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Notification of the Bank of Thailand
No. FPG. 16/2560
Re: The Assessment Methodology and Supervisory Measures for Domestic Systemically Important Banks (D-SIBs)

1. Rationale

Commercial banks in Thailand have always played an important role in supporting domestic economic activities as financial intermediaries. Therefore, the supervision to ensure commercial banks' stability and capability to provide continuous financial services without disruption is crucial, especially for large commercial banks which are highly interconnected with other financial institutions and the financial system, offer complex financial products or business/operational structures, and are the country's main financial service or financial infrastructure providers. The Bank of Thailand recognises the importance and necessity of more rigorous supervision of such commercial banks compared to other commercial banks by prescribing higher loss absorbency for domestic systemically important banks (D-SIBs) in order to reduce the likelihood that they will encounter financial problems and exert negative externalities to the financial system and the country's overall economy, which in turns promotes stability of the country's financial system and international recognition. The Bank of Thailand stipulates the domestic systemically important bank supervision approach according to this Notification by referring to A Framework for Dealing with Domestic Systemically Important Banks by the Basel Committee on Banking Supervision, a part of the Basel III Supervisory Framework.

The purpose of the D-SIB identification is to subject such commercial banks to more rigorous supervision by maintaining higher loss absorbency and complying with additional supervisory measures compared to other commercial banks. The identification of D-SIBs does not entail provision of the authority's financial assistance to such commercial banks in case of liquidity or solvency problem. The decision on such matter must also take into account other factors which reflect confidence in the financial institution system and the financial system.

2. Statutory Power

By virtue of Sections 29, Section 30, Section 31, Section 32, and Section 71 of the Financial Institutions Businesses Act B.E. 2551 (2008), the Bank of Thailand hereby issues the Regulations on the Assessment Methodology and Supervisory Measures for Domestic Systemically Important Banks (D-SIBs) and commercial banks shall comply accordingly.

3. Scope of Application

This Notification shall apply to all commercial banks according to the law on financial institutions businesses.

4. Contents

4.1 Definitions

In this Notification:

"Commercial bank" means a commercial bank under the Financial Institutions Businesses Act B.E.2551 (2008).

"Domestic systemically important bank (D-SIB)" means a commercial bank identified by the Bank of Thailand as a D-SIB according to the regulations in this Notification.

"Locally-incorporated bank" means a commercial bank under the Financial Institutions Businesses Act B.E.2551 (2008), except foreign bank branches.

"Foreign bank branch" means a branch of a foreign bank licensed to undertake commercial banking business in Thailand.

"Conservation buffer" means conservation buffer in accordance with the Notification of the Bank of Thailand on Regulations on Supervision of Capital for Commercial Banks

"Countercyclical buffer" means countercyclical buffer in accordance with the Notification of the Bank of Thailand on Regulations on Supervision of Capital for Commercial Banks

4.2 Principles

The Bank of Thailand prescribes regulations on D-SIBS to enhance such commercial banks' loss absorbency, in order to reduce their probability of failure which in turn affects the financial system and the economy as a whole. The Bank of Thailand formulates the aforementioned regulations based on the international standards specified by the Basel Committee on Banking Supervision, and comprise 2 main parts, that is, Part 1: D-SIBs identification methodology and Part 2: Additional supervisory measures for D-SIBs.

4.3 Regulations

4.3.1 D-SIB identification methodology

(1) Indicators employed to identify D-SIBs

The Bank of Thailand employs main indicators to identify Domestic systemically important banks (D-SIBs) and in case where main indicators cannot clearly categorise banks, the Bank of Thailand may further employ ancillary indicators in the assessment. The details of the indicators are as follows:

(1.1) Main indicators

The Bank of Thailand employs 4 main indicators to identify D-SIBs by emphasising on potential impacts to the country's financial system and economy. These 4 main indicators can reflect the level of commercial banks' potential impact to the country's financial system and economy as a whole, including the mechanism of the domestic financial markets. The details are as follows:

(a) <u>Size</u>: Large commercial banks with large amounts of financial transactions will affect activities in the economy and the financial system as a whole more than small commercial banks. The Bank of Thailand thus uses commercial bank size as a main indicator by considering total assets and off-balance sheet items of the commercial bank's financial business group.

(b) <u>Interconnectedness</u>: Commercial banks with high interconnectedness with other financial institutions and the financial system have higher likelihood of transmission of risks and effects to other financial institutions and the financial system than other commercial banks. The Bank of Thailand thus employs interconnectedness as a main indicator, by taking these 3 following sub-indicators into account:

- Intra-financial system assets between commercial banks and the financial institution system as creditors or investors by considering the amount of commercial banks' financial business groups' deposits at other financial institutions, loans, and investments in debt and equity securities whose counterparties are other financial institutions e.g. commercial banks and specialised financial institutions.

- Intra-financial system liabilities between commercial banks and the financial institution system as debtors by considering the amount of commercial banks' financial business groups' deposits by other financial institutions, and borrowing whose counterparties are other financial institutions e.g. commercial banks and specialised financial institutions.

- Intra-financial system financing which commercial banks require from the financial system by considering the value of debt and equity securities which commercial banks' financial business groups' issued and sold to all types of investors.

(c) Substitutability and Financial institution infrastructure: Commercial banks which are important financial service or financial infrastructure providers entail higher probability to cause a disruption to economic activities than other commercial banks, which will severely impact the financial system and the economy as a whole, because other commercial banks might not be able to fill the roles or have drastically higher operating costs. The Bank of Thailand thus uses substitutability and financial institution infrastructure as a main indicator, by considering 3 sub-indicators as follows:

- Amount of funds transferred via the BAHTNET system, the system which provides the country's payment services: Commercial banks with large amounts of funds transferred via the BAHTNET system is more likely to severely affect the payment system than other commercial banks, which may cause a liquidity problem in the financial system and disrupt the country's overall economic activities. The daily average amount of funds transferred via the BAHTNET system by a commercial bank is considered.

- Centrality of the BAHTNET system: Commercial banks with high interconnectedness within the payment system is more likely to severely affect the BAHTNET payment services, the main infrastructure of the country's payment system than other commercial banks. A network model is used to determine the centrality of the BAHTNET system.

- Number of depositors: Commercial banks with large numbers of depositors reflect their degree of importance as a provider of such fundamental financial services.

(d) Complexity: commercial banks with complex financial products or business/operational structures will require more difficult and complex resolution processes, including potential fire sales which may depress the level of asset prices in the financial system. The Bank of Thailand thus uses complexity as a main indicator by considering these two sub-indicators as follows:

- The value of over-the-counter (OTC) derivatives by considering the commercial bank's financial business group's notional amount of OTC derivatives.

- The value of investment in trading and available-for-sale debt and equity securities by considering the value of investment in trading and available-for-sale debt and equity securities of the commercial bank's financial business group, excluding investment in Level 1 and Level 2 high quality liquid assets in accordance with the Notification of the Bank of Thailand on the Liquidity Coverage Ratio (LCR) Requirement.

(1.2) Ancillary indicators

In case where main indicators cannot clearly indicate the domestic systemic importance of commercial banks, the Bank of Thailand may consider using ancillary indicators, including quantitative indicators or qualitative indicators such as risk-weighted assets, foreign exchange market activities, and complexity of consolidated group structure.

(2) Main indicator weighting

The Bank of Thailand assigns a 30% weight to each of the main indicators on size, interconnectedness, as well as substitutability and financial institution infrastructure. As for the indicator on complexity, the weight is set at 10% because the volume and risks of derivatives transactions in Thailand are still moderate, and thus, might not severely affect the financial system and the economy as a whole like other main indicators. Main indicators and their weighting can be summarised as in the following table:

Main indicators, sub-indicators, and indicator weighting

Main indicator	Sub-indicator	Weighting
1) Size	- Total assets and off-balance sheet items	30
2) Interconnectedness	- Intra-financial system assets 10% - Intra-financial system liabilities 10% - Intra-financial system financing 10%	30
3) Substitutability and financial institution infrastructure	- Amount of funds transferred via BAHTNET system 10% - Centrality of the BAHTNET system 10% - Number of depositors 10%	30
4) Complexity	- Notional amount of over-the-counter (OTC) derivatives 5% - Amount of trading and available-for-sale debt and equity securities 5%	10

(3) Calculation methodology for total domestic systemic importance score

(3.1) Calculate each commercial bank's market share for each main indicator (or each sub-indicator) by dividing the individual bank amount for each main indicator (or each sub-indicator) by the aggregate amount for the main indicator (or each sub-indicator) summed across all banks. The unit of the result is expressed in percentage.

(3.2) Multiply the results from (3.1) by the corresponding weight assigned to each main indicator (or each sub-indicator) as in the table above, and then multiplied by 100 to round up the result to a whole number.

(3.3) Sum the results of all main indicators (or sub-indicators) from (3.2) in order to be employed as the total score in the assessment of systemic importance of the commercial bank.

(3.4) Rank the scores calculated according to (3.3) and use cluster analysis to group domestic systemic importance of commercial banks into 2 groups, that is, 1) domestic systemically important group and 2) non-domestic systemically important group.

However, if the dispersion of such scores results in an inability to clearly group the commercial banks, the Bank of Thailand shall consider other ancillary indicators to assess the domestic systemic importance of commercial banks.

(4) Frequency of D-SIB identification

The Bank of Thailand shall calculate the total domestic systemic importance scores of commercial banks on a yearly basis, by considering the data from the previous year, and identify that a commercial bank is a D-SIB when its total domestic systemic importance score falls within the domestic systemically important group in accordance with Clause 4.3.1 (3.4) for two consecutive years (observation period), and shall rescind the commercial bank's status when its total domestic systemic importance score falls within the non-domestic systemically important group for two consecutive years (observation period).

Additionally, the Bank of Thailand shall consider revising the D-SIB identification methodology according to Clauses 4.3.1 (1), (2), and (3) every three years, in order to ensure that the D-SIB identification methodology can appropriately reflect systemic importance.

4.3.2 Additional supervisory measures for D-SIBs

(1) Capital based supervisory measures for D-SIBs

D-SIBs shall maintain higher loss absorbency for D-SIBs as follows:

In case where D-SIBs are commercial banks incorporated in Thailand, D-SIBs shall maintain a higher Common Equity Tier 1 Ratio of 1% of total risk-weighted assets in addition to the minimum capital ratio, conservation buffer, and countercyclical buffer as higher loss absorbency for D-SIBs.

In case where D-SIBs are foreign bank branches, D-SIBs shall maintain a higher Total Capital Ratio of 1% of total risk-weighted assets in addition to the minimum capital ratio, conservation buffer, and countercyclical buffer as higher loss absorbency for D-SIBs.

In maintaining capital buffer ratio as mentioned above, if D-SIBs fail to maintain the higher loss absorbency specified by the Bank of Thailand, the D-SIBs shall retain certain parts or the whole of net profits in accordance with the ratios specified in the Attachment by restricting the distributions of net profits (earning distribution)[1] which include payment of dividend, discretionary bonus payment to staff[2], discretionary payment on other Tier 1 capital instrument holders, and shares buyback. The D-SIBs may select one or all of the methods mentioned above to meet capital buffer requirements so that they are able to distribute the net profits[3]. As such, if D-SIBs are able to conserve net profits as specified by the Bank of Thailand but still unable to meet the aforementioned higher loss absorbency, the D-SIBs shall consult with the Financial Institution Applications Department, the Bank of Thailand regarding capital requirements plan.

Nevertheless, if D-SIBs cannot maintain the higher loss absorbency, the D-SIBs still would not be deemed incompliant with the maintenance of capital according to Section 29, Section 30, or Section 32 of the Financial Institutions Businesses Act B.E.2551 (2008), except when D-SIBs fail to adhere to the minimum capital conservation ratios as specified in the Attachment, then D-SIBs shall be deemed incompliant with the maintenance of capital according to Section 29, Section 30, or Section 32 of the Financial Institutions Businesses Act B.E.2551 (2008), as the case may be.

(2) Other supervisory measures for D-SIBs

D-SIBs shall adhere to other additional supervisory measures, in order to allow the Bank of Thailand to closely monitor risks of D-SIBs as well as to encourage commercial banks to develop effective control systems and risk management practices, as follows:

(2.1) Submission of reports that commercial banks used in their internal risk management (Internal management report/Risk report)

D-SIBs, when asked, shall submit reports used in their internal risk management to the Bank of Thailand within a timeframe specified by the Bank of Thailand.

(2.2) Arrangement of a meeting agenda with the bank's board of directors to allow the Bank of Thailand to report important examination results

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[1] Net profits are net profits after being appropriated (if any) in accordance with the approved resolution of the shareholders meeting or commercial banks regulations e.g. legal reserve and other items.

[2] Bonus payment to staff means bonus paid to the committee members, senior executives or staff depending on the performance of commercial banks.

[3] If commercial banks wish to distribute net profits (earning distribution) without retaining them, the commercial banks must raise their capital to be able to maintain the ratio of total capital to total risk-weighted assets in accordance with the regulations specified by the Bank of Thailand.

D-SIBs shall arrange a meeting agenda with the bank's board of directors to allow the Bank of Thailand to report important examination results to the bank's board of directors as stipulated by the Bank of Thailand.

(2.3) Submission of financial business group supervisory reports at the solo consolidation level

D-SIBs shall submit their financial business group supervisory reports at the solo consolidation level as prescribed in the Notification of the Bank of Thailand on Regulations on Preparation of Reports and Examination of Financial Business Groups and reports prescribed in the Notification of the Bank of Thailand on Submission of Reports to the Bank of Thailand in accordance with the conditions and the regulations in this Notification instead, as follows:

(a) Financial business group supervisory reports at the solo consolidation level in accordance with the Notification of the Bank of Thailand on Regulations on Preparation of Reports and Examination of Financial Business Groups shall be monthly submitted to the Bank of Thailand, within 45 days from the last day of the month, except the report on assessment of interest rate risk in the banking book and the report on foreign exchange positions on the solo consolidation basis which shall be submitted quarterly within 90 days from the last day of the quarter as before.

(b) Financial business group supervisory datasets at the solo consolidation level as stipulated in the Notification of the Bank of Thailand on Submission of Reports to the Bank of Thailand per (a) above shall be monthly submitted within 45 days from the last day of the month, except the Provision Summary dataset and Total Trading Book Position at the Solo Consolidation level shall be submitted quarterly, within 45 days from the last day of the quarter.

(2.4) Other measures as specified by the Bank of Thailand

4.3.3 Compliance timeframe for additional supervisory measures for D-SIBs

(1) Commercial banks designated as D-SIBs in 2017 and 2018

(1.1) D-SIBs shall maintain additional higher loss absorbency for D-SIBs as in Clause 4.3.2 (1) of 0.5% of total risk weighted assets from 1 January 2019 and increase to 1% of total risk weighted assets from 1 January 2020 onwards as summarised in the tables below.

Capital requirements for D-SIBs incorporated in Thailand

Capital Ratios	1 Jan 2019	1 Jan 2020 Onwards
Minimum Common Equity Tier 1 Ratio (CET1 ratio)	4.5%	4.5%
Minimum Tier 1 Ratio (T1 ratio)	6.0%	6.0%
Minimum Total Capital Ratio	8.5%	8.5%
Conservation buffer	2.5%	2.5%
Countercyclical buffer	As prescribed by BOT	
Higher loss absorbency for D-SIBs	0.5%	1.0%
Total required CET1 Ratio	**7.5%**	**8.0%**
Total required T1 Ratio	**9.0%**	**9.5%**
Total required Total Capital Ratio	**11.5%**	**12.0%**

Capital requirements for foreign bank branches designated as D-SIBs

Capital Ratios	1 Jan 2019	1 Jan 2020 Onwards
Minimum Total Capital Ratio	8.5%	8.5%
Conservation buffer	2.5%	2.5%
Countercyclical buffer	As prescribed by BOT	
Higher loss absorbency for D-SIBs	0.5%	1.0%
Total required Total Capital Ratio	**11.5%**	**12.0%**

(1.2) D-SIBs shall adhere to other supervisory measures for D-SIBs as in Clause 4.3.2 (2), effective immediately except the submission of the financial business group's solo consolidated supervision reports of as in Clause 4.3.2 (2.3), where reports and datasets shall be submitted beginning month-end of January 2019 onwards.

(2) Commercial banks designated as D-SIBs from 2019 onwards

(2.1) D-SIBs shall maintain the entire amount of additional higher loss absorbency for D-SIBs as in Clause 4.3.2 (1) from 1 January of the year after the Bank of Thailand designates such commercial bank as a D-SIB.

(2.2) D-SIBs shall adhere to other supervisory measures for D-SIBs as in Clause 4.3.2 (2), effective immediately except the submission of the financial business group's solo consolidated supervision reports as in Clause 4.3.2 (2.3), where reports and datasets shall be submitted beginning month-end of January of the year after the Bank of Thailand designates such commercial bank as a D-SIB.

(3) Revocation of supervisory measures for D-SIBs

The requirements to maintain higher loss absorbency in accordance with Clause 4.3.2 (1) and to comply with other supervisory measures in accordance with Clause 4.3.2 (2) shall be revoked immediately for a commercial bank formerly identified as a D-SIB once the Bank of Thailand has notified such commercial bank that its D-SIB status no longer applies.

5. Effective date

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

Announced on 31st August 2017

(Mr. Veerathai Santiprabhob)

Governor

Bank of Thailand

Attachment

Tables on earning distribution for higher loss absorbency for D-SIBs

1. In case of locally-incorporated banks

If locally-incorporated D-SIBs fail to maintain the capital buffer ratio specified by the Bank of Thailand, the D-SIBs are subject to the restriction on earning distribution in accordance with the following tables[1].

2019 (Shall maintain higher loss absorbency of 0.5%)			
Common Equity Tier 1 Ratio (CET1 ratio)	Tier 1 ratio	Total capital ratio	Minimum capital conservation ratio
4.5% - 5.25%	6% – 6.75%	8.5% - 9.25%	**100%**
> 5.25% - 6%	> 6.750% – 7.50%	> 9.25% - 10%	**80%**
> 6% - 6.75%	> 7.5% – 8.250%	> 10% - 10.75%	**60%**
> 6.75% – 7.5%	> 8.250% – 9%	> 10.75% - 11.5%	**40%**
> 7.5%	> 9%	> 11.5%	**0%**

From 2020 onwards (Shall maintain higher loss absorbency of 1%)			
Common Equity Tier 1 Ratio (CET1 ratio)	Tier 1 ratio	Total capital ratio	Minimum capital conservation ratio
4.5% - 5.375%	6% – 6.875%	8.5% - 9.375%	**100%**
> 5.375% - 6.25%	> 6.875% – 7.75%	> 9.375% - 10.25%	**80%**
> 6.25% - 7.125%	> 7.75% – 8.625%	> 10.25% - 11.125%	**60%**
> 7.125% – 8%	> 8.625% – 9.5%	> 11.125% - 12%	**40%**
> 8%	> 9.5%	> 12%	**0%**

[1] D-SIBs shall use the tables on earning distribution above instead of the tables on earning distribution for conservation buffer in accordance with the attachment of the Notification of the Bank of Thailand on Regulations on Supervision of Capital for Commercial Banks.

2. In case of foreign bank branches

If foreign bank branches designated as D-SIBs fail to maintain the capital buffer ratio specified by the Bank of Thailand, such foreign bank branches are subject to the restriction on earning distribution in accordance with the following tables[1].

2019 (Shall maintain higher loss absorbency of 0.5%)	
Total capital ratio	Minimum capital conservation ratio
8.5% - 9.25%	**100%**
> 9.25% - 10%	**80%**
> 10% - 10.75%	**60%**
> 10.75% - 11.5%	**40%**
> 11.5%	**0%**

From 2020 onwards (Shall maintain higher loss absorbency at 1%)	
Total capital ratio	Minimum capital conservation ratio
8.5% - 9.375%	**100%**
> 9.375% - 10.250%	**80%**
> 10.250% - 11.125%	**60%**
> 11.125% - 12%	**40%**
> 12%	**0%**