



BANK OF THAILAND NEWS

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Update on "Rationalising the structure and roles of financial institutions"

Under The Financial Sector Master Plan 4 August 2004

Since the effective date of the Ministry of Finance's notifications that set out the rules, procedures, and conditions for establishing commercial banks, retail banks, subsidiaries and full branches, July 30, 2004 marked the end of the 6-month period which is the deadline for the submission of both a plan to upgrade and a plan to comply with the One-presence policy.

The Bank of Thailand (BOT) has summarised the total number of plans submitted, the action plan for financial institutions, the consideration process, as well as the procedure arranged by the BOT to facilitate the structural changes that will occur within the Thai financial institutions system. This piece of information is deemed critical so as to encourage clear understandings as well as to enable correct analysis of the consequences.

1. The summary of submitted plans

The summary of the plans submitted by deposit-taking financial institutions in Thailand^[1] to apply for an upgrade as well as to comply with the One-presence policy is as follows:

There are 4 finance and/or credit foncier companies who applied for an upgrade to commercial banks and 7 to retail banks, where 5 out of these 11 plans have an intention to merge with/acquire other finance or credit foncier companies. Other 2 finance/credit foncier companies planned to return their licenses in order to operate credit business, and one did not submit any plans. The 4 left are finance/credit foncier companies that must comply with the One-presence policy.

Out of full branches and stand-alone BIBFs within the system, one of them applied for an upgrade to a subsidiary and 2 to full branches. 2 stand-alone BIBFs have decided to return their licenses and become representative offices. There are 16 full branches decided to maintain their status and hence did not submit any upgrading plans.

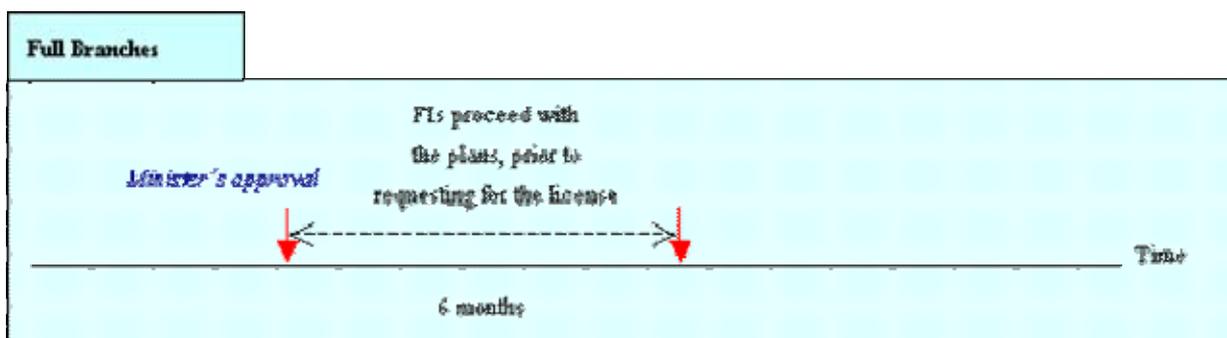
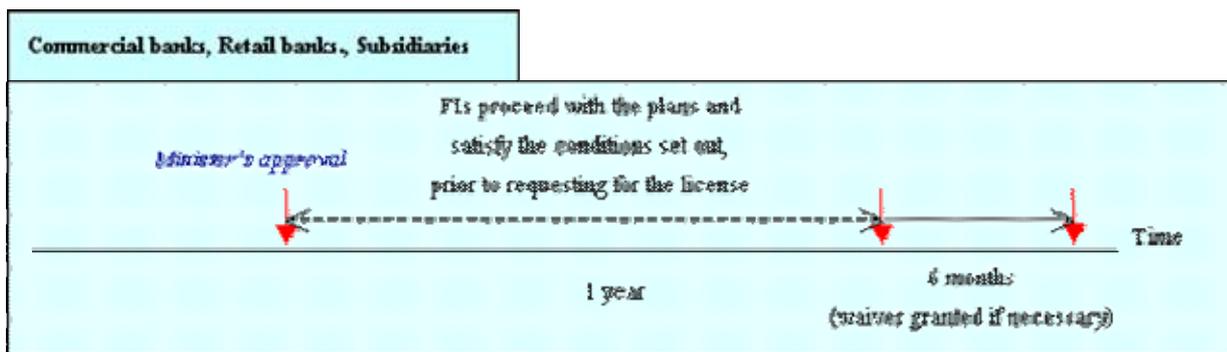
As for financial business groups comprising more than 1 type of deposit-taking institutions, including IBFs, who must comply with the One-presence policy, a total of 27 plans were submitted from all financial institutions.

2. Procedures concerning consideration process of a plan to upgrade and consequent actions required prior to requesting for a license



Once the plans to apply for an upgrade have been submitted to the BOT, the BOT will finish verifying the completeness of the documents within 1 month from the submission deadline. The Committee to review application to establish a commercial bank in accordance with the Financial Sector Master Plan (Committee) shall complete the application consideration process and submit the results to the Minister of Finance (Minister) within 3 months after the documents received have been declared completed. The Minister shall reach the decision within the following 2 months, where the last date is January 31, 2005.

When the plans have been approved by the Minister, the successful applicants must comply with conditions set out, for example; to complete the process of merger/acquisition with other financial institutions and in compliance with the One-presence policy, prior to requesting for the license from the Minister. Commercial banks, retail banks, and subsidiaries must begin operations within 1 year after the Minister's approval, except under necessary circumstances, the BOT may grant a waiver but not more than 6 months. On the other hand, full branches must begin operations within 6 months from the date of the Minister's approval.

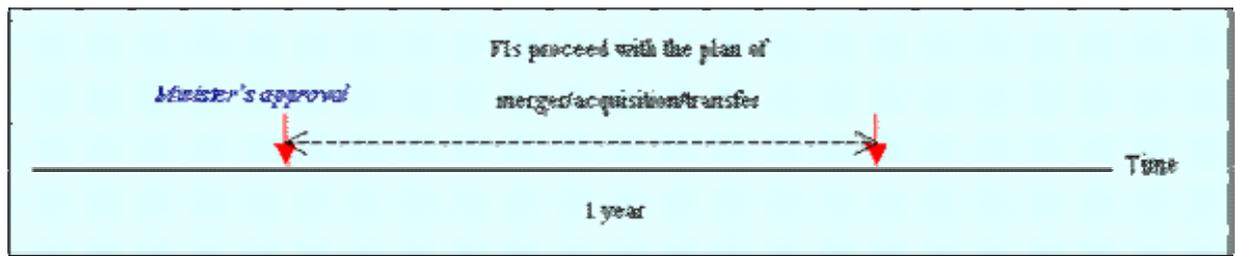


As of now, the Committee has reviewed two applications. One has been sent out to the Minister for final consideration and the other is in the process.

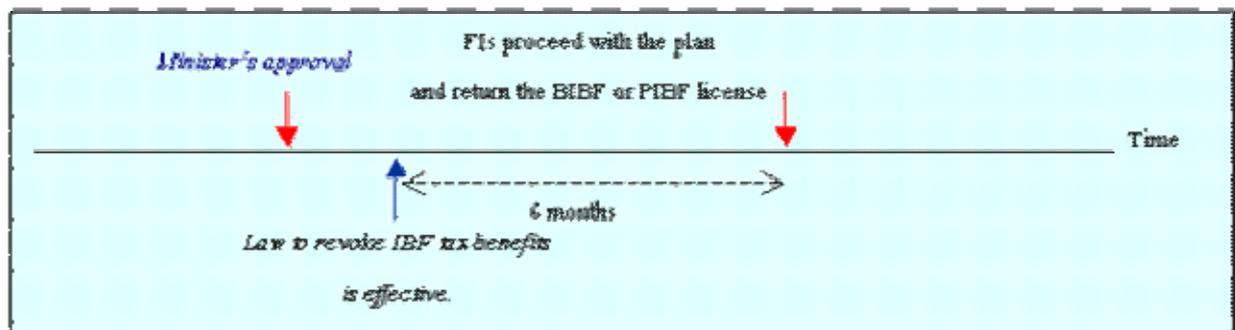
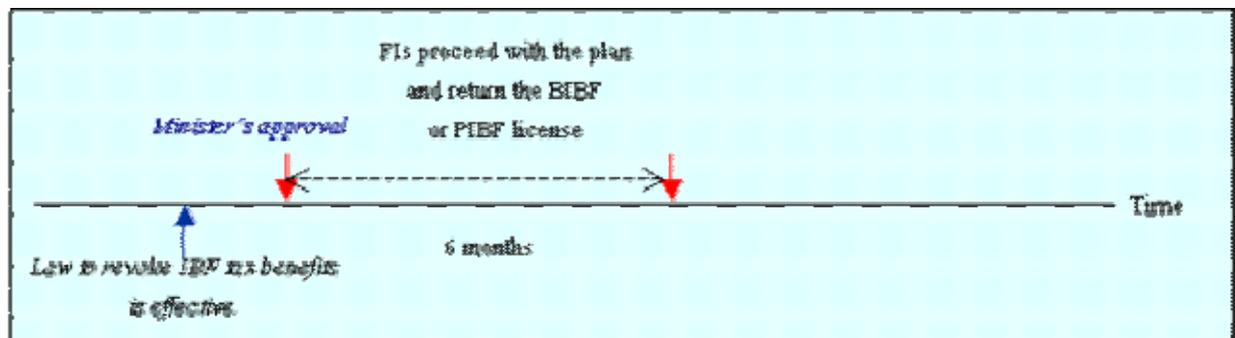
3. Procedures concerning consideration process of a plan and actions required in complying with the One-presence policy

The consideration process of a plan to comply with the One-presence policy is in uniformity with that of a plan to apply for an upgrade to a new bank, where the Minister must reach a decision by January 31, 2005. The timeframes in complying with the One-presence policy once the plans have been approved by the Minister is as follows;

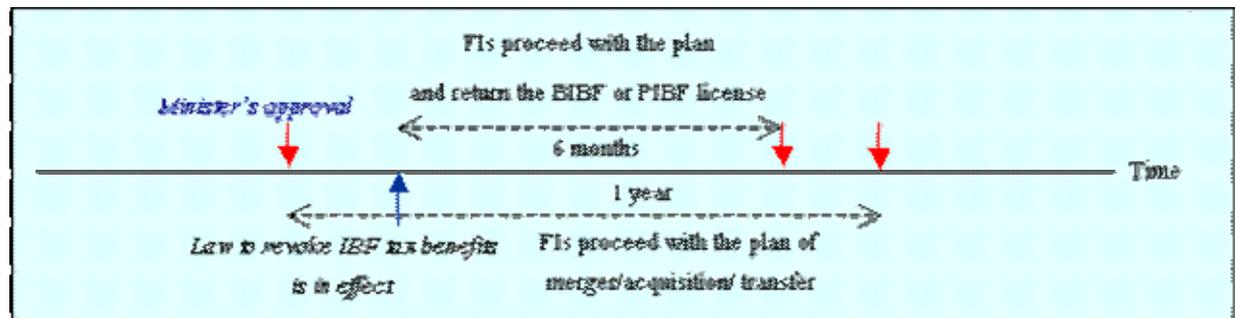
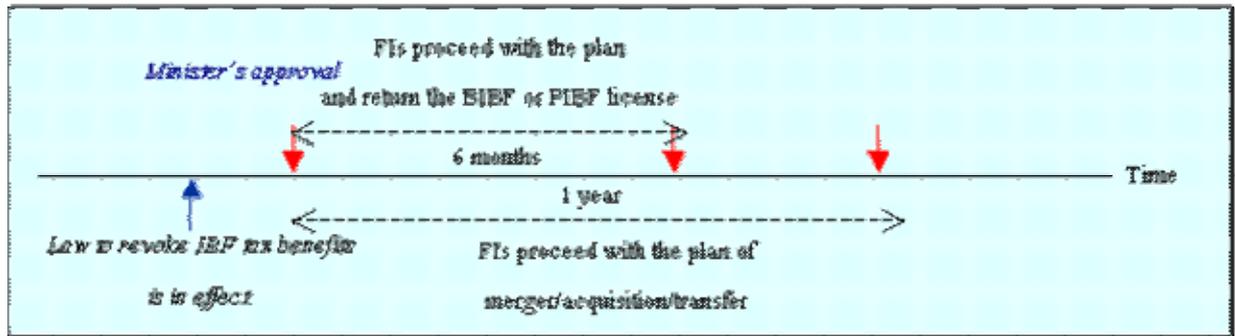
- Business groups that have more than one form of deposit-taking financial institutions with no BIBF or PIBF must comply with the One-presence policy within a year from the date of the Minister's approval.



- Commercial banks or full branches with BIBF and PIBF must receive transfers of assets and liabilities into the commercial banks or full branches and return the BIBF or PIBF licenses within 6 months once the Minister has approved the plans **and** the law to revoke IBF tax benefits is effective.



- Business groups with more than one form of deposit-taking financial institutions, as well as BIBF or PIBF, must return the BIBF or PIBF licenses within 6 months after the Minister has approved the plan **and** the law to revoke IBF tax benefits is effective. At the same time, the rest of the process must be completed within one year from the date of the Minister's approval.



As of now, the Committee has reviewed one plan to comply with the One-presence policy. The BOT is in the process of sending such plan to the Ministry of Finance for the Minister's consideration.

4. Impacts of the Financial Sector Master Plan

During the implementation of the Financial Sector Master Plan, even though most financial institutions are facing a variety of changes, depositors and debtors shall not be affected, in that;

(1) In the case of finance/credit foncier companies who wish to return their licenses and turn into credit institutions, they will gradually reduce their promissory notes (P/Ns). Nevertheless, P/N holders will not be affected since their P/Ns are fully guaranteed by the Financial Institutions Development Fund.

As for debtors, they are also unlikely to be affected from this process. These financial institutions, though are no longer allowed to accept deposits from public, may continue to provide credit to their customers.

(2) In the case of finance/credit foncier companies that will be engaged in merger/acquisition/ transfer to upgrade to commercial banks or to comply with the One-presence policy, deposits and debtors will be transferred into the core or parent financial institutions, thus depositors and debtors will not be affected.

(3) In the case of finance/credit foncier companies whose plans are not approved by the Minister or who did not submit a plan for an upgrade, they can continue operating with their current status. Like other financial institutions, the BOT will maintain close supervision to ensure strength and stability within these institutions. Likewise, the depositors and debtors will not be affected.

Ultimately, once the implementation process of the Financial Sector Master Plan has been completed, the Thai financial institutions sector will improve with its heightened degree of efficiency, stability, strength and competitiveness, thereby benefiting not only financial customers but also other related parties.

Bank of Thailand

4 August 2004

[1] The Thai financial institutions system is currently comprised of 13 commercial banks, 18 finance companies, 5 credit foncier companies, 18 full branches and 4 stand-alone BIBFs.