



Private debt feasibility study:
Opportunities for the
Thai capital market –
Deloitte Forum

November 2022



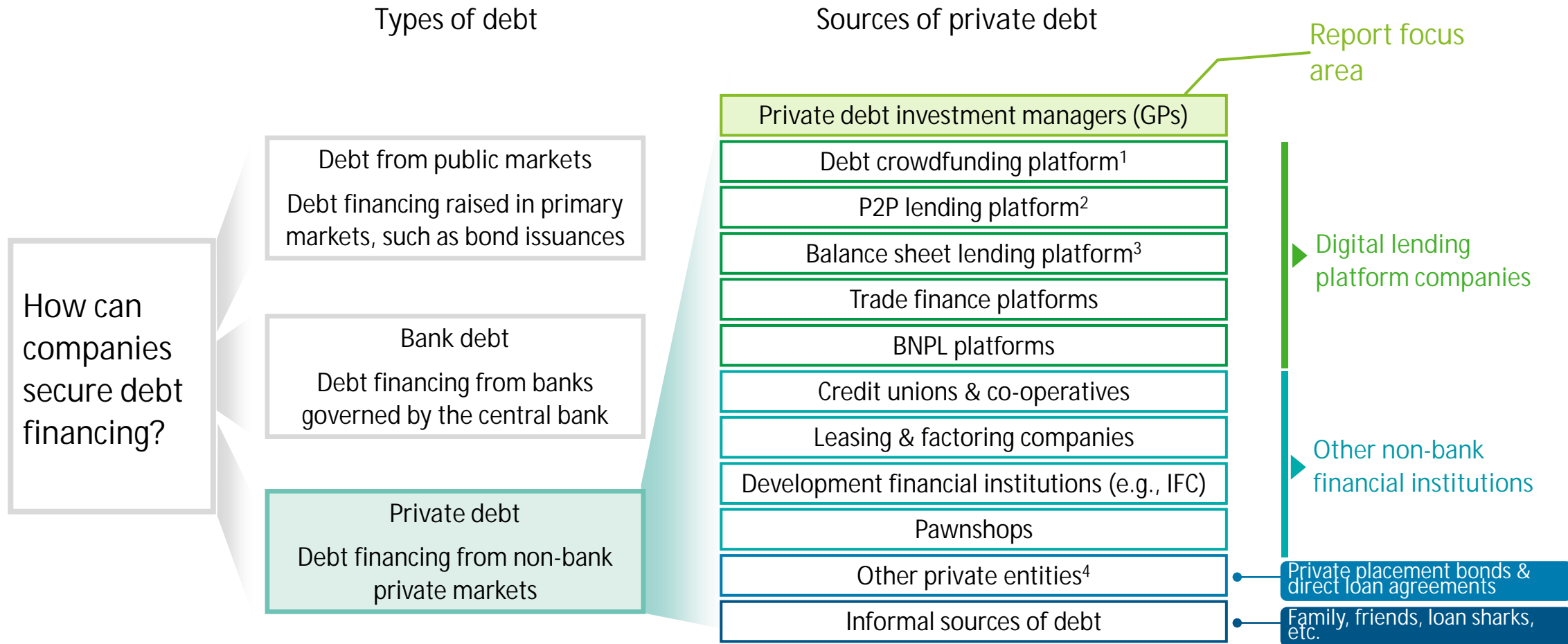
Agenda

- 1 Overview of the market landscape
- 2 Key challenges in Thailand
- 3 How to build private debt in Thailand



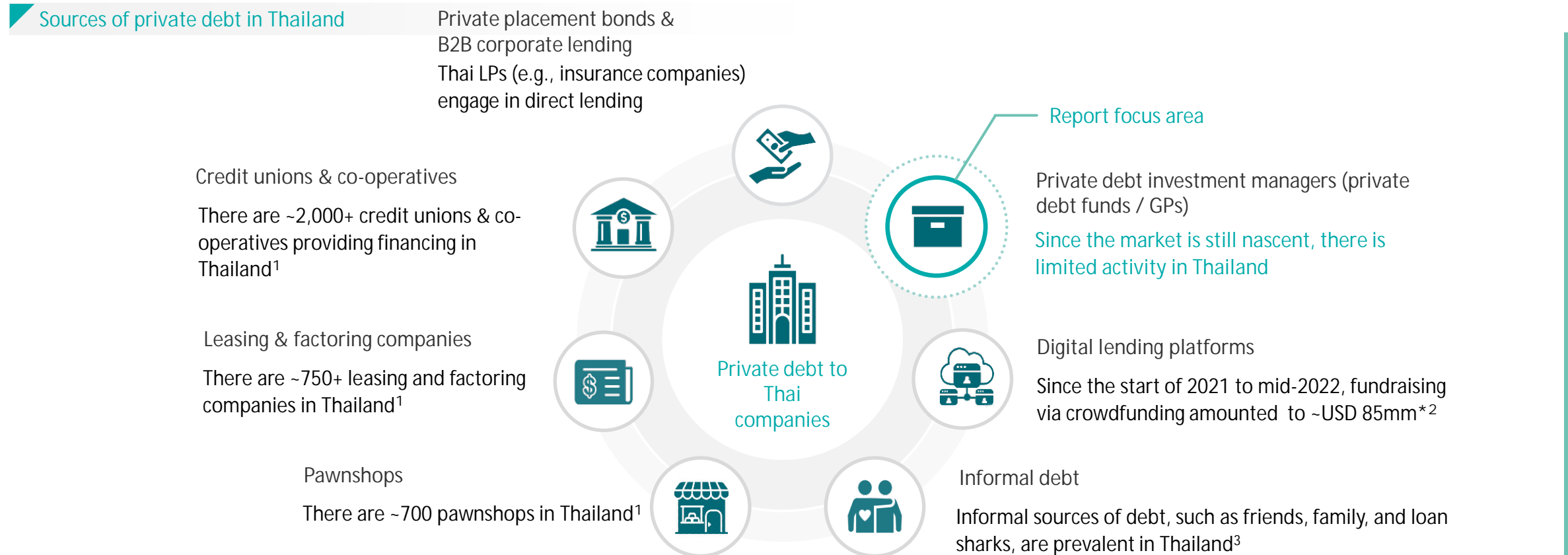
Definition of private debt

Globally, borrowers can raise private debt through several different sources



Definition of private debt

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



Overview of key stakeholders

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

INFRASTRUCTURE ENABLERS

- Financial instruments
- Secondary market
- Open data
- Credit guarantee mechanisms & other policies
- Repository of qualified SMEs
- Other services

REGULATORS

- BOT
- SEC
- MOF
- OIC
- Others



- Institutional Investors & other private entities
- Individual Investors

- Private Debt Investment Managers (GPs)
- Digital Platform Lenders

- Micro & SMEs
- Mid-Sized and Larger Corporates
- Private Equity firms

● Borrower needs in Thailand

Each market segment typically turns to private debt for different reasons

Borrower Needs

- 1 Thai micro & SMEs are underserved by existing financial institutions
- 2 Mid-sized corporates find it difficult to secure alternative financing below USD 50 mm
- 3 Larger corporates and PE firms in Asia are increasingly turning to private debt for buyout needs

“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 private investors”

– Former CFO, Corporate Borrower in Thailand⁴



Investor needs in Thailand

Qualified Thai investors are keen to explore new asset classes to drive yield and diversify their portfolio

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 investments¹

“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) 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>

Private debt intermediaries in Thailand

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	 Foreign private debt funds
~ Ticket size	~USD 2k – USD 25mm	~USD 10mm – USD 50mm	~USD 50mm and more
Comparative advantages	<ul style="list-style-type: none"> • Faster processing speed • Lending consistency • Ease of access 	<ul style="list-style-type: none"> • Ability to leverage existing local knowledge and network • Faster and less complicated processes compared to foreign funds • No FX or remittance complications 	<ul style="list-style-type: none"> • Good reputation and track record • Global experience • Global pool of investors • Access to talent and resources

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● Challenges to developing private debt

We identified 3 fundamental challenges that need to be addressed to activate this ecosystem

1

Regulatory barriers limiting scale up of private debt activities in Thailand

- a. No clear pathway to enable onshore private debt GPs to lend to corporates
- b. Many Thai investors are restricted from investing in private debt funds
- c. Lenders view debt enforcement as a key challenge in Thailand

2

Insufficient market & stakeholder readiness for private debt funds

- a. International funds do not see many large ticket opportunities in Thailand
- b. Stakeholders lack in-depth awareness of and exposure to private debt
- c. Limited number of human capital pool with private debt experience in Thailand

3

Information asymmetry limiting efficient operation of private debt funds

- a. Lenders often lack necessary data to conduct due diligence, credit assessment, and KYC

● Deep dive into regulatory challenges

A number of regulatory and policy challenges limit the scale-up of private debt in Thailand

Affected Stakeholders

Investors (LPs)

Restrictions prevent many investors from accessing private debt funds

Onshore funds (GPs)

Onshore funds in Thailand do not have clear regulatory guidance on lending to corporates

Offshore funds (GPs)

Offshore fund managers cannot directly solicitate funds in Thailand

Regulatory Challenges

Interest rate caps for loans made by non-financial entities to Thai companies can potentially discourage alternative lenders

Debt enforcement process in Thailand is lengthy and not lender friendly

Developing the market for private debt funds is not yet a priority for Thai regulators

● Deep dive into market and stakeholder readiness challenges

There are 3 key market and stakeholder barriers that limit private debt activity in Thailand

A

Offshore funds find it difficult to enter the Thai market and need to be motivated by large ticket transactions and higher returns

“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

Stakeholders lack awareness and exposure to private debt as an asset class

“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

C

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

“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

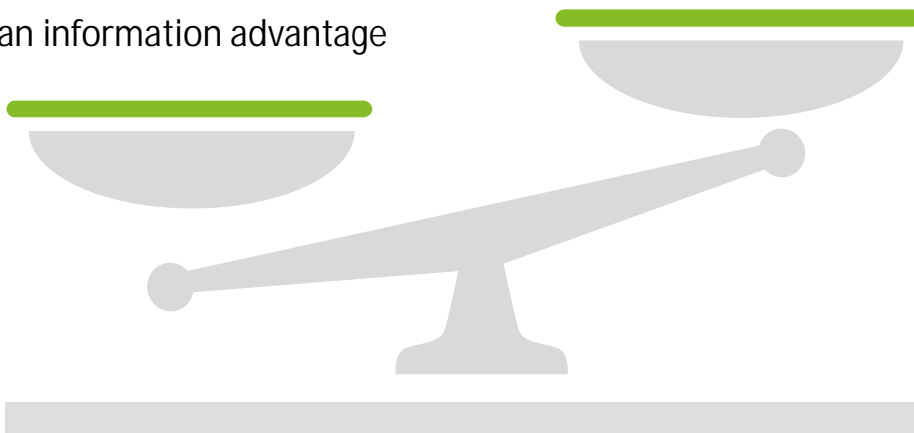
● Deep dive into information asymmetry challenges

Asymmetric information makes the credit evaluation process lengthier and more expensive

Information Asymmetry Challenges

Borrowers know their true credit risk and have an information advantage

Lenders must conduct due diligence to reduce information gap before issuing loans to borrowers



1. Private debt funds have limited access to borrower data, making their credit assessment process expensive and time consuming
2. Small ticket loans 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

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● Overview of regulatory & infrastructure initiatives

The below regulatory and infrastructure initiatives can help support the private debt ecosystem in Thailand

Regulatory Initiatives

1

Establish regulatory schemes to enable onshore private debt funds to lend to corporates

2

Broaden eligibility criteria so that more investors can invest in various forms of private debt

3

Improve debt enforcement to better protect and encourage lenders

Infrastructure Initiatives

4

Develop the secondary market for private debt

5

Launch government co-funding scheme for micro & SME-focused private debt funds

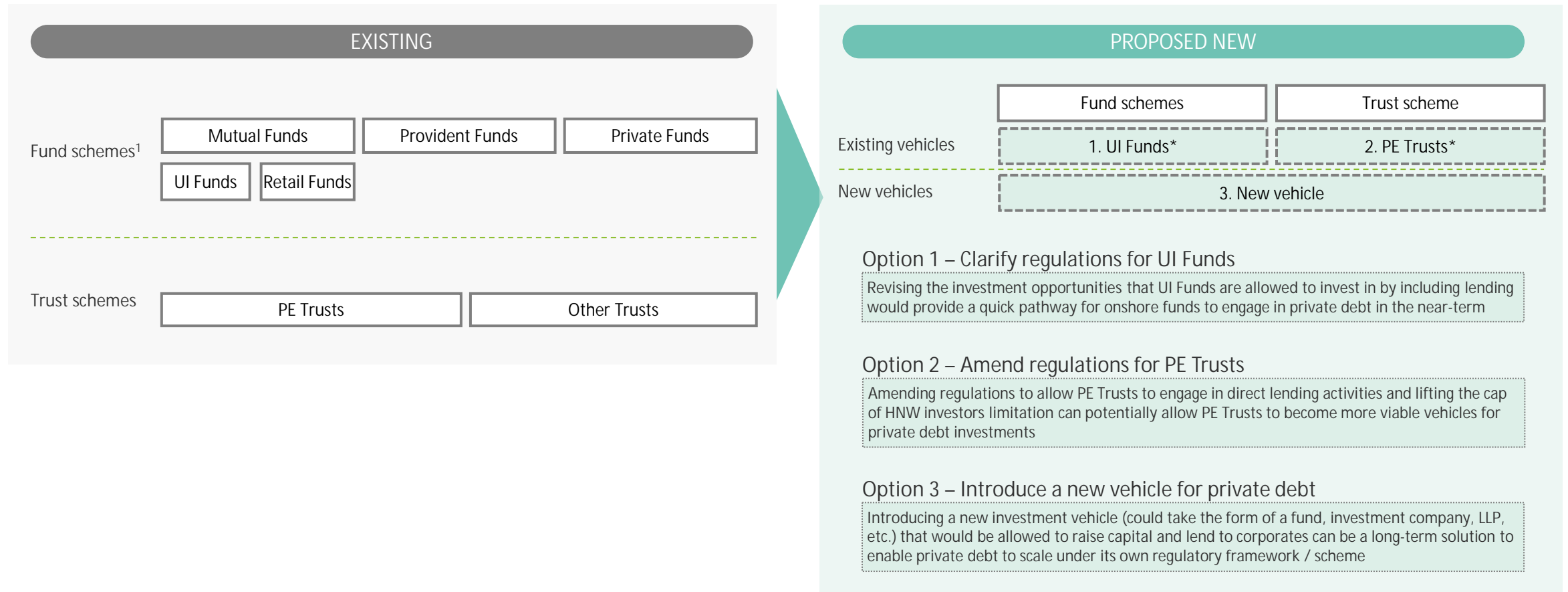
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Develop ASEAN cross-border initiatives for private debt funds

Establish regulatory schemes

1) Establish regulatory schemes to enable onshore private debt funds

Concept of the initiative



● Broaden eligibility criteria

2) Broaden eligibility criteria so that more investors can invest in various forms of private debt

Concept of the initiative

We can consider 3 key moves to broaden participation in private debt investments

- 1 Enable institutional investors to invest in private debt funds by obtaining clearance from their respective regulators
- 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



2 Allowing PI and QI to invest in private debt funds

Example of allowed investment options¹

		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 in Europe)

- 📄 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 reqs, 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>

Enhance lender protection

3) Enhance lender protection by improving debt enforcement capabilities

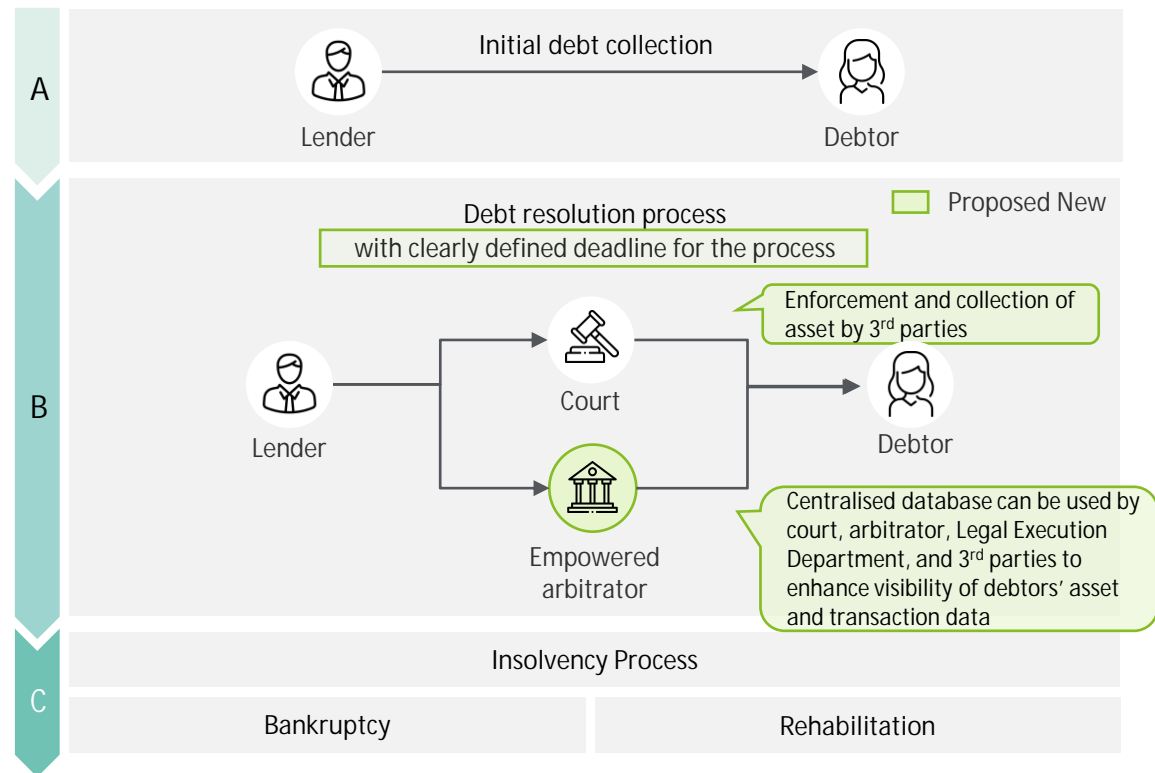
Concept of the initiative

We can consider 4 key moves to help improve debt enforcement capabilities in Thailand

- 1 Expedite debt enforcement processes by defining a specific time period required for completion
- 2 Empower the existing arbitration scheme by granting more enforcement rights to arbitrators—to help lessen the burden of the traditional courts
- 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

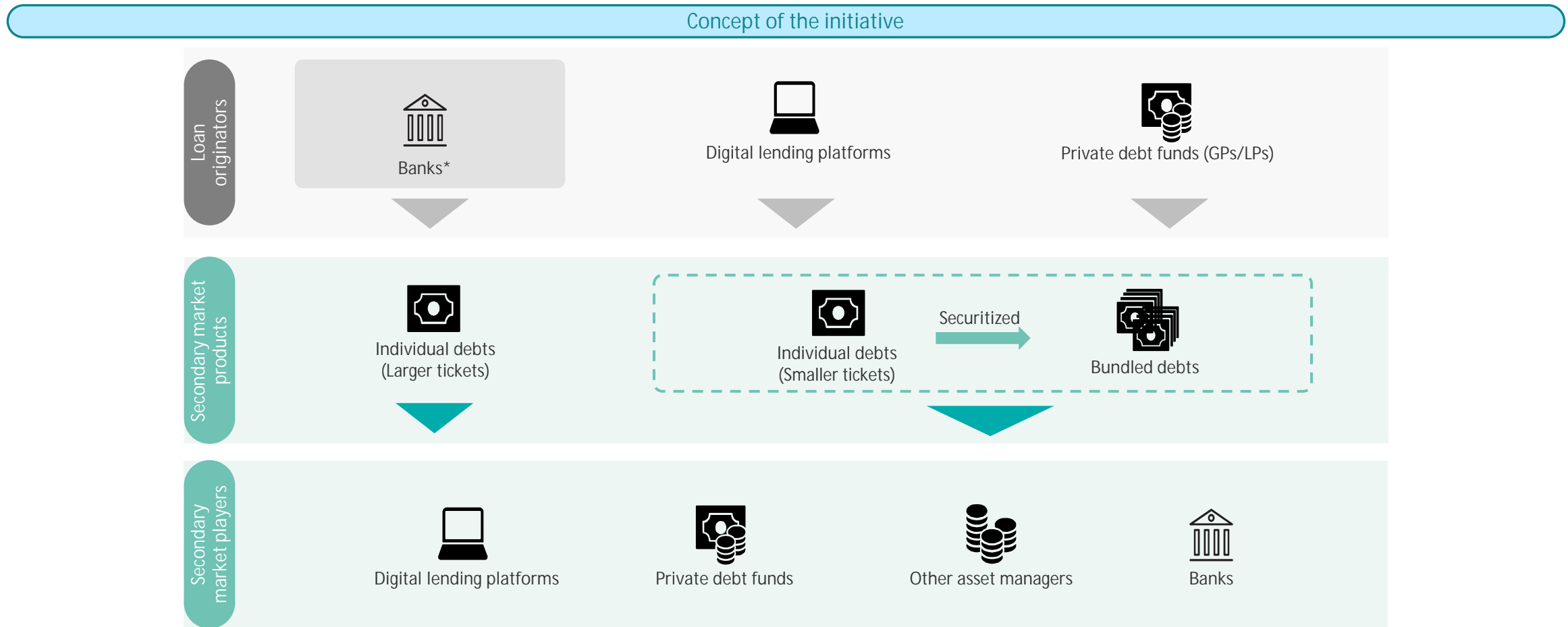
Steps

Debt Enforcement Process Overview



Develop secondary market

4) Develop the secondary market for private debt to increase liquidity in the market



*Bank loans are not considered private debt

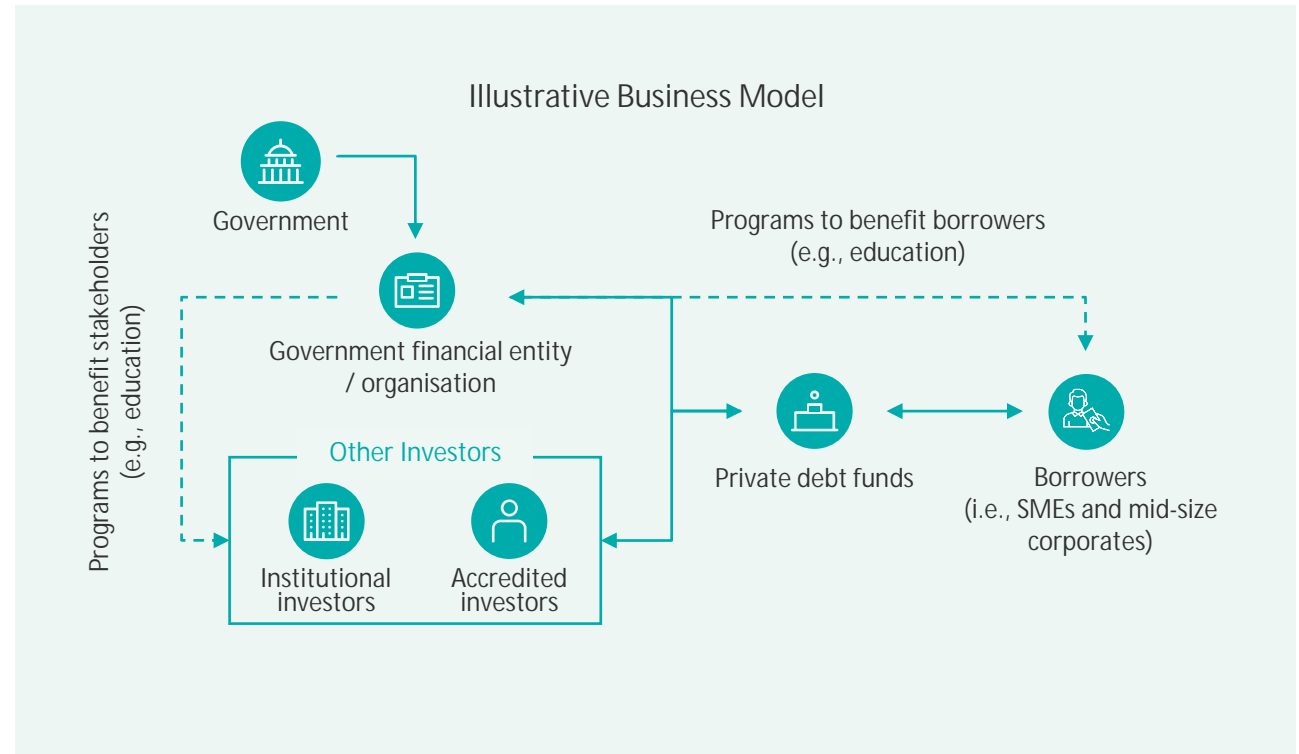
● Launch government co-funding scheme

5) Launch government co-funding scheme for micro & SME-focused private debt funds

Concept of the initiative

We can consider 3 key moves when considering a co-investment scheme for private debt

- 1 Allocate funds to a government-backed commercial organization with a mandate to co-invest in Thai micro & SME focused private debt funds
- 2 Ensure the program can carry out the following:
 - a) Identify private debt funds to invest in
 - b) Partner with institutional investors to match their investments in private debt funds
- 3 Use proceeds to further invest in private debt ecosystem development (e.g., education programs)



Develop ASEAN cross-border initiative

6) Develop ASEAN cross-border initiative for private debt funds

Concept of the initiative

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

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

Thank You

Q&A

