

SHAPING THE THAI  
CAPITAL MARKET

*Annual Report 2004*





This year's annual report features *Benjarong* ceramics. *Benjarong*, meaning five colours, gained popularity in the royal court and the high society of Siam in the late *Ayudhya* period (A.D. 1350 - 1767). But it was during the early *Rattanakosin* period (A.D. 1782 - present), in the reigns of King Rama II and King Rama III (A.D. 1809 - 1851) that the designs became truly refined. Drawings on *Benjarong* ranged from flowers, leaf patterns, and folklore subjects to *Garudas*.

## SHAPING THE THAI CAPITAL MARKET

The development of a capital market is a long process. So is ceramic handicraft's. People who appreciate the beauty of handcrafted ceramics would be tempted to compare the two. To attain a strong and well-balanced shape, functional and pleasant to the eyes, the potters must toil for years to accumulate experience and expertise. Creating dazzling decorations, often by hand, requires deep knowledge and study.

Imagine the Thai capital market as a ceramic collection being formed. Even though some pieces are still works in progress, others have already taken shape and form of lasting beauty.



*Tea pot in the shape of a bale fruit. The rare design of two lions guarding a Thepanom (an angel) appeared on both sides of the pot. The background featured stylized flames in red and white. (H including handle 18 cm)*



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## MESSAGE FROM THE CHAIRMAN



*Somkid Jatusripitak*

Somkid Jatusripitak  
*Chairman*

2004 was a very challenging year for Thai economy and the capital market. We were faced successively with the adverse impacts of the SARs, the bird flu, and the oil price increases. But despite these events, the economy has remained resilient overall. GDP growth continued at 6.1 percent with inflation remained low at 2.8 percent. The capital market though affected by uncertainties, performed very well as 50 new companies got listed on the SET and MAI over the year. Listed companies' net profit registered 454.1 billion baht with the market capitalization as high as 4.52 trillion baht. Moreover, the daily trading volume increased from 18.9 billion baht to 20.5 billion baht.

These results reflected the strengths of Thailand's economic fundamentals and investors' confidence in the prospects of the Thai economy and capital market. Local investors were active as the international investors were net buyers of shares. Equally important, such confidence and trust can be attributed in large part to the sustained efforts of all parties involved.

Over the year 2004, the Securities and Exchange Commission (SEC) worked with the Stock Exchange of Thailand (SET) and other public agencies as well as various market organisations to put forward new important initiatives under the "Capital Market Development Master Plan". These initiatives included introducing special tax measures and simplified procedures to promote long-term investment and saving through long term equity fund (LTF), reforming the IPO subscription process to ensure fair accessibility for all investors, as well as continuing to actively promote good governance and strengthen market surveillance.

As 2004 also marked the conclusion of this government's first term, looking back, it has been a productive four-year period. Several goals have been achieved. The capital market has developed and gone through a major turnaround in support of the country's economic revival and sustained

growth. Such advancement was reflected in the increase market capitalization from 1.3 trillion baht in 2000 to 4.5 trillion baht by the end of 2004. At the same time, the SET index climbed from 269.19 to 668.1, driven by the impressive recovery of corporate performance that was 818.2 billion baht in net loss in the period from 1998 to 2000 to over 1 trillion baht in total net profit from 2001 to 2004. Thailand's capital market has clearly regained strength and is now well-positioned for a new chapter.

In this regard, while a great deal has been achieved, I believe that the years ahead call for much more work and cooperative efforts. We must continue to be pro-active in further developing our financial market infrastructure. Our efforts should focus on an integrated development of key components encompassing the equity market, the bond market, the derivatives market, and other necessary market mechanisms. Of course, it is crucial that we strive forward to deepen and broaden good corporate governance, transparency, and surveillance measures. Furthermore, we need to look and act beyond our frontier. With Thailand assuming an increasingly prominent role as one of Asia's leading growth engines, we must be more engaged in the development of Asia's financial system for the mutual benefits of countries in the region. The Asian Bond Market Development initiative is a very important example of a joint undertaking of which Thailand has been a very active proponent. This initiative and others such as creating cross-border market linkages have significant potential to contribute to the growth of Thai financial market and the region's financial system as a whole.

In conclusion, I wish to express my sincere appreciation to the SEC management and staff who have put in tremendous efforts over the years. I am confident that with everyone's continued support and commitment, our capital market is poised to play an even greater role in Thailand's sustainable progress and prosperity in the years to come.

## MESSAGE FROM THE SECRETARY-GENERAL



A handwritten signature in black ink, appearing to read 'T. Ph.', written on a light pink rectangular background.

Thirachai Phuvanatanarubala  
*Secretary-General*



The shaping of the Thai capital market attained new depths and dimensions in 2004.

In the area of market orderliness, we cooperated with the Association of Securities Companies in its issuance of the code of conduct on relationship with clients. Brokers must closely monitor clients' trades and ensure the quality of advice given by account officers. This is particularly important because over 70 percent of the equity trading volume is generated by individual local players.

Individuals are naturally very sensitive to news. Therefore, we issued rules to limit commentaries via the mass media only to qualified analysts with sufficient experience. The SET is required to seek clear and timely clarification from listed companies that are the subject of rumours. We also sought cooperation from popular stock chat websites to be careful in their posting of company news that has not yet been confirmed or denied.

The most accentuated shaping was done in the area of issuer integrity. All public companies were encouraged to set their own definitions for eligibility of independent directors, to exceed the minimum standard. All directors, particularly independent directors, were encouraged to join training courses organised by the Thai Institute of Directors Association.

We strengthened our surveillance system significantly. Quarterly financial statements of targeted companies are now regularly analysed together with their news releases. It enables us to prevent or prosecute the siphoning of money out of public companies for the benefit of major shareholders or top executives. It also revealed instances

where some companies took advantage of unclear interpretation of accounting principles to dress up their financial statements. We cooperated with the Federation of Accounting Professions to issue interpretations on six principles to plug this loophole, with more to follow.

To tighten the enforcement of company directors' behaviour, we set up a disciplinary committee comprising members from various professions. They can give warnings for poor behaviour, or ban the persons involved from serving as directors of public companies.

Great progress was also made in the shaping of market development. The law on futures markets was enacted in 2004. Preparation is now well under way to establish the market within 2005. A clear and concise plan was set to eradicate remaining impediments to the bond market, with all relevant agencies working in unison. Furthermore, the government decided to grant a sizeable tax concession to individuals who save long term via collective investment schemes. The idea is to attract more savings in quality stocks under professional management which will enhance market stability.

Finally, work on international cooperation became more deeply etched. We were honoured to host the first ASEAN Capital Market Forum in which securities regulators agreed to work towards mutual recognition of standards. In November 2004, we signed a Letter of Intent with Hong Kong Securities & Futures Commission for mutual recognition of managed fund products. We also undertook a self-assessment for compliance with IOSCO Principles to pave the way for Thailand's Financial Sector Assessment Program in 2006.

## MEMBERS OF THE SEC BOARD



Mr. Somkid Jatusripitak



M.R. Pridiyathorn Devakula



Mr. Suparut Kawatkul



Mr. Karun Kittisataporn

### **Mr. Somkid Jatusripitak**

Mr. Somkid is the ex-officio Chairman of the Board. He served as the Minister of Finance from February 2001 to February 2003 and was reappointed in March 2004. With a Ph.D. from J.L. Kellogg Graduate School of Management, Northwestern University, USA, he taught at the National Institute of Development Administration (NIDA) before entering politics.

### **Mr. Suparut Kawatkul**

Mr. Suparut is an ex-officio member of the Board. He is Permanent-Secretary for Finance. He graduated with a B.Sc. (Econ) from the London School of Economics and Political Science, University of London, UK and holds a M.Sc. (Econ), Queen Mary College, University of London, UK. He was Director-General of the Revenue Department before becoming Permanent-Secretary.

### **M.R. Pridiyathorn Devakula**

M.R. Pridiyathorn is an ex-officio member of the Board. He has been Governor of the Bank of Thailand since May 2001. He holds an MBA (International Business) from Wharton School, University of Pennsylvania, USA and a Bachelor of Economics (First Class Honours) from Thammasat University. Prior to his current appointment, he was Deputy Commerce Minister and President of the Export-Import Bank of Thailand.

### **Mr. Karun Kittisataporn**

Mr. Karun is an ex-officio member of the Board. He is Permanent-Secretary for Commerce. He holds a B.C.A. in Economics from Victoria University of Wellington, New Zealand and an M.A. in International Economics from Syracuse University, USA. Prior to becoming Permanent-Secretary, he was Director-General of the Department of Insurance, Department of Business Economics (currently Department of Trade Negotiations) and Department of Foreign Trade successively.



**Mr. Panas Simasathien**



**Mr. Chaiyawat Wibulswasdi**



**Mr. Sompol Kiatphaibool**



**Mr. Viroj Nualkhair**

**Mr. Panas Simasathien**

Mr. Panas is an accounting expert member of the Board. He served a long career in the Ministry of Finance. He graduated with a B.A. (Cum Laude) in Business Administration from Claremont Men's College and holds a M.S. and a Ph.D. in Accounting from University of Illinois, USA. He was Permanent-Secretary for Finance between 1982 and 1992 and Minister of Finance in 1992. He is now Chairman of the Executive Committee, Siam Piwat Co., Ltd. and Chairman of the Council of State Group 12.

**Mr. Sompol Kiatphaibool**

Mr. Sompol is an accounting expert member of the Board. He was Permanent-Secretary for Commerce between 1995 and 2000. He graduated with a Bachelor of Economics (Honours) from Thammasat University, Thailand and holds a Master of Economics from Fairleigh Dickinson University, USA. He is presently an adviser to the Deputy Prime Minister and Minister of Finance, Chairman of the Support Arts and Crafts International Center of Thailand and Chairman of Siam City Bank PLC.

**Mr. Chaiyawat Wibulswasdi**

Mr. Chaiyawat is a financial expert member of the Board. He was Governor of the Bank of Thailand between 1997 and 1998 and the Deputy Minister of Finance and Acting Minister of Finance in 1996. He obtained a B.A. from Williams College and a Ph.D. from Massachusetts Institute of Technology, USA. He is presently an adviser to the Minister of Finance and Chairman of the Executive Board of Krung Thai Bank PLC.

**Mr. Viroj Nualkhair**

Mr. Viroj, a financial expert member of the Board, resigned from the SEC in February 2005. He was President of Krung Thai Bank PLC. Prior to that, he ran Merrill Lynch Phatra Securities Co., Ltd. He graduated with a B.A. (Commerce) from Chulalongkorn University and holds an MBA from University of Wisconsin, USA.



Associate Professor  
Prasit Kovilaikool



Mr. Vasant Thienhom



Mr. Thirachai Phuvanatanarubala

**Associate Professor Prasit Kovilaikool**

Mr. Prasit is a legal expert member of the Board. He is a board member of the Bank of Thailand, Law Councillor of the Council of State and President of Huachiew Chalermprakiet University. He was a former Dean of the Faculty of Law at Chulalongkorn University as well as a member of the Board of Police. He graduated with an LL.B. (2nd Class Honours) from Chulalongkorn University, Thailand and holds an LL.M. from Columbia University, New York, USA. He is also a Barrister at Law.

**Mr. Thirachai Phuvanatanarubala**

Mr. Thirachai is an ex-officio member and secretary of the Board. He was appointed Secretary-General of the Securities and Exchange Commission in December 2003. Prior to that he was Deputy Governor of the Bank of Thailand. He graduated with a B.Sc. (Econ) from the London School of Economics and Political Science, University of London, UK and is a Fellow of Chartered Accountants of The Institute of Chartered Accountants in England and Wales.

**Mr. Vasant Thienhom**

Mr. Vasant is a financial expert member of the Board. He is a Senior Assistant Secretary-General of the Commission and also the Chairman of the Executive Board of the Secondary Mortgage Corporation. He graduated with an LL.B. (Honours) from Chulalongkorn University, Thailand and holds an LL.M. (International Banking Laws) from Boston University, USA. He is also a Barrister at Law.

## EXECUTIVE OFFICERS



**Mr. Thirachai Phuvanatanarubala**  
*Secretary-General*



**Mr. Prasong Vinaiphath**  
*Deputy Secretary-General*



**Mr. Vasant Thienhom**  
*Senior Assistant Secretary-General*



**Mr. Chalee Chantanayingyong**  
*Senior Assistant Secretary-General*



**Mr. Rapee Sucharitakul**  
*Senior Assistant Secretary-General*



Accounting Supervision  
Department  
**Mrs. Saranya Chindavanig**  
*Director*



Broker-Dealer Supervision  
Department  
**Mrs. Paralee Sukonthaman**  
*Director*



Corporate Affairs Department  
**Mrs. Nataya Niyamanusorn**  
*Director*



Corporate Finance Department  
**Mr. Prakid Punyashthiti**  
*Director*



Enforcement Department  
**Mrs. Waratchya Srimachand**  
*Director*



Finance and Administration  
Department  
**Mr. Saengsiri Sirisansneeayongse**  
*Director*



Human Resources Department  
**Mrs. Duangjai Dhanasthitya**  
*Director*



Information Technology  
Department  
**Mr. Kumpol Sontanarat**  
*Director*



Internal Audit Department  
**Mr. Kajornsak Outthasin**  
*Director*



Investment Adviser  
Supervision Department  
**Mr. Trakarn Nopmuang**  
*Director*



Investment Management  
Supervision Department  
**Ms. Duangmon Teerawikawee**  
*Director*



Legal Department  
**Mrs. Supan Poshyananda**  
*Director*



Research Department  
**Mrs. Tipsuda Thavaramara**  
*Director*



## STRENGTH

Selection and preparation of clay  
determine the strength of ceramics.



*This lidded bowl was among the largest of Benjarong bowls.  
The design of various flowers was drawn on a gold background that was highly  
valued because the range of temperatures that produced the right gold colour  
was narrow and difficult to control in firewood kilns. (H 19 cm)*

## GOVERNANCE

Governance is the most important pillar of any capital market. Trust of investors can only be earned when the principles of good governance are strictly adhered to.



## ABOUT THE SEC

The Securities and Exchange Commission, Thailand (SEC) is responsible for regulating the capital market and securities businesses in Thailand. The SEC was established in 1992 under the Securities Exchange Act B.E. 2535 (1992) (SEC Act). Pursuant to the SEC Act, the SEC is empowered to supervise and develop the primary and secondary markets of the country's capital market system as well as securities-related participants and institutions. Its primary role is to formulate policies, rules and regulations regarding supervision, promotion, and development of securities businesses as well as other activities relating to securities businesses, securities exchanges, other organised securities trading centres, and entities related to securities businesses, including the issuance and offering of securities for sale to the public, the acquisition of securities for business takeovers, and the prevention of unfair securities trading practices.

### Mission and Objectives

The SEC sets out its mission to “Develop and Supervise the Thai Capital Market to Ensure Efficiency, Fairness, Transparency and Integrity”, under which it is entrusted with 4 major policy objectives : (1) maintain fairness in the financial market, (2) develop and enhance efficiency of the market, (3) maintain long-term stability of the financial system, and (4) strengthen the international competitiveness of the market.

### Organisation

#### The SEC Board

The SEC Board comprises five ex-officio members, i.e. the Minister of Finance as the Chairman, the Governor of the Bank of Thailand, the Permanent Secretaries of the Ministry of Finance (MOF) and the Ministry of Commerce (MOC), and the Secretary-General of the SEC Office, plus

a further four to six qualified persons appointed by the Cabinet upon recommendation of the Minister of Finance, among which there should be experts from each of the following fields : legal, accounting, and finance.

The SEC Board performs the role of a legislative board rather than a governing board and is responsible for formulating major regulatory policies for supervision and development of capital market and securities business. The Board generally does not involve itself in day-to-day operations.

### The SEC Office

To achieve the policy objectives set forth by the Board, the Office of the Securities and Exchange Commission (SEC Office) was established upon the enactment of the SEC Act as an independent government agency responsible for carrying out the tasks under the direction and guidance of the Board under the leadership of the Secretary-General as the Chief Executive Officer (CEO).

Day-to-day operations involving supervision of market activities or monitoring of compliance with the stated laws, rules and regulations are generally managed within the SEC Office, except for licensing, which must be granted by the SEC Board or the Minister of Finance.

### Statutory Power

The SEC has powers and authorities under the SEC Act to regulate all aspects of the securities market. These include powers to grant or recommend licensing, grant permission for offering of securities, make rules, and to inspect, investigate, and enforce compliance with the laws and regulations. Rules and regulations promulgated by the SEC are enforceable under the SEC Act, the violation of which is a criminal offence.

The extent of the SEC's authority is further defined in SEC notifications, in which details of its context and powers also elaborated. These notifications are required to be scrutinised by an SEC sub-committee comprising market stakeholders and relevant experts and must be published in the Government Gazette before coming into effect. Subsequent

regulatory actions are subject to procedural fairness and can be appealed to the SEC Board, the Appellate Committee established under the SEC Act, and/or the Administrative Court, which will cover the issues of bias, undue process or abuse of power.

Moreover, the SEC has in place a process of operation, including a rule-making process, to prevent commercial or other sectoral interferences. The SEC CEO, the Secretary-General, is prohibited from having connections with politics or interests in any securities company. The SEC Act prohibits any Board member who has an interest in the matter from participating in its consideration.

### Regulatory Process

The SEC is subject to procedural rules and regulations both in the provisions of the SEC Act as well as other laws concerning administrative procedures, information, and duty of government officers.

### Issuance of Rules and Regulations

The SEC employs a variety of public consultation mechanisms, which include processes through sub-committees, circulation of draft rules for comments, discussion groups and consultative papers. This is to ensure that SEC regulations go through a hearing process and that regulated entities have opportunities to provide input and comments on the practicality and relevance of draft regulations before they take effect. In the event that new regulations are anticipated to have a wide or significant impact on the public, a public hearing seminar is usually held. In this connection, although the SEC does not have a formal procedure to assess costs of compliance with the regulation, related input is obtained from the parties to be affected by the issues through the consultation process mentioned above.

The SEC publicly discloses and explains policies, interpretations, regulatory actions, rule changes and reasons through policy statements, press releases, press conferences, management interviews, and public seminars. In 2004, the SEC issued a total of 129 notifications which are all posted on its website ([www.sec.or.th](http://www.sec.or.th)).

### A Law Enforcement Agency

As a law enforcement agency, the SEC carries out its duties with transparency, fairness and impartiality. At the same time, alleged offenders of the securities law are always given opportunities to provide clarifications before legal action is taken. In many cases, committees comprising business operators are set up to review and make decisions on enforcement issues, for example : the disciplinary committee for marketing officers, the committee for auditing standards, the committee for property valuation standards, and the committee to review the work of financial advisers. Moreover, in considering material facts regarding the contravention of laws, rules, and regulations, the SEC acts through an internal enforcement committee comprising directors from related departments in its agency. Once action has been taken, for transparency and to enable the public to examine the regulator's actions, the SEC promptly disseminates information to the public regarding administrative sanctions and legal actions against wrongdoers.

Under the regulatory process, the SEC regulatory actions are subject to procedural fairness and review, including judicial review, by way of the Administrative Procedure Act (APA).

The SEC staff is bound by the SEC Act and the Official Information Act, which assure confidentiality and data protection. The SEC has put in place internal procedures to ensure that its exercise of powers and duties are consistently applied.

### Operational Risk Management

The SEC has developed its operational risk management plans including operational workflows and procedure manuals in line with the SEC's strategic plan. In producing action plans, all departments must identify, analyse and assess all related operational risk, and evaluate risks both internal and external that could affect the operation and the SEC's strategic plan. Subsequently, control activities and working procedures are set up to prevent and control risks. Operational risk management plans will be reviewed and updated annually according to the changing environment and the updated working procedures.

The SEC has put a risk-based internal audit plan in place by reviewing all departments' operational risk management plans and prioritising them according to their risk level. The audit will focus on high risk/high impact areas and will be conducted from year 2005 onwards.

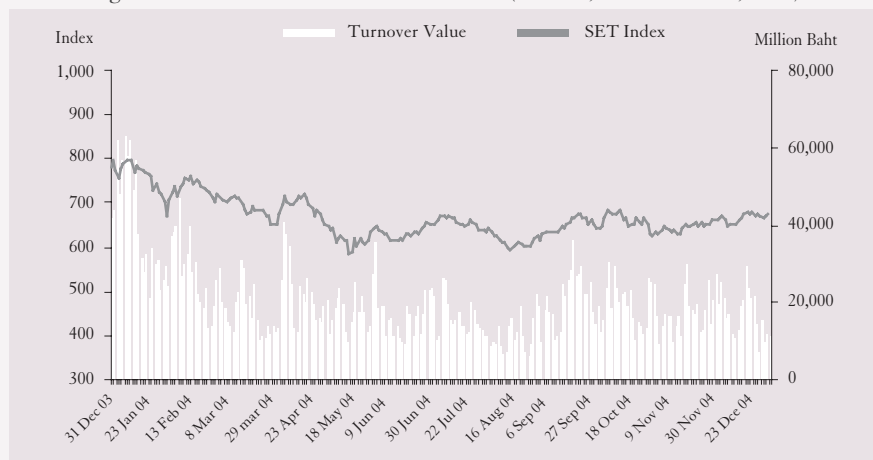
# THAILAND'S CAPITAL MARKET OVERVIEW

## Market Performance in 2004

### Stock Market

In contrast to 2003, during which the Thai equity market was one of the best-performing markets in the world with a remarkable return as high as 120%, 2004 was the year of consolidation. The Stock Exchange of Thailand (SET) index drifted downward and closed the year at 668.10 points, down by 104.05 points or 13.48% compared to the end of 2003 (Figure 1).

Figure 1 : SET Index and Turnover Value (Dec. 31, 2003 - Dec. 30, 2004)



Source : Stock Exchange of Thailand

The downward trend of the equity market was due partly to market correction after a strong surge during the second half of 2003. Nevertheless, there were a number of negative factors shedding uncertainty on the market and weakening investors' confidence. High oil prices, rising interest rates, the outbreak of avian influenza, and concerns over inflation were among the main factors. Coupled with this uncertainty,

there was a trend among global investors to reallocate assets away from emerging markets. In Thailand, foreign investors adjusted their portfolios downwards with total net selling of 35 billion baht over the first three quarters of 2004.

Sectors that were sensitive to market movements included property development, finance & securities, and banking (Table 1). The profitability outlook for property developers came under pressure from rising interest rates and costs of raw materials, lower buyers' confidence and a significant increase in supply. In the banking sector, the Bank of Thailand (BOT)'s stricter policy on loan classification, despite the long-term benefit, led to concerns over rising non-performing loans (NPLs) and an increasing

provisioning requirement. In comparison, communication and energy sectors were among those that were less affected by market sentiment. The process of establishing the National Telecommunication Committee (NTC) and the plans for reforming the telecom industry were viewed as positive developments for operators in the communications sector, while companies in the energy sector enjoyed better earnings in line with the rising price of oil.

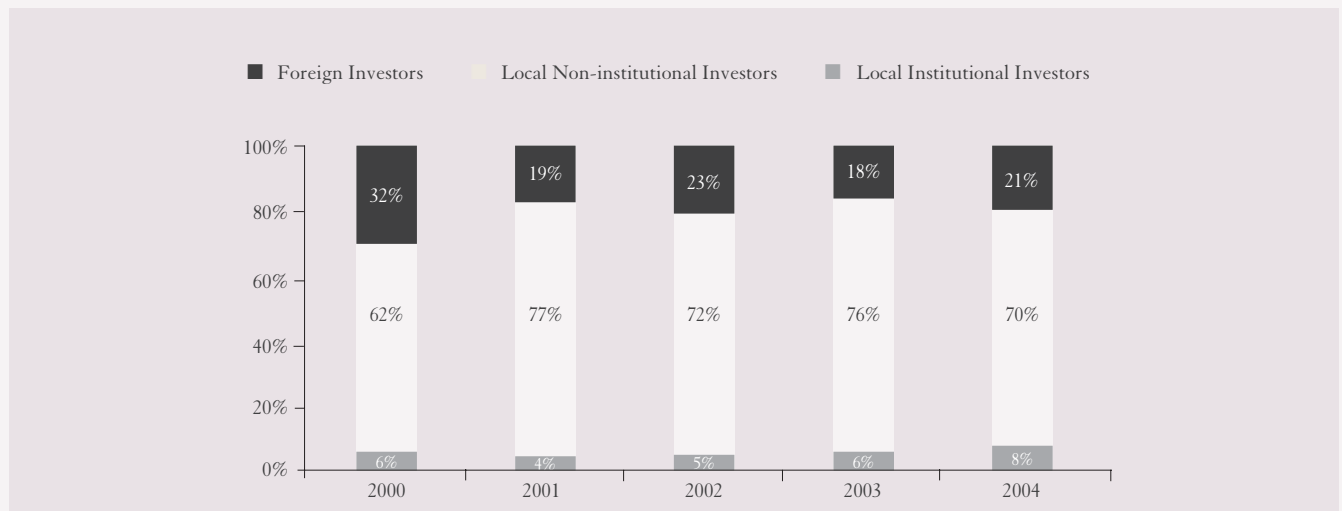
Despite weakening market sentiment, market liquidity remained high with an average daily trading value of 20 billion baht. Local non-institutional investors were the main players in the market, accounting for about 70% of total market trading value (Figure 2).

Table 1 : Sector Indices

Sector	Dec. 31, 2003	Dec. 30, 2004	% chg. from 2003
SET	772.15	668.10	-13.48
Property Development	199.53	118.39	-40.67
Finance & Securities	1,799.42	1,332.93	-25.92
Banking	277.89	235.77	-15.16
Energy & Utilities	11,363.70	11,110.52	-2.23
Communication	92.58	106.18	14.69

Source : Stock Exchange of Thailand

Figure 2 : Percentage of Trading Value in the SET by Investor Groups



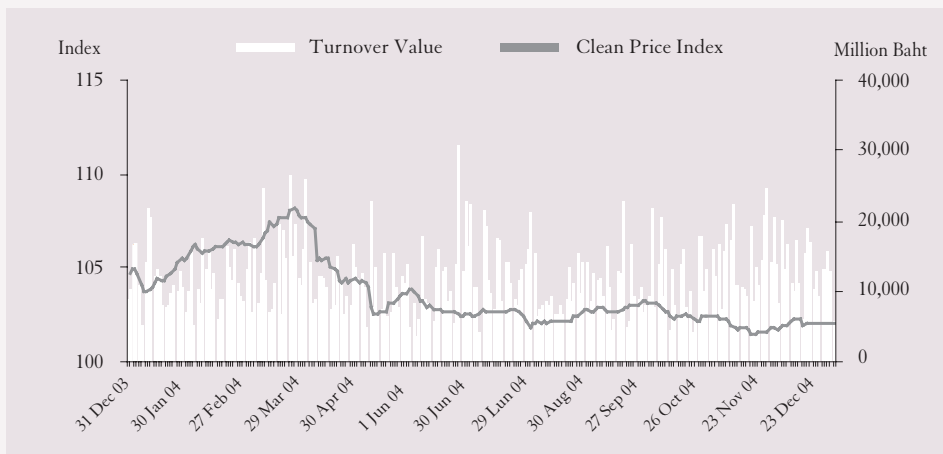
Source : Stock Exchange of Thailand

**Debt Market**

In the debt securities market, bonds came under selling pressure as interest rates were on a rising trend. Bond prices, especially those of long-term bonds, continued to adjust downward. The Thai Bond Dealing Centre (ThaiBDC)'s Government Bond Clean Price Index closed the year end at 101.95 points, down 2.58 points or 2.46% from the year before (Figure 3).

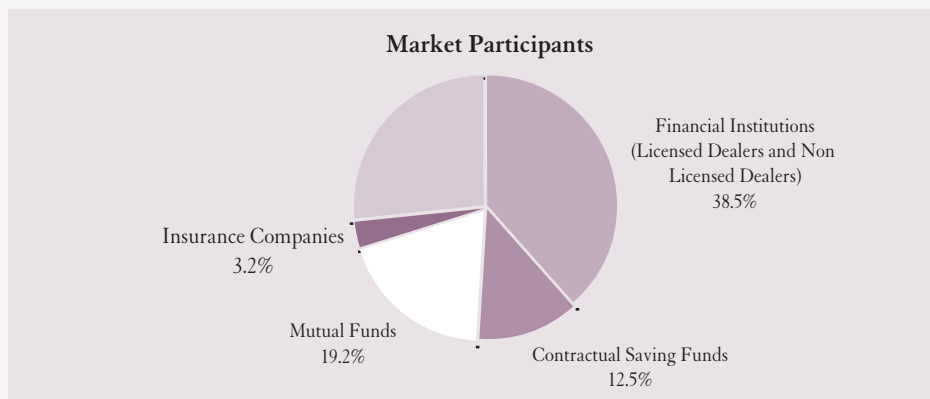
Although bond prices were depressed, the market remained active. The average daily trading value of debt securities registered by the ThaiBDC was about 12 billion baht, up 15% from 2003. Long-term institutional investors of contractual savings funds, mutual funds and insurance companies together accounted for about 35%, of the market trading value, while trading among financial institutions (licensed dealers and non-licensed dealers) accounted for about 39% (Figure 4).

Figure 3 : ThaiBDC Government Bond Clean Price Index and Turnover Value (Dec. 31, 2003 - Dec. 30, 2004)



Source : Thai Bond Dealing Centre

Figure 4 : Composition of Market Participations in Thai Bond Market



Source : Thai Bond Dealing Centre

## Capital Market Outlook for 2005

### Economic Outlook

Thailand is rated as one of the fast-growing economies in East Asia, with Gross Domestic Product (GDP) growth measured at 6.1% in 2004. The outlook does not change significantly in 2005, though the pace of growth may slow down, in line with a declining trend in global economic expansion. Various negative factors that impacted economic growth in the second half of 2004 remain risk factors in 2005. These include : (1) China's slowing economy, (2) the high oil price, (3) rising US interest rates, (4) US dollar depreciation, and (5) the inflation rate.

Uncertainty remains regarding whether China's overheated economy will experience a soft or hard landing, and whether it will cause much turbulence to the world economy. In Thailand, escalating oil prices exert pressure on both economic stability and economic expansion, as the country is sensitive to the price of oil. Looking forward to 2005, considerable concern has followed the increase in price of US crude oil to a record high of US\$ 55/bbl during October 2004.

The rising US interest rate is regarded as another risk factor to the Thai economy. The US Federal Reserve Board (Fed) made a series of upward adjustments to the Fed funds rate during the second half of 2004. In August 2004, to discourage capital outflows, the BOT raised the 14-day repurchase rate for the first time in 3 years by 25 bps to 1.5% and in October and December further increased the rate by 25 bps on each occasion, to reach 2% in December. For 2005, it is anticipated that the US interest rate is still on an upward trend. The Thai 14-day repurchase rate may again be adjusted if the BOT keeps in step with the US rate.

Significant depreciation of the US dollar against major currencies during the last quarter of 2004 has emerged as a new risk factor to the currency market in 2005. With the baht strengthening against the US dollar, the Thai export sector may inevitably be hurt, especially in terms of exports to the US market.

Apart from the above external risk factors, the increase in the domestic inflation rate is also viewed as a risk factor to Thailand's economic growth. It is anticipated that domestic inflationary pressure will be high in 2005 due to increasing capacity utilization, rising oil prices, and tightening labour markets. With an increasing inflation rate, the BOT may take further steps to tighten monetary policy.

In view of these risk factors, growth in private consumption is expected to soften in 2005. Indeed, the consumer confidence index has continued to decline since the second half of 2004. However, the driving force for economic expansion has gradually been shifting from consumption-led to investment-led growth. As the capacity utilization rate reaches 70-80%, the same high level as the pre-crisis period, there is considerable scope for the private sector to expand production capacity, while government spending will also be high for the next 5 years in order to support various infrastructural mega-projects. Thai economic fundamentals are still regarded as strong. On the fiscal side, the economy is healthy with fiscal surplus achieved in 2003, a small deficit in 2004, and a balanced budget targeted for 2005. Public debt has been shrinking since 2002.

In summary, Thailand's economic growth will moderate in 2005 partly due to global growth deceleration and partly due to the impact of various risk factors. However, the magnitude of change will not be great due to the support of strong economic fundamentals and the emergence of a new driving force through the expansion of aggregated supply.

## Market Outlook

### Stock Market

The prospect of slower momentum in economic growth caused by various risk factors will pose a greater challenge for corporate performance in 2005. With rising oil prices and interest rates, the profitability of listed companies is likely to be influenced by higher input costs from upstream pricing materials, while lower consumers' confidence may limit the ability to on pass these costs to consumers, thereby affecting

corporate profit margins. Furthermore, performance in the banking sector may be affected by the BOT's new qualitative surveillance of bank loans and this could lead to a further rise in the reclassification of NPLs.

Nonetheless, given the current strong economic fundamentals, the margin squeeze may be offset, or in some cases more than compensated, by expanded sales. As mentioned above, Thailand is gradually shifting towards more investment-based economic growth, which will drive new economic activities and support profit earnings of corporations, especially in the areas of infrastructure, equipment and financing.

Investors' confidence in the Thai capital market remains positive. Standard & Poor's (S&P) announcement raising Thailand's foreign currency sovereign credit rating from "BBB" to "BBB+" (in August 2004) affirmed the improvement in the strength of the Thai economy, and boosted foreign investors' confidence in the Thai capital market. In addition, overwhelming participation in Thailand Focus by global fund managers, again confirmed foreign investors' positive stance. Thailand Focus was one of the biggest market events in South East Asia, receiving nearly 700 fund managers from across the globe.

Liquidity in the money market and high cash levels among institutional investors are also favourable factors on the demand side of the market. The newly-launched program of Long Term Equity Fund (LTF) in the second half of 2004 added another positive factor to boost the market in 2005. Under specified investment conditions, unit holders of LTFs are able to enjoy tax privileges for many years.

Overall, the Thai stock market is still considered to be a relatively attractive market in the region. As of December 31, 2004, the P/E ratio of the SET was at the level of 9, the lowest ratio compared with other regional markets (Table 2). This, coupled with a market dividend yield prospect of 4%-5%, indicates that there is indeed considerable room for the SET to deliver growth in 2005.

Table 2 : P/E Ratio as of Dec. 30, 2004

Countries	P/E Ratio
1 Hong Kong	19.86
2 Philippines	18.40
3 Malaysia	15.30
4 Indonesia	14.30
5 Singapore	13.40
6 Korea	13.30
7 China	11.80
8 Taiwan	11.50
9 <b>Thailand</b>	<b>9.40</b>

Source : Datastream

### Debt Market

In comparison with the stock market, the Thai debt market is likely to be less positive in 2005. The anticipated increase in inflation and a trend of rising interest rates in the US are among the negative factors directly affecting market sentiment. It is anticipated that bond prices, especially long-term bonds, may come under selling pressure, a situation similar to 2004. Nevertheless, with the prevalence of high liquidity in the money market, the magnitude of any interest rate rise should not be large. At the same time, there should be high demand for relatively short-term bonds which are less sensitive to interest rate changes. In addition, efforts in promoting long-term institutional investment in recent years, such as the launch of the Retirement Mutual Fund (RMF) (first introduced in 2001) and the increase in tax incentives for savings through life insurance, etc., should continue to play an important supportive role on the bond demand side, maintaining trading activities in the market.



## KEY ACHIEVEMENTS IN 2004

### Equity Market

Deter market manipulation and excessive speculation that may adversely affect the system

- Prepared and disseminated weekly lists of turnover ratios of traded stock compared to its free float to be used as information for investors and risk management information for securities companies to adjust their clients' credit lines.
- Drew up, in coordination with the Association of Securities Companies (ASCO) and the Securities Analysts Association (SAA), a code of conduct for marketing officers and securities analysts specifically on their roles of giving advice or opinion to clients, avoidance of spreading rumours, and producing of regular securities analysis reports
- Established, in cooperation with the MOF, the BOT, and the SET, a system for immediate verification of news and rumours
- Prevented the use of unorganised market loans for settlement of securities trading. All brokers are to strictly monitor the performance of marketing officers and branch managers and adhere to the given guidelines.

Elevate corporate governance (CG) standards of listed companies

- Supported, with the cooperation of the SET, the Thai Institute of Directors Association (IOD) delivery of corporate governance assessment reports on 334 listed companies, with reference to the Organisation for Economic Co-operation and Development (OECD)'s guidelines and the SET's good CG principles
- Proposed amendments to the SEC Act to expand the scope of responsibilities of listed company directors and channels for shareholders to exercise their rights

- Prepared a director's handbook for listed companies
- Adopted a registration system for listed company directors and management for the purpose of monitoring and imposing administrative sanctions
- Closely monitored listed companies' involvement in inappropriate connected transactions

#### Improve quality of information disclosure by listed companies

- Tightened the rules to ensure that auditors and listed companies comply with accounting standards
- Closely monitored listed companies' financial reports to strengthen compliance

#### Promote transparency in the initial public offering (IPO) share allocation process

- Required issuers to disclose their allocation methodology and clearly identify in the prospectus the proportion of shares allocated to each group of investors together with its justification
- Required public disclosure of top 20 persons (excluding institutional investors and employee stock ownership plan (ESOP)) who received the highest IPO share allocation, along with relevant information on their eligibility as prescribed in the prospectus

#### Monitor the SET's operation on an ongoing basis

- Conducted on-site inspections on the SET twice to ensure its operational transparency and fairness, and to assess its effectiveness in dealing with price manipulation, tackling rumours, handling complaints and issuing temporarily halts to trading. The inspections revealed satisfactory results.

### Debt Market

#### Develop infrastructure to facilitate dealer operations and enhance liquidity in the debt market

- Encouraged adoption of Electronic Trading Platforms (ETP) for transactions in the secondary debt market

### Mutual Fund

#### Improve communications with investors

- Streamlined regulations on investment management, especially on investment policy and types of securities for investment, in an alignment with standards
- Simplified the preparation of prospectus and performance reports for easy understanding in plain language

#### Encourage risk management by investment management operators

- Developed a risk monitoring and controlling system for equity funds
- Established guidelines for maintenance and monitoring of asset liquidity and redemption of fixed income funds

#### Increase institutional investors' role and promote long-term investment among retail investors

- Coordinated with the Revenue Department to promote long-term investment in equity funds in an establishment of LTF collective investment scheme and associated tax incentives
- Issued notifications on the management of LTFs, allowing asset management companies to set up LTFs as an investment alternative for retail investors

### Derivatives Market

#### Push for establishment of a futures exchange to be operable within 2005

- Supported the SET in the establishment of the futures exchange and clearing house, and the licensing requirements which are in the process of approval
- Prescribed licensing rules for derivatives brokers, dealers, and fund managers
- Prescribed rules for the approval of fund managers to invest in futures products
- Coordinated with the Revenue Department to solve the tax issues associated with the functioning of the futures exchange operating mechanism

## Securities Borrowing and Lending (SBL) Market

### Develop a robust domestic SBL market

- Supported the SET's settlement subsidiary, Thailand Securities Depository Co., Ltd. (TSD), in its development of a centralised administration system, adoption of standard SBL agreements and education of all market participants in order to accommodate development of the SBL market
- Coordinated with the Revenue Department to solve the remaining tax problems

## International Cooperation

### Strengthen confidence among local and international investors and promote securities regulation standards to be in line with international benchmarks

- Participated in the International Organization of Securities Commissions (IOSCO)'s Pilot IOSCO Principles Assessment and Implementation Program (Pilot Program) in April, 2004 to identify and assess shortcomings and push for improvements in preparation for the World Bank & International Monetary Fund (IMF)'s Financial Sector Assessment Program (FSAP) in 2006
- Participated in the corporate governance assessment program under the "Reports on the Observance of Standards and Codes (ROSCs)" project, which is currently under review by the World Bank for accuracy and completeness of the information provided in the assessment
- Promoted regional cooperation within ASEAN by initiating the ASEAN Capital Markets Forum (ACMF). The Thai SEC hosted the first semi-annual meeting.
- Signed a Letter of Intent (LoI) with the Securities and Futures Commission, Hong Kong (HKSF), for mutual recognition of investment funds authorised in either jurisdiction for cross-border distribution

## Internal Operations

### Enhance communications and information technology services both internally and externally

#### Internal services

- Prepared "One Stop Query" information searching system for the SEC's staff to conduct supervisory tasks

#### External services

- Restructured SEC website to be more informative and user-friendly
- Facilitated online report submission by securities companies, using digital signature verification system
- Promoted investor education through various channels, e.g. exhibitions, articles, series of publications and lectures
- Distributed quarterly English newsletter "Capital Thailand" to disseminate news and information about the Thai capital market, particularly to foreign fund managers, analysts, and investors
- Provided information services interactively by e-mail distribution (info@sec.or.th), the capital market information centre, and media relations

### Strengthen human resources development using performance-based management system

- Put in place a "competency-based" management system for staff performance evaluation and development
- Adopted a "performance-based" rewards system, with an appropriate employee compensation structure and mechanism for performance evaluation

## 2005 ACTION PLAN

In view of the fast-changing economic environment and the increasing complexity of financial markets, the SEC has emphasised the importance of its operation through 2005-2007 strategic planning, which goes beyond routine, day to day operations and problem solving to a longer-term development plan for sustainable growth of the capital market, with the following strategic objectives :

1. To enhance accessibility of the capital market with quality products for capital mobilization
2. To promote integrity of market mechanisms
3. To provide all necessary basic infrastructure to enhance market competitiveness in the international arena
4. To maintain high professional standards of the SEC as a regulator

To achieve effectively strategic objectives set forth in the plan, the SEC established its 2005 Action Plan by focusing on 3 main aspects as follows:

- Elevating good corporate governance of listed companies
- Preparing the Thai capital market to be in line with international standards
- Developing and amending the necessary laws

### Elevating Good Corporate Governance of Listed Companies

Develop good CG practices of listed companies in line with international standards

- Urge all Thai listed companies to comply with the SET's 15 CG principles

- Promote good CG image to foreign investors
  - (1) Continue the CG ROSCs process towards having Thailand's good CG standards assessed by international organisations
  - (2) Study CG appraisals conducted by international organisations and take into consideration their comments for further improvement
- Build up better understanding among practitioners
  - (1) Promote the "Director's Handbook" initiative that clearly prescribes roles and responsibilities of directors under the Thai law and in accordance with best international practices
  - (2) Encourage listed company directors to participate in the training courses organised by the IOD
- Adopt a registration system for listed company board of directors and management, to take effect from March 1, 2005, for the purpose of monitoring and imposing administrative sanctions

#### Improve the quality of IPO companies and listed companies

- Raise the quality of IPO companies by strengthening internal control standards and accounting practices, especially in small companies
- Prevent and intervene in transactions that take advantage of minor shareholders
- Closely monitor and strictly impose sanctions against malpractices or misconduct of listed company directors and top management

#### Strengthen accounting standards and auditor practice

- Work closely with the Federation of Accounting Professions in raising the Thai accounting standards to be on a par with international accounting standards
- Support "whistle blowers" in providing information on corporate fraud or embezzlement
- Monitor audit committee statements in listed company annual reports

#### Enlarge the roles of institutional investors

- Require mutual funds and provident funds, in their written policies, to exercise their votes to ensure a high standard of corporate governance in the companies in which they invested

### Preparing the Thai Capital Market to be in line with International Standards

Prepare the SEC's regulatory system to be in line with IOSCO standards and ready for the assessment under the FSAP in which Thailand is scheduled to participate in 2006

- Amend related laws and regulations to remedy deficiencies in the system, as recommended by IOSCO experts in the pilot self-assessment program

Commence the process to become a signatory of IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMoU)

- Amend securities law, as deemed necessary, to give the SEC sufficient investigative power to assist its foreign counterparts in such a way that the organisation is eligible to become a signatory to the IOSCO MMoU

### Developing and Amending Laws

Promote good CG among listed companies and market participants

- Propose an amendment to the SEC Act to enhance investor protection
- Propose a Law on "Trust" to facilitate transactions in the capital market
- Propose a Law on "Class Action" to enable investors with small claims to recover damages

Enhance the efficiency of clearing and settlement system

- Propose an amendment to the SEC Act to enhance the SEC's statutory power over clearing house and securities registrar

Facilitate IOSCO MMoU process and FSAP

- Propose an amendment to the SEC Act to strengthen the effectiveness of the SEC's enforcement of rules and regulations

## PROPORTION

Beauty comes with  
the right proportions.



*This bowl was without a lid and dated from the late Ayudhya period (A.D. 1350 - 1767). The design of curled leaves and vines was first seen on Benjarong at that time. This was the largest size in a set of three nested bowls. (H 9 cm)*

## FAIRNESS

The rights of small shareholders  
need to be respected.  
No market can prosper  
without adequate protection  
of small shareholders' rights.

## CORPORATE FINANCE

### OVERVIEW

In 2004, the total offering value of new shares was 99,655 million baht, of which 37,671 million baht was attributed to IPOs of 51 companies, compared to 27 companies in 2003. Thai Oil PLC was the largest offering with a total value of 29,116 million baht. Other notable IPO companies were the state-owned enterprises, Airport Authority of Thailand PLC and MCOT PLC, which had offering values of 15,230 and 2,662 million baht respectively.

In the bond market, the total offering of debt instruments was 144,607 million baht, with 120,710 million baht issued by listed companies (including 16,276 million baht issued for foreign subscription only) and 23,897 million baht issued by non-listed companies. The highest listed companies' debt instrument offerings came from the energy sector with a total value of 39,776 million baht, followed by the building and furnishing material sector and the property development sector in the amount of 20,115 million baht and 15,400 million baht respectively. Meanwhile 5,685 million baht of the debt instruments issued by non-listed companies was related to the asset securitisation program under the Securitisation Act B.E. 2540 (1997).

### KEY ACHIEVEMENTS IN 2004

In its efforts to develop the local capital market by promoting the issuance and offering of securities, the SEC has put equal emphasis on the three main participants in the market, namely issuers, investors, and independent professionals.

- **Issuers** : The SEC implemented rules requiring issuers to comply with good corporate governance practice, which results in an increasing level of market confidence and promotes the efficiency of the Thai capital market for fund raising.



- **Investors** : Various measures for an enhancement of shareholders' rights and yet protection against unfair connected transactions have been implemented.
- **Independent professionals** : Financial advisers, auditors and property valuers have proved to be key players in promoting the integrity of the capital market. In this regard, the SEC closely collaborates with each profession in order to ascertain standards of best practice.

The SEC laid a foundation for an effective regulatory framework and infrastructure of the Thai capital market. The focus has since been shifted to supervision and law enforcement to assure best practices and diligent compliance. To achieve this goal, the SEC introduced incentive measures to help market participants understand the essence of good corporate governance by imposing legal and administrative sanctions against those who failed to comply with the rules and regulations. In this regard, some important regulatory developments are as follows:

## Equity Instruments

### Stringent Controls Over Connected Transactions

The SEC together with the SET implemented additional requirements on connected transactions of listed companies in the following areas : (1) a requirement of a board of directors' approval prior to an execution of significant transactions, to ensure that those transactions were scrutinised by the board, and (2) tightening the financial criteria pertaining to connected transactions by imposing a minimum value for transactions that requires prior shareholders' approval.

### Proposal to Amend the SEC Act

The SEC has proposed amendments to the SEC Act in order to strengthen good CG requirements. The amendment will explicitly define the duties and responsibilities of listed company directors and provide shareholders with more channels to exercise their rights. Currently, the draft Act has passed the MOF's and the Council of the State's considerations, and will subsequently be proposed to the House of Representatives.

## Debt Instruments

### Introduction of a New Regulation on an Issuance and Offering of Short-term Debentures

In the past, local companies were able to issue bills of exchange (B/E) for the purpose of fund raising without having to seek approval from the SEC, unlike those required for the issuance of debentures. A problem arose when investors in those B/E had little or no information regarding the instruments and the associated risks. Therefore, in the latter half of 2004, the SEC introduced a new regulatory framework for an issuance and offering of B/E and short-term debentures, aiming to balance investors' needs for investment information and the cost of issuers in complying with the new requirements.

### Providing More Quality Products in the Market

Regulations were revised to allow supra-national institutions, foreign governments, or foreign financial institutions to issue bonds or debentures in Thai currency. In addition, the audit requirements for such instruments have been amended to accept home country standards.

## Promotion of Good Corporate Governance among Listed Companies

### Director's Handbook

A "Director's Handbook" has been introduced to serve as an important working manual for listed company directors. The SEC is confident that all directors of listed companies will benefit from the handbook, which prescribes roles and responsibilities of directors along with details and examples on how to perform their fiduciary duties in compliance with internationally accepted governance standards, the Public Company Act B.E. 2535 (1992), the SEC Act, and other SEC and SET regulations.

### Directors Training Course

The SEC, in cooperation with the IOD, has set up an Audit Committee Program (ACP). The monthly program focuses on the duties and responsibilities of audit committees in 3 areas: (1) risk management and internal controls, (2) financial reporting, and (3) disclosure of information and transparency. To date, some 60 audit committee members from various listed companies have attended the ACP program.



### CG Report of Thai Listed Companies 2003

To promote CG among listed companies, the SEC and the SET encouraged the IOD to continue, after a 3-consecutive year, its assessment reports on the CG of Thai listed companies. The reports serve as good assessment tools in an evaluation of CG compliance standard of listed companies. In its assessment methodology, the IOD uses the OECD principles and the SET's 15 good CG principles. A result of the evaluation was sent individually to all listed companies highlighting areas of deficiencies. In 2004, it was noticed that listed companies improved their practices and level of compliance with good CG requirements and received a relatively better evaluation result than before.

## Measures on Law Enforcement

### Prevention of Siphoning of Funds

The siphoning of funds out of listed companies usually takes the form of inappropriate connected transactions. To prevent this, the SEC has initiated a closed monitoring control over all connected transactions of listed companies. One of the monitoring initiatives is a stringent review in the content of notice and meeting agenda on shareholders' meetings prior to the meeting date, especially when connected transactions are included. This is to determine whether the company clearly presents sufficient information to its shareholders. If the SEC views the information disclosed to be insufficient, it will encourage more critical analysis via public news. Moreover, the SEC regularly analyses company financial statements and news releases to identify transactions which may include conflicts of interest, and if any activity is considered suspicious or inappropriate, the SEC will invite company executives for interview and clarification. As a result of these measures, in 2004 the SEC successfully stopped a total of 6 inappropriate connected transactions worth 2,950 million baht and issued orders for rectification to companies on 3 connected transactions, worth 1,575 million baht.

### Directors and Executives Registration

The SEC firmly believes that it is the direct responsibility of all listed company directors and executives to perform their duties in a diligent and honest manner in order to protect the best interests of their companies. If they fail to perform their

righteous duties, not only will their actions affect their companies and shareholders but they will also create a negative impact on market confidence in general. In this regard, the SEC will shortly introduce a directors and executives' registration scheme to serve as a tool that will enable the SEC to impose administrative sanctions on those who commit fraud, counterfeit, or fail to perform their fiduciary duties.

To ensure transparency in imposing administrative sanctions, a Director Disciplinary Steering Group, comprising representatives from external organisations, i.e. the ASCO, the Federation of Accounting Professions, the SET, the IOD, and industry experts, has been set up to provide advice and suggestions to the SEC with regard to the level of administrative sanctions to be imposed on the wrongdoers.

### Accounting Supervision

In 2004, the SEC streamlined its supervision of listed companies' financial statements in order to enhance transparency and standards of information disclosure as a key step towards good corporate governance. A number of monitoring procedures have been undertaken, including auditors' reports, a use of information technology for further scrutiny of financial statements, and closely monitor all related news of companies' movements, to address improper accounting conduct and to ensure that financial statements comply with the Thai accounting standards.

In addition, to improve understanding among market professionals and public companies of conventional accounting interpretation and adoption, the SEC in cooperation with the Federation of Accounting Professions issued 6 accounting guidelines, with more in the pipeline to cover the majority of related issues. Furthermore, the SEC appointed an Accounting and Governance Steering Group to advise on sanctions to be imposed on non-compliant companies. As a result, there were 11 listed companies in 2003 and 13 in 2004 that were ordered to correct their financial statements.

Moreover, The SEC jointly with the Federation of Accounting Professions have announced a program for

Thailand to adopt the International Financial Reporting Standards within 2006.

## Ensuring High Standards Financial Adviser, Auditor and Property Valuer

### Financial Adviser

Financial advisers play an important role in the primary market by persuading and selecting qualified companies to seek IPOs and listings on the SET, and providing assistance to companies in preparing information disclosure. The SEC emphasises professional standards requiring all financial advisers to exercise precaution in the IPO company screening process. Financial advisers are to complete their due diligence procedures and confirm that all minimum requirements are met and are able to disclose information to the public in an appropriate, accurate, and timely manner prior to seeking approval from the SEC. Financial advisers are also required to ensure that an IPO company has in place sufficient internal controls, checks and balances, and record keeping systems. In 2004, there were 71 financial advisers on the SEC's approved list.

### Auditor

Auditors' opinions play a crucial role in reflecting reliable information on the financial position of every listed company. In this regard, a well-prepared and easy to understand report help shareholders and investors understand how well the company has performed during the relevant accounting period. However, some audit reports were found to have unclear messages and ambiguous Stance regarding irregular items. As such, the SEC announced a policy to tackle such problems by requiring auditors to indicate explicitly whether such financial statements are prepared in compliance with proper accounting standards or not, and to present them in easy language. Currently, there are 91 auditors on the SEC's approved list.

### Property Valuer

Property valuers are key participants in the financial market in every country. The SEC plays a supervisory role to oversee property valuers who perform their functions for public interest. Currently, there are 38 property valuers that have obtained approval from the SEC. The SEC has urged these valuers to set industry working guidelines while requiring them to disclose sufficient information in their valuation reports. To raise the professional standards of property valuers in Thailand, the SEC, with financial assistance from the Kenan Institute Asia, has produced standards and a code of best practice for property valuers. The paper is expected to be published in the second quarter of 2005.

### Takeover

Following recovery of the Thai economy, business entities have started to increase their production capacities and competitiveness in the market. In 2004, most instances of takeover were for investment expansion purposes, unlike the business rehabilitation purposes found in the past few years. The SEC also witnessed various merger and acquisition cases among financial institutions resulting from the BOT's Financial Sector Master Plan in strengthening the local financial institutions via consolidation.

### Supervision of Takeover

The SEC's policy on takeover continues to uphold the equitable basis of providing a fair exit for shareholders who are dissatisfied with a change of management resulting from a takeover. To improve the effectiveness of takeover regulation, the SEC is in the process of amending the SEC Act to introduce the concept of "acting in concert" in takeover regulation. Under this concept, consideration of partnership includes not only any relationship among involved persons but also any persons who pursuant to an agreement or otherwise actively cooperate to take control over a company.

## BROKER-DEALER

### OVERVIEW

In 2004, the SEC supervised 41 securities companies (licensed brokers, dealers, & underwriters), with approximately 355 branch offices, and 22 other financial institutions (licensed debt instrument dealers and underwriters).

Significant events in the securities industry are as follows:

- The SEC granted a new brokerage license to Prudent Siam Securities Co., Ltd. in February 2004. This was a result of a separation of finance and securities businesses undertaken by AIG Finance (Thailand) PLC in accordance with the SEC Act.
- A consolidation of Asset Plus Securities PLC and ABN Amro PLC for Asia Plus Securities PLC in June 2004. Accordingly, the shares of Asset Plus were sold to Kasikorn Bank PLC and the name was changed to Kasikorn Securities PLC in December 2004.
- Changes in the major shareholding structure of Advance Securities Co., Ltd. and TSEC Securities Co., Ltd. (formerly BSEC Securities Co., Ltd.) in April and October 2004, respectively.
- The SEC conducted a reassessment of fitness and properness of licensed companies in all cases.

Licensed securities companies generated most of their revenues from brokerage commission fees. This contributed approximately 88% of the total revenues, a proportion similar to that of 2003. This was partly due to the fact that commission fees charged for securities trading transacted on the SET are fixed at 0.25% (0.20 % for internet transactions). With regard to underwriting business, although there was an increase in the number of companies offering their shares to the public in 2004, income generated from such business accounted for merely 5% of the total revenues.

## KEY ACHIEVEMENTS IN 2004

### Significant Regulatory Initiatives

As part of the SEC's moves to combat and prevent market abuses, i.e. price manipulation and market rumours, hence regain and increase investors' confidence in the Thai capital market, the SEC implemented series of preventive measures throughout 2004 :

#### Weekly Turnover List

A list of shares with high turnover ratios (transaction volumes divided by free floats) has been disclosed on a weekly basis on the SEC website since early 2004. Brokers are to submit information concerning the total purchase value of such shares to the SEC if listed companies are (1) classified by the SET as companies under rehabilitation programs (REHABCO), (2) operating at a loss, or (3) attributed with a P/E ratio over 100. The SEC views that shares with high market turnover are indicatives of a heavy day trading by investors, which is unhealthy to the market as a whole, i.e. an aberration in market conditions, or a price manipulation. The turnover list is intended to warn both investors and brokers against the risks associated with trading in such shares. Investors, therefore, are able to take into account such risks before making investment decisions, while brokers are able to develop internal systems to manage those risks, i.e. impose proper trading limits for their clients.

#### Code of Conduct for Brokers & Guidelines Concerning Market Rumours

Encouraged by the SEC, in April 2004 the ASCO released a code of conduct for its members and marketing officers. The code, which aims to prevent and deter market abuses as well as ensure quality services provided to their clients, is a set of guidelines for brokers and their marketing officers to follow in certain market situations i.e. in an event of market rumours. Examples of such guidelines are as follows :

- Marketing officers should provide advice based on house research.
- Marketing officers must not disseminate or amplify rumours.
- Marketing officers must not encourage clients to overtrade.

- Marketing officers must refuse to submit clients' orders that may cause a false market situation.
- Brokers must have systems in place to monitor and supervise their marketing officers' adherence to the guidelines.

Furthermore, on a number of occasions, the SEC publicly stated its policies and expectations upon brokers against market rumour situation and provide a clear statement that the SEC will continue to focus on on-site inspections. Although it has been agreed that the SET shall take the lead responsibility and immediately contact listed companies for public clarification, brokers should implement reasonable procedures to emphasise to their marketing officers not to spread rumours further, but immediately inform the SET for further action.

### IT Risk Supervision

Since information technology (IT) is one of the major risk factors prevalent in the operation of securities businesses, the SEC has raised IT risk awareness among securities industry participants by publishing various papers regarding IT risk, and organising several IT security seminars for securities companies. In July 2004, the SEC issued regulations and guidelines on IT security requiring all securities companies to have in place, IT security controls for physical and logical access, a back up system, a disaster recovery plan, and segregation of duty, etc. However, to allow sufficient time for the preparation of such controls, the SEC instructed companies to have their systems ready by February 1, 2005.

### Examinations of Securities Companies

In 2004, in accordance with its risk-based program, SEC staff examined 14 securities companies to identify possible violations, deficiencies, and control weaknesses with respect to sales practices, prohibited transactions, safeguarding of customer assets and information, conflicts of interest, accuracy of books and records, net capital requirements, internal control procedures, and overall compliance culture and supervision. Moreover, companies' risk profiles, including internal procedures for monitoring and managing their risks, were also reviewed and discussed for potential

improvements. In addition, in line with its initiative to prevent and deter market abuses, the SEC has included in its broker-dealer examination, program reviews of companies' internal procedures to monitor trading misconducts of clients and client trading limits, as well as proper procedures to handle market rumours, which will continue to be the SEC's focus, ongoing.

Upon conclusion, a number of deficiency letters, in which the SEC ordered securities companies to undertake remedial actions or strengthen their internal or preventive controls, were issued, and 13 serious violations were cited and referred for imposition of fines by the Settlement Committee. Most of the deficiencies that the SEC examiners uncovered in 2004 concerned compliance programs and culture, as well as failure to comply with record keeping requirements, in particular telephone records.

### Special Focus Examination on Unorganised Market Loans in Hat Yai

In response to the media coverage concerning unorganised market loans in Hat Yai, Songkhla Province, in May 2004, the SEC conducted a special focus examination on all 18 brokers in Hat Yai to determine whether they or their marketing officers were involved, and whether the clients' purchasing power or ability to settle their trades had been properly analysed by the brokers before opening trading accounts. The examination is initiated using a self-assessment approach, starting with an issuance of formal letters to alert and request brokers of an investigation and report their findings to the SEC. Upon completion of the examinations, it was found that between January and April 2004 a total amount of 6,800 million baht (approximately USD 170

million) was remitted from other persons to settle securities purchases of various clients of 12 brokers in Hat Yai. The SEC imposed disciplinary penalties on 2 marketing officers on their involvement of unauthorised lending. One marketing officer was temporarily suspended from duty while another was given a warning.

### Administrative Sanction & Establishment of Disciplinary Working Group

To promote good corporate governance within the industry, the SEC has geared its resources towards influencing the behaviour of the senior management level of securities companies. If a serious violation, deficiency, or weakness is found, responsible directors or management involved may also be held liable for failure to supervise/cooperate with regulators, facing a penalty ranging from an administrative sanction (i.e. probationary points assigned under the SEC blacklist system, reprimand in private or in public, temporary or permanent revocation of approval) to a criminal fine. To ensure fair treatment and provide transparency, in August 2004 the SEC set up a Disciplinary Working Group, comprising representatives from the industry; i.e. the ASCO, the Association of Investment Management Companies (AIMC), the Government Pension Fund (GPF), and the SET, to advise the SEC on the types and degrees of administrative sanctions that should be imposed on the wrongdoing directors or management of a securities company. In 2004, upon recommendation of the Director Disciplinary Steering Group, one director of a securities company was assigned probationary points and publicly reprimanded due to his failure to supervise the company and comply with SEC regulations.

## ASSET MANAGEMENT

### OVERVIEW

The asset management industry in Thailand covers mutual fund management, private fund management and provident (pension) fund management. All types of funds have potential growth due to increasing sophistication on the part of investors. In the past, bank deposits have been the preferred investment choice for Thai people. However, with the recent development of various forms of financial products which offer greater return, investors are now much more aware of the choices being offered. Meanwhile, the government has also moved systematically to encourage both the public and the private sectors to migrate towards long-term investments through mutual funds and provident funds by giving tax incentives. This results in an increase of new funds and the number of institutional investors.

In 2004, asset management business continued to grow as follows :

#### Mutual Fund

Mutual funds, excluding the special purpose funds (i.e. Property Fund for Resolving Financial Institutions Problems: Type II Fund, Mutual Fund for Resolving Financial Institutions Problems: Type III Fund, and Properties and Loans Fund: Type IV Fund) and country funds, grew by 10.17% in 2004 with the total net asset value (NAV) of 484.98 billion baht as compared to 440.21 billion baht in 2003. In addition, the number of mutual funds continued to grow from 319 funds in 2003 to 416 by the end of 2004. Those newly set up funds raised funds from the public with the IPO value of 84.17 billion baht or double the IPO value in 2003 (excluding 100.00 billion baht of Vayupak Fund's IPO in 2003). Currently, there are 17 asset management companies (excluding the Thai Trust Fund (TTF)) possessing mutual fund management licenses.



### Private Fund

Private fund management is the management of funds of private clients, the GPF, or Social Security Office (SSO), etc. Private fund management slightly increased in 2004 both in terms of asset size and number of funds. The number of private funds rose by 3.8% from 1,473 funds in 2003 to 1,529 funds in 2004 while the asset size reached 134.75 billion baht in 2004 compared to 121.29 billion baht in the previous year. Of the total 134.75 billion baht, 54.37% was attributed to GPF and SSO while the remainder relates to private client investment. Currently, 5 securities companies, 17 asset management companies, 2 insurance companies, and 5 commercial banks have obtained private fund management licenses.

### Provident Fund

As the registrar of provident funds, the SEC is responsible for a registration of newly set up provident funds and amendments to funds' articles, and also providing advice and opinions concerning the rights of provident funds' members according to the provident fund articles. As of the end of 2004, there were 1,518,955 provident fund members, 6,306 employers, and 556 funds with NAV of 305.46 billion baht registered with the SEC.

### Regulatory Framework

With a view to promoting and ensuring the fairness, efficiency, and transparency of the asset management industry, the SEC requires all types of funds to be managed by professionals with emphasis on standard operating systems, strict anti-fraud rules, and complete information disclosure. Concurrently, asset management companies need to build up confidence among investors in terms of honesty, diligence, and obligation. In addition, investors should be assured that the promises made in prospectuses, marketing materials, and contracts are fairly and honestly fulfilled.

The SEC imposes certain fiduciary obligations on asset management companies which include:

- **Exclusive benefit rule** : a fund manager must discharge his/her duties solely for the interest of the funds and beneficiaries

- **Prudent requirement** : a fund manager must carefully, skillfully, and diligently act in the manner that a person should reasonably act in a like capacity
- **Investment diversification** : a fund manager must diversify a fund's investment so as to manage risk
- **Information disclosures and conflict of interest rules** : a fund manager must comply with the obligations given in fund documents such as prospectuses along with rules to prevent conflict of interest

### Risk Management

In the supervision of asset management companies, the SEC emphasises risk management and internal control. In 2004, the SEC formally adopted the *Risk Based Assessment* (RBA), comprising 4 types of risk factors : (1) customer relationship risk, (2) prudential risk, (3) operational risk, and (4) portfolio management risk. Mapping the assessment of these risks with the level of their potential impact on the market allows the SEC to conduct an effective supervision program.

### Mutual Funds Risk Monitoring

To enhance investor protection and promote greater confidence of investors, the SEC has developed a system to monitor and oversee portfolio management risk of equity funds. In this regard, the criteria will focus on the quality and liquidity of mutual funds' portfolio investments. Moreover, the SEC also issued guidelines concerning liquidity maintenance of fixed income funds and monitoring of liquidity risk in order to evaluate the market circumstances and prevent fund illiquidity situation. Currently, the SEC is in the process of (1) developing a portfolio risk monitoring system for mutual funds which covers market risk, credit risk and liquidity risk, and (2) evaluating the asset management companies' adequacy of risk management processes including market risk, credit risk, liquidity risk, legal risk, and operational risk.

### KEY ACHIEVEMENTS IN 2004

#### Streamlined Rules and Regulations

To reduce the regulatory burden, increase operational flexibility and clarify supervisory objectives, the SEC

streamlined rules and regulations governing asset management businesses (mutual funds, private funds, and provident funds) towards objective-based regulations. This was a departure from the former prescriptive rules while providing clear supervisory objectives and more concrete guidelines as well as taking into account business problems and obstacles.

As investors have different degrees of experience and expertise, the SEC imposed a two-tier regime for authorised mutual funds, based on investor types : retail funds and non-retail funds. Regulatory requirements for retail funds provide more extensive investor protection than those for non-retail funds, while those for non-retail funds are more flexible in investment strategy and operations.

Additionally, the SEC standardised investment policies of authorised mutual funds by dividing them into two major categories : non-specialised funds (i.e. equity fund, fixed income fund, and mixed fund) and specialised funds (i.e. money market fund, guaranteed fund, capital protected fund, and specific fund, etc.). More specific regulatory requirements are applied to the rules governing specialised funds, particularly on fund supervision and information disclosure. Moreover, to ensure standardised products, the same categorisation is applied to the investment policies of private funds for retail investors with a fund size less than 1 million baht, and to provident funds.

To facilitate investment diversification of authorised funds, the SEC considered expanding more types of securities, financial instruments or other financial activities, as well as reviewing their investment limit accordingly. The key principles regarding approval for setting up an authorised fund are (1) risk and investment diversification and (2) quality of funds' own assets.

### Borrowing

To increase financial flexibility and liquidity, the SEC allowed mutual funds to engage in borrowing to finance redemption. The loan obligation must not exceed 10% of NAV and must not exceed 90 days in term.

### Capital Adequacy Maintenance and Professional Indemnity Insurance

To bring greater benefits for investors and increase their confidence while reducing the capital burden on asset management companies, the SEC revised regulations on capital adequacy by requiring asset management companies to maintain a minimum shareholder's equity. Both mutual fund and provident fund management companies are also now required to have an appropriate professional indemnity insurance against error, omission or fraud of their staff.

### Promotion of Long-Term Investment

In an effort to expand the proportion of institutional investors in the Thai capital market as well as to increase public awareness of the importance of long-term investment, which in turn will help improve market stability, the Thai government has granted a tax incentive to investors in "Long Term Equity Funds" (LTF).

LTFs are open-ended equity funds invested mainly in shares listed on the SET. An investment in a LTF is tax deductible up to 15% of total income, with a maximum amount of 300,000 baht. In addition, capital gain from a LTF is tax exempted if an investor holds LTF units for at least 5 calendar years.

Although LTFs were just launched in Q4/2004, they have already received quite a warm response from investors. As of December 31, 2004, there were 22 LTFs with a total NAV of 5,634 million baht.

### Facilitating Product and Market Development Revision of Rules on Custodian of Private Fund

To enhance flexibility and accountability of asset management companies in undertaking custodian business, the SEC revised regulations allowing asset management companies to act as custodians for their managed private funds. To ensure that such companies have sound financial status, they are required to maintain liquid assets of not less than 100 million baht.



Moreover, the revision allows mutual fund supervisors and private fund custodians to outsource their custodian functions to other agents, which in turn will help save management costs. In this regard, mutual fund supervisors and private fund custodians must have proper systems in place to monitor their agents so as to ensure compliance with the rules and regulations. In addition, the agent must already be a mutual fund supervisor or a private fund custodian registered with the SEC, or be a custodian regulated by foreign regulators. Currently, 3 mutual fund supervisors have obtained approval from the SEC to outsource their custodian functions to other agents.

## MOVING FORWARD

### Innovations in the Asset Management Industry

The SEC is always responsive to innovative products which provide alternatives to traditional investments in debt and equity instruments. Regarding the upcoming establishment of the derivatives market in 2005, the SEC will allow the use of derivatives based on financial products. However, any fund which engages in derivatives transactions must at all times limit its liabilities through derivatives to its net assets, thus preventing liabilities from exceeding net assets. In addition, fund managers must disclose and explain the features of such products, including risks, in a way that investors can easily understand.

### Investor Engagement

Before the point of sale, all investors should obtain adequate information made available for them to make an informed investment decision. In addition to the full prospectus that must be available for investors upon request, the SEC has initiated an introduction of a simplified prospectus written in language that is easy to understand. Currently, the SEC is in the process of drafting rules which will require asset management companies to produce prospectuses by adopting the investor-oriented principles. For example, they must follow a Question and Answer format expressed in plain and direct language, use simple sentence construction, and present investment allocation according to the mutual fund policy.

Furthermore, the SEC will improve the quality of post-sale information, for example, the information in semi-annual and annual reports, by requiring appropriate information on the progress of their investment to be provided in a more comprehensible way.

The SEC believes that this directive will provide an appropriate degree of accountability of asset management business, and furnish investors with the information they need to make informed decisions about investment in authorised funds.

### Revision of Benchmark of Authorised Funds

Discussions have taken place among concerned parties regarding the suitability of the present benchmark of authorised funds, i.e. the use of the deposit rate or the ThaiBDC Government Bond Index as benchmark for a fixed income fund, even though the fund may invest in different types and durations of securities compared to the benchmark, or whether there should be a benchmark that reflects the proportion of assets of a mixed fund. To address these concerns, the SEC has established (1) a working group, which has already commenced efforts towards this issue, and (2) disclosure guidelines on the risk-adjusted returns of mutual funds and provident funds.

### Promotion of Good Corporate Governance Among Asset Management Companies

As institutional investors, mutual funds and provident funds can play an important role to encourage the adoption of good corporate governance among listed companies. The SEC is now in the process of developing rules and regulations regarding (1) a code of conduct in terms of proxy voting and information disclosure of such voting, and (2) best practices for funds in their role as shareholders. Funds acting as shareholders must be responsible for voting to ensure that directors of listed companies perform their duties and manage the business in the best interests of shareholders, and they must disclose guidelines of their proxy voting for investors' review.

## Provident Fund Management Supervision

To promote a voluntary retirement saving program for the public, the SEC in 2004 carried out the following initiatives :

### Promotion of Employee's Choice

In an effort to promote the concept of “employee’s choice”, which allows individual provident fund members to choose a suitable investment policy corresponding to their individual risk tolerance and expected returns, instead of a fixed policy decided by the provident fund committee, the SEC introduced this scheme to potential companies, such as banks and SET 50 companies which have a sizeable provident fund portfolio.

Furthermore, the SEC has worked closely with the AIMC in developing a performance disclosure of standardised investment policies. This is aimed at providing adequate information for fund members.

### Education for Provident Fund Members

The educational programs for provident fund members are regarded as an important mechanism to broaden their knowledge, understanding, and legal rights regarding provident funds so as to better protect their benefits. In 2004, the SEC introduced several educational programs for provident fund members as follows :

1. Launched a “45-series CD-ROM” containing basic information about provident funds, which was distributed to provident fund employers for in-house training.
2. Published provident fund articles for dissemination through newspapers, magazines, and websites.
3. Published 2 leaflets targeted at provident fund members and provident fund committees entitled “Tips for Monitoring Provident Fund’s Performance” and “Techniques for Formulating Investment Policy”. These 2 leaflets serve as guidelines for provident fund members and committees in monitoring their fund’s performance as well as formulating suitable investment policies according to their risk tolerance and expected returns.

## Ensuring Quality Services of Provident Fund Administrator

The SEC issued regulations requiring management companies to comply with the SEC’s minimum standards of provident fund administration. The standards are intended to assure the accuracy, completion, and timeliness of provident fund member data, collection of contribution, and payment of accrued benefit to provident fund members.

### Amendment to Provident Fund Act B.E. 2530

The SEC drafted an amendment to the Provident Fund Act B.E. 2530 aimed at resolving current problems and obstacles to provident fund operation. Examples are as follows : (1) to allow provident fund members who terminate their employment with the sponsoring employer to maintain accrued benefits in the fund for the duration specified in the fund article but not less than 90 days, (2) to provide provident fund members with the choice of receiving accrued benefit either as a lump sum or in the form of an income stream (annuity) after retirement, (3) to improve provident fund structure to facilitate “employee’s choice” by setting up the legal framework for a master fund. A master fund may comprise two or more sub-funds each with different investment policy in order to provide members with a choice of investment of their accrued benefits, and (4) to accept the remittance of fund transferred from Government Pension Fund to provident fund.

In this regard, the SEC conducted public hearings and discussions regarding the draft Act through the SEC website during March to April 2004. It is now in the process of taking into consideration suggestions from relevant parties towards the draft Act before proposing it to the MOF for consideration.

Currently, the MOF is considering setting up the mandatory provident fund (MPF) for all employees in the private sector and is working closely with the SEC in building up the MPF Act in line with the Provident Fund Act thereby fostering the efficiency of the retirement saving systems in Thailand.

### Promotion of Good Corporate Governance among Provident Fund Committees

To provide a standard educational program regarding provident fund administration, the SEC appointed a working group to prepare a fundamental course on the roles and responsibilities of provident fund committees. In this connection, the program will be organised for all provident

fund committees periodically by a professional organisation. As planned, the first training program will be launched in the first half of 2005.

The working group consists of representatives from the Association of Provident Funds (AOP), the AIMC, the Thailand Securities Institute (TSI), and the SEC.

## BALANCE

The turning and shaping of clay must be meticulous.



*Water bowls on raised stands made in Benjarong style were uncommon, but the lion design was particularly rare. The two lions guarding a Thepanom (an angel) were repeated in the bowl, the lid and the stand. The full set has also a small drinking cup not shown here. (H 26 cm)*

## TRANSPARENCY

Investors are entitled to adequate and timely information to be able to fully assess possible risks.

## INVESTMENT ADVISER

In supervising professionals who are in direct contact with investors, the SEC in 2004 initiated the following issues : (1) issuing a code of conduct for marketing officers and securities analysts, (2) strengthening information flow in the Thai capital market, and (3) commencing regulatory and supervisory reform. The aim is for investors to be provided with quality information and sound investment advice.

### KEY ACHIEVEMENTS IN 2004

#### Supervision of Securities Analysts

##### Registration of Securities Analysts

To ensure that securities analysts are qualified and exercise due care and diligence by giving their comments or views based on thorough research and facts, in June 2004 the SEC issued regulations which require all securities analysts to be registered with the SEC and to comply with the specified code of conduct. Securities companies must clearly prescribe the qualifications of securities analysts and preventive measures against conflict of interest. As of December 31, 2004, there were 314 registered securities analysts.

##### Securities Analyst Consultative Committee

To ensure transparency and fairness in the execution of disciplinary action, on August 20, 2004 the SEC established the “Securities Analyst Consultative Committee” comprising representatives of securities analysts and institutional investors, namely asset management companies and the GPF. This committee will help to ensure that supervisory procedures imposed on securities analysts are appropriate, by taking account of industry experts’ opinions. In addition, the committee will provide advice to the SEC regarding administrative sanctions in case of malpractice. Following the SEC’s appointment of this committee, 2 cases were forwarded to the committee for consideration.

### Code of Conduct for Securities Analysts

To provide guidelines to securities analysts when giving advice to the investing public via the media, the SEC in cooperation with the SAA and the ASCO issued a code of conduct. In essence, the code stipulates that (1) information used for analysis must be reliable or based upon substantiated facts and referable to the information source; (2) advice given to clients must be based on generally accepted financial theories; (3) non-public price sensitive information must be handled with care to prevent the use of inside information; and (4) conflicts of interest (if any) must be disclosed.

### Securities Analysts Who Provide Information to the Media

To upgrade the quality and reliability of information and advice broadcast through the media, i.e. TV and radio, the SEC has sought cooperation from media managers, producers, and commentators to approach only those qualified securities analysts whose names have been nominated by securities companies.

As of December 31, 2004, there were 144 qualified securities analysts from 33 securities companies who can provide securities analysis or information to the public via the media.



### Tools for Better Access to Information

#### Establishment of Fund Rating Agency (FRA)

To encourage the use of comparative data by investors in making investment decisions on mutual funds, the SEC approved rules to allow an establishment of fund rating agencies (FRA). Limited or public companies incorporated under the Thai or foreign laws can seek approval from the SEC to become a FRA. Approval will be granted to applicants with clear organizational structure, without conflict of interests, having competent and ethical executives and a clear and transparent operational system. This initiative is intended to set a benchmark for high standards in the mutual fund management industry since fund and asset management company ratings naturally influence investors. Currently, there are 2 approved FRAs, namely Reuters (Thailand) Limited and Fitch Ratings (Thailand) Co., Ltd.



### Registered Persons

To help ensure that investors will receive accurate and adequate information about investment including risks and returns, those persons who are in direct contact with investors, namely marketing officers, mutual fund and private fund sales persons, securities analysts, and investment advisors, are required to register with the SEC. Thereafter they are referred to as “registered persons”. Below are highlights of some developments in 2004.

#### Marketing Officer’s Guidelines

To discourage inappropriate activities through the elevation of business practice which in turn extends fairness and quality of service to clients, the SEC in cooperation with the ASCO launched a code of conduct for marketing officers. This code of conduct prescribes the following :

- Marketing officers should provide advice based on their securities companies’ research. In the event that clients require advice or comments relating to securities that are not covered by companies’ own research material, marketing officers, prior to giving advice or comments, must clearly state that such advice or comments are from their personal view and not from their companies’ research.
- Marketing officers must not impart rumours, but conversely, must check facts with the SET or related agencies before informing clients or others. In case of client inquiries concerning rumours, marketing officers should inform their clients that such news has not yet been confirmed and caution them in the event that they want to buy or sell securities based on such rumours.
- Marketing officers must not provide advice to clients in a manner that encourages churning transactions in order to boost their commissions.
- Marketing officers must not reveal information concerning the securities trading of other persons to clients, or use such information to guide clients.
- Marketing officers must not accept clients’ orders that may cause a false market, but should urgently discuss such matters with companies’ executives as a pre-emptive measure.



### Registered Person Structure

The SEC has modified the existing registered person structure. Instead of classification by type of securities (i.e. stock, fixed income securities, mutual fund) offered to investors, the new structure divides registered persons into 2 groups : (1) registered person type A : investment advisers including securities analysts, and (2) registered person type B : sales persons (i.e. marketing officers and mutual fund/private fund sales persons). Following consultations and hearings among related parties over the past year, the SEC has agreed to announce implementation of the new structure in July 2005.

### Educational and Refresher Courses for Registered Persons

Since February 2004, the SEC has recognised the passing of level 1 of Certified Investment and Securities Analyst (CISA) or Chartered Financial Analyst (CFA) as one of the requirements for those persons who are in contact with investors to be qualified as a registered person. Furthermore, the SEC has granted approval to the TSI and the AIMC to organise refresher courses and training programs. In accordance with the new structure of registered persons, the SEC has reviewed these courses and is responsible for defining the examination which will be introduced in mid 2005.

### Strengthening Information Flow in the Thai Capital Market

In an effort to strengthen information flow, in order to cope with the spreading of rumours or misleading information which may cause share price manipulation, the SEC together with related parties has established guidelines requiring actions as follows :

- The SET will closely monitor information disclosure of listed companies. If there is any material rumour, the SET will immediately require such listed companies to clarify through the SET. While awaiting the clarification, the SET will halt trading or post a warning sign on such listed company stocks.
- Listed companies are to have in place systems to prevent leaks and the use of inside information and to clarify facts promptly in case of rumours. If there is any rumour

related to a listed company, such listed company is required to issue a clarification in writing and disseminate such clarification via the SET. If such issue is still under the process of consideration or has not yet reached a conclusion, the listed company must provide facts on the current situation.

- Brokers are to immediately detect/verify rumours that are circulating in the trading rooms and inform the SET in order to seek clarifications from related listed companies without further amplifying unfounded reports.
- Website owners are to block the dissemination of false information with the intention to manipulate share prices. For example, they are urged to develop software to (1) allow only web members to post information, with log-in and password, and (2) filter or search for susceptible keywords and automatically forward such postings to the SEC to enable warning statements to be posted to investors.

The SEC intends that this integrated collaboration will enhance the efficiency of information flow in the capital market thereby increasing investor confidence.

### Limited BDU license

In early 2004, the SEC issued regulations concerning a limited brokerage, dealing and underwriting (limited BDU) license intended to enable mutual fund selling agents (e.g. banks and financial institutions) to provide full services to their clients. Moreover, the same standards in supervising all mutual fund sales activities, whether through asset management companies, brokers, limited BDU licensees, etc., will be applied, for example, the use of an efficient operating system, qualified staff, quality advice, stringent investor protection, and complete information disclosure.

Existing mutual fund selling agents, which now total 21 banks and financial institutions, have already met the requirements as specified. Accordingly, there will be no additional burden for them in changing their status from mutual fund selling agents to limited BDU licensees. In this regard, any mutual fund selling agent wishing to continue this business was required to apply and obtain a limited BDU license by the end of 2004. Currently, 16 out of 21 selling agents are in the process of applying for the limited BDU license.

## Licensing and Registered Persons

In 2004, many applicants applied for investment adviser licenses. Also, an additional 4,581 persons registered with the SEC, making a total of 13,505 registered persons in the system. Details can be summarised as follows :

		No. of Companies (Jan. 1- Dec. 31, 2004)		
<b>Licensing</b>				
No. of investment adviser licenses				1
<b>Approval</b>				
No. of investment adviser reactivate licenses				7
No. of FRAs				2
No. of mutual fund selling agents				3

		No. of Persons		
Approval/Registration	2004	2003	Accumulated Until Dec. 31, 2004	
Equity marketing officers	2,621	1,162	7,122	
Debt marketing officers	166	289	2,435	
Mutual fund sales persons ( <i>investment planners and fundamental guides</i> )	1,364	3,387	8,738	
Private fund sales persons	74	455	1,213	
Investment advisers	42	38	83	
Securities analysts	314	-	314	
<b>Total</b>	<b>4,581</b>	<b>5,331</b>	<b>13,505</b>	

## Disciplinary Sanctions and Appeals

### Administrative Sanctions Imposed on Marketing Officers

In 2004, the SEC imposed administrative sanctions on marketing officers who failed to comply with the SEC's rules and SET's notifications, for instance :

1. Making a decision to buy or sell securities for the client
2. Following the order of a person who is not an account owner or authorised by the client, causing damages to such client
3. Engaging in providing rebates to clients, which are not deemed as benefits customary to services rendered in the normal course of securities business, thus violating the Regulations of the SET Re : Rules and Procedures for Charging Brokerage or Agent's Fees for the Buying or Selling of Listed Securities and Members' Good Corporate Governance
4. Buying or selling securities beyond clients' orders without authorisation causing damages to such clients.



Among cases referred through complaints, securities companies, the SET, and the SEC's own routine examinations, there were 89 instances in which the SEC imposed sanctions as follows :

No. of Revocations	2
No. of Suspensions	19
No. of Probations	37
No. of Reprimands	16
No. of Warnings	<u>15</u>
Total	<u>89</u>

### **Administrative Sanctions Imposed on Securities Analysts**

Following the SEC's routine examination and referral from complaints or securities companies, 14 cases were identified of securities analysts violating the SEC's rules. These cases involved inappropriate behaviour of some analysts or media producers, such as providing unsubstantiated or incomplete information. Among them there were 9 cases where the SEC took further action to issue reprimands or warnings.

## ENFORCEMENT

### PREVENTIVE MEASURES

To ensure efficiency, orderliness, and integrity of securities trading in the market, the SEC's enforcement effort places strong emphasis on preventive action. Several measures have been introduced to prevent unfair trading practices, especially in the area of market manipulation. Under the cooperation between the SEC and the SET, the SET has been designated as a front line regulator, responsible for monitoring of securities trading and detecting of market manipulation.

The SET has in place an automated market surveillance system to detect suspicious transactions as well as a daily procedure for monitoring listed companies' information disclosure. In case that an abnormality in securities trading is found, the SET will conduct a primary investigation together with the implementation of various measures to alleviate over-heated trading. Such measures include the temporary prohibition of members from (1) offsetting the purchasing prices and selling prices of the same securities trading on the same day (net settlement), and (2) providing margin loans to their clients. If any securities trading is found to be abnormal and has a tendency to pose a threat to the entire trading system, the SET will suspend their trading. In addition, if any suspected breach of securities law is found, the SET will refer the matter to the SEC for further in-depth investigation.

The SEC regularly publishes weekly turnover lists report (lists of shares which have high turnover ratio and might lead to an abnormal trading) on its website so as to alert investors and provide risk-management tools for brokers.

To mitigate the effect of rumours, the SEC together with the SET and other relevant organisations set up a system to verify rumours and promptly process a release of factual information to the public. In addition, the SEC seeks cooperation from relevant parties, i.e. listed companies, securities companies and website owners, to help strengthen information flow in the Thai capital market.

## INVESTIGATION

In 2004, after preliminary reviews of possible violation, the SEC conducted 43 official investigations cases. Most cases were related to corporate fraud of the management of issuing companies, insider trading, and market manipulation (details shown in the table I). Of all 43 cases, 10 cases of criminal complaint were filed with inquiry officials, 8 cases required warnings to be issued regarding inappropriate securities trading, and 8 cases were finally closed with no further action, while 17 cases remain under investigation.

The SEC was also active in dealing with unlicensed securities businesses. Towards the end of 2004, following a complaint that a suspected boiler room operation, namely Data Resources Asia Co., Ltd. had undertaken securities businesses without obtaining proper licenses under the SEC Act, the SEC jointly with inquiry officials raided the said company. In this connection, the investigation is still being processed.

Table I

Type of Offence	No. of Investigation Cases
Corporate fraud	13
Insider trading	10
Market manipulation	10
Acquisition of securities for business takeover	2
False account or documents	2
Others	6
<b>Total</b>	<b>43</b>

In addition, the SEC emphasises cooperation with other local and foreign regulators for more efficient supervision and law enforcement, especially with regard to information sharing. In 2004, the SEC sent information both officially and unofficially in approximately 16 cases to foreign regulators as part of their investigations and licensed approvals. Information exchange for further investigations was mostly related to boiler room/cold calling operations.

## ENFORCEMENT ACTIONS

### Criminal Sanctions

Table II Summary of Enforcement Actions as of December 31, 2004

Details	Settlement		No. of Criminal Complaints Filed by SEC	Total No. of Cases
	No. of Cases	Fine Payment (Baht)		
Pending cases at the beginning of the year	-	-	26	30 <sup>1/</sup>
Cases during the year	40	5,275,387.50	4 <sup>2/</sup>	44
Cases ended	40	-	2	45 <sup>1/</sup>
Pending cases at end of year	-	-	28	29 <sup>1/</sup>

Note : <sup>1/</sup> Some cases were split after the complaints had been filed.

<sup>2/</sup> Of all 4 cases filed, mentioned in Table II, 2 cases involved the management of listed company's misappropriating the company's assets or the rightful benefits and preparing financial statements not in accordance with general accepted accounting standards. While, the rests were charged as undertaking securities businesses without obtaining proper licenses and imparting false statements.

**Table III** Details of Criminal Sanctions During 2004  
Breaches of the Securities and Exchange Act B.E. 2535

Details	Filing Complaints	Settlement		Total	%
		No. of Offences	Fine Payment (Baht)		
<b>Securities Business</b>					
<i>Breach of regulations governing</i>					
- Securities brokerage	-	6	1,108,912.50	6	11.76
- Securities dealing	-	-	-	-	-
- Securities underwriting	-	2	136,800.00	2	3.92
- Custody of client's assets	-	4	340,650.00	4	7.84
- Financial requirement	-	2	156,300.00	2	3.92
- Others	-	4	536,900.00	4	7.84
<i>Unlicensed securities businesses</i>	1	-	-	1	1.96
<b>Total</b>	<b>1</b>	<b>18</b>	<b>2,279,562.50</b>	<b>19</b>	<b>37.25</b>
<b>Asset Management Business</b>					
<i>Breach of regulations governing</i>					
- Mutual fund management	-	9	954,900.00	9	17.65
- Private fund management	-	4	877,700.00	4	7.84
- Provident fund management	-	2	224,400.00	2	3.92
<b>Total</b>		<b>15</b>	<b>2,057,000.00</b>	<b>15</b>	<b>29.41</b>
<b>Unfair Securities Trading Practices</b>					
- Imparting false statement	1	-	-	1	1.96
- Insider trading	-	-	-	-	-
- Market manipulation	-	-	-	-	-
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1.96</b>
<b>Issuance and Offering of Securities</b>	-	13	857,225.00	13	25.49
<b>Acquisition of Securities for Business Takeover</b>	-	1	81,600.00	1	1.96
<b>Corporate Fraud</b>	2	-	-	2	3.92
<b>False Accounts and Documents</b>	-	-	-	-	-
<b>Others</b>	-	-	-	-	-
<b>Total</b>	<b>4</b>	<b>47</b>	<b>5,275,387.50</b>	<b>51</b>	<b>100</b>

**Note :** 1. If one case involves multiple allegations, it will be included in all categories listed above.  
2. The data listed above does not reflect the number of subjected persons.

For cases fined by the Settlement Committee, 40 offenders were ordered to pay fines totalling 5,275,387.50 baht, which was submitted to the Ministry of Finance as state revenue.

In 2004, The SEC achieved satisfactory results for the criminal complaints filed previous years, as the Criminal Court convicted defendants in 3 cases. Of these, one case related to an accusation of corporate fraud, whereby 2

defendants were each sentenced to 5-year imprisonment, while the other 2 cases related to unlicensed securities businesses, in which the defendants were sentenced to fines ranging from 100,000 to 200,000 baht and imprisonment ranging from one to two years, with suspended jail sentence. The criminal court's conviction reflects the effectiveness of Thailand's criminal justice administration in bringing wrongdoers to justice.

## DECORATION

Decorating a three-dimensional object demands the highest skill.



## ORDERLINESS

*Benjarong with ancient folklore designs were important because they reflected directly the Thai culture. This was a scene from the great Indian epic, Ramayana. The mermaid Suwanmajcha was courted by Hanuman, the heroic white monkey, and gave birth to Majchanu, a half monkey - half fish character shown here. This bowl was also painted on the interior, which was rare. (H10 cm)*

All capital markets must ensure orderly trading; price manipulation and insider trading erode investors' confidence.

## MARKET

### MARKET SUPERVISION

#### **The Stock Exchange of Thailand (SET)**

The role of the SET as a self-regulatory organisation (SRO) became clearer this year due to the agreement made between the SEC and the SET on December 30, 2003. Following public criticism concerning over-speculation and market manipulation in the second half of 2003, the two organisations agreed that the SET, regarded as the front-line regulator, will be responsible for detecting and preliminary making investigation of price manipulation while the SEC will act as a supervisory body responsible for the eventual prosecution. As a result, in 2004 the SEC conducted 2 on-site inspections on the SET and approved 21 rules and regulations proposed by the SET.

#### **Inspections**

In lights of the national policy to join the Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSCs), where several IOSCO principles including SRO supervision are to be met, during 2004 the SEC conducted 2 inspections on the SET. The first was conducted in January to February 2004, focusing on market surveillance. The second was in August to September 2004, covering all other operations of the SET, including securities listing requirements, information disclosure of listed companies, membership surveillance, trading systems, and disciplinary programs. Generally, the results were satisfactory with only a few minor findings that were addressed and discussed, including the more proactive role of the SET against market rumours.

### Consolidated Efforts to Combat Market Rumours

Since retail investors comprise approximately 70% of the market, and trading volume of investors on a net settlement basis accounts for 20-30% of the total market, market rumours would tend to have significant impact on the Thai stock market, especially in the second half of 2003 and the first half of 2004. The SEC, therefore, took the view that the SET should be more proactive in ensuring timely responses or announcements by listed companies. In the meantime, securities companies are required to put in place in-house procedures for their staff to handle rumours, and to inform the SET if a major impact on the market is expected. Furthermore, the SEC, together with the SET, the MOF, and the BOT, have jointly established a network through which their contact persons are identified and reachable. If rumours relate to the BOT or the MOF including other agencies under their jurisdictions, the SEC will be responsible for coordinating with the BOT or the MOF to seek prompt clarification for the public. If rumours relate to listed companies, the SET will be responsible for contacting the relevant companies for immediate clarification by way of a filing announcement with the SET. While awaiting the filing, the SET will halt trading or post a warning sign on such listed company stocks.

## MARKET DEVELOPMENT

### The New Derivatives Act B.E. 2546

In lights of the Derivatives Act B.E. 2546 (Derivatives Act), which came into effect on January 6, 2004, and a soon-to-be established derivatives exchange (expected to be operative by the year 2005), major developments paving the way for the new market are as follows:

#### Futures Market

Having a derivatives law is just the beginning of the development of a futures market, a priority agenda on Thailand's Capital Market Development Master Plan. The next important step is to establish and launch a futures exchange within the year 2005. A working committee was set up with a mission to scrutinise and advise the SEC on significant policy issues such as products to be launched in the early stages, categories of membership, trading system,

market monitoring and surveillance system, clearing house structure, and margin requirement, etc.

In 2004, the SET established a wholly owned subsidiary, Thailand Futures Exchange PLC (TFEX), to be the operator of the exchange and provided support in terms of resources. TFEX has already submitted a license application to the SEC. In this connection, Thailand Clearing House Co., Ltd. (TCH), in which shares are held by the TSD, a subsidiary of the SET, will be the clearing house for futures trading. TCH has also submitted a license application. TFEX plans to launch equity index futures as its first product in 2005, following by interest rate futures.

To ensure market participants' readiness for the inauguration of the futures market, the SEC issued regulations on licensing and on-going requirements for the futures exchange, clearing house, intermediaries, agents, dealers, advisers, and fund managers under the Derivatives Act as follows :

- Registration of derivatives agents, dealers, and investment advisers who provide services to institutional investors in an OTC market :** In 2004, the SEC issued a notification allowing commercial banks, finance companies, and securities companies to register with the SEC in order to undertake businesses as derivatives agents, dealers, and investment advisers. However, the scope of business was limited solely to institutional investors in the OTC market. In October 2004, another notification was issued to further allow any foreign entity that specialises in derivatives dealing in its home country to apply for registration as a derivatives dealer in Thailand. In doing so, such foreign entity is not required to set up a branch company in Thailand, as long as the same or comparable regulatory standards in its home country are equally applied to its registered dealer in Thailand. As of December 2004, 3 derivatives agents and 12 derivatives dealers have been registered.
- Licensing criteria & code of conduct for broker-dealers :** Under the Derivatives Act, broker-dealers who wish to engage and solicit clients in the futures exchange are required to obtain licenses to perform as derivatives agents. As a result, in December 2004, rules and



regulations on licensing requirements and the code of conduct for derivatives agent licensees were promulgated, including rules and regulations concerning client protection, segregation of client assets, and handling of client orders. These rules and regulations apply to derivatives agents who provide services to both institutional and retail investors, and their scope extends to both OTC and exchange trading. The rules are similar to those for securities brokers, but include additional requirements to address risks that may arise from derivatives businesses, including margin rules, risk disclosure statement, calculation of net capital requirement, and responsible officer, etc.

- **Registration and licensing of derivatives fund management** : The SEC issued regulations concerning the criteria for granting a derivatives fund management license or registration. In this regard, the applicants must put in place a stringent risk management system which can help safeguard their derivatives positions. Currently, 1 asset management company has obtained a derivatives fund management license.
- **Code of conduct for derivatives fund managers** : To provide a framework for undertaking derivatives fund management business properly based on fiduciary duty and duty of care under the acceptable risk of investors, the SEC issued regulations on the code of conduct for derivatives fund management business which uses an objective-base in specifying rules. In this regard, an asset management company, as a fund manager of an authorised fund, which wishes to invest in derivatives products, must obtain a “Derivatives Fund Management License” from the SEC. However, to be eligible for such license, an applicant must have in place an efficient operating system, competent officers with professional skills, and a risk management system.
- **Approval of derivatives fund manager** : To define the qualifications of personnel who are responsible for derivatives fund management, the SEC issued regulations stipulating that such personnel must be approved as mutual fund or private fund managers and have knowledge and skill in derivatives fund management. Applicants wishing to be approved must (1) attend and

pass the examination of a recognised derivatives fund management course, or (2) hold CISA or CFA status, or (3) have at least 3 years’ direct experience in derivatives fund management and have passed the examination in (1).

- **Registration of derivatives marketing officers and analysts** : The SEC drafted principles on the registration of derivatives marketing officers and analysts, and conducted a hearing among practitioners. Currently, rules and regulations are being drafted and expected to be put into effect in July 2005. Consequently, derivatives marketing officers and analysts will be required to pass educational courses and training programs as well as to have relevant experience in derivatives trading or analysis.

In addition to a number of long-term consultancy programs sought from local technical experts and academicians, the SEC has received continual support in the form of technical assistance, advice and training programs pertaining to regulations of derivatives business from both international organisations and foreign securities regulators, namely the International Finance Corporation, HKSFC, and US Commodities Futures Trading Commission.

## Market for Debt Instruments

The government has recognised the need to develop the Thai bond market to become a significant source of fund raising for both public and private sectors. To achieve such goals, apart from stimulating demand through a broadening of the investor base, there is a need for enhancing supply through the frequency and variety of bond issuance. Efficient infrastructure is also essential. Thus, a number of measures to speed up development of the bond market, for example supporting the development of trading facilities, have been incorporated in the Government’s Capital Market Development Master Plan.

## Electronic Trading Platform (ETP)

During the year 2004, interest rates were on an upward trend, resulting in an apparent decline in bond trading, especially corporate bonds. With only a few issues of such bonds having regular quotations, market liquidity thus decreased.

In an effort to improve market liquidity, the SEC encouraged development of necessary market infrastructure, such as an electronic trading platform (ETP).

As most transactions in the bond market are made through negotiation, despite the Bond Electronic Exchange (BEX) having been established in November 2003 to enhance exchange-traded transactions of bonds, electronic trading in corporate bonds is still very thin, accounting only for 1% of total corporate bond trading. In November 2004, the ThaiBDC introduced the ETP with a negotiation feature (iDeal) to accommodate inter-dealer as well as dealer-to-institutional investor markets. The platform also improves accessibility to trading information.

Under the policy statement issued by the SEC in September 2004, ETPs without matching or pre-determined algorithm are classified as non-exchange trading facilities.

### SBL Market

An efficient secondary market requires not only a facilitating trading system, liquidity, and sufficient information for investors, but also risk management tools for players, such as securities borrowing and lending facilities and a financial futures market.

SBL transactions for both debt and equity have been allowed since 1997 but the market has not been functioning efficiently due to a number of obstacles. In an effort to enhance efficiency of the market, the SEC has coordinated with the related parties to stimulate developments in the following areas :

- **Centralised administration system** : SBL transactions at low cost are the key to an efficient market. As such, the SEC has urged the TSD to develop a centralised administration system to facilitate SBL activities and promote the business.
- **Standard SBL agreements** : The SEC has encouraged the TSD to adopt standard legal agreements for SBL transactions so as to simplify the negotiation process between the parties concerned and avoid potential malpractice.
- **Appropriate tax regime** : Although most of the tax problems have been solved, there remain a few issues that need to be addressed by the Revenue Department. All problematic issues, for example, the levy of value added tax (VAT) or specific business tax (SBT) on lending fees, or the tax burden on buy-ins where a default occurs have been gathered by the SEC and submitted to the Revenue Department for solutions.

## INTERNATIONAL COOPERATION

As economies around the world join in the dynamism of globalization, regional integration of capital markets is accelerating in response to increasingly intense competition for capital. Realising that growing linkages between markets bring about not only an opportunity for more capital inflow, savings and investment, but also a threat for the markets in being left behind, Thailand has to strive to maintain her competitive position.

The year 2004 saw the SEC's proactive role in various international forums and work programs, striving towards two major goals. One is to strengthen collaboration among regional authorities for intra-regional market development as well as regulatory enforcement. The other is to confirm the robustness of the Thai market, whereby international standards are implemented and fostered.

The SEC's 2004 achievements in the international arena can be highlighted as follows :

### Promoting Regional Cooperation

#### ASEAN Capital Market Forum (ACMF)

The ACMF was established in order to provide a high-level forum for ASEAN members to discuss capital market issues of common concern. As the host of the forum's first meeting in Bangkok in June 2004, the SEC was actively involved in the initiatives discussed during the meeting which would be further communicated to ASEAN policy makers for strategic decision making in relation to capital market developments. Representatives from 10 ASEAN members participated in the meeting: Brunei, Cambodia, Laos, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Vietnam and Thailand. Topics of discussion included the Asia Bond Mutual Fund Initiative, mutual recognition and

harmonization of standards, exchange and settlement linkages, development of secondary markets for bond trading, the project of ASEAN 100 list of companies, and experience on enforcement and compliance, etc.

### Letter of Intent (LoI) with Hong Kong Securities and Futures Commission

In working towards the promotion of multilateral cooperation, a bilateral collaboration is the very first step. As a demonstration of its commitment to enhance the level of regulatory cooperation with its foreign counterparts, the SEC signed a LoI with HKSFC on November 24, 2004. In signing this LoI, the HKSFC and the SEC join hands in working towards two main objectives : (1) mutual recognition of investment funds authorised in the respective jurisdictions for cross-border distribution, and (2) entering into a revised Memorandum of Understanding.

The LoI is an important step for the HKSFC and the SEC in the area of cross-border trading and supervision of regulated funds. It is hoped that with enhanced communication and harmonization of their respective regulatory regimes, both Hong Kong and Thailand would be able to facilitate the development of deeper and broader investment markets through the trading of mutually recognised funds in each other's market.

## Implementing and Fostering International Standards

### Pilot IOSCO Principles Assessment and Implementation Program (Pilot Program)

The contagious effect of the 1997 crisis on global economic and financial stability and soundness confirmed the great extent of interconnectivity between economies. The ability to contain or reduce potential for crisis became of utmost importance. The World Bank and the IMF thus jointly initiated and conducted the FSAP, whereby the financial sectors of participating jurisdictions would be assessed for their observance of international standards and codes. Any drawbacks in the regulatory systems which could make the economy vulnerable to disruptions would be identified in

the assessment process, with recommendations given for correction and improvement. Thailand decided in 2004 to join the program, in anticipation that such comprehensive assessment would reflect the adequacy of our regulatory frameworks in promoting financial soundness and stability.

In preparation for this assessment on the part of securities regulation, the SEC volunteered to be assessed against IOSCO-adopted standards using the *“Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation”* under the Pilot Program. For the assessment process, IOSCO sent two regional experts to assist in assessing the SEC's level of implementation of IOSCO Principles. The findings indicated that the overall rules and regulations pertaining to securities regulation in Thailand are in line with the international standards. Only a few areas are in need of law amendment, such as improving the efficiency of law enforcement, investigative powers to assist foreign counterparts, and power to supervise the exchange.

Participating in the Pilot Program is of great benefit to the SEC as we were given an opportunity to review our past work with the guidance of experienced peers and to know where we stand against the international standards. The self-assessment enabled us to identify key shortcomings in our legal regime and work procedure and, with expert recommendations, come up with constructive options to deal with them. The Program is a good preparation for the SEC before undergoing the FSAP in the near future.

### IOSCO MMoU

Since May 2002 IOSCO has adopted an international benchmark for multilateral information sharing and enforcement cooperation among securities regulators, the *“IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMoU)”*. The arrangement was initiated after the 911 incident, with a view to strengthening international cooperation to fight illegal securities and derivatives activities.

The SEC fully supports information sharing among regulators and cooperates with requests for assistance whenever possible. In 2004, the SEC provided information in 16 cases to foreign regulators in response to their requests for enforcement-related assistance, covering the issues of licensing and boiler room operations. However, its power to provide investigative assistance to foreign authorities is still limited by law. The SEC is in the preparation process for listing in the transitional section of the IOSCO MMoU provisions (Annex B), in which the listed jurisdictions would commit to arrange for legal authority to fulfil the MMoU requirements. The SEC Board has already passed a

resolution to proceed with the law amendment to remove existing legal obstacles.

As a wide-ranging implementation of the MMoU is of strategic importance to the IOSCO, it was agreed in the IOSCO Asia-Pacific Regional Committee (APRC) meeting in Singapore on November 26, 2004 that APRC members should be encouraged to join the application process to become MMoU signatories, and that a committee be set up to promote the MMoU and assist members in this regard. The SEC accepted an invitation to chair this committee.

## CORPORATE AFFAIRS

### Our Staff

The SEC has discretion over the operational allocation of its resources and recognises the importance of having experienced and skilled staff. In 2004, the SEC employed 375 personnel, of which 67% are line staff and 33% are support staff. As part of their duties, most of the line staff are engaged in enforcement matters, e.g. (1) monitoring persons under supervision to ensure their compliance with rules and regulations, (2) market surveillance, (3) investigation into suspicious or inappropriate activities, and (4) administrative sanctions and criminal actions against wrongdoers. All staff members are well educated and attend ongoing training programs to meet the requirements for core and functional competencies.

To ensure the highest professional standards, the SEC staff code of conduct clearly stipulates requirements concerning avoidance of conflicts of interest, restriction on the use of information obtained in the course of duty, observance of confidentiality and data protection, and of procedural fairness. Senior staff members are prohibited from trading in securities other than government securities and mutual funds. All staff must report trading in securities within 3 days. Failure to observe the staff code may result in administrative sanctions, up to expulsion in severe cases. Several rules have been put into effect, such as staff not being permitted to accept gifts or souvenirs worth more than 3,000 baht, and specific grace periods will be applied to staff that resign and apply for positions in the securities sector, so as to adhere to good practice of a firm and fair regulator.

The SEC has established a process to detect the non-compliance of the above standards. Breaches of confidentiality and information secrecy also carry criminal penalties under the SEC Act.

## Organisation and Staff Development

To meet the SEC's strategic objective of being a high quality organisation equipped with highly competent staff, the ability to manage its manpower requirement, and the capacity to act as a regulator with a good understanding of current and forthcoming business issues in the capital market, the SEC has adopted a performance-driven organisation concept in its strategic approach.

A Performance Management System is deployed whereby the organisation's strategic objectives are defined according to departmental strategic plans, and cascaded down into individual goals. Each staff member is informed by their supervisor of the tasks they are expected to perform in their key result areas. Supervisors will then closely monitor each individual's performance and rigorously provide feedback. The process is regarded as critical to the continuing development of the SEC's staff.

Competencies, the clusters of behaviour, knowledge, technical skills, managerial skills and traits that are important to job success are identified and introduced to staff of all levels and are used as guidelines for performance evaluation, potential assessment and the roadmap for staff development and training programs.

Staff performance is assessed twice yearly and tied to a well-structured reward system.

## Investor Relations

### Investor Education Program

In 2003, the SEC, in collaboration with the Capital Market Development Fund Foundation, the SET, and the AIMC set up a project entitled "Let Your Money Work Through Mutual Funds" with an aim of expanding investor base through mutual funds. The project continued in 2004 and several activities were publicised through TV and radio programs, printed publications, newspaper articles, seminars and exhibitions. These activities fostered understanding of the public and investors with regard to mutual fund investment, risk acceptance parameters and possible returns.

The SEC also actively disseminates basic investment information on the capital market to the public via a variety of media ranging from magazine and newspaper articles,

publications and information booklets to guest lectures and participation in activities organised by other agencies such as "Money Expo 2004", held by Banking and Finance Magazine, and "SET in the City" organised by the SET.

Furthermore, the SEC published its first quarterly English newsletter "Capital Thailand" to disseminate updates and information about corporate governance in the Thai capital market and the SEC's recent achievements, particularly to foreign fund managers, analysts, and investors.

### SEC Help Centre

The SEC Help Centre was formally established in October 2003 with responsibility for handling inquiries and complaints. In 2004, of the total 2,559 inquiries and complaints, there were 742 complaints of which 524 have been concluded while the rest are in process. Most complaints were from individual investors regarding IPO share subscription and allocation, unfair treatment, and misconduct. The SEC takes all cases into consideration and subjects them to a process of clarification and investigation if deemed to be in breach of securities law. As the SEC realises the importance of complaint handling, its Help Centre can be reached via many channels; i.e. by telephone no. (66) 2263-6000, fax no. (66) 2256-7755, e-mail : [complain@sec.or.th](mailto:complain@sec.or.th), or via the SEC website. In addition, the SEC also welcomes any complaints submitted in person and via post.

### Information Dissemination - [www.sec.or.th](http://www.sec.or.th)

The SEC attends to the provision of information both internally and externally. Internally, the SEC is in the process of developing a "One Stop Query" information database for its staff and executives, to provide better access to information crucial to the conduct of its supervisory tasks. Externally, the SEC has restructured its website ([www.sec.or.th](http://www.sec.or.th)) for more accurate, complete and user-friendly information with an efficient search engine. The SEC has also provided on-line services regarding approval, registration, applications, and report submissions, via its website. Moreover, the SEC has encouraged interested persons to become e-subscribers to its news release, quarterly newsletter "Capital Thailand", and operational updates on such subjects as securities issuance and takeover, securities and derivatives businesses, good corporate governance, etc.

## APPENDICES



## CAPITAL MARKET PERFORMANCE 2002-2004

## Securities Offerings Classified by Type

Type of Offerings	Million Baht		
	2002	2003	2004
<b>Equities <sup>1/</sup></b>	<b>66,133</b>	<b>133,047</b>	<b>99,655</b>
<b>Domestic</b>	66,133	133,047	99,655
Initial Public Offerings <sup>2/</sup>	13,906	21,032	37,671
Public Offerings	23,313	67,674	28,325
Directors and Employees	546	1,940	1,570
Private Placements	28,368	42,401	32,090
<b>Overseas</b>	0	0	0
<b>Corporate Debentures <sup>3/</sup></b>	<b>101,074</b>	<b>196,472</b>	<b>144,607</b>
<b>Domestic</b>	98,992	196,472	128,331
Public Offerings	53,373	89,160	92,810
Private Placements	45,619	107,312	35,521
<b>Overseas</b>	2,082	0	16,276
<b>Total</b>	<b>167,207</b>	<b>329,519</b>	<b>244,262</b>

Source : SEC, Thailand

Note : <sup>1/</sup> Including warrants to buy common shares and preferred shares

<sup>2/</sup> Including securities offering to directors and employees concurrent with initial public offering

<sup>3/</sup> Excluding state enterprise bonds

## Statistical Highlights of the Stock Exchange of Thailand

	2002	2003	2004
SET Index <sup>1/</sup>	356.48	772.15	668.10
Total Turnover (฿ mil.)	2,047,442	4,670,281	5,024,399
Daily Average Turnover (฿ mil.)	8,357	18,908	20,508
Turnover Ratio <sup>2/</sup> (%)	103.08	97.50	111.11
Market Capitalization (฿ mil.) <sup>1/</sup>	1,986,236	4,789,857	4,521,895
Number of Listed Companies <sup>1/</sup>	389	407	439
Number of Listed Securities <sup>1/</sup>	471	526	579
P/E Ratio (times) <sup>1/</sup>	6.98	13.65	9.40
P/BV Ratio (times) <sup>1/</sup>	1.36	2.71	2.00
Dividend Yield (%) <sup>1/</sup>	2.72	1.81	2.75

Source : Stock Exchange of Thailand

Note : <sup>1/</sup> At the end of period

$$^2/ \text{Turnover ratio} = \left[ \frac{\text{turnover value}}{\text{market capitalization}} \right] \times 100$$

## Turnover Value of SET Classified by Investor Groups

	2002	2003	2004
			Million Baht
<b>Net Buying Value <sup>1/</sup></b>			
Local Institutional Investors	13,708	19,573	3,089
Local Non-institutional Investors	-28,046	5,036	-8,702
Foreign Investors	14,338	-24,609	5,612
<b>Buying and Selling Value <sup>2/</sup></b>	<b>4,094,885</b>	<b>9,340,563</b>	<b>10,048,799</b>
Local Institutional Investors	218,661	575,417	846,053
Local Non-institutional Investors	2,951,838	7,099,129	7,081,516
Foreign Investors	924,386	1,666,016	2,121,230
<b>Percentage of Buying and Selling Value (%) <sup>3/</sup></b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Local Institutional Investors	5.34	6.16	8.42
Local Non-institutional Investors	72.09	76.00	70.47
Foreign Investors	22.57	17.84	21.11

Source : Stock Exchange of Thailand

Note : <sup>1/</sup> Net buying value = buying value - selling value

<sup>2/</sup> Buying and selling value = buying value + selling value

$$^3/ \text{Percentage of buying and selling value} = \left[ \frac{\text{buying value} + \text{selling value}}{\text{total market buying and selling value}} \right] \times 100$$

## Statistical Highlights of the Thai Bond Dealing Centre

	2002	2003	2004
Government Bond Clean Price Index <sup>1/</sup>	113.17	104.53	101.95
Average Government Bond Yield (%) <sup>1/</sup>	3.31	4.26	4.51
Investment Grade Corp. Bond Clean Price Index <sup>1/</sup>	106.40	103.39	103.03
Average Investment Grade Corp. Bond Yield (%) <sup>1/</sup>	3.52	4.42	4.74
Total Turnover Value (registered) (฿ mil.)	2,130,900	2,577,366	2,944,687
Government Sector	2,054,958	2,392,452	2,854,795
Corporate Sector	75,942	184,914	89,892
Daily Average Turnover Value (registered) (฿ mil.)	8,662	10,435	12,019
Turnover Ratio (%) <sup>2/</sup>	129.50	136.00	122.58
Government Sector	150.54	157.62	141.54
Corporate Sector	27.09	49.02	23.33
Outstanding Value of Registered Securities (฿ mil.) <sup>1/</sup>	1,645,431	1,895,077	2,402,257
Government Sector	1,365,089	1,517,818	2,016,978
Corporate Sector	280,342	377,259	385,279
Number of Registered Securities <sup>1/</sup>	509	586	628
Government Sector	378	441	460
Corporate Sector	131	145	168
Percentage of Turnover Value (%)	100.00	100.00	100.00
Inter Dealers	34.95	26.47	24.02
Dealers to Clients	65.05	73.53	75.98
Non-Dealer License	24.43	21.62	14.48
Contractual Saving Funds	11.42	12.44	12.47
Mutual Funds	13.77	19.93	19.24
Insurance Companies	4.82	4.98	3.18
Others	10.62	14.55	26.61

Source : Thai Bond Dealing Centre

Note : <sup>1/</sup> At the end of period

$$^2/ \text{Turnover Ratio} = \left[ \frac{\text{turnover value}}{\text{outstanding value}} \right] \times 100$$

### Number of Mutual Funds and Net Asset Value <sup>1/</sup> Classified by Investment Policies

Investment Policies	2002		2003		2004	
	Number of Funds	NAV (฿ mil.)	Number of Funds	NAV (฿ mil.)	Number of Funds	NAV (฿ mil.)
<b>General Funds</b>	<b>293</b>	<b>216,463</b>	<b>333</b>	<b>472,091</b>	<b>430</b>	<b>509,015</b>
<b>Local Investment Funds</b>	<b>288</b>	<b>214,273</b>	<b>328</b>	<b>468,350</b>	<b>425</b>	<b>503,784</b>
• <b>Local Funds</b>	<b>274</b>	<b>195,499</b>	<b>314</b>	<b>436,464</b>	<b>411</b>	<b>479,747</b>
<u>Open-end Funds</u>	257	186,568	297	294,398	383	327,750
(1) Equity Funds	92	23,434	94	78,115	126	74,185
General	88	22,275	89	69,512	87	55,950
Special	4	1,159	5	8,603	39	18,235
(2) Fixed Income Funds <sup>2/</sup>	94	92,213	92	92,837	112	109,963
General	61	59,810	59	66,863	57	83,348
Special	33	32,403	33	25,974	55	26,615
(3) Mixed Funds <sup>3/</sup>	71	70,921	110	123,386	144	143,541
General	32	13,511	43	36,650	107	86,277
Special	39	57,411	67	86,735	37	57,264
(4) Funds of Funds	0	0	1	60	1	62
Special	0	0	1	60	1	62
<u>Closed-end Funds</u>	17	8,931	17	142,066	28	151,997
(1) Equity Funds	6	3,282	4	4,436	5	3,807
General	5	2,188	3	3,398	4	3,783
Special	1	1,095	1	1,038	1	25
(2) Fixed Income Funds <sup>2/</sup>	2	722	0	0	9	5,920
General	2	722	0	0	0	0
Special	0	0	0	0	9	5,920
(3) Mixed Funds <sup>3/</sup>	8	4,156	10	134,800	12	140,291
General	2	2,102	4	129,963	3	132,650
Special	6	2,054	6	4,837	9	7,641
(4) Funds of Funds	1	771	1	965	0	0
Special	1	771	1	965	0	0
(5) Property Fund for Public (Type I Fund)	0	0	2	1,865	2	1,979
Specified	0	0	1	1,004	1	966
Non-specified	0	0	1	861	1	1,013

Source : SEC, Thailand

Note : <sup>1/</sup> Excluding mutual funds being liquidated and Thai Trust Funds

<sup>2/</sup> Including fixed income funds, short-term fixed income funds, and money market funds

<sup>3/</sup> Including balance funds and flexible portfolio funds

**Number of Mutual Funds and Net Asset Value <sup>1/</sup> Classified by Investment Policies (Continued)**

Investment Policies	2002		2003		2004	
	Number of Funds	NAV (฿ mil.)	Number of Funds	NAV (฿ mil.)	Number of Funds	NAV (฿ mil.)
● <b>Country Funds</b>	<b>14</b>	<b>18,773</b>	<b>14</b>	<b>31,886</b>	<b>14</b>	<b>24,037</b>
<u>Open-end Funds</u>	6	6,612	6	7,426	6	5,538
(1) Equity Funds	4	3,504	4	4,792	4	2,663
(2) Fixed Income Funds <sup>2/</sup>	1	2,940	1	2,434	1	2,601
(3) Mixed Funds <sup>3/</sup>	1	168	1	201	1	274
<u>Closed-end Funds</u>	8	12,161	8	24,460	8	18,499
(1) Equity Funds	8	12,161	8	24,460	8	18,499
<b>Foreign Investment Funds</b>	<b>5</b>	<b>2,190</b>	<b>5</b>	<b>3,741</b>	<b>5</b>	<b>5,232</b>
● <b>Local Funds</b>	<b>5</b>	<b>2,190</b>	<b>5</b>	<b>3,741</b>	<b>5</b>	<b>5,232</b>
<u>Open-end Funds</u>	5	2,190	5	3,741	5	5,232
(1) Equity Funds	1	505	1	832	1	1,936
General	1	505	1	832	1	1,936
(2) Fixed Income Funds <sup>2/</sup>	1	433	1	1,330	1	915
Special	1	433	1	1,330	1	915
(3) Funds of Funds	3	1,252	3	1,578	3	2,381
Special	3	1,252	3	1,578	3	2,381
<b>Special Funds</b>	<b>77</b>	<b>250,332</b>	<b>99</b>	<b>255,123</b>	<b>93</b>	<b>173,608</b>
<u>Closed-end Funds</u>	77	250,332	99	255,123	93	173,608
(1) Property Fund for Resolving Financial Institutions Problems (Type II Fund)	28	45,637	28	46,735	26	43,549
(2) Mutual Fund for Resolving Financial Institutions Problems (Type III Fund)	17	163,572	16	140,866	13	41,301
(3) Properties and Loans Funds (Type IV Fund)	32	41,123	55	67,522	54	88,758
<b>Total</b>	<b>370</b>	<b>466,795</b>	<b>432</b>	<b>727,214</b>	<b>523</b>	<b>682,623</b>

Source : SEC, Thailand

Note : <sup>1/</sup> Excluding mutual funds being liquidated and Thai Trust Funds<sup>2/</sup> Including fixed income funds, short-term fixed income funds, and money market funds<sup>3/</sup> Including balance funds and flexible portfolio funds

## Asset Management Business

Types	2002		2003		2004	
	Number of Funds	NAV (฿ mil.)	Number of Funds	NAV (฿ mil.)	Number of Funds	NAV (฿ mil.)
Mutual Funds <sup>1/</sup>	279	197.69	319	440.21	416	484.98
Private Funds	1,436	89.04	1,473	121.29	1,529	134.75
Provident Funds	594	244.82	575	287.33	556	305.46

Source : SEC, Thailand

Note : <sup>1/</sup> Excluding Type II, type III, Type IV Funds and Country Funds

## APPELLATE COMMITTEE

To consider the appeal of persons who are not satisfied with the decisions or orders of the SEC under the SEC Act.

### Comprise :

- |                               |                  |
|-------------------------------|------------------|
| 1. Mr. Kovit Poshyananda      | Chairman         |
| 2. Mr. Sommai Phasee          | Committee Member |
| 3. Mr. Suphachai Phisitvanich | Committee Member |
| 4. Mr. Somchai Richupan       | Committee Member |
| 5. Khun Pornthip Jala         | Committee Member |
| 6. Prof. Kesree Narongdej     | Committee Member |

## SUB-COMMITTEES

### Sub-committee on Consideration of the Amendment to Provident Fund Act

**Objective :**

To study, analyse and advise on the amendment to the Provident Fund Act for more appropriateness and in accordance with international standards as well as to formulate action plan of the amendment.

**Comprise :**

- |   |                             |
|---|-----------------------------|
| 1. Mr. Panas Simasathien  | Chairman                    |
| 2. Representative from Fiscal Policy Office                           | Sub-committee               |
| 3. Representative from Government Pension Fund                        | Sub-committee               |
| 4. Representative from Association of Investment Management Companies | Sub-committee               |
| 5. Representative from Association of Provident Fund                  | Sub-committee               |
| 6. Representative from Custodian Club                                 | Sub-committee               |
| 7. Director, Investment Management Supervision Department, SEC        | Sub-committee and Secretary |

*Appointed on July 9, 2002 and term lasts until the conclusion on amendment to the Provident Fund Act is reached.*

### Sub-committee on Consideration of Guidelines for Supervising Debt Instrument Market and Electronic Trading Platform

**Objective :**

To consider and advise the SEC on supervising debt instrument market and persons providing electronic trading platform as well as to determine requirements for issuance of license to person wishing to provide such service.

**Comprise :**

- |  |                             |
|--|-----------------------------|
| 1. Mr. Vasant Thienhom   | Chairman                    |
| 2. Representative from Stock Exchange of Thailand  | Sub-committee               |
| 3. Representative from Thai Bond Dealing Centre<br>(2 persons of which one is representative of dealers) | Sub-committee               |
| 4. Representative from Association of Securities Companies   | Sub-committee               |
| 5. Representative from Association of Investment Management Companies                                    | Sub-committee               |
| 6. Director, Research Department, SEC  | Sub-committee and Secretary |

*Appointed on May 1, 2003 and term from February 4, 2003 to February 3, 2005.*



**Sub-committee on Consideration of Draft Notifications Concerning Issuance and Offering of Equity Instruments**

## Objective :

To consider draft notifications concerning issuance and offering of equity instruments and other securities which are not considered by any sub-committees.

## Comprise :

1. Mr. Viroj Nualkhair *	Chairman
2. Representative from Stock Exchange of Thailand	Sub-committee
3. Representative from Listed Companies Association	Sub-committee
4. Representative from Association of Securities Companies (Investment Banking Club)	Sub-committee
5. Representative from Thai Investors Association	Sub-committee
6. Mrs. Pataraporn Milinthsut	Sub-committee
7. Director, Corporate Finance Department, SEC	Sub-committee and Secretary

*Appointed on March 4, 2004 and serving term from February 15, 2004 to February 14, 2006.*

*\* Resigned from the SEC on February 16, 2005*

**Sub-committee on Consideration of Draft Notifications Concerning Issuance and Offering of Debt Instruments**

## Objective :

To consider draft notifications concerning issuance and offering of debt instruments.

## Comprise :

1. Mr. Prasong Vinaiphath	Chairman
2. Representative from Thai Bond Dealing Centre	Sub-committee
3. Representative from Government Pension Fund	Sub-committee
4. Representative from Thai Banks' Association	Sub-committee
5. Representative from Foreign Banks' Association	Sub-committee
6. Representative from Listed Companies Association	Sub-committee
7. Director, Corporate Finance Department, SEC	Sub-committee and Secretary

*Appointed on March 4, 2004 and serving term from February 15, 2004 to February 14, 2006.*

### Sub-committee on Consideration of Draft Notifications Concerning Issuance and Offering of Derivatives

Objective :

To consider draft notifications concerning issuance and offering of derivatives.

Comprise :

- |   |                             |
|---|-----------------------------|
| 1. Mr. Prasong Vinaiphath   | Chairman                    |
| 2. Representative from Stock Exchange of Thailand                                       | Sub-committee               |
| 3. Representative from Association of Securities Companies<br>(Investment Banking Club) | Sub-committee               |
| 4. Representative from Association of Securities Companies                              | Sub-committee               |
| 5. Representative from Thai Banks' Association  | Sub-committee               |
| 6. Representative from Foreign Banks' Association                                       | Sub-committee               |
| 7. Director, Corporate Finance Department, SEC  | Sub-committee and Secretary |

*Appointed on March 4, 2004 and serving term from February 15, 2004 to February 14, 2006.*

### Sub-committee on Consideration of Notifications Concerning Business Take-overs

Objective :

To consider and amend notifications concerning business take-overs and other related regulations.

Comprise :

- |   |                             |
|---|-----------------------------|
| 1. Mr. Prasong Vinaiphath                         | Chairman                    |
| 2. Representative from Stock Exchange of Thailand | Sub-committee               |
| 3. Representative from Investment Banking Club    | Sub-committee               |
| 4. Mr. Tithiphan Chuerboonchai                    | Sub-committee               |
| 5. Mr. Korn Chatikavanij *                        | Sub-committee               |
| 6. Mr. Weerawong Chittmittrapap                   | Sub-committee               |
| 7. Director, Corporate Finance Department, SEC    | Sub-committee and Secretary |

*Appointed on July 21, 2004 and serving term from June 1, 2004 to May 31, 2006.*

*\* Resigned from the Sub-committee on March 21, 2005*

## Sub-committee on Takeover (Takeover Panel)

### Objective :

To consider and make decision on the waiving and ordering regarding tender offer, tender offer price, and any matters essential for protection of investors as well as to advise the SEC on tender offer.

### Comprise :

#### *Category 1 : Chairman of Takeover Panel*

1. Mr. Panas Simasathien
2. Mr. Sompol Kiatphaibool
3. Mr. Vasant Thienhom

#### *Category 2 : Financial experts as Sub-committee*

1. Mrs. Kanitha Subpa-Asa
2. Mr. Tanate Phutrakul
3. Dr. Varapol Socatayanurak
4. Mr. Veravat Chutichetpong
5. Professor Dr. Anya Khanthavit

#### *Category 3 : Legal experts as Sub-committee*

1. Mrs. Kulkanist Khamsirivatchara
2. Mr. Charin Satchayan
3. Mr. Thanathip Pichedvanichok
4. Mr. Somboon Kitiyansub
5. Mr. Surasak Vajasit

#### *Category 4 : Representative of the SEC as Sub-committee and Secretary*

1. Director, Corporate Finance Department
2. Director, Legal Department

*Appointed on December 22, 2004 and serving term from January 1, 2005 to December 31, 2006.*

### Sub-committee on Consideration of Draft Notifications on Supervision of Securities Businesses

Objective :

To consider draft notifications concerning securities business supervision which are not considered by any sub-committees.

Comprise :

- |  |                             |
|--|-----------------------------|
| 1. Mr. Viroj Nualkhair *   | Chairman                    |
| 2. Representative from Stock Exchange of Thailand  | Sub-committee               |
| 3. Representatives from Association of Securities Companies  | Sub-committee               |
| 4. Representatives from Thai Investors Association   | Sub-committee               |
| 5. Representative from Association of Investment Management Companies  | Sub-committee               |
| 6. Representative from Securities Analysts Association   | Sub-committee               |
| 7. Director, Investment Adviser Supervision Department or<br>Director, Broker-Dealer Supervision Department, SEC | Sub-committee and Secretary |

*Appointed on December 22, 2004 and serving term from January 1, 2005 to December 31, 2006.*

*\* Resigned from the SEC on February 16, 2005*

### Sub-committee on Consideration of Draft Notifications Concerning Investment Management Business

Objective :

To consider and advise on draft notifications concerning criteria, conditions and procedures for establishment and management of mutual fund, and management of private fund including any other related notifications, but excluding rules relating to investment units salespersons and private fund representatives.

Comprise :

- |   |                             |
|---|-----------------------------|
| 1. Mr. Sompol Kiatphaibool  | Chairman                    |
| 2. Representative from Association of Investment<br>Management Companies  | Sub-committee               |
| 3. Representative from Mutual Fund Supervisors  | Sub-committee               |
| 4. Representative from Thai Investors Association<br>or Representative from Association of Provident Fund<br>(if the meeting concerns provident fund)   | Sub-committee               |
| 5. Ms. Suvabha Charoenying<br>or Dr. Pornanong Boosrarakoon<br>(if the meeting concerns Investment Derivatives Mutual Fund and Private Fund)<br>or Mrs. Jittaporn Sriboonjit<br>(if the meeting concerns Property Fund) | Sub-committee               |
| 6. Mr. Siriwat Voravetvuthikun  | Sub-committee               |
| 7. Director, Investment Management Supervision Department, SEC  | Sub-committee and Secretary |

*Appointed on December 22, 2004 and serving term from January 1, 2005 to December 31, 2006.*

## Legal Sub-committee

### Objective :

To consider and advise the SEC on criminal proceedings against offenders under the SEC Act and other laws as well as consider other legal issues relating to law enforcement and legal proceedings.

### Comprise :

- |  |               |
|--|---------------|
| 1. Mr. Prasit Kovilaikool  | Chairman      |
| 2. Khun Pornthip Jala<br>Secretary-General, Office of the Council of State   | Sub-committee |
| 3. Pol. Gen. Sombat Amornviwat<br>Director-General, Department of Special Investigation                                | Sub-committee |
| 4. Pol. Gen. Amnuey Peshsiri<br>Deputy Commissioner-General,<br>Office of the Commissioner-General , Royal Thai Police | Sub-committee |
| 5. Mr. Chaikasem Nitisiri<br>Deputy Attorney General, Office of the Attorney General                                   | Sub-committee |
| 6. Mr. Prosong Vinaiphath<br>Deputy Secretary General, SEC   | Sub-committee |
| 7. Mr. Arkabus Kraitriksh<br>Senior Director Litigation Group, Bank of Thailand  | Sub-committee |

*Appointed on December 22, 2004 and serving term from December 22, 2004 to December 21, 2006.*

## OTHER COMMITTEE AND STEERING GROUPS

### Derivatives Exchange Development Committee

#### Objective :

To formulate guidelines in developing derivatives exchange, establish a development company who will set up derivatives exchange, as well as manage and monitor performance of development company. In addition, the Committee will be responsible for proposing other regulators on amendment of rules that might be obstacle to the development of derivatives exchange, and formulating guideline to promote education on derivatives among business operators, investors, and the public.

#### Comprise :

1. Mr. Viroj Nualkhair *	Chairman
2. Mr. Thirachai Phuvanatanarubala	Committee
3. Mr. Prasarn Trairatvorakul	Committee
4. Mr. Prasong Vinaiphath	Committee
5. Mrs. Tipsuda Thavaramara	Committee
6. Mrs. Banthornchome Kaewsa-ard	Committee
7. Mrs. Tongurai Limpiti	Committee
8. Mrs. Rinjai Chaiyasut	Committee
9. Mrs. Kesara Manchusree	Committee
10. Mr. Piyapan Tayanithi	Committee
11. Mr. Somjin Sornpaisarn	Committee
12. Mr. Yingyong Nilasena	Committee
13. Mr. Banyong Pongpanich	Committee
14. Professor Dr. Anya Khanthavit	Committee
15. Mr. Satit Rungkasiri	Committee
16. Mr. Kittipun Anutarasoti	Committee

*Appointed on July 16, 2003*

*\* Resigned from the SEC on February 16, 2005*

### Accounting and Governance Steering Group

**Objective :**

To provide opinions and advice to the SEC in monitoring the accounting practices and preventing siphoning benefit out of listed companies including their preparation of independent auditor's report.

**Comprise :**

1. Mr. Thirachai Phuvanatanarubala	Chairman
2. Mr. Kiattisak Jelatianranat	Member
3. Mr. Vorapol Socatayanurak	Member
4. Mr. Suthichai Chitvanich	Member
5. Mr. Pongpat Riangkruar	Member
6. Representative from Department of Business Development, Ministry of Commerce	Member
7. Representative from the Federation of Accounting Professions	Member
8. SEC Assistant Secretary-General	Secretary
9. Director, Accounting Supervision Department, SEC	Assistant Secretary

*Appointed on October 6, 2004*

### Director Disciplinary Steering Group

**Objective :**

To provide recommendations to the SEC with regard to promotion of good corporate governance among listed company directors to ensure that they perform their roles and run the businesses in the best interest of shareholders and companies. The steering group will also give advice to the SEC regarding the level of administrative sanctions to be imposed on the wrongdoers in the event of malpractice of listed company directors and management.

**Comprise :**

1. Mr. Sompol Kiatphaibool	Chairman
2. Mr. Prasong Vinaiphath	Member
3. Mr. Kanit Na Nakorn	Member
4. Ms. Sopawadee Lertmanaschai	Member
5. Prof. Kesree Narongdej	Member
6. Mr. Machima Kunjara Na Ayudhya *	Member
7. Mr. Charnchai Charuvastr	Member
8. SEC Assistant Secretary-General	Secretary
9. Director, Enforcement Department, SEC	Assistant Secretary

*Appointed on November 30, 2004*

*\* Resigned from the Steering Group on March 21, 2005*

## ARBITRATORS

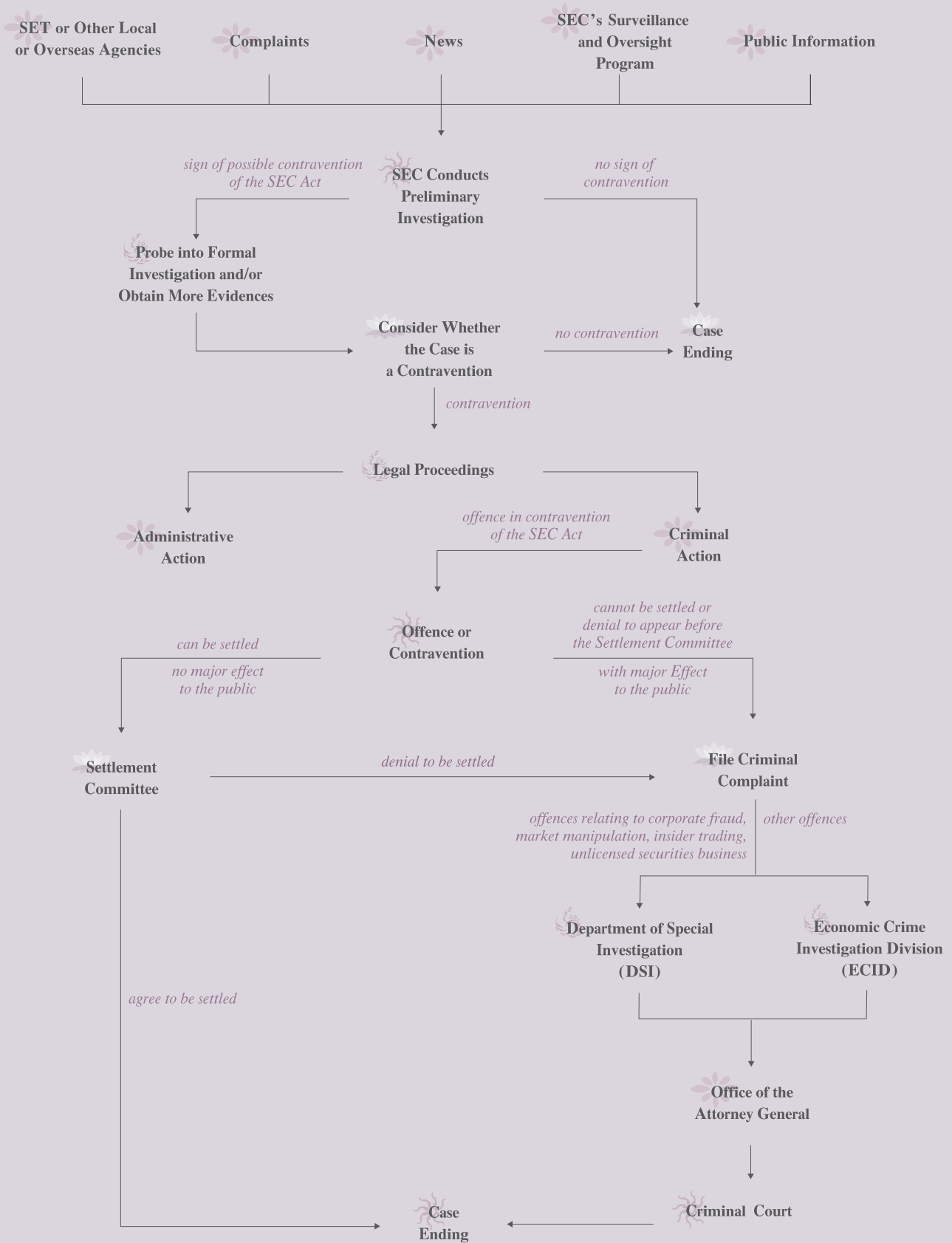
List of qualified persons who act as arbitrators in arbitration procedure to settle the dispute between the parties of investors (clients) and securities business intermediaries for the breach of contract or non-compliance with securities law or provident fund law.

### Comprise :

1. Assoc. Prof. Gasinee Witoonchart
2. Mr. Chaikasem Nitisiri
3. Mr. Chaicharn Wibunsin
4. Mr. Tawat Ananthothai
5. Asst. Prof. Tithiphan Chuerboonchai
6. Ms. Nawaporn Ruangsakul
7. Mr. Burin Kantabutra
8. Assoc. Prof. Prasit Kovilaikool
9. Asst. Prof. Dr. Patcharavalai Jayapani
10. Mr. Punlop Pisitsungkakarn
11. Assoc. Prof. Phijaisakdi Horayangkura
12. Assoc. Prof. Dr. Paiboon Sareewiwatthana
13. Dr. Maruey Phadoongsidhi
14. Prof. Dr. Warapatr Todhanakasem
15. Assoc. Prof. Wai Chamornmarn
16. Assoc. Prof. Dr. Somjai Phagaphasvivat
17. Mr. Suvicha Mingkwan
18. Mr. Athueck Asvanund
19. Assoc. Prof. Dr. Anan Chantara-Opakorn



**PROCEDURE FOR INVESTIGATION OF  
POSSIBLE CONTRAVENTIONS OF THE SEC ACT  
AND CRIMINAL ACTION**







## **Financial Statements**

Securities and Exchange Commission, Thailand  
For the Years Ended December 31, 2004 and 2003

**Office of the Auditor General**  
(Unofficial Translation)

## REPORT OF AUDITORS

### To the Minister of Finance

The Office the Auditor General has audited the balance sheet as of December 31, 2004 and 2003, the statement of revenues and expenses, and the statement of cash flows for each year then ended of the Securities and Exchange Commission, Thailand (SEC). These financial statements are the responsibility of the SEC's management as to their correctness and completeness of the presentation. The responsibility of the Office of the Auditor General is to express an opinion on these financial statements based on its audits.

The Office of the Auditor General conducted the audits in accordance with generally accepted auditing standards. Those standards require that the Office of the Auditor General plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the SEC's management as well as evaluating the overall financial statement presentation. The Office of the Auditor General that the audits provide a reasonable basis for the opinion.

In the opinion, the aforementioned financial statements present fairly in all material respects, the SEC's financial position as at December 31, 2004 and 2003 as well as the results and cash flows for each year then ended, in conformity with generally accepted accounting principles.

(Mrs. Watcharee Siriprasert)  
Director of Audit Office

(Ms. Sirikul Jandee)  
Auditor In-charge

## SECURITIES AND EXCHANGE COMMISSION, THAILAND

## BALANCE SHEET

*As of December 31, 2004 and 2003*

			unit : baht	
ASSETS	Note	2004	2003	
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		32,501,468.62	77,013,787.88	
Short-term investments	3,6	2,554,539,149.10	2,189,124,255.23	
Advances		2,273,299.68	2,147,870.12	
Accrued revenues	4	129,115,555.93	25,726,988.85	
Other current assets		1,538,913.25	2,850,050.34	
Total current assets		2,719,968,386.58	2,296,862,952.42	
<b>NON-CURRENT ASSETS</b>				
Loans to employees		10,051,990.35	5,558,211.00	
Long-term investments	5,6	399,984,138.30	689,979,885.70	
Property, premises, and equipment - net	7	40,913,380.15	31,529,082.08	
Intangible assets	8	14,286,178.45	20,596,843.61	
Other assets		8,294,741.08	8,203,741.08	
Total non-current assets		473,530,428.33	755,867,763.47	
TOTAL ASSETS		3,193,498,814.91	3,052,730,715.89	

*The accompanying notes are an integral part of the financial statements.*

## SECURITIES AND EXCHANGE COMMISSION, THAILAND

## BALANCE SHEET

*As of December 31, 2004 and 2003*

			unit : baht		
LIABILITIES AND FUNDS	Note	2004	2003		
CURRENT LIABILITIES					
Accounts payable		43,431,404.62	25,825,631.09		
Unearned revenue	9	21,175,000.00	43,750,000.00		
Payable - The Revenue Department		3,384,199.58	11,908,454.53		
Other current liabilities		14,725,590.49	9,803,628.55		
Total current liabilities		82,716,194.69	91,287,714.17		
NON-CURRENT LIABILITIES					
Provisions	10	10,501,655.50	10,501,655.50		
Other liabilities		178,038.25	128,324.00		
Total non-current liabilities		10,679,693.75	10,629,979.50		
Total liabilities		93,395,888.44	101,917,693.67		
CAPITAL MARKET DEVELOPMENT FUND	11	659,296,014.99	578,214,025.87		
FUND					
Initial fund		1,250,532,337.10	1,250,532,337.10		
Capital from contribution		1,090,700.00	1,090,700.00		
Reserve for a permanent office building	12	237,847,729.10	173,781,650.29		
General reserve	13	704,578,968.51	579,578,968.51		
Revenues over expenses		223,253,202.36	189,066,078.81		
Unrealised gain	14	23,503,974.41	178,549,261.64		
Total fund		2,440,806,911.48	2,372,598,996.35		
TOTAL LIABILITIES AND FUNDS		3,193,498,814.91	3,052,730,715.89		

*The accompanying notes are an integral part of the financial statements.*

(Mr. Thirachai Phuvanatanarubala)  
Secretary-General

(Mr. Saengsiri Sirisansneeyawongse)  
Director, Finance and Administration Department

SECURITIES AND EXCHANGE COMMISSION, THAILAND  
STATEMENT OF REVENUES AND EXPENSES

*For the Years Ended December 31, 2004 and 2003*

	Note	2004	2003
unit : baht			
<b>REVENUES</b>			
Fee income		367,195,081.19	297,468,240.61
Information service income		346,622.52	657,977.06
Interest income		580,229.46	446,349.62
Investment income	15	153,903,883.41	204,444,895.66
Contribution from the SET		150,000,000.00	90,000,000.00
Other income		1,467,145.66	2,219,158.16
Total revenues		673,492,962.24	595,236,621.11
<b>EXPENSES</b>			
Human resources expenses		347,434,649.38	302,195,053.29
Administrative expenses		98,946,558.66	100,062,313.42
The SEC and sub-committees remuneration		3,858,551.84	3,913,175.59
Total expenses		450,239,759.88	406,170,542.30
<b>REVENUES OVER EXPENSES</b>		<b>223,253,202.36</b>	<b>189,066,078.81</b>

*The accompanying notes are an integral part of the financial statements.*

## SECURITIES AND EXCHANGE COMMISSION, THAILAND

## STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2004 and 2003

	unit : baht	
	2004	2003
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Revenues over expenses	223,253,202.36	189,066,078.81
Adjustments to reconcile revenues over (under) expenses to net cash from (used in) operating activities		
Depreciation and amortisation	23,266,148.07	22,361,813.49
Gain from sales of assets	(793,369.94)	(1,020,644.20)
Amortisation of premium on bond purchase	(4,252.60)	535,165.27
Accrued revenues increase	(103,388,567.08)	(2,079,678.07)
Accrued expenses increase	4,772,044.30	3,127,600.78
Prepaid expenses decrease (increase)	1,434,127.12	(1,508,646.06)
Unearned revenues decrease	(22,575,000.00)	(11,400,000.00)
Cash from operating activities before changing in operating assets and liabilities	125,964,332.23	199,081,690.02
Operating assets (increase) decrease		
Advances	(125,429.56)	288,920.11
Accounts receivable - others	(83,394.11)	(140,991.86)
Accounts receivable - employees	(5,213.94)	(1,746.64)
Loans to employees	(4,493,779.35)	(2,007,628.50)
Accounts receivable - suspend	89,119.81	1,382,796.50
Suspended input VAT	(123,501.79)	(27,772.99)
Accounts receivable - contract deposit	(91,000.00)	
Operating liabilities increase (decrease)		
Accounts payable - general	17,605,773.53	823,598.66
Accounts payable - employees	10,000.00	(22,501.00)
VAT relevance payable	(2,348,561.90)	(37,266.06)
Withholding tax payable	(6,175,693.05)	571,667.39
Returned advances	139,917.64	(305,728.92)
Accounts payable - suspend	-	(515.00)
Accounts payable - contract deposit	49,714.25	57,087.00
<b>Net cash from operating activities</b>	<b>130,412,283.76</b>	<b>199,661,608.71</b>



## SECURITIES AND EXCHANGE COMMISSION, THAILAND

## STATEMENT OF CASH FLOWS

*For the Years Ended December 31, 2004 and 2003*

	unit : baht	
	2004	2003
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed deposit - employee benefits decrease	11,889,784.56	953,556.90
Investment in private fund increase	(174,405,682.76)	(190,799,878.23)
Fixed deposit decrease	360,000,000.00	130,000,000.00
Promissory notes increase	(215,000,000.00)	(305,000,000.00)
Treasury bills increase	(123,750,811.60)	-
Bonds (increase) decrease	(89,193,471.30)	20,000,000.00
Leasehold improvement increase	(189,230.00)	(69,052.80)
Furniture and fixtures increase	(325,321.80)	(549,145.60)
Office equipment increase	(11,020,294.37)	(3,742,398.60)
Vehicles increase	(14,489,801.87)	(10,665,000.00)
Vehicles parts increase	-	(5,500.00)
Software license fee increase	(361,763.00)	(3,490,150.00)
Income from disposal of assets	840,000.00	1,020,654.20
<b>Net cash from investing activities</b>	<b>(256,006,592.14)</b>	<b>(362,346,914.13)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Capital Market Development Fund increase	81,081,989.12	131,127,636.36
<b>Net cash from financing activities</b>	<b>81,081,989.12</b>	<b>131,127,636.36</b>
<b>NET CASH AND CASH EQUIVALENTS INCREASE (DECREASE)</b>	<b>(44,512,319.26)</b>	<b>(31,557,669.06)</b>
Cash and cash equivalents as of January 1	77,013,787.88	108,571,456.94
Cash and cash equivalents as of December 31	32,501,468.62	77,013,787.88

SECURITIES AND EXCHANGE COMMISSION, THAILAND

## NOTES TO FINANCIAL STATEMENTS

*For the Years Ended December 31, 2004 and 2003*

### 1. GENERAL INFORMATION

The SEC was established on May 16, 1992 under the SEC Act B.E. 2535. Its responsibilities are to supervise and develop the Thai capital market in the following areas :

- Issuance and public offering of securities
- Securities businesses and related businesses
- Securities exchange, over-the-counter centre, and institutions related to securities businesses
- Acquisition of securities for business take-overs
- Prevention of unfair securities trading practices

The SEC is located on the 10<sup>th</sup> and 13<sup>th</sup> - 16<sup>th</sup> Fl. Diethelm Towers B, 93/1 Wireless Road, Lumpini, Patumwan, Bangkok 10330, Thailand.

As of December 31, 2004 and 2003, the SEC has 375 and 391 employees respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Accounting policies used in preparing financial statements

The SEC's financial statements have been prepared in compliance with the accounting standards of the Federation of Accounting Professions under the Accounting Act B.E. 2543. The financial statements are stated at cost on an accrual basis except stated otherwise.

#### 2.2 Alteration of accounting policies

Any alteration which has significantly effect is noted to the related transaction.

#### 2.3 Cash and bank deposits

Cash and bank deposits are cash in hand, bank deposits, and check in transit. They are stated at cost in the balance sheet.

#### 2.4 Accrued revenues are stated as net realisable value.

#### 2.5 Investments

The SEC has stated its investments, both debt and equity instruments, in accordance with the Thai Accounting Standards No. 40.

2.5.1 Short-term investment is fund managed by the selected private fund manager. The fund has invested in marketable securities which are classified as available for sale in the balance sheet, and stated at their fair values. The fair values of marketable securities are valued by the SET's last price as of December 2004 and 2003. The change of book values of securities available for sale is stated as unrealised gain or loss and shown under the fund in the balance sheet.

2.5.2 Long-term investment in debt instruments held to maturity are stated at cost after amortisation.

2.5.3 For disposal of investments, the difference between net disposal proceeds and the carrying amount will be booked in the statement of revenues and expenses.

#### 2.6 Property, premises, and equipment

Property, premises, and equipment are stated at historical cost after accumulated depreciation. Depreciation is allocated by the straight-line method over their estimated useful lives as follows :

Leasehold improvement	5	years
Furniture and fixtures	5	years
Office equipment	5	years
Vehicles and equipment	5	years

Disposal of property, premises, and equipment is based on book value. Profit or loss from the sales is shown in other income or other expense. Subsequent expenditure on property, premises, and equipment which significantly increase the present replacement cost will be added to the original costs. Expenditure on repair and maintenance is recognised as expense in the period in which it is incurred.

## 2.7 Intangible assets

Intangible assets (i.e. computer system development expenses and licensed software fee that provide future economic benefits for more than one year) are stated at cost after amortisation. (Cost of intangible assets comprises purchase price and other expenses relating to the preparation for such assets render for use. Amortisation is allocated by the straight-line method over their estimated useful lives as follows :

Licensed software fee	10	years
System development	5	years

## 2.8 Employee benefits

The SEC has registered its two provident funds, namely “Registered Provident Fund of the Securities and Exchange Commission” and “Registered Provident Fund of the Office of the Securities and Exchange Commission (2)” since August 9, 1993 and November 1, 2003 respectively. The SEC and the employees who are members of the provident fund have agreement to make contributions to the provident fund. Proportion of contribution from employees, which are subtracted from their salary base individually, is ranged from 3% minimum to 10% maximum while that from the SEC is 10% of salary base of individual employee. The provident fund has been managed by investment professional and has already been registered under the Provident fund Act B.E. 2530.

Contribution from the SEC is stated as expense in the statement of revenues and expenses in each accounting period.

## 2.9 Revenue recognition

### 2.9.1 Fee income

- Application fee : Revenue is recognised when application form and fee are received by the SEC.
- Registration fee : The first portion of revenue - 30% of the minimum fee requirement for registration - is recognised when the SEC received registration statement together with fee, while the balance will be recognised when registration statement becomes effective. Annual fee from an issuing company is recognised as revenue in the accounting year that the SEC received its financial statement together with fee.
- License fees for undertaking securities businesses (brokerage, underwriting, dealing, and investment advisory) are classified as revenue to the Capital Market Development Fund. License fees for undertaking other securities businesses are recognised in line with the SEC’s rules on fee payment.
- Other fees : Revenue is recognised when request form and fee are received by the SEC.

### 2.9.2 Contribution from the SET

Revenue is recognised on an accrual basis.

## 2.9.3 Investment income or other income

- Interest income is recognised on an accrual basis, except when there is and uncertainty in the receipt of the income.
- Dividend income is recognised when declared.
- Other income is recognised when declared.

## 2.10 Financial instruments

To diversify investment risk, the SEC has a policy to invest at least 60% in low-risk financial instruments. Of the whole investment portion, 50% is managed by the SEC to invest in low-risk financial instruments while the other half is managed by the selected private fund managers with investment policies as follows :

- Invest 80% of fund or less in high-risk financial instruments.
- Invest 20% of fund or more in low-risk financial instruments.

## 3. SHORT-TERM INVESTMENTS

## 3.1 Short-term investments

	unit : million baht	
	2004	2003
- Current and savings deposits	50.02	43.65
- Fixed deposits (due date within 1 year)	236.77	578.66
- Suspense account - marketable securities pending transfer	96.62	52.44
- Bonds (due date within 1 year)	89.20	-
- Treasury bills (due date within 1 year)	123.75	-
- CDs and PNs (due date within 1 year)	680.00	225.00
- Investment in debt instruments and equity (from private fund investment)	1,271.91	1,282.96
- Accrued interest and dividend (from private fund investment)	6.27	6.41
<b>Total</b>	<b>2,554.54</b>	<b>2,189.12</b>

## 3.2 Investments in debt instruments and equity

## 3.2.1 Securities available for sale

	unit : million baht			
	2004		2003	
	Book Value	Market Value	Book Value	Market Value
: Debt instruments	770.94	768.22	730.32	724.76
: Equity	477.47	503.69	374.09	558.20
<b>Total</b>	<b>1,248.41</b>	<b>1,271.91</b>	<b>1,104.41</b>	<b>1,282.96</b>
: Accrued interest from debt instruments	5.13	-	4.50	-
: Accrued interest and dividend from equity	0.15	-	-	-

## 3.2.2 Securities held to maturity

892.94	225.00
--------	--------

## 4. ACCRUED REVENUES

	unit : million baht	
	2004	2003
- Interest income from		
- Fixed deposits	1.07	13.55
- State enterprise bonds	7.98	7.97
- Fixed deposits with Government Housing Bank	0.42	0.78
- Promissory notes	2.98	0.53
- Treasury bills	0.23	-
- Income from license fees for		
- undertaking inter-dealer broker business	-	0.13
- undertaking private fund management business	-	2.43
- undertaking other types of securities businesses	116.28	-
- annual disclosure fee	0.06	-
- Others	0.10	0.34
<b>Total</b>	129.12	25.73

## 5. LONG-TERM INVESTMENTS

	unit : million baht	
	2004	2003
5.1 Bank deposits	-	50.00
5.2 Debt instruments held to maturity		
- Promissory notes	-	240.00
- State enterprise bonds	99.98	99.98
- Government bonds	300.00	300.00
Total	399.98	639.98
<b>Total</b>	399.98	689.98

## 6. DEBT INSTRUMENTS

	unit : million baht				
	2004			Total	2003
	Time to Maturity				
1 year	2-5 years	6-10 years			
Securities available for sale	768.22	-	-	768.22	724.76
Securities held to maturity					
: 2000 Expressway and Rapid Transit Authority of Thailand Bond	-	99.98	-	99.98	99.98
: 2002 Government Savings Bond	-	-	300.00	300.00	300.00
: 2004 Bank of Thailand Bonds	89.20	-	-	89.20	-
: Treasury bills	123.75	-	-	123.75	-
: Promissory notes issued by TISCO Finance PLC	205.00	-	-	205.00	65.00
: Promissory notes issued by Kiatnakin Finance PLC	310.00	-	-	310.00	75.00
: Promissory notes issued by The Siam Industrial Credit PLC	140.00	-	-	140.00	140.00
: Promissory notes issued by National Finance PLC	25.00	-	-	25.00	185.00
<b>Total</b>	1,661.17	99.98	300.00	2,061.15	1,589.74

## 7. PROPERTY, PREMISES, AND EQUIPMENT - NET

	unit : million baht			
	As of Dec. 31, 2003	Increase	Decrease	As of Dec. 31, 2004
Property, premises, and equipment				
Leasehold improvement	29.79	0.18	-	29.97
Furniture and fixtures	22.45	0.33	-	22.78
Office equipment	94.74	11.02	7.88	97.88
Vehicles and parts	36.07	14.49	2.48	48.08
<b>Total</b>	183.05	26.02	10.36	198.71
<b>Less</b> Accumulated depreciation				
Leasehold improvement	(27.56)	(0.80)	-	(28.36)
Furniture and fixtures	(20.16)	(0.99)	-	(21.15)
Office equipment	(78.87)	(9.16)	(7.83)	(80.20)
Vehicles and parts	(24.93)	(5.64)	(2.48)	(28.09)
<b>Total accumulated depreciation</b>	(151.52)	(16.59)	(10.31)	(157.80)
<b>Total</b>	31.53	9.43	0.05	40.91

## 8. INTANGIBLE ASSETS

	unit : million baht			
	As of Dec. 31, 2003	Increase	Decrease	As of Dec. 31, 2004
Intangible assets				
Licensed software	19.44	0.36	-	19.80
System development	14.21	-	-	14.21
<b>Total</b>	<b>33.65</b>	<b>0.36</b>	<b>-</b>	<b>34.01</b>
<u>Less</u> Amortisation				
Licensed software	(4.61)	(2.51)	-	(7.12)
System development	(8.44)	(4.16)	-	(12.60)
<b>Total amortisation</b>	<b>(13.05)</b>	<b>(6.67)</b>	<b>-</b>	<b>(19.72)</b>
<b>Total</b>	<b>20.60</b>	<b>(6.31)</b>	<b>-</b>	<b>14.29</b>

## 9. UNEARNED REVENUES

	unit : million baht	
	2004	2003
- Licenses fees for		
- Undertaking other types of securities businesses	0.30	5.22
- Undertaking securities dealing or underwriting business for debt instruments	20.00	38.00
- Undertaking securities financing business	0.50	-
- Undertaking venture capital business	0.05	0.10
- Securities registrar business	0.15	0.25
- Undertaking investment advisory service business	0.03	0.03
- Undertaking inter-dealer broker business	0.05	0.10
- Association related to asset management businesses	0.05	-
- Association related to securities businesses	0.05	0.05
<b>Total</b>	<b>21.18</b>	<b>43.75</b>

## 10. PROVISIONS

	unit : million baht	
	2004	2003
Estimated cost for dismantling and removing	10.50	10.50

The estimated cost of dismantling and removing the sites for the 10<sup>th</sup> floor and the 13<sup>th</sup> -16<sup>th</sup> floor in the amount of 10.50 million baht is based on the estimation made by Diethelm Co., Ltd. In 2001, the company has estimated the cost of dismantling and removing the sites for the 10<sup>th</sup> floor and the 14<sup>th</sup> - 16<sup>th</sup> floor in the amount of 8.40 million baht and in 2002, an additional estimated cost of 2.10 million baht was added for the 13<sup>th</sup> floor.

## 11. CAPITAL MARKET DEVELOPMENT FUND

	unit : million baht	
	2004	2003
Beginning balance	578.21	447.09
<b>Add</b> Income from license fees for undertaking securities businesses and from interest incomes	81.12	133.17
<b>Total</b>	659.33	580.26
<b>Less</b> Expenses	(0.03)	(2.05)
<b>Ending balance</b>	659.30	578.21

## 12. RESERVE FOR A PERMANENT OFFICE BUILDING

	unit : million baht	
	2004	2003
Beginning balance	173.78	173.78
<b>Add</b> Reserve	64.07	-
<b>Ending balance</b>	237.85	173.78

This reserve is in accordance with the criteria approved by the SEC at the Meeting 9/1996 on November 14, 1996.

## 13. GENERAL RESERVE

	unit : million baht	
	2004	2003
Beginning balance	579.58	655.61
<b>Add(Less)</b> Reserve	125.00	(76.03)
<b>Ending balance</b>	704.58	579.58

This reserve is in accordance with the criteria approved by the SEC at the Meeting 9/1996 on November 14, 1996.

## 14. UNREALISED GAIN FROM INVESTMENTS

	unit : million baht	
	2004	2003
Beginning balance	178.55	6.84
Changes during accounting period	(155.05)	171.71
<b>Ending balance</b>	23.50	178.55

Unrealised gain from investments in the amount of 23.50 million baht is resulted from the difference between book value and fair value of investment in the portion of fund managed by the private fund manager. (See details in Note 2.5 Investments)



## 15. RETURNS FROM INVESTMENTS

	unit : million baht	
	2004	2003
Returns from investment in fund managed by private fund manager		
Interest income	25.26	26.81
Dividend income	16.67	10.71
Gain from disposal of investments	106.32	167.64
Total	148.25	205.16
Returns from direct investment	46.77	52.46
Total	195.02	257.62
<b>Less</b> Returns on investment under Capital Market Development Fund	(41.12)	(53.18)
<b>Total</b>	153.90	204.44

## ACRONYMS AND ABBREVIATIONS

ACMF	ASEAN Capital Markets Forum
ACP	Audit Committee Program
AIMC	Association of Investment Management Companies
AOP	Association of Provident Fund
APA	Administrative Procedure Act
ASCO	Association of Securities Companies
B/E	Bills of Exchange
BEX	Bond Electronic Exchange
BOT	Bank of Thailand
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CG	Corporate Governance
CISA	Certified Investment and Securities Analyst
DSI	Department of Special Investigation
ECID	Economic Crime Investigation Division
ESOP	Employee Stock Ownership Plan
ETP	Electronic Trading Platform
Fed	US Federation Reserve Board
FRA	Fund Rating Agency
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GPF	Government Pension Fund
IMF	International Monetary Fund
IOD	Thai Institute of Directors Association
IOSCO	International Organization of Securities Commissions
IOSCO APRC	IOSCO Asia-Pacific Regional Committee
IOSCO MMoU	IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
IPO	Initial Public Offering
IT	Information Technology
HKSFC	Securities and Futures Commission, Hong Kong
Limited BDU	Limited Brokerage, Dealing, and Underwriting License
LoI	Letter of Intent
LTF	Long Term Equity Fund
MOC	Ministry of Commerce

MOF	Ministry of Finance
MPF	Mandatory Provident Fund
NAV	Net Asset Value
NPL	Non-performing Loan
NTC	National Telecommunication Committee
OECD	Organisation for Economic Co-operation and Development
OTC Market	Over-the-Counter Market
Pilot Program	Pilot IOSCO Principles Assessment and Implementation Program
PP	Private Placement
RBA	Risk Based Assessment
REHABCO	Companies under the Rehabilitation Programs
RMF	Retirement Mutual Fund
ROSCs	Reports on the Observance of Standards and Codes
S&P	Standard & Poor's
SAA	Securities Analysts Association
SBL	Securities Borrowing and Lending
SBT	Specific Business Tax
SEC	Securities and Exchange Commission, Thailand
SEC Act	Securities and Exchange Act B.E. 2535 (1992)
SEC Office	Office of the Securities and Exchange Commission, Thailand
SET	Stock Exchange of Thailand
SRO	Self-Regulatory Organisation
SSO	Social Security Office
ThaiBDC	Thai Bond Dealing Centre
TCH	Thailand Clearing House Co., Ltd.
TFEX	Thailand Futures Exchange PLC
TSD	Thailand Securities Depository Co., Ltd.
TSI	Thailand Securities Institute
TTF	Thai Trust Fund
Type I Fund	Property Fund for Public
Type II Fund	Property Fund for Resolving Financial Institutions Problems
Type III Fund	Mutual Fund for Resolving Financial Institutions Problems
Type IV Fund	Properties and Loans Fund
VAT	Value Added Tax







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