

# ANNUAL REPORT 2006



**Securities and Exchange Commission**

Thailand



**Khon...** the classical masked drama since the Ayudhya period (A.D. 1350-1767).

It is performed to the epic of Ramayana, which portrays  
the war between Rama (the Righteous King) and Totsakan (the Demon King),  
the Conquer of Good over Evil.

**Khon masks...** headdresses worn by Khon performers,  
the single most important character-identifying piece of Khon costume.

The masks, now an invaluable export item,  
epitomize the exquisite beauty and unique elegance of Thai fine arts.



## In Support of the Arts

The SEC promotes the perpetuation of Khon mask craftsmanship,  
a proud heritage and symbol of Thai wisdom and tradition,  
to the eye of the world.



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# Message from the Chairman



Thailand economic direction is driven by a multitude of factors, which among other things includes the government's budget spending, private investments, manufacturing and export sectors, and the capital market conditions.

In 2006, the Thai economy achieved continual growth despite the emergence and persistence of multiple risk factors such as higher oil prices, global economic slowdown especially in trade alliance countries, exchange rate volatility, and political uncertainties.

In comparison with a big jigsaw picture, the country economy presents itself a scene of the gross domestic product that has continued to rise firmly during the past 2-3 years. The capital market, as a fine piece of the picture, glues and connects other elements to complete the whole picture, and is well reflected by the confidence of domestic and foreign investors in the Thai economy.

Reinforcing investors' confidence is an arduous and indispensable mission if the long-term growth of the capital market is to accomplish and sustain. To achieve such goal, the SEC endeavors are to maintain efficient,

fair and orderly markets, ensure regulatory convergence with international standards and improve efficiency of information disclosure of securities issuers in compliance with good corporate governance principles.

Good corporate governance is a critical component in any capital market. Without it, market development would be a futile effort. Yet, most investors tended to overlook this corporate virtue over the years, which led to otherwise avoidable damages and erosion of confidence in the capital market and the Thai economy as a whole. The SEC, therefore, will continue on with its timely and relentless efforts in strengthening corporate governance in the industry.

In the year ahead, countless different challenges are bound to arise and test our strengths, but I believe the SEC management and staff will pass this test and strive forward to deliver material and measurable accomplishments. As the market regulator, the SEC shall proceed to secure investors' confidence, build efficient and reliable markets for capital raising and mobilization, and become an effective catalyst for sustainable progress and prosperity of the Thai capital market in the years to come.

# Message from the Secretary-General



**Thirachai Phuvanatananubala**  
Secretary-General

The economic expansion was on the mark for another year in 2006, further strengthening the robustness of market infrastructure. Though affected by unexpected incidents late in the year, the market managed to recover and the stock exchange indices rebounded shortly afterward.

Campaigning for better corporate governance was a highlight of 2006. Practical and proactive measures were introduced throughout the year, especially in the area of shareholder rights protection. Key projects included the Annual General Shareholders Meeting Assessment Program and the proposals for several amendments to the Securities and Exchange Act B.E. 2535 (1992) in support of material advancements in the corporate governance efforts.

On the international front, the SEC continued its role at the International Organization of Securities Commissions (IOSCO) and was reappointed as Chairman of the Asia-Pacific Regional Committee (APRC) for a second consecutive term, thus a timely opportunity to carry on with the regional campaign for consistent cooperation, on bilateral and multilateral

levels, in several areas among member jurisdictions. Additionally, the SEC contributed to the establishment of international supervisory standards at the IOSCO's Implementation Task Force.

On the accounting standards, the SEC submitted comments on nine issues concerning the impracticality of certain accounting principles to the International Accounting Standards Board (IASB), and made financial contributions to facilitate the ongoing efforts of the Federation of Accounting Professions (FAP) in the improvement of the Thai accounting standards toward convergence with the changing international accounting principles.

In developing market infrastructure to enhance local players' competitiveness on the global arena, the SEC encouraged securities companies to initiate novel products and services in order to lessen their dependency on brokerage fee revenue, and launched a securities business liberalization roadmap to get the industry players started on the preparation for the forthcoming liberalization within five years.



In the bond market, the SEC amended several regulations to enhance flexibility for the issuance and sale of corporate debt instruments, both onshore and offshore. Launched in April, the country's first derivatives exchange helped to enhance investors' risk management and successfully hit the trading volume target by the end of the year. Likewise, the markets for mutual funds and provident funds continued to grow throughout the year, echoing the public's favorable responses to the government's long-term savings policies.

The legal enforcement against securities business offenses became more efficient with a significant increase in the number of fine settlement cases and a milestone progress in the collaboration with other agencies in criminal proceedings.

The momentum of private sector synergy throughout 2006 was commendable. Cooperation among market participants in the form of industry, professional, business and investor associations opened up active channels to voice concerns, comments and suggestions regarding the issues of impacts on market participants and the capital market at large. Such collective activities

not only empowered businesses but also furthered the moves toward the SEC's much anticipated self-regulation.

On social responsibilities, the SEC management and staff organized charity events to raise funds for underprivileged rural schools in Petchburi province and, in cooperation with the financial media, made donations to an orphanage for children with disabilities. Next year, the SEC expects to see more of such charitable activities particularly from listed companies as they are urged to devote more energy and resources to social responsibility initiatives as part of the overall corporate governance improvement.

After diligent preparations with relevant public and private organizations, the SEC will enter the Financial Sector Assessment Program (FSAP) in 2007. While the roadmap to securities business liberalization progresses along its path, so will the market supervision and development. We truly hope to see further cooperation, information sharing and suggestions from all parties for the benefit of sustainable market developments.

# Organizational Structure



Total number of staff: 418

## *Vishnu:* the God of Peace and Prosperity

*He is the Preserver of Harmony and Justice  
for the pacific existence of all creatures on Earth.*





# Vishnu

*His identifying features are the purple face and body with four arms-each holding a conch, a trident, a mace and a discus. He wears the Victory Crown and resides in Kshira Sagar (the Milk Ocean).*

# Members of the SEC Board



**M.R. Pridiyathorn Devakula**  
Deputy Prime Minister and Minister of Finance

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 in International Business from Wharton School, University of Pennsylvania, USA and a Bachelor of Economics (First Class Honors) from Thammasat University. Prior to his current appointments, he was Deputy Commerce Minister, President of the Export-Import Bank of Thailand, and Governor of the Bank of Thailand, consecutively.



**Mrs. Tarisa Watanagase**  
Governor of the Bank of Thailand

Mrs. Tarisa is an ex-officio member of the Board. She obtained a B.A. and an M.A. in Economics from Keio University, Japan and a Ph.D. in Economics from Washington University, USA. She was Deputy Governor, Financial Institutions Policy Group of the Bank of Thailand before being appointed the Governor.



**Mr. Suparut Kawatkul**  
Permanent-Secretary for Finance

Mr. Suparut is an ex-officio member of the Board. 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 for Finance.



**Mr. Karun Kittisataporn**  
Permanent-Secretary for Commerce

Mr. Karun is an ex-officio member of the Board. He holds a B.C.A. from Victoria University of Wellington, New Zealand and an M.A. in International Economics from Syracuse University, USA. Prior to becoming Permanent-Secretary for Commerce, 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. 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 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 Chairman of the Executive Board of Krung Thai Bank Plc.



### **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 (Honors) from Thammasat University, Thailand and holds a Master of Economics from Fairleigh Dickinson University, USA. He is Chairman of the Support Arts and Crafts International Center of Thailand and Chairman of Siam City Bank Plc.



### **Mr. Nontaphon Nimsomboon**

Mr. Nontaphon is an accounting expert member of the Board. He was Auditor General of the Office of the Auditor General of Thailand and President of the Institute of Certified Accountants and Auditors of Thailand in 1997. He graduated with a Bachelor of Commerce (Honors) and a Bachelor of Accountancy from Thammasat University, Thailand, an MBA from University of Iowa, USA (Government Scholarship Recipient) and a Ph.D. in Accounting (Honorary) from Thammasat University, Thailand. He is Chairman of AMC International Consulting Co., Ltd. and Director and Chairman of Audit Committee of the Bank of Thailand.



### **Mr. Kittiratt Na-Ranong**

Mr. Kittiratt is a financial expert member of the Board. He was President of the Stock Exchange of Thailand between 2001 and 2006. He graduated with a B.S. in Economics (Quantitative) from Chulalongkorn University, Thailand and an MBA in Finance and International Business from Sasin Graduate Institute of Business Administration of Chulalongkorn University, Thailand. He is Deputy Director for Academic Affairs, Sasin Graduate Institute of Business Administration of Chulalongkorn University, Thailand.





### **Mr. Kumchai Jongjakapun**

Mr. Kumchai is a legal expert member of the Board. He is Dean of the Faculty of Law of Thammasat University, Thailand. A Barrister-at-Law, he holds an LL.B. (2<sup>nd</sup> Class Honors) from Thammasat University, Thailand, a B.A. in Political Science from Ramkhamhaeng University, Thailand, an LL.M. in International Business Law (with Merit) (University College), and a Ph.D. in the same field (King's College) from University of London, UK.



### **Mr. Vasant Thienhom**

Mr. Vasant is a financial expert member of the Board. He is a Senior Assistant Secretary-General of the SEC. A Barrister-at-Law, he graduated with an LL.B. (Honors) from Chulalongkorn University, Thailand and holds an LL.M. in International Banking Laws from Boston University, USA.



### **Mr. Thirachai Phuvanatnaranubala**

Mr. Thirachai is an ex-officio member and secretary of the Board. He has been Secretary-General of the SEC since December 2003. Prior to his current positions, he was a 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.

# Executive Officers



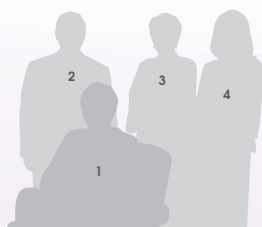
1. Mr. Thirachai Phuvanatanarubala  
Secretary-General
2. Mr. Prasong Vinaiphat  
Deputy Secretary-General
3. Mr. Vasant Thienhom  
Senior Assistant Secretary-General
4. Mr. Chalee Chantanayingyong  
Senior Assistant Secretary-General
5. Mr. Pravej Ongartsittigul  
Senior Assistant Secretary-General &  
Acting Director, Corporate Affairs  
Department



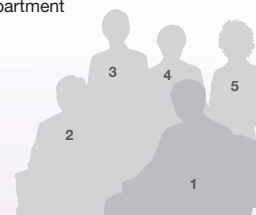
1. Mr. Vasant Thienhom  
Senior Assistant Secretary-General
2. Mr. Saengsiri Sirisansneeyawongse  
Director, Finance and Administration  
Department
3. Mrs. Duangjai Dhanasthitya  
Director, Human Resources Department
4. Mrs. Waratchya Srimachand  
Director, Enforcement Department
5. Mrs. Supan Poshyananda  
Director, Legal Department
6. Mr. Kumpol Sontanarat  
Director, Information Technology  
Department



1. Mr. Chalee Chantanayingyong  
Senior Assistant Secretary-General
2. Mr. Prakid Punyashtithi  
Director, Corporate Finance Department
3. Mrs. Nataya Niyamanusorn  
Director, Corporate Governance Department
4. Mrs. Saranya Chindavanig  
Director, Accounting Supervision Department



1. Mr. Pravej Ongartsittigul  
Senior Assistant Secretary-General &  
Acting Director, Corporate Affairs Department
2. Mr. Trakarn Nopmuang  
Director, Investment Advisor Supervision Department
3. Mrs. Duangmon Chuengsatiansup  
Director, Investment Management Supervision Department
4. Mrs. Tipsuda Thavaramara  
Director, Research Department
5. Mrs. Paralee Sukonthaman  
Director, Broker-Dealer Supervision Department



Mr. Kajornsak Outthasin  
Director, Internal Audit Department

# Corporate Governance Statement

## The SEC Board and the SEC

Pursuant to the Securities and Exchange Act B.E. 2535 (1992) (SEC Act), the SEC Board comprises:

- Five ex-officio members, i.e., the Minister of Finance as Chairman, the Governor of the Bank of Thailand, the Permanent Secretary of the Ministry of Finance, the Permanent Secretary of the Ministry of Commerce, and the SEC Secretary-General.
- As a member and the Secretary of the Board, the SEC Secretary-General is appointed by the Cabinet upon the recommendation of the Minister of Finance and shall hold office for a term of four years and may be re-appointed but not more than two consecutive terms.
- Four to six qualified persons appointed by the Cabinet upon the recommendation of the Minister of Finance, among whom there shall be at least one expert from each of the following fields: legal, accounting and finance. Each expert member shall hold office for a term of six years. Upon the term expiration, new expert members shall be appointed within 60 days. Members of the Board who retire upon the expiration of the term of office may be re-appointed for another term.

The SEC Board has the power to appoint the Audit Committee, ad hoc sub-committees to perform specific assignments, and sub-committees to consider and give advice on the issuance of rules and regulations. The Board also has the power to appoint steering groups in support of the Board's and the SEC's operation to ensure transparency, efficiency and integrity of the organization.

In formulating the structures and the scopes of responsibilities of sub-committees and steering groups, the Board employs the checks and balances system and the corporate governance principles to prevent conflicts of interest. Under these guidelines, it is advised that the Board members should not be appointed as members of more than four sub-committees or steering groups to ensure efficiency of duty performance, unless necessary.

The Minister of Finance shall specify remunerations of the SEC Board and sub-committees.

The SEC Board approved the establishment of procedures for the preparation of agendas and minutes of the Board meetings in compliance with the corporate governance principles. This includes the monitoring of executions of the Board resolutions and orders.

In 2006, there were 13 Board meetings. The attendance list is shown on page 14.

## Policy and Implementation

### 1. Corporate Governance Policy

Established upon the enactment of the SEC Act, the SEC has the duty to promote, develop and supervise the Thai capital market to ensure reliability, transparency and fairness for all parties. In fulfilling this mission, the Board emphasizes corporate governance practices within the SEC, incorporating the universal standards into the organization's Code of Corporate Governance Handbook. The Board, the Management and the Staff are required to abide by the Code while performing their respective responsibilities to set a good example for the market.

## 2006 Board Meetings Attendance

SEC Board Members	Total Attendance/ No. of Meetings	
<b>Minister of Finance*</b>		
Mr. Thanong Bidaya	-	Retired Sep 19, 06
M.R. Pridiyathorn Devakula	1	Term started Oct 9, 06
<b>Governor of the Bank of Thailand</b>		
M.R. Pridiyathorn Devakula	9/10	Retired Oct 7, 06
Mrs. Tarisa Watanagase	1/1	Term started Nov 20, 06
<b>Permanent Secretary of the Ministry of Finance</b>		
Mr. Suparut Kawatkul	11/13	
<b>Permanent Secretary of the Ministry of Commerce</b>		
Mr. Karun Kittisataporn	10/13	
<b>Expert members</b>		
Mr. Chaiyawat Wibulwasdi	13/13	
Mr. Sompol Kiatphaibool	13/13	
Mr. Panas Simasathien	7/7	Retired Jul 3, 06
Mr. Nontapol Nimsomboon	6/6	Term started Jul 4, 06
Mr. Prasit Kovilaikool	11/12	Retired Nov 14, 06
Mr. Kumchai Jongjakapun	0/0	Term started Dec 19, 06
Mr. Suchart Thada-Thamrongvech	10/12	Retired Nov 15, 06
Mr. Kittiratt Na-Ranong	0/1	Term started Nov 21, 06
Mr. Vasant Thienhom	12/13	
<b>Secretary-General</b>		
Mr. Thirachai Phuvanatnaranubala	13/13	

Remark \* It is customary for the Minister of Finance, as the ex-officio Chairman, to attend only the first Board Meeting after taking office to ensure the Board's transparency, fairness and independence.

## 2. Corporate Governance Implementation

The SEC's corporate governance guidelines cover the key areas of risk management, internal control, code of conduct, conflicts-of-interest management, handling of complaints against the SEC's staff, communication with stakeholders and corporate social responsibility. The implementation is categorized accordingly:

### • Risk Management

To safeguard the Thai capital market against adverse impacts of market incidents or risks pertinent to market viability, the SEC Board laid out a policy and procedures for managing risks of market supervision and operation as summarized below:

**(1) Supervisory Risks:** To achieve supervisory objectives effectively, the SEC set up a risk management system that facilitates effective monitoring, assessing and handling of potential risks to the operation of the SEC. The system covers three types of risks as follows:

**1.1 Organizational Risks:** In formulating the SEC strategic plan, the Board and the management initially identify and prioritize potential risks to the SEC's goal achievement with regard to market supervision and development. Next is the drawing of appropriate strategies to prevent, control and avoid risks and their impacts. On July 29, 2006, an SEC workshop was held to outline the Three-Year Strategic Plan (2007-2009) and set up core strategies for the Thai capital market to strengthen regional competitiveness, the mechanism of investor protection and the SEC efficiency and integrity. Operational framework and assessment procedures were issued later to facilitate the evaluation of the strategic plan's effectiveness.

**1.2 Operational Risks:** The top-level management and directors jointly assessed potential risks to the SEC's objective achievement, especially in the key operational areas. Risk management plans were laid out and evaluated on a quarterly basis.

**1.3 Crisis and Emergency Risks:** Internal contingency plans were designed to cope with crises and emergencies such as natural disasters and any irregular incidents that may impede staff operation. All departments were required to set up their separate contingency plan to alleviate the impacts of such emergencies and ensure normal and continual operation of businesses in the market. The contingency plans

were subjected to the SEC's review and rehearsal at least once a year.

**(2) Market Risks:** To maintain continual securities business operation, the SEC issued a regulation requiring all securities companies to put in place an information technology risk management plan with database and system backup solutions and a contingency plan to ensure seamless operation. The SEC also provided related guidelines for securities companies and was in the process of drafting a business continuity plan regulation in case of IT-unrelated business impacts of crises.

The Stock Exchange of Thailand (SET) was preparing its business continuity plan, which shall be submitted to the SEC upon completion.

#### • Internal Control

The SEC places importance on the internal control system in key operating areas to assure that objectives in supervision is met with efficiency, effectiveness, transparency and fairness. Moreover, there are measures in safeguarding and preventing against damage and fraud as well as procedures to ensure the accuracy and reliability of its financial statements which shall be audited by the Office of the Auditor General of Thailand (OAG). Besides, the SEC issued internal rules and regulations including code of conduct on potential conflicts of interest. The Internal Audit Department is in charge of reviewing the SEC's compliance and giving advice on how to improve the internal control system. For operational independence, the department is subjected to direct reporting to the Audit Committee. See details in the Audit Committee Statement.

#### • **Codes of Conduct and Conflicts of Interest**

The SEC's fair and transparent supervision is for the benefits of all stakeholders. To maintain stakeholders' confidence in its integrity, the SEC modeled its Codes of Conduct on the IOSCO Objectives and Principles of Securities Regulation, with a special emphasis on prevention of insider information and conflicts of interest. The SEC Board and the SEC Staff shall abide by the Codes at all times during the course of their duty performance. A summary of the Codes are shown below:

#### **The SEC Board Code of Conduct**

The SEC Board plays a vital role in formulating policies and supervising the SEC in its mission to regulate and develop the capital market with efficiency, fairness, transparency and integrity. The Board is also ethically accountable to stakeholders and the public. The Code of Conduct for the SEC Board is therefore laid out with key areas as follows:

- **Conflicts of Interest:** The SEC Board members must report to the Board on any circumstances that may give rise to conflicts of interest and should always avoid any actions that may cause conflicts of interest;
- **Confidentiality:** The SEC Board members must keep in confidence any data obtained during the course of duty and must not take advantage of such undisclosed information;
- **Other areas:** The SEC Board members must perform their duties honestly and make decisions fairly for the benefits of all parties in the capital market.

#### **The SEC Staff Code of Conduct**

As the regulator of the Thai capital market, the SEC is adhered to morality and integrity in performing its duties and cultivates the values of integrity and transparency in the SEC staff. The followings are a summary of the Code of Conduct for the SEC Staff:

- **Duties to oneself, colleagues, organization, the public and society** Perform duties with integrity and fairness and position oneself properly and appropriately in the roles of respectable regulator. For example, being untarnished by scandals, not participating in any activities that will damage reputations of oneself and the organization, protecting data and confidential information of the organization, and not using acquired information on duty in taking advantage of the general public.
- **Securities investment** The staff at all levels is prohibited from purchasing securities approved for issuance and offering by the SEC and securities of organizations under the SEC's supervision. However, the staff is allowed to invest in securities approved for issuance and offering by the SEC for the purpose of public saving such as bonds and investment units, but they must report their securities trading (including spouse and minor child) to the SEC. In addition, the SEC complies with the notification of the National Counter Corruption Commission in refusing to accept assets or other kinds of benefits from any persons involved in the operation of the SEC to prevent obstruction of duty performance. The violation of such rule is not only deemed unethical but also subjected to legal actions.

The SEC requires all staff to strictly follow the code of ethics. Moreover, they must attend the ethical training course to ensure their clear understanding and compliance with the ethical guidelines so as to earn public trust and confidence for themselves and the SEC.

#### • **Handling of Complaints Against SEC Staff**

The SEC implemented a quick and thorough procedure for effective handling complaints against the SEC staff to assure fairness for affected parties and maintain the public confidence in the SEC accountability.

#### • **Communication with Stakeholders**

Access to news, information and operational updates of the SEC is a stakeholders' right. The SEC ensure that all stakeholders can exercise the right and express their constructive views for the development and supervision of the capital market via extensive two-way communication and media channels such as electronic correspondences, public seminars and radio and television programs. In 2006, the "Inside SEC" television/radio program was launched for wider dissemination of market knowledge and information updates. On investor protection, the SEC provided

numerous channels for receiving public complaints including walk-in, fax, phone, e-mail, letter, etc.

#### • **Corporate Social Responsibility**

In 2006, the SEC pushed forwarded its Corporate Social Responsibility (CSR) campaigns with the following highlights:

(1) On December 16, 2006, the SEC teamed up with the financial media to co-host a charity project and made donations for Pakkret Home for Mentally and Physically Handicapped Babies (Bann Fuengfah) in Nontaburi province.

(2) On November 4-5, 2006, the SEC organized a social activity to provide support for underprivileged, rural students and schools in Petchburi province in the forms of school renovations, scholarships and donations of school supplies.





## Audit Committee Statement

The Audit Committee was appointed by the SEC Board on August 17, 2005 to support the Board's supervision of the SEC operation and ensure transparency and reliability in accordance with international corporate governance standards.

### 1. Composition and Meeting

The Audit Committee comprises three members from the SEC Board who are not the SEC's management and independent from the SEC's operation. Their terms in office are synchronized with their board members' terms.

The composition is as follows:

#### Chairman

##### 1. M.R. Pridiyathorn Devakula

(Retired on Nov 10, 2006)

##### 2. Mr. Chaipayat Wibulswasdi

(Term started on Jan 16, 2007)

#### Member

##### 3. Mr. Sompol Kiatphaibool

##### 4. Mrs. Tarisa Watanagase

(Term started on Nov 10, 2006)

#### Secretary

##### 5. Director of Internal Audit Department

On January 16, 2007, the Audit Committee approved the appointment of Mr. Chaipayat Wibulswasdi as Chairman of the Audit Committee in succeeding M.R. Pridiyathorn Devakula who resigned from the post.

Meetings of the Audit Committee are held at least four times a year. If necessary, the Committee has the power to call for additional meetings. Apart from the Director of the Internal Audit Department who attends

the meeting as the secretary, the SEC executives, auditors or experts in specific fields may also be invited in relevant agendas.

### 2. Duties and Responsibilities

The Audit Committee is empowered to perform the duties as specified in the charter and as directed by the SEC Board. Main responsibilities include supporting the SEC Board's supervision on the SEC's operation, internal control, risk management, corporate governance and financial statements preparation. The aim is to enhance transparency and reliability of the SEC's operation and information disclosure.


To promote transparency, efficiency and effectiveness of the Committee's activities, the SEC Board requires the Committee to prepare and present its report in writing and also disclose the report in the SEC's annual report.

### 3. Progresses in 2006

The Audit Committee carried out major tasks as follows:

#### (1) Corporate Governance

- Reviewed and gave opinions on the SEC's corporate governance framework to promote strict compliance with the corporate governance policies;
- Promoted good corporate governance practices, covering the drafting of the SEC codes of conduct, conflicts of interest preventive guidelines, the definition of the SEC Board's prohibited characteristics, the SEC Board meeting procedure, and the determination of the Board's responsibilities to the SEC's financial statements;



- Reviewed and proposed guidelines for handling complaints against the SEC staff;

- Strengthened the formulation of the SEC's policies, directions and strategies. In July 2006, a strategic workshop for the SEC Board and Management was organized, resulting in a three-year strategic plan (2007-2009), which focused on the strengthening of the Thai capital market's regional competitiveness and market integrity. Action plans were laid out later together with a follow-up plan every six months.

#### **(2) Operation**

- Reviewed the Internal Audit Department's 2006 report, focusing on key activities and major risk issues, including administrative proceedings, approval for issuance and offering of securities, and the review of issuing company auditors' working papers and listed companies' financial statements.

#### **(3) Finance and Financial Statements**

- Reviewed the Internal Audit Department's 2006 report, focusing on finance and financial statements, which involved audits of the preparation of the financial statements and procurement procedures.

#### **4. Internal Audit**

The Internal Audit Department supports the Audit Committee's performance to ensure that the Committee's core objectives will be achieved by way of assessment as well as improvement of risk management procedures, internal control and governance. The Department's work is carried out with independence and objectivity. The Audit Committee considers and presents view concerning appointment, transfer and dismissal of the Director of the Internal Audit Department. The Committee and the SEC's Secretary-General jointly consider the remunerations and performance of Internal Audit Department Director.

In addition, Internal Audit Department performs duties in compliance with internal audit standards, which serves as a benchmark for internal audit activity in line with the professional requirement and enhance greater efficiency and effectiveness.

# Whom and How We Regulate

Whom	How
<p>Licensed/approved corporations and individuals undertaking securities businesses, derivatives businesses, or related activities/services as follows:</p> <ul style="list-style-type: none"> <li>• Securities brokers, dealers and underwriters</li> <li>• Derivatives agents/dealers</li> <li>• Mutual fund/private fund/derivatives management</li> <li>• Venture capital management</li> <li>• Securities/derivatives investment advisors</li> <li>• Securities borrowing and lending</li> <li>• Securities financing</li> <li>• Inter-dealer brokers</li> <li>• Investor contacts (e.g. analysts and marketing officers)</li> <li>• Fund managers</li> <li>• Fund supervisors/custodians</li> <li>• Credit rating agencies</li> <li>• Major shareholders/executives of securities companies, asset management companies and derivatives business operators</li> </ul>	<ul style="list-style-type: none"> <li>• Set licensing and approval standards to ensure that all practitioners are fit and proper</li> <li>• Issue rules and regulations for authorization and operation of securities businesses</li> <li>• Issue rules and regulations governing asset management activities and issue guidelines for proper operations</li> <li>• Grant license/approval to qualified corporations and individuals</li> <li>• Authorize mutual fund schemes to ensure that the schemes are in line with specified regulations</li> <li>• Monitor submission of reporting requirements and information disclosure to assure a sound financial condition and capital adequacy according to rules and regulations</li> <li>• Conduct routine inspection and special investigation against possible contravention or malpractice</li> <li>• Handle complaints against misconduct</li> </ul>
<p>Professionals related to issuance and offering of securities and company takeover:</p> <ul style="list-style-type: none"> <li>• Financial advisors</li> <li>• Property valuers</li> <li>• Auditors</li> <li>• Bond holder representatives</li> </ul>	<ul style="list-style-type: none"> <li>• Set approval standards to ensure that related persons are fit and proper</li> <li>• Set standards for authorization and practices</li> <li>• Monitor compliance with specified rules and regulations</li> <li>• Review documents/reports prepared by financial advisors, property valuers, and auditors</li> <li>• Handle complaints against misconduct</li> </ul>
<p>Securities issuers and listed companies</p>	<ul style="list-style-type: none"> <li>• Issue rules and regulations governing securities issuance and offering for sale to the public</li> <li>• Approve securities issuance and public offering</li> <li>• Oversee information disclosure</li> <li>• Monitor inappropriate or unfair actions</li> <li>• Monitor and update a database of qualified executives</li> <li>• Handle complaints against malpractice and breach of specified rules and regulations</li> </ul>
<p>Stock Exchange of Thailand Derivatives exchange</p>	<ul style="list-style-type: none"> <li>• Approve rules and regulations as well as the amendments to such rules and regulations</li> <li>• Examine business operation, ensure financial soundness and conduct investigation against possible misconduct or complaints</li> <li>• Approve the operation and engagement in new activities/services</li> </ul>
<p>Clearing house, derivatives clearing house, securities depository center and securities registrar</p>	<ul style="list-style-type: none"> <li>• Grant license, approve regulations, examine business operation and ensure capital adequacy</li> </ul>
<p>Associations related to securities businesses</p>	<ul style="list-style-type: none"> <li>• Grant license and register associations and their regulations</li> </ul>

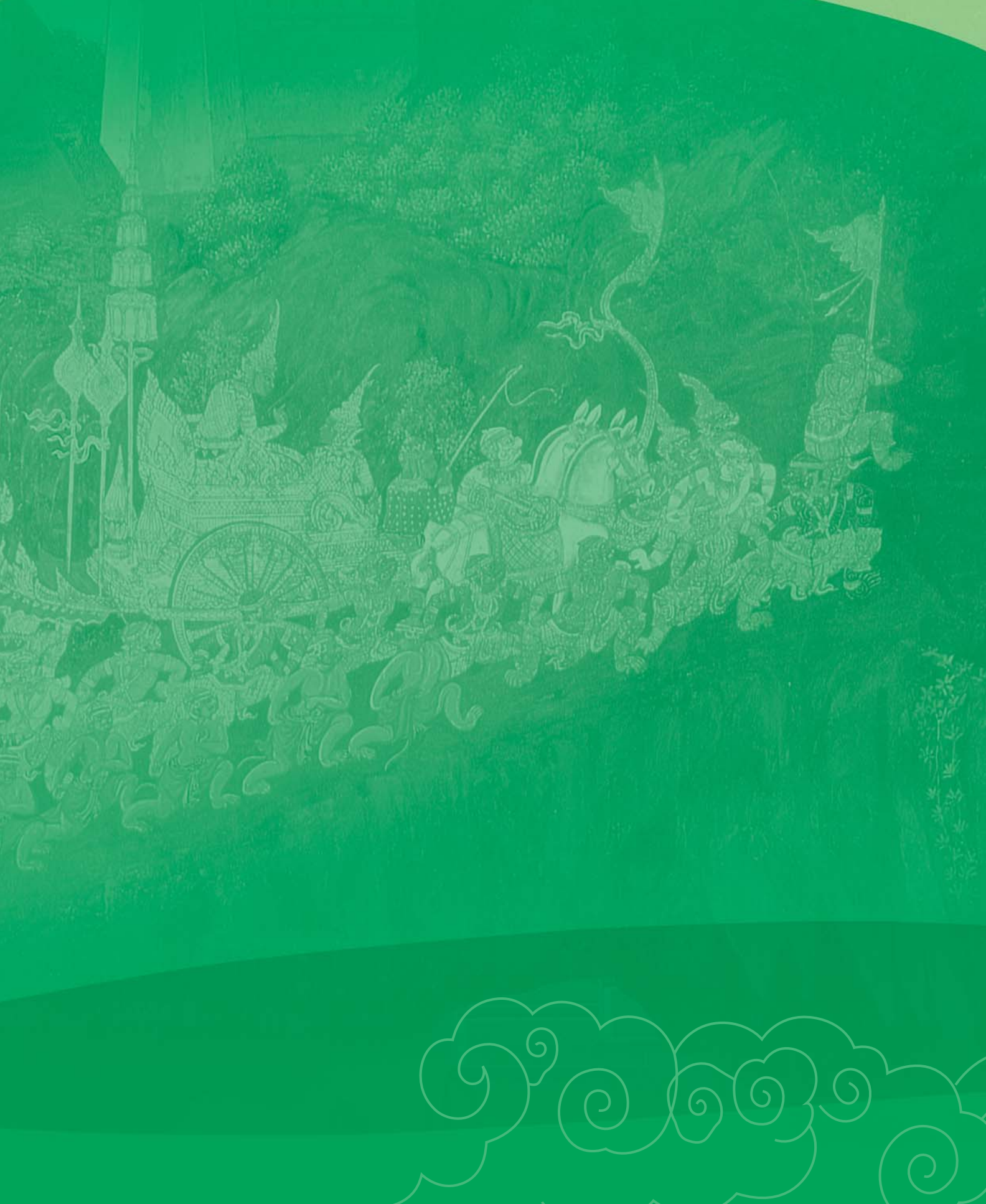


# Rama

*He is green faced and bodied, wearing the Victory Crown.  
His weapon is a bow and arrow.*

## *Rama:* The Leader of Righteousness and Compassion

*The beloved, heroic king who lives by the Ten Virtues of Kingship. His characteristic essences are Kindness, Truthfulness, Gratitude, Justice and Impartiality.*



# Market Review

## Equity Market 2006

The SET Index moved between 622.14 and 785.38 points during the year with an average daily trading value of 16.28 billion baht (Figure 1).

Figure 1: SET Index and Turnover Value (Jan 3 - Dec 29, 2006)



Source: SETSMART

During the first four months, the Asian stock markets were boosted by continuing foreign capital inflows. The SET Index surged to the year-high level of 785.38 points on May 9. After that, however, rising oil prices and interest rates hikes caused the global stock market to decline; the SET Index plunged by more than 100 points within a month. The regional markets rebounded in the second half of the year supported by general views that the US Federal Funds rate was peaking out and the US dollar was going to depreciate further.

Currency speculation further induced short-term capital inflows into the Asian region. Most Asian currencies

appreciated against US dollar, and Thai baht was notably the most appreciating currency in the region. To counter short-term capital inflows, the Bank of Thailand (BOT) announced three stringent measures to deter Thai baht speculation on November 7, December 4 and December 18, 2006 as follows:

- Called for financial institutions' disengagement from issuance and sale of bills of exchange in Thai baht for all maturities to non-residents (NR);
- Called for financial institutions' disengagement from selling and buying all types of debt securities with NR through sell-and-buy-back

transactions for all maturities but allowed them to sell and buy foreign currencies with NR for the settlements relating to investments in government bonds, treasury bills and the BOT bonds when such investments were longer than three months;

- Required financial institutions to withhold 30 percent of foreign currencies bought or exchanged against Thai baht, except those related to trades in goods and services, or repatriation of investments abroad by residents, and customers could request refunds after one year. Accordingly, customers repatriating their funds before such time would be entitled for only a two-third refund for the amount.

The 30 percent reserve requirement had a severe impact on the stock market; the SET Index plummeted 108.41 points in a single day. The BOT later relaxed its measure by granting an exemption to equity investments in the stock exchange. However, the SET Index did not fully recover. At the end of the year, the SET Index closed at 679.84 points, down 33.89 points or 4.75 percent from the previous year. Daily average trading value was 16.28 billion baht which was the same level as the year before. Foreign investors were the net buyers with the total net buy value of 83.4 billion baht.

## Equity Market Outlook 2007

The stock market is likely to fluctuate in 2007. Although the economic growth can be expected from the declining inflation and interest rates and the deficit budgeting of the Thai government to stimulate the economy, stock investments will continue to face

uncertainties related to global oil prices, the US stock market, currency movements, and Thai political environment, which influences investors' confidence in stock investments.

## Debt Securities Market 2006

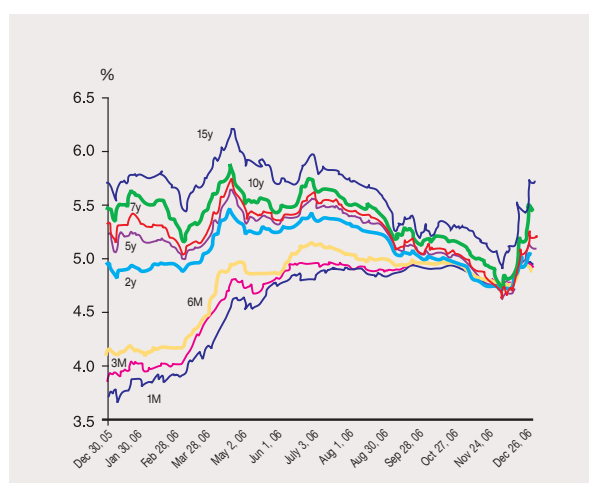
### Government Bond Yields

Yields on government bonds were quite volatile in 2006. During January-June 2006, government bond yields shifted up across the curve compared to the end of 2005 (Figure 2 and 3). The short-term ( $\leq 1$  year), medium-term (2-10 years), and long-term ( $> 10$  years) yields moved upward 84-109, 20-46, and 13-20 basis points (bps.), respectively in line with the trend of rising interest rates in Thailand and abroad. During the first half of 2006, the US Federal Reserve Bank raised its Federal Funds rate quadruple from 4.25 to 5.25 percent. Meanwhile, the BOT's 14-days R/P rate also increased by 0.25 percent every adjustment to 5 percent at the end of the first half of the year.

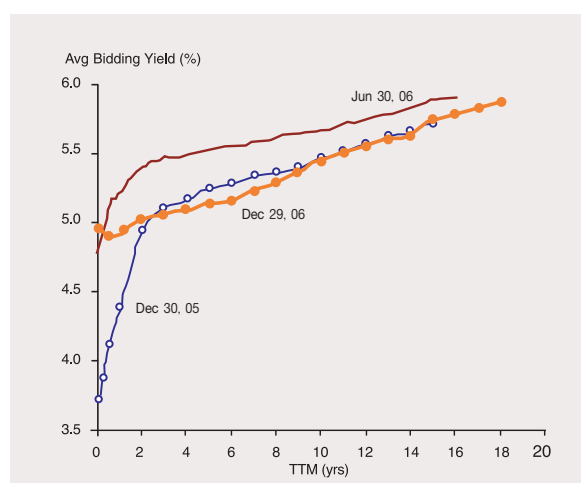
For the latter half of the year, lower inflation rate, expectation of lower policy rate in 2007 coupled with high demand in debt securities caused dramatically downward movements of medium- to long-term yields: a drop of 56-79 bps. at the end of the November 2006.

In contrast to medium- to long-term yields, the short-term government bond ( $\leq 2$  year) yields increased as demand from short-term mutual fund investors started softening due to intense competitions for deposit campaign among commercial banks. As a result, the yield spread between 10-year and 2-year government bonds narrowed to the lowest level of 5 bps. around end-November 2006.

**Figure 2: Government Bond Yield**  
Dec 30, 2005 - Dec 29, 2006



**Figure 3: Government Bond Yield Curve**  
Dec 30, 2005, Jun 30, 2006 and Dec 29, 2006



Source: Thai Bond Market Association

After the announcement of the BOT's reserve requirement on short-term capital inflows on December 19, the government bond yield curve sharply steepened. The medium- and long-term yields moved upward 30 bps. on December 19, 2006. The reserve requirement resulted in less demand for bonds by foreign investors, and in turn affected the sentiment of local investors. At the end of the year 2006, long-term bond yields ( $\geq 10$  years) remained at 5.44-5.77 percent, unchanged from the year 2005.

## Trading Activity

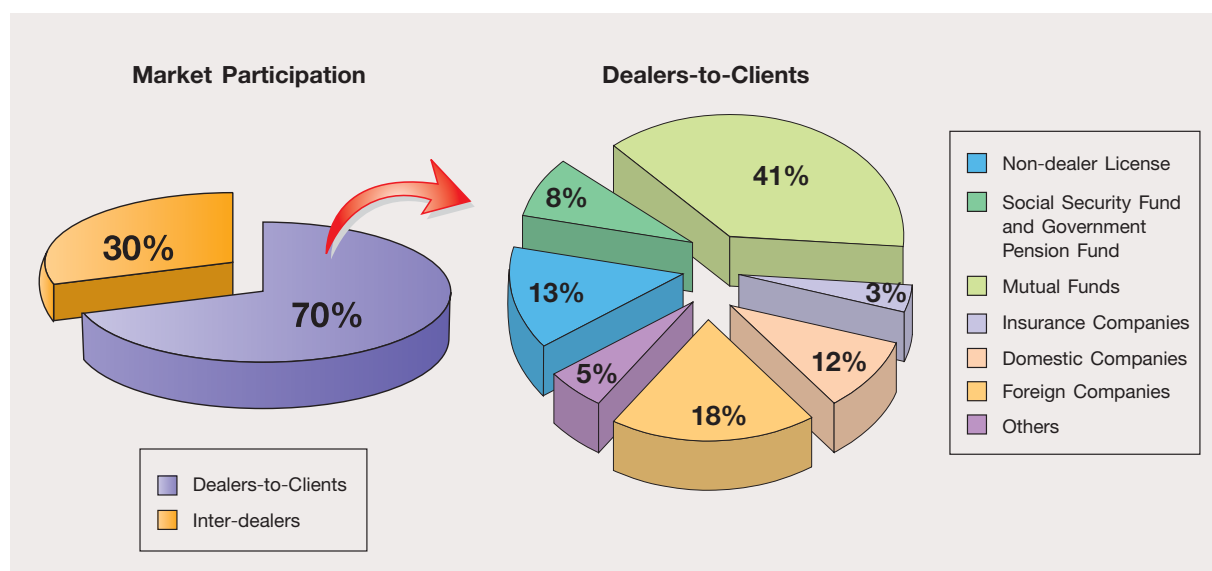
An average daily trading value of debt securities in 2006 surged to 28.6 billion baht, an increase of 81 percent from the previous year. Investors focused on trading short-term debt securities, especially BOT bonds, and treasury bills due to market liquidity.

Inter-dealer transactions<sup>1</sup> amounted to 30 percent in 2006, increasing from 23 percent in 2005. Among dealer-to-client transactions, non-dealer financial institution transactions accounted for 13 percent, while contractual saving funds, mutual funds, insurance and domestic companies totally accounted for 64 percent of dealers-to-clients' trading value. Foreign investor trading amounted to 18 percent (Figure 4). In 2006, trading activity by foreigners sharply rose 70 percent from the year 2005; most of which were investments in government debt securities for three-year or less maturity.

In the primary market, the total issuance value of debt securities was 3,470.2 billion baht in 2006. Of this, 63 percent was government debt securities and 37 percent was corporate debt securities. The majority

<sup>1</sup> Outright transactions

Figure 4: Composition of Market Participation in Thai Bond Market\* in 2006



Note: \* Outright Transactions

Source: Thai Bond Market Association

of the government debt securities were the BOT bonds and treasury bills, with the values of 1,001.6 billion baht and 900.2 billion baht, respectively. The value of the government bonds issued in the domestic market was 210.5 billion baht (Figure 5). Meanwhile, the issuance value of corporate debt securities was 1,291.3 billion baht, mostly accounted by short-term debentures with the total value of 594.9 billion baht or almost 10 times higher than 2005.

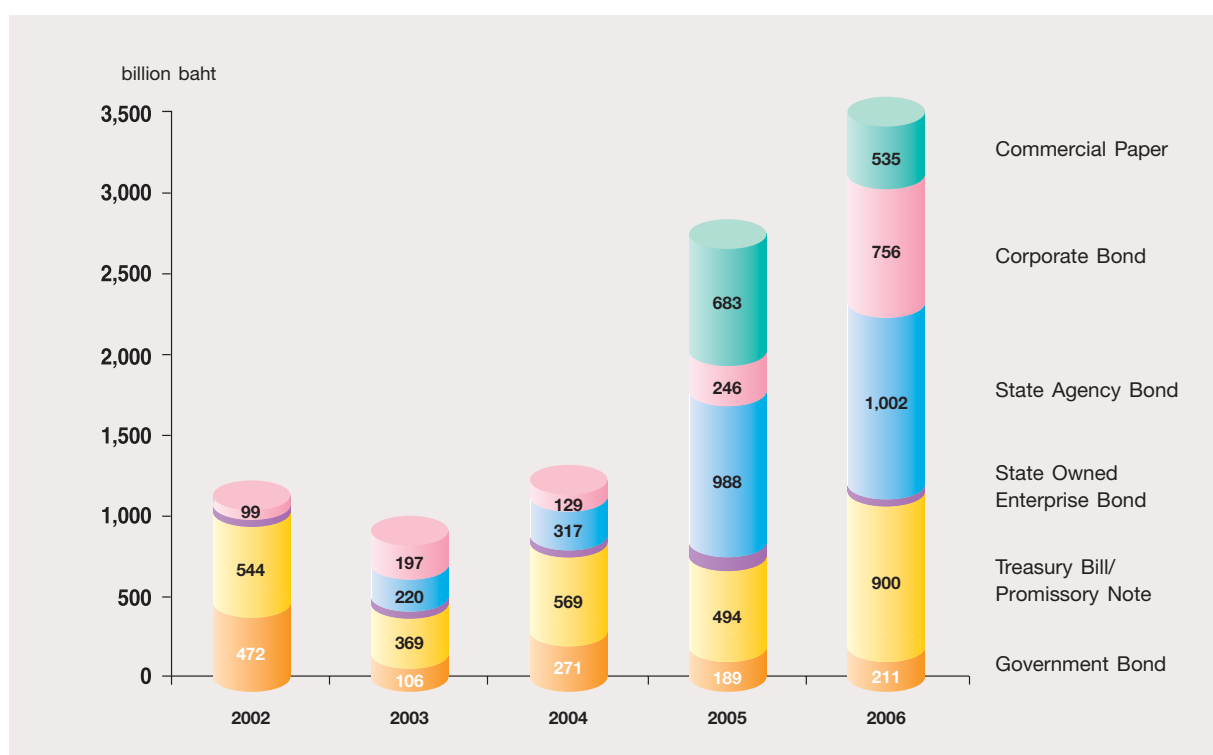
## Debt Securities Market Outlook 2007

The Thai economy is expected to grow at a slower pace in 2007. The anticipation of inflation rate decline and falling world oil prices will translate into stronger

economic stability. In addition, the downward trend of the US policy rates will influence the BOT's decision to lower its policy rates in 2007.

Government bond yields are predicted to decline in line with potential domestic policy rate cuts and dropping investor demand on debt securities. Fund mobilization through corporate debt securities is expected to increase from 2006 in response to capital demand of the private sector and large-scale infrastructure investments. Also setting the tone for the 2007 debt securities market are the regulatory amendments governing the issuance and offering for sale of corporate debt securities to facilitate bond issuers. In addition, the set-up of Deposit Insurance

**Figure 5: Gross Issuance Value of Debt Securities in Domestic Market Classified by Types of Securities (2002-2006)**



Source: BOT and SEC

Agency will bring about commercial banks' fund mobilization via securitized bond issuance instead. The issuance of debt securities will benefit banks since they are not subject to reserve requirements with the Financial Institutions Development Fund. However, the imposition of the reserve requirement on short-term capital inflows may weaken demand of foreign investors. Consequently, plans for onshore and offshore debt securities offerings may be postponed, slowing down trading activities in the debt securities market.

## Derivatives Market 2006

After the official launch of Thailand Futures Exchange Plc. (TFEX) on April 28, 2006, the trading volume of SET50 Index Futures doubled monthly during the first four months. By August, the trading volume had exceeded the target of 1,000 contracts per day. On December 19, the trading volume had exceeded the target of 8,504 contracts with the total value of 4 billion baht as a result of foreign investors' portfolio adjustments to the BOT's reserve requirement on short-term capital inflows. At year-end, the total trading

volume closed at 198,737 contracts with the total value of 97.9 billion baht or an average daily trading volume of 1,204 contracts.

The foreign investors were the net buyers with the value of 0.6 billion baht. Local institutional and non-institutional investors were the net sellers with the value of 0.5 billion and 0.1 billion baht, respectively. At the end of 2006, the open interest of futures contracts were at 7,601 contracts (Figure 6).

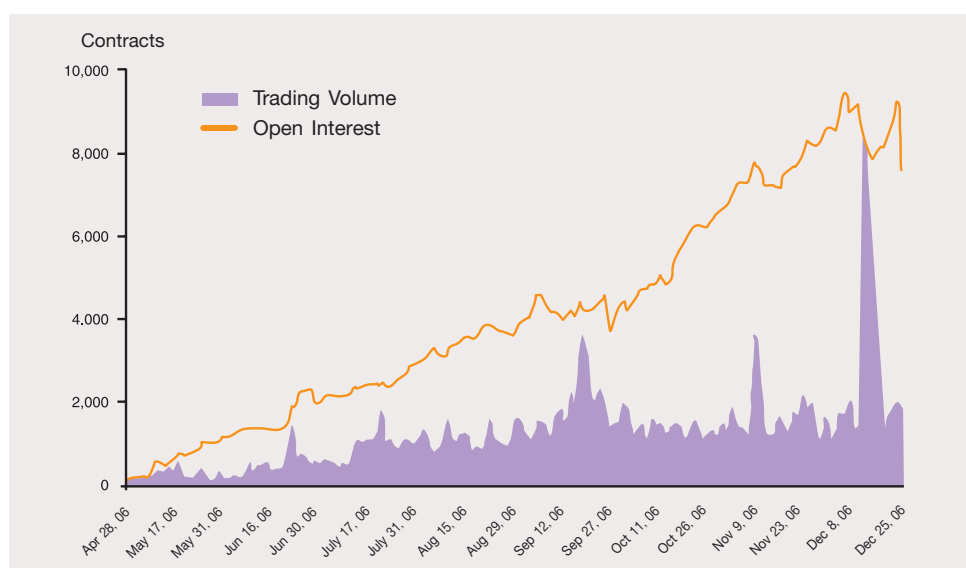
The outstanding number of derivatives trading accounts was 4,375 accounts. The percentages of local

non-institutional investors, local institutional investors, and foreign investors were 53, 28, and 19, respectively.

## Derivatives Market Outlook 2007

Trading activities on the derivatives market will depend upon cash market volatility. In 2007, the Thai stock market is predicted to be significantly sensitive to various factors such as political uncertainties, economic growth and the enactment of new Foreign Business Act, etc. The launch of SET50 Index Options in the third quarter of 2007 is expected to boost trading activities.

Figure 6: Trading Volume and Open Interest



Source: TFEX

# Strategic Plan 2007–2009 & Action Plan 2007

## Strategic Plan 2007-2009

In formulating a strategic plan for the next three years, the SEC took into account incidents that influence the capital market, internally and externally. Outside factors include capital inflows, volatility of exchange rates, oil prices, interest rates, the government's infrastructure investment projects, the implications of future deposit insurance regulations, the liberalization of trade and financial sectors, and increasing elderly populations. The local market was also facing internal shortcomings such as relatively small and low free-float stock and bond markets, disproportionate institutional investors, short-term speculation of retail investors, high dependency on brokerage fee revenues of securities companies,

hindrances to international standards compliance, and necessary improvement on corporate governance practices.

There were potential risks associated with such challenging market environments. For example, investors may lose confidence in products and market mechanism while issuers may have difficulties mobilizing funds. For securities firms, long-term competitive edge may become too ambitious a goal to obtain. Thus, to prevent such risks and strengthen market capacities and readiness for healthy growth and increasing competition, the SEC laid out the Strategic Plan 2007-2009 with six core strategies and corresponding directions as follows:

Strategy	Direction
1. To strengthen competitiveness of securities businesses and reduce their dependency on brokerage fee revenues through service diversification	<ul style="list-style-type: none"> <li>• Permit issuance of new and unlimited securities business licenses, starting from 2012</li> <li>• Promote mergers and joint ventures with expert partners</li> </ul>
2. To promote active regional roles of the Thai capital market	<ul style="list-style-type: none"> <li>• Allow foreign juristic persons to issue equity and debt instruments for sale onshore and to list their securities on the SET</li> <li>• Seek new approaches to linkage and cooperation of the SET with its regional counterparts</li> </ul>
3. To further diversify investors' alternatives	<ul style="list-style-type: none"> <li>• Increase allocation of offshore investments on a gradual and continual basis</li> </ul>
4. To expand bond market	<ul style="list-style-type: none"> <li>• Promote the role of bond market leader among primary dealers and commercial banks</li> <li>• Support the Ministry of Finance in the regular and sufficient issuance of government bonds to serve market demands</li> <li>• Encourage private sector and institutions, both local and international, to issue more debt instruments</li> </ul>
5. To raise standards of the Thai capital market	<ul style="list-style-type: none"> <li>• Monitor and ensure listed companies' strict compliance with existing standards</li> <li>• Improve Thai standards toward convergence with its international counterparts on a gradual and consistent basis, taking into account limitations of private sector</li> </ul>
6. To enhance the SEC's image as an efficient and reliable organization	<ul style="list-style-type: none"> <li>• Be firm and fair in protecting investors and all stakeholders while maintaining public trust and acceptance</li> </ul>

## Action Plan 2007

The SEC laid out an action plan for the year 2007 to ensure continual progress of the three-year strategic plan with particular focuses on the following areas:

### Competitive Preparation

In 2007, the capital market infrastructure will be more robust and ready to accommodate innovative products of choice for investors while financial transactions will become more diverse and complicated. In preparation for such challenges ahead, the SEC will take progressive actions particularly in the following sectors:

#### Bond Market

- To closely monitor self-regulatory progress and market growth to ensure healthy environments for launches of innovative products without unnecessary regulatory blockage;
- To promote the roles of the Thai Bond Market Association (ThaiBMA) as the primary self-regulatory organization (SRO) and information center of the industry.

#### Derivatives Market

- To support the operation of Thailand Futures Exchange Plc. (TFEX) in the areas of equity derivatives and interest rate derivatives.

#### Securities Companies

- To propose a draft ministerial regulation to the Ministry of Finance in support of the re-structuring of the securities sector and in preparation for the liberalization of new and unlimited licensing in 2012;
- To increase and diversify business channels such as securities borrowing and lending (SBL), proprietary trading, and businesses related to structured products and exchange traded fund (ETF), etc.;
- To promote the issuance and trading of transferable custody receipts (TCR) to increase business opportunities for securities firms and offshore investment alternatives for local investors;

- To encourage securities companies to explore investment opportunities abroad to sharpen their experience and expertise in managing investments and associated risks;
- To promote business mergers of larger sizes and higher capacities in support of service diversification beyond securities brokerage.

### International Cooperation

Free trade agreements and capital service competitions are the key stimulators toward linkage of regional capital markets. In keeping up with the cross-market trend, the SEC will further cooperation among the regional peers and increase its international presence through multi-area projects and activities, especially the followings:

#### International Roles


- To continue the SEC's efforts, as the IOSCO APRC Chairman, in encouraging fellow members to become signatories of the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMoU) and apply IOSCO Objectives and Principles to their respective local capital markets;
- To contribute to the formulation of international standards and render assistance to academic projects for the benefit of the overall market development.

#### FSAP

- To enter the Financial Sector Assessment Program (FSAP) of the International Monetary Fund and the World Bank.

### Enhance Cooperation with Regional and Target Jurisdictions

- To strengthen linkage of ASEAN securities markets by exploring possibilities for regional cooperation



and regulatory amendment for mutual acceptance within the ASEAN group such as regulations and standards for issuance and offering of securities and regulations governing qualifications of investor contacts;

- To study feasibilities for joint ventures with target jurisdictions such as the Middle East.

### **Expansion of Institutional Investors**

- To continue collaboration with the BOT to increase allocation of offshore investments in the portfolios of mutual funds, provident funds and proprietary trading of securities companies;
- To facilitate the Education Mutual Fund Working Group, which comprises representatives from the Ministries of Finance and Education and the Association of Investment Management Companies (AIMC), to work out a feasible plan for an establishment of Education Mutual Fund offering Thai parents an investment alternative to finance the education of their children;
- To explore a variety of methods for allowing multi-class investment units within a single mutual fund in response to varying demands of investors;
- To study a possibility for an establishment of high net worth private funds to diversify investment tools beyond the general private funds provisions to promote investment innovations;
- To amend regulations governing the branch operation of asset management companies to enhance operational flexibility and keep pace with technological advancements and amend approval regulations to facilitate business operation and increase service channels to clients and potential investors through cyber and full branches;
- To develop self-assessment questionnaire for an evaluation of risk management and internal control systems of asset management companies, covering all types of risks, i.e., operational risk, portfolio management risk, customer relationship risk and strategic risk;

- To prepare for the amendments to the Provident Fund Act of 1987, regarding the provisions of "employee's choice" investment selection and periodic disbursement recipient of members' benefits;

- To coordinate with the Revenue Department and the Ministry of Finance on procedures allowing a transfer of asset held under provident fund recipient to retirement mutual funds;

- To work with the Department of Labour Protection and Welfare in educating and promoting employers to set up provident funds for their employees;
- To stimulate provident fund committees for an acceptance and adoption of code of best practices. Fund performance surveys and award presentation are included.

### **Promotion of Good Corporate Governance**

- To ensure listed companies' strict compliance with the corporate governance principles;
- To organize the second Annual General Shareholders Meeting (AGM) Assessment Program, aiming particularly for the SET50 and SET100 groups to achieve higher scores on corporate governance practice;
- To clarify the qualifications and roles of independent directors and audit committees in cooperation with the SET;
- To urge listed companies adopt good corporate citizen initiatives by incorporating the advice and assessment of the Corporate Social Responsibility Working Group into their CSR programs.

### **Promotion of Regional Roles**

- To conduct a feasibility on allowing foreign juristic persons to mobilize funds in Thailand through having their foreign securities listed on the SET to increase the Thai capital market's roles and presence in the region.

# Events in 2006

## January 27

The SEC announced 2006 the Year of Annual General Shareholders Meeting (AGM) Reform and in cooperation with the Thai Investors Association (TIA) and the Listed Companies Association (LCA) launched the first AGM Assessment Project.



## February 16

The SEC and the Federation of Capital Market Organizations (FeTCO) hosted the 3<sup>rd</sup> Capital Market for Students Program aiming to provide opportunities for students to gain hands-on experience and income during their school break.



## February 23

The SEC announced the investigative results of allegations related to the transactions of Shin Corporation Plc. (SHIN)'s securities under the SEC Act.



## March 10

The Settlement Committee imposed a total fine of 5.98 million baht on {A} on three violations of Section 246 and 247 of the SEC Act.

## March 12

The SEC signed an MOU with the Dubai Financial Services Authority to enhance mutual cooperation in regulating and developing the capital markets.



## March 28

The SEC contributed 1 million baht to the TIA to support TIA volunteers in attending and evaluating the quality of the AGMs of 433 listed companies during March-April 2006 under the AGM Assessment Project.

## April 28

The TFEX was inaugurated with the SET50 Index Futures as its first product.



## May 8

The SEC hosted the 5<sup>th</sup> Risk-Based Inspection Methodologies (RBIM) during May 8-9 in Bangkok aiming for members to share knowledge and experience on risk-based inspection methodologies for capital market intermediaries.



## May 17

SEC Secretary-General Thirachai Phuvanatanarubala welcomed Mr. David Brewer, the Lord Mayor of the City of London and his working group during their visits to exchange views and information for future cooperation.



## June 6

SEC Secretary-General was re-elected Chair of IOSCO APRC during the IOSCO Annual Conference in Hong Kong.



## July 17

The SEC signed an MOU with the Israel Securities Authority to enhance cooperation in regulating and developing both jurisdictions' capital markets.



## July 24

The SEC executives welcomed delegates from the Bank of Zambia and the Ministry of Finance and National Planning, Republic of Zambia during their visits to study Thailand's debt management system.



## August 15

The SEC and the TIA co-announced the results of 2006 AGM Assessment, indicating more than 50 percent of listed companies achieving good scores.



The SEC executives welcomed delegates from the Ministry of Economy, Finance and Budget and Central Bank of Madagascar during their visits to study the Thai capital market supervision.



## August 25

The SEC executives welcomed delegates from the Indonesian Capital Market and Financial Institutions Supervisory Agency during their visits to observe securitization in Thailand.



## September 19

The SEC executives welcomed delegates from the State Securities Commission of Vietnam, the Hochiminh Securities Trading Center, and the Ministry of Finance of Vietnam during their visits to observe the SEC organizational structure and capital market overview in Thailand.



## October 20

The SEC granted 1.5 million baht to the Thai Institute of Directors Association (IOD) to support the IOD's "2006 Corporate Governance Report of Thai Listed Companies Project".



## November 4

The SEC management and staff made donations to four underprivileged rural schools in Cha-am, Petchburi and also helped renovate the schools' libraries for the benefits of children and the community.



## November 7

The SEC contributed 9.23 million baht to the Federation of Accounting Professions (FAP) to support the FAP's

ongoing efforts in improving the Thai accounting standards, auditing standards, and code of ethics for professional accountants in line with the changing international accounting standards.



## November 10

M.R. Pridiyathorn Davakula, Deputy Prime Minister and Finance Minister, the ex-officio Chairman of the SEC Board, addressed his policy to the Board and gave statements during press conference.



The SEC Board approved the blueprint for the liberalization of securities businesses licensing and brokerage fees within five years.

## November 15-16

The SEC, the Office of the Attorney General, and the Department of Special Investigation jointly held a seminar on Enhancing Cooperation among Securities Law Enforcement Agencies in Chonburi to enhance investigative cooperation.



## November 22

The SEC, the TIA, and the LCA co-hosted a seminar in Bangkok for audience of more than 600 listed company representatives to introduce the updated AGM checklist and guidelines for the AGM preparation.



## November 24

The SEC signed an MOU with the State Securities Commission of Vietnam for mutual assistance and information exchange during the IOSCO APRC Meeting in Hoi An, Vietnam.



## December 16

The SEC jointly with the financial media made donations to Pakkret Home for Mentally and Physically Handicapped Babies (Bann Fuengfah) in Nontaburi.



## December 21

The SEC announced at a press conference the progress and achievements during 2006 and officially confirmed the Thai capital market's readiness to enter the FSAP in 2007.



# Corporate Governance Achievements

Improving corporate governance practices in the capital market is an ongoing process. In 2006, the SEC stepped up its efforts, taking into account the observations and recommendations from the Work Bank's Corporate Governance Country Assessment Report on the Observance of Standards and Codes (CG-ROSC) of the previous year, and made significant progresses in the following areas:

## Proposal for Amendments to the SEC Act

The SEC Board approved proposal to amend the Securities and Exchange Act of 1992 (SEC Act) with a view to enhancing effectiveness of law enforcement and accommodate development of market activities. Meanwhile, the SEC Office urged the consideration on earlier and newly proposed amendments to be enacted. Major amendments are summarized below:

**1. The SEC Board Structure:** The proposed amendment will support the SEC Board to primarily focus and function as policymaking body and set up "Capital Market Supervisory Board" chaired by the Secretary-General to function as rulemaking and operational supervisory body. In addition, a nominating committee shall be appointed to select persons qualified to serve as Chairman and Secretary-General.

**2. Corporate Governance Improvement of Securities Issuers:** Rules and regulations shall be issued to improve corporate governance practices of publicly held companies as well as companies having their shares listed or traded on the stock exchange.

## 3. Supervision and Development of Market Activities:

3.1 The SEC Board shall be empowered to order the exchange to issue, amend or repeal their rules and regulations, providing that those rules and regulations may cause damage or affect public interest or insufficient to protect or maintain investor's confidence in line with international standards;

3.2 Non-members of the stock exchange shall be allowed to trade securities listed or traded on the exchange;

3.3 Procedures for enforcement of pledged securities shall be amended to allow creditors to sell such securities either on the exchange or by auction;

3.4 Provisions on segregation of the clearing house's own assets and assets of the clearing house members and members' clients shall be prescribed; and


3.5 Protection of assets of the clearing house members as well as those of the members' clients in the clearing house's possession shall be prescribed.

## 4. Development of the Bond Market:

4.1 The SEC-licensed securities depository center shall be allowed to operate securities transfer system on book-entry base in case of deposited debt instruments; and

4.2 The book entry-based securities transfer system operated by the BOT shall be prescribed in case where the BOT functions as securities depository center, clearing house or securities registrar.

**5. Supervision of Securities Companies:** Securities companies shall be allowed to appoint



executives or advisors of other securities companies as own directors (cross-director) where a waiver is granted.

**6. Supervision of Securities Acquisition for Business Takeovers:** Reporting of securities acquisition or disposition that triggers any multiple of 5 percent shall be broaden to include derivatives warrants, and other instruments with similar characteristics. Duty of parties in concert to make a general tender offer shall be emphasized. Furthermore, regulations on anti-takeovers devise shall be prescribed.

**7. Supervision of Securities Offering:** Supervision on securities offering shall be revised to disregard the form of securities issuers, in particular a variety of foreign securities issuers which are different from those established under Thai laws.

**8. Whistle Blower Protection:** Employees or any persons working for securities companies and issuers, who provide any kind of information to the SEC Board, the Capital Market Supervisory Board or the SEC Office shall be protected in that those securities companies and issuers shall be prohibited from applying unfair treatment to the whistleblower.

**9. Duties of Auditors:** Auditors shall have duty to report the SEC Office in cases where they find evidence indicating that directors and executives of the audited companies may have committed misconducts.

In addition, the SEC proposed draft legislation on trust for transaction in the capital market and legislation on class action which are new to Thai legal system as well as amendments to the Royal Enactment on Special Purpose Juristic Persons for Securitization of 1997 and the Provident Fund Act of 1987, all draft legislations of which were under consideration of authorities in charge.

## Annual General Shareholders Meeting Assessment

In 2006, the SEC, in cooperation with the Thai Investors Association (TIA) and the Listed Companies Association (LCA), campaigned for better quality of AGM of listed companies. The campaign culminated in the AGM Assessment Program, which aimed to encourage listed companies to improve the efficiency, transparency and shareholder rights protection of their AGMs. The SEC contributed 1 million baht to support the AGM observation by TIA volunteers as part of the assessment program. The SEC also designed an AGM Checklist as guidelines for listed companies and held several seminars to educate listed companies to improve their AGMs. The assessment was divided into four parts: Before the AGM Day, On the AGM Day, After the AGM and Bonus Points (for above and beyond general practices).

The 2006 results were satisfactory, showing 225 out of 433 listed companies with financial statements ending on December 31, 2005 achieving an average score of 70 or higher (from the total score of 100).

To better accommodate the second AGM assessment program in 2007 and enhance AGM understanding and

efficiency, the SEC updated the AGM Checklist against international benchmarks, distributed an AGM Handbook and organized a series of seminars for listed companies since late 2006. The SEC expected higher scores, especially among SET50 and SET100 companies.

## Corporate Governance Report

The SEC and the SET continued their support to the Corporate Governance Report of Thai Listed Companies Project (CG Report) organized by the Thai Institute of Directors Association (IOD) for the fifth consecutive year. Under the assessment based on the Organisation for Economic Co-operation and Development (OECD) Principles, the CG Report revealed Corporate Governance practices of listed companies and yet provided them references for further development.

The 2006 CG Report showed that 216 out of 402 assessed listed companies had performed well with the final scores ranging from good to excellent (70 percent or more).

## Corporate Governance Promotion through Institutional Investors

The SEC required asset management companies to exercise their voting rights at listed company shareholders meetings on behalf of mutual funds, private funds and provident funds under their management. The asset management companies as institutional investors are required to disclose the criteria and details of their voting so as to (1) be a market force to listed companies to improve their transparency and efficiency and (2) be a guideline for minority shareholders to express their voting rights.

In monitoring progress, the SEC found all asset management companies properly disclosed their voting right criteria on their websites.

In 2007, the SEC will urge the Association of Investment Management Companies (AIMC)'s members to increase their roles of institutional investors in the shareholders meeting. Meanwhile, the AIMC will take a role as an information center of voting records of its members.

## Corporate Governance Education for Listed Companies

To promote better understanding of the importance and benefits of good corporate governance for listed companies and all stakeholders, e.g., shareholders, suppliers, customers and employees, the SEC staffs were delegated to be speakers in Corporate Governance related trainings and courses organized by the IOD and academic institutions. Listed companies were also welcome to share their views or seek the SEC's advice on Corporate Governance practices.

## Corporate Social Responsibility

In the continual effort to improve listed companies' roles and responsibilities toward the society and the environment in line with the international practices, the SEC Board, with the suggestion of Deputy Prime Minister and Minister of Finance M.R. Pridiyathorn Devakula, appointed the Corporate Social Responsibility Working Group to recommend the SEC on how to promote CSR among listed companies. The CSR Working Group includes representatives from relevant agencies and experts in associated fields.

## *Hanuman:* The Monkey Warrior

*The chief warrior of Rama, he is best known for his loyalty, quick wit, courage and assiduousness. His attributes of fearless self-sacrifice, acumen and sharp judgment lead to his achievements.*





# Hanuman

*He is depicted as a white-faced, gapping-mouthed Monkey Lord, wearing a coronet and carrying a trident as a weapon.*

\*Hanuman is promoted to the royal service title of Phraya Anuchit after the defeat of Totsakan.

# Securities Issuance and Offering

## What We Do

- Promote corporate governance practices among securities issuers and independent professionals
- Prevent regulatory hindrances to fund mobilization without compromising efficient protection of investors' interest
- Oversee information disclosure and inappropriate actions of securities issuers
- Supervise independent professionals, i.e., financial advisors, property valuers, auditors and credit rating agencies

## Key Achievements

- Screened quality of securities issuers
- Oversaw listed companies' disclosure of reports and information for decision making of shareholders regarding related or connected transactions
- Ordered listed companies to clarify unverified news
- Amended regulations to facilitate bond issuance and offering and product diversification in the bond market
- Expedited legal amendments and coordinated with relevant agencies to promote securitization
- Developed credit rating business and promoted issuance and offering of corporate debt securities

## Year in Review

### Securities Issuance and Public Offering

#### 1. Equity Issuance and Offering

In 2006, economic and political uncertainties greatly affected investment sentiments and securities trading in the capital market; however, the total value of

securities public offerings during the year amounted to 117.26 billion baht, significantly higher than the total value of 87.77 billion baht in the previous year due to the value surge of initial public offerings (IPOs) and private placements (PP). The substantial value of IPO shares issued and offered by several companies offset the fewer number of companies granted IPO approvals - 19 grantees in 2006 and 48 in 2005. The three largest IPO offerors of the year were Thai Beverage Plc. (overseas offerings for the total value of 21.51 billion baht), Rayong Refinery Plc. (9.36 billion baht) and G Steel Plc. (2.40 billion baht). In the PP category, the three largest offerors were Bank of Ayudhya Plc. (22.26 billion baht), The Bangchak Petroleum Plc. (5.99 billion baht) and TPI Polene Plc. (4.10 billion baht) (See table on page 43).

#### 2. Debt Securities Issuance and Offering

In the primary bond market, the total offering value of debt securities approved by or submitted filing to the SEC in 2006 was 1,354.89 billion baht, of which the domestic and overseas offering values were 1,294.51 billion baht and 60.38 billion baht, respectively. The majority of domestic offerings were short-term debentures with the total value of 594.89 billion baht, 10 times higher than that of 2005. Standard Chartered Bank (Thai) Plc. was the largest issuer with the value of 223.92 billion baht or about 90 percent of the total issued short-term debentures. In addition, Asian Development Bank and Citigroup Inc. issued baht-denominated bond in Thailand with the value of 6.50 billion baht and 2.60 billion baht, respectively.

## Equity Offerings

Types of Offerings	Value (billion baht) <sup>1</sup>	
	2005	2006 <sup>2</sup>
Initial public offerings (IPOs) <sup>3</sup>	24.00	39.36
Public offerings (POs)	20.61	17.42
Directors and employees stock option plans (ESOPs)	1.75	4.08
Private placements (PPs)	41.41	56.39
<b>Total</b>	<b>87.77</b>	<b>117.26</b>

Notes: <sup>1</sup> Including offering value of share-purchase warrants

<sup>2</sup> From report of securities sold as of December 31, 2006

<sup>3</sup> Including ESOPs taken place concurrently with IPOs

## Debt Securities Offerings

Types of Offerings	2005		2006*	
	No. of Issues	Value (billion baht)	No. of Issues	Value (billion baht)
<b>Domestic offering</b>	<b>128</b>	<b>962.64</b>	<b>98</b>	<b>1,294.51</b>
Commercial papers	n.a.	683.39	n.a.	535.27
Short-term debentures	n.a.	61.25	n.a.	594.88
Bonds	94	154.31	79	133.05
Convertible bonds	6	3.34	0	0.0
Securitized bonds	8	16.30	9	18.48
Structured notes	13	3.65	6	0.52
State agency bonds	5	33.40	1	3.20
Foreign bonds	2	7.00	3	9.10
<b>Overseas offering</b>	<b>6</b>	<b>56.33</b>	<b>8</b>	<b>60.38</b>
Bonds	5	55.51	7	55.65
Convertible bonds	1	0.83	1	4.73
<b>Total</b>	<b>134</b>	<b>1,018.97</b>	<b>106</b>	<b>1,354.89</b>

Note: \* From report of securities sold as of December 31, 2006



## **Development of Regulations Governing Securities Issuance and Offering**

### **1. Equity**

In 2006, the SEC amended several regulations in accordance with changing market conditions. For example, rules and procedures for the approval of securities offerings under different conditions were amended to better facilitate fast and convenient issuances and fund mobilization. The revision pipeline included rules and regulations for more efficient protection of retail investors' rights in such cases as the allocation of newly issued shares to existing shareholders (rights offering) and veto voting against ESOPs.

### **2. Debt Securities**

Key regulatory improvements were as follows:

(1) Shelf filing is permitted for investment grade or higher for issuance of short and long-term debt securities without a need to repeat the full filing of registration statement for each issue. This is to reduce paperwork and increase offering flexibility;

(2) Three-year shelf filing and English version filing are permitted to facilitate issuance of baht bonds by foreign juristic person; and

(3) Corporate debt securities issuers are permitted to undertake onshore and offshore fund mobilization more productively by having their bonds graded by recognized international credit rating agencies.

## **Promotion of Corporate Governance Among Securities Issuers**

### **1. Supervision of Information Disclosure**

#### **(1) Examination of Documents and Reports**

Disclosure of information is a key indicator of good corporate governance practices of securities issuers including listed companies. Accurate and complete disclosure renders sufficient information for investors to make decisions and identify quality companies.

Hence, information disclosure has always been a focused area of supervision. The SEC urges securities issuers to provide the investing public with correct and complete information to avoid material misunderstanding, ensure strict compliance with associated regulations, and prevent inappropriate transactions that may cause damages to the investing public. In 2006, two major approaches to disclosure-related issues were:

1.1 Instructed securities issuers to clarify and rectify information that is different or inconsistent with those of previously disclosed in the registration statement or draft prospectus, no matter if the filing was still in process or the registration statement had already become effective. Intentional filing of false information or concealing of public information were subjected to legal actions; and

1.2 Randomly selected and reviewed listed companies' 2005 annual reports (Form 56-2) and annual registration statements filed in 2006 to determine the completeness and clarity of the disclosed information. Several failed to provide such quality information thereby the SEC issued a circular letter to every listed company with a guideline for future disclosure of accurate and complete information in compliance with associated rules and regulations.

### **(2) Financial Statements Monitoring**

2.1 Owing to the increasing number of listed companies, the SEC set up criteria for selection of listed companies' financial statements, prioritizing by risk based methodology especially companies with possible material incompliance with accounting standards. Some of the key selection criteria include:

(1) Numerous transactions with or loans to related companies;

(2) Resignation of auditors during accounting periods;

(3) Resignation of executive officers;

- (4) Changes in accounting policies;
- (5) Complaints from investors;
- (6) Setting up large amounts of allowance for doubtful accounts without subsequent repayment; and
- (7) Warning signs of irregular financial ratios such as return on total assets declining or differing from the industry index and longer debt repayment period.

Should there be evidence to suspect a case of inaccuracy incorrect preparation of financial statements, the SEC

will request for a clarification from the listed company in question and its auditor. The SEC may also seek advice from the Accounting and Corporate Governance Steering Group, which consists of external experts on the accounting and legal, before determining appropriate actions further. As a result, the SEC may order the listed company to correct their financial statements, have a special audit on suspicious items or provide additional clarifications whereby investors can made appropriate judgement and well informed investment decisions.

## Summary of Financial Statements Review


unit: number of companies

Quarterly and Annual Reviews	2005	2006
Listed companies on SET and mai	504	517
Listed companies reviewed by the SEC	297	258
Percentage of the reviewed listed companies	59%	50%
Seek advice from the Steering Group	10	5
Order to conduct special audits	4	2
Order to make corrections	8	7

## Summary of Correction Orders Categorized by Issues

unit: number of companies

Accounting Standards	2005	2006
Doubtful accounts and bad debts	2	3
Scope limitation of auditing or reviewing by auditors	2	2
Revenue recognition	2	2
Revenue recognition for real estate business	1	1
Consolidated financial statements and investments in subsidiaries	1	1
Provisions, contingent liabilities and contingent assets	1	-
Impairment of assets	1	-
Definition of assets and liabilities according to accounting framework	1	-



2.2 The SEC reviewed financial statements of all IPO companies and working papers of their auditors, giving a special emphasis on the efficiency of the internal control system to ensure accuracy and reliability of such financial statements.

2.3 In 2006, the SEC issued a regulation requiring limited companies who plan to issue public offering debentures to prepare their financial statements in accordance with the accounting standards imposed upon public companies<sup>1</sup>. The SEC, hence, reviewed the financial statements of 19 such issuers, found slight errors on disclosure of information, and consequently instructed the companies to rectify them in the next accounting period. The areas of errors included non-compliance with accounting standards in setting allowance for doubtful accounts in consumer finance business, disclosure of account receivables aging and segment reporting.

2.4 In reviewing financial statements and press releases disseminated by listed companies, the SEC requests additional clarification on suspicious items from listed companies and their auditors to ascertain compliance with accounting standards and sufficient and accurate information for investors' making a well informed decision. In 2006, Most issues of concerns that called for clarifications are as follows:

(1) Business acquisitions that created high amount of goodwill;

(2) Quality and provision of assets such as adequacy of impairment loss or allowance for doubtful accounts and appropriateness of capitalized of expenses as assets;

(3) Inconsistently applied accounting policies such as changing between Investment Property to Property, Plant and Equipment and vice versa;

(4) Disclosure of related party transactions such as pricing policies for transactions with related party appeared to be unclear or unfair to the company; and

(5) Disclosure of aging account receivables when become over due such as not separating aging periods of related party from third party debtors as well as general debtors from restructured ones, and suspicious true sale transactions.

### **(3) Improvement of Information Disclosure in Financial Statements**

The SEC issued several preventive measures to improve the quality of information disclosure in financial statements. These included:

3.1 Issuing guidelines, in cooperation with the Federation of Accounting Professions (FAP), to establish mutual understanding and consistent practices according to accounting standards as well as comparability of financial statements of all listed companies. In 2006, the SEC issued a guideline for rectifying incorrect capital reduction to offset negative retained earning.

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<sup>1</sup> The SEC Notification KorBorChor No. 47/2548 Re: Exemption from Accounting Standards Compliance, which allows exemption on certain accounting standards for non public limited companies, i.e.:

1. Notification No. 24 Re: Disclosure of Financial Information Categorized by Business Units

2. Notification No. 25 Re: Statements of Cash Flows

3. Notification No. 36 Re: Asset Depreciation

4. Notification No. 44 Re: Consolidated Financial Statements and Investment Accounting in Subsidiaries

5. Notification No. 45 Re: Accounting for Investments in Affiliates

6. Notification No. 47 Re: Disclosure of Information on Connected Persons and Companies

7. Notification No. 48 Re: Item Presentation and Information Disclosure of Financial Tools

3.2 Coordinating regularly with auditors and listed companies, especially issues on the oversight of accounting practices, disclosure of essential information for investors' decision making, and clarification of misinterpreted understanding. In 2006, the SEC sought cooperation with auditors in five following areas:

1. Provision for profit and loss sharing agreements of financial institution;
2. Debenture issuing expenses;
3. Provision for allowance of doubtful accounts of general businesses;
4. Provision for allowance of doubtful accounts and impairment loss of foreclosed assets transferred from debtor of consumer finance business; and
5. Segment reporting.

## **2. Supervision of Actions Potentially Detrimental to Listed Companies**

In monitoring the information disclosure of listed companies, the SEC closely monitor related party transactions and acquisition or disposition of material assets in order to deter inappropriate transactions that may cause improper benefit transfers and unfair advantages over listed companies and minority shareholders. The SEC has laid out guidelines for overseeing listed company transactions. Any such transactions found to be doubtful or false by dishonest intention or conceal what should have been public information are subject to the SEC's investigation and subsequent appropriate measures depending on the severity of each case. For example, cases of unclear disclosure are initially forwarded to the SET, the primary supervisor of information disclosure of listed companies, who will instruct the responsible companies to provide clearer, proper and sufficient information for investors' decision making. For transactions of questionable transparency, the SEC requires the management to justify or amend such transactions, as the case may be. In several occasions, the companies cancel such transactions after the SEC's inquiries.

Additionally, the SEC encourages analyses and comments on the appropriateness and impacts of such transactions or if there is evidence that executive officers have committed wrongful acts, appropriate legal actions will follow.

In 2006, the SEC ordered 22 listed companies to clarify related party transactions and acquisitions or dispositions of material assets. The total value of such transactions was 10,342 million baht. Of this, three companies cancelled inappropriate transactions worth 648 million baht in total, compared to five companies with the cancellation of 400 million baht worth of inappropriate transactions in 2005.

In addition, the SEC reviewed all related party transactions of every listed company that had been completed and disclosed in the 2005 annual registration statements and notes to financial statements. Such transactions with high or unusual value were further scrutinized. According to the SEC's findings, related party transactions of some listed companies were unclearly disclosed or potentially inappropriate in such matters as pricing and loan policies for related parties, potential loss for such loans, and the companies' or executive officers' actions to recover such loans. In all of these cases, the SEC required clarifications from the listed companies. Those found to be in violation of the SET's regulations were forwarded to the agency for further proceedings.

## **3. Directors and Executives Registry Database**

To ensure that directors and executives of securities issuers perform their fiduciary duties with most care and integrity for the best interest of their companies and shareholders, the SEC requires that such directors and executives meet all requirements as prescribed by laws and be registered on the SEC's Directors and Executives Registry Database. Those who perform their duties improperly or dishonestly and cause

damages to the companies or shareholders will be rejected or removed from the Database. In 2006, 13 registered directors and executives were removed from the SEC's list, which currently consists of approximately 8,400 registered directors and executives.

## Supervision and Improvement of Independent Professionals

### 1. Financial Advisors and Property Valuers

#### (1) Approval

Since information provided by financial advisors and property valuers can influence the decision making of investors, the SEC employs strict criteria for granting approval for persons or juristic persons to perform duties of financial advisors and property valuers so

that investors can be fairly assured of the quality of such approved professionals. Major requirements imposed on financial advisors and property valuers include (1) not possessing prohibited characteristics, (2) well established with operating readiness and personnel, and (3) having operational controllers/principal valuers (as the case maybe) recognized by the SEC. All approvals are term-specific and subject to periodical reviews. Information taken into consideration for a renewal includes the performance and complaints against the individual.

As of December 31, 2006, 71 financial advisors and 46 property appraisal companies were on the SEC's approved list. Consideration and approvals of financial advisors and property valuers are summarized below.

Types of Applicants	Types of Application			Results	
	New	Renewal	Approval Transfer <sup>1</sup>	Approved	Denied
Financial advisors	1	13	3	17 <sup>2</sup>	-
Property valuers	6	14	-	17	3

Notes: <sup>1</sup> The approval transfers occurred when there were reorganizations within the groups of companies

<sup>2</sup> Including the three transfers of approval

#### (2) Supervision of Practices

To ensure that independent professionals carry out their duties according to professional standards, the SEC created a list of duties of independent professionals and a list of punitive measures against those who fail to fulfill their duties. In considering inappropriate actions or misconducts of financial advisors and property valuers, the SEC takes into account professional advice, comments and suggestions of working groups and panels of external experts to ensure clarity, transparency and fairness.

In 2006, the SEC imposed administrative sanctions against two financial advisors and two property valuers on accounts of improper discharge of duties.

#### (3) Promotion of Self-Regulatory Property Valuers

The SEC has promoted high standard and credibility of property valuation profession. One of the progresses in the area is the creation of international compliance standards and codes of conduct for professional property valuers, a joint effort with the Kenan Institute

Asia. In addition to regular monitoring of performance of property valuers for public purposes, the SEC has supported the Property Valuation Profession Development Program co-organized by the Valuers Association of Thailand and the Thailand Valuers Association, in cooperation with the Real Estate Business Program of Thammasart University. The program helps to raise the quality of property valuers for public purposes through training and qualifying examinations which shall replace the SEC's examinations for principal valuers.

In addition, the SEC has a preliminary agreement with the associations to elevate their status to SROs. They will approve and supervise property appraisal companies and property valuers and will in turn be under the SEC's supervision. The associations are in the process of drafting guidelines pursuant to the agreement with the SEC for the approval and supervision of property appraisal companies and property valuers.

#### **(4) Due Diligence Handbook**

The SEC issued a due diligence handbook to offer guidelines for financial advisors in performing their duties properly and thoroughly while preparing for public offering and securities listing of issuing companies. This is to provide investors with correct and complete inputs for investment decisions. The efficient duty performance of financial advisors helps to speed up the SEC's application screening and approval process.

In late 2006, the SEC held a seminar to introduce the Due Diligence Handbook to financial advisors, emphasizing useful criteria for verifying the accuracy of company information as follows:

(1) Transparent shareholding structure without conflicts of interest;

(2) Fair and liable related party transactions;  
(3) Internal control adequacy; and  
(4) Credibility and accuracy of financial statements.

#### **2. Auditors**

For auditors of companies under the SEC's supervision (i.e., listed companies, securities companies and asset management companies), the SEC requires them to hold certified public accountant (CPA) license and pass the standard for public company auditors screened by the FAP.

The SEC-approved auditors must have professional knowledge of public company accounting standard and perform their audit work prudently, carefully and professionally in accordance with auditing standards. In case of negligence or breach of duties, the SEC will pursue administrative sanctions, ranging from warning, probation, suspension or revocation of approval, against such auditors.

In 2006, there were 28 auditors applying for the SEC's approval. Of this, 10 were new applicants and 18 were the renewal. As of December 31, 2006, there were 102 auditors on the SEC's approved list.

#### **Takeovers Supervision**

The financial sector had predicted a busy year for business takeovers in 2006; however, it turned out otherwise due to changing environmental conditions and political uncertainties during the year. Overall, the total number of tender offers for business takeovers was relatively the same as previous years. Most takeovers of 2006 were for business and production expansion. Some were the cases of business restructuring through share transfers for another business by existing shareholders.

In supervising business takeovers, the SEC aims to protect minority shareholders and provide fair exit choices in cases where takeovers involve changes in power of control within the company.

Shareholders are entitled to correct and sufficient information especially on their options, associated risks and business policies after the takeovers, for making decisions on tender offer acceptance.

### Summary of Tender Offers for Business Takeovers

Tender Offers	2005	2006
<b>For business takeovers</b>		
Tender offer value (billion baht)	26.97	315.52
Acquired share value (billion baht)	8.25	86.56
No. of cases	14	15
<b>For delisting</b>		
Tender offer value (billion baht)	0.58	7.53
Acquired share value (billion baht)	0.34	6.08
No. of cases	4	6
<b>Total</b>		
Tender offer value (billion baht)	27.54	323.05
Acquired share value (billion baht)	8.60	92.64
No. of cases	18	21

### Summary of Tender Offer Waivers

Types of Waivers	No. of Cases
<b>Granted waivers</b>	<b>18</b>
(1) No changes in power of control	7
(2) Rehabilitation	3
(3) White wash	2
(4) Others	6
<b>Waivers of procedures in making tender offer</b>	<b>5</b>

# Intermediaries

## What We Do

- Enhance good corporate governance of capital market intermediaries in the areas of management and service
- Grant licenses and supervise securities and derivatives businesses
- Examine risk exposures of intermediaries
- Approve and supervise investor contacts

## Achievements

- Strengthened checks and balances mechanism of securities companies and derivatives business operators through independent directors
- Amended capital adequacy regulations to sustain the financial soundness of securities companies and derivatives brokers in dealing with transactional risks

- Issued the Know Your Customers and Customer Due Diligence regulation to enhance securities business transparency and market confidence
- Reinforced the securities companies' and asset management companies' compliance with the Anti-Money Laundering Law
- Allowed securities companies to engage in other businesses in order for diversifying risks and enhancing returns
- Revised regulations, issued guidelines and organized educational programs on relevant rules and regulations for investor contacts

## Year in Review

### Licensing, Registration and Approval

	Types of Permission	As of Dec 31, 2005	As of Dec 31, 2006
<b>License</b>	Securities brokerage	41	41
	Securities dealing	39	39
	Securities underwriting	40	40
	Securities borrowing and lending	11	13
	Securities financing	1	1
	Derivatives brokerage	26	27
<b>Registration</b>	Derivatives brokerage <sup>1</sup>	2	1
	Derivatives dealing	18	21
<b>Approval</b>	Executives of securities companies	86	172 <sup>2</sup>
	Major shareholders of securities companies	28	12 <sup>3</sup>

Notes: <sup>1</sup> Providing services for institutional investors only

<sup>2</sup> Granted in 2006, including the approval granted to existing directors to act as independent directors

<sup>3</sup> Granted in 2006



## **Regulatory Issuance and Development**

### ***1. Independent Directors***

To enhance corporate governance in the industry, the SEC imposed an additional rule of independent director requirements on securities companies and derivatives agents. In this connection, such intermediaries are required to appoint independent directors to fill at least one-fourth of the board seats. In addition, the appointees must be approved by the SEC and free from any kinds of direct or indirect relationships, including employment, share ownership and management, with the securities companies or derivatives brokers by whom they are appointed. The intermediaries had to fully comply with the regulation by the end of 2006. However, owing to continual increases in conglomerate businesses, the SEC granted a waiver for subsidiaries of authorized financial institutions if they can demonstrate that their parent companies have already implemented a strict corporate governance practices.

### ***2. Net Liquid Capital***

To ensure that securities companies and derivatives brokers have adequate liquid assets to promptly satisfy the claims of clients and other liabilities, as well as potential market and credit risks, the SEC added the requirement of minimum net liquid capital rule (NCR). Besides the minimum NCR of 7 percent of general indebtedness, the intermediaries are also required to maintain the minimum net capital of 15 million baht or 25 million baht if also holding a derivatives broker license.

### ***3. Customer Due Diligence***

To promote market confidence and transparency, the SEC required securities and derivatives business operators to implement adequate measures for preventing unfair trading activities and precluding possible risks in becoming abettors or supporters of misconducts.

As such, securities companies and derivatives business operators must run a thorough examination on applications, customers' identities, ultimate beneficiaries, as well as decision maker of each trading account. This includes an implementation of Know Your Customers requirement, a review of their customers' credit lines on a regular basis and the maintenance of customer documentation for at least five years from the date when the trading accounts are closed or trading contracts are cancelled.

### ***4. Settlement Risk Management***

To strengthen settlement risk prevention, the SEC required all securities companies to set up an adequate risk management system that detects the following irregularities in the trading activities of customers or groups of customers:

- Inappropriate trading patterns or behaviors against the SET regulations;
- Concentrated trading on particular securities, especially those with unusual price movements or unusually high turnovers; and
- Material changes in trading behavior.

In addition, the securities companies must set up a stringent credit line control that can deter irregular trading activities but is flexible enough to support business policies and normal course of market activities. Meanwhile, records of trading and relevant information and comments must be kept for future reference. The SEC coordinated with the Association of Securities Companies (ASCO) in drawing guidelines for setting and limiting customer credit lines in case of overheated or unusual trading. In contacting investors, securities companies must have in place a tape recording system to keep complete evidence of conversations between their sales representatives and clients on investment advice and trading orders, including the trading order via mobile phone.

### **5. Support for the Anti-Money Laundering Law**

To deter securities companies and asset management companies from being exploited in money laundering and financing of terrorist activities, the SEC amended the related rules and regulations in support of the Anti-Money Laundering Law. In addition, the SEC and the Anti-Money Laundering Office jointly held seminars to educate the management and employees of the securities company in this issue.

The topic of anti-money laundering and financing of terrorism prevention was added to the inspection of securities companies plan. Furthermore, a pilot assessment was conducted to ensure securities companies' readiness before Thailand's upcoming participation in the assessment project entitled, Report on Observance of Standards and Codes: Anti-Money Laundering and Combating the Financing of Terrorism (ROSC: AML/CFT) in the beginning of 2007.

## **Business Development**

### **1. Securities Borrowing and Lending (SBL)**

Following the industry survey in 2005, the SEC in 2006 held focus group meetings with SBL operators to exchange views on obstacles and suggestions for the development of SBL business in order to better revise the existing regulations. Later in the year, the SEC published the proposed draft of the principles and related regulations before proceeding with the issuance of such regulations.

### **2. Agricultural Futures Trading**

To expand business opportunities for securities companies and derivatives business operators, the SEC was planning to allow them to participate in the agricultural futures market. Consequently, the SEC conducted an industry survey on the possibility of such business opportunities.

### **3. Offshore Investments of Securities Companies**

In preparation for the liberalization of securities business in 2012, the SEC coordinated with the BOT in favor of offshore investment by proprietary port of securities companies. This aimed to provide securities companies with more channels to generate and diversify their revenues. In late 2006, the BOT approved to increase investment quota for offshore investments of securities companies. The details of quota allocation, securities types and risk management standards were expected to be issued in the first quarter of 2007.

## **Inspection**

In 2006, the SEC inspected 10 securities companies in line with the risk based approach (RBA). The results showed that most of them had improper internal control system and deficiency preventive measures against conflicts of interest and the use of inside information. Besides, the consideration of customer credit lines was inconsistent with company rules and there were some minor cases in violation of the law. The SEC ordered corrections of such misconducts and forwarded the cases to the Settlement Committee for fine penalties. The results of such inspections were taken into account in reviewing risk exposure of each company and analyzed in support of future revision of relevant regulations.

In August 2006, the SEC inspected provincial branches of some securities companies in Chonburi and Chiang Mai. The overall results showed that most branches had sufficient measures to prevent irrelevant parties from accessing to clients' trading information. However, the client and investor contact areas were not separated clearly. The SEC therefore ordered adjustments on the matter.

Types of Inspection	No. of Securities Companies
<b>RBA</b>	<b>10</b>
• Routine inspection	7
• Follow-up inspection	3
Theme inspection	<b>11</b>
Derivatives brokerage readiness inspection	<b>26</b>
Complaint-based inspection	<b>3</b>

The SEC inspected the readiness of 26 business operators licensed to undertake derivatives brokerage business before allowing them to begin the operation to ensure investor confidence in the companies' operational system for derivatives business. As of December 31, 2006, there were 20 derivative brokers in operation.

### **Licensing and Supervision of Limited Brokerage, Dealing and Underwriting**

In 2006, the SEC granted the limited brokerage, dealing and underwriting (LBDU) license to three companies, namely Tisco Bank Plc., Advance Life Assurance Co., Ltd. and Finansia Asset Management Ltd. The total number of licensees increased to 19 from 16 in 2005.

In supervising the LBDU business, the SEC requires the licensees to comply with the regulations imposed on fund management companies, especially on investment units allocation. In 2006, the SEC revised the regulations governing LBDU business management concerning omnibus accounts as follows:

1. The LBDU licensees shall not allocate investment units exceeding one third of the total units sold to any particular clients;

2. The LBDU licensees shall review and inform fund management companies in cases where any persons hold more than one third or reduce their

unitholding to lower than one third of the total units sold. If such cases are the exempted persons who are allowed to hold units in excess of the one-third limit, the LBDU licensees must acknowledge the management companies of such information;

3. In case of unitholders' voting, the votes that exceed the one-third limit shall not be counted.

### **Licensing and Supervision of Investment Advisors**

In 2006, the SEC granted investment advisory service licenses to Creveling & Creveling Financial Planning Ltd. and SCB Quant Asset Management Co., Ltd., increasing the total number of licensees to 27.

#### **• Supervision of Investment Advice via the Media**

To ensure appropriateness of investment advice via media such as television, radio, newspaper, website, short message services on mobile phone, and seminar, the SEC since 2004 has required securities companies to screen and submit to the SEC the name list of their qualified investor contacts who provide investment advice via the media. As of December 31, 2006, there were 198 qualified investor contacts from 42 securities companies, increasing from 185 from 40 companies in the previous year. The lists were posted on the SEC website for public viewing.

In 2006, the SEC monitored more than 60 cases of investment advice via the media. In cases where advice was given by securities company officers, the SEC would take a random check to see if such advice was supported by research papers and if such reports had already been disseminated to the companies' clients. This aimed to ensure that such investment advice was well grounded and equally distributed to the public without causing advantages or disadvantages to any parties. In the case where investment advice was given by unauthorized investment advisors, the SEC would warn them to suppress their actions. During the year,

one investment advisor was put on probation on account of providing investment advice on a website based on rumors.

## Approval and Supervision of Investor Contacts

### 1. Approval of Investor Contacts

To be investor contacts, qualified persons must be approved by the SEC. However, to perform the duties, investor contacts must be officially assigned by securities companies. In practice, the approved investor contacts outnumber the active ones.

Investor Contact	2005 <sup>1</sup>		2006 <sup>1</sup>		Change (Active Only)
	Approved	Active <sup>2</sup>	Approved	Active	
<b>Securities</b>					
Type A (analysis function)	865	391	1,016	397	+6 (1.53%)
Type B (sales function)	23,478	18,677	24,583	19,340	+663 (3.55%)
<b>Total</b>	<b>24,343</b>	<b>19,068</b>	<b>25,599</b>	<b>19,737</b>	<b>+669 (3.51%)</b>
<b>Derivatives</b>					
Type A (analysis function)	2	0	108	71	n.a.
Type B (sales function)	393	0	3,543	2,643	n.a.
<b>Total</b>	<b>395</b>	<b>0</b>	<b>3,651</b>	<b>2,714</b>	

Notes: <sup>1</sup> Accumulated as of December 31

<sup>2</sup> Prior to the opening of Thailand Futures Exchange

During the launch year of Thailand Futures Exchange in 2006, the number of derivatives investor contacts totaled to 2,714, consisting of 2,643 sales persons and 71 analysts. Most of them was granted a temporary approval after taking a fundamental course on derivatives business knowledge and associated regulations. To continue their status, they needed to pass the fundamental course examination by December 31, 2006. This procedure helped to supply sufficient derivatives


personnel in the formative period and prepared for further knowledge enhancement later on.

### 2. Regulatory Issuance and Development

#### • Securities Investor Contacts

The SEC revised the regulations governing securities investor contacts as follows:

1. The investor contact approval shall be valid for two years to allow periodic reviewing of their qualifications;



2. The renewal of approval shall be granted to investor contacts who do not have prohibited characteristics and can prove that they have proper knowledge and skills for undertaking their duties. According to the previous regulation, investor contacts wishing to maintain their status have to attend the refresher course offered by the SEC's authorized training institutes only. Under the new regulation, applicants can choose to take either internal training courses or external ones approved by the SEC. This revision provides securities companies with flexibility to custom design training courses suitable for their services;

3. Foreign investor contacts may use their qualifications to apply for a local approval through the securities companies they work for, as opposed to the previous individual application. The securities companies have the duty to ensure the maintenance of their qualifications at all times because the local approval shall be terminated once their licensee status in their home jurisdiction is terminated.

- **Derivatives Investor Contacts**

1. The SEC issued guidelines for code of conduct of derivatives investor contacts, which emphasize on the followings:

- (1) Honesty and integrity in duty performance;
- (2) Knowledgeable and skillful operation for the investors' best interest;
- (3) Adequate disclosure of essential information for investors' decision making;
- (4) Safeguard investors' confidential information;
- (5) Careful and transparent operation without conflicts of interest; and
- (6) Not support, order or cooperate with any persons in violation of derivatives business regulations or relevant laws.

The above guidelines are in line with the code of conduct of securities investor contacts.

2. Applicants for an approval of derivatives investor contact type A (derivatives analyst) may use a bachelor's degree, securities analysis experience of at least four years during the past seven years, and the passing of fundamental examination on product and regulatory knowledge of derivatives business as the qualifications for such application.

In addition, the SEC extended the expiry date for the temporary approval of derivatives analysts from December 31, 2006 to June 30, 2007 to supply sufficient personnel for the task and allow such investor contacts enough time to comply with the above criteria for the examination for standard approval.

### ***3. Development of Investor Contact Competency***

- **Educational Programs**

The SEC staffs were guest lecturers in the area of rules and regulations at the refresher course where investor contacts can learn about the SEC's observations and expectations. In 2006, there were 8,510 securities and derivatives investor contacts taking the refresher course.

- **Examination Materials**

In preparation for the upcoming innovative transactions and products in the capital market, the Investor Contact Curriculum and Examination Working Group, comprising industry and academic experts, continued to develop and improve the examination materials for the approval of investor contacts. In 2006, the working group designed additional examinations for securities investor contacts. In addition, the SEC appointed additional academic experts to review all examinations to ensure accuracy and appropriateness with the changing market environments.

# Asset Management

## What We Do

- Promote corporate governance practices of asset management companies and encourage their active role, as institutional investors, in the improvement of such practices among listed firms
- Grant licenses and oversee securities and derivatives business operators in the management of mutual funds, private funds, derivatives and venture capital
- Authorize mutual fund schemes and develop innovative products in response to investors' demands
- Approve and supervise fund managers, fund supervisors and custodians

## Key Achievements

- Facilitated mutual funds and provident funds to diversify their risks and expand their chances to enhance returns through offshore investments
- Issued and revised regulations governing asset management businesses in the areas of fund management, unitholder structures, terms of maturity, operational systems, fund managers, conflicts of interest and fund performance benchmark

- Improved operational efficiency of asset management firms by revising several reporting forms, assessing risk management systems, increasing flexibility in law enforcement and conducting industry opinion surveys to maximize effectiveness industry-wide
- Conducted risk based approach (RBA) inspection covering all major areas on asset management firms
- Strengthened the infrastructure of provident fund management business, especially through improvement of public literacy, to increase such fund offering to all sectors

## Year in Review

### Business Overview

In 2006, the mutual fund and provident fund sectors experienced satisfactory growth, which reflected the public's better understanding of funds as savings/ investment tools to generate appropriate returns. In supervising asset management business, the SEC takes into account business operators and investors' opinions on revisions of associated regulations to ensure that investors' rights are protected without hindering business expansion or product innovation.

Types of Funds	2005		2006	
	No. of Funds	NAV (billion baht)	No. of Funds	NAV (billion baht)
Mutual fund*	584	775.39	716	1,040.70
Private fund	1,392	142.56	1,235	147.53
Provident fund	542	345.90	525	390.93

Note: \* Excluding Property Fund for Resolving Financial Institutions Problems (Type II Fund), Mutual Fund for Resolving Financial Institutions Problems (Type III Fund), Property and Loan Fund (Type IV Fund), and Country Fund.

## Licensing/Approval of Asset Management Businesses

Licensing/Approval	As of Dec 31, 2005	As of Dec 31, 2006
Mutual fund management	18	20
Private fund management*	30	30
Derivatives management	6	9
Custodians	13	13
NAV verifiers	11	11
Fund supervisors	10	10
Executives of asset management companies	562	611
Mutual fund managers	212	229
Private fund managers	145	155
Derivatives fund managers	2	27

Note: \* Including provident fund management

## Allocation of Offshore Investments

In 2006, the SEC facilitated risk diversification of fund management companies by cooperating with the BOT in adding a quota of USD1.3 billion to the previous year's, making the total of USD1.8 billion for offshore investments of retail funds and provident funds. In this regard, the SEC specified the criteria for distributing the updated quota as detailed below:

### (1) Quota allocation

1.1 The quota allocation for the previous grantees was based on the report of net capital outflows as of April 30, 2006 as follows:

Types of Funds	Net Capital Outflow (% of previous quota)	Additional Quota (USD million)
Retail fund	> 50%	25
	25%-50%	15
	< 25%	10
Provident fund	≥ 50%	10

1.2 Management companies granted a quota for the first time in 2006 automatically received a quota of USD25 million for retail funds and USD10 million for provident funds.

Offshore quotas for retail funds and provident funds were intertransferable within the total limit for each asset management company.

### (2) Request for additional quotas

2.1 Companies could request an additional USD10 million quota when their investments in securities abroad exceeded 75 percent of the previously approved allocation;

2.2 Companies could request and specify a preferred quota in case their sale of IPO of retail funds investing abroad had exceeded the total quota the companies had received.

(3) Pending quota

As of December 30, 2006, companies with the net capital outflow less than 50 percent of the total allocation (the combined quota of 2005 and 2006), had to return half of the leftover quota to the SEC for re-allocation to other fellow companies.

## **Revisions of Asset Management Regulations**

### **1. Fund Management**

The SEC streamlined rules, conditions and procedures for management of mutual funds, private funds, and provident funds by compiling regulations governing management of funds, operational systems, investment portfolios and prevention of conflicts of interest for more convenient reference.

### **2. Unitholding Limits of Retail Funds**

To prevent individuals or persons in the same group from exploiting retail funds for unfair tax benefits and to ensure that such funds are truly an investment channel of choice for retail investors, the SEC issued a regulation limiting the allocation of fund units for individuals or persons in the same group to not exceeding one third of the total units sold.

### **3. Permissible Types of Assets and Investments**

The SEC amended the regulation governing investments of mutual funds, private funds and provident funds to increase opportunities for better returns under reasonable risks. The revision allows such funds to invest in derivatives and structured notes under specified rules and limits. In addition, private funds are permitted to make short sale and securities borrowing.

### **4. Type 2, Type 3, and Type 4 Funds**

The SEC revised the maturity deadline of Property Fund for Resolving Financial Institutions Problems (Type II Fund), Mutual Fund for Resolving Financial Institutions Problems (Type III Fund), and Property and Loan Fund (Type IV Fund) from within 10 years from the registration date to no later than December 31, 2015. In addition, the deadline for these funds to dispose of ineligible assets was extended from one year to within five years as from the dates of acquisition.

### **5. Operational System**

To increase the efficiency and reliability of fund management companies, the SEC required them to set up four basic operational systems as follows:

(1) Organizational Structure that demonstrating clearly segregation of roles and responsibilities of work units.

(2) Integrated Human Resource System that ensures sufficient and appropriate delegation of duties and assignments, recruitment and monitoring, performance evaluation and competency development.

(3) Fund Management Operating System that includes procedures for client screening and services, purchase and redemption process for client's order, complaint handling, investment management, back office supports, independent compliance functions and data preparation and retention for at least five years.

(4) Internal Control System that supports good corporate governance with objectives, missions and systematic review under the approval of top management.



## **6. Prevention of Conflicts of Interest**

The SEC issued regulations governing conducts that may cause conflicts of interest in fund management by adding preventive measures in four main areas: (1) proprietary trading, (2) affiliated transactions, (3) soft commissions and (4) staff dealing.

## **7. Fund Manager**

To keep up with changing economic and investment conditions, the SEC was amending the regulation governing mutual fund managers, private fund managers and derivatives fund managers which has been in use since 2001 by (1) tuning the application procedures and the prohibited characteristics of fund managers of all types with those governing personnel in other securities businesses and (2) raising the compulsory knowledge levels of fund managers in response to the increasing sophistication of financial instruments. The SEC, taking into account views and suggestions from a public hearing, expected that the amended regulation would come into force within 2007.

## **8. Exemption from Private Fund and Investment Advisory Businesses**

To increase flexibility in outbound investments for local institutional investors, the SEC permitted foreign companies with licenses to operate securities businesses in the jurisdictions of their home countries to solicit and offer foreign securities for sale to local institutional investors without being considered as operating private fund or investment advisory businesses, nor required to apply for such business licenses. However, such foreign companies were subjected to the qualifications and soliciting procedures as specified by the SEC.

## **Enhancing Efficiency of Fund Management Companies**

### **1. Revision of Fund Data Reports**

To improve supervisory efficiency and streamline reporting procedures of fund management companies, the SEC revised formats, methods and requirements for reporting data of mutual funds, private funds and provident funds based on the usefulness of such data. Starting January 2008, all management companies must use the revised report forms that categorize investment data mainly by asset classes and types of transactions. The SEC also revised the reporting format for affiliated transactions and fund crossing transactions to ensure transparent disclosure and readability.

### **2. Assessment of Risk Management System**

A working group of specialists looked into the results of the Self-Assessment Questionnaire (SAQ) submitted by 18 licensed asset management companies to evaluate their portfolio risk management and internal control systems, focusing on the adequacy and appropriateness of such systems, and gave comments and advice on system improvement and preparation for the SEC's onsite theme inspection in 2007.

### **3. Revised Penalties for Inadvertent Misconducts**

The SEC revised the penalties for breaches of investment limits as prescribed in investment projects or stipulated by law in cases where such breaches are unintentional and the damages are immaterial. In this regard, the wrongdoers have to correct their conducts and compensate for damages for the best interest of investors.

#### **4. Quarterly Compliance Meeting**

Carrying on the success in 2005, the SEC in cooperation with the Association of Investment Management Companies (AIMC) and its members held quarterly compliance meetings throughout 2006. The forum created an ongoing opportunity for the compliance officers to better communicate with the SEC, exchange their knowledge and experience, and keep updated on regulatory changes. Useful information and suggestions from compliance officers at the meetings were taken into consideration for regulatory amendment to facilitate proper operation and industry development.



#### **Inspection**

In 2006, the SEC completed risk based approach (RBA) inspections on all asset management companies (excluding two newcomers established during the year) together with commercial banks, securities companies and insurance firms licensed to manage private funds and provident funds. The areas of inspection covered breaches of law and deficiencies in management systems related to customer relations, reliability of data entry, actions that may lead to conflicts of interest, prudential coverage, internal control and compliance culture.

The SEC ordered the companies to rectify or improve their operational and internal control systems, especially in the areas of checks and balances, enterprise risk

assessment as part of the auditing plan, comprehensive inspection on all material aspects and supervision of employees' compliance with company rules. In addition, full reports of company rectifications and inspection results must be acknowledged by the companies' board of directors.

#### **Infrastructural Development of Provident Fund Business**

The SEC is working as the registrar of provident funds and has the duty to amend regulations and provide comments and recommendations regarding rights and duties of provident fund members under the fund articles. As of December 31, 2006, there were 19 provident fund management companies and 11 net asset value verifiers under the SEC's supervision.

In 2006, the SEC made progresses in developing the infrastructure of the provident fund business as follows:

##### **1. New Provident Fund Benchmarks**

The SEC, in cooperation with the AIMC, revised the benchmarks to more properly evaluate performance of provident funds and fund managers. Coming into force as of January 1, 2007, the new benchmarks are categorized by asset classes as detailed in the table on page 62.

##### **2. Management Costs and Fees Calculation Standards**

To urge fund management companies to focus more on service quality than price competition, the SEC directed provident fund management companies to charge management fees at a rate not lower than their operating costs. The AIMC proposed standards of

### Provident Fund Status

	As of Dec 31, 2005	As of Dec 31, 2006	Change
NAV (billion baht)	345.90	390.93	+45,029 (13.02%)
No. of funds	542	525	-17 (-3.14%)
No. of employers	6,792	7,519	+727 (10.70%)
No. of members	1,665,709	1,809,953	+144,244 (8.66%)
Average NAV per member (baht)	207,659	215,988	+8,329 (4.01%)

### Investments of Provident Funds

Type of Investment	As of Dec. 31, 2005		As of Dec. 31, 2006	
	Value (million baht)	%NAV	Value (million baht)	%NAV
Cash and bank deposits	78,596	20.58	71,468	18.28
Government bonds, treasury bills and debt instruments guaranteed by the Ministry of Finance	100,200	26.24	108,737	27.82
Bills of exchange and promissory notes	74,651	19.55	73,168	18.72
Debentures	83,285	21.81	91,952	23.52
Common shares, preferred shares and warrants	36,727	9.62	37,258	9.53
Investment units	6,213	1.63	6,861	1.76
Others	2,156	0.56	1,484	0.38
<b>Total NAV</b>	<b>381,828</b>	<b>100.00</b>	<b>390,928</b>	<b>100.00</b>

### New Provident Fund Performance Benchmarks Classified by Asset Classes

Asset Classes	Benchmarks
Equity	SET Index Return
Government debt securities	Total Return of ThaiBMA Government Bond Index
Debt securities	Total Return of ThaiBMA Composite Bond Index
Fixed deposits	Average one-year fixed deposit interest rate for 1 million baht principal offered by Bangkok Bank Plc., Kasikorn Bank Plc., Siam Commercial Bank Plc. and Krung Thai Bank Plc.
Multiple classes at diverse investment proportions	Composite benchmark

cost allocation, particularly indirect costs, in order to calculate the industry comparable costs. Any fund management company charges management fee for any fund lower than an average cost calculated according to the AIMC, the company must be granted an approval from the board of directors before taking such action and must clarify the reasons in writing and report to the SEC annually.

### **3. Establishment of the National Pension Fund**

Following the Ministry of Finance's policy to establish the National Pension Fund (NPF) as a compulsory retirement saving plan, in January 2006 the Ministry appointed the Committee for the Preparation of the National Pension Fund to consider all elements of the fund structure and later in April the NPF Working Group to study details and propose the conclusion to the Committee. While delegating the SEC staff to be members of both the Committee and the Working Group, the SEC was studying potential impacts on provident funds once the NPF is established.

### **4. Education for Provident Fund Members and Industry Participants**

#### **(1) Website Update**

Launched in July 2003, the website [www.thaipvd.com](http://www.thaipvd.com) is a comprehensive online center of information and knowledge on provident funds. After a renovation in mid 2006, the website offers wider topics of contents presented in a more user-friendly format such as tax calculation program, top 10 fund management companies, the pooled fund list, and the list of fund committees (FC) who passed the FC fundamental course. It also presents hot issues such as the

proposed amendments to the Provident Fund Act B.E. 2530, progress on the NPF preparation, the FC fundamental course schedules and outlines, and news updates on trends and directions of international pensions.

#### **(2) Fund Committee Contact Persons**

The SEC initiated the FC Contact Person project to create another communication channel between the SEC and the provident fund personnel and keep them abreast of market news and information as well as regulatory developments and amendments. As of December 31, 2006, 3,957 or approximately 50 percent of the total employers had reported the names of their provident fund contact persons to the SEC.

#### **(3) Provident Fund Assessment Program**

The SEC created the Provident Fund Assessment Program (PAP) for fund committees and members to self-test their knowledge on the subject. The program is divided into two levels: (1) *Basic Level* for fund members and (2) *Advanced Level* for fund committees with an emphasis on their roles and responsibilities.

The self-assessment program has been available since September 1, 2006. As of the end of the year, 790 persons participated in the program.

#### **(4) FC Fundamental Course**

The SEC laid out a standard curriculum for the FC Fundamental Course to elevate investment knowledge and understanding of fund management, roles and responsibilities of relevant parties and associated regulations. The AIMC, the Provident Fund Association

and the Thailand Securities Institute jointly organized the course for fund committees and the interested public. In 2006, there were 11 training classes with the total attendance of 1,008.

#### (5) Educational Posters

To promote better understanding and knowledge for provident fund members and stimulate their awareness of the benefits of retirement savings and rights protection, the SEC in December 2006 launched a

print educational campaign, featuring a series of provident fund - themed posters distributed to employers nationwide. The series consists of six Thai language posters under the following themes:

Poster I: Start Saving for the Future

Poster II: Double Benefits

Poster III: We Look Out for Your Interest

Poster IV: Choose Your Risks

Poster V: Thorough Scrutiny for Total Confidence

Poster VI: Retire with a Smile



# Enforcement

## What We Do

- Deter improper practices or activities and investigate possible contraventions of the SEC Act and the Derivatives Act B.E. 2546
- Take action against wrongdoers through administrative and criminal proceedings

## Key Achievements

- Investigated 50 cases, of which 27 were the ongoing cases from 2005
- Referred 84 cases to the Settlement Committee which resulted in the total fine of 48.8 million baht against 75 offenders
- Filed four criminal complaints with inquiry officials. The offenses stating in the complaints relating to corporate fraud, falsification of documents and accounts, and failure to comply with the orders of competent officers

## Year in Review

### Market Surveillance

#### 1. Securities Trading on the Stock Exchange

The SEC continued to place strong emphasis on preventive action against market manipulation. Under the cooperation between the SEC and the SET, additional measures were introduced as follows:

- Reducing clients' credit lines that may lead to an abnormality in securities trading. Securities companies are required to monitor, examine and review their clients' status including their credit lines. This measure will not


only help alleviate overheated trading but also enable securities companies to manage clearing and settlement risks more effectively;

- Restraining the sending of improper trading orders to the trading system. Securities companies are required to closely monitor the conduct of their employees in executing clients' orders on the exchange and strengthen the roles of their compliance officers. They are also required to record all telephone conversations between sales representatives and their clients which must be available for examination at all times;

- Encouraging prompt public response by listed companies/securities issuers to market rumors or material information which has not yet been properly disclosed to public. In 2006, the SEC and the SET co-handled 115 cases in connection with this aspect.

- Publishing a weekly list of securities that have high turnover ratios compared to their free float. The list was designed to provide a basic warning for investors in making investment decision and to be utilized by brokers in monitoring the trading of their clients.

To ensure market orderliness, the SET in coordination with the SEC actively imposed certain measures including prohibition of net settlement and margin trading limit against particular securities. This aimed to prevent or cease irregular activities on the exchange. In 2006, the SET exercised these measures against eight securities. When such irregularities continued to persist, in spite of the special measures taken by the



SET, the SEC would concurrently conduct an ad-hoc onsite inspection of brokerage firms whose tradings may attribute to suspected market disorder of a particular securities. The inspection typically covered a review of customers' trading information and credit lines. In addition, the SEC urged directors and officers of securities companies to closely monitor the customers' trading behaviors and the services provided by their sales representatives to ensure that they were strictly adhered to the laws.

During the year 2006, there were two incidents of significant effects to the capital market, i.e., the abrupt change of ruling government on September 19, 2006 and the BOT's announcement of 30 percent reserve requirement on December 18, 2006. Upon such incidents, the SEC closely coordinated with the SET to ensure that the circuit breaker which the exchange had in place would be fully functioned if SET Index experienced a drastic fall. The SEC also discussed with related agencies regarding the steps that should be taken in order to restore investors' confidence in the Thai capital market.

## **2. Futures Trading on the Derivatives Exchange**

The Thailand Futures Exchange Plc. (TFEX), which is the first and only exchange authorized under the Derivatives Act B.E. 2546 to provide a marketplace for trading of derivatives products, started its operation

in April 2006. The first product offered for trading on the TFEX is SET50 Index Futures.

The SEC supervises and regulates TFEX in the manner similar to those of securities exchange. Besides reviewing of the readiness of the TFEX's trading and surveillance system, to ensure the maintenance of fair and orderly market, the SEC also requires TFEX to submit reports such as market watch report, surveillance report, large open positions report to the SEC on a periodical basis.

As a result of the announcement of BOT's reserve requirement, the trading volume of SET50 Index Futures on December 19, 2006 rose to 8,504 contracts (from an average daily trading of 1,078 contracts) while the price of SET50 Index Futures decreased drastically. To maintain market confidence and alleviate market fluctuation, the TFEX, in consultation with the SEC, exercised its circuit breaker measure for the first time.

## **Investigation**

In response to the alerts arising from several sources, including the SEC's own surveillance program, news monitoring, public complaints and referrals from the SET or other domestic and foreign authorities, the SEC in 2006 conducted 50 formal investigations as summarized below:

Types of Offenses	No. of Cases
Market manipulation	23
Insider trading	12
Dissemination of false or misleading statement	1
Corporate frauds and falsification of documents and accounts	12
Unlicensed securities/derivatives business	2
<b>Total</b>	<b>50</b>

### 1. Unfair Securities Trading Practices

#### • Market Manipulation

In 2006, the SEC investigated 23 cases of share price manipulation, of which 12 were continued from 2005. Of these, four cases were concluded with no further action while three cases were referred to the Settlement Committee (Table 3).

#### • Insider Trading

Among the insider trading cases which the SEC investigated in 2006, five of them were continued from the previous year and seven were newly initiated, most of which were referrals from the SET and one from the SEC's Securities Alert System. Among them, four cases were concluded with no further action while three cases were referred to the Settlement Committee (Table 4).

### 2. Corporate Fraud

Consistence with the policy to reinforce good corporate governance among listed companies, the

SEC investigated 12 suspected corporate fraud cases in 2006. During the year, the SEC filed three criminal complaints against a number of directors and officers of listed companies concerning fraud and accounting falsification (Table 5).

### 3. Others

In 2006, the SEC raided two companies suspected of operating unlicensed securities/derivatives business. One case was done in cooperation with the Department of Special Investigation. All these cases were still under investigation.

### Law Enforcement

#### 1. Administrative Proceedings

The SEC used various administrative measures such as notices for rectification, warning, probation and suspension or revocation of approvals upon regulated persons that engaged in acts or practices in violation of securities laws, rules and regulations.

**Table 1: Summary of Administrative Sanctions in 2006**

Types of Approved Persons	Misconduct	Warning	Probation	Suspension	Revocation
Executives of securities companies	Lacking professional ethics/malpractice		5		
	Facilitating market manipulation				1
	Arranging unorganized market loan for clients				1
<b>Total</b>			<b>5</b>		<b>2</b>
Investor contacts	<b>Malpractice</b>				
	1. Fraud				4
	2. Breach of professionalism				
	- making unauthorized trading decision	14	3	4	
	- arranging unorganized market loan for clients		6	1	
	- providing inappropriate advice	2	1		
	- facilitating market manipulation			2	2
	- sharing profit with clients			1	
	- sending improper trading orders	2			
	3. Failure to maintain the confidentiality of clients' information				
	- unauthorized revealing of clients' information	2			
	- allowing unauthorized persons to access clients' information		1		
	<b>Possessing prohibited characteristics</b>				
	1. Being penalized by the SEC (misconduct fund manager)			1	
	2. Being penalized by the SET				
	- Disclose Trader ID		18		
	- Sending improper trading order			1	
	- Rebate			1	
<b>Total</b>		<b>20</b>	<b>29</b>	<b>11</b>	<b>6</b>
Financial advisors	Breach of duty	2			
Property valuers	Breach of duty				2 <sup>1</sup>
<b>Grand Total</b>		<b>22</b>	<b>34</b>	<b>11</b>	<b>10</b>

Note: <sup>1</sup> Having suspension period for re-applying of approval

## 2. Criminal Proceedings

### • Settlement

**Table 2: Summary of Settlement under the SEC Act in 2006 Classified by Types of Offenses**

Types of Offenses	Settlement	
	No. of Cases	Amount of Fine (baht)
Securities business		
Breach of regulations:		
- Securities brokerage	9	2,816,775.00
- Securities underwriting	3	190,875.00
- Custody of client assets	4	384,250.00
- Financial requirement	3	435,550.00
<b>Total</b>	<b>19</b>	<b>3,827,450.00</b>
Asset management business		
Breach of regulations:		
- Mutual fund management	18	2,440,712.50
- Private fund management	2	332,400.00
- Provident fund management	3	184,450.00
<b>Total</b>	<b>23</b>	<b>2,957,562.50</b>
Unfair securities trading practices		
- Market manipulation (Table 3)	15	6,333,333.31
- Insider trading (Table 4)	4	20,459,391.25
<b>Total</b>	<b>19</b>	<b>26,792,724.56</b>
Issuance and offering of securities	18	953,655.00
Securities acquisition for business takeovers	5	13,889,200.00
<b>Total</b>	<b>23</b>	<b>14,842,855.00</b>
<b>Grand Total</b>	<b>84</b>	<b>48,420,592.06</b>

Notes: 1. Some cases consisted of more than one offense.

2. The data listed above does not reflect the number of subjected persons.

3. The SEC presented 84 cases involving 75 offenders to the Settlement Committee.

4. Some offenders have paid the fine by installments. As of December 31, 2006, there are 2,867,833.36 baht in arrears.

**Table 3: Summary of Settlement on Market Manipulation**

Shares of Listed Companies	Offenders/Behavior	Amount of Fine (baht)
Chonburi Concrete Product Plc. (CCP)	An offender together with an abettor used his own and seven other persons' securities trading accounts to buy or sell CCP shares in concealment to mislead the public to believe that such securities were bought and sold in great volume and the price changes reflected the genuine market of such securities.	833,333.33
Bangkok First Investment & Trust Plc. (BFIT)	Four offenders together with two abettors bought and sold BFIT shares in concealment to mislead the public in order to stabilize and boost up share price.	2,666,666.66
C.I. Group Plc. (CIG)	Three offenders together with four abettors used other persons' trading accounts to trade CIG shares in a manner that misled and lured the investing public into the trading.	2,833,333.36

**Table 4: Summary of Settlement on Insider Trading**

Shares of Listed Companies	Offenders/Behavior	Amount of Fine (baht)
{X1} Plc.	A secretary of a {X1} executive bought {X1} shares by using material non-public information that the BPB Gypsum B.V., a major shareholder of {X1}, planned to make a tender offer for all {X1} shares with the purpose of delisting {X1} shares from the SET. After the information was disclosed to the public, the price of {X1} share surged and the secretary reaped the gain by selling {X1} shares in the market. The person who aided and abetted the trading transactions of the secretary was also been fined.	2,129,400.00
{X2} Plc.	A director of {X2} knew the information on the company's necessity and plan for capital increase from attending the Board Meeting. He therefore sold his shares before the disclosure of such information.	13,456,000.00
{X3} Plc.	An executive of {X3} bought and sold {X3} shares and {X3}-W1 based on the information that had not yet been disclosed to the public that the company would have an income from asset selling which resulted in significant improvement of company's performance.	4,873,991.25

- **Criminal Complaints**

In 2006, the SEC filed four criminal complaints to criminal authorities as follows:

**Table 5: Summary of Criminal Complaints**

Offenses	Sections of Violation	No. of Subjected Persons
The complaint alleged that five executives of Circuit Electronics Industries Plc. (CIRKIT) had misappropriated the money the foreign customers paid for the products bought from CIRKIT and, knowingly or intentionally, made materially false or incorrect statement in the company's financial statements about the identity of foreign debtors and the amount of receivables that had not yet been paid by the customers. The complaint also named an individual as an aider and abettor in the alleged fraudulent conducts.	307, 308, 311, 312, 313, 315	6
The complaint alleged that two former executives of {X4} Plc., with the assistance from three associated persons, funnelled the money out of the company's for their own benefits through the creation of several sham buying transactions and falsified the company's books and records purported to defraud others.*	307, 308, 311, 312, 313, 315	5
The complaint alleged that three executives of {X5} Plc., in cooperation with an individual, had falsified or permitted the others to falsify the account entries regarding realization of revenues, which no services were actually performed, in the company's financial statements in order to deceive the public.	312, 315	4
The complaints filed against five individuals who failed to comply with the competent officer's order to appear before and send the documents to the competent officer.	303	5

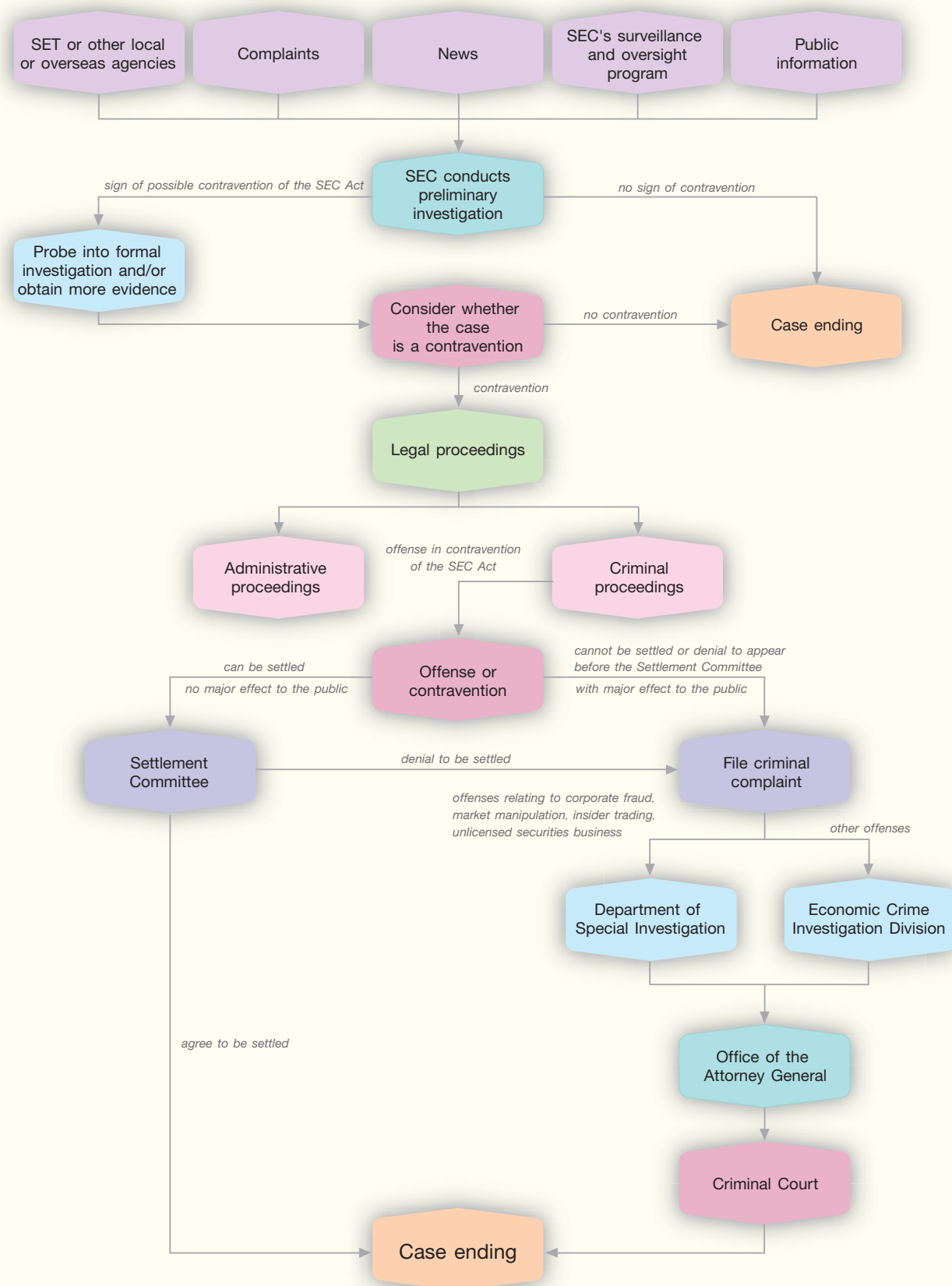
Note: \* The second complaint filed by the SEC on June 30, 2005. (See Table 6 for the Court's judgment.)

In 2006, the Criminal Court delivered their judgment in the four following cases which were filed by Public Attorney following the complaints made by the SEC:

**Table 6: Court Judgments**

Offenses	Judgments
Operating unlicensed securities business under the name "Chartered Asset Management Co., Ltd." (Complaint filed on March 9, 2004)	On January 27, 2006, the Criminal Court of Southern Bangkok found the defendants guilty as charged and ordered {X6} Co., Ltd. to pay a fine of 100,000 baht and sentenced {B} to a one-year imprisonment and a fine of 100,000 baht. The jail term, however, was suspension for two years.
Operating unlicensed securities business under the name "{X7} Co., Ltd." (Complaint filed on December 2, 2003)	On May 2, 2006, the Thonburi Criminal Court sentenced {C} and {D} to a one-year imprisonment with a two-year suspension and a fine of 145,000 baht and 173,000 baht respectively, and a forfeiture of exhibits.
Share price manipulation of Krisdamahanakorn Plc. (Complaint filed on April 22, 1993)	On August 31, 2006, the Criminal Court of Southern Bangkok sentenced {E} and {F} to a one year and 12 months term and a fine of 700,000 baht each.
Corporate fraud and account falsification by former executives of {X4} Plc. (Complaint filed on June 30, 2005)	On December 21, 2006, the Criminal Court of Southern Bangkok dismissed the case on all accounts. Government had filed an appeal to the Court of Appeal in February 2007.

# Procedure for Investigation of Possible Contraventions of the SEC Act and Criminal Proceedings





# Sukreep

*The vermilion faced and bodied, gapping-mouthed Monkey Lord, wearing a coronet and using a double-edged knife as a weapon.*

*Sukreep:* the prudent, responsible, and fair warrior

*Courageous and careful, he never shies away from admitting his faults  
or delivering sound advice. His identifying essences extend to friendliness,  
loyalty and gratitude to his masters.*



# Market Development

## What We Do

- Strengthen market confidence by monitoring and supervising the operations of the Stock Exchange of Thailand (SET) and its subsidiaries
- Coordinate with the Association of Securities Companies in reviewing rules and regulations that impede securities business development

## Achievements

- Granted approval to the derivatives exchange, derivatives clearing house, and back office service bureau (BSB) to provide derivatives business services
- Approved the SET's regulations on securities brokerage fees
- Approved the Thailand Securities Depository Co., Ltd. (TSD)'s regulations regarding securities buy-in in case of default and in performing roles as a depository center, clearing and settlement of corporate debt securities as well as permitted the TSD's business expansion to cover other business related to clearing and settlement of derivatives transactions

## Year in Review

### Development of Market Infrastructure Including Rules and Regulations

#### 1. Equity Market

In 2006, the SEC approved several rules and regulations to strengthen market's competitiveness in the global arena, standardized market practices in line with international standards, and developed more effective trading system. Details are summarized as follows:

(1) In December 2006, the SEC approved the SET's revised regulation on brokerage commission fees for the trading of listed securities, both for normal trading and internet trading. This is for securities business operators to be prepared and ready for future liberalization of brokerage fees by setting timeframe into three stages as follows:

- Stage 1: From January 1, 2007, the minimum securities brokerage fees shall be at 0.25 percent while the internet trading fees shall be at least 60 percent of the normal securities brokerage fees;

- Stage 2: From January 1, 2010, the calculation of brokerage fees will be based upon a sliding scale where the fees will be on a lower level as the trading volume increases. Once the trading volume reaches a certain level, the fees will become negotiable. In case of internet trading, the minimum fee will be at 60 percent of the normal sliding scale brokerage fees;

- Stage 3: From January 1, 2012 onwards, the brokerage fees will be fully negotiable.

(2) The SEC approved the SET's revised regulation on securities trading in cash which requires individual clients to make payment through the Automatic Transfer System (ATS). This is not only decreasing clearing and settlement risk and preventing the misappropriation of clients' assets, but also accommodating the policy to reduce the clearing and settlement period from T+3 at present to T+2 in the near future.

(3) The SEC approved the TSD's BSB to expand its scope of business to cover clearing and settlement

of derivatives transactions in order to reduce system development costs in the market as a whole.

(4) The SEC granted permission for the TSD, as a clearing house, to revise its rule on securities buy-in method in case of a default on clearing and settlement date (T+3). Normally when a default occurs, the clearing house must firstly apply securities borrowing and lending (SBL) procedure on certain default date. If an SBL procedure fails, the buy-in method is then applied on the first working day after the default date to provide securities in-hand for the settlement obligations. In addition, by the end of 2007, the buy-in period will be reduced from the next day buy-in (after the default date) to the same day buy-in (on the default date). This aimed to improve efficiency of the Thai market's clearing and settlement system in line with international standards.

In October 2006, the SEC inspected the operation of TSD covering the following areas: (1) measures against default of clearing and settlement, (2) securities registrar, (3) operations of back office services for securities and derivatives transactions, and (4) business continuity and contingency plans for securities registrar and the back office. The overall results satisfactorily confirmed the reliability of the TSD's operating system and services.

## **2. Debt Securities Market**

To enhance fund mobilization and investment in the debt securities market, the SEC revised related rules and regulations in the following areas:

(1) "High Networkworth Investor" is identified as an individual with assets worth at least 40 million baht or a company with assets worth at least 200 million baht. This type of investors is allowed to invest in high-risk, high-return instruments as institutional investors are.


(2) The SEC encouraged the private sector to broaden their knowledge and experience in preparation for future free trade agreements and at the same time, to diversify their investment risks by allowing them to invest in overseas markets. In addition, The SEC added more referential assets for structured notes which are returns on and prices of groups of foreign securities in organized markets or their indices.

### **(3) Securitization development**

- Supporting amendments to the Royal Enactment on Special Purpose Juristic Persons for Securitization and the Secured Transaction for Business Bill to enhance legal certainty and accommodate future cash flow;

- Coordinating with the Revenue Department to grant corporate income tax exemption to the special purpose vehicle (SPV) to avoid double taxation on their transactions. In this regard, no dividend shall be paid throughout the life of the SPV. Moreover, distribution of income must not be less than 60 percent of the average annual income and be at a minimum of 70 percent of the average income throughout the program.

To enhance the efficiency of the bond market, the SEC approved the TSD's revised rules to accommodate the centralization of securities depository, clearing and



settlement services under the TSD. The TSD, therefore, has become the center for depository, clearing and settlement of both government and corporate bonds, whereby the functions related to government bonds were transferred from the BOT.

### **3. Derivatives Market**

The SEC in March 2006 inspected the TFEX, the TCH, and the BSB to ensure their readiness for the official launch of futures market on April 28, 2006. After the inauguration with the SET50 Index Futures as the first product, the market became popular with an average daily trading volume at 1,204 contracts collectively valued at 593 million baht, exceeding the target by 20 percent. To enhance market attractiveness, the TFEX was planning to launch the SET50 Index Options in 2007.

### **Enlarging Roles of Associations Related to Securities Businesses**

The SEC has enlarged the roles of Association of Securities Companies (ASCO). In 2006, the SEC held several meetings and encouraged ASCO to perform the following key roles:

(a) Being the center for coordinating and collecting comments and observations pertaining to rules and regulations that are obstacle to market innovation and development;

(b) Urging its members to fully prepare for the liberalization of securities business in the next five years and promoting the financial innovations initiated by members;

(c) Encouraged the ASCO to consult their members for a proposal of appropriate rules on foreign investments for proprietary trading portfolio of securities companies, the ASCO was assigned to determine and propose guidelines to the SEC on investment allocation for each securities company, types of invested securities, and risk management.

### **Development of Accounting and Auditing standards**

In the past 2-3 years, many countries have either adopted the International Financial Reporting Standards (IFRS) and or announced their timeline toward a full adoption of IFRS. The adoption aims to promote foreign investment and cross border offering and listing. Thailand's capital market is inevitably to adopt the international standards in order to gain market competitiveness. The SEC has closely worked with the Federation of Accounting Professions (FAP) in improving the Thai accounting standards, auditing standards, and code of ethics for professional accountants to align with the revised international standards. Our developments in 2006 were as follows:

(1) The SEC held quarterly meetings with the FAP to discuss and identify practical issues and progresses toward a full adoption of the international standards, as well as the measures in improving the quality of listed companies' financial statements and audit reports;

(2) The SEC appointed its representatives to be board members and consultants in the FAP's standards setter and disciplinary committees as follows:

- 2.1 Accounting Standards Reviewing Committee
- 2.2 Accounting Standards Setting Committee
- 2.3 Auditing Standards Setting Committee
- 2.4 Accountant Disciplinary Committee
- 2.5 Code of Ethics Setting Committee
- 2.6 Accounting Professions Development Sub-committee
- 2.7 Accounting System Design Professions Committee

(3) The SEC signed a Memorandum of Understanding with the FAP and contributed 9,234,075 baht in support of the FAP's attempts for a development of Thai accounting standards, auditing standards and code of ethics for professional accountants in line with the changing international standards.

In 2006, the SEC set up the IFRS and ISA Monitoring Panel, which comprises regulators, representatives from

the accounting and auditing professionals and the academics. The Panel was established to study and express opinions on the IFRS and the International Standards on Auditing (ISA) to the International Accounting Standard Board (IASB) and the International Federation of Accountants (IFAC), respectively.

In addition, the SEC submitted nine comment letters to the IASB (see table on page 80). The SEC identified some provisions in the international accounting standards (IAS) and IFRS as inappropriate or unsuitable for some emerging market countries and expressed its concerns and request for a consideration of certain circumstances and specificities in emerging markets before an issuance of the IAS revision and IFRS. For example, the SEC proposed IASB to give clear definitions and explanations to prevent misunderstanding and incorrect interpretation as a matter of practicality.

## Comment Letters to IASB and IAASB in 2006

No.	Date	Subject
1	Apr 26	Comments on IFRIC D18: Interim Financial Reporting and Impairment
2	Jun 2	Comments on Exposure Draft 8: Operating Segments
3	Jul 10	Comments on IAS 27 Consolidated and Separate Financial Statements - Cost VS Equity method
4	Aug 9	Comments on Exposure Draft of Proposed Amendments to IAS1 Presentation of Financial Statements - A Revised Presentation
5	Oct 17	Comments on Exposure Draft of Proposed Amendments to IAS23 Borrowing Costs
6	Oct 31	Comments on Exposure Draft of Proposed Amendments to IAS32 Financial Instruments: Presentation and IAS1 Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligation Arising on Liquidation
7	Dec 19	Comments on IFRIC Draft Interpretation D19 IAS19 - The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements
8	Dec 19	Comments on IFRIC Draft Interpretation D20 Customer Loyalty Programmes
9	Dec 19	Comments on Discussion Paper Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision - Useful Financial Reporting Information

# Corporate Affairs

## What We Do

- Operate cost-effective budget to meet the objectives of the SEC strategic plan
- Develop core and functional staff competencies
- Provide full-fledged information and related services for investors
- Organize educational activities for investors and the public

## Achievements

- Effective budget management
- Leveraged staff potential using standard tools for analyzing and evaluating capacities and behaviors
- Developed user friendly IT-based communication and information services
- Initiated market literacy campaigns through proactive public relations strategies

## Year in Review

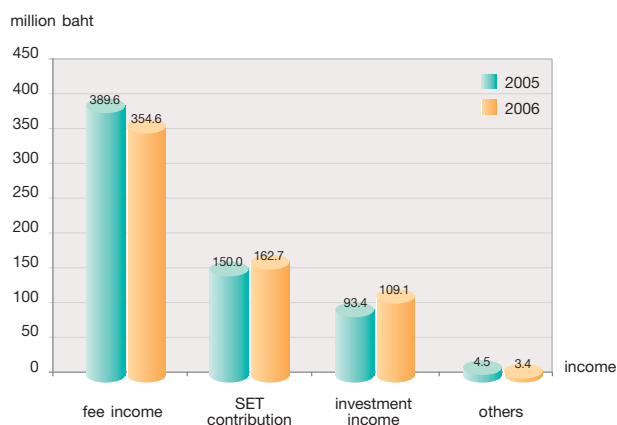
### Financial Management

Throughout the year, the SEC managed its budget prudently in achieving the objectives of its strategic plan.

In 2006, the SEC earned the total revenues of 630.4 million baht, 8.1 million baht lower than last year. The major source of the revenues was the fee income of 354.6 million baht, which accounted for 56 percent of the total revenues. The total expenditure was 548.1 million baht, lower than the approved expense budget by 87.1 million baht. However, in comparison with the expenditure of the previous year, the 2006 figure was 63.4 million baht or 13.1 percent higher due to the investment in advanced information technology systems such as Enterprise Content Management and Email Management solutions.

The SEC achieved a surplus of 118.8 million baht in 2006.

Revenue Comparisons 2005-2006



## Human Resources Development

The SEC employed competency-based systems for staff appointment, recruitment, development and evaluation, taking into full consideration staff performance and competence. Training and capacity improvement activities in versatile areas were organized regularly to prepare the staff for effective undertaking of their assignments. The SEC encouraged its personnel to utilize knowledge and skills to their fullest capacity and offered a progressive career path in harmony with the corporate growth. In 2006, staff training and development activities included the followings:

### 1. Human Potential Leverage for Organizational Capabilities

The SEC ran the Human Potential Leverage for Organizational Capabilities project for the second year for the benefit of staff career path development. Talent factors were taken into consideration to tailor-make training programs for individual staff.

## 2. Overseas Training

The SEC sent its staff to attend short courses, training programs, seminars, and workshops organized by fellow regulators such as the Australian Securities & Investments Commission, the U.S. Securities and Exchange Commission, the Commodity Futures Trading Commission, the U.K. Financial Services Authority, the Monetary Authority of Singapore, the Securities Commission of Malaysia, and the Asia-Pacific Finance and Development Center. The 2006 proficiency development focused on the supervision of derivatives business.

## 3. Staff Relations

The SEC supported each department in organizing workshops and recreational activities for its staff to foster team spirit. A diverse range of individual and group activities and training sessions were organized under such themes as Working Happily under Pressure, Power of Life and Power of Work, Team Building, etc.



As of December 31, 2006, the SEC staff totaled to 418 persons, of which 95 were on management levels.

## Information Technology Upgrade

In 2006, the SEC developed its IT capacity and system as summarized below:

### 1. E-Agency Policy

- Facilitated online application, registration and report such as the developments of on-line reporting system of securities acquisition and disposition (Form 246-2) and on-line compliance unit officers system, which were both scheduled for launch within 2007;
- Developed, disseminated and maintained three securities-related websites - [www.sec.or.th](http://www.sec.or.th), [www.thaipvd.com](http://www.thaipvd.com), [www.cgthailand.org](http://www.cgthailand.org) - with more emphasis on timely information, English contents, and user-friendly features;
- Streamlined working process by using the work flow technology called Enterprise Content Management, which allows integrated and seamless operation to reduce procedural redundancy, improve IT governance, cut down paper consumption, and implement internal knowledge management at the central database;

- Set up the central database for complaint filing against offenders under securities laws to facilitate the tracking of legal proceedings until expiry of prescription; and

- Installed a reporting system for the SEC staff's securities holding and human resources management solutions for faster and more efficient internal management.

## 2. Data Security

The SEC set up the Disaster Recovery Center as a backup facility and temporary office in case of emergency of off-site operation. Among the protected and retrievable electronic data are market supervisory and enforcement records, website and email services. In case of longer than expected failure of the main system, the web-based services can function via DRC site.

In addition, the SEC's electronic communication policy limits the staff access to inappropriate websites, outlines the scope of email address usage, sets up guidelines for secured computer program development, installs an Identity Management system for effective user account control, distributes internal security alerts, and requires all staff to take the IT Security Awareness training.

## 3. IT Governance

The SEC adopted the Control Objectives for Information Related Technology (COBIT), an international standard on IT operation. The first phase of implementation involved quality assurance operational procedures, standards and steps for system development, risk management framework and procedures, infrastructure and configuration management.

## Investor Education

### 1. "Let Your Money Work Through Mutual Funds" Project

During 2003-2006, the SEC, in cooperation with the Capital Market Development Fund Foundation, the SET, and the AIMC, jointly ran the "Let Your Money Work Through Mutual Funds" project aiming to expand investor base through mutual funds. The project activities were in the form of educational series on several media such as television and radio programs, publications, newspaper articles, byline columns, seminars, exhibitions and special events. The joint efforts informed the investing public of alternative savings channels besides bank deposits and contributed to the rapid growth of the mutual fund industry.

### 2. "Inside SEC" TV-Radio Project

In 2006, the SEC launched the "Inside SEC" program on Money Channel (UBC 97) cable television and FM 101 INN news radio. The bi-monthly program disseminates information on regulatory updates, the SEC news, investment knowledge and cautions of market misconducts for investors' benefits.



The ongoing program receives good viewer rating, positive feedbacks and follow-up requests for further information. It is on air every other Wednesday. The program's script archives are available on [www.sec.or.th](http://www.sec.or.th).



### 3. Educational Lectures

The SEC has continued its educational project for the younger generations since 2000 to promote fundamental knowledge and understanding on capital market mechanism. In 2006, the target audiences expanded to cover students and instructors in public and private educational institutions across the country as well as personnel from local institutions. Besides lectures on specific topics of interest for different groups of audiences, the basic outlines included (1) the SEC roles and responsibilities, (2) savings and investment, (3) capital market related laws, and (4) accounting standards for listed companies.

In 2006, the SEC organized lectures and field visits for 118 visitors from five government organizations and 789 students from 10 colleges and universities in Bangkok and other provinces.

### 4. Articles and Publications

The SEC educated the public about the capital market mechanism and investment knowledge through print media on a regular basis including article contributions to the ongoing columns as follows:

a. **Window to the SEC** - Offering up-to-date market movements and fundamental advice on savings and investment channels to encourage investors and the public to prepare a robust foundation for their financial health and investment. The bi-monthly column is published in Post Today every other Tuesday. Previous articles can be viewed on [www.sec.or.th](http://www.sec.or.th).

b. **Savings Story** - Offering information and knowledge on retirement savings through provident funds under the theme, "Today's Savings for Tomorrow's Security." The column is published in Post Today on Thursdays.

c. **Investment World** - Offering information and news updates of diverse areas, suitable for investors and newcomers interested to learn more about investment in the capital market. The column is published in Siam Business bi-weekly newspaper on Wednesdays.

In addition, the SEC distributed print materials to interested and relevant organizations and participated in Money Expo 2006, which was organized by Money & Banking Magazine and the SET, to provide the investing public with market knowledge and gather direct inputs from investors for the benefit of supervisory development.

The SEC also introduced the new look of its quarterly newsletter, **Capital Thailand** for better readability but maintained the focus on regulatory and supervisory issues, corporate governance and the SEC's progress in various areas.

### 5. SEC Help Center

In 2006, the SEC Help Center received 2,488 inquiries and 543 complaints from investors and the general public. The most frequent issues of complaints were securities offering of listed companies, misconducts of investor contacts and services of securities companies.

The complaint handling procedure starts with a preliminary consideration of issue relevance to the SEC's scope of duties. Valid cases are forwarded to responsible departments for further proceeding.

The SEC Help Center can be reached by telephone at 0-2263-6000, facsimile at 0-2256-7755, email at [complain@sec.or.th](mailto:complain@sec.or.th), and website at [www.sec.or.th](http://www.sec.or.th). Postal contacts and visitors are welcome to the SEC Office at 93/1, GPF Witthaya Towers, 15<sup>th</sup> Floor, Wireless Road, Lumpini, Pathumwan, Bangkok 10330, Thailand.

## 6. SEC Website

The internet-based information and communication services are major tools for keeping the investing public and capital market players abreast of news and information useful for their decision-making. In 2006,

the SEC continued its web renovation to offer user-friendly functions and easier access to news and information on regulatory updates, market movements, disclosed reports of securities business operators and guidelines for securities laws compliance. The number of e-subscribers to the SEC news updates increased to 1,567 at the end of the year.

Similarly, online public hearing became a frequent and convenient alternative for investors and market participants to voice their opinions and suggestions on issues of material impacts, especially those concerning the issuance and amendments to rules and regulations, reinforcing the SEC's transparency and efficiency in market regulation. In 2006, the SEC conducted 22 hearings on different topics.



# International Relations

## What We Do

- Promote international roles and cooperation
- Support intra-regional linkages of capital markets
- Strengthen market confidence in Thailand's commitment to international standards compliance

## Key Achievements

### IOSCO

#### 1. IOSCO APRC

In recognition of the SEC's proactive roles and efforts in promoting regional cooperation among capital market regulators as well as their commitment to the compliance with international standards, SEC Secretary-General Thirachai Phuvanathanarubala was re-elected Chairman of the IOSCO Asia-Pacific Regional Committee (APRC) for a second consecutive term during the IOSCO 31<sup>st</sup> Annual Conference in Hong Kong in June 2006. With the regional chairmanship, the Secretary-General would continue his work in encouraging members to drive themselves towards the IOSCO established strategic direction, particularly in the aspects of cross-border cooperation network through the Multilateral Memorandum of Understanding (MMoU) and implementation of IOSCO Objectives and Principles of Securities Regulation.

In addition to encouraging progress toward the IOSCO's strategic priorities, the APRC Chair also urged members to use APRC meetings as a forum for discussions and exchange of views for market development in their respective jurisdictions. One of the significant academic outcomes in the past year was the report on Risk Based Inspection Methodologies (RBIM). The report, outlining a set of good practices

for risk-based inspections on intermediaries, resulted from the contribution of an APRC working group co-led by the China Securities Regulatory Commission and the Monetary Authority of Singapore. Other issues of discussion included cooperation in the personnel capacity building in member jurisdictions and mutual recognition of regulations to facilitate cross-border activities, etc.

#### 2. IOSCO MMoU

The SEC has become a signatory to the IOSCO MMoU Appendix B. It is committed and in the process of removing limitations on enforcement cooperation with foreign regulators to fulfil the requirements attached to the MMoU and earn the full signatory status by the 2010 deadline. The attainment of the Appendix B status is a major step forward to reinforce the international acceptance of the Thai capital market. With such successful experience, the SEC has volunteered to assist other APRC members in making preparations for the IOSCO MMoU applications and removing the impediments to becoming IOSCO MMoU signatories.

#### 3. Implementation Task Force

Another SEC important contribution in the IOSCO is its active involvement in the Implementation Task Force, set up to promote and monitor implementation of IOSCO Principles among members. The Principles set out practices considered to form the basis for effective securities regulation, while recognizing variations of the manner in which different jurisdictions carry out their regulation. As a member of the task force, the SEC has proactively participated in its regular organized meetings and workshops, for example, providing opinions and comments on the practical

aspects of using the Methodology for assessing implementation of IOSCO Principles and sharing experience as an agency having undergone the assessment process.

## ASEAN Relationship

### • ASEAN Capital Market Forum

ASEAN Capital Market Forum (ACMF) was established in 2004 to provide a high-level forum for ASEAN members to discuss capital market issues of common concern.

In August 2006, the SEC hosted the 5<sup>th</sup> ACMF in Bangkok. Top on the agenda was the emphasis on mutual recognition of regulations and standards among the ACMF members to facilitate efficient cross-border fund mobilization and securities trading. In preparation for such activities, the forum discussed in detail the following core areas: (1) information disclosure, (2) accounting and auditing, (3) comparability of credit rating, (4) securities distribution rules, and (5) cross-recognition of qualifications and certification of capital market professionals.

The meeting reached a conclusion that the cross-recognition of investor contacts should be piloted by fully prepared member jurisdictions in the form of bilateral agreement before more attempts can be made on a larger, regional scale.

## Enforcement Cooperation and Information Sharing

The SEC emphasized the importance of cooperation with fellow regulators to enhance mutual cooperation and exchange of information. In 2006, the SEC

made progress on such synergy by signing bilateral Memoranda of Understanding (MoUs) with three regulatory agencies as follows:


- On March 12, with the Dubai Financial Authority in recognition of the strong potential for the Dubai Financial Services Center to become the financial hub of the Middle East;

- On July 17, with the Israel Securities Authority in recognition of its strength in information management mechanism that significantly contributes to the monitoring and inspections of transactions for the purposes of law enforcement;

- On November 24, with the State Securities Commission of Vietnam to promote supervisory cooperation in the region and explore the opportunity for fund raising and investment expansion via exchanges in the country whose economy has been growing rapidly with the gross domestic product ranked the highest in Asia, second only to China.

In total, the SEC signed MoUs with 13 jurisdictions. Chronologically, they are Hong Kong, Malaysia, Chile, Taiwan, Australia, Brazil, Argentina, South Africa, Sri Lanka, Indonesia, United Arab Emirates, Israel and Vietnam.

Collaboration and mutual assistance, especially in the area of information exchange can contribute to the improvement of market supervision in accordance with international standards, which is a foundation for healthy investments in Asia. In 2006, the SEC accommodated 28 formal and informal requests for information from foreign regulators and other organizations to assist their investigations of wrongful



activities, mostly concerning unlicensed securities businesses (boiler room/cold calling). Likewise, the SEC received cooperative replies from foreign counterparts for its six requests for enforcement information assistance.

### **Other International Activities**

#### ***1. 2006 Asian Roundtable on Corporate Governance***

In September 2006, the SEC in cooperation with the National Corporate Governance Committee (NCGC), the SET and the Thai Institute of Directors Association (IOD) jointly hosted the 2006 Asian Roundtable on Corporate Governance in Bangkok for an upward of 150 delegates who played a major role in promoting corporate governance in Asia. The forum generated a pool of information exchange regarding enforcement experience for participating countries to apply to their respective markets as seen appropriate. Representatives from the Institute of Directors in East Asia Network (IDEA Net) member countries and the IOD proposed ideas for determining company directors' roles in promoting corporate governance and shared information

of case studies. Comparative results showed that the corporate governance practices of Thai listed companies are generally on par with their regional counterparts', especially in the areas of information disclosure and fair treatment of shareholders. Additionally, Thai listed companies need to improve further in the areas of roles and responsibilities of company directors. In this regard, the IOD laid out an action plan for continual improvement in such matters.

#### ***2. Visits***

In 2006, the SEC welcomed the Lord Mayor of the City of London on his official visit to Thailand and hosted several other visits of international guests and high-ranking delegations from trade communities, financial authorities and securities agencies from the United Kingdom, South Korea, Indonesia, Zambia, Madagascar, Vietnam, Myanmar and others. Such meetings not only strengthened the international presence of the Thai capital market and the roles of the SEC, but also presented opportunities for future cooperation in advancing global capital markets.

# Statistical Highlights

## Securities Offerings Classified by Types

million baht

Types of Offerings	2004	2005	2006 <sup>1</sup>
<b>Equities<sup>2</sup></b>	<b>99,946</b>	<b>87,774</b>	<b>117,258</b>
Domestic offering	99,946	87,774	94,431
Initial public offerings <sup>3</sup>	37,671	24,004	17,847
Public offerings	28,325	20,605	16,109
Directors and employees stock option plans	1,572	1,753	4,081
Private placements	32,378	41,412	56,393
Overseas offering	0	0	22,827
<b>Corporate debentures<sup>4</sup></b>	<b>144,798</b>	<b>240,936</b>	<b>221,527</b>
<b>Thai juristic persons</b>	<b>144,798</b>	<b>233,936</b>	<b>212,427</b>
Domestic offering	128,522	177,602	152,049
Public offerings	93,001	109,948	79,913
Institutions	23,500	53,808	61,040
Private placements	12,021	13,846	11,096
Overseas offering	16,276	56,335	60,377
<b>Foreign juristic persons</b>	<b>0</b>	<b>7,000</b>	<b>9,100</b>
Domestic offering	0	7,000	9,100
Public offerings	0	7,000	6,500
Institutions	0	0	2,600
<b>Short-term debt securities<sup>5</sup></b>	<b>162,907</b>	<b>744,637</b>	<b>1,130,260</b>
Domestic offering	162,907	744,637	1,130,260
Public offerings/institutions	146,243	733,595	1,009,602
Private placements	16,664	11,042	120,658
<b>Total</b>	<b>407,651</b>	<b>1,073,347</b>	<b>1,469,044</b>

Notes: <sup>1</sup> From report of securities sold as of December 31, 2006

<sup>2</sup> Including offering value of share-purchase warrants and preferred share-purchase warrants

<sup>3</sup> Including securities offerings to directors and employees taken place concurrently with initial public offerings

<sup>4</sup> Excluding state enterprise bonds

<sup>5</sup> Including short-term debentures and commercial papers issued with the purpose of fund raising since 2005

## Government Debt Securities Offerings Classified by Types of Securities

million baht

Types of Securities	2004	2005	2006 <sup>1</sup>
<b>Domestic offering</b>	<b>1,217,049</b>	<b>1,769,786</b>	<b>2,178,866</b>
Government bonds	271,488	188,900	210,539
Treasury bills	528,000	474,000	875,200
Promissory notes	41,000	20,000	25,000
State enterprises bonds <sup>2</sup>	59,197	98,640	66,525
BOT bonds and FIDF bonds	317,340	961,846	1,001,602
Specialized organization bonds <sup>3</sup>	24	26,400	0
<b>Overseas offering</b>	<b>94,058</b>	<b>85,255</b>	<b>63,921</b>
Government bonds and commercial papers	94,058	79,489	59,368
State enterprises bonds <sup>2</sup>	0	5,766	4,553
<b>Total</b>	<b>1,311,107</b>	<b>1,855,041</b>	<b>2,242,787</b>

Source: Bank of Thailand

Notes: <sup>1</sup> From report of securities sold as of December 31, 2006

<sup>2</sup> Excluding bonds issued by state enterprises that are public companies

<sup>3</sup> Comprising Property Loan Management Organization (PLMO), Thai Asset Management Corporation (TAMC), Secondary Mortgage Corporation (SMC), and Energy Fund Administration Institute (EFAI)

## Statistical Highlights of the Stock Exchange of Thailand

	2004	2005	2006
SET Index <sup>1</sup>	668.10	713.73	679.84
Total trading value (million baht)	5,024,399	4,031,240	3,956,262
Daily average trading value (million baht)	20,508	16,454	16,281
Turnover ratio <sup>2</sup> (%)	107.92	83.75	77.70
Market capitalization (million baht) <sup>1</sup>	4,521,895	5,105,113	5,078,705
Number of listed companies <sup>1</sup>	440	468	476
Number of listed securities <sup>1</sup>	541	576	584
P/E ratio (times) <sup>1</sup>	9.40	9.40	8.10
P/BV ratio (times) <sup>1</sup>	2.00	1.91	1.65
Dividend yield (%) <sup>1</sup>	2.75	3.37	4.23

Source: Stock Exchange of Thailand

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

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

## Trading Value of the Stock Exchange of Thailand Classified by Investor Groups

million baht

	2004	2005	2006
<b>Net buying value<sup>1</sup></b>			
Local institutional investors	3,089	-51,325	-11,674
Local non-institutional investors	-8,702	-67,217	-71,772
Foreign investors	5,612	118,542	83,446
<b>Buying and selling value<sup>2</sup></b>	10,048,799	8,062,480	7,912,524
Local institutional investors	846,053	839,492	919,958
Local non-institutional investors	7,081,516	4,974,362	4,312,199
Foreign investors	2,121,230	2,248,626	2,680,367
<b>Percentage of buying and selling value (%)<sup>3</sup></b>	100.00	100.00	100.00
Local institutional investors	8.42	10.41	11.63
Local non-institutional investors	70.47	61.70	54.50
Foreign investors	21.11	27.89	33.87

Source: Stock Exchange of Thailand

Notes: <sup>1</sup> Net buying value = buying value - selling value<sup>2</sup> Buying and selling value = buying value + selling value
<sup>3</sup> 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 Thai Bond Market

	2004	2005	2006
Government Bond Total Return Index <sup>1</sup>	147.42	147.07	155.10
Average government bond yield (%) <sup>1</sup>	4.51	5.37	5.33
Investment Grade Corp. Bond Total Return Index <sup>1</sup>	123.82	125.27	133.49
Average investment grade corp. bond yield (%) <sup>1</sup>	4.74	6.08	5.91
Total trading value (million baht)	2,969,469	3,884,753	6,955,197
Government debt securities	2,855,063	3,794,984	6,843,402
Corporate debt securities <sup>3</sup>	114,406	89,375	110,192
Foreign bonds	-	394	1,602
Daily average trading value (million baht)	12,120	15,856	28,622
Turnover ratio (%) <sup>2</sup>	138.20	140.45	196.64
Government debt securities	161.54	163.40	239.57
Corporate debt securities <sup>3</sup>	30.01	20.48	16.47
Foreign bonds	-	5.63	13.87
Outstanding value of registered securities (million baht) <sup>1</sup>	2,402,257	3,122,739	3,951,315
Government debt securities	2,016,978	2,628,119	3,084,887
Corporate debt securities <sup>3</sup>	385,279	487,621	850,327
Foreign bonds	-	7,000	16,100
Number of registered securities <sup>1</sup>	628	733	1,517
Government debt securities	460	513	504
Corporate debt securities <sup>3</sup>	168	218	1,008
Foreign bonds	-	2	5
Percentage of trading value (%)	100.00	100.00	100.00
Inter-dealers	24.02	22.58	30.45
Dealers-to-clients	75.98	77.42	69.55
Non-dealer licensed financial institutions	14.48	7.93	8.77
Contractual saving funds	12.47	10.52	5.36
Mutual funds	19.24	24.76	28.89
Insurance companies	3.18	2.84	1.87
Domestic companies	n.a.	n.a.	8.25
Foreign companies	n.a.	n.a.	12.68
Others	26.61	31.37	3.74

Source: Thai Bond Market Association

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

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

<sup>3</sup> Since 2006, including short-term debt securities

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

Investment Policies <sup>2</sup>	2004		2005		2006	
	Number of Funds	NAV (million baht)	Number of Funds	NAV (million baht)	Number of Funds	NAV (million baht)
<b>General funds</b>	<b>430</b>	<b>509,015</b>	<b>594</b>	<b>789,371</b>	<b>726</b>	<b>1,050,375</b>
<b>Local investment funds</b>	<b>425</b>	<b>503,784</b>	<b>561</b>	<b>757,710</b>	<b>677</b>	<b>924,423</b>
<b>- Local funds</b>	<b>411</b>	<b>479,747</b>	<b>551</b>	<b>743,731</b>	<b>667</b>	<b>914,745</b>
Open-end funds	383	327,750	491	547,432	606	698,125
(1) Equity funds <sup>3</sup>	126	74,185	141	76,510	147	78,845
General	87	55,950	86	47,972	84	38,951
Special	39	18,235	55	28,538	63	39,893
(2) Fixed income funds <sup>4</sup>	113	110,025	222	356,880	348	521,326
General	57	83,348	85	199,487	137	289,559
Special	56	26,677	137	157,393	211	231,767
(3) Mixed funds <sup>5</sup>	144	143,541	128	114,042	111	97,954
General	107	86,277	43	30,550	36	22,742
Special	37	57,264	85	83,492	75	75,212
Closed-end funds	28	151,997	60	196,299	61	216,620
(1) Equity Funds <sup>3</sup>	5	3,807	4	1,190	3	1,021
General	4	3,783	0	0	0	0
Special	1	25	4	1,190	3	1,021
(2) Fixed income funds <sup>4</sup>	9	5,920	39	24,007	38	17,810
General	0	0	3	3,657	0	0
Special	9	5,920	36	20,350	38	17,810
(3) Mixed funds <sup>5</sup>	12	140,291	9	151,947	7	151,530
General	3	132,650	3	143,568	2	142,866
Special	9	7,641	6	8,379	5	8,664
(4) Property Fund for Public (Type I Fund)	2	1,979	8	19,155	13	46,259
Specified	1	966	6	17,544	11	43,917
Non-specified	1	1,013	2	1,610	2	2,342
<b>- Country funds</b>	<b>14</b>	<b>24,037</b>	<b>10</b>	<b>13,979</b>	<b>10</b>	<b>9,678</b>
Open-end funds	6	5,538	5	2,672	5	911
(1) Equity funds	4	2,663	3	421	3	426
(2) Fixed income funds	1	2,601	1	1,905	1	59

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

Investment Policies <sup>2</sup>	2004		2005		2006	
	Number of Funds	NAV (million baht)	Number of Funds	NAV (million baht)	Number of Funds	NAV (million baht)
(3) Mixed funds	1	274	1	347	1	426
Closed-end funds	8	18,499	5	11,307	5	8,767
(1) Equity funds	8	18,499	5	11,307	5	8,767
<b>Foreign investment funds</b>	<b>5</b>	<b>5,232</b>	<b>33</b>	<b>31,662</b>	<b>49</b>	<b>125,952</b>
- Local funds	<b>5</b>	<b>5,232</b>	<b>33</b>	<b>31,662</b>	<b>49</b>	<b>125,952</b>
Open-end funds	5	5,232	31	30,416	45	124,137
(1) Equity funds <sup>3</sup>	1	1,936	6	4,865	14	9,886
(2) Fixed income funds <sup>4</sup>	2	2,490	9	10,723	17	99,257
(3) Mixed funds <sup>5</sup>	2	806	16	14,828	14	14,994
Closed-end funds	0	0	2	1,246	4	1,815
(1) Fixed income funds <sup>4</sup>	0	0	2	1,246	3	1,486
(2) Mixed funds	0	0	0	0	1	329
<b>Special funds</b>	<b>94</b>	<b>173,608</b>	<b>87</b>	<b>174,435</b>	<b>81</b>	<b>172,119</b>
Closed-end funds	94	173,608	87	174,435	81	172,119
(1) Property Fund for Resolving Financial Institutions Problems (Type II Fund)	27	43,549	24	45,992	23	47,613
(2) Mutual Fund for Resolving Financial Institutions Problems (Type III Fund)	13	41,301	12	24,361	10	16,446
(3) Properties and Loans Funds (Type IV Fund)	54	88,758	51	104,082	48	108,059
<b>Total</b>	<b>524</b>	<b>682,623</b>	<b>681</b>	<b>963,806</b>	<b>807</b>	<b>1,222,494</b>

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

<sup>2</sup> Types of funds are classified in accordance with the notification of the Office No. SorNor. 23/2547

<sup>3</sup> Including equity funds and fund of funds

<sup>4</sup> Including fixed-income funds, short-term fixed-income funds, and money market funds

<sup>5</sup> Including balanced funds and flexible portfolio funds



# Financial Statements

Securities and Exchange Commission, Thailand  
For the Years Ended December 31, 2006 and 2005  
Office of the Auditor General of Thailand  
(Unofficial Translation)

To the Minister of Finance

The Office the Auditor General of Thailand (OAG) has audited the balance sheets as of December 31, 2006 and 2005, 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 OAG is to express an opinion on these financial statements based on its audits.

The OAG conducted its audits in accordance with generally accepted auditing standards. Those standards require that the OAG plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by the SEC's management; and evaluating the overall financial statement presentation. The OAG believes 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, 2006 and 2005 as well as the results and cash flows for each year then ended, in conformity with generally accepted accounting principles.

**(Miss Oraphin Patamalikitkul)**

Director of Audit Office

**(Mrs. Pongchan Laosutiwong)**

Auditor In-charge

Office of the Auditor General of Thailand  
February 23, 2007

# Balance Sheets

As of December 31, 2006 and 2005

## Assets

unit: baht

	Notes	2006	2005
<b>Current assets</b>			
Cash and cash equivalents	3	34,580,116.33	29,883,928.92
Short-term investments	4,7	2,838,751,786.80	2,613,040,169.01
Advances		508,824.37	1,579,874.42
Accrued revenues	5	146,835,573.80	138,893,973.24
Other current assets		3,714,257.29	1,407,617.38
<b>Total current assets</b>		<b>3,024,390,558.59</b>	<b>2,784,805,562.97</b>
<b>Non-current assets</b>			
Loans to employees		10,804,117.85	10,159,488.85
Long-term investments	6,7	500,060,362.89	631,434,085.17
Property, premises, and equipment - net	8	64,078,569.01	42,601,711.65
Intangible assets	9	37,425,337.74	12,970,905.91
Other assets		5,931,610.24	5,931,610.24
<b>Total non-current assets</b>		<b>618,299,997.73</b>	<b>703,097,801.82</b>
<b>Total assets</b>		<b>3,642,690,556.32</b>	<b>3,487,903,364.79</b>

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

Securities And Exchange Commission, Thailand

# Balance Sheets

As of December 31, 2006 and 2005

## Liabilities and funds

unit: baht

	Notes	2006	2005
<b>Current liabilities</b>			
Accounts payable		45,174,817.11	22,383,579.99
Unearned revenue	10	6,350,000.00	12,925,000.00
Payable - The Revenue Department		2,702,022.01	10,769,438.50
Other current liabilities		9,680,852.12	9,793,300.08
<b>Total current liabilities</b>		<b>63,907,691.24</b>	<b>55,871,318.57</b>
<b>Non-current liabilities</b>			
Provisions	11	10,501,655.50	10,501,655.50
Other liabilities		651,406.56	315,589.88
<b>Total non-current liabilities</b>		<b>11,153,062.06</b>	<b>10,817,245.38</b>
<b>Total liabilities</b>		<b>75,060,753.30</b>	<b>66,688,563.95</b>
<b>Capital Market Development Fund</b>	12	<b>896,245,203.26</b>	<b>823,719,917.71</b>
<b>Funds</b>			
Initial fund		1,250,532,337.10	1,250,532,337.10
Capital surplus from contribution		1,090,700.00	1,090,700.00
Reserve for a permanent office building	13	383,704,056.92	336,100,931.46
General reserve	14	954,578,968.51	829,578,968.51
Revenues over expenses		118,810,534.64	172,603,125.46
Unrealized gain (loss)	15	(37,331,997.41)	7,588,820.60
<b>Total funds</b>		<b>2,671,384,599.76</b>	<b>2,597,494,883.13</b>
<b>Total liabilities and funds</b>		<b>3,642,690,556.32</b>	<b>3,487,903,364.79</b>

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

(Mr. Thirachai Phuvanatanarubala)  
Secretary-General

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

# Statements of Revenues and Expenses

As of December 31, 2006 and 2005

unit: baht

	Notes	2006	2005
<b>Revenues</b>			
Fee income		354,551,300.27	389,612,190.39
Information service income		714,703.83	1,072,547.42
Interest income		391,754.74	278,974.27
Investment income	16	108,699,343.95	93,091,694.04
Contribution from SET		162,687,239.10	150,000,000.00
Other income		3,364,129.78	4,471,571.91
<b>Total revenues</b>		<b>630,408,471.67</b>	<b>638,526,978.03</b>
<b>Expenses</b>			
Human resources expenses		386,302,418.23	348,505,679.35
Administrative expenses		120,740,244.74	113,434,638.98
SEC Board and sub-committees remuneration		4,555,274.06	3,983,534.24
<b>Total expenses</b>		<b>511,597,937.03</b>	<b>465,923,852.57</b>
<b>Revenues over expenses - net</b>		<b>118,810,534.64</b>	<b>172,603,125.46</b>

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

Securities and Exchange Commission, Thailand

# Statements of Cash Flows

For the Years Ended December 31, 2006 and 2005

unit: baht

	2006	2005
<b>Cash flow from operating activities</b>		
Revenues over expenses - net	118,810,534.64	172,603,125.46
Adjustments to reconcile revenues over (under) expenses to net cash from (used in) operating activities		
Depreciation and amortization	22,527,617.46	20,796,924.51
Gain from sales of assets	(1,020,126.60)	(3,130,464.24)
Amortization of bond premium	829,817.30	13,980.13
Accrued revenues increase	(7,941,600.56)	(9,778,417.31)
Accrued expenses increase (decrease)	1,013,051.60	(4,217,211.87)
Prepaid expenses decrease	32,092.34	8,072.23
Unearned revenues decrease	(6,575,000.00)	(8,250,000.00)
Earnings from operating activities before changing in operating assets and liabilities	127,676,386.18	168,046,008.91
Operating assets (increase) decrease		
Advances	1,071,050.05	693,425.26
Accounts receivable - others	(1,888.93)	221,245.97
Accounts receivable - employees	(205,892.33)	6,914.81
Loans to employees	(644,629.00)	(107,498.50)
Accounts receivable - suspense	4,759.16	24,125.69
Refundable VAT receivable	(1,571,210.96)	-
Suspended input VAT	(564,499.19)	(129,062.83)
Accounts receivable - contract deposit	-	2,363,130.84
Operating liabilities increase (decrease)		
Accounts payable - general	22,791,273.12	(21,047,824.63)
Accounts payable - employees	-	(10,000.00)
VAT relevance payable	(7,959,052.94)	6,482,536.88
Withholding tax payable	(108,363.55)	902,702.04
Returned advances	(1,125,499.56)	(705,078.54)
Accounts payable - contract deposit	335,816.68	137,551.63
<b>Net cash from operating activities</b>	<b>139,698,212.73</b>	<b>156,878,177.53</b>

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

# Statements of Cash Flows

For the Years Ended December 31, 2006 and 2005

unit: baht

	2006	2005
<b>Cash flow from investing activities</b>		
Fixed deposit - employee benefits (increase) decrease	(16,908,030.00)	14,987,560.44
Investment in private fund increase	(36,515,624.25)	(43,434,744.93)
Fixed deposit (increase) decrease	(200,800,000.00)	50,000,000.00
Certificate of deposit increase	(210,000,000.00)	-
Promissory notes decrease	-	680,000,000.00
Treasury bills (increase) decrease	308,925,984.17	(185,175,172.57)
Bonds (increase) decrease	15,209,139.26	(822,257,743.66)
Leasehold improvement increase	(542,960.00)	(893,688.91)
Furniture and fixtures increase	(177,230.00)	(729,039.00)
Office equipment increase	(34,146,807.96)	(12,491,282.50)
Vehicles increase	(5,390,000.00)	(4,146,000.00)
Software license fee increase	(28,192,842.83)	(2,978,892.00)
Expenses for system developments increase	(38,500.00)	-
Income from disposal of assets	1,049,560.74	3,199,383.18
<b>Net cash from investing activities</b>	<b>(207,527,310.87)</b>	<b>(323,919,619.95)</b>
<b>Cash flow from financing activities</b>		
Capital Market Development Fund increase	72,525,285.55	164,423,902.72
<b>Net cash from financing activities</b>	<b>72,525,285.55</b>	<b>164,423,902.72</b>
<b>Net cash and cash equivalents increase (decrease)</b>	<b>4,696,187.41</b>	<b>(2,617,539.70)</b>
<b>Cash and cash equivalents as of January 1</b>	<b>29,883,928.92</b>	<b>32,501,468.62</b>
<b>Cash and cash equivalents as of December 31</b>	<b>34,580,116.33</b>	<b>29,883,928.92</b>

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

Securities and Exchange Commission, Thailand

# Notes to Financial Statements

For the Years Ended December 31, 2006 and 2005

## I. General information

The SEC was established on May 16, 1992 under the Securities and Exchange Act B.E. 2535 (SEC Act). 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 center, and institutions related to securities businesses
- Acquisition of securities for business takeovers
- 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., GPF Witthayu Towers, 93/1 Wireless Road, Lumpini, Patumwan, Bangkok 10330, Thailand.

As of December 31, 2006 and 2005, the SEC has 418 and 421 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 accordance 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 cash equivalents

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

### 2.4 Accrued revenues are stated as net realizable 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 independently managed by the selected private fund managers to invest in marketable securities in both debt and equity instruments which are classified as available for sale on the balance sheets, and measured at fair value. The fair value of marketable securities is based on the latest bid price on the Stock Exchange of Thailand (SET) of the last working day of the period as quoted. Changes in the book value of the available-for-sale securities are recognized as unrealized gain or loss and presented as a separate item under the fund on the balance sheets.

2.5.2 Long-term investment in debt instruments, expected to be held to maturity, are presented at amortized cost.

2.5.3 For disposal of investments, the difference between net disposal proceeds and the carrying amount will be booked in the statements 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

Gain or loss on disposal of property, premises, and equipment is based on book value and presented 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 recognized 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 amortization. Cost of intangible assets comprises purchase price and other expenses relating to the preparation for such assets to be ready for usage. Amortization 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 percent minimum to a maximum of 10 percent while that from the SEC is 10 percent of salary base of individual employee. The provident fund has been managed by investment professional and 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**

Major revenues of the SEC and revenue recognition are as follows:

### 2.9.1 Fee income

- Application fee: Revenue is recognized when application form and fee are received by the SEC.
- Registration fee: The first portion of revenue - 30 percent of the minimum fee requirement for registration - is recognized when the SEC received registration statement together with fee, while the balance will be recognized when registration statement becomes effective. Annual fee from an issuing company is recognized as revenue in the accounting year that the SEC received its financial statements together with fee.
- License fees: 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 recognized in line with the SEC's rules on fee payment.
- Other fees: Revenue is recognized when request form and fee are received by the SEC.

### 2.9.2 Contribution from the SET

Under the SEC Act, the SET shall contribute for the purpose of facilitating the operation of the SEC at the rate specified by the SEC. Revenue is recognized on an accrual basis.

### 2.9.3 Investment income or other income

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

## 2.10 Financial instruments

To diversify investment risk, the SEC has a policy to invest at least 60 percent in low-risk financial instruments and 40 percent in high-risk financial instruments. Of the entire investment portion, 50 percent is managed by the SEC to invest in low-risk financial instruments while the balance is managed by the selected private fund managers with investment policies as follows:

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

## 3. Cash and cash equivalents

unit: million baht		
	2006	2005
Cash and petty cash	0.05	0.06
Bank deposit (including check in transit)	34.53	29.82
<b>Total</b>	<b>34.58</b>	<b>29.88</b>

## 4. Short-term investments

### 4.1 Short-term investments

unit: million baht

	2006	2005
Current and savings deposits	33.63	68.60
Fixed deposits (due date within 1 year)	372.39	116.79
Suspense account - marketable securities pending for transfer	-	20.85
Bonds (due date within 1 year)	795.32	679.99
Treasury bills (due date within 1 year)	-	308.93
CDs (due date within 1 year)	210.00	-
Investments in debt and equity instruments (from private fund investment)	1,415.41	1,410.97
Accrued interest and dividend (from private fund investment)	12.00	6.91
<b>Total</b>	<b>2,838.75</b>	<b>2,613.04</b>

### 4.2 Investments in debt and equity instruments

#### 4.2.1 Available-for-sale securities

unit: million baht

	2006		2005	
	Book Value	Market Value	Book Value	Market Value
Debt instruments	893.22	887.55	829.78	820.15
Equity instruments	559.52	527.86	573.60	590.82
	1,452.74	1,415.41	1,403.38	1,410.97
Accrued interest from debt instruments	8.34		6.31	-
4.2.2 Held-to-maturity debt instruments	795.32		988.91	

## 5. Accrued revenues

unit: million baht

	2006	2005
Interest income		
- Fixed deposits	2.88	-
- State enterprise bonds	1.91	1.91
- Government bonds	6.06	6.06
- Fixed deposits with Government Housing Bank	1.22	0.34
- Treasury bills	-	1.30
- Bank of Thailand bonds	18.90	13.41
Fee income		
- undertaking other types of securities businesses	115.70	115.70
- annual disclosure fee	0.05	0.06
Others	0.11	0.11
<b>Total</b>	<b>146.83</b>	<b>138.89</b>

## 6. Long-term investments

unit: million baht

	2006	2005
Held-to-maturity debt instruments		
- Bank of Thailand bonds	100.07	231.44
- State enterprise bonds	99.99	99.99
- Government bonds	300.00	300.00
<b>Total</b>	<b>500.06</b>	<b>631.43</b>

## 7. Debt instruments

unit: million baht

	2006			Total	2005
	Time to Maturity				
	1 Year	2-5 Years	6-10 Years		
Available-for-sale securities	887.55	-	-	887.55	820.15
Held-to-maturity debt instruments					
- 2000 Expressway and Rapid Transit Authority of Thailand Bonds	-	99.99	-	99.99	99.99
- 2002 Government Savings Bonds	-	-	300.00	300.00	300.00
- 2004 Bank of Thailand Bonds	795.32	100.07	-	895.39	911.43
- Treasury bills	-	-	-	-	308.93
Total	1,682.87	200.06	300.00	2,182.93	2,440.50

## 8. Property, premises, and equipment - net

unit: million baht

	As of Dec 31, 2005	Increase	Decrease	As of Dec 31, 2006
Property, premises, and equipment (cost)				
Leasehold improvement	30.86	0.55	-	31.41
Furniture and fixtures	22.62	0.17	-	22.79
Office equipment	106.25	34.15	(9.52)	130.88
Vehicles and parts	37.67	5.39	(3.71)	39.35
Total property, premises, and equipment	197.40	40.26	(13.23)	224.43
<u>Less</u> Accumulated depreciation				
Leasehold improvement	(29.24)	(0.89)	-	(30.13)
Furniture and fixtures	(21.13)	(0.64)	-	(21.77)
Office equipment	(84.42)	(10.15)	9.49	(85.08)
Vehicles and parts	(20.01)	(7.07)	3.71	(23.37)
Total accumulated depreciation	(154.80)	(18.75)	13.20	(160.35)
<b>Total property, premises, and equipment - net</b>	<b>42.60</b>	<b>21.51</b>	<b>(0.03)</b>	<b>64.08</b>
Depreciation	16.50			18.75

## 9. Intangible assets

unit: million baht

	As of Dec 31, 2005	Increase	Decrease	As of Dec 31, 2006
Intangible assets				
Licensed software	22.78	28.19	-	50.97
System development	14.21	0.04	-	14.25
Total	36.99	28.23	-	65.22
<u>Less</u> Amortization			-	
Licensed software	(9.81)	(3.77)	-	(13.58)
System development	(14.21)	-	-	(14.21)
Total amortization	(24.02)	(3.77)	-	(27.79)
<b>Total</b>	<b>12.97</b>	<b>24.46</b>	<b>-</b>	<b>37.43</b>

## 10. Unearned revenues

unit: million baht

	2006	2005
Licenses fees for		
- Undertaking securities dealing or debt instruments underwriting business	6.00	12.00
- Undertaking securities financing business	-	0.50
- Undertaking venture capital business	0.05	0.05
- Securities registrar business	0.15	0.20
- Undertaking investment advisory service business	-	0.03
- Undertaking inter-dealer broker business	-	0.05
- Association related to asset management businesses	0.05	0.05
- Association related to securities businesses	0.10	0.05
<b>Total</b>	<b>6.35</b>	<b>12.93</b>

## 11. Provisions

unit: million baht

	2006	2005
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> floors in the amount of 10.50 million baht is based on the estimation made by Diethelm Co., Ltd. In 2001, the company had 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> floors 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.

## 12. Capital Market Development Fund

unit: million baht

	2006	2005
Beginning balance	823.72	659.30
<u>Add</u> Income from license fees for undertaking securities businesses and from interest incomes	76.46	166.97
<b>Total</b>	<b>900.18</b>	<b>826.27</b>
<u>Less</u> Expenses for supporting projects and others	(3.93)	(2.55)
<b>Ending balance</b>	<b>896.25</b>	<b>823.72</b>

### I3. Reserve for a permanent office building

unit: million baht

	2006	2005
Beginning balance	336.10	237.85
<u>Add</u> Reserve	47.60	98.25
<b>Ending balance</b>	<b>383.70</b>	<b>336.10</b>

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

### I4. General reserve

unit: million baht

	2006	2005
Beginning balance	829.58	704.58
<u>Add</u> Reserve	125.00	125.00
<b>Ending balance</b>	<b>954.58</b>	<b>829.58</b>

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

### I5. Unrealized gain (loss)

unit: million baht

	2006	2005
Beginning balance	7.59	23.50
Changes during accounting period	(44.92)	(15.91)
<b>Ending balance</b>	<b>(37.33)</b>	<b>7.59</b>

Unrealized (loss) from investments in the amount of 37.33 million baht is resulted from the difference between book value and fair value of investments in the portion of fund managed by the private fund manager. (See details in Note 2.5 Investments)

## I 6. Investment income

unit: million baht

	2006	2005
Income from investment in fund managed by private fund manager		
- Interest income	43.17	29.54
- Dividend income	18.78	10.97
- Gain (loss) from disposal of investments	(8.89)	25.10
Total	53.06	65.61
Income from direct investment	92.10	54.45
Total	145.16	120.06
<u>Less</u> Returns on investment under Capital Market	(36.46)	(26.97)
Development Fund		
<b>Total</b>	<b>108.70</b>	<b>93.09</b>

# Appellate Committee

To consider an appeal of persons who are not satisfied with the decisions or orders of the SEC Board or the SEC Office 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

*Note: \* Resigned on November 17, 2006*

# Sub-committees

## Sub-committee on Consideration of Draft Notifications Concerning Equity Instruments

### Objective:

To consider draft notifications concerning equity instruments and perform duties as assigned by the SEC Board.

### Comprise:

1. Mr. Prasong Vinaiphat	Chairman
2. Representative from SET	Sub-committee
3. Representative from LCA	Sub-committee
4. Representative from ASCO (Investment Banking Club)	Sub-committee
5. Representative from TIA	Sub-committee
6. Mrs. Pataraporn Milinthsut	Sub-committee
7. Director, Corporate Governance Dept., SEC	Sub-committee and Secretary

*Appointed on April 7, 2006 and serving term from March 1, 2006 to February 29, 2008*

## Sub-committee on Consideration of Draft Notifications Concerning Derivatives relating to Equities

### Objective:

To consider draft notifications concerning derivatives relating to equities and perform duties as assigned by the SEC Board.

### Comprise:

1. Mr. Prasong Vinaiphat	Chairman
2. Representative from SET	Sub-committee
3. Representative from LCA	Sub-committee
4. Representative from ASCO (Investment Banking Club)	Sub-committee
5. Representative from Thai Bankers' Association	Sub-committee
6. Representative from Foreign Banks' Association	Sub-committee
7. Director, Corporate Governance Dept., SEC	Sub-committee and Secretary

*Appointed on April 7, 2006 and serving term from March 1, 2006 to February 29, 2008*

## Sub-committee on Consideration of Draft Notifications Concerning Debt Securities

### Objective:

To consider draft notifications concerning debt securities and perform duties as assigned by the SEC Board.

### Comprise:

1. Mr. Prasong Vinaiphat	Chairman
2. Managing Director, Thai BMA	Sub-committee
3. Chief Executive Officer, Bond Electronic Exchange, SET	Sub-committee
4. Mr. Pakorn Peetathawatchai	Sub-committee
5. Mr. Treekwan Boonnak	Sub-committee
6. Representative from AIMC	Sub-committee
7. Director, Research Dept., SEC	Sub-committee and Secretary

*Appointed on May 16, 2005 and serving term from April 1, 2005 to March 31, 2007*

## Sub-committee on Consideration of Notifications Concerning Business Takeovers

### Objective:

To consider the amendments to notifications concerning business take-overs and other related regulations.

### Comprise:

1. Mr. Prasong Vinaiphat	Chairman
2. Representative from SET	Sub-committee
3. M.L. Chayotid Kridakon	Sub-committee
4. Mr. Somjin Sornpaisarn	Sub-committee
5. Mrs. Pataraporn Milinthsut	Sub-committee
6. Mr. Chanchai Supasagee	Sub-committee
7. Director, Corporate Governance Dept., SEC	Sub-committee and Secretary

*Appointed on September 6, 2006 and serving term from July 18, 2006 to July 17, 2008*

## Sub-committee on Takeovers (Takeovers Panel)

### Objective:

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

### Comprise:

#### Category 1: Chairman of Takeovers 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 Socratyanurak
4. Mr. Veravat Chutichetpong
5. Prof. 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: Representatives from SEC as Sub-committee and Secretary

1. Director, Corporate Governance Dept.
2. Director, Legal Dept.

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

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

### Objective:

To consider draft notifications concerning securities business supervision which are not considered by any sub-committees and perform duties as assigned by the SEC Board.

### Comprise:

1. Mr. Vasant Thienhom	Chairman
2. Representative from SET	Sub-committee
3. Representatives from ASCO	Sub-committee
4. Representatives from TIA	Sub-committee
5. Representative from AIMC	Sub-committee
6. Representative from Securities Analysts Association	Sub-committee
7. Director, Investment Advisor Supervision Dept. or Director, Broker - Dealer Supervision Dept., SEC	Sub-committee and Secretary

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

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

### Objective:

To consider and advise on draft notifications concerning establishment and management of mutual fund and private fund and other related notifications, but excluding rules governing investment units salespersons and private fund representatives, and perform duties as assigned by the SEC Board.

### Comprise:

1. Mr. Suparat Kawatkul*	Chairman
2. Representative from AIMC	Sub-committee
3. Representative from Mutual Fund Supervisors	Sub-committee
4. Representative from TIA or Representative from AOP (if the meeting concerns provident fund)	Sub-committee
5. Ms. Suvabha Charoenying or Dr. Pornanong Boosratrakoon (if the meeting concerns derivatives investment of mutual fund and private fund) or Ms. Jittaporn Sriboonjit (if the meeting concerns property fund)	Sub-committee
6. Mr. Siriwat Voravetvuthikun	Sub-committee
7. Director, Investment Management Supervision Dept., SEC	Sub-committee and Secretary

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

*Note: \* Appointed on April 7, 2006 and serving term from February 15, 2006 in succeeding to Mr. Sompol Kiatphaibool*

## Sub-committee on Establishment and Management of Property Fund

### Objective:

To consider and advise the SEC concerning establishment and management of property fund and perform duties as assigned by the SEC Board.

### Comprise:

1. Mr. Suchart Thada - Thamrongvech	Chairman
2. Representative from AIMC	Sub-committee
3. Representative from Fund Supervisors	Sub-committee
4. Representative from Valuers Association of Thailand	Sub-committee
5. Representative from Real Estate Business Program, Thammasat University	Sub-committee
6. Representative from Thai Real Estate Association	Sub-committee
7. Director, Investment Management Supervision Dept., SEC	Sub-committee and Secretary

*Appointed on January 18, 2006 and serving term from January 18, 2006 to January 17, 2008*

## 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, Secretary-General, Office of the Council of State	Sub-committee
3. Pol. Gen. Sombat Amornviwat*, Director-General, DSI	Sub-committee
4. Pol. Gen. Amnuey Peshsiri, Deputy Commissioner-General, Office of the Commissioner-General, Royal Thai Police	Sub-committee
5. Mr. Chaikasem Nitisiri, Deputy Attorney General, Office of the Attorney General	Sub-committee
6. Mr. Prasong Vinaiphat, Deputy Secretary General, SEC	Sub-committee
7. Mr. Arkabus Kairiksh, Senior Director, Litigation Group, BOT	Sub-committee

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

*Notes: Information as of December 21, 2006*

*\* Appointed Acting Deputy Permanent Secretary of Ministry of Justice on November 6, 2006*

# Arbitrators

List of qualified persons who act as arbitrators in arbitration procedure to settle the dispute between the aggrieved 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. Tawat Ananthothai
3. Asst. Prof. Tithiphan Chuerboonchai
4. Mr. Burin Kantabutra
5. Asst. Prof. Dr. Patcharavalai Jayapani
6. Mr. Punlop Pisitsungkakarn
7. Assoc. Prof. Phijaisakdi Horayangkura
8. Assoc. Prof. Dr. Paiboon Sareewiwatthana
9. Dr. Maruey Phadoongsidhi
10. Prof. Dr. Warapatr Todhanakasem
11. Assoc. Prof. Wai Chamornmarn
12. Assoc. Prof. Dr. Somjai Phagaphasvivat
13. Mr. Athueck Asvanund
14. Assoc. Prof. Dr. Anan Chantara-Opakorn

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