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Private debt feasibility study: Opportunities for the Thai Capital Market

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Glossary

AUM	Assets Under Management
GP	General Partner
LP	Limited Partner
ESG	Environmental, Social and Governance
BOT	Bank of Thailand
SEC	The Securities and Exchange Commission - Thailand
MOF	Ministry of Finance - Thailand
OIC	Office of Insurance Commission - Thailand
WHT	Withholding Tax
ABL	Asset-Based Lending
AIF	Alternative Investment Fund
Micro & SME	Micro, Small, and Medium-Sized Enterprises
SWF	Sovereign Wealth Fund
mm	Million
bn	Billion
tn	Trillion

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Private debt is on the rise globally, but still nascent in Thailand

Globally, private debt is on the rise—and this has been the case since at least the 2008 global financial crisis, when regulators clamped down on banks and opened the doors for alternative lenders to fill the financing gaps. This asset class grew 13.5% year-on-year over the past decade, reaching ~USD 1.2tn at the end of 2021, with projections to reach USD 2.7tn by 2026.[1]

Private debt first emerged as a new frontier for credit investors in the US and Europe, but has since gained popularity in Asia, with its burgeoning middle class, and where changing consumption patterns accelerate the development of micro, small and medium sized enterprises.[2] Although private debt in Asia is often perceived to focus on distressed opportunities, particularly after the 1997 financial crisis, there has been increased attention on the use of private debt to fuel corporate and economic growth.

Private debt provides unique solutions for both borrowers and investors alike:

- **Advantages for borrowers** include bespoke lending terms (e.g., payment in kind, mezzanine options, etc.) that suit various businesses needs, longer time horizons (e.g., 3-5 years), closer relationships between the borrower and their lender, faster capital deployment, and more flexible credit / underwriting requirements compared with banks.
- **Advantages for investors** include portfolio diversification (both geographically and by asset class), higher risk-adjusted returns in exchange for liquidity lockup (known as the "illiquidity premium"), and more predictability in returns and less price volatility compared with other public market investments.

In Thailand, private debt is relatively nascent compared with other major markets in Asia, not to mention the US and Europe. While the commercial lending landscape in Thailand has been dominated by banks, the micro and SME financing gap remains high at USD 40bn.[3] Private debt can be viewed as a viable alternative funding vehicle that can supplement traditional bank lending and help fill this financing gap.

In our report, we show that there is potential for Thailand to build out a multi billion-dollar private debt market that could help fill the financing needs of local under-banked and/or under-served micro, small and medium enterprises, as well as larger corporates.

Disclaimer: This report is for informational purposes only and should not be used as investment, tax, legal, or business advice

1) *2022 Preqin Global Private Debt Report*, Preqin, January 2022, https://www.preqin.com/insights/global-reports/2022-preqin-global-private-debt-report
2) *Private Credit in Asia*, ACC, Simmons + Simmons, EY, July 2020, https://acc.aima.org/static/77a975ad-ae9e-463c-925e08b62f75750c/ACC-Private-Credit-in-Asia.pdf
3) *MSME Finance Gap*, International Finance Corporation, accessed September 2022, https://www.smefinanceforum.org/data-sites/msme-finance-gap

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In this report, we share a global overview of private debt, including key learnings from abroad …

Introduction: In this section, we share our **definition of private debt** (i.e., debt financed by non-banks in private markets) as well as our **report focus areas.** For the purposes of this report, we will focus on private debt assets that are offered by investment managers (private debt funds) operating under a General Partner (GP) / Limited Partner (LP) structure. These GPs typically raise capital from LPs, such as institutional investors and high net worth individuals, and on-lend that capital to a portfolio of corporate borrowers.

Chapter 1 Overview of market landscape: This chapters presents an overview of key stakeholders in the private debt ecosystem; macro and stakeholder trends that affect private debt supply and demand; and the potential for private debt in Thailand.

- Globally:
  - The 2008 financial crisis led regulators to clamp down on bank activities, opening the door for private debt lenders.
  - Interest rate dynamics have affected private debt investments in mixed ways. Many investors in search of higher yield turned to private debt opportunities vis-à-vis traditional asset classes that yielded lower returns following the global financial crisis of 2008. Notwithstanding, investors continue to invest in private debt in today's rising rate environment—as it provides stability versus some more volatile public market investments.
  - Borrowers are looking for loans with more flexible lending terms (e.g., longer tenor term loans, mezzanine options, alternative collateral, etc.) to accommodate their unique financing needs.
- In Thailand:
  - Micro & SMEs, as well as mid-sized and larger corporates, have a number of unmet financing needs, thus providing opportunities for private debt in its various forms. Digital lending platforms can help fill the financing needs of smaller companies (e.g., loans up to USD 25mm), whereas larger international funds can support leveraged buyouts and other large corporate financing needs (loans of USD 50mm and higher). This leaves the financing needs of middle-sized enterprises largely unmet (e.g., loans of USD 10-50mm)—an area that local private debt funds can potentially come in and capture.

Chapter 2 Learnings from abroad: We pulled together lessons learned from the world's leading private debt markets (the US, UK), as well as regional leaders (France, Singapore), and emerging markets (India). Our analysis looked at the private debt landscape in each country, their corporate financing needs, which institutional investors participated in the asset class, and government programs to support private debt.

Singapore, for example, announced its intent to "develop private credit to complement private equity and venture capital funding" as part of its Financial Services Industry Transformation Map 2025.[1] The move may help promote Singapore as a regional centre for private debt, and thus attracting available investments into the country vis-à-vis other markets.

The private debt ecosystem

1) *MAS launches Financial Services Industry Transformation Map 2025,* Monetary Authority of Singapore, 15 September 2022, https://www.mas.gov.sg/news/media-releases/2022/mas-launches-financial-services-industry-transformation-map-2025

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… and identify key challenges and potential initiatives to help build the private debt market in Thailand

Chapter 3 Identifying stakeholder needs and challenges in Thailand based on stakeholder interviews and secondary research:

- **Regulatory barriers limiting the scale up of private debt in Thailand:** Today, there are no clear regulatory schemes for Thai investment entrepreneurs who want to start their own private debt fund, raise money from qualified investors, and lend directly to corporates. Additionally, Thai investors often do not have a clear pathway to invest in the asset class (whether offshore or onshore); certain types of institutional investors, for example, are not allowed to allocate money into private debt. Finally, lenders in Thailand must navigate a debt enforcement regime that is burdensome to them—with default cases often being stuck in court for years, without definite timeframes; this deters many lenders from participating in the market
- **Market and stakeholder readiness:** In Thailand, there is a mismatch in terms of private debt supply and demand. International private debt funds often overlook Thailand, as they believe the country lacks both the larger deal sizes they are looking for and the returns needed to compensate for country risk and currency risk. At the same time, many Thai corporates and SMEs struggle to find alternative lenders that can offer them smaller and mid-sized loans. Additionally, many Thai investors and regulators are not yet aware of the private debt asset class and its role in a diversified portfolio.

  From a human capital perspective, there are a limited number of Thai professionals with private debt experience needed to start up onshore funds. International practitioners may also be dissuaded from entering Thailand (and initiating skills transfers) due to potential language barriers (e.g., in conducting due diligence and in navigating Thai laws).
- **Information asymmetry:** Alternative lenders in Thailand have limited access to the data of SMEs and unlisted companies, and often struggle to assess the credit worthiness of these companies. Private debt is perceived as a risky investment as a result—particularly to those unfamiliar with the asset class.

Chapter 4 Addressing challenges through regulations & infrastructure by introducing potential initiatives, drawn largely from key learnings identified in chapter 2:

- **Regulatory initiatives**: These include initiatives to 1) enable Thai investment professionals to register their private debt vehicle, raise money from investors, and lend to local corporates, 2) broaden the eligibility criteria so more investors (particularly institutional investors) can invest in both offshore and onshore private debt funds, and 3) improve debt enforcement in Thailand to encourage alternative lenders (e.g., by introducing borrower deadlines for debt resolution cases, empowering arbitrators or specialized courts, improving the database of debtors' assets and financial positions, etc.).
- **Infrastructure initiatives:** These include initiatives to 1) establish a secondary market to provide flexibility and enable private debt investors to exit their long-term loans, 2) launch a co-funding scheme so that the government can invest alongside private sector LPs in private debt funds, and 3) make it easier to both invest in and borrow from private debt funds across ASEAN.

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Executive summary

ในขณะที่ตลาด Private Debt นั้นกำลังเติบโตในหลายประเทศทั่วโลก แต่ตลาด Private Debt ในประเทศไทยยังถือว่าเป็นตลาดเกิดใหม่ที่มีขนาดเล็กและยังไม่ได้รับความนิยมมากนัก

ในปัจจุบัน Private Debt กำลังได้รับความนิยมเพิ่มขึ้นอย่างต่อเนื่องทั่วโลก ส่วนหนึ่งเป็นผลมาจากเหตุการณ์วิกฤตการณ์การเงินโลกในปี พ.ศ. 2551 ผลจากวิกฤตครั้งนั้นส่งผลให้หน่วยงานกำกับดูแลการดำเนินการของธนาคารและสถาบันการเงินทำการออกกฎหมายและข้อกำหนดในการดำเนินธุรกิจต่าง ๆ ที่รัดกุมมากขึ้น ทำให้เกิดช่องว่างในตลาดสินเชื่อและเปิดโอกาสให้ผู้ให้บริการสินเชื่อทางเลือกได้เข้ามาเติมเต็มช่องว่างนั้น ได้มีการรายงานว่า ในช่วง 10 ปีที่ผ่านมานั้น ตลาด Private Debt มีการเติบโตอย่างต่อเนื่องด้วยอัตราการเติบโตเฉลี่ยสูงถึงร้อยละ 13.5 ต่อปี และมีมูลค่าสูงถึง 1.2 ล้านล้านดอลลาร์สหรัฐ ณ สิ้นปี พ.ศ. 2564 และมีการคาดการณ์ว่าตลาด Private debt จะเติบโตและมีมูลค่าสูงถึง 2.7 ล้านล้านดอลลาร์สหรัฐภายในปี พ.ศ. 2569[1]

แม้ว่าในตอนแรก Private Debt จะถือกำเนิดขึ้นเพื่อเป็นทางเลือกในการลงทุนให้แก่นักลงทุนในประเทศสหรัฐอเมริกา และประเทศในทวีปยุโรป Private Debt ก็เริ่มได้รับความนิยมมากขึ้นในกลุ่มประเทศในทวีปเอเชีย ซึ่งเป็นกลุ่มประเทศที่มีการขยายตัวของกลุ่มชนชั้นกลางและมีการเปลี่ยนแปลงพฤติกรรมของผู้บริโภคที่ผลักดันให้เกิดการเติบโตของวิสาหกิจขนาดกลาง ขนาดย่อม และรายย่อย (MSMEs)[2] ที่ผ่านมาการใช้งาน Private Debt ในทวีปเอเชียนั้นส่วนใหญ่จะเกี่ยวข้องกับการปล่อยเงินกู้ให้แก่บริษัทที่ประสบปัญหาทางการเงิน (Distressed Opportunities) โดยเฉพาะอย่างยิ่งหลังเหตุการณ์วิกฤตการณ์การเงินในเอเชียปี พ.ศ. 2540 หรือที่รู้จักกันในนามวิกฤตต้มยำกุ้ง แต่ในปัจจุบันความสนใจในการใช้ประโยชน์จาก Private Debt ในสถานการณ์อื่นๆ มีเพิ่มมากขึ้น เช่น การใช้ Private Debt เพื่อสนับสนุนการเติบโตของบริษัทและเศรษฐกิจ

ทั้งนี้ Private Debt นั้นสามารถมอบประโยชน์ให้แก่ผู้ใช้งานได้ทุกกลุ่ม ดังนี้

- **ประโยชน์แก่ผู้กู้** ได้แก่ เงื่อนไขในการกู้ยืมที่สามารถปรับเปลี่ยนเพื่อตอบสนองความต้องการของธุรกิจ ระยะเวลาในการชำระเงินคืนที่ยาวนานกว่าปกติ ความสัมพันธ์ที่ใกล้ชิดระหว่างผู้กู้และผู้ให้กู้ ความรวดเร็วในการพิจารณาปล่อยเงินกู้โดยผู้ให้กู้ ความรวดเร็วในการได้รับเงินกู้ และหลักเกณฑ์ในการพิจารณาการปล่อยกู้ที่มีความยืดหยุ่นมากกว่าธนาคาร เป็นต้น
- **ประโยชน์แก่นักลงทุน** ได้แก่ การกระจายความเสี่ยงการลงทุน (Portfolio Diversification) อัตราผลตอบแทนเมื่อเปรียบเทียบกับระดับความเสี่ยงที่สูงขึ้น (Risk-adjusted Returns) ซึ่งแลกมาด้วยสภาพคล่องที่ลดลง (หรือที่เรียกว่าผลตอบแทนจากการขาดสภาพคล่อง) อัตราผลตอบแทนที่มั่นคงและสามารถคาดการณ์ได้ล่วงหน้า และความผันผวนด้านราคาที่น้อยกว่าการลงทุนในสินทรัพย์ในตลาดหลักทรัพย์ เป็นต้น

สำหรับสถานการณ์ในประเทศไทยนั้น ตลาด Private Debt ในประเทศไทยยังถือว่าอยู่ในช่วงเริ่มต้นและยังมีขนาดเล็กเมื่อเทียบกับตลาดหลักอื่นๆ ในทวีปเอเชีย และมีขนาดเล็กมากเมื่อเทียบกับตลาดในภูมิภาคอื่นๆ เช่น ตลาดในประเทศสหรัฐอเมริกา ตลาดในทวีปยุโรป ปัจจุบันถึงแม้ว่าธนาคารจะถือว่าเป็นผู้เล่นรายใหญ่ที่มีความสำคัญในตลาดสินเชื่อเพื่อการพาณิชย์ในประเทศไทย ธนาคารยังคงไม่สามารถตอบโจทย์หรือเข้าถึงลูกค้าบางกลุ่มได้ เช่น ลูกค้ากลุ่มวิสาหกิจขนาดกลาง ขนาดย่อม และรายย่อย (MSMEs) ส่งผลให้เกิดปัญหาการขาดแคลนเงินทุน (Financing Gap) ในกลุ่มวิสาหกิจขนาดกลาง ขนาดย่อม และรายย่อย (MSMEs) ซึ่งมีมูลค่ารวมกันสูงถึง 40,000 ล้านดอลลาร์สหรัฐ[3] การพัฒนาตลาด Private Debt ในประเทศไทยนั้นสามารถช่วยเพิ่มช่องทางในการเข้าถึงเงินทุนให้แก่กลุ่มวิสาหกิจขนาดกลาง ขนาดย่อม และรายย่อย (MSMEs) และช่วยแก้ปัญหาการขาดแคลนเงินทุน (Financing Gap) ที่ผู้ประกอบการประสบอยู่

ในรายงานฉบับนี้ เราจะพูดถึงโอกาสในการพัฒนาตลาด Private Debt ในประเทศไทย ซึ่งเป็นตลาดที่มีศักยภาพที่จะเติบโตและมีมูลค่าสูงถึงหลายพันล้านดอลลาร์สหรัฐ รวมถึงเป็นตลาดที่จะสามารถเข้ามาช่วยเติมเต็มความต้องการทางการเงินของกลุ่มธุรกิจทุกขนาด ไม่ว่าจะเป็นกลุ่มวิสาหกิจขนาดกลาง ขนาดย่อม และรายย่อย (MSMEs) หรือกลุ่มบริษัทขนาดใหญ่

คำสงวนสิทธิ์: รายงานฉบับนี้จัดทำขึ้นเพื่อใช้เป็นข้อมูลเท่านั้น และไม่ควรถูกนำไปใช้เป็นคำแนะนำด้านการดำเนินธุรกิจ ด้านการลงทุน ด้านกฎหมายหรือด้านระบบภาษี ใด ๆ ทั้งสิ้น

1) *2022 Preqin Global Private Debt Report*, Preqin, January 2022, https://www.preqin.com/insights/global-reports/2022-preqin-global-private-debt-report
2) *Private Credit in Asia*, ACC, Simmons + Simmons, EY, July 2020, https://acc.aima.org/static/77a975ad-ae9e-463c-925e08b62f75750c/ACC-Private-Credit-in-Asia.pdf
3) *MSME Finance Gap*, International Finance Corporation, accessed September 2022, https://www.smefinanceforum.org/data-sites/msme-finance-gap

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Executive summary

ในรายงานเล่มนี้เราจะทำการนำเสนอภาพรวมของ Private Debt ในต่างประเทศ รวมไปถึงบทเรียนต่าง ๆ ที่ได้จากการศึกษาตลาด Private Debt ในต่างประเทศ

บทนำ: ในบทนี้เราจะทำการอธิบายนิยามของคำว่า Private Debt (ซึ่งหมายถึงการให้เงินกู้โดยผู้ให้บริการที่ไม่ใช่ธนาคารในภาคเอกชน) **และอธิบายถึงหัวข้อที่เราจะนำเสนอในรายงานฉบับนี้** สำหรับรายงานฉบับนี้เราจะเน้นการศึกษาและนำเสนอ Private Debt ในรูปแบบที่ถูกจัดการโดยผู้จัดการกองทุน หรือที่เรียกว่า กองทุน Private Debt (Private Debt Fund) ซึ่งผู้เกี่ยวข้องกับกองทุน Private Debt โดยหลักประกอบไปด้วย 1) Limited Partner (LPs) หมายถึงนักลงทุนประเภทต่าง ๆ เช่น นักลงทุนสถาบัน (Institutional Investors) นักลงทุนรายใหญ่ (High New Worth Individuals) และ 2) General Partner (GPs) หมายถึง ตัวกองทุนซึ่งระดุมทุนจากนักลงทุน (LPs) และนำเงินเหล่านั้นไปให้กู้ในลำดับต่อไป

บทที่ 1 ภาพรวมของตลาด: ในบทนี้เราจะทำการนำเสนอ ผู้มีส่วนได้ส่วนเสียหลัก (Key Stakeholder) ในตลาด Private Debt แนวโน้มในต่างประเทศและในประเทศไทยที่ส่งผลกระทบต่ออุปสงค์และอุปทานของ Private Debt รวมถึงโอกาสในการเติบโตของ Private Debt ในประเทศไทย

- แนวโน้มในต่างประเทศ
  - เหตุการณ์วิกฤตการณ์การเงินโลกในปี พ.ศ. 2551 ส่งผลให้หน่วยงานกำกับดูแลการดำเนินการของธนาคารและสถาบันการเงินทำการออกกฎหมายและข้อกำหนดการดำเนินธุรกิจต่าง ๆ ที่รัดกุมมากขึ้น ทำให้เกิดช่องว่างในตลาดสินเชื่อและเปิดโอกาสให้ Private Debt ได้เข้ามีบทบาทและตอบสนองความต้องการนั้น
  - การเปลี่ยนแปลงของดอกเบี้ยนั้นส่งผลต่อ Private Debt ในหลากหลายรูปแบบ ยกตัวอย่างเช่น เมื่อครั้งที่อัตราดอกเบี้ยตกต่ำหลักจากเหตุการณ์วิกฤตการณ์การเงินโลกในปี พ.ศ. 2551 นักลงทุนจำนวนมากหันมาให้ความสนใจลงทุนใน Private Debt เนื่องจาก Private Debt สามารถที่จะให้ผลตอบแทนที่สูงกว่าการลงทุนในสินทรัพย์พื้นฐาน (Traditional Assets) แต่ในปัจจุบันแม้อัตราดอกเบี้ยนั้นมีการปรับตัวสูงขึ้น นักลงทุนก็ยังให้ความสนใจต่อ Private Debt และยังทำการลงทุนอย่างต่อเนื่อง เนื่องจากผลตอบแทนจาก Private Debt นั้นมีความมั่นคงและผันผวนน้อยกว่าการลงทุนในสินทรัพย์ในตลาดหลักทรัพย์
  - ความต้องการเงินกู้ของผู้กู้ในปัจจุบันนั้นมีความซับซ้อนมากขึ้นกว่าเมื่อก่อน ผู้กู้เองมีการมองหาเงินกู้ที่มีเงื่อนไขในการกู้ยืมที่มีความยืดหยุ่นมากขึ้น ยกตัวอย่างเช่น เงินกู้ที่มาพร้อมระยะเวลาในการชำระเงินคืนที่ยาวนานกว่าปกติ เงินกู้ที่มาในรูปแบบของเงินกู้กึ่งทุน (Mezzanine Debt) เงินกู้ที่มีความหยืดยุ่นในการใช้หลักทรัพย์สำหรับการค้ำประกัน เป็นต้น
- แนวโน้มในประเทศไทย
  - ผู้ประกอบการในประเทศไทยไม่ว่าจะเป็น กลุ่มวิสาหกิจขนาดกลาง ขนาดย่อม และรายย่อย (MSMEs) หรือ กลุ่มบริษัทขนาดใหญ่ ล้วนแล้วแต่มีความต้องการด้านเงินทุนที่ยังไม่ได้รับการตอบสนอง ทำให้เกิดช่องว่างและโอกาสแก่ Private Debt ในรูปแบบต่าง ๆ ที่จะสามารถเข้ามาตอบสนองความต้องการเหล่านี้ได้ ยกตัวอย่างเช่น Private Debt ในรูปแบบของ ผู้ให้บริการกู้ยืมเงินออนไลน์ (Digital Lending Platform) สามารถที่จะช่วยตอบสนองความต้องการของบริษัทขนาดเล็กที่มีความต้องการเงินทุนต่ำกว่า 25 ล้านดอลลาร์สหรัฐ ในขณะที่ Private Debt ในรูปแบบของกองทุนจากต่างประเทศ (International Fund) สามารถที่จะช่วยตอบสนองความต้องการเงินทุนสำหรับการซื้อกิจการโดยใช้เงินกู้ (Leverage Buyout) หรือความต้องการอื่น ๆ ของบริษัทขนาดใหญ่ที่มีความต้องการเงินทุนมากกว่า 50 ล้านดอลลาร์สหรัฐ สุดท้ายแล้ว Private Debt ในรูปแบบของกองทุนในประเทศ (Local Fund) สามารถที่จะเข้ามาช่วยตอบสนองความต้องการของบริษัทขนาดกลางที่มีความต้องการเงินทุนระหว่าง 10 – 50 ล้านดอลลาร์สหรัฐ ซึ่งเป็นตลาดที่ ผู้ให้บริการกู้ยืมเงินออนไลน์ (Digital Lending Platform) และ กองทุน Private Debt จากต่างประเทศ (International Fund) ไม่สามารถตอบโจทย์ความต้องการของผู้กู้กลุ่มนี้ได้

บทที่ 2 กรณีศึกษาจากต่างประเทศ: ในบทนี้เราจะทำการนำเสนอ กรณีศึกษาที่เราได้เรียนรู้จากการศึกษาตลาด Private Debt ในประเทศต่าง ๆ ไม่ว่าจะเป็นประเทศที่ถือว่าเป็นผู้นำในตลาด Private Debt ในระดับโลก ได้แก่ ประเทศสหรัฐอเมริกาและประเทศสหราชอาณาจักร ประเทศที่ถือว่าเป็นผู้นำในระดับภูมิภาค ได้แก่ ประเทศฝรั่งเศสและประเทศสิงคโปร์ และประเทศที่ตลาด Private Debt ยังเป็นตลาดเกิดใหม่และกำลังเติบโต ได้แก่ ประเทศอินเดีย โดยในการศึกษาประเทศเหล่านี้ เราได้ทำการศึกษาและวิเคราะห์ 1) ภาพรวมของตลาด Private Debt ในแต่ละประเทศ 2) ความต้องการทางการเงินของบริษัทในแต่ละประเทศ 3) ประเภทและลักษณะของนักลงทุนสถาบัน (Institutional Investor) ที่ทำการลงทุนใน Private Debt ในแต่ละประเทศ และ 4) แนวทางการสนับสนุน Private Debt โดยรัฐบาลของแต่ละประเทศ เพื่อทำความเข้าใจตลาดและศึกษาถึงแนวทางที่สามารถนำมาใช้ในการช่วยส่งเสริมการพัฒนาตลาด Private Debt ในประเทศไทย

ยกตัวอย่างเช่น ล่าสุดธนาคารกลางสิงคโปร์ หรือ Monetary Authority of Singapore (MAS) ได้เริ่มดำเนินการตามแผน Financial Services Industry Transformation Map 2025[1] และได้ประกาศความตั้งใจที่จะพัฒนา Private Debt ให้ดียิ่งขึ้น ซึ่งนโยบายนี้อาจส่งผลให้ตลาด Private Debt ในประเทศสิงคโปร์นั้นได้ความสนใจจากนักลงทุนมากยิ่งขึ้น ทำให้เกิดการลงทุนในประเทศสิงคโปร์มากกว่าประเทศอื่น ๆ ในภูมิภาคเดียวกัน และผลักดันให้ประเทศสิงคโปร์เติบโตเป็นผู้นำในตลาด Private Debt ในระดับภูมิภาคในอนาคต

The private debt ecosystem

1) *MAS launches Financial Services Industry Transformation Map 2025,* Monetary Authority of Singapore, 15 September 2022, https://www.mas.gov.sg/news/media-releases/2022/mas-launches-financial-services-industry-transformation-map-2025

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Executive summary

นอกจากนี้ เรายังได้ทำการวิเคราะห์ความท้าทายในการพัฒนาตลาด Private Debt ในประเทศไทย และแนวทางที่สามารถนำมาใช้เพื่อส่งเสริมการพัฒนาตลาดในประเทศ

บทที่ 3 ความต้องการและข้อจำกัดของที่ผู้มีส่วนได้ส่วนเสียหลัก (Key Stakeholder) ในประเทศไทย: ในบทนี้เราจะกล่าวถึงความต้องการและข้อจำกัดที่ผู้มีส่วนได้ส่วนเสียหลัก (Key Stakeholder) ในประเทศไทยพบเจอในการเข้าถึงและใช้งาน Private Debt โดยอ้างอิงจากผลการวิจัยขั้นปฐมภูมิ และการวิจัยขั้นทุติยภูมิ

- **ข้อจำกัดทางด้านกฎเกณฑ์ที่ส่งผลต่อการพัฒนาตลาด Private Debt ในประเทศไทย:** เนื่องจากกฎเกณฑ์ในปัจจุบันไม่มีข้อกำหนด หรือ แนวทางการกำกับดูแลอย่างชัดเจน ผู้ประกอบการในประเทศที่ต้องการจัดตั้งกองทุน Private Debt เพื่อระดมทุนจากนักลงทุนและให้กู้แก่บุคคลอื่นจึงเผชิญกับความไม่แน่นอนถึงขอบเขตของกฎหมายที่เกี่ยวข้อง ในฝั่งของนักลงทุนไทยนั้น นักลงทุนไทยในปัจจุบันเผชิญความยากลำบากในการเข้าถึงและลงทุนใน Private Debt ไม่ว่าจะเป็นการลงทุนทั้งในประเทศและนอกประเทศ เนื่องจากยังไม่มีข้อกำหนดที่ชัดเจนว่านักลงทุนประเภทใดสามารถลงทุนใน Private Debt ได้ ยกตัวอย่างเช่น ในปัจจุบันนักลงทุนสถาบัน (Institutional Investor) บางประเภท ยังไม่ได้รับการอนุญาตให้ลงทุนใน Private Debt เป็นต้น นอกจากนี้ ระบบการพิจารณคดีในประเทศไทยนั้นยังถูกมองว่าเป็นระบบที่เป็นภาระแก่ผู้ให้กู้ ซึ่งการผิดนัดชำระหนี้มักจะเป็นคดีความที่ค้างอยู่ในศาลเพื่อทำการบังคับคดี โดยไม่มีระยะเวลาที่แน่นอนและอาจใช้ระยะเวลายาวนานหลายปีโดยไม่มีกำหนด สิ่งเหล่านี้ล้วนเป็นข้อจำกัดของผู้ให้กู้ในการเข้าร่วมในตลาด Private Debt
- **ความพร้อมของตลาดและผู้มีส่วนได้ส่วนเสียหลัก (Key Stakeholder) ในประเทศไทย:** ประเทศไทยยังคงประสบปัญหาเนื่องมาจากความไม่สอดคล้องระหว่างอุปสงค์และอุปทานภายในตลาด Private Debt ปัญหานี้เกิดขึ้นเนื่องจาก ในฝั่งของผู้ให้กู้เช่น กองทุน Private Debt จากต่างประเทศ (International Fund) ซึ่งมองหาธุรกรรมขนาดใหญ่ หรือโอกาสในการปล่อยกู้ด้วยเม็ดเงินจำนวนมาก มักจะมองว่าตลาดในประเทศไทยยังไม่มีธุรกรรมขนาดใหญ่ที่ตนต้องการรวมไปถึงผลตอบแทนจากการลงทุนในประเทศไทยนั้นยังไม่คุ้มค่ากับความเสี่ยงที่กองทุนต้องแบกรับ ทำให้ความน่าสนใจของตลาดในประเทศไทยนั้นน้อยกว่าตลาดในประเทศอื่นๆ ขณะเดียวกัน ผู้กู้ในประเทศไทยเองก็ประสบปัญหาในการหาผู้ให้กู้ที่สามารถให้กู้ด้วยจำนวนเงินที่ตรงกับความต้องการของตน ซึ่งเงินกู้ที่ผู้กู้เหล่านี้มองหาอาจไม่ได้มีขนาดใหญ่มากนัก นอกจากนี้ นักลงทุนในไทยจำนวนมากรวมไปถึงหน่วยงานกำกับดูแลการลงทุนในประเทศไทยยังไม่ทราบถึงสินทรัพย์ในกลุ่ม Private Debt และบทบาทของ Private Debt ในการช่วยกระจายความเสี่ยงในการลงทุนอีกด้วย สุดท้ายนี้ประเทศไทยยังประสบปัญหาการขาดแคลนบุคลากรที่มีความรู้และประสบการณ์ด้านการจัดตั้งและบริหารกองทุน Private Debt เนื่องจากว่าในปัจจุบัน บุคลากรในประเทศที่มีความรู้และประสบการณ์ด้านการจัดตั้งและบริหารกองทุน Private Debt นั้นยังมีจำนวนจำกัด และการนำเข้าบุคลากรชาวต่างชาตินั้นก็อาจเป็นไปได้ยากเนื่องด้วยกำแพงด้านภาษา
- **ความไม่สมมาตรของข้อมูล:** ในปัจจุบันผู้ให้บริการสินเชื่อทางเลือกนั้นประสบปัญหาในการเข้าถึงข้อมูลของวิสาหกิจขนาดกลาง ขนาดย่อม และรายย่อย (MSMEs) และบริษัทที่ไม่ได้ทำการจดทะเบียนในตลาดหลักทรัพย์ ส่งผลให้การประเมินความน่าเชื่อถือและความเสี่ยงก่อนการปล่อยกู้ให้แก่บริษัทเหล่านี้เป็นไปอย่างยากลำบาก ด้วยสาเหตุนี้ การลงทุนใน Private Debt จึงยังถูกมองว่าเป็นการลงทุนที่มีความเสี่ยงสูง (เมื่อเทียบกับสินทรัพย์ประเภทอื่น กระทั่ง Private Equity) และไม่คุ้นเคย

บทที่ 4 แนวทางในการแก้ไขปัญหาและข้อจำกัดในการพัฒนาตลาด Private Debt ในประเทศไทย: ในบทนี้เราจะทำการนำเสนอแนวทางการพัฒนากฎเกณฑ์ และแนวทางการพัฒนาโครงสร้างพื้นฐานที่สามารถช่วยส่งเสริมการพัฒนาตลาด Private Debt ในประเทศไทย และช่วยแก้ปัญหาที่ผู้มีส่วนได้ส่วนเสียหลัก (Key Stakeholder) ประสบอยู่ ณ ปัจจุบัน โดยอ้างอิงมาจากกรณีศึกษาจากต่างประเทศที่ได้กล่าวถึงในบทที่ 2

- **แนวทางการพัฒนากฎเกณฑ์:** แนวทางที่เราจะทำการพูดถึงนั้นประกอบด้วย 3 แนวทาง ได้แก่ 1) การปรับปรุงและแก้ไขกฎเกณฑ์ที่เกี่ยวข้องกับ Private Debt ให้มีความชัดเจนยิ่งขึ้น เพื่อทำให้เกิดความชัดเจนแก่ผู้ประกอบการภายในประเทศที่ต้องการจัดตั้งกองทุน Private Debt ด้วยการกำหนดหลักเกณฑ์ที่ชัดเจนว่ากองทุน Private Debt สามารถจัดตั้งขึ้นเพื่อระดมทุนจากนักลงทุนและทำการให้กู้ได้ 2) การปรับปรุงและแก้ไขกฎเกณฑ์ที่เกี่ยวข้องกับประเภทของนักลงทุนที่ได้รับอนุญาตให้ลงทุนใน Private Debt ให้มีความชัดเจนและเปิดกว้างมากขึ้นเพื่อเปิดโอกาสให้นักลงทุนหลากหลายประเภทได้มีโอกาสลงทุนใน Private Debt และ 3) การปรับปรุงและพัฒนาขั้นตอนการพิจารณคดีที่เกี่ยวข้องกับการชำระหนี้ให้ดียิ่งขึ้น ตัวอย่างแนวทางการปรับปรุงได้แก่ การกำหนดระยะเวลาในการพิจารณคดีที่ชัดเจน การส่งเสริมและเพิ่มอำนาจการระงับข้อพิพาททางเลือกนอกศาล และ การพัฒนาฐานข้อมูลทรัพย์สินและฐานะทางการเงินของลูกหนี้ เป็นต้น
- **แนวทางการพัฒนาโครงสร้างพื้นฐาน:** แนวทางที่เราจะทำการพูดถึงในส่วนนี้ประกอบด้วย 3 แนวทาง ได้แก่ 1) การพัฒนาตลาดรองสำหรับการซื้อขายหนี้สิน (Secondary Market) เพื่อช่วยเพิ่มสภาพคล่องให้แก่กองทุน Private Debt และนักลงทุน 2) การจัดตั้งโครงการร่วมลงทุนในกองทุน Private Debt ระหว่างภาคเอกชนและหน่วยงานรัฐบาล และ 3) การจัดตั้งโครงการเพื่อส่งเสริมการลงทุนและกู้ยืมจากตลาด Private Debt ในภูมิภาคเอเชียตะวันออกเฉียงใต้

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Why private debt?

Private debt can help address multiple financing gaps in the Thai market

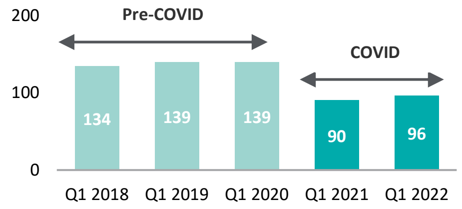
Perspective of Thai enterprises (borrowers)

Micro, small and medium sized enterprises

1) Private debt in its various forms can help address the USD 40bn[1] funding gap faced by Thai micro & SMEs

- More than half (63%) of Thai micro & SMEs were unable to secure adequate funding for their businesses[2]
- During the pandemic, bank lending to this group also decreased[3]

Total commercial bank loans to micro & SMEs[3], USD bn*



Source: Bank of Thailand

Mid-sized corporates

2) Private debt GPs can help provide Thai mid-sized corporates with fast and sizable loans for opportunistic business activities

- Public debt is often not an option, as it requires extensive paperwork, SEC approvals, and strong credit ratings
- Mid-sized corporates who hold existing debt may find it difficult to get additional bank loans
- Individual lenders might not be willing to give out large amounts on their own

"There was no single entity that could provide us with the ~USD 30mm loan we needed for our new investment opportunity, so we had to borrow from more than 20 individual investors"

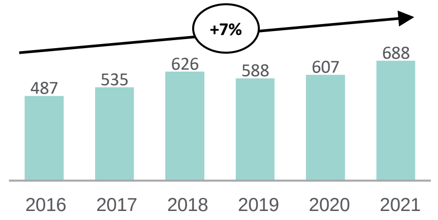
– Former CFO, Corporate Entity in Thailand

Larger corporates

3) Private debt can support large Thai corporates and PE funds with buyout activities

- Today, 35% of Asia Pacific firms use only private debt for buyout deals, and 40% uses roughly equal amounts of both private debt and traditional bank financing[4]
- There are relatively few buyout opportunities in Thailand today,[5] but this trend may change if Thailand follows broader APAC trends

Number of PE-backed Asia Pacific buyout deals, 2016-2021[4]



Source: Dechert LLP

Perspective of Thai investors

4 **Private debt enables investors to diversify their portfolio – both in terms of asset class and geography**

Many Thai investors are interested in looking at this alternative asset class, particularly offshore, to gain investment experience

5 **Investors are able to seek higher risk-adjusted returns in exchange for liquidity (i.e., "illiquidity premium")**

Institutional investors will need to consider new ways to increase yield, in order to ensure their assets match their liabilities (e.g., to pay benefits as more people retire)

6 **Investors can access more predictable, less volatile returns compared with public market investments**

As the global economy adjusts for COVID-19, inflation, and interest-rate changes, private markets tend to be less volatile than public markets

Note: This slide was added on 4 November 2022, after the initial publication date of 10 October 2022

*Note: Number is converted based on exchange rate of 36.6 THB to 1 USD

1) *MSME Finance Gap*, International Finance Corporation, accessed 18 July 2022, https://www.smefinanceforum.org/data-sites/msme-finance-gap
2) *Over 50% of MSMEs Unable to Secure Business Funding Due to Rigid Lending, Nation Thailand*, March 2022, https://www.nationthailand.com/pr-news/business/40013460
3) *Loan Outstanding of Commercial Banks*, Bank of Thailand, May 2022, https://www.bot.or.th/App/BTWS_STAT/statistics/ReportPage.aspx?reportID=829&language=eng
4) *2022 Global Private Equity Outlook*, Dechert LLP, Margermarket, 2022 https://www.dechert.com/content/dam/dechert%20files/knowledge/publication/Global_Private_Equity_2022_FINAL.pdf
5) *Asia-Pacific financial M&A deals set for strong 2022 amid low rates*, S&P Global Market Intelligence, August 2022 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/asia-pacific-financial-m-a-deals-set-for-strong-2022-amid-low-rates-reopening-68649595

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Report summary

In our report, we address who can benefit from private debt, and deep-dive into barriers for adoption and ideas to overcome these barriers

Who can benefit

Borrower (Thai enterprises)

- 1) Micro & SMEs
- 2) Mid-sized corporates
- 3) Large corporates and PE firms

Investors

- 4) Institutional investors
- 5) High net worth individuals and other sophisticated investors
- 6) Retail investors*

Barriers for adoption

Regulatory barriers limiting **scale up of private debt** activities in Thailand

Insufficient market & stakeholder readiness for private debt funds

Information asymmetry limiting efficient operation of private debt funds

How to overcome barriers

Regulatory initiatives	Infrastructure initiatives
• **Establish regulatory schemes** to enable onshore private debt funds to lend to corporates	• **Develop the secondary market** for private debt to provide flexibility to stakeholders
• **Broaden eligibility criteria** so that more investors can invest in various forms of private debt	• **Launch government co-funding scheme** for micro & SME-focused private debt funds to support adoption
• **Improve debt enforcement** to better protect and encourage lenders	• **Develop ASEAN cross-border initiatives** for private debt funds to increase deal flow

*Only applicable to retail investors if a private debt scheme is set up with appropriate safeguards and parameters (e.g., the ELTIF scheme in Europe or the Business Development Company scheme in the US)

Note: This slide was added on 4 November 2022, after the initial publication date of 10 October 2022

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Notes on terminology

In our report, we will largely focus on **private debt investment managers, also referred to as private debt funds (GPs).**

Private debt funds (or private credit funds) are popular sources of alternative lending in the US and Europe, and increasingly in Asia.

Global Definition:
Generally, private debt funds raise money from institutional investors and accredited individual investors (e.g., high net worth investors), pool that money in the form of a "fund", and then lend that money to a portfolio of borrower companies.

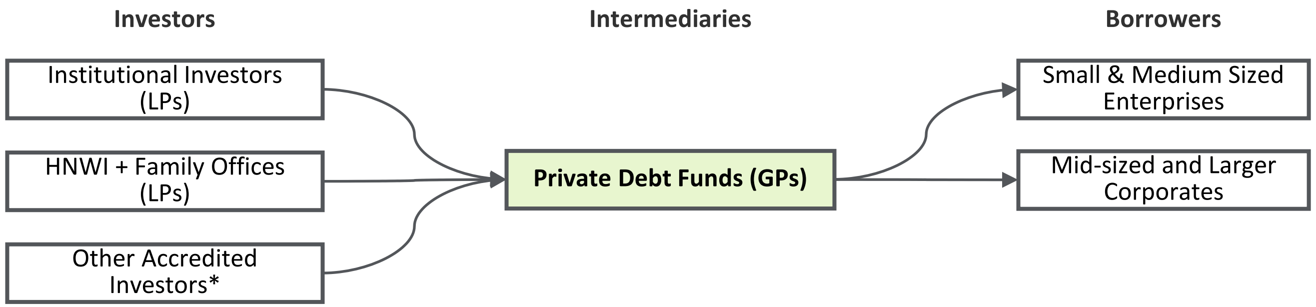
There are also examples of private debt vehicles that have been made available to retail investors, with certain stipulations—e.g., Business Development Companies (BDCs) in the US or the European Long-Term Investment Fund (ELTIF) in Europe.

Challenges in the Thai context:
Regardless of the terminology, the management of funds in Thailand today, where an entity attracts a pool of assets and invests those assets, is a regulated activity subject to the SEC's supervision. Funds today are generally not allowed to lend money to private borrowers, with the potential exception of UI mutual funds.

Looking toward the future:
As this report has an international outlook and looks at the art of the possible, we use the word "funds" in the global context, and our reference to "private debt funds" refers to a type of fund that is able to lend to corporates.

Additionally, in Chapter 4 of our report, we share potential regulatory initiatives and schemes that would enable funds to lend in the Thai context.

Global definition of private debt funds



Challenges in the Thai context

In Thailand, "funds" have a specific definition under the SEC. They are categorized as follows:

- Mutual Funds
- Provident Funds
- Private Funds
- UI Funds
- Retail Funds

Regardless of the form of the vehicle (partnership, investment company, SPV, etc.), if the vehicle works to attract a pool of assets and invest that pool of assets, it will be regulated as a "fund" in Thailand. Under the current regulatory framework, **funds are not explicitly allowed to make loans**

For the purposes of this report, we refer to private debt funds or investment managers in the global context, where these funds (GPs) are able to raise and pool capital from investors, and lend to individual companies. In Chapter 4, we share potential regulatory schemes to address challenges in the Thai context.

*Note: While private debt funds are mostly made available to accredited investors, retail investors in certain countries can invest in private credit via certain vehicles – e.g., ELTIFs in Europe and BDCs in the US.

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Introduction

- Definition of private debt
  - The borrower perspective
  - The investor perspective

0

Defining private debt

Definition of private debt

We define private debt as debt financing originated from non-bank private markets

Private debt is a generally broad term, with different organisations defining the asset class in different ways.

Private debt—which can be executed via loan agreements, promissory notes, bond purchase agreements, etc. looks different from country to country, depending on each nation's set of rules and regulations and active market participants.

For the purpose of our report, we've chosen to define private debt simply as debt financed by non-banks in private markets

In the subsequent pages, we share private definitions from the following perspectives:

- **Borrower perspective**: What private debt looks like to companies in need of working capital
- **Investor perspective**: What private debt looks like from investors looking to invest in this asset class

". . . **Investment of capital to acquire the debt of private companies** . . . **Banks do participate in private debt**, but to a lesser extent . . .

. . . Private debt is **not traded or issued in an open market** and lending private debt can be to **both listed or unlisted companies** . . . " - *Preqin*[1]

". . . Private credit broadly refers to **nonbank lending to firms** . . .

. . . Private credit is an important segment of financial markets, that has played a strong role in **providing access to financing for underserved segments**. . ." – *International Finance Corporation*[2]

". . . Private debt is capital invested in debt held by private companies . . .

. . . Private debt isn't traded or issued in the open markets and **capital can be loaned to both listed and unlisted companies** . . ." – *Forbes*[3]

". . . **Any debt held by or extended to privately held companies** . . .

. . . Comes in many forms, but **most commonly involves non-bank institutions making loans to private companies** or buying those loans on the secondary market . . ." – *PitchBook*[4]

1) *Private Debt,* Preqin, accessed August 2022, https://www.preqin.com/academy/lesson-4-asset-class-101s/private-debt#:~:text=Private%20debt%20is%20not%20traded,as%20infrastructure%20and%20real%20estate.
2) *Private Credit in Emerging Markets*, International Financial Corporation, January 2021, https://www.ifc.org/wps/wcm/connect/9f34aef5-521c-44c7-82b2-8525d98b9d53/EMCompass_Note+98-Private+Credit+in+EM_FIN-JAN2021.pdf?MOD=AJPERES&CVID=nrpx7Rv
3) *Why private debt has become a popular alternative asset for SDIRA investors,* Forbes, December 2021, https://www.forbes.com/sites/kelliclick/2021/12/21/why-private-debt-has-become-a-popular-alternative-asset-for-sdira-investors/?sh=6a972fc05879
4) *What is private debt*, Pitchbook, October 2021, https://pitchbook.com/blog/what-is-private-debt#:~:text=Private%20debt%20includes%20any%20debt,loans%20on%20the%20secondary%20market.

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Definition of private debt: The borrower perspective

Globally, borrower companies can raise private debt through several different sources

For companies looking to borrow via debt, they can either raise funds from public markets, apply for bank loans, or access private debt.

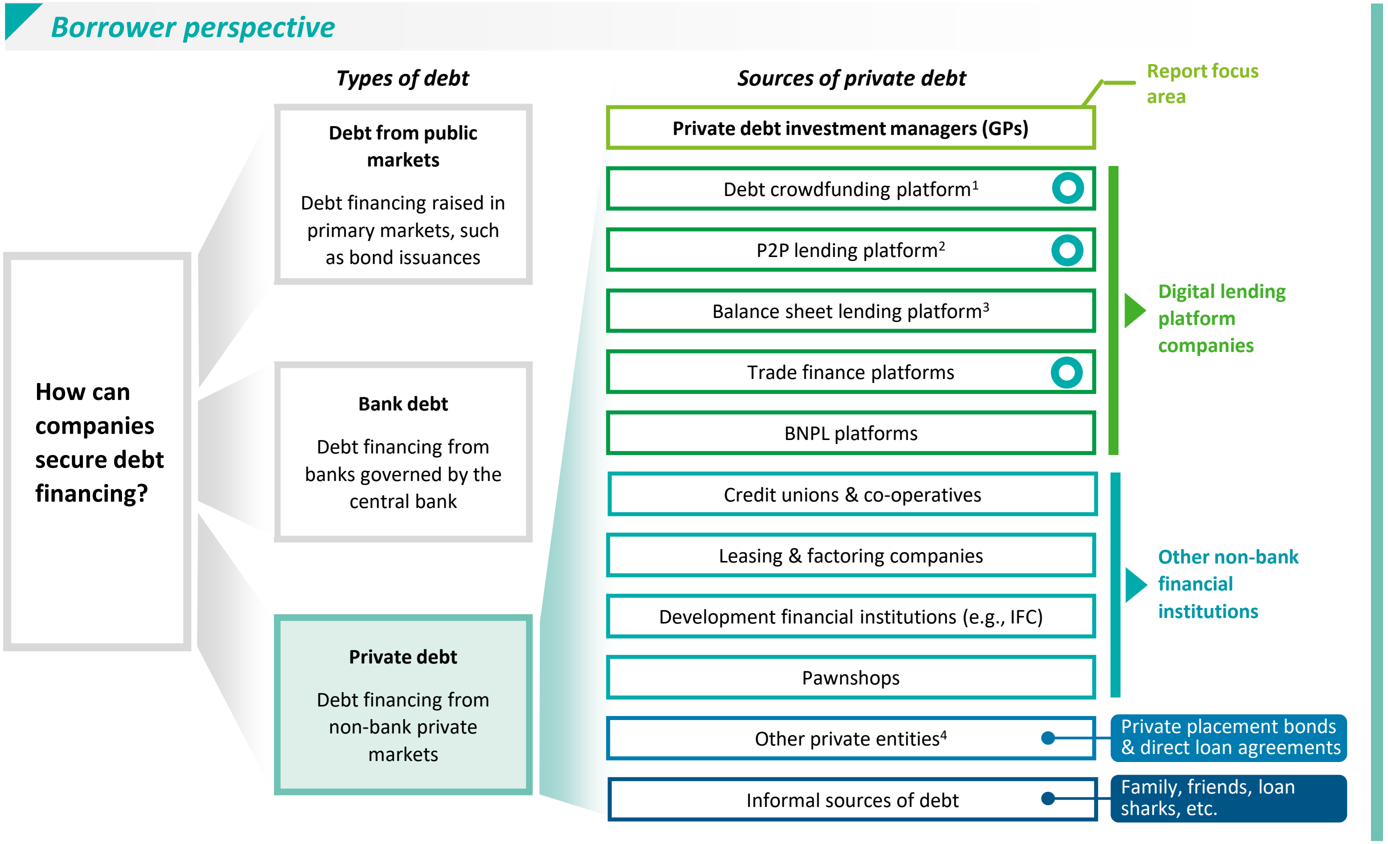
In terms of private debt, more and more companies globally have been turning to private debt investment managers. Generally, private debt managed portfolios (or private debt funds) consist of GPs that raise capital from investors or LPs, and then use that capital to create bespoke lending products for borrower companies.

Outside of managed portfolios, another popular source of private debt includes debt facilitated by digital lending platform companies, such as debt crowdfunding platforms, P2P lending platforms, balance sheet lending platforms, etc.

Non-bank financial institutions—such as credit unions and co-ops, leasing companies, development financial institutions, etc.—also provide private debt financing.

Finally, companies can also obtain debt financing directly from Limited Partners (LPs) or private entities in the form of private bond placements or direct loan agreements.

In our report, we will focus mostly on private debt investment managers (i.e., private debt funds / GPs)



Refers to providers that act as "channels" for access to debt and often do not take on debt-related legal or financial risk

Note: 1. On these platforms, investors can invest in debt instruments issued by companies; 2. The platform connects lenders to borrowers for loans; 3. Digital lending platforms that take on debt in their balance sheet; REITs, infrastructure funds are not included in this picture, as we do not focus on them in this report. 4. In developing countries where funds are not set up, we often see corporates and LPs (e.g., insurance companies) using their balance sheet to lend directly to borrowers

Source: Deloitte Analysis

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Definition of private debt: The borrower perspective

For Thai companies, private debt investment managers are not yet a well established option

In the US, Europe, and elsewhere in Asia, private debt investment managers have gained significant traction in recent years.

But private debt investment managers (GPs) have yet to gain traction in Thailand.

While there exist regulatory schemes for digital lending platforms (e.g., crowdfunding) and B2B non-bank direct lending in Thailand, there does not yet exist a clear regulatory scheme enabling investment managers (GPs) to raise funds from LPs and lend to companies—like we see globally.

Sources of private debt in Thailand

Private placement bonds & B2B corporate lending

Thai LPs (e.g., insurance companies) engage in direct lending

Report focus area

Private debt investment managers (private debt funds / GPs)

Since the market is still nascent, there is limited activity in Thailand

Credit unions & co-operatives

There are ~2,000+ credit unions & co-operatives providing financing in Thailand[1]

Leasing & factoring companies

There are ~750+ leasing and factoring companies in Thailand[1]

Digital lending platforms

Since the start of 2021 to mid-2022, fundraising via crowdfunding amounted to ~USD 85mm*[2]

Pawnshops

There are ~700 pawnshops in Thailand[1]

Informal debt

Informal sources of debt, such as friends, family, and loan sharks, are prevalent in Thailand[3]

*Note: Number is converted based on exchange rate of 36.6 THB to 1 USD

1) Data from ADB Asia SME Monitor, 2021, https://data.adb.org/dataset/asia-small-and-medium-sized-enterprise-monitor-2021-volume-1-country-and-regional-reviews
2) *Crowdfunding a lifeline for SMEs*, Bangkok Bank, July 2022, https://www.bangkokpost.com/business/2337698/crowdfunding-a-lifeline-for-smes; exchange rate based on average 2021 rate of 0.0313 USD/THB
3) *Tech-fueled microlenders replace loan sharks as Thai borrowing swells,* Bloomberg, October 2021, https://www.bloomberg.com/news/articles/2021-10-19/tech-fueled-lenders-replace-loan-sharks-as-thai-borrowing-swells

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Definition of private debt: The investor perspective

Globally, from an investor's perspective, there are 4 broad ways to invest in the private debt asset class

Private debt from an investor's perspective differs from that of a borrower's perspective. For example, investors—such as institutions, family offices, high net worth individuals, and other qualified investors—are not able to invest in all the sources of private debt that a borrower can tap into (e.g., credit unions, leasing companies, pawnshops, etc.)

From an investor's perspective, there are four broad ways to invest in private debt. These include:

1. **Invest via investment managers** such as private debt funds (GPs)
2. **Invest via digital platforms** such as debt crowdfunding platforms or P2P platforms
3. **Lend directly to borrowers** by purchasing private bond placements or signing direct loan agreements
4. **Purchase private debt in the secondary market** from loan originators or other debt investors

Investment opportunities

Note: this landscape varies based on local regulations in respective countries

How can investors invest?

Investment pathways

- **1. Invest via investment managers**
- **2. Invest via platforms**
- **3. Lend directly to entities**
- **4. Purchase secondary debt**
- 5. Invest in public debt & other asset classes

Types of investment intermediaries

- **Private debt managed portfolio (direct)**
- Private debt managed portfolio (indirect)
- Debt Crowdfunding platform
- P2P lending platform
- Balance sheet lending platform
- Trade finance platforms
- BNPL platform

Private debt investments

Source: Expert Interviews, Deloitte Analysis

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Definition of private debt: The investor perspective

In Thailand, these investment options are limited by regulatory restrictions and the lack of relevant mature markets

In Thailand, investors (including sophisticated investors) have limited options if they desire to diversify their portfolio by including private debt.

While institutional, high net worth, and certain retail investors are able to invest via crowdfunding platforms, those investment amounts are limited in size.

Institutional investors, such as insurance companies, are able to lend directly to borrower companies to diversify their portfolios, but within certain restrictions (e.g., interest rate caps).

If Thai investors want to contribute capital to private debt funds (GPs), they would need to proactively seek out those offshore opportunities, as offshore private debt funds are not allowed to directly solicit capital from them.

Investment opportunities in private debt in Thailand

Private placement bonds

Current regulations allow only institutional investors / related person investors; Offering private placement bonds to HNWI is subject to approval from SEC

Secondary debt

Thailand has a limited secondary debt market; requires consent from borrowers, unless exempted by asset management & securitization laws. (NPLs are an exception.)

Direct loan agreements

Interest rates are capped for non-bank lenders

Private debt investment managers (private debt funds / GPs)

Thailand has limited private debt activity, but Thai investors can invest in foreign private debt funds, and offshore private debt funds can lend to Thai borrowers

Report focus area

Digital lending platforms

Platform requires a crowdfunding license issued by the SEC; there is a limit to the amount companies can raise, and retail investors can invest

Source: Expert Interviews, Deloitte Analysis

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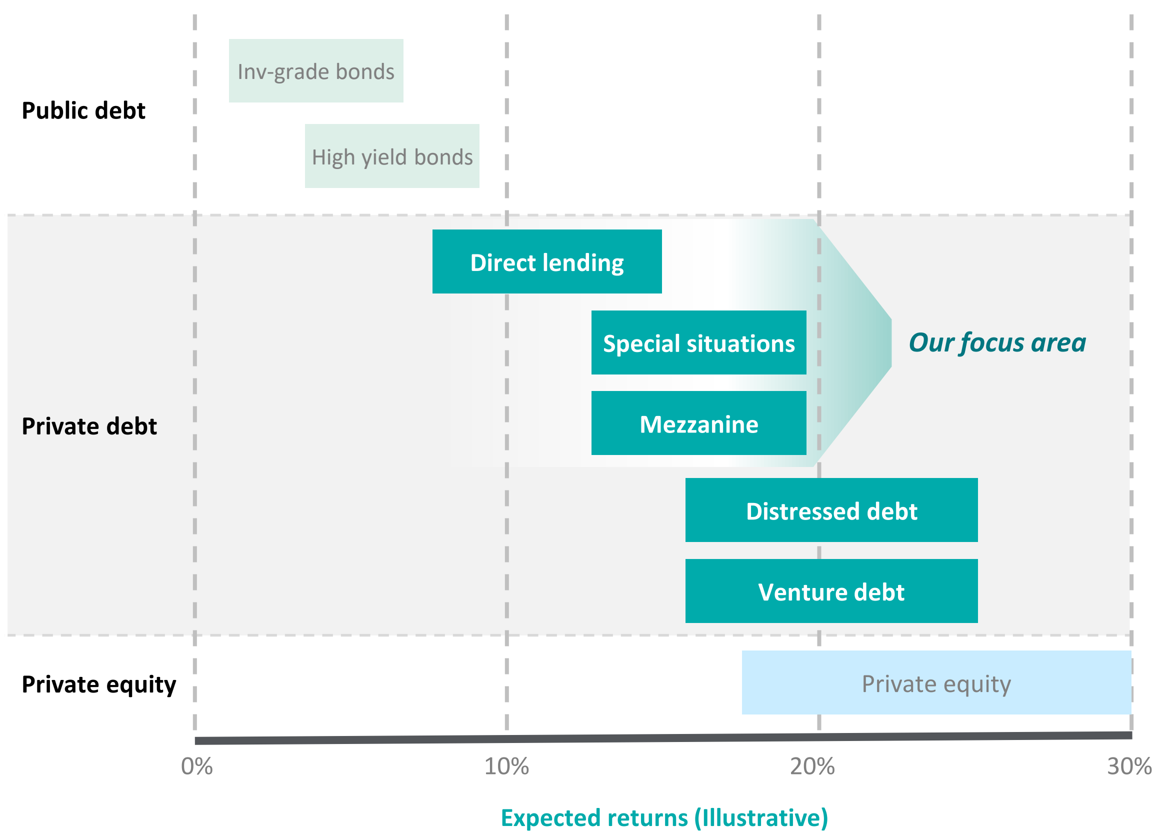
Definition of private debt: The investor perspective

For private debt investment managers, there a number of different strategies they can adopt based on their areas of specialty and their risk / return goals

Investment strategies (illustrative)



Private debt investment managers can utilize a variety of different private debt strategies. These include:

1. **Direct lending:** When intermediaries lend directly to borrowers. The borrower would not need to give up equity, and would also get access to funds faster than a bank loan
2. **Mezzanine finance:** Debt with embedded equity options (e.g., if the borrower defaults). It is typically riskier than direct lending solutions
3. **Special situations:** Debt used for leveraged buyouts, acquisitions, spin-offs, opportunistic situations, niche industries, or other funding activities specialised funding activities
4. **Distressed debt:** Typically purchased in the secondary market for a company in or nearing bankruptcy. Debt is bought at a discount, with the goal that the company improves after the investment
5. **Venture debt:** Offered to start-ups and entrepreneurs in order to fund their early growth
6. **Fund of funds** involves investing in a variety of 3rd party debt funds

In addition to the capital structure, intermediaries can also have thematic fund strategies (e.g., infrastructure debt fund, technology fund, financial services fund, healthcare fund, etc.)

Our report is most relevant to the first three private debt lender strategies, as they are most often used for the sustained growth of companies.

Source: Cambridge Associates LLC, Preqin, Deloitte Analysis

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Definition of private debt: Asset comparison

Private debt offers benefits and trade-offs compared with other asset classes

Private debt provides advantages and trade-offs for both the borrower and the investor.

Borrower Perspective:
For companies in search for financing, private debt offers:

- **Flexible underwriting requirements**
- **Bespoke lending terms based on company needs**
- **Collaborative relationship with lender**
- **Long term, patient capital**
- **Fast financing**
- **No dilution of ownership**

To compensate for the above benefits, borrower's typically pay a higher interest rate than for more conventional sources.

Investor Perspective:
For investors looking into putting capital in the private debt, the asset class offers:

- **Higher risk-adjusted returns compared with other fixed income**
- **Portfolio diversification**
- **Hedge against rising interest rates, given their floating rate nature**
- **Relative stability compared with public markets**
- **Downside protection mechanisms (e.g., via covenants, senior debt, secured debt, etc.)**

To compensate, investors typically have to lock up their capital for a longer period of time

How private debt compares with other financing options (high level estimates)

Category	Private debt	Private equity	Bank Lending	Public market debt
Use of Ratings	Not rated	Not rated	Rated	Rated
Typical Agreement	Bespoke	Bespoke	Standardised	Standardised
Typical Size of Financing	USD 1-250mm	Variable	Variable	USD 500mm+
Typical Coupon	Floating	N/A	Floating	Fixed
Typical Maturity	3-7 Years	N/A	Variable	Variable
Liquidity	Less liquid	Less liquid	Less liquid	Tradeable

Source: Alternative Credit Council[1], Deloitte analysis

1) *Guide to private credit for borrowers and investors: Canadian Edition*, Alternative Credit Council, accessed August 2022, https://acc.aima.org/asset/F6181F66-10EC-4F82-A118AF4F31FF0FE7/

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Overview of market landscape

- Overview of key stakeholders
- Macro and stakeholder trends affecting supply and demand for private debt
- The potential for private debt in Thailand

1

Overview of key stakeholders

Overview of key stakeholders

The private debt value chain includes investors, intermediaries, and borrowers, as well as regulators and other infrastructure enablers

The private debt landscape consists of **3 primary stakeholders**:

1. **Borrowers,** which consist of micro and SMEs, mid-sized and larger corporates, as well as PE firms
2. **Intermediaries,** such as private debt investment managers (GPs) and digital platform lenders
3. **Investors (LPs),** which includes institutional investors and other private companies, as well as individual investors

The private debt ecosystem also includes **2 secondary stakeholders**, namely:

- **Infrastructure enablers**, who work behind the scenes to streamline, facilitate, and support the primary stakeholders in carrying out private debt transactions
- **Regulators**, who enable private debt transactions by designing and overseeing a framework of policies and regulations.

INFRASTRUCTURE ENABLERS

- **Financial instruments**, such as interest rate swaps, FX swaps, and other cross-border and risk management solutions
- **Secondary market** to enable investor & lender flexibility (e.g., early exits)
- **Open data**, to support alternative credit assessments of private companies
- **Credit guarantee mechanisms & other policies** to support lenders and help address information asymmetry challenges
- **Repository of qualified SMEs** (database) to facilitate due diligence and KYC risks
- **Other services**

- **Institutional Investors & other private entities** such as pension funds, endowments, insurance companies, corporates, etc.
- **Individual Investors** such as HNWI and other accredited individuals

- **Private Debt Investment Managers (GPs)** that fundraise via LPs and lend directly to borrowing companies
- **Digital Platform Lenders** who connect retail and other lenders directly with borrowing companies, or who do balance sheet lending themselves

- **Micro & SMEs** with annual revenue less than THB 500 mm[1]
- **Mid-Sized and Larger Corporates** with annual revenue of THB 500mm+
- **Private Equity firms** who use private debt for leveraged buyouts

REGULATORS

- BOT
- SEC
- MOF
- OIC
- Others

Note: 1. Micro enterprise refers to companies with annual revenue of less THB 1.8mm. Small enterprise refers to companies in non-manufacturing sector with annual revenue between THB 1.8mm – 50mm and companies in manufacturing sector with annual revenue between THB 1.8mm – 100mm. Medium enterprise refers to companies in non-manufacturing sector with annual revenue between THB 50mm – 300mm and companies in manufacturing sector with annual revenue between THB 100mm – 500mm, *according to the* Office of Small and Medium Enterprises Promotion, 18 July 2022, https://www.sme.go.th/en/page.php?modulekey=363

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Overview of key stakeholders – Borrowers

Globally, borrowers of private debt include corporates of all different sizes, as well as private equity firms

Private debt borrowers come in different shapes and sizes—but they tend to be companies that don't have access to public markets, or companies that are not able to have all their financing needs fulfilled by bank lenders.

We categorized private debt borrowers in 3 broad categories:

1. **Micro & SMEs** turn to private debt primarily for working capital and growth capital. These firms, particularly in emerging markets, are historically underserved by banks and other financial institutions—often lacking the required collateral, financial statements, or proven history to obtain bank loans. Traditional credit scoring systems also often categorize micro & SMEs as higher risk than their larger corporate counterparts
2. **Mid-sized and large corporates** often turn to private debt to supplement bank loans, or for more flexible or longer-term capital. Corporates also may need fast capital (e.g., for opportunistic investments or acquisitions / buyouts), or capital during moments of stress, which banks are often not able to accommodate
3. **Private equity companies** often turn to private debt for their leveraged buyout needs and other sponsored lending

Borrowers of private debt are businesses and companies that take loans from GPs or private lenders to fund their business

Micro, Small, Medium Enterprises
e.g., for working capital, growth capital

Mid-Sized & Large Corporates
e.g., for working capital, growth capital, acquisitions

Private Equity Companies
e.g., for sponsored lending activities, like LBOs

"In Thailand, SMEs would usually not be able to secure a loan from the bank if they do not have sufficient collateral. Therefore, they have to look at alternatives, such as non-bank financing companies, crowdfunding platforms, fintechs, etc. …

SMEs generally also want faster access to loans. If the loan process is too long, they might not need the capital anymore by the time their request is approved." – **Chief Operating Officer, Digital Lending Platform in Thailand**

Examples of borrowers

Renewable energy company[1]

The borrower, a renewable energy tech company and developer, used private debt as working capital to expand their engineering team and increase project capacity. The process to obtain funds took 2 months to complete in 2017. The USD 101mm* loan had bespoke terms—with a tenor of 5 years and interest applicable only for the first 2 years

Private equity form - leveraged buyout[2]

In March 2022, a US private equity firm, announced the purchase of a San Francisco-based software company via a USD 10.7bn leveraged buyout that was to be financed by multiple private debt funds

* Note: Number is converted based on exchange rate of 0.87 GBP to 1 USD
1) *Case study: £8 million Term Debt UK Renewable Energy Technology and Developer*, Altimapa, October 2017, https://www.altimapa.com/weblog/2017/10/18/reneable-energy-technology-and-developer/
2) *Thoma Bravo-Anaplan deal shows private credit rolls on*, Bloomberg, March 2022, https://news.bloomberglaw.com/mergers-and-acquisitions/thoma-bravo-anaplan-deal-shows-private-credit-handles-volatility

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Overview of key stakeholders – Intermediaries (GPs & Platforms)

Private debt intermediaries raise money from investors and provide debt solutions to borrowers

Private debt intermediaries around the world raise capital from investors and lend that capital directly to borrowing companies.

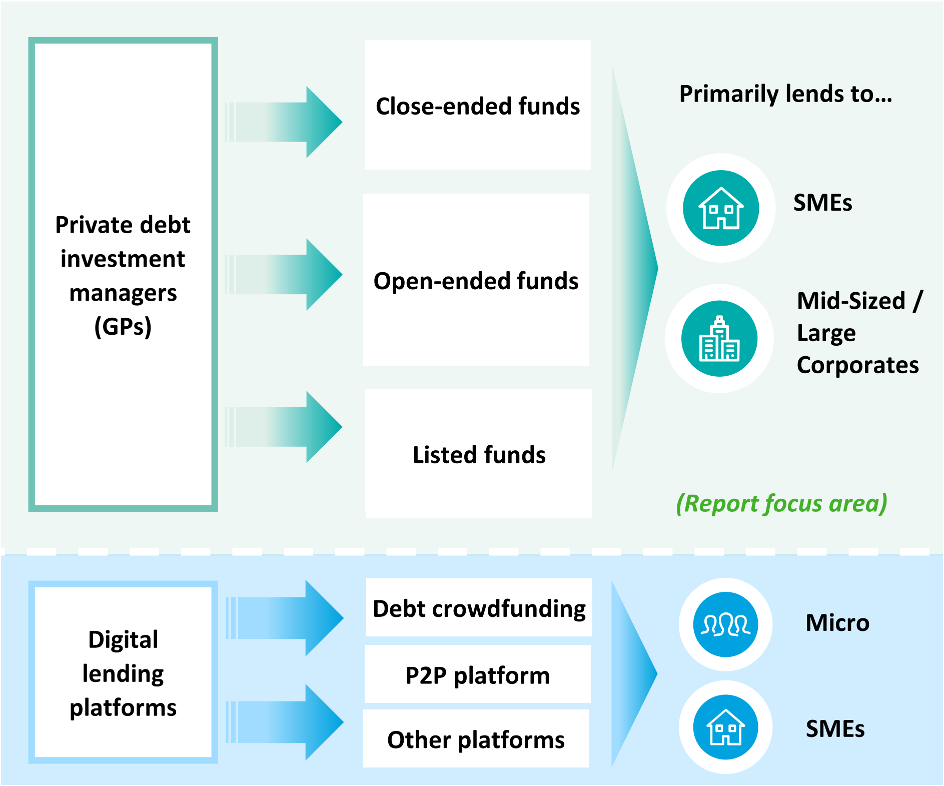
The two main categories of private debt intermediaries include **private debt investment managers (GPs)** and **digital lending platforms**.

Private debt investment managers GPs are able to raise money via three types of funds, including:

- **Close-ended funds,** which have a defined time period for which to raise capital
- **Open-ended funds,** which can raise and deploy capital on an ongoing basis, for as long as the fund is operating
- **Listed funds,** which are able to raise capital via public stock exchanges and deploy that capital to private companies. An example of this are Business Development Companies in the US.

Private debt GPs typically large ticket sizes and investment requirements, whereas digital lending platforms (i.e., crowdfunding, P2P platforms, and other platforms) connect smaller-ticket borrowers and investors.

Intermediaries include fund managers (GPs) and platforms that raise capital from investors and lend directly to borrowing companies



Examples of intermediaries

KKR closed private debt fund[1]

In 2022, KKR finished raising USD 1.1bn for its Asia Credit Opportunities fund, focused on "performing privately originated credit" for borrower companies.

Investree debt crowdfunding[2]

Investree has raised ~USD 6mm* in the first 10 months of operation on its debt crowdfunding platform. Investree is also planning to expand its investor base to institutional investors and foreign funds.

*Note: Number is converted based on exchange rate of 36.6 THB to 1 USD

1) *KKR expands in Asia, armed with $1.1 bln credit fund*, Reuters, May 2022, https://www.reuters.com/markets/us/kkr-raises-11-bln-debut-asia-credit-fund-2022-05-25/

2) *Debt crowdfunding solution to aid SMEs,* Bangkok Post, February 2022, https://www.bangkokpost.com/business/2269035/debt-crowdfunding-solution-to-aid-smes

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Overview of key stakeholders – Investors (LPs)

Investors have been attracted to private debt for its risk-adjusted returns and diversification qualities

Globally, institutional and individual investors are increasing their asset allocation to private debt.

Investors are attracted to the asset class because they are often able to find **better risk-adjusted returns**, especially compared with high-yield bonds. These investments are more illiquid, and investors are able to receive a **premium for that illiquidity**.

Investors also like that most private debt investments are **floating rate**, providing a hedge to potential interest rate hikes.[1]

With recent public market volatility post-COVID 19, investors often enjoy the **relative stability** of these private market investments.

Finally, private debt enables investors to **diversify their portfolio**, with an asset that is **less correlated to public markets**.

Examples of institutional and private entity investors[4]

- Sovereign wealth funds
- Pension funds
- Family offices
- Insurance companies
- University endowments
- Banks
- Social security offices
- Corporations

Individual investors[4]

- High net worth individuals
- Other accredited individuals[5]

Examples of private debt investors

Largest US pension fund approved 5% allocation to private debt in 2021[2]

In November 2021, the board of the ~USD 500bn California Public Employees' Retirement System (CalPERS) approved a 5% allocation to private debt in order to help achieve investment return targets.

Perpetual private debt fund in Europe targets high net worth Europeans[3]

Private debt funds such as those operated by Blackstone have expanded their global fundraising efforts beyond institutional investors by targeting wealthy individual investors in Europe

1) *Annual Global Private Debt Report*, Pitchbook, February 2022, https://pitchbook.com/news/reports/2021-annual-global-private-debt-report
2) *Retirement fund giant Calpers votes to use leverage, more alternative assets*, The Wall Street Journal, November 2021 https://www.wsj.com/articles/retirement-fund-giant-calpers-votes-to-use-leverage-more-alternative-assets-11637032461?mod=article_inline
3) *Blackstone brings private credit investing to rich Europeans*, Bloomberg, May 2022, https://www.bloomberg.com/news/articles/2022-05-27/blackstone-brings-private-credit-investing-to-rich-europeans
4) While these institutional investors and individual investors are active in private debt abroad, not all are yet active in Thailand
5) Other accredited individuals include, for example, non-HNWI who have adequate investment knowledge to invest in private markets (e.g., in the US), as well as retail investors who invest in private debt vehicles made available to the broader public (e.g., BDCs in the US and ELTIFs in the EU)

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Overview of key stakeholders – The private debt ecosystem

We have divided the Thai private debt landscape into 3 ecosystems for ease of analysis

Report Focus Area

	Ecosystem	Main Investors	Intermediaries	Main Borrowers
Nascent in TH	**#1 Via investment managers[1]**	Institutional investors High net worth individuals Other Accredited Investors	Private debt funds (GPs)	Larger enterprises[4] Medium enterprises[4]
Existing markets in TH	**#2 Via private sector digital platforms[2]**	Institutional investors High net worth individuals Qualified retail investors	Digital lending platforms	Medium enterprises Micro- and small enterprises
Existing markets in TH	**#3 Direct transactions[3]** *(no intermediaries)*	Institutional investors Other private entities Individual investors	*Directly lend to borrowers*	Larger enterprises Medium enterprises Micro- and small enterprises

The 3 ecosystems include:

1) **Investment Managers (Private Debt Funds)** – While nascent in Thailand, private debt via investment managers is widespread globally. In this model, Limited Partners (e.g., Institutional investors, HNWI, and other accredited investors) invest in private debt funds, or GPs. The GPs then lend money directly to a portfolio of borrower companies

2) **Private Sector Platforms (Digital Lending Platforms)** – Digital lending platforms already exist in Thailand and offer relatively small ticket loans to different companies. Digital lending platforms are also available to a larger pool of investors (including qualified retail investors)

3) **Direct Transactions** – This ecosystem refers to the direct lending agreement between investors / private entities and borrowers, cutting out the middlemen. Examples of these direct lenders include insurance companies and large corporates

In this report, we will **focus on the ecosystem #1** as it is still a nascent market in Thailand.

Note: 1. Nascent market with low private debt activity 2. Growing market but characterised by small transactions) 3. Unstructured market, includes private placement and direct loan agreements by entities such as insurance companies to borrowers 4. Can also include small enterprises, but to a lower degree , as well as private equity firms

Source: Deloitte Analysis

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Macro and stakeholder trends affecting supply and demand for private debt

Macro factors influencing supply and demand for private debt

The private debt landscape is shaped in part by 3 key macro-level trends

Three key macro-level trends helped to shape recent private debt supply and demand trends both globally and in Thailand.

The first is the changes in **bank regulations following the 2008 global financial crisis**, including the Dodd-Frank Act in the US and Basel regulations globally. These regulations helped to restrict bank lending, opening the door for private debt intermediaries to help fill the demand gap.[1]

The second is the recent **interest rate and inflation dynamic shifts**. Historically, private debt thrived in a low interest rate environment, where investors looked for alternative means to obtain higher yield, compared with public fixed income products. As interest rates rise, private debt investments would still be partially hedged given its floating rate nature. Many investors also enjoy private debt's relative stability during times of interest rate uncertainty, especially compared with public market investments.[2]

Finally, the demand for private debt is increasing in Asia, particularly among micro & SMEs, as the **middle class grows and needs for micro & SME services grow** as well.[3]

Trend	Description of trend	Impact to private debt
1 Changes in global bank regulations *See appendix for details*	Since the 2008 global financial crisis, regulators clamped down on bank lending – introducing policies such as Dodd-Frank in the US and Basel guidelines globally	• The increase in bank oversight opened the door for alternative lenders like private debt funds to fill the gap[1] • In Asia today, however, banks still dominate the lending landscape, especially compared with Europe and the US[2]
2 Inflation & interest rate changes *See appendix for details*	Inflation is rising around the world, and many central banks are raising interest rates to combat the trend	• Private debt is typically floating rate, making them hedged against interest rate hikes • Private debt markets are typically less volatile than public markets, especially during interest rate hikes • Historically private debt investor demand rose in low interest rate environments. As the interest rate rises, the effects on private debt remain to be seen[3]
3 The changing needs of micro & SMEs *See appendix for details*	In the short term, micro & SMEs have been hit hard by COVID. In the long term, as the middle class grows across Asia and as their consumption increases, there will likely be increased demand for micro & SMEs[4]	• Many micro & SMEs have a tough time obtaining more traditional bank loans. Private debt can be an attractive funding alternative for this rising class of borrowers

1) *Shifts in private debt since the Great Recession,* Pitchbook, September 2019 https://pitchbook.com/blog/shifts-in-private-debt-since-the-great-recession
2) Investing in Asia private credit, Petiole Asset Management, July 2022 https://www.petiole.com/insights/articles/investing-in-asia-private-credit
3) *Annual Global Private Debt Report*, Pitchbook, 2021 https://pitchbook.com/news/reports/2021-annual-global-private-debt-report
4) *Private Credit in Asia,* ACC, Simmons + Simmons, EY, July 2020 https://acc.aima.org/static/77a975ad-ae9e-463c-925e08b62f75750c/ACC-Private-Credit-in-Asia.pdf

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Key trends impacting stakeholders

Based on our analysis, stakeholder needs are changing both globally, and in Asia; this will have implications in Thailand's nascent private debt market

How are borrower needs changing?

1. **Shift away from traditional banking (click headline to see detailed appendix)**: Due to stringent credit requirements and lower risk tolerance, companies are moving towards alternative financing options beyond traditional banking
2. **Increased need for loans with flexible lending terms**: There is rising demand for bespoke deal structures and flexible terms (e.g., payment in kind, longer term loans, mezzanine options and alternative collateral)
3. **Rising need for fast & convenient access to financing**: Borrowers are increasingly searching for quicker application processes and credit decisions
4. **Rise in financing needs of underserved markets**: While the number of SMEs in Southeast Asia continues to grow, bank lending to these segments has reduced, posing challenges for SMEs' access to financing

How are intermediary needs changing?

5. **Increased investment in SMEs and mid-market targets**: ~68% of private debt GPs surveyed globally intended to increase allocations to SME /mid-market segments from 2020 to 22.
6. **Shift toward outsourcing & tech to tackle fund complexity**: ~70% of private debt investors (including global GPs) intend to increase ops efficiency by using tech, while ~42% intend to outsource fund admin altogether.
7. **Rise in direct lending:** Direct lending globally has grown by ~40% annually between 2011-21.
8. **Rise in digital financing platforms for micro & SMEs**: In response to borrowers' need for fast & convenient financing, as well as demand from underserved markets, digital financing has grown in Asia (excluding China) by ~40% annually between 2015-20.

How are investor needs changing?

9. **Rise in cross-border investing, especially in Asia**: ~80% of fundraising for Asian private debt funds are from non-APAC investors.
10. **Increasing ESG requirements**: Investors globally are increasing their ESG requirements, with 77% of fund selectors whom adopted ESG factors into their investment process
11. **Rise in demand for transparency**: 82% of global investors believe a high level of transparency and reporting is a crucial factor in achieving alignment between private debt managers and investors.

Note: All sources are in detailed slides in the appendix. Click the relevant headlines to access appendix slides.

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The potential for private debt in Thailand

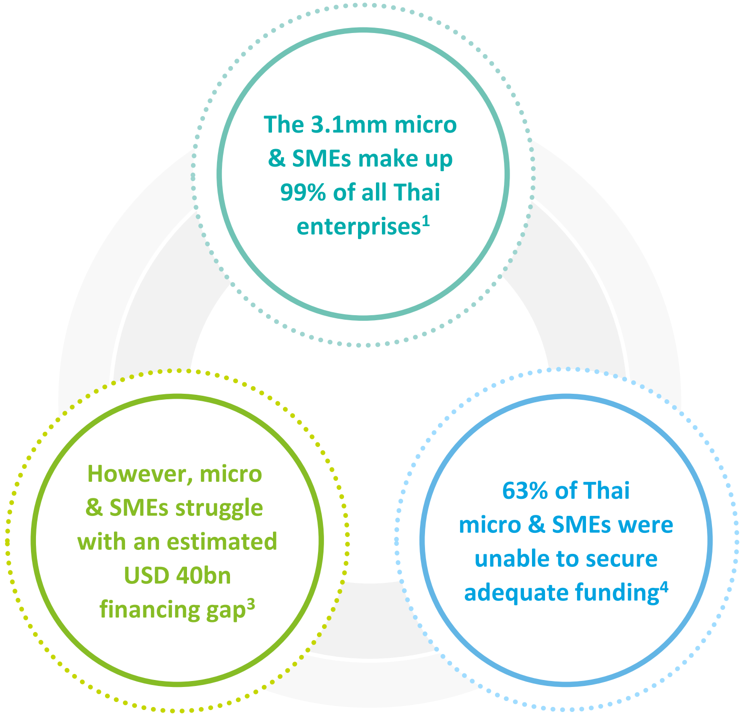
The potential for private debt in Thailand: Borrower perspective (micro & SMEs)

The vast majority of Thai enterprises are micro & SMEs, but this group remains underserved by existing financial institutions

Thailand's micro & small and medium enterprises play a significant role in the economy: In 2020, the **3.1 million entities made up the vast majority of all enterprises and contribute to a third of national GDP.**[1, 2]

However, there is a **USD 40bn funding gap for micro & SMEs in Thailand**, according to the International Financial Corporation. That means that about 27% of the USD 150bn of their financing needs remain unmet.[3]

According to a 2022 Mambu report, **more than half (63%) of Thai micro & SMEs were unable to secure adequate funding** for their businesses. Furthermore, about **95% of Thai micro & SMEs surveyed said that they were open to changing lenders** for a better experience.[4]



1) *Asian Development Bank (ADB) Asia SME Monitor,* Asian Development Bank, accessed 18 July 2022, https://data.adb.org/media/9086/download
2) *2020 Annual Report*, The Office of Small and Medium Enterprises Promotion (OSMEP), 2020, https://www.sme.go.th/upload/mod_download/download-20220110153118.pdf
3) *MSME Finance Gap*, International Finance Corporation, accessed 18 July 2022, https://www.smefinanceforum.org/data-sites/msme-finance-gap
4) *Over 50% of MSMEs Unable to Secure Business Funding Due to Rigid Lending,* Nation Thailand, March 2022, https://www.nationthailand.com/pr-news/business/40013460

Note: Micro enterprise refers to companies with annual revenue of less THB 1.8mm. Small enterprise refers to companies in non-manufacturing sector with annual revenue between THB 1.8mm – 50mm and companies in manufacturing sector with annual revenue between THB 1.8mm – 100mm. Medium enterprise refers to companies in non-manufacturing sector with annual revenue between THB 50mm – 300mm and companies in manufacturing sector with annual revenue between THB 100mm – 500mm, *according to the* Office of Small and Medium Enterprises Promotion, 18 July 2022, https://www.sme.go.th/en/page.php?modulekey=363

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The potential for private debt in Thailand: Borrower perspective (micro & SMEs)

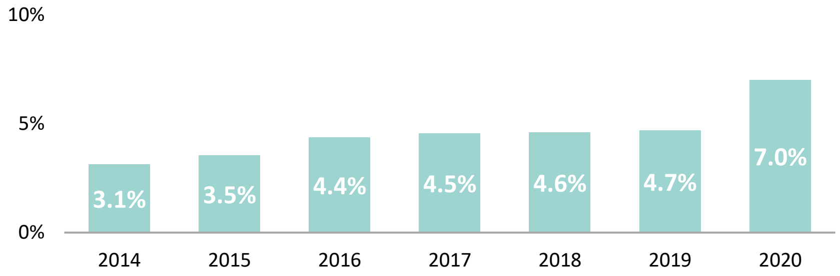
The financing gap for Thai micro & SMEs was exacerbated by COVID-19, as commercial banks reduced their exposures to this group of borrowers

During the pandemic, **commercial banks have reduced their risk exposures to micro & SMEs**, especially as the rate of non-performing loans to total loans for Micro & SMEs increased to 7% in 2020 from just 5% in years prior.

Total commercial lending to micro & SMEs pre-pandemic dropped by ~30% to USD 95.6bn after the onset of the pandemic.

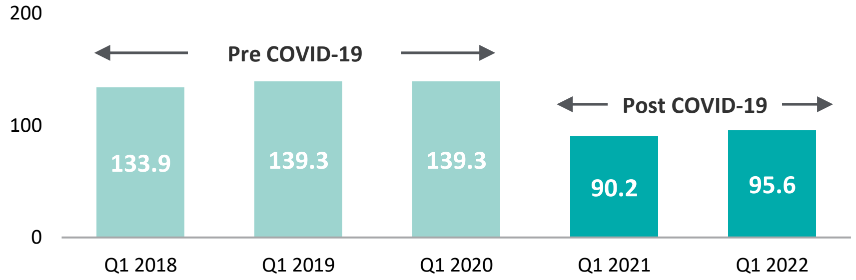
All in all, **the financial needs of micro & SMEs today are not yet being met by banks, paving the way for alternative forms of lending, such as private debt, to potentially fill the gap.**

Micro & SME NPLs to total Micro & SME loans[1], %



Source: Asian Development Bank

Total commercial bank loans to micro & SMEs[2], USD bn*



Source: Bank of Thailand

*Note: Number is converted based on exchange rate of 36.6 THB to 1 USD

1) *ADB Asia SME Monitor - Thailand*, Asian Development Bank, December 2021, https://data.adb.org/dataset/asia-small-and-medium-sized-enterprise-monitor-2021-volume-1-country-and-regional-reviews

2) *Loan Outstanding of Commercial Banks*, Bank of Thailand, May 2022, https://www.bot.or.th/App/BTWS_STAT/statistics/ReportPage.aspx?reportID=829&language=eng

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The potential for private debt in Thailand: Borrower perspective (mid-sized corporates)

Meanwhile, mid-size corporates, who have already taken on significant debt or lack collateral, also find it challenging to secure financing below USD 50mm from a single entity

Mid-sized corporates tend to have more financing options than SMEs in Thailand—as some are able to access public markets, and others have an easier time meeting bank lending requirements.

However, financing gaps still exist for this borrower segment in Thailand. For example, some corporates are in need of fast capital for opportunistic investments, with approval time horizons that present challenges for public debt vehicles. Others may lack collateral or already have outstanding bank loans—and are in need of additional financing volumes that banks are not comfortable providing.

Private debt can be a new financing option for many mid-sized corporate borrowers in Thailand—offering speed and volume to the market.

Mid-sized corporates in search of lending options

How mid-sized corporates can obtain financing in Thailand today

Sources of debt & associated challenges for mid-sized corporates

Public debt	Requires extensive paperwork, SEC approvals and strong credit rating;[1] Often not easily available or affordable to companies with lower credit scores or existing leverage
Bank loans	Companies without collateral and companies that hold existing debt will find it difficult to get bank debt, as banks have tightened credit standards[2]
Private debt managed portfolios	Today, only off-shore debt funds (GPs) lend to Thai companies, but they focus on larger ticket sizes (>USD 50mm)[3]; on-shore funds do not yet have regulatory clarity to provide loans
Digital lending platform	These lenders focus on giving out smaller amounts, primarily to SMEs, and are often unable to provide larger sized loans that mid-sized corporates require
Other private entities	Private entities might not be willing to give out very large amounts on their own; these lending opportunities are also limited in volume[4]

"There was no single entity that could provide us with the ~USD 30mm loan we needed for our new investment opportunity, so we had to borrow from more than 20 individual investors"*

– Former CFO, Corporate Borrower in Thailand[4]

*Note: Number is converted based on exchange rate of 36.6 THB to 1 USD
1) *The bond market in Thailand*, Asian Development Bank, December 2021, https://asianbondsonline.adb.org/documents/abmf_tha_bond_market_guide_2021
2) *Senior Loan Officer Survey*, Bank of Thailand, April 2022, https://www.bot.or.th/English/MonetaryPolicy/EconomicConditions/Pages/CreditCondition.aspx
3) Deloitte interview with international private debt fund operating in Southeast Asia, August 2022
4) Deloitte interview with mid-size corporate borrower based in Thailand, August 2022

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The potential for private debt in Thailand: Borrower perspective (larger corporates & PE firms)

Additionally, large corporates and PE firms are increasingly turning to private debt to fund LBOs, during a time when buyout activity is rising across APAC

Globally, large corporates are increasingly turning to private debt for various funding needs, including buyouts.

Private equity firms are likewise looking at private debt as an alternative source of buyout funds (instead of bank loans).

In Asia Pacific, there is an increase in the number of buyout deals in general over the past years.

Given these trends, there is **increasing potential for private debt to help fulfil the financing needs of corporate or sponsored buyouts across the region.**

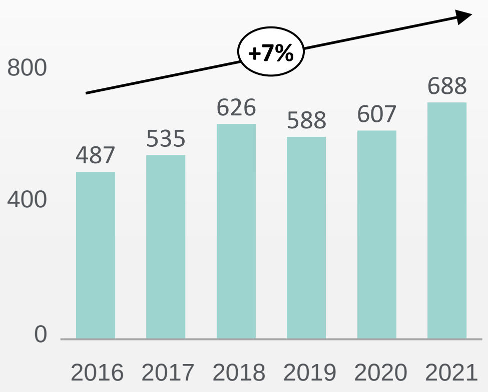
Global trends

Large corporates & PE firms increasingly turn to private debt

- The private debt market globally is seeing larger deal sizes overall, as well as more numerous large deals[1]
- PE firms are increasingly turning to private debt to finance their buyouts (as an alternative to bank loans). Advantages of private debt include speed, efficiency, and loan size compared with bank financing[2]

At the same time, buyout volumes are rising across APAC

Number of PE-backed Asia Pacific buyout deals, 2016-2021[3]



Source: Dechert LLP

Implication for private debt demand

Potential rise for private debt demand in the region

- Today, 35% of Asia Pacific firms use only private debt for buyout deals, and 40% uses roughly equal amounts of both private debt and traditional bank financing, while just 25% only use traditional bank financing, according to an industry survey[3]
- Moving forward, there is some potential for large corporates and PE firms in Thailand to increasingly fund big-ticket activities via private debt

1) *Large Private Credit Transactions are on the Rise with Blackstone at the Forefront of the Trend,* Blackstone, accessed August 2022 https://www.bcred.com/wp-content/uploads/sites/11/2021/09/Trend-Towards-Large-Private-Financings.pdf?v=1647446657
2) *Private equity enhancing operations to keep pace with growth,* Broadridge, accessed August 2022 https://www.broadridge.com/_assets/pdf/broadridge-infographic-private-equity-top-5-2022-trends.pdf
3) *2022 Global Private Equity Outlook,* Dechert LLP, Margermarket, 2022 https://www.dechert.com/content/dam/dechert%20files/knowledge/publication/Global_Private_Equity_2022_FINAL.pdf

Source: Deloitte Analysis

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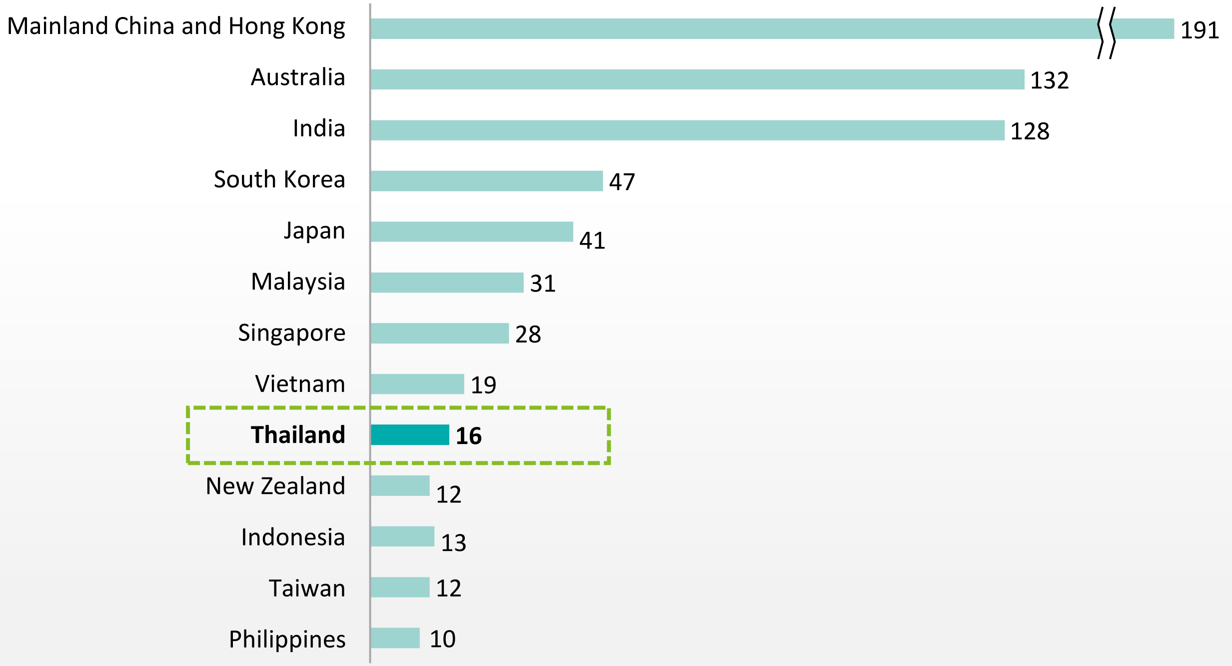
The potential for private debt in Thailand: Borrower perspective (larger corporates & PE firms)

However, Thailand has fewer large ticket private debt opportunities compared with other APAC nations, as evidenced by M&A trends

Announced M&A deals in selected Asia-Pacific economies in 2021[1]



Note: Data compiled on Jan 19, 2022. Figures represent number of M&A deals announced where the target entity was headquartered in the respective economy. Pakistan and Nepal were excluded from our analysis.

Source: S&P Global Market Intelligence

Today, private debt is considered a key source for M&A financing. It provides acquirers with bespoke solutions at speed—often when traditional banks cannot. M&A deals (especially for LBOs) also require large amounts of capital.

As the volume of M&A deals rise globally, LPs and private debt funds will likely try and provide financing for these types of deals.[2] For example, an LCD report found that 68% of European direct-lending deals from private debt funds in 1Q 2022 were acquisition-related.[3]

However, there are not as many M&A transactions in Thailand compared with other Asian countries—and as a result, large international funds may prioritise other markets in the region.

1) *Asia-Pacific financial M&A deals set for strong 2022 amid low rates,* S&P Global Market Intelligence, August 2022 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/asia-pacific-financial-m-a-deals-set-for-strong-2022-amid-low-rates-reopening-68649595
2) *How often do investment firms provide both equity and debt in an LBO,* Preqin, June 2022 https://www.preqin.com/insights/research/blogs/how-often-do-investment-firms-provide-both-equity-and-debt-in-an-lbo
3) *European direct lenders dazzling pipeline of leveraged loans after summer,* Techkashif, August 2021 https://techkashif.com/european-direct-lenders-dazzling-pipeline-of-leveraged-loans-after-summer/

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The potential for private debt in Thailand: Investor perspective

On the investor side, institutional and high net worth individuals are looking to diversify their portfolio, seek higher returns, and increase their investment sophistication

Investor needs

1 **Diversify their portfolio – both in terms of asset class and geography**

2 **Seek higher risk-adjusted returns in exchange for liquidity**

3 **Enjoy more predictable, less volatile returns compared with public market investments**

Thai investors are beginning to notice the rise of private debt opportunities abroad and becoming interested in this asset class for 3 key reasons:

1. **Opportunity to diversify their portfolio (asset class & geographical diversification)**
   - Many sophisticated investors are including more alternative investments such as private debt into their portfolio, in search for investment solutions with lower correlation to public markets
   - Many institutional investors are looking for more opportunities to invest in alternative assets, particularly overseas—in order to both diversity their portfolio and to gain additional investment experience.
2. **Seek higher fixed-income returns in exchange for liquidity**
   - Some investors are also willing to give up liquidity in exchange for higher returns. The private debt asset class enables this, requiring longer capital lock-up periods compared with public fixed income in exchange for higher risk-adjusted profits.
   - Institutional investors will need to consider new ways to increase yield, in order to ensure their assets match their liabilities (e.g., to pay benefits as more people retire)[1]
3. **Enjoy more predictable, less volatile returns compared with public market investments**
   - As the global economy adjusts for COVID-19, inflation, and interest-rate changes, private markets tend to be less volatile than public markets
   - Private debt solutions also provide predictable and contractual returns based on the interest rate charge[2]

"Ultra HNW investors in Thailand are starting to invest in private debt off-shore as they look for opportunities to diversify their portfolio. It is possible that institutional investors might also be interested to invest for similar reasons, once they have further regulatory clarity."

– CEO, Digital investment management firm in Thailand

1) *Pension funds chase returns in private-market debt,* The Wall Street Journal, February 15, 2022 https://www.wsj.com/articles/pension-funds-chase-returns-in-private-market-debt-11644873517
2) *Private Debt,* Preqin, accessed August 2022, https://www.preqin.com/academy/lesson-4-asset-class-101s/private-debt#:~:text=Private%20debt%20is%20not%20traded,as%20infrastructure%20and%20real%20estate

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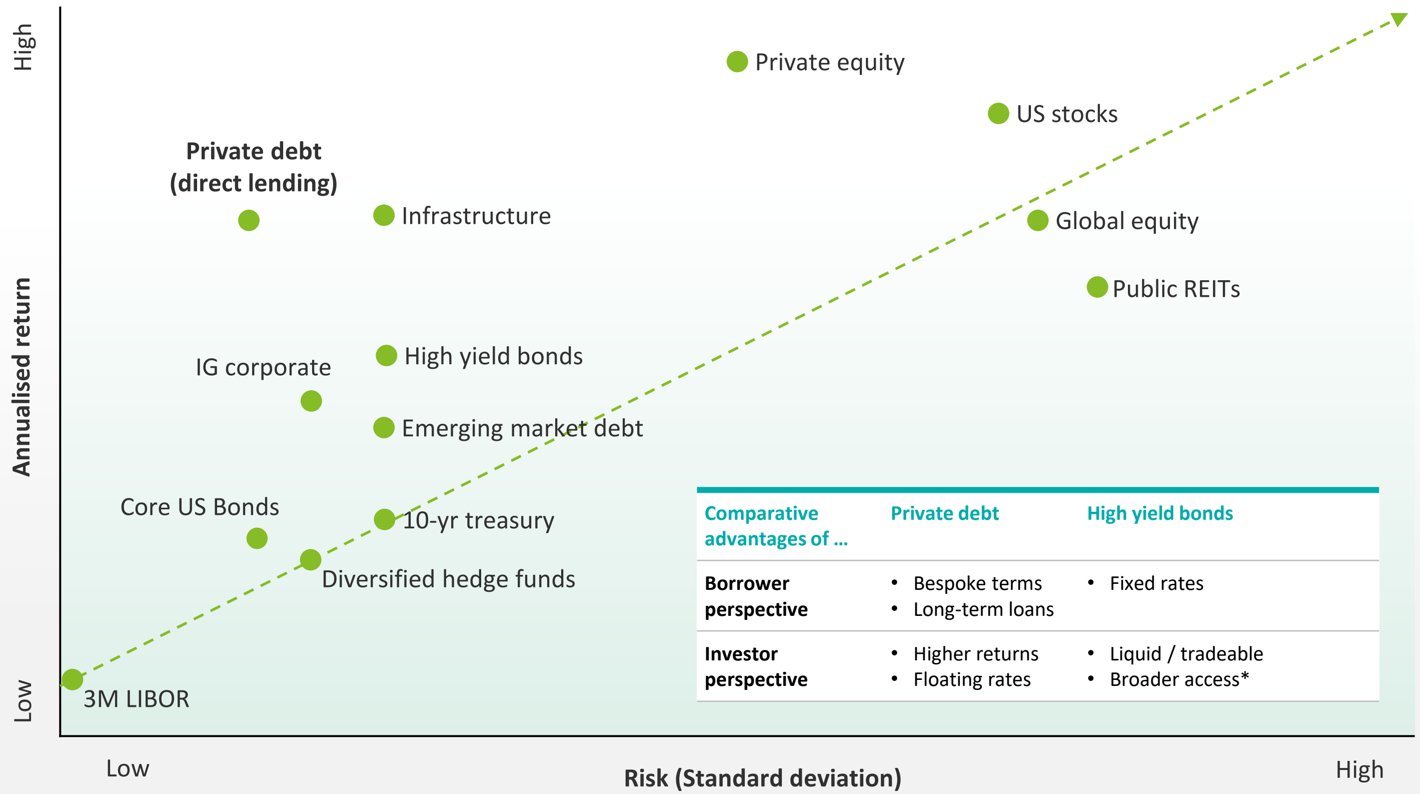
The potential for private debt in Thailand: Investor perspective

Investors are often attracted to private debt for its relatively higher risk-adjusted returns, in exchange for liquidity

Illustrative risk-return profiles across select global asset classes[1]



Comparative advantages of …	Private debt	High yield bonds
Borrower perspective	• Bespoke terms • Long-term loans	• Fixed rates
Investor perspective	• Higher returns • Floating rates	• Liquid / tradeable • Broader access*

Source: Antares Capital, Deloitte analysis

Private debt (direct lending) has been growing in popularity among investors, given its ability to provide attractive returns with relatively reduced downside risk, especially when compared with other fixed income products.[2] This is because:

- Direct lending is often considered **relationship lending,** where both lender and borrower can freely negotiate their deal; borrowers are willing to pay higher rates for **bespoke terms**
- Private debt lenders are often able to obtain **downside protection** by using covenants, requiring collateral, and/or structuring senior debt
- Borrowers are also willing to pay higher interest rates in exchange for **longer pay-back periods.**
- Investors of private debt often have longer time horizons and are willing to lock up their capital. The higher returns they receive is largely due to this **"illiquidity premium"**

Private debt has different characteristics than traditional fixed income, such as high yield bonds, and therefore attracts different types of investors (reducing risk of cannibalisation).

For example, from an investor's perspective, private debt attracts mostly institutional investors, provides better risk-adjusted returns, and is less liquid; whereas high yield bonds attracts a broader range of investors and is more liquid and tradable.

*Note: Both retail investors and accredited investors have access to high yield bonds, whereas retail investors have limited (if any) access to private debt

1) *Private Debt: Key Post-Pandemic Secular Trends and Investment Themes,* Antares Capital, April 2021, https://www.antares.com/wp-content/uploads/2021/04/Post-Pandemic-Secular-Trends-Investment-Themes.pdf

2) *'Dry power' loan funds struggle to find a home,* Financial Times, March 21, 2022, https://www.ft.com/content/824a7fc3-a8a3-4a78-a565-bd663ba71520

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The potential for private debt in Thailand: Market size estimates in Thailand

Our high-level estimates show that private debt deals to Thai borrowers can be a multi-billion dollar opportunity

We have provided high-level estimates of the private debt market size based on 2 different scenarios:

1. If Thailand were to have a **mature private debt market** comparable to that of the US or UK, private debt deal activity could be **at least USD 8.6bn per year.**
2. If Thailand were to have a private debt market comparable to that of **second-tier private debt markets**, such as in EU countries or Canada, private debt activity could be **at least USD 2bn per year.**

In estimating potential market size, we assumed that Thailand would be able to mature its private debt ecosystems (e.g., its level of private debt infrastructure, regulatory support, stakeholder awareness, etc.) to that of either leading private debt markets or second-tier markets.

Please see the Appendix for more details in our high-level estimates.

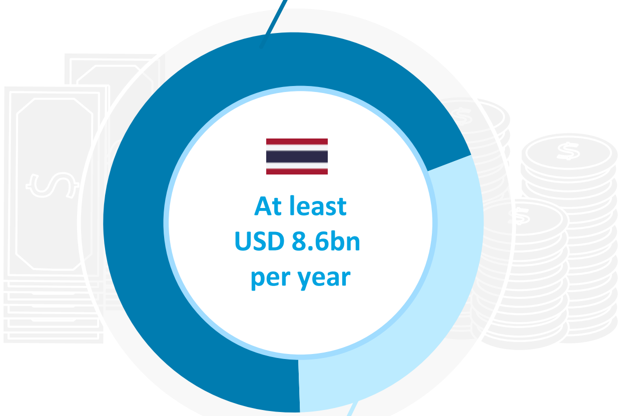
Note: There are a few caveats in our estimate:

- *Private debt GPs in leading and second-tier private debt markets tend to lend to middle market and larger entities*
- *Private debt deal sizes were based on data made available in Preqin Pro[1]*
- *Estimates are based on assumption that Thailand will be able to build adequate regulatory framework and infrastructure to address challenges presented in this report*

*We hypothesize that private debt activities for **mid-sized and large corporates** will be largely driven by **private debt funds** focusing on longer term loans, while deals for smaller **SMEs** will be driven by **digital lending platforms***

Scenario 1: Same maturity as leading private debt markets

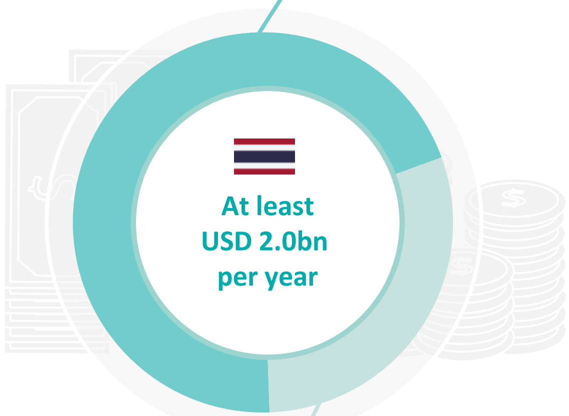
Mid-sized & large corporates: at least USD 6.0bn per year



SMEs: at least USD 2.6bn per year

Scenario 2: Same maturity as second-tier private debt markets

Mid-sized & large corporates: at least USD 1.4bn per year



SMEs: at least USD 0.6bn per year

1) Based on available data of private debt deal activities from 2016-2020 in Preqin Pro

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Different lenders will have different comparative advantages in the Thai private debt ecosystem

Comparative advantages of different private debt vehicles

	Digital lending platforms	Local private debt funds (GPs/LPs)	Foreign private debt funds (GPs/LPs)
High level estimate of target loan ticket sizes (Illustrative)	**~USD 2k – USD 25mm**	**~USD 10mm – USD 50mm**	**~USD 50mm and more**
Comparative advantages	• Faster processing speed and decision-making time given the size of loan and the use of technology to support the process • Wide range of services for different types of business needs • Lending consistency, as most processes and decisions are supported by technology • Available to a broader range of investors as the platforms are less restricted (i.e., open to many retail investors) • Easy to access by investors as they can directly access the platforms by themselves	• 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

Different private debt vehicles have different comparative advantages in the Thai market, enabling them to cover niche target segments and offer different sized loans.

Digital lending platforms will have comparative advantages in offering smaller ticket loans at higher volumes, targeting primarily SMEs.

Local private debt funds, if set up in Thailand, will likely have comparative advantages due to their ability to leverage a local borrower network for origination opportunities, their familiarity with local regulations, and their niche target ticket size (USD 10mm – USD 50 mm), which is currently underserved in Thailand.

Larger international funds will have advantages targeting big-ticket deals for large corporates and PE firms (e.g., for LBOs), given their global reputation and track record.

Source: Expert interviews, Deloitte analysis

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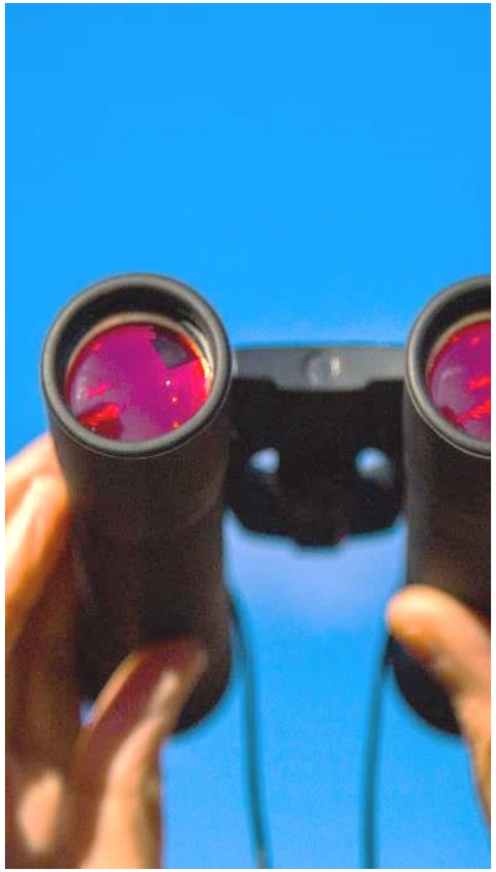
Key learnings from abroad

- Country deep-dives on key markets - Singapore, US, UK, France, and India

2

Overview

Key learnings from abroad: An overview



The private debt landscape looks different depending on whether you are in the US, Europe, Asia, or elsewhere in the world.

Today, the US has the largest private debt market, and accounts for more than 60% of private debt assets. As of 2021, the US was also home to 67 of the top 100 fund managers.[1,2]

Europe has the second largest private debt market, with AUM of about USD 425bn in 2021[1]. While private debt funds make up the majority of private debt activity, Europe also has a significant amount of private debt transactions occurring via digital lending platforms.

Growth in these mature private debt markets was in part driven by a number of key government interventions, like the introduction of Business Development Companies in the US (to focus on SMEs), the launch of the British Business Bank (to support private debt development in the UK), and the liberalisation of the bank lending monopoly in France (to facilitate non-bank lending).

Meanwhile, private debt fund activity is increasing in Asia, but it still lags far behind the US and Europe. Asia Pacific makes up only ~7% of global private debt AUM, despite there being an estimated funding gap of USD 4.1tn across Asian SMEs.[3] In Asia, informal lending remains a key source of non-bank financing, particularly in developing economies.

In general, private debt funds globally cater primarily to medium and large enterprises, as they prefer giving larger ticket loans to companies who meet their strict due diligence requirements. There are however exceptions where some private debt GPs also serve SMEs. Digital lending platforms, on the other hand, tend to focus primarily on SMEs.

From an investor perspective, **an increasing number of institutions are allocating capital to the private debt asset class**. For example, pension funds in the US, UK, EU, and Singapore all have invested in private debt to various degrees.

In this chapter, we deep dive into case studies from different countries around the world and highlight key learnings for Thailand. We have also shared an analysis (refer to appendix) on emerging markets with similar debt enforcement regimes to Thailand (i.e., Mauritius and Indonesia), and how they have tried to build their private debt ecosystem in spite of these challenges.

1) *2022 Global Private Debt Press Release*, Preqin, January 2022, https://www.preqin.com/Portals/0/Documents/PD%20Global%20PR%20FINAL.pdf?ver=2022-01-12-084704-817
2) *PDI 100: The year our ranking doubled in size*, Private Debt Investor, December 2021, https://www.privatedebtinvestor.com/pdi-100-the-year-our-ranking-doubled-in-size/
3) *Private Credit in Asia*, Alternative Credit Council, July 2020, https://acc.aima.org/static/77a975ad-ae9e-463c-925e08b62f75750c/ACC-Private-Credit-in-Asia.pdf
Source: Press Search, Company Websites, Deloitte Analysis

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Country deep-dive: Methodology

We focused on 3 key criteria in order to identify global models that Thailand can learn from

Our 3 key criteria

Criteria		
Mature private debt market	US private debt funds made up more than 60% of global private debt AUM USD 738 billion in 2021 with 67 of the top 100 fund managers based in the US[1,2]	At least ~USD 21bn* was deployed via private debt to businesses across the United Kingdom in 2018 and 2019[3]
Geographical diversity & regional leaders	France leads private debt activity in the EU; capital deployment via private debt increased to ~USD 14.3bn*, i.e., a +81% growth YoY in 2021, reaching an all time high[4]	Singapore-focused private debt fund managers' assets amounted to ~USD 700mm in 2018[5]
Emerging market leader	India shifted away from a borrower-friendly lending environment to become a more balanced lending environment through several national initiatives. Today, cumulative private debt investment in India reached ~USD 9.6bn (between 2012 - 1H22)[6]	

Note: We have also analysed markets with similar debt enforcement regimes as Thailand. Please refer to the Appendix for the key findings.

*Note: Numbers are converted based on exchange rate of 0.87 GBP to 1 USD and 1 EUR to 1 USD
1) *2022 Global Private Debt Press Release*, Preqin, January 2022, https://www.preqin.com/Portals/0/Documents/PD%20Global%20PR%20FINAL.pdf?ver=2022-01-12-084704-817
2) *PDI 100: The year our ranking doubled in size*, Private Debt Investor, December 2021, https://www.privatedebtinvestor.com/pdi-100-the-year-our-ranking-doubled-in-size/
3) *UK Private Debt Research Report*, British Business Bank, February 2021, https://www.british-business-bank.co.uk/wp-content/uploads/2021/02/UK-Private-Debt-Research-Report-2020-1.pdf
4) *Private Debt Research in France*, France Invest x Deloitte, April 2021, https://www.franceinvest.eu/wp-content/uploads/2022/04/France-Invest-Etudes-2022_Dette-privee-2021.pdf
5) *Private credit in Asia set to grow*, The Business Times, March 2019, https://www.businesstimes.com.sg/hub/singapore-business-awards-2019/private-credit-in-asia-set-to-grow
6) *Asia Private Credit Investments, Fundraising, and LP Commitments, 2012-1H2022,* Global Private Credit Association, 30 June 2022

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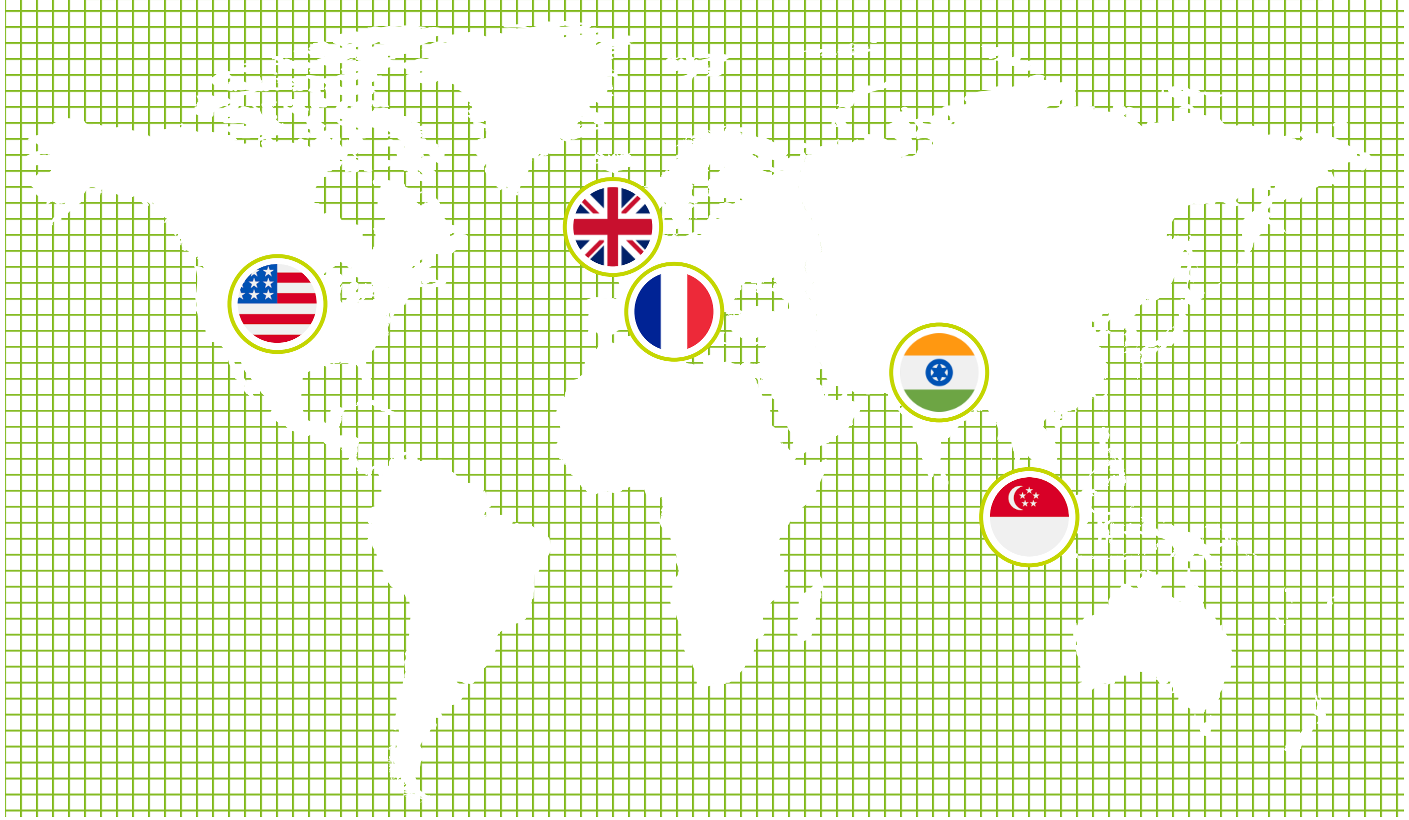
Country deep-dive: Methodology

In this chapter, we share best practices and key learnings from select countries by answering 3 key questions

Countries assessed in this report



Key questions to be answered

1. What does the **country's private debt landscape** look like, and how has it evolved over the years?
2. How are institutional investors (e.g., pension funds, sovereign wealth funds, etc.) based in the country **allocating capital to private debt**?
3. What are the **key moves made by the government** in terms of regulation and infrastructure, and what has been their impact on the various private debt stakeholders?

Note: Refer to the appendix for details on regulators and SME definitions in each country
Source: Deloitte Analysis

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Singapore

Country deep-dive: Singapore – Private debt context

While Singapore's private debt market is relatively nascent, a range of government and private stakeholders have been propelling it

The private debt market in Singapore, while still developing, is the largest in Southeast Asia, and made up ~ 4% of Asian private debt deals over the past 5 years.[1] It includes private debt funds, with AUM of USD ~ 700mm in 2018[2], and balance sheet business lending platforms, with a market of ~USD 570mm in 2020.[3]

In recent years, Singapore has seen increased private debt activity, especially from its sovereign wealth funds Temasek Holdings and GIC. Over the past 5 years, for example, Temasek holdings closed its first private debt deal, begun investing in private debt vehicles and credit structured products, and collaborated with DBS and HSBC to launch two debt financing platforms.[4,5]

On the borrower-side, Singapore's ~290K SMEs contribute ~45% of the GDP as of 2021.[6] Their financing needs are primarily met by banks, who finance ~USD 90bn[*7], but there is still a significant financing gap of about USD 20bn[8]. Many SMEs are unable to secure sufficient funding for their business due to a variety of factors, including strict credit requirements of banks and weak cash flows of borrowers.[9] **Therefore, many SMEs turn to alternative lending such as digital lending platforms**. These platforms often leverage e-commerce data for alternative credit scoring and co-invest with various institutional investors to provide SME financing, enabling them to cater to a wider range of debtors and focus on small ticket loans at higher volumes.

In September 2022, the Monetary of Singapore announced its intention to "develop private credit to complement private equity and venture capital funding", as part of its initiative to "enhance asset class strengths" in the Financial Services Industry Transformation Map 2025.[12]

Singapore's sovereign wealth funds have been expanding their global private debt allocation in the past few years

2018

- **Temasek Holdings' first private debt deal** – provided USD 200mm credit facility to Rent the Runway, clothing rental firm based in New York[4]

2019

- Temasek Holdings begun **investing in close-ended and open-ended vehicles**, and **credit structured products** like CLOs from the US[4]
- Private and structured credit exposure made up less than 4% of Temasek Holdings' portfolio[4]

2020

- GIC was **ranked 6th among the top 10 private debt allocators** (state-owned investors and public pension fund) in 2020[3]
- Private debt made up an estimated USD 9.8bn, 2% of GIC's AUM[10]

2021

- Temasek Holdings **collaborated with DBS** to launch USD 500mm debt financing platform for financing growth stage tech-enabled companies across Asia[11]
- Temasek Holdings **collaborated with HSBC** to launch USD 150mm debt financing platform for sustainable infrastructure projects[5]

*Note: Number is converted based on 1.4 SGD to 1 USD

1) *Data from Preqin Pro, as of July 2022*
2) Private credit in Asia set to grow, The Business Times, March 2019, https://www.businesstimes.com.sg/hub/singapore-business-awards-2019/private-credit-in-asia-set-to-grow
3) *The 2nd Global Alternative Finance Benchmarking Report*, Cambridge Centre for Alternative Finance, June 2021, https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf
4) *Temasek expands global private credit allocation*, Private Debt Investors, August 2019, https://www.privatedebtinvestor.com/how-temasek-is-expanding-its-global-private-credit-allocation/
5) *Temasek and HSBC to invest $150 million for debt financing platform to fund sustainable infrastructure projects*, The Straits Times, September 2021, https://www.straitstimes.com/business/temasek-and-hsbc-to-invest-150-million-for-debt-financing-platform-to-fund-sustainable
6) *Topline Estimates for Enterprises,* SingStat, Accessed August 2022, https://www.singstat.gov.sg/find-data/search-by-theme/industry/enterprises/latest-data
7) Estimated using ADB SME Asia Monitor 2021 data for Singapore
8) *How alternative lenders are helping to plug the SME funding gap*, Channel News Asia, September 2021, https://www.channelnewsasia.com/business/how-alternative-lenders-are-helping-plug-sme-funding-gap-2211961
9) *Disruption Diaries: SME banking and lending*, Mambu, 2022 https://mambu.com/insights/reports/disruption-diaries-sme-banking-and-lending
10) *2021 Annual Report 'State-Owned Investors in a post-pandemic age'*, Global SWF, 2021, https://globalswf.com/reports/2021annual
11) *Temasek, DBS to launch $500 mm debt financing platform*, Reuters, July 2021, https://www.reuters.com/world/china/singapores-dbs-temasek-set-up-500-mln-debt-financing-platform-2021-07-30/
12) *MAS launches financial services industry transformation map 2025,* Monetary Authority of Singapore, 15 September 2022, https://www.mas.gov.sg/news/media-releases/2022/mas-launches-financial-services-industry-transformation-map-2025

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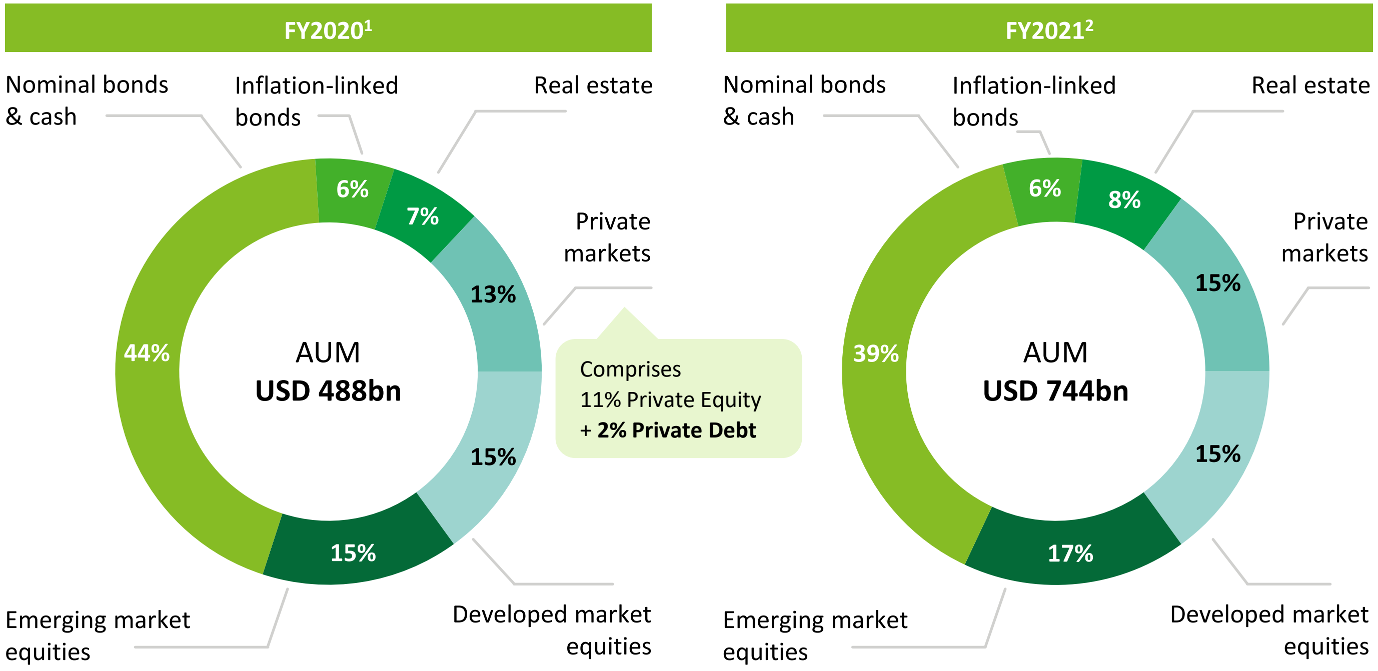
Interest in private debt is increasing; Singapore's Sovereign Wealth Fund allocates at least ~2% to private debt

GIC's portfolio allocation



Source: GIC, Global SWF

Compared to 2020, GIC reduced its investments in nominal bonds & cash in favour of **emerging market equities, private equity (incl. private debt) & real estate** in 2021

Singapore's sovereign wealth funds have **closed multiple private debt transactions** and are **increasing their portfolio allocation for private debt**.

Singapore's sovereign wealth fund GIC has an annualised return of 4.2% above global inflation over a 20-year period, ending 30 March 2021.[3] The government's risk preference is based on a reference portfolio of 65% equities and 35% fixed income, indicative of a relatively high risk appetite.[4] However, GIC has chosen to keep a diversified portfolio with ~2% allocation to private debt.[1]

This allocation is likely to increase further as (i) they are **looking to hire more private debt professionals** with experience in the more mature markets[5], and (ii) their allocation to private debt and private equity has increased over the years (from 9% in 2016 to 15% in 2021)[4], indicating a **clear shift in preference from bonds to private market investments**. GIC's private debt investment strategies include direct lending, special situations, and distressed debt. They lend both directly and through funds.[4]

1) *2021 Annual Report 'State-Owned Investors in a post-pandemic age'*, Global SWF, Accessed August 2022, https://globalswf.com/reports/2021annual
2) *GIC breaks all records on its 40th birthday*, Global SWF, 2021 https://globalswf.com/news/gic-breaks-all-records-in-its-40th-birthday
3) *GIC posts stable return above inflation* , Straits Times, July 2022 https://www.straitstimes.com/business/economy/gic-posts-stable-real-return-above-inflation
4) *GIC Reports*, GIC, Accessed August 2022, https://www.gic.com.sg/our-portfolio/
5) *GIC to hire five executives for infra, private equity and private credit,* Asian Investor, July 2021, https://www.asianinvestor.net/article/gic-to-hire-five-executives-for-infra-private-equity-and-private-credit/470850

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Country deep-dive: Singapore – Government initiatives

While private debt is not explicitly encouraged by Singapore's regulatory regime, the government is incentivizing the reduction of risks and costs for intermediaries

	Regulations	Borrower	Intermediaries (GPs)	Investor (LPs)
1	**Fund incentive schemes with tax exemptions for funds managed in Singapore** – *Such schemes are applicable to both onshore and offshore funds provided they meet the stipulated requirements*[1]	*Limited effect*	+	*Limited effect*
2	**Corporate tax reduction for fund managers and advisors –** *Under the Financial Sector Initiative-Fund Management Award, income derived from managing or advising a fund is taxed at a lower rate of 10% compared to the usual tax rate of 17% subject to certain conditions and MAS approval*[1]	*Limited effect*	+	*Limited effect*
3	**Reduced cost to set up VCC through co-funding -** *70% co-funding is provided by the government for expenses paid by fund managers to Singapore-based service providers to set up its VCC*[2]	*Limited effect*	+	*Limited effect*
4	**Interest, fees and remuneration can be agreed freely**[3] – *There are no restrictions on interest, fees and remuneration as long as the agreement complies with common law*	-	+	+
	Infrastructure			
1	**Variable Capital Company (VCC) to enable fund managers to separate assets into different sub-funds** – *This umbrella fund structure provides investors with more flexibility in their investment decisions and enables fund managers to enjoy economies of scale*[4]	*Limited effect*	+	+
2	**Enterprise Singapore (ESG) has implemented a risk sharing scheme with financial institutions** – *For SME working capital and fixed assets loans, Enterprise Singapore is willing to take up 50%-70% of the risk; lenders can thus claim the corresponding portion of the amount that borrowers fail to repay*[5]	+	+	*Limited effect*
3	***The Monetary Authority of Singapore (MAS) announced its intent to develop private credit***. *MAS announced a strategic goal to "develop private credit to complement private equity and venture capital funding", as part of its Financial Services Industry Transformation Map 2025.*[6]	+	+	+

Singapore's regulatory focus has been to encourage intermediaries, such as private debt funds and digital lending platforms, to set up and operate in Singapore by offering tax incentives and government co-funding. In addition, there are minimal restrictions on terms of loan agreements between two parties if they comply with common law.

In terms of infrastructure, Enterprise Singapore, a government-run organization, launched multiple **risk-sharing schemes** to both encourage lenders to lend to SMEs, and protect them in case of default.

In September 2022, the Monetary Authority of Singapore also announced its intent to help "develop private credit to complement private equity and venture capital funding", as part of its Financial Services Industry Transformation Map 2025.[6] The move implies potential government support for the industry in the form of additional schemes, initiatives, and private sector partnerships.

1) *Fund management in Singapore,* Deloitte, September 2021, https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/tax/sg-tax-fund-management-in-singapore-15-sep-2021.pdf
2) *Variable Capital Companies (VCC) Grant Scheme*, Monetary Authority of Singapore, April 2020, https://www.mas.gov.sg/schemes-and-initiatives/variable-capital-companies-grant-scheme
3) *Guide to Private Credit in Asia Pacific*, Baker McKenzie, Accessed August 2022, https://www.bakermckenzie.com/-/media/files/insight/guides/2021/guide-to-private-credit-in-asia-pacific.pdf
4) *The many uses and benefits of a variable capital company*, Allen & Gledhill, December 2020, https://www.allenandgledhill.com/media/9286/ag-the-many-uses-and-benefits-of-a-vcc.pdf
5) *Enterprise Financing Scheme Overview*, Enterprise Singapore, Accessed August 2022, https://www.enterprisesg.gov.sg/financial-assistance/loans-and-insurance/loans-and-insurance/enterprise-financing-scheme/sme-fixed-assets/overview
6) *MAS launches financial services industry transformation map 2025,* Monetary Authority of Singapore, 15 September 2022, https://www.mas.gov.sg/news/media-releases/2022/mas-launches-financial-services-industry-transformation-map-2025

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US

Country deep-dive: US – Private debt context

The establishment of BDCs and increased regulations of banks drove growth in the US private debt market

The US is the most mature private debt market in the world, and accounts for more than 60% of total private debt assets globally.[1] Private debt fundraising in the US has increased from 2010 to 2020 by a CAGR of ~8%.[2] This can in part be attributed to 2 key milestones – (1) the establishment of Business Development Companies (BDCs) in 1980 and (2) the increased regulation of banks after the 2008 global financial crisis.

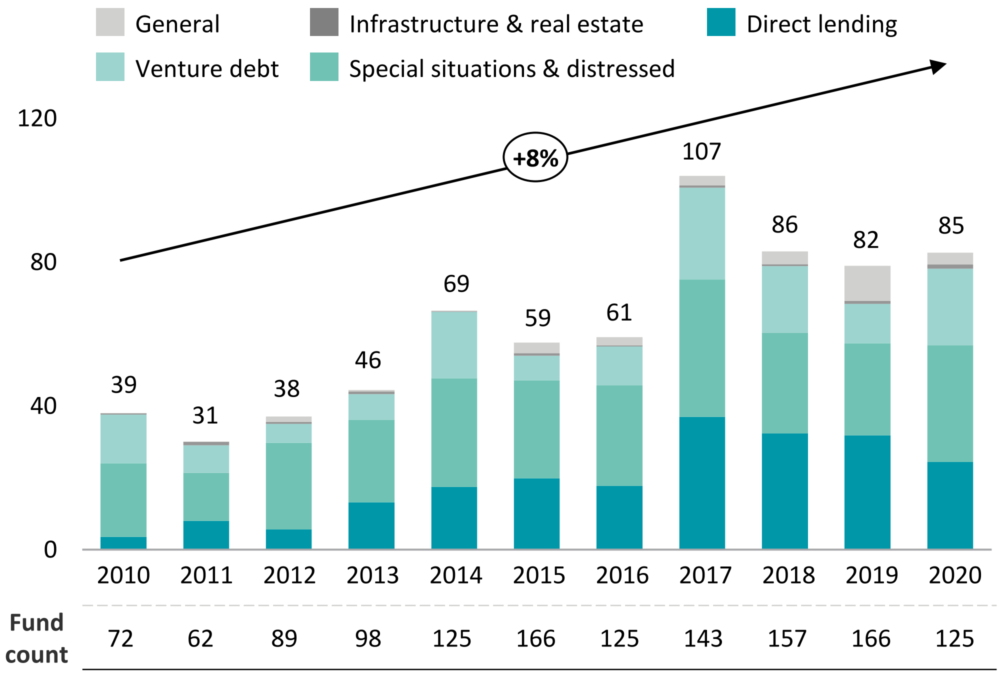
Investors in the US are classified into institutional investors, accredited investors, and non-accredited individuals. Accredited investors refer to high net worth individuals, as well as individuals who have specialised knowledge in investing. While only accredited investors can access private markets, non-accredited individuals are able to participate in private debt by investing via BDCs and debt financing platforms.[2,3]

Companies are well served in the US by a variety of lending options, including banks, BDCs, SBICs, and private debt funds. BDCs typically serve lower middle market companies, while a few larger BDCs serve mid- to upper middle market companies.[4] They reduce their risk by relying on secured loans, strong origination teams, and diversified portfolios.

SBICs offer amounts ranging from USD 250k to USD 10mm[5], typically to companies with annual receipts of USD 2 – 40mm.[6] SBICs leverage their deep industry expertise to advise their borrowers and help them scale their business, in turn increasing the likelihood of success.

Majority of private debt AUM in the US can be attributed to private debt funds (nearly USD 740bn in 2021)[1] followed by BDCs (more than USD 100bn AUM in 2019).[7] The SBIC and balance sheet business lending markets are relatively smaller (~USD 30bn in total).[8,9]

Private debt fundraising activity in the US, in USD billion[2]



Source: PitchBook

1) *2022 Global Private Debt Press Release,* Preqin, January 2022, https://www.preqin.com/Portals/0/Documents/PD%20Global%20PR%20FINAL.pdf?ver=2022-01-12-084704-817
2) *US Market Insights,* PitchBook, September 2021, https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Ffiles.pitchbook.com%2Fwebsite%2Ffiles%2Fxls%2FPitchBook_Q3_2021_Quantitative_Perspectives_US_Market_Insights_XLS.xlsx&wdOrigin=BROWSELINK
3) *Accredited investors: updated investor bulletin*, U.S. Securities and Exchange Commission, April 2021, https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/updated-3
4) *Debt Investor presentation,* FS KKR Capital Corp., 2022, https://fskkrcapitalcorp.gcs-web.com/static-files/cf496420-cd55-40ca-8ed5-5b876aac48f8
5) *Investment capital,* US Small Business Administration, Accessed August 2022, https://www.sba.gov/funding-programs/investment-capital
6) *SBICs investment capital,* US Small Business Administration, accessed August 2022, https://www.sba.gov/funding-programs/investment-capital
7) *Business Development Company,* FS Investment, Accessed August 2022, https://fsinvestments.com/education/bdc/
8) *SBA Small Business Investment Company Program,* Congressional Research Service, April 2022, https://sgp.fas.org/crs/misc/R41456.pdf
9) *The 2nd Global Alternative Finance Benchmarking Report*, Cambridge Centre for Alternative Finance, June 2021, https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf

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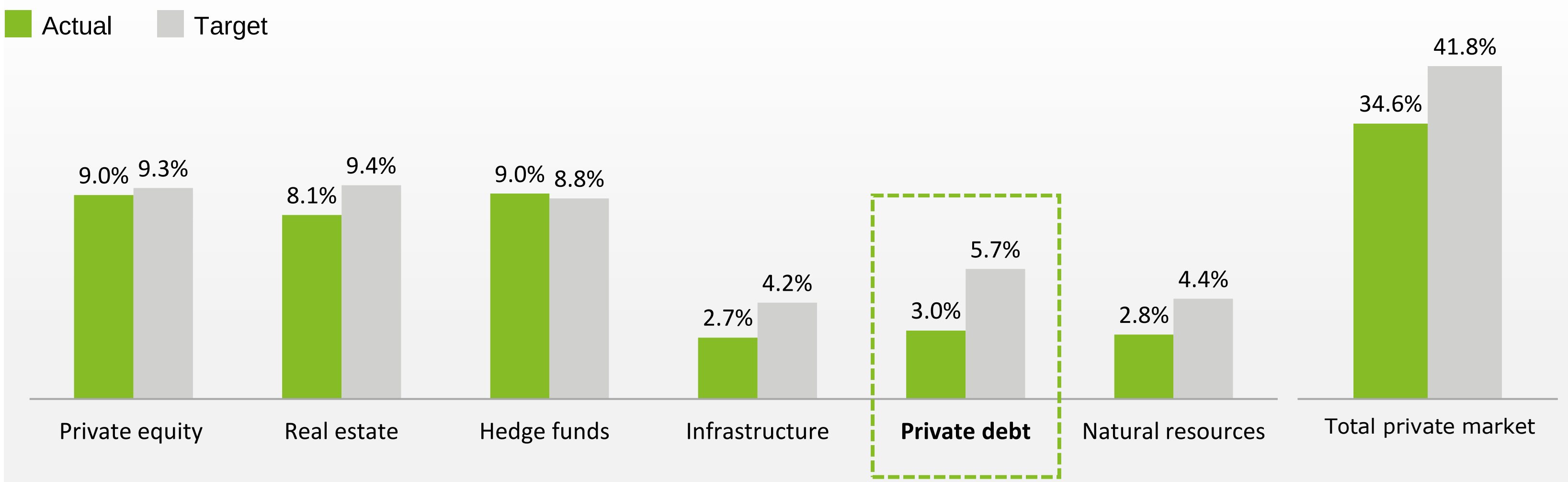
Country deep-dive: US – Asset allocation

US public pension funds are increasing their allocations to private debt for higher risk-adjusted returns

US public pension allocations to private-market assets, actual and target[1]



Source: Preqin via The Wall Street Journal

US public pensions intend to:

- Increase their private market allocations, while continuing to roll back investments in bonds, bank loans and other public markets[1]
- Significantly increase their private debt allocations by almost 2x within their private market allocation[2]

This shift is to:

- Target better risk-adjusted returns compared to public fixed income
- Further diversify their portfolio

Pension funds in the US are increasing their allocation to private debt faster than any other alternative asset, while rolling back from bonds, bank loans and other public markets.[1]

About **57% of public pension funds intend to increase their allocation to private debt by 2x on average,** primarily because they want better risk-adjusted returns and diversified portfolios.[2]

1) *Pension Funds Chase Returns in Private-Market Debt,* Preqin via The Wall Street Journal, February 2022, https://www.wsj.com/articles/pension-funds-chase-returns-in-private-market-debt-11644873517
2) *US Investor Intentions H1 2022 Private Credit,* Alternative Investment Management Association, March 2022, https://www.aima.org/article/us-investor-intentions-h1-2022-private-credit.html

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Country deep-dive: US – Government initiatives

Tax exemptions, broader investor eligibility, and tighter bank regulations have led to a mature market, necessitating improved monitoring of private fund advisors

	Regulations	Borrower	Intermediaries (GPs)	Investors (LPs)
1	**Widened definition of accredited investor** – *The new definition broadens the pool of investors capable of investing in private markets by considering the investor's knowledge and skills, and not just their wealth criteria*[1]	*Limited effect*	*Limited effect*	+
2	**BDCs are not considered taxable entities –** *BDCs are treated as Regulated Investment Companies, taxed only at the shareholder level. In return for this status, BDCs must distribute at least 90% of taxable income to shareholders as dividends each year. However, investors need to pay income tax on their earnings.*[2]	*Limited effect*	+	-
3	**Regulations to oversee private fund advisors –** *The newly proposed regulatory changes to govern private fund investors include increased transparency regarding fees, expenses and performance. They also prohibit private fund advisors from several activities, including seeking reimbursement, charging certain fees, reducing amount of clawback, receiving extension of credit from a private fund client, etc.*[3]	+	-	+
4	**Tighter regulations for banks, following the 2008 global financial crisis -** *Due to the Dodd-Frank Act, banks were forced to limit their exposure to credit risk and many lending activities. This indirectly benefited alternative lenders*[4]	-	+	+
5	**Reduced asset coverage requirements for BDCs –** *By reducing asset coverage from 200% to 150%, per the Small Business Credit Availability Act, BDCs were able to increase leverage and drive greater deal flow*[5]	*Limited effect*	+	*Limited effect*
6	**Matched funding to SBIC –***US Small Business Administration matches funding from private investors 2:1 to enable SBICs to better finance SMEs*[6]	+	+	*Limited effect*

Regulations in the US played a strong role in establishing its status as a private debt market leader.

The US private debt ecosystem includes **BDCs and SBICs, that cater to small businesses,** and private debt funds that cater to large corporates and private equity borrowers.

To encourage private debt activity in the market, the US also **widened its definition of an accredited investor** to allow more people to invest in private markets, and rolled out a number of **tax exemptions** for private debt funds.

Bank regulations following the 2008 global financial crisis also opened the door for private debt funds to lend to more companies.

1) *SEC Modernizes the Accredited Investor Definition,* SEC, 26 August 2020 https://www.sec.gov/news/press-release/2020-191
2) *Get To Know Business Development Companies*, Forbes, 18 July 2022 https://www.forbes.com/advisor/investing/business-development-company/
3) *SEC Proposes to Enhance Private Fund Investor Protection,* SEC, 9 February 2022 https://www.sec.gov/news/press-release/2022-19
4) *The Role of Private Credit in U.S. Capital Markets*, Proskauer, 2022 https://prfirmpwwwcdn0001.azureedge.net/prfirmstgacctpwwwcdncont0001/uploads/1fc58a13c3d14e67fed028bb3773000f.pdf
5) *Everything you need to know about BDCS,* Dechert LLP, 2020, https://www.dechert.com/content/dam/dechert%20files/people/bios/p/harry-pangas/HarryPangasAllYouNeedToKnowAboutBDCs.pdf
6) *Company website,* US Small Business Administration, 2022, https://www.sba.gov/funding-programs/investment-capital

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UK

Country deep-dive: UK – Private debt context

Private debt in the UK has progressed to be a valuable source of finance for SMEs and mid-sized corporates

The UK has seen strong growth in private debt. **In 2019, the total value of capital deployment from private debt funds was upwards of ~USD 10.8bn*[1]. About 62% of private debt deals were focused on business growth and had on average smaller ticket sizes.[1]**

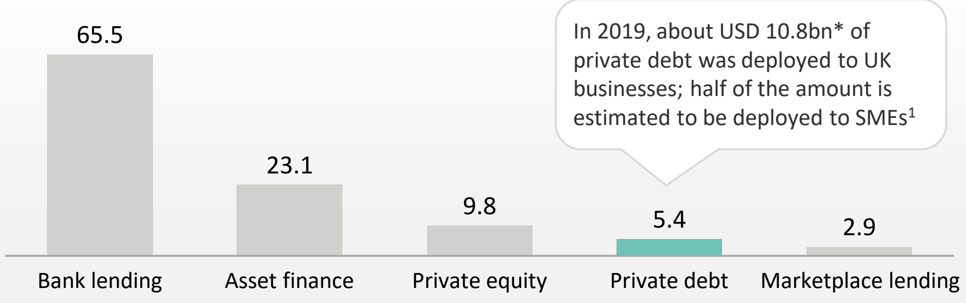
There are 3 key factors driving UK's private debt market – (1) government initiatives, such as the launch of British Business Bank (BBB), (2) a supportive regulatory environment, and (3) an ecosystem for business innovation that makes longer term investments in illiquid assets more attractive.

In the UK, private debt funds are the key intermediaries for private debt investments ~USD 10.8bn*[1], followed by digital lending platforms where P2P business lending accounted for USD 3.3bn and balance sheet business lending accounted for USD 755mm*.[2] The government has also committed USD 1.1bn to invest private debt funds, particularly in those that are SME-focused.[1]

On the demand side, there are about 5.6 mm SMEs in the UK with a ~USD 77bn* financing gap. The UK government has executed a number of initiatives to use private debt as an alternative financing option to help close this gap. Currently, private debt accounts for ~5% of total SMEs' source of funding, but interestingly, the average ticket size of debt financing from private debt funds is ~20+ times larger than the average ticket size from banks and other platforms—suggesting that private debt has more capacity and flexibility to support business needs.[1]

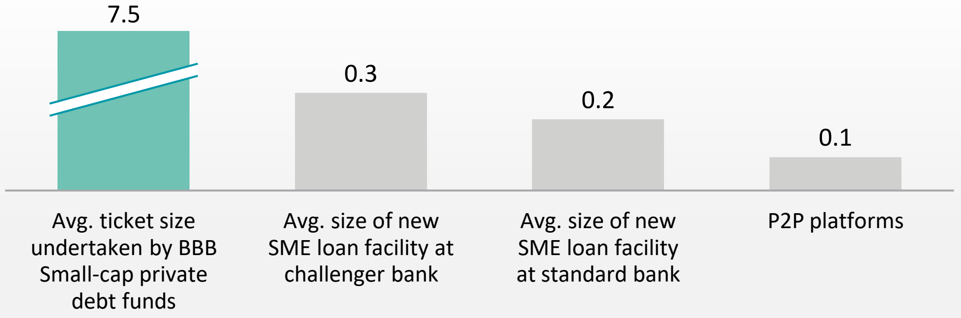
There are multiple types of investors who can invest in private debt in the UK. These include (a) per se professional clients, such as public and private pension funds, sovereign wealth funds, insurance companies, financial institutions, and companies that meet certain size requirements, and (b) elective professional clients, which refer to individuals who meet certain FCA requirements. As of September 2022, there is a proposal (in consultation stage) to allow everyday retail clients to invest in these non-traditional assets through Long Term Asset Funds (LTAFs).[3,4,5]

Source of SME funding in 2019, in USD billion*[1]



Source: BBI Investment Portfolio Programme, UK Finance via BVCA & BBB

Avg. ticket size of SME loan in different funding source, in USD million*[1]



Source: Bank of England, Beauhurst, FLA, Brismo & British Business Bank Management Information via BVCA & BBB

*Note: Number is converted based on the exchange rate of 0.87 GBP to 1 USD
1) *UK Private Debt Research Report 2020,* British Business Bank, February 2021, https://www.bvca.co.uk/Portals/0/Documents/Research/2021%20Reports/UK-Private-Debt-Research-Report-2020.pdf
2) *The 2nd Global Alternative Finance Market Benchmarking Report,* Cambridge Centre of Alternative Finance, June 2021, https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf
3) *Alternative Funds 2021,* Chambers and Partners, October 2021, https://practiceguides.chambers.com/practice-guides/alternative-funds-2021/uk
4) *Financial Conduct Authority (FCA): COBS 4.12,* Financial Conduct Authority, Accessed August 2022, https://www.handbook.fca.org.uk/handbook/COBS/4/12.html
5) *CP22/14: Broadening retail access to the long-term asset fund,* Financial Conduct Authority, August 2022 https://www.fca.org.uk/publications/consultation-papers/cp22-14-broadening-retail-access-long-term-asset-fund

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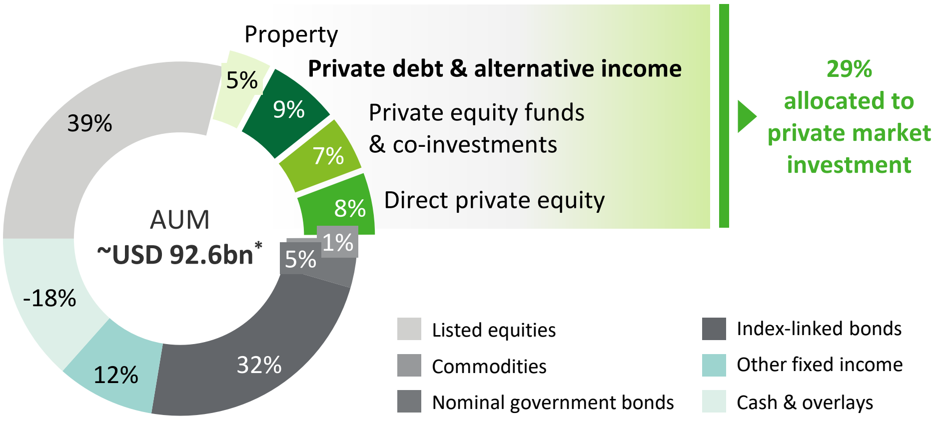
Country deep-dive: UK – Asset allocation

UK's largest pension fund, USS, has a sizeable and growing allocation of ~9% in private debt, due to the potential for higher risk-adjusted returns

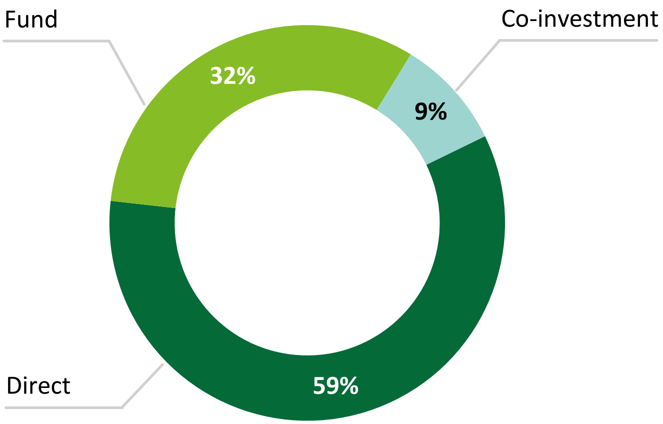
USS's asset allocation

FY2021[1]



Note: Negative % denotes the use of leverage, where cash & overlays are posted as collateral
Source: USS

USS' investments in private markets[2]



Source: USS

UK's largest pension fund, **Universities Superannuation Scheme (USS), has an allocation of ~9% in private debt in its investment portfolio**. It intends to continue expanding its investments in private debt due to the higher risk-adjusted returns and alignment with its liabilities.[1]

In this space, USS generally focuses on infrastructure lending, fund financing, and structured credit, with deal sizes ranging between USD 69mm - 690mm.[3*]

Since February 2020, the pension scheme has been investing in private market assets, which now make up more than 29% of their asset allocation.[2]

Furthermore, 70% of private market investments are made without an intermediary to avoid management fees. USS taps into its in-house capabilities as much as possible, and only makes use of external fund managers when it makes financial sense to do so.[3]

Insights of USS' private market investment[2]

- Examples of private debt deal types include asset-backed infrastructure lending and structured credit[2]
- USS has invested globally in private markets, with a focus on **UK, Europe, Australia and the US**[2]
- Usual **deal size** ranges from **~USD 69mm** to **USD 690mm***[3]
- **Aims to expand investments in private debt** due higher risk-adjusted returns and alignment with its liabilities[1,2]

*Note: Number is converted based on exchange rate of 0.87 GBP = 1 USD
1) *USS Report and Accounts 2021 Strategy and Governance*, Universities Superannuation Scheme, March 2021, https://www.uss.co.uk/-/media/project/ussmainsite/files/about-us/report-and-accounts/uss-report-and-accounts-2021-strategy-and-governance.pdf?rev=04b0fe8763414a08a8e829b76dad463a
2) *PMG factsheet*, Universities Superannuation Scheme, accessed August 2022, https://www.uss.co.uk/-/media/project/ussmainsite/files/how-we-invest/pmg-factsheet.pdf?rev=196f8ff36b17472fab7299a4c2c2f410
3) *Private Market Groups,* Universities Superannuation Scheme, accessed August 2022, https://www.uss.co.uk/how-we-invest/private-markets-group

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Country deep-dive: UK – Government initiatives

A supportive regulatory environment coupled with government-led initiatives have driven the development of private debt in the UK

	Regulations	Borrower	Intermediaries (GPs)	Investor (LPs)
1	**Funds can grant loans to borrowers incorporated in the UK without a banking license** – *However, care is needed for debt securities, as different activities are within the scope of regulation (e.g. advising, dealing, etc.)*[1]	*Limited effect*	+	*Limited effect*
2	**Investor and borrower protections are applied to private debt lending** – *Lending activity and conduct of private debt funds are regulated by the FCA; both investors and borrowers can benefit from protections and safeguards* enforced by regulators[2]	+	-	+
3	**Taxes or other similar charges do not generally present material issues to non-bank lending** – *No upfront tax is levied on granting loans / receiving loans from private debt funds, although WHT is levied on interest payment, which is similar to the market practice in other countries. Double tax treaty is also applied for WHT reduction*[1]	*Limited effect*	+	+
	Infrastructure			
1	**Set up British Business Bank to support private debt development in UK** – *the BBB has supported private debt development through its own educational program, as well as via investment in debt funds—with the ultimate goal to promote economic productivity and growth*[2]	+	+	+
2	**Long-term asset fund (LTAF) provides investors greater access to private debt investments** – *LTAF is an open-ended fund that increases ease of investing in long-term illiquid assets. As of September 2022, the FCA is holding consultations to broaden access to more retail investors.*[4]	*Limited effect*	+	+

The UK government has implemented several regulatory and infrastructure initiatives to promote and better regulate private debt activities.[3]

These initiatives include relaxing regulations, incorporating tax incentives, and promoting educational programs to benefit key stakeholders in the private debt market.

In terms of infrastructure, **the government has set up the British Business Bank (BBB)**, a public bank that aims to support SMEs across the UK through several capabilities, including **business & finance advisory, research publications, co-investment of equity, and debt financing.**

The BBB hopes to bring about several economic benefits such as bridging the financing gap for smaller businesses, increasing the depth and efficiency of UK capital markets, and promoting economic productivity by developing SMEs.

1) *Guide to Private Credit in Europe,* Baker McKenzie, Accessed August 2022, https://www.bakermckenzie.com/-/media/files/insight/publications/2021/06/guide-to-private-credit-in-europe.pdf -
2) *Borrower's guide to private credit – UK edition,* Alternative Credit Council, accessed September 2022 https://acc.aima.org/research/borrower-s-guide-to-private-credit.html
3) *Annual Report and Accounts 2021,* British Business Bank, September 2021, https://www.british-business-bank.co.uk/wp-content/uploads/2021/09/BBB-Annual-Report-2021-Accessible-Version.pdf
4) *New report from British Business Bank reveals more than £18bn of private debt lending to the UK's businesses, demonstrating its vital role in supporting growth,* UKBAA, February 2021, https://ukbaa.org.uk/blog/2021/02/11/new-report-from-british-business-bank-reveals-more-than-18bn-of-private-debt-lending-to-the-uks-businesses-demonstrating-its-vital-role-in-supporting-growth/
4) CP22/14: Broadening retail access to the long-term asset fund, Financial Conduct Authority, August 2022 https://www.fca.org.uk/publications/consultation-papers/cp22-14-broadening-retail-access-long-term-asset-fund

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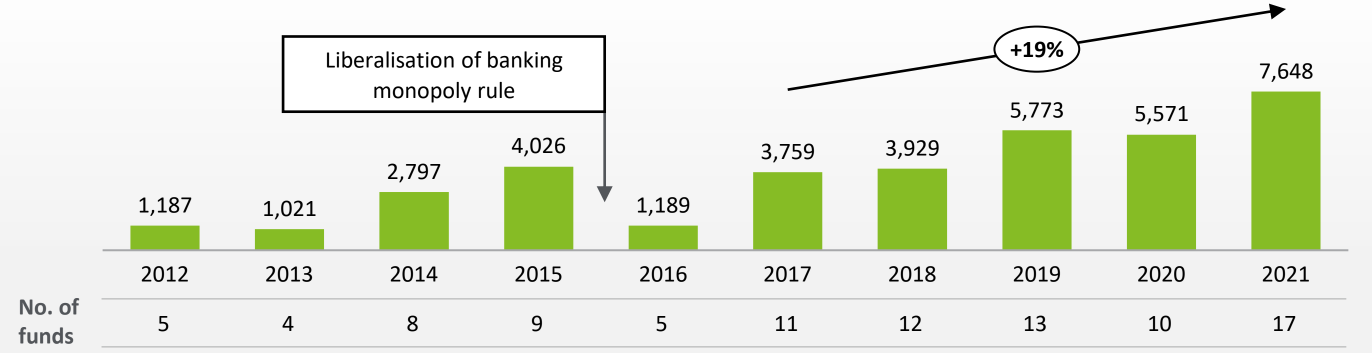
France

Country deep-dive: France – Private debt context

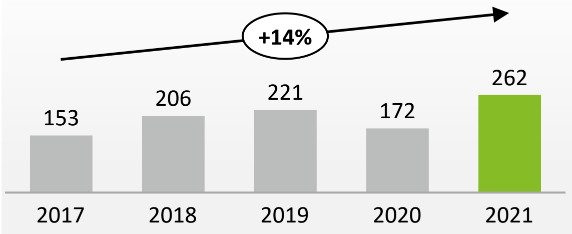
France has seen strong growth in private debt fundraising since the liberalisation of its banking monopoly in 2016

Fundraising by private debt funds in France, in USD millions*[1]



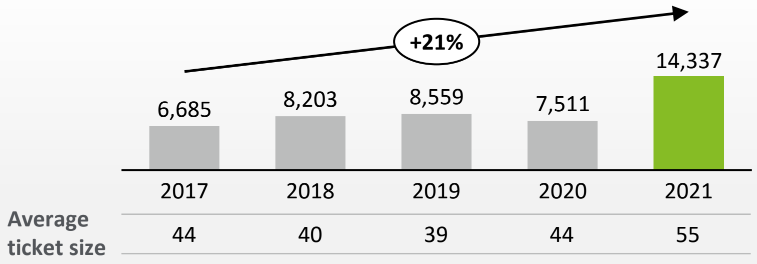
Source: France Invest x Deloitte

Number of transactions, in unit[1]



Source: France Invest x Deloitte

Amount of debt financing, in USD millions*[1]



Source: France Invest x Deloitte

France has seen strong growth in private debt fundraising, with a CAGR of 19% from 2017-2021. The number of private debt funds in the country and the amount of debt financing reached new highs in 2021.[1] The turning point for France's private debt market was the liberalisation of its banking monopoly in 2016, which enabled non-bank entities to conduct financing activities.

The nation's 3.9 million SMEs are relatively well served, with 96% of investment loan requests fully or almost fully served by bank lending.[1,2] Nonetheless, **there are alternative financing options available for SMEs, such as direct lending platforms and private debt funds.** The French P2P business lending market, for example, is strong and ranks third highest in Europe at ~USD 412mm in 2020.[3]

Private debt funds have ~USD 14.3bn* capital deployed in France, with an average ticket size of ~USD 55mm* in 2021. France also has private debt funds that focus on providing loans to SMEs, with ticket sizes ranging from ~USD 10mm – 300mm*, particularly in senior debt and asset-backed lending.[1]

France classifies family offices, high net worth individuals and individuals as 'retail investors' and has more investor protections in place for them in comparison to professional investors (or known as institutional investors).[4] Both types of investors can invest in alternative investment funds. However, individual retail investors can only do so if they invest a minimum of ~USD 100k.[5]

*Note: Number is converted based on exchange rate of 1 EUR to 1 USD
1) *Private Debt Research in France*, France Invest x Deloitte, April 2021, https://www.franceinvest.eu/wp-content/uploads/2022/04/France-Invest-Etudes-2022_Dette-privee-2021.pdf
2) *Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard*, OECD, March 2022, https://www.oecd-ilibrary.org/sites/332ae8cf-en/index.html?itemId=/content/component/332ae8cf-en#:~:text=France%20has%20approximately%203.9%20million,result%20of%20government%20support%20measures
3) *The 2nd Global Alternative Finance Benchmarking Report*, Cambridge Centre for Alternative Finance, June 2021, https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf
4) Professional Investors under MIFID, PartnerVine, 18 August 2020 https://www.partnervine.com/blog/professional-investors-under-mifid
5) *Alternative Funds 2021,* Chambers and Partners, October 2021, https://practiceguides.chambers.com/practice-guides/alternative-funds-2021/france
5) Professional Investors under MIFID, PartnerVine, 18 August 2020 https://www.partnervine.com/blog/professional-investors-under-mifid

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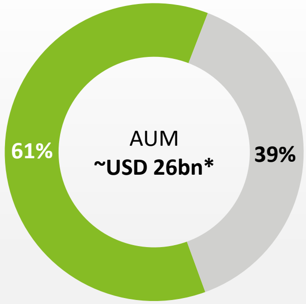
Country deep-dive: France – Asset allocation

FRR has allocated more to private debt than to private equity; however, 78% of private debt is attributed to acquisition / LBO deals

Fonds de Reserve Pour Les Retraites (FRR)'s portfolio allocation FY2021[1]



Performance Seeking Assets

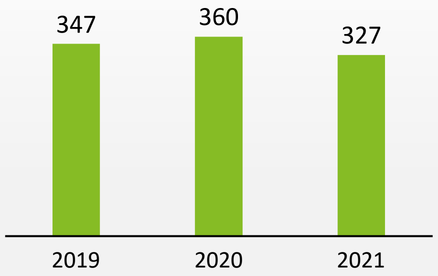
38.5%	Equities
9.4%	High yield corporate bonds
6.1%	Emerging market debt
7.4%	**Non-listed assets (e.g. private debt, private equity, etc)**

Liability Hedging Assets

37.4%	Investment grade bonds
1.2%	Cash & unlisted assets

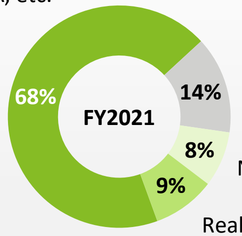
Source: FRR

No. of borrowers, in unit[1]



Source: FRR

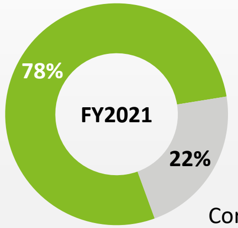
Types of collateral, in %[1]



*Other types of assets were used as collateral, e.g. shares, collateral bonds, warrants, etc.

Source: FRR

Type of transactions, in %[1]



Source: FRR

Fonds de Reserve Pour Les Retraites (FRR), France's sovereign wealth fund, has a net annual return of 7.0% in 2021, while its 10-year average return is 4.73%. To increase returns, FRR updated its portfolio allocation from 54.35% of performance seeking assets to 61.4% in 2021 (a 7% jump).[1]

FRR has outweighed their investment in private debt over private equity. In 2021, FRR made commitments to invest ~USD 1.9bn* in private debt, compared with just ~USD 1.1bn* for private equity.[1] FRR's investments in private debt were made through 11 asset managers, in companies with >2,600 employees and yearly EBITDA of >USD 55mm*, of which 86% of the transactions were backed by collateral.[1]

Furthermore, 78% of their private debt investments are attributed to acquisition/LBO deals[1], due to the attractive returns. Most of these transactions were classified in the 'High Yield' category (rating more than BB / B). The remaining 22% were allocated for other purposes, such as growth.[1]

*Note: Number is converted based on exchange rate of 1 EUR to 1 USD

1) Sustainable Investment: A Matter of Public Interest, Fonds de Reserve Pour Les Retraites, June 2022, https://www.fondsdereserve.fr/documents/FRR-RA2021-EN.pdf

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Country deep-dive: France – Government initiatives

Upon liberalisation of France's banking monopoly, regulations were relaxed to allow new players into the credit market

	Regulations[1,2,3]	Borrower	Intermediaries (GPs)	Investor (LPs)
1	**Direct lending policies that allow more AIFs to step into moneylending** – *Liberalisation of France's banking monopoly rule in 2016 permitted certain type of investment funds to participate in lending*	+	+	*Limited effect*
2	**Interest, fees and other charges can be agreed freely, but interest can be compounded annually only –** *Although the loan interest and other charges can be agreed freely between lenders and borrowers, interest can only compound on an annual basis*	+	+	*Limited effect*
3	**Funds can hold securities and transfer securities to other security agents** – *The law permits funds to perform such actions, although there are some types of security interests that cannot benefit unlicensed institutions*	*Limited effect*	+	+
4	**Crowdfunding platforms are allowed to operate without a minimum amount of equity**	*Limited effect*	+	*Limited effect*
	Infrastructure			
1	**Introduction of specialised financing vehicle (SFV) to enable the granting of loans** – *In 2017, France introduced the SFV, which can be set up as either a fund or a company, and is able to grant loans[4]*	+	+	+

Upon the liberalisation of the banking monopoly in France, new non-bank players have entered the market, offering more financing options to French companies.

Most notably, **France has adopted various laws that benefit private debt players, such as allowing companies to lend money to other parties, the introduction of European Long Term Investment Funds (ELTIFs) regulation, the update of Alternative Investment Funds (AIFs) scheme, etc.** This means that France's regulatory framework fully enables onshore funds to engage in lending activities.

Additional guidelines that benefit private debt funds include the allowance of interest rates to be set freely based on the agreement between creditor and borrower. There is also no specific regulation that imposes a limit on the interest rate for private debt lending.

1) *Alternative Funds 2021,* Chambers and Partners, October 2021, https://practiceguides.chambers.com/practice-guides/alternative-funds-2021/france
2) *Relaxation of the French banking monopoly–A major milestone reached*, Jones Day, October 2017 https://www.jonesday.com/en/insights/2017/10/relaxation-of-the-french-banking-monopolya-major-milestone-reached
3) *Guide to Private Credit in Europe,* Baker McKenzie, accessed August 2022, https://www.bakermckenzie.com/-/media/files/insight/publications/2021/06/guide-to-private-credit-in-europe.pdf
4) *Reform of French securitisation law and creation of specialised financing vehicles,* Herbert Smith Freehills, 6 October 2017 https://www.herbertsmithfreehills.com/latest-thinking/reform-of-french-securitisation-law-and-creation-of-specialised-financing-vehicles

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India

Country deep-dive: India – Private debt context

The establishment of a specialised court and the reform of the bankruptcy code created a more favourable environment for private debt to grow in India

India has seen strong growth in private debt investment over the past 2 decades and is one of the most active markets in the Asia-Pacific region.[1]

This is driven in part by 2 key milestones: (1) the adoption of the Alternative Investment Funds (AIF) regulation that allowed privately pooled investment funds to invest in alternative investments, and (2) the establishment of the National Company Law Tribunal (NCLT) and the reform of the Insolvency and Bankruptcy Code (IBC), which helped to redefine the debt enforcement and insolvency resolution process and cut down resolution time.[2,3]

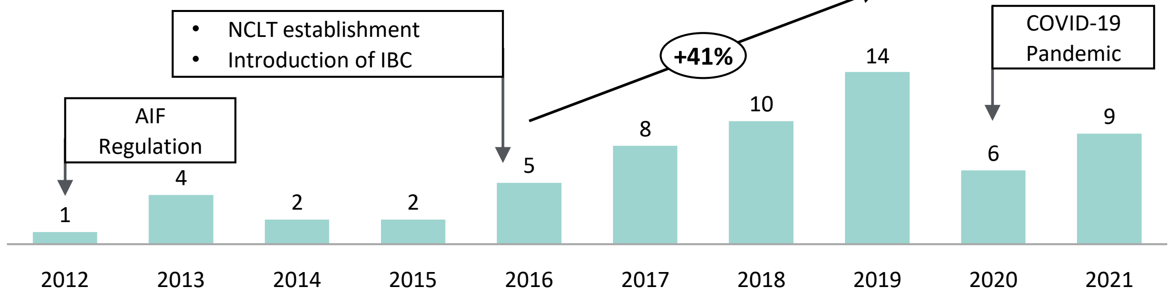
While the AIF regulation opened alternative investments such as private debt to India-focused investors, the establishment of the NCLT and the IBC reform increased the strength of legal rights, which boosted lender confidence and created a more favourable lending environment in India.[2,3]

Private debt funds dominated the market with a cumulative private debt capital deployment of USD 9.6bn.[6] Digital lending platforms, primarily balance sheet and P2P lending platforms, made up ~USD 500mm as of 2019.[7]

There are ~7.9 million micro & SMEs in India with a ~USD 267-334bn financing gap.[8,9] The majority are unregistered micro enterprises in rural areas . Digital lending platforms and SME-focused private debt funds are working towards addressing this financing need for micro & SMEs with government support in the form of credit guarantees and subsidies.[9]

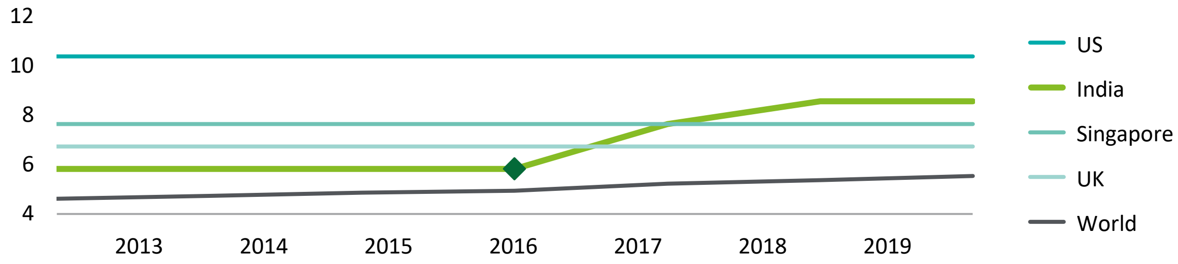
Number of debt funds registered as AIF category II in India, in unit[3,4]

(Note: Private debt fund is classified as AIF category II by SEBI)



Source: EY, SEBI, Deloitte Analysis

Strength of legal rights index, 0 = weak to 12 = strong[5]



Source: World Bank, Doing Business project

1) *Asia Private Credit Investments, Fundraising, and LP Commitments*, Global Private Capital Association (GPCA), data as of 30 June 2022
2) *Alternative Investments Master Class,* Indian Association of Alternative Investment Funds, accessed August 2022, https://www.iaaif.com/wp-content/uploads/2017/04/Structuring-an-AIF.pdf
3) *Evolution of Private Credit in India*, EY, November 2021 https://www.ey.com/en_in/strategy-transactions/how-private-credit-is-evolving-in-india *Introduction of framework for accredited investors in securities market*, Securities and Exchange Board of India, July 2021, https://www.sebi.gov.in/sebi_data/meetingfiles/jul-2021/1626434827210_1.pdf
4) *Registered Alternative Investment Funds*, Securities and Exchange Board of India, accessed July 2022 https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=16
5) *Strength of legal rights index*, World Bank, accessed August 2022 https://data.worldbank.org/indicator/IC.LGL.CRED.XQ?locations=IN-1W-SG-GB-US
6) *Asia Private Credit Investments, Fundraising, and LP Commitments, 2012-1H2022,* Global Private Credit Association, 30 June 2022
7) *The 2nd Global Alternative Finance Benchmarking Report*, Cambridge Centre for Alternative Finance, June 2021, https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf
8) *MSME Industry in India, India Brand Equity Foundation,* August 2022, https://www.ibef.org/industry/msme
9) *No study undertaken by govt to estimate current MSME credit gap*, Financial Express, February 2022, https://www.financialexpress.com/industry/sme/msme-fin-no-study-undertaken-by-govt-to-estimate-current-msme-credit-gap-narayan-rane/2427891/

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Country deep-dive: India – Asset allocation

Investment in private debt is not yet seen among large pension funds in India

Pension funds' portfolio allocation

National pension scheme in India[1]

Pension fund → Scheme	Eligible investment assets
Scheme E	Equity
Scheme C	Corporate bond
Scheme G	Government securities
Scheme A	**Alternative assets**

- Under scheme A, funds are **allowed to invest in alternative assets for CAT I and CAT II; private debt is under CAT II**
- Pension funds can invest in private debt funds (via AIF CAT II) **if and only if the target funds have at least 51% investment in start-ups, SMEs, infrastructure,** and social welfare entities

Portfolio allocation of selected pension funds in scheme A as of 2021

	Selected pension funds[2]		
	Kotak Mahindra Pension Fund Scheme A Tier I	ICICI Prudential Pension Fund Scheme A Tier I	SBI Pension Funds Scheme A Tier I
Basel III – Tier 1 Bonds	42.73%	47.32%	31.80%
REITs	38.95%	23.14%	40.41%
INVITs	9.63%	20.48%	21.22%
Other Mutual Funds	6.61%	7.98%	6.57%
Cash	2.09%	1.08%	-

- Although private equity and private debt are allowed to invest under this scheme, **pension funds seem to have no interest to invest in these type of assets** based on their investment allocation

There are 4 main pension fund schemes that give fund managers the ability to invest in different sets of asset classes.[1] For private debt, Scheme A allows fund managers to invest in alternative asset classes which include CMBS, REITs, AIFs etc.

However, **Indian pension funds can only invest in private debt under specific conditions**, specifically if and only if the target funds have at least 51% investment in start-ups, SMEs, infrastructure, and social welfare entities. Today, a majority of eligible investors choose to stick with bonds and REITs, and not private debt.

In India, **pension funds currently have limited investment appetite for private debt under Scheme A.**

Note: There are 3 categories under Alternative Investment Funds regulated by SEBI; CAT 1 = funds with strategies to focus on start-ups and SMEs or infrastructure, typically venture capital funds, SME funds, infrastructure funds. CAT 2 = private equity and debt funds where they do not fall under CAT 1 or CAT 2 and there are no initiatives given by the government of India on this category. CAT 3 = funds such as hedge funds which employ complex trading strategies and may use leverage from listed and unlisted derivatives.
1) *National Pension Scheme (NPS) – Govt Approved Pension Fund,* Policy Bazaar, accessed July 2022, https://www.policybazaar.com/life-insurance/pension-plans/nps-national-pension-scheme/
2) Portfolio allocation data of the selected funds are obtained from the respective company annual report as of 2021 along with Deloitte analysis

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Country deep-dive: India – Government initiatives

The Indian government is pushing for improved debt enforcement measures and secondary market opportunities, which has instilled more confidence in lenders

	Regulations[1]	Borrower	Intermediaries (GPs)	Investor (LPs)
1	**Development of Insolvency and Bankruptcy Code boosted lender confidence** – *The development of a consolidated legal framework to govern insolvency and bankruptcy proceedings helped encourage lending activity. However, funds that invest in distressed debts need to provide reasons as to why and how it benefits the company, otherwise the likelihood of the transaction being rescinded by the courts is high*	-	+	*Limited effect*
2	**AIFs, offshore and onshore, that would like to invest in private debt are required to register with SEBI[2]** – *Alternative investment funds registered under SEBI can invest in non-convertible debentures issued by an Indian company, but investment in mezzanine or convertible debentures is still prohibited. This applies to both onshore and offshore funds.*	*Limited effect*	+ / -	*Limited effect*
3	**Introduction of AIFs regulation allows funds to invest in debt and debt securities** – *Prior to the introduction of AIFs, funds in India were not allowed to invest in debt, except debt securities. This new type of fund, AIF, allows funds to invest in alternative assets, including debt and debt securities in both listed and non-listed companies*	+	+	+
	Infrastructure			
1	**Establishment of specialised court sped up the closure of cases** – *The set up of National Company Law Tribunal has consolidated powers to govern all companies registered in India, which reduces the time taken for debt enforcement and litigation*	-	+	+
2	**Set up of a national bad bank creates a secondary market opportunity** – *NARCL[3] supports the purchase of distressed debts from banks, then IDRCL[4] conducts the resolution process and preserves the loan value to attract AIFs and other debt investors*	*Limited effect*	+	*Limited effect*

Debt enforcement in India has long been a challenge for lenders given the lengthy resolution processes. However, **there were several government initiatives that helped improve debt enforcement, such as setting up NCLT, reformation of IBC, and setup of the Corporate Insolvency Resolution Procedure (CIRP),** which was introduced to establish a time-bound regulatory framework (330-day mandate) for enforcement. These initiatives have played a key role in promoting a more lender-friendly environment.

Aside from the introduction of AIFs, NCLT and IBC, **the government also set up a national 'bad bank' that focused on buying distressed debt**, resolving that debt to preserve loan value, and attracting AIFs and other debt investors to invest in them. This initiative orchestrated a secondary market for private debt investors and lenders in the country, and provided opportunities for funds to more dynamically manage their portfolios.

1) *Guide to Private Credit in Asia Pacific*, Baker McKenzie, Accessed August 2022, https://www.bakermckenzie.com/-/media/files/insight/guides/2021/guide-to-private-credit-in-asia-pacific.pdf
2) SEBI = Securities and Exchange Board of India
3) NARCL = National Asset Reconstruction Co. Ltd
4) IDRCL = India Debt Resolution Company Ltd

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How to build private debt in Thailand

Part 1 – Identifying stakeholder

needs & challenges

3

Approach

In this section, conduct an analysis on the needs of the various private debt stakeholders, as well as the challenges they face in Thailand

Analysis conducted

1 **Assess the needs of the various stakeholders** within the 3 ecosystems (identified in Chapter 1)

2 **Articulate the** gaps within each ecosystem in Thailand

Key inputs

For 1:
- Private debt trends (Chapter 1)
- Secondary research
- Stakeholder interviews

For 2:
- Stakeholder needs (per the analysis above)
- Secondary research
- Stakeholder interviews

Based on the gaps identified in Chapter 3, we will articulate the regulatory and infrastructure initiatives that Thailand can consider to address those gaps in Chapter 4 (focusing on ecosystem #1)

To evaluate how to build private debt in Thailand, this chapter will first deep dive into understanding the needs of the various stakeholders operating within the 3 private debt ecosystems that were introduced in chapter 1, i.e., private debt via investment manager, via private sector platforms, and via direct transactions.

We will focus on ecosystem #1 (i.e., private debt via investment managers), with the analyses on ecosystems #2 and #3 included in the appendix.

Once we have laid out their needs, we will articulate the challenges that should be addressed in order to enable private debt development in Thailand.

Our analysis will be supported and validated with key inputs from both primary and secondary research, as well as the trend analysis (detailed in the *Appendix*).

Once we are clear on the gaps in the private debt space in Thailand, we will dive into the specific regulatory and infrastructure initiatives that could help address them in Chapter 4.

Source: Deloitte Analysis

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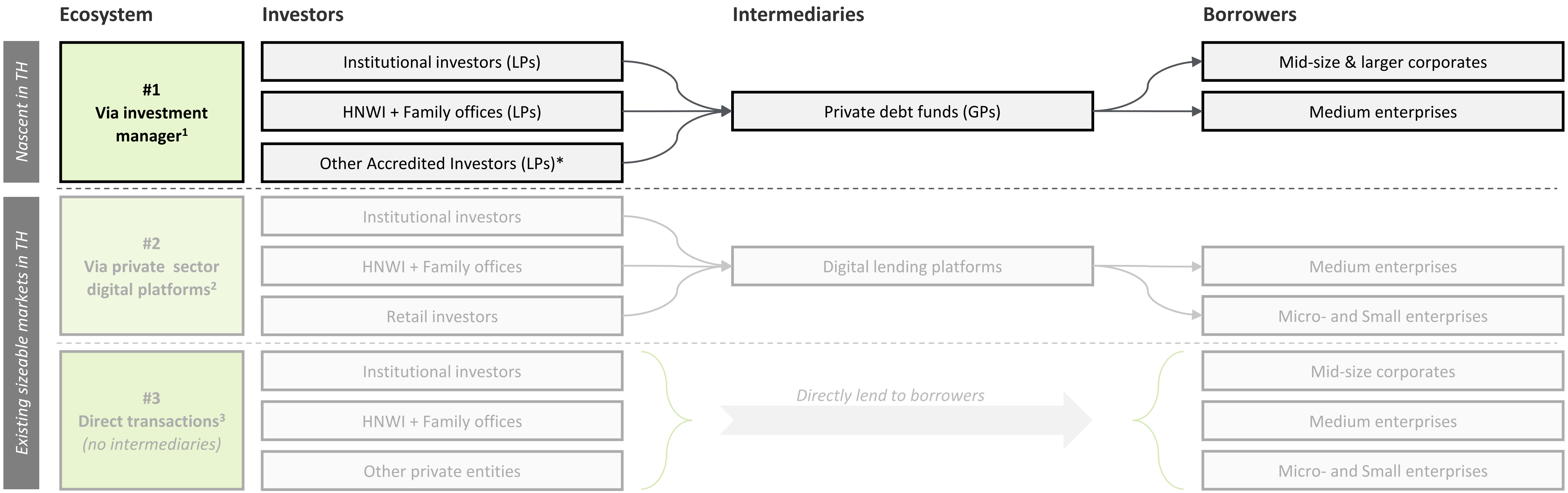
Approach

The stakeholders involved vary depending on the private debt ecosystem; our focus will be on developing ecosystem #1, which is nascent in Thailand



We have analysed the needs and challenges of stakeholders across all 3 ecosystems for this paper, but the focus is on ecosystem #1. Please refer to the Appendix for the analyses on ecosystems #2 and #3

1) Nascent market with low private debt activity
2) Growing market, but characterised by small transactions, crowdfunding alone raised ~THB 2.7B in 1.5 years (2021-mid-2022)
3) Unstructured market, but most activity in Thailand. It includes large loans by development organizations like IFC
Source: Deloitte Analysis

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What are stakeholder needs and challenges to build private debt via investment managers in Thailand?

Stakeholder needs

Stakeholder needs to build private debt in Thailand: An overview

The private debt ecosystem enabled via investment managers (GPs) primarily involves private debt funds (i.e., intermediaries) lending to mid-size corporates and medium enterprises, while being funded by LPs such as institutional investors, family offices, high net worth individuals, and other accredited investors.

Borrowers within this ecosystem are typically looking beyond banks for financing for a variety of reasons, such as the lack of sufficient collateral, reaching their bank credit limits, and flexibility of credit terms. Consequently, they require fast access to affordable financing, attractive interest rates, flexibility in deal structures and terms, and minimal collateral requirements to secure the amount they need.

On the other hand, investors are looking for ways to diversify their portfolios, opportunities to exit their investment when they need to, lower transaction fees, transparency in portfolio reporting, and an optimal balance between risk and returns.

Private debt funds , i.e., the intermediaries, are the link between these 2 groups. Based on our assessment of their value chain both on the investment and fundraising sides, the key needs identified for this group include efficient deal origination, robust credit assessment and KYC processes, ability to lend to borrowers freely, as well as the ability to sell / buy debt in the secondary market to help manage their portfolio.

Source: Deloitte Analysis, Press Search, Company Website

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Stakeholder needs

We identified a variety of needs across all relevant stakeholder groups by speaking with different stakeholders and assessing their value chain

What are the needs of each stakeholder group?

Stakeholder group	Sub-group	Needs
1 Borrowers	Mid-size corporates; Medium enterprises	1. Fast access to affordable financing, with more flexible terms 2. Multiple borrowing options with competitive terms to choose from 3. Less stringent collateral requirements 4. Less stringent cashflow / credit requirements 5. Large ticket loans
2 Intermediaries	Private debt funds *(Identified using value chain analysis)*	1. Efficient deal origination process via strong networks to identify large deals 2. Robust, but affordable credit assessment, KYC & collateral requirements 3. Ability to lend to borrowers freely 4. Ability to sell / buy debt 5. Clear visibility into the company financials for deal execution and monitoring 6. Managed FX risk across the value chain 7. Ability to hire talented employees 8. Integration of ESG into investments 9. Debt enforcement & insolvency recovery 10. Timely repayments from borrowers 11. Low operating costs & regulations 12. Ability to scale 13. Market to and educate investors 14. Ability to raise money from wide range of investors 15. Ability to quickly call for capital 16. Ability to manage investor expectations during downturns
3 Investors	Institutional investors; Family offices, HNWI; Accredited retail investors[1]	1. Ability to invest 2. Diversification of portfolio, in terms of geography, asset class etc. 3. Good risk-adjusted returns in exchange for liquidity 4. Risk management measures (e.g. if intermediary defaults) 5. Comprehensive view of the performance of underlying investments 6. Ability to exit their investment 7. Lower transaction fees[2] 8. Awareness of the risk involved[2]

Note: 1. Refers to retail investors who may not be high net worth individuals, but have past experience or qualifications in investments; 2. More applicable to 'Accredited retail investors'

Source: Deloitte Analysis

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Upon analysing the stakeholders' needs in the Thai context, we identified 3 fundamental challenges that need to be addressed to activate this ecosystem

We spoke to borrowers, intermediaries, and lenders to better understand where their needs were unmet. As a result, we were able to identify 3 fundamental challenges that hinder private debt market activity in Thailand, namely:

1

Regulatory barriers limiting **scale up of private debt** activities in Thailand

a. Many investors in Thailand are currently restricted from investing in private debt funds

b. There is not a clear pathway to enable onshore private debt GPs to lend to corporates

c. Debt enforcement in Thailand can be long drawn and less favourable to lenders

2

Insufficient market & stakeholder readiness for private debt funds

a. International funds find it difficult to enter the Thai market (as well as other countries in Asia) and need to be motivated by large ticket transactions and higher return potential

b. Borrowers look for mid-size and smaller loans, but lack those alternative investment options

c. Many investors & regulators lack in-depth awareness of and exposure to private debt as an asset class

d. There is a human capital challenge, with a limited number of professionals in Thailand who have private debt experience

3

Information asymmetry limiting efficient operation of private debt funds

a. Lack of accessible and affordable data to conduct due diligence, credit assessment and KYC

Source: Expert interviews, Deloitte analysis

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Challenges in developing private debt via investment managers: Regulatory barriers

We will deep dive into each of these 3 challenges in this chapter

1

Regulatory barriers limiting scale up of private debt in Thailand

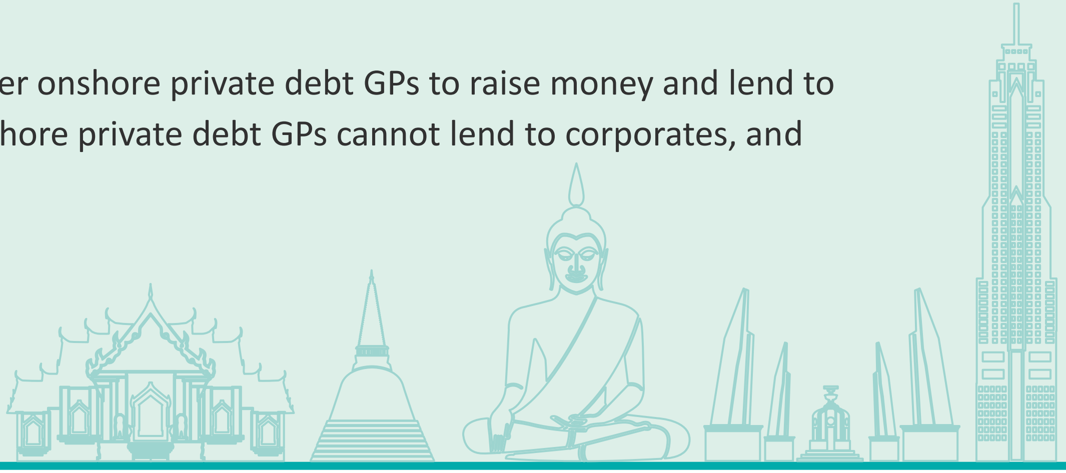
2

Insufficient market & stakeholder readiness for private debt funds

3

Information asymmetry limiting efficient operation of private debt funds

As of today, Thailand does not have a clear pathway to enable and empower onshore private debt GPs to raise money and lend to corporates. For example, many investors cannot invest in private debt, onshore private debt GPs cannot lend to corporates, and debt enforcement is relatively weak.



Source: Deloitte Analysis

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Challenges in developing private debt via investment managers: Regulatory barriers

Compared to other markets, the current regulatory framework in Thailand is not yet in place to support the development of the private debt funds market

How are private debt funds regulated across the countries (1/3)

	Thailand	Singapore	France	Key gaps in Thailand
Investors (LPs)	• Many institutional investors are not yet allowed to invest in private debt funds (both onshore and offshore) due to the current regulatory framework imposed by their respective regulators; retail investors have no avenues to invest in private debt funds	• There are no restrictions that prevent institutional and accredited investors from investing in private debt funds; there is protection, but not prohibition, for retail investors	• There are no restrictions that prevent institutional and accredited investors from investing in private debt funds; restrictions exist for retail investors, but they can access private debt via European Long Term Investment Funds (ELTIFs)	**There are restrictions in Thailand that prevent many investors from accessing private debt funds**
	• Thailand's debt enforcement process is more borrower friendly than lender friendly; the process could be lengthy and can take up to several years. Enforcement of collateral has to go through a public auction process	• The debt enforcement regime in Singapore is considered to be relatively lender friendly; the enforcement can usually be completed by a secured creditor out of court and relatively quickly[1]	• The regime is not very friendly to lenders, although enforcement could usually be completed by a secured creditor out of court and relatively quickly, but borrowers can challenge the case and delay the process[2]	**Debt enforcement process in Thailand is lengthy and not lender friendly**
Private debt funds (GPs)	• There is no clear initiative or direction to support the development of private debt funds in Thailand yet	• Since funds are already allowed to engage in private debt lending activities, Singapore has not implemented any specific policies to support private debt yet • In 2020, Monetary Authority of Singapore (MAS) has stated that it intends to encourage the growth of private debt activity in Singapore	• France has adopted various laws that benefit private debt funds, such as allowing companies to lend money to other parties, the adoption of European Long Term Investment Funds (ELTIFs) regulation, the update of Alternative Investment Funds (AIFs) scheme, etc.	**Developing the market for private debt funds is not yet a priority for Thai regulators**

1) *Guide to Private Credit in Europe,* Baker McKenzie, 2020 https://www.bakermckenzie.com/-/media/files/insight/publications/2021/06/guide-to-private-credit-in-europe.pdf
2) *Guide to Private Credit in Asia Pacific,* Baker McKenzie, 2022 https://www.bakermckenzie.com/-/media/files/insight/guides/2021/guide-to-private-credit-in-asia-pacific.pdf
Source: Deloitte Analysis

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Challenges in developing private debt via investment managers: Regulatory barriers

There is no clear regulatory pathway for Thai GPs to lend to corporates, and it is unclear if additional licenses will be required for private debt activities

How are private debt funds regulated across the countries (2/3)

	Thailand	Singapore	France	Gaps in Thailand
Private debt funds (GPs) – cont.	• Thailand / the Thai SEC's current regulatory framework governing onshore funds and collective investment schemes (i.e., mutual funds, private funds, provident funds) do not allow these funds and asset management companies to directly lend money to other parties	• Singapore's regulatory framework fully enables onshore funds to engage in lending activities • Normally, lenders are required to obtain a moneylender's license unless excluded or exempted under the act. As private debt funds fall within the definition of an "excluded moneylender", they are not required to obtain a moneylender's license, provided that the lending only involves accredited investors and corporates	• France's regulatory framework fully enables onshore funds to engage in private debt lending activities. These funds are categorized as AIFs and also include ELTIFs and other funds. • Funds managed by asset management companies may lend money to other parties if the asset management companies have a specific authorisation issued by the authority. This authorisation is not issued for a given fund but for all vehicles managed by the asset management companies	**Onshore funds set up in Thailand are not allowed to engage in lending activities**
	• Asset management companies in Thailand are required to obtain a fund management license to manage funds. As private debt funds are not available in Thailand yet, it is unclear if additional licenses will be required for private debt activities	• Asset management companies in Singapore are required to obtain a CMS license for fund management, unless exempted under section 99 of the SFA.[1] They are not required to obtain an additional license to manage private debt funds	• Asset management companies in France are required to obtain a fund management license to manage funds. In addition to that, companies are required to obtain additional approvals to engage in private debt activities specifically	**N/A**

Note: 1. Persons which are exempted from holding a CMS license despite carrying on business in a regulated activity includes a licensed bank, licensed merchant bank and licensed finance company

Source: Deloitte Analysis

Challenges in developing private debt via investment managers: Regulatory barriers

Offshore private debt funds are not allowed to directly promote their funds to investors in Thailand; and the secondary market is limited

How are private debt funds regulated across the countries (3/3)

Private debt funds (GPs) – cont.

Thailand	Singapore	France	Gaps in Thailand
• There are regulations that govern the maximum interest rate that non-financial institutional lenders can charge their borrowers (including corporates).[1] The maximum rate allowed is 15% per annum[2]	• While there are regulations to govern the interest rate for individual borrowers, creditors in Singapore have more flexibility in setting the interest rate they would like to charge their corporate borrowers	• In general, the interest rate can be set freely based on the agreement between creditors and borrowers. There is no specific regulation that imposes a limitation on the interest rate for private debt lending	**Interest rate caps for loans made by non-financial entities to Thai companies can potentially discourage alternative lenders**
• Offshore fund managers cannot directly promote private debt funds to investors in Thailand. The current regulations only allow reverse solicitation where investors indicate their interests to offshore fund managers and initiate the investment themselves	• It is possible for offshore fund managers to raise funds from qualified investors	• Offshore fund managers may possibly make an offering to raise funds from qualified investors	**Thailand has restrictions for offshore fund managers to directly participate in local fund-raising, marketing and advertising activities**
• Secondary market is not made available to all investors. Only certain types of stakeholders are allowed to transact in the market	• There is no particular restriction on the type of investors permitted to transact in the secondary market. Private debt funds can participate in the secondary market	• There is no particular restriction on the type of investors permitted to transact in the secondary market. Private debt funds can participate in the secondary market	**Only limited groups of investors are allowed to transact in the secondary market**

Note: 1. Please refer to Regulations Relating to Interest Rate Setting for Loan Agreement slide in the appendix section for more detail 2. To charge an interest rate higher than 15%, the lenders need to be considered financial institutions. Some alternative lenders are not deterred by the 15% maximum, given they are able to generate revenue in alternative ways (e.g., management fees, equity options, etc.)

Source: Deloitte Analysis

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Challenges in developing private debt via investment managers: Insufficient market & stakeholder readiness

We will deep dive into each of these 3 challenges in this report

1
Regulatory barriers limiting scale up of private debt in Thailand

2
Insufficient market & stakeholder readiness for private debt funds

3
Information asymmetry limiting efficient operation of private debt funds

The borrower and investor landscape in Thailand has not been attractive for offshore private debt funds: On the demand side, borrowers in Thailand primarily look for small and mid-sized loans below USD 50 mm[1], which is lower than the minimum deal size for the larger international private debt funds; on the investor side, interest in the asset class is limited due to a lack of awareness and exposure, particularly among institutional investors.

Furthermore, Thailand faces a human capital challenge, as there are not as many local professionals with private credit experience. Private debt firms in Thailand would compete with the robust and mature domestic banking sector for talent, and international professionals face language barriers that potentially dissuade them from coming into the country and helping with skills transfer.

Note: 1. "Demand for loan transactions in Thailand typically fall around USD 10 mm to USD 30 mm. However, these deals are too small for the larger funds, but too big for local players so we see an untapped potential opportunity here", Interview with private debt fund active in Thailand
Source: Deloitte Analysis

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Challenges in developing private debt via investment managers: Insufficient market & stakeholder readiness

There are 4 key market and stakeholder barriers that limit private debt activity in Thailand

A	**Offshore funds find it difficult to enter the Thai market (as well as other countries in Asia) and need to be motivated by large ticket transactions and higher returns**	• There is a perception amongst global funds that Thailand has smaller ticket size opportunities compared with other countries in Asia • Global debt funds based in the US or EU also need to account for a country risk premium and a currency risk premium when assessing Thai / Asian opportunities (versus EU or US opportunities)	**"Ticket size in Thailand is low compared to India and China,** therefore, larger funds may not look to invest and set up operations as there are limited large ticket opportunities" *– Regional private debt fund in Asia*
B	**Thai borrowers look for mid-size and smaller loans, but lack those alternative investment options**	• Transactions in Thailand that need alternative financing are often less than USD 50mm, with few large ticket transactions[1] • For SMEs and mid-sized corporates who are unable to secure bank lending, off-shore private debt funds are not an option due to their large ticket size requirements	"There was **no single entity that could provide us with the THB 1bn (~USD 27mm) loan we needed** for our new investment opportunity, so we had to borrow from more than 20 private investors" *– Corporate borrower in Thailand*
C	**Investors & regulators lack awareness and exposure to private debt as an asset class**	• Investors often compare private debt with private equity, and are not yet aware of the use cases for private debt as an asset • Many regulators do not yet see the potential for private debt to address certain financial gaps for stakeholders in Thailand	"Given private debt is a risky asset, we would **prefer to invest in private equity due to its higher return**" *– Institutional investor based in Thailand*
D	**There is a human capital challenge, with a limited number of professionals in Thailand who have private debt experience**	• There are a limited number of Thai professionals with private credit experience; the private credit industry would also have to compete with the domestic banking industry for talent • International practitioners may be dissuaded from entering Thailand (and helping with skills transfer) due to language barriers. They would also need higher return opportunities to justify the onshore activity	**"Language is a key barrier.** Many Thai regulations aren't very clear to us, even though they provide English translations. … If we were to invest in a local team, **we would need to have the returns to justify it**. *– Global private debt fund operating in Asia*

Note: 1. "Most transactions in Thailand are around USD 10 mm to USD 30 mm. However, these deals are too small for the larger funds, but too big for local players so we see an untapped potential opportunity here", Interview with private debt fund active in Thailand; Based on exchange rate of 36.6 to 1 USD

Source: Deloitte Analysis

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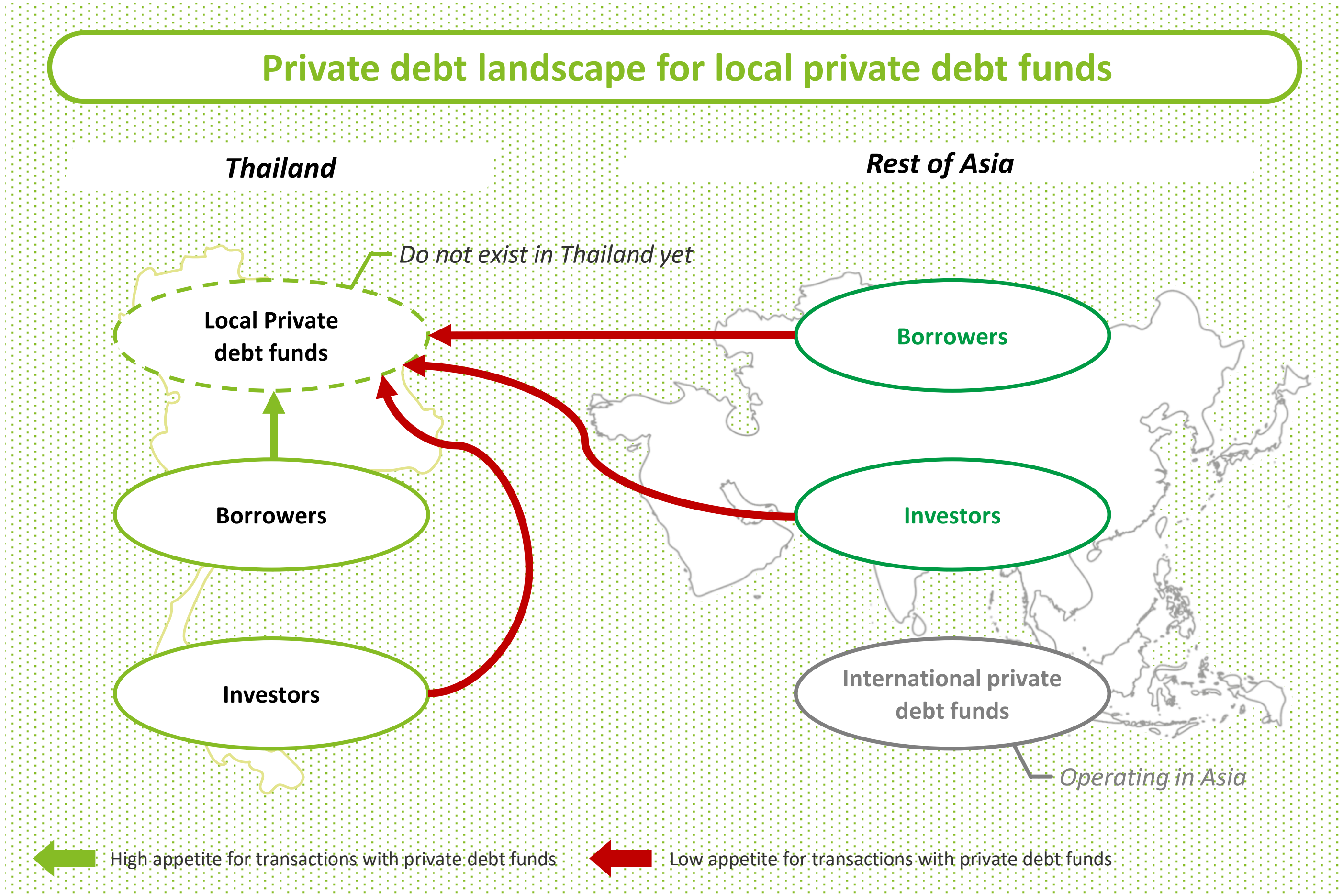
Challenges in developing private debt via investment managers: Insufficient market & stakeholder readiness

As a result, local private debt funds may struggle due to limited investor knowledge and competition from abroad, but can address borrower demand



- **Thai investors:** Due to their limited knowledge of the asset class, Thai investors are not yet enthusiastic about investing in local private debt funds
- **Thai borrowers:** Since local funds will likely have lower minimum deal size requirements than international funds, borrowers can look to them to meet their mid & small-size loan requirements. (Not a barrier for local funds.)
- **Borrowers & investors from other countries:** Due to the barriers limiting cross border transactions and competition from international private debt funds, local funds will find it difficult to play outside Thailand

Source: Deloitte Analysis

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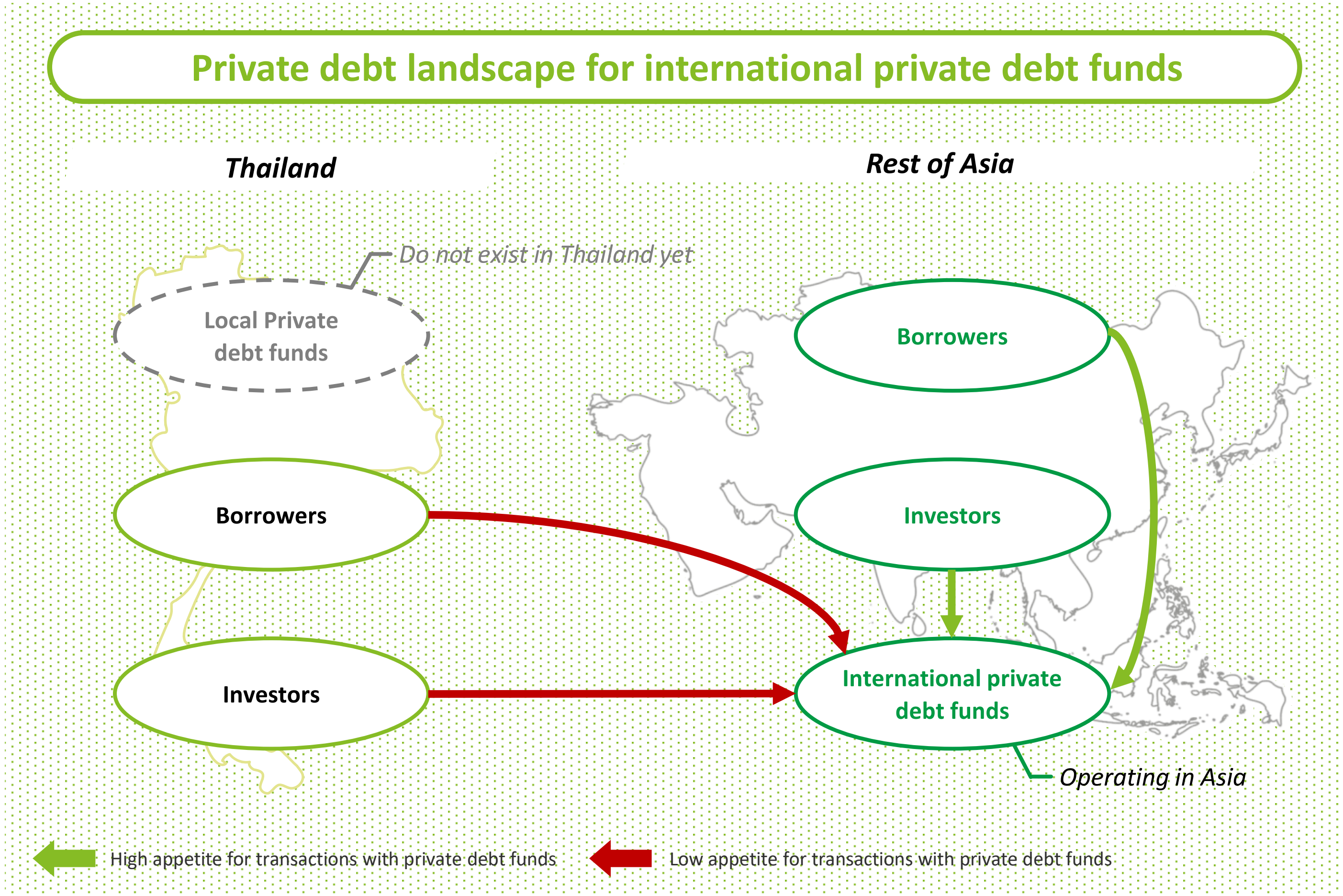
Challenges in developing private debt via investment managers: Insufficient market & stakeholder readiness

International funds do not find the Thai market as attractive as other Asian markets due to perception of smaller ticket sizes & limited investor appetite



- **Thai investors:** Due to their limited knowledge of the asset class, Thai investors are not yet looking to invest in international private debt funds
- **Thai borrowers:** There is a perception among international funds that there is less demand for large-ticket loans among Thai borrowers, especially compared with other countries in Asia (e.g., China, India, etc.)
- **Borrowers & investors from other countries:** Due to the low volume of large ticket sizes in Thailand, international funds will prefer to transact in other markets in the region. (Not a barrier for international funds.)

Source: Deloitte Analysis

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Challenges in developing private debt via investment managers: Information asymmetry

We will deep dive into each of these 3 challenges in this report

1

Regulatory barriers limiting scale up of private debt in Thailand

2

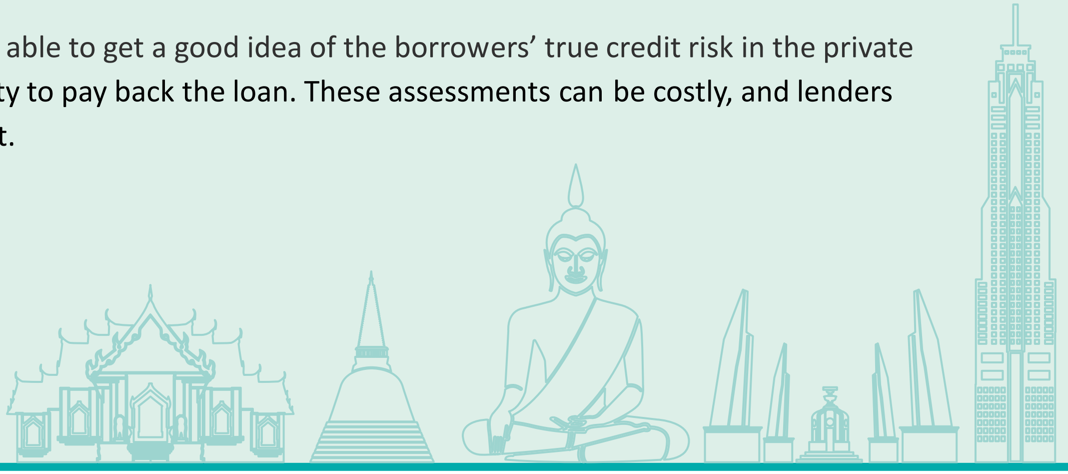
Insufficient market & stakeholder readiness for private debt funds

3

Information asymmetry limiting efficient operation of private debt funds

Information asymmetry exists between lenders and borrowers today (i.e., lenders are not able to get a good idea of the borrowers' true credit risk in the private market). Lenders would have to conduct due diligence to understand the borrowers' ability to pay back the loan. These assessments can be costly, and lenders often are not willing to conduct these assessments unless the returns are worth the effort.

Note: Governments can help address information asymmetry through state sponsored initiatives such as credit guarantee schemes. However, when implementing these initiatives, it will be important to ensure that the primary lender (GP) retains "skin in the game"—i.e., a minimum hold amount to the original loan. This is to prevent "moral hazard" risks, where the primary lender originates loans to unqualified borrowers knowing that they have government backing.



Source: Deloitte Analysis

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Challenges in developing private debt via investment managers: Information asymmetry

Asymmetric information makes the credit evaluation process lengthier and more expensive, which deters lenders and investors from participating

Definition of information asymmetry

- Information asymmetry is a transaction between 2 parties, lenders and borrowers**, where one party, in this case a borrower, has more information and takes advantage of the other party, a lender**

Information asymmetry in private debt in Thailand

- Unlike listed companies, **micro & SMEs and unlisted companies in Thailand generally have no requirement to file audited financials using highly strict accounting standards or on a quarterly basis** as the timeline for filing financials is longer than listed companies[1]
- According to the Bank of Thailand, 60% of SMEs have not obtained funding from commercial banks or specialized financial **institutions primarily due to information asymmetry challenges[2]**
- **The cost to serve smaller loans is much higher than larger loans** due to the lack of collateral security; this is reflected in the higher interest rate charged by lenders, which in some cases could go higher than 30%[3]

Challenges to stakeholders

1. Private debt funds have limited access to company data, making their **credit assessment process more expensive and time consuming.** This is worsened when targets do not have sufficient credit information
2. Small ticket loans in Thailand **put pressure on margins of private debt funds,** given the high cost of assessment, potentially forcing them to make more transactions to meet investor return expectations
3. Information asymmetry **also increases the risk of default**, which is significant due to relatively weaker debt enforcement in Thailand
4. As a result of the information asymmetry in Thailand, **investors view private debt as a risky asset class, and borrowers with insufficient credit information continue to be underfunded**

Due to the risks associated with information asymmetry, private debt funds and investors may not want to engage in the Thai market

1) *Thailand's audit and compliance: A guide of financial statements 2021 – 2022 for companies in Thailand,* iTax, August 2022 https://www.accconsultingservice.com/guide-audit-compliance-eng/?lang=en
2) *BOT Consultation Paper on Financial Landscape*, Bank of Thailand, February 2022 https://www.bot.or.th/landscape/en/paper/driving-forces/
3) *Money and Credit,* Kanis Saengchote, Ph.D., 2022

Source: Deloitte Analysis

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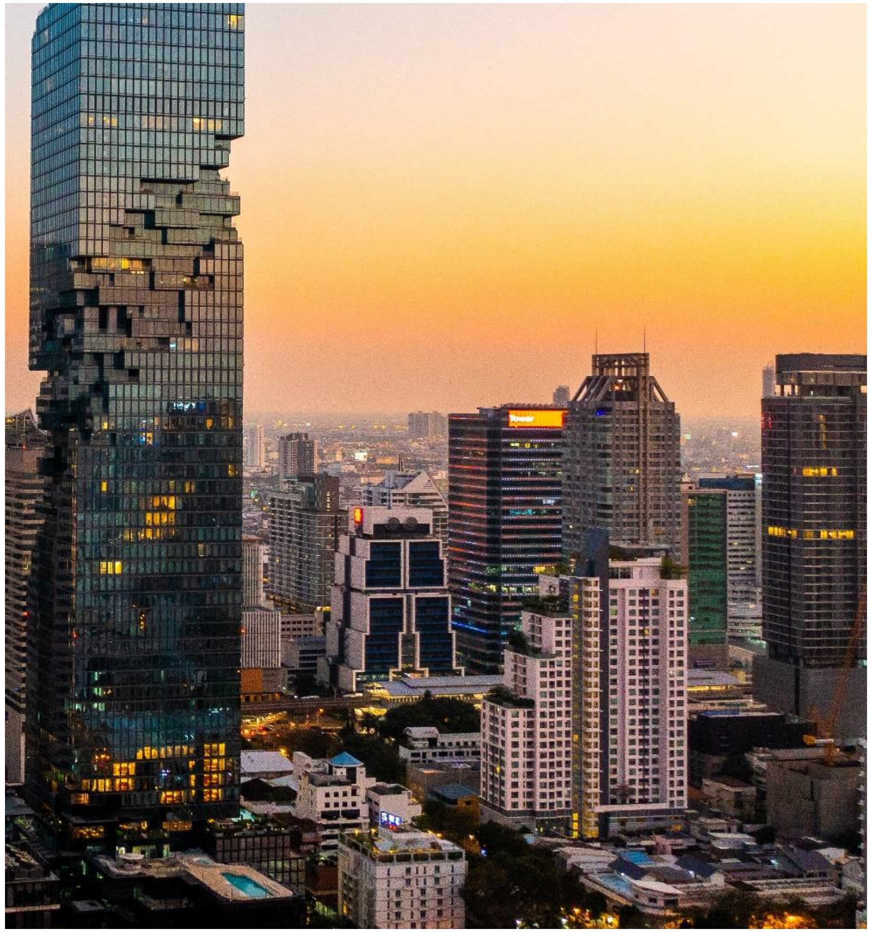
How to build private debt in Thailand

Part 2 – Addressing stakeholder challenges through regulations & infrastructure

4

Overview

In order to build up the private debt ecosystem, Thailand can consider regulatory and infrastructure initiatives that have worked in other countries



In this chapter, we introduce a series of ideas that could help to build up the private debt market in Thailand and address different challenges. We took inspiration from different initiatives utilised by more developed private debt markets around the world.

Our initiatives can be categorised into two groups:

1. **Regulatory initiatives,** focused on addressing policy or legal barriers related to private debt
2. **Infrastructure initiatives,** focused on accelerating the development of the private debt market overall

After gathering a full list of initiatives, we also selected a few options to zoom in on. To choose these deep-dives, we considered the below factors:

1. **Ability to nurture the nascent market:** Since the private debt market in Thailand is still in its early stages, we looked for initiatives that could help to nurture the market and enable skills development and transfer
2. **Suitability to Thailand's context:** Each international market we looked at has different characteristics and challenges. Therefore, we tried to select key learnings that were most applicable to Thailand
3. **Impact on key stakeholders:** The initiatives we selected aim to create high value impact for stakeholders

Each of our initiative deep-dives will provide a definition of the initiative, potential impact on stakeholders, the concept of the initiative, and examples from abroad.

Source: Deloitte Analysis

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Potential regulatory initiatives

Regulatory initiative introduction

We have gathered 10 potential regulatory initiatives to consider, inspired by examples from abroad

Regulatory initiatives are aimed at addressing policy and legal barriers that hinder private debt development in Thailand.

In this section, we have gathered 10 potential regulatory initiatives (as seen on the next page), and out of those, we selected 3 to provide further detail on. These 3 initiatives include:

1. **Establishment of regulatory schemes to enable onshore private debt vehicles:** Currently, there do not exist clear regulatory guidelines on how private debt funds can lend to corporates. We will introduce a few regulatory options to help enable such a scheme.
2. **Broadening eligibility criteria so that more investors can invest in private debt:** Today, many investors in Thailand are not eligible to invest in offshore or onshore private debt funds. Our initiative introduces options to allow institutional and accredited investors to gain exposure to this alternative asset class.
3. **Enhancement of investor protections by improving debt enforcement capabilities:** One key reason why many non-bank lenders (including globally) are hesitant to operate in Thailand is due to the perceived debt enforcement challenges. Our initiative acknowledges these challenges and introduces potential considerations to enhance debt enforcement capabilities.

Source: Deloitte Analysis

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Regulatory initiative overview

We will deep dive into 3 key regulatory initiatives that could help support development of the private debt funds market in Thailand

Potential regulatory initiatives

A Tax incentive implementation	A-1 Introduce tax incentives for setting up private debt funds A-2 Introduce tax incentives for private debt funds' investors A-3 Introduce tax incentives for private debt funds' managers A-4 Introduce tax incentives for private debt funds' borrowers
B Private debt fund scheme development and enhancement	B-1 Establish regulatory schemes to enable onshore private debt funds B-2 Broaden eligibility criteria so that more investors can invest in various forms of private debt (per their sophistication levels) B-3 Enable private debt funds to become members of the National Credit Bureau
C Enhancing stakeholders' protection	C-1 Enhance investor protections by improving debt enforcement capabilities
D Others	D-1 Lift restrictions to allow offshore fund managers to promote funds to local investors D-2 Lift regulations to allow free agreement on interest, fees, and remuneration of loans

Selection criteria

- Ability to nurture nascent market
- Suitability to Thailand's context
- Impact on key stakeholders

Selected initiatives for deep dive

- **B-1** Establish regulatory schemes to enable onshore private debt funds
- **B-2** Broaden eligibility criteria so that more investors can invest in various forms of private debt (per their sophistication levels)
- **C-1** Enhance investor protections by improving debt enforcement capabilities

Source: Deloitte Analysis

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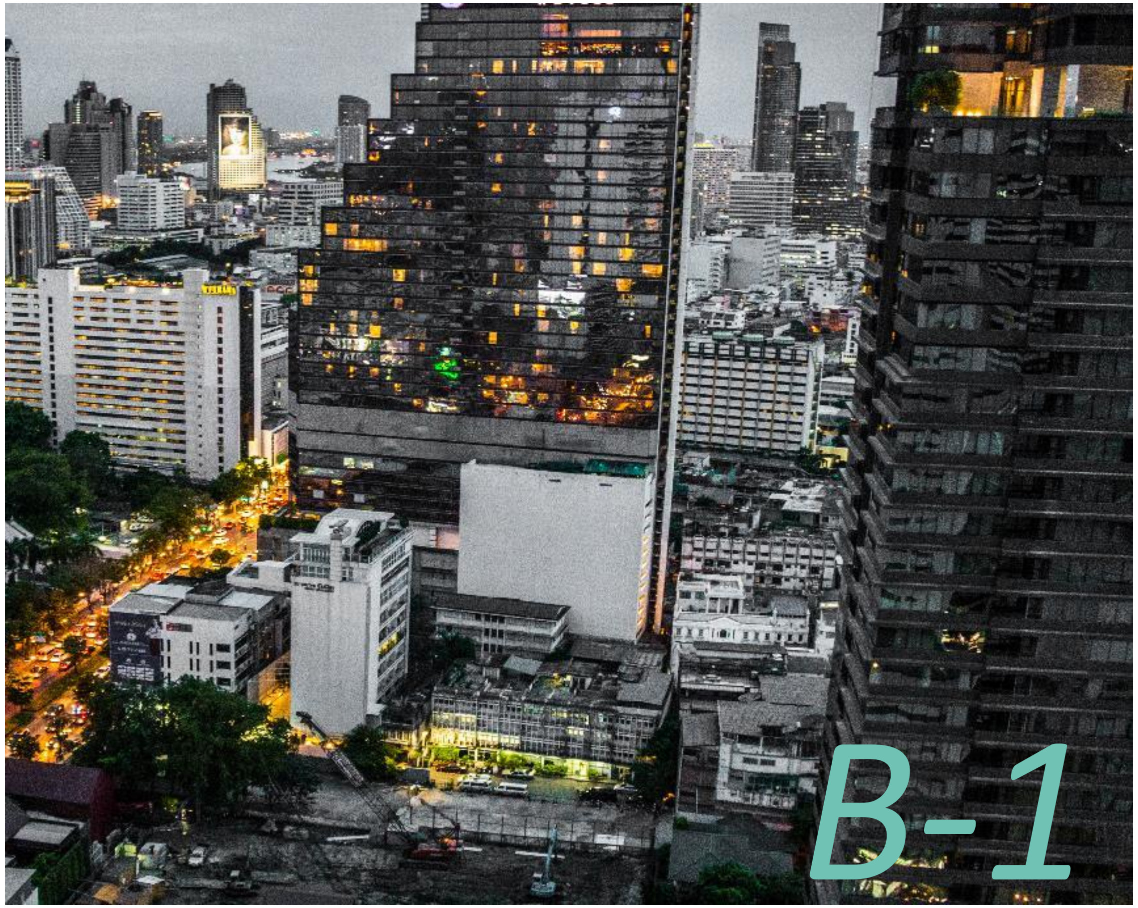
B-1 Establish regulatory schemes to enable onshore private debt funds: Introduction

Private debt GPs play an important role as intermediaries for borrowers and investors by helping to make markets where none existed before. In Thailand today, there do not exist clear regulatory frameworks or pathways that enable onshore private debt GPs to raise money from investors and lend to corporates.

Under current Thai regulations, funds and collective investment schemes in Thailand (i.e., mutual funds, provident funds, private funds, trusts under the SEC's governance, etc.) do not have clear permission to grant loans to companies. Without clearance from regulators, these funds and collective investment schemes are not able to engage in private debt lending activities.

We introduce 3 potential options that can be considered in order to empower private debt GPs and to unlock private debt activities: 1) clarify regulations for UI funds to allow lending to corporates, 2) amend regulations for PE trusts to enable private debt transactions, and 3) officially introduce new vehicles designed for private debt investments.

France is an example of a country that clarified its regulatory framework to enable private debt lending activities. After 2014, France took several steps to liberate its banking monopoly and implemented clear regulatory schemes that allowed funds to grant loans to non-financial enterprises.[1]



1) *Relaxation of the French Banking Monopoly – A Major Milestone Reached,* Jones Day, October 2017 https://www.jonesday.com/en/insights/2017/10/relaxation-of-the-french-banking-monopolya-major-milestone-reached

Source: Deloitte Analysis

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Regulatory initiative: B-1 Establish regulatory schemes to enable onshore private debt funds

B-1 Establish regulatory schemes to enable onshore private debt funds (1/2)

Initiative for challenge 1

Definition of the initiative

Design clear guidelines and regulatory requirements to enable Thailand based investment professionals to register their private debt funds, raise money from investors, and lend to local corporates (e.g., by either clarifying existing regulations, amending existing regulations, or introducing a new vehicle / regulatory scheme).

Guidelines would provide a clear pathway for onshore funds interested in private debt activities to obtain regulatory clearance and to engage in lending activity. Currently, funds / collective investment schemes in Thailand do not have clear permission to lend money.

Impact of the initiative

Borrowers

- **Broader access to financing** through alternative sources of lending (including long-term, patient capital)
- **Bespoke lending terms** negotiated with private lenders (e.g., payment in kind, mezzanine, etc.)

Intermediaries

- **Regulatory clarity** enables investment entrepreneurs to establish new private debt funds and attract capital both offshore and onshore
- **Ability to include lender protections** such as warrants

Investors

- More options to **invest in alternative asset classes**
- **Higher risk-adjusted returns** in exchange for liquidity
- **Portfolio diversification** in terms of both asset class, industry, and geography

Example of initiatives abroad

French regulators liberated the banking monopoly and progressively enabled alternative lending[1]

2014	• France allowed its securitisation fund, *organisms de titrisation* (OT) to grant loans to nonfinancial enterprises • France created a debt fund called *organisms de financement specialise* (OFS), which is allowed to grant loans to nonfinancial enterprises
2015	• France authorised funds using the ELTIF label to grant long-term loans directly to nonfinancial enterprises
2016	• French professional specialised investment funds and retail private equity funds became authorised to lend directly to nonfinancial enterprises

1) *Relaxation of the French Banking Monopoly – A Major Milestone Reached,* Jones Day, October 2017 https://www.jonesday.com/en/insights/2017/10/relaxation-of-the-french-banking-monopolya-major-milestone-reached

Source: Deloitte Analysis

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Regulatory initiative: B-1 Establish regulatory schemes to enable onshore private debt funds

B-1 Establish regulatory schemes to enable onshore private debt funds (2/2)

Potential quick-win solution

Concept of the initiative

EXISTING

The SEC currently oversees the below schemes:

Fund schemes[1]

- Mutual Funds
- Provident Funds
- Private Funds
- UI Funds
- Retail Funds

Under the current regulatory framework, **funds are not explicitly allowed to make loans**

Trust schemes[2]

- PE Trusts
- Other Trusts

Currently PE Trusts are only allowed to invest in equity, as well as debt that could be converted to equity (such as convertible bonds and Mezzanine debt). **Direct lending is not yet allowed.** Also, there is a **limitation on the number of** high net worth individuals that can invest in PE Trusts (i.e., 10 investors / trust).

PROPOSED NEW

	Fund schemes	Trust scheme
Existing vehicles	1. UI Funds*	2. PE Trusts*
New vehicles	3. New vehicle	

Option 1 – Clarify regulations for UI Funds

Revising the activities that UI Funds are allowed to engage in by including direct lending would provide a quick pathway for onshore funds to engage in private debt in the near-term

Option 2 – Amend regulations for PE Trusts

Amending regulations to allow PE Trusts to participate in direct lending activities, and lifting the cap of HNW investors limitation, can potentially allow PE Trusts to become more viable vehicles for private debt investments

Option 3 – Introduce a new vehicle for private debt

Introducing a new investment vehicle (could take the form of a fund, investment company, LLP, etc.) that would be allowed to raise capital and lend to corporates would be a long-term solution to enable private debt to scale under its own regulatory framework / scheme

When evaluating different options to enable onshore private debt funds, it will be important to consider how well the new / updated regulatory schemes align with international best practices and standards in order to also attract foreign participation and capital injection into the nascent Thai private debt market

Note: *UI Funds and PE Trusts have different pros and cons for being used as private debt funds. For UI Funds, their advantage include the existence of regulations that allow them to invest in all types of security, while their disadvantage includes the requirement of a fund management license, making them relatively more difficult to set up and manage than PE Trusts. For PE Trusts, their advantage includes the waiving of a fund management license, while their disadvantage includes the restriction from investing in direct lending imposed by current regulations.

1) *Investment of funds,* The Securities and Exchange Commission (SEC), December 2015 https://law.sec.or.th/content/965/2836/2

2) *Ruling of transaction activities in capital market of trusts*, The Securities and Exchange Commission (SEC), July 2021 https://publish.sec.or.th/nrs/9079p_r.pdf

Source: Deloitte Analysis

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B-2 Broaden eligibility criteria so that more investors can invest in various forms of private debt (per their sophistication levels): Introduction

The second initiative is to broaden the eligibility criteria so that more investors can access various forms of private debt.

Thai regulations today do not provide clearance for accredited investors—namely professional investors (PI), qualified investors (QI), and affluent investors (AI)—to invest in the asset class.

Institutional investors in Thailand, who are governed by different regulators, are also limited in the types of alternative assets they can access. This can pose a challenge, as many are looking for new options to diversify their portfolio globally, seek higher yield, and gain investment sophistication.

Finally, retail investors do not have a way to access less risky vehicles for private debt, comparable to Business Development Companies (BDCs) in the US or ELTIFs in Europe.

We introduce 3 sub-initiative options that can help broaden the investor base: 1) allow more institutional investors to invest in private debt funds (onshore and offshore), 2) allow certain accredited investors, i.e., PI and QI, to invest, and 3) create a vehicle for retail investors to invest.

Similar initiatives could be found in the US and EU. In the US, the definition of “accredited investors” was expanded to include not only investors who meet income or net worth requirements, but also investors that have the knowledge and expertise to make sound investment decisions.[1] The US also established BDCs to enable retail investors to invest in SMEs in the form of private debt,[2] and the EU enabled retail investors to access private debt in the form of ELTIFs, which require certain disclosures and contain investor protection features.[3]

1) *SEC Modernizes the Accredited Investor Definition,* U.S. Securities Exchange Commission, August 2020 https://www.sec.gov/news/press-release/2020-191
2) *Business Development Company (BDC)*, Investopedia, August 2022 https://www.investopedia.com/terms/b/bdc.asp
3) *European long-term investment funds – frequently asked questions*, European Union, 2015 https://ec.europa.eu/commission/presscorner/detail/el/MEMO_15_4423
Source: Deloitte Analysis

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Regulatory initiative: B-2 Broaden eligibility criteria so that more investors can invest in various forms of private debt (per their sophistication levels)

B-2 Broaden eligibility criteria so that more investors can invest in various forms of private debt (per their sophistication levels) (1/2)

Initiative for challenge 1 2

Definition of the initiative

Thailand can potentially broaden the eligible investor base by providing pathways for certain accredited investors to access private debt opportunities both offshore and onshore.

Thailand can also consider schemes that enable retail investors to access the asset class, albeit in a more controlled and regulated manner—based on initiatives done in Europe or the US.

Impact of the initiative

Borrowers

- **Broader and deeper pools of alternate debt financing** as more investors are able to provide capital

Intermediaries

- **Streamlines the fundraising process** for GPs and funds as more investors are able to participate

Investors

- **Easier access to the private debt asset class, to seek risk-adjusted returns and portfolio diversification:** Institutional investors, in particular, would be able to gain exposure to the asset class abroad from leading players and gain investment sophistication from the experience

Example of initiatives abroad

The US expanded its definition of "accredited investors" in 2020 to determine who could participate in private capital markets

- In 2020, the US SEC amended its definition of "accredited investor" to include not only investors who meet income or net worth requirements, but also investors that have the knowledge and expertise to participate in private capital markets (e.g., investors with certain professional certifications, knowledgeable employees of private funds, spousal equivalents who can pool their assets to qualify as accredited, LLCs and family offices with USD 5mm in assets, etc.)[1]

The US created the Business Development Company (BDC) in 1980 to enable retail investors to access private debt investments[2]

- Business Development Companies were created by the U.S. Congress in 1980 to assist emerging U.S. businesses, particularly smaller enterprises, with financing needs
- BDCs must invest at least 70% of assets in U.S. firms with market values less than USD 250mm
- BDCs are publicly traded and open to retail investors

EU's ELTIF funds enable retail investors to participate in private debt

- European Long Term Investment Funds (ELTIFs) are open to retail investors as a Packaged Retail and Insurance-based Investment Product (PRIIP)*. These investments are required to provide key information documents (KID) explaining the ELTIF's features and risks (e.g., longer lock-up periods).
- Under the requirements of Markets in Financial Instruments Directive (MiFID), anyone selling an ELTIF will have to assess its suitability in relation to the financial needs of the customer [3].

Note: *PRIIP refers to investment products specifically targeting retail investors including structured financial products, derivatives, close-ended and open-ended funds, investment-type insurance products, and instrument issued by special vehicles

1) *SEC Modernizes the Accredited Investor Definition*, U.S. Securities Exchange Commission, August 2020 https://www.sec.gov/news/press-release/2020-191
2) *Business Development Company (BDC)*, Investopedia, August 2022 https://www.investopedia.com/terms/b/bdc.asp
3) *European long-term investment funds – frequently asked questions*, European Union, 2015 https://ec.europa.eu/commission/presscorner/detail/el/MEMO_15_4423
Source: Deloitte Analysis

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Regulatory initiative: B-2 Broaden eligibility criteria so that more investors can invest in various forms of private debt (per their sophistication levels)

B-2 Broaden eligibility criteria so that more investors can invest in various forms of private debt (per their sophistication levels) (2/2)

Potential quick-win solution

Concept of the initiative

EXISTING

1. Currently, many institutional investors, categorised as PI, do not have clearance from their respective regulators to invest in private debt funds (offshore or onshore)
2. Other accredited investors categorised as PI and QI do not have clearance to invest in private debt funds (offshore or onshore)
3. Currently, there is no pathway for retail investors to invest in private debt

PROPOSED NEW

Thai regulators can consider 3 options:

1. **Enable institutional investors to invest in private debt funds (both onshore and offshore) by obtaining clearance from their respective regulators.** Institutional investors include insurance companies, pension funds, social security offices, etc.
2. **Set up clearance for PI and QI** to invest in private debt funds with appropriate minimum investment amount
3. **Create a vehicle for retail investors** to more safely invest in the private debt asset class with the adequate guardrails and disclosures

1 Institutional investors can invest in…

Illustrative list of eligible assets for institutional investors

- Public Stocks
- Real Estate
- Commodities
- Bonds
- Infrastructure
- Private/Public Equity
- Private Debt — Newly eligible

2 Allowing PI and QI to invest in private debt funds

Example of allowed investment options[1]

		Retail	AI	QI	PI
Type 1	Stock, rated bond, inv grade perp, REIT, DW, futures, PPN	✓	✓	✓	✓
Type 2	SME board, unrated bond, non-inv grade perp, SN, non-diversified IG/HYB fund		✓	✓	✓
Type 3	Unrated perp, insurance capital bond, hedge fund, stressed bond fund, PE Trusts, **private debt funds** (Newly eligible)			✓	✓

3 For retail investors, Thailand can consider creating a private debt vehicle with the following protections (such as for ELTIFs)[2]

- **Require Key Information Documents** with explanation of key risks (e.g., long lockup)
- **Require suitability assessment** in relation to financial needs and risk appetite of customer
- **Subject the fund to customer protection rules** such as diversification requirements, limits on leverage, or a ban on short-selling

1) *Investor categorization and their definition,* The Securities and Exchange Commission (SEC), 2022 https://www.sec.or.th/Documents/PHS/Attach/748/hearing322564s03.pdf
2) *European long-term investment funds – frequently asked questions,* European Union, 2015 https://ec.europa.eu/commission/presscorner/detail/el/MEMO_15_4423
Source: Deloitte Analysis

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Regulatory initiative: C-1 Enhance investor protections by improving debt enforcement capabilities

C-1 Enhance investor protections by improving debt enforcement capabilities: Introduction

Many lenders are deterred from operating in Thailand due to the nation's debt enforcement challenges (i.e., when the borrower goes bankrupt or defaults on the loan, and the lender faces challenges obtaining the pledged collateral or collecting on the outstanding loan in a timely manner).

In Thailand, there is no defined timebox to resolve debt enforcement issues; debt enforcement still relies heavily on traditional courts, which are often backlogged; and there lacks a centralized database for debtors' assets, leading to difficulties when verifying assets for collateral collection.

We discuss 4 sub-initiatives to potentially help address the issue: 1) expedite debt resolution by clearly defining required timeframes, 2) empower the existing arbitration scheme by granting them more enforcement rights, 3) grant additional power to third parties to help carry out debt enforcement and asset collection, and 4) establish a robust centralized database of debtors' assets.

Success stories can be found in India and the US. India introduced the Corporate Insolvency Resolution Procedure (CIRP) to establish a time-bound regulatory framework (330-day mandate), which helped to shorten resolution timelines.[1,2] The U.S. Department of Justice established a centralised database to trace debtors' assets, increasing the effectiveness of insolvency procedures.[3]

Debt enforcement issues are a key deterrent for international funds looking at Thailand. Addressing the issue could help attract international funds and encourage international skills transfer.

1) *Analysis of Time Limit under Section 12 of the IBC for completion of Insolvency Resolution Process,* IBC Laws, 2017 https://ibclaw.in/analysis-on-time-limit-under-section-12-of-the-code-for-completion-of-cirp/#:~:text=As%20per%20the%20https://www.ibbi.gov.in/uploads/whatsnew/a650764a464bc60fe330bce464d5607d.pdfInsolvency%20and,the%20time%20taken%20in%20legal
2) *Distressed Investing in India: Coming of Age,* AIMA, 2021 https://acc.aima.org/article/distressed-investing-india.html
3) *A Critique of Debt Collection Systems in Foreign Jurisdictions and Best Practices*, Pawaris Lertthammavee, 2018 https://so04.tci-thaijo.org/index.php/JTJS/article/download/246934/167802/862938

Source: Deloitte Analysis

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Regulatory initiative: C-1 Enhance investor protections by improving debt enforcement capabilities

C-1 Enhance investor protections by improving debt enforcement capabilities (1/3)

Initiative for challenge 1 2

Definition of the initiative

This initiative is aimed at improving the debt enforcement environment by promoting investor-friendly debt enforcement tools and frameworks, and enabling lenders to streamline the debt enforcement process in case of default.

Currently, investors in Thailand are not well protected by existing regulatory practices regarding debt enforcement. Many have concerns about lending in this market because of the protracted debt collection process in cases of default.

Impact of the initiative

Borrowers

- **Access to a larger pool of debt financing** as investors, with better protection, would be encouraged to provide more loans
- **More flexible loan agreement terms** as investors are more confident to make less strict contract agreements

Intermediaries

- **Ability to attract more investors** as investment in private debt would be seen as less risky and more protected in cases of bankruptcy or default

Investors

- **More investment opportunities in the private debt asset** class as perceived risk for default cases is lessened by robust debt enforcement guidelines
- A streamlined debt enforcement process **reduces cost and time for debt recovery**

Example of initiatives abroad

India's time-bound insolvency resolution enables shorter debt resolution time and higher recovery rate

- In 2016, India introduced a robust time-bound regulatory framework, known as the Corporate Insolvency Resolution Procedure (CIRP), to resolve creditor difficulties for debt resolution within a mandated 330 days.[1] The framework has improved the recovery rate and shortened the resolution timeline[2]
- The Pre-packaged Insolvency Resolution Process (PIRP) was proposed to provide an alternative resolution process, particularly for micro & SMEs, by allowing debtor and creditor to work on informal resolution plans with a maximum of 120 days to complete, enabling quicker insolvency resolution than the CIRP[3]
- The implementation of an alternative court, National Company Law Tribunal, to govern insolvency cases enables a faster process and lessens the burden on the traditional court

The US Department of Justice uses a centralised database for asset tracing, which supports insolvency procedures

- The US has been recognised as a jurisdiction with strong debt enforcement. One factor is the availability of their database of debtors' information (e.g. assets, financial statements, etc); authorities can use the database to access and efficiently trace the movements of a debtor's assets[4]

Key takeaways from abroad

To improve the end to end debt enforcement process, Thailand could consider: setting up a strict time limit on enforcement; improving the database of debtors' information to provide more clarity on debtors' assets and financial positions; and empowering an alternative court or arbitrator to help handle debt enforcement cases outside of the traditional court.

1) *Analysis of Time Limit under Section 12 of the IBC for completion of Insolvency Resolution Process,* IBC Laws, 2017 https://ibclaw.in/analysis-on-time-limit-under-section-12-of-the-code-for-completion-of-cirp/#:~:text=As%20per%20the%20https://www.ibbi.gov.in/uploads/whatsnew/a650764a464bc60fe330bce464d5607d.pdfInsolvency%20and,the%20time%20taken%20in%20legal
2) *Distressed Investing in India: Coming of Age,* AIMA, 2021 https://acc.aima.org/article/distressed-investing-india.html
3) *Pre-packaged Insolvency Process f or MSME,* India Fillings, 2021 https://www.indiafilings.com/learn/pre-packaged-insolvency-process-for-msme/
4) *A Critique of Debt Collection Systems in Foreign Jurisdictions and Best Practices*, Pawaris Lertthammavee, 2018 https://so04.tci-thaijo.org/index.php/JTJS/article/download/246934/167802/862938

Source: Indian Fillings, The Indian Express, IBC Laws, Deloitte Analysis

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C-1 Enhance investor protections by improving debt enforcement capabilities (2/3)

Concept of the initiative

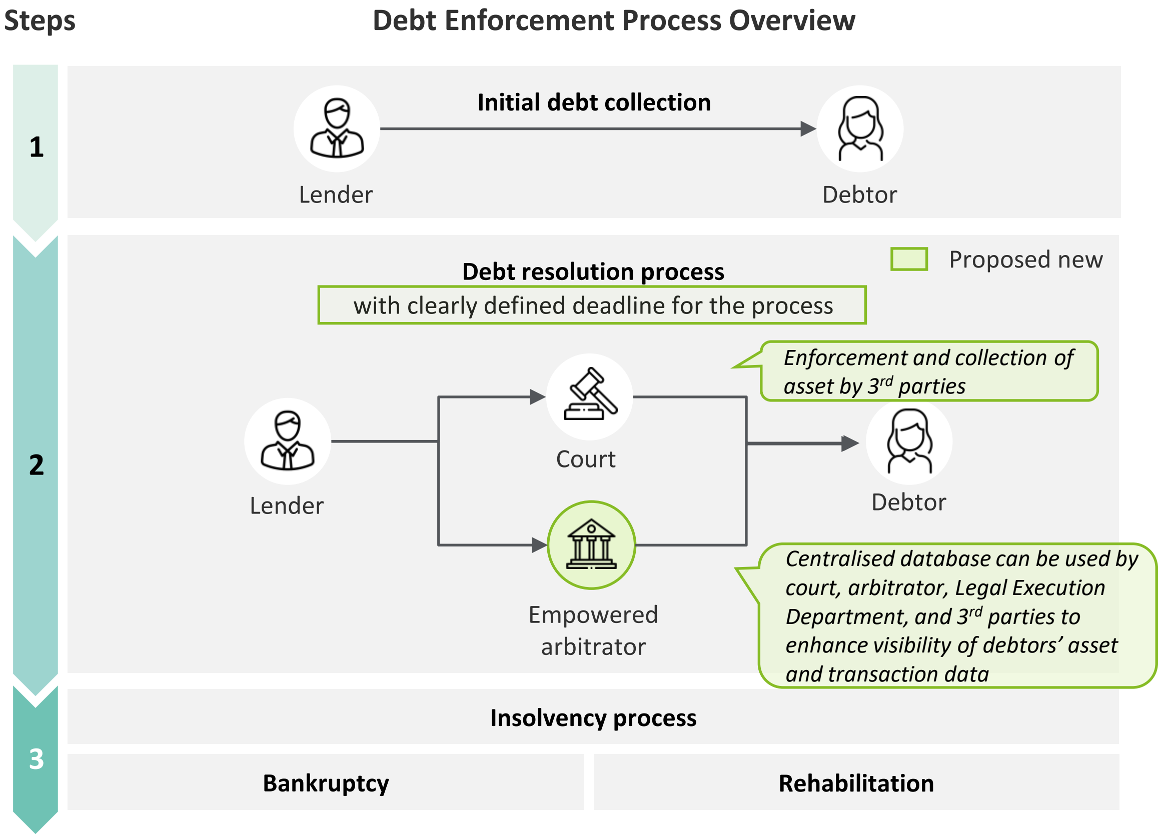
EXISTING

1. The debt enforcement review process in Thailand has no clearly defined timebox for process completion
2. Debt enforcement processes rely heavily on traditional courts:
   a) Review process is limited only to the power of traditional courts, which burdens the courts as case volumes increase
   b) Enforcement and collection of asset proceedings are only limited to the power of the traditional courts and the Legal Execution Department
3. Centralised database of debtors' assets is still not in place, causing difficulty in verifying the pledged assets for collateral collection

PROPOSED NEW

Thailand can consider 4 sub-initiatives to strengthen its debt enforcement framework

1. **Expedite the debt enforcement process** by defining a specific time period in which the entire process must be completed
2. **Empower the existing arbitration scheme** by granting more enforcement rights to arbitrators. Distributing debt enforcement power will help lessen the burden of the traditional courts and speed up the completion of existing cases
3. **Grant power to third parties during enforcement and collection of assets**, such as law firms who would act as representatives of the court and Legal Execution Department
4. **Establish a robust centralised database of debtors' assets** to enable tracking of debtors' assets and transaction data



Source: Deloitte Analysis

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C-1 Enhance investor protections by improving debt enforcement capabilities (3/3)

Additional regulatory considerations

In addition to the 4 sub-initiatives, Thailand can consider the below regulatory strategies to support private debt lenders throughout the collections and debt enforcement processes

Additional Considerations

Grant private debt GPs access to National Credit Bureau records (regulatory initiative B-3) and incorporate behaviors of private debt borrowers into the NCB database

- In order to access the credit data of corporates in Thailand, entities are required to become members of the of National Credit Bureau (NCB). Therefore, Thailand can consider adding private debt GPs to the list of eligible entities. By leveraging the corporates' credit data, private debt GPs would be able to conduct a more comprehensive credit assessment of their potential borrowers.
- Subsequently, Thailand could also consider incorporating the behaviors of private debt borrowers (e.g., payment history, including instances of late payments and non-payments) into NCB records. Private debt borrowers would be incentivized to protect their reputation and avoid defaults, as any negative behavior would be captured in the NCB for future creditors to see.

Streamline lenders' garnishment rights

- Section 316 of the Civil Procedure Code of Thailand (CPC) allows lenders to seize assets/rights of debtors under judgment in which relevant third parties—including employers paying wages, banks paying interests/deposits, etc.—will be notified of such seizure order and will be instructed to make payments not to the debtors, but to the court or to an officer of the Legal Execution Department
- Thailand can work to streamline the above court process for private debt GPs in order to help with collections and recoveries. Currently, lenders are still dependent on the court to issue the orders, and on the Legal Execution Department to receive payments on their behalf--two processes that can be made more lender friendly.

Source: Deloitte Analysis

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Potential infrastructure initiatives

Infrastructure initiative introduction

We have gathered 12 potential infrastructure initiatives to consider, inspired by examples from abroad

Infrastructure initiatives are aimed at enhancing and accelerating the development of the private debt market in Thailand.

In this section, we have gathered 12 potential initiatives that could help aid market development (as seen on the next page), and out of those, we selected 3 to provide further details on:

1. **Developing a secondary market for private debt:** Private debt transactions are illiquid by nature, with loans typically lasting between 3-5 years. Many private debt funds hold the loans to maturity. Introducing a secondary market for this asset class can help provide flexibility for private debt GPs and LPs
2. **Launching a government co-funding program for micro & SME-focused private debt funds:** In a co-funding program, the government would act as an investor (LP), investing alongside private-sector LPs. Eligible private debt funds (e.g., those focused on SME financing) would be able to streamline fundraising and, with government backing, gain the confidence to lend. This type of support could help drive market development, particularly for a nascent private debt market like Thailand
3. **Developing ASEAN cross-border initiative for private debt funds:** Freeing up fundraising and lending across borders would help ASEAN collectively attract both foreign investors and offshore private debt funds. As a part of ASEAN, Thai investors would gain access to a wider range of investment opportunities, borrowers would get access to more financing options, and private debt funds would gain access to a broader range of target companies and fundraising sources

Source: Deloitte Analysis

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Infrastructure initiative overview

We will deep dive into 3 key infrastructure initiatives that could help support development of the private debt funds market in Thailand

Potential infrastructure initiatives

A Developing the supporting platforms and frameworks	A-1 Develop platform to enable P2P transaction between investors and borrowers A-2 Develop mechanism to aggregate and securitize small ticket loans for investors A-3 Develop a secondary market for private debt A-4 Establish private debt funds managed by banks A-5 Develop an open database with standardized financials information of SMEs A-6 Launch government matchmaking scheme to help match investors with borrowers
B Enhancing stakeholders' protection	B-1 Set up a specialised court for debt enforcement B-2 Launch a government credit guarantee program
C Enhancing stakeholders' knowledge	C-1 Launch an educational program to enhance stakeholders' knowledge of private debt
D Implementing financial support for private debt funds	D-1 Implement cost subsidy to help set up private debt funds D-2 Launch government co-funding scheme for micro & SME-focused private debt funds
E Improving cross-border transaction	E-1 Develop ASEAN cross-border initiative for private debt funds

Selection criteria

- Ability to nurture nascent market
- Suitability to Thailand's context
- Impact on key stakeholders

Selected initiatives for deep dive

- **A-3** Develop a secondary market for private debt
- **D-2** Launch government co-funding scheme for micro & SME-focused private debt funds
- **E-1** Develop ASEAN cross-border initiative for private debt funds

Source: Deloitte Analysis

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Infrastructure initiative: A-3 Developing a secondary market for private debt

A-3 Developing a secondary market for private debt: Introduction

Private debt loans are relatively illiquid assets, especially compared with traditional fixed income products tradeable in public markets.[1] Potential investors and lenders may often be deterred from locking up their capital for longer periods in such investments. To provide GPs and LPs additional flexibility, Thailand can consider encouraging a secondary market for private debt transactions, enabling participants to exit their loan before maturity, and providing a liquidity mechanism for stakeholders.

Examples of secondary private debt activities and schemes can be seen in the UK, where some GPs even have strategies focusing solely on private debt secondaries.[2,3] Another example is the US, where banks originating small business loans can apply for guarantees through the Small Business Administration (SBA), and sell the guaranteed portion of the loans on the secondary market.[4]

1) *Private debt: A lesser-known corner of finance finds the spotlight,* S&P Global, 2021 https://www.spglobal.com/en/research-insights/featured/private-debt
2) *Pantheon passes $2.4bn in private debt secondaries as flagship fund exceeds target*, Bloomberg, 2022 https://www.bloomberg.com/press-releases/2022-05-24/pantheon-passes-2-4bn-in-private-debt-secondaries-as-flagship-fund-exceeds-target
3) *Coller capital closes worlds largest private credit secondary fund*, Coller Capital, 2022 https://www.collercapital.com/coller-capital-closes-worlds-largest-private-credit-secondary-fund
4) *So you want to sell your SBA loan… what's next?,* Prudent Lenders, 2022 https://prudentlenders.com/sba-lending-knowledge-base-articles/so-you-want-to-sell-your-sba-loanwhats-next

Source: Deloitte Analysis

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Infrastructure initiative: A-3 Developing a secondary market for private debt

A-3 Develop a secondary market for private debt (1/3)

Initiative for challenge 2 3

Definition of the initiative

A **secondary private debt market** aims to facilitate the trading of existing private debt securities and loans (including both healthy loans and non-performing loans) between buyers and sellers such as banks, private debt funds, and other asset managers.

Impact of the initiative

Borrowers

- **A secondary market can encourage more lenders to participate,** which increases private debt supply
- **Deal terms may be improved** as intermediaries have more flexibility in trading funds in the secondary market

Intermediaries

- **More dynamic and diversified portfolios** as intermediaries can now rebalance investments
- **More flexibility in portfolio management** as intermediaries can now trade their funds in the secondary market
- **Increased transparency** of investments as investment performances and reports are shared among players
- **Quicker access to yield and liquidity** as there will be more willingness to commit more capital in an environment with active returns

Investors

- **Increased number and diversity** of funds to invest in as more portfolios become available

Example of initiatives abroad

Setup of Small Business Administration secondary loan market program[1]

- The SBA secondary market was formed as a result of the Secondary Market Improvement Acts of 1984. The secondary market was created to provide additional liquidity to lenders and expand the availability of credit to small businesses. The secondary market allows a pool of investors (including banks, asset managers, and other financial institutions) to invest in SBA-backed secondary loans

Enabling secondary private debt market deals between GPs in the UK

- There is significant secondary private debt market activity in the UK, largely driven by private debt funds investing in secondaries. For instance, Coller Capital recently closed its credit secondary fund CCO I at USD 1.4bn[2], and Pantheon just passed USD 2.4bn of capital in private debt secondaries[3]

India established Secondary Loan Market Association to promote secondary loans[4]

- SLMA was incorporated in 2020 by 10 major public, private, and foreign banks to develop the secondary market for loans in India. The association set up an online system for the standardisation and simplification of documentation for the purchasing and sale of secondary loans

Key takeaways from abroad

Developing a secondary market allows a wide range of players to engage in the buying/selling of existing debt. This not only helps improve the liquidity of assets, but also helps provide additional liquidity to investors/intermediaries and expands the availability of credit to borrowers, resulting in healthy market development.

In some countries, agencies and associations were set up to help mediate relationships between secondary market players, facilitate deals, and set up regulatory frameworks.

1) *So you want to sell your SBA loan… what's next?,* Prudent Lenders, 2022 https://prudentlenders.com/sba-lending-knowledge-base-articles/so-you-want-to-sell-your-sba-loanwhats-next
2) *Coller capital closes worlds largest private credit secondary fund*, Coller Capital, 2022 https://www.collercapital.com/coller-capital-closes-worlds-largest-private-credit-secondary-fund
3) *Pantheon passes $2.4bn in private debt secondaries as flagship fund exceeds target*, Bloomberg, 2022 https://www.bloomberg.com/press-releases/2022-05-24/pantheon-passes-2-4bn-in-private-debt-secondaries-as-flagship-fund-exceeds-target
4) *What is the SLMA*, SLMA, 2022 https://www.slma.in/page/about-slma

Source: Deloitte Analysis

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A-3 Develop a secondary market for private debt (2/3)

1. Loan Originators

Loan originators are entities that conduct due diligence for and underwriting of the loan. Examples include:

- ***Bank loans***: Business loans that are originated by commercial banks (not considered private debt)
- ***Digital lending platform products***: Debt originated from crowdfunding and financing platforms
- ***Private debt fund loans***: Loans that originated by private debt GPs

2. Secondary Market Products:

Secondary market products include repackaged healthy loans, as well as non-performing loans (NPLs). For the purpose of our report, we only focus on building a secondary market for healthy loans as liquidity options for LPs / GPs who want to exit early.

Certain debts can go straight to the secondary market (i.e., large ticket loans), while others may need to be bundled and securitised to be attractive in the secondary market (e.g., small ticket loans).

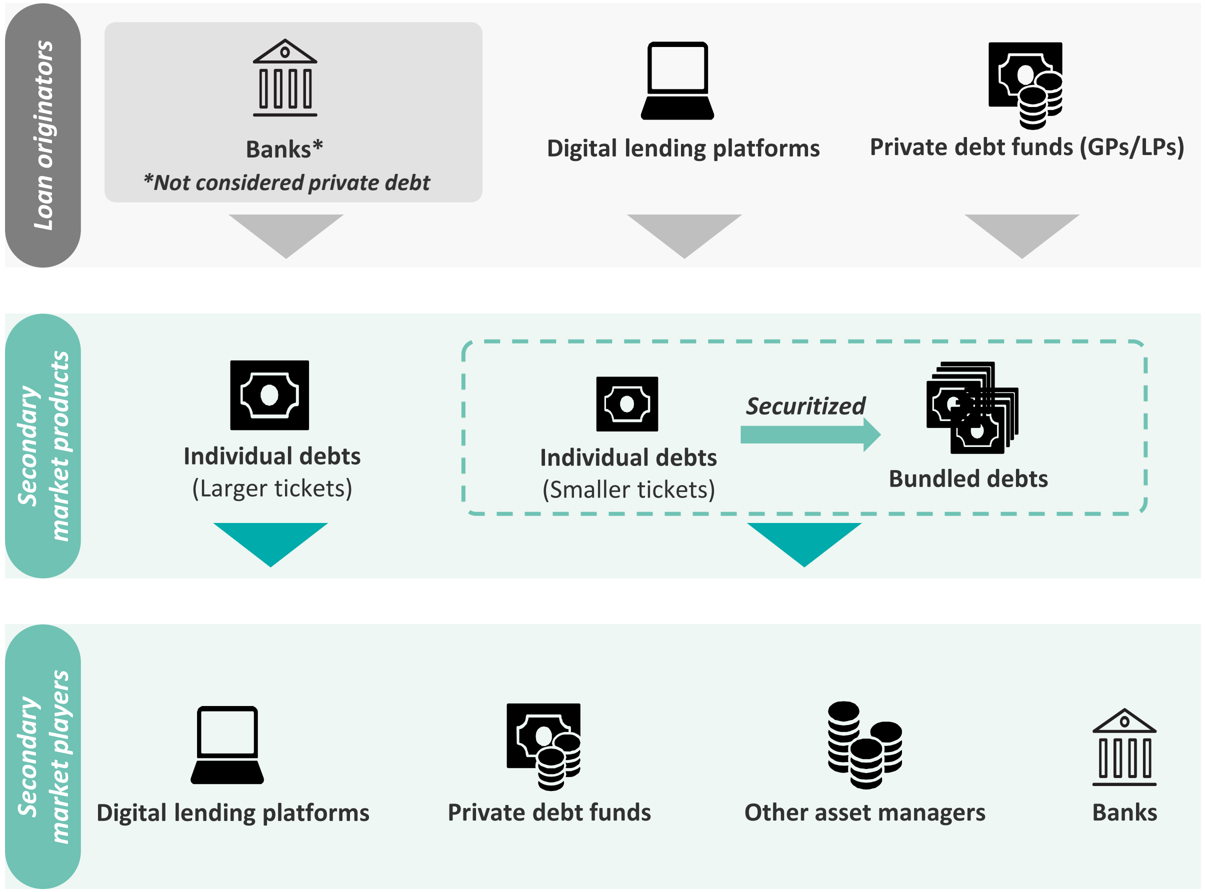
Note: Securitisation is the process in which individual debt assets are pooled and packaged into tradable assets. In Thailand, securitisation is governed by the Special Purpose Juristic Persons for Securitisation B.E. 2540 (the "SPV Act"). Although the legal environment in Thailand under the SPV Act is sufficiently conducive for the implementation of securitisations, certain regimes can be improved, e.g., the length of the approval process. There are a limited number of securitised transactions in Thailand, but examples include:

- *Mortgage securitisation by Secondary Mortgage Corporation*[1]
- *Credit card receivables securitisation by AEON Thana Sinsap*[2]
- *NPL securitisation by financial institutions such as commercial banks*[3]

3. Secondary Market Players:

Secondary market players consist of different entities that sell loans that they themselves originated (e.g., in order to obtain liquidity), or buy loans that were originated from others as an investment strategy.

Note: There should be control mechanisms in place (i.e., the minimum holding period for loan originators, etc.) to mitigate the risk of loans being originated without proper due diligence and underwriting only to be sold to 3rd party (i.e., "originate-to-distribute" risks).



1) *SMC to market mortgage-backed securities to public,* Bangkok Post, Mar 2014 https://www.bangkokpost.com/business/399027/smc-to-market-mortgage-backed-securities-to-public
2) *Supporting Securitization of Credit Card Receivables in Thailand*, The Japan Bank for International Cooperation, May 2013 https://www.jbic.go.jp/en/information/press/press-2013/0521-6205.html
3) *Non-performing Debt Investment and Management Business*, Chayo Group, September 2022 https://www.chayo555.com/en/our-service/non-performing-debt-investment-and-management-business
Source: The Securities and Exchange Commission (SEC), Deloitte Analysis

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A-3 Develop a secondary market for private debt (3/3)

Proposed new secondaries transactions

Banks – GPs/LPs

Banks → GPs/LPs

To allow GPs/LPs to buy loans from banks, current regulation that states that Thai funds regulated by the SEC are not allowed to buy loans could be refined

GPs/LPs – GPs/LPs

GPs/LPs → GPs/LPs

To support secondary transactions between GPs/LPs; regulations on borrower consent could be refined to help streamline processes

Example transactions from abroad

SBA lets investors invest in secondary loans through pool assemblers[1]

- Banks originating small business loans can apply to the SBA for guarantees between 75% to 90% of the loan balance. The **lenders can then sell the guaranteed portion of the loan into the secondary market**
- The loans are aggregated by authorised SBA pool assemblers, which are essentially **financial and investment entities that aggregate and manage the secondary loans,** before being sold to investors

Some GPs have strategies focused only on the secondary market[2]

- Pantheon is a private market investment firm that invests in private debt. Pantheon's private debt secondary unit invests across senior debt to more opportunistic debt, and includes GP and LP initiated liquidity solutions
- Pantheon has a total capital of USD 2.4bn dedicated to private debt secondaries, **focusing on a range of GP-led and LP-led secondaries**

1) *SBA floater basics,* Bond Investment Mentor, May 2020 https://bondinvestmentmentor.com/sba-floater-basics/
2) *Pantheon passes $2.4 bn in private debt secondaries as flagship fund exceeds target,* Businesswire, May 2022 https://www.businesswire.com/news/home/20220523005762/en/Pantheon-Passes-2.4bn-in-Private-Debt-Secondaries-as-Flagship-Fund-Exceeds-Target
Source: Deloitte Analysis

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Infrastructure initiative: D-2 Launch government co-funding scheme for micro & SME-focused private debt funds

D-2 Launch government co-funding scheme for micro & SME-focused private debt funds: Introduction

There is untapped demand for financing from Thai micro & SMEs. This group covers more than 99% of all enterprises in Thailand and contributes to more than a third of Thailand's GDP.[1] With Covid-19, micro & SMEs are having a tougher time obtaining loans from traditional sources (i.e., commercial banks). This opens the door for private debt funds to come in and lend.

In order to encourage private debt funds in this nascent market, the Thai government can consider setting up a co-investment scheme. Under this program, the government would invest as an LP alongside institutional and other accredited investors. This would support private debt activity by streamlining GP fundraising processes and encouraging other private sector LPs to invest alongside.

Government co-investments could also encourage GPs to be first-movers and gain hands-on experience in a risk-reduced environment, thus helping to address the human capital challenge for nascent private debt markets.

For this initiative to be successful, it will be important to ensure that the primary lenders (i.e., the private debt GPs) continue to have significant "skin in the game"—so that they are still incentivised to originate loans of appropriate quality. This is to prevent "moral hazard" risks—where the GP originates loans to unqualified borrowers knowing that they have government backing.

Success stories for government co-investment can be found in the UK. There, the British Business Bank has set up a commercial subsidiary, British Business Investments, to invest in private debt funds as an LP, and to provide private debt education to various stakeholders. The investments focus on financing micro & SMEs across the nation.[2]

1) *Asia SME Monitor: Thailand,* Asian Development Bank, 2021 https://data.adb.org/dataset/asia-small-and-medium-sized-enterprise-monitor-2021-volume-1-country-and-regional-reviews
2) *About Us,* British Business Investments, 2022 https://www.bbinv.co.uk/about-us/
Source: Deloitte Analysis, Company Website, Press Search, Deloitte Interviews

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D-2 Launch government co-funding scheme for micro & SME-focused private debt funds (1/3)

Initiative for challenge 2 3

Definition of the initiative

Government co-investment schemes have been carried out in countries abroad to varying degrees.

This initiative aims to **address the insufficient market and stakeholder readiness** challenge and the **information asymmetry** challenge in the Thai market, particularly for SME financing, by tackling the following issues:

1. Lack of funding for mid-sized loans (i.e., small ticket loans) for companies that cannot access bank lending
2. Lack of investor confidence in private debt, as a result of lack of knowledge
3. Lack of human capital / local talent in the private debt space
4. Lack of GP interest in lending to SMEs, as it is difficult to obtain adequate financial information to ensure SME credit worthiness in private markets

To address these barriers, Thailand can **set up a government-backed commercial organization** to:

1. Invest as an LP in private debt funds focused on mid-sized loans by:
    - Selecting and investing in funds that match with the program mandate (e.g., SME focused loans)
    - Choosing to partner with either investors or private debt funds in 'investment matching' schemes, i.e., matching the investment made by the counterparty with an injection into the fund at a pre-determined ratio
2. Use returns generated to support SMEs and educate stakeholders

Impact of the initiative

Borrowers

- **Increased variety of lenders** as the initiative helps to incentivise and attract more participants
- **Increased access to non-bank financing** for mid-size transactions that would otherwise not be available in the marketplace

Intermediaries

- Ability **to raise money quickly**
- **Broader lending opportunities** with access to more capital
- Government entities, leading by example, **instill confidence in the fund** among investors

Investors

- **Risk reduction**, given government support in the fund

Government

- **Stimulate lending and investor activity** in Thailand
- **Generate returns that can be re-invested** to further develop the private debt market and support SMEs

Source: Deloitte Analysis

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D-2 Launch government co-funding scheme for micro & SME-focused private debt funds (2/3)

Concept of the initiative

EXISTING

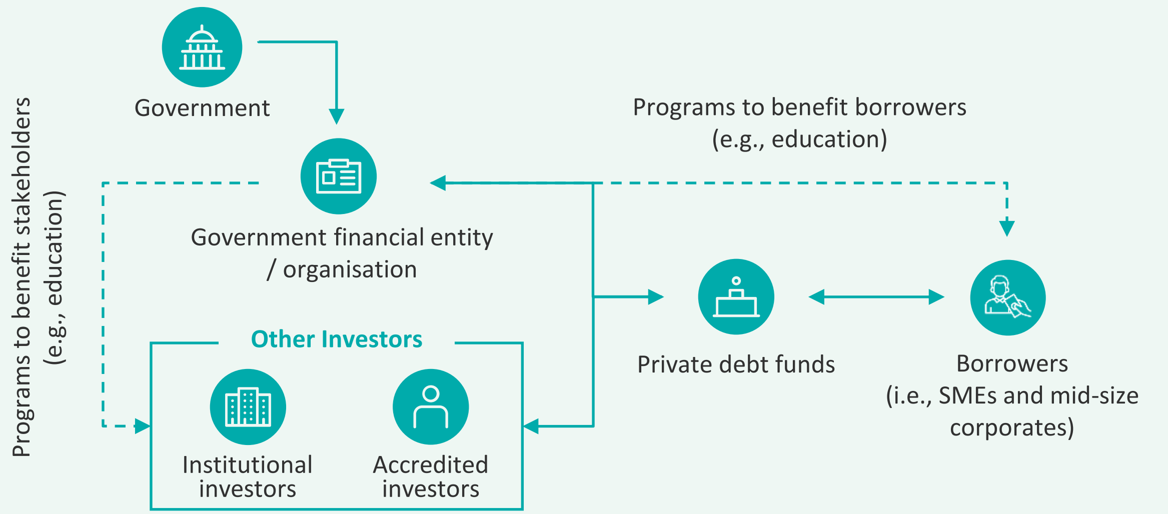
1. Thailand has certain initiatives to help small businesses development. Examples include:
   - a) Establishing the office of SME promotion
   - b) Setting up the SME development bank
   - c) Launching the Thailand Credit Guarantee institution
2. Currently, there is no government organization that invests in private debt funds

PROPOSED NEW

The Thai government can consider 3 key moves:

1. **Allocate funds to a government-backed commercial organisation** with a **mandate to co-invest in Thai micro & SME** focused private debt funds
2. **Set up a co-investment programme** managed by this organisation that can:
   - a) Identify private debt funds to invest in
   - b) Partner with private debt funds to co-fund their investment opportunities
   - c) Partner with institutional investors to match their investments in private debt funds
3. **Set up a mechanism to use the returns** from the programme **to fund further initiatives (e.g., education) that benefit stakeholders**

Illustrative Business Model



- Funds allocated through the government will be co-invested with other investors in private debt funds, and the funds will be deployed to SMEs
- The returns from the private debt investment go back to the government body and can be used to further support other programs to support smaller businesses, e.g., private debt education
- In considering this initiative, it will be important to ensure incentives between all stakeholders are aligned, in order to mitigate moral hazard risks (and ensure that the due diligence process remains robust)

Source: Deloitte Analysis

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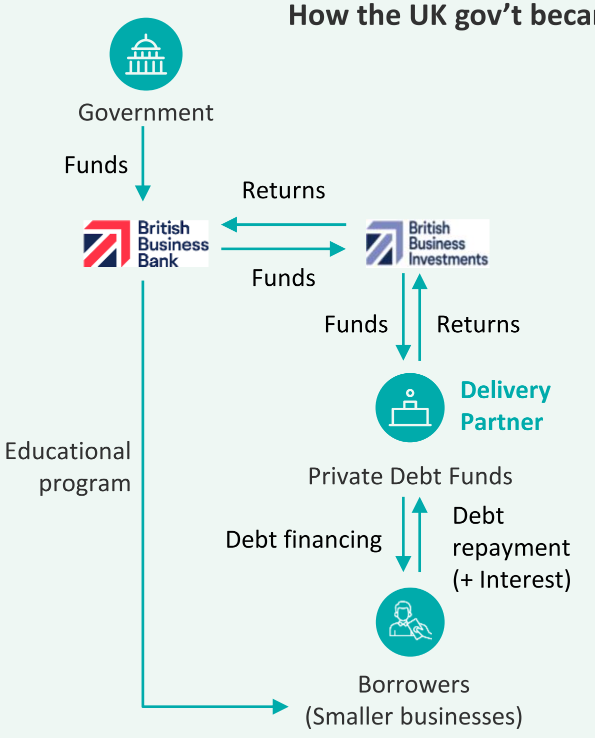
Infrastructure initiative: D-2 Launch government co-funding scheme for micro & SME-focused private debt funds

D-2 Launch government co-funding scheme for micro & SME-focused private debt funds (3/3)

Example of initiatives abroad

How the UK gov't became involved in private debt[1,2]



Set up with government funding, British Business Bank participates in finance markets through its investment and educational programme

British Business Investments, a commercial subsidiary**, invested in private debt funds as a limited partner;** the funds were established with the core objective to support micro & SMEs across the UK

Delivery partner invests in the debt financing of smaller businesses and receives repayments with interest back from borrowers

Key Impacts:

1. **Increase the depth of the capital market**
   - Improve efficiency of the UK capital market through diverse financing solutions
   - Increased supply of funding will help to bridge financing gaps in the market and address financial inclusion challenges
2. **Promote the productivity of the economy**
   - Financing access will drive micro & SME growth and mobilize their business plans to ultimately boost economic productivity
3. **Drive in-country private debt growth**
   - Government funding support enables and encourages private debt funds to lend money to micro & SMEs
4. **Ensure all stakeholders have skin in the game**
   - The government investor, private investor, and GP all have a financial interest in ensuring due diligence is robust and borrowers are able to repay loans

1) *Annual Report,* British Business Bank, 2021
2) *Annual Report,* British Business Investment, 2021
Source: British Business Bank, British Business Investment, Deloitte Analysis

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Infrastructure initiative: E-1 Develop ASEAN cross-border initiative for private debt funds

E-1 Develop ASEAN cross-border initiative for private debt funds: Introduction

Like Thailand, private debt markets around ASEAN are still at a relatively nascent stage, especially compared with the US and Europe. However, global players are increasingly expanding their activities into Asia. Thailand can potentially tap into this momentum by initiating different cross-border programs with ASEAN neighbours.

In 2015, the ASEAN Economic Community developed a blueprint to promote a regionally integrated capital market.[1] As part of the blueprint, the Working Committee on Capital Market Development (WCCMD) and the ASEAN Capital Markets Forum (ACMF) have worked on initiatives related to capital account liberation, cross-border payments, and capacity building to drive regional development.

In continuation of current endeavours, we introduce 3 sub-initiatives that could help support private debt activity: 1) harmonising regulations governing private debt funds, 2) harmonising investor and lender protection measures, and 3) setting up an open data infrastructure across ASEAN. By leading and executing these initiatives at an ASEAN level, Thailand can work with its neighbours to become a more attractive destination for private debt funds and investors.

Success stories of regional collaboration can be seen in the EU, where policies and regulation in the region is constantly being improved and harmonised. For example, the Alternative Investment Fund Managers (AIFM) directive was introduced to harmonise regulatory and supervisory framework for AIFMs across the EU.[2] European Central Bank (ECB) also introduced AnaCredit, a standardised dataset of individual bank loans in the EU that can be accessed across all member states.[3]

1) *The Road to ASEAN Financial Integration,* ADB, 2013 https://www.adb.org/sites/default/files/publication/30202/road-asean-financial-integration.pdf
2) *Debt funds - Easing access to finance by harmonising the EU regulatory framework for loan origination funds,* Arendt, November 2021 https://www.arendt.com/jcms/p_83635/en/debt-funds-easing-access-to-finance-by-harmonising-the-eu-regulatory-framework-for-loan-origination-funds
3) *AnaCredit,* European Central Bank, 2022 https://www.ecb.europa.eu/stats/money_credit_banking/anacredit/html/index.en.html
Source: Deloitte Analysis

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Infrastructure initiative: E-1 Develop ASEAN cross-border initiative for private debt funds

E-1 Develop ASEAN cross-border initiative for private debt funds (1/3)

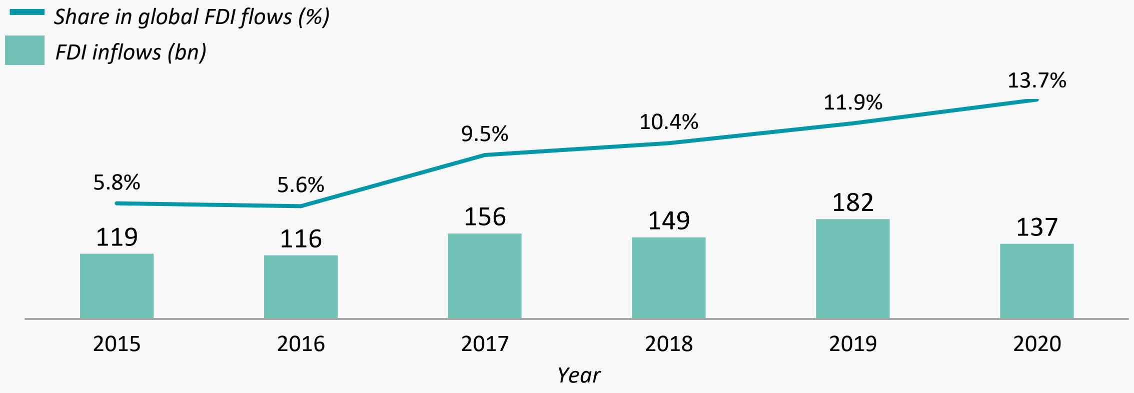
Initiative for challenge 2

Definition of the initiative

Thailand can work on **orchestrating an alliance to build regional cooperation** instead of competing with other ASEAN nations

Thailand can work with other ASEAN nations to facilitate cross-border private debt activity across the region. As of 2020, ASEAN FDI inflows made up ~14% of global FDI flows[1], while developing economies overall made up ~70%[2]

FDI inflows in ASEAN and share in world total, 2015-20,[1] USD bn, %



Source: ASEAN Investment Report 2020-2021 – Investing in Industry 4.0, ASEAN, Sep 2021

Impact of the initiative

Borrowers

- **Access to financing** from a wider range of investors from different geographies
- **Competitive terms to choose from** as competition among lenders increases
- With fewer barriers**, lenders will be able to cater to the financing gaps in the Thai market**, i.e., smaller ticket loans

Intermediaries

- **Larger range of investments and investors to cater to** specific lending strategies
- **Reduced timelines of deal execution and fund raising** as a result of fewer regulatory and infrastructure barriers, resulting in **ability to process higher transaction volumes**

Investors

- **Wider range of choices to invest in and** diversify their portfolio – both in and outside of Thailand

1) *ASEAN Investment Report 2020-2021 – Investing in Industry 4.0*, ASEAN, Sep 2021 https://asean.org/wp-content/uploads/2021/09/AIR-2020-2021.pdf
2) *Global foreign direct investment fell by 42% in 2020, outlook remains weak*, UNCTAD, Jan 2021 https://unctad.org/news/global-foreign-direct-investment-fell-42-2020-outlook-remains-weak
Source: Deloitte Analysis

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Infrastructure initiative: E-1 Develop ASEAN cross-border initiative for private debt funds

E-1 Develop ASEAN cross-border initiative for private debt funds (2/3)

Concept of the initiative

The AEC (ASEAN Economic Community) 2015 blueprint states 3 goals to make ASEAN a regionally integrated capital market[2]:

1. ***Freer movement of capital***
2. ***Issuers free to raise capital***
3. ***Investors free to invest anywhere***

The Working Committee on Capital Market Development (WCCMD) and the ASEAN Capital Markets Forum (ACMF) **are currently working on achieving these goals.**[2]

ASEAN is already exploring Capital Account Liberalisation (CAL), integrated payments & settlement systems, and capacity building initiatives, which would benefit private debt cross-border deal flow.[1]

However, additional initiatives focused on the regional development of private debt can be added to the agenda.

Sub-initiatives to enable a regional private debt alliance[1,2]:

EXISTING

Capital Account Liberalisation:

1. Gradually dismantle legal & admin impediments to free flow of capital in and out of the country
2. Implement safeguards to ensure macro-economic & financial stability
3. Ensure all countries benefit equally

Implement cross-border payments & settlement systems:

1. Harmonise standards & best practices based on international standards
2. Develop settlement infrastructure for cross-border trade, remittance, retail payment systems and capital markets

Capacity building:

1. Conduct learning programmes
2. Share knowledge, experiences and best practices in areas relevant to financial integration & development

PROPOSED NEW

Regional development of private debt:

1. Harmonise regulations governing private debt funds

Harmonised regulatory and supervisory framework for funds based in Southeast Asia, including registration, authorisation, monitoring, marketing etc.

2. Harmonise investor and lender protection measures

Interest rate limits, debt enforcement & insolvency laws, investor classifications can be standardized across Southeast Asia

3. Set up open data infrastructure across ASEAN

Develop standardized datasets on individual loans, SME financials and open banking data that can be shared by private lenders across the region

By executing these initiatives at an ASEAN-level, Thailand can work with its neighbours to collectively become an attractive destination for private debt funds and investors

1) *ASEAN Economic Community Blueprint 2025*, ASEAN, 2015 https://asean.org/wp-content/uploads/2021/08/AECBP_2025r_FINAL.pdf
2) *The Road to ASEAN Financial Integration*, ADB, 2013 https://www.adb.org/sites/default/files/publication/30202/road-asean-financial-integration.pdf
Source: Deloitte Analysis

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Infrastructure initiative: E-1 Develop ASEAN cross-border initiative for private debt funds

E-1 Develop ASEAN cross-border initiative for private debt funds (3/3)

Example of initiatives abroad

1

Directive on Alternative Investment Fund Managers (AIFM) in Europe [1]

This legislation was introduced to further **harmonise the regulatory and supervisory framework for AIFMs across EU**

This directive allows private debt funds, that function as AIFs, to:

1. originate loans in all Member States
2. create a level playing field between different Member States
3. reduce compliance costs

It also aims to improve risk management, ensure financial stability and improve investor protections

2

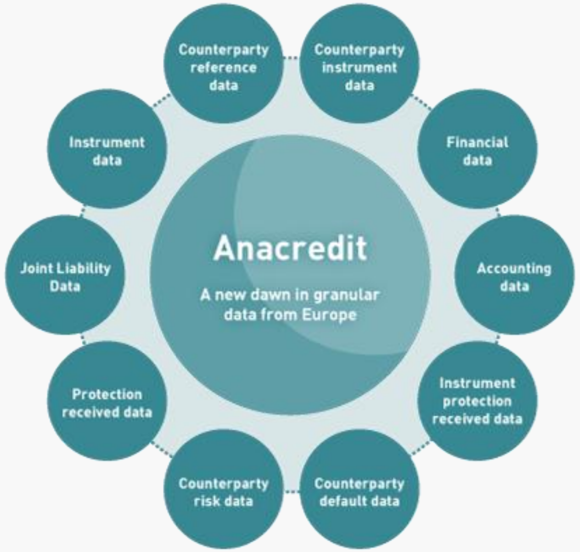
Open data[2]

The European Central Bank (ECB) has created a standardised dataset, AnaCredit (analytical credit datasets), in collaboration with other central banks and credit registers in Europe

It contains detailed data on individual bank loans in the Euro area, that can be accessed across all member states

Europe currently limits access to banks, regulators and research institutes

Thailand can consider implementing an open dataset inclusive of non-bank lenders at a country-level first, before replicating at an ASEAN level



Source: European Central Bank

The structure of the EU is the north star for ASEAN; the EU is constantly improving and harmonising its policies, not only in terms of wider financial integration, but also to better regulate and facilitate private credit in the region

1) *Debt funds - Easing access to finance by harmonising the EU regulatory framework for loan origination funds,* Arendt, November 2021 https://www.arendt.com/jcms/p_83635/en/debt-funds-easing-access-to-finance-by-harmonising-the-eu-regulatory-framework-for-loan-origination-funds
2) *AnaCredit,* European Central Bank, 2022 https://www.ecb.europa.eu/stats/money_credit_banking/anacredit/html/index.en.html
Source: Deloitte Analysis

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Thank you

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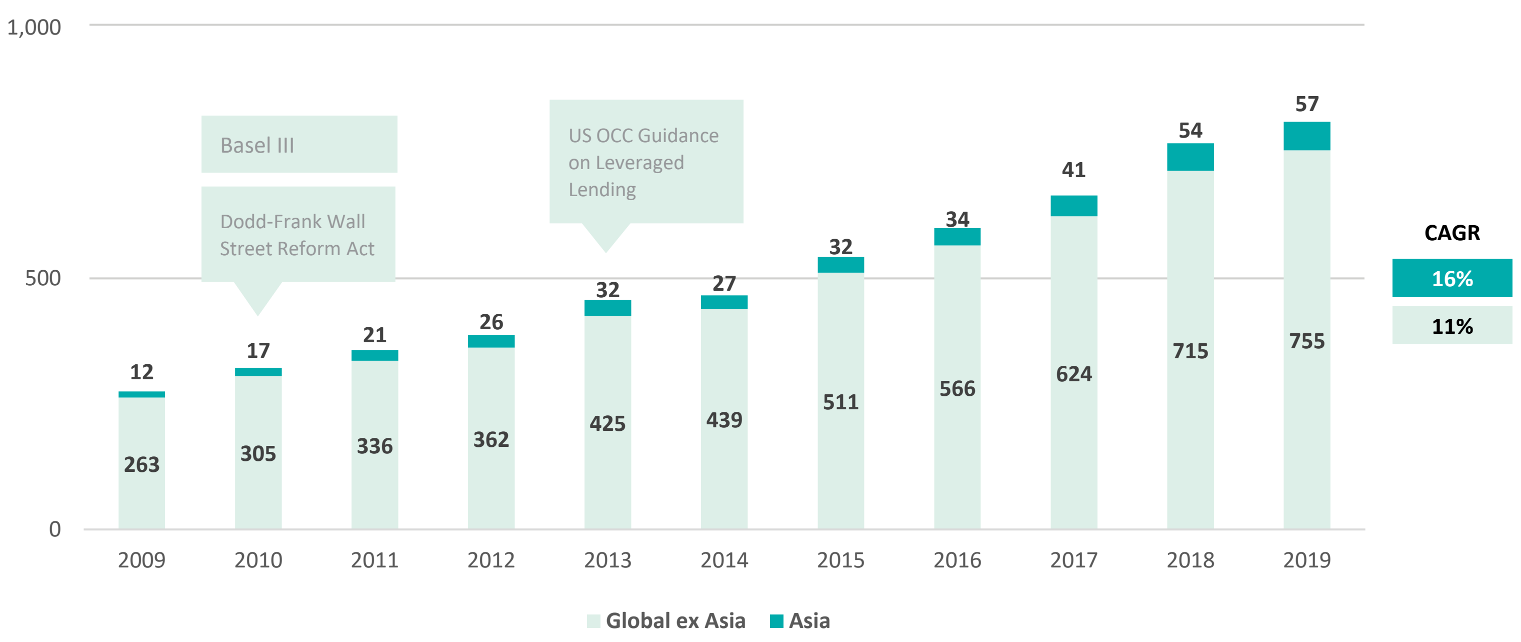
Appendix

Appendix – Chapter 1
Macro and stakeholder trends affecting supply and demand for private debt

Macroeconomic factors influencing demand for private debt

Financial regulations introduced after the global financial crisis have clamped down on bank lending and opened the door for private debt

1 Global private debt AUM, 2009 to 2019 (USD Billion)[2]



Note: Private debt data in this chart is based on definitions set by Preqin Pro
Source: Preqin Pro via the Alternative Credit Council, Simmons & Simmons, EY; Deloitte Research

Macro trends:

After the 2008 global financial crisis, credit markets in the US and globally froze, as banks reduced their lending activities and risk exposures.

In 2010, the US Congress passed the Dodd-Frank Act, which increased regulators' oversight on bank activities across the board. That same year, the Basel Committee for Bank Supervision introduced more stringent capital requirements for banks globally, further limiting banks' abilities to take on credit risk. [1]

Implications to private debt

As a result, alternate lenders, such as private debt GPs, stepped in to fill the financing gap.

Borrower companies found private debt to be a useful solution, as companies were able to negotiate longer-term and more bespoke deals with their lenders—in order to cater to their unique business needs, whether that was to fulfil liquidity requirements, obtain growth capital, or finance acquisitions.

Subsequently, private debt grew in popularity—starting with the US and Europe, and gradually in Asia as well.[2]

1) *Shifts in private debt since the Great Recession,* Pitchbook, September 2019 https://pitchbook.com/blog/shifts-in-private-debt-since-the-great-recession
2) *Private Credit in Asia,* Alternative Credit Council, Simmons & Simmons, EY, July 2020 https://acc.aima.org/static/77a975ad-ae9e-463c-925e08b62f75750c/ACC-Private-Credit-in-Asia.pdf
Source: Preqin Pro, Press Search

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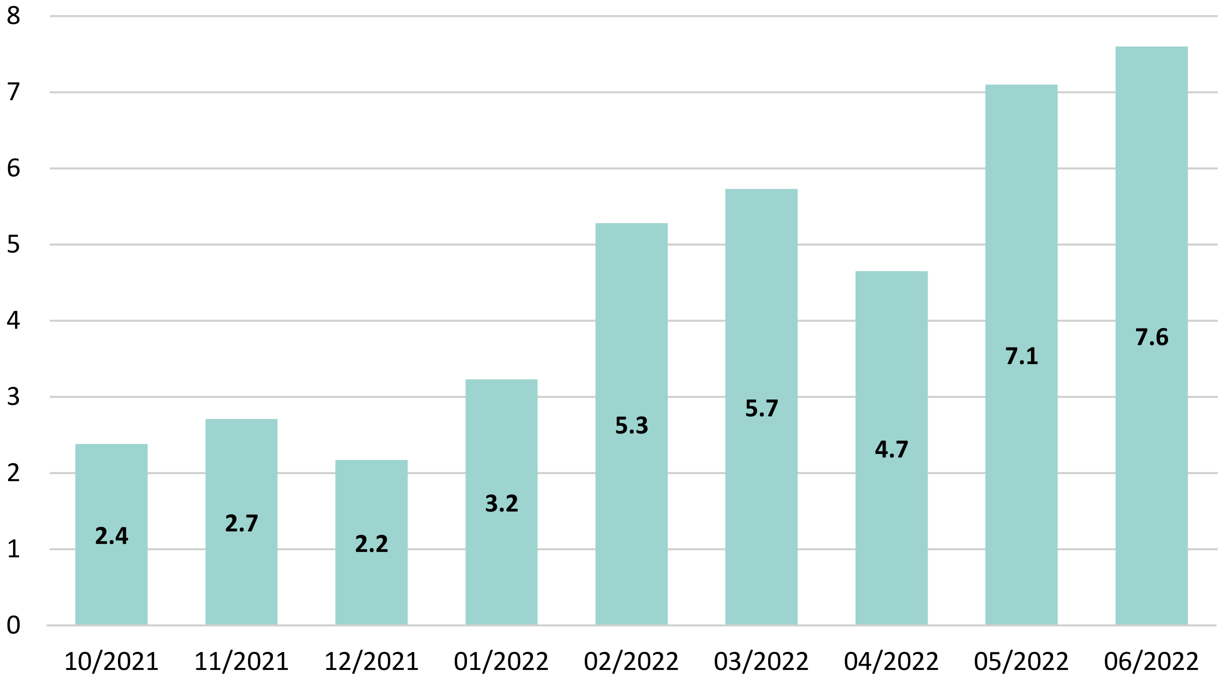
Macroeconomic factors influencing demand for private debt

Rising inflation and projected interest rate hikes will have a mixed impact on private debt adoption

2 Thailand's annual inflation rate (CPI), Oct 2021-Jun 2022[1], percentage



Source: Thailand Ministry of Commerce via Trading Economics

Macro trends:

Thailand's inflation rate increased to 7.6% in June 2022 from 2.4% in October 2021—in part due to the monetary response following COVID-19, as well as other pandemic-related market dynamics.[1]

The Bank of Thailand has discussed increasing their historically low interest rates in order to combat inflation (as of July 2022).[2]

Central banks globally, including in the US and Europe, have also experienced inflationary pressures in the aftermath of COVID-19 and have been responding in similar ways.

Implications to private debt

The rise of private debt globally occurred mostly in a low interest rate environment, where investors were willing to lock up their capital lend to private borrowers in exchange for higher yields. It remains to be seen how private debt demand globally will change in a new interest rate environment.

That said, private debt loans are typically floating rate, making them hedged against interest rate hikes.

Private debt investments also have the advantage of being less volatile than public market investments, particularly during times of economic uncertainty and interest rate changes.[3] This is due to the nature of the market—with private investors committing longer term locked up capital and being less responsive to the news of the day compared with public market traders.

1) *Thailand Inflation Rate*, Thailand Ministry of Commerce via Trading Economics, August 2022, https://tradingeconomics.com/thailand/inflation-cpi
2) *Thai bank chief sees gradual rate hikes to fight inflation*, Reuters, July 2022 https://www.reuters.com/markets/currencies/thai-cbank-pledges-gradual-monetary-policy-adjustments-2022-07-22/
3) *Annual Global Private Debt Report*, Pitchbook, February 2022, https://pitchbook.com/news/reports/2021-annual-global-private-debt-report

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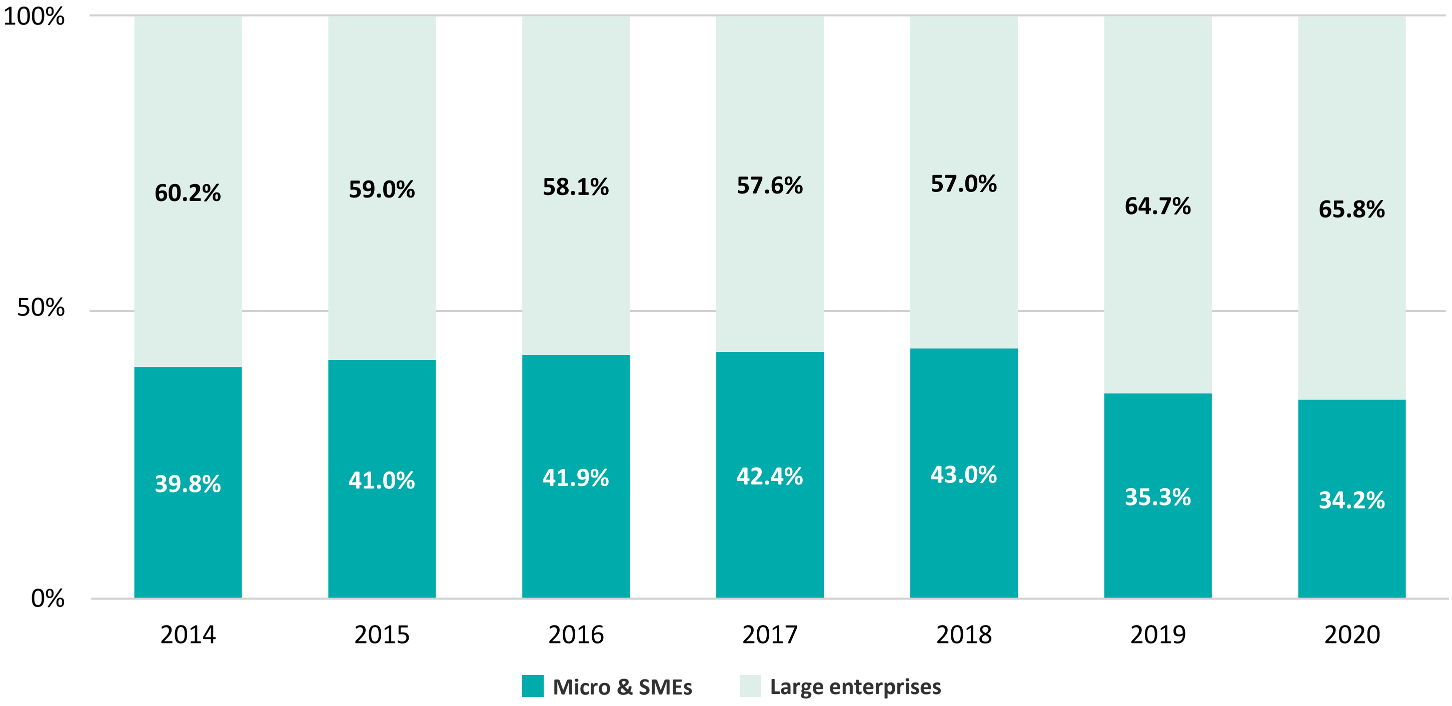
Macroeconomic factors influencing demand for private debt

Micro & SMEs have faced setbacks from COVID-19; their financing needs may open doors for private debt

3 Share of micro & SMEs' GDP to Thailand's total GDP[1], percentage



Source: Asian Development Bank

Macro trends:

In Asia, the middle class continues to expand, which is changing market consumption patterns and supporting the growth of the SME market. The expansion of the middle class will in turn increase the financing needs of SMEs in the region who desire to capitalize on the business growth opportunities.[2]

Before COVID-19, Thai micro & SMEs contributed 43% of national GDP and were trending toward the government's goal of 50% GDP contribution.[3]

However, this group was hit particularly hard during COVID, and their GDP contribution dropped to 34% in 2020.[4]

Implications to private debt

The longer term demographic trends still hint toward micro & SME expansion.

If Thai micro & SMEs were to achieve the 50% GDP contribution target set by the government, they would need more numerous and more flexible financing options than what is available today.

This opens the door for alternative lenders, such as private debt lenders, to step in and offer solutions.

1) *ADB Asia SME Monitor - Thailand*, Asian Development Bank, December 2021, https://data.adb.org/dataset/asia-small-and-medium-sized-enterprise-monitor-2021-volume-1-country-and-regional-reviews
2) *Private Credit in Asia*, Alternative Credit Council, Simmons + Simmons, EY, July 2020, https://acc.aima.org/static/77a975ad-ae9e-463c-925e08b62f75750c/ACC-Private-Credit-in-Asia.pdf
3) *Goal for SMEs to kick in half of GDP,* Bangkok Post, May 2018, https://www.bangkokpost.com/business/1468342/goal-for-smes-to-kick-in-half-of-gdp
4) *Contribution of SMEs to GDP to drop,* Bangkok Post, July 2021, https://www.bangkokpost.com/business/2143935/contribution-of-smes-to-gdp-to-drop

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Borrower Trend

1 Borrowers are shifting away from traditional banking due to increased bank regulations, stringent credit requirements, and limits to capital from banks

1 Regulations are getting stricter

- Bank activities have become more restricted with the introduction of policies like Dodd Frank in the US, and global Basel guidelines[1]
- More robust regulations have been introduced to Thai commercial banks - consisting of tightened regulations in minimum capital requirements, an updated supervisory review process, and updated market discipline[2]

2 Stringent credit requirements

- In Asia, banks rejected 45% of trade finance applications from SMEs and 39% from large and mid-cap corporates[3]
- Reasons for rejection include lack of additional collateral (20%) and lack of profitability to process (26%)[3]
- Financial institutions will continue to tighten credit standards for all sizes of businesses in Thailand due to higher risks in the economic outlook[4]

3 Capital constraints

- Banks have increased liquidity ratios to above the minimum requirement of 100%, suppressing the amount of bank capital available for lending in Thailand[5]
- Basel III required banks to raise their minimum capital requirements and leverage ratio, thus requiring them to maintain higher capital reserves[6]

What is the trend?

- Following the 2008 financial crisis, banks were subject to greater regulatory obligations
- Banks are becoming more risk averse when giving out loans
- Demand for loans increased, however banks are limiting lending due to higher loan loss provisions[7] and liquidity ratios

What is the implication for private debt in Thailand?

- With tightening of regulations on lending requirements, borrowers are finding it challenging to secure funding via traditional banking
- Overall business loan demand is likely to continue increasing in 2022 onwards, while credit standards remain tightened in Thailand[4], signifying a potential increase in demand for financing on alternative platforms

1) *Shifts in private debt since the Great Recession,* Pitchbook, September 2019 https://pitchbook.com/blog/shifts-in-private-debt-since-the-great-recession
2) *Regulations on Supervision of Capital for Commercial Banks,* BoT, December 2012 https://www.bot.or.th/Thai/FIPCS/Documents/FPG/2555/EngPDF/25550332.pdf
3) *Trade Finance Survey,* ADB, September 2019 https://www.adb.org/sites/default/files/publication/521096/adb-brief-113-2019-trade-finance-survey.pdf
4) *Senior Loan Officer Survey*, BoT, 2022 https://www.bot.or.th/English/MonetaryPolicy/EconomicConditions/CreditCondition/LoanSurveyEN22Q1_6l3pi9np.pdf
5) *Performance of the Thai Banking System*, BoT, February 2021 https://www.bot.or.th/Thai/PressandSpeeches/Press/News2564/n1064e.pdf
6) *Basel III,* Corporate Finance Institute, March 2020 https://corporatefinanceinstitute.com/resources/knowledge/finance/basel-iii/
7) Loan loss provision refers to capital that is set aside for buffer/cushion against potential deterioration in loan quality

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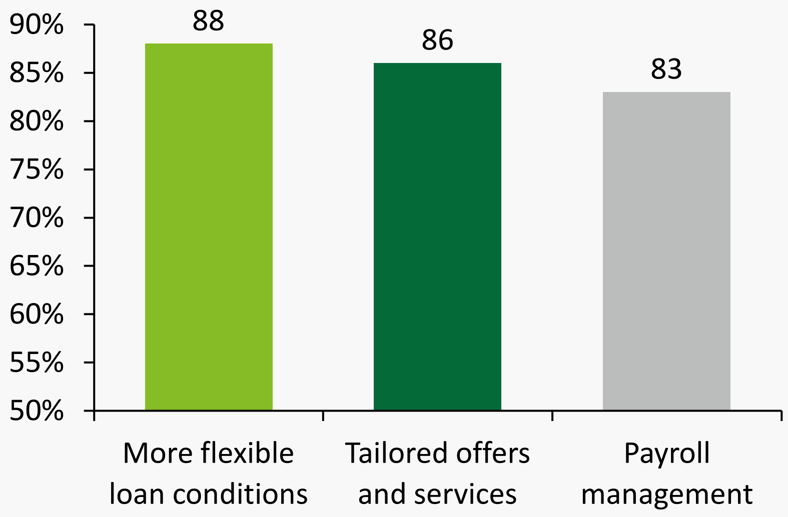
Borrower Trend

2 There is an increased need for loans with flexible lending terms to meet borrower needs (e.g., mezzanine, alternative collateral)

Businesses are open to alternative financing, as the traditional bank has become less flexible due to regulations

Survey on how to improve application processes shows 88% of Thai micro & SMEs want to see more flexible loan conditions, %[3]



Source: Mambu via Tech2Thai

> *Banks are our first go to financial institute for loans, but since Covid-19 it was **difficult to secure the amount we needed** of ~USD 27mm* from banks. We had to turn to 20+ private lenders for **more flexibility in loan terms** in order to full fill our financial needs*
>
> *Thai Corporate Borrower*

What is the trend?

- Due to stricter regulations, banks need to increasingly manage their risk exposure, which impacts their ability to customise loans based on borrower needs
- As a result, many borrowers are turning to non-bank financing that can offer them flexibility

What is the implication for private debt in Thailand?

- Since Thai borrowers primarily rely on bank lending, which is relatively inflexible compared with alternative lending, there is an opportunity for private debt funds to offer tailored solutions and deepen the relationship with their borrowers for future investment opportunities[1,2]

*Note: Number is converted based on exchange rate of 36.6 THB to 1 USD

1) *67 per cent of Manufacturing businesses are interested in flexible financing solutions*, Business Standard, May 2022 https://www.business-standard.com/content/press-releases-ani/67-per-cent-of-manufacturing-businesses-are-interested-in-flexible-financing-solutions-122051101334_1.html

2) *Private Credit in Asia*, AIMA, 2020 https://acc.aima.org/static/77a975ad-ae9e-463c-925e08b62f75750c/ACC-Private-Credit-in-Asia.pdf

3) *Banking platform Mambu's survey shows Thai MSMEs unable to secure business funding*, Tech2Thai, 16 September 2022, https://www.tech2thai.com/fintech/1707/banking-platform-mambu-s-survey-shows-thai-msmes-unable-to-secure-business-funding

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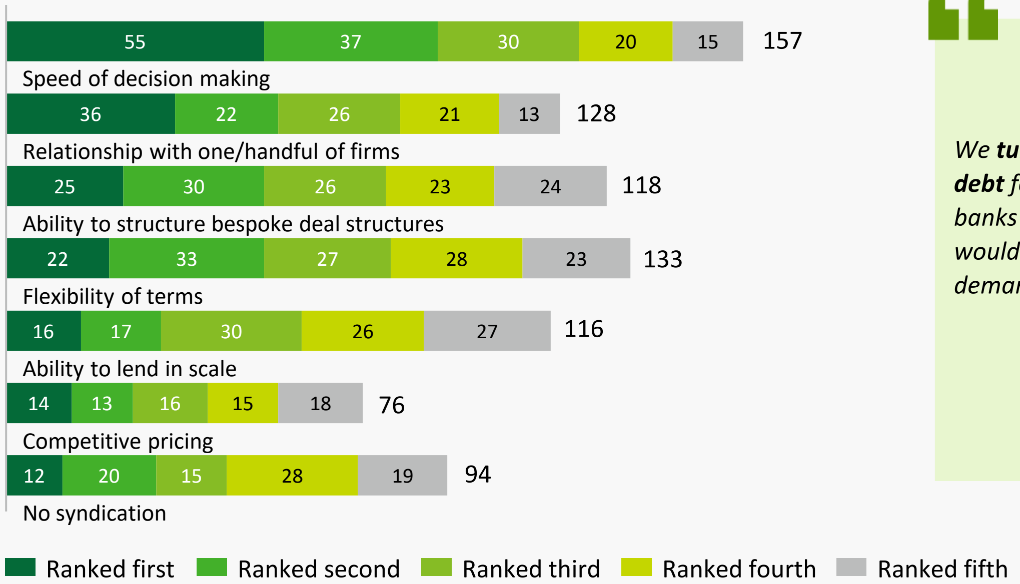
Borrower Trend

3 There is rising need for fast & convenient access to financing as APAC borrowers struggle with complex documentation and lengthy approvals from banks

There is rising need for fast & convenient access to financing has played a key role in driving private debt growth

A survey on what US, UK & EU private debt managers believe their borrowers value the most, number of respondents that ranked each factor[1]



Source: Proskauer Private Credit Survey

> *We **turned to non-bank private debt** for loans as going through banks processes to apply for loans would not satisfy our capital demand in a **timely manner***
>
> *Thai Corporate Borrower*

What is the trend?

- Traditional banking processes are often lengthy with complex documentation, which become the borrowers' pain points in certain business situations when they require speed
- More than one-quarter of US, UK & EU private debt managers surveyed believe that speed of decision making is valued most by borrowers[1]

What is the implication for private debt in Thailand?

- Thai borrowers are turning to alternative lenders to overcome common barriers such as rigid lending processes, too much paperwork and admin, and slow lending speeds[2]

1) *Trend in Private Credit The Industry Speaks*, Proskauer, 2022 https://prfirmpwwwcdn0001.azureedge.net/prfirmstgacctpwwwcdncont0001/uploads/42d102e15a9e8f5597d1fcd2cf022beb.pdf
2) *Banking platform Mambu's survey shows Thai MSMEs unable to secure business funding*, Tech2Thai, 16 September 2022, https://www.tech2thai.com/fintech/1707/banking-platform-mambu-s-survey-shows-thai-msmes-unable-to-secure-business-funding

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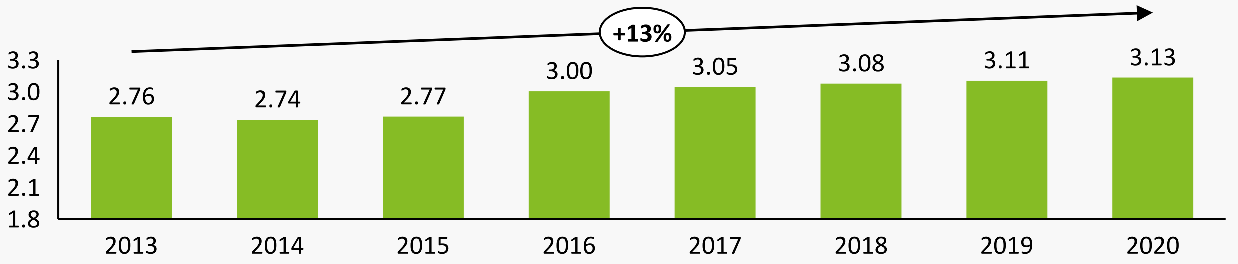
Borrower Trend

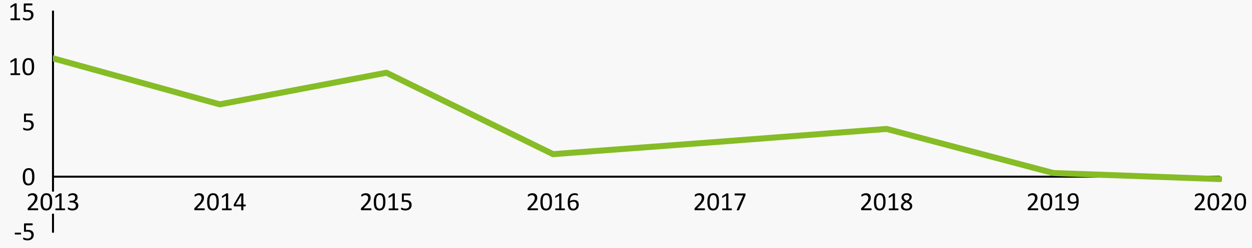
4 There is a rise in financing needs of underserved markets like micro & SMEs in SEA, as bank lending to these segments has slowed

Micro & SMEs are on the rise, signifying higher demand for financing solutions; however, bank lending to SMEs have not kept pace

Number of micro & SMEs in Thailand from 2014-2020, in million[1]



MSME Bank Credit Loan Growth in Thailand from 2013 – 2020, in percentage (%)[1]



Source: Asian Development Bank

What is the trend?

- Number of micro & SMEs in Thailand grew 13% from 2013-2020[1], and is expected to continue growing; however, access to financing continues to be a challenge for them
- Credit loan growth for micro & SMEs from banks has slowed, especially in 2021
- Micro & SMEs often face challenges securing bank financing due to lack of credit history and inadequate collateral[2]

What is the implication for private debt in Thailand?

- Building private debt in the form of digital financing platforms and SME-focused private debt funds could potentially help address the micro & SME financing gap

1) *Asian Development Bank Asia SME Monitor 2021,* Asian Development Bank, 2021 https://data.adb.org/dataset/asia-small-and-medium-sized-enterprise-monitor-2021-volume-1-country-and-regional-reviews
2) *Financial Access of SMEs in Thailand: What are the roles of the central bank?,* Bank of Thailand, June 2005 https://www.bot.or.th/Thai/MonetaryPolicy/ArticleAndResearch/DocumentEconomicSeminar/22April48_SMEsPaper_Chaipat.pdf

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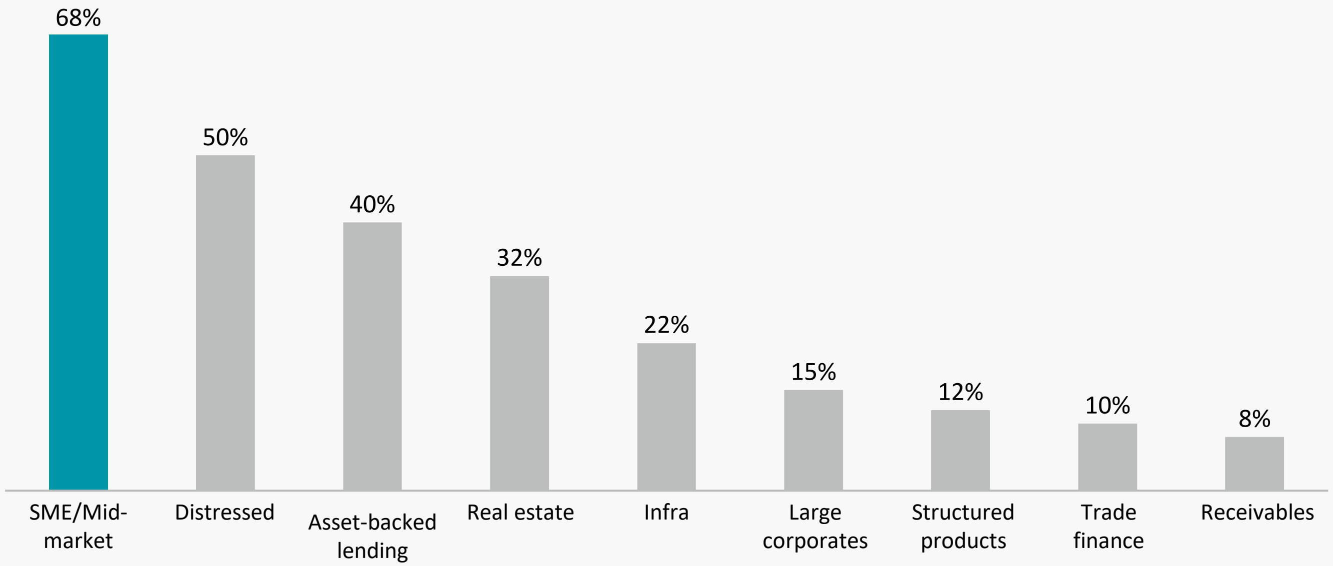
Intermediaries trend

5 There is increased investment in SME and mid-market targets globally

There is strong market sentiment globally among private debt funds toward SME & mid-market lending

Private debt managers' view on investment opportunities from 2020-2022, % of international respondents expecting to invest more in these markets[1]



Source: AIMA

What is the trend?

- Private debt managers are looking to further grow their investment in SME and mid-markets as their core sweet spot
- In response to the unique credit needs in this segment (e.g., flexibility, loan terms, pricing, etc.), private debt managers will try to develop new customised lending strategies that better suit borrower demands

What is the implication for private debt in Thailand?

- With the growing number of SMEs in Thailand, and over 3.1 million registered SMEs as of 2019[2], there is a opportunity for private debt funds to step in and fill the financing gap in Thailand[3]
- Private debt managers would need to tailor their credit assessment processes and deal structures to cater to SMEs that lack access to financing in Thailand, while Thailand would need to make it easier for private debt funds to lend in the region to capitalize on this trend

1) *Financing the economy: The future of private credit*, AIMA, 2019 https://acc.aima.org/static/083f8b56-2636-4b88-a300a2c612f775ae/20112019-FINAL-FTE-Paper-Single-Page-High-Res.pdf
2) *Crowdfunding platform: The future of funding for Thailand's SMEs*, Techsauce, 16 July 2020 https://techsauce.co/en/tech-and-biz/validus-crowdfunding-platforms-for-thai-sme
3) *Scaling digital in the competitive hyper-connected Thai market*, Finance Thailand, October 2021 https://theasianbanker.com/Finance-Thailand-2021/

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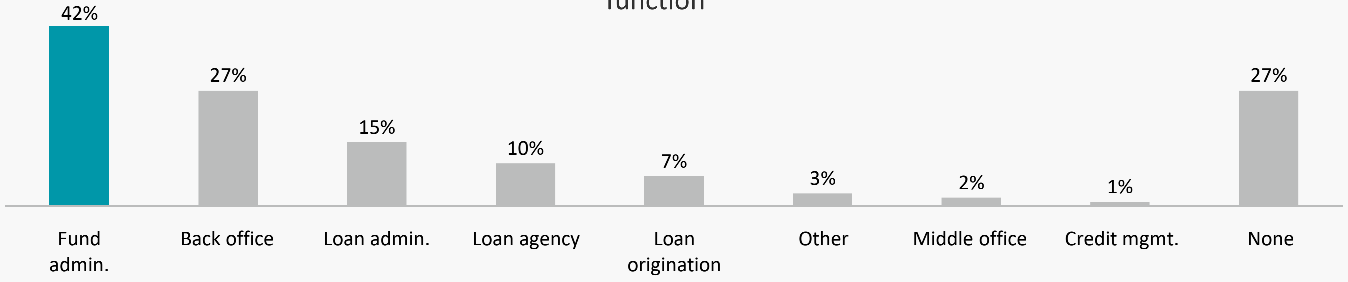
Intermediaries trend

6 There is a shift toward outsourcing and technology to combat increasing fund complexity

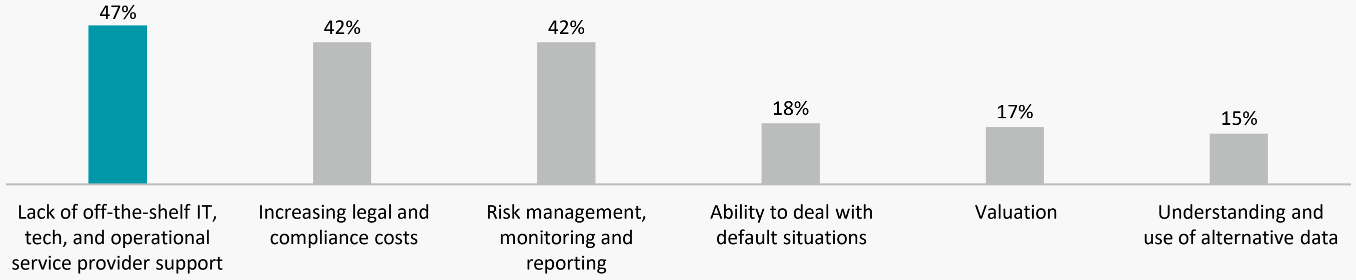
Funds are looking to outsource fund administration as funds grow larger and complexity increases

Ranking of preferred function to be outsourced in the future, % of respondents who planned to outsource each function[1]



Source: TMF Group

Biggest operational challenge faced by private debt managers, % of respondents who cited these challenges[2]



Source: AIMA

What is the trend?

- The increase in number of deals under management comes with more operational complexity, in which private debt funds need to monitor 1) debt facilities (e.g., debt maturity, collateral, payment schedules covenant details); 2) activities beyond debt facilities (e.g., compliance requirements, accounting, fund reporting for their LPs)
- Strong operational efficiency is critical among private debt managers: 70% of the managers stated they will utilise more tech solutions to increase their operational efficiency[1]

What is the implication for private debt in Thailand?

- Currently private debt funds operating in Thailand are limited. However, for the market to grow, funds will need access to outsourcing companies and technologies specialising in Thailand's private debt market
- According to a survey conducted by AIMA[2], lack of operational service support was ranked as the biggest operational challenge faced by private debt funds

1) *Global Private Debt Insights 2022,* TMF Group, June 2022 https://www.tmf-group.com/en/news-insights/publications/2022/global-private-debt/
2) Financing the economy , *The future of private credit*, AIMA, 2019 https://acc.aima.org/static/083f8b56-2636-4b88-a300a2c612f775ae/20112019-FINAL-FTE-Paper-Single-Page-High-Res.pdf

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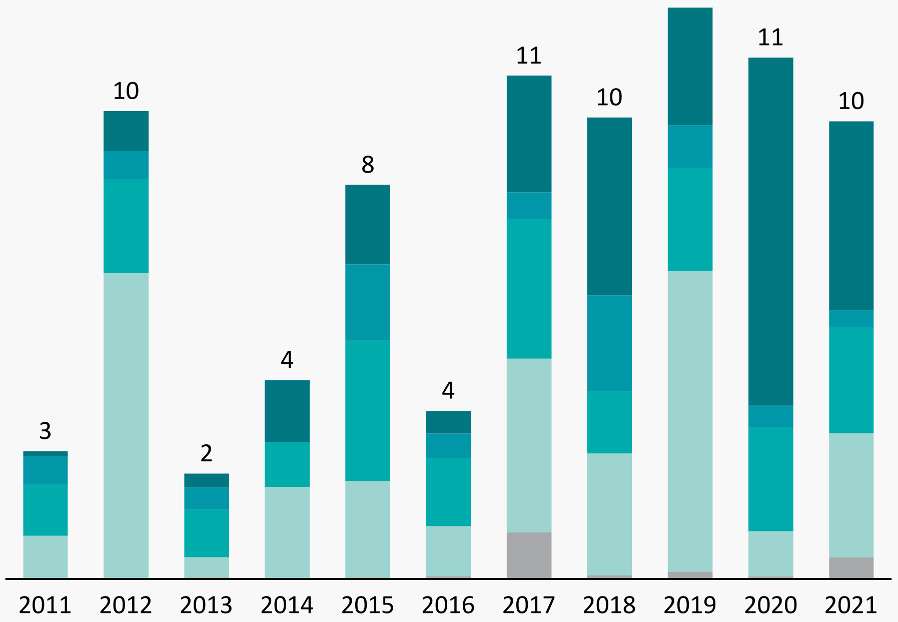
Intermediaries trend

7 Gradual rise in direct lending strategies in Asia over the years will create a more robust lending landscape

Direct lending is becoming main strategy used by private debt funds in Asia Pacific region with annual growth over 40% from 2011-2021

Private debt fundraising in Asia-Pacific by Strategy, in USD billions[1]



	CAGR ('11-'21)
Total	**14%**
Direct Lending	43%
Distressed Debt	-5%
Mezzanine Debt	8%
Special Situations	11%
Venture Debt	48%

Source: Preqin

What is the trend?

- Direct lending has become the most prominent private debt strategy over the past decade
- The other strategies often used in this region include mezzanine debt and special situations

What is the implication for private debt in Thailand?

- Private debt managers can anticipate more direct lending opportunities and needs in Asia, as well as in Thailand
- Private debt funds can potentially offer alternative collateral and bespoke lending terms to Thai borrowers, to set themselves apart from banks
- Mezzanine debt and more bespoke deal structures would set private debt funds apart from bank financing

1) Preqin Pro, accessed July 2022

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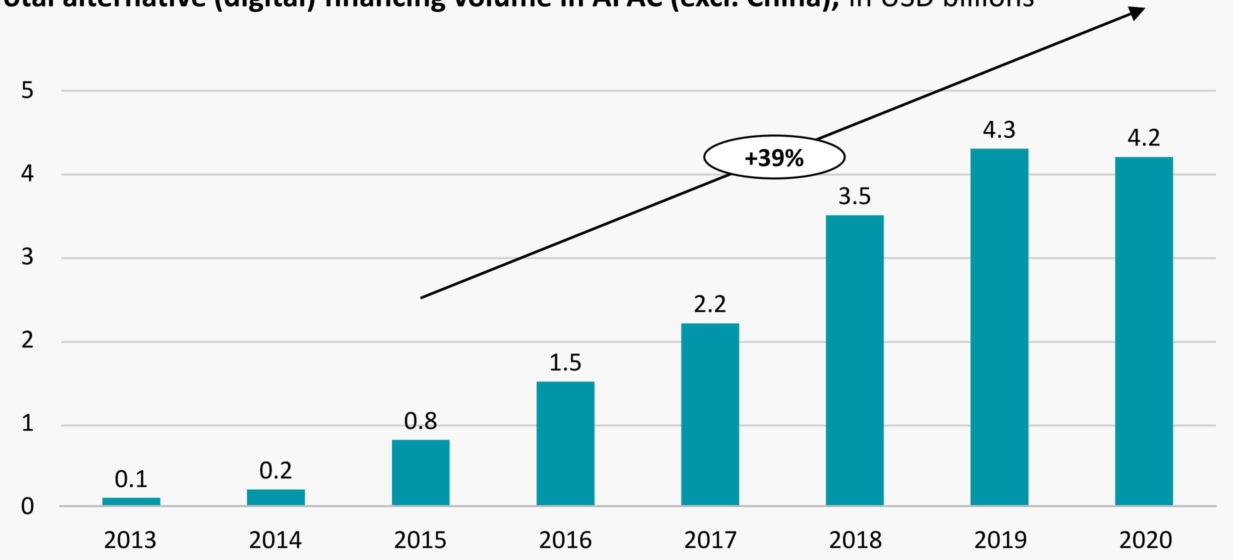
Intermediaries trend

8 There is a rise in digital financing platforms to cater to micro & SMEs in Asia, including Thailand, in response to the need for fast & convenient access to financing

Asia Pacific region has seen a rise in digital financing platforms that provide alternative financing to micro & SMEs

Total alternative (digital) financing volume in APAC (excl. China), in USD billions[1]



Note: Alternative financing includes digital finance activities that have emerged outside of the incumbent banking systems and traditional capital market and occur online, according to Cambridge's definition
Source: Cambridge Centre of Alternative Finance

What is the trend?

- The number of digital financing transactions in Asia (excl. China) has grown significantly (~39% CAGR) over 5 years, which shows that financing activity is no longer saturated in traditional banking like in the past
- This strong growth was driven in part by the underbanked / underserved micro & SMEs in Asia, whose needs accounted for 52% of the global micro & SME financing gap, or USD 2.7tn[2]

What is the implication for private debt in Thailand?

- Micro & SMEs make up more than 99% of Thai companies, and have a financing gap of ~USD 40bn, which can be partly addressed by digital financing platforms[3]
- In Thailand, there is already a rise in digital lending platforms (i.e., debt crowdfunding platforms) to address micro & SME financing needs, as well as regulations to support the sector[4]

1) *The 2nd Global Alternative Finance Market Benchmarking Report*, Cambridge Centre of Alternative Finance, June 2021 https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf
2) *Asia Small and Medium-Sized Enterprise Monitor 2020*, ADB, 2020 https://www.adb.org/sites/default/files/publication/659451/asia-sme-monitor-2020-sme-development-index.pdf
3) *Crowdfunding a lifeline for SMEs*, Bangkok Post, July 2022 https://www.bangkokpost.com/business/2337698/crowdfunding-a-lifeline-for-smes
4) *Thailand: New debt crowdfunding regulations*, IFLR, September 2019 https://www.iflr.com/article/2a639o2790b2wow2lhkow/thailand-new-debt-crowdfunding-regulations

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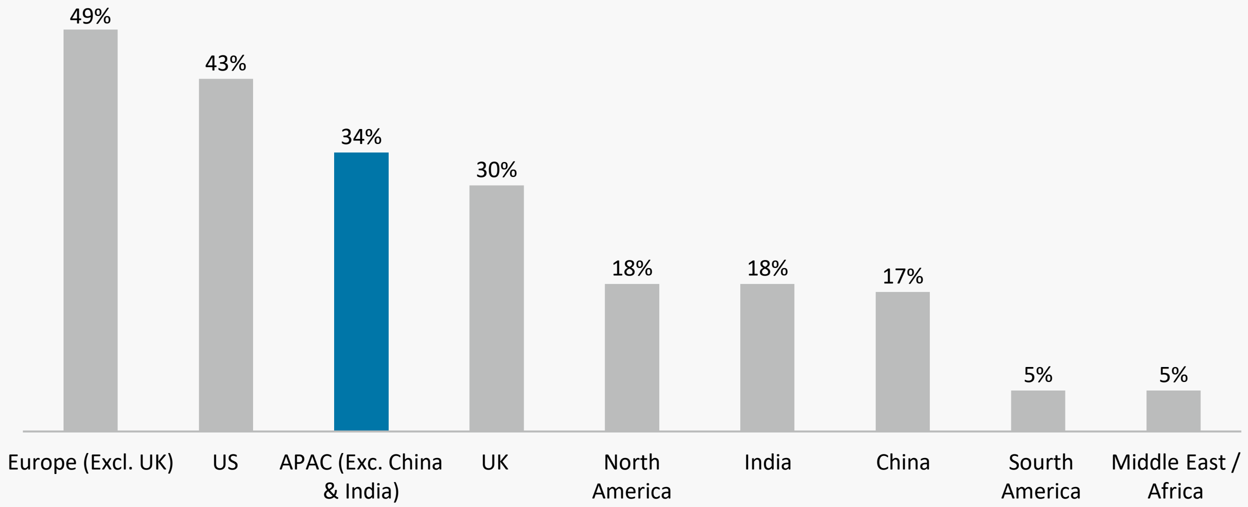
Investor trend

9 There is an increase in cross-border lending, especially in Asia, as ~80% of fundraising for Asian private debt funds are from non-APAC investors

Global investors are looking to expand their lending activities in APAC

How global private debt managers see their investment in 2020-2022, % of respondents who expect to invest more in these markets[1]



Note: Respondents were 60 leading global private credit managers, who collectively manage almost $400 billion in private credit investments, across a broad cross-section of jurisdictions and strategies
Source: ACC, AIMA

What is the trend?

- Investors globally intend to increase their investments in different geographies to diversify their portfolio; For example, ~34% intend to increase their investment in APAC (excl. China and India)[1]
- APAC primarily attracts global investors: ~80% of fundraising for Asian private debt funds are from non-APAC investors[2]

What is the implication for private debt in Thailand?

- Given the capital flowing into APAC, Thailand can potentially capitalize on this trend by reducing barriers to foreign investment in the country, as well as by making lending attractive in the region

1) *Financing the Economy*, AIMA, 2019 https://acc.aima.org/static/083f8b56-2636-4b88-a300a2c612f775ae/20112019-FINAL-FTE-Paper-Single-Page-High-Res.pdf
2) *Private Credit in Asia,* Alternative Credit Council, AIMA, 2020 https://acc.aima.org/static/77a975ad-ae9e-463c-925e08b62f75750c/ACC-Private-Credit-in-Asia.pdf

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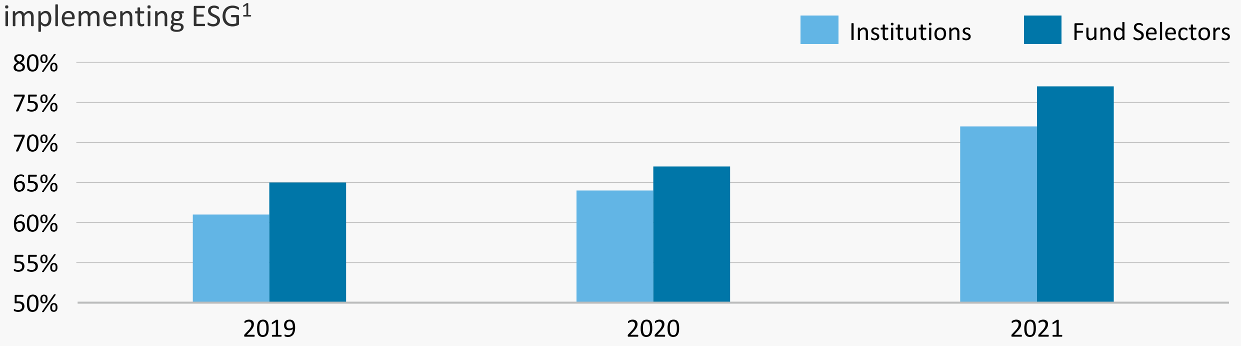
Investor trend

10 There are increasing ESG requirements among investors, as social awareness increases and the concept becomes more mainstream

Institutional investors and fund selectors have increasingly implemented ESG investments over the past 3 years

ESG adoption among institutional investors and fund selections globally, percentage implementing ESG[1]



Why are fund selectors adding ESG?[1]

- **61%** Investor demand
- **55%** To align investment strategies organizational values / investor values
- **35%** Firm mandate

Top 3 reasons that fund selectors believe are driving investor demand[1]

- **75%** Growing social awareness among investors
- **50%** ESG has become more mainstream
- **42%** Desire to participate in the green economy

Note: The list is non-exhaustive; Fund selectors are investment managers on investment platform such as private bank, wealth management, insurance platform, etc.
Source: Natixis Investment Managers

What is the trend?

- Investors are increasingly incorporating ESG in their portfolios: 77% of fund selectors have adopted ESG factor analysis into their investment process, of which 61% adopted ESG analysis to satisfy investor demand…[1]
- …75% of those fund selectors also believe that growing social awareness among investors is the top reason that drove investor demands…[1]
- …as a result, private debt funds will increasingly need to incorporate ESG into their assessment and reporting mechanisms

What is the implication for private debt in Thailand?

- Thai funds looking to cater to global investors should also expect the same pressure for ESG-oriented investments
- SEC Thailand has also already set a clear guideline to promote sustainable and responsible investment using ESG factors

1) *ESG Investing: Everyone's on the bandwagon*, Natixis, 2021, https://www.im.natixis.com/us/resources/2021-esg-investor-insight-report-executive-overview

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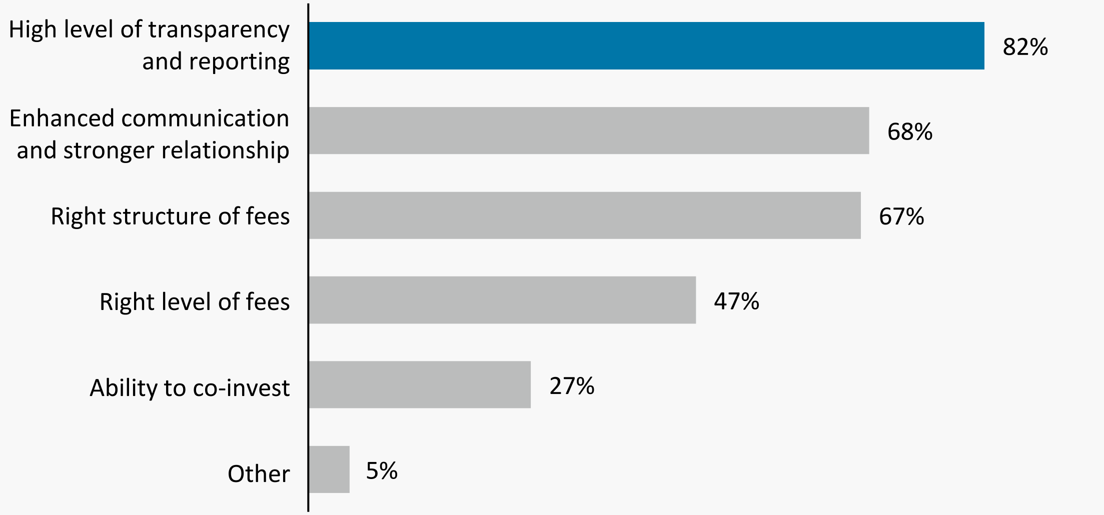
Investor trend

11 There is a rise in demand for transparency from investors to align interests with private debt managers

Strong push for greater transparency on investment details and investment fees paid by investors

The most important factors in achieving alignment of interest between private debt managers and investors[1], % of global respondents who cited these factors



Note: The survey was conducted by AIMC among 60 global private debt managers; collectively they manage US$ ~400 billion AUM in private debt investment, across a broad-section of jurisdictions and strategies
Source: AIMA, ACC

What is the trend?

- LPs are demanding greater transparency (e.g., more detailed and more frequent reporting, such as quarterly data on fees, fund expenses and performance) from their GPs, given that LPs would like to engage more in their investment choices and understand the usage of their money and fees

What is the implication for private debt in Thailand?

- Investors have prioritized portfolio transparency and quality of reporting as one of their top criteria. This demonstrates the increased emphasis institutions are placing on transparency of investments; Thailand private debt managers can take these insights into consideration when fundraising abroad[2]
- Investment in technology to improve transparency through automations and digital tools can also be considered to increase fund's ability to scale
- Regulatory framework along the lines of reporting structure and other transparency aspects can be set as a standard for transparency requirements

1) *Financing the Economy*, Alternative Credit Council, ACC, 2019 https://acc.aima.org/static/083f8b56-2636-4b88-a300a2c612f775ae/20112019-FINAL-FTE-Paper-Single-Page-High-Res.pdf
2) *Investors demand greater transparency from private equity managers,* Private Equity Wire, 2019 https://www.privateequitywire.co.uk/2009/12/07/26412/investors-demand-greater-transparency-private-equity-managers

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Appendix – Chapter 1
Potential for private debt in Thailand

The potential for private debt in Thailand: Market size estimates in Thailand

We took the following approach in estimating potential market size for private debt deals in Thailand at a high level

*Our sizing assumes cases where **Thailand aspires to reach same level of private debt market development as countries with more mature private debt markets***

Our approach	Key considerations and assumptions

1 Identify key parameters and ratios related to private debt activity and find standardized databases	• Chosen data sets must contain **standardized data** (measured in the same way) **across multiple countries**
	• Chosen benchmark data must be related to or representative of:
	  • The country's business loan activity
	  • The country's private debt activity

2 Identify and select mature economies and countries that would be used as benchmarks	• The chosen countries must have a **sizeable track record** of private debt activity and deals (will also be cross checked with secondary research)
3 Calculate ratios from selected benchmarking parameters using numbers from the selected countries	• By using business loan data, the ratio aims to **harmonise and account for differences in each country's banking and capital market structure** • Based on secondary research, calculation trends, and expert interviews, we hypothesize that the amount of **business loans available in a country will affect the private debt activity in that country**
4 Apply the ratio to Thailand and obtain an estimate of the potential market activity of private debt funds in TH	• As Thailand does not currently have much private debt market activity, the forecast will encapsulate **cases where Thailand aspires to reach comparable maturity levels to the selected countries** • Taking into account the difference in financial market structure between countries, **the average ratios from two markets were used in the estimation**

Source: Deloitte Analysis

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The potential for private debt in Thailand: Market size estimates in Thailand

To obtain the appropriate ratios, standardized sets of private debt activity and business loan data across multiple countries are required

1

We hypothesize that within a market, there exists a relationship between the total amount of **loans given to businesses and the potential demand for private debt** in that market

Average private debt capital deployed is needed to capture an estimate of recent private debt activities

The average total business loan is also calculated to capture an estimate of the yearly funding to businesses

Preqin Pro Private Debt deals

PORTFOLIO COMPANY	PORTFOLIO COMPANY C	DEAL SIZE (USD MN)
Aries Alliance	France	95.87
Exemplar Health Care Services Limited	UK	198.65
Polyconcept Holding B.V.	US	975.00
Beaver-Visitec International Holdings, Inc.	US	
Wise Company, Inc.	US	
Alltemp Products Co. Ltd.	Canada	
Masmovil Ibercom, S.A.	Spain	263.53
DocsCorp Pty. Limited	Australia	
Stroili Oro	Italy	333.30
N R Evans Distribution	UK	26.49
Seafood Pub Company Limited	UK	23.84
De Sangosse SAS	France	
Stanz- und Lasertechnik Jessen GmbH	Germany	
Global LT, Inc.	US	23.00
Indigo Telecom Group Limited	UK	15.89
Losberger GmbH	Germany	
U.S. Risk Insurance Group, LLC	US	
Accordia Golf Co., Ltd.	Japan	1,522.08
Imprivata, Inc.	US	544.00

Contains a data set of **private debt deals** and can be filtered by the **portfolio company's country**

OECD Financing SMEs and Entrepreneurs Scoreboard (2022)

Table 44.1. Scoreboard for Thailand

Indicator	Unit	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Outstanding business loans, SMEs	THB billion	2 753	2 565	2 749	3 145	3 481	3 968	4 266	4 511	4 574	4 703	4 893	4 877	3 409
Outstanding business loans, total	THB billion	5 117	4 863	5 298	6 080	6 723	7 473	7 774	8 017	8 066	8 362	8 726	8 652	9 146
Share of SME outstanding loans	% of total outstanding business loans	53.81	52.75	51.89	51.74	51.78	53.11	54.88	56.24	56.69	56.25	56.07	56.36	37.27
Government loan guarantee, SMEs	THB billion	..	..	73	113	180	244	270	309	331	353	373	388	451
Non-performing loans, total	% of all business loans	5.77	5.32	3.96	2.97	2.36	2.13	2.07	2.55	2.88	3.01	3.05	3.01	3.23
Non-performing loans, SMEs	% of all SME loans	..	7.11	5.38	3.97	3.46	3.29	3.11	3.5	4.35	4.51	4.56	4.63	6.97

Source: Bank of Thailand and Thai Credit Guarantee Corporation (Outstanding loans and non-performing loans include only Thai commercial banks, excluding specialized financial institutions).

Contains **standardized set of business loan data** across multiple countries

Source: Preqin Pro, OECD, Deloitte Analysis

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The potential for private debt in Thailand: Market size estimates in Thailand

To determine the countries used for benchmarking, we looked at private debt deal activities in multiple countries (based on available deals data)

2

- To compare current private debt activities across different countries, we looked at the **top 10 countries by sum of available private debt deals** in Preqin Pro
- The sum of private debt deals captures the total amount of **private debt borrowing by companies in that country**
- As private debt is not prevalent in many countries, we **chose countries with sizeable activity** as they will have more **consistent trends**

Top 10 countries by sum of private debt deals[1]

Country	Sum of deal size (USD mm)
US	2,165,270
UK	334,762
France	162,079
Germany	118,104
Canada	67,014
Switzerland	60,231
Australia	58,636
Netherlands	53,802
Italy	43,288
China	42,131

Leading private debt markets (US, UK)

2nd tier private debt markets (France – China)

Filtering relevant countries

- We then **filtered for countries that are included in OECD's dataset[2]** and chose the top 6 countries (United States + following top 5 countries)
- We can see that there are **two scenarios of maturity** for private debt markets: developed private debt markets and 2nd tier private debt markets
  - US and UK have the most sizeable private debt activity and deal size
  - We chose France, Canada, Switzerland, and Australia as 2nd tier private debt markets that Thailand can also aspire toward

Chosen countries to use as market benchmarks

Country	Sum of deal size (USD mm)
US	2,165,270
UK	334,762
France	162,079
Canada	67,014
Switzerland	60,231
Australia	58,636

Leading private debt markets (US, UK)

2nd tier private debt markets (France, Canada, Switzerland, Australia)

1) Calculated from data of private debt deals from Preqin Pro
2) Singapore is not included in OECD's dataset
Source: Preqin Pro, Deloitte Analysis

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The potential for private debt in Thailand: Market size estimates in Thailand

Once we decided on the appropriate countries and datasets, we calculated the ratios based on yearly averages of private debt to total business loan activities

3

*We see that there is a **consistent trend in the ratio**, where the ratio for leading private debt markets is approximately 2.6%, and the ratio for 2nd tier private debt markets is approximately 0.6%*

	Leading Private Debt Markets		2nd Tier Private Debt Markets			
	US	UK	France	Australia	Canada	Switzerland
2016 - 2020 average private debt capital deployed per year (USD mm)	102,268	13,514	5,338	3,739	6,253	4,009
2016 - 2020 average total business loans per year (USD mm)	3,520,000	585,844	1,313,567	657,482	703,966	608,949
Ratio (%)	**2.91**	**2.31**	**0.41**	**0.57**	**0.89**	**0.66**

Approximately 2.6% (Leading Private Debt Markets)

Approximately 0.6% (2nd Tier Private Debt Markets)

$$\boldsymbol{Ratio} = \frac{Average\ private\ capital\ deployed\ per\ year}{Average\ total\ business\ loans\ per\ year} * 100\% = \mathbf{2.31}\%$$

Source: Preqin Pro, OECD, Deloitte Analysis

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The potential for private debt in Thailand: Market size estimates in Thailand

Using the ratios for the two different market types, we can estimate Thailand's potential private debt capital deployed per year to mid-sized and large corporates by private debt funds under 2 different scenarios

4

Thailand's benchmark data	Figure
2016 - 2020 average total business loans per year (USD mm)	231,941

Scenario 1: Leading private debt market
(average ratio of 2.6%)

At least USD 6 bn per year

Scenario 2: Emerging private debt market
(average ratio of 0.6%)

At least USD 1.4 bn per year

Equation used to calculate Thailand's activity

Private debt capital deployed per year in Thailand = 2016 - 2020 average total business loans per year × Ratio

Final notes to consider…

- Current estimation is based only on private debt deals data available in the Preqin Pro database
- Preqin's coverage of debt funds is focused on the larger end and is more limited for smaller funds

Source: Preqin Pro, OECD, Deloitte Analysis

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The potential for private debt in Thailand: Market size estimates in Thailand

To estimate the potential market size of private debt capital deployed per year to SMEs, we use the proportion of SME to mid-large corporate loans in Thailand

Estimation approach for SMEs

- To estimate the size of borrowing activity for SMEs, we compared the amount of business loans between SMEs and mid-large sized corporates in Thailand from 2016-2020
- We hypothesize that the **proportion of loans** between SMEs and mid-large corporates **will also be indicative of the proportion of private debt financing** to the two segments
- Applying the proportion to the activity sizing for mid-large corporates will give us an estimate of the **activity sizing for SMEs**

	Thailand business loans outstanding* (USD bn)				
	2016	**2017**	**2018**	**2019**	**2020**
SMEs	166.6	171.8	179.2	179.8	138.6
Mid-large sized corporates	340.3	373.8	383.8	402.7	480.9
Proportion of SME loans to mid-large corporate loans	**49%**	**46%**	**47%**	**45%**	**29%**

Data obtained from BOT

Average of 43%

Estimation calculation for SMEs

Scenario 1: Same maturity as leading private debt markets

Scenario 2: Same maturity as second-tier private debt markets

Mid-large sized corporates

At least USD 6 bn per year

At least USD 1.4 bn per year

43% proportion of mid-large corporates

SMEs

At least USD 2.6 bn per year

At least USD 0.6 bn per year

*Note: Number is converted based on exchange rate of 36.6 THB to 1 USD

Source: BOT, Deloitte Analysis

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Appendix – Chapter 2
Key learnings from abroad

Country deep-dive: Regulators

Fact sheet: Key regulators in private debt activity

Country	Key regulator	
	Private debt funds	**Lending platform**
	Securities and Exchange Commission (SEC)[1]	Securities and Exchange Commission (SEC)[2,3]
	Financial Conduct Authority (FCA)[4]	Financial Conduct Authority (FCA)[5]
	• French Financial Markets Authority (AMF)[6] • French Prudential Control Authority (ACPR)[7]	• French Financial Markets Authority (AMF)[8] • French Prudential Control Authority (ACPR)[8]
	Monetary Authority of Singapore (MAS)[9]	Monetary Authority of Singapore (MAS)[10]
	Stock Exchange Board of India (SEBI)[11]	Reserve Bank of India (RBI)[12]

1) *Alternative Investment Funds Laws and Regulations Report 2022 USA*, ICLG, 2022 https://iclg.com/practice-areas/alternative-investment-funds-laws-and-regulations/usa
2) *Final rule: Crowdfunding*, Securities Exchange Commission, 2016 https://www.sec.gov/rules/final/2015/33-9974.pdf
3) *Optimal regulation of p2p lending for small and medium-sized enterprises*, Asian Development Bank, 2019 https://www.adb.org/sites/default/files/publication/478611/adbi-wp912.pdf
4) *UK Private Debt Research Report 2020*, British Business Bank, 2020 https://www.british-business-bank.co.uk/wp-content/uploads/2021/02/UK-Private-Debt-Research-Report-2020-1.pdf
5) *Lending firms*, Financial Conduct Authority, as of Sep 2022 https://www.fca.org.uk/firms/authorisation/how-to-apply/lending
6) *AMF Policy by book,* AMF, as of Sep 2022 https://www.amf-france.org/en/regulation/policy/amf-policy-book
7) *Finance Company*, ACPR, as of Sep 2022 https://acpr.banque-france.fr/en/authorisation/banking-industry-procedures/licensing-authorisation-and-registration/finance-company
8) *Fintech laws and regulations 2022,* Global Legal Insights, Sep 2022 https://www.globallegalinsights.com/practice-areas/fintech-laws-and-regulations/france
9) *Fund Management Licensing & Registration*, Monetary Authority of Singapore, as of Sep 2022 https://www.mas.gov.sg/regulation/capital-markets/Fund-Management-Licensing-and-Registration
10) *Moneylenders Act 2008*, Singapore Statutes Online, 2008 https://sso.agc.gov.sg/Acts-Supp/31-2008/Published/20100331?DocDate=20090123
11) *SEBI (Alternative Investment Funds) Regulations*, SEBI, 2012 https://www.sebi.gov.in/sebi_data/attachdocs/1471519155273.pdf
12) *Guidelines on digital lending*, Reserve Bank of India, Securities and Exchange Board of India (SEBI), Sep 2022 https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12382&Mode=0

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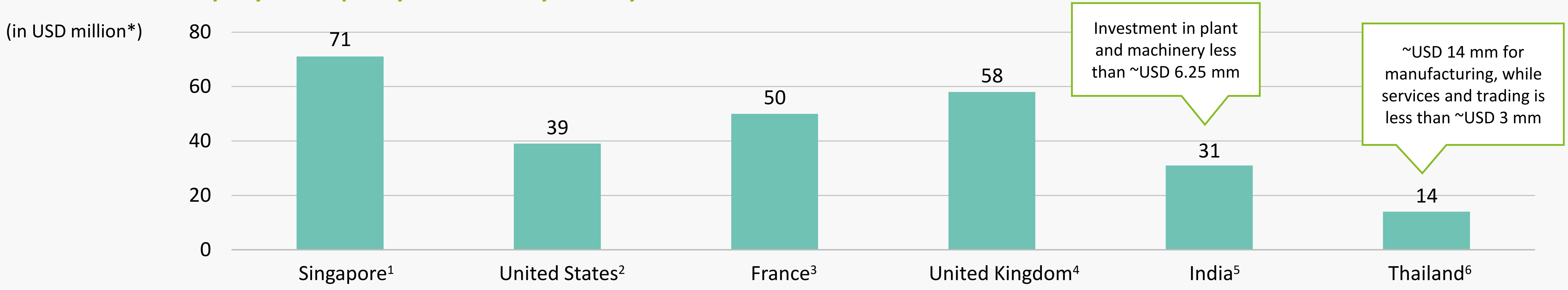
Country deep-dive: SME Definitions

Fact sheet: The categorization of SMEs varies from country to country

Maximum revenue per year to qualify as an SME by country



Source: Ministry of Trade and Industry Singapore, United States Census Bureau, Insee, Gov.UK, Ministry of Micro, Small & Medium Enterprises India, Office of SMEs Promotion

	Singapore	United States	France	United Kingdom	India	Thailand
Maximum number of employees	<200	<1,500	<250	<250	N/A	<200
Number of SMEs	~0.29 mm	~32.5 mm	~3.9 mm	~5.6 mm	7.9 mm	~3.2 mm
Contribution to GDP (%)	45% (2021)	45% (2019)	55.8% (2018)	50% (2020)	30% (2020)	35% (2022)

*Note: Numbers are converted based on exchange rate of 1.4 SGD to 1 USD, 1 EUR to 1 USD, 0.87 GBP to 1 USD, 80 INR to 1 USD, 36.6 THB to 1 USD
1) *Economic Survey of Singapore*, Ministry of Trade and Industry Singapore, 2022 https://www.mti.gov.sg/Resources/Economic-Survey-of-Singapore/2022/Economic-Survey-of-Singapore-Second-Quarter-2022
2) *What is a Small Business,* United States Census Bureau, January 2021 https://www.census.gov/library/stories/2021/01/what-is-a-small-business.html
3) *Small and medium enterprises*, Insee, June 2019 https://www.insee.fr/en/metadonnees/definition/c1962
4) *Guidance small to medium sized enterprise (SME) action plan*, Gov.UK, 27 January 2022 https://www.gov.uk/government/publications/fcdo-small-to-medium-sized-enterprise-sme-action-plan/small-to-medium-sized-enterprise-sme-action-plan
5) *New Definition of MSMEs*, Ministry of Micro, Small & Medium Enterprises India, August 2020 https://msme.gov.in/whatsnew/new-definition-micro-small-and-medium-enterprises-rbi-notificationclarifications
6) *Definition of MSMEs*, Office of SMEs Promotion https://www.sme.go.th/en/page.php?modulekey=363

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Country deep-dive: Country comparison

We used 3 key indicators (insolvency recovery rate, GDP per capita & legal systems) to identify countries with similar debt enforcement regimes to Thailand; we chose to deep dive on 2 of them

	Debt enforcement indicators			Success indicator
Country	**Insolvency Recovery Rate** *(cents/$, Source: World Bank, 2019)*	**GDP per capita** *(in '000s US$, Source: IMF, 2022)*	**Legal system** *(Source: University of Ottawa)*	**Private debt activity relative to GDP[1]** *(Source: World Bank 2021, Preqin 2022)*
Mauritius	**67.4**	**8.9**	*Mixed (includes civil law)*	High
Colombia	67.2	6.8	*Civil law*	Low
US	81.8	76.0	*Common law*	High
UK	85.3	49.8	*Common law*	High
Singapore	88.8	79.6	*Common law*	High
Mexico	64.7	10.2	*Civil law*	Low
Brazil	14.6	8.6	*Civil law*	Low
Vietnam	21.3	4.1	*Civil law*	Low
India	26.5	2.5	*Common law*	Low
China	36.9	14.1	*Mixed (includes civil law)*	Low
France	73.8	44.8	*Civil law*	High
Indonesia	**65.2**	**4.7**	*Mixed (includes civil law)*	Low
Thailand	**69.8**	**7.5**	*Civil law*	Low

We chose Mauritius and Indonesia to double-click on, to identify what works and what does not work for the private debt landscape in the 2 countries

High — *Low*

1. Total fund size domiciled in that country as a % of GDP; Low refers to <0.5%, and high refers to >0.5%

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Mauritius

Country deep-dive: Mauritius – Private debt context

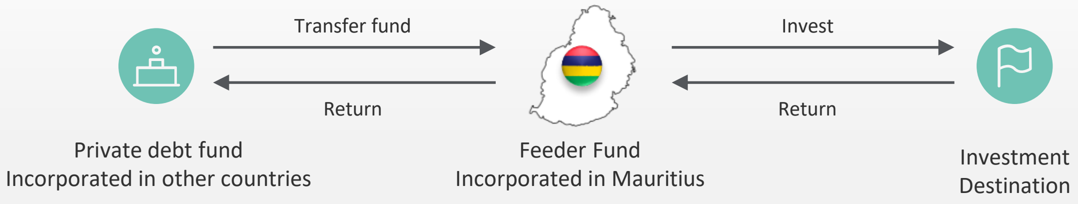
Global funds use Mauritius as a springboard for investment into Africa and Asia, to reap benefits from double tax treaties and other tax incentives

Mauritius has become a viable option for fund managers wishing to set up a fund or structure. For example, 98% of all private equity going into Africa goes via Mauritius.[1] Mauritius also holds the third highest in foreign direct investment value inflow to India, with ~USD 4.5bn in investment in 2020-2021.[2]

Recently Mauritius introduced variable capital companies, which will add other ways to structure Mauritian funds. As of October 2022, there were 1070 global (open-end and closed-end) funds located in Mauritius.[3]

Many asset managers strategically set up a feeder fund domiciled in Mauritius to reap tax benefits, manage foreign exchange risk, and obtain other financial incentives. They use Mauritius as a springboard for their investments to other countries, with returns routing back to the beneficial owner.

Illustrative investment flow through Mauritius



Example of funds in Mauritius, in USD million[4]

Name	Size
BPEA Credit – India Fund III	401.90
SC India Credit Fund	75
African Rivers Fund III	85
BanyanTree Growth Capital II	143.50
AION Capital Partners	826

Why Mauritius?[1]

- 0% capital tax gain
- 5.5% growth rate for financial services sector
- 100% foreign ownership permitted
- 98% of private equity going into Africa goes via Mauritius
- 0% exchange control

1) *Mauritius-Africa's investment hub,* Ocorian, October 2018 https://www.ocorian.com/article/mauritius-africas-investment-hub
2) *Foreign direct investment flows to India: country-wise and industry-wise,* Reserve Bank of India, May 2021 https://m.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1336
3) *A comprehensive guide to establishing a closed or open-end investment fund in Mauritius,* Spencer West LLP, September 2021 https://www.spencer-west.com/articles/a-comprehensive-guide-to-establishing-a-closed-or-open-end-investment-fund-in-mauritius
4) Preqin Pro as of August 2022

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Country deep-dive: Mauritius – Government initiatives

With low tax and less restrictive market environment, Mauritius has been recognised as a haven for global investors

	Regulations[1,2]	Borrower	Intermediaries (GPs)	Investor (LPs)
1	**Expand the definition of sophisticated investor for alternative asset investment** – *The latest amendment act has widened the definition of sophisticated investor to include HNWI and more institutional investors*	*Limited effect*	+	+
2	**Introduction of ability to self-certify for non-sophisticated investors** – *The concept of self certification has been introduced for investors who do not satisfy the definition of sophisticated investors, creating more flexibility for investors to engage in fund raising*	*Limited effect*	+	+
3	**Permitted marketing activity of foreign collective investment schemes** – *Marketing activity of foreign collective investment schemes to sophisticated investors in Mauritius has been permitted, in which the activity is undertaken by a CIS manager registered in Mauritius, or in accordance with other provisions by the commission may determine*	*Limited effect*	+	*Limited effect*
4	**Double-tax treaty with India & Africa** – *Global funds can enjoy benefits of a double tax treaty agreements between Mauritius and India and between Mauritius and other African countries. This benefit has encouraged global funds to use Mauritius as a springboard to India and Africa*	*Limited effect*	+	*Limited effect*
5	**Low tax environment for global funds –** *With certain conditions satisfied, 80% of foreign-source income from collective investment schemes are exempted, while the residual income will be subject to 15% corporate tax*	*Limited effect*	+	*Limited effect*
6	**No capital gain and dividend tax** – *Dividends paid by a Mauritius-resident company are exempt from income tax. Although foreign dividends are taxable, it can be claimed for underlying tax and withholding tax. Additionally, no capital gain tax is imposed in Mauritius*[3]	*Limited effect*	+	+

Mauritius has set clear regulations and initiatives to lessen restrictive markets, and to pull in international investors looking to undertake investments in Africa and Asia.

Mauritius is well known for its various tax benefits. One major tax treaty with India, for example, has made Mauritius the largest foreign investor there. Such initiatives has positioned Mauritius to become a gateway to global investment projects.[3]

1) *Fund finance laws and regulations – Mauritius,* Global Legal Insights, January 2022 https://www.globallegalinsights.com/practice-areas/fund-finance-laws-and-regulations/mauritius
2) *Alternative funds 2021 – Mauritius,* Chambers and Partners, October 2021 https://practiceguides.chambers.com/practice-guides/alternative-funds-2021/mauritius
3) *Foreign direct investment flows to India: country-wise and industry-wise*, Reserve Bank of India, May 2021 https://m.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1336
4) *International Tax Mauritius Highlights 2020,* Deloitte, February 2020, https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-mauritiushighlights-2020.pdf

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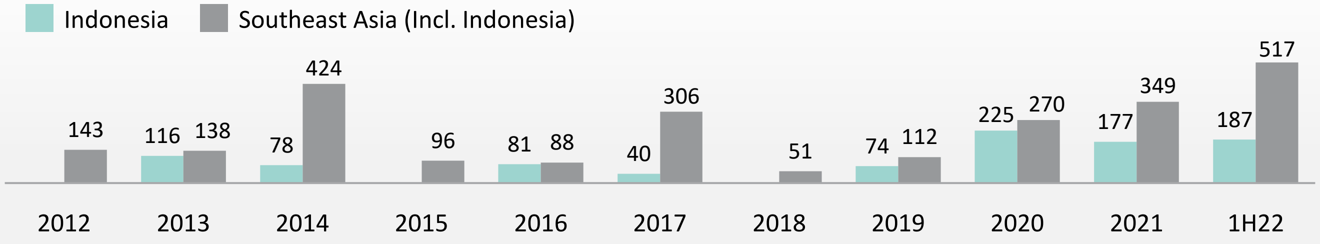
Indonesia

Indonesia is one of the most active private debt markets in Southeast Asia

Indonesia has a comparable debt enforcement regime to Thailand based on our analysis, but it has been able to attract more private debt transactions. Indonesia accounted for ~40% of total private debt capital deployment in SEA, becoming one of the major players in the region.[1]

The average ticket size in Indonesia is between ~USD 20mm – 40mm. Some examples of private debt deals in Indonesia include restructured debt, private investment in public equity (PIPE), and growth capital.[2]

Private debt capital invested in Indonesia and SEA, in USD million[1]



Number of private debt deals in Indonesia and SEA, count[1]

Average ticket size, in USD million[1]

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	1H22	**Total**
ID	-	116	39	-	81	20	-	25	38	35	37	**39**
SEA	36	35	61	12	30	51	25	16	30	27	57	**35**

Source: Global Private Capital Association (GPCA)

Note: GPCA data includes venture debt investments

1) Asia Private Credit Investments, Fundraising, and LP Commitments, Global Private Capital Association (GPCA), data as of 30 June 2022

2) Preqin Pro data, as of 26 August 2022

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Country deep-dive: Indonesia – Government initiatives

While key moneylending regulations are in line with other developed markets, Indonesian government's credit guarantee for infrastructure projects has successfully attracted international private lenders

	Regulations[1]	Borrower	Intermediaries (GPs)	Investor (LPs)
1	**Fund can invest in debt without license or qualification required** – *License, qualification or any entitles are not required for fund to invest in private debt in Indonesia*	*Limited effect*	+	*Limited effect*
2	**Interest rate, fees and other remuneration can be agreed freely** – *A lender and borrower in Indonesia can agree on interest and other relevant fees freely*	*Limited effect*	+	+
3	**Provision of security or guarantees by offshore private funds is not restricted** – *Offshore funds can provide debt security or guarantees to a party in Indonesia, although having onshore security agent is suggested due to logistical and administrative perspectives in dealing with documents, administrative processes and security enforcement*	*Limited effect*	+	*Limited effect*
	Infrastructure[2,3]			
4	**Government's credit guarantee scheme for infrastructure projects in Indonesia –** The scheme provides credit guarantee to improve creditworthiness and quality of several infrastructure projects to attract international private funds and concessional debt	+	+	+

The absence of a developed bank lending market in Indonesia has provided opportunities for nonbank financial institutions and offshore / global banks to step in and fill the gap.[1]

Special licensing is not required for investment in private debt funds. In general, Indonesia's legal frameworks tend to favour the activities of intermediaries in this region.

In 2009, Indonesia introduced the Infrastructure Guarantee Fund (IIGF) to improve the creditworthiness and quality of public-private partnerships for infrastructure projects–which has helped to attract more international funds.[2,3]

1) *Guide to Private Credit in Asia Pacific,* Baker McKenzie, 2022 https://www.bakermckenzie.com/-/media/files/insight/guides/2021/guide-to-private-credit-in-asia-pacific.pdf -
2) *Indonesia Infrastructure Guarantee Fund,* International Institute for Sustainable Development, accessed August 2022 https://www.iisd.org/credit-enhancement-instruments/institution/indonesia-infrastructure-guarantee-fund/
3) *Attracting private investment to fund sustainable recoveries: The Case of Indonesia's power sector,* International Energy Agency, July 2020 https://www.iea.org/reports/attracting-private-investment-to-fund-sustainable-recoveries-the-case-of-indonesias-power-sector

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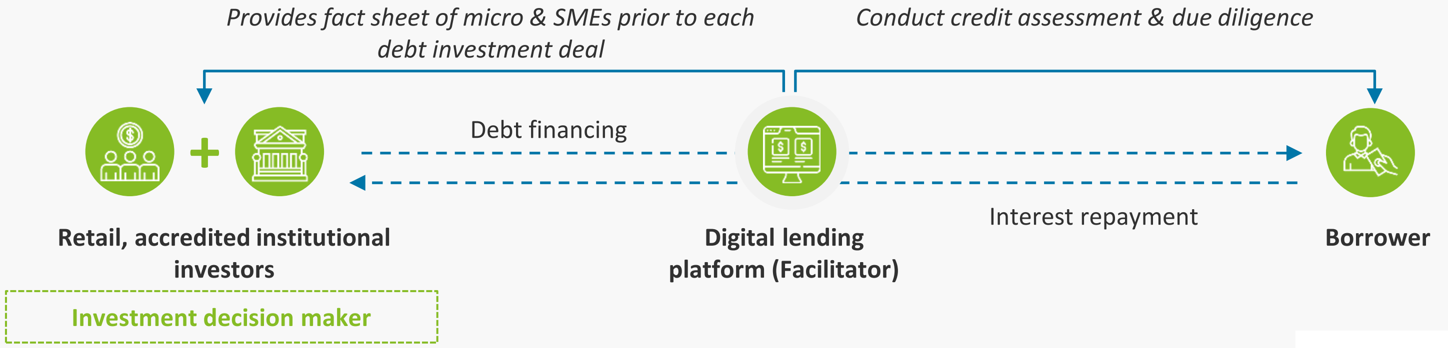
Appendix – Chapter 2
Country deep-dives: Case studies

Case Study: SEA's digital lending platform models include debt crowdfunding as well as balance sheet lending

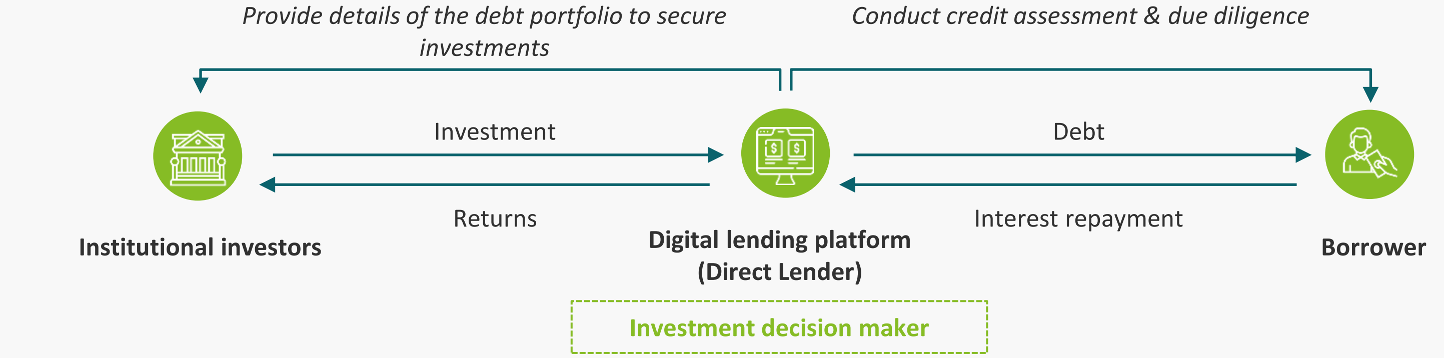
Debt financing models adopted

Debt crowdfunding



- - - - Pass through
—— Direct

Balance sheet lending



Key learnings

- **Debt crowdfunding models** enable the digital lending platform to matchmake investors with borrowers, whereas **balance sheet lending** require digital lenders to originate loans themselves.
- Partner with **e-commerce platforms** to gain access to **alternative data to assess the credit worthiness** of underbanked and underserved micro & SMEs who lack credit data
- **Manage credit risk while ensuring quick loan disbursement** as micro & SMEs generally require quick access to working capital

*"We adopt **fully-automated** underwriting processes for smaller loan products and **semi-automated** ones for larger loan products. This enables our default rates to be comparable to that of banks despite targeting riskier segments"*

– Chief Operating Officer, Digital Lending Platform in Singapore

Source: Deloitte Analysis, Expert Interviews

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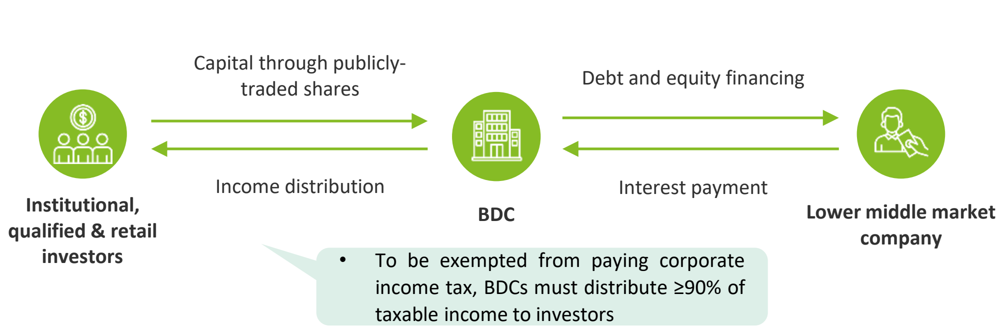
Case Study: US-based investment firms can provide financing to lower mid-market by leveraging benefits of government's BDC and SBIC models

Business Development Company (BDC)[1]

Company Details

- Primarily invests in the middle market including under-served lower market companies
- Targets companies with **EBITDA between ~USD 3mm – 25mm**
- Provides financing solutions that could include a combination of debt and equity financing

Model



Benefits

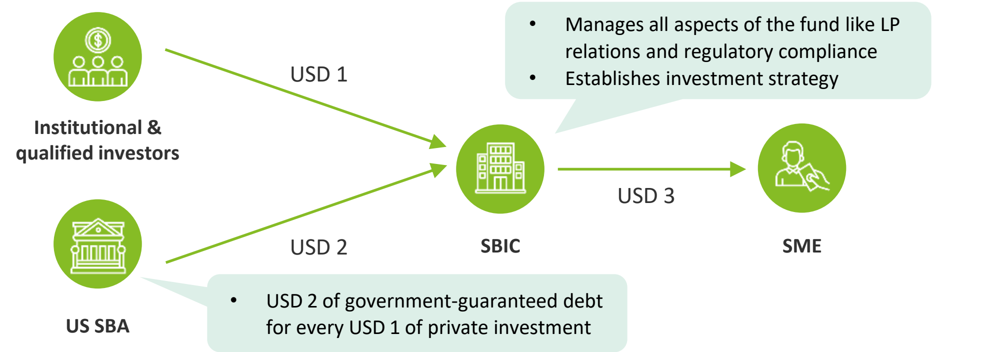
- Exempted from paying corporate income tax
- Ability to access additional leverage with required asset coverage reduced from 200% to 150%
- Ability to lend at a relatively higher interest rates, which is then passed on in the form of dividend income to shareholders

Small Business Investment Company (SBIC)[2]

Company Details

- Provides access to **10-year, low cost and fixed rate** US government-backed leverage
- Targets companies with **annual revenue of USD 2mm-40mm**
- **Up to USD 350mm in debentures from the SBA** for a family of related SBICs

Model



Benefits

- Faster access and deployment of funds as two-thirds of a fund could comprise of SBA leverage
- Exemption from Volker Rule where banks can only invest a maximum of 3% of Tier 1 capital into hedge funds and private equity funds[3]
- Exemption from SEC Registration

The government set up these 2 fund structures to encourage investors to invest in the lower mid-market and SME segments

1) Analysis of multiple companies, including Seeking Alpha, Guggenhein Investments, Main Street Capital Corporation
2) *SBICs investment capital,* US Small Business Administration, accessed August 2022 https://www.sba.gov/funding-programs/investment-capital
3) Tier 1 capital consists of a bank's core capital which includes common stock and disclosed reserves

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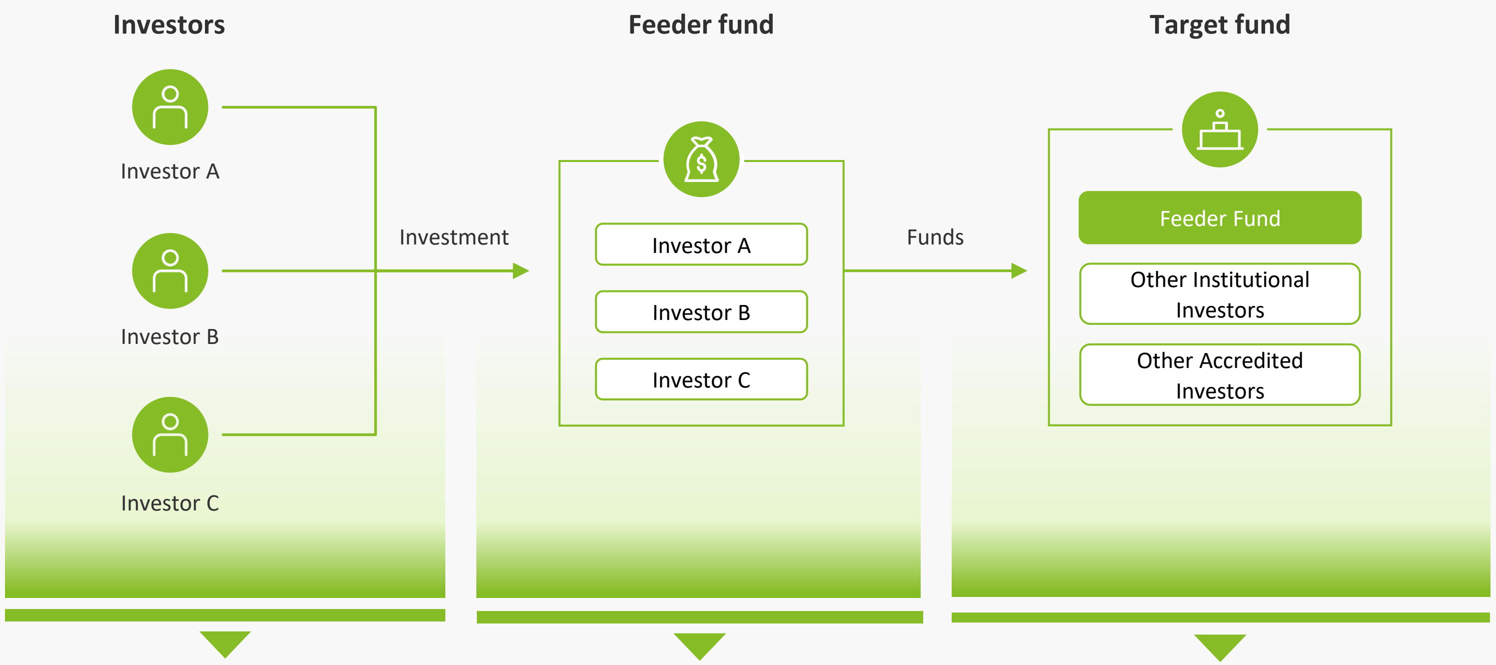
Country deep-dive: UK – Private sector case study

Case Study: A feeder fund investment model provides accessible investment in alternative assets such as private debt to a wider group of investors

Feeder fund investment models adopted



Investors select a dedicated feeder fund for each underlying target then subscribe and allocate investment amount to the selected feeder fund

Feeder fund aggregates investments allocated from individual investors

The aggregated fund will be invested in the underlying fund once the total amount exceeds the minimum requirement

Business model of the operator

- In general, the operator will earn revenue from fees charged to investors, consisting of 3 different types of fees;
  - **One-off subscription fee:** upon subscription
  - **Annual management fee**: during period
  - ***(Optional)* Performance fee** – since some funds like private equity usually charge ~20% performance fee

Key learnings

- The model **enables access to top-tier alternative investment funds with lower investment amount** required. For example, some may require a minimum of USD 100K, while other funds might require a minimum of USD 1mm investment
- Investors can **sell off their investment before the maturity or lock-up period** of the underlying fund **offering flexibility to exit for investors**
- Through fund selection approach, the feeder fund model **saves investors time in doing due diligence process** and fund selection while the model gives investors a catalogue view of all available target funds to select based on their needs

Source: Deloitte Analysis

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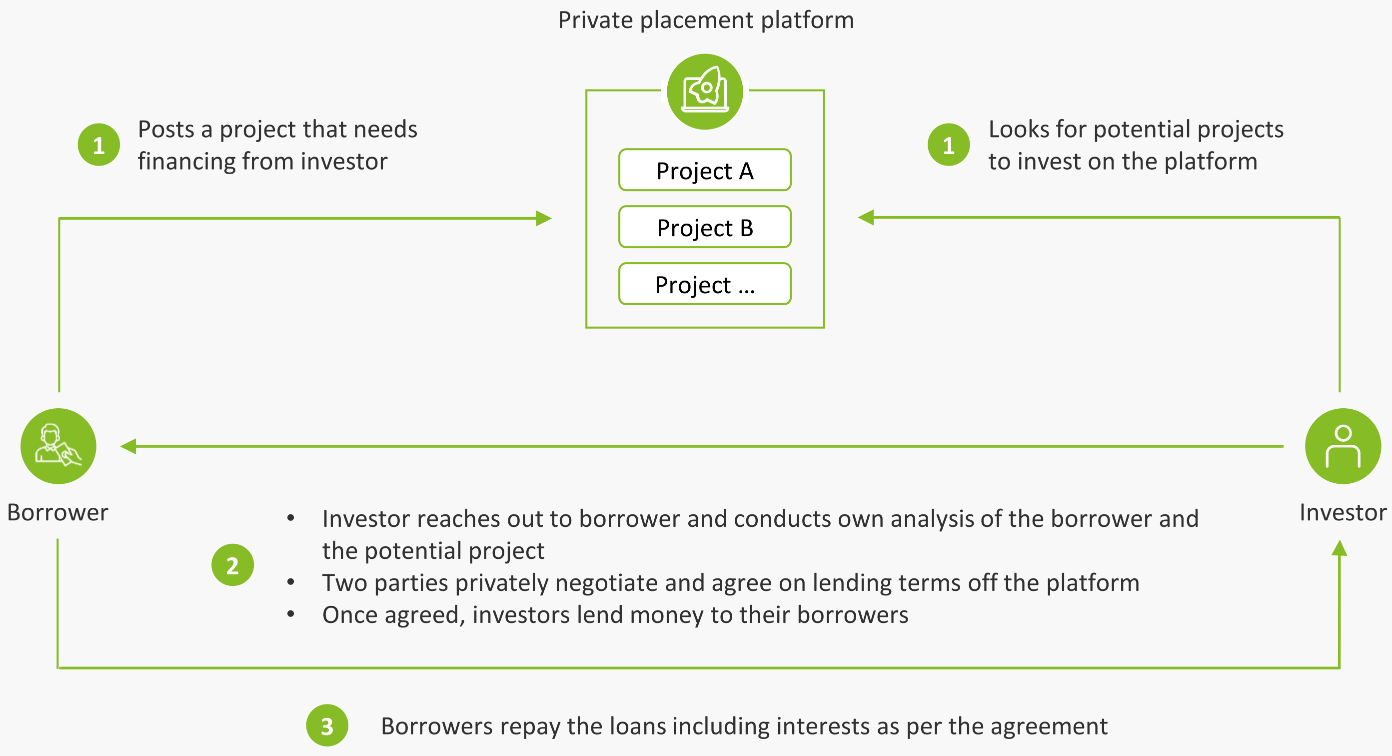
Case Study: A private placement platform model offers a marketplace for borrowers to pitch their project for financing, where investors can pick and choose potential projects and lend directly to the borrowers

Private placement platform model adopted



Business model of the operator

- The private placement platform operator will **mainly generate revenue from both investor and borrower sides**
  - **Investor:** Platform subscription fees to access the available projects
  - **Borrower:** Fees for putting projects down on the platform

Key learnings

- The platform offers **a marketplace that connects investors with borrowers** by providing a database of potential projects from borrowers that investors could invest in
- It provides investors with **greater autonomy over investment decisions** by allowing them to directly reach out to the borrowers to conduct their own analysis and lend money directly to them
- **No credit risk is undertaken by the platform operator** since lending activities occur privately between investors and borrower, where investors are required to perform their own analysis to assess the risk

Source: Deloitte Analysis

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Appendix – Chapter 3
Stakeholder needs & challenges

Ecosystem #1: Private debt via investment managers

Ecosystem #1: Private debt via investment manager

We conducted a value chain analysis to identify the various needs of private debt funds during both the investment and fundraising process

Investment process, i.e., interaction between borrower and private debt fund:

Deal sourcing	Due diligence, legal, draft term sheet	Investment committee review	Deal execution & disbursement of funds	Performance & portfolio management	Repayment
• Identify large deals • Affordable deal origination	• Robust, but affordable credit assessment, KYC & collateral requirements • Ability to lend to borrowers freely • Integration of ESG into investments		• Ability to buy / sell debt easily • Clear visibility into the company financials for deal execution and monitoring		• Manage FX risk • Efficient debt enforcement & insolvency recovery

- Low operating costs & regulatory processes
- Ability to scale
- Ability to hire talented employees

Fundraising process, i.e., interaction between investor and private debt fund:

Share pitch presentation *(T&Cs, funding strategy)*	**Conduct DD process** *(KYC, credit assessment)*	**Sign partnership agreement**	**Initiate capital calls**	**Share portfolio performance updates**	**Disburse repayments**
• Ability to effectively market to investors • Educating investors effectively	• Affordable and efficient DD process	• Ability to raise money from a wide range of investors	• Ability to call for capital quickly and in a timely manner	• Ensure timely repayments • Manage FX risk • Effectively managing investor expectations during market fluctuations	

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Ecosystem #2: Private debt via private sector digital platforms

Ecosystem #2: Private debt via private sector digital platforms

Based on our analysis of the trends and stakeholder interviews, we identified a variety of needs across all the relevant stakeholder groups

What are the needs of each stakeholder group?

Stakeholder group	Segments	Needs
1 Borrowers	Micro enterprises; Small & medium enterprises	• Access to affordable financing (i.e., lower interest rates and transaction fees compared to banks) • Less stringent collateral requirements • Less stringent cashflow/credit requirements • Smaller loan sizes • Faster loan approvals and fund disbursement • More convenient end-to-end process to secure loan
2 Intermediaries	P2P lending; Debt crowdfunding; Balance sheet lending	• Ability to assess credit risk of borrowers given lack of traditional credit data (i.e., ability to secure alternative data, analytical tools) • Securing funding from investors • Minimal regulatory requirements to fulfil (e.g., for licensing) • High rates of debt collection
3 Investors	Institutional investors; Family offices, HNWI; Retail investors	1. Good risk-adjusted returns 2. Risk management measures (e.g. if intermediary defaults) 3. Lower transaction fees* 4. Awareness of the risk involved*

*More applicable to retail investors

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Ecosystem #2: Private debt via private sector digital platforms

We have identified 3 key challenges in the Thai market: data availability, regulatory challenges, and credit limits on investors

1 Difficult for digital lending platforms to secure alternative data

Digital lending platforms typically leverage alternative data (e.g., e-commerce and trade data) to supplement traditional credit data when assessing the credit risk of micro & SMEs. However, partnerships with companies that provide such data are not easy to secure.

Unmet needs of stakeholders

- Without rich sources of alternative data, these platforms cannot accurately assess the credit risk of micro & SMEs
- Makes it difficult for these platforms to approve micro & SME loans

2 Limited borrowing options for micro-enterprises

P2P lending platforms are required to have 75% of its shares owned by Thai citizens to qualify for the license. Additionally, Bank of Thailand requires all prospective platforms to be tested under its regulatory sandbox before potentially being offered a license. The testing can take more than 1.5 years, and only 1 out of 4 companies has secured a license.

Unmet needs of stakeholders

- Shares requirement makes it difficult for foreign P2P lending platforms to enter the Thai market
- Stringent and long testing requirements may deter the entry of P2P lending platforms
- With few P2P lending platforms successfully securing a license, the financing needs of micro enterprises cannot be well met

3 Credit limits on retail investors

For crowdfunding platforms, retail investors can invest in crowdfunding securities up to THB 100K per issuer and up to THB 1mm for all securities. Additionally, issuers can only raise a maximum of THB 20mm within first 12 months from retail investors.

Unmet needs of stakeholders

- Limits the amount of funding that these platforms can raise, and hence the amount that can be loaned to micro & SMEs
- Restricts retail investors' ability to invest

Legends | Affects borrowers | Affects intermediaries | Affects investors

Source: Deloitte Interviews, Tilleke & Gibbins, Bank of Thailand, Bangkok Post

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Ecosystem #3: Private debt via direct transactions

Ecosystem #3: Private debt via direct transactions

Based on our analysis of the trends and stakeholder interviews, we identified a variety of needs across all the relevant stakeholder groups

What are the needs of each stakeholder group?

Stakeholder group	Segments	Needs
1 Borrowers	Mid-size corporates; Medium enterprises; Small enterprises; Micro-enterprises	1. Access to affordable financing, with flexible terms 2. Multiple lending options to choose from for competitive terms 3. Less stringent collateral requirements 4. Less stringent cashflow / credit requirements
2 Investors	Institutional investors; Family offices, HNWI; Other private entities	1. Ability to lend directly to borrowers 2. Diversification of portfolio, in terms of geography, asset class etc. 3. Good risk-adjusted returns in exchange for liquidity 4. Ability to do KYC, assess credit-worthiness and lending risk 5. Risk management measures (e.g., if intermediary defaults) 6. Low transaction fees 7. Awareness of the risk involved 8. Ability to buy / sell debt

This ecosystem is generally unstructured, and primarily comprises non-bank financial institutions and other institutional investors, who are specialists in debt, lending to medium enterprises & mid-sized corporates

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We have identified 3 key challenges within this ecosystem – competition from banks for debt specialists, data availability, and debt enforcement

1 Strong competition from banks on loan terms

Financial institutions that lend to other private entities in Thailand require collateral from borrowers majority of the time; so, banks are key competitors in this ecosystem[1]

Unmet needs of stakeholders

- Lenders will need to give attractive terms and interest rates, or have longer time horizons, to attract borrowers who would otherwise go to banks

2 Lack of access to data for credit assessments

Borrowers who are not able to secure bank loans would then turn to alternative lenders, making it a challenge for these alternative lenders to conduct credit assessments (i.e., adverse selection challenge) unless they had access to alternative data sources or methodologies[1]

Unmet needs of stakeholders

- Lenders need to conduct comprehensive risk and credit assessments to determine the interest rates and lending terms; this is challenging with borrowers that do have a credit score or collateral

3 Relatively inefficient debt enforcement and insolvency recovery

The enforcement regime in Thailand is not lender friendly, presenting an issue to lenders in case of insolvency or credit default[1]

Unmet needs of stakeholders

- Lenders confidence in their ability to recoup loans in the absence of strong debt enforcement laws and fast processing
- This affects borrowers as well, requiring them to provide collateral and / or show strong cashflows to secure debt

Legends | Affects borrowers | Affects investors

1) Stakeholder interview
Source: Baker McKenzie, Deloitte Analysis

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Appendix – Chapter 4
Regulations & Infrastructure

Regulations & Infrastructure

SEC is planning to impose more restrictions on investment companies to prevent fund management regulatory arbitrage in Thailand

Summary of latest SEC's proposed amendments on regulations relating to investment company (No. 116/2022)[1]

1. Thai and foreign companies offering shares to the public and listed companies **shall NOT have any characteristics of an investment company** (currently, restrictions are not clear for operating companies changing into an investment company[2])
2. Listed companies that invest in passive investments exceeding 40% of total assets **must disclose such investments** in its notes in financial statements and **must decrease their investments to below the 40% threshold**
3. There will be a grace period **for all listed companies that are considered as investment companies to rectify** their condition. If they cannot rectify, they can be delisted from SET
4. Failure to comply with the investment company status maintenance rule will result in a prohibition of such listed companies from **offering securities of all types in Thailand**, unless such companies have been granted a specific waiver from the SEC

Rationale behind the regulation amendment

SEC would like to prevent fund management regulatory arbitrage–which could occur if an entity registered as a company but has characteristics of an investment company. This may be considered bypassing the fund management license in order to conduct fund management activities (e.g., fundraising and investment / lending activities)

Note:

Investment company[1] means a company which makes **passive investment (invest without any roles in business management)** in securities, derivatives or digital assets, at a collective total amount exceeding 40 percent of the total assets. However, certain cases shall **not be included** in such threshold, for example:

1. Investment in low-risk assets with liquidity;
2. Investment in an associated company that is not an investment company;
3. Investment in an affiliate under the same group company;
4. Investment in an operational network or synergy company; or
5. Synergy investment in the company's existing value chain

Key Takeaways:

1. Today, characteristics of investment company are not clearly defined (e.g., what is their passive investments threshold)
2. Going forward, SEC plans to introduce amendments to clarify regulations and prevent the above type of fund management regulatory arbitrage
3. Unless allowed by fund regulations, setting up an investment company as vehicle for private debt in Thailand may not be a viable option after the above amendments

1) *SEC and SET run a joint public hearing on the proposed prohibition of investment company characteristics in issuing and listed companies*, The Securities and Exchange Commission (SEC), July 2022 https://www.sec.or.th/EN/Pages/News_Detail.aspx?SECID=9518&NewsNo=116&NewsYear=2022&Lang=EN
2) *Regulation of the Stock Exchange of Thailand Re: Listing of Ordinary Shares or Preferred Shares as Listed Securities B.E. 2558 (2015),* The Securities and Exchange Commission (SEC), July 2017 https://classic.set.or.th/dat/content/rule/en/01_BorJor-Ror01-00_ListingofOrdinarySharesofPreferredSharesas_EN.pdf

Source: The Securities and Exchange Commission (SEC), Deloitte Analysis

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Regulations & Infrastructure

The maximum interest rate that can be charged for loan agreement is 15% per annum, unless the loan originators are financial institutions

Regulations Relating to Interest Rate Setting for Loan Agreements

Regulations	Regulation detail
Section 654 of CCC	• Any loan agreement originated by non financial institution will be subject to interest rate limits, i.e., 15% per annum • The interest rate limit applies to every person or entity (including corporates) as long as the interest rate charge is applied to a transaction considered as a loan
Excessive Interest Rate Prohibition Act B.E. 2560	• Violation of section 654 of CCC on loan agreements' interest rate limit can cause imprisonment or fine or both to the loan originators • The excessive interest rate can cause the whole amount of interest to be void (unable to make claims) as interpreted by supreme court Note: The power of Excessive Interest Rate Prohibition Act B.E. 2560 applies to every person or entity providing loans or any manners concealing loans charging interest rate higher than 15% per annum
Interest Rate of Financial Institution Act B.E. 2523	• Financial institution can charge interest more than 15% per annum (defined by Loan of the Financial Institution Act B.E. 2523 and the Ministerial Regulations issued thereunder) Note: Currently, **private debt fund is not a financial institution under such act**

Note:

1. Currently auto lease and hire purchase agreements are not considered loan agreements, thus they are not subject to loan agreement's interest rate restriction. This does not include transactions disguise as leasing/hire purchase, but loans by nature. However, BOT plans to regulate these type of agreements and set the maximum interest rate limit.
2. The interest rates under hire-purchase agreements can be considered as pre-determined damages in which the court is empowered to reduce the amount (Section 383 of the CCC, Supreme Court Case no. 5753/2545)

Source: Deloitte Analysis

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Regulatory initiatives list

	#	Initiative name	Initiative detail
A. Tax incentive implementation	A-1	Introduce tax incentives for setting up private debt funds	Tax incentives (e.g., tax exemptions) for new funds would encourage investment entrepreneurs to register as GPs and build up the ecosystem
	A-2	Implementing tax incentives for private debt funds' investors	Tax incentive for investors (e.g., tax exemptions for investing in private debt funds) would lead to more supply of private debt
	A-3	Implementing tax incentives for private debt funds' managers	Tax incentives for fund managers (e.g., income derived from managing or advising the private debt funds is subjected to a lower tax rate) would encourage more fund managers to participate
	A-4	Implementing tax incentives for private debt funds' borrowers	Tax incentive for borrowers (e.g., exemption of upfront tax levied on receiving loans from private debt funds) would encourage borrowers to choose private debt versus other alternatives
B. Private debt fund scheme development and enhancement	B-1	Establish regulatory schemes to enable onshore private debt funds	Designing clear guidelines and regulatory scheme is essential for enabling the setup of onshore private debt funds
	B-2	Broaden eligibility criteria so that more investors can invest in various forms of private debt (per their sophistication levels)	Widening the group of investors who are allowed to invest in private debt funds via amendment of regulations, introducing a new investment vehicle, etc., would increase private debt supply
	B-3	Enable private debt funds to become members of the National Credit Bureau	Enabling private debt funds to become members of the National Credit Bureau would enable them to access proprietary company financials and make better underwriting decisions
C. Enhancing stakeholders' protection	C-1	Enhance investor protections by improving debt enforcement capabilities	Improving debt enforcement environment by promoting lender-friendly debt enforcement tools and frameworks, introducing mechanisms to improve lender protections, etc., would encourage lenders to participate
D. Others	D-1	Lift restrictions to allow offshore fund managers to promote fund to local investors	Lifting regulations to allow offshore fund managers to freely approach and promote private debt funds to local investors would increase private debt investments
	D-2	Lift regulations to allow free agreement on interest, fees, and remuneration of loans	Lifting regulations to allow creditors and borrowers to freely negotiate and agree on an interest rate they would like to use for their loan agreement would encourage lenders to participate

Source: Deloitte Analysis

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Regulations & Infrastructure

Infrastructure initiatives list

	#	Initiative name	Initiative detail
A. Developing the supporting platforms and frameworks	A-1	Develop platform to enable P2P transaction between investors and borrowers	Digital platforms would be allowed to facilitate P2P transaction between investors and borrowers
	A-2	Develop mechanism to aggregate and securitize small ticket loans for investors	Mechanism to aggregate/bundle small ticket loans, securitize them, and enable investors to buy and sell them on the digital marketplace
	A-3	Develop a secondary market for private debt	A secondary market for transacting private debt securities between buyers and sellers would present exit opportunities to GPs and LPs and provide more liquidity for the asset
	A-4	Establish private debt funds managed by banks	Banks would be able to set up their own funds and act as GPs, raising funds from investors and deploying funds to borrowers
	A-5	Develop an open database with standardized financials information of SMEs	The open database would allow investors (LPs) and intermediaries (GPs) to gain better access to SMEs' information, e.g., financial information, credit history, etc.
	A-6	Launch government matchmaking scheme to help match investors with borrowers	In this scheme, the government would act as a middleman to match investors with borrowers
B. Enhancing stakeholders' protection	B-1	Set up a specialised court for debt enforcement	The specialised court (e.g., an arbitration court) would be empowered to handle cases related to loan defaults and asset collection
	B-2	Launch a government credit guarantee program	Government-led campaign would provide credit guarantees to private debt borrowers. For example, lenders would be able to claim borrowers' unpaid amount from government in case of default
C. Enhancing stakeholders' knowledge	C-1	Launch an educational program to enhance stakeholders' knowledge of private debt	The educational program would teach stakeholders (e.g., borrowers, investors, regulators, etc.) about private debt, its use cases, and its processes
D. Implementing financial support for private debt funds	D-1	Implement cost subsidy to help set up private debt funds	Government would help subsidize costs associated with the setup of private debt funds
	D-2	Launch government co-funding scheme for micro & SME-focused private debt funds	The government would act as an investor (LP) and co-invest in private debt funds focused on lending to micro & SMEs
E. Improving cross-border transaction	E-1	Develop ASEAN cross-border initiative for private debt funds	ASEAN initiatives would help to facilitate private debt deal flow between Thailand and its neighbors

Source: Deloitte Analysis

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