



ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Thai Bond Market Development

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Financial Markets Department

22 June 2016

“Innovative Financing”, NEDA



I. The Thai bond market: History, Growth and Present Profile

II. Thai bond market development and BOT's involvement

III. The role of BOT in regional bond market development, “Asian Bond Fund”



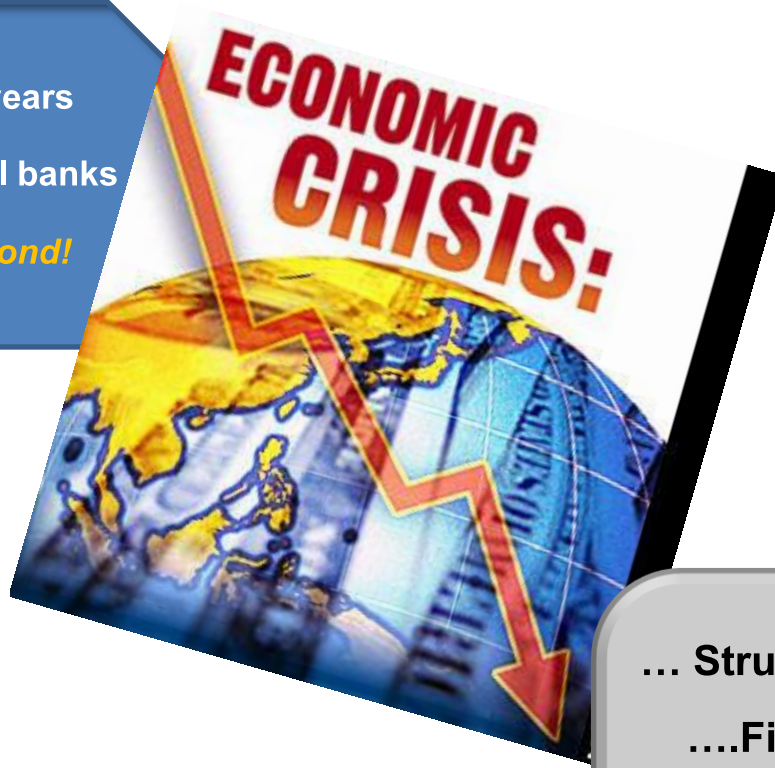
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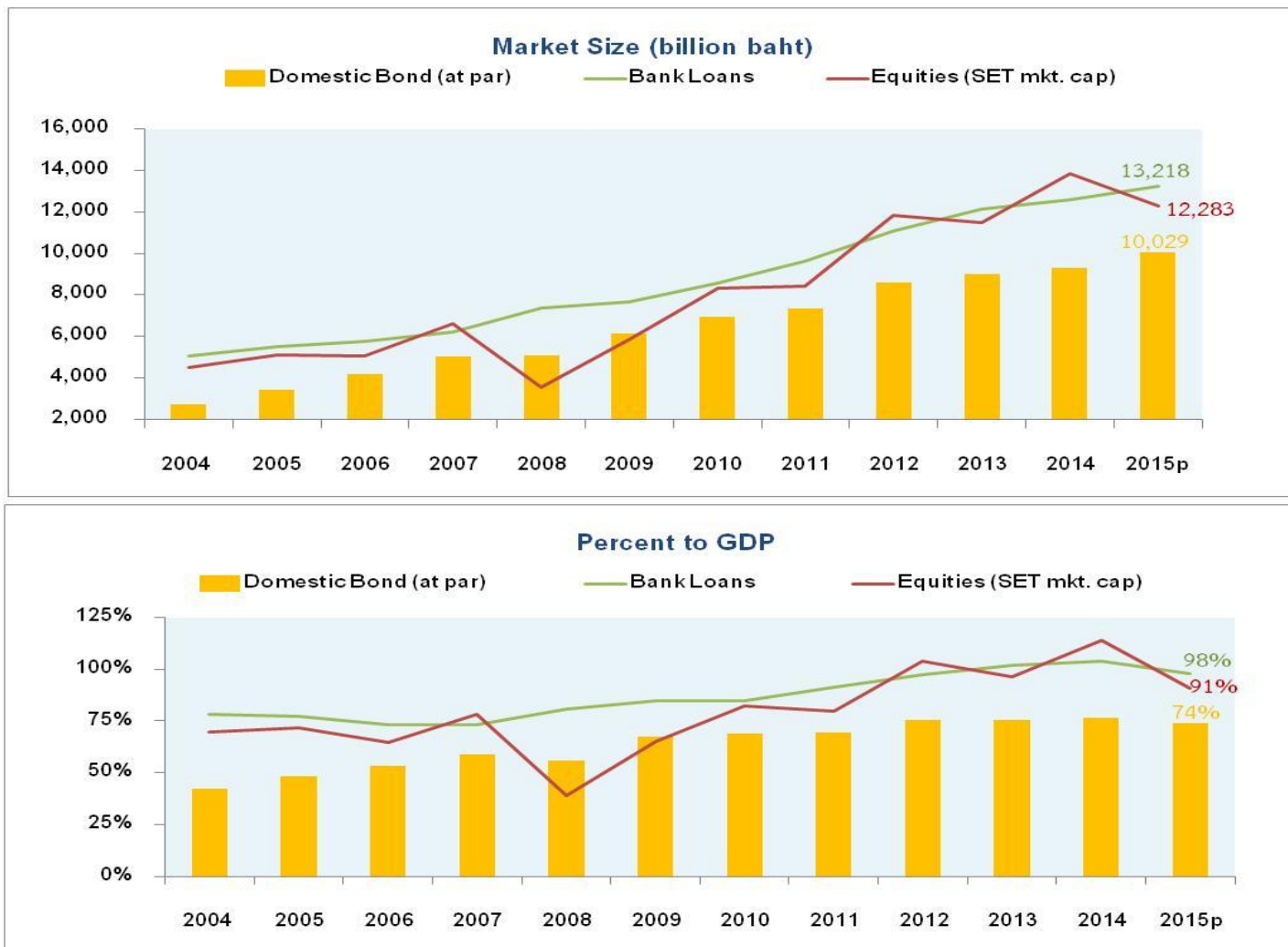
Fiscal Surplus for years
Base on commercial banks
!No need for Gov Bond!



... Structural imbalance
....Financial sector restructuring
**Start of
bond market development
as a source of funding!!**



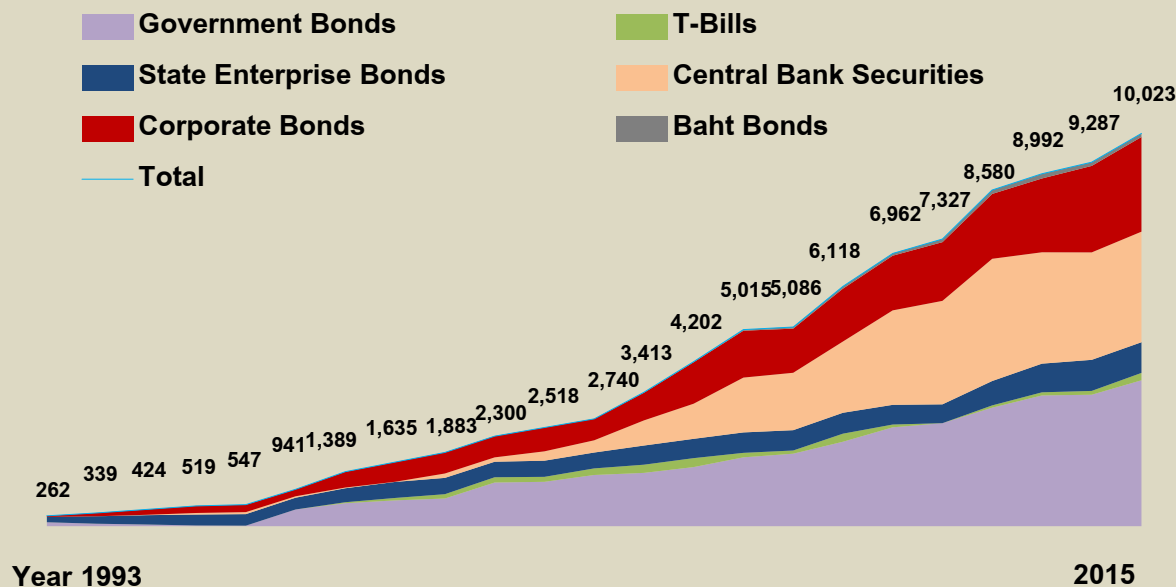
Bond market size and its share to GDP have been continuously rising over time.



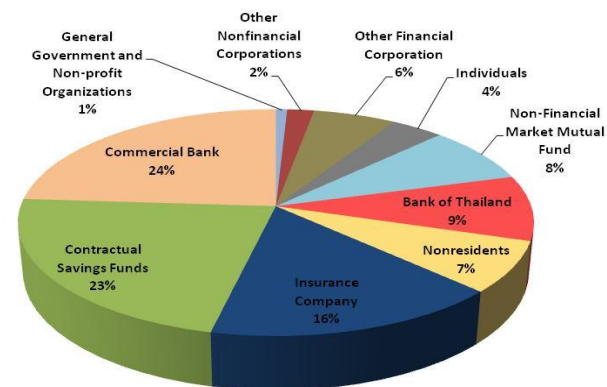
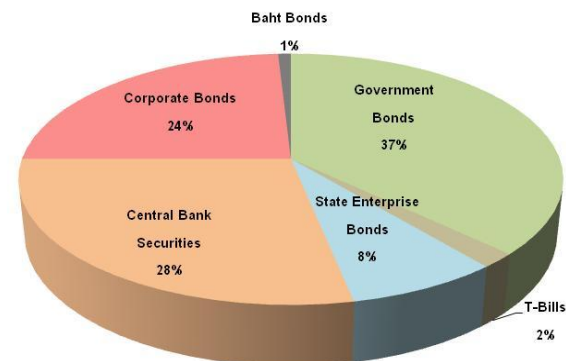


- The outstanding value of the Thai bond market as of end-2015 equals to around 10 trillion baht.
- Public sector bonds comprise around 75% of the bond market. The development is partly due to a diverse investor base.

Outstanding of bond market by issuer type (billion baht)



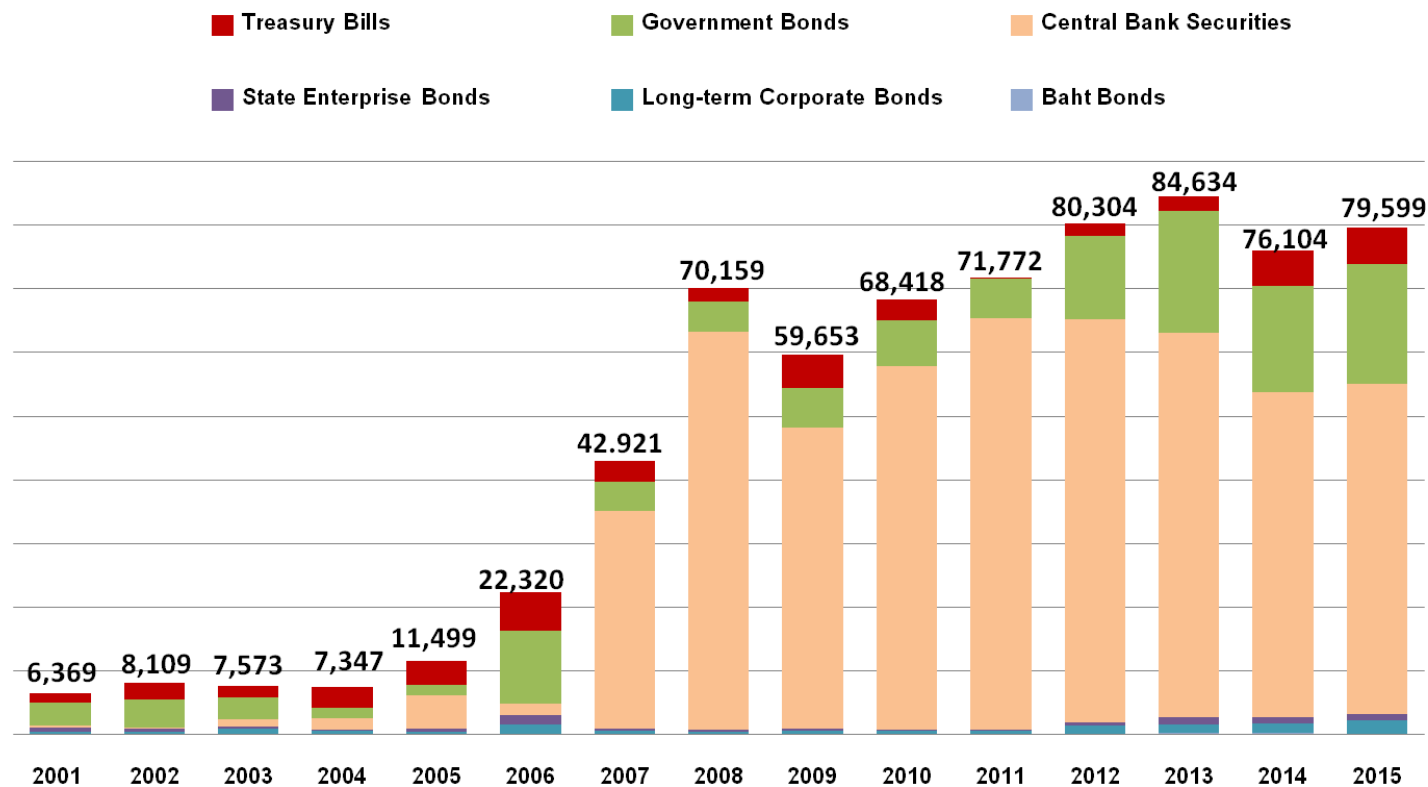
Composition of bond market by bond type in 2015 (%)



Investor base of government debt securities in 2015



Outright daily average trading value (million baht)



Bond trading volume has grown significantly, particularly short-term central bank bills.



To become an additional source of investment and funds;

- reduce both “currency and maturity” mismatch.
- reduce reliance on bank intermediation.
- diversify the risk of intermediation across a large number of institutions and market players.



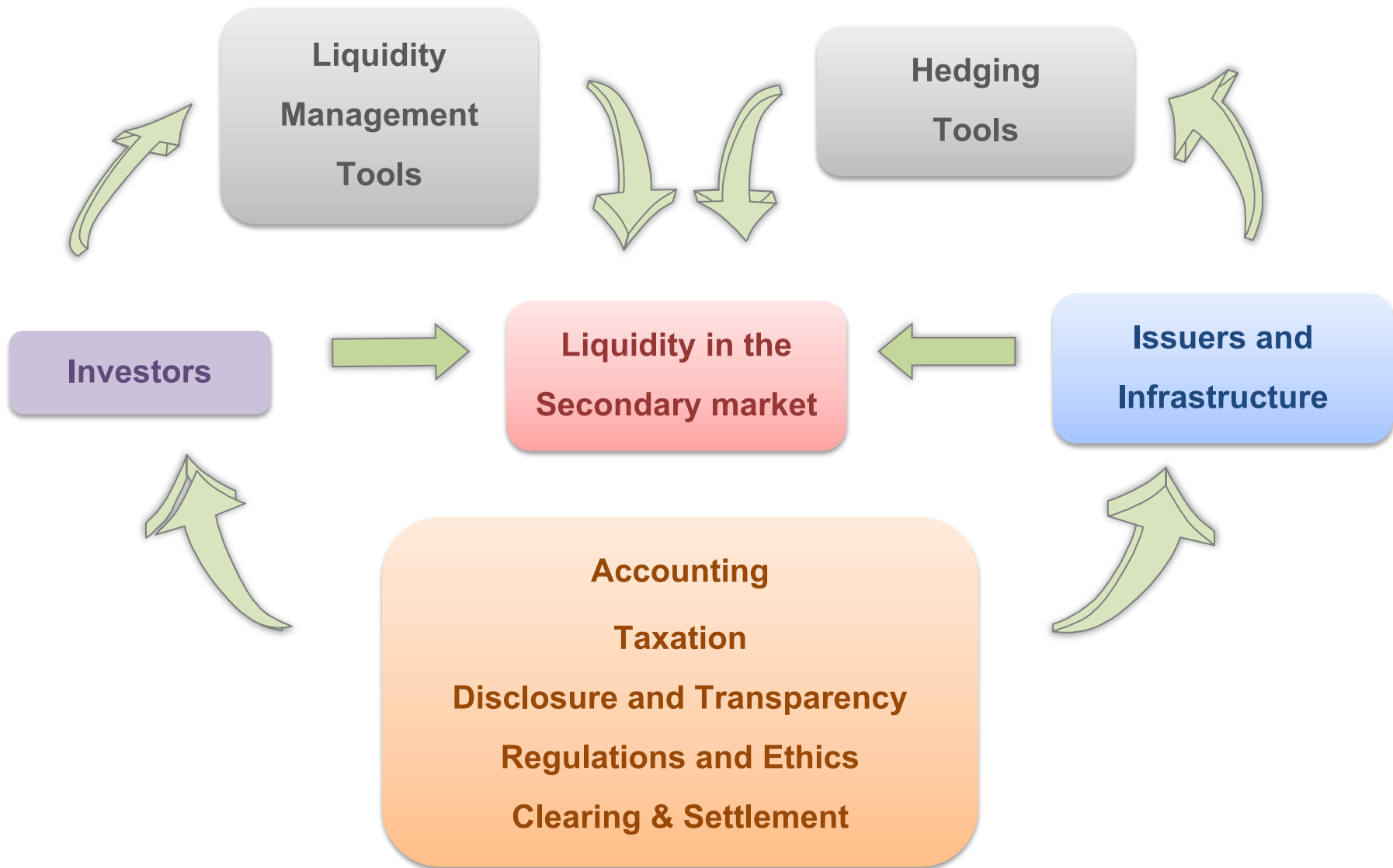
To reduce the cost of government debt financing.



To transmit monetary operations of the central bank through bond market efficiently.

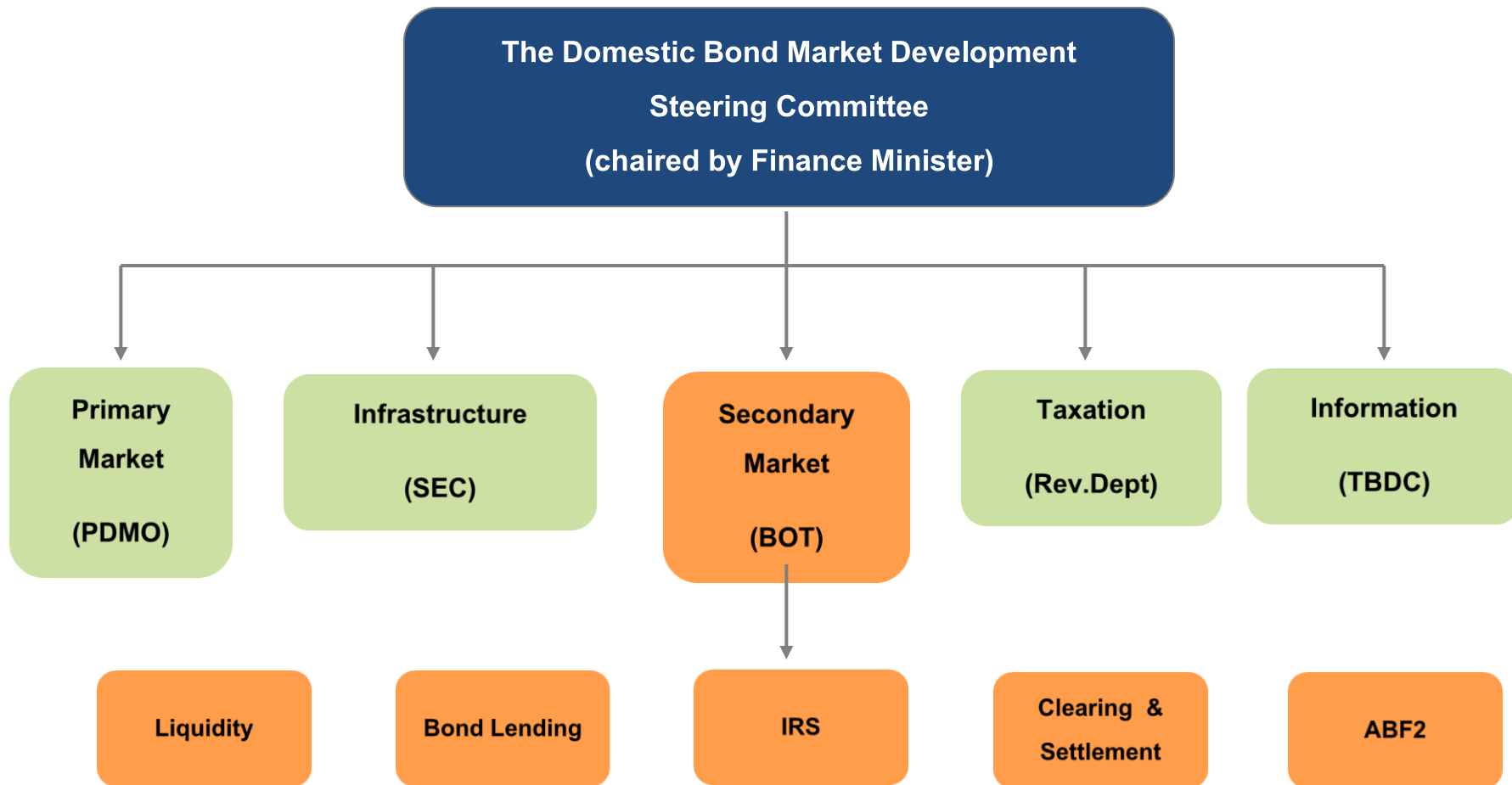


Important factors supporting bond market development





Related Taskforces working on Bond Market Development (at the initial stage of bond market development)





✓ Chaired by the Minister of Finance

✓ Committee components

- **Bank of Thailand**
- Securities Exchange Commission
- Public Debt Management Office, Ministry of Finance
- Revenue Department
- Stock Exchange of Thailand
- Thai Bond Market Association
- Representatives from the private sector





The development of Thai financial markets in support of economic growth and the BOT's involvement



Actively participating in the Capital Market Development Committee.



Developing bond market;

Primary market: fiscal agent of the government.

Secondary market: through implementation of the monetary policy with an aim to improve liquidity and efficiency.



Enhancing clearing and settlement infrastructure:

acted as the operator of the bond depository and settlement system until 2005, before centralized at the Thailand Securities Depository (TSD).



Primary market

1

Building a benchmark yield curve

3

Developing auction system and methods

2

Government debt issuance calendar

4

Product diversification e.g. baht bond, corporate bond

Secondary Market

5

Establishing a primary dealer system

7

Developing private repurchase market

6

Broadening investor base

Infrastructure

8

Centralizing the securities depository and clearing and settlement system

10

Establishing the Thai bond market association (ThaiBMA) as an SRO and information center

9

Developing hedging instruments



1. Building a benchmark yield curve

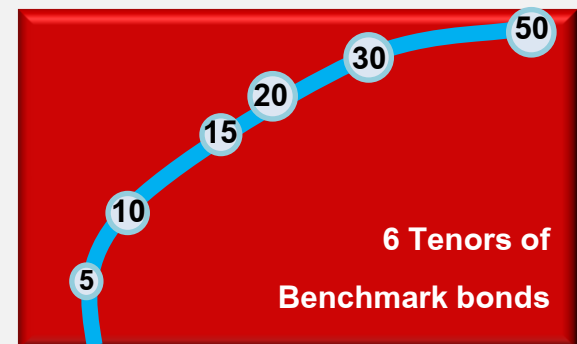
Benchmark yield curve

The MOF of Thailand issued bonds across **maturities ranging from 1 to 50 years** to build a government bond yield curve and made efforts to ensure regular issuance of government bonds to maintain the benchmark yield curve

Primary dealers was assigned to **submit the end of day** indicative quotes for government bonds to the ThaiBMA for the construction of the government bond yield curve which is publicly available on a daily basis on the ThaiBMA's website

The 6 series of benchmark bonds that will be issued in FY2016 are as follows:

- 5-year benchmark bond : LB206A
- 10-year benchmark bond : LB25DA
- 15-year benchmark bond : LB296A
- 20-year benchmark bond : LB366A
- 30-year benchmark bond : LB446A
- 50-year benchmark bond : LB666A





2. Announcing government debt issuance calendar



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The MoF, in collaboration and consultation with the BOT, announced advance issuance programs for government bonds and Treasury bills.

AIM

Continuity



Predictability

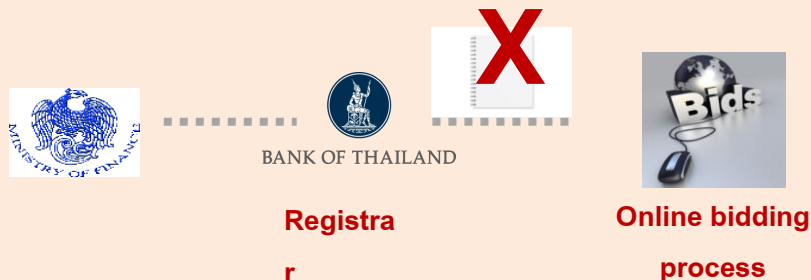


Transparency



3. Developing auction system and methods

Developed an electronic bidding process



In 2003, the BOT, as the fiscal agent and registrar of the MoF, developed an online bidding process for auctions of government securities instead of receiving bids on paper.

Introduced the non-competitive bidding system for government bond auction

- The MoF introduced the non-competitive bidding (NCB) system in 2002.
- The NCB system allowed a certain group of investors, such as non-profit organizations, to place their orders in an amount of 4 million baht to an amount not exceeding 20% of auction amount.
- Their effective yield equals to the weighted average accepted yield of the competitive bids.
- The NCB system has resulted in a wider investor base, particularly small institutional investors.





4. Product diversification

Expanding the variety of products

Government bonds

- LT bonds, saving bonds, floating rate bonds, inflation-linked bonds etc.

Baht bonds

Foreign THB-denominated bond issuance

- In 2004, the MoF allowed international financial institutions and foreign governments to issue baht-denominated bonds in Thailand
- Currently, the eligible baht bond issuers has been expanded to include foreign private companies.
- Total outstanding of baht bond as of Dec 2015 is 88,474 million baht.

Corporate bonds

Encouraging corporate bond issuance

- The Securities and Exchange Commission (SEC) made efforts in streamlining the issuance process for corporate debt securities.
- The SEC's credit rating requirements have been waived for debt issued under certain criteria.



5. Establishing a primary dealer system

Objective

- Supported the auction process in the primary market
- Enhanced liquidity in the secondary market
- Facilitated the conduct of open market operations



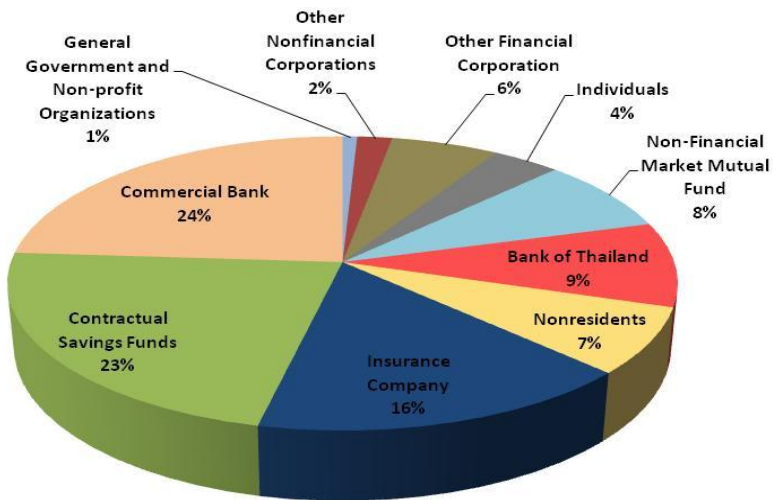
requirement

- A number of commercial banks which were active market participants were appointed as primary dealers.
- These institutions are required to act as market makers and provide 2-way firm quotations for certain benchmark issues.
- Qualified institutions have to meet a number of requirements, for instance:
 - regular participation in government securities auction
 - appropriate level of secondary market trading
 - ability to provide two-way firm price quotation





6. Broadening the investor base



Investor base of government debt securities in 2015

- Major bondholders are
 - (1) financial institutions
 - (2) local institutional investors (insurance companies)
- Retail investors and foreign investors have much smaller participation in the bond market

- ✓ Educate retail investors
- ✓ The MoF periodically issues saving bonds as an alternative investment for retail investors



7. Developing the private repurchase market

To facilitate bond market development

- Adding liquidity to the bond market
- Encouraging investment in bonds
- Encourage FIs to be active players
- Enhancing yield of bondholders by lending it out



Central bank



Bilat repo



PD bank



Players



Players

To broaden money market structure and to add on an instrument to the market toward collateralized term loan.

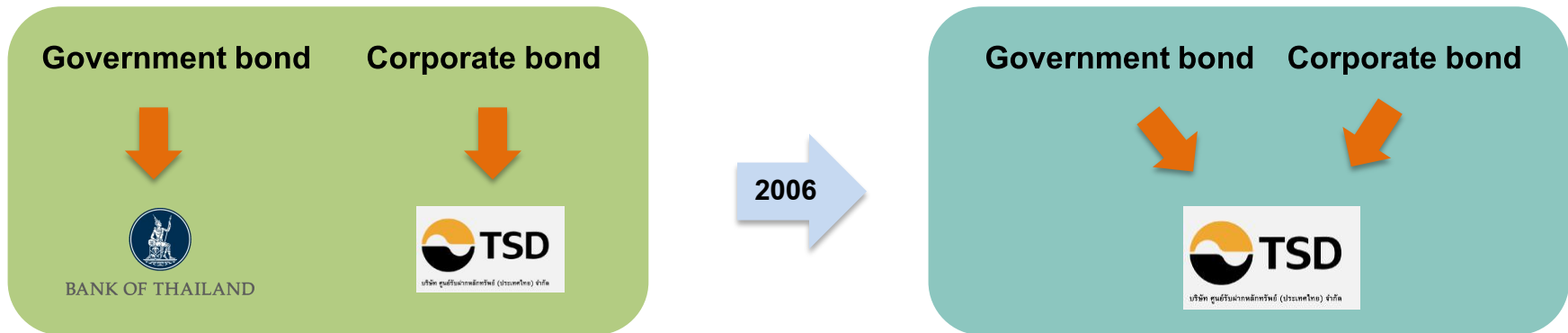
To facilitate channeling of central bank open market operations to the market.

- ✓ The BOT has been promoting the development of the private repurchase market and encouraging the signing of the master repurchase agreements among market participants.
- ✓ Phased out of the BOT repo market and conducts monetary operations through bilateral repurchase transactions instead.



8. Centralizing the securities depository and clearing and settlement system

**Securities clearing and settlement system centralized
at Thailand Securities Depository (TSD)**



The centralization of the securities depository and the clearing and settlement system help

- ✓ improve efficiency and reduce the cost of securities clearing and settlement.
- ✓ paves the way for possible regional clearing and settlement linkage in the future



9. Developing hedging instruments

Hedging

Liquidity management

Availability of hedging tools for bond market participants to hedge their position and manage liquidity is essential, especially during environment of market volatility.



Interest rate swaps (IRS)



Securities borrowing and lending (SBL)



Short selling of bonds



Interest rate futures



Bond futures





10. Establishing the Thai Bond Market Association (ThaiBMA) as an SRO and information center

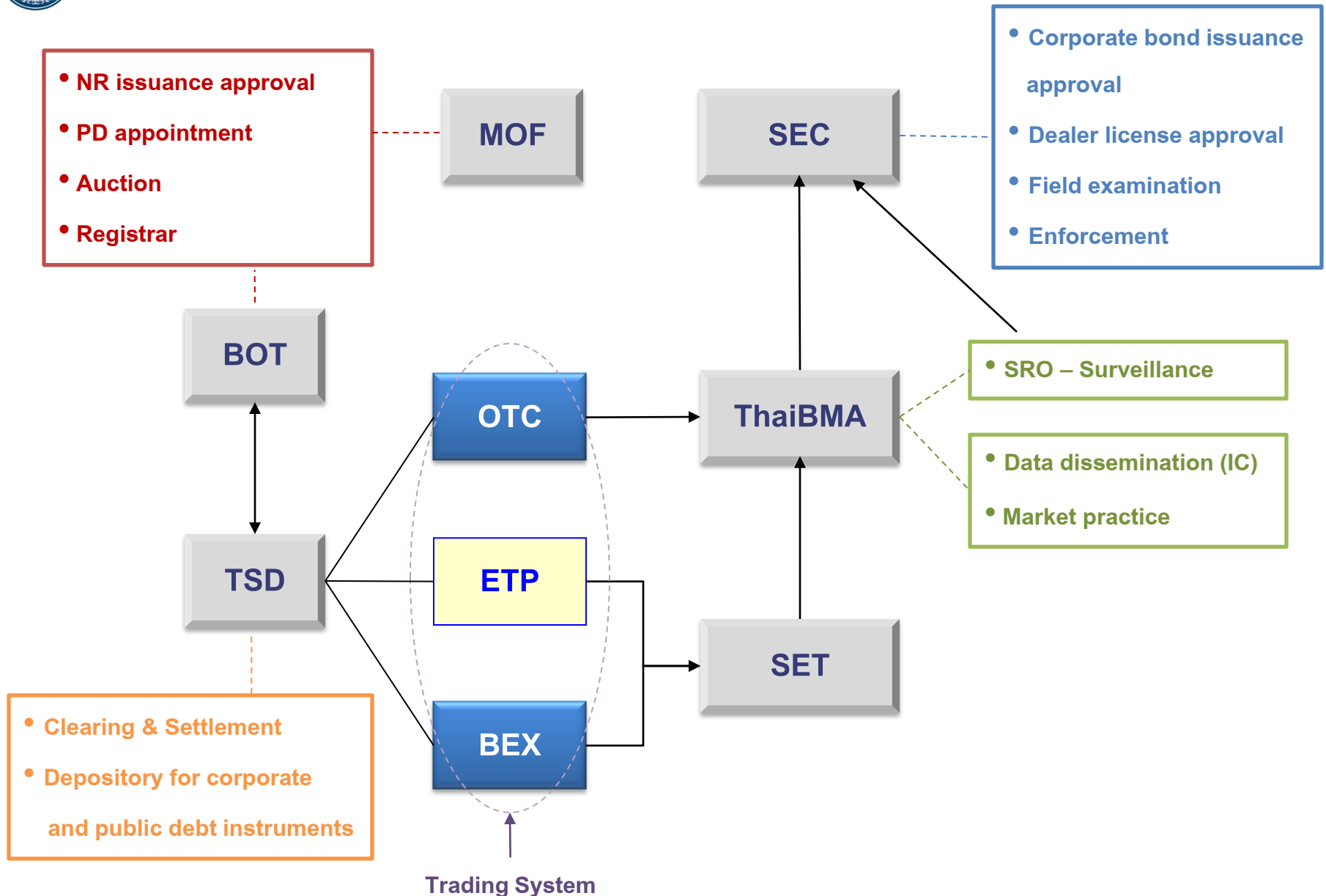


The following areas are key functional roles of ThaiBMA:

1. Self-regulatory organization (SRO)
2. Bond information center and pricing agency
3. Market convention and standards
4. Market development and education



Thai Bond Market Infrastructure & Authorities





Coordination efforts with ThaiBMA and other key stakeholders

✓ BOT's senior director from financial markets department is a member of **ThaiBMA's board of directors**.



✓ BOT representatives are part of ThaiBMA's **Market practice subcommittee** and **Market Regulation subcommittee**.

✓ BOT, PDMO, SEC and ThaiBMA regularly **exchanges and shares information**



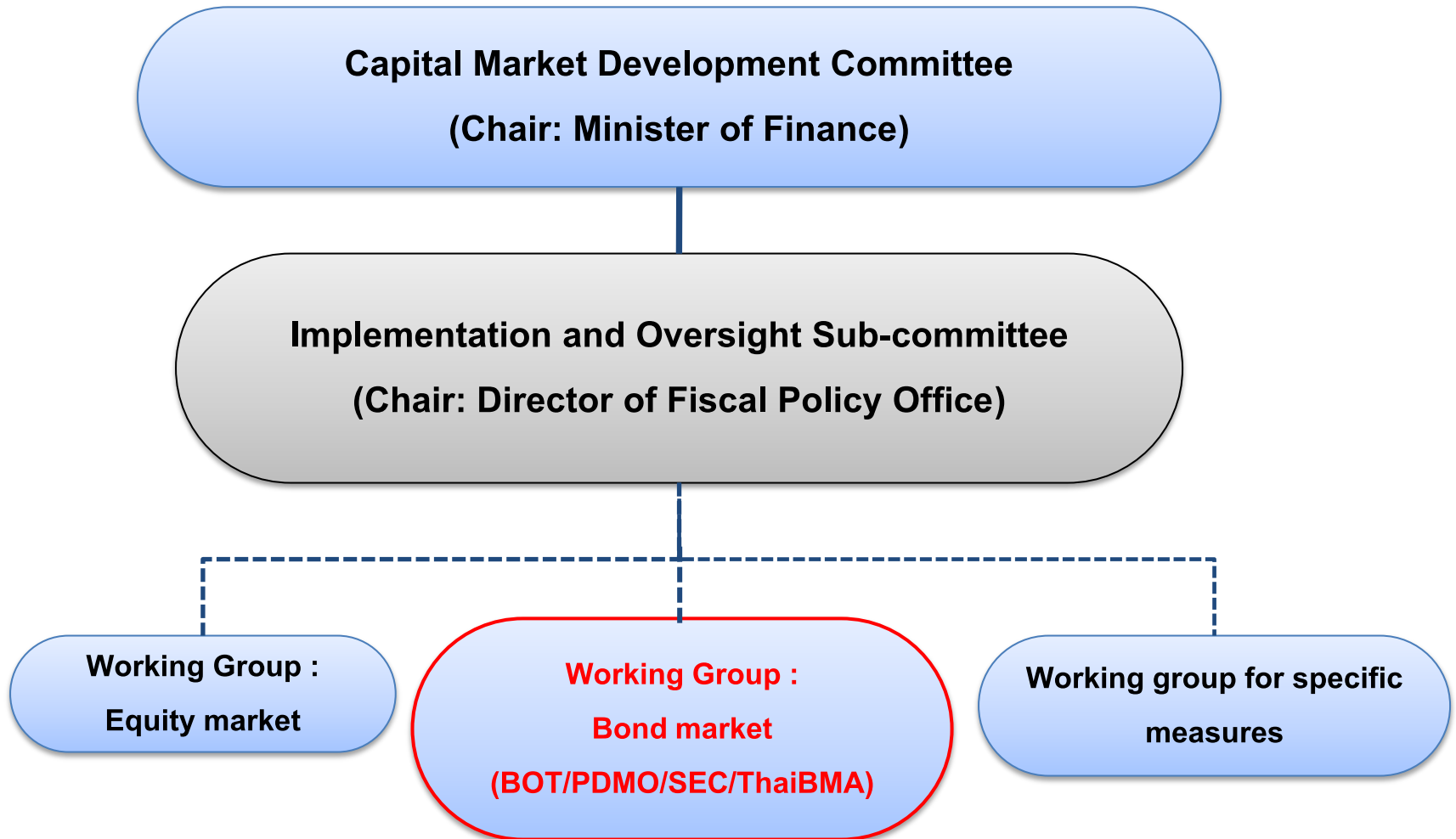
✓ **Meeting and coordinating** with regulators and stakeholders on the related issues.



***Bond market development
under the Capital Market Development Committee (2010-2014)***



Bond market development is a key task under the Capital Market Development Committee





Capital Market Development:

Vision for the Thai Capital Market

To better serve funding needs of the country and be ready for more regional integration in the near future, the Capital Market Development Committee has envisioned Thai Capital Market during 2012-2016 to be...

*“The engine for growth and wealth distribution
and a preferred destination and linkage for global investment”*

Missions: What the capital market should achieve

1. Engine for sustainable economic growth
2. Distribution of wealth and preparation for an aging society
3. Enhance competitiveness of and connecting businesses to the capital market



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Bond Market Development

Thai Bond Market Initiatives



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สำนักงานบริหารหนี้สาธารณะ
PUBLIC DEBT MANAGEMENT OFFICE



ThaiBMA

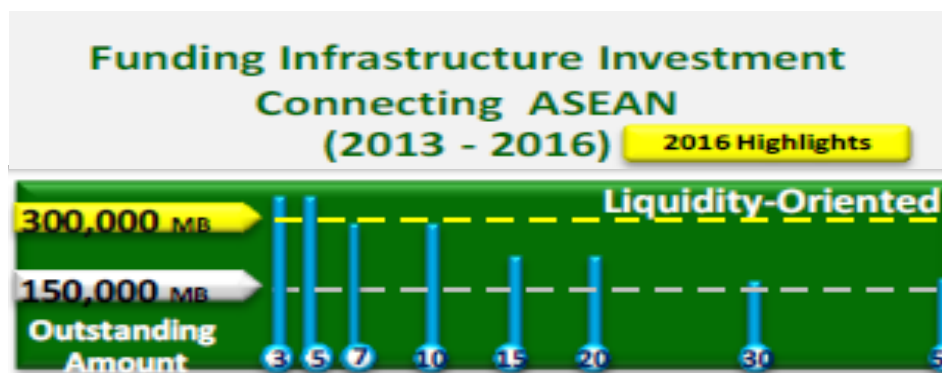
The following areas are being emphasized to enable the Thai bond market as a key driver to accomplish such vision.

1. Deepen the government bond market
2. Utilize corporate bonds as another main funding channel
3. Bring attractiveness to bond investment
4. Prepare for regional integration



1. Deepen the government bond market

- Make a transition from market deepening oriented during 2010-2012 to funding infrastructure investment and connecting ASEAN through several mechanisms such as;
 - Develop the bond switching and/or bond consolidation programs to improve liquidity in the secondary market from increased outstanding size and less bond series .
 - Maintain variety of products e.g. retail bond, amortized bond and inflation-linked bond.





2. Utilize corporate bonds as another main funding channel

- Increase diversity of products to serve demand of market players.
 - Such As FX bond issuance – remove hindrance for new bond issuance in primary market and develop infrastructure necessary for secondary market.
 - Considering possibility of covered bond issuance.
- Promote the development of High Yield bond market, which would be an alternative channel for SME financing.
 - Accredited Investor (AI) scheme identifying eligible investors for High Yield products.
- Enhance liquidity in secondary market by publishing a list of corporate bonds with prime credit ratings on website to facilitate investment decision.





3. Bring attractiveness to bond investment

- Broaden domestic investor base - esp. retail investors through several mechanisms
 - Seminars and educational programs for retail investors
 - Develop one-stop information center including www.thaibond.com/bondmart, www.start-to-invest.com, mobile application, TV program, facebook fan page



- Propose changes to bond related taxes to make investment more attractive.



4. Prepare for regional integration

- Participate in regional development efforts

ASEAN+3: Asian Bond Market Initiatives (ABMI)

- Support Thai corporate sector to raise fund through CGIF
- Promote the issuance of local currency-denominated bonds by non-residents



ASEAN: ASEAN Capital Market Forum (ACMF)

- Thailand is among the first 3 countries to implement several initiatives to harmonize rules and regulations such as
 - ASEAN Disclosure Standard Scheme (AMBIF)
 - ASEAN Trading Link





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EMEAP

Executives' Meeting of East Asia-Pacific Central Banks

a forum of central banks in the East Asia and Pacific region that aims to strengthen cooperation among its 11 members.



Asian Bond Fund (ABF)

- ❑ First initiative launched by EMEAP group that allows its members to invest in bonds issued by Asian sovereign issuers in EMEAP economies.

❑ The Objectives of ABF

1. To promote bond market development in the region.
2. To facilitate channeling the sizable official reserves held by Asian economies back into the region.
3. To provide an innovative, low-cost and efficient investment product in the form of passively managed index bond funds to broaden investor participation.
4. To identify impediments to bond market development in EMEAP economies and acting as a catalyst for regulatory reforms and improvements to market infrastructure.



Two stages of ABF : ABF1 and ABF2

ABF1

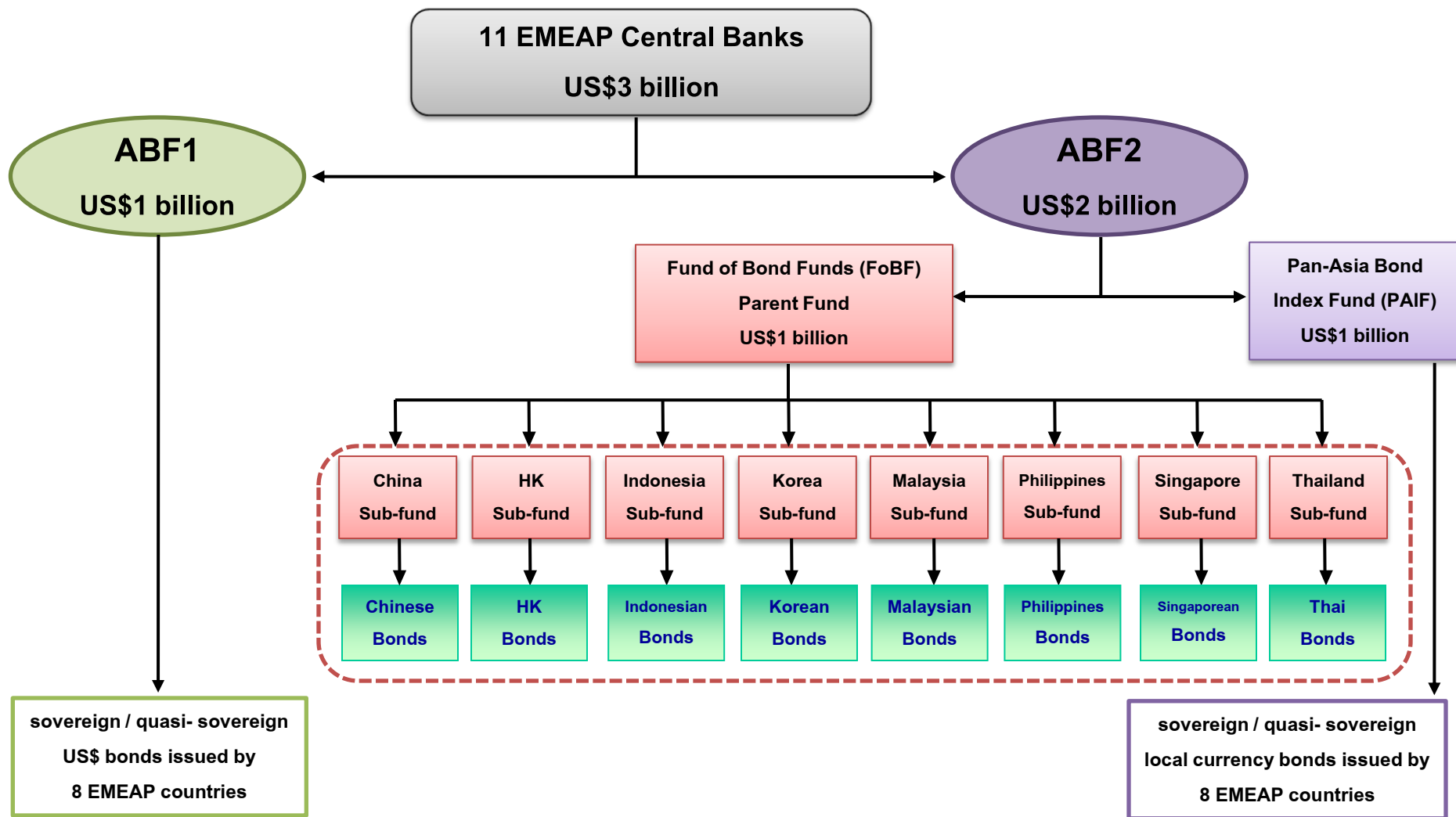
- launched in June 2003.
- US\$1 billion pooled from the 11 EMEAP central banks only.
- investing in dollar bonds issued by 8 EMEAP sovereign and quasi- sovereign borrowers.

ABF2

- launched in December 2004.
- initial seed money of US\$2 billion by the 11 EMEAP central banks.
- investing in local-currency bonds issued by 8 EMEAP sovereign and quasi-sovereign borrowers.



The Structure of Asian Bond Fund





ABF2: Design and Rationale

- ✓ Low Costs
- ✓ Wide Distribution
- ✓ Tracking NAV
- ✓ High liquidity



Passively managed index bond funds

- ✓ Lower management fees
- ✓ Listed on the stock exchanges for lower transaction costs and ease of access
- ✓ ETF where possible

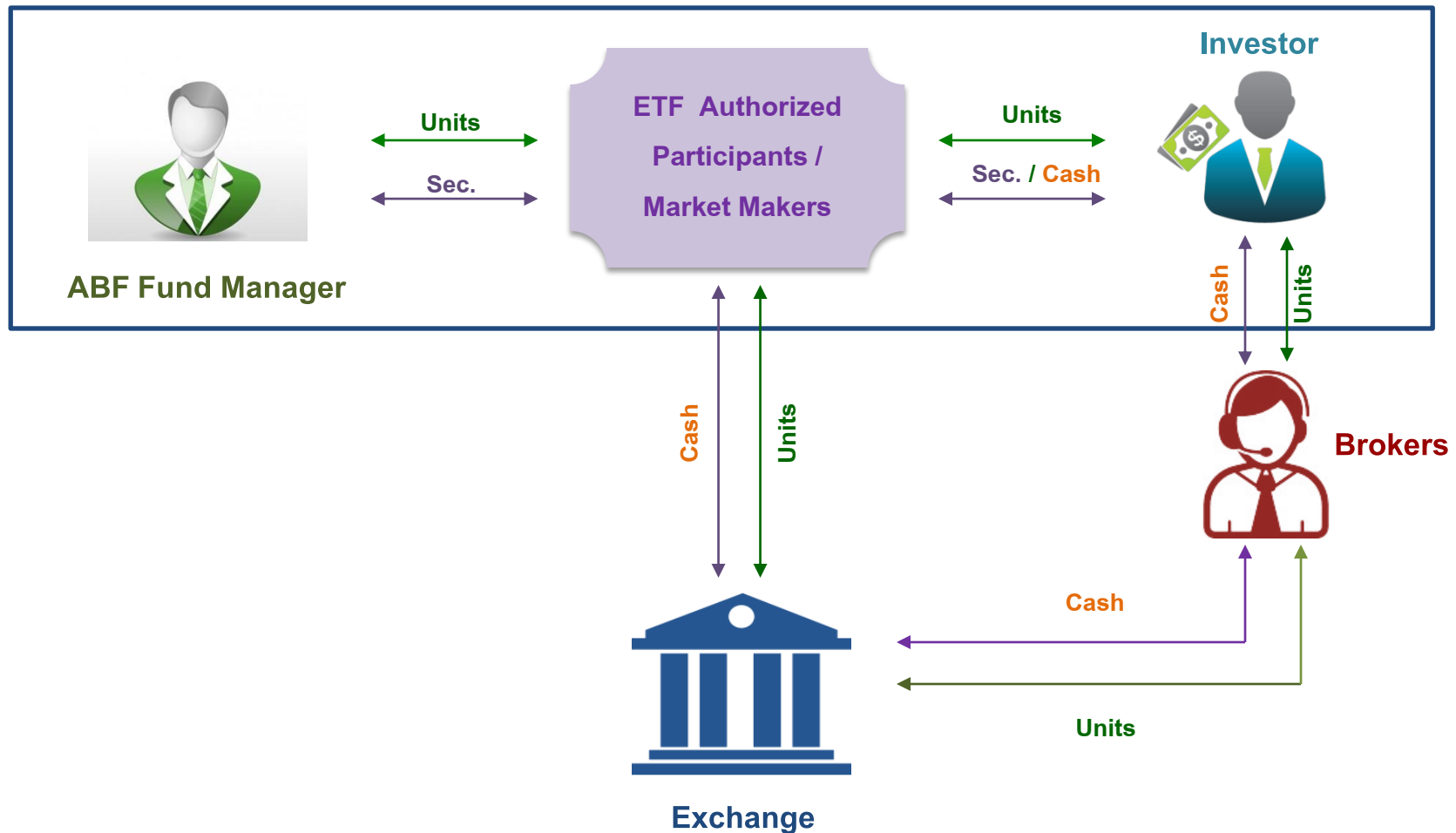


Tracking Markit iBoxx Index





In-kind mechanism for ETF creation/redemption





How successful is ABF2 in achieving its objectives?

I. Providing an alternative investment product.



- The ABF establishment considered as an innovative, low-cost and efficient product in the form of passively managed index bond funds.
- The bond ETFs were the first such product in many markets including Thailand and has also been contributing in stimulating the growth of other ETFs in the ABF economies.
- As investment vehicles, the ABF2 represents a successful introduction of a new asset class in Asia, laying the foundation for broader investor participation in bond markets.



How successful is ABF2 in achieving its objectives?

II. Promoting bond market development and fostering regional cooperation.



- Directly supports the development of regional bond markets by stimulating investment activities.
- Identifies the impediments to bond market development in EMEAP economies.
- Acts as a catalyst for regulatory reforms and improvements in market practices and infrastructure in the region.



Way forward for ABF2 in support of developing the local-currency bonds...

ABF2

A room to foster the development of new debt products which could help to incentivise the market.

Challenge of attracting private sector investment to the single market funds.





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Q & A