THAILAND SECURITIES INSTITUTE

Standard Practices for Investor Contact

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Professional Education

6/17/2013

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Chapter 1: Rules and Regulations for Conducting the Securities Business and the Code of Conduct Covering Investor Contact

1.1 Mission of the Securities and Exchange Commission and Goals in Regulating Securities Companies

The Securities and Exchange Commission, or SEC, was established on May 16, 1992 through the promulgation of the Securities and Exchange Act B.E. 2535. Under the terms of the Act, the purpose of the SEC was to develop and supervise the Thai capital market to ensure efficiency, fairness, transparency and integrity. In order to achieve this mission, the SEC must supervise the business conduct of securities companies because securities companies are important intermediaries in the capital market. The supervision efforts must meet the following goals:

- Protect client assets held by and under the control of the securities companies;
- Ensure quality and fairness in the services provided by securities companies; and
- Stabilize the clearing and settlement systems of the securities companies.

To ensure that the goals mentioned above are met, the SEC has several tools it can use in its supervisory efforts. The most important tools are:

- Granting licenses;
- Approving the personnel employed by securities companies, to ensure that the employees are fit and proper, and approve the major shareholders, executives or investor contacts;
- Evaluating the risks of securities companies, such as prudential risks, operational and internal control risks, or customer relationship risks; and
- Prescribing rules and regulations for the industry, such as imposing minimum capital requirements on securities companies, setting rules outlining how to handle client assets, and how to deal with clients.

Moreover, the SEC monitors the operation of securities companies and periodically requests securities companies to submit reports concerning their financial condition and business operations. These actions are taken to ensure that the securities companies comply with the relevant laws, rules, and regulations and that there are no risks which may lead to serious problems at one company or in the industry.

1.2 Rules and Regulations for the Securities Business

1.2.1 Prevention of Conflicts of Interest

Like many other providers of financial services, securities companies are susceptible to conflicts of interest. For example, a service provider (such as a securities company, or an individual such as an investor relations officer, an executive, or a major shareholder) may have an interest in the transaction for which it provides service. A conflict of interest means the service provider may place its own interest before the clients' best interest. As a result, investors may be taken advantage of and may be treated unfairly. Consequently, if there are no safeguards to recognize and control conflicts of interest, investors may lose confidence in the capital market. The resultant loss of investor confidence may make it difficult to develop the capital market into an efficient, fair and transparent mechanism for mobilizing capital.

For these reasons, securities companies must separate their operating units where conflicts of interest might arise. Securities companies must also separate the personnel assigned to those operating units, because conflicts of interest may arise as these employees perform their duties. Separation of the operating units and personnel may also require separating the lines of authority. For example, the securities trading unit, the investment banking or financial advisory unit, and the proprietary trading unit should be separate and independent from one another.

In addition, there additional measures, required by law, designed to reduce conflicts of interest. Two examples of these measures are prohibiting transactions during a certain period, or disclosure of any conflicts of interest when giving advice to clients. Securities companies must implement these additional measures required by law.

1.2.2 Preventing the Access and Exploitation of Nonpublic Information

A securities firm may have access to nonpublic information during the course of its normal business activities. The information could come from securities issuers, as the securities firm provides the services it offers, such as securities underwriting, financial advisory service, or credit analysis. Nonpublic information is important because, by definition, this information is not publicly available and because it affects the share price of the securities issuer or other related companies. Within a securities firm, the units responsible for securities underwriting, financial advisory service, or credit analysis for

financing are the operating units which may have the opportunity to obtain nonpublic information. Securities companies and their personnel must be prevented from exploiting nonpublic information so that the nonpublic information cannot be used to take advantage of investors. To accomplish this goal, a security company must separate its operating units and keep separate its staff that may be exposed to nonpublic information. Additionally, a securities company must restrict the right to access nonpublic information. Only authorized persons, whose duties and responsibilities require the knowledge of the nonpublic information, should be allowed access to the nonpublic information.

A securities company must implement measures to ensure that securities companies and its staff do not exploit nonpublic information. In practice, a securities company will create a "watch list" and a "restricted list" to protect nonpublic information from being exploited.

- Watch list: Securities are added to this list when the firm has access to the issuer's nonpublic information. For example, suppose a securities company enters into an agreement to provide financial services to a prospective issuer. The relationship between the securities company and the issuer has not been made public, nor has the public learned about the pending transaction. Before publicizing any details of the agreement or the pending transaction, the securities company will put name of the issuer on the watch list. The watch list is disclosed only to the units and staff who need to know this information in order to do their jobs. These staff members are prohibited from trading the securities that appear on the watch list. After the relationship or the transaction is made public, the securities company will remove the issuer's name from the watch list and place its name on the restricted list.

- Restricted list: Although the relationship or transaction has already been made public, a securities company must continue monitoring its compliance. The monitoring must continue until the securities company has stopped providing financial services to the issuer, or until it is no longer necessary to monitor compliance because investor confidence and the reputation of the securities company can be maintained. When an issuer's name is moved from the watch list to the restricted list, a securities company will disclose the restricted list to all its operating units and staff. All staff members, and the employees overseeing the company's proprietary trading account, are prohibited from trading, soliciting, advising or issuing any investment research concerning the issuer. When the relationship or the transaction has ceased, the company will remove the issuer's name from the restricted list.

1.2.3 Handling Client Assets

Securities companies are in possession or control of client assets. Some examples of possession or control are: securities or cash deposited with the securities company, money paid in advance for share subscription, and assets called from the clients by the securities companies as a guarantee for clearing and settlement.

Every securities company must set up a system to handle client assets to prevent fraud or the unlawful exploitation of client assets. A good system to safeguard client assets should have these features, as a minimum:

- Records of client assets are up to date and correct;

- Client assets are kept separate from the securities company's assets. If a securities company deposits client assets with a financial institution or another organization such as the Thai Securities Depository (TSD), the securities company must clearly specify on the account or promissory note that the deposit is for the client;

- Strict procedures are established governing the handling of client assets, especially for the withdrawal, transfer, or modification of client assets. An example of a strict procedure would be requiring proof of a client's signature, followed by approval by an authorized person before any transaction could be made;

- Client assets are counted or reconciled regularly;

- Clients are notified regularly, at least once a month, with a summary of activity or a listing of the securities remaining in the client's account. If there is no activity for a certain period, a company can notify the client periodically, but must notify the client at least every six months.

A specific unit within the securities company should be established to handle client assets. By having a separate unit, the company can maintain the separation of duties and can more easily create a system of checks and balances. It is possible to have an operating unit handle client assets, but the operating unit must not be the unit that contacts clients to solicit or provide investment advice.

1.2.4 Role and Importance of Compliance Unit in Securities Companies

The compliance unit in a securities company is as important as other units. Its task is to monitor the operation of the company so that the firm can achieve regulatory compliance. The compliance unit is different from an internal audit unit. The main focus of the internal audit unit is examining the potential for fraud, or loose working systems that are detrimental to the company.

The duties of the compliance unit include issuing work procedures for staff so as to prevent legal violations, monitoring and examining staff actions to see whether the actions comply with the prescribed work procedures and the extent to which the actions comply with the prescribed work procedures, and punishing the responsible staff when procedural violations are found. The unit has to coordinate its activities with the SEC and the Stock Exchange of Thailand (SET), to ensure the compliance unit can keep up with and understand every rule and regulation. The compliance unit must also inform the executives and staff of any new rules and regulations, so that every employee can understand and comply.

The scope of the compliance unit's duties means the compliance unit must be independent. It must be able to report the results of its findings and its opinions to the board of directors, without any constraints or distortion. Moreover, the unit shall be comprised of staff that have the knowledge and understanding of the laws and regulations relevant to the securities business. When a securities company has a strong compliance unit, breaches or violations of the laws are rarely committed.

1.2.5 Control of Contact with Investors and Work Procedures for Staff

Securities companies must create and issue work procedures that regulate the activities of their personnel. The work procedures are needed in order to ensure that every staff member performs efficiently and does not cause any damage to any client, to the employee, and to the firm. In addition, the procedures help ensure all operations comply with the standards or code of conduct prescribed by the SEC. In accordance with best practices for internal control, companies shall divide their operations into two groups: front office and back office. This division enhances the checks and balances in work procedures. For example, front desk employees are prohibited from safeguarding trading confirmation tickets, client asset summaries, or modifying client information. Furthermore, securities companies shall establish an internal check and balance system so that all the important tasks of a

process are not delegated to one person. Mistakes or even fraud will be more likely if one person performs or controls all the important tasks in a process. For instance, when a client is trading over his or her account limit, the exception must be approved through the appropriate line of authority. All revisions of erroneous transactions must be approved by a supervisor, after the supervisor examines the transactions and finds that the revisions are necessary and proper. Also, any withdrawal or transfer of the clients' securities must be approved through a designated line of authority.

Securities companies must set up a work manual for staff. The manual helps make sure that operation runs smoothly when staff changes occur. The manual should have clear and full explanations of the work procedures and policies. The manual must be kept up to date.

In addition to the aforementioned operational controls, securities companies must also control staff trading by establishing clear rules to prevent conflicts of interest and the exploitation of nonpublic information. If a securities company is also a brokerage firm, the company should permit staff to have a trading account only with their employer. However, if the company allows its staff to open trading accounts with other companies, it is crucial to set up a working control and compliance system. The control and compliance system can ensure the same level of efficiency as when staff open accounts at the company.

1.2.6 Resolving Client Complaints

Securities companies must provide written work procedures to cover client complaints. The procedures must be clearly stated and fair to clients. For verbal complaints, securities companies must record the complaint in writing and require the client's signature. Upon receiving a complaint, a company must resolve it without delay and notify the client and the SEC of the result. If the complaint is complicated, the company shall notify the client periodically of any progress, because a complicated complaint can take more time to resolve. Companies shall review all client complaints to find the causes. If the complaints come from inefficiencies in service or control, the companies shall improve the quality and control of their operating systems. Companies are required to keep all client complaints, and all supporting documentation, for at least two years from the settlement date.

1.3 Requirements for Investor Contacts

Securities companies must use personnel who have been approved by the SEC to sell or provide investment advice to clients. The personnel approved by the SEC are designated as "investor contacts". Investor contacts are very important in the capital market because these employees have direct access to clients. Knowledgeable investor contacts, who have a good understanding of their role, will support the development of the capital market. Their knowledge and understanding will allow the investor contacts to perform at their best and impress clients.

The duties of an investor contact are as follows:

- Evaluate clients' financial condition and limitations, assess the amount of capital funds that can be invested, and assist clients in identifying their investment objectives, in order to provide the appropriate advice for each client's financial objectives, financial circumstances, investing experience, and risk tolerance;

- Give timely, correct, and complete investment information and provide the appropriate advice;

- Keep client information up to date;

- Provide explanations regarding the structure, relevant parties, and roles of the capital market, including factors impacting the market;

- Execute a transaction according to a client order, follow up to check whether the transaction is correct and complete, and quickly notify clients about the transaction; and

- Follow up on each client's investment accounts to check whether the client's investments are consistent with the client's objectives. Also, the investor contact should provide advice regarding the securities in the client's account. The advice should address whether the investments in the account are in line with the economy, capital market conditions, or any change in the fundamental factors of the securities.

1.3.1 Contacting, Soliciting and Providing Advice to Clients

The SEC has established rules or standards of practice for investor contacts. The two main purposes of the rules are: to ensure that clients (investors) benefit by receiving good and fair service; and to ensure investor contacts do not take advantage of their clients. The guidelines are as follows:

General rules covering the activities of investor contacts

- Perform the duties in good faith and do not take advantage of or incur damage to clients. The actions that violate this rule are, for example, embezzlement and misappropriation of client assets; using a client account to trade for others who are not the account owner; providing deceitful or false advice, or misleading information, which results in a misunderstanding and losses; and advising clients to trade constantly in order to generate commissions (churning);

- Do not exploit the position of investor contact for any unlawful benefits, or benefits for self or others. An example of exploitation would be trading for close friends and relatives before for clients (front running). Front running results in clients' failure to buy certain securities or losing an opportunity to get the best available price;

- Do not disclose clients' personal and trading information, nor reveal such information to others unless required by law. For example, disclose information only to government officers as required, or in response to a court order;

- Do not exercise control over client assets, such as making a trading decision on behalf of a client, or having any interest in clients' capital losses or gains;

- Do not misuse client accounts. Misuse includes deliberately using client accounts to execute a transaction for others; using one client account to trade for another client to avoid going over the account limit; or using one client account to execute a transaction for another client while the latter is waiting for the approval after opening a new account;

- Do not execute a transaction by taking orders from a person who is neither the account owner nor an authorized person;

- Do not cooperate with nor support clients in attempts to violate securities laws and regulations. For example, if a client orders an investor contact to send an order prohibited by the securities exchange, the investor contact must refuse the order and explain to the client the reason for the refusal;

- Disclose the investor contact's own name and the securities company where he or she works, whenever he or she makes contact with clients or investors, or issues any advice to clients.

Rules on Soliciting and Advising

- Provide good and sound advice, based on internationally acceptable theories. If the advice is based on public news sources, the investor contact shall use his or her judgment and examine the credibility of the sources, and be able to refer back to the news sources;

- Caution clients against the risks of securities, especially the risks result from the unique characteristics or current situation of a security. For example, there are special risk characteristics of structured notes, the securities of merging companies, or soon to be delisted securities. Another example is a principal protection fund which has no guarantee on the principal. This type of fund may cause the investment unit-holders to receive less than the amount they initially invest;

- Do not make any guarantees to clients, either verbally or in writing, concerning any returns they may receive, unless the securities themselves offer a return guarantee, such as a guarantee fund or government debentures;

- Provide suitable advice when such advice is specific. The type of advice can be divided into two categories. The first is general recommendations, such as providing advice without taking the client information into consideration. One example of a general recommendation is when an investor contact recommends to every client the purchase of ABC shares. A second example is a recommendation for a security, based on any type of securities analysis. The second type of advice is specific recommendations, such as providing advice specifically tailored to each client. When providing specific recommendations, the investor contact shall consider the client information when providing the advice. Thus, the recommendation is appropriate for

the client. For instance, an investor contact may recommend that Mr. A buy ABC shares. Mr. A's investment objective is to invest prudently. The price of ABC shares does not fluctuate much, and this advice is consistent with Mr. A's investment objective. However, ABC shares may not be suitable to Mr. B, as he would like to invest in shares that generate returns from capital gains rather than dividends.

Disclosure of Conflicts of Interest

Securities companies or investor contacts often have conflicts of interest when providing advice to investors. In situations when conflicts of interest arise, the investor contact shall disclose the conflict to the client, in order for the client to be aware of the conflict. The client can then carefully make his or her investment decision.

The types of conflict of interest can vary, depending on the type of business. For example, an investor contact may face a conflict of interest when selling investment units. The investor contact may receive different commission rates from selling the investment units of different mutual funds. Another example is when an investor contact sells the investment units offered by more than one management company or when an investor contact has an interest in selling investment units in a way that would make him put his own interest before the client's interest. Some other examples of conflicts of interest in securities brokerage, securities dealing, and investment advisory service are as follows:

- The securities company is a securities issuer;

- The executive of a securities company is the director of a securities issuer;

- A securities company, an executive of a securities company, or an investor contact holds more than 5% of the total number of voting rights of a company and provides advice about the shares of this company.

Compliance Rules When a Securities Company is an Underwriter or a Financial Advisor

When a securities company is an underwriter of securities offered to the general public, or when a securities company serves as a financial advisor to an issuer, the securities company becomes a stakeholder in the securities being offered. Consequently, conflicts of interest occur when the company has to provide to the public investment advice on the securities being offered to the public. If the securities company has no effective way to

recognize and address the conflicts of interest, there may be a negative effect on investors' confidence in the capital market. The SEC has established the following rules, shown in Table 1-1 below, to address conflicts of interest.

Table 1-1: Compliance Rules When a Securities Company Acts as an Underwriter or Financial Advisor

Situation	Rules	Remarks
Acting as an underwriter of securities offered to the general public	1. Do not solicit orders or offer investment advice, starting from five days before the offering date until the closing date of sale	For public offerings (PO) of securities
	2. Do not disseminate any analysis, starting from 15 days before the offering date until the closing date of sale, or the date when all shares have been supplied to customers, if the shares are over-allocated - IPO shares - PO securities	There is an exemption for PO securities. The analysis can be disseminated if all of the following conditions are satisfied: - The analysis is a typical analysis of the company, as has been done in the past; - The analysis is an amendment to any analysis that has been previously disseminated; - The content of the analysis does not focus on the securities being underwritten; - All interests are disclosed

Situation	Rules	Remarks
		in the analysis.[1]
	3. Disclose interests when publicizing the analysis[1] from the closing date of sale until 30 days afterwards	
Acting as a financial advisor	The analysis can be disseminated if all of the following conditions are satisfied: - The analysis is a typical analysis of the company, as has been done in the past; - The analysis is an amendment to any analysis that has been previously disseminated; - The content of the analysis does not focus on the securities being underwritten; - All interests are disclosed in the analysis.[1]	

[1]Disclosure of interests shall be prominently displayed on the same page as the opinion of the analysis, or in a place where the disclosure statement can be easily seen.

Cold Calling Rules

Cold calling, or contacting clients and prospective clients without a client request, is part of the securities business. This marketing strategy is a popular practice. In order not to bother or annoy people, the SEC has established rules on cold calling as follows:

- The contact period shall be from 8:00 am – 6: 00 pm;

- An investor contact shall disclose his or her name, and name of their employer, when contacting clients. If an investor contact has a meeting with a client, the investor contact's SEC-issued identity card must be shown;

- Clients must be informed of their right to refuse the contact. If a client states that they do not wish to receive any contact or do not wish to buy any securities or investment units, the conversation will be stopped immediately;

- Clients must not be rushed into making a decision;

- Clients must be informed of their right to cancel buy or sell orders within a specified period.

When conducting cold calls, the securities company shall make a list of clients that do not wish to be contacted (a "do not call list"). Investor contacts are forbidden from cold calling these clients for two years after the client's name has been added to the do not call list.

Staff Dealing Rule

The SEC has created a rule to prevent conflicts of interest and the use of nonpublic information by investor contacts. The rule states that investor contacts who prepare any type of analysis for dissemination to investors are prohibited from trading in this security and other related securities for three working days. The three-day restriction allows sufficient time to disseminate the analysis to investors. This rule applies to both fundamental analysis and technical analysis.

1.3.2 Client Information

When a client agrees to use a securities company's services, the securities company will ensure that the client provides all the necessary documents in order to establish the client's identity. The information is needed to ensure the securities company has sufficient information about each client, and so that the company can provide efficient service to every client. When giving advice to a client, the securities company must have enough information about the client to be able to identify the client's investment purposes, financial situation, ability to repay debts, plus the client's investment knowledge, investment experience, and investment limitations. Investor contacts can use this client information to provide

investment advice that is appropriate for the client. Moreover, the client information can be used for risk management purposes and for client follow-up. For example, client information can be used to determine a suitable trading limit. The investor contacts must have correct and current client information in order to provide appropriate advice. Securities companies should update the information about clients constantly, but at least once a year.

1.3.3 Investment Handbook

An investment handbook is a document prepared by a securities company for distribution to their clients. The details of each handbook might be different, depending on which licenses are held by a securities company.

Generally, an investment handbook consists of important information that clients need to know for their own benefit. As a minimum, the important information included in the handbook should include the securities company's name, address, branches and representatives (if any); the fundamental rights of investors, such as the right to check their own transactions, the right to be informed of any information which infringes on their rights and benefits as clients; the right to deny any cold call contact; how to submit a complaint if a client has received poor service; and notification of any warnings and risks pertaining to the investments or securities offered by the securities company. Here are two examples of the notification of warnings and risks: "Investing in investment units is not the same as making a bank deposit." or "This investment involves risks; investors should study the prospectus before making any investment decision."

1.3.4 Code of Conduct for Professionals

Members of a profession jointly ascribe to a code of conduct. The code of conduct serves as a guideline for members' conduct and behavior. The code helps maintain the integrity, reputation and status of all members, as well as enhances professional standards. Thus, the code of conduct usually has a greater scope than the legal rules and regulations that bind members of the profession. The code of conduct for the securities business covers five broad areas, as outlined below:

- Fundamental duties and responsibilities, such as knowing and understanding all relevant regulatory requirements and professional standards, and not aiding or abetting any illegal conduct;

- Duties and responsibilities to the profession, such as being loyal and honest, possessing the knowledge and capabilities required by the profession, and not plagiarizing securities analyses created by others;

- Duties and responsibilities to the employer, such as not competing directly with the employer, complying with the work regulations of the employer, maintaining the employer's integrity and reputation, and not taking any extra compensation from performing their usual duties;

- Duties and responsibilities to clients, such as treating every client fairly, disclosing any conflicts or potential interest to clients, maintaining client confidentiality, furnishing clients with accurate information in full, providing advice by separating facts and personal opinions, giving investment advice based on proper analysis, not advising on securities in which one does not specialize, and not trading securities in the sector for which one is responsible for making analysis;

- Duties and responsibilities to the public, such as not exploiting significant material information that is not yet made public, presenting operating results to the public in an accurate and not misleading manner, and not disseminating or passing on any rumors when providing advice via the media.

1.3.5 Qualifications and Prohibited Characteristics of Investor Contacts

In order to be licensed as an investor contact, a person must pass an examination and must not have the following prohibited characteristics:

- Being an insolvent person, an incompetent person, or a person subject a court's order of receivership;

- Being blacklistedby the Stock Exchange of Thailand;

- Having been named in any criminal complaint or subject to any legal proceeding regarding a finance-oriented business or anti-money laundering laws, regardless of whether they are domestic or foreign laws;

- Being suspended from working as a fund manager;

- Been terminated or dismissed due to fraudulent or dishonest conduct;

- Possessing an investor contact license previously revoked by the SEC;

- Performed work in a dishonest, deceitful, unfair or unreliable manner.

1.3.6 Penalties for Investor Contacts

If an investor contact violates or does not comply with the rules, regulations or standards practices prescribed by the SEC, the penalties imposed on an investor contact include probation, suspension of practice, and revocation of his or her license.

1.4 Arbitration

1.4.1 Advantages and Objectives of Arbitration

A dispute settlement between a service provider (a securities company) and a service user (an investor or client) in the judicial process may take time and can be costly. The SEC has implemented, and currently supports, an arbitration process. Arbitration is an alternative for settling disputes. Arbitration may lessen the losses of investors which resulted from the services supplied by securities companies. The arbitration process is conducted based on the principle of a "small claims court" to ensure fair, convenient, rapid and cost-saving hearings.

1.4.2 Disputes Which Qualify for Arbitration Proceedings

As mentioned above, arbitration is an alternative, but not compulsory, procedure to settle disputes. All parties must be willing to participate in the arbitration process. Disputes that are qualified for arbitration proceedings must comprise all of the following features:

- The complainant (the "petitioner") shall be a natural person or a member of a provident fund;

- The dispute is a result of a breach by a securities company (the "accused") of any agreement or contract or non-compliance with securities laws or provident fund laws;

- The amount of damages does not exceed 1 million baht per person;

- The dispute has been submitted to the complaint system of the accused, but the accused neither contacted the petitioner nor resolved the dispute, or the dispute is resolved with an unsatisfactory result;

- The dispute occured no more than six months from the date the petitioner knows or should know of the cause of such dispute, and no more than one year from the date such dispute occurs.

1.4.3 Arbitrator Appointment, Arbitration Hearing, and Arbitral Awards

When the parties to a dispute agree to participate in arbitration, the parties shall jointly select one arbitrator from the arbitrator list provided by the SEC. In the case of a class action in which there is more than one petitioner and the damages are more than 1 million

baht, the parties can agree to select one arbitrator or an arbitration panel comprised of three arbitrators. The selected arbitrator shall be neutral, independent and have no conflicts of interest in issuing an arbitral award covering the dispute.

During a hearing, the arbitrator will hear facts and consider the evidence presented by the parties. The arbitrator shall deliberate and issue an arbitral award within 90 days from the date of arbitrator selection. The time period for reaching a decision can be extended to 120 days, if necessary. During the arbitration proceeding, the parties can also ask the SEC to mediate the dispute.

An arbitral award is final and binding. If any party does not abide by an arbitral award, the other party can submit a petition to the court to enforce the arbitral award. However, the parties may object to an arbitral award or request for change of arbitrator if they can prove that the arbitrator is neither neutral nor independent.

Chapter 2: Laws Covering Unfair Securities Trading Practices and Money Laundering

2.1 Unfair Securities Trading Practices

The capital market is one of the important tools used to develop a nation's economy. The capital market is where capital is mobilized to operate and expand businesses, which makes the economy grow. This important role hinges on the condition that the capital market functions efficiently, transparently, reliably, and that the capital market is fair to all participants. If the capital market does not function in this manner, it will generate benefits only to certain groups of people. Consequently, the Securities and Exchange Act B.E. 2535 prohibits unfair securities trading practices and imposes severe penalties for unfair trading practices: imprisonment, fines, or both. Unfair securities trading practices, as defined under the Act, are as follows.

2.1.1 Impartation of False or Misleading Statements, Dissemination of News that Affects Securities Prices, and Dissemination of False News or Rumors

The types of conduct prohibited in this category are:

- No securities company, or any person responsible for the operation of a securities company, or a company which issues securities, or any person having an interest in the securities, shall impart any false statement, or any other statement with the intent to mislead any person concerning the facts relating to the financial condition, the business operating results or the securities trading prices of a company or juristic person whose securities are listed on the Securities Exchange or are traded in an over-the-counter center. For example, an executive of a company gives an interview to a newspaper stating that there is the potential for the company's profits in this year to be twice the profits of the previous year, even though he is well aware that the company's production cost has increased significantly and the selling price cannot be adjusted;

- No securities company, or any person responsible for the operation of a securities company, or company which issues securities, or any person having an interest in any securities, shall disseminate news concerning any information which may cause any other person to understand that the prices of any securities will increase or decrease, except where the dissemination of information has already been reported to the Securities Exchange;

- No person shall disseminate any false news or rumors which may cause any other person to understand that the price of any securities will increase or decrease. An example of this conduct is when an investor contact passes on or starts a rumor that high net worth investors or institutional investors are chasing after certain securities.

2.1.2 Insider Trading

An examples of the types of conduct which may fall into this category is when any person trades securities or solicits others to trade securities, using information material to changes in the prices of securities which has not yet been disclosed to the public. "Any person" means a person whose status, position, or responsibility provides him access to such material nonpublic information, such as the director, executive, major shareholder, auditor, or state agency personnel. Here is an example of this type of conduct. A company director receives the initial annual operating results, which show that the company has suffered significant losses from changing currency exchange rates. The losses resulted in a material decrease in profits for the year. As a result, the director sells a certain amount of the company's shares before the company's operating results are officially announced to the public.

2.1.3 Concealing Securities Trades to Mislead the General Public

Conduct of this nature is when securities are traded with the intent to mislead the general public. The public is lead to have false beliefs about the trading prices or volume of certain securities. As a result, the benefits will eventually come to the culprit or the group of culprits which have engaged in market manipulation. Various market manipulation tactics are commonly used. Here is one example. A small group of investors continuously buys and sells certain securities within their group. The effort pushes the market price higher and misleads the public into thinking demand for these securities is very high. Other investors will come and speculate on these certain securities, pushing the prices up to a predetermined price level. The group of manipulators will sell the securities, leaving the late-coming investors with losses. In some cases, the purpose of market manipulation is not to obtain profits from securities trading, but to control or maintain the price at a certain level in order to reach an unlawful result, such as altering financial reports to show profits in the investment account.

2.2 Knowledge of Laws on Anti-Money Laundering

Crime patterns have been evolving and becoming more complex, especially the concealment of the sources of the ill-gotten gains, commonly known as “money laundering”. Money laundering is the activity of creating the appearance that money obtained from illicit means actually comes from a legitimate source. Money that appears to be from a legitimate source can more easily avoid legal scrutiny, and the law-breakers can spend the money to further the criminal conduct. As a result, the government has enacted the Anti-Money Laundering Act B.E. 2542 (“AML Act”) to hinder money laundering and destroy the cycle of crime. Crimes which are predicate offences according to the AML Act are as follows[1]:

- Offences relating to narcotics;

- Offences relating to sexuality such as seducing for prostitution, prostitution of a minor, seducing a woman or a child for an indecent act;

- Offences relating to public fraud;

- Offences relating to misappropriation or fraud or exertion of a violent act against property;

- Offences of malfeasance in office, offences of officials in state organizations or agencies;

- Offences relating to extortion or blackmail committed by claiming the influence of a secret society or criminal association; and

- Offences relating to smuggling under the customs law.

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[1] มีการเพิ่มความผิดมูลฐานอีก 2 ความผิด คือ ความผิดเกี่ยวกับการก่อการร้ายตามประมวลกฎหมายอาญา (Offences relating to terrorism) และความผิดเกี่ยวกับการพนัน (Offences relating to gambling)ในปี พ.ศ. 2546และ 2551ตามลำดับ

2.2.1 Rules and Procedures Requiring Financial Institutions to Report Transactions

The AML Act requires financial institutions to report a transaction to the Anti-Money Laundering Office when it appears that such a transaction is:

- A transaction funded by two million baht or more in cash, such as a cash deposit or withdrawal, making or receiving the payment from securities trading in cash, using a cash account for securities trading or purchasing promissory notes;

- A transaction connected with an asset worth five million baht or more, such as an asset auctioned by a commercial bank;

- A suspicious transaction which can be seen as having the intent to avoid being regulated by the AML Act, or a transaction connected with a predicate offence under the AML Act. An example of a suspicious transaction of this nature is when a client opens a trading account at a branch of a securities company but makes payment into accounts of several other branches. Another example is when a client pays for securities by transferring cash via accounts of several banks and several branches, and the amount of each transfer does not exceed two million baht. A third example is when a client often pays for securities in an integer amount higher than the securities price.

Financial institutions must report the types of transactions described above. The reporting is a legal requirement. The report shall be prepared according to the time period when the transactions occurred, either the 1st to the 15th of a month, or during the 16th to the last day of the month. Financial institutions shall then report the transactions to the Anti-Money Laundering Office within seven days from the 15th of the month or seven days from the last day of the month. In the case of suspicious transactions, financial institutions shall report to the Anti-Money Laundering Office within seven days from the date on which such transactions occur.

2.2.2 Requirement of Clients' Self-Identification and Recording of Transactions Conducted with Financial Institutions

When there is a transaction required to be reported to the Anti-Money Laundering Office, financial institutions shall require their clients to identify themselves prior to making

a transaction, unless the clients have previously identified themselves. In addition, the financial institutions shall obligate their clients to record statements of fact with regard to the transaction in the report form, as prescribed by law. Clients must sign the form as evidence. If the clients refuse to record the transaction or affix their signatures, the financial institutions shall prepare the record of such a transaction as it appears during its execution and inform the Anti-Money Laundering Office immediately.

If a financial institution does not comply with the rules mentioned above, or make a false statement, or conceals the facts which are required to be reported, penalties specified in the AML act will be imposed, which include fines, imprisonment, or both.

Chapter 3: Rules and Regulations Covering Securities Issuances and Securities Offerings

3.1 Rules and Regulations for Issuing and Offering Securities

The Securities and Exchange Act B.E. 2535 prescribes that Securities and Exchange Commission (SEC) must approve the offerings of newly issued securities to the public. The SEC must also approve the offering of any securities to any person, with one exception. The one exception is the offering of newly issued securities to the existing shareholders (a rights offering). A rights offering can be made without obtaining SEC approval.

The procedure to obtain SEC approval contains a number of steps. Before a firm can offer securities to the public via a *public offering* or PO, every step of the approval process must be completed. The firm can receive SEC approval once all steps are completed.

The company must first file two documents with the SEC: a securities registration statement (filing form) and a draft prospectus. The purpose of the prospectus is to provide enough information to the public so that potential investors can make their investment decision. The public offering may be made only after the SEC gives its approval. Once the SEC gives its approval, the registration statement, including the draft prospectus, will become effective and the securities can be offered to the public.

A second type of securities offering, called a private placement or PP, is also regulated by the SEC. A private placement is the offering of newly issued securities to a limited number of persons, rather than offering the securities to the general public. For example, a company may choose to sell its securities only to financial institutions, which are deemed to be sophisticated investors. A second example would be if a company decides to limit the offering to a specific number of investors or limit the value of the securities offered. The SEC has set limits on private placements. The current definition[2] of a private placement contains three criteria. A private placement is an offer for sale of newly issued shares meeting one or more of these criteria: the number of investors involved in a private placement cannot exceed 50; or the value of the private placement cannot exceed 20 million baht within a 12 month period; or the sale of newly issued shares is restricted to institutional investors.

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[2] Notification of Capital Market Supervisory Board Tor Chor 28/2551, Clause 24.

The SEC more lightly regulates private placements. Private placements are automatically approved and there are no filing requirements for this type of securities issue.

After offering the newly issued securities to the public, the issuing firm must meet several disclosure requirements, as specified by the rules and regulations of the SEC. For example, a firm has an obligation to periodically disclose its financial statements, send shareholders an annual report, and file other reports with the SEC. Investors in the secondary market will use the information that the firm discloses to make their investment decisions.

3.2 Rules and Regulations for Underwriting Securities Offers

An underwriter takes newly issued securities from the company which issues the securities (the issuer) and sells the securities to the general public. This action is known as offering the securities in the primary market. Firms must be licensed in order to underwrite securities.

Underwriters offer two ways to underwrite a securities offering: a firm commitment offering, and a best efforts offering. In a firm commitment offering, the underwriters are responsible for any unsold securities, while the underwriters are not responsible for any unsold securities in a best efforts offering.

Retail investors are involved in the underwriting of a public offering of securities. As a result, the SEC has prescribed rules, conditions and procedures for securities underwriting to ensure transparent and fair practices. The important rules are as follows:

- A securities company cannot act as an underwriter for the shares or non-voting depository receipts (NVDRs) issued by its parent company or its subsidiaries. This restriction prevents conflicts of interest. For example, suppose Bank B owns more than 50% of the shares of Securities Company A. Securities Company A is prohibited from acting as the underwriter for Bank B's equity offering;

- Securities underwriting can only be conducted in accordance with the procedures specified in the prospectus;

- When securities are offered to the public, the securities cannot be distributed to the underwriter, the co-underwriter, or the person or juristic person having an interest in the underwriter or in the co-underwriter. For example, securities cannot be distributed to the parent company, any subsidiaries, any major shareholders, or controlling persons of the underwriter. There are some exceptions.

    - Securities may be distributed to institutional investors, or may be distributed to company directors or employees through an employee stock ownership plan or ESOP. However, the securities company is first required to obtain approval from the SEC and then disclose in the registration statement and prospectus that the securities will be distributed to institutional investors or company employees;

- Securities that remain unsubscribed at the end of the subscription period may be distributed to affiliated companies, major investors, or a person or entity that has a controlling interest in the underwriter.

- Only the information pertaining to the securities offering which has been disclosed previously in the prospectus can be disseminated to the public. Any other information relating to the securities offering cannot be disseminated;

- Any research or analysis pertaining to the securities on offer cannot be issued within a specified period. The restriction on research and analysis also applies to securities underwritten by an affiliated company. For instance, suppose Securities Company A and Securities Company B have a mutual major shareholder. When Securities Company A is underwriting a securities issue, both Securities Company A and Securities Company B are unable to release any research reports or securities analysis covering the securities on offer;

- Conflicts of interest shall be disclosed when a securities company releases a research report within 30 days after the securities offering has been completed or 30 days after the overallotment shares are provided in full.[3]

- Securities companies may not trade the shares, or the underlying shares, for which the company acts as an underwriter during a specified period. There are some exceptions to this rule:

- Securities companies may purchase securities from a person offering securities for sale, according to the terms of the securities underwriting agreement;
- Securities companies may execute transactions according to client orders that are not the result of any solicitation or recommendation by the securities company;
- Securities companies may trade in their proprietary accounts in order to rectify errors made when executing transactions for clients;

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[3] Notification of Capital Market Supervisory Board Tor Thor 70/2552, Clause 12.

- Securities companies may purchase securities according to an overallotment agreement.

3.3 Rules and Regulations for Securities Tender Offers

Public limited companies are subject to the SEC rules and regulations covering securities issuances and offerings. Public limited companies are also subject to the rules and regulations covering takeovers. The Securities and Exchange Act B.E. 2535 states that any person holding 25% or more of the total outstanding shares of a public limited company is deemed to be holding the securities for the purpose of a takeover. This person shall comply with the rules and regulations for takeovers as prescribed by the SEC, unless the shares are acquired by inheritance.

The rules and regulations for takeovers specify that when a public limited company experiences a change of shareholding that can affect control of the company, the shareholder which accumulated the controlling stake is obligated to make a tender offer to the existing shareholders. Currently, the ownership percentages that trigger a mandatory tender offer, also known as trigger points, are 25%, 50%, and 75%.

The requirement for a mandatory tender offer gives the existing shareholders an opportunity to sell their shares to the new controlling shareholder. Existing shareholders receive the opportunity to sell because they may not wish to continue holding the shares of the company that is now under the control of a new controlling shareholder.

The new controlling shareholder is required to purchase all shares which are tendered, unless the tender offer is a partial tender offer. In a partial tender offer, the new controlling shareholder may limit the amount of shares that will be purchased.

A mandatory tender offer is not required if a public limited company is repurchasing its own shares. If the share repurchases are large enough, the amount of shares owned by an existing shareholder could reach a trigger point. An existing shareholder may see his or her ownership stake rise above a trigger point because the share repurchases have reduced the number of outstanding shares. The existing shareholder is not required to make a tender offer unless the existing shareholder acquires additional shares. If the existing shareholder acquires any amount of new shares, the shareholder is required to make a tender offer, as specified by the rules and regulations.

Tender offers are subject to the following principles:

- All shareholders shall be treated equally;

- Accurate information shall be disclosed in full, to all shareholders; and

- Shareholders shall have sufficient time to make a decision.

In principle, when a public limited company receives a tender offer, the company shall appoint an advisor for the shareholders. The advisor will prepare and provide opinions regarding the tender offer, and send the opinions to shareholders. The shareholders can then use the opinions to make a decision.

After the tender offer is closed, the person who makes the tender offer shall report the results of the share purchase efforts to the SEC, submitting the required forms within the required time limit.

3.4 Rules and Regulations for Creating a Mutual Fund and Offering Investment Units

A mutual fund raises funds from the public by selling investment units to investors and investing the proceeds in securities or other assets. Mutual fund management refers to the management of the fund itself, according to the policies and objectives of the fund, in an effort to produce returns for investors. A firm which manages one or more mutual funds (a "Fund Management Company" or "Asset Management Company") is required to hold a mutual fund management license and follow the regulatory procedures as described below.

3.4.1 Setting Up a Mutual Fund

A mutual fund may be one of two types: a mutual fund set up for general investors (a retail fund); or a mutual fund set up for institutional investors (a non-retail fund).

Mutual funds can be categorized in many ways:

- General fund or specialist fund

  - A general fund includes equity funds, fixed income funds, and mixed funds;
  - A specialist fund is a mutual fund which has specific features or special conditions, or has investment policies different from a general fund. Examples of specialist funds would be a capital-protected fund, a foreign investment fund, a fund of funds, a guaranteed fund, a money market fund, or a retirement mutual fund.

- Open-end fund and closed-end fund

  - An open-end fund is a mutual fund which offers investment units that can be repurchased or redeemed before the mutual fund matures. For example, in an open-end fund, investment units can be redeemed every working day or can be redeemed every three or six months;
  - A closed-end fund is a mutual fund which offers investment units that will not be repurchased or accepted for redemption before the end of the mutual fund project. If unit-holders do not wish to continue holding the investment units, the unit-holder must find a buyer on their own; the mutual fund manager will not redeem the investment units. When a closed-

> end fund is set up, it will be listed on a securities exchange, or some financial institutions will be assigned to act as a secondary market for the closed-end fund. The exchange listing or designated market maker creates liquidity and facilitates trading of the closed-end investment units.

Regardless of the type of fund, the name of a mutual fund must not mislead investors as to the nature or type of the mutual fund.

To create and manage a mutual fund, the fund management company must prepare an agreement between the unit-holders and the fund management company. The agreement document also serves to appoint the mutual fund supervisor. The fund management company is required to submit several documents to the SEC when seeking approval to create a new mutual fund. The fund management company must submit drafts of the unit-holder agreement, a description of the mutual fund, and a prospectus.

After investment units have been offered to the public, a mutual fund can be ended in the following situations:

- Having less than 35 investors, in the case a mutual fund for general investors;

- Having less than 10 investors, in the case a mutual fund for institutional investors. Neither of the first two conditions apply if all of the investment units are sold to the Government Pension Fund or the Social Security Fund;

- The total par value of the investment units is less than 50 million baht;

- The SEC has terminated the approval of the fund and terminated the management of mutual fund.

3.4.2 Submitting a Proposal to Create a Mutual Fund

Every fund management company or asset management company or must submit a mutual fund proposal to the SEC before it creates a mutual fund. The proposal must be submitted as part of the SEC approval process, before the fund management company can set up and manage a mutual fund. The details contained in the proposal are commitments on the part of the fund management company. The firm must comply with these commitments. If the mutual fund proposal must be amended, the SEC must approve the changes first. The

details in the proposal comprise information available to investors, and the details must be clearly indicated in the mutual fund proposal. For example, the details would include: the name and address of the mutual fund management company; the policies and objectives of the fund; the procedure for the initial sale of the investment units; the procedures for sale and redemption during the initial offering and after the offering is closed; the procedures to subscribe and purchase investment units; the allocation procedure for investment units; the net asset value (NAV) calculation method; the NAV announcement procedure; the fiscal year of mutual fund; the dividend payment method (if any); and the details concerning the dissolution of the mutual fund and calculation procedure to repay the unit-holders.

3.4.3 Prospectus

A prospectus supports the offer for sale of the mutual fund investment units. The fund management company prepares a prospectus to assist clients in making an investment decision. Clients can also use the prospectus to check the correctness of information given by the seller of the investment units. The prospectus distributed by the fund management company to clients shall contain information identical to the information the fund management company submitted to the SEC when applying for approval to set up the mutual fund. If information in the prospectus changes materially, the fund management company shall update the prospectus so that it is current, and arrange the delivery of the updated prospectus to every unit-holder.

A prospectus consists of two sections. Section 1 contains the details of the mutual fund as approved by the SEC, while Section 2 is a summary of the important information investors should know. The fund management company is required to distribute only Section 2 to clients who are making their first purchase of the mutual fund. It is not mandatory for the fund management company to distribute the project details, but the details must be prepared and be ready to distribute to clients upon request.

The following information shall be contained in Section 2: significant features of the mutual fund; risks in the mutual fund's investments; expenses charged to investors or unit-holders; a comparison between the mutual fund's actual investment ratio and the investment ratio prescribed by the SEC; plus warnings and recommendations regarding investing in investment units.

3.4.4 Offering Investment Units to Investors

Once granted approval by the SEC to set up a mutual fund, a fund management company is able to offer investment units for sale to the public. The offering of investment units must comply with the following rules:

- The investment units must be offered for sale within one year from the date of SEC approval;

- The SEC must receive a summary of the important information in the prospectus prior to the offering. Currently, the information must be received at least one day prior to the offering;

- Investors and prospective investors must receive important information concerning the investment units and the mutual fund itself. The information must be sufficient for investors to review upon request. The information may also need to be distributed to clients who may purchase or have purchased investment units offered by the fund management company. The important information must be updated regularly;

- The subscription forms or order forms must contain warnings stating that investing in investment units is not the same as making a deposit in a bank. Investors should be warned that they may incur losses and lose the capital initially invested. Investors should also be warned that they should purchase investment units only from authorized persons. In the case of open-end funds, additional warnings should be added stating that the money from redeeming investment units may not be received within the specified period, or that investment units may not be redeemed as ordered;

- General funds must also follow these guidelines in their prospectuses:

  - The fund management company cannot require a minimum purchase amount greater than 50,000 baht;
  - The initial public offering period for the investment units shall not be less than seven days;
  - The offering shall be publicized widely, through pamphlets, brochures, and media outlets such as newspapers;
  - The investment unit allocation system shall be appropriate and fair;

- Any conditions or disclaimers pertaining to the sale of investment units shall not be so restrictive such that only certain groups of investors can meet the conditions. Overly restrictive conditions will result in an insufficient distribution of investment units.

3.4.5 Investment Ratios

Once the fund management company has closed the sale of investment units, it must inform the SEC of the total amount of funds earned from the sale of investment units. The fund management company must also register the fund with the SEC. Registration with the SEC ensures the fund will receive the status of a juristic person, a legal entity separate from the fund management company.

After registration, the next step is the actual management of mutual fund. The mutual fund should be managed within the investment scope specified in the prospectus. In addition, the actual investments made by the fund must not exceed the investment ratios prescribed by the SEC. For example, a fund may state in its prospectus that the fund's total investment in a certain type of securities shall not exceed X% of the net asset value of the fund (NAV). Other examples of this type of limitation would be a statement saying the fund's investment in any one security will not exceed Y% of NAV, or the fund's investment in securities issued by any one company does not Z% of NAV. The purpose of specifying the investment ratios is to spread the risk of the fund's investments. This diversification effort helps ensure the fund's investments will not be concentrated in a certain type of securities, or in certain specific securities. Some mutual funds do have investment objectives which are not in accordance with the investment ratios prescribed by the SEC. These types of funds are specialist funds.

3.4.6 Calculation of NAV

The fund management company is required to calculate the net asset value (NAV) of the mutual fund and announce the NAV to investors. The purpose of the calculation and the announcement is twofold: to provide investors with the operating results so that investors can monitor the fund, and to help investors make an investment decision. Every fund management company shall use a standardized NAV calculation method, so the operating results of each mutual fund can be compared easily. The current NAV method is prescribed by the Association of Investment Management Companies.

The fund management company must calculate the NAV of all of its funds every day, whether the fund is an open-end or closed-end fund. The company must disclose the NAV values to investors via the media; at the very least through the newspaper on the following day. For open-end funds, where redemptions can be made at least once a week, the NAV shall be calculated and announced in the newspaper every working day. However, for closed-end funds and open-end funds for which redemption can be made less often than once a week, the managing company can calculate the NAV once per week by calculating the NAV on the last working day of each week.

References

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Anti-Money Laundering Act B.E. 2542

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Notification of the Securities and Exchange Commission No. Kor Thor 42/2543
Re: Rules, Conditions and Procedures for Brokerage and Dealing of Securities Which Are Not Debt Instruments dated September 26, 2000[5]

Notification of the Securities and Exchange Commission No. Kor Thor 43/2543
Re: Rules, Conditions and Procedures for Dealing of Securities Which Are Debt Instruments dated September 26, 2000[6]

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[4] Notification of the Capital Market Supervisory Board No. Tor Thor 43/2552 Re: Custody of Assets of Clients by Securities Companies dated August 3, 2009

[5] Notification of the Capital Market Supervisory Board No. Tor Thor 63/2552 Re: Rules, Conditions and Procedures for Brokerage and Dealing of Securities Which Are Not Debt Instruments or Investment Units dated August 3, 2009

[6] Notification of the Capital Market Supervisory Board No. Tor Thor 67/2552 Re: Rules, Conditions and Procedures for Dealing of Securities Which Are Debt Instruments dated August 3, 2009

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[7]Notification of the Capital Market Supervisory Board No. Tor Chor 28/2551 Re: Application for and Approval of Offer for Sale of Newly Issued Shares dated December 15, 2008(ฉบับปัจจุบัน)

[8]Notification of the Capital Market Supervisory Board No. Tor Khor 3/2553 Re: Rules, Conditions and Procedures for Investment Advisors dated February 1, 2010(ฉบับปัจจุบัน)

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Notification of the Office of the Securities and Exchange Commission No. Sor Thor 67/2543
Re: Rules for Marketing Officer Registration dated December 21, 2000

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[10]Notification of the Capital Market Supervisory Board No. Tor Chor 12/2554 Re: Rules, Conditions and Procedures for the Acquisition of Securities for Business Takeovers dated May 13, 2011

[11]Notification of the Capital Market Supervisory Board No. Tor Thor 70/2552 Re: Rules, Conditions and Procedures for Underwriting of Securities dated August 3, 2009

[12]Notification of the Capital Market Supervisory Board No. Tor Nor 27/2552 Re: Rules, Conditions and Procedures for Establishment and Management of Funds dated July 20, 2009

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