

(UNOFFICIAL TRANSLATION)

July 31, 2019

Attn: Managers

All securities companies

All derivatives business operators

Chairman of the Association of Thai Securities Companies

No.SEC.ID (C) 15/2019 Re: Guidelines Regarding Roles and Expectations of
Directors of Securities Companies and Derivatives Business Operators

The current market landscape and types of services provided by securities companies and derivatives business operators (collectively referred to as “Business Operators”) have become more diverse and complex, whether it is the application of innovations and technologies or the introduction of new products to meet demands of investors, such as offering of program trading service, application of technology to conduct know your client (KYC), or provision of services to clients regarding overseas investment products, which may cause more risks to investors. For example, investors may be offered unsuitable products or services or may receive information that is incorrect or inadequate for decision making. In addition, fraud issues are found. Investors may suffer damage caused by the above-mentioned problems and there may be risks to the position, stability and reputation of the Business Operators. Therefore, providing knowledge to investors, including the Business Operators’ provision of adequately secure operating systems and strict supervision will help prevent risks and damage which may be sustained by investors and companies.

One approach that may help prevent the above-mentioned problems is to ensure that the Business Operators provide quality services, have an operational risk management process that is appropriate for and consistent with the nature of their business, and consider interests of investors first (putting investors first), including having self-discipline. In this regard, directors of the Business Operators play an important role and are responsible for establishing and promote a good corporate governance ecosystem. As a result, the Office and the Association of Thai Securities Companies jointly developed the guidelines regarding roles and expectations of directors of Business Operators which are consistent with guidelines of other countries. Opinions

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and recommendations of representatives of Business Operators were considered in the preparation of such guidelines. These guidelines are hereby delivered to the Business Operators as the preliminary guidelines for business operations.

For your information and further action.

Sincerely yours,

(Ruenvadee Suwanmongkol)

Secretary-General

Enclosures: Guidelines Regarding Roles and Expectations of Directors of Securities Companies and Derivatives Business Operators.

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**Guidelines Regarding Roles and Expectations of Directors of Securities
Companies and Derivatives Business Operators**

Introduction

1. Rationale and necessity

The current market landscape and types of services provided by securities companies and derivatives business operators (collectively referred to as “Business Operators”) have become more diverse and complex, whether it is the application of innovations and technologies or the introduction of new products to meet demands of investors, such as provision of program trading service, application of technology to conduct know your client (KYC), or provision of services to clients regarding overseas investment products, which may cause more risks to investors. For example, investors may be offered unsuitable products or services or may receive information that is incorrect or inadequate for decision making. In addition, fraud problems have been detected. Investors may sustain damage caused by the above-mentioned problems and there may be risks to the position, stability and reputation of the Business Operators. Therefore, providing knowledge to investors, including the Business Operators’ provision of adequately secure operating system and strong supervision, will enable the prevention of risks and damage which may be suffered by investors and companies.

The Office therefore deems that good corporate governance is the key factor that will enable the Business Operators to carry on their business in accordance with their established objectives or goals in which the directors and executives thereof are key persons responsible for creating the ecosystem to ensure good corporate governance which will promote stable and sustainable growth for Business Operators.

However, currently no clear approach has been established for the roles and expectations in the duties of directors and executives of Business Operators with the aim to enable the Business Operators to operate their business by putting investors first to protect their interests and prevent damage to investors and the image of Thailand’s capital market. Such duties include promoting good compliance culture in their organizations, which will bring stable and sustainable growth to their organizations and the Thai capital market.

Hence, the Office and the Association of Thai Securities Companies have jointly developed guidelines regarding roles and expectations of directors of securities companies and derivatives business operators for clarity. Opinions and recommendations provided by representatives of Business Operators were also considered in the preparation of these guidelines. The Office expects that directors and senior executives of Business Operators will apply the guidelines as preliminary guidelines for their performance of duties. Business Operators may make some additions to such guidelines to ensure that there will be good corporate governance and that they will efficiently and effectively achieve the above-mentioned outcomes.

2. Intended outcome

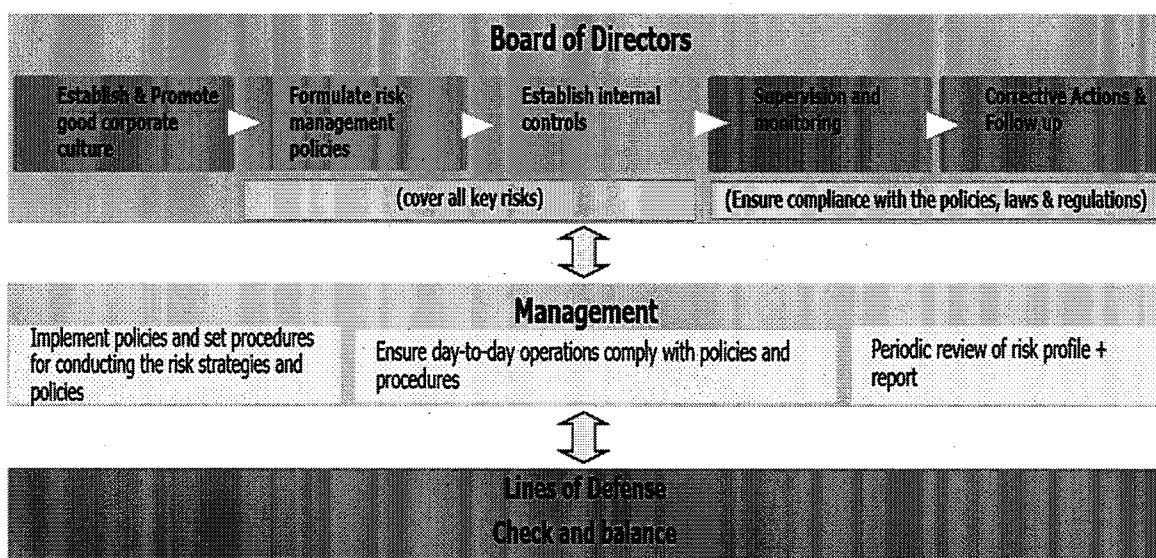
1. To ensure that investors will receive good, fair and standard services under good corporate governance;
2. To ensure that Business Operators will have self-discipline consistent with their business models and risks and will be able to appropriately comply with applicable rules and regulations, including leading their organizations towards sustainable growth; and
3. To ensure transparency and credibility of the capital market.

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Chapter 1: Good corporate governance

Regarding good corporate governance, Business Operators should have a suitable structure, operating system and supervision process consistent with risks of the company, and should establish values and culture putting investors first, and have self-discipline. Moreover, performance of work shall comply with applicable laws, rules and regulations of relevant agencies. Directors of Business Operators shall mainly be responsible for ensuring that Business Operators will have efficient management and strong risk management and strict internal control systems based on the three lines of defense principle. In addition, the management and all levels of operation staff shall be encouraged and supported to perform work by providing good, suitable and fair services to clients. The good corporate governance framework is shown below.



Chapter 2: Board governance and culture guidelines

The board governance and culture guidelines will enable directors to understand their roles, duties and responsibility better and more clearly. Directors shall apply the guidelines to ensure that Business Operators will have better and more efficient corporate governance. The guidelines consist of five main topics as follows:

1. Establishment and promotion of good corporate values and culture
2. Formulation of risk management policies
3. Establishment of internal control
4. Supervision and monitoring of performance
5. Corrective actions and follow-ups

1. Establishment and promotion of good corporate value and culture

1.1 Establishment of good corporate value and culture

Directors are responsible for establishing good corporate value and culture¹ considering investors and the capital market, which shall at least cover the following issues:

(1) Operating business and providing services professionally by putting investors first, such as

- Operating business and, with integrity, providing standard, quality, professional and fair services to clients (fair dealing); and
- Operating business cautiously and in accordance with the code of ethics considering investors and the capital market to ensure confidence in and credibility of the capital market, where the market landscape, effects, risks, readiness, expertise and potential of Business Operators should be considered, especially in cases where technology is used.

(2) Focusing on operating business and performing work in compliance with laws, regulations and the code of conduct of the Office of Securities and Exchange Commission and relevant agencies, such as the Stock Exchange of Thailand, the Anti-Money Laundering Office and relevant associations, including rules prescribed by the Business Operators, provided that no action shall be taken in the manner that facilitates or assists the commission of offenses in the capital market.

Example

Provision of services to clients by putting investors first

- Having a quality product screening process and disclose accurate, clear and adequate and not misleading information significant to investment decisions
- Providing good and suitable advice to investors
- Providing services to clients fairly (fair dealing)
- Having an independent, fair and quick process of receiving and handling complaints in place

¹ Good corporate culture refers to the fact that a securities company and all its employees recognize the importance of and comply with standards and business ethics, including applicable laws, rules and regulations, and that the company has an effective overall structure and operating system which can prevent operational and management problems. The operation structure should be arranged in such a way that it can prevent damage to assets of clients, conflicts of interest, and use of insider information. There should also be an operation manual and supervision by departmental heads and the compliance control unit in order to ensure compliance with the manual and regulations.

Operation/management of Business Operators

- Supporting and ensuring that Business Operators will operate their business in compliance with prescribed laws and regulations. For example, it is required that the readiness of the operating system to comply with the prescribed laws and regulations shall be assessed, especially when significant laws or regulations are amended.
- Cooperating with and supporting government agencies, including relevant agencies such as cooperating with authorities during inspection and informing government agencies of any change in the company's operations or key personnel or in the case information which may affect the capital market and the company's reputation is found.
- Establishing a clear policy on actions to be taken in case of a conflict of interest ("COI") to reflect the understanding of prevention of such matter, such as:
 - Determining cases leading to COI where sources of information must be disclosed, such as stake holding (e.g. shareholding/positions) of related persons in the company or in the issues under consideration;
 - Establishing a clear action for monitoring as to whether the Business Operators have considered COI, such as a clear record of consideration results at the stage of selection of goods/services or in meetings; or
 - Establishing methods or content regarding disclosure of COI so that investors would be clearly aware of COI of the company; and
- Encouraging Business Operators to operate their business with transparency and anti-corruption efforts, such as establishing a policy on remuneration, service fees or benefits other than positions.

1.2 Promotion of good corporate values and culture

Directors have a duty to be responsible for, supervise, and focus on promoting efficient communication with employees to ensure that all levels of personnel of Business Operators understand the corporate values and culture and comply with the policies of Business Operators and to create an environment that supports and encourages such values and culture. There should be a value stating that work shall be performed in compliance with the code of ethics and code of conduct and by putting investors first. In addition, if violation of the company's policies or rules is found, directors shall apply appropriate punishment to instill fear of the consequences of committing offenses.

Example

Communication of corporate values and culture

- Communicating corporate values and culture to employees for their acknowledgment and understanding thereof on a continuous basis and through various channels, such as employee town hall meetings, articles or messages from directors, and the e-Learning system.
- Establishing a mechanism and a process for testing the knowledge and understanding of personnel to ensure that all employees understand the corporate values and culture.
- Acting as a role model under the values and culture specified for executives and employees of the organization.

Environment creation

- Considering and approving a suitable remuneration structure by considering the quality of service provision and interests of clients, such as performance, history of performance of work that fails to comply with rules, and the number of complaints. The remuneration structure that gives importance only to the volume of sales may lead to inappropriate behavior, such as mis-selling or product pushing or taking advantage of clients;
- Disclosing the corporate values and culture to the public to enable the company to carry on its business as specified, such as disclosure on the company's website or in the company's annual report;
- Providing support to personnel so they can perform work and express their opinions freely (open environment) and establishing a channel for hearing and expressing suitable opinions of directors, executives, and all levels of staff in the organization; and
- Having appropriate and efficient disciplinary action for personnel of Business Operators in case of violation of policies or rules of the Business Operators, such as
 - o Considering taking disciplinary action based on the severity and impact of the offense;
 - o Having a measure or method for acting or imposing punishment that is quick, equal, impartial and non-discriminatory;
- Supporting whistleblowing when any employee finds an inappropriate or incorrect act committed by personnel of the organization, which is one of the ways to help supervise and monitor the operations. It is specified that there shall be:
 - o appropriate whistleblowing channels and there shall be more than one channel for reporting information or clues;
 - o a process for inspecting, storing and keeping information of whistleblowers confidential, including the procedure and reporting of matters to the board of directors for significant cases; and
 - o communication of the whistleblower policy to the organization's employees for acknowledgment.

2. Formulation of risk management policies

Directors shall provide risk management that is suitable for each type of business. Directors shall realize and understand significant risks of Business Operators which may be caused by both internal and external factors, approve the risk management policy and at least consider the following details:

- (1) Specifying significant risks and assessing the impact and likelihood of each risk to enable prioritization of risks efficiently by considering the type and size of business, the nature and complexity of transactions and the client groups to which services are provided;
- (2) Establishing a risk management policy, risk management framework, and risk appetite covering key business operation policies; and
- (3) Regularly reviewing the risk management policy at least once a year or upon any significant change in business operations.

Example

Significant risks which should be considered and approved by directors

- Prevention and management of conflicts of interest, especially for Business Operators which are financial conglomerates which should have clear measures to prevent and manage conflicts of interest;
- Supervision of sales and provision of services to clients to ensure that clients will receive services and products that meet their demands and their risk levels;
- Prevention of use of the company as a money laundering tool, which is in accordance with the Anti-Money Laundering Act. The action undertaken to get to know the clients or their true beneficiaries is a significant step to prevent the use of a nominee to open an account and to prevent transactions that are unsuitable and illegal;
- Supervision and management of information technology. There shall be a policy and management of risks suitable for the type of business of Business Operators to ensure that the application of information technology in business operations will be secure and safe for investors, the overall capital market, and the companies itself. In addition, in case of application of technology in the provision of services to clients, the following issues shall be considered:
 - o Suitability for clients to ensure that services are consistent with the knowledge/understanding/risks/objectives of investment of clients;
 - o Disclosure of information that is clear and adequate for understanding and decision making, such as the scope and conditions for provision of services, including possible risks;
 - o Security of the information technology system (cybersecurity);
 - o Quality of services
 - A system for monitoring and inspecting management of technology both before and after the application thereof; and
 - Readiness and potential of personnel;
 - o Regular monitoring and assessment;
- Business continuity management: Business Operators shall be able to manage and handle undesirable events, including having a readily available back-up system to be able to prevent risks and damage which may be suffered by clients and the capital market.

3. Establishment of internal control

Directors shall establish an internal control system that is consistent with the format and nature of the business and an appropriate check and balance mechanism to enable timely monitoring and control of damage which may be incurred.

Example

Check and Balance Mechanism

– Having a process for reviewing accuracy and completeness at each of the significant operating steps and processes, such as not allowing a single officer to handle all steps throughout a process and having clear segregation of duties to reduce operational errors and risks, especially between the front office function and the back-office function; and

– Having efficient control, supervision and audit (three lines of defense) functions which include having an independent unit that is responsible for control, supervision and audit duties and that can perform its duties effectively. The duties and responsibilities of each unit shall be clearly specified as follows:

- (1) Business unit or the first party taking and controlling risk (first line of defense);
- (2) Risk management and corporate compliance units (second line of defense), such as a risk management unit and a compliance unit; and
- (3) Internal audit unit (internal audit or third line of defense) acting as the last defense of supervision and inspection to support the suitable check and balance mechanism.

The nature of business operation and size of the company shall be considered in establishing a suitable internal control as one size does not fit all. For example, a small company may use technology for monitoring and inspection as a check and balance mechanism.

4. Supervision and monitoring of operations

Directors shall establish a mechanism or system for monitoring to help in the monitoring process and to ensure that the operations performed by executives will be consistent with the relevant policies, regulations, laws and rules. Supervision and monitoring of operations shall at least cover the following issues:

1. Specifying important issues that must be reported in due time so directors are informed of significant, complete and timely information; and
2. Specifying a suitable time frame for inspection and assessment of outcomes.

Example

Significant issues which must be acknowledged by directors

- Important complaints and action;
- Risk assessment results from the risk management department, internal control unit or compliance unit, which should cover risks that may arise from the company's important transactions or new business or from policies and goals, such as prudential risk, operational/management risk, customer relationship risk, and IT risk;
- Maintenance of information technology system security (cybersecurity), such as risk assessment results, penetration test results, and correcting actions;
- Inspection results of official authorities or relevant agencies and resolution actions in case of violation of laws or deficiencies of the systems; and
- Business/policies with significant changes, such as issuance/ offering of new products or new services.

5. Corrective actions and follow-ups

Directors shall follow up on and provide guidelines for correcting failure of compliance with laws/rules and issues detected in the inspection by official agencies and the company's compliance unit.

Example

- Specifying that the following issues shall be reported to the board of directors for acknowledgement:
 - o Deficiencies and corrective plans; and
 - o Progress of corrective action;
- Considering and issuing a corrective measure/approach by considering the impact and urgency.