

Thailand: Risk participation transactions

The Bank of Thailand has issued a regulation on risk participation transactions which allows commercial banks to transfer or acquire credit risks over risk assets to or from other financial institutions. This briefing provides an overview of the requirements that commercial banks must comply with.

In order for commercial banks ("Banks") to engage in risk participation transactions there are a number of general and specific requirements that must be complied with.

Types of risk participation

Unfunded risk participation

This involves the risk transferee paying compensation to the risk transferor upon any credit event occurring.

Funded risk participation

This involves the risk transferor receiving money from the risk transferee before the occurrence of any credit event.

Underlying assets

The permitted underlying assets can be loans (bilateral loans or syndicated loans) or trade finance (e.g. issuing, confirming or negotiating a letter of credit and bank acceptance).

Who can participate?

The following Banks may participate:

- Thai banks
- Subsidiaries of foreign commercial banks
- Branches of foreign commercial banks

However, this does not include banks whose activities are restricted only to retail banking.

Permitted counter parties

- Commercial Banks
- Foreign commercial banks having an investment grade rating
- Multilateral development banks

General requirements

- The Banks shall properly manage risks arising from the transaction, have stable financial status and comply with capital adequacy requirements, accounting standards and other relevant regulations.
- Where Banks are transferees, they shall analyse and follow up the risks acquired under the risk participation as if they were a party to the underlying assets of the risks they received.
- The transaction shall not have any effect on the nation's economic stability, financial system and domestic financial institutions.
- The Banks shall procure sufficient transaction documents and have an efficient system to manage the transactions.

Compliance with the BOT's regulations

The Banks must comply with the BOT's regulations in relation to single lending limit, capital adequacy

reserve and risk weighted assets in addition to other related requirements.

Specific criteria

The Banks must meet the following specific criteria when engaging in risk participation transactions:

- The Banks must have their own written policies in respect to risk participation which are approved by the board of directors.
- The board of directors and top-level management of the Banks must understand the participation transactions and the related risks.
- The Banks must thoroughly consider the risks in relation to the transactions (including the risk of maturity mismatch).
- The Banks must from time to time review the terms and conditions of the risk participation agreements, which shall specify the liabilities of the transferor and transferee, type of the underlying assets, the underlying assets and credit events.

We have set out in the table below some of the specific requirements that the Banks must meet depending on whether the Bank is acting as transferor or transferee and whether the risk is unfunded or funded.

The Bank as transferor		
	Unfunded risk participation	Funded risk participation
Accounting / Disclosure	No further record required	Record the transferee as creditor equal to the money received
	Comply with the relevant accounting standards and disclose important information related to the transaction in the financial statements	
Single lending limit (SLL)	Include the transferee in its SLL, instead of the underlying assets	Don't include the underlying assets equal to the money received in its SLL
Risk weighted asset	Credit risks can be reduced as if the risks had been guaranteed	Credit risks can be reduced as if the transferor received financial collateral
The Bank as transferee		
Accounting / Disclosure	No further record required	Record the transferor as debtor equal to the money paid
	Comply with the relevant accounting standards and disclose important information relating to the transaction in the financial statements	
Single lending limit (SLL)	Include the underlying assets in its SLL	Include the underlying assets and the transferor equal to the money paid in its SLL
Capital Adequacy Reserve	No provision for the underlying assets under which the risks are received except if the transferee has a NPL with the underlying asset	Set a provision for the amount paid
Risk weighted asset	Using the Credit Conversion Factor (CCF) method taking into account the risk weighting of the underlying assets	The higher risk weighted assets between: <ul style="list-style-type: none"> ■ CCF method taking into account the risk weighting of the underlying assets; and ■ The amount paid to the transferor taking into account the risk weighting of the transferor

The transfer of risks to the head quarters or other offshore branches which are part of the same legal entity shall not be considered as risk participation under this regulation.

This briefing provides a general overview. If you have any questions in relation to this briefing please contact the authors below.

Authors



Fergus Evans
Partner

T: +66 2 401 8810
E: fergus.evans
@cliffordchance.com



Disaporn Saengpetch
Associate

T: +66 2 401 8835
E: disaporn.saengpetch
@cliffordchance.com

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www.cliffordchance.com

Clifford Chance, Sindhorn Building Tower 3, 21st Floor, 130-132 Wireless Road, Pathumwan, Bangkok 10330, Thailand

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500986-4-4746-v0.9

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