New Regime of Securities Market
Regulation: Roles of Industry Associations

Prepared for
the 16th Asia Securities Forum
28 -30 September 2011
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• Preparation for self-regulation
• Roadmap for 2011 - 2012
Roles and Missions

As a self-regulatory organization, ASCO’s new roles will consist of:

- **An industry self-regulatory organization**: To ensure good governance, ethical standard and best practices among members.
- **A commercial association**: To encourage effectiveness and competitiveness of member companies.
- **A training institution**: To enhance knowledge and quality of personnel in securities business and promote investor education.
As a self-regulatory organization, ASCO’s missions will consist of:

- To regulate securities business with transparency and efficiency, protect investor’s interests and ensure fair services.
- To promote investment transactions through intermediaries in Thailand.
- To develop skills of personnel in securities business in accordance with changing capital market environment.
- To develop and increase investor base, as well as enhance good and well-qualified investment culture.
- To encourage entrepreneurs to raise funding through securities market.
Preparation for self-regulation

- Organization and Corporate Governance
- Supervision of ASCO’s members
- Regulatory Oversight
ASCO’s new organizational structure
Governance Structure

• Composition of Board of Directors
  – 11 Directors voted by members and approved by SEC
  – No less than half of BODs are PIDBs
  – Chairman is a full-time position

• Composition of SRO Committee
  – 5 persons appointed by BODs and approved by SEC
  – 3 of them are PIDBs (1 finance/IB expert, 1 law expert, 1 accounting expert)
  – 2 of them are representatives of members
  – Chairman is a full-time position
Supervision Transfer

- In order to become fully-functional SRO, SEC will hand over some of their responsibilities to ASCO
- Transitions will be in 3 phases as followed:

  **Phase I**
  Supervision of sales representatives and Customer-Relationship risk

  **Phase II**
  Supervision on Operational risk

  **Phase III**
  Supervision on Prudential and Portfolio Risk
Overall supervision of personnel in capital market

<table>
<thead>
<tr>
<th>SEC</th>
<th>Association of Securities Companies</th>
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<tbody>
<tr>
<td>• Directors/ executives</td>
<td>• Analysts</td>
</tr>
<tr>
<td>• Shareholders</td>
<td>• Sales Representatives</td>
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<td>• Fund Managers</td>
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Phase I – Supervision of sales representatives

• In terms of **supervising sales representatives**, ASCO will responsible for;
  - Rules making and qualifications settings
  - Approval and renewal for approval for sales representatives
  - Organizing professional training courses (including refresher course) and examinations for applicant for sales representatives
  - Acknowledging the starting and discontinuing of duties as sales representatives
  - Supervising and monitoring business conduct
  - Complaint handling
  - Handling of disciplinary actions
  - Database Management
  - Disclosure of any information concerning sales representatives
## Level of supervision on securities companies between SEC and ASCO

<table>
<thead>
<tr>
<th>Level</th>
<th>Rules-making process</th>
<th>Inspection</th>
<th>Enforcement and sanction</th>
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<tbody>
<tr>
<td>1</td>
<td><img src="logo1.png" alt="SEC Association of Securities Companies" /></td>
<td><img src="logo2.png" alt="SEC" /></td>
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Phase I – Customer Relationship risk

- With regard to **Customer Relationship risk**, ASCO will responsible for supervising securities companies in the following areas;
  - Soliciting customers and giving investment recommendations
  - Acceptance and sending of customers’ orders, and reporting of trading summary
  - Advertisement and Sales Promotion of mutual fund
  - Processing of research papers
  - Complaints handling and arbitration
  - Handling of funds received from the sales or redemption of mutual fund’s unit trusts to asset management companies or to investors
  - etc.
**Examples of supervisory issues to be transferred to ASCO in phase II and III**

<table>
<thead>
<tr>
<th>Phase II</th>
<th>Phase III</th>
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<tbody>
<tr>
<td>Operational Risk</td>
<td>Prudential Risk/Portfolio Mgt. Risk</td>
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<tr>
<td>• Setting and reviewing customers’ credit limits</td>
<td>• Proprietary trading</td>
</tr>
<tr>
<td>• Margin loan approval</td>
<td>• Prevention of conflict of interests between customers’ portfolios and those of companies/ companies’ staff</td>
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</table>
Preparation for self – regulation (cont.)

SEC oversight of ASCO

Review periodic & compliance report such as
- Annual report
- Inspection plan and report
- Disciplinary actions and enforcement report, etc

Approval of SRO body

Approval rules & standards drafted by ASCO

Apply fit and proper test on ASCO board and committee
Preparation for self – regulation (cont.)

- Highlights of ASCO’s guidelines in 2010

  - Guidelines for payment of remunerations to marketing officers, branch managers and heads of marketing teams by securities companies
    - *Allow member companies to choose 2 payment methods (Incentive Scheme and/or Salary Based) for greater flexibility*

  - Guidelines for applying quality factors for evaluating the performance of marketing officers of securities companies
Contents
Preparation for self – regulation (cont.)

• Highlights of ASCO’s guidelines in 2010

  • Guidelines for supervision of derivatives warrant (DW) trading
    • Require member companies to require their customers buying DW with the specified conditions by cash balance accounts only

  • Guidelines for proprietary trading of securities and futures to ensure good standards
Roadmap for 2011 - 2012

2012
- Enact, revise and amend current rules and guidelines
- Develop supervisory plan and inspection process, as well as sanction against any regulatory violation
- After approval from the Board, introduce rules, codes of conduct and guideline, along with supervisory plan to members
- Commence supervisory and inspection plan as full functioned SRO

Q4-2011
- Filing for SRO
- Electing new BODs
- Appointing SRO Committee

Q3-2011
- Revise ASCO’s rules to be in line with ministerial and SEC regulations
- Prepare for becoming SRO in areas such as work system and personnel, etc.
Thank you