22 June B.E 2565 (2022)

To Managers

All commercial banks

All specialized financial institutions

No. FMD.(41)C. 34/2565 Re: BOT will not recommend any rate to replace Fallback Rate (THBFIX) and expects financial institutions to transition from THBFIX in a timely manner

Following the Thai Baht Interest Rate Fixing (THBFIX) cessation on 30 June 2023, the Fallback Rate (THBFIX) will be published as its temporary replacement rate for legacy contracts until the end of 2025.

The Bank of Thailand (BOT) would like to announce that the BOT will not recommend any reference rate to replace the Fallback Rate (THBFIX). In other words, there will be no "BOT Recommended Rate" that the International Swaps and Derivatives Association (ISDA) refers to in the IBOR Fallbacks Supplement and Protocol[1]. Therefore, starting from 1 January 2026 onwards, any outstanding contracts amended in accordance with the ISDA approach will be referencing Thai Overnight Repurchase Rate (THOR)[2] without spread adjustment between THOR and Fallback Rate (THBFIX).

In addition, to ensure a smooth transition from THBFIX well ahead of its cessation in mid-2023, the BOT would like to emphasize and ask all financial institutions and market participants for cooperation as follows.

1. **All financial institutions and contractual counterparties should promptly amend the existing cash products and derivative contracts by using alternative reference rates such as THOR at market prices (active transition).** For syndicated loans, which may take longer time to amend, the BOT expects lead arrangers to take a principal role and be responsible for the renegotiations of each syndication to reach agreement in a timely manner.

2. **All financial institutions and contractual counterparties should incorporate fallback provisions for all their legacy contracts** to reduce the risk of disruption once THBFIX ceases.

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[1] Specifically refer to Supplement number 70 to the 2006 ISDA Definitions, ISDA 2020 IBOR Fallbacks Protocol, and 2021 ISDA Interest Rate Derivatives Definitions

[2] According to ISDA' IBOR Fallbacks Supplement and Protocol, the fallback rates after THBFIX cessation are consecutively provided in a waterfall approach as follows: (1) Fallback Rate (THBFIX) (2) Bank of Thailand (BOT) Recommended Rate (3) THOR

3. **All financial institutions should ensure that their counterparties fully understand implications of different approaches in transitioning legacy contracts.** In the case where agreement cannot be reached on active transition from THBFIX, financial institutions should explain limitations on the usage of Fallback Rate (THBFIX) such as its non-tradability, the unavailability of market prices for marking-to-market and unwinding, the timeline of the rate cessation in 2025, and the fact that all the contracts might reference THOR without spread adjustment as there will be no BOT Recommended Rate.

4. **All financial institutions should reduce their notional outstanding of THBFIX derivatives maturing after 2025** following the guideline previously issued by the BOT[3] **and have concrete plans to prudently manage any residual contracts.** The BOT encourages financial institutions to promptly renegotiate with both onshore and offshore contractual counterparties to reduce their outstanding. In cases where transacting new THBFIX derivatives is needed in order to facilitate the active transition, financial institutions should have plans in place to ensure that the potential increase in THBFIX outstanding would be properly managed. The BOT may request to review such plans, if deemed necessary.

5. **Starting from 1 July 2022 onwards, all financial institutions and market participants shall transact new derivatives referencing THBFIX only as necessary for risk management or transition of legacy contracts** (details enclosed). Reasons for entering into new transactions referencing THBFIX should be readily available when inquired by the BOT.

Yours sincerely,

(Ms. Daranee Saeju)
Senior Director, Financial Markets Department

Attachment: Examples of cases where new THBFIX derivatives are acceptable and cases where they are prohibited from 1 July 2022 onwards

Financial Markets Department
Telephone 0 2283 6321

[3] https://www.bot.or.th/English/PressandSpeeches/Press/2021/Pages/n8464.aspx

Attachment

Examples of cases where new THBFIX derivatives are acceptable and cases where they are prohibited from 1 July 2022 onwards

Examples of cases where new THBFIX derivatives are acceptable

1. **The hedging of legacy cash products referencing THBFIX** such as the hedging of existing THBFIX loans that failed to transition to other rates
2. **The unwinding or reducing of counterparty's existing THBFIX derivatives risk** such as entering into a contract on the opposite position to reduce net THBFIX exposure
3. **Active transition or the facilitation of the THOR-THBFIX basis swaps market liquidity**
4. **Risk management of financial institution's outstanding THBFIX exposure** which includes providing market prices to facilitate case 1, 2, 3 and for the marking-to-market of legacy contracts

Examples of cases where new THBFIX derivatives are prohibited

1. **Instances where THOR can be used for risk management (as there is no underlying referencing THBFIX)** such as the hedging of a fixed rate bond, the usage of swap as cost-saving on fixed rate debt issuance
2. **Rate trading or speculation purposes**

Note: For cases not listed above, financial institutions may contact the Reference Rate team for further information at 0 2356 7534, 0 2283 6321, 0 2283 5476 or email ReferenceRate@bot.or.th