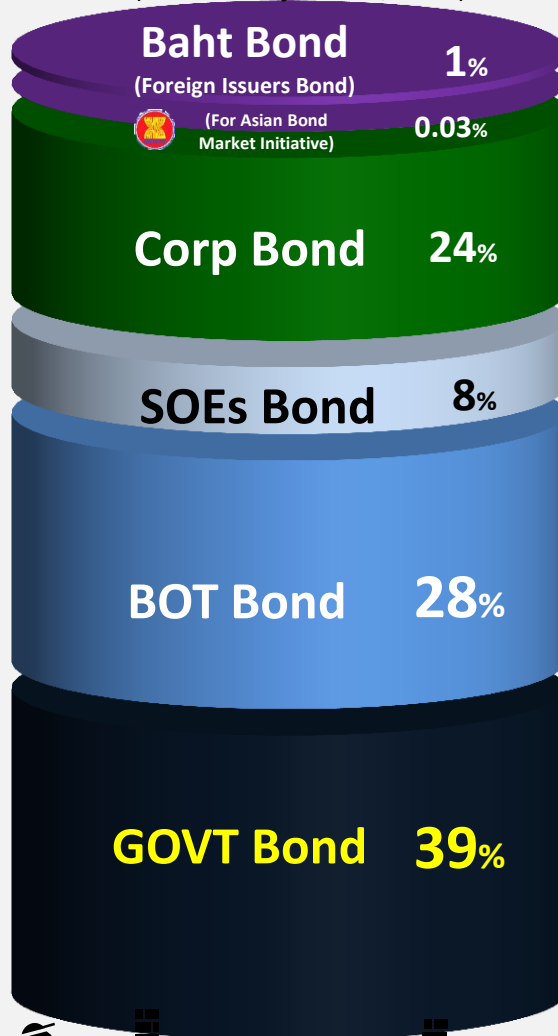
Natural
Hedging

Inv't
Grade

Targeted
Industry

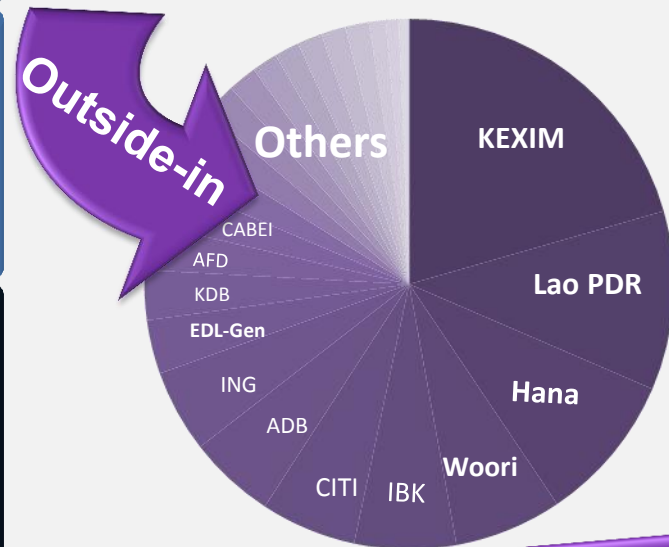
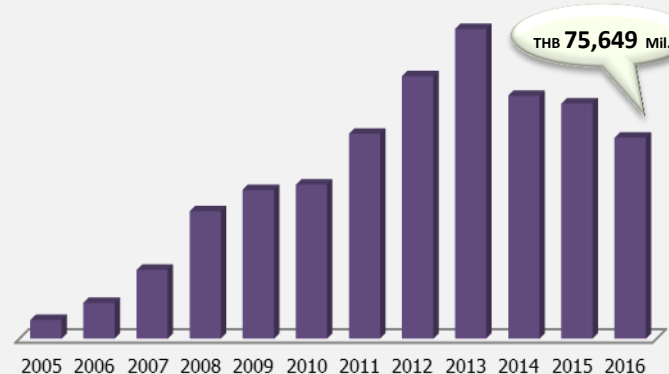
Total Outstanding 10,228,394 THB Mil.

(at the end of March, 2016)



(PDDF.)

BAHT BOND



Outside-in

Why now?

→ Entering ASEAN Economic Community (AEC)

What next?

→ Broadening Issuer Base : AEC



Credit Guarantee Investment Facility

Objectives

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

Functions

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

Benefits

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



What are initial criteria?

- **Who is eligible ?**

- All current issuers of corporate bonds

- **Exposure limits**

- Country Limit
- Currency Limit
- Sector Limit

What are the benefit to issuers and bond market?

- **To issuers**

- Lower cost of financing saving
- Gain creditability
- Easier market access

- **To the development of bond market**

- Solve double mismatch : Currency and Maturity
- Increase in quality supply
- Expand Thailand bond market



Domestic Bond Market in Transition

- ✓ Funding Infrastructure Investment
- ✓ Connecting ASEAN

Market Deepening Oriented (2010 - 2012)

Sustainable Source of Fund

Water Decree (350,000 THB Mil.)

Thai Khem Khang (350,000 THB Mil.)

Regional Connectivity / AEC

Baht Bond (Foreign Issuers Bond)

Debt Folio Enhancement

ATM Lengthened

Cost Lowered

FIDF Decree Passed = 70,000 THB Mil. Fiscal Space

Market Infrastructure

Appointed 14 MOF-Outright PD

Activated Public Debt Management Fund

Innovation / Product Development

Inaugural 10-yr Inflation-Linked Bond (10-yr)

Long-term Fixed Promissory Notes (25-35-45-yr)

Electronic Retail Savings Bond (3-5-yr)

Market Consultation

Annual PDMO Market Dialogue

Quarterly PDMO one-on-one PD Dialogue

Funding Infrastructure Investment Connecting ASEAN (2013 - 2016)

2016 Highlights

Full Funding Capacity : 1,200,000 THB Mil.

1,900,000 THB Mil. Long-Term Infrastructure Inv't

Baht Bond (CLMV)

Credit Guarantee Investment Facility (CGIF)

Foreign Currency Bond (Plan)

Well-Distributed Investor Base

Well-Balanced Fixed-Floating Ratio

Well-Distributed Maturity Profile / Bond Switching

Bond Switching (1st execution: 28 Nov 14)

Strengthening PD system
(Exclusivity, League Table, Greenshoes Option)

STRIPS Bond

Saving Bond Online

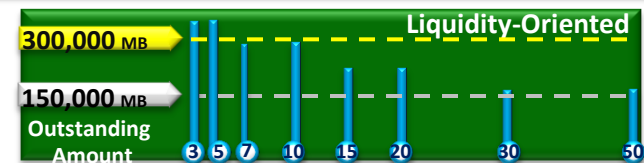
Super- Size Inaugural 25-yr Back-End Amortized Bond

Annual PDMO Market Dialogue

Quarterly PDMO one-on-group MOF Outright PD Dialogue

Monthly PDMO one-on-one MOF Outright PD Dialogue

Building Yield Curve / Enhancing Liquidity





Baht-denominated Bond in Thailand (Baht Bond)

OBJECTIVES

- To promote Thai bond market as the leading bond market of the region.
- To develop domestic bond market by increasing the proportion of foreign issuers and variety of products.
- To provide the opportunity for domestic investors to invest in a good quality bond

BENEFITS

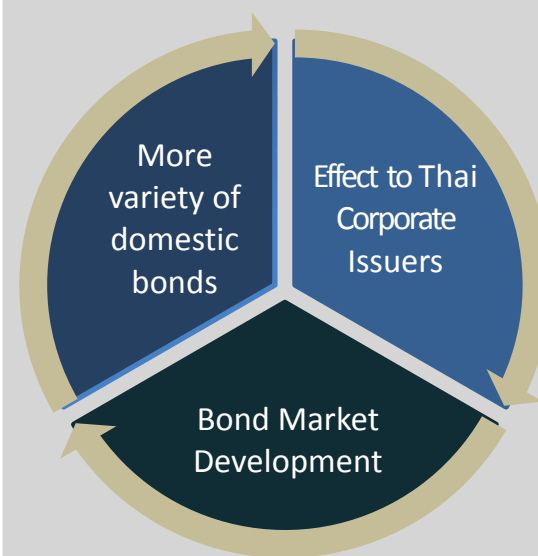
INVESTORS

- To diversify source of investment
- To reduce FX risk from the investment in foreign bonds

ISSUERS

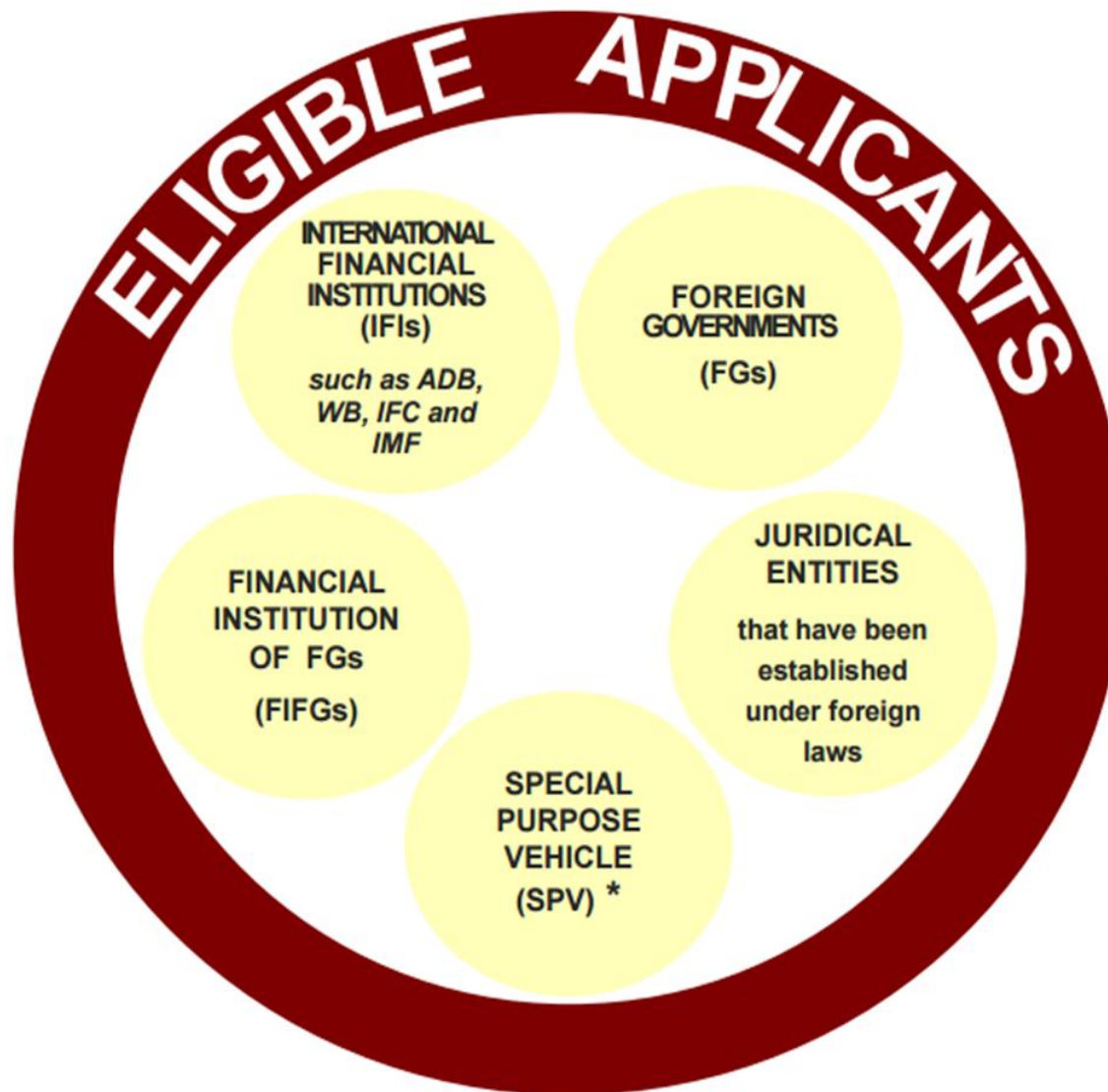
- To diversify the portfolio
- To reduce the FX risk in THB currency (for foreign investors who would like to raise fund for investment in Thailand)

TRADE - OFF





Eligible Applicants for Baht Bond



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



Rules & Regulations of Baht Bond

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

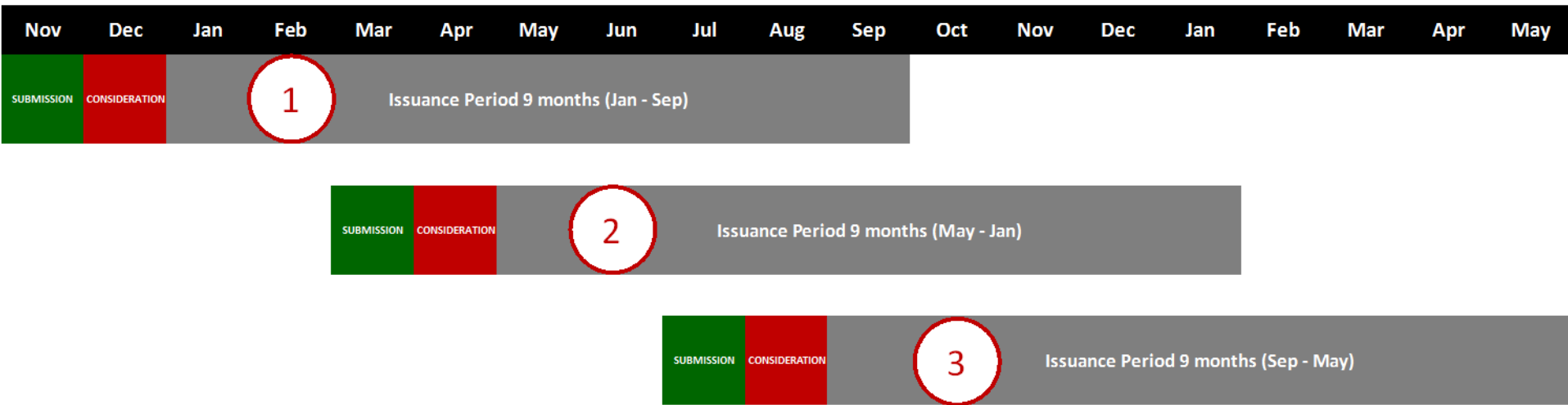
Round	Submission Period	Consideration Period	Issuance Period
1	November	December	1 January – 30 September
2	March	April	1 May – 31 January
3	July	August	1 September – 31 May

OTHER TERMS AND CONDITIONS

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



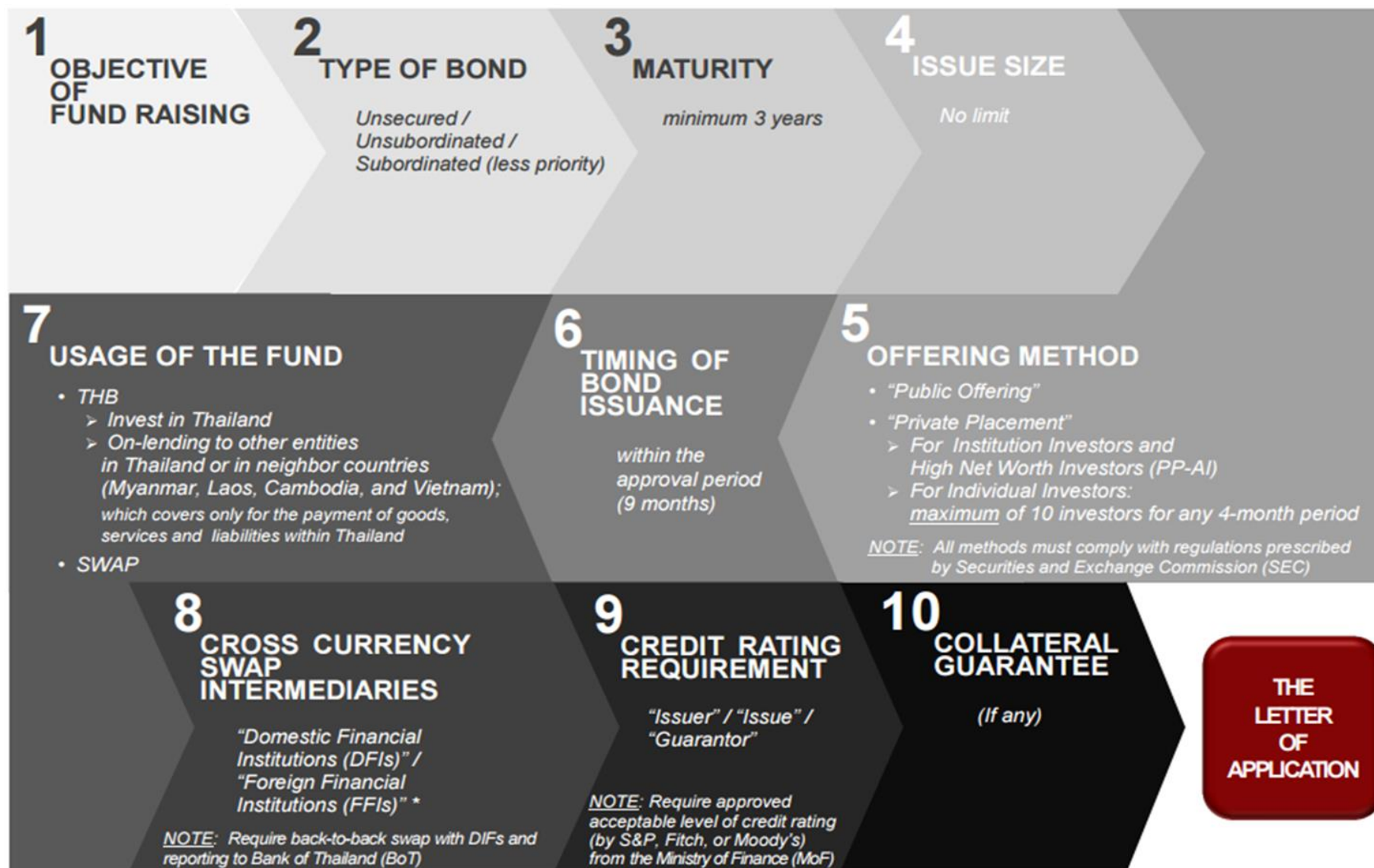
Timeline For Baht Bond Application Process



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



“THE LETTER OF APPLICATION” must include...





Requirements under Ministry of Finance Notification

ENFORCING LAWS AND COURT JURISDICTION

- Thailand's laws and Thai court jurisdiction
- Other laws and court jurisdiction approved by Finance Minister

WAIVER OF IMMUNITY

Any immunities from the legal proceedings or enforcements must be surrendered except for immunity in respect to the following properties that grantee may decide not to waive;

- (1) Property used by a diplomatic or consular mission in Thailand
- (2) Property of a military character
- (3) Property located in its territory and dedicated to public or government use as distinguished from the property dedicated to commercial use.

DISCLOSURE OF INFORMATION

Must comply with SEC regulations and notifications

BOND OR DEBENTURE HOLDER REPRESENTATIVE *

Shall appoint the bond or debenture holder representative in Thailand during the tenure of bond or debenture for the benefits to the holders

CONTACT PERSON IN THAILAND *

Shall appoint a representative in Thailand to act as a person during the tenure of the bond or debenture in order to receive letters, orders, notices, and documents, or to contact the relevant authorities

REGISTRAR

Shall appoint Thailand Securities Depository Company Limited (TSD) or other registrar designed by Finance Minister

REGISTRATION

Grantee shall have their bonds or debentures registered with Thai Bond Market Association (ThaiBMA)

UPDATES OF DISCLOSURE INFORMATION*

- Within 180 days from the end of each fiscal year or financial year
- Immediately when the financial status or structure of the permitted entities, or where the economy undergo significant changes

DUTIES UNDER OTHER RELATED LAWS*

- Seeking an approval for the use of the proceeds from the issuance of Baht-denominated bonds or debentures from Bank of Thailand (BoT)
- Obligation to tax liability and tax withholding

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



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

**APPROVAL
FROM
MoF**



STARTING OF EFFECTIVE DATE

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

STEP 1

DOCUMENT SUBMISSION TO SEC BEFORE EACH ISSUANCE

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

* These processes are not required if;

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

* These processes must include;

- i. Rating :
 - PO – Issue / Guarantor rating
 - PP-AI – No rating requirement
 - ii. Financial statement complying with IFRS, FAS, and US GAAP accounting standards or approved by SEC (case by case basis)
 - ii. Recent national macroeconomic data both fiscal and monetary terms (foreign government issuer) dated back 5 years
 - iii. Necessary and sufficient information for investors to make an informed decision
 - iv. Name and address of contact person in Thailand
 - v. Authorized Board of Directors who can certify documentation
- Remark: The issuers can shelf – filling for up to 2 years*

STEP 2

BOND ISSUANCE

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

STEP 3

REPORT OF ISSUANCE RESULT TO THE SEC

STEP 4

FINANCIAL POSITION REPORT AND ANNUAL REPORT TO SEC

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

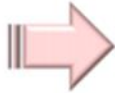
Note:

*II&HNW = specified institutional
and high net worth investors*



Steps to be done at Bank of Thailand (BOT)

**APPROVAL
FROM
MoF**



STEP 1

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

STEP 2

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



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

DEPOSIT OF THB CURRENCY TO SNA

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

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

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

STEP 3

REPORTING TO BoT

Sovereign Credit Rating



Basic Definitions

- **Bond Rating**

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

- **Default**

- Failure to pay a debt on time and in full

- **Sovereign Bond Rating**

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

- **Country Ceiling**

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



What a Rating Is and Is Not

Definition and Process

A Credit Rating is ...

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




A Credit Rating is not ...

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



Rating Notations

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

			
Investment Grade	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
Non-Investment Grade	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
	B+	B1	B+
	B	B2	B
	B-	B3	B-
	CCC	Caa	CCC



Why Sovereign Ratings Matter ?

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

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

Sovereign Ratings Influence the Cost of Foreign Borrowing for all Borrowers

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

Sovereign Ratings Can Assist in Attracting Direct Foreign Investment

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

Ratings Help Shape a New Image

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



Overview of the Major Rating Agencies

STANDARD & POOR'S RATINGS SERVICES

MOODY'S

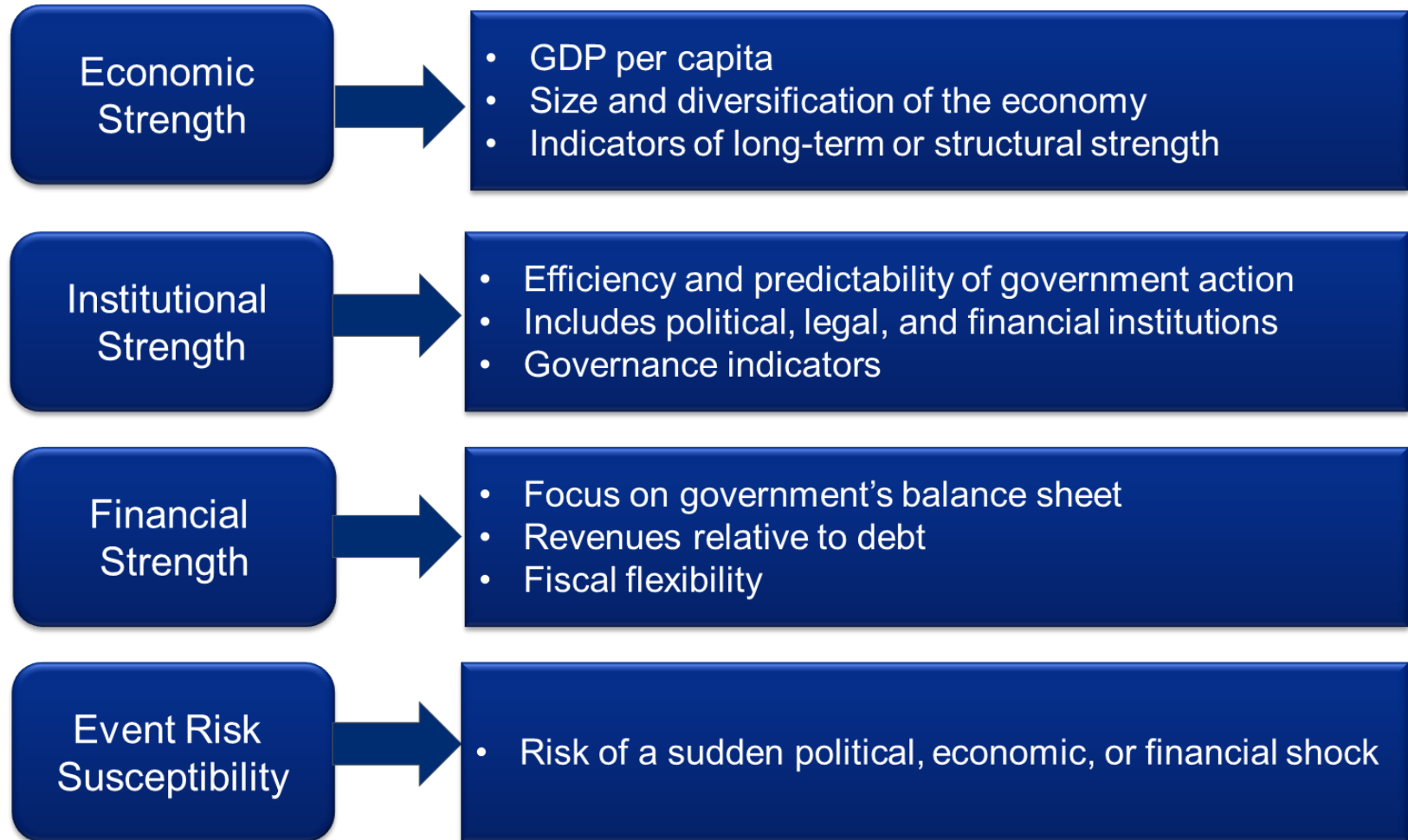
FitchRatings

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



Case Study: Moody's Sovereign Rating Methodology

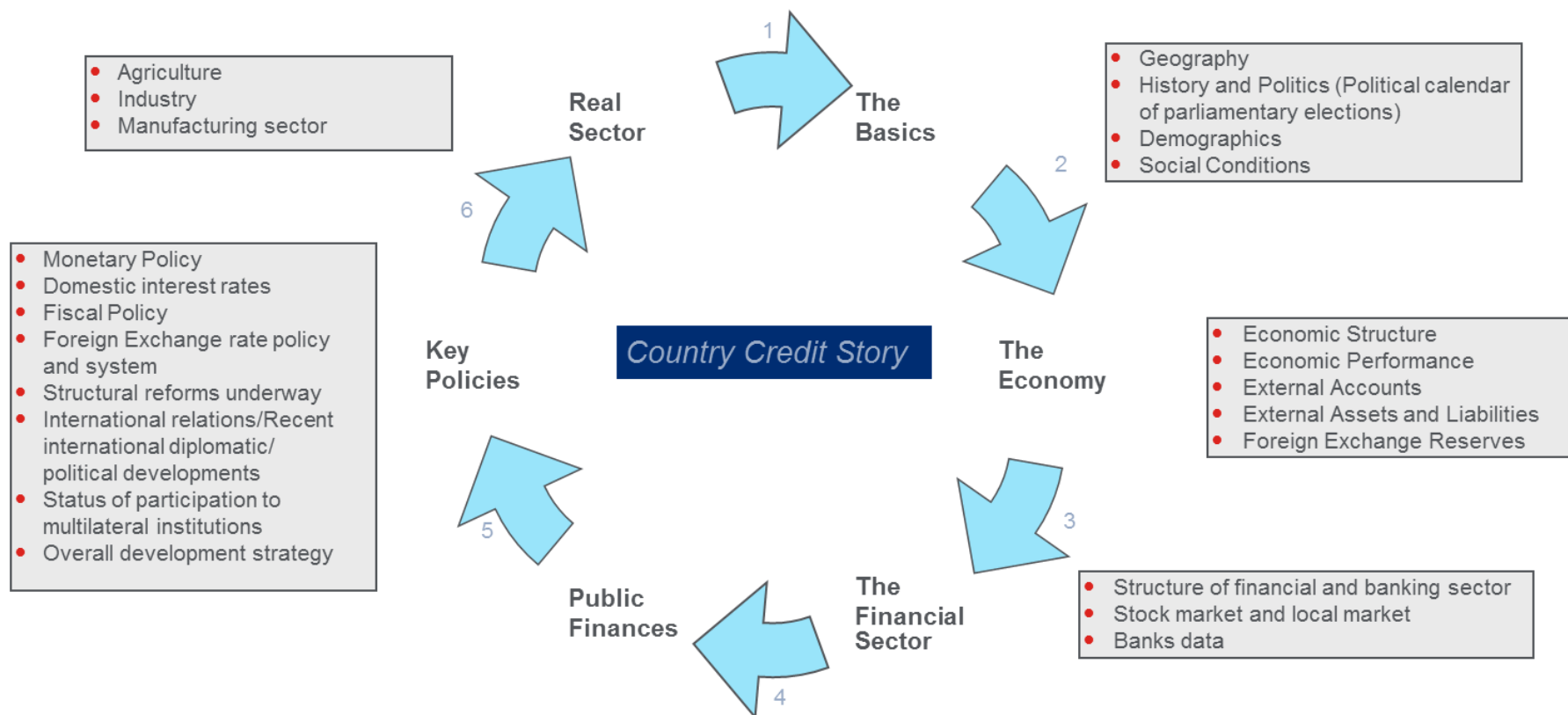
Each factor rated: Very High, High, Medium, Low, Very Low





Key Indicators Used by the Rating Agencies for Sovereign Ratings

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





สำนักงานบริหารหนี้สาธารณะ
PUBLIC DEBT MANAGEMENT OFFICE

WWW.PDMO.GO.TH

เป็นมืออาชีพในการบริหารหนี้สาธารณะ เพื่อการพัฒนาประเทศอย่างยั่งยืน

ranee@pdmo.go.th