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**Notification of the Office of the Securities and Exchange Commission
No. SorThor. 25/2551**

**Re: Provisions relating to Working System, Securities Borrowing and Lending Contract
and Collateral for Securities Borrowing and Lending Transactions**

By virtue of Clause 3, Clause 5, Clause 6 (2) and (5), Clause 7 (2) and (3), and Clause 10 of the Notification of the Securities and Exchange Commission No. KorThor. 8/2551 Re: Rules, Conditions and Procedures for Securities Borrowing and Lending dated 16 July 2008, the Office of the Securities and Exchange Commission hereby issues the following regulations:

Clause 1. This Notification shall come into force as from 1 November 2008.

Clause 2. The following Notifications shall be repealed:

(1) The Notification of the Office of the Securities and Exchange Commission No. SorDor. 39/2540 Re: Characteristics and Material Information of Securities Borrowing and Lending Contract dated 8 October 1997;

(2) The Notification of the Office of the Securities and Exchange Commission No. SorThor. 19/2542 Re: Characteristics and Material Information of Securities Borrowing and Lending Contract (No. 2) dated 4 October 1999;

(3) The Notification of the Office of the Securities and Exchange Commission No. SorThor. 20/2542 Re: Provisions relating to Collateral for Securities Borrowing and Lending Transactions dated 4 October 1999;

(4) The Notification of the Office of the Securities and Exchange Commission No. SorThor. 15/2543 Re: Provisions relating to Collateral for Securities Borrowing and Lending Transactions (No. 2) dated 27 April 2000;

(5) The Notification of the Office of the Securities and Exchange Commission No. SorThor. 70/2543 Re: Provisions relating to Collateral for Securities Borrowing and Lending Transactions (No. 3) dated 27 December 2000;

(6) The Notification of the Office of the Securities and Exchange Commission No. SorThor. 10/2548 Re: Provisions relating to Collateral for Securities Borrowing and Lending Transactions (No. 4) dated 12 May 2005;

(7) The Notification of the Office of the Securities and Exchange Commission No. SorThor. 72/2543 Re: Period of Time for Securities Borrowing dated 27 December 2000;

(8) The Notification of the Office of the Securities and Exchange Commission No. SorThor. 51/2544 Re: Determination of Types of Juristic Persons Acting as Securities

Lender Who May Have Agreement Otherwise with Business Operator on the Undertaking relating to Loaned Securities or Collateral dated 7 November 2001;

(9) The Notification of the Office of the Securities and Exchange Commission No. SorThor. 39/2546 Re: Determination of Types of Juristic Persons Acting as Securities Lender Who May Have Agreement Otherwise with Business Operator on the Undertaking relating to Loaned Securities or Collateral (No. 2) dated 11 December 2003.

Clause 3. In this Notification:

(1) “Business operator” means the person licensed to undertake securities business in the category of securities borrowing and lending (SBL);

(2) “Initial collateral” means the minimum amount of assets which the borrower shall deposit as collateral prior to borrowing of any securities;

(3) The word “capital” shall have the same meaning as the definition specified in the Notification of the Office of the Securities and Exchange Commission relating to the operation of margin loans and lending of securities to non-institutional clients for short sale.

Chapter 1

Working System and Operational Control

Clause 4. In establishing a risk management system, the business operator shall at least:

(1) have in place a system for deposit of or calling for collateral in accordance with the result of counterparty risk analysis;

(2) provide an appropriate selection of securities borrowed or loaned, or pledged as collateral, taking into account liquidity and potential impacts on the business operation as a whole;

(3) process and report data on the level of risks incurred from securities borrowing and lending transactions to the executives; and

(4) provide an improvement in risk management in accordance with the volume and complexity of securities borrowing and lending transactions on a continual basis.

Clause 5. The business operator’s outstanding balance of securities lending to any non-institutional client at the end of any day shall not exceed twenty-five percent of its capital and the aggregate outstanding balance of securities lending to all of its non-institutional clients after deducting allowances for doubtful accounts at the end of any day shall not exceed five times of its capital.

Lending of securities to any client’s related person under Section 258 shall be counted in the outstanding balance of securities lending to the client under the first paragraph, *mutatis mutandis*.

For the purpose of calculating the outstanding balance of securities lending under the first paragraph, in the case where the business operator provides margin loans to non-institutional clients under the Notification of the Office of the Securities and Exchange Commission relating to the operation of margin loans and lending of securities to non-

institutional clients for short sale, the outstanding balance of such margin loans shall be counted in the outstanding balance under the first paragraph, *mutatis mutandis*.

The provision in the first paragraph shall not apply to the case where the outstanding balance of securities lending to any client or all clients altogether exceeds the specified limits as a result of the following reasons:

- (1) an increase in the value of the borrowed securities;
- (2) a collection of interest under Clause 5 (6) of the Notification of the Office of the Securities and Exchange Commission No. SorThor. 42/2540 Re: Operation of Margin Loans and Lending of Securities to Non-institutional Clients for Short Sale dated 4 December 1997;
- (3) a purchase of securities for return of the securities borrowed for short sale;
- (4) a decrease in the business operator's capital.

In the case where the outstanding balance of securities lending to any non-institutional client or all non-institutional clients altogether exceeds the specified limits under the first paragraph, regardless of being caused by any reason, the business operator shall not lend any additional securities to such client until the outstanding balance of such client is within the specified limit and shall not lend any additional securities to any client until the aggregate outstanding balance of securities lending to all clients altogether after deducting allowances for doubtful accounts is within the specified limit, as the case may be.

Clause 6. The business operator shall perform duty with honesty for the best interest of clients and in compliance with the following standards of conduct:

- (1) not committing dishonest acts, deceit, embezzlement or defrauding of clients' assets;
- (2) not misappropriating or seeking benefits from clients in the course of duties, either for personal or other person's interest;
- (3) not giving false statements or concealing any facts which should be disclosed with the purpose to deceive or mislead clients into misunderstanding of material information relating to securities borrowing and lending transactions.

Clause 7. The business operator shall prepare the documents and evidences relating to securities borrowing and lending transactions and deposit or return of collaterals and submit them to clients within the next business day as from the date of transactions.

The documents and evidences under the first paragraph shall have at least the following details:

- (1) type of transactions;
- (2) date of execution of securities borrowing and lending transactions and deposit or return of collaterals, as the case may be;
- (3) borrowed and loaned securities and deposited or returned collaterals, as the case may be;
- (4) type, amount and value of borrowed and loaned securities and collaterals, as the case may be; and
- (5) rate of fees for securities borrowing and lending.

Chapter 2

Characteristics and Material Information of Securities Borrowing and Lending Contract

Clause 8. Except where specified in Clause 9, the securities borrowing and lending contract for the securities borrowing and lending business shall be made in writing with at least the following characteristics and material information:

(1) Loaned securities and collateral for securities borrowing: the contract shall contain the terms that the lender shall transfer the securities to the borrower free from any preferential right or encumbrance whereby the borrower shall deliver a collateral to the lender as security for the performance of obligation, and the lender shall return the collateral to the borrower when the borrower returns the securities to the lender.

Return of the borrowed securities and the securities or debt instruments deposited as collateral shall be made with the securities or debt instruments issued by the same juristic person, of the same type and category and in the equal amount.

In the case where a letter of credit or a letter of guarantee issued by a financial institution is deposited as collateral with the securities lender, the return of the collateral shall be made by canceling or decreasing the limit of the deposited letter of credit or letter of guarantee, as the case may be;

(2) Adjustment of the amount or value of returned securities or collateral: the contract shall contain the terms regarding adjustment of the amount or value of returned securities or collateral upon the occurrence of the following circumstances before the due date, which may affect the benefits of the borrower or lender when such securities or collateral is transferred back:

- (a) a right issue to shareholders in proportion to their existing number of shares;
- (b) a change in the par value of shares which results in an increase or decrease of the number of shares;
- (c) a redemption of securities;
- (d) a merger, acquisition or tender offer of securities for business takeover;
- (e) a payment of stock dividend;
- (f) a conversion of securities; or
- (g) any other similar circumstances.

(3) Compensating of benefits to the counterparty: the contract shall contain the terms relating to compensating of benefits such as dividend or interest which the securities lender or borrower is entitled to receive if still holding such securities or collateral, as the case may be. The compensated benefits shall be of the value not less than the benefits which the issuer of securities or instruments pays to the holder of such securities or instruments, unless otherwise agreed by the parties.

(4) Terms in case of default of either party or upon any circumstance that makes the debt become due at once: the contract shall contain the explicit terms relating to the rights, duties and responsibilities of the parties as well as the practical procedures in case of default of either party or upon any circumstance that makes the debt become due at once.

In the case where the lender is an institutional client, the lender and borrower may make an agreement on the characteristics and material information of the securities borrowing and lending contract, in respect of collateral, other than the provisions hereof.

Clause 9. The contract of securities borrowing and lending for short sale through margin account shall be as specified by the Stock Exchange of Thailand upon the approval of the Office.

Chapter 3

Types of Collateral, Maintenance of Collateral Value to Loaned Securities Value Ratio and Calculation of Collateral and Securities Value

Clause 10. The business operator may require for deposit or call for the following assets, financial instruments and contracts as collateral for securities lending:

- (1) cash;
- (2) listed securities;
- (3) investment units of an open-ended fund with daily redemption feature;
- (4) treasury bills;
- (5) Thai government bonds;
- (6) Bank of Thailand bonds;
- (7) bonds or debts instruments avaled in full or unconditionally guaranteed of the principal and interest in full by the Ministry of Finance, or bonds or debt instruments issued or unconditionally guaranteed of the principal and interest in full by the Financial Institutions Development Fund;
- (8) debt instruments where the instrument itself or the issuer, the person who unconditionally guarantees the principal and interest of the instrument in full, the person who certifies the instrument on a perpetual basis, the person who avals the instrument in full, or the person who endorses the transfer of the instrument with full unconditional recourse obtains credit rating from BBB up or equivalent;
- (9) certificates of deposit issued by a commercial bank or a finance company;
- (10) letter of guarantee issued by a financial institution deposited with the securities lender as collateral for securities borrowing whereby such financial institution is consent to be liable as principal debtor, regardless of whether a letter of credit or a letter of guarantee.

Clause 11. In the case where the business operator lends securities to non-institutional clients, the business operator shall call for collateral and maintain the collateral value to loaned securities value ratio according to the following rules:

- (1) The business operator shall call for the initial collateral to be deposited by the borrower in the value of not less than 150 percent of the loaned securities value, except where specified in the second paragraph;

The business operator may call for the initial collateral less than the rate specified in the first paragraph under the following rules:

(a) The business operator acts as broker or agent of the borrower in selling the borrowed securities and is able to sell such securities on the day of borrowing; and

(b) The borrower has agreed to allow the business operator to use the proceeds from selling the securities under (a) as collateral, provided that the aggregate value of the proceeds and the initial collateral is not less than 150 percent of the loaned securities value;

(2) If the collateral value falls under 140 percent of the loaned securities value, the business operator shall call for additional collateral to be deposited by the borrower in order to maintain the collateral value to loaned securities value ratio not less than 140 percent of the loaned securities value;

(3) The business operator shall manage the borrower to complete the deposit of additional collateral under (2) not less than one hour prior to the end of the business hours for trading of the borrowed securities in the next business day as from the date of calling for additional collateral;

(4) In the case where the borrower is unable to deposit additional collateral under (3), the business operator shall not lend any additional securities to such borrower until the requirement under (2) is fulfilled.

Clause 12. Except where specified in Clause 13, the business operator who acts in the following positions shall maintain, at any time, the collateral value not less than one hundred percent of the loaned securities value:

(1) agent of the lender;

(2) borrower or agent of the borrower in the case where the lender is not a business operator or does not appoint any business operator as agent for securities lending.

Clause 13. In respect of securities borrowing under the following rules, the business operator who acts in the similar positions specified in Clause 12 shall maintain, at any time, the collateral value not less than the exercise price which is offered to the provider of green shoe shares under the notification of the Securities and Exchange Commission relating to over-allotment of underwriting shares by a public limited company or existing shareholders of such company multiplied by the amount of loaned securities:

(1) The borrower is a provider of green shoe shares who borrows such securities for the purpose of delivery to the person who is allotted green shoe shares in the case where the subscription amount of shares exceeds the underwriting amount of shares and has proceeded as follows:

(a) The borrower has deposited cash with the lender as collateral for securities borrowing;

(b) The borrower has disclosed risk information to the lender relating to the variation of the loaned securities value which may cause the deposited collateral value insufficient for purchasing the securities back in the case where the borrower is unable to return the securities to the lender and notified the lender in writing of such risk on a case by case basis; and

(c) The borrower has segregated the securities purchased for returning to the lender from his/her personal assets and recorded in a separate account during the time over which the borrower made gradual purchases of securities for returning to the lender, and the borrower shall not use the securities separated for returning to the lender for other purpose; or

(2) The borrower is not a provider of green shoe shares but borrows securities for the provider of green shoe shares for the purpose of delivery to the person who is allotted green shoes shares in the case where the subscription amount exceeds the underwriting amount, provided that the borrower and the provider of green shoe shares have proceeded in compliance with the conditions under (1) (a) and (b) and the provider of green shoes shares has proceeded in compliance with the conditions under (1) (c).

Clause 14. In calculating the value of loaned securities and collateral other than cash, letter of credit or letter of guarantee issued by a financial institution in Baht currency, the business operator shall use any of the following methods:

(1) using the closing price at the end of the business day prior to the calculation date as announced by the Stock Exchange of Thailand or the reference price at the end of the business day prior to the calculation date as announced by the Thai Bond Market Association, Reuters, Bloomberg or the provider of information relating to securities trading recognized by the Office; or

(2) using the price which may reflect the current market price of each securities or collateral.

Notified this 3rd day of October 2008.

- Signature -

(Thirachai Phuvanatanarubala)

Secretary-General

The Office of the Securities and Exchange Commission

Remark: The reason for issuing this Notification is to determine the details in respect of working system and operational control, characteristics and material information of securities borrowing and lending contract, and types of collateral, maintenance of collateral value to loaned securities value ratio and calculation of collateral and securities value to be in line with the Notification of the Securities and Exchange Commission relating to rules, conditions and procedures for undertaking securities borrowing and lending business.