



ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Consultation Paper

Bond Investor Registration (BIR): phase 1

Financial Markets Operations Group
Bank of Thailand
February 2021

Introduction

Debt securities market is an important funding and savings channels with high interconnected with other economic and financial sectors. In order for the Bank of Thailand (BOT) to carry out its functions, which includes conducting monetary and exchange rate policy, as well as safeguarding financial stability, it is crucial to have an effective bond market surveillance system that could support timely and targeted policy measures.

Going forward, conducting market surveillance of bond investor behavior will become more challenging, with increasing global liquidity attributable to monetary policy easing in many economies and with faster and more efficient trading activities due to technological advancement. Consequently, the BOT, in cooperation with the Securities and Exchange Commission (SEC), has initiated the “Bond Investor Registration: BIR” scheme to enhance the data quality, in terms of accuracy, coverage and timeliness. BIR implementation has two phases. The first phase will be applied to non-resident (NR) investors. This is also a part of the initiative to develop new Thai FX Ecosystem aiming to increase the breadth and depth of the onshore foreign exchange market as well as enhance market transparency and surveillance. The second phase will be applied to resident investors, which is not covered in this Consultation Paper.

Over the past two months, the BOT has conducted several focus groups with a small number of stakeholders in the designing process of BIR phase 1. The purpose of this Consultation Paper is to formally seek comments from a wider range of stakeholders, especially those providing custody services, to enable the BIR scheme to meet its objectives in an efficient manner. The relevant regulations will be published within the first quarter of 2021 and the BIR scheme will tentatively become effective at the beginning of the fourth quarter of 2021.

Any comments and suggestions are welcome by 17 February 2021 via e-mail: MMFA@bot.or.th For further information, please contact via e-mail or by phone at (+66) 2283 5310 and (+66) 2356 7531.

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1. Objectives

At present, conducting market surveillance on bond investor behavior, especially non-resident (NR) activities, has limitations. There is no timely data available for monitoring trading activities and holdings of NR investors at the Ultimate Beneficiary Owner (UBO) level. The data on NR UBO activities currently available are (1) transactional data reported by local dealers on bond trading with NR counterparties without details on the names or investor types and (2) end-month NR UBO bond holdings reported by local custodians to the BOT with a 10-day lag¹.

Given such limitation, the BOT has initiated the “Bond Investor Registration: BIR” scheme to efficiently enhance the data quality for market surveillance, in terms of accuracy, coverage and timeliness. The BIR scheme will comprise two requirements for UBOs, which are to register for authentication with the BOT and to have segregated securities account (SSA)² at local custodians which will be reflected at the Thailand Securities Depository (TSD). As a result of BIR, the transactional settlement data of UBO trading activities and end-of-day holdings of each NR UBO will be available which will enhance transparency and help improve market surveillance.

2. Overview of the Bond Investor Registration Scheme

With the BIR scheme, an NR UBO who invests in debt securities issued in Thailand shall open segregated securities account (SSA) with a local custodian and register for authentication with the BOT. This scheme modifies the process of NR UBO investing in debt securities in Thailand as follows.

2.1 Opening a segregated securities account and one-time registration

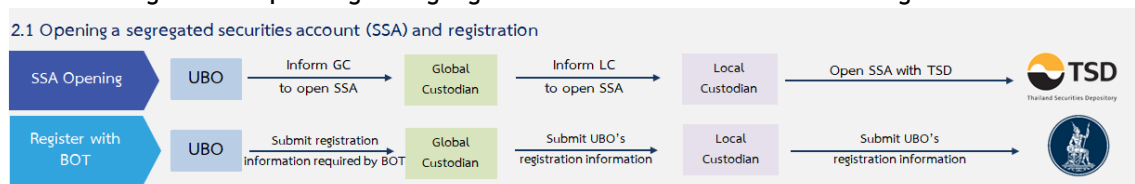
Nowadays, most NR UBOs deposit their debt securities with global custodians (GCs) or international brokers (IBs), while these GCs or IBs will in turn open omnibus accounts with local custodians. With the proposed BIR scheme, an NR UBO will be required to open a segregated securities account (SSA) either directly with a local custodian or as a sub-account under a GC’s or IB’s account at a local custodian where debt securities formerly deposited under GC’s or IB’s omnibus account will be migrated. The local custodian would then open segregated NR UBO securities account at Thailand securities depository (TSD) to reflect the same account structure.

¹ Notification of the Bank of Thailand No. Sor.Ro.Kho. 8/2559 Information Reporting for the Compilation of Balance of Payments and International Investment Position Statistics, announced on 28 July 2016

² The definition of segregated securities account for non-resident ultimate beneficiary owner is described in section 3.2.1 (1)

NR UBO will be then be required to register for authentication with the BOT using the name and number of the account opened with TSD, UBO's Legal Entity Identifier (LEI)³ and other required information. The local custodian will gather such information to register the UBO through BOT's electronic registration system.

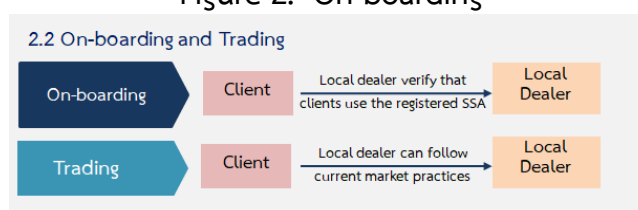
Figure 1: Opening a segregated securities account and registration



2.2 On-boarding

To on-board client for debt securities trading, as part of the Know Your Customer (KYC) process, financial Institutions or securities companies, licensed by the SEC to conduct securities

Figure 2: On-boarding



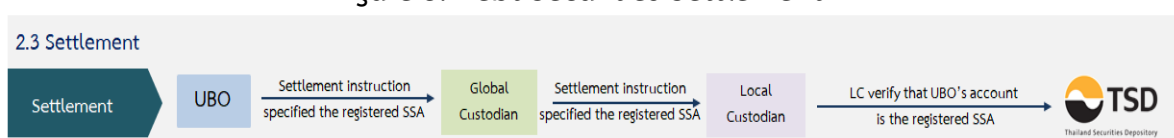
business, need to verify that their clients have SSAs that are already registered with the BOT in accordance with section 2.1.⁴

For debt securities trading process, there is no changes, and a local dealer can follow current market practices.

2.3 Debt Securities Settlement

Local custodians will need to verify that each client's securities account to be used for settlement has undergone the registration process in section 2.1. NR UBOs who are currently under an omnibus account structure will now have to modify their settlement instructions to specify their newly registered SSA account information instead.

Figure 3: Debt Securities Settlement



³ Legal Entity Identifier (LEI) is a unique identification code of legal entities participating in financial transactions. (Further details: <https://www.gleif.org/en>)

⁴ The SEC will issue regulations related to this process.

3. Proposed regulations for banks providing custody services⁵

3.1 Definition

In this Consultation Paper:

Non-resident (NR) means

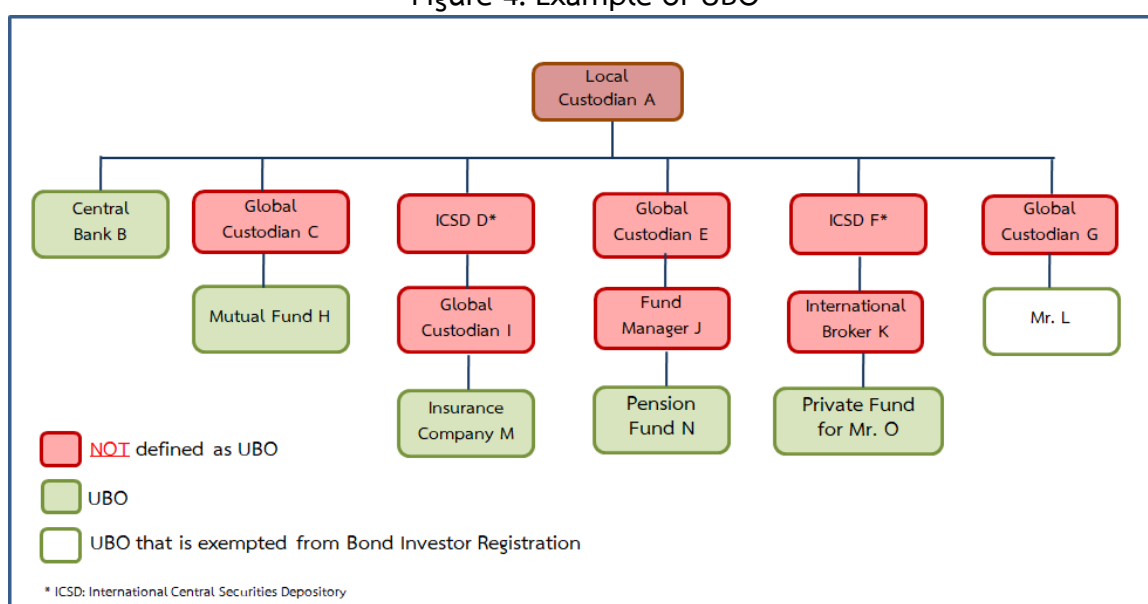
- (1) a natural person domiciled outside Thailand;
- (2) a juristic person located outside Thailand, including a branch or

a representative office of a juristic person incorporated under Thai law that conducts business outside Thailand

Ultimate Beneficiary Owner (UBO) means

- (1) a non-resident who ultimately owns debt securities issued in Thailand or ultimately receives benefits from such debt securities holdings;
- (2) a non-resident who has either direct or indirect power in making decisions to own or invest in debt securities issued in Thailand, including a foreign mutual fund, private fund, trust, or any foreign funds which has the right to set investment policies on their ownership of debt securities.

Figure 4: Example of UBO



“Global Custodian” means a financial institution or a juristic person which is incorporated outside Thailand and responsible for holding customers’ securities for safekeeping, arranging settlement of any purchases or sales of securities, and collecting dividends and incomes from such securities.

⁵ The Securities and Exchange Commission (SEC) will issue similar regulations for BIR applicable to securities companies providing custody services.

“Local Custodian” means a commercial bank which is located in Thailand and responsible for holding customers’ securities for safekeeping, arranging settlement of any purchases or sales of securities, and collecting dividends and incomes from such securities.

“International Broker” means a financial institution or a juristic person, incorporated outside Thailand, acting on behalf of ultimate beneficial owners in purchasing, selling, and depositing securities to Local or Global Custodians.

“Debt Securities” means all types of fixed income securities issued by both public and private sectors in Thailand.

3.2 Proposed regulations

3.2.1 Local Custodian must ensure that their clients who hold or wishes to invest in debt securities in Thailand complete the following procedures;

(1) Open Segregated Securities Account (SSA):

A. For UBOs under Global Custodian or International Broker

Local Custodian shall inform Global Custodian or International Broker to open and maintain SSA for their UBO clients. The UBO’s SSA could be in the form of a sub-account under the Global Custodian’s securities account, which is maintained with Local Custodian.

B. For UBOs under local custodian

Local Custodian shall directly inform UBO clients to open and maintain SSA at Local Custodian.

In both cases, Local Custodian are also required to open and maintain UBO’s SSA at Thailand Securities Depository (TSD).

(2) Register with the BOT:

After opening SSA in accordance with section 3.2.1 (1), UBOs are required to register for authentication with the BOT. In this procedure, Local Custodian shall inform UBOs directly or through Global Custodian or International Broker, to submit the following documents, through Local Custodian, to the BOT:

- 1) Legal name used in the Legal Entity Identifier (LEI) application
- 2) Investor type of UBOs (classification of Investor type described in appendix)
- 3) Legal Entity Identifier (LEI) Code
- 4) SSA name and number
- 5) Name, phone number and email of contact persons of UBOs, Global Custodian or International Broker.

The BOT will verify the information submitted and inform Local Custodian of the registration results via email. Local Custodian will inform their UBO clients of the results directly, or through their Global Custodians or International Brokers.

3.2.2 Local Custodian needs to have internal procedure to ensure that each securities account used for debt securities settlement has already been registered with the BOT, in accordance with section 3.2.1 (2). However, if unregistered account is used, the settlement will be allowed to go through with the requirement that the situation will be rectified within seven working days. In such cases, Local Custodian has to do the followings;

- Inform the BOT immediately, by email, on the day that such transaction is found.
- Complete the BIR procedure in accordance with section 3.2.1, and then transfer debt securities of clients from unregistered account to registered SSA within 7 working days after such transaction is found.

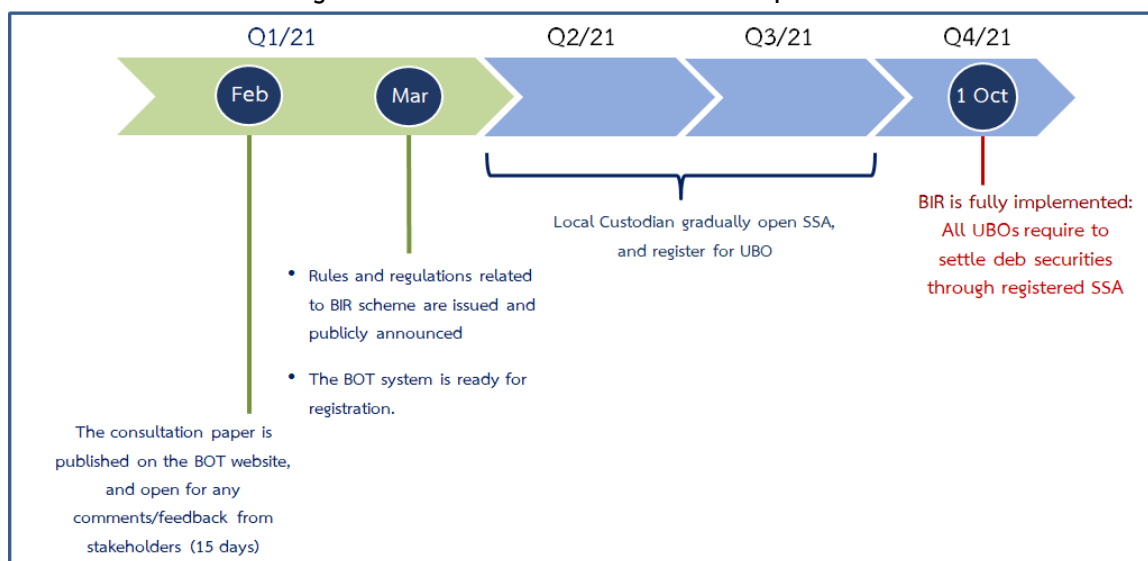
3.3 Exemption

Natural persons, excluding private fund, shall be exempted from the BIR scheme. Local custodian, however, shall continue to submit a monthly UBO holdings report on this exempted investor segment.

4 Tentative timeline for BIR implementation

The BOT plans to issue the BIR regulation and open for registration in March 2021. We expect custodian banks to start migrating their customers on to the BIR scheme, and become fully operational by 1 October 2021.

Figure 5: Tentative timeline for BIR phase 1



5 Other issues

The monthly report of debt securities holdings by NR UBO

Once the BIR phase 1 is fully implemented and the BOT has the required information through this scheme, we will amend the reporting requirement currently specified in the Notification of the Bank of Thailand No. Sor.Ro.Kho. 8/2559 Information Reporting for the Compilation of Balance of Payments and International Investment Position Statistics, announced on 28 July 2016, to include only the required information of the followings:

- (1) Holdings of bonds by UBOs exempted from the BIR scheme as mentioned in section 3.3
- (2) Holdings of bonds in scrip form by UBOs, if any.

6 Consultation

The BOT invites stakeholders to provide comments and suggestions on the proposed BIR scheme, and in particular, to respond to the questions set out below by 17 February 2021. Comments can be submitted using the consultation form via email at MMFA@bot.or.th. Should there be any further enquiries regarding this Consultation Paper, please contact us via email or by phone at (+66) 2283 5310 and (+66) 2356 7531.

1. Do you have any practical issues or challenges in complying with the proposed regulations as specified in this Consultation Paper? If so, please describe your limitation, consequences, and alternative solutions, if any.

2. What are your views on the 6-month period for preparation before the required settlement with registered segregated securities account become effective? If you think that the 6-month lead time may not be sufficient, please explain in details including work procedures that have to be adjusted and the estimated time needed.

Appendix 1
Investor Type of UBOs

Investor Type	UBOs
Asset Management	Unit trust funds, mutual funds, bond funds, income funds, investment/asset/fund management companies, bank-backed/non-bank backed asset management, wealth management funds, private trusts
Other depository corporations	Commercial banks, special financial institutions, finance companies, credit unions, financial cooperatives, overseas branches of Thai banks
Central Bank	Central bank, reserve bank or monetary authority
Government	Sovereign fund, federal fund, state fund, municipal fund, government-related organization/council, international organization
Other Financial Corporations	Credit corporations, property financiers, mortgage corporations, leasing and factoring companies
Non-Financial Corporations	Associations, non-banking private sectors, foundations, endowment funds
Insurance Companies	Life/general insurance companies, insurance funds, social insurance organizations
Nominees/Custodians	Securities depositories, securities services, custodian banks, trustees
Pension Funds	Retirement funds, employee provident funds, social security funds, pension schemes, government pension funds