

Unofficial Translation

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Please refer to Thai text for the official version

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Notification of the Bank of Thailand

No. FPG. 14/2558

Re: Regulations on Permission for Commercial Banks to Engage in Credit Derivatives

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**1. Rationale**

The Bank of Thailand has permitted commercial banks to engage in credit derivatives in order that commercial banks and counterparties can apply credit derivatives as tools for risk management. In the past, the regulations on permission for commercial banks to engage in credit derivatives were more rigorous than other type of derivative transactions. The Bank of Thailand prescribed the list of credit derivatives that commercial banks can engage in within a scope of permission. While engaging in transactions other than those listed were prohibited to reduce the likelihood that commercial banks or counterparties would incur a loss from the transactions, which would have an impact on the stability of Thai banking system due to the fact that such transactions are high-risk exposure and can be applied to construct complicated transactions, for instance, synthetic collateralised debt obligation. Furthermore, the losses from engaging in credit derivatives are one of the important factors leading to the latest global financial crisis.

However, as market players wish for more variety of credit derivatives, especially funded credit derivatives, for instance, total rate of return linked notes that used as instruments to enhance the investment returns for investors. The Bank of Thailand hereby amends the regulations on permission for commercial banks to engage in credit derivatives in order to increase the efficiency of commercial banks in offering the derivative transactions. The essences of amendments can be summarised as follows:

(1) Expanding scope of permitted credit derivatives to cover total rate of return linked notes, credit derivatives that varies in notional amounts during the term of contract (accreting or amortised credit derivatives) and credit derivatives in which there is the issuance of securities and a condition that allows the early redemption of derivatives contract (callable or puttable funded credit derivatives). These derivatives have the structures that are slightly changed from the credit derivatives under the previous notification.

(2) Commercial banks shall seek for an approval for engaging in credit derivatives that may have different characteristics from those as prescribed in the notification in order to increase the efficiency of commercial banks in offering the transactions as well as to respond the needs of transactions for risk management and investment.

## 2. Statutory power

By virtue of Section 29, Section 30, Section 32, Section 36, Section 41, Section 50, Section 52 and Section 71 of the Financial Institutions Businesses Act B.E.2551 (2008), the Bank of Thailand hereby issues commercial banks to engage in credit derivatives within the scope and regulations as prescribed herein.

## 3. Repealed / Amended Notification and Circulars

Notification of the Bank of Thailand No. FPG. 10/2551 Re: Permission for Commercial Banks to Engage in Credit Derivatives dated 3 August 2008

## 4. Scope of Application

This notification shall apply to all financial institutions according to the law on financial institution business except retail banks.

## 5. Content

### 5.1 Definition

In this Notification

“Commercial bank” means commercial banks according to Section 4 of the Financial Institutions Businesses Act B.E.2551 (2008) except retail banks.

“Credit derivative” means the derivative transactions used to transfer credit risk of reference obligation, or obligation category and obligation characteristics from a protection buyer to a protection seller, whereby the protection seller receives returns or premium linked to the solvency of reference entity in exchange for obligation to pay the protection buyer when there is an event related to the solvency of reference entity as specified in the credit derivatives contract (credit event).

“Institutional investor” “High net worth investor” and “Retail investor” means the institutional investors, high net worth investors and retail investors according to the Notification of the Bank of Thailand on Supervision of Derivative Transactions for Commercial Banks.

“Non-resident” means non-residents according to the definition prescribed in the measures to prevent Thai Baht speculation according to the Circular on Seeking Cooperation for Compliance with Measures to Prevent Thai Baht Speculation.

“Resident” means those other than the non-residents according to above definition.

Further definitions are prescribed in attachment 1.

## 5.2 Principle

The Bank of Thailand permits commercial banks to engage in credit derivatives as protection buyer or protection seller. The engaged transactions shall be a permitted transaction – mostly standardised structures and prevalent in the credit derivatives market – according to the Bank of Thailand. Moreover, commercial banks shall have appropriate approach for calculation of capital adequacy regarding each risk. Furthermore, such credit derivatives shall have the designated type of transactions, reference obligations and counterparties as prescribed by the Bank of Thailand.

For credit derivatives other than those which prescribed, commercial banks shall seek for an approval from the Bank of Thailand before engaging in such derivative transactions. The approval may be granted if the following five principles for banking supervision are satisfied, which are of efficiency, governance, micro-prudential, macro-prudential and fairness, according to the Notification of the Bank of Thailand on Supervision of Derivative transactions for Commercial Banks.

On this, the structure of the Notification of the Bank of Thailand on Permission for Commercial Bank to Engage in Credit Derivatives is summarised in a figure in attachment 2.

## 5.3 Types of permitted credit derivatives

The Bank of Thailand permits commercial banks to engage in credit derivatives under the credit guarantee agreement in accordance with the standard agreement of the International Swaps and Derivatives Association (ISDA)<sup>1</sup>, as follows:

5.3.1 Credit derivatives in which a protection seller has not yet made a payment as a guarantee for its risk taking (Unfunded credit derivatives), namely:

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<sup>1</sup> Commercial banks shall refer the definitions specified in the “2014 ISDA Credit Derivatives Definitions” or those in the latest document published by the ISDA.

- (1) Credit default swaps (CDS)
- (2) Total rate of return swaps (TRORS)
- (3) First to default swaps (FTDS)
- (4) Proportionate credit default swaps (PCDS)

5.3.2 Credit derivatives in which a protection seller has made a full payment as a guarantee for its risk taking (Funded credit derivatives), namely:

- (1) Credit linked notes (CLN)
- (2) Total rate of return linked notes (TRORN)
- (3) First to default credit linked notes (FTDN)
- (4) Proportionate credit linked notes (PCLN)

On this, the credit guarantee agreement, including the types of credit derivatives mentioned above are under the definitions as prescribed in attachment 1.

#### **5.4 Characteristic of credit derivatives**

The Bank of Thailand permits commercial banks to engage in the following types of credit derivatives:

**5.4.1 Commercial banks can engage in credit derivatives for both unfunded and funded credit derivatives in which the notional amount is not constant during the term of contract. The notional amount may be accreted or amortised with the clearly specified conditions before the start date of contract. However, the Bank of Thailand has not yet permitted commercial banks to engage in credit derivatives that the notional amount can be changed without the predetermined conditions, for instance, contingent credit default swaps.**

**5.4.2 Commercial banks can engage in funded credit derivatives in which there is the issuance of securities and a condition allowing the early redemption. Namely, credit derivatives that allow a borrower to make early redemption or credit derivatives that allow a lender to make early withdrawal in accordance with time period, price and method as specified in the contract. Whereby, such methods shall be in line with ordinary practices of the securities market.**

5.4.3 If commercial banks engage in funded credit derivatives as a protection buyer, commercial banks shall not use the word “deposit” in offering the products to avoid the misinterpretation of the protection sellers that such derivative transactions are insured by the Deposit Protection Agency.

5.4.4 If commercial banks engage in funded credit derivatives as a protection buyer and if there is the issuance of debt securities, commercial banks shall specify “non-exchangeable” condition, except the case where commercial banks as the issuers can control the transfer of ownership to be within counterparties as prescribed in 5.6.1.

## 5.5 Reference obligations

Commercial banks shall not use the following assets or obligations as reference obligations in engaging in credit derivatives:

- (1) assets or obligations issued by protection seller,
- (2) lending transactions for purchasing securities (margin accounts),
- (3) structured products which out of scope of permission according to Notification of the Bank of Thailand on Permission for Commercial Banks to Engage in Structured Products,

On this, if commercial banks engage in credit derivatives in which reference obligations are structured products commercial banks shall not only comply with the frameworks and regulations as prescribed herein, but they shall also comply with the frameworks and regulations as prescribed in the Notification of the Bank of Thailand on Permission for Commercial Banks to Engage in Structured Products.

(4) Derivative transactions, except the case where commercial banks are protection buyers, which they can only engage in credit default swaps or credit linked notes in order to hedge credit risk from their positions in derivative transactions. Such credit derivatives shall not incur other types of risk, except counterparty credit risk **and market risk** arising from engaging in such credit default swaps or credit linked notes.

On this, commercial banks shall have in place documents clearly indicating that engaging in such derivative transactions is for hedging risks of commercial banks themselves or for hedging risks of counterparties. Such documents shall be filed at the offices of commercial bank for an examination by the Bank of Thailand.

## 5.6 Counterparty

The Bank of Thailand permits commercial banks to engage in credit derivatives with all types of counterparties under the following conditions:

5.6.1 Commercial banks engage in credit derivatives as a protection buyer with institutional investors only, except retail banks, finance companies and credit foncier companies.

5.6.2 Commercial banks engage in credit derivatives as a protection seller with the following counterparties:

(1) institutional investors, except retail banks, finance companies and credit foncier companies, or

(2) retail banks, finance companies, credit foncier companies, high net worth investors and retail investors **that have credit risk from reference obligations and wish to engage in credit derivatives in order to manage such credit risk of reference obligations only.** Commercial banks shall verify documents regarding such reference obligations and also keep such documents at their offices for an examination by the Bank of Thailand or send to the Bank of Thailand upon request.

## 5.7 Transactions that require prior approval from the Bank of Thailand

If commercial banks wish to engage in credit derivatives other than those prescribed in 5.3 to 5.6, commercial banks shall seek for an approval from the Bank of Thailand before engaging in such transactions. Commercial banks shall submit a request application for credit derivatives, provided in attachment 3. Such request application shall be signed by the managing director of commercial banks or the highest level of executive in case of foreign bank branches, or authorised persons held a position of at least assistance managing director or the highest level of executive of a unit responsible for new product development. On this, a written authorisation is required and shall be obtained by the managing director of commercial banks or the highest level of executive in case of foreign bank branches.

The Bank of Thailand may grant an approval for commercial banks to engage in such credit derivatives if such transactions can be proved to satisfy five principles of banking supervision according to the Notification of Bank of Thailand on Regulations on Supervision of Derivatives for Commercial Banks.

An approval process will be finalised within 90 days as from the date that the Bank of Thailand receives the order and complete documents.

On this, if commercial banks are uncertain whether credit derivatives to engage in are in accordance with this Notification, the commercial banks shall consult with the Bank of Thailand before engaging in such transactions.

## **5.8 Data reporting**

Commercial banks engaged in credit derivatives shall comply with reporting requirements as prescribed by the Bank of Thailand, and shall submit the reports to the Bank of Thailand on a monthly basis, by the end of the following month through the Data Management System (DMS) (Extranet)

### **5.8.1 Reporting on first time engaging transactions**

Commercial banks shall report details of the contract when engage in each credit derivatives for the first time (including transactions which are traded and matured during the reporting period) in “Reporting Form on Outstanding Amounts of Credit Derivatives” according to the reporting instruction in attachment 4.

### **5.8.2 Reporting on outstanding amounts of transactions**

Commercial banks engaged in all types of credit derivatives that have outstanding amounts at the end of the month shall report outstanding amounts of such derivative transactions in “Reporting Form on Outstanding Amounts of Credit Derivatives” according to the reporting instruction in attachment 4.

## **5.9 Other related regulations**

Commercial banks engaging in credit derivatives shall comply with other related regulations as prescribed in attachment 5 to attachment 8.

## **5.10 Other requirements**

Credit derivatives which are engaged by the overseas branches of Thai commercial banks shall be subject to law and regulation of the host country and also those as prescribed in 5.1, 5.2, 5.8 and 5.9 of this Notification. However, this excludes the case where such overseas branches engage in transactions with residents, in this case the compliance of all frameworks and regulations as prescribed in this Notification are required.

## 6. Transitional provisions

6.1 For credit derivatives which are not in the scope of permission under this Notification but commercial banks have engaged in before the Notification came into effect, commercial banks shall be suspended to further engage in such transactions. However, they are allowed to maintain until maturity without renewal, unless they receive the permission from the Bank of Thailand.

6.2 Commercial banks could submit the report as prescribed in 5.8, as of the end of the first month, second month, after the Notification came into effect, together with the report as of the end of third month to the Bank of Thailand.

## 7. Effective Date

This Notification shall come into force as from the day following the dates its publication in the Government Gazette.

**Announced on 25<sup>th</sup> September 2015**

(Mr. Prasarn Trairatvorakul)  
Governor  
Bank of Thailand

## Definitions

### 1. Credit guarantee agreement under credit derivatives

**1.1 “Reference obligation”** means an asset or obligation used as a reference for the settlement under credit derivatives contract.

**1.2 “Obligation category and obligation characteristic”** means the type and qualification of asset or obligation used to determine a credit event of credit derivatives as prescribed in the standard contract of the International Swaps and Derivatives Association (ISDA). The obligation category is, for instance, payment<sup>1</sup>, borrowed money, reference obligation only, bond and loan etc. The obligation characteristic is, for instance, subordination, specified currency, not domestic law and listed etc.

**1.3 “Reference entity”** means the issuer of reference obligation.

**1.4 “Protection buyer”** means the counterparty that transfers credit risk of reference obligation.

**1.5 “Protection seller”** means the counterparty that is transferred credit risk of reference obligation.

**1.6 “Credit event”** means the event related to solvency of reference entity as specified in the credit derivatives contract. Thus, the protection seller is required to make a credit event payment to the protection buyer, for instance, bankruptcy, default on payment of principal or interest, inability to perform the obligation, or debt restructuring related to reference entity.

**1.7 “Credit event payment”** means the amount that the protection seller is obliged to pay the protection buyer in case of credit event according to the contract. In general, the credit event payment shall be made through the following two methods:

**1.7.1 “Physical settlement”** means the settlement that the protection seller pays the protection buyer for an amount as prescribed in the contract in exchange for receiving assets or obligations from the protection buyer, which is the deliverable

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<sup>1</sup> If credit derivatives that commercial banks engaged in have “payment” as obligation category, the Bank of Thailand permits only the case where the credit event is related to the obligation in derivative transactions, excluding defaults on payment in other cases, for instance, payment for public facility etc.

obligation, or assets as prescribed in the credit guarantee agreement for delivery in case of credit event.

**1.7.2 “Cash settlement”** means the settlement that the protection seller pays the protection buyer for a fixed amount as prescribed in the contract (Binary payout) or the higher values between:

(1) a difference between notional amount and recovery value of reference obligation after the credit event occurs, or

(2) non-payment, if the difference according to 1.7.2 (1) is negative.

In general, there is **the calculation agent or the agent for the calculation of such values** appointed under the credit guarantee agreement.

**1.8 “Deliverable obligation”** means an asset or obligation as prescribed in the credit guarantee agreement that it can be used for the delivery in case of credit event, if the credit event payment can be made through physical settlement.

## 2. Permitted credit derivatives according to the Bank of Thailand

### 2.1 Unfunded credit derivatives

**2.1.1 “Credit default swaps (CDS)”** mean purchasing or selling the credit guarantee agreement related to the ability to make repayment of the reference obligation or other assets related to the reference entity as prescribed in the contract. **The credit guarantee shall be for one particular reference asset or obligation (single-name protection)<sup>2</sup>.** The protection buyer agrees to pay a premium to the protection seller, while the protection seller will pay a compensation for losses that may incur in the future in case of credit event, in such case, the agreement immediately matures. The settlement may be made by either physical settlement or cash settlement. If there is no credit event, the agreement matures on the maturity date.

**2.1.2 “Total rate of return swaps (TRORS)”** mean purchasing or selling the credit guarantee agreement for reference obligation, as follows:

(1) The protection buyer agrees to pay all cash flows of reference obligation to the protection seller which are returns and the increment (if any) of the

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<sup>2</sup> Credit default swaps or credit linked notes that is linked to the credit event of the index covering more than one reference entity, for instance, index credit default swaps, are not within a scope of the permission of the Bank of Thailand.

mark-to-market value of the reference obligation from the starting date of the contract or the date of the previous settlement, in exchange for returns at a fixed or floating rate as agreed upon and the decrease (if any) of the mark-to-market value of the reference obligation from the starting date of the contract or the date of previous settlement until there is a credit event or the contract matures.

(2) The protection seller agrees to pay returns at a fixed rate or floating rate linked to interest rates as agreed upon and the decrease (if any) of the mark-to-market value of reference obligation from the starting date of the contract or the date of the previous settlement in exchange for all cash flows of the reference obligation which are returns and the increment (if any) of the mark-to-market value of the reference obligation from the starting date of the contract or the date of the previous settlement until there is a credit event or the contract matures.

(3) When there is a credit event, the agreement immediately matures and the settlement is made either by the physical settlement or cash settlement.

(4) If there is no credit event, the agreement matures on the maturity date.

**2.1.3 “First to default swaps (FTDS)”** mean purchasing or selling the credit guarantee agreement if there is a credit event on one particular asset or obligation in the pool of prescribed reference obligations or other assets related to the reference entity as prescribed in the contract, as follows:

(1) The protection buyer pays a premium to the protection seller in exchange of the compensation paid by the protection seller for losses that may incur in the future if there is a credit event on any asset or obligation in the pool of prescribed reference obligations or other assets related to such reference entity as prescribed in the contract.

(2) The occurrence of credit event according to 2.1.3 (1) would cause the agreement to immediately mature and there will be the settlement for the reference obligation of which a credit event occurred. The settlement may be made either by the physical settlement or cash settlement.

(3) If there is no credit event, the agreement matures on the maturity date.

**2.1.4 “Proportionate credit default swaps (PCDS)”** mean purchasing or selling the credit guarantee agreement if there is a credit event on asset or obligation in the pool of prescribed reference obligations or other assets related to the reference entity as prescribed in the contract, as follows:

(1) The protection buyer agrees to pay a premium to the protection seller in exchange of compensation paid by the protection seller for losses that may incur in the future if there is a credit event on each reference obligation in the pool.

(2) When there is a credit event on one particular asset or obligation in the pool, there will be the settlement only for the portion of such asset. The settlement may be made either by the physical settlement or cash settlement.

(3) The occurrence of credit event according to 2.1.4 (2) will not cause the agreement to mature. The agreement matures when there are credit events on all assets or obligations in the pool or on the maturity date.

## **2.2 Funded credit derivatives**

**2.2.1 “Credit linked notes (CLN)”** mean the transaction that is structured from two transactions, namely (a) credit default swaps and (b) borrowing, or purchasing or selling securities, as follows:

(1) The protection seller according to the credit default swaps provides cash as collateral to the protection buyer through lending or purchasing securities from the starting date of the agreement.

(2) The protection seller according to the credit default swaps receives interests or returns from lending or investment in securities at the rate linked to credit risk of reference obligations in which the protection seller provides the protection.

(3) When there is a credit event, the agreement immediately matures and the protection buyer according to the credit default swaps shall deliver the deliverable obligation to the protection seller (physical settlement) or pay cash for an amount equivalent to a recovery value of such reference obligation to the protection seller (cash settlement). Such settlement is considered repayment of debt or principal according to the credit linked notes.

(4) If there is no credit event during the term of contract, the agreement matures on the maturity date. The protection buyer as a borrower or issuer of securities repays principal together with returns in full amount to the protection seller.

2.2.2 “Total rate of return linked notes (TRORN)” mean the transaction that is structured from two transactions, namely (a) total rate of return swaps and (b) borrowing, or purchasing or selling securities, as follows:

(1) The protection seller according to the total rate of return swaps provides cash as collateral to the protection buyer through lending or purchasing securities from the starting date of the agreement.

(2) The protection seller according to the total rate of return swaps receives cash flows of reference obligation, namely returns and the increment (if any) of the mark-to-market value of the reference obligation from the starting date of the contract or the date of the previous settlement, in exchange for returns at a fixed or floating rate linked to interest rates as agreed upon and the decrease (if any) of the mark-to-market value of the reference obligation from the starting date of the contract or the date of previous settlement.

(3) When there is a credit event, the agreement immediately matures and the protection buyer according to the total rate of return swaps shall pay returns and the increment (if any) of the mark-to-market value of the reference obligation from the starting date of the contract or the date of the previous settlement. In this regard, the deliverable obligation may be delivered to a protection seller (physical settlement) or cash for an amount equivalent to recovery value of such reference obligation may be paid to the protection seller (cash settlement). Such settlement is considered repayment of debt or principal according to the total rate of return linked notes.

(4) If there is no credit event during the term of contract, the agreement matures on the maturity date. The protection buyer as a borrower or issuer of securities repays principal together with returns in full amount to the protection seller.

2.2.3 “First to default credit linked notes (FTDN)” mean the transaction that is structured from two transactions, namely (a) first to default swaps and (b) borrowing, or purchasing and selling securities, as follows:

(1) The protection seller according to the first to default swaps provides cash as collateral to the protection buyer through lending or purchasing securities from the starting date of the agreement.

(2) The protection seller according to the first to default swaps receives interests or returns from lending or investment in securities at the rate linked to credit risk of the pool of reference obligations in which the protection seller provides the protection.

(3) When there is a credit event on any asset or obligation in the pool of reference obligations or other assets linked to such reference entity as prescribed in the contract, the agreement immediately matures and the protection buyer according to the first to default swaps shall deliver deliverable obligation of which the credit event occurred to a protection seller (physical settlement) or pay cash for an amount equivalent to recovery value of such reference obligation to the protection seller (cash settlement). Such settlement is considered repayment of debt or principal according to the first to default credit linked notes.

(4) If there is no credit event during the term of contract, the agreement matures on the maturity date. The protection buyer as a borrower or issuer of securities repays principal together with returns in full amount to the protection seller.

**2.2.4 “Proportionate credit linked notes (PCLN)”** mean the transaction that is structured from two transactions, namely (a) proportionate credit default swaps and (b) borrowing, or purchasing or selling securities, as follows:

(1) The protection seller according to the proportionate credit default swaps provides cash as collateral to the protection buyer through lending or purchasing securities from the starting date of the agreement.

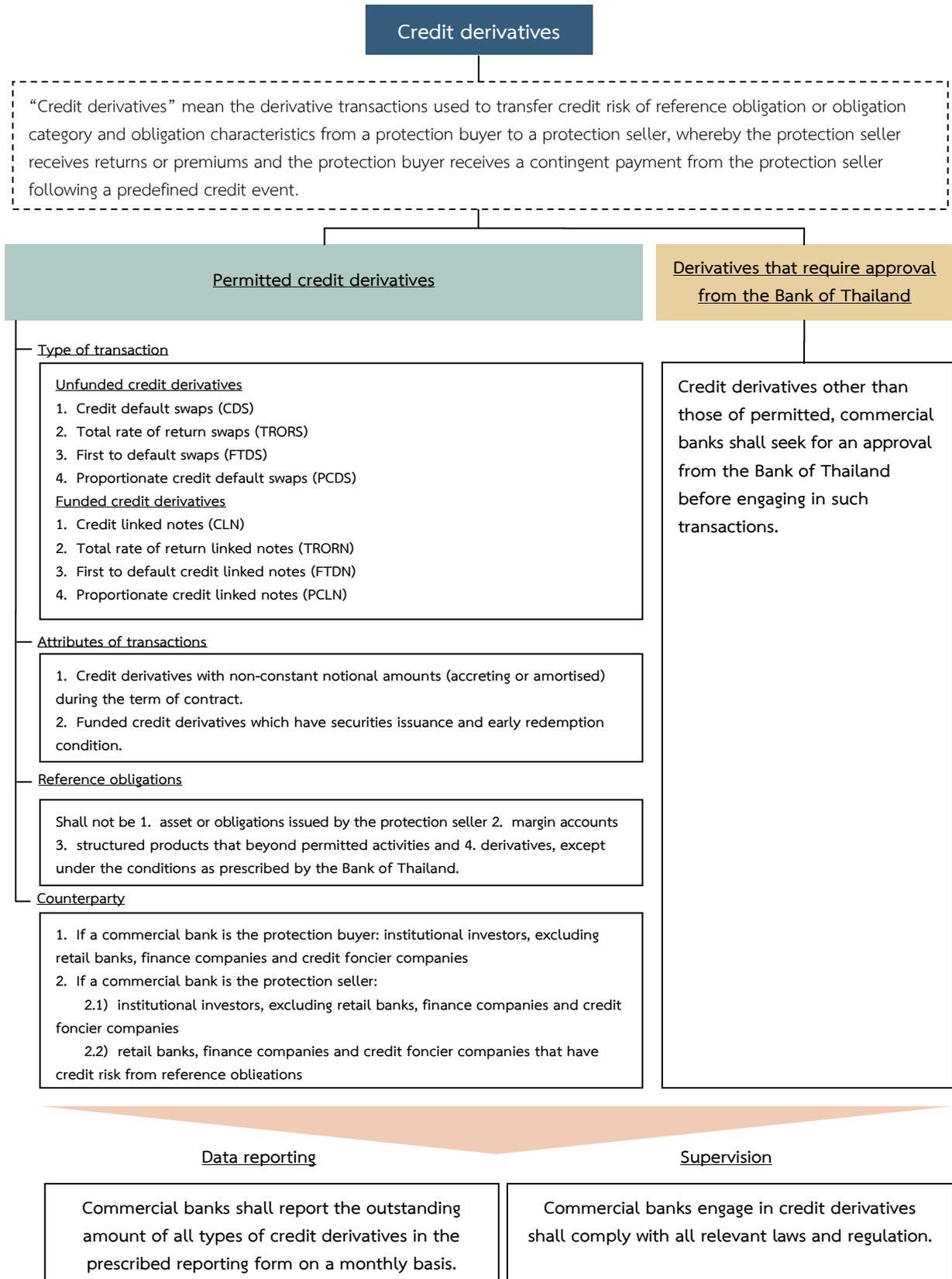
(2) The protection seller according to the proportionate credit default swaps receives interests or returns from lending or investment in securities at the rate linked to credit risk of the pool of reference obligations in which the protection seller provides the protection.

(3) When there is a credit event on one particular asset or obligation, the protection buyer according to the proportionate credit default swaps shall deliver the deliverable obligation or asset of which the credit event occurred, to the protection seller (physical settlement) or pay cash for an amount equivalent to a recovery value of such reference obligation to the protection seller (cash settlement). Such settlement is considered repayment of debt or principal according to the proportionate credit linked notes.

(4) The occurrence of credit event according to 2.2.4 (3) will not cause the agreement to mature. The agreement matures when there are credit events on all assets or obligations in the pool or on the maturity date.

(5) If there is no credit event on certain reference obligations in the pool during the term of contract, the agreement matures on the maturity date. The protection buyer as a borrower or issuer of securities repays principal together with returns in full amount to the protection seller.

Summary of an overview and structure of the Notification of the Bank of Thailand on Permission for Commercial Banks to Engage in Credit Derivatives



### An application for approval of credit derivatives

Commercial banks shall seek for an approval from the Bank of Thailand before engaging in credit derivatives other than those prescribed in related Notifications. On this, commercial banks shall complete all required information, including other information which may further requested by the Bank of Thailand. The Bank of Thailand reserves the right to disregard an incomplete application.

<b>1. Type of requested transactions</b>
<input type="checkbox"/> 1.1 Credit derivatives in which a protection seller has not yet made a payment as a guarantee for its risk taking (Unfunded credit derivatives) <input type="checkbox"/> 1.2 Credit derivatives in which a protection seller has made a full payment as a guarantee for its risk taking (Funded credit derivatives)
<b>2. Supplement documents</b>
<input type="checkbox"/> 2.1 Product program <input type="checkbox"/> 2.2 Term sheet <input type="checkbox"/> 2.3 Other supplement documents (please specify) 2.3.1 _____ 2.3.2 _____
<b>3. Details of transaction</b>
<b>3.1 Name of transaction</b> 3.1.1 Academic or general name _____ 3.1.2 Trade name _____
<b>3.2 Conditions as prescribed in the credit guarantee agreement</b> 3.2.1 Position of commercial bank under the credit guarantee agreement <input type="checkbox"/> Protection buyer or a counterparty transferring credit risk <input type="checkbox"/> Protection seller or a counterparty taking credit risk 3.2.2 Reference entity or an issuer of reference obligation, namely _____ 3.2.3 Obligation categories or assets or obligations under the credit guarantee agreement <input type="checkbox"/> Payment

- Borrowed money
- Reference obligations only, please specify \_\_\_\_\_
- Bond
- Loan
- Bond or loan
- Others, please specify \_\_\_\_\_
- Reference obligation or assets or obligation used as reference for payment, namely \_\_\_\_\_

Obligation characteristics \_\_\_\_\_

If the commercial bank has underlying obligations or assets or obligations and wishes to use credit derivatives to hedge their risks, please specify \_\_\_\_\_

3.2.4 Credit event: the event related to the solvency as specified in the credit derivatives contract which requires the protection seller to make credit event payment to the protection buyer, namely \_\_\_\_\_

3.2.5 Please specify the approach for settlement in case of credit event

- Physical settlement
- Cash settlement

3.2.6 Additional details in case of funded credit derivatives, please specify the type of borrowing (for instance, debt securities, bonds, debentures, promissory notes, bills of exchange and loans etc.), namely \_\_\_\_\_

### **3.3 Purpose and type of clients or counterparties that engage in the transactions**

3.3.1 Purpose of commercial banks in engaging the transaction

- Bank's funding - a transaction in which commercial banks use for acquiring funds or managing their liquidity risks.
- Bank's hedging - a transaction in which commercial banks use for hedging against their risk exposures.
- Bank's trading - a transaction in which commercial banks use for trading or speculation purpose.
- Counterparty's hedging - a transaction in which a counterparty uses for hedging against their risk exposures.

Counterparty's trading - a transaction in which a counterparty uses for trading or speculation purpose.

Others – please specify \_\_\_\_\_

### 3.3.2 Type of clients or counterparties of the commercial banks

(1) Type of clients or counterparties (more than 1 item can be chosen)

Institutional investors

High net worth investors (  Juristic persons  Natural

persons)

Retail investors

(2) Additional information, for instance, name, business type or proficiency level of the clients or counterparties

## 3.4 Subcomponents of the transaction

3.4.1 In case the transactions can be decomposed into subcomponents, please indicate subcomponents of credit derivatives.

3.4.2 In case the transactions cannot be decomposed into subcomponents, please explain the structure of a transactions including, indicate components which are of permitted market derivatives on best effort basis.

3.4.3 Please indicate pay-off diagrams of both commercial banks and counterparties. The pay-off diagram shall be indicated by each components, if such transaction can be decomposed.

Pay-off diagram of commercial bank

Pay-off diagram of counterparty

For those of transaction that pay-off diagram cannot be indicated, please explain a variation in profits or losses, of commercial bank and counterparty, which could arise from the possible movement of reference variables.

### 3.5 Risk management of derivative transactions

3.5.1 Please explain a pricing method of the transaction in detail.

3.5.2 Please explain an approach used for calculating exposures which could arise from the transaction. If simulation approach is deployed, please explain in details, including processes, models, assumptions or amount of historical data and timeframe being used.

3.5.3 Please explain an approach used for a consideration of the relevance of client's or counterparty's obligations or underlying assets, if the transaction is denominated in a foreign currency.

3.5.4 Please identify risks associated with the transaction, including commercial bank's risk management guideline (more than 1 item can be chosen)

Market risk

Credit risk

Counterparty credit risk Other risks (please specify)

### **3.6 Capital requirements and regulatory compliance**

Please specify an approach used for calculating capital for the transaction including, adherence to all relevant regulations. (please specify the calculation methods in detail)

3.6.1 Calculation of risk-weighted assets for market risk

3.6.2 Calculation of risk-weighted assets for credit risk

3.6.3 Calculation of risk-weight assets for counterparty credit risk (If the requested transaction is used as credit risk mitigation, please indicate the calculation of risk-weighted assets for credit risk of assets that are needed to be hedged)

3.6.4 Large exposure limit (single lending limit)

### **3.7 Other information**

Please specify information, other than those provided above, that would facilitate the consideration of approval.

NNN - Bank XXXX  
 Reporting Form on Outstanding Amounts of Credit Derivatives  
 For reporting period ending 30 September 2015

Unit : Baht

Ref No.	New Product	Transaction date			Type of product	Counterparty		Notional amount			Reference obligations			Underlying obligations			Derivative	Purpose	Effective notional amount	Mark-to-market	Gain or loss	Protection buyer or seller	Rating	Type of delivery	Approval letter	Notes
		Trade date	Value date	Maturity		Type	Name	Outstanding		Baht equivalent	Name / Series	Maturity	Currency	Name / Series	Maturity	Currency										
								Currency	Amount																	
CB1505	Y	01/09/15	03/09/15	02/09/20	Credit Default Swap	Thai commercial bank	Bank ABC	USD	10,000,000.00	320,000,000.00	Company AAA / AA2476/13	02/09/20	USD	Company AAA / AA2476/13	02/09/20	USD	Bank's hedging	320,000,000.00	326,829,210.00	1,000,000.00	Protection buyer		Cash			
Total outstanding										320,000,000.00								320,000,000.00	326,829,210.00	1,000,000.00						

Prepared by .....

Tel. ....

Email .....

.....  
 (.....)

I hereby certify that the above data is complete and correct in any respect  
 Dated .....

## Reporting on outstanding amounts of credit derivatives

Commercial banks shall report the outstanding amounts from engaging in credit derivatives in the “Reporting Form on Outstanding Amounts of Credit Derivatives” classified by contracts and sorted by trade date, as follows:

**1. Reference number:** report the reference number of transaction, for instance, account number, confirmation number or contract number.

**2. New product:** report “Y” when commercial banks engaged in such derivative transactions for the first time during the reporting period only. In case the contracts have traded and matured during the reporting period, commercial banks shall report “0” in column “Notional amount” and “Effective notional amount”.

**3. Transaction date:** report the trade date, value date or effective date, and maturity date of transaction in form of “DD/MM/YY (B.E.)”.

**4. Type of product:** report the type of credit derivatives, namely:

4.1 Credit default swaps (CDS)

4.2 Total rate of return swaps (TRORS)

4.3 First to default swaps (FTDS)

4.4 Proportionate credit default swaps (PCDS)

4.5 Credit linked notes (CLN)

4.6 Total rate of return linked notes (TRORN)

4.7 First to default credit linked notes (FTDN)

4.8 Proportionate credit linked notes (PCLN)

4.9 Other credit derivatives approved by the Bank of Thailand.

Commercial banks shall specify the general name or trade name of such derivative transactions

**5. Counterparty:** report the type and name of counterparty, which are namely:

- (1) Thai commercial banks
- (2) foreign commercial bank's branches (in Thailand)
- (3) other branches of commercial banks, for example, a foreign commercial bank's branch incorporated in Thailand has engaged in a transaction with its head office or its oversea branches
- (4) foreign commercial banks, for example, engaging in a transaction with other foreign commercial banks which are not the same legal entity as the reporting commercial bank
- (5) specialised financial institutions (in Thailand)
- (6) securities companies
- (7) life insurance and non-life insurance companies
- (8) government sectors, government agencies, state enterprises and central banks
- (9) juristic persons other than (1) to (8)
- (10) others

**6. Notional amount:** report the notional amount of transaction with two decimal digits in the following two sub-columns:

**6.1 Outstanding:** report the currency name in column "Outstanding currency" and report remaining notional amount in column "Outstanding amount". For credit derivatives which either the receiving legs or paying legs are in a foreign currency, then the foreign currency legs shall be reported in column "Outstanding currency" and "Outstanding amount". For credit derivatives which both receiving legs and paying legs are in foreign currency, then the receiving legs shall be reported in column "Outstanding currency" and "Outstanding amount".

**6.2 Baht equivalent:** report the notional amount of transactions which denominated in foreign currency. On this, the commercial shall be report a Baht-equivalent amount by using mid rate of foreign exchange rates, the average buying rates of transfer and average selling rate ( $[\text{average buying rate} + \text{average buying rate}] / 2$ ), which published on the website of the Bank of Thailand, at the end of reporting period.

**7. Reference obligations:** report the name, series, maturity date and currency of assets or obligations used as reference for the settlement under credit derivatives contract.

**8. Underlying obligations:** report the name, series, maturity date and currency of the existing assets or obligations of commercial banks that are hedged by credit derivatives, which may be the same asset or obligation as the reference obligations (if any).

**9. Derivative components:** report the details of subcomponents of credit derivatives and position of commercial banks in such subcomponents in case of transactions that are approved by the Bank of Thailand. However, in case such credit derivative cannot be decomposed, details of transaction shall be explained.

**10. Purpose:** report the purpose to engage in the transaction.

(1) Bank's funding: a transaction in which commercial banks use for acquiring funds or managing their liquidity risks.

(2) Bank's hedging: a transaction in which commercial banks use for hedging against their risk exposures.

(3) Bank's trading: a transaction in which commercial banks use for trading or speculation purpose.

(4) Counterparty's hedging: a transaction in which a counterparty uses for hedging against their risk exposures.

(5) Counterparty's trading: a transaction in which a counterparty uses for trading or speculation purpose.

(6) Others: (please specify details in column "Notes")

**11. Effective notional amount:** report effective notional amount of credit derivatives in "Baht" with two decimal digits. Commercial banks, when calculating effective notional amount, shall refer to the Notification of the Bank of Thailand on Calculation of Counterparty Credit Risk-Weighted Assets for Derivative Transactions.

**12. Mark-to-market:** report mark-to-market values of all subcomponents at the reporting date, in "Baht" with two decimal digits.

**13. Gain or loss:** report profits or losses at the reporting date, which are the differences between mark to market values at the reporting date and mark to market values at the reporting date of previous month. The value shall be report in “Baht” with two decimal digits. If the transaction incurred net losses, the values should be displayed with parentheses.

**14. Protection buyer or seller:** report whether the commercial bank engages in the transaction as an entity who is transferring credit risk; thus report “protection buyer” or an entity who is transferred credit risk; thus report “protection seller”.

**15. Rating:** report the rating of securities in case of funded credit derivatives rated from the external rating agency (if any).

**16. Type of delivery:** report condition of delivery and settlement; if the transaction requires the physical settlement of underlying obligations, report “physical” or if the transaction requires cash settlement, report “cash”.

**17. Approval letter:** for credit derivatives that require prior approval from the Bank of Thailand, commercial banks shall report the number of approval letter which received from the Financial Institution Applications Department, Bank of Thailand.

**18. Notes:** report other details of the transaction (if any)

**Remark:** please specify the name, telephone number, and email of the officer who responsible for this report.

## Supervision on the capital requirements for credit derivatives in the banking book

Supervision on the capital requirements for credit derivatives in the banking book is subject to the type and attribute of the credit derivatives in providing credit guarantee for the hedged asset. Commercial banks shall calculate credit risk-weighted assets for credit derivatives in banking book as follows:

### 1. Commercial banks using the standardised approach (SA) for the calculation of credit risk-weighted assets

Commercial banks engaging in credit derivatives qualified to an effective credit guarantee as prescribed in 1.1 and 1.3 in attachment 7 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA) shall comply with the following regulations:

1.1 In case commercial banks are transferring credit risk of reference obligations (protection buyers), they shall comply with regulations as prescribed in 4.2 of attachment 7 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA).

For commercial banks engaging in total rate of return linked notes (TRORN) as protection buyers (sellers of TRORN), commercial banks shall calculate capital requirements for hedged assets by using a risk weight of 0, only for a portion of cash received as collateral for borrowing or issuance of securities.

1.2 If commercial banks are transferred credit risk of reference obligations (protection sellers), they shall comply with regulations as prescribed in 1. of attachment 3 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA).

For commercial banks engaging in total rate of return linked notes (TRORN) as protection sellers (buyers of TRORN), the commercial banks shall calculate capital requirements for the obligation that commercial banks have to provide protection for losses from reference obligations by using a conversion factor of 1 and apply a risk weight according to the type of reference obligations, or calculate capital requirements in case the protection buyers as borrowers or issuers of securities may default on payment by applying a risk weight of the protection buyers, whichever is greater. Moreover, the protection sellers shall calculate capital requirements for the counterparty credit risk of protection buyers in case of total rate of return linked notes, in which the protection

buyers have to deliver the increment of mark-to-market value of reference obligation by using the Current Exposure Method as prescribed in the Notification of the Bank of Thailand on the Calculation of Counterparty Credit Risk-weighted Assets for Derivative Transactions.

On this, commercial banks engaging in credit derivatives which are not qualified to an effective credit guarantee as prescribed in 1.1 and 1.3 in attachment 7 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA), commercial banks may comply with the calculation of capital requirements as prescribed in section 1. However, this is except for the case where commercial banks are protection buyers and engaging in credit derivatives which are not qualified to an effective credit guarantee because the credit risk has not been fully transferred or there is a mismatch of currency or maturity. In such case, commercial banks shall comply with the following regulations:

1. Partially transferring of credit risk: commercial banks shall comply with 5. in attachment 7 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA).

2. Currency mismatch: commercial banks shall comply with 6. in attachment 7 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets under the Standardised Approach (SA).

3. Maturity mismatch: commercial banks shall comply with attachment 9 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets under the Standardised Approach (SA).

Furthermore, for offsetting credit risk of reference obligation between credit derivatives items, commercial banks shall comply with 4.3 in attachment 7 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets under the Standardised Approach (SA).

## **2. Commercial banks using the internal ratings-based approach (IRB) for the calculation of credit risk-weighted assets**

Commercial banks engaging in credit derivatives shall comply with minimum requirements for assessment of effectiveness in using credit derivatives as prescribed in 5.9.1 (4) in attachment 7 for commercial banks using the AIRB and 5.9.2 for commercial banks using the FIRB according to the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets under the Internal Ratings-Based Approach (IRB).

Commercial banks that are both protection buyers and protection sellers shall calculate credit risk-weighted assets according to the type of borrowers of hedged assets, as follows:

2.1 Sovereigns, financial institutions and corporates: commercial banks shall comply with 2.2; guarantees and credit derivatives in attachment 1 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets under the Internal Ratings-Based Approach (IRB).

2.2 Retail exposures: commercial banks shall comply with 2.2; guarantees and credit derivatives in attachment 2 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets under the Internal Ratings-Based Approach (IRB).

2.3 Receivables: Commercial banks shall comply with 3. in attachment 4 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets under the Internal Ratings-Based Approach (IRB).

## Supervision of capital requirements for credit derivatives in the trading book

### 1. General regulations on supervision for credit derivatives in the trading book and regulations on the estimation of the trading book positions

Commercial banks shall comply with regulations on trading book policies as prescribed in the Notification of the Bank of Thailand on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions. The essences of the classification of transactions as a trading book are as follows:

- (1) The transactions are positions in credit derivatives that commercial banks hold for trading intent or for hedging risks of other positions in the trading book.
- (2) The positions shall be accurately marked-to-market at least on a daily basis.

For total rate of return swaps and total rate of return linked notes, they shall be classified in the trading book, unless such derivative transactions are used to hedge risks of other positions in the banking book. However, if the total rate of return swaps and total rate of return linked notes have reference obligations that are not marketable and cannot be accurately marked-to-market on a daily basis, they shall be classified in the banking book.

On this, commercial bank shall report the engaged credit derivatives in the trading book classified by related currency in the Data Set “Trading book position” (DS\_TBP) under topic “Derivative transactions linked to interest rates and debt securities”

### 2. Types of risk of credit derivatives in the trading book

2.1 Market risk: the risk of losses arising from movements in market risk factors

(1) General market risk: the risk arising from changes of mark-to-market values of securities due to changes in market interest rates or general level of credit spreads

(2) Specific risk: the risk arising from changes of mark-to-market values of securities due to changes of other factors related to the issuer of such securities other than general market risk.

2.2 Counterparty risk: the risk where the counterparty of credit derivatives may fail to meet the obligations under the agreement.

### 3. Guidelines on the calculation of capital requirements for credit derivatives

Commercial banks shall calculate capital requirements for market risk and counterparty risk according to the prescribed regulations, as follows:

#### 3.1 Market risk

In general, market risk of credit derivatives positions covers the risk from these two positions, namely a position in credit derivatives and a position in reference obligation. Each position shall be included in the calculation of capital requirements for both types of market risk (if any), which are the general market risk and specific risk by using the regulations on the calculation of capital requirements for interest rate risk, as follows:

##### (1) General market risk

Commercial banks shall consider whether a position in credit derivatives and a position in reference obligation have exposure to general market risk. If there is the risk exposure, commercial banks shall calculate capital requirements for the positions according to the Notification of the Bank of Thailand on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions and the table summarising the guidelines on the calculation of capital requirements for credit derivatives in the trading book. Such positions shall also be reported in the table summarising capital requirements for interest rate risk (General market risk) under the standardised approach or the table summarising capital requirements for market risk under the internal model approach, as the case may be.

##### (2) Specific risk

Commercial banks shall consider whether a position in credit derivatives and a position in reference obligation have exposure to specific risk. If there is the risk exposure, commercial banks shall include such positions in the calculation of capital requirements for specific risk by using the risk weights for interest rate risk (specific risk), which are classified by the type of issuers and/or credit ratings and/or remaining maturities. This calculation shall be considered respectively by counterparties of the credit derivatives and reference obligations. Such positions shall be reported in the table summarising capital requirements for interest rate risk (specific risk) under the standardised approach or the table summarising capital requirements for market risk

under the internal model approach, as the case may be. On this, the calculation of capital requirements for specific risk of both positions, commercial banks shall comply with the Notification of the Bank of Thailand on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions and the table summarising the guidelines on the calculation of capital requirements for credit derivatives in the trading book.

### 3.2 Counterparty risk

Commercial banks shall calculate capital requirements for counterparty risk of credit derivatives in the trading book using the Current Exposure Method as prescribed in the Notification of the Bank of Thailand on the Calculation of Counterparty Credit Risk-Weighted Assets for Derivative Transactions.

## **4. Guidelines on offsetting of positions for the exemption from the calculation of capital requirements for specific risk of reference obligations**

4.1 Full offsetting: The specific risk of reference obligations shall be fully offset if the value of short position and the value of long position always moves in the opposite direction and broadly to the same extent. This would be the case in the following situations:

4.1.1 The offsetting between a long position and short position of the identical credit derivatives

4.1.2 The offsetting between credit derivatives and hedged asset of the total rate of return swaps only, when the reference obligations are identical to the hedged assets. However, there may be a maturity mismatch between the credit derivatives and the hedged assets.

4.2 80% offsetting: The specific risk of reference obligations shall be offset by 80% (commercial banks shall calculate specific risk equal to 20% of capital requirements for specific risk of the higher between long position and short position, while the specific risk of remaining position will be zero), if the following conditions are satisfied:

4.2.1 The value of long position and the value of short position always move in the opposite direction, but not broadly to the same extent. This would be the case when long position is hedged by a credit default swaps or a credit linked notes in which reference obligation is exactly the same as hedged asset, as well as same maturity and currency.

4.2.2 There are no conditions that may cause the price movement of the credit derivatives to materially deviate from the price movements of the reference obligations.

4.2.3 There is full credit risk transfer. That is, there shall not be any condition causing the protection buyer not to receive a full amount of compensation for losses from the protection seller if there is a credit event on the reference obligations.

4.3 Partial offsetting: The specific risk of reference obligations shall be partially offset (commercial banks shall calculate capital requirements for specific risk of the higher between long position and short position, while the specific risk of remaining position will be zero). Generally, this may occur in the case where the value of short and the value of long position always move in the opposite direction, as follows:

4.3.1 The position according to 4.1.2 that have the reference obligations different from the hedged assets, but such position meets all the following requirements:

- Hedged assets and reference obligations of credit derivatives shall be issued by the same reference entity.

- Reference obligations ranks pari passu with or is junior to the hedged assets, and

- There shall be a legally enforceable clause that if one particular asset cannot make the debt repayment, another asset will not make the debt repayment as well (cross-default clause). That is, both assets cannot make debt repayment at the same time.

- There shall be a provision in the credit derivatives contracts that hedged assets can be settled in case of physical settlement.

4.3.2 For items according to 4.1.1 and 4.2 with the currency mismatch and maturity mismatch between credit derivatives and hedged assets.

4.3.3 For items according to 4.1.2 with the currency mismatch between credit derivatives and hedged assets.

4.3.4 For items according to 4.2 with the mismatch between hedged assets and credit derivatives, but there is a provision in the credit derivatives contract to use such asset for the delivery in case of credit event.

4.4 Items other than 4.1 – 4.3 are subject to the calculation of specific risk. That is, both positions cannot be offset and subject to the calculation of specific risk.

4.5 For first to default products, commercial banks shall apply the regulations on supervision of capital requirements for credit derivatives in the banking book. That is, commercial banks that are protection buyers of first to default products are considered buying the risk protection for only one particular reference obligation. Thus, commercial banks are hereby permitted to offset the positions for the calculation of capital requirements for specific risk only for such reference obligation. To consider whether the offsetting can be applied or can be applied to any extent, it depends on attributes of credit derivatives as prescribed in 4.1 – 4.4.

4.6 For proportionate CDS and proportionate CLN, commercial banks shall comply with the same regulations as for the CDS and CLN as prescribed in 4.1 – 4.4 by considering the proportion of credit guarantee to each reference obligation.

5. The calculation of capital requirements for credit derivatives in the trading book is detailed in the table below:

Summary of regulations on the calculation of capital requirements for credit derivatives in the trading book

Transaction / Position	Position in reference obligation		Position in credit derivative		Counterparty risk
	General market risk	Specific risk <sup>1</sup>	General market risk	Specific risk <sup>2</sup>	
5.1 Credit default swaps (CDS)					
5.1.1 Protection buyer	None	<b>Position :</b> Short <b>Amount :</b> Notional amount or the highest amount of compensation received from counterparty <b>Time period :</b> Remaining maturity of CDS	<b>Position :</b> Short <b>Amount :</b> Present value of each cash flow of premiums <b>Time period :</b> Time period for each premiums payment of CDS	None	Calculate capital requirements by using the Current Exposure Method
5.1.2 Protection seller	None	<b>Position :</b> Long <b>Amount :</b> Notional amount or the highest amount of compensation paid to counterparty <b>Time period:</b> Remaining maturity of CDS	<b>Position :</b> Long <b>Amount :</b> Present value of each cash flow of premiums <b>Time period :</b> Time period for each premiums payment of CDS	None	Calculate capital requirements by using the Current Exposure Method only in case where the protection buyer does not pay premiums in full

Transaction / Position	Position in reference obligation		Position in credit derivative		Counterparty risk
	General market risk	Specific risk <sup>1</sup>	General market risk	Specific risk <sup>2</sup>	
5.2 Credit linked notes (CLN)					
5.2.1 Protection buyer	None	<b>Position :</b> Short <b>Amount :</b> Notional amount or the highest amount of compensation received from counterparty <b>Time period :</b> Remaining maturity of CLN	<b>Position :</b> Short <b>Amount :</b> Mark-to-market value of CLN <b>Time period :</b> Remaining period to the next interest rate repricing date	None	Calculate capital requirements by using the Current Exposure Method. Cash received as collateral can be used to reduce the exposure for the calculation.
5.2.2 Protection seller	None	<b>Position :</b> Long <b>Amount :</b> Notional amount or the highest amount of compensation paid to counterparty <b>Time period :</b> Remaining maturity of CLN	<b>Position :</b> Long <b>Amount :</b> Mark-to-market value of CLN <b>Time period :</b> Remaining period to the next interest rate repricing date	<b>Position :</b> Long <b>Amount :</b> Mark-to-market value of CLN <b>Time period :</b> Remaining maturity of CLN	None
5.3 Total rate of return swaps (TRORS)					
5.3.1 Protection buyer	<b>Position :</b> Short <b>Amount :</b> Mark-to-market value of reference obligation on the start date of TRORS or mark-to-market value of reference obligation from the previous settlement <b>Time period :</b> Remaining	<b>Position :</b> Short <b>Amount :</b> Mark-to-market value of reference obligation on the start date of TRORS or mark-to-market value of reference obligation from the previous settlement <b>Time period :</b> Remaining	<b>Position :</b> Long <b>Amount :</b> Present value of cash flows received from the contract (including mark-to-market value of reference obligation on the start date of TRORS or mark-to-market value of reference obligation from	None	Calculate capital requirements by using the Current Exposure Method

Transaction / Position	Position in reference obligation		Position in credit derivative		Counterparty risk
	General market risk	Specific risk <sup>1</sup>	General market risk	Specific risk <sup>2</sup>	
	maturity of reference obligation or remaining period to the next interest rate repricing date	maturity of TRORS	the previous settlement in exchange for cash flows of reference obligation <b>Time period :</b> Remaining period to the next interest rate repricing date		
5.3.2 Protection seller	<b>Position :</b> Long <b>Amount :</b> Mark-to-market value of reference obligation on the start date of TRORS or mark-to-market value of reference obligation from the previous settlement <b>Time period :</b> Remaining maturity of reference obligation or remaining period to the next interest rate repricing date	<b>Position :</b> Long <b>Amount :</b> Mark-to-market value of reference obligation on the start date of TRORS or mark-to-market value of reference obligation from the previous settlement <b>Time period :</b> Remaining maturity of TRORS	<b>Position :</b> Short <b>Amount :</b> Present value of cash flows paid from the contract (including mark-to-market value of reference obligation on the starting date of TRORS or mark-to-market value of reference obligation from the previous settlement in exchange for cash flows of reference obligation <b>Time period :</b> Remaining period to the next interest rate repricing date	None	Calculate capital requirements by using the Current Exposure Method
<b>5.4 Total rate of return linked notes (TRORN)</b>					
5.4.1 Protection buyer	<b>Position :</b> Short <b>Amount :</b> Mark-to-market	<b>Position :</b> Short <b>Amount :</b> Mark-to-market	<b>Position :</b> Short <b>Amount :</b> Mark-to-market	None	Calculate capital requirements by using

Transaction / Position	Position in reference obligation		Position in credit derivative		Counterparty risk
	General market risk	Specific risk <sup>1</sup>	General market risk	Specific risk <sup>2</sup>	
	<p>value of reference obligation on the start date of TRORN or mark-to-market value of reference obligation from the previous settlement</p> <p>Time period : Remaining maturity of reference obligation or remaining period to the next interest rate repricing date</p>	<p>value of reference obligation on the start date of TRORN or mark-to-market value of reference obligation from the previous settlement</p> <p>Time period : Remaining maturity of TRORN</p>	<p>value of TRORN</p> <p>Time period : Remaining period to the next interest rate repricing date</p>		<p>the Current Exposure Method. Cash received as collateral can be used to reduce the exposure for the calculation.</p>
5.4.2 Protection seller	<p>Position : Long</p> <p>Amount : Mark-to-market value of reference obligation on the start date of TRORN or mark-to-market value of reference obligation from the previous settlement</p> <p>Time period : Remaining maturity of reference obligation or remaining period to the next interest</p>	<p>Position : Long</p> <p>Amount : Mark-to-market value of reference obligation on the start date of TRORN or mark-to-market value of reference obligation from the previous settlement</p> <p>Time period : Remaining maturity of TRORN</p>	<p>Position : Long</p> <p>Amount : Mark-to-market value of TRORN</p> <p>Time period : Remaining period to the next interest rate repricing date</p>	<p>Position : Long</p> <p>Amount : Mark-to-market value of TRORN</p> <p>Time period : Remaining maturity of TRORN</p>	None

Transaction / Position	Position in reference obligation		Position in credit derivative		Counterparty risk
	General market risk	Specific risk <sup>1</sup>	General market risk	Specific risk <sup>2</sup>	
	rate repricing date				
5.5 First to default swaps (FTDS)					
5.5.1 Protection buyer	None	<b>Position</b> : Short (for one particular reference obligation and fixed throughout the term of contract) <b>Amount</b> : Notional amount or the highest amount of compensation received from counterparty <b>Time period</b> : Remaining maturity of FTDS	<b>Position</b> : Short <b>Amount</b> : Present value of each cash flow of premiums <b>Time period</b> : Time period for each premiums payment of FTDS	None	Calculate capital requirements by using the Current Exposure Method
5.5.2 Protection seller	None	<b>Position</b> : Long (for all reference obligations) <b>Amount</b> : Notional amount or the highest amount of compensation paid to counterparty <b>Time period</b> : Remaining maturity of FTDS <b>Cap</b> : Required capital does not exceed the value of credit guarantee	<b>Position</b> : Long <b>Amount</b> : Mark-to-market value of each cash flow of premiums <b>Time period</b> : Time period for each premiums payment of FTDS	None	Calculate capital requirements by using the Current Exposure Method only in case where the protection buyer does not pay premiums in full
5.6 First to default notes (FTDN)					
5.6.1 Protection buyer	None	<b>Position</b> : Short (for one	<b>Position</b> : Short	None	Calculate capital

Transaction / Position	Position in reference obligation		Position in credit derivative		Counterparty risk
	General market risk	Specific risk <sup>1</sup>	General market risk	Specific risk <sup>2</sup>	
		particular reference obligation and fixed throughout the term of contract) <b>Amount</b> : Notional amount or the highest amount of compensation received from counterparty <b>Time period</b> : Remaining maturity of FTDN	<b>Amount</b> : Mark-to-market value of FTDN <b>Time period</b> : Remaining period to the next interest rate repricing date		requirements by using the Current Exposure Method. Cash received as collateral can be used to reduce the exposure for the calculation.
5.6.2 Protection seller	None	<b>Position</b> : Long (for all reference obligations) <b>Amount</b> : Notional amount or the highest amount of compensation paid to counterparty <b>Time period</b> : Remaining maturity of FTDN <b>Cap</b> : Required capital does not exceed the value of credit guarantee	<b>Position</b> : Long <b>Amount</b> : Mark-to-market value of FTDN <b>Time period</b> : Remaining period to the next interest rate repricing date	<b>Position</b> : Long <b>Amount</b> : Mark-to-market value of FTDN <b>Time period</b> : Remaining maturity of FTDN	None
5.7 Proportionate CDS					
5.7.1 Protection buyer	None	<b>Position</b> : Short (for all reference obligations) <b>Amount</b> : Notional amount or the highest	<b>Position</b> : Short <b>Amount</b> : Present value of each cash flow of premiums	None	Calculate capital requirements by using the Current Exposure Method

Transaction / Position	Position in reference obligation		Position in credit derivative		Counterparty risk
	General market risk	Specific risk <sup>1</sup>	General market risk	Specific risk <sup>2</sup>	
		<p>amount of compensation received from counterparty, according to the specified proportion</p> <p><b>Time period</b> : Remaining maturity of proportionate CDS</p>	<p><b>Time period</b> : Time period for each premiums payment of proportionate CDS</p>		
5.7.2 Protection seller	None	<p><b>Position</b> : Long (for all reference obligations)</p> <p><b>Amount</b> : Notional amount or the highest amount of compensation paid from counterparty, according to the specified proportion</p> <p><b>Time period</b> : Remaining maturity of proportionate CDS</p>	<p><b>Position</b> : Long</p> <p><b>Amount</b> : Present value of each cash flow of premiums</p> <p><b>Time period</b> : Time period for each premiums payment of proportionate CDS</p>	None	Calculate capital requirements by using the Current Exposure Method only in case where the protection buyer does not pay premiums in full
5.8 Proportionate CLN					
5.8.1 Protection buyer	None	<p><b>Position</b> : Short (for all reference obligations)</p> <p><b>Amount</b> : Notional amount or the highest amount of compensation received from counterparty, according to the specified</p>	<p><b>Position</b> : Short</p> <p><b>Amount</b> : Mark-to-market value of proportionate CLN</p> <p><b>Time period</b> : Remaining period to the next interest rate repricing date</p>	None	Calculate capital requirements by using the Current Exposure Method. Cash received as collateral can be used to reduce the exposure for the calculation.

Transaction / Position	Position in reference obligation		Position in credit derivative		Counterparty risk
	General market risk	Specific risk <sup>1</sup>	General market risk	Specific risk <sup>2</sup>	
		proportion <b>Time period</b> : Remaining maturity of proportionate CLN			
5.8.2 Protection seller	None	<b>Position</b> : Long (for all reference obligations) <b>Amount</b> : Notional amount or the highest amount of compensation paid to counterparty, according to the specified proportion <b>Time period</b> : Remaining maturity of proportionate CLN	<b>Position</b> : Long <b>Amount</b> : Mark-to-market value of proportionate CLN <b>Time period</b> : Remaining period to the next interest rate repricing date	<b>Position</b> : Long <b>Amount</b> : Mark-to-market value of proportionate CLN <b>Time period</b> : Remaining maturity of proportionate CLN	None

- 1/ Required capital for specific risk of reference obligation = Amount assigned to each transaction \* Specific risk charge referring to the risk weight for interest rate risk (specific risk), which is classified according to the type of issuers, credit rating and remaining maturity, depending on the attributes of reference obligations (as prescribed in the Notification of the Bank of Thailand on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions)
- 2/ Required capital for specific risk of credit derivatives = Amount assigned to each transaction \* Specific risk charge referring to the risk weight for interest rate risk (specific risk), which is classified according to the type of issuers, credit rating and remaining maturity, depending on the attributes of protection buyer, which is an issuer of credit derivatives (as prescribed in the Notification of the Bank of Thailand on Supervision of Market Risk and Capital Requirements for Market Risk of Financial Institutions).

## Regulations on supervision of large exposures (single lending limit) for credit derivatives

Commercial banks engaging in credit derivatives shall comply with the practices as prescribed in this attachment for the calculation of the ratio of single lending limit, of which commercial banks have granted credits, invested in, incur contingent liabilities or enter into transactions similar to credit granting to anyone or several persons jointly in any project, or for the same purpose, according to the Notification of the Bank of Thailand on Guidelines on Single Lending Limit. Such practices depend on the type and attribute of credit derivatives in providing credit guarantee for the reference obligation, as follows:

### 1. Supervision of credit derivatives qualified to an effective credit guarantee

Commercial banks engaging in credit derivatives qualified to an effective credit guarantee in 1.1 and 1.3 in attachment 7 according to the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA), both as protection buyers and protection sellers, shall comply with the practices for the calculation of a ratio of single lending limit, of which commercial banks have granted credits, invested in, incur contingent liabilities or enter into transactions similar to credit granting to anyone or several persons jointly in any project, or for the same purpose, to the capital funds of commercial banks (SLL ratio), depending on the amount and effective period for credit derivatives, as follows:

#### 1. Credit default swaps

1.1 Protection buyer: the protection seller shall be included in the calculation of SLL ratio instead of the issuer of hedged asset

1.2 Protection seller: it is considered that engaging in such derivative transactions is to take the obligation instead of the issuer of hedged asset, the issuer of hedged asset shall be included in the calculation of SLL ratio.

#### 2. Credit linked notes

2.1 Protection buyer (issuer of credit linked notes): the issuer of hedged asset is not required to include in the calculation of SLL ratio only the particular amount that is no more than cash received as collateral for the borrowing or issuance of securities (credit linked notes).

2.2 Protection seller (buyer of credit linked notes): the protection seller takes the obligation instead of the issuer of hedged asset, meanwhile it has granted credits or invested in the issuer of credit linked notes, thus, the issuer of hedged asset and the issuer of credit linked notes shall be included in the calculation of SLL ratio.

3. Total rate of return swaps (TRORS) and total rate of return linked notes (TRORN)

3.1 Protection buyer (seller of total rate of return linked notes or buyer of total rate of return swaps): in case of total rate of return linked notes, the issuer of hedged asset is not required to include in the calculation of SLL ratio only the particular amount that is no more than cash received as collateral for the borrowing or issuance of securities. In case of total rate of return swaps which post no cash as collateral, the protection seller shall be included in the calculation of SLL ratio instead of the issuer of hedged asset.

3.2 Protection seller (buyer of total rate of return linked notes or seller of total rate of return swaps): in case of total rate of return linked notes, in which the protection seller has obligation with the issuer of hedged asset, meanwhile it has granted credits or invested in the issuer of total rate of return linked notes, thus, the issuer of hedged asset and the issuer of total rate of return linked notes shall be included in the calculation of SLL ratio. In case of total rate of return swaps, only the issuer of hedged asset shall be included in the calculation of SLL. However, the protection buyer, as counterparty, shall be included in the calculation of counterparty credit risk for the increment value of reference obligation which the protection buyer shall deliver to the protection seller by using the Current Exposure Method according to the Notification of the Bank of Thailand on the Calculation of Counterparty Credit Risk-Weighted Assets for Derivative Transactions.

4. First to default products

4.1 Protection buyer (seller of first to default credit linked notes or buyer of first to default swaps): in case of first to default credit linked notes, commercial banks may consider that this is the credit guarantee for one particular asset in the pool of reference obligations, and may not including the issuer of hedged asset in the calculation of SLL ratio, only the particular amount that it has received cash as collateral in full form the borrowing or issuance of securities. However, in case of first to default swaps, which is the purchase of credit guarantee without cash posted as collateral, the protection seller shall be included in the calculation of SLL ratio instead of the issuer of hedged asset that has been chosen.

On this, the chosen asset for credit guarantee shall be the same asset both for the calculation of capital requirements and the calculation of SLL ratio. For other assets in the pool of reference obligations, commercial banks shall still include the issuers of hedged assets in the calculation of SLL ratio.

4.2 Protection seller (buyer of first to default credit linked notes or seller of first to default swaps): in case of first to default credit linked notes, commercial banks take the obligation instead of the issuer of hedged assets in the pool of assets. Therefore, all issuers of hedged assets in the pool shall be included in the calculation of SLL ratio. In case of the protection seller, which posts cash as collateral as it has granted credits or invests in first to default credit linked notes, the protection buyer shall be included in the calculation of SLL ratio.

## 5. Proportionate CLN or proportionate CDS

5.1 Protection buyer: in case of proportionate CLN, the issuers of hedged assets, according to the proportion of credit guarantee of each asset, are not required to include in the calculation of SLL ratio only the particular amount that it has received cash as collateral in full form the borrowing or issuance of securities. In case of proportionate CDS with no cash posted as collateral, the protection seller shall be included in the calculation of SLL ratio instead of the issuers of hedged assets, according to the proportion of credit guarantee of each asset. For portion without credit guarantee, the issuers of hedged assets shall be included in the calculation of SLL ratio.

5.2 Protection seller: in case of proportionate CDS, the protection seller takes the obligation instead of all issuers of hedged assets in the pool according to the proportion of credit guarantee. Thus, all issuers of hedged assets, according to the proportion of credit guarantee as specified in the credit guarantee agreement, shall be included in the calculation of SLL ratio. For the protection seller who posts cash as collateral by granted credits or invested in proportionate CLN, the protection buyer shall be included in the calculation of SLL ratio.

## **2. Supervision of credit derivatives which are not qualified to an effective credit guarantee**

2.1 Commercial banks as protection sellers engaging in credit derivatives which are not qualified to an effective credit guarantee as prescribed in 1.1 and 1.3 in attachment 7 of the Notification of the Bank of Thailand on the Calculation of Credit Risk-Weighted Assets for Commercial Banks under the Standardised Approach (SA) shall still comply with the calculation of the ratio of single lending limit, of which commercial banks

have granted credits, invested in, incur contingent liabilities or enter into transactions similar to credit granting to anyone or several persons jointly in any project, or for the same purpose, to the capital funds of commercial banks as prescribed in section 1.

2.2 Commercial banks as protection buyers engaging in credit derivatives which are not qualified to an effective credit guarantee shall include the issuer of hedged asset in the calculation of SLL ratio. This is except for credit derivatives which are not qualified to an effective credit guarantee as the credit risk may not be fully transferred or there is a mismatch of maturity or currency. In such case, commercial banks as protection buyer shall comply with the following practices:

1) In case where the credit risk is not fully transferred or there is a mismatch of maturity or currency, commercial banks shall calculate the amount of credit guarantee according to the requirements as prescribed in section 1. and section 2. in attachment 5. Then, commercial banks shall calculate the SLL ratio for such amount according to the type of credit derivatives as prescribed in section 1. of this attachment.

2) The protection buyer shall include the remaining amount of asset that has no credit guarantee according to 1) in the calculation of the SLL ratio. This calculation shall be treated as granted credits, invested in, incur contingent liabilities or enter into transactions similar to credit granting to the issuer of hedged asset

3) After the credit guarantee for the asset that protection buyer wishes to hedge has ended, such asset shall be included in the calculation of SLL ratio. Therefore, commercial banks shall ensure that the amount of credits granting, investing in, incurring contingent liabilities or entering into transactions similar to credit granting to anyone or several persons jointly in any project, or for the same purpose, after including such assets in SLL ratio, does not exceed the ratio as prescribed by the Bank of Thailand.

### **3. Engaging in credit derivatives for hedging risks in the banking book**

Commercial banks engaging in credit derivatives as protection buyers for hedging risks in the banking book shall be eased or exempted from the calculation of the SLL ratio that is not exceed 25 percent of total capital funds of commercial banks as prescribed in section 1.; supervision of credit derivatives qualified to an effective credit guarantee, and section 2.; supervision of credit derivatives which are not qualified to an effective credit guarantee in this attachment.

#### 4. Offsetting of credit risk of reference obligations between credit derivatives items

Offsetting between credit derivatives items shall be offset only the identical derivative transactions with the same attributes and qualifications in which their positions are opposite. However, the counterparties of both transactions (if any) shall still be included in the calculation of SLL ratio.

**Regulations on foreign exchange positions for credit derivatives**

Commercial banks shall include foreign exchange positions that could arise from engaging in credit derivatives which notional amounts is denominated in a foreign currency in the calculation of foreign exchange positions, according to the Notification of the Bank of Thailand on Foreign Exchange Positions for Commercial Banks excluding Retail Banks. Commercial banks shall calculate the foreign exchange positions by using the fair values of such credit derivatives.