

Unofficial Translation

This translation is for the convenience of those unfamiliar with the Thai language  
Please refer to Thai text for the official version

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**Bank of Thailand**

9 January 2015

To Manager

All commercial banks excluding retail banks

No. RPD (01) C. 2/2558 Re: Dispatch of the Bank of Thailand Notification  
Re: Permission for Commercial Banks to Undertake Risk Participations

The Bank of Thailand (BOT) hereby dispatches the BOT Notification No. FPG. 9/2557 Re: Permission for Commercial Banks to Undertake Risk Participations dated 30 December 2014 (B.E.2557) which has been published in the Royal Gazette, Ordinance Edition, Volume 132, Special Section 4 Ngor. dated 8 January 2015 (B.E.2558) and come into effect from 9 January 2015 (B.E.2558) onwards.

The essence of this Notification is to give permission for commercial banks to undertake risk participations as risk transferring or receiving participants so that commercial banks will have more varieties of risk management tool and can extend the scope of undertaking of transactions under the same credit risk management as in case where commercial banks directly give loans. In addition, commercial banks shall comply with related supervisory guidelines.

Please be informed and comply accordingly.

With Respect

(Mr. Somboon Chitphentom)

Senior Director, Regulatory Policy Department  
For Governor

Enclosure Bank of Thailand Notification No. FPG. 9/2557 Re: Permission for  
Commercial Banks to Undertake Risk Participations dated 30 December  
2014 (B.E.2557)

Regulatory Policy Department

Tel. 0 2356 7339, 0 2283 5805

Fax. 0 2283 5938

Note:  The Bank of Thailand will arrange a clarification meeting.

No clarification meeting will be arranged.

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**Bank of Thailand Notification**

**No. FPG. 9/2557**

**Re: Permission for Commercial Banks to Undertake Risk Participations**

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**1. Rationale**

The development of the country and economic growth are linked to funding sources from commercial banks, especially projects involving huge investments or international trades, where commercial banks play a role in raising funds as project finance and trade finance to establish the interconnectedness between investments and trades, both domestically and internationally. However, undertaking of such transactions may be restricted due to supervisory guidelines; therefore large businesses can ask for a limited amount of loans, and this would result in restriction on economic growth of the country and competition at a global level.

In order to reduce such obstacle, and to encourage commercial banks to have in place a variety of credit risk management tools, other than credit derivatives, the Bank of Thailand thereby allows commercial banks to undertake credit risk transferring and receiving transactions (risk participations) as risk transferring or receiving participants. Where, such transactions are another type of credit risk management tool of commercial banks, there is the specification of qualifications of commercial banks eligible to undertake the transactions, scopes and types of the transaction, types of underlying asset, and clear supervisory guidelines on, namely, accounting and information disclosure, supervision of large exposures (single lending limit), provisioning, and calculation of credit risk-weighted assets so that the Bank of Thailand can appropriately monitor risks of commercial banks, under risk/return-based supervision, as well as, commercial banks must take account of qualifications of counterparty and risks that may arise from undertaking such transactions.

**2. Statutory power**

By virtue of Sections 29, 30, 32, 36, 50, 52, 60, 61 and 71 of the Financial Institution Business Act B.E. 2551, the Bank of Thailand hereby allows commercial banks to undertake risk participations in accordance with the regulations as prescribed herein.

### 3. Scope of application

This Notification shall be applied to all commercial banks excluding retail banks

### 4. Content

#### 4.1 In this Notification

“Risk participation” means the transfer or the receipt of credit risk for all or certain portions of underlying obligation between a risk transferring and receiving participant, where the risk transferring participant still have rights to and is liable for the underlying obligation.

“Underlying obligation” means an asset or obligation of a risk transferring participant as specified in an agreement of risk participation.

“Risk transferring participant” means a participant that transfers credit risk of the underlying obligation to a risk receiving participant.

“Risk receiving participant” means a participant that receives credit risk of the underlying obligation from a risk transferring participant.

“Credit event” means an event that associates with capability of a debtor in making repayment or complying with an agreement of underlying obligation in which a risk receiving participant must make payments in an amount as agreed upon according to an agreement of risk participation.

“Unfunded risk participation” means a transaction that a risk transferring participant has transferred its credit risk of the underlying obligation to a risk receiving participant for all or certain portions, and a risk receiving participant will pay compensation to a risk transferring participant in an amount as agreed upon according to an agreement of risk participation, when a credit event occurs with the underlying obligation.

“Funded risk participation” means a transaction that a risk transferring participant has transferred its credit risk of the underlying obligation to a risk receiving participant for all or certain portions, and a risk transferring participant will receive money from a risk receiving participant in an amount and within the time as agreed upon according to an agreement of risk participation.

“Commercial bank” means a commercial bank according to the Financial Institution Business Act B.E.2551 excluding retail banks.

“Board of directors” means the board of directors of a locally incorporated bank or executive committee with delegated authority of a foreign bank’s branch.

## **4.2 Principle**

The Bank of Thailand allows commercial banks to undertake risk participations, where such transactions must be in line with the principles as specified in this Notification, and commercial banks shall comply with the following:

4.2.1 Commercial banks must appropriately manage risks arising from undertaking risk participations, have sound business conditions, have sufficient provisions, and have sufficient capital funds to absorb risks arising from undertaking risk participations, comply with accounting and financial reporting standards (accounting standards), and must strictly comply with related supervisory guidelines, namely regulations regarding maintenance of foreign currencies, anti-Baht speculation, anti-money laundering and combating the financing of terrorism as specified by the Bank of Thailand.

4.2.2 Commercial banks that are risk receiving participants must analyze and monitor risks arising from engaging in risk participations as if they undertake the transactions themselves, especially in case of receiving the transfer of risks from parent companies, subsidiaries, associated companies, related persons or major shareholders of commercial banks, where this must not be for the benefits of such persons, such as there must not be special conditions or requirements that differ from ordinary arrangements.

4.2.3 Commercial banks must not offer risk participations in a manner that could result in an impact on economic stability, financial system, and financial institution system of the country.

4.2.4 Commercial banks must sufficiently have in place supporting documents for undertaking risk participations, and have data collection system and preparation of reports for monitoring, analyzing, and assessing the results from undertaking risk participations for examination of the Bank of Thailand and for submission upon request.

## **4.3 Scope of transactions under the permission**

The Bank of Thailand allows commercial banks to undertake risk participations under the following scope of transactions:

### **4.3.1 Types of transactions**

- (1) Unfunded risk participation
- (2) Funded risk participation

### **4.3.2 Underlying assets**

The Bank of Thailand restricts the types of underlying assets for undertaking risk participations to these 2 following assets:

- (1) Loans given to one particular borrower (single loan) or one particular group, and syndicated loans
- (2) Trade finance, such as issuing letter of credit, confirming letter of credit, negotiating letter of credit and bank acceptance etc.

### **4.3.3 Counterparty**

The Bank of Thailand allows commercial banks to undertake risk participations with following counterparty:

- (1) Commercial banks
- (2) Overseas banks rated by the external credit assessment institutions (ECAIs) recognized by the Bank of Thailand according to the Bank of Thailand Notification Re: Regulations on the Calculation of Credit Risk Weighted Assets Using the Standardized Approach (SA) or credit assessment institutions recognized by the Securities and Exchange Commission
- (3) Multilateral development banks (MDBs) with a risk weight of 0 according to the Bank of Thailand Notification Re: Regulations on the Calculation of Credit Risk Weighted Assets Using the Standardized Approach (SA)

## **4.4 Regulations on undertaking of the transactions**

Commercial banks undertaking risk participations must have sound and appropriate risk management that is consistent with profiles and volumes of transactions, where the commercial banks must comply with following requirements:

4.4.1 Commercial banks must have policies on undertaking of the transactions in writing and approved by the board of directors. Where, such policies must cover processes, procedures on undertaking of the transactions, risk management, reporting and monitoring of risks from undertaking the transactions, appropriate accounting and internal controls, and must be reviewed regularly or upon any significant changes.

4.4.2 Board of directors and senior management must have knowledge, understanding of the transactions and related risks, and are liable for considering the effectiveness of the risk management systems involving the undertaking of the transactions as well as preparedness of the staff involving the undertaking of the transactions.

4.4.3 Commercial banks must consider all risks related to the undertaking of the transactions as well as currency mismatch on underlying assets, where maturity of an agreement of risk participation must not be less than remaining maturity of an underlying asset.

4.4.4 Commercial banks must ensure that provisions in an agreement of risk participation are periodically reviewed, as deemed appropriate, and, at least, they must have following features:

(1) Legally enforceable and do not violate the provisions under an agreement of underlying obligation

(2) There is clear specification of responsibility of a risk transferring participant and risk receiving participant

(3) There is specification of types of underlying asset that can be used in undertaking risk participations

(4) There is specification of underlying assets that can be used in undertaking risk participations

(5) There is specification of credit events in which a risk receiving participant must make payments for an amount as agreed upon to a risk transferring participant

As such, for the features according to (4) and (5), commercial banks may specify them in the attachment to an agreement of risk participation.

#### **4.5 Supervisory guidelines**

The Bank of Thailand supervises the undertaking of risk participations in accordance with risk/return-based approach, whereby the commercial banks must ensure that they strictly comply with accounting and financial reporting standards (accounting standards) and related laws, as well as detailed supervisory guidelines as specified in the Attachment. In addition, commercial banks must comply with regulations on supervision of large exposures (single lending limit), provisioning, and calculation of credit risk-weighted assets, as well as reviews of loans and obligations, and prepare reports according to related reporting forms as specified by the Bank of Thailand.

#### **4.6 Other requirements**

If commercial banks wish to undertake risk participations other than those under the scope of permission as specified in this Notification, but with reasonable grounds, the commercial banks shall submit the letter describing their necessity and details of transactions to the Bank of Thailand.

The Bank of Thailand may consider making amendments to the scopes, requirements, or supervisory guidelines on the undertaking of risk participations, as well as may cancel the transactions, limit the volume of transactions, require additional provisions or impose any further measures in the future, as deemed appropriate.

#### **5. Effective date**

This Notification shall come into effect from the following date of its publication in the Government Gazette.

Announced on 30<sup>th</sup> December 2014

(Mr. Prasarn Trairatvorakul)  
Governor  
Bank of Thailand

Regulatory Policy Department  
Tel. 0 2356 7339, 0 2283 5805  
Fax. 0 2283 5938



### Supervision of the Undertaking of Risk Participations

The Bank of Thailand supervises the undertaking of risk participations according to risk/return-based approach, whereby commercial banks must ensure that they strictly comply with accounting standards and related laws. In addition, commercial banks must comply with regulations on supervision of large exposures (single lending limit), provisioning, and calculation of credit risk-weighted assets, as well as reviews of loans and obligations, and prepare the reports according to related reporting forms as specified by the Bank of Thailand. Where, the regulations on supervision of the undertaking of risk participations are as follows:

(1) **In case where commercial banks are risk transferring participants:**

For underlying obligations for a portion on which credit risk has been transferred, commercial banks shall comply with the following:

Type Guideline	Unfunded risk participation	Funded risk participation
<b>Accounting and information disclosure</b>	Not to be recorded	Record a risk receiving participant as liability, for an amount of money received
	Comply with principles of related accounting standards and disclose material information related to the undertaking of the transactions in the notes to financial statement	
<b>Supervision of large exposures (Single lending limit: SLL)</b>	Included in the exposure (SLL) of a risk receiving participant instead of underlying obligation	Not included in the exposure (SLL), for an amount of money received from a risk receiving participant
<b>Calculation of risk weighted assets (RWA)</b>	Credit risk mitigation can be applied as the exposure is considered secured by a risk receiving participant <sup>1</sup>	Credit risk mitigation can be applied as the money received from a risk transferring participant

<sup>1</sup> Credit risk mitigation can be applied in the same manner as the regulations on credit risk mitigation by the guarantee and credit derivatives, for the regulations regarding the guarantee, under the Regulations on the Calculation of Credit Risk Weighted Assets for Commercial Banks using the Standardized Approach (SA)

Type Guideline	Unfunded risk participation	Funded risk participation
		is considered the financial collateral

For calculation of provisions in case of funded risk participation, commercial banks can deduct the whole amount of cash received from risk receiving participants from book values of underlying obligation before calculating the provisions.

As such, the transfer of credit risk to head office or other overseas branch that is the same entity is not considered the transfer of credit risk in accordance with this Notification.

(2) **In case where commercial banks are risk receiving participants:** For underlying obligations for a portion on which credit risk has been received, commercial banks shall comply with the following:

Type Guideline	Unfunded risk participation	Funded risk participation
<b>Accounting and information disclosure</b>	Not to be recorded	Record a risk transferring participant as borrower, for an amount of money paid
	Comply with principles of related accounting standards and disclose material information related to the undertaking of the transactions in the notes to financial statement	
<b>Supervision of large exposures (Single lending limit: SLL)</b>	Included in the exposure (SLL) of underlying obligation	Included in the exposure (SLL) of underlying obligation and a risk transferring participant, for an amount of money paid to a risk transferring participant
<b>Provisioning</b>	No provision for a portion receiving credit risk transfer; except a risk receiving participant has non-performing debtor that is the same debtor as the underlying obligation, the provisions shall be	Provisions shall be calculated from an amount of money paid to a risk transferring participant

<div style="text-align: right;">Type</div> <div style="text-align: left;">Guideline</div>	Unfunded risk participation	Funded risk participation
	calculated from an amount of a portion receiving risk transfer	
<b>Calculation of risk weighted assets (RWA)</b>	Calculate risk weighted assets using a credit conversion factor (CCF) according to specified guidelines and use a risk weight according to the type of underlying obligation <sup>1</sup>	Use the following credit risk weighted assets, whichever is higher, (1) Obligation from receiving credit risk transfer multiplied by a specified CCF, by using a risk weight according to the type of underlying obligation; (2) An amount of money paid to a risk transferring participant, by using a risk weight of a risk transferring participant.