Policy Statement on Credit Transaction, Investment in Securities, and Asset Disposal of Financial Institutions

1 February 2018

BANK OF THAILAND

Prepared by
Financial Institutions Business and Accounting Policy Office
Regulatory Policy Department
Financial Institutions Policy Group
Bank of Thailand
Tel. 0-2283-5806, 0-2283-5837, 0-2283-5305
Fax. 0-2283-5983
e-mail: FPGCreditRiskTeam@bot.or.th

Unofficial Translation

This translation is for the convenience of those unfamiliar with the Thai language

Please refer to Thai text for the official version

Policy Statement of the Bank of Thailand

Re: Policy Statement on Credit Transaction, Investment in Securities, and Asset Disposal of Financial Institutions

---

1. Rationale

Since Credit transactions, Investment in Securities, and Asset Disposal are transactions that expose to credit risk, a important risk that may effect financial institutions financial position and performance. Hence, financial institutions should have sound and conservative processes to dertermine credit transaction, investment in securities and asset disposal, enhancing credit risk management of financial institutions arising from an uncertainty that financial institutions' customers may not repay or oblige with financial obligation, including concentration risks management arising from such transactions. Hence, the Bank of Thailand has issued the Policy Statement to ensure that financial instituions have prudent consideration in engaging in credit transaction, investment in securities, and assets disposal and sound and standardised credit risk management.

The amendment of the Policy Statement this time is to encourage a company and ordinary partnership to prepare their financial statement reflecting true condition of their business, which is line with the government policy to enhance effective of tax system. Thus, the Bank of Thailand deems appropriate to prescribe financial institutions to put more focus on their clients' financial statement of which clients present to the Revenue deparment for tax purpose by regarding them as an important factor to assess debtors' ability to repay their debts and their risk level. In this case, financial institutions may employ any other quantitative and qualitative factors, reflecting debtors'capability to operate and expand their business when considering granting credits. This policy statement will become effective for credit granted or reviewed from 1 January 2019 onwards.

2. Repealed/Amended Policy Statement

Policy Statement of the Bank of Thailand Re: Policy Statement on Credit Transaction dated 3 August 2008

3. Scope of Application

This Policy Statement shall apply to financial institutions according to the law on financial institution business.

4. Content

4.1 Definition

"Credit Transaction" means granting credits, undertaking contingent liabilities or transactions similar to granting of credits

"Contingent Liabilities" means contingent liabilities specified in Notification of the Bank of Thailand Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA) or Notification of the Bank of Thailand Re: Regulations on Supervision of Capital and Liquidity Coverage Ratio (LCR) Standard for Finance Companies or Notification of the Bank of Thailand Re: Regulations on Supervision of Capital and Liquidity Coverage Ratio (LCR) standard for Credit Foncier Companies, as the case may be.

"Board of Directors of Financial Institution" means Board of Directors of financial institutions or in the case foreign bank branch, the management committee with relavant responsibilities.

"Company or Juristic Ordinary Partnership" means Company or Juristic Ordinary Partnership under section 39 of Revenue Code which are responsible to pay tax based on their net profits

4.2 Credit Transaction Policy

4.2.1 Financial institutions shall have **a clearly written credit transaction, investment in securities, and asset disposal policy approved by the board of director, commensurating with banks risk management stratgies and management and adequacy of capitals.** In this regards, financial institutions shall review such policy at least once a year and keep the documents at financial institutions for BOT's examination.

(1) Credit transaction

Credit transaction policy should cover at least the following topics;

(1.1) Types and proportion of transacting with debtors at the level of both indiviual debtor and overall portfolio

(1.2) composition of credit transaction to particular economic sectors, business categories in such particular economic sectors, customer group with similar risk, or customers'related persons, comparing to all credit transaction within the financial institutions.

(2) Investment in securities

Investment in securities policy should cover at least the appointing of responsible persons and overall procedures from the beginning through the process of paying and receiving proceeds, and generating securities trading report.

(3) Asset disposal

Asset disposal policy should cover at least stipulation of authorized persons, responsible persons, procedures or methods of selling such assets, and reporting on sales of assets.

4.2.2 Financial institutions should set a processes , procedures, and criteria in credit transactions, investments in securities, and assets disposals, which are in line with the policies on credit transactions, investments in securities, and assets disposals. In addition, this should cover risk management, internal control, information record and maintenance, and reports to monitor and analyse related data and risks.

4.2.3 Financial institutions should communicate their policies on credit transaction, investment in securities, and assets disposal including related processes, procedures, and criteria to responsible staffs.

In this regards, policies, process, procedures, and criterial to engaging in credit transaction and credit risk management should be reflected an importance of financial statement that debtors who are a company or juristic ordinary partnership demonstrated to the Revenue Department for tax purpose which should mirror true debtors' business condition and regarded as one of the important factors in considerinng the level of client risk., leading to credit line and interest rate charged consideration.

4.3 Segregation of duties

Financial institutions should appoint responsible persons related to process of credit transaction, investment in securities, and asset disposal by setting appropriate organisation structure which is in line with the three lines of defence principles. That is, a clear separation between persons responsible for (1) carrying out credit transaction, investment in securities, and asset disposal, (2) managing risks

arising from mentioned transactions, and (3) auditing mentioned transactions. In addition, financial institutions should ensure that check and balance concept is applied especially auditing that should be independent from carrying out transaction and managing related risks.

In this regards, financial institutions should carry out an appointment of responsible persons and segregation of duties related to credit transaction processes as follow;

(1) Financial institutions shall appoint responsible persons **for analysing credit transaction before submitting to the approval authority persons.** Criteria used when analysing such credit transactions should at least cover default risk catagorised by nature or types of credits, collaterals or guarantors, if any, and method of interest calculation, etc.

(2) Financial institutions shall appoint approval authority, to appropriate persons at each level, of credit transaction, by, for example, separating approval authority based on position ranking apart from approval authority of the Credit Committee.

(3) Financial institutions shall appoint responsible persons or inspectors to ensure accurate and proper conducts after approving granting credit transaction, such as, examining approvals by authorised persons under Clause 4.3.2, compliance of approval criteria of such transactions, legal contracts, and processes (including pledges, mortgages, **collateral registration**, and guarantees), and persons responsible for the accuracy and completion of payments or the undertaking of contingent liabilities.

(4) Financial institutions shall appoint responsible persons to **monitor and report risk related to** credit transaction to financial institution's board of directors or other appointed committee on a regular basis.

(5) Financial institutions shall appoint responsible persons to examine or audit such credit transaction and shall report the examination result directly to the financial institution's board of directors on an on-going basis.

In this regards, responsible persons prescribed in clause 4.3 (1) and 4.3 (2) shall not be the same person or parties, except in the case of retail customers or customers with low credit lines that financial institutions can appoint responsible persons prescribed in clause 4.3 (1) and 4.3 (2) to be the same person or parties. In addition, responsible entities prescribed in clause 4.3 (1) and 4.3 (2) and

responsible entities prescribed in clause 4.3 (3), 4.3 (4), and 4.3 (5) shall not be the same entities.

4.4 Supporting documents for credit transaction and reviewing of credit transaction

4.4.1 Financial institutions should set rules or guidelines on supporting documents required for the consideration and reviewing of credit transaction by having at least supporting documents which enhance credit analysis and on-going monitoring of debtors after granting credit transaction. Such documents shall be comprehensive, adequate, and enable financial institutions to meet the following objectives:

(1) to make a decision on credit approvals and conduct an on-going risk assessment;

(2) to understand the purpose of the credit request, the use of loan, and the source of repayment, as well as, to make a timely assessment of debtors' ability to repay;

(3) to ensure that financial institutions hold legitimate claims on the debtors.

4.4.2 The supporting documents for the consideration and reviewing of credit transaction should, at least, consist of the following information:

(1) documents demonstrating an existence of debtors or debtors' business.

(2) documents reflecting debtors' abilities to repay their obligations, which in case of corporate debtors, such documents shall include documents reflecting debtor's status, performance, business plan or policy for business analysis and forecasts, including documents of debtor's related parties.

In this regard, in the case where debtor is a company or juristic ordinary partnership, financial institution shall use information gathered from their financial statement that the debtor presented to the Revenue Department for tax purpose to assess debtors financial status and performance. In this regards, financial institutions may employ other quantitative and qualitative factors that reflect debtors' capability to operate and expand their business when assessing debtors' ability to repay their obligation. Such other quantitative and qualitative factors shall have clear and reasonable supporting documents.

(3) documents demonstrating details on debtor's obligation with other parties, both as lenders and debtors, as well as, details in acquired and sold collaterals including movable and immovable properties, including titles and valuations of the collaterals.

4.4.3 The supporting document for the consideration and reviewing of credit transaction should be up-to-date and and keep the documents at financial institutions for BOT's examination **or submit to the BOT as requested.**

In this regards, financial institutions shall set out a condition which requires debtors to continue submiting such documents to financial institutions following the credit transaction, until the loans or obligations are fully repaid, in order to allow financial institutions to monitor credit portfolios efficiently. If debtors refuse to comply with such condition accordingly, it is assumable that such debtors may intend to conceal their actual status or ability to repay. In certain case, financial institutions may regard such incidents as the cause to terminate the transaction or demand for a repayment.

5. Effective Date

This Policy Statement shall come into force as from 1 January 2019.