

(UNOFFICIAL TRANSLATION)

Readers should be aware that only the original Thai text has legal force, and that this English translation is strictly for reference.

**Notification of the Office of the Securities and Exchange Commission
No. Sor Thor. 30/2559
Re: Rules in Detail on Financial Resource and
Risk Management of Derivatives
Clearing Houses**

By virtue of Clause 5 (1), in conjunction with Clause 21 and Clause 22 of the *Notification of the Capital Market Supervisory Board No. TorThor. 31/2559 Re: Rules for Operation of Derivatives Clearing Houses* dated 3 August 2016, the SEC Office hereby issues the following regulations:

Clause 1 In this Notification:

“*parent company*” means:

- (1) a juristic person holding more than fifty percent of the sold shares of the derivatives clearing house;
- (2) a juristic person holding more than fifty percent of the sold shares of the juristic person under (1).

Clause 2 The rules in detail under this Notification shall be stipulated to ensure corresponding compliance by the derivatives clearing houses with the *Notification of the Capital Market Supervisory Board No. Tor Thor. 31/2559 Re: Rules for Operation of Derivatives Clearing Houses* dated 3 August 2016 with respect to the procurement of adequate financial resources for covering risks and the detailed operation concerning the risk management.

Clause 3 The derivatives clearing house shall procure adequate financial resources for covering potential risks arising from the operation of the derivatives clearing house, including credit risk and liquidity risk. The financial resources shall be assets with high liquidity and low-price volatility which may be any of the following assets:

- (1) assets contributed by members;
- (2) assets procured as collateral for payment obligation;
- (3) assets procured for protection of the trading and clearing systems;
- (4) assets contributed by the *parent company* to the derivatives clearing house in the form of a written and legally enforceable commitment (explicit guarantee).

In case of financial resources for covering liquidity risk, the assets under Paragraph 1 shall include credit facilities granted by a commercial bank.

The derivatives clearing house shall calculate the value of financial resources to ensure that it is adequate for the risks in accordance with the following rules by using the confidence level of not less than ninety-nine percent:

- (1) default of one member which may cause the highest loss;
- (2) default of two members which may cause the highest loss where the derivatives clearing house provides services relating to more complex risk transactions or involving multiple jurisdictions.

Clause 4 The derivatives clearing house shall regularly assess the adequacy of the value of the financial resources for covering credit risk and liquidity risk, by at least conducting the following tests:

(1) a daily stress test using the scenario, parameter and assumption conforming to the guideline approved by the risk management committee which shall cover the extreme but possible events of market volatility;

(2) a quarterly reverse stress test.

The derivatives clearing house shall file the report on results of the tests under (1) and (2) with the SEC Office on a quarterly basis within the fifteenth day of the first month of the following quarter.

Clause 5 To ensure that the model or method used in the stress test are appropriate to the current and possibly changing market condition, the derivatives clearing house shall assess the appropriateness of the scenario, parameter and assumption used in the stress test on a quarterly basis or upon significant change to the market condition and conduct a full validation of such model at least once a year.

Clause 6 The derivatives clearing house shall apply effective measures and methods for monitoring and control of outstanding derivatives positions of members and risk incurred by each member to the clearing system.

Clause 7 Where the derivatives clearing house requires the members to place margin or assets for covering risks, it shall clearly disclose the guideline on the margin placement and the use of such financial resource, including rights and duties of the members with regard to the margin placement as well as the risks causing the members to make additional placement of margin or other assets.

Clause 8 The derivatives clearing house shall procure funds for intraday liquidity in order to manage the liquidity risk.

Clause 9 For the purpose of collateral for the performance of derivatives and the protection of the clearing system, the derivatives clearing house shall provide the system and regulations for placement or requirement of margin from the members, including the methods of calculation and adjustment of margin value, consideration and review of appropriateness of the model and factors which may affect the margin rate, including types, characteristics and ratio of the margin by at least including the following details:

(1) daily calculation of the risk value based on price volatility and positions of the member and the client, and where it appears that the price is highly volatile and the margin placed by the member is insufficient, the intraday margining and the daily mark-to-market on the margin value shall be made, including calculation and requirement for members to cover daily loss arising from derivatives positions to prevent accumulated loss;

(2) margin requirement from the members without netting positions of members against other clients or different clients against one another (gross margining);

(3) use of the margin model and parameter reflecting the risks and determination of margin sufficient to cover derivatives positions which may be caused by the defaulting member under the confidence level of not less than ninety-nine percent;

(4) conduct of adequacy test of the required margin and the daily actual loss at least once a day and an analysis on shifts in factors affecting the margin value at least on a quarterly basis;

(5) conduct of appropriate validity review on the model and parameter at least once a year to ensure the latest situation is incorporated;

(6) determination of margin based on the risks and characteristics of derivatives, and use of the price from reliable source of information in the calculation;

(7) requirement for members to place margin by the secured assets with high liquidity and low price volatility which may be in the form of cash or other assets and in case of the securities placed for margin, the relationship between the placing member and the securities issuer shall be taken into consideration in accordance with the rules or regulations prescribed by the derivatives clearing house;

(8) determination of concentration limit on each type of assets for margin which members may place with the derivatives clearing house to prevent margin concentration, and which may be enforced within the specified period of time in case of a member default;

(9) determination of methods of margin value adjustment and use of haircut based on risks arising from reduction of the margin value during high market volatility, provided that the valuation method and the haircut shall be tested on a regular basis and the validity of the haircut calculation method shall be reviewed at least once a year;

(10) determination of methods for identification and mitigation of risks relating to the acceptance of cross-border collateral to ascertain that such collateral may be enforced in an appropriate and timely manner.

Clause 10 This Notification shall come into force from 1 July 2017.

Notified this 3rd day of August 2016.

(Mr. Rapee Sucharitakul)

Secretary-General
Office of the Securities and Exchange Commission