Deloitte.

The future of distressed debt in Thai capital markets

December 2023

This research is sponsored by Thailand Capital Market Development Fund

MAKING AN IMPACT THAT MATTERS since 1845

Glossary (1/2)

ABS	Asset Backed Securities
AFC	Asian Financial Crisis
AI	Affluent Investors
AI Funds	Accredited Investor Mutual Funds
AIMC	Association of Investment Management Companies
AMC	Asset Management Company
ASEAN	Association of Southeast Asia Nations
AUM	Assets Under Management
BAAC	Bank of Agriculture and Agricultural Cooperatives
BAM	Bangkok Asset Management
BBL	Bangkok Bank
bn	Billion
BoT	Bank of Thailand
CAPEX	Capital Expenditure
CDO	Collateralised Debt Obligation
CDRAC	Corporate Debt Restructuring Committee
CDS	Credit Default Swap
CIMB	Commerce International Merchant Bankers Berhad
CMO	Collateralised Mortgage Obligation
DPD	Days past due
EUR	Euro
FETCO	Federation of Thai Capital Market Organisations
FI	Financial Institutions
GFC	Global Financial Crisis
GHB	Government Housing Bank
GP	General Partner
GSB	Government Saving Bank
HNWI	High-Net-Worth Individuals
IPO	Initial Public Offering
IRR	Internal Rate of Return
JK AMC	JK Asset Management Company
JV	Joint Venture
JV AMC	Joint Venture Asset Management Company
JV CRC	Joint Venture Corporate Restructuring Company
JV SPC	Joint Venture Special-Proposed Vehicle
KAsset	Kasikorn Asset Management Company
KAMCO	Korea Asset Management Corporation
KBank	Kasikorn Bank
KDB	Korea Development Bank
KRW	Korea Republic Won

Glossary (2/2)

KTB	Krungthai Bank
LP	Limited Partner
MFs	Mutual Funds
mn	Million
NNT	National News Bureau of Thailand
NPA	Non-Performing Asset
NPL	Non-Performing Loan
OIC	Office of Insurance Commission
PI	Professional Investors
PPIF	Public-Private Investment Fund
PPIP	Public-Private Investment Program
QEX	Qianhai Financial Assets Exchange
QI	Qualified Investors
SAFE	State Administration for Foreign Exchange
SAM	Sukhumvit Asset Management
SCB	Siam Commercial Bank
SCBAM	Siam Commercial Bank Asset Management
SEC	Securities and Exchange Commission, Thailand
SET	Stock Exchange of Thailand
SFI	Special Financial Institution
SME	Small and Medium Enterprise
SPV	Special-Proposed Vehicle
TAMC	Thai Assets Management Corporation
TCH	Thai Clearing House Co., Ltd
TFEX	The Thailand Futures Exchange
ThaiBMA	Thai Bond Market Association
THB	Thai Baht
TSD	Thailand Securities Depository Co., Ltd
TTB	TMBThanachart Bank
UHNWI	Ultra-High-Net-Worth Individuals
UI Funds	Ultra-Accredited Investor Mutual Funds
UOB	United Overseas Bank
USD*	US dollar
WACC	Weighted Average Cost of Capital

* Note: Historical exchange rates used for data points pre-2010 (e.g. during Asian Financial Crisis)

- Exchange rate of 35.36 THB per 1 USD used to calculate contemporary data points.
- Exchange rate of 1,337.99 KRW per 1 USD used to calculate contemporary data points.
- Exchange rate of 7.2985 RMB per 1 USD used to calculate contemporary data points.

Executive summary

The development of a resilient distressed debt market in Thailand necessitates collective support from regulatory bodies to address challenges in a holistic manner.

The distressed debt market in Thailand has experienced significant growth over the years, reflecting its evolving landscape. NPLs have been growing ~2% annually since 2016 and this number is expected to continue rising. Despite this trajectory, the market faces substantial challenges that hinder its full potential. Some of the key challenges include a notable reliance on Asset Management Companies (AMCs) for NPL resolution, insufficient participation of new and diverse investors to increase liquidity in the market, and limitations in trading facilities for the bond market hindering the growth of alternative solutions, which could potentially broaden the investor base.

The government has recently introduced initiatives such as the establishment of JV-AMC and Stressed Bond Fund programs to address distressed debt challenges; however, the initiatives are in their early stages and more rigorous developments are needed to address the persistent issues at the holistic, ecosystem-level. As the market continues to expand, there is a pressing need for comprehensive strategies and collaborative measures to overcome these challenges and foster a more resilient distressed debt market capable of effectively managing potential future crises.

As with evolutions in any market, investors must consider the potential ramifications of these financial instruments. While they do present an opportunity to diversify and de-risk portfolios, the probability of some individuals or investor groups suffering monetary losses is almost guaranteed. This is a critical aspect to bear in mind, but it is essential if there is to be a robust and dynamic distressed debt marketplace in Thailand.

The report anchors the key challenges and initiatives on the following perspective:

Market

Insufficient mix of investor archetypes, restricting the pool of capital available for distressed debt investments; and the range of debt products may also be restricted, hindering investment opportunities and potentially slowing market growth

Regulatory

Rigid criteria and outmoded regulations limit liquidity and distressed debt activity in the capital markets

Infrastructure

Inadequate infrastructure and supporting mechanisms to facilitate capital market activities in the distressed debt segment

People

Limited talent pool with the required skillset available locally, whether foreign or local origin

The key question remains: how can Thailand navigate these challenges to establish a more robust distressed debt market? Lessons gleaned from international case studies suggest that a pivotal factor in nurturing a successful market is the role of the regulators and the fundamental shift in mindset towards a market-driven practice. This is manifested through comprehensive reforms of the regulatory framework and through collaboration with various government bodies and private sectors to facilitate expansion of investor participation and market liquidity.

Executive summary

The report adopts an "answer-first" narrative, exploring potential initiatives for Thailand to improve the distressed debt market…

Chapter 1 – Thailand's way forward

This chapters begins with the end state in mind, presenting key initiatives that Thailand can consider based on our learnings from abroad, presented in further details in Chapter 4.

- **Market Pillar:** Scale demand by attracting wider range of investors to promote healthy competition and innovation in the capital markets. Implement incentive schemes to attract fresh capital and increase supply of debt instruments by diversifying to new asset classes.
- **Regulatory Pillar**: Review regulations related to rehabilitation frameworks and eligibility processes for foreclosure to align more closely with market dynamics, encompassing diverse debtor archetypes and ensuring fairness to creditors. Consider easing restrictions on investment participation for institutional investors (e.g., mutual funds, insurance companies). Promote collaborative efforts through inter-agency taskforce initiatives between public and private sectors to ensure clear jurisdictional alignment and drive strategic decisions holistically.
- **Infrastructure Pillar**: Facilitate a resilient secondary market for debt by modernising asset transfer mechanisms such as implementation of efficient clearing and settlement systems, trading platforms, and standardisation of data and processes. Foster interconnected collaboration through intermediaries to enhance market efficiency.
- **People Pillar**: Cultivate skilled professionals by implementing investor education initiatives in collaboration with academic institutions. Attract experienced international players to the Thai market to facilitate the exchange of knowledge and best practices to local talents.

Chapter 2 – Introduction to distressed debt

This chapter serves as the introduction, offering readers insight into the standard definition and landscape of the distressed debt ecosystem observed globally. It covers the following aspects:

- **Definition of distressed debt** refers to credit instruments linked to people or entities under financial distress with possibility of default. Examples of these debt include bank loans (e.g., corporate and institutional bank loans, SME loans), private debt, corporate bonds, structured loans. The report will focus on two primary asset categories associated with distressed debts, namely bank loans and corporate bonds.
- **Stakeholder framework** and the role they play: there are seven main stakeholder groups in the distressed debt investment ecosystem, consisting of debtors, creditors, distressed debt managers, investors, regulators/governmental bodies, infrastructure enablers, and intermediaries.
- **Distressed debt lifecycle** comprises of 4 stages: Debt Origination (e.g., when debtors leverage debt to raise capital for business purposes often prior to distress), Investment (e.g., distressed debt managers purchase undervalued debt from creditors to enhance returns), Turnaround (e.g., corporate turnaround or restructuring distressed companies), and Exit (e.g., monetising on investments through various exit strategies).

…substantiated by evidence of key challenges in the distressed debt market and lesson learnt from international experiences

Chapter 3 – Overview of distressed debt in Thailand

This chapter offers an assessment of the current state of the distressed debt landscape in Thailand, encompassing historical context and pivotal events shaping the market, and key challenges impeding its development through the following perspective:

- **Market challenges** refer to the difficulties in attracting and scaling demand from new investor pools stemming from the homogeneous nature of the AMC-centric market; coupled with limited investment options hindering prospective institutional investors from enhancing liquidity in the market.
- **Regulatory challenges** such as the absence of market-driven strategies in existing frameworks (e.g., one-size fits all rehabilitation framework, restrictions on diverse distressed debt investments), and the disjointed collaborative among regulatory bodies, have repercussions on existing stakeholders and impede new entrants from participating in the market.
- **Infrastructure challenges** discuss the lack of institutional intermediaries and inter-agency collaboration to address specific distressed debt issues, as well as non-standardisation of data and an inefficient auction process.
- **People challenges** relate to difficulties in cultivating distressed debt professionals with adequate knowledge and experience (e.g., ability to execute rehabilitation cases), and scarcity of experienced intermediaries (i.e., GPs) in Thailand capable of fostering knowledge diffusion and advising on investment opportunities to domestic investors.

Chapter 4 – Key learnings from abroad

The research examines key global markets that have successfully tackled distressed debt from the lens of scale and relevance, innovative and forward-thinking strategies, and impactful outcomes. These lesson learns serve as inspiration and insights for Thailand.

- **USA** regulatory bodies embraced a market-mindset practice to formulate fit-for-purpose regulatory frameworks tailored to various investor archetypes and situations, allowing the market to function more efficiently. Additionally, they instituted the Public-Private Investment Program (PPIP) to encourage inter-agency collaboration, enhanced private sector participation, and cultivated a culture of knowledge sharing across the entire lifecycle.
- **European** case studies focused on employing intermediaries and market mechanisms to develop robust infrastructure for a thriving distressed debt market. Ireland, for instance, established the National Asset Management Agency (NAMA), a government entity to resolve the country’s NPL issue. NAMA’s role as an intermediary spans across the end-to-end distressed debt lifecycle, injecting liquidity for debtors and funding commercially viable projects. Other initiative includes the development of holistic infrastructure (e.g., platforms, market makers and enablers) to support secondary market activities.
- **South Korea** established Korea Asset Management Corporation (KAMCO) to manage the high NPL volumes. Over the years, the KAMCO Act had undergone multiple revisions enabling implementation of diverse strategies which has led to increased international participation, higher recovery of NPLs, and cultivation of knowledge and expertise.

Executive summary

การพัฒนาระบบนิเวศตลาดทุนไทยเพื่อแก้ไขปัญหาหนี้ด้อยคุณภาพอย่างมีประสิทธิภาพในประเทศไทยจำเป็นต้องได้รับการสนับสนุนร่วมกันจากทุกหน่วยงานที่เกี่ยวข้อง

หนี้ด้อยคุณภาพ (Distressed debt) ในประเทศไทยมีการเติบโตอย่างมีนัยสำคัญในช่วงหลายปีที่ผ่านมาซึ่งสะท้อนให้เห็นถึงภูมิทัศน์ที่เปลี่ยนแปลงไป อัตราการเติบโตขึ้นของหนี้เสียเพิ่มขึ้นโดยเฉลี่ย 2% ต่อปีตั้งแต่ปี 2016 และคาดว่าจะเพิ่มขึ้นอย่างต่อเนื่องในอนาคต ซึ่งอาจส่งผลกระทบต่อตลาดทุนไทยในระยะยาวในการจัดการหนี้เสียอย่างมีประสิทธิภาพ ปัญหาหลักที่สำคัญบางประการ ได้แก่ การพึ่งพาบริษัทบริหารสินทรัพย์ (AMCs) ในการแก้ปัญหาด้อยคุณภาพ การขาดความหลายหลายและการมีส่วนร่วมจากนักลงทุนรายใหม่ๆ โดยเฉพาะกลุ่มนักลงทุนสถาบันเพื่อเพิ่มสภาพคล่องในตลาด และข้อจำกัดในการซื้อขายสำหรับตลาดตราสารหนี้เพื่อดึงดูดนักลงทุนรายใหม่

หน่วยงานภาครัฐได้มีการออกโครงการและนโยบายเพื่อแก้ไขปัญหาหนี้ด้อยคุณภาพ เช่น การจัดตั้งโครงการ JV-AMC และ Stressed Bond Fund อย่างไรก็ดี โครงการยังอยู่ในช่วงเริ่มต้นและจำเป็นต้องมีการพัฒนาแนวทางใหม่ๆอย่างต่อเนื่องมากขึ้นเพื่อแก้ไขปัญหาในเชิงระบบนิเวศแบบองค์รวม ในขณะที่ตลาดยังคงขยายตัวอย่างต่อเนื่องจึงมีความจำเป็นเร่งด่วนสำหรับกลยุทธ์ที่ครอบคลุมและมาตรการความร่วมมือจากทุกหน่วยงานทั้งภาครัฐและเอกชนเพื่อแก้ไขปัญหาและส่งเสริมตลาดทุนไทยให้มีความยืดหยุ่นมากขึ้น เพื่อสามารถจัดการวิกฤตการณ์ทางการเงินที่อาจเกิดขึ้นในอนาคตได้อย่างมีประสิทธิภาพ

ในการพัฒนาตลาดและแก้ไขปัญหาหนี้ด้อยคุณภาพอย่างมีประสิทธิภาพในประเทศไทยนั้น การออกโครงการและนโยบายต่างๆ เพื่อแก้ไขปัญหาหนี้ด้อยคุณภาพโดยหน่วยงานภาครัฐ เช่นการออกสินทรัพย์ทางการเงินรูปแบบใหม่ๆ นั้นถือว่าเป็นสิ่งจำเป็นอย่างยิ่ง ขณะเดียวกันนักลงทุนควรทำความเข้าใจก่อนลงทุนในหนี้ด้อยคุณภาพ ถึงแม้ว่าการลงทุนในหนี้ด้อยคุณภาพนั้นสามารถที่จะเพิ่มช่องทางในการกระจายความเสี่ยงจากการลงทุนและเพิ่มโอกาสในการสร้างผลตอบแทนให้กับนักลงทุนนั้น การลงทุนในหนี้ด้อยคุณภาพมีความเสี่ยงสูงและนักลงทุนมีโอกาสที่จะขาดทุนได้เช่นกัน

รายงานฉบับนี้ทำการศึกษาวิเคราะห์ถึงปัญหาด้านคุณภาพหนี้ในระบบนิเวศของตลาดทุนไทยในปัจจุบัน โดยจำแนกเป็น 4 กลุ่มด้วยกัน ได้แก่:

ปัญหาด้านตลาด (Market)

การขาดความหลายหลายและการมีส่วนร่วมจากนักลงทุนรายใหม่ๆ การจำกัดการลงทุนในหนี้ประเภทต่างๆ ซึ่งส่งผลให้การเติบโตของตลาดชะลอตัว

ปัญหาด้านกฎระเบียบ และหน่วยงานที่เกี่ยวข้อง (Regulatory)

กฎเกณฑ์และระเบียบที่เข้มงวดและจำกัดสภาพคล่องและกิจกรรมหนี้ด้อยคุณภาพในตลาดทุน ซึ่งต้องได้รับการสนับสนุนจากหน่วยงานภาครัฐ และหน่วยงานกำกับดูแลที่เกี่ยวข้อง

ปัญหาด้านโครงสร้างพื้นฐาน (Infrastructure)

โครงสร้างปัจจุบันที่ขาดกลไกในการขับเคลื่อนการบริหารจัดการหนี้ด้อยคุณภาพภาคธุรกิจ เช่น ธุรกิจตัวกลางในตลาดแรกและตลาดรอง (Intermediaries) เป็นต้น

ปัญหาด้านบุคลากร (People)

การพัฒนาศักยภาพของบุคลากรเพื่อให้มีทักษะและความรู้ที่เกี่ยวข้องกับตลาดทุนหรือการกำกับดูแลตลาดทุน

สุดท้ายนี้ คำถามสำคัญที่ต้องคำนึงคือ ประเทศไทยจะรับมือกับปัญหาเหล่านี้เพื่อสร้างตลาดทุนที่แข็งแกร่งยิ่งขึ้นได้อย่างไร? บทเรียนที่รวบรวมจากกรณีศึกษาจากต่างประเทศชี้ให้เห็นว่าปัจจัยสำคัญในการพัฒนาตลาดที่ประสบความสำเร็จคือบทบาทของหน่วยงานภาครัฐ และหน่วยงานกำกับดูแลที่เกี่ยวข้อง ซึ่งมีการเปลี่ยนแปลงพื้นฐานในความคิดไปสู่การปฏิบัติที่ขับเคลื่อนด้วยตลาด (market-driven mindset) สิ่งนี้แสดงให้เห็นผ่านการปฏิรูปกรอบการกำกับดูแลที่ครอบคลุมและผ่านความร่วมมือกับหน่วยงานภาครัฐและภาคเอกชนต่าง ๆ เพื่อสนับสนุนให้มีการส่วนร่วมของนักลงทุนที่หลากหลายเพิ่มขึ้น เพื่อเพิ่มสภาพคล่องของตลาด

Executive summary

รายงานนี้จัดเรียงโดยการนำเสนอแนวทางในการพัฒนาระบบนิเวศตลาดทุนไทยเพื่อแก้ไขปัญหาหนี้ด้อยคุณภาพ...

บทที่ 1 – แนวทางสำหรับประเทศไทย

ในบทนี้เรานำเสนอแนวทางในการแก้ไขปัญหาหนี้ด้อยคุณภาพของตลาดทุนไทย โดยอ้างอิงจากผลการศึกษาในต่างประเทศ ซึ่งรายละเอียดอยู่ในบทที่ 4

- **องค์ประกอบด้านตลาด (Market):** ดึงดูดนักลงทุนในวงกว้างโดยเน้นกลุ่มสถาบัน เพื่อส่งเสริมการแข่งขันและนวัตกรรมในตลาดทุน ใช้แผนการจูงใจเพื่อดึงดูดเงินทุนใหม่และขยายขอบเขตการลงทุนไปยังสินทรัพย์ประเภทใหม่ (Alternative asset class) เพื่อกระจายความเสี่ยง
- **องค์ประกอบด้านกฎระเบียบและหน่วยงานภาครัฐ :** ทบทวนกฎระเบียบที่เกี่ยวข้องกับกรอบการฟื้นฟูและกระบวนการที่เหมาะสมเพื่อให้สอดคล้องกับการเปลี่ยนแปลงของตลาดมากขึ้น ครอบคลุมลูกหนี้ที่หลากหลายและสร้างความเป็นธรรมให้กับเจ้าหนี้ ผ่อนปรนข้อจำกัดในการเข้าร่วมลงทุนสำหรับนักลงทุนสถาบัน (เช่น กองทุนรวม บริษัทประกันภัย) ส่งเสริมความร่วมมือระหว่างหน่วยงานภาครัฐและเอกชนเพื่อให้เกิดความสอดคล้องที่ชัดเจนและขับเคลื่อนการตัดสินใจเชิงกลยุทธ์แบบองค์รวม
- **องค์ประกอบด้านโครงสร้างพื้นฐาน**: อำนวยความสะดวกในตลาดรองเพื่อจัดการหนี้เสีย ด้วยการปรับปรุงกลไกการโอนสินทรัพย์ให้ทันสมัย เช่นการใช้ระบบการหักบัญชีและการชำระบัญชีที่มีประสิทธิภาพ แพลตฟอร์มการซื้อขาย การกำหนดมาตรฐานของข้อมูลและกระบวนการและการส่งเสริมการทำงานร่วมกันที่เชื่อมโยงกันผ่านตัวกลางเพื่อเพิ่มประสิทธิภาพของตลาด
- **องค์ประกอบด้านบุคลากร**: พัฒนาศักยภาพของผู้เชี่ยวชาญให้มีทักษะและความรู้ โดยร่วมมือกับสถาบันการศึกษาต่าง ๆ ที่เกี่ยวข้อง ดึงดูดนักลงทุนต่างชาติที่มีประสบการณ์เข้าสู่ตลาดไทยเพื่อแลกเปลี่ยนความรู้และแนวทางปฏิบัติที่ดีที่สุดให้กับบุคลากรในประเทศไทย

บทที่ 2 – ภาพรวมของปัญหาหนี้ด้อยคุณภาพ

บทนี้ทำหน้าที่เป็นบทนำโดยให้ข้อมูลเชิงลึกแก่ผู้อ่าน เกี่ยวกับบริบท คำจำกัดความ และระบบนิเวศหนี้ด้อยคุณภาพ ซึ่งครอบคลุมประเด็นต่อไปนี้:

- คำจำกัดความของหนี้ด้อยคุณภาพหมายถึงหนี้ที่เกี่ยวข้องกับบุคคลหรือนิติบุคคลที่อยู่ในภาวะลำบากทางการเงินและกำลังจะเข้าสู่สถานการณ์ที่จะผิดนัดชำระหนี้ ตัวอย่างของหนี้เหล่านี้ ได้แก่ สินเชื่อธนาคาร หุ้นกู้บริษัท หรือตราสารหนี้ประเภทอื่น ๆ รายงานนี้จะเน้นไปที่สินทรัพย์สองประเภทที่เกี่ยวข้องกับหนี้ด้อยคุณภาพ ได้แก่ สินเชื่อธนาคารและหุ้นกู้บริษัท
- บทบาทของผู้ที่เกี่ยวข้องในตลาดทุนและการจัดการหนี้ด้อยคุณภาพ ซึ่งประกอบไปด้วย 7 กลุ่ม คือ ลูกหนี้ เจ้าหนี้ หน่วยงานบริหารสินทรัพย์ด้อยคุณภาพ กลุ่มนักลงทุน หน่วยงานกำกับดูแล / หน่วยงานของรัฐ ผู้สนับสนุนทางด้านโครงสร้างพื้นฐาน และตัวกลาง
- การจัดการหนี้ด้อยคุณภาพประกอบด้วย 4 ขั้นตอน: การก่อให้เกิดหนี้ (เช่น เมื่อลูกหนี้ระดมทุนเพื่อวัตถุประสงค์ทางธุรกิจ) การลงทุนในหนี้ (เช่น หน่วยงานบริหารสินทรัพย์ด้อยคุณภาพทำการซื้อหนี้จากเจ้าหนี้เพื่อเพิ่มผลตอบแทน) Turnaround (เช่น การฟื้นฟูหรือปรับโครงสร้างบริษัทที่มีปัญหา) และ Exit (เช่น การสร้างรายได้จากการลงทุนผ่านกลยุทธ์ต่าง ๆ)

...โดยอ้างอิงถึงปัญหาด้านคุณภาพหนี้ในระบบนิเวศของตลาดทุนไทยในปัจจุบัน และกรณีศึกษาและบทเรียนจากต่างประเทศ

บทที่ 3 – ภาพรวมของปัญหาหนี้ด้อยคุณภายในประเทศไทย

บทนี้นำเสนอการวิเคราะห์สถานการณ์ปัจจุบันของระบบนิเวศหนี้ด้อยคุณภาพในประเทศไทย โดยครอบคลุมบริบททางประวัติศาสตร์และเหตุการณ์สำคัญที่กำหนดตลาดและปัญหาหลัก ผ่านมุมมองต่อไปนี้:

- ปัญหาด้านตลาด: กล่าวถึงความยากลำบากในการดึงดูดกลุ่มนักลงทุนใหม่ อันเนื่องมาจากลักษณะตลาดปัจจุบันที่เน้น AMC เป็นศูนย์กลาง ประกอบกับทางเลือกในการลงทุนที่จำกัดซึ่งเป็นอุปสรรคต่อนักลงทุนสถาบันจะสามารถช่วยเพิ่มสภาพคล่องในตลาดได้
- ปัญหาด้านกฎระเบียบ และหน่วยงานที่เกี่ยวข้อง: ความท้าทายด้านกฎระเบียบ เช่น การขาดกลยุทธ์ที่ขับเคลื่อนด้วยตลาด และความร่วมมือระหว่างหน่วยงานที่เกี่ยวข้องต่าง ๆ ที่ไม่ได้สอดคล้องกัน มีผลกระทบต่อผู้เล่นที่เกี่ยวข้องในระบบนิเวศปัจจุบันและผู้เล่นในอนาคต
- ปัญหาด้านโครงสร้างพื้นฐาน: กล่าวถึงความท้าทายของการขาดสถาบันตัวกลางและความร่วมมือระหว่างทุกหน่วยงานเพื่อแก้ไขปัญหาหนี้ที่มีปัญหา รวมถึงกระบวนการต่าง ๆ และข้อมูลที่ไม่ได้มาตรฐาน และกระบวนการประมูลที่ใช้เวลายาวนาน
- ปัญหาด้านบุคลากร: ความยากลำบากในการพัฒนาผู้เชี่ยวชาญให้มีความรู้และประสบการณ์เพียงพอ (เช่น ความสามารถในการดำเนินการฟื้นฟูกิจการ) การขาดแคลนตัวกลางที่มีประสบการณ์ (เช่น GPs) ในประเทศไทย เพื่อสามารถเสริมสร้างความรู้และให้คำปรึกษาเกี่ยวกับการลงทุนแก่นักลงทุนในประเทศ

บทที่ 4 – กรณีศึกษาจากต่างประเทศ

บทนี้เป็นการนำเสนอกรณีศึกษาที่วิเคราะห์และศึกษาแนวทางในการพัฒนาหนี้ด้อยคุณภาพ ของหน่วยงานภาครัฐในประเทศต่าง ๆ ดังต่อไปนี้ ซึ่งบทเรียนเหล่านี้เป็นแรงบันดาลใจและให้ข้อมูลเชิงลึกสำหรับการพัฒนาตลาดหนี้ด้อยคุณภาพของประเทศไทย

- สหรัฐอเมริกา: หน่วยงานกำกับดูแลของสหรัฐอเมริกาได้ใช้แนวความคิดในเชิงตลาดเพื่อกำหนดกรอบการกำกับดูแลที่เหมาะสมตามวัตถุประสงค์ซึ่งปรับให้เหมาะกับรูปแบบและสถานการณ์ของนักลงทุนต่าง ๆ ทำให้ตลาดสามารถทำงานได้อย่างมีประสิทธิภาพมากขึ้น นอกจากนี้ ยังได้จัดตั้งโครงการร่วมลงทุนระหว่างภาครัฐและเอกชน (Public-Private Investment Program) เพื่อส่งเสริมการทำงานร่วมกันระหว่างภาครัฐ และภาคเอกชน และปลูกฝังวัฒนธรรมการแบ่งปันความรู้
- กรณีศึกษาของยุโรปมุ่งเน้นไปที่การใช้ตัวกลางและกลไกตลาดเพื่อพัฒนาโครงสร้างพื้นฐานที่แข็งแกร่งสำหรับตลาดทุน ตัวอย่างเช่น ประเทศไอร์แลนด์ได้จัดตั้ง National Asset Management Agency (NAMA) ซึ่งเป็นหน่วยงานของรัฐเพื่อแก้ไขปัญหาหนี้เสียของประเทศ บทบาทของ NAMA ในฐานะตัวกลางครอบคลุมตลอดวงจรหนี้ที่มีปัญหาตั้งแต่ต้นจนจบการอัดฉีดสภาพคล่องให้แก่ลูกหนี้และการระดมทุนในโครงการที่มีศักยภาพในเชิงพาณิชย์ ความคิดริเริ่มอื่น ๆ รวมถึงการพัฒนาโครงสร้างพื้นฐานแบบองค์รวมเพื่อสนับสนุนกิจกรรมของตลาดรอง
- เกาหลีใต้ก่อตั้ง Korea Asset Management Corporation (KAMCO) เพื่อบริหารจัดการปริมาณหนี้เสียที่สูงขึ้นในช่วงหลายปีที่ผ่านมา นโยบาย KAMCO ได้ผ่านการแก้ไขหลายครั้ง ทำให้สามารถใช้กลยุทธ์ที่หลากหลายซึ่งนำไปสู่การมีส่วนร่วมระหว่างประเทศ ส่งผลให้การฟื้นตัวของหนี้เพิ่มขึ้น และการปลูกฝังความรู้และความเชี่ยวชาญให้แก่บุคลากรในประเทศ

Table of Contents

1 Thailand’s way forward

1.1 Foreword

1.2 Overview of the distressed debt environment

1.3 Illustrative options to drive the future of distressed debt in Thai capital markets

1.1 Foreword

Foreword

Our report aims to provide insights into how capital markets can play a bigger role in Thailand's distressed debt market.

Objective of this report

The primary objective of this research initiative is to provide stakeholders in Thai capital markets with in-depth insights that are expressly geared towards the development of long-term solutions for distressed debt. The overarching aim is to promote a deeper understanding among all relevant stakeholders in the Thai capital market regarding the advancement of stressed and distressed debt businesses within Thailand, benchmarked against global practices. This will be achieved through a comprehensive understanding of the prevailing challenges within the market, the extraction of valuable insights from pertinent case studies, and the formulation of guidelines that can effectively aid Thailand in addressing these issues while augmenting the overall capital market ecosystem.

This report is a follow-on to the Private Debt research published last year, titled "Private debt feasibility study: Opportunities for the Thai Capital Market" where it discusses the fundamentals of private debt investment and introduces the notion of GPs and LPs structures within the ecosystem. It is recommended that readers refer to this previous report as a foundational understanding before delving into the content of this report.

Report structure and outline

To effectively address this objective, the research paper is organised into four main chapters, adopting an "answer-first" approach. Chapter 1 sets the scene by providing an introductory review of the landscape and key challenges in Thailand. This aims to set the context for the main objective, which is to outline the options and roadmap for Thailand in addressing these challenges. The detailed analysis and insights will be comprehensively presented in subsequent chapters—Chapter 2, Chapter 3, and Chapter 4. These chapters will delve into the core aspects of the research, offering a more in-depth understanding of the overall distressed debt market, key challenges in the Thai capital market, and lesson learns from overseas market.

Scope and focus of the research

One of the objectives of this report is to highlight ways capital markets can play a bigger role in the establishment of a healthy and robust distressed debt market in Thailand. With this lens, we have examined the Thai market from 3 angles:

1. Market activity and the types of investors involved
2. The regulatory landscape and supporting frameworks
3. Supporting infrastructure to enable counterparty exchanges

Subsequently, the focus of the research paper will be on the role that institutional investors and other stakeholders in the capital markets can play in the distressed debt market.

Research scope of distressed debt

Distressed Debt = **Commercial NPL**
- Corporate
- SMEs

Consumer NPL
(not a key focus area)

\+ **Distressed Corporate Bonds**
- Publicly issued bonds
- Privately placed bonds

Distressed Gov't Bonds
(not in scope of this research)

1.2 Overview of the distressed debt environment

Distressed debt investment rose to prominence in the 1980s US bear market, as inflation and the rising cost of capital challenged even the most financially prudent businesses.

What is distressed debt?

The distressed debt landscape is vast and diverse, with definitions varying across countries and even among financial institutions within the same country. In Thailand there are 2 primary sources of distressed debts: loans and bonds. Loans are considered distressed when they turn into NPLs at 90 day past due (DPD)[1,2], and Bonds are considered distressed if the issuer defaults on payment, enters financial rehabilitation, or is unable to meet its financial obligations.[3,4]

A global perspective on capital markets and distressed debt investing strategies

Globally, distressed debt investments comprise of financial instruments from multiple asset classes, including Fixed Income (e.g., bonds), Real Estate (e.g., foreclosed mortgage), Derivatives (e.g., Collateralised Debt Obligations), and Alternative (e.g., private debt). The selection of instrument is influenced by investment strategies, which can range from passive (e.g., trading distressed securities), to active control strategies such as engineering a corporate takeover by obtaining control via senior debt purchases. The guiding principle of all debt being treated equally, dependent on seniority is paramount.

Distressed debt as a category has historically outperformed the S&P500 index by 4% per year[5]. Investors are attracted to these assets where the fundamental principles of the underlying business remain intact—for instance, well-run companies with weakened financial positions caused by market events beyond their control (e.g., COVID-19). The low correlation of distressed debt with other assets[5] enables de-risking and diversification of investment portfolios, an attractive proposition to capital market investors in times of uncertainty.

Asset Correlation Matrix[5]

	T-Bonds	High-Yield	Venture	Buyouts	Mezz.	Distressed
T-Bonds	1.00					
High-Yield	0.00	1.00				
Venture	-0.40	0.01	1.00			
Buyouts	-0.40	0.48	0.54	1.00		
Mezzanine	-0.26	0.54	0.69	0.72	1.00	
Distressed	-0.18	0.91	0.17	0.54	0.60	1.00

Global distressed debt industry trends

At the time of publishing this report in Q4 2023, the outlook for distressed debt investments remained positive. In contrast to the rest of the economy, distressed debt market forecasts indicate continued growth on the back of continued uncertainty and unprecedented polycrisis including inflationary pressures, rising interest rates, geopolitically aligned evolving trade patterns, and 2 separate wars involving major economies. As these factors continue to disrupt global markets with volatility and uncertainty, investors are expected to increasingly turn to distressed debt as a viable avenue for potential returns.

Source: Deloitte Analysis, Oaktree Capital, Seeking Alpha,
1) European Central Bank, What are non-performing loans (NPLs)?, January 2021
2) Basel Committee on Banking Supervision, Prudential treatment of problem assets - definitions of non-performing exposures and forbearance, 2016
3) Corporate Finance Institute, Distressed Debt, Accessed September 2023
4) JPMorgan Chase, Default vs delinquency: How they impact credit, Accessed September 2023
5) Seeking Alpha, Distressed Debt Hedge Funds can Deliver Surprising Performance, 2017

The growth of Thai debt & equity markets after the Asian Financial Crisis

Regulators pushed for the development and promotion of non-FI sources of credit to minimise contagion risk. By 2020, total outstanding value of bank loans, bonds, and the SET market cap was almost at par.

The recent history of Thailand's distressed debt market[1,2,3]

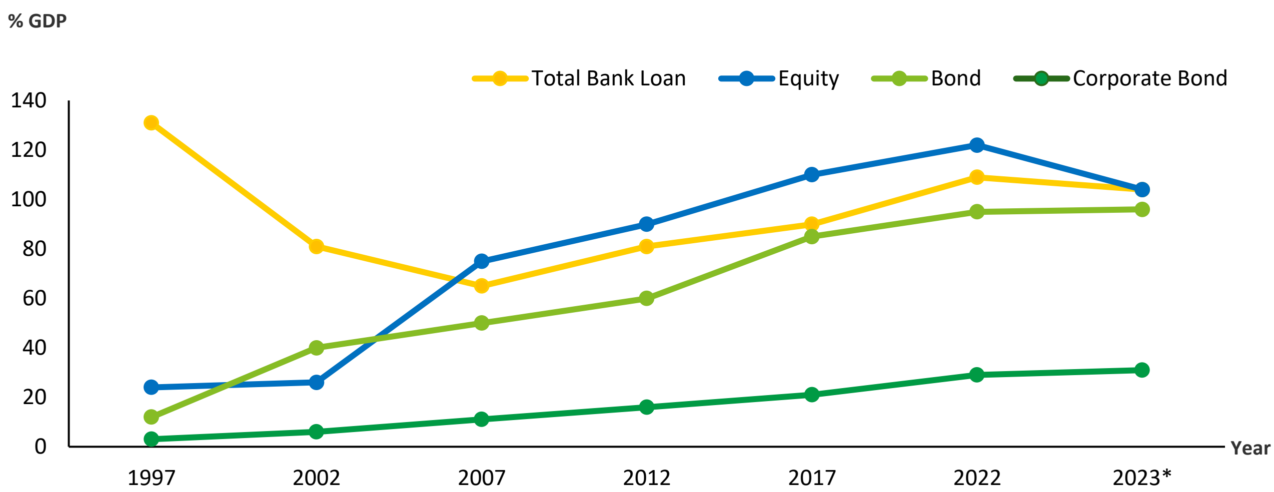
Thailand's distressed debt market, like many global markets, has undergone significant changes, particularly after the Asian Financial Crisis, starting with the underlying instruments and sources of credit. The last 25 years has seen a significant change in the source of funds as the economy transitioned from almost exclusively using banks for funding, to an economy today that raises capital via equity and fixed income markets at a similar volume to bank loans. Regulators saw the need for diversified sources of credit to minimise any future risk of contagion.

Though the bond market in Thailand has grown considerably since 1998, it is still fundamentally a primary market with most trade going one-way from issuers to institutional investors. These Hold To Maturity (HTM) investors include Retirement Mutual Funds (RMF), Super Savings Funds (SSF), and other long-term retail-facing funds. The low trade volumes and few market makers resulted in low liquidity problems, ultimately forcing the Bond Exchange (BEX) to shut in 2021. The lack of a secondary market presents a fundamental challenge to existing and potential distressed bond investors.

Of the bonds that are available to trade, more than 50% are issued by government. There is a significant lack of diversification amongst corporate bonds which contributes to high concentration risk; 46% of corporate bonds are issued by 37 conglomerates, all of which are amongst the 50 largest companies in Thailand.[4,5,6,7]

Despite diversifying away from bank-led financing, the distressed debt market in Thailand continues to primarily revolve around commercial banks and AMCs. This is due to the unprecedented support received throughout the public and private sectors immediately after the AFC. Thailand is one of the few Asian countries with continued cooperation between banks and AMCs when there is no crisis. Thailand's market for NPLs has grown considerably, while the stigma formerly associated with banks selling bad debts has long gone. However, AMCs continue to operate just as they did – either collecting against obligations or flipping distressed real estate.

Outstanding Totals for Thai Financial Market, 1997-2023[4,8,9]



Source: ThaiBMA

* Bond data is only until 3Q/2023
Source: Deloitte Analysis

1) OECD, Key facts on SME financing, 2020
2) IMF, Thailand: Financial Sector Assessment Program—Technical Note— Fixed Income Markets, April 2009
3) CMRI, Improving Thailand's Capital Market Competitiveness and Efficiency, 2022
4) ThaiBMA, Summary of Thai Bond Market 3Q/2023, October 2023
5) ThaiBMA, Issue Outstanding : 2.1 Long-term Corporate Bond, Accessed November 2023
6) ThaiBMA, Issue Outstanding : 2.2 Commercial Paper, Accessed November 2023
7) SET, SET50 Index, Accessed November 2023
8) ThaiBMA, About Thai Bond Market, Accessed November 2023
9) ThaiBMA, Summary of Thai Bond Market 2022, January 2023

Lack of depth & limited investor archetypes

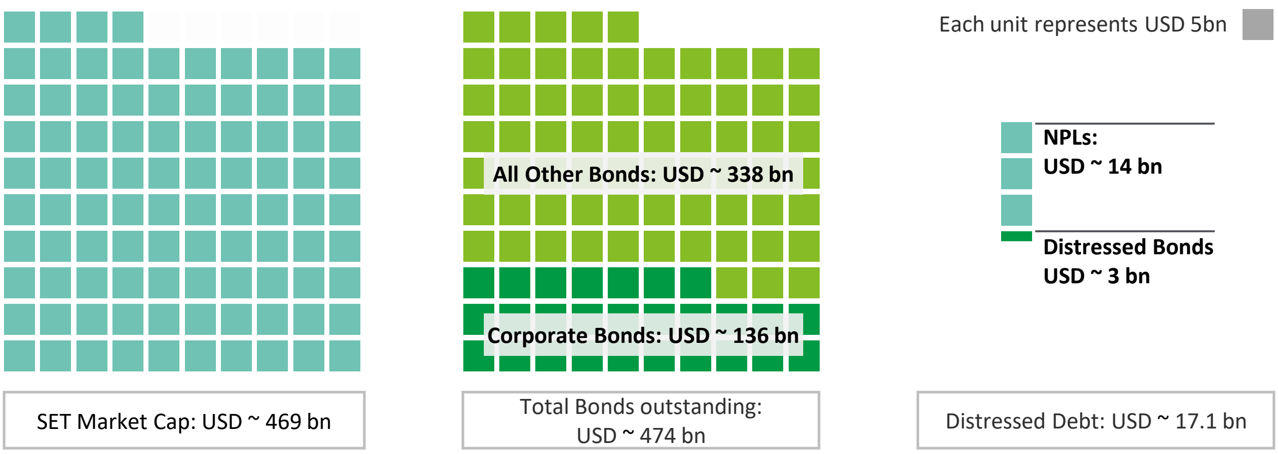
While the Thai distressed debt market has grown in recent years, it faces challenges due to limited investor engagement and a lack of liquidity volumes observed in established capital markets.

Disproportionate growth between primary and secondary markets

The debt and equity markets are almost equal in size today, a sign of their continued and growing importance in the financial system. The SET however, like all stock exchanges globally, is a secondary market that also has primary market offerings (e.g., IPO). Although the closure of BEX was due to limited investor participation, it adds a layer of complexity to future participants, potentially constraining the market's ability to efficiently price bonds.

While demand for fixed Income securities grew, the market lacked the high volumes of liquidity commonly found in more established and robust capital markets. The situation has improved somewhat since the pandemic, and today equals ~2% of total corporate bonds. This was partly due to economic slowdowns, but mainly due to Thai Airway's bankruptcy filing, which is ~66% of outstanding distressed bonds. Despite total bank loans and outstanding bonds being at similar levels in 2020, the value of NPLs remains almost 5x larger than distressed bonds.

Market size comparison; Equity vs. Debt vs. Distressed debt, 2023, USD bn



Limited presence of investor archetypes

The lack of a secondary debt market features prominently on reasons for limited future investor engagement. The debt market is further constrained by limiting investor flexibility with strict guidelines on non-investment grade debt for institutional investors due to perceived risk, despite global evidence to the contrary. When including restrictions on non-accredited investors, ~80% of corporate bondholders are unable to trade distressed bonds.

Bank NPLs continue to revolve around AMCs. Investor participation is limited to BOT regulated AMCs and is dominated by 2 giants effectively serving as the buyer-of-last-resort. Year-round debt sales have allowed banks to avoid selling at deep discounts, a critical component to attract new investors. Initiatives to attract new participants, such as JVs between AMCs and banks, were met with tepid market responses, notwithstanding there was no genuine attempt to reach new investors.

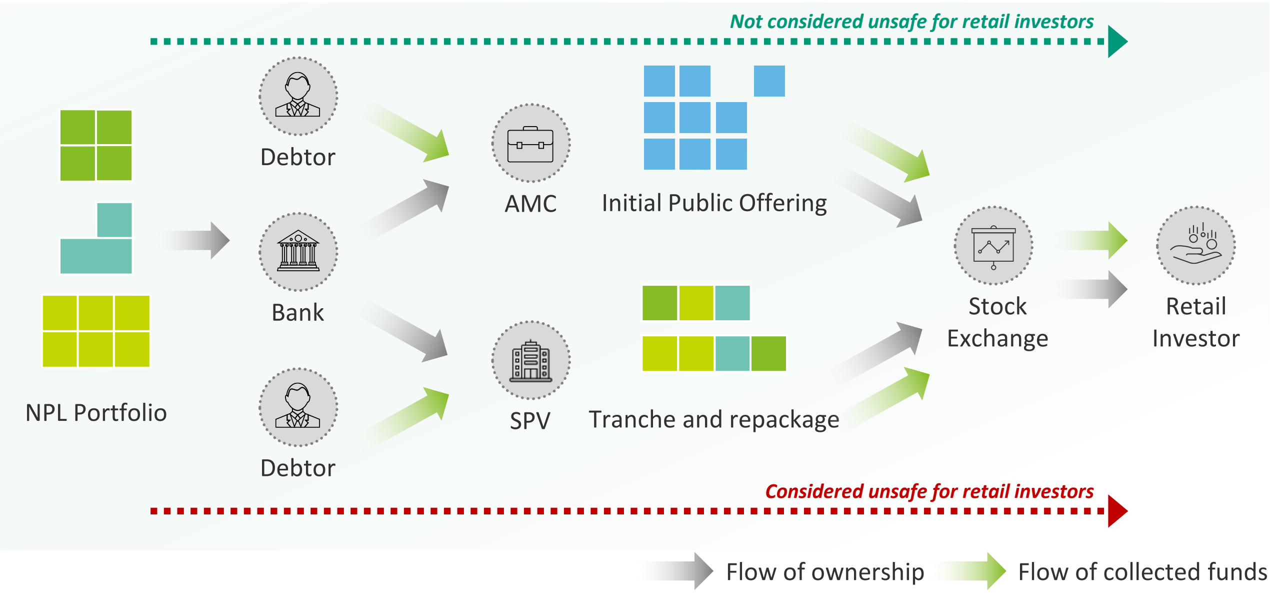
Source: Deloitte Analysis, ThaiBMA, SET

Non-standardised practices such as requiring cash flow forecasts for securitised NPLs can be anti-competitive—discouraging the involvement of overseas experts and constraining liquidity.

Regulatory hurdles

Regulations have allowed securitised assets to be traded on the market for years. Unfortunately, there are some with a restrictive set of guidelines not seen in other debt markets, such as a requirement to include cash flow forecasts on NPL collections for the duration of the security. The SEC committee tasked with approving NPL securitisation applications case-by-case has yet to approve one.

Illustrative comparison between AMC-led NPL collections and SPV-enabled securitised NPL



The SEC mandate to protect the investing public from unfair practices or excessive risk allows them to limit investor activities and participation. It is under this mandate that the SEC publishes guidelines that include non-standardised requirements such as cash flow forecasts for securitised NPLs.

Recent regulatory amendments have allowed AMCs the ability to raise capital on the equity market. The first publicly listed AMC clearly targeted retail investors in their prospectus. The underlying asset of both entities is the same. While the AMC might have scale, SPVs run by capable managers are able to de-risk their securitised NPLs to achieve a similar return.

From the retail investor's perspective, both securities are essentially an ownership on a share of claims. However, under the current regulatory landscape one is deemed significantly riskier than the other.

Other regulatory hurdles for distressed debt investors include over-reliance on the judicial system to enforce debt obligations and foreclosures, or a lack of alignment between regulators, often resulting in lengthy delays. The current rehabilitation framework for businesses is the same for all companies with a debt greater than THB 10m. This is especially challenging for companies operating in new industries with differentiated business models.

Source: Deloitte Analysis

The exclusive reliance on AMCs for NPLs limits the ability to tackle diverse debt types, leaving a significant portion unaddressed due to profitability constraints.

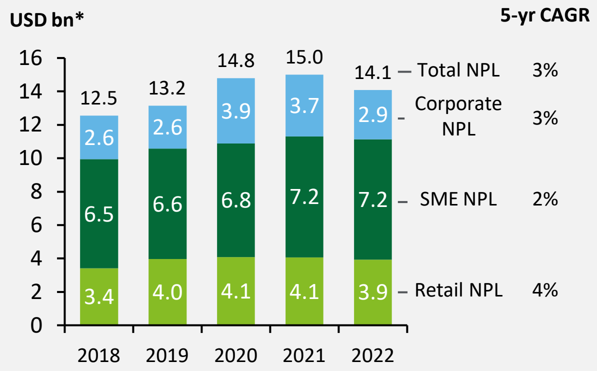
Untapped Opportunities

The current strategy of restricting NPL sales to AMCs overlooks the diverse investor landscape needed to comprehensively address the spectrum of debts on the books.

A The largest component of bank NPLs cannot currently be profitably addressed

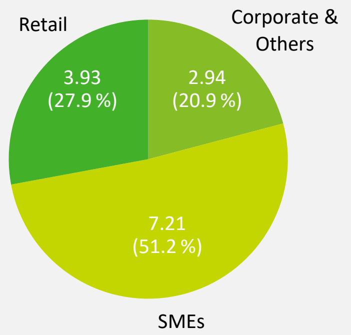
With 2% annual growth since 2016, SME NPLs now comprise more than 50% of all commercial bank NPLs and is forecast to increase. There has been minimal interest in addressing this by existing distressed debt investors, either due to low potential margins or long duration to profit.

Growing of non-performing loans, 2018 – 2022[1,2]



Source: Bank of Thailand

Thai banks' outstanding NPLs Breakdown, by customer type in 2022[3]

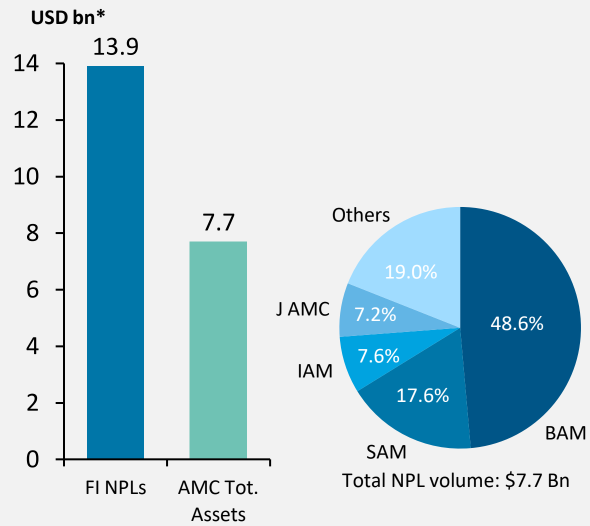


Source: TTB Bank

B Significant systemic risk to banks if AMCs are unable to continue purchasing NPLs

- The total outstanding value of commercial bank NPLs is USD ~14 bn, versus the combined total assets of all AMCs in the market of USD 7.7 bn.
- The market revolves around banks and AMCs primarily addressing NPLs secured with real estate. This business model performed well in a low credit environment and rising real estate prices.
- The AMC competitive landscape is different today. 80 AMCs operate today vs. 20 AMCs in 2016. The viability of their business model has not been tested in bear market conditions with slim margins, rising cost of capital, and declining real estate prices.

NPLs in FI System vs AMCs' Asset Size 2023[4]



Source: BAM

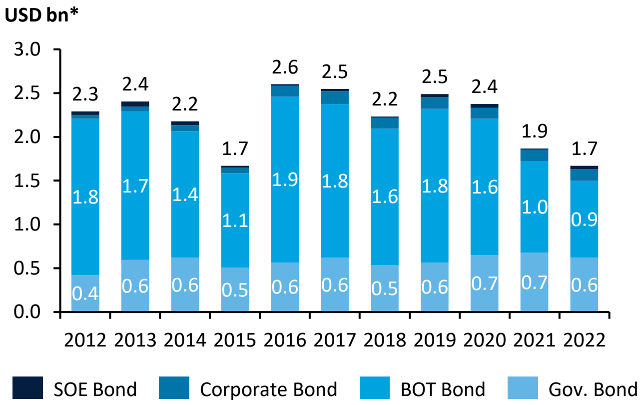
*Convert from THB
Source: Deloitte Analysis
1) BoT, Gross NPLs Outstanding Classified by Business Sectors, Accessed November 2023
2) BoT, Loan Outstanding of Commercial Banks Classified by Asset Classficication Type, Accessed November 2023
3) TTB, Equity Roadshow, February 2009
4) BAM, BAM Thailand Focus 2023, August 2023

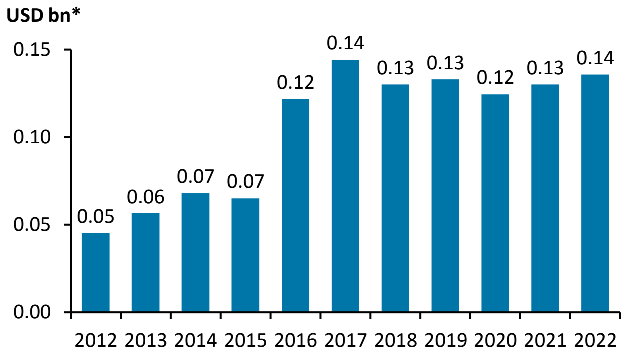
Before being closed, the secondary debt market in Thailand had to grapple with selective SEC enforcement on investment grade classification, adding layers of complexity to market dynamics.

Closing of the secondary debt market

Low trading volumes, given the characteristics of the hold-to-maturity investors, led to the closure of the secondary market.

C **Slim trading volumes ultimately resulted in the closure of the secondary debt market** [1]





Source: ThaiBMA

D **Selective enforcement by SEC as the market enters decline**

Selective enforcement of investment grade definition

- The economic conditions caused by the pandemic resulted in multiple corporations entering financial distress. Many of these corporations had issued debt to the market. Bondholders saw missed coupons and bankruptcies. Despite this, the SEC did not enforce its rule prohibiting institutional investors from holding non-investment grade securities.
- The resulting behavior of market participants is distorted by preventing panic-selling and opportunistic-buying. These are both hallmarks of a vibrant distressed debt market.
- The SEC is interfering with the fundamental mechanisms of the market by not allowing it to function as it should

Increasing rollover rates in the primary bond market

- Corporate bond rollovers are increasing, as many new bond issuances are failing to clear.
- What started as an alarming trend with bonds backed by real estate companies has now spread to other industries. As of Q3 2023, more than 70% of real estate bonds failed to clear, resulting in developers needing to top up shortfalls from cash reserves.
- It appears no industry is immune form this; on 6 November 2023, for the first time, one of Thailand’s largest and most influential companies failed to secure a full subscription to its debenture offering, despite offering a premium over deposit rates.
- The Thai bond market has never had to respond to a correction, due to its relatively young age
- The risk of the real estate sector having to recapitalise grows with every day this trend continues.

*Convert from THB
Source: Deloitte Analysis
1) ThaiBMA, Annual Report 2022, January 2023

Outmoded regulation, misaligned objectives between regulators, and the shortage of talent available in the market hinder the ability of all stakeholders to actively participate in distressed debt activities.

E The importance of adopting a market mindset

Equitable treatment of all debts

- Establishing a robust distressed debt market hinges on adopting a market-driven approach free from external influences, and ensuring fair treatment of all debts based on their seniority.
- Economies with efficient insolvency frameworks tend to witness increased recovery rates for creditors and reduced resolution timeframes.[1]
- Countries like Japan and South Korea, which have well-structured insolvency systems, exhibit higher average recovery rates for creditors, often surpassing 70% of face value, compared to countries with less efficient systems where recovery rates hover around 30%.

Creating opportunities and investor confidence through market independence

- By embracing impartial treatment of distressed debts, where the resolution process remains insulated from biased interventions, Thailand can potentially attract more investor interest. This unbiased approach fosters investor confidence, thereby nurturing a healthy distressed debt market.
- Transparent and fair insolvency systems often attract increased investment due to the reduced risks associated with uncertainty.[2]
- Allowing the market to function independently not only ensures fair outcomes but also opens doors for new investors, creating a promising business landscape and contributing to the overall economic growth of Thailand.

F Existing regulatory framework limits innovation and participation in the market[3,4]

- Regulatory restrictions have constrained the distressed debt market with limitations on underlying assets, rules on how they can be packaged, and limits access to the large volumes of institutional investor capital (e.g., insurance companies unable to buy non-investment grade assets)[5]
- Outmoded regulatory framework results in limited rehabilitation eligibility and outcomes for distressed debtors, inefficient NPA auction processes, and potential misuse of the courts by certain parties
- Regulations around tax incentives and requirements differ within the NPL and bond market. AMCs are the only entity entitled to tax incentives associated with bank NPL/NPA acquisitions which implies an uneven competitive landscape for new players. In the bond market, there is no specific tax benefits designated for distressed bonds. Foreign investors are subjected to 15% withholding tax for interest and discount, as well as capital gains tax.[6] In other markets such as Singapore, both local and foreign investors are eligible for exemption of withholding tax and capital gains tax, encouraging increased investments in the bond market.[7]

G Misaligned objectives and competing strategies among government and industry bodies

- Misaligned goals and asset definitions/classifications exist between key regulators
- Unclear jurisdictional boundaries exist between and among public and private sector agencies
- There are different definitions/ understanding between BOT and SEC

H Shortage of talent available in focus areas

- Investment Experts – Existing distressed debt investors are buyers of real estate backed NPLs operating in a booming market. Slow decisioning was rewarded with higher profits.
- Rehabilitation Experts – A significant decline in the volume of corporate rehabilitation cases since 1998 has resulted in a market that does not have young local talent with these skillsets. Few limited opportunities to perform these activities today have meant these skills are not getting passed down

Source: Deloitte Analysis
1) World Bank, Doing Business 2020, Accessed November 2023
2) ADB, Strengthening Insolvency Systems in Asia and the Pacific, December 2022
3) IMF, Thailand: Financial Sector Assessment Program—Technical Note— Fixed Income Markets, May 2009
4) LED, Rehabilitation process for SME and Corporates, Accessed November 2023
5) Clause 49 of OIC Notification Re: Insurance Companies' Investment in Other Businesses
6) Thai BMA, Taxation in the Thai Bond Market, Accessed November 2023
7) Asian Bonds Online, Bond Market Costs and Taxation, 2016

Distressed debt should be recognized as a business opportunity with proper mechanisms and systematic risk management in place.

I Insufficient strategies and solutions to address distressed bond fund

Presently, the prevailing challenge in the Thai distressed debt market revolves around the lack of systematic strategies and sufficient risk management to address the intricacies of the distressed bond funds. Solutions implemented tend to be short-term and reactive, geared towards addressing immediate or ad hoc problems.

Embracing a mindset shift and broaden the perspective is crucial in redefining the distressed debt market as a long-term business opportunity. It necessitates a collective acknowledgment among all involved stakeholders to adopt forward-thinking approaches to navigate the complexities of distressed bond funds.

By adopting a GP/LP structure similar to developed markets like the US and Europe within private equity firms, distressed debt managers can systematically professionalize funds. These firms, operating under the GP/LP structure, have dedicated distressed debt managers to oversee and manage distressed funds.

The predominant investment holding archetype in Thailand is structured as a PE trust. However, the structure has fundamental limitations such as the investment option and the number of investors. In addition, setting up and managing a PE trust can be complicated, as it involves multiple stakeholders and comes with a complex governance structure. A much more robust structure exists globally – the standardized LP/GP structure has numerous benefits including simple setup process, flexible governance structure, clear roles and responsibilities between partners, clear financial liability among partners. The standardized LP/GP should be adopted by more Thai investment holding companies if there is an objective to attract more interest from global industry players.

Illustrative GPs and LPs structure

Investments via distressed debt funds managed by GPs

Investors (LPs)	Intermediaries (GPs)	Distressed debtors
• **Institutional investors & other private entities** such as pension funds, insurance companies, corporates, etc. • **Individual investors** such as HNWI and other accredited individuals	• **Private Equity firms** who raise funds from LPs with a distressed debt theme purchase debt from creditors, and work with debtors to resolve the debt	Debtors who borrow funds from creditors and missed their payment • **Companies** such as large corporate and SMEs • **Individuals**

*For more details about GPs and LPs structures, please refer to "Private debt feasibility study: Opportunities for the Thai Capital Market" report.

Examples of Private Equity firms in the US who have professionalised distressed debt investing:

	Key investment strategies	Insights about their distressed debt investing	Example of distressed debt fund
Apollo[1]	• Credit • Equity • Real Assets	• Credit business AUM: USD 443 bn[1] (largest business of Apollo) • Has a dedicated team of more than 350 investment managers overseeing the credit investment portfolio[1] • Investment strategies include direct lending, opportunistic investment (e.g., event-driven opportunities), among others • Example of invested instruments: high yield bonds, securitised products, direct lending, etc.	• Apollo Credit Opportunity Fund III: Invest in US and European opportunistic asset classes e.g., special situations, distressed debt, private lending, etc.[2]
Oaktree[3]	• Credit • Real Estate • Private Equity • Listed Equity	• Credit business AUM: USD 121 bn[3] • Has a dedicated team of 196 investment managers overseeing the credit investment portfolio[3] • Focuses on rated and non-rated debt of non-investment grade issuers across developed and emerging markets • Example of invested instruments: high yield bond, distressed debt, private debt, etc.	• Oaktree Opportunities Fund XI: Invest in European opportunistic asset classes including distressed debt[4,5,6]
Lone Star Funds[7]	• Credit • Real Estate • Equity	• Total AUM: Approximately USD 87 bn[7] • Focuses their investment in distressed markets such as markets that undergo banking/financial crisis • Example of invested instruments: distressed debt (e.g., NPLs), securitised products, etc.	• Lone Star Fund XI: Invests in opportunistic asset classes across US, Europe, APAC, and Latin America[8]

Source: Deloitte Analysis
1) Apollo, Credit Overview, Accessed November 2023
2) Pitchbook, Apollo Credit Opportunity Fund III Overview, Accessed October 2023
3) Oaktree, Oak Tree Capital Credit, Accessed November 2023
4) Oaktree, Oaktree Closes Opportunities Fund XI at $16 Billion, Accessed November 2023
5) Pitchbook, Oaktree Opportunities Fund XI Overview, Accessed November 2023
6) Pensions & Investments, Oaktree Capital closes latest distressed debt fund at $15.9 billion, November 2021
7) Lone Star Funds, About Lone Star, Accessed November 2023
8) Lone Star Funds, Lone Star Fund XI, Accessed November 2023

Key themes to explore

Challenges can be grouped into four themes, which suggest a need to introduce a fundamental shift in the mindset of regulators – to limit interference and let markets function as they should.

Themes to guide design for improvements in the distressed debt market

The four themes below, underpinned by the need to adopt a market mindset, help guide the direction of the illustrative options for improving the distressed debt market in Thailand

- Insufficient mix of investor archetypes, restricting the pool of capital available for distressed debt investments
- Rigid criteria and outmoded regulations limit liquidity and distressed debt activity in the capital markets
- Inadequate infrastructure and supporting mechanisms to facilitate capital market activities in the distressed debt segment
- Limited talent pool with the required skillset available locally, whether foreign or local origin

Enabled by a mindset shift from regulators

1. Invite key stakeholders into key policy defining and drafting sessions.
2. Allow fundamental principals of the market to take place, i.e., competition, bankruptcies, and loss of value on assets.
3. Regulators should understand bankruptcy is a market failure - that way of operating was not suitable. A new way can take place when competition is allowed.
4. Regulators can prepare contingency plans for crisis scenarios and create a backstop and circuit-breakers to mitigate the risk of contagion within the marketplace.

Source: Deloitte Analysis

1.3

Illustrative Options to Drive the Future of Thai Distressed Debt Markets

Options to transform the Thai distressed debt market are inspired from global case studies and aim to address key challenges across the Thai distressed debt lifecycle.

Summary of key initiatives for Thailand

The following sets of key initiatives, categorized into four pillars (market, regulatory, infrastructure, and people), comprises both fundamental initiatives aimed to address the ongoing NPL issue originating from the AFC and tactical solutions in response to the present-day challenges.

Market

Homogenous Investor Archetypes

1. **Boost demand by attracting a wider range of investors, fostering competition and promoting innovation in the capital markets**
   a) Revisit restrictive regulations limiting the activities of institutional investors
   b) Introduce tax or other incentive schemes to attract new capital to the right segments of the market
2. **Increase supply of debt instruments in the market by diversifying to include new asset classes**
   a) Tokenisation of NPLs
   b) Include new asset categories/types, Distressed assets, De-risked NPL backed securities
   c) New alternative asset classes

Regulatory

Outmoded Regulation

3. **Revisit outmoded regulations on rehabilitation and foreclosure eligibility and process**
   3a. Expand rehabilitation frameworks to be more inclusive of debtor archetypes and fair to creditors
      a) Build frameworks that enable customisation and upgrades to reflect changing market conditions and the emergence of new business models
      b) Develop mechanisms to ensure predictable outcomes to ensure capital can enter the market
   3b. Modernise foreclosure process
      c) Introduce creditor protection against debtors collecting profits and freezing repayments
      d) Reduce reliance on the courts for foreclosure and other debt collection processes
4. **Revisit regulations that restrict investment participation by key stakeholder groups**
   a) Remove restrictions on mutual funds
   b) Remove restrictions on insurance companies

Promote Alignment Between Government And Private Sector Agencies

5. **New ways of working with inter-agency taskforce**
   a) Identify call to action for key regulators and agencies
   b) Clear jurisdictional alignment on roles and responsibilities for each agency
   c) Strategic and tactical decisions on what areas to focus on

Infrastructure

Enable Higher Rates Of Engagement By Reducing Transaction Friction

6. **Modernise asset transfer mechanisms, which can help develop a healthy secondary market**
   a) Clearing & settlement systems
   b) Standardised data
   c) Trading platforms
   d) Promote Intermediary/Connector entities
   e) Discovery platforms

People

Skills Uplift

7. **Address Talent Shortage**
   a) Attract talent from overseas - BOI smart visa, address outdated business practices
   b) Homegrown talent - investor education by collaborating with academia
   c) Fund R&D in strategic industries

Source: Deloitte Analysis

The journey to supercharge the Thai distressed debt market requires a multi-disciplinary transformation. Building a robust foundation is an essential step towards a trajectory transformation.

Charting the future of the Thai distressed debt market across 3 stages

Super scaling the Thai distressed debt market on its transformative journey to reach its desired destination is a collective endeavor that requires the synchronised efforts of key stakeholders through a well-orchestrated sequence of actions over time to ensure the market's objectives and outcomes are realised.

At the outset, the focus lies on laying the foundation with cornerstone initiatives. These often involve the revision of regulatory frameworks to accommodate the unique needs of the distressed debt market. The establishment of inter-agency collaboration becomes pivotal during this phase, aiming to remove any hindrances and create a robust platform on which the market can evolve.

The enhancements stage follows, where strategic moves and amendments to regulations take effect, sparking greater activities and fostering innovation within the market. This is the phase where capital market involvement plays a significant role, as the infusion of expertise and resources from investors can significantly contribute to market growth and development.

Ultimately, the continuous transformation stage allows the market to organically expand and flourish, reaching its full potential. As the market matures and evolves, it becomes increasingly self-sustaining, attracting a wider range of investors and participants, and paving the way for a thriving distressed debt ecosystem in Thailand. This coordinated trajectory transformation underscores the significance of long-term commitment and coordinated action to drive the market forward.

Illustrative distressed debt ecosystem development roadmap gleaned from abroad

Key pillars	Options	Establish foundation	Enhance the market	Continuous transformation
Market	1. Boost demand by attracting a wider range of investors	Promote awareness and understanding of distressed debt market opportunities	Introduce tax/other incentive schemes to attract new capital to the right segments of the market	
	2. Increase supply of distressed debt instruments in the market	Unblock impediments and requirements around securitisation	Unlock restrictions on the type of investments catered to institutional investors	Develop alternative asset classes
Regulatory	3. Revisit outmoded regulations on rehabilitation and foreclosure eligibility and process	Amend the eligibility criteria to broaden the scope of distressed entity rehabilitation	Modernise foreclosure process by introducing creditor protection	
	4. Revisit regulations that restrict investment participation by key stakeholder groups	Redefine policies to support securities products and mutual fund investments in non-investment grade products		
	5. Establish new ways of working with unified inter-agency taskforce	Convene the representatives and lay down objectives and outcomes, align R&R	Actively monitor and engage the capital markets to implement strategic initiatives and decision making	
Infrastructure	6. Modernise asset transfer mechanisms	Streamline end-to-end processes (e.g. standardised data, enhanced analytics)	Enable collaborative mechanisms for inter-agency collaboration	Secondary market development
People	7. Address talent shortage	Attract talent from overseas to facilitate knowledge sharing	Investor education initiatives collaborating with academia	

Source: Deloitte Analysis

Option #1: Boost demand by attracting a wider range of investors (1/3)

A market driven approach can be adopted when considering how to attract new investors. Competition should be allowed to flourish, promoting innovation in the capital markets.

Overview

Current capital market landscape is rife with restrictive regulation and barriers to entry. More flexibility is needed to tap the growth potential of the distressed debt marketplace. Reducing the volume of limitations opens the market to a more diverse set of investors and introduces diversification in the investor base. In turn, this increased participation has the potential to enhance the flow of capital, which is instrumental in stimulating economic growth and strengthening the distressed debt landscape.

Components

There are 2 key components to this initiative:

1. Revisit restrictive regulations limiting the activities of institutional investors
2. Introduce tax or other incentive schemes to attract new capital to the right segments of the market

Benefits to the Thai distressed debt ecosystem

1. The removal of restrictive regulations is a pivotal step in the creation of a robust, diverse, and innovative distressed debt ecosystem. The benefits reach beyond the primary beneficiaries to reach other key stakeholders in the value chain to create an environment welcoming to new participants.
2. Tax incentives targeted towards segments of the market that need attention gives regulators a powerful tool to address any market failures inefficiencies. This will be a critical component in the implementation of initiative to attract new investors.

Stakeholders in Thailand who will benefit from this option

Debtors | Creditors | Investors | DD Managers | Regulators

Ecosystem Benefits

- Larger flow of capital
- More buyers in the market
- Investor diversification
- Market growth and development

Example of initiatives from other markets

- A. Robust regulations enable innovative ways to unlock value and attract investors and liquidity in the market[1]
- B. Innovative ABS structure to attract foreign investors and add liquidity to the market[2]
- C. Effective scheme in attracting private sector and tackling the capability gap[2]
- D. Solution to effectively attract institutional investors looking for large NPLs portfolio investment[2]

Source: Deloitte Analysis

1) National Asset Management Agency, NAMA: Our Work, October 2017

2) KAMCO, 2015/16 Knowledge Sharing Program with Kazakhstan, December 2016

Option #1: Boost demand by attracting a wider range of investors (2/3)

Revisiting restrictive regulations can help unlock the potential contributions of institutional investors.

Legend : Existing New

Concept of the option - How it works

Existing – Limited investor, intermediary pool, and product mix

Distressed Debt Managers

1. Local AMCs
2. Existing foreign GPs

Investors

3. Existing but restricted

Infrastructure Enablers

- Debt Collectors
- Lawyers
- Financial Advisors, etc.

What's limiting the Thai distressed debt market

1. Thai distressed debt market is dominated by 2 local AMCs namely BAM and SAM[1]
2. Limited foreign GPs in the market due to the regulatory, infrastructure barriers, and limited investment opportunities
3. Institutional investors (e.g., insurance company, pension fund) are not allowed to invest in non-investment assets[2]
4. Lack of diversified asset classes (i.e., no securitisation)

Proposed New – Diversified investor, intermediary pool, and product mix

Distressed Debt Managers

1. Local AMCs
   - New AMCs
2. Existing Foreign GPs
   - International AMCs
   - New Foreign GPs
   - New Local GPs

Investors

1. Insurance Companies
   - Pension Funds
   - Institutional Investors
   - Other investors (e.g., HNW, UHNW)

Infrastructure Enablers

- Debt Collectors
- Lawyers
- Financial Advisors, etc.
4. Distressed Debt Funds
5. SPV

Key Takeaways for the Thai market

1. Start regulatory redesign by aligning with market practices from economies with winning archetypes
2. Adopt international practices on restrictions – restrictions are exceptional, the default should be an open market.
3. Incentivise AMCs and GPs to invest and broaden their capabilities
   a. Standardise and uplift the role of AMCs, and GPs to enhance their competitive capabilities
   b. Encourage joint venture between local and foreign institutional investors/distressed debt managers to enhance investment capital and capability in debt resolution
4. Expand the list of eligible assets that institutional investors can invest in to include distressed debt or repackaged assets (e.g., ABS, MBS)
5. Setup of distressed debt funds to support and allow accredited investors to invest in distressed debt
6. Promote SPV as an intermediary to acquire good credit rating NPL and issue ABS

Source: Deloitte Analysis

1) BDO, Thailand Distressed Landscape, August 2023

2) Clause 49 of OIC Notification Re: Insurance Companies' Investment in Other Businesses

Tax incentives were successfully used to attract private sector participation in distressed debt after 1997. Similar incentives can be considered today to attract interest to unaddressed debt categories.

Overview

Many markets offer tax incentives for corporate investment and to promote the development of strategically important industries. This has worked in Thailand, when tax incentives were used to first attract private sector AMC operations after the Asian Financial Crisis.

Regulators will have this tool in their arsenal to focus attention towards areas of the market that have suffered from market failure or some other form of inefficiency.

Components[1]

Formulate a collaborative working group comprising tax authorities, financial analysts, and industry leaders to design tax incentives tailored to attract investments in distressed debt. Engage in regular consultations with industry representatives to explore alternative incentive schemes, ensuring a comprehensive approach

Options to reduce the tax burden on investors are similar to incentives currently offered by the Board Of Investment (BOI) and could include:

Interest deductions: Interest payments on debt used to acquire assets can be made tax-deductible. This could reduce investors' cost of capital and thus the hurdle rate required, potentially garnering interest in assets that would not normally be profitable.

Tax Deductions: Capital market investors may be allowed to deduct losses incurred on distressed debt investments for a particular duration against their operating income.

Withholding tax reduction: Reduction or exemption on the 15% tax faced by foreign firms not operating in Thailand could attract new investor capital to the market.

Tax incentives: Additional tax incentives for stakeholders performing key tasks that are currently limited in the market, such as debt restructuring or rehabilitation of SMEs.

Holding period advantages: Holding a distressed debt investment for a minimum period can trigger additional incentives such as reduced capital gains tax. This will encourage long term investment.

Stakeholders in Thailand who will benefit from this option

Debtors | Creditors | Investors | DD Managers | Regulators

Ecosystem Benefits

- Cost reductions and Higher profit margins
- Aims to serve SMEs in the real economy by generating interest in SME rehabilitation
- Investor diversification
- Lower barriers to entry for new local and foreign participants

Source: Deloitte Analysis
1) BOI, Investment Promotion Guide, January 2023

Option #2: Increase supply of distressed debt instruments in the market (1/2)

Current supply is constrained by regulatory restrictions. A two-pronged approach can help expand supply: Introduce greenfield unregulated options that can quickly go to market, and realign current asset categories with existing regulations.

Overview

The limited range and volume of distressed debt assets in the market pose significant challenges for capital market investors in diversifying their portfolios, ultimately affecting the efficient allocation of capital. Fortunately, greenfield options exist since the SEC allowed the use of digital tokens in lieu of scrips. One plausible course of action involves the relaxation of policy restrictions to expand the spectrum of distressed debt products offered within the market. This move would provide investors with a more comprehensive range of high yielding distressed debt assets to choose from, enabling greater diversification and risk mitigation.

Components

1. Greenfield unregulated options: Tokenisation of NPLs offers an alternative to existing restrictions on securitising NPLs. Added benefits include unlocking new investment avenues, attracting tech-savvy investors and injecting technological resilience.
2. Revisit restrictions on existing debt instruments

Benefits to the Thai distressed debt ecosystem

The product diversification catalyses investment opportunities and attracts investors. Broadening the spectrum of available products offers substantial benefits, particularly for investors and issuers. Firstly, creditors and issuers gain increased avenues to access liquidity from distressed debt, reducing the need to retain or write off such assets. Investors and distressed debt managers can proactively identify opportunities and unlock value across a diverse array of distressed debt products. Moreover, bolstering product diversity equips the Thai market with a wider toolkit to fortify stability and foster long-term growth, ultimately nurturing lasting success and sustainability.

Stakeholders in Thailand who will benefit from this option

Debtors | Creditors | Investors | DD Managers | Regulators

Ecosystem Benefits

- Larger flow of capital
- More buyers in the market
- Investor diversification
- Market growth and development

Example of initiatives from other markets

A. Amendment of KAMCO Act for efficient NPLs resolution[1]
B. Innovative ABS structure to attract foreign investors and add liquidity to the market[2]

Source: Deloitte Analysis
1) Pascal Ungersboeck, KAMCO : Resolution of NPLs, October 2019
2) KAMCO, 2015/16 Knowledge Sharing Program with Kazakhstan, December 2016

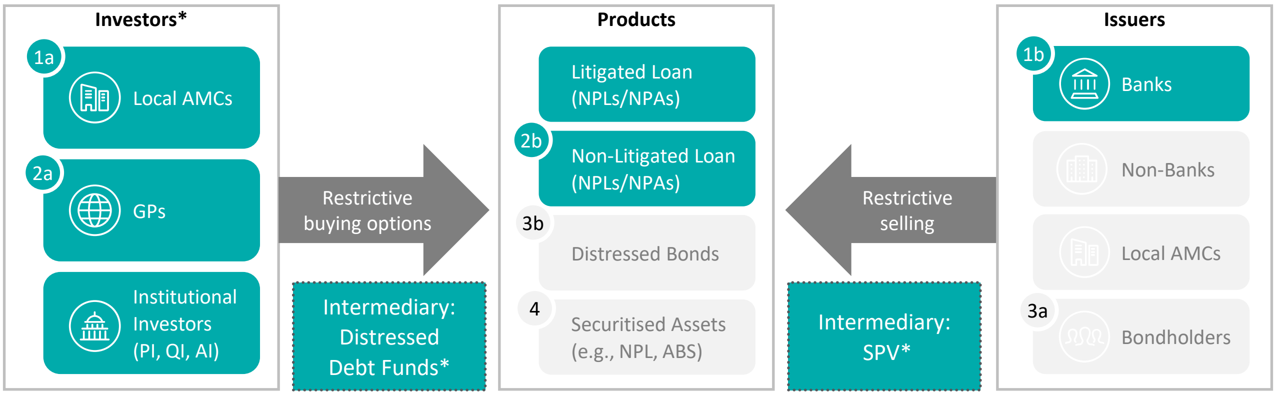
Option #2: Increase supply of distressed debt instruments in the market (2/2)

Expanding the range of available products in the market substantially improves liquidity and efficient capital allocation to manage the Thai distressed debt market

Legend : Existing | Non-Existing | New

Concept of the option - How it works[1]

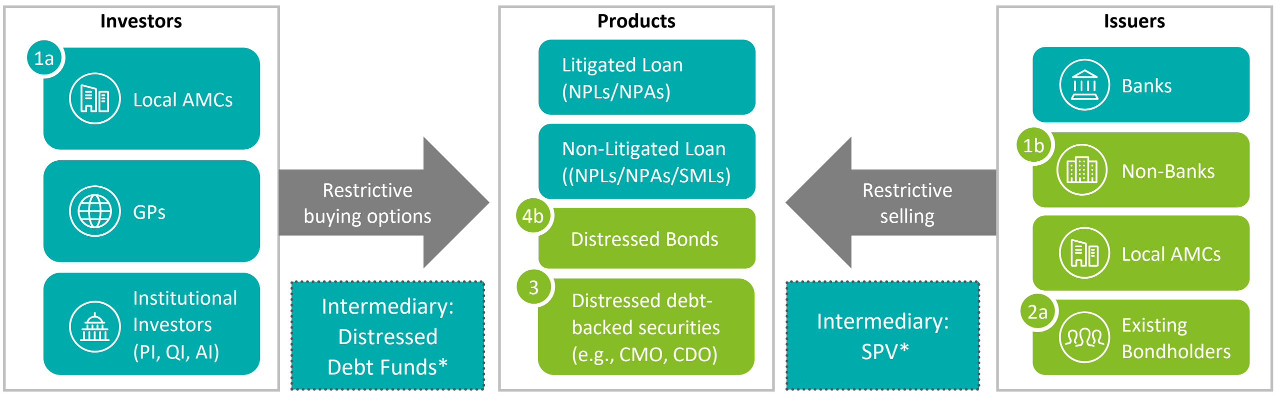
Existing – Limited investor pool and product mix



What's limiting the Thai market

1. AMCs are only authorized to acquire NPLs/NPAs from banks[1]
2. The transfer of NPLs/NPAs involved in ongoing litigation process are only allowed for AMCs and prohibited for GPs[2]
3. There are limitations for the securitization of NPLs[3]
4. There is no pathway for investors to invest in distressed bonds as bondholders tend to hold to maturity for the interest income
5. Even if AMCs were authorized to buy defaulted bonds from banks, existing BOT guidelines on distressed bond trading for banks are ambiguous enough to prevent any such actions

Proposed New – Broader investor pool and product mix



Key Takeaways for the Thai market

1. Revisit restrictions on GPs to acquire distressed debt that is not under any litigation
2. Revisit prohibitions on transfer of assets to local third party while in litigation. Corporate investors are not able to acquire target companies when they are at their weakest state
3. Introduce mechanisms to allow bondholders to sell distressed bonds to potential investors
4. Re-examine the existing requirements for securitisation to be more permissive for NPL assets which have inherent de-risking features (i.e., tranches and rating)

*Assumes that option #1 has been affected
Source: Deloitte Analysis
1) BoT, Emergency Decree on Asset Management Company, August 1998
2) Supreme Court's Decision No. 6334/2550
3) SEC, Rules, Conditions and Procedures for Approval of Securitization Projects, August 2015

Current rehabilitation framework adopts a one size fits all approach, making the process difficult for some. New framework will allow variations between different industries or business models to be captured. Uniform enforcement can help ensure predictable outcomes.

Overview

Reforms in the regulatory framework, focusing on the optimisation of rehabilitation procedures, operational efficiency, and policies regarding distressed debt investments, have the potential to usher in a paradigm shift within the Thai capital market. The strategic calibration and enhancements of the regulatory policies is primed to revitalise market dynamics by encouraging the entry of not just traditional investors but also specialised distressed debt managers, institutional investors, and other market participants creating an ecosystem where capital flows more freely, distressed assets are more efficiently managed, and economic growth gains momentum.

Components

1. Rehabilitation framework with industry-specific processes and durations, accounting for nuances and variations such as cash flow, asset-light vs. asset-heavy structures, payback period etc. This ensures asset-light industries such as online businesses are not treated the same way as asset-heavy industries such as transportation (e.g., airlines).
2. Templatelike rehabilitation framework allowing for easily updatable processes

Benefits to the Thai distressed debt ecosystem

Calibrating policies to drive market efficiency in distressed debt management will undoubtedly yield a plethora of benefits across the spectrum of stakeholders within the capital market ecosystem. By introducing revisions to eligibility criteria and optimising the rehabilitation frameworks for different investor categories, the regulatory architecture will be finely tuned to accommodate the distinctive needs of various businesses in distress and will unlock a higher degree of liquidity in the market. Just as capital markets welcome diverse investor participation, this shift will encourage a more extensive array of investor types to partake in distressed or below investment-grade debt. The outcome will be a surge in liquidity, as the augmented demand matches a more abundant supply of distressed debt products. This equilibrium between supply and demand will favor not only investors and distressed debt managers but will also provide an attractive proposition for creditors, regulators, and other stakeholders.

Moreover, streamlined regulatory procedures expedite the revival of viable enterprises, thereby propelling comprehensive economic progress. These regulatory refinements initiate a self-reinforcing cycle, where efficiency, diversity, and economic expansion synergize to propel the triumph of the distressed debt market.

Stakeholders in Thailand who will benefit from this option

Debtors | Creditors | Investors | DD Managers | Regulators

Ecosystem Benefits

- Larger flow of capital
- More buyers in the market
- Investor diversification
- Market growth and development

Example of initiatives from other markets

A Rehabilitation and Liquidation frameworks (e.g., Chapter 11 bankruptcy, Chapter 12, etc.)

Source: Deloitte Analysis

Option #3: Revisit outmoded regulations (2/2)

Business-friendly amendments to the regulatory framework will unleash the potential for capital market participation in the Thai distressed debt market.

Concept of the option - How it works[1]

Existing – Key policies with restrictions across the lifecycle

Distressed Debt Lifecycle	Debt Origination	Investing	Turnaround	Exit
Policies and restrictions	a. Disclosure-based system **not fully in effect**	b. Policies are **restrictive** for repackaged assets (e.g., CMO, CDO), NPL-backed securities, and distressed bonds c. Mutual funds investors are **restricted** to invest in non-investment grade assets	d. Regulatory framework and eligibility criteria **limits** the scope of distressed entities for rehabilitation	**e.** **No tax incentives** / other incentive schemes

What's limiting the Thai market

1. Restrictions limiting wider range of investors to invest in unrated or below investment grade debt[2]
2. Limited permit to offer investment products that respond to differing investment objectives, and the different risk/reward preferences of investors[2]
3. Restrictions on eligibility criteria to enter rehab plans excluding groups of debtor access to rehab
4. Limited rehabilitation frameworks to accommodate for different debtor circumstances and needs
5. Lack of operational capacity due to limited personnel and capabilities

Proposed New – Amended Eligibility Criteria's

Distressed Debt Lifecycle	Debt Origination	Investing	Turnaround	Exit
Policies and restrictions	a. Disclosure-based system **fully** implemented	b. Policies are **supportive** for repackaged assets, securitisation, and trading of distressed debt instruments c. Mutual funds and institutional investors **can invest** in non-investment grade assets, while GPs **can purchase** NPLs under litigation	d. Regulatory framework and eligibility criteria is **inclusive** and expands the scope of distressed entities for rehabilitation	**e.** **Introduce tax incentives** and other incentive schemes

Key Takeaways for the Thai market

1. Extend investment eligibility to institutional investors to create more liquidity in the market for distressed debt and bonds
2. Enable greater degree of flexibility in investment for different types of investors
3. Incorporate various options for rehabilitation plans to cater to different debtor needs
4. Improve operational capacity of legal system by enabling the court and other regulatory agencies to leverage private sector services such as arbitrators

Source: Deloitte Analysis
1) LED, Debtor Rehabilitation Process, Accessed October 2023
2) IMF, Thailand: Financial Sector Assessment Program, 2009

Option #4: Revisit regulations that restrict investor participation, while maintaining investor protection

Outmoded regulations today limit the activities of key stakeholders such as mutual funds and insurance companies due to investor safety concerns. Revisiting these regulations, while preserving safety is possible and further enables them to contribute to the market.

Overview

Removing the regulatory hurdles that limit the participation of some stakeholder groups could diversify the investor base, boosting transaction volume growth and liquidity in the market. Ensuring this does not result in increased risks for investors is critical. By eliminating restrictions on mutual funds and insurance companies, and maintaining some limits on their exposure to risky financial instruments, the market will benefit from the large pool of capital they control. Activities include comprehensively review of existing regulations, and developing enforceable guidelines that will limit the transfer of risk to investors. For example, USA prohibits insurance companies from holding more than 5% of their portfolio value in distressed debt. Adopting this standard and incorporating stress tests and scenario analysis would ensure compliance and could get public support. This requires identifying restrictions that need to be lifted or modified, and working closely with relevant regulatory bodies, such as the SEC and the Office of Insurance Commission (OIC), to draft and propose regulatory amendments.

In addition to this, collaborate with industry stakeholders, including mutual fund managers, investment banks, and institutional investors, to gather input and feedback. Discuss the potential benefits and risks of removing these restrictions and develop a consensus on the proposed changes.

Components

1. Revisit restrictions on mutual funds, insurance companies, and other retail-facing funds
2. Introduce appropriate "guard rails" are in place to mitigate any increase in risk to investors. For example: limits on proportional holdings in risky assets, enforcing de-risking guidelines, and mandating stress testing and scenario analysis to secure public support.

Benefits from introducing guard rails to the Thai distressed debt ecosystem

The introduction of the critical functional mechanisms listed below will be of benefit to the overall distressed debt industry:

1. **Risk management mechanisms**: Understand the potential risks associated with allowing mutual funds to invest in below investment-grade offerings. Develop risk management mechanisms to mitigate these risks. This may include setting investment limits, diversification requirements, and disclosure obligations.
2. **Mandatory Disclosures & Stress Tests**: Implement clear and standardised disclosure requirements, including stress testing and scenario analysis for issuers of below investment-grade securities. Investors, including mutual funds, should have access to accurate and transparent information about the issuers' financial health and the risks associated with these offerings.
3. **Diversification Guidelines:** Specifically designed for institutional investor groups, outlining the maximum exposure permissible within each risk segment. Encourage diversification across asset classes, geographies, and sectors to spread risk effectively
4. **Education**: Launch educational programs to inform mutual fund managers and investors about the changes in regulations and the new investment opportunities. This will help build awareness and understanding of the benefits of investing in below investment-grade offerings.
5. **Monitoring**: Establish mechanisms for ongoing monitoring and evaluation of the impact of these regulatory changes. Evaluate the performance of mutual funds that invest in below investment-grade securities and assess whether the changes are achieving their intended goals.
6. **Regulatory support**: Seek support and buy-in from regulatory authorities, such as the SEC and OIC, and demonstrate how these changes can contribute to the development of the capital market and the overall economy.

Source: Deloitte Analysis

Today's ecosystem is extremely fragmented with agencies, regulators and industry groups operating within their independent silos. Each agency is focused on solving problems within their domain, with minimal considerations on the broader strategic implications.

Overview

Distressed debt management is a complex and comprehensive process covering multiple stakeholders at each stage. As such, it entails collaboration among regulatory bodies and inter-agencies to formulate strategic initiatives which then drives the entire distressed debt lifecycle. The common perception today is that this collaborative unified body is not in place and hence the delivery of regulatory frameworks, strategies, and initiatives are not well coordinated.

One of the reason for this is the fragmented ways of working across different stakeholders and the limited capabilities and capacities of the professionals. Establishing a unified inter-agency model can help with focusing initiatives, making sure of its consistency and alignment to achieve desired outcomes while addressing capability gaps along the way.

Components

Please refer to next page

Benefits to the Thai distressed debt ecosystem

The unified inter-agency can focus the market's response to resolve distressed debt at the national level. In so doing, it can provide initiatives that address gaps and stakeholders' pain points across the entire lifecycle thereby providing benefits to those involved. From the regulator perspective, a niche topic like distressed debt will not be so daunting by tapping into the pool of expertise from subject matter experts and private sectors to build up internal capabilities. With greater visibility and alignment, the private sector can help attract assistance from international market players which posses' skills and capabilities to help the Thai capital market achieve its objectives.

Stakeholders in Thailand who will benefit from this option

Debtors | Creditors | Investors | DD Managers | Regulators

Ecosystem Benefits

- Shared vision, common goals, and understanding of prevailing constraints
- High impact and innovative initiatives
- Strengthen inter-agency and public-private sector collaboration
- Mutually reinforcing initiatives and incentives

Example of initiatives from other markets

A Public-Private Investment Program (PPIP)

Source: Deloitte Analysis

Option #5: Introduce new ways of working across agencies (2/3)

A centralised authority that serves to coordinate and harmonise the activities of all key state and private sector agencies, with industry groups, ensuring aligned policy and direction.

1. **Role of the Inter-agency taskforce**: This taskforce can serve as a centralised authority to coordinate and harmonise policies, regulations, and enforcement efforts related to distressed debt.
2. **Policy Alignment**: Ensure alignment of policies and objectives among different authorities involved in distressed debt management. This includes regulators, government agencies, and relevant ministries. We must mention that the authorities should collectively work toward common goals, such as enhancing market transparency and efficiency.
3. **Regulatory Consistency**: Promote regulatory consistency and cooperation between different regulatory bodies. Ensure that the rules and guidelines governing distressed debt transactions and related activities are consistent and do not create conflicting mandates.
4. **Information Sharing**: Facilitate the exchange of information and data among agencies (via inter-agency taskforce). Improved information sharing can help authorities gain a comprehensive view of the distressed debt market, track market developments, and identify potential issues more effectively.
5. **Unified Regulatory Framework**: Develop a unified regulatory framework specific to distressed debt that encompasses all aspects of the market, including market entry, disclosure requirements, and investor protection (emphasised into regulatory recommendations and be a key activity for the taskforce). The framework should be jointly designed by relevant authorities to avoid regulatory gaps.
6. **Regulatory recommendations**: Recommend adjustments or amendments to existing regulation. Provide guidance on currently proposed regulations to relevant parties following meetings and consultations with key stakeholders.
7. **Regular Collaborative Meeting**: Hold regular meetings and consultations among different authorities to discuss market developments, challenges, and potential solutions (This should be an activity done by the inter-agency taskforce). These meetings can help ensure that everyone is informed and aligned.
8. **Establish Clear roles**: Define and communicate the roles and responsibilities of each authority in the distressed debt market clearly. This is a problem for Thai agencies as the roles are not clear and oftentimes confusing. This can help prevent overlapping functions and ensure that each entity plays a distinct role.
9. **Consulting with Market Participants**: Engage with market participants, including distressed debt investors, creditors, and service providers, to gather insights and feedback on regulatory and operational challenges.
10. **Training and Capacity Building**: Invest in training programs and capacity-building initiatives for officials and staff from various authorities. This can help them better understand the complexities of distressed debt and how their roles contribute to market stability. We can also tie this in to getting skilled professionals to come in to support the development of this area.
11. **Regulatory Impact Assessment**: Regularly review and assess regulatory actions and their impact on the distressed debt market. This ensures that new regulations are thoroughly evaluated for potential consequences and unintended consequences.
12. **Independent oversight body**: Consider the establishment of an independent body or commission responsible for overseeing and coordinating distressed debt market activities and ensuring that authorities adhere to agreed-upon policies and regulations.

Source: Deloitte Analysis

There is no silver bullet in managing distressed debt. It requires well-coordinated effort between government agencies and private sector to co-create and rollout strategic initiatives, while continuously building capabilities and capacity towards a shared goal.

Concept of the option - How it works

Existing – Siloed and sporadic effort

Non-exhaustive list of stakeholders and comparative advantage

Policy and Oversight

- Ministry of Finance
- Ministry of Foreign Affairs
- Bank of Thailand
- Board of Investments
- Securities and Exchange Commission
- Office of Insurance Commission

Implementation and Governance

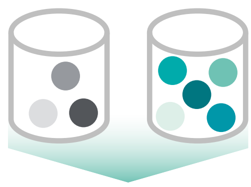
- Stock Exchange of Thailand
- Legal Execution Department
- Revenue Department
- National Credit Bureau
- Courts

Resources, Network, and Expertise

- Private Associations (e.g., Thai Bankers Association, Thai investor association, Association of the Thai Securities Companies*, Investment Banking Club**)
- Thai BMA***
- Non-profit organisations and foundations

AS-IS STATE

Public sector initiatives | Private sector initiatives



1. **Siloed effort** among agencies and **myopic view** of focusing on one's turf
2. **Scarce** and **disjointed** initiatives failing to yield sustained and significant impact

What's limiting the Thai distressed debt market

1. While there are initiatives in the works[1], there is no single agency taking lead or ownership to proactively address distressed debt at the system level
2. Distressed debt management and intermediary capabilities not readily available in the market

Proposed New – Boundary spanning and consistent effort

Non-exhaustive list of stakeholders and comparative advantage

Policy and Oversight

- Ministry of Finance
- Ministry of Foreign Affairs
- Bank of Thailand
- Board of Investments
- Securities and Exchange Commission
- Office of Insurance Commission

Implementation and Governance

- Stock Exchange of Thailand
- Legal Execution Department
- Revenue Department
- National Credit Bureau
- Courts

Resources, Network, and Expertise

- Private Associations (e.g., Thai Bankers Association, Association of the Thai Securities Companies*, Investment Banking Club**)
- Thai BMA***
- Non-profit organisations and foundations
- Professional services provider (e.g., consultants, lawyers)
- Subject Matter Experts, International talent

TO-BE STATE

1. **Coordinated** and **collaborative** effort among government agencies and public and private sector
2. **Mix** of **initiatives** designed **for superior outcomes** –
   - Government-led
   - Agency-specific
   - Private sector involved

Key Takeaways for the Thai market

1. Consolidating efforts and improving coordination through **inter-agency collaboration** helps build synergy and achieve end-to-end alignment of policy to execution for impactful results
2. Involving the private sector through **public-private partnership** models (e.g., USA's Public-private partnership from TARP) can be emulated where private sector is involved to leverage their capabilities and amplify efforts to successfully manage distressed debt

* ASCO also works with government agencies in drafting regulations and code of conduct related to securities business, and overseeing the activities of its members
** IB club is also responsible for developing the code of conduct for the investment banking business and overseeing the activities of its members
*** Thai BMA also oversees and monitors the activities and conduct of its members to ensure the bond market efficiency
Source: Deloitte Analysis
1) Bangkok Post, Firm proposed to manage bad household debt, October 2023

Option #6: Modernise asset transfer mechanisms (1/2)

Initiatives to modernise asset transfer mechanisms can help bring a more robust secondary market into the distressed debt landscape.

Overview

Current infrastructure has limitations that often leads to inefficiencies and limitations on participation. Distressed bondholders and prospective investors face a significant barrier in the form of limited access to information and inefficient communication channels regarding these financial instruments. This information asymmetry has considerable implications, particularly for prospective investors seeking to participate in the distressed debt market. The current scenario is characterised by predominantly OTC transactions, which further exacerbates the challenges of information asymmetry. These OTC transactions tend to be decentralised, lacking standardised processes and a centralised platform for efficient data sharing, resulting in heightened barriers to entry and ambiguity surrounding asset details. This ambiguity creates a lack of transparency, ability to conduct thorough due diligence, accurately assess risks and rewards, and make informed investment decisions.

To modernise and enhance this process, the components listed below should be developed.

Components

1. **Regulatory framework enhancements**: Refer to earlier initiatives
2. **Collaborative frameworks**: Achieved through inter-agency / inter-ministry collaboration. Enable mechanisms to collaborate between stakeholders such as Regulators, Government agencies, Financial institutions, Investors.
3. **Enhanced data and analytics**: Achieved through collaboration with private sector ratings agencies. Expand on existing dataset provided by Moodys, S&P etc. by incorporating distressed debt ratings.
4. **Alternative Dispute Resolution mechanism**: Establish special mechanism to facilitate resolutions on distressed debt cases. Reduce the burden to the legal system while also expediting solutions due to contextual awareness of distressed debt by arbitrator in charge.
5. **Lender of last resort facility**: Develop a lender of last resort facility that can provide liquidity during times of crisis. This lender can be from the private sector or utilise public sector funds. Work closely with inter-agency taskforce to align on national agenda. Essential component to prevent risk of financial contagion at times of crisis, as government-backed emergency fund can buy distressed debts and stabilise the market at critical times.
6. **Disaster recovery plan**: Develop contingencies for common scenarios and less-common scenarios to ensure viable options are available at critical times of crisis. The ability to debate the merits of a plan might not be plausible at time-sensitive crisis moments. Ensures the best possible outcome for all stakeholders if a plan can be quickly executed during a crisis. Key components of the plan should outline the roles and responsibilities, and the actions of key stakeholders.
7. **Collateral repositories**: Centralised warehouse of all collateral associated with debt transactions, similar to the European DataWarehouse initiative. This ensures the ability to manage collateral during times of crisis, and prevents assets being collateralised with more than 1 party.
8. **Securitisation**: Long term plan to revisit SEC guidelines on securitisation, to be more in line with international market practices.
9. **Secondary market development**: Develop secondary markets to facilitate asset transfer in various industries. Possible archetypes include: Government sponsored Auctions, Private auction houses, Structured sales, Government sponsored entities.

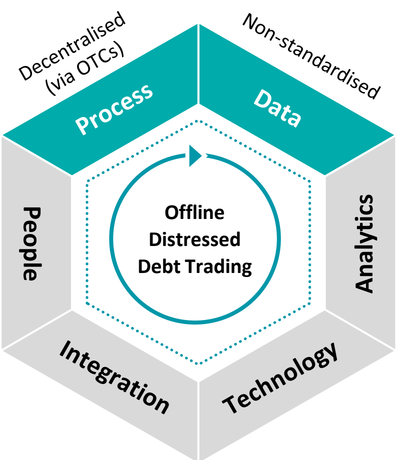
Source: Deloitte Analysis

A centralised data platform (for collateral records or otherwise) offers benefits to stakeholders while addressing the information asymmetry and process limitations currently faced in distressed debt marketplaces.

Concept of the option - How it works

Existing – Without Online Data Platform

Improvement points and gaps

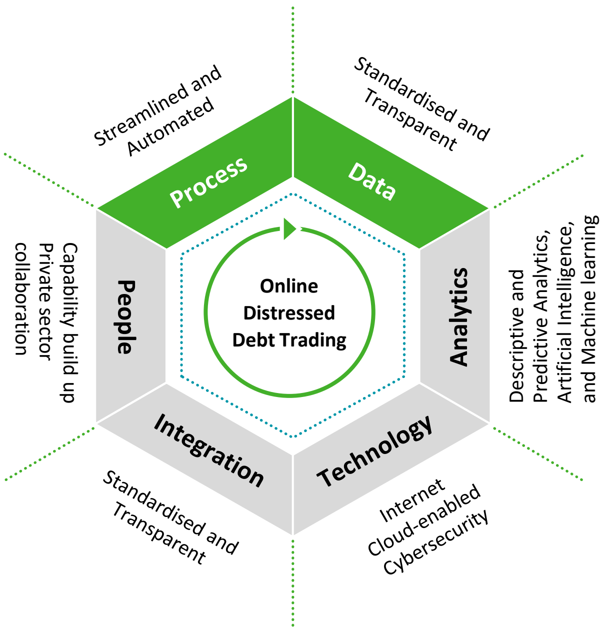


What's limiting the Thai market

1. Limited options to dispose of non-investment grade bonds currently being held by **100k** retail investors in Thailand
2. Restrictions for Institutional investors to buy distressed bonds
3. Sparse distressed bonds transaction and non-existent NPL-backed securities activities in the market

Proposed New – With Online Data Platform

Benefits and Opportunities



Key Takeaways for the Thai market

1. Develop a platform to centrally store bond information
2. Encourage bondholders to share information on bonds for potential selling
3. Direct prospective investors to the platform to view available bonds for sale
4. Joint efforts involving relevant stakeholders will help facilitate the development of the platform. The collaboration may comprise of regulatory bodies such as SEC to oversee the policies and governance of the platform and usage while Thai BMA would manage the platform's execution, including its development, provision of bond data, day-to-day operations, and promoting its use among members and the public.

Source: Deloitte Analysis

Option #7: Address local talent shortage – Employer incentives

Thai markets are faced with talent scarcity. The distressed debt market has a shortage of talent with the skillsets needed to restructure / rehabilitate corporations and invest prudently in distressed debt.

Overview of Employer Targeted Incentives

To encourage professionals with debt management and restructuring experience to set up new businesses in Thailand's distressed debt market, we can consider the options listed below

Components

1. **Regulatory support**: Work with regulatory authorities to create an enabling environment for new businesses. This might include streamlining the licensing process, reducing regulatory barriers, and providing incentives for new entrants. Regulatory clarity and investor-friendly policies can boost confidence among entrepreneurs.
2. **Education**: Collaborate with educational institutions and industry associations to offer specialised courses and training programs in distressed debt management and restructuring. This will help create a pool of skilled professionals who can enter the market with confidence.
3. **Professional Network**: Establish professional networks or associations focused on distressed debt management. These networks can provide guidance, mentorship, and a platform for professionals to connect, share experiences, and explore entrepreneurial opportunities.
4. **Funding and Investment Incentives**: Facilitate access to capital for entrepreneurs looking to set up new businesses in the distressed debt sector. Encourage venture capital firms, private equity investors, or government-backed investment programs to support these initiatives.
5. **Incubator and Accelerator**: Establish incubators or accelerators specifically for distressed debt-related startups. These programs can provide mentorship, resources, and workspace to entrepreneurs looking to enter the market.
6. **Collaboration with International Experts**: Invite experts and professionals from developed markets with experience in distressed debt management to share their knowledge and insights. This can help local entrepreneurs learn best practices and gain exposure to international standards.
7. **PPP**: Foster collaboration between government agencies, financial institutions, and private sector organisations to support entrepreneurial ventures in the distressed debt market.
8. **Incentivise Innovation**: Offer incentives for innovative solutions and technologies that can improve the efficiency of distressed debt management and make it easier for new businesses to enter the market.
9. **Mentorship Program**: Connect experienced professionals in the debt management and restructuring sector with aspiring entrepreneurs through mentorship programs. These mentors can provide valuable guidance and support.

Source: Deloitte Analysis

Option #7: Address local talent shortage – Employee incentives

Attracting experienced personnel from adjacent industries into distressed debt market requires government funding and support to establish both financial and non-financial incentive programs.

Overview of Employee Targeted Incentives

To encourage professionals with debt management and restructuring experience to explore opportunities in Thailand's distressed debt industry, we can consider the options listed below

Components

1. **Introduce Tax Breaks or Deductions**: Offering tax breaks or deductions for individuals working in the distressed debt industry, this could include exemptions on income earned from distressed debt activities or deduction in taxable income for individuals working in the distressed debt field.
2. **Salary and Financial Incentives**: In this initiative, the government can provide financial support to companies in distressed debt, enabling them to offer competitive salaries to talents looking to switch their careers. Additionally, the government can consider subsidizing a portion of employee salaries. Through these initiatives, the government aims to encourage businesses to maintain competitive salary structures for employees and to attract skilled professionals into the firm. For example, Singapore's New Part-Time Re-Employment Grant (PTRG) offers employers funds when they employ senior workers[1], similarly Australia's workforce program provides wage subsidies to businesses that hire eligible talents.[2]
3. **Offer Reskilling/Upskilling Opportunities**: Provide opportunities for reskilling and upskilling by establishing collaborative initiatives with universities and educational institutions. By partnering with academic institutions and other related field organisations, programs can offer tailored training programs, workshops, or courses that align with industry needs. This collaborative approach ensures that employees have access to relevant and high-quality educational resources, fostering continuous learning and development within the workforce. For example, Singapore has a similar program called Career Conversion Programmes where mid-career individuals undergo skill conversions to enable seamless transition to a new careers or new industries.[3]
4. **Offer Financing for Training Programs**: Facilitate access to training programs by establishing partnerships through collaboration with financial service partners. Through these collaborations, individuals seeking to enroll in training programs can benefit from financial assistance, making education more affordable and accessible to individuals interested in distressed debt field and allowing them to gain skills needed to enter the field. Under the Career Conversion Programmes in Singapore, the course fees for individuals enrolling in training programs are supported by the government.[3] In addition, the government also funds online courses for individuals to upgrade their skills.[4]
5. **Work Experience/Placement Programs**: Implement work experience or placement programs tailored for qualified applicants, providing them with a firsthand understanding of the working environment within the distressed debt field. These programs offer a practical and immersive experience, allowing participants to witness the day-to-day operations, challenges, and dynamics of the industry.
6. **Job Placement Services**: Through a platform or service that connects individuals interested in distressed debt careers with relevant job opportunities. This can streamline the job search process and enhance the match between employers and employees. For example, the Singapore government has launched a similar platform called MyCareersFuture which is an online job search platform.[5] In addition, Singapore government has also launched Workipedia which is a website that provide supports to jobseekers throughout their job search journey e.g., CV development tips, interview preparation tips, industries insights, and career matching services.[6,7,8,9]

Source: Deloitte Analysis

1) WSG Workforce Singapore, New Part-Time Re-Employment Grant, Accessed November 2023
2) Australian Government, Wage Subsidies, Accessed November 2023
3) WSG Workforce Singapore, Career Conversion Programmes (CCP) for Individuals, Accessed November 2023
4) Skills Future, SkillsFuture Mid-Career Support Package , Accessed November 2023
5) MyCareersFuture, Match your skills. Find more jobs, Accessed November 2023
6) MyCareersFuture, Workforce Singapore Services, Accessed November 2023
7) MyCareersFuture, Registration for Complimentary Career Guidance, Accessed November 2023
8) MyCareersFuture, Workipedia by MyCareersFuture: The Trusted Career Resource for Singapore's Workforce, Accessed November 2023
9) MyCareersFuture, Workipedia About Us, Accessed November 2023

2 Introduction to distressed debt

2.1 The Distressed Debt Ecosystem

2.1.1 What is Distressed Debt?

2.1.2 What are the underlying assets?

2.1.3 Who are the main stakeholders in the distressed debt market?

2.1.4 What does an intermediary do?

2.1.5 Who are the investors and distressed debt managers?

2.1.6 What does the investment landscape look like?

Distressed debt refers to credit instruments linked to people or entities under financial duress, with further possibility of default. They are often sold at a discount to face value in the secondary market due to the perceived higher risk.

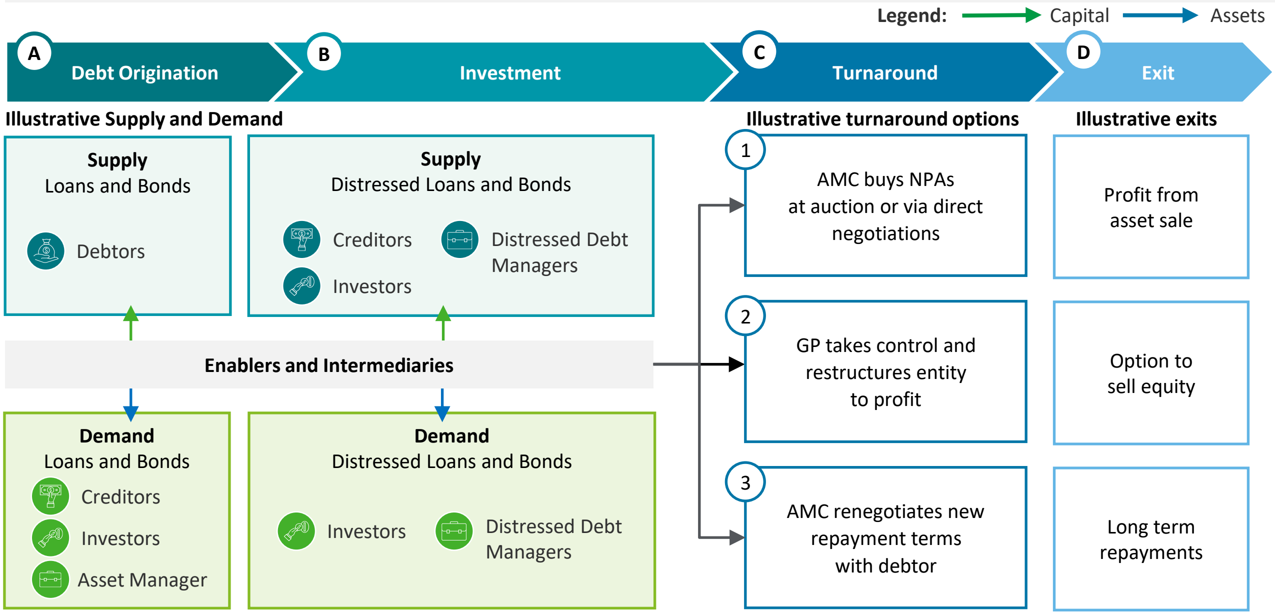
Classifying distressed debt

The distressed debt landscape is vast and diverse, with definitions and categorisations varying across countries and sometimes even among financial institutions within the same country. The sources of these debts and their underlying assets are equally vast, and include trade payables, bank loans (comprising primarily retail, corporate and institutional banking loans), private debt, corporate bonds, structured loans, and convertible debt, and even derivative instruments. In this report, our focus will be on the 2 primary asset categories associated with distressed debts: bank loans and corporate bonds.

1. **Loans are typically classified as distressed when they transition into Non-Performing Loans (NPLs) either after 90 day past due (DPD), or when it is deemed unlikely that the debtor will pay[1,2]**
   - Bank Loans are first classified as delinquent when a borrower misses their payment deadline.[3] The creditor then initiates a series of internal recovery processes aimed at recouping the outstanding debt, before progressing to debt restructuring negotiations and finally legal enforcement. At 90 DPD, the bank may put in provisions against loan loss while continuing its collection efforts. If internal recovery eventually fails, the loan could be sold to a 3rd party, often at a material discount.
   - Loans originated from non-bank creditors (e.g., private debt, venture debt, corporate to corporate loans) don't have a standardised definition for when they turn distressed
2. **Bonds are considered distressed if the issuer is unable to meet its financial obligations,** such as missing a coupon payment. In such cases, the bond price typically falls and is traded at a material discount. Other reasons for distress are if the issuer faces legal threats or is considered insolvent. Distressed bonds typically have credit ratings of CCC or lower and sell at a fraction of face value.[4]

The distressed debt lifecycle is discussed in more detail in later sections of this chapter.

Illustrative view of distressed debt lifecycle



Non-exhaustive: High-level flow of the distressed debt lifecycle.

Source: Deloitte Analysis

1) European Central Bank, What are non-performing loans (NPLs)?, January 2021
2) Basel Committee on Banking Supervision, Prudential treatment of problem assets - definitions of non-performing exposures and forbearance, 2016
3) Corporate Finance Institute, Distressed Debt, Accessed September 2023
4) JPMorgan Chase, Default vs delinquency: How they impact credit, Accessed September 2023

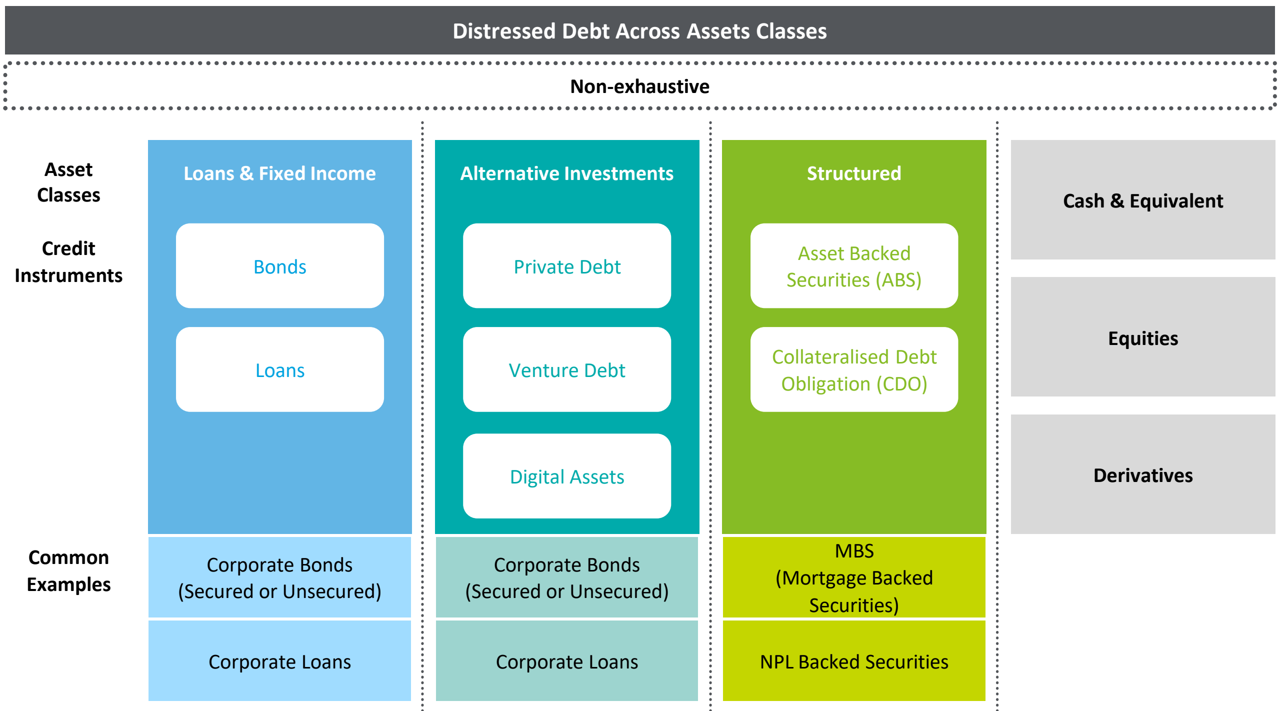
The assets underlying distressed debt include bonds and loans, as well as alternative and structured products.

Overview of distressed debt across asset classes

Distressed debt and the credit instruments underlying them sit in more than one asset class. For example, traditional, or vanilla debt such as bonds or loans, sit under Fixed Income products[1], while repackaged, structured, or derivative products using debt as the underlying asset sit under Structured products[2]. The categorisations are as follows:

1. **Loans & Fixed Income** - can refer to loans, bonds, cheques, invoices, etc. Fixed income products provide a regular income stream in the form of recurring coupon or interest payments. Variations in risk for loans and fixed income can exist due to further classifications (e.g., senior debt, secured or unsecured, etc.).
2. **Alternative Investment** - can refer to venture debt, private debt, etc. These debts are less liquid due to fewer investors in these markets. Oftentimes, these are relationship-driven and non-commoditised forms of debts.
3. **Structured** - refers to securities created by bundling and reconfiguring loans and other fixed income asset classes (e.g., loans and bonds) to achieve specific risk and return profiles.
4. **Derivatives** - refers to instruments whose value is derived from an underlying asset or variable, and they include options, futures, swaps, and forward contracts used for speculation and hedging.
5. **Cash & Equities** - By definition, no debts sit in either of these 2 asset classes.

Illustrative view of Distressed Debt across Asset Classes



In this report, the focus is on corporate bonds, loans, and adjacent capital market-related instruments. These areas encompass a significant segment in distressed situations where capital market players can have an impact.

Source: Deloitte Analysis
1) Charles Schwab, [What's in Your Portfolio? The Role of Various Asset Classes](), July 2023
2) Harvard Business Review, [The 7 Alternative Investments You Should Know](), May 2020

Who are the main stakeholders in the distressed debt market?

There are seven main stakeholder groups in the distressed debt investment ecosystem. Investors and distressed debt managers are the two main sources of investment capital.

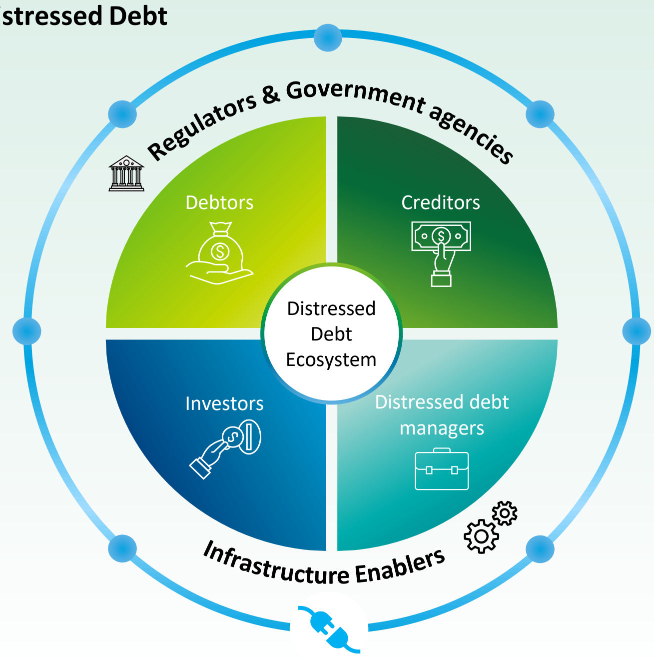
Overview of the stakeholders[1,2,3]

A high-level description for each stakeholder is outlined below to establish their archetype and how they are primarily involved in the distressed debt market.

1. **Debtors** include companies and individuals who borrowed funds from creditors but missed their debt payments and are now responsible for repaying distressed bonds and loans.
2. **Creditors** include banks, non-bank financial institutions, corporates, or private lenders who own the distressed debt and who must decide what to do about the payments they are owed.
3. **Distressed debt managers** sit between debtors, creditors, and distressed debt investors. This group professionally manages capital on behalf of investors, uses that capital to purchase debt from creditors, and works directly with debtors to resolve that debt.
4. **Investors** include institutional investors, family offices, and high net worth individuals, among others, who allocate a portion of their portfolio to include distressed debt instruments.
5. **Regulators & government** agencies oversee the legal, regulatory, and policy frameworks that govern the distressed debt market (e.g., bankruptcy codes).
6. **Infrastructure enablers** provide support and ancillary services such as bond trustees / representatives, underwriters, SPVs, restructuring experts (e.g., M&A advisors, lawyers, accountants), and platforms (e.g., data and bond trading platforms, clearing systems, etc.)
7. **Intermediaries** serve as middlemen who bridge the gap between buyers and sellers, often taking on roles as either market makers or connectors depending on the specific transaction.

Illustrative view of distressed debt market stakeholders

Main stakeholders in Distressed Debt



Source: Deloitte Analysis

1) Oaktree, Global Opportunity Knocks: The Evolution of Distressed Investing, November 2021

2) Crystal Capital Partners, Investing in Distressed Debt, November 2020

3) Harvard Business Review, A Primer on Restructuring Your Company's Finances, June 2020

What does an intermediary do?

Intermediaries connect buyers and sellers and are a critical component of efficient markets. They facilitate transactions by injecting a layer of trust for counterparties and provide expertise in navigating market complexities.

Overview of intermediary role

Intermediaries are a stakeholder group that connect key stakeholder groups by filling in market gaps with their transactional, information, negotiation, and networking capabilities.

They are 2 main types:

1. **Connectors** - these intermediaries leverage their informational, negotiation, and networking capabilities to connect parties and facilitate transactions.
2. **Market makers**[1,2] - these intermediaries leverage their transactional capabilities and deploy capital where necessary to enable liquidity in the market. They play the vital role in holding assets, taking on risks, and allocating capital.

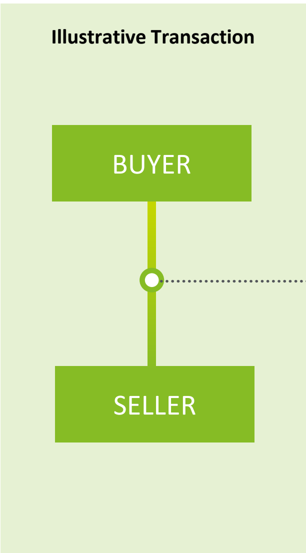
These roles are not mutually exclusive, and it is possible for to perform either or both roles.

Examples of intermediaries[3,4,5]

While there is no fixed definition, intermediaries are generally individuals or entities who are often part of the main stakeholder groups discussed previously. Examples include:

1. **Banks** who introduce the distressed debtors to distressed debt managers or investors, and facilitate the NPLs sales
2. **Industry experts** who identify distressed debtors with potential in need of restructuring for investors looking for opportunities to diversify their portfolio, providing expertise, and advisory in the process
3. **Government agencies** who act as a bridge to connect distressed debtor with investors (e.g., via Public and Private Investment Programmes, etc.)
4. **Platforms (e.g., data platforms or exchanges)** that provide a means to connect parties, gain access to information for price discovery, or facilitate trade of NPLs or distressed bonds
5. **PE firms** who actively seek and create investment opportunities for investors even in distressed situations

Illustrative view of key roles of an intermediary



Facilitator
Intermediaries help match buyers and sellers. They provide a platform for trading and facilitate transactions. In the distressed debt market, where assets may not be actively traded, intermediaries can help create liquidity.

Price Discovery
Intermediaries help establish fair market prices for opaque assets. They assess the various aspects including the asset, debtor, market to determine a reasonable price helping both buyers and sellers make informed decisions.

Negotiator
In many distressed debt situations, negotiations can be protracted and involve various stakeholders. Intermediaries can help mediate discussions, reach agreements, and facilitate the restructuring of debt.

Trusted Partner
In some cases, distressed debt trades require discretion. Intermediaries can help maintain confidentiality and privacy for both buyers and sellers, protecting sensitive information.

Network Provider
Intermediaries have extensive networks and connections in the financial industry. They can introduce sellers to potential buyers and vice versa. This broader network can help maximise the exposure of assets to potential buyers.

Source: Deloitte Analysis

1) SEC, Roles of market maker in secondary market, Accessed November 2023
2) SET, 3 checklist to evaluate market maker, Accessed November 2023
3) Oaktree, Global Opportunity Knocks: The Evolution of Distressed Investing, November 2021
4) Crystal Capital Partners, Investing in Distressed Debt, November 2020
5) Harvard Business Review, A Primer on Restructuring Your Company's Finances, June 2020

Investors and distressed debt managers encompass a broad spectrum of accredited professionals with expertise to employ specialised strategies to capitalise on opportunities amid associated risks.

Balancing supply and demand in distressed debt markets

A vibrant and resilient distressed debt market hinges on the delicate balance between supply and demand. Any mismatch between these two components can result in market inefficiencies and loss of opportunity in managing distressed debt. This equilibrium creates a fertile ground for investors to capitalise on undervalued and troubled assets, transforming risks into profits.

From a demand perspective, distressed debt investors and managers covers a diverse range of entities, all sharing a common goal of seizing opportunities and orchestrating turnaround. Such Investors would typically employ investing strategies revolving around[1]:

(1) Active control (e.g., Buy to own),

(2) Active non-control (e.g., Buy to enforce), and

(3) Passive investing (e.g., Buy to sell).

Each strategy comes with its own unique nuances and considerations[2], dependent on factors such as investment horizon and market conditions, which will be explored in detail in *Chapter 2.2 The Distressed Debt Lifecycle*.

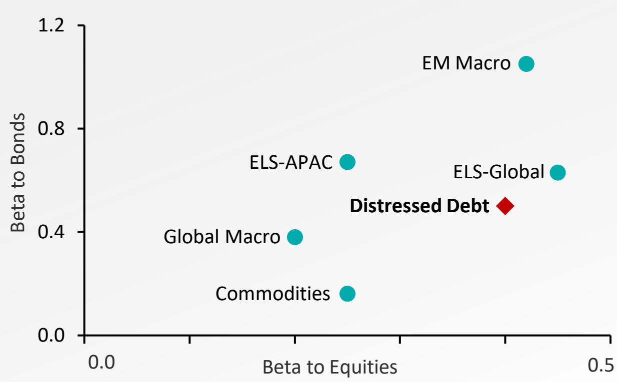
From a supply perspective, a broad set of investable distressed assets, spanning simple ones such as distressed bonds and loans to complex ones including structured and alternative asset classes, ensures that investors, managers, and capital markets have the flexibility to extract value from their investments. This flexibility allows them to create win-win situations by restoring distressed assets to profitability, rather than letting assets deteriorate into bankruptcy or write-offs, which benefits neither debtors nor investors.

Spotting opportunities and unlocking value

Distressed debt investing has similarities with value investing.[3] **Opportunities lie in purchasing debt at a discount and realising returns when the market recognises its intrinsic value**. The key difference is limited price transparency in debt markets when compared to equity markets; metrics like P/E ratio and EPS are not published.

Investing in distressed assets entails assessing the intrinsic value of asset (e.g., enforceable collateral) or the potential of the company and finding those that are undervalued. For instance, there are well-run companies with weakened financial positions caused by market events beyond their control (e.g., COVID-19). These debts present profitable turnaround opportunities. For those capable of execution, **distressed debt investors can be rewarded with equity-like returns, with similar risk betas to bonds when structured properly**.[1]

Structured Distressed Debt Beta to Bonds and Equities[1]



Source: Deloitte Analysis

1) Mergers and Inquisitions, Distressed Debt Hedge Funds: How to Become a Vulture Capitalist, Accessed October 2023

2) CAIS, An Introduction to Distressed Debt Investing Strategies – CAIS, March 2023

3) Forbes Advisor, What Is Value Investing?, April 2022

Sophisticated investors and distressed debt managers will deploy active control strategies, while less sophisticated ones can invest passively in. Certain assets are more suitable for some strategies and not others.

The distressed debt investing landscape

Investors and distressed debt managers may opt to employ one or several types of investing strategies to maximise their portfolio's performance based on 2 key factors: investor capabilities and investment risk level.

Investors' capabilities – refers to distressed debt managers/investors' skills, manpower, access to information, track record, capital, and available dry powder, etc. For example, PE firms would typically be more capable to carry out active control (e.g., restructuring) strategies versus institutional investors (e.g., insurance companies) who are not specialised to perform such activities.

Investment risk level – refers to the relative propensity of the investment going bust. As an example, despite being distressed, a secured bond is perceived to be less risky than an unsecured bond since it is more senior and has collateral that may be enforced.

The same asset can be treated differently by various investors. Institutional investors, for example, tend to take a more passive approach, relying primarily on future cash flows (e.g., coupon rates). In contrast, PE firms and other distressed debt managers can be more active, strategically acquiring substantial quantities of secured bonds in a distressed company to exert significant influence during its restructuring.

Illustrative Global Distressed Debt Landscape: By investing strategy and instrument*

*Note: Exceptions may exist to this model
Source: Deloitte Analysis

2.2 The Distressed Debt Lifecycle

From an investor perspective, the distressed debt lifecycle comprises four stages: Debt Origination, Investment, Turnaround, and Exit

Overview

Turning a distressed debt into a profitable asset is a multifaceted achievement. It not only benefits investors but also safeguards capital investments critical to the overall economy. This transformation introduces market efficiencies, supports continuation of business operations, and helps preserve jobs. The life cycle includes 4 key components:

A. **Debt Origination:** Debt comes to existence when a borrower approaches financial institutions or fixed income markets to raise capital. If the borrower does not pay back debt obligations, then it becomes distressed.

B. **Investment:** Distressed debt managers, looking to make profits, purchase the debt from creditors or bond holders usually at a discount. They can deploy a number of passive or active strategies to realise their returns (as listed below).

C. **Turnaround**: Active debt managers can deploy a number turnaround strategies to transform the distressed investment—such as reorganising the struggling company.

D. **Exit**: Distressed debt managers will realise gains by either converting their debt to equity upon successful turnaround, selling debt at a premium, or holding debt to maturity.

Illustrative activities across the distressed debt lifecycle[1]

Debt becomes distressed

Non-exhaustive

A Debt Origination

Debtors raise capital via loans or in fixed income markets:

1. Obtain loan (secured and unsecured)
2. Issue bond (public offering and private placement)

B Investment

Distressed debt managers purchase debt from creditors

1. Buy to sell *e.g., Trading debt securities*
2. Lend to hold *e.g., Provide rescue loans*
3. Buy to enforce *e.g., Purchase NPL portfolio*
4. Buy to own *e.g., acquire control of senior debt*
5. Combination of 1-4

C Turnaround

Common methods of how value can be generated or extracted:

1. Actively recover payments due to the company
2. Asset liquidation
3. Debt restructuring or refinancing
4. Operational improvements
5. M&A activities
6. Judicial enforcement (rehabilitation, enforcement, etc.)

D Exit

Exit opportunities to monetise investments:

1. Convert debt to equity
2. Sell debt at a premium to the purchase price
3. Hold debt to maturity

Source: Deloitte Analysis
1) Bank for International Settlements, Resolution of non-performing loans - policy options, October 2017

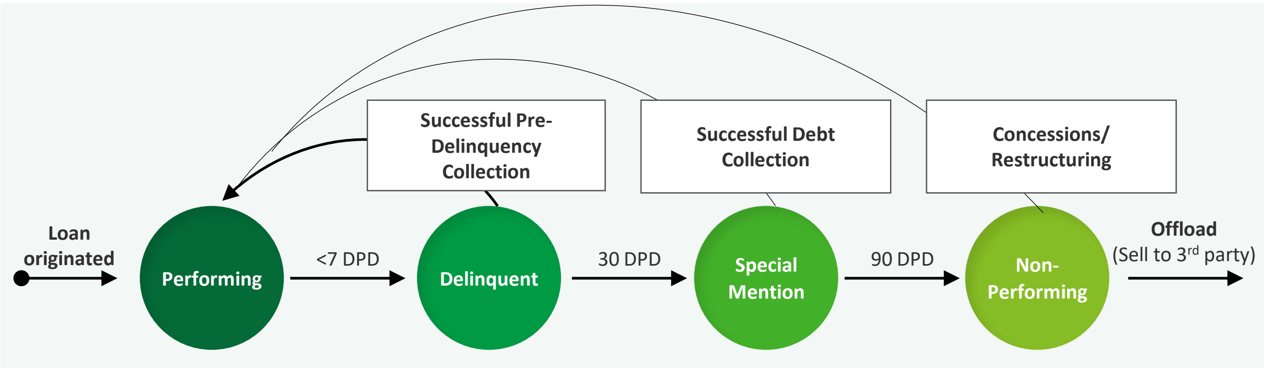
The debt origination lifecycle starts when debtors leverage debt to raise capital for business purposes.

A B C D

Debtors seeking to raise capital can obtain loans from creditors or issue bonds. The choice between the two depends on factors such as interest rates, loan terms, and the vibrancy of bond markets.[1] Debt becomes distressed when debtors fail to meet their payment obligations.

A1. Loans

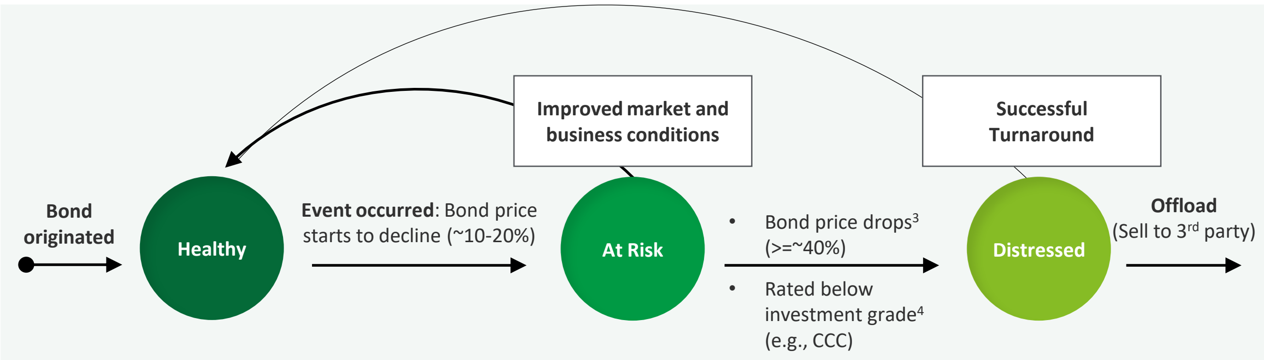
Illustrative Loan Classification[2]



1. < 7 DPD the creditor typically performs pre-delinquency collection (e.g., sending reminders)
2. >= 7 DPD to 30 DPD the creditor continues collection process and may escalate via legal means
3. >= 90 PDP the creditor may set aside provisions for potential loan losses while still pursuing debt collection. The creditor can also consider selling (NPLs) at a reduced price to third parties

A2. Bonds

Illustrative Bond Issuer Status[3]



1. Bond issuer floats bonds in the market
2. Bond issuer faces difficulties meeting its financial obligations causing bond price to fall. If the conditions worsen, this can result in the bond receiving a non-investment grade rating
3. Bondholders can opt to sell their distressed bonds to other distressed debt managers or investors at a discount

Source: Deloitte Analysis
1) The Wall Street Journal, Loans Are Cheaper Than Bonds for Some Highly Rated Companies, September 2022
2) IMF, Definition of Non-Performing, 2019
3) Corporate Finance Institute, Distressed Debt - A Security in Default or Likely to Be in Default, Accessed September 2023

Investments in distressed debt are often done via distressed debt managers who utilise their capabilities and actively seek opportunities to unlock upside potential.

A B C D

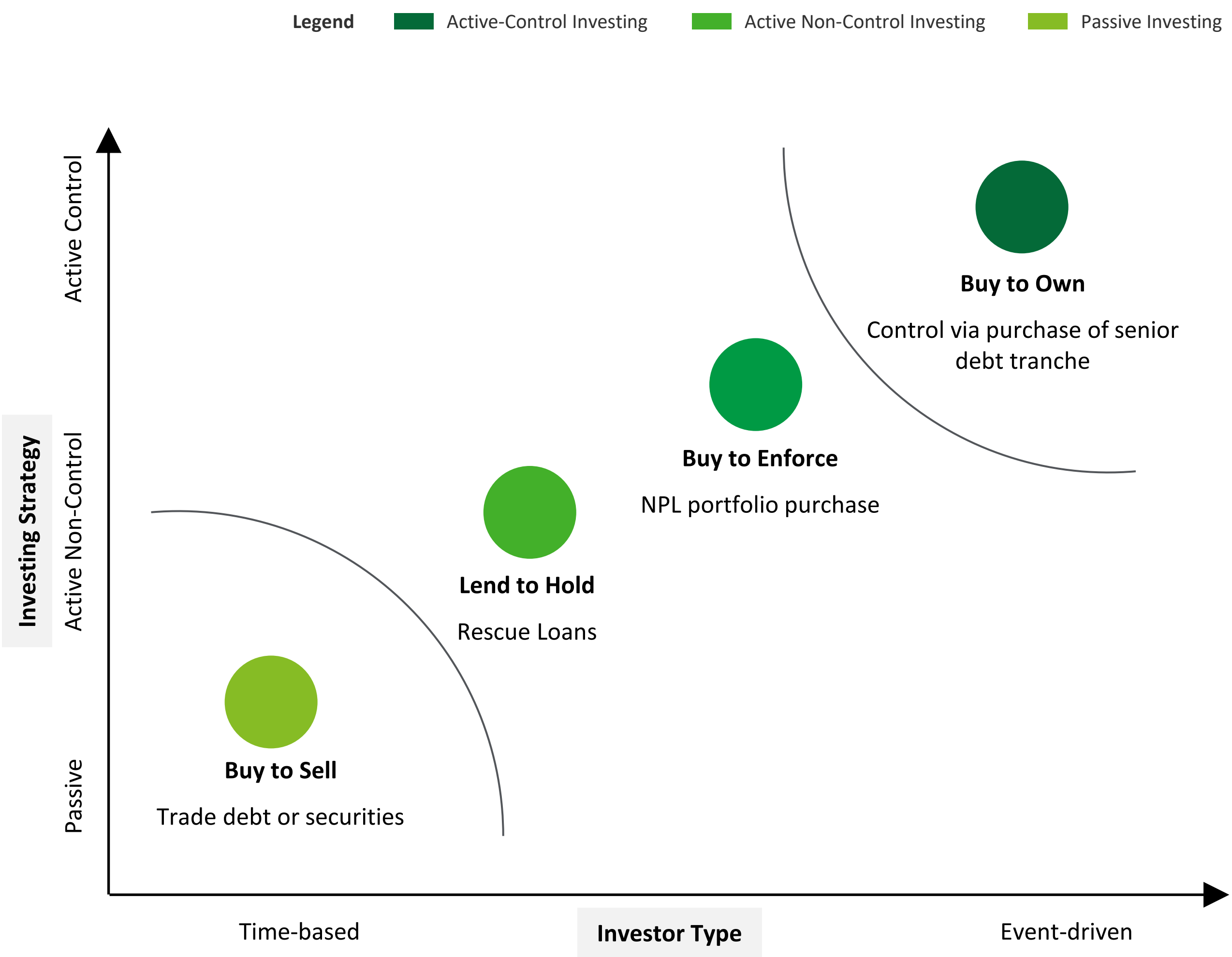
Distressed debt investing[1]

Distressed debt managers can invest in a variety of distressed assets spanning derivatives, bonds, and NPLs. Moreover, it's common for a single firm to employ multiple investment strategies to capitalise on a portfolio of opportunities presented in the market. These intricacies are effectively categorised through distinct investing strategies and investor type.

There are 2 common investor types, including time-based investors and event-driven investors.

1. **Event-driven investors** are more active and base their decisions on market catalysts such as corporate bankruptcy filings, M&A transactions, and economic events. They deploy Lend to Hold, Buy to Enforce, and Buy to Own strategies as detailed on the next page.
2. **Time-based investors** are more passive and primarily focus on buy-to-sell trading strategies—i.e., buying undervalued assets and selling them when the market realises their true worth.

Illustrative Distressed Debt investing: By Investor Type and Investment Strategy



Source: Deloitte Analysis
1) Mergers and Acquisitions, Distressed Private Equity: The Best Place to Invest When the World is Collapsing?, Accessed October 2023

The distressed debt lifecycle – Investment

Distressed debt managers can utilise one or multiple investment strategies to enhance returns and manage risks for their investors.

Distressed debt investing strategies[1,2,3]

Distressed debt managers (both time-based and event-driven) have a variety of investment options at their disposal when it comes to distressed debt. These include more passive strategies (i.e., buy to sell), as well as more active and controlling strategies (i.e., buy to own).

Illustrative Investing Strategies based on the spectrum of investor involvement

LEVEL OF INVOLVEMENT: Passive → Control

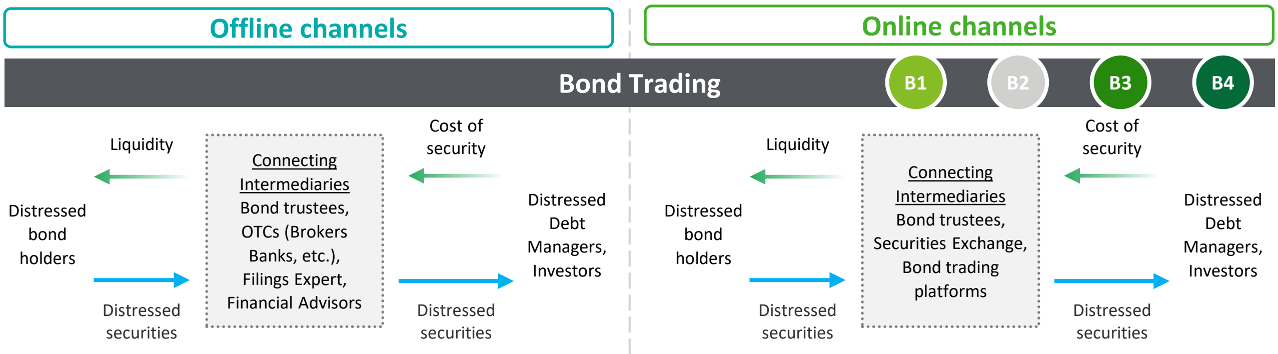
Investment strategies	Transaction Flows (→ Capital; → Assets)
B1. Buy to Sell *e.g., Trade debt or securities* Trade distressed bonds or securitised NPLs to take advantage of undervalued securities and price fluctuations	Distressed bond holders ← Liquidity ← Intermediary ← Cost of security ← Distressed debt managers, Investors Distressed bond holders → Distressed securities → Intermediary → Distressed securities → Distressed debt managers, Investors
B2. Lend to Hold *e.g., Rescue loan* Provide direct bilateral loans to distressed debtors in exchange for above market interest rates	Debtors ← Cash ← Creditors, Distressed Debt managers, Investors Debtors → interest & principal repayments → Creditors, Distressed Debt managers, Investors
B3. Buy to Enforce *e.g., NPL portfolio purchase* Purchase NPLs from a variety of creditors with the purpose of restructuring, renegotiating or enforcing the debt	Creditors ← NPL purchase price ← Intermediary ← NPL purchase price ← Distressed Debt Managers Creditors → NPL Portfolio → Intermediary → NPL Portfolio → Distressed Debt Managers
B4. Buy to Own *e.g., Control via purchase of senior debt tranche* Accumulating a controlling portion of debt in a distressed company to influence restructuring and/or convert to equity	Senior debt holders (loans, bonds) ← Liquidity ← Intermediary ← Debt purchase price ← Distressed Debt Managers, Investors Senior debt holders (loans, bonds) → Interest, principal repayment, and claim on company's assets → Intermediary → Interest, principal repayment, and claim on company's assets → Distressed Debt Managers, Investors

Source: Deloitte Analysis
1) CAIS, An introduction to distressed debt and credit investing, March 2023
2) Financier Worldwide, NPLs and distressed assets as an upcoming asset class in private equity, 2021
3) Harvard Business Review, A Primer on Restructuring Your Company's Finances, June 2020

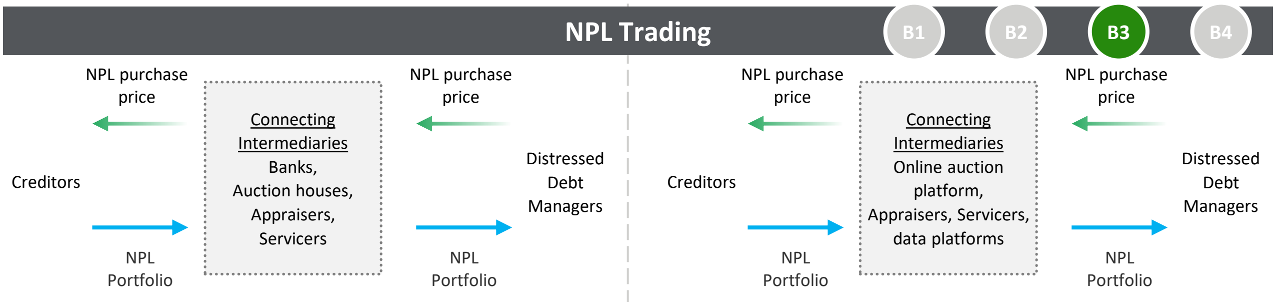
Investing in distressed debt assets are available via offline and online channels made possible through the intermediaries' involvement in both connecting and market making functions.

Distressed Debt Investing Channels and Intermediaries

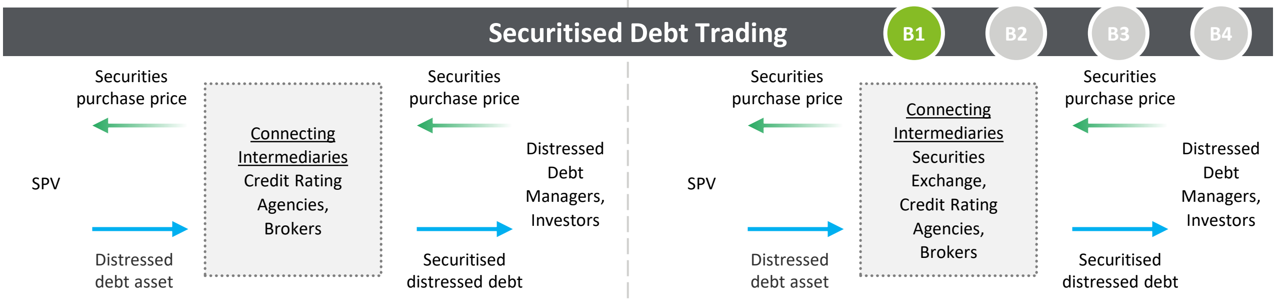
Distressed debt managers and investors typically rely on both offline and online channels to trade distressed debt instruments to realise their investment strategies through the assistance of various intermediaries (individuals, groups, platforms, etc.).



Bond trustees[1] often play the role of connecting intermediaries who serve as trusted negotiators and fiduciaries representing bondholder interests. They oversee proper implementation of debentures, often taking additional responsibilities related to finance and administration to ensure the best outcome for bondholders.



Appraisers[2] play the role of connecting intermediaries who provide capabilities to assess the value of collateralised assets, conduct market analysis, and provide detailed reports to help determine the pricing and risk associated with NPLs.



Special Purpose Vehicles (SPVs)[3] facilitate market making in distressed debt securitisation by acting as an independent entity that holds and manages underlying assets, thus providing investors with structured securities backed by these distressed assets.

Source: Deloitte Analysis
1) International Capital Market Association (ICMA), International Practices of Bond Trustee Arrangements, March 2018
2) Corporate Finance Institute, Collateral Quality - Overview, MAST Framework, Asset Appraisal, 2023
3) IMF, Back to basics: What Is Securitisation?, September 2008

Stakeholders in control of the distressed entity can influence the implementation of turnaround initiatives aimed at restoring cash-flow and profitability.

A B C D

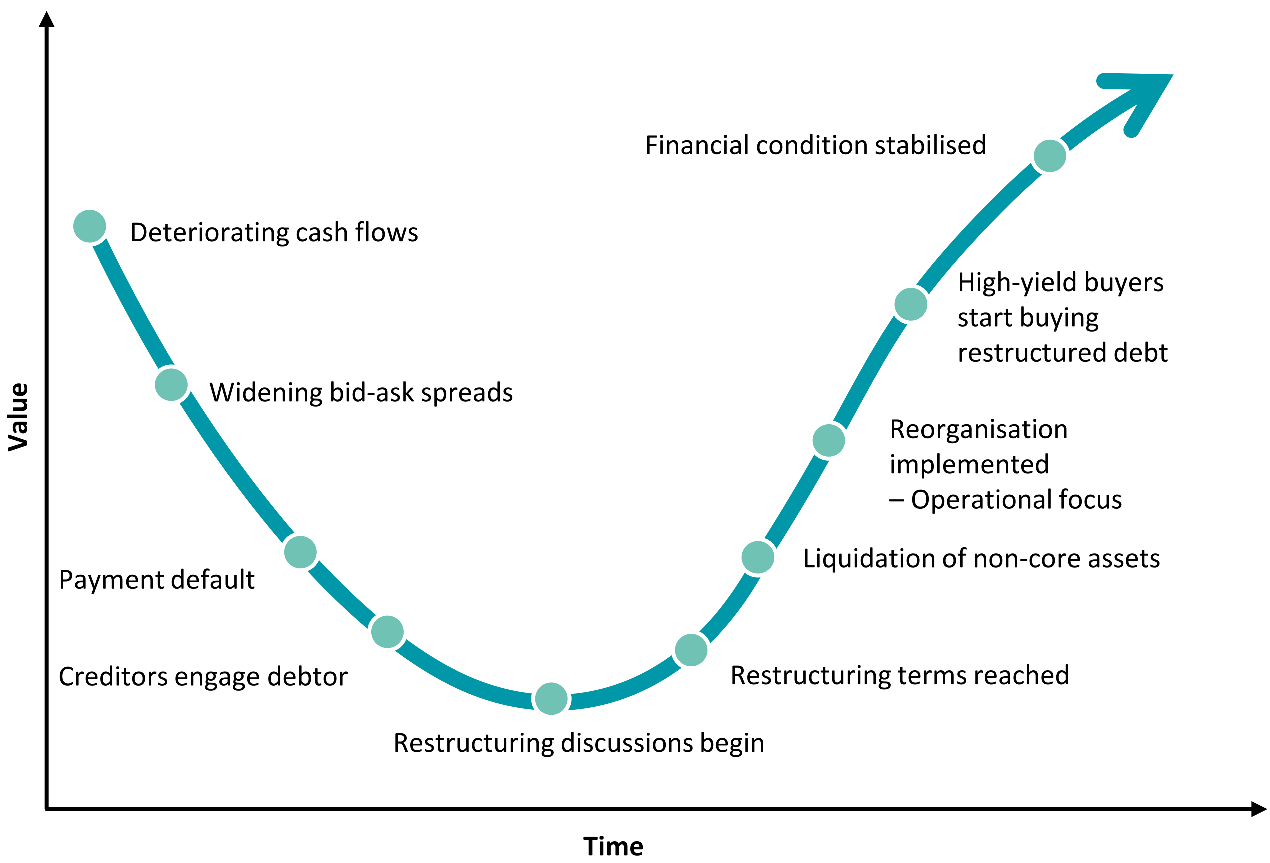
Turnaround initiatives to generate value

The primary objective of turnaround activities in distressed debt is to revitalise a financially troubled entity, restoring its financial health and sustainability. This entails addressing cash flow issues, optimising operations, and implementing strategies that enhance the distressed entity's value and ultimately benefit all stakeholders involved.

The efforts to improve the financial health of troubled assets commence when distress has manifested (i.e., deteriorating cash flows, widening bid-ask spreads, payment default, etc.) triggering creditors and debtors to engage in discussions. These plans or agreements can be formulated in court or out of court depending on the jurisdiction and scale of the problem. Nonetheless, it may consist of both short- and long-term initiatives.

Short-term efforts prioritise rejuvenating cash flow and working capital solutions, while longer-term actions involve operational enhancements, strategic realignment, and divesting non-core assets.

Example of corporate distress and recovery cycle at a micro level[1]



Source: Deloitte Analysis
1) Gramercy, Overview of Distressed Debt Investing, Accessed September 2023

The distressed debt lifecycle – Turnaround

Corporate turnaround or restructuring is an endeavor requiring specialised skills and acumen to help distressed debt companies re-emerge from bankruptcy and return to business viability.

Driving successful turnaround

Corporate turnarounds or restructuring requires distressed debt managers to actively translate strategic initiatives and financial targets into an implementable plan consisting of various activities over time.

Turnaround activities require investors and distressed debt managers to have specialised capabilities such as industry experience, business and financial acumen, operational and technical know-how, networking, etc. This inherently requires bringing together core personnel, groups, and experienced, skilled intermediaries who can work together and leverage on each other's skills and competencies focused on the achieving the same objectives.

Restructuring situations often bring together most of the stakeholders outlined in Chapter 2.1, with debtors, creditors, and regulators taking on key roles. Distressed debt managers often drive this process by providing compensating capabilities and bringing capital to lead the turnaround. Also essential are infrastructure enablers such as lawyers, accountants, financial analysts, etc., who can provide ancillary services to yield successful outcomes.

Illustrative examples of turnaround activities, non-exhaustive[1]

Strategic Initiatives

Operational Realignment

Financial Management

Stop the Bleeding	Develop Restructuring Plan	Prioritise Opportunities	Implementation
1. Optimise working capital 2. Retrenchment & layoffs 3. Raise new money by liquidating assets 4. Debt restructuring	1. Workforce restructuring 2. Redesign target operating model 3. Aggressive cash recovery processes 4. Issue new equity	1. Expand new lines of business/ market reach 2. Management & leadership change 3. Manage capital expenditure 4. Manage treasury functions	1. Optimise physical operations and structures 2. Maintain optimised cash flows

Source: Deloitte Analysis
1) Gramercy, Overview of Distressed Debt Investing, Accessed September 2023

The distressed debt lifecycle – Exit

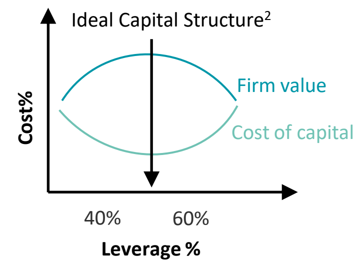
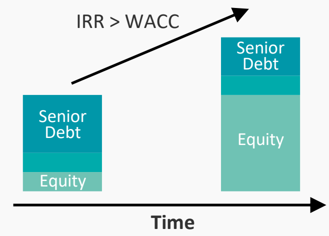
Monetising debt into returns is arguably the most important step for investors. When structured and timed properly, returns can approach levels seen in the equity market.[1]

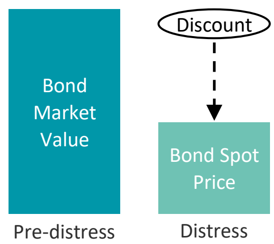
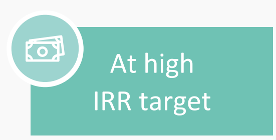
Exit strategies to liquidate investments

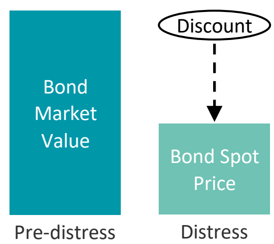
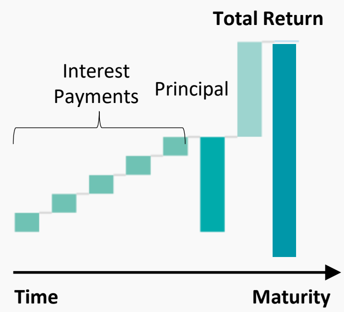
Investors and distressed debt managers have various exit strategies available to monetise their investments. This can occur when the distressed company's risk/reward profile becomes attractive for resale, upon the company's successful emergence from distress, or through asset liquidation.

1. **Debt to equity conversion** – debt holders who have converted their claims into equity have the option to sell their shares on public exchanges or through over-the-counter transactions
2. **Sell debt marked-to-market** – investors and distressed debt managers can sell the revitalised debt in secondary market for a profit
3. **Hold debt to maturity** – investors and distressed debt managers can opt to hold the debt until maturity, especially if they have renewed confidence that the debtor can now meet obligations

<table>
<tr><th>Common exit strategies</th><th colspan="2">Why go for this strategy</th></tr>
<tr>
<td>1. Debt to Equity Conversion

Debt is converted into equity at a ratio decided during restructuring negotiations. Shares can be sold to other investors when the price appreciates</td>
<td>Short Term – Improve capital structure and lower cost of capital to improve business viability

</td>
<td>Long Term – Increase equity return from capital appreciation + dividends

</td>
</tr>
<tr>
<td>2. Sell Debt Marked-to-market

Investors can sell the debt on the market at a higher price when turnaround initiatives are priced in</td>
<td>Short Term – Buy Low

</td>
<td>Long Term – Cash out

</td>
</tr>
<tr>
<td>3. Hold Debt to Maturity

Investors can wait until their debt matures and cash out for the entire face value amount</td>
<td>Short Term – Buy Low

</td>
<td>Long Term – Recurring cashflow from interest and principal payment

</td>
</tr>
</table>

Source: Deloitte Analysis
1) Corporate Finance Institute, Debt vs Equity Financing, June 2023
2) Reuters, Focus: Betting on a recession, U.S. distressed debt funds seek fresh capital , July 2022

3 Distressed debt in Thailand

3.1

Overview of Thailand's Distressed Debt Ecosystem

3.1.1 Distressed loan market – History

3.1.2 Distressed bond market – Significant events

3.1.3 Overview of market participants

3.1.3 Capital market enablers

3.1.4 Regulatory landscape

3.1.5 Insights on core market participants

How did Thailand distressed loan market originate?

The 1997 Asian Financial Crisis was a catalyst for the distressed loan market in Thailand, a situation that pushed approximately 60% of the country's financial institutions to the brink of insolvency.

A brief history of distressed loan in Thailand[1,2,3,4,5,6,7,8]

Prior to the Asian Financial Crisis, Thailand's bankruptcy law was oriented towards corporate liquidation rather than rehabilitation[7]. The crisis prompted the introduction of mechanisms such as corporate rehabilitation procedures and the establishment of Asset Management Companies (AMCs), which played a pivotal role in averting a total financial system collapse.

These measures succeeded in contributing to economic recovery, debt resolution, job preservation, investor confidence, and the development of a more resilient and transparent financial system. They underscored the market's ability to rectify inefficiencies when supported by a conducive regulatory framework and infrastructure.

Over time, the market has evolved to become more liquid and transparent. Fast forward to the present, the Thai distressed loan market now faces a critical juncture where opportunities and challenges converge. While the distressed loan market has since overcome the stigma of the late '90s, it has stalled in its evolution and remains centered around the same asset classes.

NPL Definition:

"An asset with overdue payments for more than 90 days or that has been demanded repayment, whichever comes first, and written-off assets as well as other characteristics, which may be considered as NPLs"

Bank of Thailand[1]

1998
Gross NPLs: $65bn

2001
Gross NPLs: $13bn

2001
1 Registered AMC

2021
60 AMCs

2022
Gross NPLs: $14bn
SMLs: $32bn

2023
80 AMCs

1997 — 2023

1997 – 1998

1. 58 FIs shut down[2], representing approximately. 66% of total FIs in operation. USD 33 Bn in assets taken over by Thai government
2. Emergency Decree introducing AMCs to handle NPLs in the market[2]

1999

The Thai bankruptcy court enabled rehabilitation processes, a departure from the previous practice of automatic liquidation

2001

TAMC consolidated all distressed debt.[2] Shareholders include creditors of 58 closed FIs

2013

TAMC ceased operations; with remaining assets purchased by BAM and SAM, today's dominant AMCs[2]

2016

Bankruptcy Act amended to include SMEs[4]

2021 – 2022

1. SEC framework established fund for distressed bonds[5]
2. BoT framework for joint venture AMC[6]

Source: Deloitte Analysis

1) Bank of Thailand, Redefining "Non-Performing Loans" (NPLs), January 2003
2) ADB, Lessons Learned from Asian Experiences, October 2019
3) Journal of Financial Crisis, The Thai Asset Management Company, June 2021
4) PriceSanond Lawyer, Rehabilitation Process For SMEs, August 2016
5) SEC, Stressed Bond Fund Guideline, December 2021
6) NNT, Announces Conditions to Establish JV AMC, January 2022
7) IMF, Thailand: Resolving the Corporate Debt Problem, March 2000
8) BAM, Thailand Focus 2023 The New Horizon, August 2023

What significant events have shaped Thailand's distressed bond market?

The economic upheaval triggered by the 2019 pandemic resulted in a substantial rise in defaulted bond volumes.

Overview of distressed bonds in Thailand

In contrast to the distressed loans market, the distressed bond market in Thailand was in its early stages and relatively small in scale in comparison to the volumes of NPLs during the Asian Financial Crisis. The rise in distressed bonds volumes only came into the spotlight during the COVID-19 pandemic. This surge was driven by economic disruptions and corporate financial difficulties, leading to a remarkable growth of 683% between 2019 and 2023.

Pandemic-related uncertainties have fostered a risk-adverse environment among investors and intermediaries, resulting in a higher prevalence of default bonds. Regulatory actions have added complexity to the bond market, underscoring the need for robust risk management and financial transparency.

Distressed Bonds Definition:

"Defaulted bond refers to a debt instrument in which the issuer is unable to repay interest and principal within the specified time period."

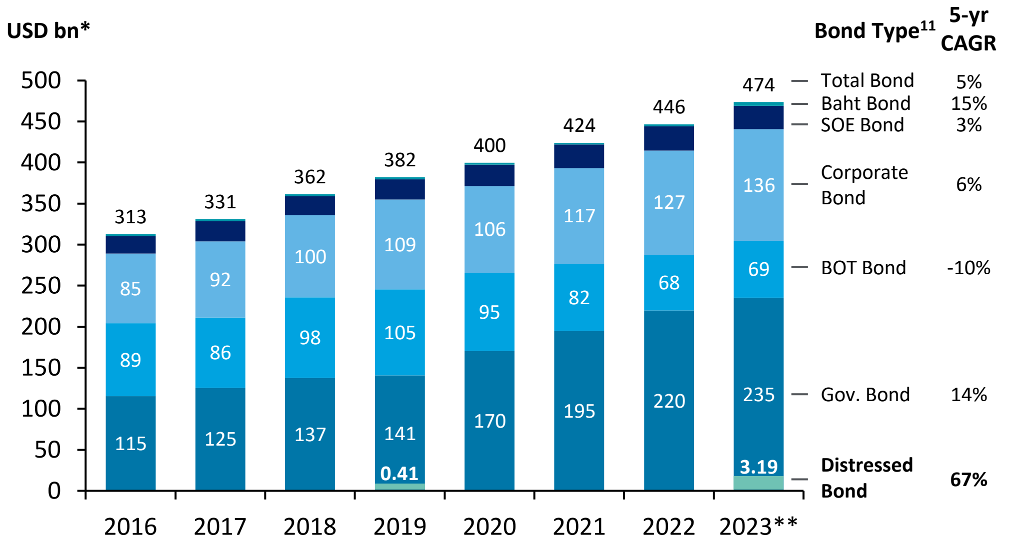
Thai Bond Market Association[1]

Key Events

1. COVID-19 pandemic triggered the rise in distressed bond volumes in Thailand by 683% from 2019 to 2023, thus expanding the dynamics of the distressed bond market[2]
2. In response to the surge, SEC reexamined the regulations to support rollover and refinancing needs of bond issuers[3]
3. In 2020, SEC launched the stressed bond fund guideline to oversee the creation of new vehicle for institutional investors to invest in distressed asset and facilitate the capital inflow to distressed borrowers[4]

Market size

Outstanding Value of Thai Bond Market from 2016 – 2023[2,5,6,7,8,9,10]



Source: ThaiBMA

* Convert from THB
** Bond data is only until 3Q/2023
Source: Deloitte Analysis

1) ThaiBMA, Credit Risk or Risk of Default on Bond, May 2021
2) ThaiBMA, Overview of Thai Bond Market 3Q 2023, October 2023
3) SEC, Reexamine of Bond Regulations, December 2020
4) SEC, Stressed Bond Fund Guideline, December 2021
5) ThaiBMA, Annual Report 2017, Accessed November 2023
6) ThaiBMA, Annual Report 2018, Accessed November 2023
7) ThaiBMA, Annual Report 2019, Accessed November 2023
8) ThaiBMA, Annual Report 2020, Accessed November 2023
9) ThaiBMA, Annual Report 2021, Accessed November 2023
10) ThaiBMA, Annual Report 2022, Accessed November 2023
11) As defined by ThaiBMA

Who are Thailand's distressed debt market participants?

In Thailand, banks and AMCs are amongst the most active participants today, but there is future potential to include a wider variety of PE firms, fund managers, hedge funds, and institutional investors.

Current & potential future market participants in Thailand's distressed debt ecosystem

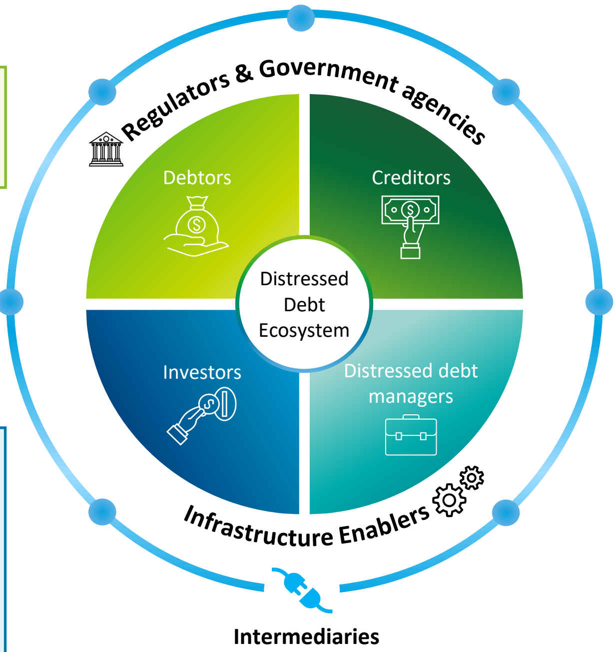
Despite the apparent diversity of market participants, Thailand's distressed debt ecosystem is not as robust compared to global counterparts due to limitations on participant activities and the restricted involvement of specific stakeholders.

The illustration below outlines a list of stakeholders under each category who are currently active in Thai capital markets. **Not all these stakeholders participate in distressed debt investments, but many have the potential to do so increasingly in the future**.

Stakeholders in Thai Distressed Debt Ecosystem

Illustrative & non-exhaustive

Legend: Participants Today | Potential Participants Tomorrow



1. Debtors

Participants Today:
- Corporates
- SMEs
- Other borrowers

2. Creditors

Participants Today:
- Financial Institutions
- Non – Financial Institutions

Potential Participants Tomorrow:
- Private Debt Managers
- Angel Investors

3. Investors

Participants Today:
- Bond Trustees
- HNW and UHNW Individuals
- Foreign institutional Investors
- UI funds
- Hedge Funds
- Brokerage Firms

Potential Participants Tomorrow:
- Insurance Companies
- Social Security Fund
- Government Pension Fund
- Retail Investors
- Venture Capital Firms
- Retail Mutual Funds
- AI Mutual Funds

4. Distressed debt managers

Participants Today:
- AMCs

Potential Participants Tomorrow:
- PE Firms (GPs)
- Fund Managers

5. Regulators and government agencies

Participants Today:
- Bank of Thailand
- Securities and Exchange Commission
- Thai Bond Market Association
- Stock Exchange of Thailand
- Legal Execution Department

Potential Participants Tomorrow:
- Ministry of Finance
- Ministry of Foreign Affairs
- Board of Investments
- Revenue Department

6. Infrastructure Enablers

Participants Today:
- Clearing houses
- Securities depository

Potential Participants Tomorrow:
- ICO Portal

7. Intermediaries

Participants Today:
- Local market SMEs (lawyers, accountants, etc.)
- Public auction

Potential Participants Tomorrow:
- Talent specialized in distressed debt
- End-to-end platforms (data to reconciliation)

Source: Deloitte Analysis

Who are the market enablers involved in Thai capital markets today?

Regulators, industry associations, and other governing bodies play distinct roles in overseeing and developing the Thai capital markets; but there is limited focus on distressed debt management today.

Role of market enablers in the Thai Capital Markets

The Thai capital market ecosystem features a diverse array of institutions and regulatory bodies, all of which play pivotal roles in shaping the effectiveness of the financial ecosystem. Their roles and responsibilities primarily revolve around ensuring a healthy capital markets with a lesser emphasis on the resolution and management or distressed debt issues. Defining comprehensive roles specific to their involvement in distressed debt at a holistic and inter-agency level will be a key enabler to the distressed debt market.

Market Enablers	Key roles and responsibilities
Regulators and Government Agencies	
Securities and Exchange Commission[1]	1. Developer, promotor, and regulator of Thai capital markets – including the distressed debt market 2. Oversees development of educational services around funds, bond, equity and securities industry 3. Plans, assesses, and evaluates options to facilitate trading of distressed assets in the future, e.g., bonds
Bank of Thailand[2]	1. Regulates, develops, and monitors financial condition in domestic macroeconomic 2. Oversees and regulates the banking section in Thailand, including both banks and non-bank FIs 3. Oversees and regulates registered AMCs operating in Thailand
Stock Exchange of Thailand[3]	1. Acts as the hub for trading registered securities and furnishes the necessary systems for expediting securities transactions 2. Engages in any activities associated with securities trading, such as operating a clearinghouse, managing securities depository, maintaining securities registrar, and other related functions 3. Undertakes any other business approved by the SEC
Thailand Clearing House[4]	1. Clears all securities and derivatives traded via electronic settlement system 2. Facilitates non-residents investment by accepting foreign deposits as initial margin
Thailand Securities Depository[5]	1. Functions as a central securities depository for stocks and bonds through a secure and efficient, scriptless system
Thailand Futures Exchange[6]	1. Regulates derivative products in Thailand such as futures and options 2. Provides an exchange platform for derivative products
Market Associations and Groups	
Thai Bond Market Association[7]	1. Self-regulatory organisation and association who oversees and monitors its members 2. Bond information center that collects, integrates and processes data 3. Pricing agency, provides daily mark-to-market prices for investors 4. Market development and education around bond industry 5. Monitoring and reporting on bonds and distressed bonds status
Federation of Thai Capital Market Organisations[8]	1. Actively involved in activities and collaborates with government agencies to foster the growth and development of the Thai capital market 2. Educates and raises awareness about the role and significance of the capital market 3. Establishes and promotes standards of good corporate governance within the Thai capital market which aim to enhance transparency, accountability, and investor confidence
Association of Investment Management Companies[9]	1. Regulates, oversees and set out common standard of practices and code of ethics for member companies in mutual fund business, private fund business, and provident fund business
Association of Securities Companies[10]	1. Develops and promotes the country's capital and securities market, protects member companies and improve the standard of business operations 2. Supports the development of education related to securities business 3. Cooperates with regulatory agencies in drafting rules and regulations related to securities business
Investment Banking Club[11]	1. Develops and promotes the development of investment banking business, including working with relevant gov ernment agencies on behalf of its members 2. Supports the development of education related to investment banking business 3. Ensures the regulations compliance of its members

Source: Deloitte Analysis

1) SEC, About SEC, Accessed October 2023
2) BoT, Our Roles, Accessed October 2023
3) SET, SET History and Roles, Accessed October 2023
4) SET, Derivatives Clearing Services, Accessed October 2023
5) SET, About TSD, Accessed October 2023
6) TFEX, At a Glance, Accessed October 2023
7) ThaiBMA, The Thai Bond Market Association, Accessed October 2023
8) FETCO, About FETCO, Accessed October 2023
9) AIMC, AIMC Objective, Accessed October 2023
10) ASCO, About ASCO, Accessed November 2023
11) ASCO, IB Club History, Accessed November 2023

What is the regulatory landscape within the distressed debt lifecycle?

There are multiple regulatory considerations, restrictions, limitations, and ambiguities across Thailand's distressed debt investment lifecycle.

Implications of the regulatory framework on distressed debt

The existing framework casts its influence across the distressed debt lifecycle, highlighting how it impacts the market and its participants.

A Debt Origination

Issuance

Bond Trading

1. Restrictions on buying distressed bonds for institutional investors with hard limits for UI (60% NAV) and AI funds (15-25%)
2. Lack of distressed bonds management mechanism

Securitisation

1. Securitising bonds with receivables from distressed debt as the underlying asset might be possible
2. Not allowed for securities, e.g., distressed bonds to be underlying assets, contingent upon showing a consistent future cash flow that can sufficiently repay investors over the project's duration[1]

Tokenisation

1. Issuing digital assets through an initial coin offering (ICO) using distressed debt as the underlying asset is perceived the same with bond issuance and considered feasible[2]
2. Compliance with Digital Asset Emergency Decree is required but not with the SEA Act[2]
3. Any public offering of digital tokens requires SEC's approval via licensed ICO portal provider[3]
4. Possibility of merging the Digital Assets Emergency Decree with the SEA Act to prevent circumventing securitisation rules

B Investment

Investment and incentives

Investment by fund

1. Retail mutual funds are restricted from buying non-investment grade securities[4]
2. Accredited Investor mutual funds (AI fund) is capped to 15%-25% of their total portfolio[5]
3. The Ultra-Accredited Investor Mutual fund can cover wider range of securities include distressed to be 60% of funds' NAV but limited to institutional investors and UHNWI and restrictions on how much they can own[6,7]

Investment by Institutional Investor

SEC classifies over 25 types of institutional investors, of which several investors such as private funds and foreign investors are not restricted from investing in distressed debt.

Incentive

Tax incentive could be leveraged to encourage participation in distressed opportunities

C Turnaround

Management

Selling to AMCs

Banks sell their NPL portfolio to BOT-licensed AMCs who are entitled to incentives in return. However, these AMCs are restricted from buying NPLs from non-FI entities

<u>Selling of debt under litigation</u>

Considered by the court as a transfer of legal case and is considered void unless transfer is to a licensed AMC[8]

Governance and oversight

BOT focuses exclusively on financial aspects, while SEC oversees securities. They tend to avoid issues that overlap and hence a gap in addressing issues. Distressed debt covers both financial and securities angles and must be managed holistically.

D Exit

Bankruptcy and legal enforcement

Bankruptcy proceeding

1. Current framework has limited options for rehabilitation of distressed entities
2. Pre-packaged is only available for SMEs
3. Ongoing amendments for the new Chapter 3/3 is delayed

Legal enforcement

Allowing official receivers to engage private sector for bankruptcy and legal processing has not been implemented by LED

Key considerations

1. Amendments to existing regulatory framework address limitations and impediments
2. Introduce new regulation to create/support new markets (e.g., private debt market, alternate asset classes)
3. Enhance inter-agency collaboration to create and implement holistic policies and regulations end-to-end
4. Develop strategic roadmap to tackle short- and long-term objectives

Source: Deloitte Analysis

1) Clause 3 of SEC's Notification No. GorJor 7/2552
2) Clause 17 of SEC's Notification No. GorJor 15/2561
3) Clause 16 and 17 of SEC's Notification No. GorJor 15/2561
4) Clause 9 (3) (Gor) and Appendix 4-MF of the SEC's Notification No. TorNor 87/2558
5) Clause 9 (3) (Khor) and Appendix 4-AI of the SEC's Notification No. TorNor 87/2558
6) Clause 2 of the SEC's Notification No. TorNor 15/2560
7) Clause 3/2 (5) of the SEC's Notification No. TorNor 15/2560
8) Supreme Court ruling No. 438/2559

There are plenty of participants who can originate debt and provide loans or bonds. However, when it comes to distressed debt, liquidity is constrained, and participation is restricted.

Overview of current & potential future distressed debt market participants in Thailand

This table outlines the level of presence of participants in the Thai market and draws key insights with regards to their involvement in the distressed debt landscape.

Some participants below possess a strong capital market presence, but their activities primarily fall outside the realm of distressed debt. This underscores the potential for reevaluating their involvement and exploring ways to increase their participation in the distressed debt market moving forward.

Distressed Debt Participants Landscape

	Market Participants	Presence in the Thai Market	Key Insights
Debtor	SMEs	●	1. Currently considered the main holder of NPLs in the market, representing approximately 50% of the outstanding NPLs 2. Limited support from experienced restructuring companies (such as PE firms) when companies go into distress due to their small loan amount 3. The current pre-packed rehabilitation framework is not applicable to some SMEs as the eligible criteria is decided based on loan size not company size
Debtor	Corporates	●	1. There is a lack of framework to perform pre-packaged corporate restructuring, and the existing bankruptcy proceeding is slow 2. Limited support from experienced restructuring companies (such as PE firms) when companies go into distress, as there is limited no. of PE firms in the market 3. Large portion of the corporate distressed bonds are currently held by retail and HNW investors who have limited restructuring expertise, as a result they would not be able to provide much support during the restructuring process
Creditor	FI (Banks, Non-Banks)	●	1. While banks can trade bonds, they are not allowed to trade defaulted bonds yet 2. Debt enforcement process is a complex and lengthy process for creditors like banks i.e., the current debt enforcement process may last more than 5 years
Creditor	Non - FIs	●	1. Debt enforcement of non-FIs is relatively more complicated than FIs due to the structure of asset ownership 2. Limited number of Non-FIs NPLs buyers in the market as AMCs in Thailand are not allowed to buy NPLs from non-FIs
Creditor	Private Debt Managers	◔	By providing lending to debtors in exchange for interest and principal payback, private debt managers can be considered creditors in the distressed debt market
Investor	Bond Trustees	◔	The role of bond trustee in the distress situation is not well defined and they are under utilised to sufficiently represent bondholders' interest
Investor	Insurance Companies	●	1. Insurance companies are considered one of the main bondholders in Thai bond market 2. Insurance companies generally retain bonds until they mature 3. Companies are currently not allowed to invest in any kind of distressed asset i.e., bond, loan
Investor	Social Security Fund	◐	1. Social Security Funds generally retain bonds until they mature 2. The absence of a platform makes it challenging for funds to sell their bonds if the issues face financial distress. 3. Social Security Funds are currently not allowed to invest in any kind of distressed asset, i.e., bonds, loans
Investor	Government Pension Fund	◐	1. Government Pension Funds generally retain bonds until they mature 2. The absence of a platform makes it challenging for funds to sell their bonds if the issues face financial distress. 3. Government Pension Funds are currently not allowed to invest in any kind of distressed asset i.e., bonds, loans

Legend: ● High level of presence ◕ Moderate level of presence ◐ Partial level of presence ◔ Low level of presence

*Remark: SMEs and retail investors are greyed out as they play a relatively less significant role in the capital market
Source: Deloitte Analysis, Expert Interviews

What are key insights of core market participants in Thailand? (2/3)

Constraints impact AI funds, UI funds, and distressed debt managers who would otherwise be well-positioned to unlock value and liquidity in distressed situations.

Overview of current & potential future distressed debt market participants in Thailand

Distressed Debt Participants Landscape			
	Market Participants	**Presence in the Thai Market**	**Key Insights**
Investor	HNW and UHNW Individuals		1. Retail and HNW/UHNW investors are considered the main holders of distressed bonds in the current market 2. HNW and UHNW individuals generally retain bonds until they mature 3. The absence of a platform makes it challenging for investors to sell their bonds if the issues face distress. Consequently, many of them find themselves compelled to retain their distressed bonds and await repayment. 4. Generally, HNW and UHNW Individuals have limited restructuring expertise, making it difficult for them to navigate through the situation once bonds go distress
	Retail Investors		1. Generally, retail investors have limited restructuring expertise, making it difficult for them to navigate through the situation once bonds go distress 2. The absence of a platform makes it challenging for investors to sell their bonds if the issues face distress. Consequently, many of them find themselves compelled to retain their distressed bonds and await repayment.
	Foreign Institutional Investors		Few opportunities exist for distressed debt investment in Thailand that align with the requirements of foreign institutional investors, primarily because of the scarcity of substantial transactions.
	Venture Capital Firms		It is possible for VC firms to be considered as the investors in the distressed debt market if the companies that they invest in via debt instruments (i.e., venture debt) go into distress
	Retail mutual Funds		1. Retail mutual funds are funds set up for retail investors who generally have low level of risk tolerant, as such they are not allowed to invest in non-investment grade securities 2. Generally, funds have limited restructuring expertise, making it difficult for them to navigate through the situation once bonds go distress
	AI mutual Funds		1. AI mutual funds are funds set up for Accredited Investors, as such they are permitted to invest a small portion of investment, typically 15-25% into non-investment grade bonds 2. Generally, funds have limited restructuring expertise, making it difficult for them to navigate through the situation once bonds go distress
	UI Funds		1. UI funds are funds set up for Institutional Investors and UHNW, they are the most flexible funds in Thailand and can invest in a wide range of securities including distressed assets 2. SEC has announced the setup of UI funds focusing on high yield bond investment in 2020, and stressed bond investment in 2021 3. Stressed bond funds are required to adhere to additional requirements i.e., additional investments to existing unitholders restriction and no. of minimum investor required in the initial offering round 4. The absence of a platform makes it challenging for investors to sell their bonds if the issues face distress. Consequently, many of them find themselves compelled to retain their distressed bonds and await repayment.
	Hedge Funds		The absence of a platform makes it challenging for investors to sell their bonds if the issues face distress. Consequently, many of them find themselves compelled to retain their distressed bonds and await repayment.
	Brokerage Firms		Brokerage firms are interested in distressed debt trading, however they are not active in the market yet

Legend: High level of presence   Moderate level of presence   Partial level of presence   Low level of presence

*Remark: HNW and UHNW individuals and retail investors are greyed out as they play a relatively less significant role in thecapital market
Source: Deloitte Analysis, Expert Interviews

What are key insights of core market participants in Thailand? (3/3)

Private equity firms have relatively low presence in Thailand's distressed debt market, especially relative to their presence elsewhere globally.

Overview of current & potential future distressed debt market participants in Thailand

Distressed Debt Participants Landscape			
	Market Participants	Presence in the Thai Market	Key Insights
DD Manager	AMCs	High level of presence	1. Registered AMCs are the main players in Thai distressed debt market 2. Registered AMCs are allowed to invest in FI's distressed assets only (NPLs, bonds) 3. Registered AMCs are not allowed to buy defaulted bonds and distressed loans that are not yet considered NPLs 4. The current regulations require cashflow forecast till the end of the investment's lifetime for NPLs to be securitised which is not feasible in this case
DD Manager	PE Firms (GPs)	Low level of presence	There is limited number of investment opportunities that meets PE firm's investment criteria, as a result they are not active in Thai market
DD Manager	Fund Managers	High level of presence	Majority of large Thai fund managers are bank associated and they are hesitant to setup funds that invest in distressed asset due to reputational risks

Legend: High level of presence · Moderate level of presence · Partial level of presence · Low level of presence

*Remark: SMEs and retail investors are greyed out as they play a relatively less significant role in the capital market
Source: Deloitte Analysis, Expert Interviews

3.2 Understanding the Challenges

What are the key challenges facing Thailand's distressed debt market?

Nine overarching challenges across four categories are impeding the development the distressed debt market in Thailand.

Market

1. **Homogeneous investor base – The market revolves around the symbiotic relationship between giant banks and AMCs. New investors find it challenging to compete at that scale**

a. Dominated by AMCs with potential risk of liquidity challenges to manage the anticipated growth in NPLs
b. AMCs exist to dispose banks' bad debts. The tax benefits carried forward since 1997 AFC continue to favor BOT-regulated AMCs and discourage new of private sector investor participation. This is outdated and no longer serves its intended purpose.

2. **Limited investment options and unattractive value propositions discourage prospective investors**

a. Limited and unattractive value proposition for new ways of distressed investing (e.g., funds)
b. NPL market comprises of small-ticket loans in SME and retail sectors, which is not an attractive market for institutional and foreign investors
c. Low liquidity in secondary bond market as bondholders often hold their bonds until maturity rather than selling

Regulatory

3. **Legal mechanisms and procedures within the debt enforcement process is lengthy and perceived as unfair**

a. Debt enforcement in the legal system relies heavily on courts, which can be a protracted process and is susceptible to abuse by involved stakeholders

4. **Limitations within existing Rehabilitation Framework result in falling short of addressing specific stakeholder needs**

a. Restrictions on eligibility criteria and limited rehabilitation frameworks can hinder the ability for wide range of debtor groups to access rehabilitation support
b. Court has authority to void transfer of distressed debt assets under litigation process

5. **Misalignment between government agencies lead to unclear jurisdiction**

a. Lack of collaboration and alignment among regulators related to distressed debt
b. Unclear regulation for bond trustees to facilitate negotiation and trading of distressed bonds for creditors and investors

6. **Regulations are outdated with rigid criteria that lacks market-driven changes to enable new investors in the market**

a. The existing regulation prohibits certain institutional investors from participating in the distressed debt market
b. There are restrictions on funds to invest in non-investment grade bonds
c. The ability to securitise distressed debt is restrictive under the current regulatory framework

Infrastructure

7. **Infrastructure is fragmented and lacks inter-connected collaboration and intermediaries to enable market efficiency**

a. The absence of institutional intermediary to seamlessly bridge gaps in distressed debt lifecycle has led to a fragmented ecosystem and a siloed work approach
b. Inter-agency collaboration is relatively limited when it comes to distressed debt market development
c. Lack of comprehensive and standardised dataset provided by banks during the NPL sales process
d. Inefficient LED asset sales and operational process lead to fragmented experiences for stakeholders
e. Lack of end-to-end infrastructure to support the market makers, connectors, and enable platforms (i.e., trading and data sharing) for distressed bonds

People

8. **Distressed debt professionals lack sufficient knowledge and experience to effectively execute the rehabilitation process**

a. Limited local opportunities stemming from a declining number of rehabilitation cases and the sparse presence of private equity firms, constraining knowledge transfer in Thailand

9. **Shortage of skilled talent pools possessing the requisite capabilities hinders the development of distressed debt market**

a. Lack of experienced intermediaries (i.e., GPs) establishing presence in Thailand capable of fostering knowledge diffusion and investment opportunities to domestic investors
b. Inadequate education in promoting bond investors to engage in trading default bonds when opportunities arise

Source: Deloitte Analysis

Challenge #1 – What Market insights can be extracted?

Market has homogeneous investor archetypes, driven largely by AMCs, resulting in challenges to scale demand from new investor pools (1/2).

Overview of the challenge

The Thai distressed debt market today is experiencing challenges in scaling demand from new investors due to the following details:

a. Market is dominated by AMCs with potential risk of liquidity challenges to manage the anticipated growth in NPLs

b. Tax benefits favorable to AMCs regulated under BOT has discouraged new participation of private sector investors

A. Market is dominated by AMCs with potential risk of liquidity challenges to manage the anticipated growth in NPLs

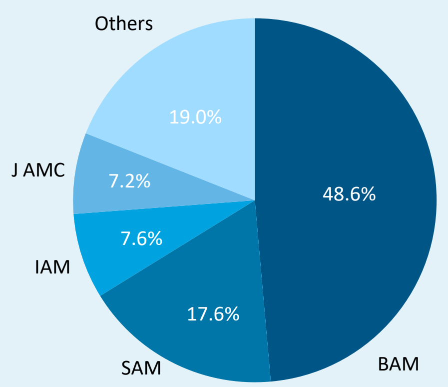
i. Predominantly led by two major AMCs, (BAM and SAM), collectively oversee more than 70% of the distressed debt within the market

ii. Continual reliance on AMCs for disposal of bad debt poses a risk to the financial sector. The combined asset size of all AMCs amount to USD 7.7 billion*, a notably lower figure compared to the outstanding NPLs within the FIs system, totaling USD 13.9 billion* (as of Q2 2023)

iii. AMCs primarily focus on dealing with real-estate backed loans from banks as evidenced by predominant loan type supplied to the market—most of which are secured loans.[1] In addition, 77% of BAM current NPLs portfolio are real-estate backed loans.[2]

Key facts and figures[1,2,3,4]

Assets Distribution of AMCs in Thailand[2]

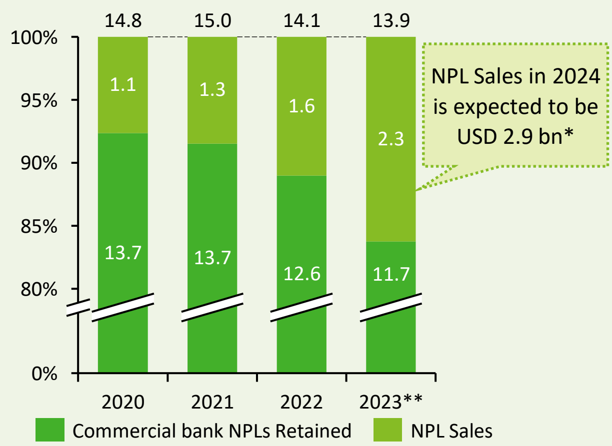


Total NPL volume: $7.7 Bn

Sources: BAM

There are 82 registered AMCs in Thailand as of 2023, a 33% increase from 2019, and this number is expected to keep growing

Commercial Banks NPLs Retained and NPL Sales Volume in Thailand [1,2,3,4]



Sources: BAM, BDO, Bangkok Post, REIC

In addition to NPLs, Special Mention Loans (loans >30, <90 DPD) grew from USD 12.3bn to USD 32 bn* between 2019 - 2023

* Converted from THB
** NPL hold Data is only until 2Q/2023
Source: Deloitte Analysis
1) BDO, Thailand Distressed Landscape, August 2023
2) BAM, Thailand Focus 2023 The New Horizon, August 2023
3) Bangkok Post, BAM predict bad loan sales, August 2023
4) REIC, Bank sold NPLs with a total value over 137 Bn THB during from 2023 to half year 2022, March 2020

Market has homogeneous investor archetypes, driven largely by AMCs, resulting in challenges to scale demand from new investor pools (2/2).

B. Tax benefits favorable to AMCs regulated under BOT has discouraged new participation of private sector investors

i. Within the distressed debt managers and investors in Thailand, BOT-registered AMCs are the only entity entitled to tax incentives associated with bank NPL/NPA acquisitions

ii. As a trade off for receiving tax benefits, AMCs are permitted to buy NPLs solely from financial institutions; however, this can be circumvented through establishing a holding company to participate in acquisition of non-FI NPLs/NPAs.

iii. Nonetheless, the exclusive tax incentive for AMCs implies an uneven competitive landscape for new players

Key facts and figures[1,2,3,4]

Exemption from fees and taxes on asset transfers to AMC from FIs[2]

Exemption from corporate income tax for AMCs holding NPLs acquired from FIs, ownership of at least 50% of their shares with additional reserves for bad debts qualify for tax benefits based on BOT regulations[3]

Maximum 90% tax reduction for NPAs held by AMCs within 5 years[4]

Insights from Stakeholder interviews

"Approximately half of the SMLs within the FIs system are anticipated to transition into NPLs by the end of 2023, posing a potential challenge as the existing AMC in the market may not have the capacity to absorb this entirety."

– Chief Investment Officer, Local AMC

"One of the noteworthy advantages that AMCs possess over non-AMC firms is the availability of tax benefits when NPLs from financial institutions. However, it's important to highlight that this advantage may not be significantly impactful."

– Chief Executive Officer, Local AMC

Source: Deloitte Analysis
1) Bank of International Settlements, Resolution of non-performing loans, October 2017
2) BoT, AMC Act, August 1998
3) BAM, Annual Report 2019, Accessed October 2023
4) BAM, Annual Report 2022, Accessed October 2023

Limited investment options and unattractive value propositions discourage prospective investors (1/3).

Overview of the challenge

The Thai distressed debt market today is experiencing supply challenges, which are supported by the following details:

a. Limited and unattractive value proposition for new ways of distressed investing (e.g., funds)

b. NPL market comprises of small-ticket loans in SME and retail sectors, which is not an attractive market for institutional and foreign investors

c. Low liquidity in the secondary market for bonds as bondholder tend to hold the until maturity instead of selling it

A. Limited and unattractive value proposition for new ways of distressed investing (e.g., funds)

i. Current regulation allows only UI mutual fund to invest in distressed debt in Thailand

ii. A closer look at the regulations also shows several restrictions and requirements in place for the funds focused on distressed debt investment e.g., the eligible investor limitation, the investment requirement, the requirement on number of investors

Key facts and figures

Overview of funds available in Thailand

	Eligible Investors	Eligibility in distress debt investment
Retail Mutual Funds	Retail Investors	X
Accredited Investor Mutual Funds (AI Funds)	Institutional investors HNW Investors	X
Ultra-Accredited Investor Mutual Funds (UI Funds)	Institutional investors UHNW Investors	✓

Example of distressed debt fund initiative in Thailand
Stressed Bond Fund Initiative

In 2021, SEC has allowed the setup of UI funds that focus their investment on stressed bonds called "Stressed Bond Fund" with the following condition:

1. Investment structure: Must invest at least 60% of funds portfolio in stressed bonds[1,2]
2. Restriction and requirement:
   a. Additional investments to existing unitholders is restricted[3]
   b. The funds must sell their units to at least 10 qualified investors in the initial offering round[4]

Source: Deloitte Analysis
1) SEC, Stressed Bond Fund Guideline, December 2021
2) SEC, Stressed Bond Fund Detail, December 2021
3) Clause 3/2 (5) of the SEC's Notification No. TorNor 15/2560
4) Clause 4/1 of the SEC's Notification No. TorNor 15/2560

Challenge #2 – What Market insights can be extracted?

Limited investment options and unattractive value propositions discourage prospective investors (2/3).

B. NPL market comprises of small-ticket loans in SME and retail sectors, which is not an attractive market for institutional and foreign investors

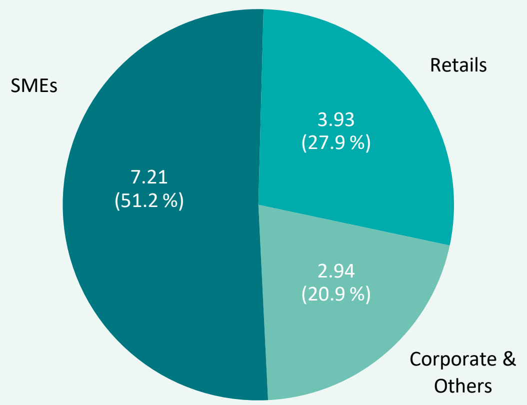
i. SME NPLs experienced a notable growth of 9% between 2016 and 2022, constituting more than 50% of outstanding NPL held by banks, followed by retail NPL at 28%

ii. The average loans size of SMEs is only USD 30k which is relatively small compared to corporate loan size of USD 16 mn making it unattractive to institutional and foreign investors

iii. In addition, it is difficult to securitise retail and SME NPLs to make them more attractive to investor under the current regulation

Key facts and figures

Thai banks' outstanding NPLs Breakdown (Bn USD*), 2022[1]



Source: TTB

Average loan size (USD*), 2020[1,2,3,4]**

Type	Average loan size (USD)
Corporate	~16,000,000
SMEs	~30,000
Retail	~6,500

The corporate NPL market in Thailand is relatively small, with only around 184 NPLs outstanding in the market

Source: TTB, BoT, ADB

Insights from Stakeholder interviews

"There is a limited number of distressed debt opportunities that meet foreign GPs requirement in terms of ticket size"

– Managing Director, International PE Firm

* Convert from THB
** Note: Average loan size is calculated based on total outstanding loan per segment divided by number of companies/population per segment
Source: Deloitte Analysis
1) TTB, Equity Roadshow, February 2023
2) BoT, Household Debt, Accessed September 2023
3) ADB, 2022 A;DB Asia SME Monitor - Thailand, November 2022
4) OECD, Key facts on SME financing, Accessed October 2023

Limited investment options and unattractive value propositions discourage prospective investors (3/3).

C. Low liquidity in the secondary bond market as bondholder often choose to hold their bonds until maturity rather than selling

There are several limitations that hinder the trading of distressed bonds in the Thai landscape:

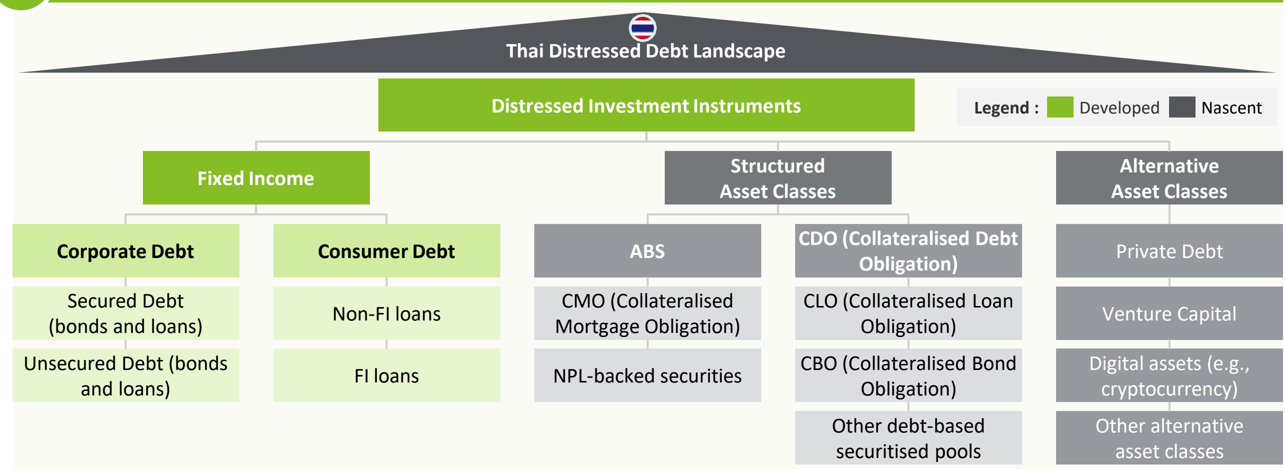
i. Distressed bonds cannot be traded, and institutional investors are restricted from buying them

ii. Funds have limited ability to buy distressed debt and restrictions to their investors
- As detailed out earlier, the only type of funds that is allowed to invest in distressed debt is UI Mutual Fund, and the funds can only be offered to Institutional investors and UHNW Investors
- In terms of non-investment grade investment, funds that are allowed to invest in non-investment grade bonds are AI Mutual Fund and UI Mutual Fund. Although AI Mutual Fund can invest in non-investment grade bonds, there is a relatively low cap on such investments, around 15-25%

iii. Challenges in securitising distressed debt making it less of an option for secondary market
- The current regulations require that assets being securitised must be able to display a cashflow for the investment period, given the characteristics of NPLs, it is difficult to show that NPLs can generate future cashflow, as a result it is challenging to securitise NPLs at the moment
- Securities (e.g., distressed bonds) are not allowed to be used as underlying assets for securitisation

iv. Trading of alternative asset classes are nascent in the market
- While it is possible to tokenise loans, distressed bonds (which is viewed as securities) cannot be tokenised

Insights from Stakeholder interviews



Further Insights on Credit Derivatives and CDOs

- Credit derivative instruments, such as Credit Default Swaps (CDS) and CDOs, allow investors to better manage credit risk, typically by giving them the right to receive compensation if a credit event, such as default or credit downgrade, occurs.
- Credit derivatives offers several advantages from a distressed debt investing perspective, for example:
  - **Risk management**: enables institutions to hedge against potential losses due to default or changes in credit quality by transferring credit risk, without needing to sell the underlying asset.
  - **Broaden investment options:** enables investors to diversify their portfolio through investing in different types of distressed debt products
  - **Price discovery**: The price of credit derivatives can be used to reflect the level of risk associated with distressed debt products and their true price
- The distressed debt market in Thailand is still in the nascent stage and credit derivatives may not be the most viable option. However, considering credit derivatives in the future could help mitigate limitations in risk management and hedging against default triggers, Challenges like evaluating default likelihood and the higher risk for investors during defaults could also be addressed by exploring credit derivatives as a potential solution.

Source: Deloitte Analysis

Challenge #3 – What Regulatory insights can be extracted?

Legal mechanisms and procedures within the debt enforcement process is lengthy and perceived as unfair.

Overview of the challenge

The Thai distressed debt market today is experiencing process inefficiencies due to regulatory-specific challenges, which are supported by the following details:

a. Debt enforcement in the legal system relies heavily on courts, which can be a protracted process and is susceptible to abuse by involved stakeholders

A. Debt enforcement in the legal system relies heavily on courts, which can be a protracted process and is sometimes susceptible to abuse by involved stakeholders

i. Legal enforcement process heavily reliant on courts

ii. Court proceedings in Thailand are extremely lengthy, often lasting 5+ years

iii. Court processes are open to abuse by stakeholders

Key facts and figures

1. Enforcement and debt collection proceedings are only limited to the power of the court and LED.
2. In early 2023, a new regulation was introduced to impose a maximum trial duration that both parties and the court must adhere. For common and extraordinary cases, the maximum duration for the court of first instance is within 1 year from the acceptance of the complaint by the court. However, enforcement is weak as there are no penalties for non-adherence to the timeline.
3. There are three levels of courts in Thailand, namely; the Courts of First Instance, the Appeals Court, and the Supreme Court. When losing in the first court, debtors have the right to take their case to the other two courts for their review.
4. There is no limitation on number of petitions that debtors can file during the court proceeding.
5. There are no available guidelines nor criteria on types of petitions that courts need to accept for review. The decision is to be made based on court judgement requiring case-by-case assessments for the petitions filed.

Insights from Stakeholder interviews

"Courts will have to review and accept petitions raised by both debtors and creditors to review on a case-by-case basis to discern which ones gets accepted or declined as there are no clear guidelines to filter. Courts also do not impose any criteria or limitations on the number of petitions which can be raised making the court enforcement process very lengthy."

– Judge, Supreme Court

Source: Deloitte Analysis

Limitations within existing Rehabilitation Framework result in falling short of addressing specific stakeholder needs (1/2).

Overview of the challenge

The Thai distressed debt market today is experiencing ruling inefficiencies due to regulatory-specific challenges, which are supported by the following details:

a. Restrictions on eligibility criteria and limited rehabilitation frameworks can hinder the ability for wide range of debtor groups to access rehabilitation support

b. Court has authority to void transfer of distressed debt assets under litigation process

A. Restrictions on eligibility criteria and limited rehabilitation frameworks can hinder the ability for wide range of debtor groups to access rehabilitation support

i. Corporates are limited to a one-size fits all rehabilitation framework

The existing rehabilitation framework is a one-size fits all approach which cannot effectively address nuances, support the needs, and meet specific challenges of different corporates from a broad range of sizes and spectrum of industries

ii. Corporates have no out-of-court settlement option

The out-of-court settlement (e.g., pre-packaged rehabilitation) is only available to SMEs who meet the criteria and not available for corporates who can benefit from it as well. However, while it is possible for SMEs to use out-of-court settlement, it is important to note that court still retains the right to void the such agreed rehabilitation plan.

Key facts and figures

Existing eligibility criteria to rehabilitation processes[1]

Debt (in THB)	**< 3 mn**	**3-10 mn**	**> 10 mn**
SMEs	For individuals	Out-of-court or Prepack	Traditional rehab
Corporates	For individuals	N/A	Traditional rehab

Source: LED

Prevailing limitations[1]

1. Restricting eligibility criteria to enter rehabilitation process
   a. THB **3-10mn** debt eligible for SME restructuring
   b. THB > **10mn** debt eligible for corporate restructuring
2. Scope of SMEs are limited to SME, ME, LE (based on annual revenue and no. of employees) in manufacturing, trade or service business

Thailand's SME & Corporate definition[2]

Size classification	Indicator	Sector: Manufacturing	Sector: Services & Merchandising
Micro	Annual Income	≤ 1.8 mn. THB	≤ 1.8 mn. THB
	Employment	≤ 5	≤ 5
Small	Annual Income	≤ 100 mn. THB	≤ 50 mn. THB
	Employment	≤ 50	≤ 30
Medium	Annual Income	≤ 500mn. THB	≤ 300 mn. THB
	Employment	≤ 200	≤ 100

Source: Deloitte Analysis

1) LED, Rehabilitation process for SME and Corporates, Accessed November 2023

2) OSMEP, Definition of MSMES, Accessed November 2023

Challenge #4 – What Regulatory insights can be extracted?

Limitations within existing Rehabilitation Framework result in falling short of addressing specific stakeholder needs (2/2).

B. Court has authority to void transfer of distressed debt assets under litigation process

i. All creditors can transfer the receivables under a distressed loan. Generally, the sale of distressed debt (NPL/NPA) can be done in the form of a transfer of claim between persons or a novation.

ii. While the loan transfer between persons or a novation under default is not prohibited[1], the transfer of debt that undergoes the ligation process is only limited to licensed AMCs. Meaning that the transfer of debt undergoes the ligation process to other parties who are not licensed AMCs (e.g., investors, PE firms, etc.) can be voided by the court at any time.

- Due to this, investors and distressed debt managers who are not licensed AMCs do not want to transfer ownership on any distressed assets under litigation

Key facts and figures

Supreme Court's Decision No. 6334/2550[1]:

The transfer of a loan which is under the event of default is not prohibited

Supreme Court's Decision No. 438/2559[2]:

Once distressed debt undergoes the litigation process, the transfer is only limited to licensed AMCs

Insights from Stakeholder interviews

"Currently the amendments on expansion of eligibility scope for rehabilitation and prepacked processes to allow for a wider range of debtors are under revision"

– SME, Turnaround and Restructuring

Source: Deloitte Analysis
1) Supreme Court's Decision No. 6334/2550
2) Supreme Court's Decision No. 438/2559

Challenge #5 – What Regulatory insights can be extracted?

Misalignment between government agencies lead to unclear jurisdiction (1/2).

Overview of the challenge

The Thai distressed debt market today is experiencing gaps in governance and execution due to regulatory-specific challenges which are supported by the following details:

a. Lack of collaboration and alignment among regulators related to distressed debt

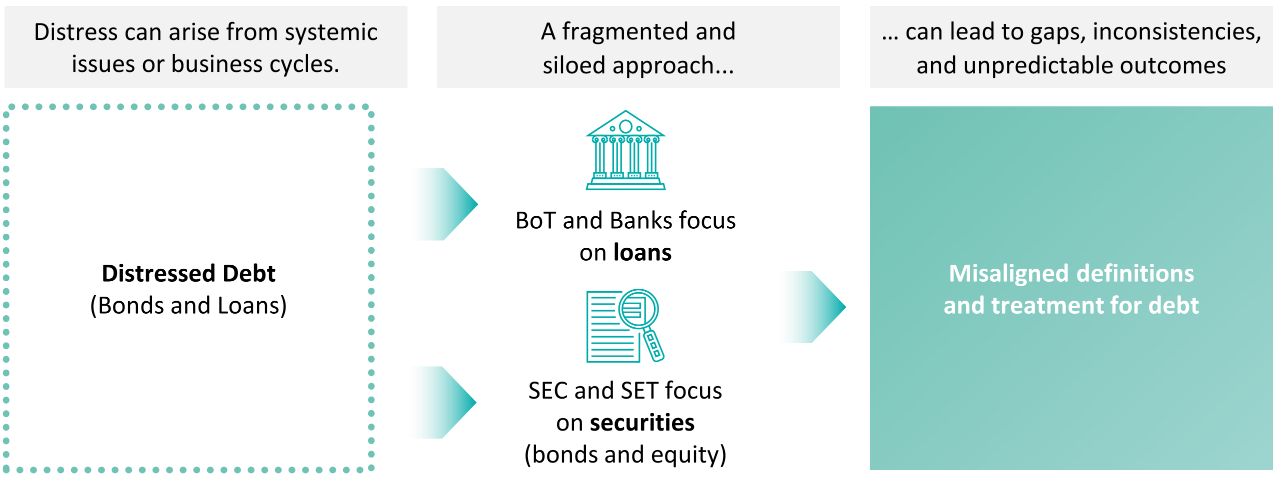
b. Unclear regulation for bond trustees to facilitate negotiation and trading of distressed bonds for creditors and investors

A. Lack of collaboration and alignment among regulators related to distressed debt

i. Misaligned definitions and treatment for distressed debt
   - BOT supervises disposal of NPL mainly via accredited AMCs
   - SEC supervises securities, allows mainly AI and UI funds to buy them, and restricts institutional investors from participating

ii. Rigid jurisdictions must be adapted to facilitate opportunities to enable market mechanisms to function (e.g., enabling secondary market trading via securitisation)
   - SEC allows securitisation of NPLs provided that future cashflow can be demonstrated over the investment lifetime. This is not possible/practical in distressed debt. It is possible for securitisation to a achieve specific risk and return profiles and generate liquidity
   - SEC does not allow bonds (securities) to be securitised. In other jurisdictions, this is common practice which makes the restriction counterproductive.

Key facts and figures



Source: Deloitte Analysis, expert interviews

Misalignment between government agencies lead to unclear jurisdiction (2/2).

B. Unclear regulation for bond representatives to assist creditors and investors on negotiation and trading of distressed bonds[1,2]

i. The bondholder representative's responsibilities are stipulated in the SEA regulations and more specific with regards to the terms and conditions for the issuance

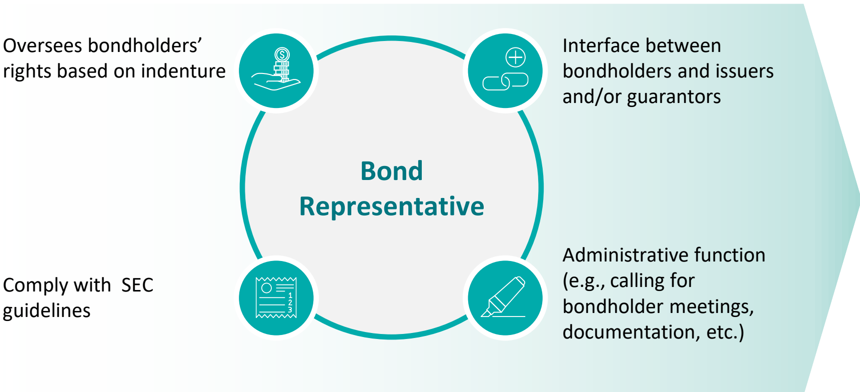
ii. The Thai law is silent about the function of the bondholder representative during distressed situation to assist bondholders through rehabilitation as highlighted by the following:

- In the event of default, Thai law requires the bondholder and/or bondholder representative to recognise and declare default
- Under the Civil and Commercial Code and Bankruptcy Act, creditors, including bondholders can file a petition with the Bankruptcy Court for Rehabilitation or Bankruptcy proceeding against a debtor's business

iii. An area for improvement can be to outline the duties and responsibilities for bondholder representatives in the case of default or potential default specifically as it is in other jurisdictions[2] covering details such as: seeking a default / summary judgment from court, initiating insolvency proceeding in relevant jurisdiction, appointment of insolvency officials (e.g., receivers, liquidators)

Key facts and figures

Under current Thai Law, Bond Representatives play the same role as Bond trustees in another jurisdiction



Details on Bondholder Representative's role is unclear during distressed situations

Insights from Stakeholder interviews

"Regulations often are the barriers for implementing change. It is easier to work out the policies and implement the initiatives when it falls within an agency's purview."

– High ranking official, Regulator

"Bond trustees or representatives are not that prominent in the Thai market compared to other jurisdictions."

– SME, Turnaround and Restructuring

Source: Deloitte Analysis

1) ADB, ASEAN+3 bond market guide – Thailand, Accessed November 2023

2) ICMA, International-Practices-of-Bond-Trustee-Arrangements, Accessed November 2023

Regulations are outdated with rigid criteria that lacks market-driven changes to enable new investors in the market (1/3).

Overview of the challenge

The Thai distressed debt market today is operating on a short-term basis and lacks the market-driven vision for a longer-term development. This is outlined in the following regulatory-specific examples:

a. The existing regulation prohibits certain institutional investors from participating in the distressed debt market

b. There is a restrictions on funds to invest in non-investment grade bonds

c. The ability to securitise distressed debt is restrictive under the current regulatory framework

A. The existing regulation prohibits certain institutional investors from participating in the distressed debt market

i. In Thailand, institutional investors are required to adhere to the investment regulations and guidelines established by their respective regulating bodies

ii. In many cases these regulations limit the types of debt assets institution investors can pursue (e.g., investment grade bonds only).

iii. Hence, many institutional investors are currently not permitted to invest in non-rated bonds or distressed loans

Key facts and figures

Insurance companies are limited by the following investment guidelines by OIC:

1. Bonds: Investment grade bond[1], and investment unit of investment grade bond[2]
2. Loans: Loans within Thailand that are backed by pledged or mortgaged assets, e.g., investment units of investment-grade bonds or real estate located in Thailand[3]

Social Security Fund:
Bonds: Securitised bond or investment grade bonds originating from securitisation of assets[4]

Government Pension Fund:
Bonds: Investment grade bonds or investment units of investment grade bonds but not including distressed bonds[5]

Insight from abroad[+]

In contrast to Thailand, numerous countries, including **the United States, South Korea, and various European nations, permit institutional investors (LPs) to access and invest in diverse distressed debt assets through fund managers (GPs)**[6,7,8]

- In 2021, overall insurance companies in the US purchased ABS exceeded of USD 1 tn[9]
- Prudential Financial and MetLife were reported to hold more than USD 1.32 bn of default bonds in 2016[10]
- National Pension Service of South Korea was reported to invest USD 156.7 bn in alternative investment in 2021, the value increased 32.7% compared to the previous year[8]

Source: Deloitte Analysis

1) Clause 44 of OIC Notification Re: Insurance Companies' Investment in Other Businesses
2) Clause 49 of OIC Notification Re: Insurance Companies' Investment in Other Businesses
3) Clause 55 of OIC Notification Re: Insurance Companies' Investment in Other Businesses
4) Office of the Council of State, Social Security Fund Regulation, 2013
5) Clause 5 of Ministerial Regulation Re: Rules and Procedures for Money Management of GFP
6) CCMC, The Role of Insurance Investments in the US Economy, 2019
7) IPE, Non-performing Loans: A market in full swing in Europe, September 2018
8) The Korea Economic Diary, Korea's NPS upped alternative investment by 33% in 2021, August 2022
9) Federal Insurance Office, Annual Report on the Insurance Industry, September 2022
10) Bloomberg, Distressed Assets Pile Up at Life Insurers, August 2016

Challenge #6 – What Regulatory insights can be extracted?

Regulations are outdated with rigid criteria that lacks market-driven changes to enable new investors in the market (2/3).

B. There are restrictions on funds to invest in non-investment grade bonds

i. Under the current regulations only 2 types of funds are allowed to invest in non-investment grade bonds. Their name and restrictions are as follow:

- Accredited Investor Mutual Fund (AI Fund): Only allowed to invest a 15 – 25% of their portfolio in non-investment grade bonds
- Ultra-Accredited Investor Mutual Fund: Does not have any restriction on non-investment grade bonds investment

Key facts and figures

1. Retail mutual funds are restricted from investing in securities rated below investment grade[1]
2. The Accredited Investor Mutual Fund (AI Fund) can allocate a portion of their investments to non-investment grade bonds. However, there is a relatively low cap on such investments, around 15-25% depending on the types of investors and types of instruments[2]
3. The Ultra-Accredited Investor Mutual Fund (UI Fund) stands out as the most flexible fund, as it can invest in a wide range of securities including non-investment grade bonds, distressed debt, etc.[3]

*The detail of eligible investors for each type of fund is shown in Challenge #2: Limited investment options and unattractive value propositions discourage prospective investors

Source: Deloitte Analysis

1) Clause 9 (3) (Gor) and Appendix 4-MF of the SEC's Notification No. TorNor 87/2558 RE: Funds' Investments ("SEC's Notification No. TorNor 87/2558")

2) Clause 9 (3) (Khor) and Appendix 4-AI of the SEC's Notification No. TorNor 87/2558

3) Clause 2 of the SEC's Notification No. TorNor 15/2560 RE: Criteria, Conditions, and Methods for Establishment and Management of Mutual Funds for Institutional Investors or Ultra High Net Worth Individuals ("SEC's Notification No. TorNor 15/2560")

Challenge #6 – What Regulatory insights can be extracted?

Regulations are outdated with rigid criteria that lacks market-driven changes to enable new investors in the market (3/3).

C.	**The ability to securitise distressed debt is restrictive under the current regulatory framework**

i. Per SEC regulations, assets intended for securitisation must demonstrate the capability to generate consistent future cash flows

ii. Due to the inherent characteristics of distressed debt, it can be challenging to demonstrate that it would generate steady future cash flows. As a result, there are typically no cases where distressed debt is used as the underlying asset for securitisation, as it may not meet the requirements for consistent and predictable cash flow generation that securitisation often demands.

Key facts and figures

1. Clause 3 of the SEC Notification No. Kor Jor. 7/2552 RE: Criteria, Conditions, and Methods for an Approval of Securitisation Project issued under the RD SPV[1] states:
   a. Underlying assets can be anything that is a right to a claim that generates future cash flow or any other rights that the originator can clearly show that could create future cash flow during the whole duration of the project (e.g., need an evidence of 20 years cash flow for 20 years project)
   b. Underlying assets must be of the same type or related to one another
   c. The originator must be able to show that such claims/rights will not be deteriorated by the actions of the originator
   d. Every securitisation endeavor necessitates a case-by-case determination by SEC

Insights from Stakeholder interviews

"Currently, there is no case study exemplifying the successful securitisation of distressed asset in Thailand"

– High ranking official, Regulator

Source: Deloitte Analysis

1) SEC, Rules, Conditions and Procedures for Approval of Securitization Projects, August 2015

Challenge #7 – What Infrastructure insights can be extracted?

Infrastructure is fragmented and lacks inter-connected collaboration and intermediaries to enable market efficiency (1/6).

Overview of the challenge

The infrastructure supporting the Thai distressed debt ecosystem is disjointed and not integrated on a holistic level. This is due to the following:

a. The absence of institutional intermediary to seamlessly bridge gaps in distressed debt lifecycle has led to a fragmented ecosystem and a siloed work approach

b. Inter-agency collaboration is relatively limited when it comes to distressed debt market development

c. Lack of comprehensive and standardised dataset provided by banks during the NPL sales process

d. LED asset sales operations prevent efficient transfer of collateral making it less attractive for stakeholders to participate

e. Lack of a platform to support transaction and data sharing for distressed bonds

A. The absence of institutional intermediary to seamlessly bridge gaps in distressed debt lifecycle has led to a fragmented ecosystem and a siloed work approach

i. Specifically for bonds, the lack of intermediaries leave investors holding on to these distressed bonds. This is compounded by the current situation that existing stakeholders such as banks are not able to trade these distressed assets and restrictions on institutional investors to participate.

ii. As a result, sophisticated investing strategies and innovation that can unlock value in distressed situation is not feasible in Thai market:

- Active control investing strategies
  - Lack of distressed debt managers (e.g., PE firms and AMCs) who can buy distressed bonds and restructure distressed companies
  - Lack of talent pool (e.g., lawyers, financial analysts, accountants, etc.) providing adjacent capabilities to successfully rehabilitate distressed companies
- Active non-control investing strategies
  - Lack of data platform to access data and facilitate price discovery for collateral and NPLs
  - Lack of online platform to streamline and widen distribution of NPLs and NPAs
- Passive investing strategies
  - Securitisation is not commonly available as well as basic repackaged assets (e.g., CMO, CLO) for investing
  - Bond trustees have limited capabilities to adequately support and represent bondholders in distressed situations

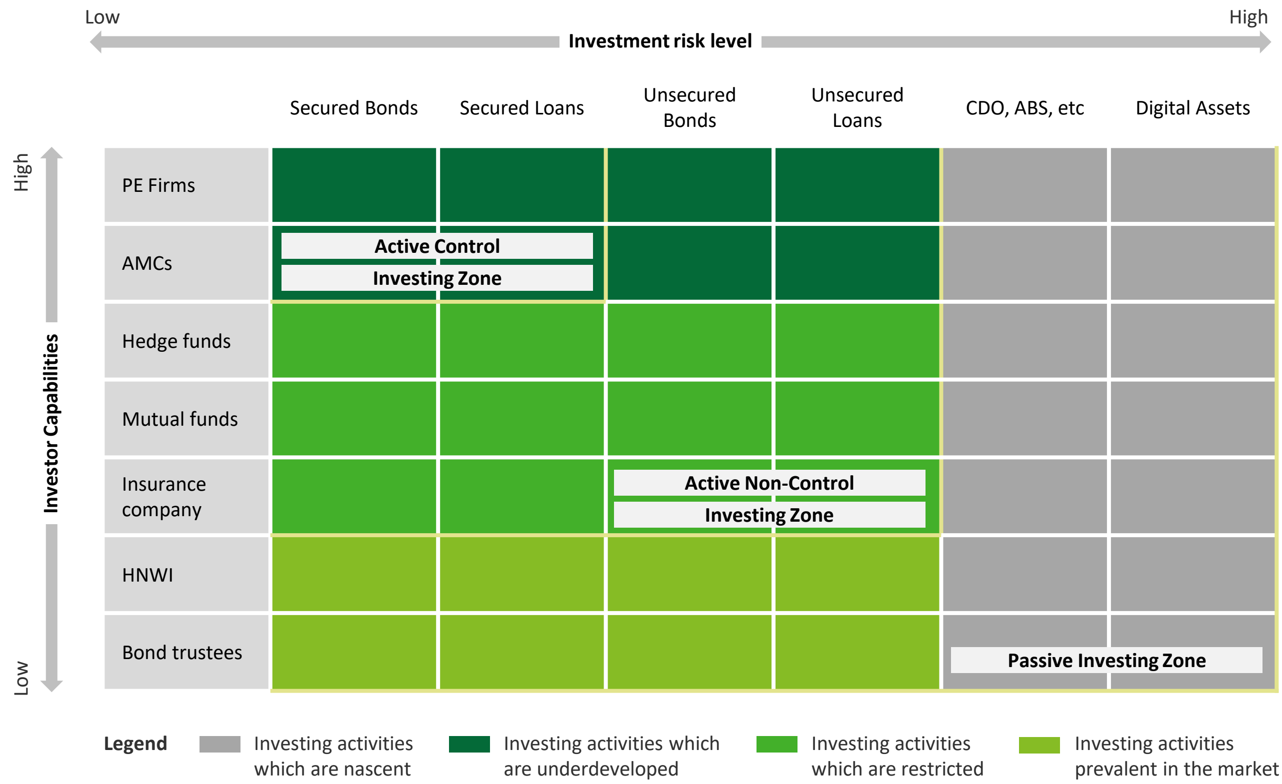
Source: Deloitte Analysis

Infrastructure is fragmented and lacks inter-connected collaboration and intermediaries to enable market efficiency (2/6).

The Thai distressed debt landscape as depicted by the illustration below outlines the implications of fragmented infrastructure. Across the 3 common investing strategies, only the passive investing zone is prevalent in the market. The more sophisticated strategies are either underdeveloped and/or being restricted by current regulations.

Key facts and figures

Thai Distressed Debt Investing Landscape: Investing Strategies by Distressed Debt Instrument



Source: Deloitte Analysis

Challenge #7 – What Infrastructure insights can be extracted?

Infrastructure is fragmented and lacks inter-connected collaboration and intermediaries to enable market efficiency (3/6).

B. Inter-agency collaboration is relatively limited when it comes to distressed debt market development

i. Distressed debt and securities investments are intricately linked. There appears to be a lack of coordination between regulatory bodies like the SEC and BOT, leading to a separation of regulations and oversight

- BOT focuses on debt that were originated by banks only
- SEC focuses on securities (equities and bonds)

ii. Court oversees the company when it goes into bankruptcy proceeding

- Court can void any transactions made by the debtor under litigation
- Court lacks the capabilities and specialised skillset to sufficiently support timely and successful rehabilitation
- Court only allows transfer of assets under litigation to AMCs

iii. Other supporting agencies are not being involved to address the needs of the distressed debt market

- Agencies such as revenue department, board of investments can support in enabling incentives
- Immigration can help in promoting and encouraging talent to come and work in Thailand

Key facts and figures

What's our problem
Distress can arise from systemic issues or business cycles

Distressed Companies
(Engines of Economic Growth)

How are we solving it today
Fragmented and siloed approach

- BoT and Banks focus on **loans**
- SEC and SET focus on **securities** (equity and bond)
- Court oversees the **distressed company's** bankruptcy proceeding
- Other related agencies are not being involved (e.g., tax, immigration, etc.)

How is it impacting the market
Gaps, inconsistencies, and unpredictable outcomes

1. **Misaligned definitions and treatment for debt**
   - BOT supervises disposal of NPL mainly via accredited AMCs
   - SEC supervises securities, allows mainly AI and UI funds to buy them, and restricts institutional investors from participating
2. **Disjointed initiatives with different goals and objectives**
   - BOT has debt clinic for loans while SEC has retail investor education
   - No program to support corporate rehabilitation. Court is left to support debtors and creditors throughout the process
3. **Sporadic, ad-hoc, and case-by-case treatment**
   - Issuers need to check with SEC to ascertain if the issue is permissible
   - Agencies must work separately with another agency for an initiative (e.g., immigration to get talent, board of investments for any incentive schemes)

Source: Deloitte Analysis

Infrastructure is fragmented and lacks inter-connected collaboration and intermediaries to enable market efficiency (4/6).

C. Lack of comprehensive and standardised dataset provided by banks during the NPL sales process

i. There is a number of debtor data that tend to be missing when banks give out NPLs detail to distressed debt manager for bidding

ii. In addition, there is no standardised dataset and template distributed by banks when they provide the debtor data to distressed debt managers

iii. While distressed debt managers have the option to request for the additional data, new distressed debt managers (both local and foreign) who are unfamiliar with the process may face challenges in obtaining the missing data and be discouraged to enter Thai market

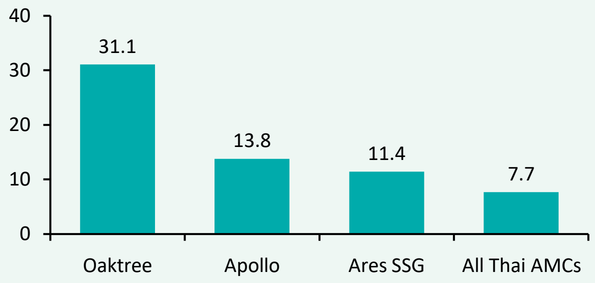
Key facts and figures

Examples of debtor data that often tend be missing or incomplete when banks provide information to distressed debt managers bidding for NPLs include:

1. Historical payment records
2. Debtor latest address
3. Previous conversation with debtor
4. Business status (corporate debtors)
5. Court enforcement status
6. Citing data privacy

Source: Deloitte Analysis

Asset owned by Foreign PEs in Asia-Pacific vs AMCs in Thailand in 2022[1,2,3,4], USD bn*



Foreign distressed debt managers investment capacity is much higher than that of Thai AMCs; having them in the market can help de-risk the country's reliance on smaller AMCs whose investment capacity is limited

Insights from Stakeholder interviews

"Banks only give out limited data about the debtors when selling their NPLs to AMCs. Some of the missing information includes debtor status and address"

– Chief Executive Officer, Local AMC

* Convert from THB
Source: Deloitte Analysis
1) US SEC, Ares Asset Management, December 2022
2) BAM, Thailand Focus 2023, August 2023
3) Oaktree, About Oaktree Capital, accessed November 2023
4) MacroTrend, Apollo Global Management Total Assets, accessed November 2023

Infrastructure is fragmented and lacks inter-connected collaboration and intermediaries to enable market efficiency (5/6).

D. Inefficient LED asset sales and operational process leads to fragmented experiences or stakeholders

i. There are 3 main areas in the LED asset sales process that could be improved namely:

- Speed of the operation: The current process could take more than 3.5 years to complete
- Operation design: The process is currently taking place offline, making it inconvenient and costly for stakeholders to participate
- Regulations governing the process: The regulations overseeing the title deed distribution and payment make it difficult for stakeholders to realise full benefits from the auction

Key facts and figures

The current issues of LED auction process:

Auction	Post-auction
1. Auction process, which can take up to 6 rounds, is slow and could take up to 2.5 years to complete due to a. High number of cases b. No limitation on number of petitions that debtors can file to LED 2. Auctions can only be done onsite at LED offices 3. Bidders are required to pay a deposit via cash or cashier cheque only If the assets remain unsold after undergoing 6 rounds of auction, they will enter a queue to be put up for subsequent auctions. The process will repeat until a successful bidder wins.	1. The cash distribution process to creditors is slow and could take up to 1 year to complete due to a. High number of cases b. Lack of clear due date for debt reconciliation and payment c. No limitation on number of petitions that debtors can file to LED 2. LED does not provide land title deed or the certified copy to the auction winner, making it difficult for winners to secure mortgages from the bank 3. Auction winners are required to make full payment to LED via cash or cashier cheque only

Initiatives being implemented by LED to improve the auction process

1. Starting in 2023, LED has implemented measures to govern the duration of the entire auction process:
   a. Basic cases should be completed within a maximum of 18 months, starting from the seizing of assets to the pay out of cash to creditors
2. LED is currently developing an online auction platform to be in operation by December 2023

Insights from Stakeholder interviews

"LED's auction and cash distribution is a lengthy process. There are instances where AMCs have to wait for 6-24 months before their assets can be put on auction"

– Chief Investment Officer, Local AMC

Source: Deloitte Analysis

Challenge #7 – What Infrastructure insights can be extracted?

Infrastructure is fragmented and lacks inter-connected collaboration and intermediaries to enable market efficiency (6/6).

E. **Lack of end-to-end infrastructure to support market makers, connectors, and enabling platforms (i.e., trading and data sharing) for distressed bonds**

i. While Thailand has previously operated an online bond exchanges known as TBx and FIRSTs, these exchanges had closed due to the low trading volume

ii. As a result, there is currently no platform which supports the trade of bond in Thailand now

Key facts and figures

Historical bond trading volume via OTC, TBx, and FIRSTs, USD bn

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
OTC	5,778.28	5,683.54	6,036.48	6,757.35	6,874.72	7,805.71	8,165.72	7,478.22	6,750.85	2,807.98
TBx	0.02	0.01	0.01	0.01	0.00	0.00	0.00	No transaction	0.00	No transaction
FIRSTs	61.18	41.50	14.62	4.69	0.09	No transaction	No transaction	No transaction	No transaction	No transaction

Source: SEC

Insights about TBx and FIRSTs

1. TBx (formerly called BEX): Launched in 2003 TBx is a bond trading platform operated by SET. TBx opens to retail investors. Retail investors can submit the real time order via their brokers similar to SET. The exchange was closed in 2021 due to the low trading volume.
2. FIRSTs: Launched in 2006 FIRSTs was designed for institutional investors. Platform was designed to offer users with similar experience to OTC trading i.e., users can negotiate the price via the platform instead of having to do it over the phone. The exchange was also closed due to the low trading volume, in fact the last transactions completed over the exchange was in 2015.

Insights from Stakeholder interviews

"Although we used to have bond exchanges, those exchanges were not popular among the bondholders and they were closed down due to low trading volume"

– High ranking official, Regulator

Source: Deloitte Analysis

Challenge #8 – What People insights can be extracted?

Distressed debt professionals lack sufficient knowledge and experience to effectively execute the rehabilitation process.

Overview of the challenge

The Thai distressed debt market today lacks skilled professionals particularly in the corporate rehabilitation area, primarily due to limited opportunities and experiences, as evidenced below:

a. Limited local opportunities stemming from a declining number of rehabilitation cases and the sparse presence of private equity firms, constraining knowledge transfer in Thailand.

A. Limited local opportunities stemming from a declining number of rehabilitation cases and the sparse presence of private equity firms, constraining knowledge transfer in Thailand

i. There is a decline in number of rehabilitation cases approved by courts, resulting in fewer corporate turnaround opportunities for local participants to build expertise on

ii. Furthermore, the involvement of foreign private equity firms in Thailand is limited, which hinders the sharing of knowledge and experiences with local participants

Key facts and figures

Number of insolvency and business rehabilitation cases filed per year[1]

Year	Number of insolvency cases filed	Number of business rehabilitation cases filed
2018	5,415	23
2019	8,398	28
2020	9,171	39
2021	9,235	18

Examples of recent activities in Thailand by foreign PE firms

Foreign PE Firms	Deal detail
Ares SSG	• Acquiring G Steel's outstanding loan and turning around the company before selling it off to the investor for USD 419 mn[2] • Acquiring PACE Development's outstanding loan[3]

Insights from Stakeholder interviews

"It is more difficult for courts to approve the rehabilitation case these days compared to what it used to be in the past"

– Chief Executive Officer, Local AMC

"The minimum ticket size for foreign GPs is UDS 55 – 60 mn, and those type of tickets only come once in a while in Thailand"

– Managing Director, International PE Firm

Source: Deloitte Analysis

1) Chandler MHM Limited, Insolvency 2020, Insolvency 2021, Insolvency 2022, Accessed October 2023

2) RYT9, Nippon Steel purchases G Steel and GJ Steel shares, January 2022

3) Deloitte interview with foreign GPs, September 2023

Challenge #9 – What People insights can be extracted?

Shortage of skilled talent pools possessing the requisite capabilities hinders the development of distressed debt market (1/2).

Overview of the challenge

The Thai distressed debt market has observed challenges in scaling talent pools with the right skills and capabilities due to the following:

a. Lack of experienced intermediaries (i.e., GPs) establishing presence in Thailand capable of fostering knowledge diffusion and investment opportunities for domestic investors

b. Inadequate education in promoting bond investors to engage in trading default bonds when opportunities arise

A. Lack of experienced intermediaries (i.e., GPs) establishing presence in Thailand capable of fostering knowledge diffusion and investment opportunities for domestic investors

i. While both local and foreign GPs offer unique value propositions, foreign GPs has significant comparative advantages to rapidly build and scale the industry in Thailand

ii. The presence and willingness of foreign GPs to establish a local presence are hindered by existing challenges, particularly the unattractive market conditions and inadequate stakeholder readiness.

Key facts[1]

	Local GPs	Foreign GPs
Presence in the Thai Market		
High level estimate of target loan ticket sizes (Illustrative)	**~USD 10mm – USD 50mm**	**~USD 50mm and more**
Comparative advantages	• Ability to leverage existing local network and connection for deals origination • Cheaper cost of due diligence due to local presence and experience • Better understanding of local companies' needs and operations • Faster and less complicated processes compared to foreign funds, due to smaller ticket sizes and relative simplicity of deals • Does not need to worry about foreign exchange rate or regulations risk • Does not need to worry about foreign remittance challenges (unlike foreign funds, who would be subjected to regulations both for inwards and outwards remittance) • More familiar with local legal execution and collateral enforcement process given their presence in Thailand	• Good reputation and track record • Global experience gained from investing in various types of deals across the multiple countries, including countries with more mature private debt markets than Thailand • Advantage in fundraising given their access to a global pool of investors • Availability of resources (e.g., money, talent, etc.) • Well established process in borrower selection (due diligence), management, and monitoring

Legend: High level of presence · Moderate level of presence · Partial level of presence · Low level of presence

Source: Deloitte Analysis

1) Deloitte interview with foreign GPs, September 2023

Challenge #9 – What People insights can be extracted?

Shortage of skilled talent pools possessing the requisite capabilities hinders the development of distressed debt market (2/2).

B. **Inadequate education in promoting bond investors to engage in trading defaulted bonds when opportunities arise**

i. Agencies provide various to educate the investors and the community. These programmes are more focused on general and foundational topics which are retail investors-centric

ii. Consequently, the educational campaigns and programmes seem to not cover distressed situations and distressed debt-related topics

Key facts and figures

- SEC is unable to protect investors from all risks or shield them against investment losses
- SEC ensures fair treatment and that investors have the tools to protect their own rights[1]

Current education programmes by SEC is geared towards retail investments but not specific to distressed debt[2,3]

There is a lack of educational programmes for distressed debt investments

Insights from Stakeholder interviews

"Both institutional and retail investors usually have a strategy on buy to hold, not buy to sell, so they are not really concerned about liquidity. The lack of liquidity in the bond markets is a problem that the SEC is working on. There might be more activity in bond market in the future with the introduction of new digital technology and new generation of investors"

– High ranking official, Regulator

Source: Deloitte Analysis
1) SEC, SEC and Investors, Accessed November 2023
2) SEC, Start-to-Invest, Accessed November 2023
3) SEC, Strategic Plan, Accessed November 2023

3.3

Spotlighting Existing Initiatives in the Market

What initiatives have the Thai government implemented so far?

Thai agencies have introduced two programs to address distressed debt challenges, but further rigorous developments may be needed to steer the country toward a more robust and resilient future, better equipped to manage potential financial crises.

Overview of government-led programs

The Thai government has recently initiated and managed several projects through various agencies, including the Bank of Thailand, Securities and Exchange Commission, and others. These projects aim to support stakeholders, e.g., debtors, creditors, distressed debt managers, and investors, in navigating and participating effectively in the distressed debt market.

These projects primarily aim to address the distressed debt situation stemming from the economic downturn surrounding the COVID-19 pandemic that began in 2020. The following two projects are examples of initiatives launched by the Thai government:

Projects	The setup of Joint Venture Asset Management Company (JV-AMC)	The establishment of Stressed Bond Fund
Overview of the program	The establishment of conditions for setting up a joint venture between commercial banks and asset management companies to invest in NPLs	The announcement of new rulings to oversee the setup and management of funds that focus their investment on stressed bond
Released by	Bank of Thailand (BoT)	Securities and Exchange Commission, Thailand (SEC)
Effective Date	27th of January 2022	17th of December 2021
Relevant Parties	1. Commercial banks 2. Asset management companies	1. Fund managers 2. Institutional investors 3. Ultra High Net Worth investors

The subsequent pages offer a more in-depth examination of the above-mentioned schemes.

It is important to highlight that these initiatives is primarily aimed to support specific groups only, such AMCs and institutional investors. Going beyond, the report will explore strategies used by other countries to address challenges faced by a wider group of stakeholders, as detailed in the upcoming chapter of this report.

Source: BoT, SEC, Deloitte Analysis

What is the JV-AMC Program?

JV-AMC is a joint venture between commercial banks and AMCs with the primary aim to manage the high volumes of NPLs in the market.

Joint Venture Asset Management Company[1]

Overview

1. In January 2022, the Bank of Thailand approved the formation of a joint venture to be set up between **commercial banks and AMCs** in anticipation for the expected NPL increase resulting from the economic slowdown from COVID-19.
2. Objectives of the schemes include:
   a. Providing commercial banks more options to manage their NPLs portfolio
   b. Improving commercial banks' NPLs management process leveraging the expertise that AMCs have
   c. Offering debtors the opportunity to resurface. As mentioned in the scheme, the JV AMCs are required to continuously work with debtors to restructuring their debt

Commercial Banks
Excluding SFIs

Asset Management Companies

Details

1. Commercial banks will get **support and expertise in debt restructuring from AMCs**
2. The JV must be **established by 2024 and can operate for up to 15 years**
3. Both entities should **maintain an equal shareholding** to prevent any one from exercising authority over the other[2]

Market Response

1. **KBank has announced a joint venture with JMT Network Service to establish JK AMC in 2022**, marking the first collaboration between a commercial bank and an AMC in Thailand[3]
2. **BAM has been actively pursuing the establishment of joint venture AMCs with commercial banks**[4]

Source: Deloitte Analysis
1) BoT, JV AMC support due to covid-19 situation, January 2022
2) Isra News Agency, BoT announced condition for JV AMC, January 2022
3) KasikornBank, KBank teams with JMT to establish JK AMC, June 2022
4) Thunhoon, BAM seek to joint establish AMC in the year of investment, May 2023

What is the Stressed Bond Fund initiative?

The SEC has enacted legislation for the creation of stressed bond fund investments to enable a new asset class for eligible investors.

Stressed Bond Fund [1,2]

Overview

1. In December 2021, SEC announced **legislation to oversee the setup and management of Ultra Accredited Investors funds (UI funds) that focus on distressed bond investments**
2. Objectives of the legislation include:
   a. Providing a solution for future distressed bonds
   b. Providing liquidity to distressed bond market, e.g., distressed bond holders, rescheduled bond holders, restructured bond holders
   c. Creating new investment option for investors, i.e., investors will be able to invest in distressed bond via funds that are managed by professional fund managers

Fund managers

Ultra high net worth and institutional investors

Details

1. The stressed bond fund will be **set up as an UI fund**
2. **Investors of the UI fund are only limited to institutional investors and ultra high net worth investors (UHNW)**
3. The stressed bond fund **must invest 60% of its portfolio in distressed bonds**
4. The fund's holdings are limited to:
   a. Stressed bonds
      i. Including distressed bonds, rescheduled bonds, rehabilitation company bonds, restructured bonds, cross default bonds, subordinated perpetual bonds, etc.
   b. Other assets as allowed by UI fund regulations

Insights from abroad[+] 🌏

1. In the global market there are **number of funds that focus their investment on distressed assets**
2. **These funds are managed by highly experienced fund managers (GPs) and open to accredited investors (e.g., HNWI), and institutional investors (LPs)**
   a. Examples of the funds[3,4]: Apollo Credit Opportunity Fund III (USD 3.43 bn in size), Oaktree Opportunities Fund XI (USD 15.9 bn in size)
   b. Examples of investors (LPs)[3,4]: Danica Pension or US Nationwide Retirement Plan
3. In 2022, it was reported that **globally distressed debt managers had USD 78 bn under their management ready to be allocated**[5]
   a. This represents the available global investor market that Thailand can consider tapping into

Source: Deloitte Analysis
1) SEC, Stressed Bond Fund Guideline, December 2021
2) SEC, Stressed Bond Fund Detail, December 2021
3) Pitchbook, Apollo Credit Opportunity Fund III Overview, October 2023
4) Pitchbook, Oaktree Opportunities Fund XI Overview, October 2023
5) Reuters, Focus: Betting on a recession, U.S. distressed debt funds seek fresh capital, July 2022

What is Tokenisation and its importance to distressed debt market?

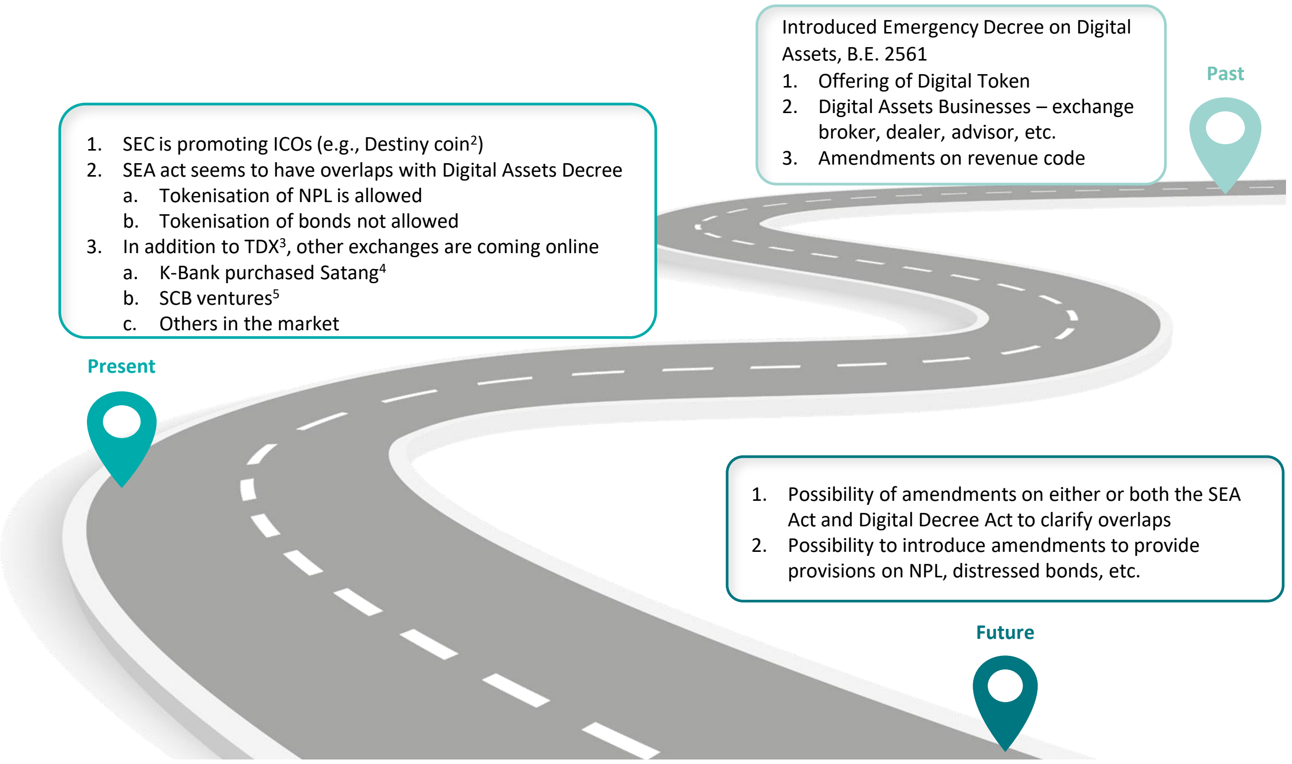
Tokens allow real world assets to be digitized while remaining non-fungible. The emergence of this new digital asset enabled experiments on high efficiency asset transfers, and to test the market's reaction.

Tokenisation

Overview[1]

1. In line with digitalization, fintech trends, and developments, Thailand has started to introduce digital assets to be regulated – Emergency Decree on Digital Assets Business, B.E. 2561 (2018)
2. Due to the fast-moving and rapidly evolving nature of technology, regulation has not been able to keep up and further assessment will be required before properly ensuring risky assets such as distressed products are considered. As it stands today, there are only a few regulation on tech, with many overlapping in scope:
   a. Securities and Exchange Act – covers instruments that are securities or behave like it
   b. Payment Systems Act – covers e-money
   c. Derivatives Act – covers option instruments
   d. Digital Assets Decree – covers instruments which fall under "digital assets" and do not fall within the scope of existing laws before 14 May 2018
3. Thailand classifies digital assets according to – cryptocurrencies and digital tokens
   a. Cryptocurrencies – medium for exchanging goods, services, or digital assets
   b. Digital token – right to receive specific goods, service, or other rights as agreed

Details



Source: Deloitte Analysis

1) Baker McKenzie, Guide to regulation on cryptocurrency and digital token in Thailand, August 2023

2) Techsauce, Kubix Destiny Tokens, May 2022

3) SET, About TDX, Accessed November 2023

4) Coindesk, K-Bank Buys Majority Stake in Thai Crypto Exchange Satang, October 2023

5) Blockworks, Thailand's 4th-largest bank buys $103M stake in crypto exchange, October 2023

4 Lessons from other markets

4.1 Case study selection approach

4.1.1 Who are the key markets?

4.1.2 How are they addressing distressed debt?

4.1.3 Which key initiatives differentiate the market and define its value proposition?

4.1.4 What are the case studies?

Who are the key markets?

Key markets include USA, Europe, and South Korea, as they have demonstrated success in addressing distressed debt and can provide inspiration and insights to super-scale the marketplace in Thailand.

Guiding principles for selecting Distressed Debt Markets[1]

The criteria for selecting the most appropriate markets focus on scale and relevance, distinctiveness, and the potential for a multiplier effect. Chosen initiatives are those that attract liquidity and volume, and open doors to new investor groups.

1. Scale and Relevancy – Examining effective measures introduced by other markets to tackle large volumes of distressed debt at a macro level (e.g., in response to financial crises)
2. Distinctiveness – Innovative and forward-thinking strategies that result in new ways of working and enhanced collaboration throughout the capital market ecosystem
3. Multiplier Effect – Unlocked additional opportunities in the market through improved connections and collaboration between stakeholders

We consider these three criteria instrumental in identifying best practices employed by leading markets to super scale distressed debt activities. Furthermore, there is merit in considering how Thailand can draw lessons from these approaches to enhance investor participation, maintain liquidity through well-regulated and predictable outcomes, and develop a secondary market supported by strong infrastructure, as an example.

Following the evaluation of the three criteria, we ultimately selected the capital markets of the US, EU, and South Korea considering their value proposition as suitable models for Thailand.

USA: Drawing in a wide variety of investor archetypes by synergising **market mindset** and **inclusive regulations** with predictable outcomes and **inter-agency collaboration** for rapid response.

EU: Aligning regulations to facilitate creative NPL resolutions, relying on **market mechanisms** and **end-to-end infrastructure** to support secondary market activities.

S. Korea: Using intermediaries to effect changes at an aggregate level, broadening the scope, and even scaling distressed debt activities internationally.

Key markets and their value propositions that Thailand can learn from

Source: Deloitte Analysis

1) Bank for International Settlements, Resolution of non-performing loans - Policy options, 2017

US, EU, and South Korea utilise a variety of distressed debt resolution measures, including both transactional and transformational options.

Distressed Debt Resolution Measures[1]

Globally, the common resolution measures utilised by different markets to address distressed debt fall into either transactional or transformational categories. A high-level comparison of the 2 categories are:

- **Transactional** – refers to measures that can be implemented at an entity level (i.e., between buyers and sellers) and oftentimes are financial in nature driven by risk and reward calculations
- **Transformational** – refers to measures that require a certain **degree of coordination typically amongst different government agencies** and even involving private sector partners to effect changes at an aggregate level

Matching the resolution measures in response to the scope and scale of distressed debt situations in the market can help policymakers and other key stakeholders in designing and implementing the most appropriate measure(s). Transactional measures are only part of the solution to super scale marketplaces to sustainably handle distressed debt. Transformational measures such as establishing infrastructure, policy amendments, and combining public and private initiatives are necessary—especially in markets that are underdeveloped and are resource-constrained—to develop a healthy and robust ecosystem.

Key distressed debt resolution measures across US, EU, and South Korea

Category	Resolution Measures	US	EU	S. KOREA
Transactional (Short term – risk and reward driven)	Debt restructuring and out-of-court workouts	✓	✓	✓
	Debt enforcement	✓	✓	✓
	Transfer to AMCs	✓	✓	✓
	Distressed Bond Trading via secondary market	✓	✓	✓
	Securitisation (distressed debt - bonds, loans, etc.)	✓	✓	✓
	Turnaround – Resolution via Bondholder representative and mechanisms	✓	✓	✓
	Turnaround – Corporate restructuring	✓	✓	✓
Transformational (Long term – value accretion and ecosystem development)	Regulations adapting to market needs and aligned to international practices	✓	✓	✓
	Incentives (financial and non-financial)	✓	✓	✓
	Platforms to facilitate secondary market activities	✓	✓	✓
	Capability enablement and capacity build up (e.g., Talent development, acquisition, upskilling, etc.)	✓	✓	✓
	Collaboration - Inter-agency initiatives	✓	✓	✓
	Co-creation - Joint Public and Private Ownership	✓		

Source: Deloitte Analysis

1) Bank for International Settlements, Resolution of non-performing loans - Policy options, 2017

Which initiatives differentiate the market and define its value proposition?

Selected case studies highlight battle-tested initiatives that tackle fundamental challenges confronting the Thai capital markets, encompassing issues like limited investor base, complex regulatory frameworks, and inadequate market infrastructure.

Methodology for Selecting Initiatives

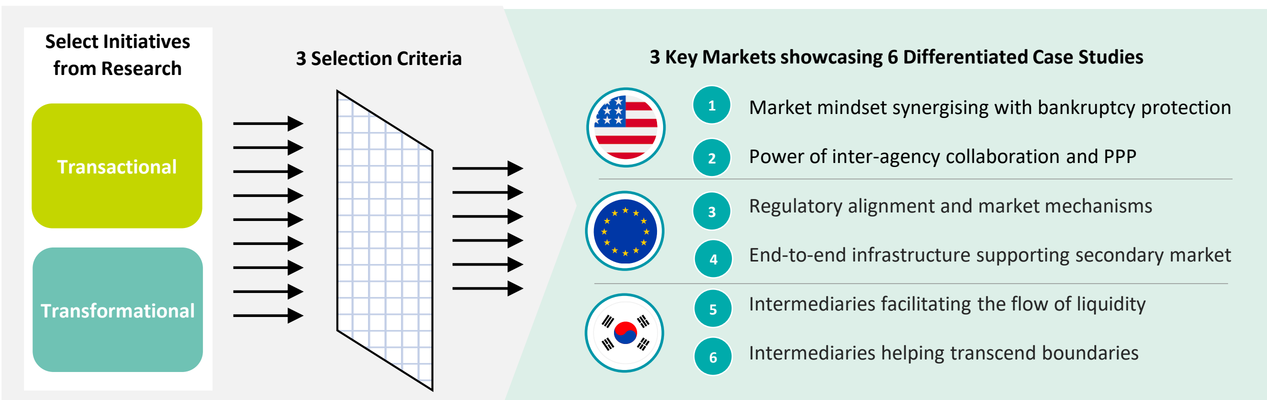
The selection of initiatives underwent thorough scrutiny via a series of guiding questions. This process aimed to establish a foundational understanding of each initiative's purpose and its impact on the distressed debt and capital markets. This involved an examination of the following aspects:

1. Market challenges: In assessing the market challenges, we delve into the unique conditions that placed stress on both capital markets and the broader financial landscape. These specific conditions could range from economic downturns, disruptions in the banking sector, or even global financial crises. Understanding the root causes of these challenges provides a solid foundation for comprehending how the distressed debt market was affected and why certain initiatives were deemed necessary.

2. Initiative priorities: Each case study presents a unique set of initiatives designed to counteract the challenges faced by their respective distressed debt markets. These initiatives could encompass a wide array of measures, from regulatory reforms and policy interventions to innovative market mechanisms and investor engagement strategies. Examining these priorities in detail helps us grasp how they were tailored to address the distinct market conditions and goals of each country.

Furthermore, analysing the impact of these initiatives on investor diversification, liquidity preservation, and market infrastructure development is crucial. This assessment sheds light on the effectiveness of these actions in creating a more resilient and attractive environment for distressed debt activities.

3. Outcome assessment: We evaluate the concrete impacts of these initiatives across various dimensions. This includes examining their influence on market resilience, investor participation, liquidity maintenance, infrastructure development, and overall investor confidence. This assessment provides a clear understanding of the real-world effects of these initiatives on the distressed debt market landscape, helping Thai financial experts and policymakers make informed decisions to enhance their market.



Source: Deloitte Analysis

What are the case studies?

We have selected six case studies across the US, Europe, and South Korea for detailed analysis to extract key learnings.

Cases Study Selection Result

We have selected 6 different case studies from 3 key markets, namely:

Legend (Key Pillars): Market | Infrastructure | Regulatory

Market	Case Study	Key Pillars Addressed
	1 Market mindset synergising with strong bankruptcy protections	Market, Regulatory
	2 Power of inter-agency collaboration and PPP	Market
	3 Regulatory alignment and market mechanisms	Market, Regulatory
	4 End-to-end infrastructure supporting secondary market	Infrastructure
	5 Intermediaries facilitating the flow of liquidity	Market, Regulatory
	6 Intermediaries helping transcend boundaries	Infrastructure

The details of each case study will be explained in the following sections.

Source: Deloitte Analysis

4.2 Unique and differentiated case studies

Unique and differentiated case studies: US

The United States has achieved significant breakthroughs in banking and capital markets, offering a rich context that sets the stage for global distressed debt dynamics.

Brief history of distressed debt in the US[1,2]

The history of distressed debt markets in the United States is deeply intertwined with the evolution of the banking and financial sector. It can be traced back to the early days of corporate bonds, where financially troubled companies issued bonds as a means of raising capital, thus giving rise to distressed bonds. The development of bankruptcy laws and regulations over the years provided a more structured framework for this market.

A significant milestone in the history of the U.S. distressed debt market occurred during the 1980s. This era witnessed the proliferation of high-yield or junk bonds, which were often associated with distressed companies. The advent of these high-yield bonds, along with the establishment of distressed debt-focused investment funds, played a pivotal role in boosting the prominence of the distressed debt market.

By the turn of the 21st century, the distressed debt market in the United States had matured significantly. Notably, this market has demonstrated its resilience by weathering economic shifts and adapting to changing regulatory landscapes within the banking industry.

Efficient bankruptcy processes have streamlined the resolution of distressed assets, instilling confidence in the market. Additionally, multi-agency market liquidity programs such as the public-private investment initiatives have played a pivotal role by injecting liquidity and attracting a broader spectrum of investors.

Today, the U.S. boasts one of the world's most advanced and liquid distressed debt markets. This market's history and growth showcase its integral role in the broader financial sector, making it a key element of the U.S. banking landscape.

Source: Deloitte Analysis
1) United States Department of Justice, Overview of Bankruptcy Chapters, March 2022
2) Bank for International Settlements, Resolution of non-performing loans - Policy options, October 2017

Incremental regulatory enhancements over time have helped the US develop into an attractive market, conducive for innovation in distressed debt management.

Key regulatory enhancements and programs for distressed debt

The United States has implemented several key regulatory enhancements and programs to effectively address the complexities of the distressed debt market.

For example, the US streamlined bankruptcy proceedings—emphasising opportunities to give distressed companies a chance to rehabilitate rather than dissolve. This in turn has fostered a more transparent, more robust, and more efficient restructuring environment.[1,2]

Additionally, the US launched a Public-Private Investment Program (PPIP) following the 2008 financial crisis to introduce liquidity to the troubled mortgage-backed-securities market. The government worked with private sector fund managers to both share in risks and profitable returns.[3]

Legend : Regulation | Programs/Initiatives

1978 — **Enactment of Bankruptcy Code – Introduction of various bankruptcy chapters[1]**

The new law introduced several key changes, including the creation of a uniform federal bankruptcy code to replace various state-specific laws. It established different bankruptcy chapters, such as Chapter 7 for liquidation and Chapter 11 for reorganisation.

1978 — **Enactment of Bankruptcy Code – Introduction of framework that allowed for greater flexibility in bankruptcy proceedings[2]**

The 1978 Bankruptcy Code provided the flexibility for such innovative restructuring techniques to emerge, such as the prepackaged bankruptcy process, helping distressed companies address financial difficulties more efficiently.

2009 — **Public-Private Investment Program[3]**

The PPIP was a joint effort between the U.S. Department of the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC). The program encouraged participation from private investors. The program pulled in USD 7.8 bn in private sector equity.

2010 — **Dodd-Frank Wall Street Reform and Consumer Protection Act – Establishment of Financial Stability Oversight Council (FSOC)[4]**

The FSOC comprises representatives from various U.S. regulatory agencies. Its purpose is to promote coordination and collaboration among these agencies in identifying and addressing systemic risks in the financial system and has established a mechanism to ensure inter-agency collaboration and information sharing.

Source: Deloitte Analysis
1) United States Department of Justice, Overview of Bankruptcy Chapters, March 2022
2) Global Restructuring Review, Pre-packaged Chapter 11 in the United States, December 2019
3) US Department of the Treasury, Public-Private Investment Program USA, Accessed October 2023
4) United States Government Accountability Office, Financial Stability Oversight Council, September 2023

The United States' strong regulatory framework, coupled with a resilient capital market, strong infrastructure, and human capital, has propelled it to become a leader in distressed debt investing.

Leading Practices and Continuous Improvements[1,2,3,4]

The United States' culture of leading practices and continuous improvements has been instrumental in super-scaling the distressed debt market. This is exemplified in terms of:

- **Culture fostering innovation** – financial experts continually seek new and more effective ways to address challenges and improve market efficiency. It encourages a proactive, market-led approach to solving problems, leading to the development of cutting-edge financial instruments and risk management tools.
- **Regulations conducive for distressed debt management** – an environment that encourages rehabilitation over dissolution. Capital market participants are willing to think innovatively and explore uncharted territory to work with distressed companies, knowing that the bankruptcy system provides them with a regulatory cover. For instance, Chapter 11 is a platform for corporate restructuring, and the introduction of additional chapters like chapter 12 and 13 has expanded to be more inclusive to cater to the different needs of individuals and micro businesses.

How US actively develops distressed debt markets as part of its broader financial landscape

Market

1. **Wide range of debt instruments,** such as NPLs, distressed bonds, CDOs, ABS, repackaged debt, etc.
2. **Diversified investor base** eligible to invest in distressed asset classes, from institutional investors to individuals
3. **Strong capital inflows** from both locally and internally across spectrum of asset classes and investor groups through diverse investment opportunities e.g., PPIP programmes

Regulation

1. **Flexible and adaptable bankruptcy proceedings**, such as the prepacked chapter 11, and chapter 12 and 13 for micro businesses and individuals
2. **Continuous improvements in regulatory reforms and amendments** to support evolving market and stakeholder needs
3. **Well developed legal frameworks** facilitates efficient trading in the market

Infrastructure

1. **Inter-agency collaboration** efforts through FSOC council
2. **Robust and abundant infrastructure players** to support the facilitation of distressed debt market such as credit rating agencies, SPVs, financial advisors, etc.
3. **Diverse trading platforms** like DebtX loan and debt instruments trading, LSTA exchange, Ten-X online auctions, etc., to support distressed asset trading

People

1. **Diverse expertise** and professionals across various financial fields, making it well-equipped to support the capital market
2. **Talent pool** from highly educated and well-trained professionals in renowned programs
3. **Well-versed professionals** with **regulatory knowledge** in the intricate regulatory landscape governing financial transactions

Market Insights

Non-Performing Bank Loans[3]

114th	0.81%
World Rankings (lower is better)	Bank NPL vs Total Loan portfolio

Market Insights

Rehabilitation Success[4]

1.0 year(s)	81.0
Avg. insolvency proceeding time	Recovery Rate (cents on the dollar)

Source: Deloitte Analysis

1) Acuity Knowledge Partners, Bright spots in distressed debt investing amid rate hikes and recession fear, February 2023
2) Share America, US public companies' financial details are transparent to all, April 2022
3) Global Economy, 2021 Bank Non-performing loans global ranking, Accessed October 2023
4) The World Bank, Ease of doing business: Resolving insolvency, Accessed October 2023

How did the US attract and keep a wide variety of investor archetypes engaged in their market? (1/2)

Comprehensive, inclusive, and predictable bankruptcy protections draw financial market innovators and intermediaries into the distressed debt market.

Despite being the largest market with established practices, the US continually explores innovative methods to enhance bankruptcy laws and distressed debt investing.

Overview of the initiative[1,2,3]	
Problem Statement	1. Complexity of traditional Chapter 11 bankruptcy proceeding a. Lengthy and costly court proceedings b. Heightened uncertainty and risks c. Asset value deterioration due to delay and resources wasted d. Operational disruption for businesses 2. Lack of inclusive bankruptcy framework to cater to diverse industries and business activities a. Limited resolution mechanisms to address various distressed situations for wide range of debtor groups with specific needs
Actions Implemented	Continuous efforts to improve the **regulatory regime surrounding bankruptcy processes** such as: 1. Added new chapters to incorporate changes in the market (e.g., covid) or accommodate structural differences between industry archetypes (e.g., Chapter 7 for liquidation, chapter 11 for rehabilitation, chapter 12 for micro businesses, etc.) 2. Acceptance of new ways to solving old problem (e.g., investors can come to the court with pre-packaged loan and the court allows it). Enablement of process efficiency, especially for out-of-court negotiations and settlements between creditors and debtors, including pre-packs
Intermediaries involvement	1. Connector function was performed by infra enablers (e.g., bankers, other valuation experts) a. Access to supporting professional services b. Access to data to enable accurate valuations 2. Market maker function was performed by investors and distressed debt managers a. More buyers of distressed debt from banks increasing liquidity in the market b. Capital is locked in the market vs. waiting for court decision (i.e., sunk capital)
Key Outcomes	1. More entities from various industries leveraged new chapters (because of COVID) 2. Attracted wide variety of investors across the entire business lifecycle 3. Improved the efficiency of the insolvency process in the US; the average duration to resolve insolvency is < 1 year in the US, and 2.5 years globally[2] 4. Volume of pre-pack is substantial and has become global standard due to the increased success rate of rehabilitation for viable business (e.g., GM and Chrysler)
Capital Markets Insights	**Role**: Perform better risk management and improve corporate governance through enhancing the various insolvency regimes for rehabilitating distressed companies **Benefits**: Distressed debt managers and investors can utilise processes that are in line with a risk management approach to optimise returns, minimise cost, and mitigate risks

Source: Deloitte Analysis
1) Global Restructuring Review, Pre-packaged Chapter 11 in the United States, December 2019
2) World Bank Group, Time to resolve insolvency (years), Accessed October 2023
3) McGuireWoods, Usain Belk - The Fastest Prepack Alive, March 2021

How did the US attract and keep a wide variety of investor archetypes engaged in their market? (2/2)

A variety of flexible options to assist struggling or distressed businesses, coupled with an efficient settlement process between creditors and debtors, enhance likelihood of re-emerging successfully.

Regulatory reforms introduced in the US comprise of options for liquidation or rehabilitation. A wide range of options are available for distressed businesses. Smaller businesses often utilise Chapter 13 or 12 for debt repayment plans, while larger corporations turn to Chapter 11 for business restructuring. In cases of insolvency, Chapter 7 allows for liquidation as an option.

Businesses also have the choice of corporate rehabilitation, typically between traditional or pre-packaged Chapter 11 bankruptcy options. The traditional bankruptcy route usually involves a longer and therefore more expensive process compared to pre-packaged alternatives. This extended duration in the traditional approach arises from protracted negotiations, multiple court hearings, thorough due diligence, and various administrative procedures, making it more complex and time-consuming

Pre-packaged bankruptcy deals involve an out-of-court agreement between the debtor and significant creditors regarding a rehabilitation plan before the formal filing. This process offers the advantage of enabling companies to emerge from bankruptcy more swiftly, as it streamlines post-filing negotiations and lengthy voting processes through the court-confirmed pre-negotiated plan.[1]

Distressed Debtors Rehabilitation and Liquidation Options

Liquidation	Retail — **Chapter 7** — Corporates				
Rehabilitation	Chapter 13	Chapter 12	Chapter 11 - Traditional	Chapter 11 – Pre-packs	Chapter 11 – Pre-arranged

Overview of Traditional vs. Pre-packed Bankruptcy Process[2]

	A Initial Filing	B Plan of Restructuring	C Legal Proceedings	D Exit
Rehab process (Traditional :9-20 months)	Debtor files bankruptcy petition, plan, and disclosure statement, and solicits votes	Done outside of court 1. Debtor drafts and negotiates restructuring plan with key creditors 2. Debtor solicits creditors' acceptance (through voting)	First and joint hearing on disclosure statement, plan, and other procedural motions	Plan confirmed by court, and disclosure statement approved

Pre-pack- 1-2 months

Main advantages of Pre-packs over Traditional Chapter 11 bankruptcy cases

1. **Speed and minimised disruption**
2. **Reduced costs, such as administrative** costs with less time spent in bankruptcy
3. **Retaining employees**, with shorter process time and less uncertainty
4. **Greater control and certainty** over the reorganisation process
5. **Execution risk is reduced**, if deal is highly consensual
6. **Less litigation**, with pre consensual approved prior to filing

Source: Deloitte Analysis
1) Thomson Reuters, Bankruptcy: Overview of the Chapter 11 Process, Accessed October 2023
2) Gibson Dunn, Prepackaged and Prenegotiated Chapter 11 Reorganisation Strategies, April 2019

How did the US orchestrate and super-scale initiatives addressing distressed debt at a national level? (1/2)

The US leveraged the power of inter-agency alignment to enable quick decisioning and decisive action to respond to national level crises and restore confidence in the global financial markets.

The Public-Private Investment Program (PPIP) for legacy securities – led by the Treasury department in partnership with other agencies such as FDIC and SEC – was a key component of TARP, a financial program initiated by the Treasury department to address troubled assets held by financial institutions during the Global Financial Crisis. The partnership scheme attracted a greater number of specialised private sector investors, improving its chances of success.

Overview of the initiative[1,2]	
Problem Statement	1. During the 2008 Global Financial Crisis, there was limited investor capital 2. Financial institution held a lot of distressed assets and non-performing loans 3. Government wanting to act but lacked the expertise to help industries which are "too big to fail" and are essential in the economy (e.g., jobs, functions, political points, etc.) 4. Risk of contagion and crisis spiraling out was significant
Actions Implemented	1. **Creation of Public-Private Investment Fund** 2. Matched private capital of 50/50 equity between government and private funds 3. Designed a scheme wherein government is purely involved in financing and private sector retains control, and autonomy to implement investment strategies (asset selection, pricing, trading, and disposal, etc.)
Intermediaries involvement	1. Connectors functioned was performed by various infra enablers (e.g., economists, lobbyists) a. Facilitated flow of information for decision-making liquidity b. Designed policy with public and private sector input to achieve desired outcomes 2. Market maker function was performed by distressed debt fund managers of the PPIF a. Increased liquidity from high risk legacy securities b. Allocated private capital to secure opportunities with upside potential for investors
Key Outcomes	1. Prevented financial contagion and domino effect in the US 2. Stabilised asset prices in the market a. Helped increase the value of mortgage-backed security (MBS) by 75%[1] in under two years from 2010 to 2012 3. Significant level of interest and returns from the PPP a. 140 applications submitted to participate b. USD 14.9 bn repayment plus USD 3.9[1] bn in interest to the Treasury in 2014
Capital Markets Insights	**Role:** Allocate capital to non-investment grade assets and facilitate diversified investment opportunities from private investors. **Benefits:** 1. Participation from private sectors such as fund managers through the co-investment scheme, resulting in increased liquidity in the market 2. Through the PPP, public sectors were able to build capabilities through working with private sectors and enhance their skills needed to managed distressed debt.

Source: Deloitte Analysis
1) Bank for International Settlements, Resolution of non-performing loans - Policy options, October 2017
2) Columbia Journal of Law and Social Problems, Structuring Public-Private Partnerships, Accessed October 2023

How did the US orchestrate and super-scale initiatives addressing distressed debt at a national level? (2/2)

The PPIF leveraged on inter-agency collaboration and public-private-partnership to access significant resources and capabilities resulting in USD 7.8 bn in private sector equity, full repayment of Treasury funds, and surplus of USD 3.9 bn, all within a four-year timeframe.

PPIP allows private sector to partner with US Treasury to establish a Public-Private Investment Fund (PPIF) for investment in troubled assets and NPLs held by banks and the financial institutions.

The key details of the PPIF structure can be summarised as follow:

1. Private sector scope of work allowed under PPIF
   a. Allows private sector to retain control of asset selection, pricing, trading, and disposition
2. The PPIF equity structure:
   a. 50% of equity from private-sector
   b. 50% of equity from the US Treasury
3. The additional funding support from US Treasury
   a. US Treasury provides an additional non-recourse debt financing for up to 100% of the total combined private and government equity

There were several outcomes from the co-investment scheme, including:

1. The program generated significant level of interest from qualified fund managers with over 140 applications submitted to participate.
2. 8 asset management companies were successful in establishing PPIFs
3. Helped increase the value of mortgage-backed security (MBS) by 75%[1] in under two years from 2010 to 2012
4. USD 14.9 bn repayment plus USD 3.9[1] bn in interest to the Treasury in 2014

Parameter	Matching funds/PPIF (%)[1]	Net internal rates of return, 2012[1]
Government investments	~75%	**18.22 - 28.14 %** Losses for private investors capped at equity amount inputted
Private investments	~25%	

Status	Fund Managers	Net Internal Rate of Return[2]	Equity Distribution Payments to Treasury, USD mn[2]
Funds still managing investments	AG GECC PPIF Master Fund, L.P.	23.73%	982
	Marathon Legacy Securities Public-Private Investment Partnership, L.P.	23.03%	223
	Oaktree PPIP Fund, L.P.	28.14%	337
	Wellington Management Legacy Securities PPIF	18.22%	372
Funds winding down/dissolved	Alliance Bernstein Legacy Securities Master Fund, L.P.	15.52%	1,545
	BlackRock PPIF, L.P	15.88%	921
	Invesco Legacy Securities Master Fund, L.P.	18.24%	720
	RLJ Western Asset Public/Private Master Fund, L.P	17.45%	1,041
	UST/TCW Senior Mortgage Securities Fund, L.P.	N/A	176
Total for all funds		**N/A**	**6,317**

Source: Deloitte Analysis

1) U.S. Department of the Treasury, Secretary Timothy F. Geitner's Written Testimony Before the Congressional Oversight Panel, Accessed November 2023

2) Columbia Journal of Law and Social Problems, Structuring Public-Private Partnerships, Accessed October 2023

Unique and differentiated case studies: EU

Europe's diversity of countries and markets provides rich insights on managing distressed debt and developing ecosystems through standardised and centralised approaches.

Brief history of distressed debt in Europe

Europe is a large and fragmented market comprising of multiple countries bound together by the Euro. This reality extends to its distressed debt market, wherein strain in the financial sector can potentially lead to systemic issues if not swiftly and effectively managed. During the GFC, a lot of member states (e.g., Spain, Italy, Ireland, Greece, etc.) in Europe were affected by the following:[1]

1. **Economic Contraction**: Many European countries experienced severe economic contractions during the GFC. For example, in 2009, the Eurozone's GDP contracted by 4.3%[1].
2. **Banking Sector Stress:** European banks faced significant stress due to their exposure to toxic assets, particularly mortgage-backed securities. Several European banks required government bailouts to stay afloat. For instance, the UK government injected £45.5 billion into the Royal Bank of Scotland (RBS) and £20.3 billion into Lloyds Banking Group[2].
3. **Sovereign Debt Crisis:** The GFC triggered a sovereign debt crisis in the Eurozone. Countries like Greece, Portugal, Ireland, and Spain faced soaring borrowing costs and the risk of default. Greece required multiple bailouts. The crisis led to austerity measures and reforms in these countries.
4. **Unemployment:** The GFC resulted in a surge in unemployment across Europe. In some countries, like Spain, unemployment rates reached over 25%. In the Eurozone, the unemployment rate rose to 12.1% in 2013[3].

The EU launched various initiatives in response to the crises, strengthening the resiliency of banking sectors and effective disposal of NPLs. Initiatives revolved around regulatory alignment, centralisation, standardisation, and infrastructure enhancements, as well as inter-agency collaboration spanning Europe.

Source: Deloitte Analysis
1) EURACTIV, EU Commission expects deeper recession than in 2009, April 2020
2) Financial Times, UK hits break-even on £20bn Lloyds Bank rescue, April 2017
3) Al Jazeera, Eurozone unemployment hits new record, May 2013

Europe's distressed debt market is shaped by EU's centralised approach to governing regulated entities, managing distressed assets, and standardising information to improve transparency with investing.

Key regulatory enhancements and programs for distressed debt[1]

In response to the global financial crisis, Europe implemented a range of regulatory enhancements and programs to address distressed debt challenges. These initiatives aimed to stabilise financial markets, protect investors, and promote economic recovery. Key regulatory enhancements included measures to improve the bankruptcy process for distressed companies, facilitate cross-border debt restructuring, and enhance investor protections.

For instance, the addition of new chapters 7 and 11 components in the European Banking Authority's bankruptcy framework helped standardise efforts across countries. Regulatory amendments helped standardise data and information on collaterals used to back loans, and an ABS information and data platform helped centralise records across the EU.

Legend : Regulation | Programs/Initiatives

2007 **European Banking Authority (EBA)[2]**

The new law introduced several key changes, including the creation of a uniform federal bankruptcy code to replace various state-specific laws. It established different bankruptcy chapters, such as Chapter 7 for liquidation and Chapter 11 for reorganisation.

2009 **National Asset Management Agency (NAMA) Act[3]**

1. The Irish government created NAMA to buy non-performing loans (NPLs) from Irish banks totaling ~**12k** loans resulting in **USD 34.5** bn in liquidity and **USD 5.1** bn surplus
2. As a value-added benefit, the program help finance **20k** residential units across Ireland

2010 **Regulatory amendments to improve transparency**

European Central Bank (ECB) Loan level data initiative to standardise information on collaterals used to for loans which are securitised

2012 **ABS information and transaction data platform[4,5]**

1. The European Data Warehouse (EDW) is a specialised platform sponsored by the European Central Bank (ECB). It focuses on collecting, verifying, and distributing standardised, detailed data related to asset-backed securities (ABS) and loan portfolios
2. Increased investor participation covering **16** countries
3. Centralised and standardised database consisting of **1600** securitisation pools and ~**1.75k** ABS records totaling USD **1,500** bn

2014 **Single Supervisory Mechanism[6]**

The ECB directly supervises the 109 significant banks of the participating countries.
These banks hold almost 82% of banking assets in these countries.

Source: Deloitte Analysis
1) Bank of International Settlements, Resolution of non-performing loans, October 2017
2) European Banking Authority, European Banking Authority, Accessed October 2023
3) National Asset Management Agency, NAMA: Our Work, October 2017
4) European DataWarehouse, Europe's First Securitisation Repository, October 2017
5) European Central Bank, ABS loan level initiative, April 2011
6) European Central Bank, Single Supervisory Mechanism, Accessed October 2023

Europe's matured distressed debt market roots from robust regulatory frameworks to allow seamless NPL transactions through centralised platforms and securitisation of debt.

Best practices and continuous improvements

The European Union's distressed debt market is characterised by a well-structured centralised infrastructure that effectively addresses agency problems while promoting the development of a secondary market for distressed bonds and securities. A prime example of this is the establishment of the Single Supervisory Mechanism, which serves the dual role of overseeing financial institutions across the region and functioning as an intermediary between various financial organisations. Complementing this centralised infrastructure is a robust regulatory framework that drives innovation and enables for new strategies to arise to effectively manage NPLs and distressed debt.

How Europe actively develops distressed debt markets as part of its broader financial landscape

Market

1. The EU and ECB aided the growth of **secondary NPL markets**, enabling banks to sell NPL portfolios to investors
2. Promotion **of NPL securitisation** through initiatives enabled banks to transfer NPL risks to investors and attracted capital from private sector[1]
3. **NPL Transaction network**, a platform that facilitates efficient NPL transactions within the European Union.

Regulation

1. **EBA Guidelines for resolving bank NPLs**, to help manage and address NPLs effectively
2. **Prudential rules for NPL sales**, where banks are allowed to remove NPLs through securitisation
3. **Blueprint for NPL securitisation**
4. **In and out-of-court** settlements for bankruptcy

Infrastructure

1. **Centralised data platform (EDW)** collects, validates, and distributes standardised loan-level data for asset-backed securities (ABS) and loan portfolios[2]
2. The EU has actively **encouraged the development of intermediaries** such as servicers, AMCs, advisory expertise, etc., through supportive infrastructure and funding initiatives such as Capital Markets Union[3]

People

1. **Networking and knowledge sharing associations**, which provide opportunities for professionals to connect, share knowledge, and collaborate, such as the European Non-Performing Loans Summit[4]
2. **Mentorship and educational programs** exist to support professionals and individuals interested in the distressed debt sector

Market Insights

Non-Performing Bank Loans[5]

79th	2.48%
World Rankings (lower is better)	Bank NPL vs Total Loan portfolio

Market Insights

Distressed Debt Investing[6,7]

1.6k	1.5tn *In USD*	417mn *In USD*
Securitisation Pool	ABS transactions	Vendor financing

Source: Deloitte Analysis

*Note: Market insights for EU is based on Ireland's data as a proxy

1) European Central Bank, Securitisations and related governmental guarantee scheme in EU, 2020
2) EDW, Transparency for Europe's ABS, Accessed October 2023
3) Irish Funds, Capital Markets Union, Accessed October 2023
4) SmithNovak, NPL Europe Summit, January 2022
5) Global Economy, 2021 Bank Non-performing loans global ranking, Accessed October 2023
6) The World Bank, Ease of doing business: Resolving insolvency, Accessed October 2023
7) European DataWarehouse, European DataWarehouse | Europe's First Securitisation Repository, Accessed October 2023

How did Ireland enable creative ways to address NPLs relying on market mechanisms instead of government processes? (1/2)

Regulatory alignment enabled Ireland to creativity resolve NPLs, specifically via NAMA, leveraging market mechanisms instead of only government processes (e.g., public auction).

After the 2008 Global Financial Crisis, the Irish banking sector was burdened NPLs, primarily in property and real estate development, where the properties' current market value was lower than the outstanding balance. This lack of credit and liquidity hampered economic growth. Ireland introduced creative ways to address NPL while simultaneously contributing to economic development.

Overview of the initiative[1,2]

Problem Statement	1. During the 2008 Global Financial Crisis, there was limited investor capital a. Many of the debtors / property development companies were facing financial difficulties and unable to meet their short-term debt obligations 2. Financial institution held a lot of distressed assets and non-performing loans a. Most were real estate loans with market value of the collateral below book value b. The current market value of the property used as collateral for these NPLs was significantly lower than the amount owed 3. Realising the current market value will cause the banks to breach their capital requirement coupled with the lack of liquidity limiting their ability to provide loans
Actions Implemented	**1. Government created NAMA to acquire NPLs from FIs** a. NAMA acquired USD 80.5 bn worth of NPLs which it paid around USD 34.6 bn at an average discount of 57% 2. NAMA engaged with its debtors to recuperate the repayments through debt restructuring, refinancing, debt enforcement and asset sale 3. NAMA relied on market mechanisms to recover government funds, earn profit, and add value a. Vendor finance – advanced USD 417mn to generate investor equity b. Joint venture opportunities – worked with private partners to manage their asset portfolio c. Construction development funding – funded commercially viable property development projects
Intermediaries involvement	1. The connector role was performed by Infra enablers (e.g., Appraisers and financial analysts) a. Access to capabilities to assess the value of underlying collateral (e.g., real estate, properties, etc.) enabling price discovery b. Access to specialised skills to determine viability and financials required to complete real estate projects helping in investment decision-making 2. The market maker role was performed by NAMA a. Increased liquidity in NPL and distressed real estate sector b. Provided capital to troubled real estate projects to help address the demand of housing and commercial real estate in the country c. Opened Ireland's real estate to new investors
Key Outcomes	1. Full repayment of government funds plus interest a. Acquired NPLs portfolio from 5 Irish banks totaling 12,000 loans, 800 NAMA debtors and 60,000 properties as securities b. Repaid the USD 34.6 bn used to purchase the NPLs to the government as of March 2020 and expected to return of surplus amounting to USD 5.1bn 2. Aligned and furthered national agenda a. Addressed 1/5th of housing demand by supporting the delivery of commercially viable residential units totaling 20,000 units by 2025 in starter home market around Dublin, Wicklow, Kildare, and Meath
Capital Markets Insights	**Role:** Allocate capital to distressed debtors with commercially viable projects, which contribute to the country's real estate industry economic development **Benefits:** 1. Investors had access to investing in NPLs in Ireland's real estate market 2. Inflow of foreign capital across diversified range of assets

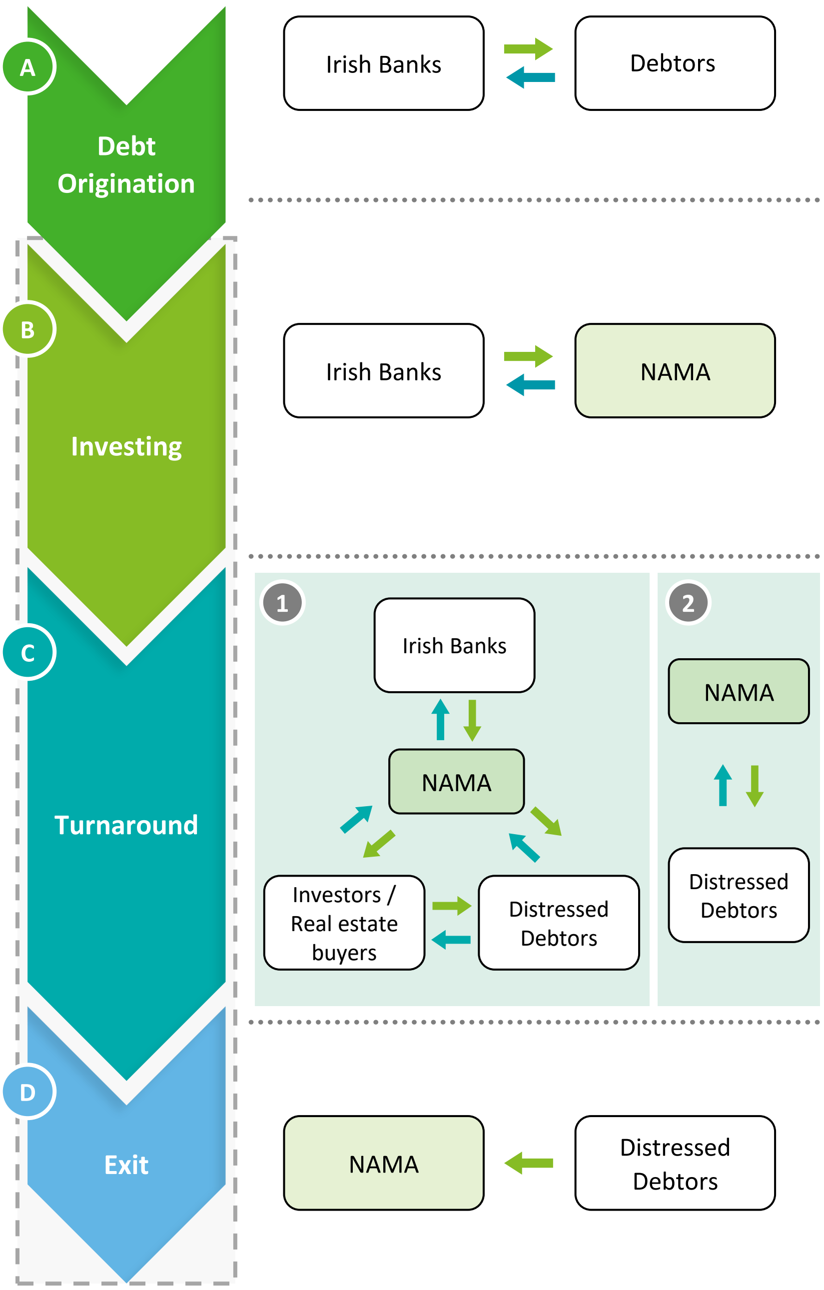
Source: Deloitte Analysis
1) National Asset Management Agency, NAMA: Our Work, October 2017
2) Bank for International Settlements, Resolution of non-performing loans - policy options, October 2017

How did Ireland enable creative ways to address NPLs relying on market mechanisms instead of government processes? (2/2)

NAMA acted as an intermediary to help relieve financial institutions from NPLs, provide liquidity for distresed debtors, and capitalise on commercially viable projects—ultimately making a profit and contributing to the national agenda.

NAMA's participation casts light on how there are creative ways to address NPLs outside of the usual "bad bank" approach. When investing, NAMA conducted due-diligence and considered long-term economic value to price acquisitions. For turnarounds, NAMA went beyond enforcement and asset sales, leveraging market mechanisms for vendor financing, JV asset portfolio management, and pumping capital to commercially viable projects. As a result, NAMA was able to revamp demand for real-estate in the country and bring new investors to the market.

Transaction Flows[1,2] — Capital — Assets



What assets became distressed

1. Property and Real estate development loans secured by properties

How NAMA invested

1. Transferred NPL from 5 participating banks amounting to USD 80.5 bn
2. Determined consideration to be paid based on due diligence considering current market value and long-term economic value of the property

Value-added approach

1. Debt restructuring based on repayment plan to support project completion
2. Funding (senior loan) commercially viable property development projects
3. Vendor financing for property purchases (to be refinanced by banks when conditions improve)

Transactional approach

1. Collateral enforcement and asset sale

How NAMA turnaround the investment?

1. Redemption of NAMA senior and subordinated bonds

Source: Deloitte Analysis
1) National Asset Management Agency, NAMA: Our Work, October 2017
2) Bank for International Settlements, Resolution of non-performing loans - policy options, October 2017

How did EU enable secondary market activities? (1/2)

EU developed infrastructure linking intermediaries and enablers to provide end-to-end support for secondary market activities, even in distressed situations.

After the 2008 Global Financial Crisis, a surge of NPLs and asset-backed securities (ABS) traded in securities exchanges were hindered by information asymmetry, giving rise to agency problems between originators and investors.

Overview of the initiative[1,2,3]

Problem Statement	1. Market for ABS was not returning to equilibrium after 2008 due to information asymmetry a. Creditors have informational advantage over creditors 2. Agency problems existed between originators and investors of ABS a. Investors, banks, and the broader market participants do not have a way to appraise these ABS and their underlying assets b. Those who wanted to invest would have to do their own due-diligence which is time consuming and costly
Actions Implemented	1. The EU pushed for better transparency via an **ECB led loan-level data initiative** aimed at improving transparency, quality, and standardisation of information on securities 2. Created a centralised ABS data warehouse a. Contained loan-level data on collateral and ABS transactions b. Database is open to all. Allowing investors to conduct due diligence on the underlying assets and price everything better
Intermediaries involvement	1. Connector function was performed by European DataWarehouse platform and other parties a. Access to centralised data on loans and ABS transactions for investors, distressed debt managers, other counterparties, etc. b. Distribute standardised loan-level data from various FIs and transactions c. Access to adjacent services like valuation, credit rating, etc. 2. Market maker function performed by investors and distressed debt managers who actively participate with significant contributions a. 16 countries covered, 1600 securitisation pools b. ~1.75k ABS transactions, USD 1,500 bn in total
Key Outcomes	1. Open platform for all investors and other market participants and stakeholders a. ~40k submissions of loan level data, ~3 bn loan records 2. Enabled accurate price calculations a. Address transparency concerns, information asymmetry and agency problems
Capital Markets Insights	**Role:** Provide a transparent, centralised information platform to allow price discovery of the asset's fair market value, to let investors make decisions based on trusted risk and reward calculations **Benefits:** • Distressed debt managers and investors have an efficient valuation and due diligence process resulting in time and costs savings • Distressed debt and investors have more predictable returns by monitoring fair market value

Source: Deloitte Analysis

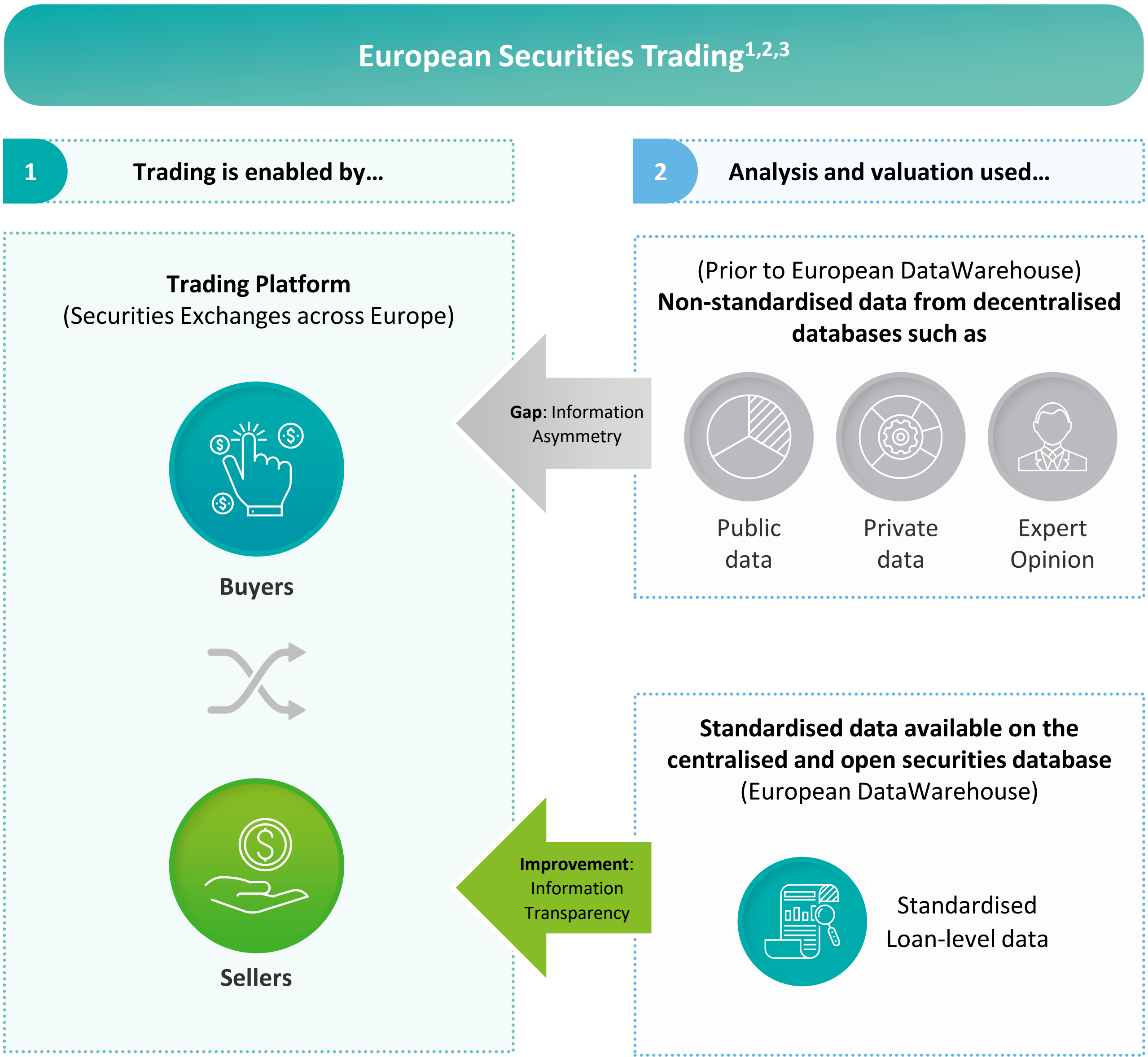
1) Bank for International Settlements, Joachim Nagel: Keynote speech - 10th anniversary of European DataWarehouse, November 2022

2) European DataWarehouse, European DataWarehouse | Europe's First Securitisation Repository, Accessed October 2023

3) Bank for International Settlements, Resolution of non-performing loans - policy options, October 2017

EU strengthened their infrastructure by adding a central data platform to support end-to-end secondary market activities, specifically addressing information asymmetry.

The EDW enabled data-driven analysis and valuation for investors through the utilisation of substantial datasets, encompassing 1,600 securitisation pools and around 1,750 ABS transactions totaling USD 1.5 Tn. These datasets would be challenging for investors to obtain independently.



Source: Deloitte Analysis
1) Bank for International Settlements, Joachim Nagel: Keynote speech - 10th anniversary of European DataWarehouse, November 2022
2) European DataWarehouse, European DataWarehouse | Europe's First Securitisation Repository, Accessed October 2023
3) Bank for International Settlements, Resolution of non-performing loans - policy options, October 2017

Unique and differentiated case studies: South Korea

South Korea watershed events during the AFC provides great insights on having joint ownership between the public and private sector in policy making and designing interconnected strategies and initiatives.

Brief history of distressed debt in South Korea[1,2,3]

The country was one of the most heavily impacted during the Asian Financial Crisis. It was a watershed event exemplified by the nation having to deal with multiple crises at once, namely corporate credit risk, devaluation of the Korean won, and a banking sector crisis. Equally as important are the various causes from which the crises stemmed, such as risk build up in various parts of the financial system, inadequate supervision, and poor risk management practices.

Unprepared financial liberalisation

In 1991, the country's current account recorded a deficit of USD 8.7 bn, about 4x from the previous year. The government encouraged capital inflows to finance the current account deficit, e.g., by amending the Foreign Exchange Management Act.

In 1993, the government also implemented financial sector and capital market deregulation. The deregulation of asset and liability management of financial institutions led to an increase in short-term foreign-currency debts.

Devaluation of the Korean won

The lower Korean won made exports competitive in the world market. However, as the US dollar became stronger, it increased Korea's burden to repay US-dollar denominated loans. In addition, Investor speculation, originating from both domestic and international sources, eroded confidence in the won, placing downward pressure on its value in the foreign exchange markets.

Corporate credit risk

Consequently, profitability of large corporations and Chaebols declined resulting in financial difficulties and increased NPLs held by banks.

Banking Financial sector crisis

South Korean banks faced difficulties due to their exposure to high levels of short-term foreign debt. As investor confidence waned, it became challenging for these banks to roll over their maturing debt, leading to financial instability.

The country obtained support from the IMF, and the government led systemic and emergent approaches to address these crises—with goals to stand up institutional measures and help the country recover.

Source: Deloitte Analysis
1) International Banker, Resolving Bank NPAs, June 2021
2) Deloitte, Deleveraging Asia 2020, August 2021
3) IMF, The 1997-98 Korean Financial Crisis: Causes, Policy Response, and Lessons, July 2006

South Korea's distressed debt market is led by rapid expansion of institutional building and legislature in the wake of the AFC—continuously improving on it even after the crisis.

Key regulatory enhancements and programs for distressed debt[1,2,3]

South Korea's adaptability and responsiveness was not reactive but was strategic in nature. This meant balancing between political and technical aspects, including leveraging expertise of other stakeholders and delegating responsibilities. This gave rise to several key regulatory enhancements and programs, which also serve as cornerstones for the distressed debt market today years after the crises. This transformation shaped the way distressed debt is managed and invested both domestically and internationally by Korean institutions.

Legend : Regulation Programs/Initiatives

1962 **Creation of KAMCO[4]**

KAMCO was established as a subsidiary of the Korea Development Bank (KDB), with the mission to liquidate KDB's nonperforming assets.

1997 **KAMCO Act[5]**

1. KAMCO was assigned to manage the NPL resolution fund and recovered **USD 35.9 bn** in 2013 (when the fund was dissolved)
2. KAMCO scope of work has extended to purchasing and recovering NPLs of financial institutions in South Korea using NPL resolution fund

1999 **Asset Securitisation Act[5]**

The new law introduced several key changes, including the creation of a uniform federal bankruptcy code to replace various state-specific laws. It established different bankruptcy chapters, such as Chapter 7 for liquidation and Chapter 11 for reorganisation.

2002 **NPA/NPL Platform (On-Bid)[6]**

The launch of On-Bid, a digitised NPA Auction platform, grew the marker with a seller base of more than **20k** sellers, **600k** bidders, improving liquidity with over **500k** completed transactions totaling **USD 75 bn**

Source: Deloitte Analysis
1) International Banker, Resolving Bank NPAs, June 2021
2) Deloitte, Deleveraging Asia 2020, August 2021
3) IMF, The 1997-98 Korean Financial Crisis: Causes, Policy Response, and Lessons, July 2006
4) KAMCO, Resolution of Non-Performing Loan in South Korea, October 2019
5) IMF, The Role of KAMCO in Resolving NPLs in Korea, September 2004
6) KAMCO, Intro of On-Bid, April 2017

South Korea's ever-evolving regulations and adaptability reflects its commitment to building the country as a global market for investors across diverse industries and asset classes, including distressed.

Best practices and continuous improvements

In South Korea, investors have opportunities to invest in distressed and alternative assets and include these as part of their diversified portfolios. There are cornerstone regulatory frameworks (e.g., Financial Investment Services and Capital Markets Act) in place which make investing conducive to market participants. From a broader perspective, the country actively builds infrastructure and talent to support the growth of its industries. This results in the capability of the market to draw liquidity even in times of distress—whether from traditional (e.g., bonds) or alternative asset classes.

How South Korea actively develops distressed debt markets as part of its broader financial landscape

Market

1. Growth of distressed, private debt funds, and multi-SPC structured securities issuance[1]
2. Frictionless processes which improve end-to-end investing lifecycle[2] (e.g., clear fundraising scheme for offshore funds, post registration system for establishing private equity fund, streamlined classification, etc.)
3. Shipping industry bad bank and government subsidy[3] to support distressed strategic and growth industries

Regulation

1. Robust regulatory framework[5] fit-for-purpose for capital markets activities in the country
2. Tax regime that incentives investing activities and foreign investors' participation (e.g., low repatriation taxes, capital gains, double taxation relief, etc.)[6]

Infrastructure

1. Invest Korea - a dedicated government agency and database that promotes investment activities in different industries and opportunities including information, and aftercare services[4]
2. On-Bid Platform for buying and selling NPA/NPL acquired by AMC or from other government entities

People

1. Investment summit and annual forums providing a venue for investors to discuss pertinent topics, share global perspectives, local opportunities, and networking activities[7]
2. Contact KOREA attracts global talent in terms of job search, placement, and immigration services particularly for foreign invested businesses[8]

Market Insights

Non-Performing Bank Loans[9]

122nd	0.23%
World Rankings (lower is better)	Bank NPL vs Total Loan portfolio

Market Insights

Opening Access to New Investors[10]

600k	2.8bn (In USD)
New Investor Archetypes	Returns from investing activities

Source: Deloitte Analysis

1) Financial Times, How South Korea learned to love private equity, August 2022
2) Invest Korea, Investment Opportunities in Korea - PEF and VC, 2017
3) Maiel Business News Korea, S.Korean govt earmarks $5.57 bn funding to revive shipping industry, January 2017
4) Invest Korea, InvestKOREA(ENG), Accessed October 2023
5) Korea Legislation Research Institute, Financial Investment Services and Capital Markets Act, Accessed October 2023
6) Deloitte, Taxation and Investment in Korea, 2017
7) KOTRA, Invest KOREA Summit, Accessed October 2023
8) KOTRA, Contact KOREA - Jobs in Korea, Accessed October 2023
9) Global Economy, 2021 Bank Non-performing loans global ranking, Accessed October 2023
10) Pascal Ungersboeck, KAMCO: Resolution of NPLs, October 2019

How did South Korea broaden the scope of its distressed debt activities, even expanding internationally? (1/3)

KAMCO, functioning as a market maker, expanded access to new investors and simultaneously attracted resources, capabilities, and expertise to infuse capital and boost liquidity in distressed debt.

KAMCO was established as a subsidiary of Korea Development Bank (KDB) to collect KDB's overdue loans and liquidate its NPLs. Given its experience in handling NPLs, the government enacted the KAMCO Act and appointed KAMCO to manage the high NPL volume across all Korea-based financial institutions following the 1997 Asian Finance Crisis to prevent the financial system from collapsing.

The KAMCO act was amended several times to equip KAMCO with capabilities and options to resolve NPLs. The amendment allowed KAMCO to act as an intermediary who performed several roles, including connecting investors with NPLs, facilitating transactions, and even taking the role of market maker.

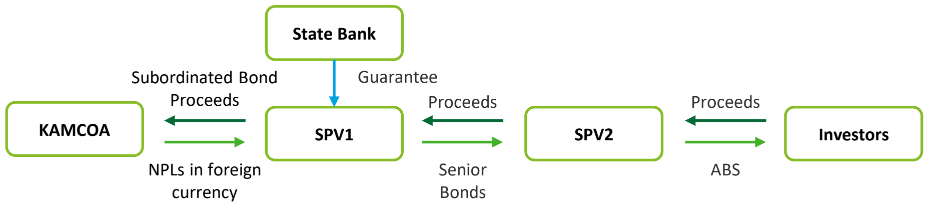
Overview of the initiative[1,2,3,4,5,6]

Problem Statement

Following the Asian Financial Crisis, KAMCO was mandated to manage the NPLs of all Korea-based financial institutions totaling over USD 82.4 bn* in face value[1]. However, KAMCO initially had limited knowledge, expertise, and options on NPL resolution strategies, which hindered its ability to effectively manage NPLs.

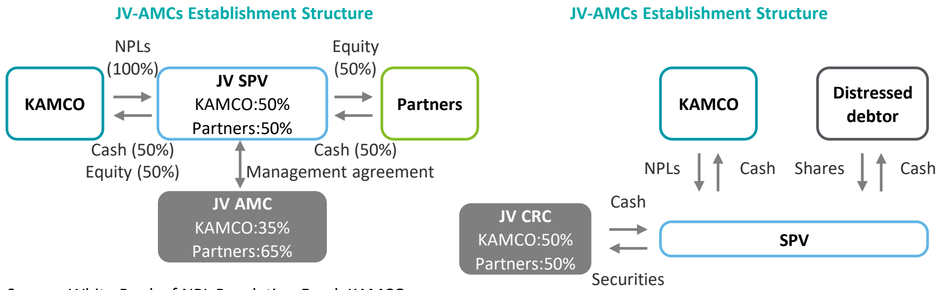
Actions Implemented

1. **Korean government amended KAMCO Act** several times from 1997 – 1999 to improve KAMCO operations in the management and recovery of NPLs
2. The amendment equips KAMCO with more capabilities, authorities, and flexibilities to employ various types of strategies to resolve NPLs. This allowed them to come up with a wide variety of distressed debt products such as:
   a. **The issuance of international Asset-Backed Securities (backed by NPLs)**[4,5]



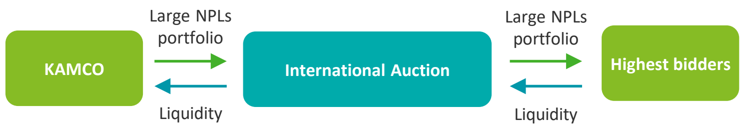
Source: KAMCO

   b. **The set up of JVs with private partners (including both local and foreign partners)**[5,6]



Source: White Book of NPL Resolution Fund, KAMCO

   c. **The use of international auctions to dispose large NPLs portfolio**[1,2,5]



Source: KAMCO

1. KAMCO then took the role of intermediary facilitating the NPLs recovery using the strategies that they came up as mentioned above for example:
   a. Connector: KAMCO used international auction as a platform to connect investors with NPLs KAMCO had under their management, improve price discovery, and facilitate the transactions
   b. Market maker: KAMCO created new investment vehicles, and channels for investors to invest in South Korean NPLs e.g., international ABS, JV company. KAMCO also added liquidity to the market via their JV companies.

* Note: Number is converted from KRW
Source: Deloitte Analysis
1) Pascal Ungersboeck, KAMCO: Resolution of NPLs, October 2019
2) IMF, The Role of KAMCO in Resolving Nonperforming Loans in the Republic of Korea, September 2004
3) KAMCO, KAMCO History, October 2023
4) Bank of International Settlement, Resolution of Nonperforming Loans - Policy Options, October 2017
5) KAMCO, 2015/16 Knowledge Sharing Program with Kazakhstan, December 2016
6) World Bank, Resolution of NPAs: Experiences of Korea, August 2018

How did South Korea broaden the scope of its distressed debt activities, even expanding internationally? (2/3)

KAMCO was able to encourage knowledge transfer to and from the private sector on NPL management.

With the supports from intermediaries such as SPV, ABS issuers, auction platform, etc., KAMCO was able to successfully employ innovative resolutions strategies and recover USD 2.8 bn for their NPLs portfolio. The adoption of innovative strategies also led to NPL management knowledge and expertise transfer from the private sector to KAMCO.

Overview of the initiative[1,2,3]

Intermediaries involvement

1. Connector function performed by infrastructure enabler (e.g., SPV, ABS issuers, etc.)
   a. **SPVs:** Acted as a middleman to facilitate the securitisation of NPLs, facilitating the collaboration between KAMCO and partners, and expanding network of investors
   b. **ABS issuers:** Acted as facilitator who overseed and supported the issuance of ABSs in the market, and network provider who helps connect KAMCO with investors
   c. **Credit rating agencies:** Improved the ABS price discovery by assessing the quality of NPLs backing the ABS issuance, and providing credit rating to ABS being issued
   d. **JV company:** Functioned as middleman to connect KAMCO with private partners, facilitator for knowledge sharing, trusted partner and negotiator for stakeholders involved in the restructuring process
   e. **Appraisers:** Provided support in assessing the true value of NPL/NPA being put up for auction, by doing so they helped improve the price discovery
   f. **Auction platform:** Acted as facilitator and network provider to connect KAMCO with investors and facilitated the transaction. Platform also improved price discovery for investors.
2. Market maker function performed by KAMCO
   a. Created new investment vehicles/channels for investors
   b. Added liquidity to the market via their JV companies

Key Outcomes

1. By December 2002, KAMCO was able to recover USD 22.6 bn*[1] from their NPLs where part of the proceeds came from disposal through innovative resolution strategies:
   a. The issuance of international Asset-Backed Securities: Recovered USD 420 mn[2]
   b. The set up of JVs with private partners: Recovered USD 1.2 bn*[1] through 7 deals, selling their NPLs to JV business with private partners
      i. Partners include Samsung Life Insurance, Hyundai Capital, Deutsche Bank, Morgan Stanley, GE Capital, Colony Capital, Lehman Brothers[1]
   c. The use of international auctions to dispose large NPLs portfolio: Recovered USD 1.2 bn*[1]
      i. Well-known international investors joined the auctions such as Goldman Sachs, Morgan Stanley, Deutsche Bank, Cerberus Capital, and Lone Star Fund[1,2]
2. In addition, via the use of those innovative strategies KAMCO was able to attract international investors, and highly experienced distressed debt managers to South Korean NPLs market. Leading to the successful knowledge and expertise transfer between private partners and KAMCO.
3. Lastly, the well-received international participation in the international auctions also resulted in the increased of domestic institutional investors' participation in the South Korean NPLs market[1]

Capital Markets Insights

Role:
1. The initiative enabled capital market participants such as institutional investors to engage with KAMCO to effectively resolve their NPLs through activities such as buying ABS issued by KAMCO, partnering with KAMCO to manage their NPLs
2. The collaboration between KAMCO and international institutional investors in resolving the NPLs also helped facilitated knowledge sharing and expertise build up for KAMCO on NPL resolutions

Benefits:
1. More options for investors to participate in South Korean distressed debt market
2. Uplift KAMCO's capabilities and knowledge in deploying strategic initiatives to resolve their NPLs

* Note: Number is converted from KRW
Source: Deloitte Analysis
1) Pascal Ungersboeck, KAMCO: Resolution of NPLs, October 2019
2) KAMCO, 2015/16 Knowledge Sharing Program with Kazakhstan, December 2016
3) World Bank, Resolution of NPAs: Experiences of Korea, August 2018

How did South Korea broaden the scope of its distressed debt activities, even expanding internationally? (3/3)

KAMCO introduced the On-Bid platform as a connecting intermediary, broadening access for new investors and facilitating NPL/NPA transactions among a wider group of bidders and sellers.

In response to the demand for platform to dispose the assets held by the public sector and rising pressure for transparency, KAMCO launched On-Bid, an end-to-end online NPLs and NPAs auction platform for government agencies, in 2002.

On-Bid platform plays a vital role as a connector intermediary, bringing together and facilitating transactions between buyers and sellers.

Overview of the initiative[1,2,3,4]

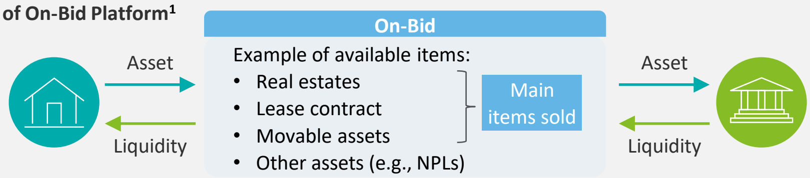
Problem Statement

1. After the 1997 Asian Financial Crisis, KAMCO and other government agencies encountered a substantial surge in the volume of NPLs and NPAs that need to be disposed, leading to a demand for platform to effectively facilitate the assets disposal
2. Private sector has an increased demand for transparency in public sector programs

Actions Implemented

1. **KAMCO has launched On-Bid in 2002** as one-stop-service online auction platform to streamline the entire auction process for NPLs and NPAs held by KAMCO, and other government agencies
2. On-Bid acts as connector intermediary connecting and facilitating the transaction between NPLs and NPAs sellers (i.e., KAMCO, government agencies, FIs) and buyers (corporates and private individuals). The platform also provides information about NPLs and NPAs to potential buyers and helps improve their price discovery.

Overview of On-Bid Platform[1]



Source: KAMCO

Intermediaries involvement

1. Connector function performed by infrastructure enabler (i.e., appraisers)
   a. Assessing the true value of NPL/NPA, actively contributing to price discovery, thus aiding buyers and sellers in making well-informed decisions and fostering seamless transactions
2. Market maker function performed by buyers
   a. More buyers of NPLs and NPAs help increase liquidity in the market

Key Outcomes

By making the auction more efficient and accessible to wider groups of buyers, On-Bid helps attracts more buyers, improves NPLs and NPAs price (as a result of better price discovery and more competition), and adds liquidity to Korean NPLs and NPAs market.

As of 2022[3,4]:

1. 510,000 transactions with a combined total value of USD 75 bn* have been completed on On-Bid platform
2. The platform comprises of more than 20,000 sellers and approximately 600,000 bidders

Capital Markets Insights

Role:

1. Institutional investors provide capital to the sellers of NPLs/NPAs (e.g., KAMCO, government agencies, FIs, etc.) by buying their assets of the platform
2. Institutional investors help improve liquidity in the NPLs/NPAs market by bidding and buying the assets from the platform

Benefits:

1. It becomes easier and more convenient for investors to access NPLs/NPAs available in South Korean market as they can access the online platform from anywhere at any time
2. The cost of bidding is also lowered for investors as they can now do the bidding online
3. Investors can now do an accurate price valuation on the NPLs/NPAs that they are bidding on as the information about the assets is now available online and can be accessed anytime

* Note: Number is converted from KRW

Source: Deloitte Analysis

1) KAMCO, Introduction of On-bid, May 2017
2) KAMCO, On-line Bidding, Accessed October 2023
3) KAMCO, 2023 KAMCO Annual Report, July 2023
4) KAMCO, Introduction of Korea Asset Management Corporation, 2022

4.3 Summary of Key Learnings

4.3.1 What are the key learnings for Thailand?

Summary of Key Learnings

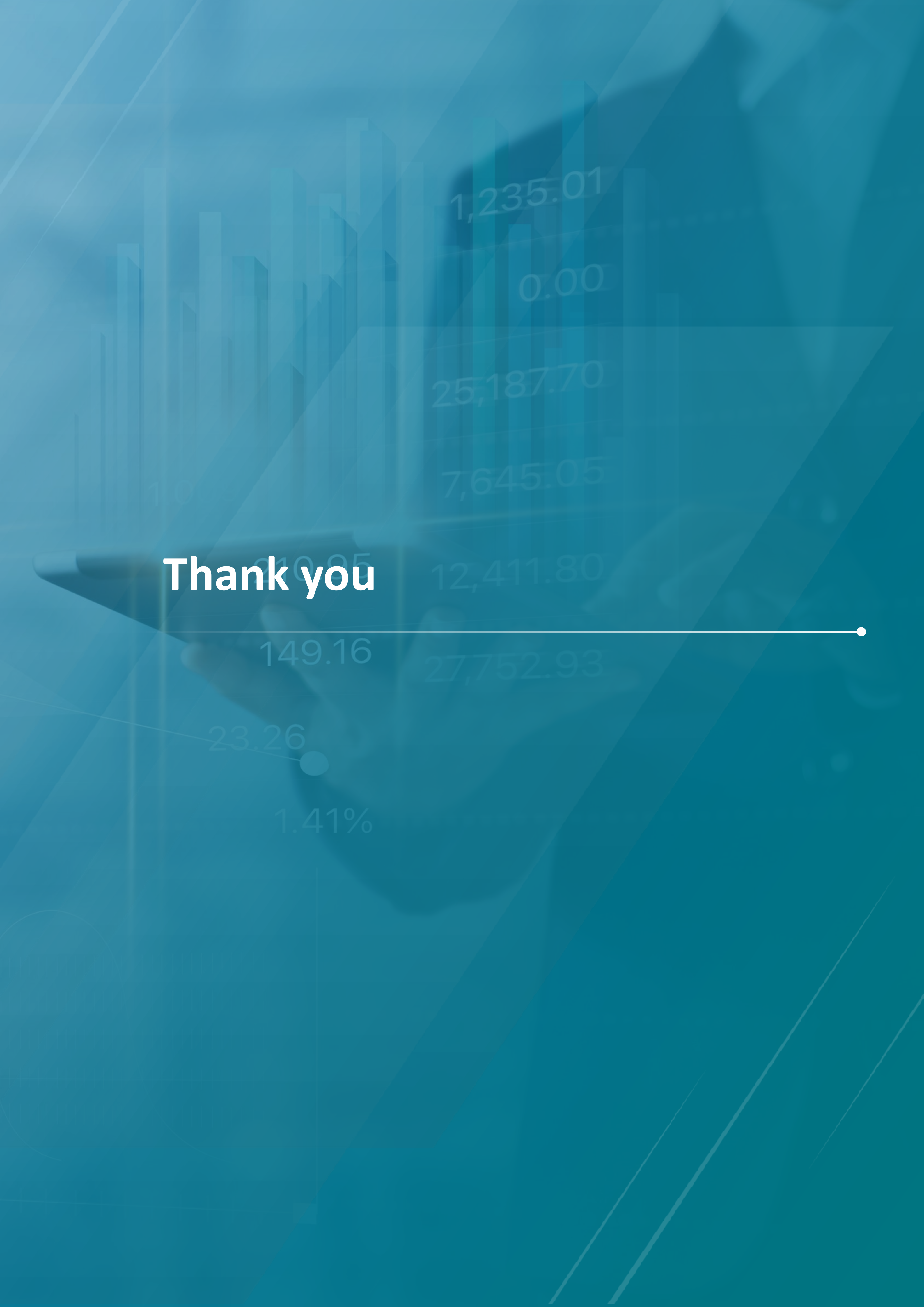
Various lessons can be gleaned from the selected case studies, highlighting the importance of implementing interconnected strategies and fit-for-purpose initiatives.

Case Study Learnings Outlined by Pillar

The experiences, initiatives, and lessons learned from the US, Europe, and South Korea are good inputs for Thailand's future distressed debt management playbook at addressing challenges introduced in Chapter 3. Learnings can be summarised as follows:

Market	**1. Market mindset instead of command-and-control approach** a. Allowing more investors archetypes to participate and provide capital and competition b. Promoting flow of liquidity (i.e., trading, restructuring, etc.) related to distressed debt c. Leveraging market mechanisms instead of relying on outmoded and traditional processes (e.g., public auction) d. Incentivising via financial (e.g., tax reduction) and non-financial means to justify risk-taking (e.g., capability sharing)
Regulatory	**2. Regulations aligned to international best practices and adapting to market needs** a. Clearly defining criteria (e.g., limited number of appeals) to support risk and reward calculations b. Inclusive regulatory framework catering to wide array of industries and business activities c. Coherent regulations promoting continuity and efficiency of doing business d. Clearly defining roles and responsibilities of key intermediaries (e.g., bondholder representatives) to properly function even in distressed situations
Infra	**3. Strengthening infrastructure and intermediaries to effect aggregate changes** a. Supporting secondary market activities by providing end-to-end platforms enabling access to information, price discovery, clearing and settlement, etc. b. Opening connections and networking within the local market and beyond through intermediaries' involvement c. Activating unified inter-agency collaboration for focused and decisive approach to address the needs of distressed debt market d. Involving private sector to unlock considerable resources and promote joint ownership
People	**4. Continuous capability and capacity enablement** a. Launch an educational program to enhance stakeholders' knowledge of distressed debt in both corporate and retail segments b. Develop supply of local experts through programs that build specialised distressed debt knowledge and capability (e.g., trainings, international immersion, etc.) c. Creating a special interest group to provide mentorship and networking opportunities to connect stakeholders interested in distressed debt investing d. Attracting international talent to assimilate in Thailand by providing visa and work-related incentives in conjunction with broader immigration programmes

Source: Deloitte Analysis



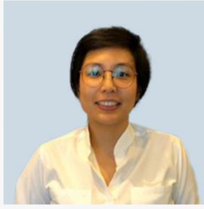
Thank you

Key authors and contributors

Deloitte Consulting Team

Metinee Jongsaliswang
Partner

Kenneth Tay
Partner



Nilapa Buchasuk
Senior Manager

Hitesh Gurbani
Manager

George Gao
Subject Matter Expert

Abril Briones
Research Lead

Chanokpon Tansomboon
Research Lead

Pemika Lerthirunvibul
Research Analyst

Teeranont Pattharathanasut
Research Analyst

Deloitte Legal Team

Patcharaporn Pootranon
Partner

Veerakorn Samranweth
Senior Associate

Narita Sakunchotikarote
Associate

Onjira Kiatchalermkhun
Associate

Deloitte Financial Advisory Team

Kamolwan Chunhagsikarn
Subject Matter Expert