

**Textbook
(Unofficial Translation)
Ethics & Rules Series (E Series)**

E 1 -- Ethics, Rules and Suitability

- **Investment consultant using as a requirement in complementary with other qualifications, e.g. CFA, FRM, CFP**
- or
- **Professionals from countries acceptable by the Thai SEC**

**Thailand Securities Institute
Version 1: 15 November 2017**

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Note: An unofficial translation of the Thai text book: Related Rules and Suitable Investment Consulting. The translation is intended to facilitate a reader to understand contents of the book but not to be used as a reference. TSI is not responsible for the correctness and completeness of the translation. The contradiction of the original text book and the translation, please refer to the Thai version.

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Glossary

Mutual Funds under the International Agreement	<p>Foreign Collective Investment Scheme (FCIS) under the international mutual funds agreement, such as ASEAN CIS and ARFP</p> <ul style="list-style-type: none"> - ASEAN CIS (ASEAN Collective Investment Schemes) Framework is an agreement to facilitate the cross-border sale of mutual funds across all ASEAN countries. - ARFP (Asia Region Funds Passport) is an economic initiative to provide regional management of cross-border mutual funds according to the APEC framework and to facilitate the sale of mutual funds across all member countries.
Seller	A personnel of a business whose duties are to sell and provide advice investment advice of financial products, approved by the Office of the Securities and Exchange Commission (SEC), to be an Investment Planner (IP) and/or an Investment Consultant (IC), as the case may be.
Product	Financial products in capital market, e.g. unit trust, fixed income securities and derivatives of local and foreign countries.
Risky/Complex Product	<p>Products in a capital market with high risks or complexity</p> <p>(1) Unit trusts</p> <p style="padding-left: 40px;">(a) Unit trusts for institutional investors or ultra-high net worth (UHNW) according to the announcement of the Capital Market Supervisory Board, re: Rules, Regulations and the Establishment of A Mutual Fund for Institutional Investors and UHNW</p> <p style="padding-left: 40px;">(b) Unit trusts of a fund with high complexity according to the announcement issued by the Office of the Securities and</p>

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Exchange Commission and its affixed regulations with regard to mutual fund investing in derivatives or structured notes (by VaR approach).

(c) Unit trusts of complex return fund.

(d) Unit trusts of a fund with net exposure to commodity as an underlying to its derivatives.

(e) Unit trusts of a fund investing in non-investment grade bond over 60% of net asset value (NAV) of the funds

(2) Fixed income securities

(a) Hybrid securities which have an maturity date more than 270 days since after the issuance of fixed income products and have the following features:

1. The Issuer has a right to postpone or withhold coupon payments of the fixed income products.

2. The bond holder is entitled to receive repayment from an issuer in lower right than a creditor, but higher than a shareholder of an issuer.

(b) Structured debentures according to the announcement issued by the Capital Market Supervisory Board with regard to requests for permission and approvals for the issuing and selling of structured debentures or structured notes.

(c) Basel III compliant securities issued by a commercial bank according to the announcement issued by the Capital Market Supervisory Board Corporate Governance for Capital Market Intermediaries with regard to the selling of subordinated bonds as Basel III issued by commercial banks

(d) Fixed income securities in the form of a perpetual bond of a defunct company

(e) Fixed income securities in the form of a non-investment grade bond or unrated bond

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Entrepreneur	Business owners with a license for the following types of securities and derivatives business: <ol style="list-style-type: none"> 1) Asset management 2) Securities brokerage or underwriter 3) Derivatives brokerage
Vulnerable Investors	Investors, such as investors over 60 years of age, investors with limited financial and investment knowledge, investors with difficulties in communication and decision-making including investors with hearing and visual impairments or health deficiency, shall be provided with exclusive care with respect to communication and services
Product Issuer	Mutual fund companies and/or issuers of fixed income securities or equities
Client	Recipients of services from entrepreneurs, except the following groups or parties: <ol style="list-style-type: none"> (1) Institutional investors (II). (2) Ultra-high net worth (UHNW) or High net worth (HNW) who is a juristic person disclosing his/her intention in writing that entrepreneurs shall not follow procedures or methods that entrepreneurs have established. (3) Clients as investors or service users of the OTC derivatives market.
Asset Allocation	Advice on allocation and specification of the proportion of investment that an investment planner (IP) specifically customizes investment plan and investment portfolios
Basic Asset Allocation	Advice on basic allocation and specification of the proportion of investment provided with standards by knowledgeable and experienced personnel of business owners who are widely accepted in academia.
Compliance	Supervision of work operations.
Factsheet	A highlighted information in a prospectus of a product.

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Fair Dealing	selling products and services to clients with fairness and honesty with a determination to prioritize clients' benefits
High Net Worth (HNW)	High net worth individuals shall hold the following qualifications: <ul style="list-style-type: none"> - An individual (and spouse) shall possess a net worth of more than 50 million baht; more than 4 million baht annual income; over 10 million baht worth of equities or derivatives; or over 20 million baht worth of derivatives inclusive of deposits and equities. - A juristic person with a shareholder equity more than 100 million baht, or over 20 million baht of equities or derivatives, or over 40 million baht worth of derivatives inclusive of deposits.
Investment Consultant (IC)	Consultant for investment.
Institutional Investor (II)	Investors at institutional levels e.g. commercial banks, securities companies, and life insurance companies.
Investment Planner (IP)	investment planner
Knowledge Assessment	assessment of knowledge and capability for clients who aim to invest in risky or complex products.
Mis-selling	selling inappropriately or selling wrong types of products to clients.
Mystery Shopping	random inspection of the seller's' services.
Suitability Test	evaluation of appropriateness for investment

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Ethics, Rules and Suitability

Suggested Readings:

1. Related Rules and Regulations and Suitable Investment Consulting

Chapter 1: Guidelines for Selling and Providing Services for Financial Products

Learning Objectives:

1. Explain 6 objectives of sales and services conduct.
2. Explain 8 compositions in fulfilling fair dealing objective.
3. Explain how to set up organization structure, roles of board of directors and duties of chief executives.
4. Explain how to select products and client grouping.
5. Explain how to communicate and educate sales persons.
6. Explain preparation process for sales and services, process of sales and services to general investors and vulnerable investors.
7. Apply sales conduct of capital market products to investment consulting for each type of product, sales channel and investor.
8. Explain remuneration determination and claim management.
9. Explain internal control and compliance including operation and business continuity plans.
10. Explain other rules and regulations for, e.g. conflict of interest, insider information, sales persons trading, client assets, compliance unit.
11. Explain risk management scheme for anti-money laundering (AML) and, combating the financing of terrorism (CFT).

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Chapter 1

Guidelines for Selling and Providing Services for Financial Products

The Office of the Securities and Exchange Commission, Thailand (SEC) developed guidelines for selling and providing services for financial products to clients in the capital market with fair dealing, giving priority to investors' benefits as well as enhancing their trust. Entrepreneurs should place importance on and hold responsibilities for supporting selling products, providing services and training their sales representatives.

1.1 Guidelines for selling and providing services for unit trusts and fixed income securities

These guidelines are required to fulfil six goals:

- Goal 1: To ensure that clients contact the entrepreneur who deems fair dealing as key to organizational culture
- Goal 2: To select and design appropriate products and services to meet the prospect's demands
- Goal 3: To ensure that clients receive clear and appropriate information from sellers
- Goal 4: To provide clients with quality advice and appropriate offers based on clients' situations
- Goal 5: To offer clients products and services that meet their expectations
- Goal 6: To remove any unnecessary obstacles and inconveniences after purchasing or selling products, including filing complaints and damage claims to entrepreneurs

These goals will help entrepreneurs to reduce risk of clients' mis-selling and property fraudulence; therefore, entrepreneurs have to understand and give precedence to a fair dealing business model and there should be measures for each specific component, which will be mentioned later. These measures can be applied in the business context along with other related rules and regulations.

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There are 8 components of a successful fair dealing business model as follows:

- Component 1 Organizational Structure, Roles of the Committee and Duties of Chief Executives
- Component 2 Product Selection and Client Segmentation
- Component 3 Communication and Training Program for Sellers
- Component 4 Sales Process
- Component 5 Remuneration Structure
- Component 6 Complaint Handling
- Component 7 Internal Control and In-house Inspection
- Component 8 Operation and Business Continuity in An Incident

The expectations for each component of the fair dealing business model are as follows:

Component 1 Organizational Structure, Roles of the Committee and Duties of Chief Executives

The entrepreneur's committee and chief executives realize the importance of a fair dealing business model and regard it as the heart of the organizational culture that helps promote sustainable business growth and reduce the risk of clients' mis-selling and property fraudulence.

Component 2 Product Selection and Client Segmentation

The entrepreneur uses a suitable process to carefully evaluate the products before offering them to the clients, while the product selection process is also efficient. The clients are grouped according to their different characteristics to help the entrepreneur select appropriate practices in making offers, giving advice, and monitoring practices carefully and appropriately.

Component 3 Communication and Training Program for Sellers

The entrepreneur has an effective communication protocol and conducts necessary training programs regularly, allowing sellers and related staff to learn about new changes, important practices to remove risk and accurate information about the

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operation. In addition, the entrepreneur can be certain that sellers and staff possess clear understanding and can put it into practice.

Component 4 Sales Process

The entrepreneur has a sales process that is fair and advantageous to the clients. The entrepreneur must not take advantage of the client's lack of knowledge and experience. It is important to ensure that the clients receive appropriate product offers as well as adequate information and services, so that they can make the right investment decisions.

Component 5 Remuneration Structure

The entrepreneur has a remuneration structure for sellers and related operation staff created based on the benefits that the clients receive and other factors other than sales volume, so that the sellers do not rush to sell or offer inappropriate products to the clients.

Component 6 Complaint Handling

The entrepreneur has a complaint handling system that is independent, fair, effective, and up-to-date. This helps ensure the clients that the entrepreneur listens to them and pays attention to their benefits in a professional and fair manner.

Component 7 Internal Control and In-house Inspection

The entrepreneur has an effective follow-up and effective inspection system that is in line with possible risks and effects on clients and their business. The system is an important tool to reduce risk or damage and inspect abnormalities, so that they can be removed immediately.

Component 8 Operation and Business Continuity in an Incident

The entrepreneur has an operation system and a contingency plan for emergency situations to ensure the clients that their orders or needs will be fully satisfied accurately, completely and timely.

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1.1.1 Organizational Structure, Roles of Committee and Duties of Chief Executives

Scope of Duties and Responsibilities of Executives, Departments and Related Personnel

The entrepreneur's operation concerns the following aspects.

1. Establish policies and strategic plans as guidelines for operating the business related to investment in unit trusts and/or fixed income securities with a clear emphasis on building and disseminating fair dealing culture in writing at the level of both company and departments related to unit trust and/or fixed income securities trading. The committee and chief executives are responsible, while the committee approves the policies. The policies will communicate and spread fair dealing culture to all related departments and personnel.

2. Identify fields and units related to trading and services of unit trusts and fixed income securities in the unit and assign duties and responsibilities as well as supervisors. Different units take part in operation crosschecking and balancing power, so that each unit can work independently without conflict of interest.

3. Assign chief executives to monitor sales and services of unit trusts and fixed income securities and set up a follow-up system, so that overall business and risk can be evaluated to seek problems and effective solutions in time.

4. Assign related personnel to be responsible for different operation fields, including policy executives, branch managers as well as compliance executives and managers. The compliance managers have to report duties to the SEC.

5. Possess an adequate number of quality personnel to effectively operate the business according to business scope and quality of work and assign supervisors to monitor and follow up the operation practices as well as conduct personnel development trainings regularly.

6. Communicate with operation personnel and other related people outside the unit about the entrepreneur's profundity to promote fair dealing. In some cases, it may require some changes in the thinking process of operation personnel; therefore, chief executives must demonstrate a firm commitment to achieving profundity. In addition, the compliance unit should examine the development and success of sellers.

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7. Assign the committee and chief executives to oversee the overall business operation by following up complaints, surveying client satisfaction and opinions, and studying the results of mystery shopping and compliance reports.

1.1.2 Product Selection and Client Segmentation

The entrepreneur's operation includes the following issues.

- Develop a process to select product issuers for the selection of products for sale by considering client's maximum benefit and products' suitability and quality. The consideration concerns the following issues.
 - The suitability of products to target clients: Find out whether the prospects can understand the selected products.
 - The suitability of products to prospects' risk tolerance: Review investment goals, returns, risks, fees and expenses are suitable for the prospects.
 - Existing sales channels, including investment consultants, investment planners and online platforms
 - Seller's ability to understand product offers and provide information and advice to the prospects
 - Guidelines and plans to disseminate accurate and complete information about products and operation practices to the prospects
 - Sales system and process, including product information access, forms and suitability test, that effectively helps support sales of products and services
- Conduct product due diligence by evaluating the understanding of product characteristics and risks affecting the investment and return on investment stated in fact sheets and additional documents provided by product issuers, and specify which products are suitable to which groups of clients.

For fixed income securities trading, there must be a system to select suitable fixed income securities issuers and examine the issuer status, so that they understand the business types, future business plans, sources of reserves funds or collaterals for the redemption of fixed income securities, and objectives of using money raised from fundraising (e.g. using short-term fund for long-term

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investment). In terms of unrated fixed income securities, it requires the analysis of key financial ratio that reflects the issuers' financial risk and the ability to repay.

If the entrepreneur finds that the information is inadequate for product analysis, the entrepreneur may refuse to sell the products.

To do product due diligence, related units, such as legal unit, compliance unit, operation unit and sales unit (that knows the needs and characteristics of clients), must participate in reviewing the complete document and documenting meeting minutes which will be approved by responsible executives.

- Develop a method to categorize products based on risks and other factors and segment clients according to their risk tolerance or other aspects in order to identify sales strategies, personnel development trainings, appropriate and inappropriate clients, and sales monitoring process for different groups of clients.
- Formulate measures to prevent sales practices, such as investment in foreign products requiring offshore funds transfer that are not in line with the measures set by the Bank of Thailand, products or services that do not meet the license requirements, and other business operation related to risk or conflicts of interest against business licenses.
- Create a system to offer mutual funds in Thailand under the international regulations.
 - The system may have examination steps to ensure that the mutual funds are qualified under the international agreements.
 - The system should monitor the information related to mutual funds under the international agreements comparable to home regulators and submit to the office of the SEC in a specified time.

1.1.3 Communication and Training Program for Sellers

The entrepreneur has a system to communicate with and educate sellers by conducting trainings and workshops on selling effectively and regularly, so that the entrepreneur is certain that the sellers have clear understanding about the products and can provide clients with information and advice related to the products, especially high-risk or complex products that are unfamiliar to the sellers.

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Communication with Sellers

- Establish a unit responsible for communication and information dissemination. This unit selects topics, contents, formats, channels, assessment procedures, time frame as well as frequency for sellers.
- Use accurate and complete contents to communicate with sellers. For example, the content may include the purpose along with the procedures, so that the sellers understand the importance of following the instruction strictly. In addition, in case of providing information about products in the capital market, the contents must be relevant to the information given by the product issuers.
- Use systems and tools to enhance the efficient communication with sellers, such as computers, the internet and emails, and choose communication channels appropriate to the topics, contents, tools and sellers' media consumption behavior, in order to achieve successful communication.
- Assess the communication and knowledge, such as rechecking examination and mystery shopping, and arrange meetings between communicators and sellers to discuss problems and obstacles for future operation.
- Possess communication mechanism that also includes sales-related personnel who might have the opportunity to directly serve the clients, as there is a possibility that these personnel do not follow the defined steps strictly or act beyond the scope of their responsibilities without knowing the correct procedure, which may result in damages to clients. For example, document staff that is neither investment consultants nor investment planners must know that they are not allowed to sell products or give investment advice to clients.

Trainings for Sellers

- Organize trainings for sellers to strengthen their weaknesses in terms of knowledge or skills required for sellers, especially those who sell or give advice on high-risk or complex products, so that they can offer constructive advice and appropriate products to their clients. The contents should include product information that is relevant to the information provided by product issuers, opinions or remarks on entrepreneur's product selection (for example, mutual funds should not be offered

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to which groups of clients), knowledge and skills needed for data collection and analysis, operational procedures and ethics.

- Provide sellers with trainings on new products, especially high-risk or complex products. The entrepreneur has to make sure that sellers have attended all trainings, while those who miss the trainings should not be allowed to sell any products. In addition, the entrepreneur needs to ensure that the product issuers provide adequate information and documents. To sell unit trusts, the entrepreneur should ask asset management companies to take part in organizing the trainings for sellers.
- Give sellers the opportunities to practice using the language that is easy for clients to understand. The entrepreneur may produce samples of dialogues concerning explanations of difficult topics, especially the topics on high-risk or complex products. The sellers may be taught to record evidence of investment advice services and product offered to clients.
- Monitor the accuracy, adequacy and appropriateness of contents included in the trainings in case that the entrepreneur uses other trainers for trainings to sellers.
- Conduct training evaluation to ensure that sellers have gained knowledge and understanding on the topics mentioned in the trainings and they can put that knowledge into practice, and improve future trainings.

In case the entrepreneur owns many branch offices, (e.g. commercial banks), the trainings can be accessed online using webinars or video conference. The participants (at all branch offices) can see the trainers (entrepreneurs at the head office, training providers, or product issuers) online as they extensively share knowledge and information during the trainings.

1.1.4 Sales Process

The entrepreneur completes the following process.

Preparation of Sales and Services

Readiness of Sales Operating System

1. Establish clear and complete sales procedure appropriate to each type of products by producing seller's manuals that help sellers understand their roles and

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responsibilities as well as know appropriate information presentation strategies for different groups of clients categorized based on their investment goals and risk tolerance. The manuals can be hard copies and/or soft copies which can be retrieved by the office of the SEC for information examination. The entrepreneur needs to make sure that the information in all manuals is up to date and relevant to current situations.

2. Use systems and tools to facilitate the sales process. Some examples of the systems and tools are internet network devices, system softwares, sales-related forms and documents as well as help desk service systems for sellers. The systems and tools must be tested and improved regularly so that they can work well in current situations.

3. Identify a scope of seller's responsibilities by making them understand what they can and cannot do at the point of sales and service. In the case that the entrepreneur wants to offer clients the service; however, there is no personnel with adequate knowledge and information about the products offered at the point of sales, there should be some supporting systems, such as help desks or call centers, to provide the clients with accurate and complete services.

4. Separate the transaction space from the space used to sell products in the capital market when the entrepreneur, such as commercial banks, also offer deposit service and set up signs for clients to see the space clearly so that they do not get confused or misunderstood that investing in the offered products are similar to depositing money.

Seller Selection

1. Select sellers with knowledge and understanding on the offered products and skills that are in line with the offered product types. The seller selection may consider educational backgrounds, body of knowledge and sales licenses (according to personnel regulations in the capital market).

2. Ensure that the selected sellers possess all qualities required by the office of the SEC and adequate knowledge used to explain to clients about the offered products, especially high-risk or complex products. The selection process may include additional steps as needed. For example, the entrepreneur may assign a particular group of sellers to sell complex products by considering high-risk or complex product sales

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experience, specialized knowledge and skills, ability to learn information about high-risk or complex products, communication skills, presentation skills and service mind.

3. Find means to inform clients whether the sellers with whom they are in contact are allowed to sell the products. For example, a name list of qualified sellers can be put up on the board at the point of sales and service or there may be a label on the desk or a name tag on the chest, so that the clients can see clearly, while the sellers need to present themselves to the clients or inform the scope of products they are able to sell and provide related services.

Example The entrepreneur assigns A to be responsible for non complex sales and services. As A is offering products and services, the client is interested in investing in complex products that A is not allowed to sell or provide related services. A should inform the client and the entrepreneur has to find a seller who knows about the complex products well to serve the client instead.

Materials on Product Risks

The entrepreneur has some materials to help sellers explain to clients about risks and complexity of products.

1. Prepare documents, such as fact sheets, and information about product characteristics and risks. In case the entrepreneur produces the documents, such as marketing flyers, the content should be accurate and easy to understand. The stated information should not be different from the information given by product issuers. In addition, the documents and information concerning product characteristics and risks should be clearly highlighted to all clients.

2. Possess images or animations with texts and voices, such as video clips and visualized presentations, for high-risk or complex products, such as Basell III and hedge funds, that are difficult to maintain the quality or standard of providing information and advice. These images and animations can help the clients understand and see the investment more clearly.

Sales and Service Process

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Sales and service process is appropriate as the entrepreneur chooses the process according to business operation formats and product types. The topics to be considered are as follows:

Client Data Collection and Analysis

Prior to the product presentation, the following can be done.

- Client Segmentation and Know-Your-Client

1. Establish a process to segment clients into groups, such as institutional investors, high net worth individuals, ultra high net worth individuals and retail investors, so that sellers can offer products that are suitable for each type of clients along with remarks on involved risks.

Example To offer mutual funds to high net worth individuals and ultra high net worth individuals, the entrepreneur can ask clients to self-declare their information, request additional asset documents from clients, such as title deeds, for consideration, and give their best effort to verify the provided documents. For example, if the entrepreneur is a commercial bank with clients' information on deposits and investment portfolios (fixed income securities/mutual funds), this information can also be taken into consideration. In addition, in case that credit bureau information appears to be useful in the consideration, this information can also be included. In this case, an investment portfolio refers to securities or derivatives, including debentures and bonds purchased from commercial banks. The portfolios at other affiliated securities companies are also counted.

2. Adopt an operation process to ensure that sellers know their clients well, in terms of information about their ultimate beneficial owners and ultimate controlling persons¹ so that they are able to give advice and suggest investment plans accordingly. In addition, this helps prevent them from participating in illegal actions or future arguments.

¹ "Ultimate beneficial owner" refers to the natural person who ultimately owns an account or a transaction conducted.

"Ultimate controlling person" refers to the natural person who ultimately possesses controlling power or decision-making power concerning an account or a transaction at the last level.

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3. In case the entrepreneur receives inadequate information from clients or find out that the given information is suspicious, making it impossible to identify the true selves of clients or ultimate beneficial owners, the entrepreneur must refuse to provide services.

- Getting to Know Clients and Using Suitability Test²

1. Use a system to obtain clients' information and get to know them in order to collect adequate information. For example, sellers may ask their clients about their identity, career, sources of income, financial status, risk tolerance, financial or investment goals, affordable risks and losses, and financial limitations or conditions (for example, the client may need the liquidity of this amount of money in 3 months). Sellers may ask clients to take a standardized suitability test produced by the office of the SEC as a guideline or developed other test formats to obtain adequate information for seeking the clients' risk tolerance and coming up with suggestions on asset allocation and suitable products.

2. Remind sellers not to assume that one product is suitable for all clients in the same group as it is important to pay careful attention to each client's information and additional factors, such as ages, and, as a result, some products might not be suitable for some clients even though they are in the same group and this may lead to inappropriate product offers.

- Investment Knowledge Assessment

1. Conduct additional knowledge assessment in case of offering high-risk or complex products. Sellers can evaluate whether their clients match with the product offers by asking for more information as follows:

² The entrepreneurs can be exempted from the suitability test when the services are provided to the clients according to the regulations on client communication and services. For example, institutional investors (II) or high net worth (HNW) individuals who are juristic persons may disclose the intention to request an exemption from the suitability test for investment or transaction in writing.

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(A) Education: What is your education level? What is your field of study? It is related to investment (such as finance and business management)? Do you have any certificates (such as CISA, CFA and CAIA)?

(B) Work Experience: Are your previous or current works related to securities or investment in the capital market? How long have you been working?

(C) Investment Experience: Have you invested in high-risk or complex products? What kinds of securities are they? How long was the investment?

2. Conduct knowledge assessment of any kinds as long as it helps sellers evaluate the clients' ability to invest in high-risk or complex products and use an operating system to ensure that sellers are able to use the knowledge assessment results to formulate high-risk or complex product offers for clients.

- Information Collection, Verification, and Storage Systems

1. Use a system to ensure that clients give the information by themselves, while all documents need to be signed by the clients only.

2. Keep the clients' documents safe from being stolen, revised or accessed by unrelated personnel and review and keep the information up to date, such as changing clients' personal information.

3. Has a complete procedure to collect information about people related the clients, especially the case of selling unit trusts in an omnibus account. So it is compliant to the regulation of purchase or hold investment units more than one third of selling unit trusts.

Explanation and Document Distribution

1. Use a system to ensure that sellers provide clients with clear accurate and complete product information, including product characteristics and risks. In case of fixed income securities, unrated bonds, the sellers have to discuss the risks in terms of issuer's credits. The explanation may include key financial ratios. The clients must understand this information before making their investment decision.

2. Set up additional operating process for selling high-risk or complex products. Sellers need to make it clear to their clients that these products cannot be sold if the clients have not received any advice. Additional steps may be added to give sellers the

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opportunity to explain and emphasize on the product risks or complexity that are more risky compared to other products. The sellers must also mention the information or details about possible losses in case that the investment does not go as planned.

3. Prepare additional information for sellers in case of high-risk or complex products, such as Basel III and hedge funds, that are difficult to explain to clients, so that the sellers can provide some examples of worst-case scenarios that affect the clients' investment, such as possible losses in the worst-case scenarios.

Example: To sell Basel III compliant securities, the entrepreneur has to mention the worst-case scenarios to clients and explain that there is a possibility of investment losses. The clients are also responsible for the losses of banks who issue Basel III compliant securities if one or more trigger events occur:

- *The amount of bank reserves is less than the level specified by the Bank of Thailand.*
- *The banks who issue the Basel III compliant securities encounter financial difficulties and can no longer carry on; therefore, the authority decides to support the financial situation.*

In addition, the entrepreneur should provide sellers with explanation that can be given to clients in case of trigger events, e.g.

- *Write off some reserves as non-performing loans, or*
- *Convert reserves fund to equities.*

4. Possess product information and documents that sellers can use to explain or distribute to their clients. There should at least be some fact sheets, prospectus, and marketing flyers (if any).

Giving Advice on Asset Allocation

1. Offer advice on asset allocation based on clients' suitability test results. After the clients pass the KYC suitability test and knowledge assessment (for investing in high-risk or complex products), sellers give advice and explain to the clients about the suitable investment plan developed based on clients' risk tolerance.

2. Investment consultants and investment planners can give advice on asset allocation as follows:

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- In case that a seller serves as an investment consultant, he/she can give advice on products based on client risk tolerance and provide initial suggestions on basic asset allocation prepared by the entrepreneur.
- If a seller serves as an investment planner, he/she has a wider scope of responsibilities. In addition to giving advice like an investment consultant, he/she can help identify investment strategies and practices by arranging a specific investment portfolio (through the use of in-depth information about client financial status, investment goals and possible risks) so that the client receives the returns as expected and achieve their investment goals.

3. Make sellers realize the importance of informing their clients of product features and risks in detail. In case that clients want to invest in the products with higher risk compared to the clients' risk tolerance level or they do not want to follow the suggested asset allocation, the sellers must spend more time explaining to ensure that the clients clearly understand possible risks that come with the products. There should also be a system that helps keep record of sales and service evidence.

Example: The entrepreneur may record their explanation or advice given to their clients (in case of telephone call service) or when the clients sign the risk acceptance form (off-site service). In addition, the entrepreneur should have a sales and service monitoring system to ensure that the sellers provide their clients with correct explanation about investment risks, such as giving each client a call back service.

Announcement of Material Events Affecting Product Offered.

In case of material events affecting the product offered (such as downgraded bond in which a fund invests, or issuer's default or a situation that the country in which the mutual funds mainly invest encounters financial crisis or political unrest), the entrepreneur must keep up with the situation by contacting the product issuers regularly and communicating with sellers so that they can explain the situation to their clients before making investment decision to invest in the products. Especially in negative events that significantly affect fixed income securities, the sellers should be able to give suggestions or advice based on the latest situations.

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In addition, in terms of asset allocation or wealth management services, the entrepreneur has to monitor the clients' investment portfolios, such as AUM growth, and if the product offered does not meet the expectation and affect the clients' investment portfolios, the entrepreneur may offer suggestions or options suitable for the clients based on the clients' maximum benefit. For example, clients may invest in feeder funds as the master fund invests in asset class or countries with higher risks.

Risk Acceptance for High-Risk or Complex Products

The entrepreneur assigns sellers to explain the features and risks of high-risk or complex products to clients according to the risk acceptance form or evidence and develops a process to ensure that the clients are informed of the significant information before making their investment decision. The process should be in line with the existing sales and service procedure. The entrepreneur may use the standardized risk acceptance form which can be downloaded from the office of the SEC's website and the form can also be revised based on the product offered; however, the warnings and risks must still be included. If the office of the SEC does not specify the product type, the entrepreneur needs to produce its own risk acceptance form and have it verified by the office case by case.

Effective Application of Guidelines for Sales and Services of Unit Trusts and Fixed Income Securities for Each Product, Distribution Channel and Type of Clients

Minimizing Sales and Service Steps for Returned Investors

To conduct more appropriate sales and service practices, the entrepreneur can skip unnecessary steps for returned investors as follows:

1. For the first time purchase, the entrepreneur complete all specified sales and service steps.

2. In case that clients want to invest in the same products they have invested in before or repeated sell, such as purchasing the same mutual funds or fixed income securities, the entrepreneur may consider skipping the information providing step if the information has not been changed since the first purchase.

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- Sellers do not need to explain about product features and risks to the clients in detail again since the clients who have invested in the products have been informed of the information before.
- For high-risk or complex products, the entrepreneur does not need to ask the clients to sign the risk acceptance form or submit any evidence again as the clients acknowledged significant risks when the account was first opened.

However, if there are any changes or updates of the information (such as fact sheets, peer fund performance information, and material events), sellers still need to provide the returned clients with complete information so that the clients are aware of the changes in product information and risks from their last purchase (if any).

Online Sales and Services

Nowadays, clients are increasingly familiar with online trading and transactions (such as websites and mobile applications). In completing online transactions, clients do not have to receive services from sellers directly. However, the entrepreneur can design online trading and service procedures or format that are appropriate for online channel. The platform may include a controlling system as well as a verifying system to ensure that the clients receive accurate and adequate information, advice and services.

Example

- *Distribute fact sheets and information on peer fund performance: Put a weblink on a website and mobile application or other platforms to distribute fact sheets and peer fund performance information for clients to use in decision making.*
- *Provide clients with explanation on product features and risks: Produce summaries of product features and risks based on the information stated in fact sheets or marketing flyers and put them up on the website so that clients can access and read the information.*
- *Have clients signed the risk acceptance form: Create warning pop-ups when clients are about to acknowledge the risk acceptance on the website and mobile application so that they can read the details before clicking the accept button.*

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For high-risk or complex product offered, such as Basel III and hedge funds, that are difficult to explain to clients on the website and mobile application, the entrepreneur should have additional steps for clients to acknowledge in order to ensure that they are informed of both product features and risks before making their investment decision for the first time. For example, there should be some channels (such as commercial bank branches) in which clients can meet to talk to sellers and receive suggestions and answers directly or there may be other trading channels that clients can contact sellers, such as telephone, Skype and video conference.

Additionally, the entrepreneur may consider providing services via automated teller machines (ATM). For example, clients can purchase the same mutual funds as the system can confirm that the clients conducting the transaction at the ATM have received necessary advices and services before. However, if there are any changes in the fact sheets or peer fund performance information of the same mutual funds that the clients want to purchase again or there are changes in material events, the system has to ensure that the clients are informed of the information or situations and there should be some channels that the clients can access and study additional information or changes (if any) before making investment decision. The entrepreneur must be certain that the clients receive accurate and complete services.

Process of Sales and Services for Vulnerable Investors

Vulnerable investors require more protection. For example, some clients who are over 60 years old who may have a great deal of money, however for one particular client, the money that is about to be used for investment might be the last amount of money he/she has. Therefore, the entrepreneur must have some practices to make the sellers realize this fact and pay careful attention to the communication and product offered. The product presentation should be appropriate to this group of clients as well. The sales process may emphasize on getting to know the clients in order to achieve their investment goals. Adequate information and warnings should be appropriately presented to the clients, while additional steps may be added to make the process more concise.

Example: The entrepreneur might establish additional operating process in case that the products and services are offered to vulnerable investors.

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- Set up a system for branch managers or department heads to reexamine the services provided by sellers whether the transactions of this group of clients are appropriate.
- *Possess a post-sales monitoring system given to all clients in this group a call back.*

However, in the case that the entrepreneur has a process to ensure that the clients are not vulnerable investors, such as an over 60-year-old investor with over 10 year investment experience, the entrepreneur may choose to follow the same procedures used with other general clients.

1.1.5 Remuneration Structure

The entrepreneur has to complete these steps.

- Establish a remuneration structure for sellers and related personnel by considering the clients' benefits as the first priority. The sellers and related personnel should receive the amount of remuneration that is in line with the service quality on the non-sales KPI basis, not only the sales KPI. The entrepreneur must be aware of the product-focused approach which may lead to mis-selling and irresponsible advice and offers for clients.

Example: *Some examples of the operating procedures are as follows:*

The entrepreneur may assign an independent unit to recheck or evaluate the service quality offered by sellers and sales department heads. The evaluation adopts the use of service quality grading system and the results are used to calculate the remuneration for each seller. The independent unit can randomly examine product and sales evidence and documents and ask clients after the sales. These factors help indicate the mistakes in product offers and inappropriate services affecting the clients' benefits. For example, some sellers collect inadequate information from clients, while some provide their clients with inappropriate advice. Some cannot give clear explanation or adequate information about the products and some might not follow the operating procedures in the past.

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- Evaluate possible risks from remuneration structure. Some examples of factors to consider are risks from sales acceleration, giving incomplete information or warnings, selling inappropriate products to clients, allowing personnel who are neither investment planners nor investment consultants give advice or offer mutual funds to clients. The entrepreneur must develop some measures or tools to prevent these risks.

1.1.6 Complaint Handling

The entrepreneur may follow these following practices.

Complaint Acceptance and Handling

- Assign units or personnel to receive complaints from clients directly. A system may be used to inform the clients of complaint submission channels and procedures. The complaints can be about business operation or services provided by sellers. The scope of complaints, channels and procedures must be clearly stated, so that the consideration of complaints can be completed for a short period of time, using evidence documents and required information or a complaint follow-up system. In addition, the clients should be informed of the official complaint channel, such as calling 1207 of the office of the SEC.
- Complaint acceptance and handling is the process that meets standards and ensures that business units and personnel assigned for this task are granted independence and are trained to have good practice so that clients obtain useful and sufficient information. Staff usually deals with complaints with fairness. In addition, a copy of transcripts of the interview with the complainer should be provided to the complainer.
- Complaints should be tackled fairly by considering both facts, contexts of each case as well as all factors involved, such as work in practice, sellers' promise, and customer profile.
- There is a complaint follow-up system to ensure that each case is solved and investigated according to guidelines, conditions and time frame.
- Complaints are warning signs of problematic work systems. Repeated complaints, or repeatedly complained about each or group of sellers should

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seriously be investigated to find root causes of the problem and/or to immediately investigate deeply to stop the damages.

Problem Solving Process

The entrepreneur needs to justify a standard to solve problems and offer compensation to clients, including setting an appropriate time frame for each step, notifying the complainer of the progress, and establishing criteria for fair compensation or restitution in each similar case.

Prevention of Repeated Problems or Complaints

- Assign personnel to be responsible for analyzing the cause of the problem or complaint and use the analysis results to further carrying out. For example, the entrepreneur may examine the operation, evaluate seller performance, improve the operating practices/system, set up additional control and rechecking systems, and communicate with sellers and related personnel.
- Report the complaints to the committee and chief executives in order to evaluate risks and improve related operating steps to avoid the repeated problems. The complete report should also be sent to the office of the SEC.

1.1.7 Internal Control and In-house Inspection

Entrepreneurs should follow these steps.

Internal control and performance review

- There should be work units that are responsible for monitoring and examining work performance with regard to product sales covering all level of operation, such as the three lines of defense as follows:

First Level refers to internal control and daily operation recheck.

Second Level refers to oversight functions to examine whether the operation follows the specified procedures.

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Third Level refers to risk management and control to evaluate adequate measures for different operating systems. All levels of operation must agree on risk assignment to achieve mutual operational goals.

- Evaluate sales and service procedures to indicate possible risks, such as risks of clients' being cheated on and risks of clients' being offered inappropriate investment products that may result in losses.
- Set up a system to prevent possible risks, such as makers and checkers or multiple approvals, and install a rechecking system to quickly detect suspicious actions and seek solutions to fix or stop the damages.

Example: The quality control systems used to monitor sellers' sales and service practices and recheck the operating steps cover the following points.

- 1. Review sellers' product presentations whether they are appropriate for clients.*
- 2. Oversee sales practices that require multiple approvals, such as selling products to vulnerable investors and selling high-risk or complex products.*
- 3. Monitor sales practices to ensure that their performance is within the specified scope of responsibilities.*
- 4. Follow up, control and recheck the sales practices to make sure that the operation follows the procedures established by the entrepreneur. When incorrect or incomplete actions are detected, corrective measures must be immediately implemented.*

As the entrepreneur sets out a guideline for advertisement based on the specified criteria, there should also be a monitoring system to make sure that sellers do not encourage or rush their clients to make investment decision by any means to purchase products in the capital market. Some examples of inappropriate practices are promotional prizes, gifts and cash back. In case that the entrepreneur contact clients to offer products in the capital market without clients' desire, the entrepreneur needs a system to ensure the clients are not rushed or disturbed and the entrepreneur should keep the do-not-call list for those who do not want to be contacted again.

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In addition, the entrepreneur must pay attention to establishing effective follow-up and after-sales systems to monitor sales and provide clients with services as specified by the entrepreneur.

Example: The entrepreneur should assign internal control and work quality of sellers which cover the following tasks.

- *Randomly examine the services provided by sellers (mystery shopping)*
- *Give clients call-backs or conduct client surveys on risky transactions, such as offering products to vulnerable investors or clients who receive low scores on the suitability test but wish to invest in products with higher risk levels or to invest the amount larger than suggested in the asset allocation plan, and offering high-risk or complex products, such as Basel III and hedge funds, that are difficult to explain to the clients.*
- *Randomly listen to recorded sales and service conversations between sellers and clients.*

In the case that inappropriate sales practices are detected, the entrepreneur has to discover the cause, find effective solutions and conduct follow-ups, including sales volume, complaints and suggestions. The entrepreneur has to inform the product issuers to make sure that the products are sold to the target clients and the entrepreneur can also give some suggestions for product improvement since the entrepreneur is closer to the clients.

- Develop inspection plans emphasizing on specified risk. The inspection determines whether all operating steps are complete in order as prescribed and detects suspicious actions that are likely to happen.

Example: In the case that the client opens a mutual fund account and receives the mutual fund pass book without any trading record in the system, it is possible that the client has made payment to purchase mutual funds; however, the seller does not transfer the money into the system. As the client has the mutual fund pass book as evidence, he believes that the transaction is complete. In addition, if the mutual fund

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gives extremely high remuneration to the sellers and the sales volume is high in one particular branch, there might be some mis-selling.

The inspection should cover all aspects, including sales strategies for different channels, locations (such as branches and provinces), types of transactions (such as buying, selling, switching and investing in various mutual funds) and appropriate frequency of inspection. There should be various methods that conform to all goals.

The entrepreneur assigned a unit, such as the compliance department and the internal audit department, to conduct the inspection and develop inspection plans in order to ensure that the plan is extensive enough and no redundancy exists. Other units that have their own internal rechecking or inspection procedures can report the results to the compliance department and the internal audit department in order to improve the inspection plans.

- Report the examination results to the committee and chief executives at appropriate time and propose improvement solutions to the committee and chief executives.

Conflict of Interest Prevention and Management and the Prevention of Using Inside Information

- Identify risky activities that might results in conflict of interest and establish new policy, measures and tools that are adequate and effective in order to prevent or manage conflict of interests and disciplinary measure in the case of not complying with the specified measures or operating process.
- Use tools and processes to precisely manage conflict of interests concerning different issues. The sellers must also communicate with their clients and explain to them about the measures used by the company, so that related personnel realize the importance of those measures and follow them efficiently.
- Check the operation against the specified measures and find solutions when the operation does not go as planned. There should be regular risk evaluation and revision of measures used by the entrepreneur as well.
- Set up measures to control and prevent information leakage by separating units using the Chinese wall approach and storing the information on the need to know basis.

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- Establish guidelines for supervising and examining sales practices of sellers who deal with inside information and might use the information in an inappropriate way (staff dealing).

1.1.8 Operation and Business Continuity

The entrepreneur may complete the following operation tasks.

Operating System

- Create manuals and checklists for related personnel to use as operation guidelines as well as conduct trainings on manuals in order to make seller understand and see the importance of following the operating steps strictly, so that they do not make mistakes and the entrepreneur can rest assured that the clients receive appropriate services.
- Identify clear and intensive steps of the after-sales operating system and use additional systems to monitor the payment and prevent embezzlement, including that the clients are also informed.

Example: In case of unit trusts, the after-sales operating systems include the transaction ordering, the payment monitoring system for sales and purchase of unit trusts between clients and asset management companies, the evidence document issuing system, the investment follow-up system and the rechecking system. The consideration may focus on risks; for example, risk of being able to produce fake evidence to make clients believe that the orders have been completed to cheat on clients' assets. This is possible because the system allows sellers to print out the documents confirming transaction completion although the money has not yet been transferred into the system or sellers can unlimitedly reprint the documents. The seller can send unit trusts or fixed income securities trading into the system and later cancel it without any evidence confirming that the actions are approved by the clients.

There might be a sign showing that the sellers have received the money from their clients; however, they do not use the money to purchase unit trusts or fixed income securities for their clients. Therefore, the entrepreneur should carefully set up additional systems to prevent and protect this type of risk. For example, the system might include makers and checkers as well as a rechecking system to quickly detect any suspicious

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actions and stop the damages by issuing a correct or cancel report at the end of the day to find the causes and reasons for correction or cancellation.

- As an information technology system is used in the operation, the following risks are to be considered.

1. System stability: identify operation and significant data collection processes using a computer system as a main tool to look out for any threats and develop contingency plans for obstructions or intervention and damages to the system.

2. Data security: monitoring the access to and the use of data in order to prevent the data from being retrieved or stolen for inappropriate use.

3. Development of supporting softwares: designs a program that serves needs of accuracy and promptly use. For example, the program may give notifications when clients try to sell some products that do not meet tax benefits. It should include an extensive and complete set of needed information along with accurate data processing. The notifications or reports must be clear and easy for clients to understand.

4. In case the supporting technology does not function or requires maintenance in terms of both hardware and software, the entrepreneur should pay immediate attention to the matter since selling products is as important to the entrepreneur as other issues.

Business Contingency Plan

- Develop business contingency plan in case of an incident. The plan should cover important operation practices to ensure that the business will continue to be operated without any effects on client's transactions or damages to clients. In case that the effects cannot be avoided, there must be a means of communication that helps create understanding with the clients before, during and after the incident.
- Test the developed business contingency plan whether it is feasible and able to control impacts and damages. The operation system recovery must be

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complete in the specified time, while the plan must be reviewed and revised regularly to effectively respond to current situations.

Additional System for the Use of Omnibus Account for Unit Trust Trading

- Client custody system: The entrepreneur must have an internal control system to prevent damages to client asset. The system may help separate the client asset from the company asset, recheck the client asset, assign responsible units to keep the client asset from other trading units, require approval for client asset transfers from authorities who are not client asset safekeeping and custody.
- Unit trust holder list system: The entrepreneur must use a system to manage the list of unit trust holders and ensure that the list is complete, accurate and up to date. The list must be rechecked, copied and confirmed with the clients regularly.
- Unit trust allocation system: The entrepreneur must have a controlling system to monitor the practices based on the conditions of appropriate unit trust allocation. The practices must be examined according to principles and limitations of unit trust holding (holding no more than one third of a total of sold unit trusts) or in case the process of unit trust holding is not in line with the principles.
- Systems to handle rights and benefits of clients (unit trust holders): The entrepreneur must have the following systems.
 - A system that helps receive information from management companies efficiently and in time.
 - A system that monitors dividend received and dividend payment for unit trust holders within specified time.
 - A system that obtains resolution and approval for revision of mutual fund projects, vote count and submit the complete results to management companies within specified time
- Information delivery system: The entrepreneur must have a delivery system used to receive information from management companies and to create and send out complete information to clients within specified time or at the same time that they directly receive the information from management companies.

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Quotation System (Dealer System)

The entrepreneur needs a system to monitor trading prices according to the criteria. The prices should be clearly revealed to clients and there must be personnel who are responsible for revealing the prices at the trading place to ensure that the information is correct based on the same standard.

1.2 Guideline for Equity Instruments and Derivatives Selling and Services

To sell equity instruments and derivatives in the capital market and provide related services, entrepreneurs have to promote fair dealing with clients and focus on client benefit by creating a system that helps improve communication and services, so that the clients are certain that the trading procedures and communication process are established for maximum client benefit. The important principles are as follows:

1. Giving good advice.
2. Offering products and services based on appropriateness and clients' expectation.
3. Providing investment or transaction services for the best execution in current market situation.
4. Operating without exploitation and providing after-sales services.

Equity instruments and derivatives possess different levels of risk. Compared to equity instruments and other main products, derivatives are higher risk or more complex products. The entrepreneurs need to provide communication channels and services, review useful information, follow up sales practices, and assign personnel to offer products and services by considering product risks and complexity to prevent mis-selling. The establishment of sales and service system concerns the following issues.

1.2.1 Sales and Service Process

Sales and Service Preparation Process

1. Select and assign personnel who are knowledgeable about products in the capital market or other services to sell products or provide services to clients.

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Example: Personnel Preparation

To send out investment invitation or to provide advice about trading equity instruments or derivatives, the entrepreneur must assign personnel with required qualifications and approval from the office of the Securities and Exchange Commission (SEC) to work as investment consultants on specific products.

In case the entrepreneur will offer investment planning to the clients, the entrepreneur must assign personnel with required qualifications and approval from the office of the Securities and Exchange Commission (SEC) to work as investment planners.

The entrepreneur should provide sellers with regular trainings to improve skills and knowledge that can be used to explain the product offering to the clients, especially new clients who are not familiar with investment products or high risk investment, such as derivative warrants (DW) and derivatives.

2. Obtain information about products in the capital market or services to be carefully studied and effectively used by the assigned personnel before offering them to the clients.

Example 1: Collection of Information on Product Detail

For sales and services on equity instruments, such as securities traded in the Stock Exchange of Thailand (SET), the information can be obtained from prospectus, company summaries, fundamental analyses and/or technical analyses carried out by the entrepreneur.

In case of sales and services on derivatives traded at the derivatives exchange, in this case referring to Thailand Futures Exchange (TFEX), the information can be obtained from rules and regulations included documents related to derivatives contracts, such as the contract specification, rates, procedures and margin deposit conditions set by TFEX, information materials, such as leaflets, articles, brochures, videos and short clips distributed by TFEX, detailed information on demand and supply of referenced products affecting the prices of derivatives and reviews conducted by the entrepreneurs (if any).

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The entrepreneur has to pay close attention to the selection of information to obtain accurate, reliable, and up-to-date information.

Example 2: Conducting Investment Analysis

To carry out investment analysis, the entrepreneur needs a system that helps monitor the quality of investment analysis to meet the acceptable academic standards. The sources of information must be reliable and up to date, while the information must not be misleading. The analysts must be able to work freely without concerns about positive and negative effects on all stakeholders. In addition, there must be rules and regulations to monitor the practices of the analysts, so that they do not reveal confidential information to the public or some particular groups of people before the appropriate time in order to take advantage of the information.

Example 3: Using the Investment Analysis from the Entrepreneur

The entrepreneur has a process to ensure that sellers are informed of and clearly understand the information and house opinion stated in the entrepreneur's investment analysis, so that they can effectively use the information in offering advice. In addition, investment consultants can use the opinion and advice from the reviews as a guideline for providing accurate and appropriate advice. The entrepreneur can be certain that the investment consultants do not use the analysis for the advice based on rumors or unverified information.

3. Search for tools or materials that can be used by the personnel to support the explanation about the features and risk of investment products in the capital market or services as needed.

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Example: Required Documents and Information

The entrepreneur should offer the clients with documents and information related to products' features and risks. The information should be brief, understandable and accessible.

In case that the document is created by the entrepreneur, the information must be correct. It should not be misleading, and the features and risks must be highlighted in the documents given to the clients.

For the products traded in the SET and TFEX, both SET and TFEX produce their own materials, such as documents, articles, brochures, videos and short clips, to educate investors in general.

- *In terms of securities, some examples of the information are features of securities, investment steps, useful information for beginners and factors affecting stock prices.*
- *For derivative warrants (DW), some examples of the information include characteristics of derivative warrants, similarities and differences between derivative warrants and general warrants, derivative warrant issuers, returns and risks of investment in derivative warrants, factors affecting derivative warrant prices and steps in derivative warrant trading.*
- *Some examples of information related to derivatives are characteristics of derivatives, steps in opening a trading account, margin deposit, open and close positions, factors affecting prices of derivatives, daily profit and loss calculation, risks of derivatives trading with low margin deposit compared to the values of derivatives.*

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Sales and Service Process

1. Collect and evaluate clients' information to learn more about them and seek appropriate investments or transactions from them.

Example 1: Getting to know clients (before opening an account and signing a contract)

The entrepreneur must have data collection tools, such as forms and/or a checklist, that sellers can use to obtain complete client information, such as who they are, age, career, and financial status, along with practices to ensure the following:

- *The client is the same person described in the documents provided at the account opening.*
- *The seller knows the true self of the client, the ultimate beneficial owner's information, and the ultimate controlling person's information. If the information is inadequate or suspicious and cannot be used to verify the client or the ultimate beneficial owner, the seller must refuse to offer services. The entrepreneur has to carry out additional processes to re-examine the account owner's identity at the account opening.*
- *The clients can be categorized into different groups, such as institutional investors, ultra high net worth, high net worth, and retail investors, so that the sellers will be able to offer products, information and risk accordingly. In addition, the client information can be used to identify each client's risk level in terms of money laundering and terrorist support as stated in the Anti-Money Laundering and Combating the Financing of Terrorism.*
- *The seller can assess the client's ability and identify the client's sources of income which will be used for specifying settlement and margin deposit for derivatives trading appropriate for each client. The entrepreneur should consider the client's stability and validity of financial status, sources of income, and declared assets, such as cash deposit accounts and listed securities, that should have liquidity and should be free from obligation.*

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Example 2: Presentation of clients' incomplete documents

The entrepreneur must examine whether the client's documents are complete and appropriate. For example, the income sources that are unclear or irrelevant to the documents provided, or the client states that he/she possesses some securities in the portfolio without submitting any evidence or documents as proof, or the clients do not have any documents or details about his/her own business. The entrepreneur has to ask the clients to provide clear and complete documents or information before trading.

Example 3: Suitability test

The entrepreneur assesses the investment suitability to seek the products that are in line with the client's risk tolerance level. The entrepreneur may ask the client to take the suitability test set by the Securities and Exchange Commission or the entrepreneur can develop other types of suitability test.

The entrepreneur does not have to assess the investment suitability of some groups of clients prescribed by the office of the Securities and Exchange Commission, such as institutional clients who possess investment knowledge and ability, ultra high net worth, and high net worth who are juristic persons that disclose the intention in writing to request an exemption from the suitability test.

Example 4: Additional knowledge assessment for selling derivatives

Since derivatives are high risk or complex products, an investment consultant has to assess the client's knowledge and ability to see whether the products he/she is about to offer are suitable for the client before meeting the client. The investment consultant may talk to the client about the following topics.

- 1. Education: This information helps assess the client's knowledge about investment. The client may be asked about education level, study fields (whether it is related to investment, finance, or business administration), and certificates (such as CISA, CFA and CAIA).*
- 2. Work experience: This information shows whether the client's past or current career is related to trading derivatives or investing in the capital market, and this information may also include the length of work period.*

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3. *Investment experience: This information reveals whether the client has invested in high risk or complex products, which products the client has invested in, and how long the client has been investing in the products.*

Example 5: Review and verification of clients' information

The entrepreneur has to review and check clients' information regularly or at least according to the period specified by the office of the Securities and Exchange Commission (SEC) and/or the Association of Thai Securities Companies, while additional review and verification of information may be required in some situations, such as transferring money or securities into an account to increase the trading limit and transferring money or securities into another account of one's own or others' at other companies, which could mean that the clients use the same amount of securities as a guarantee to increase the trading limit at many companies.

Examples of client information that needs review and verification are documents concerning personal identification, ultimate beneficial owner, career, income sources, and investment objectives.

2. Offering appropriate products in the capital market and services to the clients based on the suitability test results and give advice on asset allocation.

Example: Basic asset allocation

The entrepreneur obtains the clients' suitability test scores and basic information concerning risk tolerance and products that the clients can invest in. Some examples are as follows:

- *When the clients receive a low score (low risk tolerance), they should invest in fixed income securities or a small amount of equity instruments.*
- *When the clients receive a higher score, they should invest in a larger amount of equity instruments.*
- *When the clients receive a high score (high risk tolerance), they should also invest in derivatives.*

If the score suggests that the clients are not ready to make an investment or transaction concerning products in the capital market, the entrepreneur has to inform

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the clients of the result. In cases where the clients insist on making an investment or transaction, the entrepreneur needs to give additional advice on possible risk and returns of investment or transaction to ensure that the clients truly understand the risk of the products. In addition, there should be a filing system to keep all documents and evidence related to sales and services.

3. Send out documents about products in the capital market and services with contact information to the clients.

Example: *The entrepreneur delivers investment analysis to the clients regularly, so that the clients can use the information along with the advice to make the right investment decisions in time.*

4. Provide adequate information and explanation about risk of products in the capital market and services to the clients, so that they can choose products or services for investment, while the information about material events may also affect products in the capital market and services (if any).

Example 1: ***Giving information about risk of derivatives (high risk products)***

To sell derivatives, the entrepreneur has to provide the clients with the following information.

1. Derivatives trading is a high-risk transaction since it requires a small amount of initial margin compared to the values of an underlying asset (leverage or gearing). Small changes to the price of an underlying asset affect the deposited initial margin, requiring clients to deposit an additional amount of money in higher proportion to the price movement of the underlying asset. This can be either good or bad for the client; however, the client should not be only informed of profitability.

2. A margin and/or initial margin deposit, maintenance margin and additional margin should be clearly presented to the client along with the entrepreneur's conditions and practices. In cases where the client does not comply with the entrepreneur's conditions, such as offsetting of positions.

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3. *Time and means of settlement should be explained to the client in detail in cases where the client violates the settlement agreement (if any).*

The entrepreneur must require the clients to read and sign the risk disclosure statement to ensure that the clients are informed of all important information before making the investment decision.

Example 2: Announcement of Material Event Affecting Product Offered

For negative events that significantly affect the foreign stock prices, such as terrorist attacks and violent events in foreign countries that affect local stock prices that the clients are interested in making an investment, the entrepreneur has to keep up with current situations and communicate with investment consultants. To give the information in the explanation for clients who are about to make investment decisions or have already invested in the products. With adequate information, investment consultants will be able to offer up-to-date advice and explanations on related situations to the investors.

Example 3: Attentive Services and Service Offering for Particular Groups of Clients

The entrepreneur must pay careful attention to the information and advice given to the clients as well as the sales follow-up system or services for particular groups of clients who require additional protection, such as clients of over 60 years of age who have a shorter investment period, clients with limited investment knowledge and experience who have recently started to make an investment, clients with limited communication, indecisive behavior or poor health, since these clients are not yet ready to make an investment.

5. Execute clients' trading orders of securities or derivatives by issuing clear trading orders to ensure that the orders are made by real account owners or authorized person with written consent, verifying the client accounts before trading, and conducting transactions for the clients in sequence, without trading securities through one client's account for another client or using unfair trading practices

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Example: Unfair Trading Practices

- *Sellers buy/sell securities or derivatives to themselves before buying/selling them to investors. This practice is called front running.*
- *Sellers urge, encourage, or support the clients in making transactions more often than necessary. This practice is known as churning.*
- *Sellers do not submit the orders in sequence. Instead, they pay special attention to the orders of some particular clients, such as HNW clients and clients that are related to them.*

6. Set up a clear and comprehensive after-sales system and additional arrangements that help monitor the payment, prevent embezzlement, and inform the clients of the operation steps.

Example: *The entrepreneur prescribes the after-sales steps that cover following issues.*

1) *Document delivery to clients*

- *Sellers must complete and submit the transaction report or performance results to the clients. The report must contain adequate and accurate information and it must be presented at the appropriate time. In case the documents are returned, the entrepreneur keeps a delivery record and identifies the cause of why each important document was returned.*

- *The company should allow the back-office staff to send important documents, such as confirmation notes and statements of account, to clients directly without passing them through investment consultants.*

- *The company should use a system to protect operation staff's important documents from unauthorized access and misuse of information by others.*

- *The company should keep the workspace of investment consultants or authorized staff separate from the workspace of operation staff to prevent the investment consultants from counterfeiting or destroying important documents before delivering them to clients.*

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2) Clearing and settlement

- *The company should recommend the automatic transfer system (ATS) to clients for payment to ensure that the clients' money paid to the company is used to acquire securities or derivatives and, in cases where the company has to give the clients some money, the clients will receive the full amount of money.*

3) Other practices

- *In cases where the client wants to conduct any transactions related to the client's asset, such as depositing, withdrawing or transferring securities, or make changes to the client's information, the company should inform the client to contact the operation staff directly and there should be a system that helps check the completeness of the documents and verify the account owner as well as the information. When the company assigns a new investment consultant to manage the client's account, the company should inform the client in writing.*

Follow-ups on Sales and Services

1. Follow up on and examine sales and service practices to ensure that they are in line with the practices prescribed by the entrepreneur.

2. Modify or eradicate sales and service practices that are not in line with the sales and service process.

3. File sales and service documents and evidence for fast and convenient access for the office of the SEC.

Example 1: Internal control system to avoid possible risk

- *The company should keep the front-office tasks separate from the back-office tasks to crosscheck the performance.*
- *The company should use the system to check against one another in each unit, so that there is no one person who is responsible for all important tasks throughout the whole process alone which can easily cause malfeasance and mistakes. For example, trading that exceeds the specified trading limit must obtain hierarchical approval from authority, while the correction of any mistakes in trade documents must receive the approval of the higher authority who has examined and agreed that the correction are needed and*

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appropriate. In addition, clients' stock withdrawals and transfers must be approved by the higher authority

Example 2: Follow-up of sales and services

Quality control of seller's sales and service performance must cover these following practices.

- *The company should review the appropriateness of products offered to clients by each seller.*
- *The company should monitor the sales practices that require additional approval, such as selling products to clients over 60 years old.*
- *The company should ensure that each seller operates within the scope of permitted practice according to the seller's qualifications or duties.*
- *The company should follow up on sales practices and quality control and examine whether the practices are in line with the practices prescribed by the entrepreneur; however, if the practices are violated, there must be a serious resolution.*

The entrepreneur can randomly listen to the recorded conversations regarding sales and services between the investment consultant and the client or randomly examine the work process.

1.2.2 Complaint Handling

In the case where customers file complaints regarding sales and services, entrepreneur are supposed to implement the following steps:

Receipt and Management of Complaints

1. There should be departments and personnel that can be directly contacted by customers. At the same time, customers are supposed to be informed about the possible channels and methods for lodging complaints, whether they are complaints, business operation, or sales services. Also, customers should be provided with the scope of complaints, possible channels and methods for lodging complaints so they can be immediately dealt with, such as providing necessary documents and

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information, complaint follow-up methods, and more. It is crucial to also inform customers about the official channels for complaints; namely, the office of the SEC, telephone number 1207.

2. There should be a standard procedure in receipt and management of complaints. At the same time, it is important to ensure that the responsible departments and personnel carry out the task independently, and are properly trained to perform the task. Customers who file complaints should have full opportunity to give information of the complaints. In the process, all evidence, including documents and information, must be taken into consideration in order to be fair. Apart from that, the responsible departments and individuals should maintain a copy of testimony interviews of each complainant, and another copy for the complainant to maintain.

3. The process of complaint management should be based on the grounds of fairness. In order to achieve this, the facts and contexts of each case should be taken into consideration, including all relevant factors, such as genuine operational procedures, sellers' promises, customer profile, and so on.

4. There should be a follow-up of the complaint handling in order to ensure that the complaint management is being carried out according to the appropriate course of action, conditions, and time frame.

The Customer Complaint Resolution

Entrepreneur must, by necessity, possess standard methods for customer complaint resolving, remedy, or compensation, including imposing a time frame for each discrete step to ensure that the customer complaint resolution is appropriately carried out. Also, complainants must be informed about the follow-up from time to time. Entrepreneurs should also establish relevant factors for customer complaint resolution, remedy or compensation, for the sake of fairness and equality for similar cases.

The Prevention of Repeated Complaints

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1. Every complaint is a sign of a flawed system. If an entrepreneur receives repeated complaints about the same issue, by a particular seller or group of sellers for a number of times, or about similar issues, the compliance unit is responsible for detecting the causes of the problem, and/or immediately extending the investigation in order to prevent any further damages.

2. A responsible officer should be appointed to analyze the causes of the problems in the complaints, and implement measures following the investigation results, such as additional investigation or sellers' performance assessment, including improving operational procedures/system, for the purpose of controlling and investigating cases. Sellers and relevant officers should be informed about what happened.

3. A report of the procedures concerning complaints should be conveyed to the committee and executives, in order to assess risks and improve the relevant management procedures. This, in turn, prevents the problems from re-occurring. Then, the entrepreneur should provide the reports to the office of the SEC.

1.2.3 Other regulations concerning securities business and derivatives

The Prevention of Conflicts of Interests

Securities and derivatives businesses are like other financial businesses that could feasibly involve conflicts of interests stemming from service providers such as entrepreneurs, intermediaries such as investment consultants, investment analysts, investment planners, etc. Conflicts could derive from management, major stockholders, etc. These individuals share interests of services, which could lead to conflicts of interests of customers and the mentioned service providers, including among customers themselves; thus, investors are taken advantage of and treated unfairly, since the service providers tend to put their own benefits first, rather than their customers' highest interests. For this reason, if the operational system lacks effective management and conflicts of interests are not appropriately dealt with, customers are likely to lose trust in the entrepreneurs.

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Therefore, entrepreneurs must do as follows:

1. Entrepreneurs should stay updated about possible transactions under appropriate management of conflicts of interests.

- **Forbidden Transactions** are transactions that could lead to losses, the exploitation to customers and general investors, such as seeking interests, and customers are responsible for the expenses; the use of information or opportunities from service providing or business operations in the form of front run, securities trading for the benefit of oneself or others, making use of the securities analysis composed by themselves before publishing, unnecessary transaction (churning), and so on.

- **Restricted Transactions under Conditions** such as beneficial transactions for customers at a particular time, and so on. They are required to completely and sufficiently reveal transaction results to customers or legitimate substitutes. In case of proprietary trading, the investment should be carried out carefully for the customers' highest interests before business company interests.

2. Entrepreneurs should establish effective policies, measures, and tools to prevent and manage conflicts of interests, along with follow-up procedures, and conduct an investigation according to the measures.

Necessary measures, such as the dividing of departments and individuals responsible for dealing with the conflicts of interests, and chains of command. Also, there should be an establishment of departments and appointment of officers to prevent conflicts of interests, the prohibition of transactions of certain time period, or the exposure of interests to customers while giving sales advice, depending on cases.

Example 1: The Division of Departments and Individuals with Conflicts of Interests

Securities companies must necessarily divide the following departments: departments that trade securities for customers, investment banking, financial

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advisers, departments responsible for the securities analysis, departments that trade securities for the proprietary account, and so on.

Derivatives must necessarily divide departments that trade derivatives for customers from the department of trading derivatives for the company's account.

Example 2: The Prohibition of Transactions of Certain Time Durations

In the case where securities companies are responsible for selling securities for public offering (public offering: PO) and in the period where the companies have to be responsible for providing investment consultations to investors, there are also periods where services to clients are prohibited:

- *5 days before sales offering until sales end, persuasion and suggestion are prohibited.*
- *No distribution of securities analysis on distributed securities from 15 days before sales offering to the end of sales, or until the day that extra securities are completed. However securities analysis for PO securities is to be revealed if the following requirements are met:*
 - *It is a regular securities analysis of a company.*
 - *It is an improvement of the previous securities analysis.*
 - *The focus is not on securities underwriting.*
 - *It reveals interests in the analysis, which is presented clearly with words on the same page as comments on the analysis or in a position where it stands out.*

Example 3: The revelation of interests to customers

In the case where a securities company performs as a securities underwriter for public offering (PO), interests are supposed to be revealed along with the analysis, 30 days from the end of sales. The message should be presented clearly with words on the same page as comments on the analysis or in a position where it stands out.

3. Entrepreneurs should regularly review the appropriateness of measures and their system in order to prevent and deal with conflicts of interests At least, they should

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immediately review once there is an event that could have impacts on the prevention and management of entrepreneurs' conflicts of interests.

The Prevention of Knowledge and Usage of Inside Information

Securities business operation and securities related business operation, such as securities underwriting, financial advising, etc including derivatives, makes it possible for an entrepreneur to obtain inside information such as issuer information, which has effects on prices of issuer's securities or business that is related to issuers, or significant information which could tremendously affect prices of derivatives, product prices, figures of variables, customer decision-making of purchasing derivatives, and so on. The aforementioned information has not been revealed to the public. If entrepreneurs or personnel make use of the inside information in sales or reveal it to others, it only means that investors are taken advantage of, since the equality to access information is disrupted.

Therefore, in order to prevent the unfair use of inside information by entrepreneurs and personnel, the following measures have to be implemented:

- (1) Business units that are prone to gaining knowledge of inside information should be separated from other units and officers of other units. Examples of units in the securities companies that have the tendency to gain knowledge of inside information are those that are responsible for the stock sales, financial consultancy, credential analysis, and so on.
- (2) The right to access inside information should be established for those who are authorized. The right should be restricted to only the people who are in charge (need to know basis).
- (3) Measures to keep the issue under control should be established. In general, a securities company creates watch lists and restricted lists, according to the following procedures:
 - A securities company is going to include securities names in the watch list accounts after the company receives the issuer's inside information. For

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instance, in the case where the company is in the process of making a contract/agreement in financial services to the issuer and the deal has not been revealed to the public. Securities companies are to reveal the names in the watch list only to related units and officers for the operation. Also, related officers or those who are exposed to the mentioned information are not allowed to trade stocks in the watch list. After the deal has been revealed to the public, the company will move the names from the watch list to the restricted list.

- Even though the deal has already been revealed to the public, a securities company is supposed to operate the restricted list until the end of service or until the operation is no longer necessary in order to maintain the investors' trust and the company's good reputation. Therefore, when the names are moved from the watch list to the restricted list, the company will reveal the names in the restricted list to units and officers. Also, all officers, including the company's investment accounts, are not allowed to trade stocks for their own sake, persuade or give out consult regarding the stock or create a securities analysis. When the deal is terminated and the inside information has not been used, the company will remove the securities names from the restricted list.
- In the case where there is a securities analysis in the capital market for customers, there should be an establishment of measures to prevent the individual who creates a securities analysis to use the important information, which has not been revealed to the public, for his own sake or revealing the information to other people.

The Supervision of Officers' Securities Transactions

Entrepreneurs are supposed to further supervise officers' trading transactions under clear rules and regulations, in order to prevent misuse of inside information and conflicts of interests. In the case of companies that operate as securities brokers and derivatives agencies, entrepreneurs must necessarily require officers to trade in the company they are working with. However, in the case where the companies allow their

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officers to open trading accounts with other companies, there must be an establishment of supervision to ensure that the system is efficient comparable to the same as opening within the company.

Client Assets Custody

In doing securities and derivatives businesses, in the case where entrepreneurs are necessarily involved with customers' assets, such as the customers' cash or securities deposited with the company, securities subscription, and assets that securities companies require from customers as collateral for payment and collateral for the implementation of derivatives contract, entrepreneurs are supposed to establish a system for the supervision of customers' assets in order to prevent illegal acts or unlawful use of customers' assets. An effective system to supervise customers' assets has to ensure that customers' assets are under supervision and thorough security. At least, there should be an implementation of the following:

- (1) Accurate, thorough, and up-to-date records of customers' assets
- (2) The separation of customers' assets from the company's assets. In the case where the company deposits customers' assets in other financial institution such as TSD, the company must clearly identify the securities account name or the promissory note to be an account for a customer.
- (3) An establishment of comprehensive regulations to supervise customers' assets, especially the withdrawal or transfer of customers' assets such as checking of customers' signatures and authorization by relevant officials, etc.
- (4) A regular count or investigation of customers' assets
- (5) A regular notification of movements or balances of customers' assets, at least once a month. However, in the case where there is no movement in customers' assets for a continuous period of time, the company is required to periodically notify customers of their balances, at least every 6 months.
- (6) A written contract or agreement regarding the custody of customers' assets, identifying responsibilities of both parties and containing necessary particulars as prescribed by the office of the SEC.

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Apart from that, departments that are in charge of supervising customers' assets should be specific department or operations departments, but not departments that contact customers to solicit or give advice to customers. The mentioned procedures should be carried out according to segregation of duties, in order to facilitate the operation investigation.

The Requirement for Collateral for Derivatives

In order to control risks from derivatives contracts, including the security maintenance of the clearing and settlement systems, derivatives agents must necessarily have a proper system as follows:

- 1) The establishment of margin rate or value of collateral and specified time for calling collateral. It covers the plan for initial margin and additional margin in case the company discovers that collateral value of customers are lower than the maintenance margin, after marking to the market. Variations in derivatives prices, financial status, the ability to provide collateral, and customer payment profiles should be taken into consideration, which should not be lower than that required by the SEC.

- 2) The establishment of measures to control risks in case customers' incapability of placing collateral within a required period of time such as the pause in derivatives trading, derivatives contract position offset until the maintenance margin is not lower than the initial margin.

The Establishment of a Compliance Unit

A compliance unit is a very important unit within a company, whose main responsibilities involve the supervision of the operation of the company and

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employees, to be according to laws and regulations. Unlike the internal audit unit that is principally in charge of investigating illegal acts or careless activities feasibly leading to damages to the company, a compliance unit is responsible for establishing regulations for employees to prevent violation of laws, the investigation of employees' activities to be compliant to regulations, punish those who violate the regulations, and regularly co-operate with the SEC, SET, TFEX, TCH, in order to be aware of updated regulations which are in use, and impart the updated trend to employees and senior management members for accurate understanding. A compliance unit could operate independently by presenting investigation results and comments to the company's board of directors, without any restriction or distortion. Moreover, the compliance unit should consist of individuals with true understanding of laws and regulations regarding securities business and have been trained regularly, including the head of compliance who can work full time and receive training organized by the SEC at least every 2 years, so that the operation will be fully effective. For this reason, entrepreneurs with an effective compliance unit will reduce risks of violation of the law.

1.2.4 Anti-Money Laundering and Combating the Financing of Terrorism: AML/CFT

Criminal activities have been developed to be increasingly complicated, especially the distortion of financial sources from criminal activities called "money laundering" in order to make unlawful money to be lawful and to use the money as a fund for criminal activities including to give financial support to terrorism.

The mentioned criminal activities can be committed by customers, through a securities company and a derivatives agent. Anti-Money Laundering and Combating the Financing of Terrorism laws, therefore, identifies the securities and derivatives companies as a legal financial institution, to ensure the mechanism to prevent and manage risks of using the companies as money laundering and terrorism support agents.

Hence, apart from the responsibility to manage risks from business operations according to the SEC, a company has the responsibility to manage AML/CFT risks, by establishing policies, measures, and accurate procedures and consistent to laws, regulations, and guidelines under Anti-Money Laundering Office.

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Customer identification

In making a transaction with customers, entrepreneurs must necessarily establish a means of identification as prescribed by the AML office for customer identification and customers' actual beneficiaries, and validate the obtained information by investigating other outside sources of information.

Customer investigation

It is a process of assessing risks of customers and managing risks before authorizing customers. The factors used for the assessment include customers' occupations, sources of income, countries/places of residence, etc. The intensity of the mentioned assessment is in accordance with the risks customers pose.

Moreover, the company should regularly investigate customers' transactions to assess the levels of risks, and to see whether there are any unusual or suspicious cases or not.

Report of suspected financial transactions

Entrepreneurs have responsibilities to report suspected financial transactions to the Anti-Money Laundering Office, when discovering any suspicious activities or those against the law, such as large-scale transactions, which are inconsistent with customers' financial status; opening many securities accounts of the same type, which could mean that the customer is not the actual beneficiary; frequent cash transactions of no more than 2 million baht, but higher than debts, in order to avoid cash transaction reports to the Anti-Money Laundering Office, etc.

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Chapter 2: Performance Standards for Investor Coordinators

Learning Objectives:

1. Explain conduct of duties or giving services with honesty
2. Distinguish behavior that obey/ does not obey the conduct of duties or giving services with honesty
3. Clarify exploiting investor behavior or taking advantage for his owns or other persons
4. Distinguish behavior that obey/ does not obey the conduct of exploitation or taking advantage for his owns or other persons
5. Explain practical conduct with responsibility as professionalism and doing duties for investors with fairness, caring, caution, determination by considering investor's advantage as first priority
6. Distinguish behaviour that obey/ does not obey practical conduct with responsibility as professionalism and doing duties for investors with fairness, caring, caution, determination by considering investor's advantage as first priority
7. Understand administrative penalty for unsuitable investment consulting
8. Explain practical conduct according to the SEC Law (5th edition) B.E. 2559, referring to unfair securities trading
9. Distinguish behaviour violating SEC Law (5th edition) B.E. 2559, referring to unfair securities trading
10. Explain practical conduct of sales and services for capital market products as the case of discretionary account
11. Apply correctly and suitably the practical conduct

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Chapter 2

Performance Standards for Investor Coordinators

Securities entrepreneurs must hire employees or individuals approved by the Securities and Exchange Commission of Thailand (SEC). Such employees or individuals, including investment analysts, investment consultants, and investment planners, will make contact with, provide service to, and conduct investment and investment planning for clients. They are regarded as a vital mechanism in the capital market because of their direct access to clients. Moreover, their understanding of the duties, responsibilities, and performance standards will enhance the development of the capital market as well as making performances become complete and impressive to clients.

For the clients or investors' benefits in the provision of efficient, fair and non-exploitative services, the SEC has specified the following criteria or performance standards for investment analysts, investment consultants, and investment planners.

2.1 Fulfillment of duties in an honest and integrity manner

2.1.1 Refraining from dishonesty, such as:

(1) Any unlawful act against the assets of investors, such as misappropriation, deception, or fraud, etc.

(2) Any form of forgery, such as opening a securities trading account under the name and signature of another individual and using the account for one's own benefit (using another individual evidences for opening a securities trading account, even though it is actually an account of investment analyst or investment consultant, or investment planner).

(3) Utilizing the assets or information of a securities company or an investor, such as software, or investor information for the benefit of one's own or the benefit of a connected party without the authorization of the company.

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Sample cases of dishonest duties or service

Case 1: Unlawful act against the assets of investors

Ms. Wadee looks after a foreign client who trades in stocks for dividends. There is a mismatch in identity: the client is a foreign but holds the stocks as a Thai national. Consequently, the client cannot receive the dividends. In response to the problem, she aids the client by seeking another securities trading account to be the transferee of the stocks to receive the dividends and then to transfer the stock back. She has the client sign the securities transfer form in advance without filling out the information. In the first transaction, the dividends are received to the client and the stocks are transferred back to the client. In the second transaction, she does the same but the dividends are not received. Moreover, the stock is transferred to her own securities trading account and another client, who is her cousin, and the stock is sold. This is considered an unlawful act against the assets of investors and dishonest fulfillment of duties.

In this case, Ms. Wadee should provide complete information regarding the rules and regulations on securities trading in Thailand to her client prior to the opening of the securities trading account. She should also enquire about her client's purpose for opening the securities trading account to be able to give the right advice. In addition, she must not allow the client to sign any form without filling out the information.

Case 2: Unlawful act against the assets of investors

Mr. Chalerm trades stocks and derivatives under the account of a client and produces a fraudulent securities trading report to mislead his client that the securities trading transactions in the report are carried out according to the order of the client. To match the securities trading transactions, he also deceives the client into withdrawing the security money from the derivatives account and transfers the amount to the client's automatic transfer service (ATS) account. He then uses the amount on payment of his own securities trading transaction and as the security money for his own derivatives trading transaction, both under another the name of another client whose accounts Mr. Chalerm has asked to use. This is considered an unlawful act and fulfillment of duties against the assets of investors in a dishonest manner.

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In this case, Mr. Chalerm abuses the trust of several clients to whom he has provided service for a long time, committing a well-planned fraudulent act to deceive them for his own benefit.

Case 3: Unlawful act against the assets of investors

Ms. Tip uses the purchase orders that clients have signed without filling out the information for her own benefit from selling funds and transferring the stocks in their accounts to those of her related parties. She also indicates telephone numbers that do not belong to the clients (the transferor) in the securities transfer forms and the fund sale forms in order that the operations officers of her company will confirm transfer transactions and selling transactions of fund for several occasions. Moreover, she forges the signature of the company branch manager to authorize such transactions. This is considered an unlawful act against the assets of investors.

Case 4: Any form of forgery, such as opening a securities trading account by using the name and forging the signature of another individual, for one's own securities trading transactions

Mr. Pong opens a securities trading account under the name of his sister with her knowledge that he is committing such act. Using her documents and forging her signature, he uses the account for his own securities trading transactions and signs the securities trade report (F8) to deceive his company that the transactions have been carried out at the company by his sister. This is considered fulfillment of duties in a dishonest manner (opening an account under other person's name and using that account for one's own).

Case 5: Utilizing the assets that are not general assets of a securities company for one's own benefit

Mr. Chaiwat is in conflict with a marketing team and is planning to change his job. He gives to his friend, an investment consultant working for another securities company, the securities trading application form of a client wishing to open an account during approval process without the consent of the client. He brings with him the application form and related documents without permission of the company. This is

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considered utilizing the assets of a securities company that are not general assets for one's own benefit.

In this case, the information of the client is an important business asset that needs to be kept confidential. Not only does the company have to invest in marketing campaigns in order to attract the client, but the client also places trust in the company's measures for keeping his information. Therefore, individuals having access to client information, securities companies, securities company staff, and investment consultants must all be aware of and must fully perform their duties and responsibilities regarding the protection of their clients' information.

2.1.2 Refraining from taking advantage of investors for personal benefit or related parties, including:

(1) Use the securities or derivatives trading accounts of an investor for personal or related parties' benefits, with or without the consent of the account holder.

(2) Analyse, persuade, or make recommendations to an investor too often in a manner that would lead to his/her involvement with churning.

(3) Exploit or take advantage of an investor through one's own duties and responsibilities, such as requesting payment of other fees or remuneration than what usually required to be paid to the securities company, or offering to sell an over-the-counter (OTC) stock, or an initial public offering (IPO) stock by charging some fees, or trading a stock before the analysis report is circulated at least 3 days, etc.

(4) Take advantage of an investor through a planned securities/derivatives trading transaction in terms of ordering, unless the investor has otherwise given clear indications of the terms and conditions for such a transaction.

Sample cases of taking advantage of investors for personal or related parties' benefits

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Case 1: Use of the securities or derivatives trading account of an investor for personal or related parties' benefits.

Ms. Tongjit requests the inclusion of a transaction in the portfolio account for error trading of the company. Upon a review of the audio recordings of the transaction to verify the error, the company is unable to identify the source of the transaction order. The company then conducts a further investigation of the transaction order directly with the client and discovers that the client has not placed such an order. It happens that Ms. Tongjit is the person who placed such an order upon the request of either her colleague or a third party via her colleague. The audio recordings also reveal that she is the intermediary in the transaction order under the name of the client on behalf of a related party. This case is considered use of the securities or derivatives trading account of an investor for the benefit of related parties.

Case 2: Use of the securities or derivatives trading account of an investor for personal or related parties' benefit?

Mr. Chai is an investment consultant for a client who is his college classmate. The client is keen to invest in speculative stocks worth less than one baht. Mr. Chai assists his client in purchasing such stocks at a lower price than the closing price after the closing hours of the market and selling them at a slightly higher price the next day. After random inspections of the turnover list securities transactions, however, the company finds that only 30% have been ordered by the client. It also identifies conversations that indicate Mr. Chai has added his personal purchase of stocks to those ordered by the client, such as: "You want three million baht? Let me add one million baht to the amount and make it four million baht." It matches the daily trading amount of the client on that day which equals four million baht. This case is considered use of the securities or derivatives trading account of an investor for personal benefit, not to mention transaction fraud.

Case 3: Use of the derivatives trading account of an investor for personal benefit.

Mr. Wasan, an investment consultant, has been appointed by his sister to trade derivatives using the family money in order to earn extra income, but the trade resulted

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in a loss rather than a profit. His sister then filed a complaint, leading to disciplinary action against him. However, he still believes that being an investment consultant he has a better opportunity to access information and make securities trading transactions more conveniently than being an investor. He asks Ms. Woramalee, a long-time friend, to open a trading account and carry out transactions under her name. Using her e-mail username and password, he places transaction orders via the internet and makes his own investments. Later on, the company orders an investigation of the IP address in the order sending and finds out the wrongdoing of derivatives trading under Ms. Woramalee name. Mr. Wasan admits that all the transactions are his own. This is considered use of the securities or derivatives trading account of an investor for personal benefit.

Case 4: Use of the securities trading account of an investor to carry out a securities trading transaction for another client, while the new account opening is not complete.

Ms. Sirirat, an investment consultant, agrees to carry out securities trading transactions for Ms. Vijittra, who is waiting for an approval of her account application, via another client. Upon the approval of the application, Ms. Vijittra asks Ms. Sirirat to transfer the stocks to her account, but it turns out that the other client has sold all the stocks. To deal with the situation, Ms. Sirirat requests her friend, a client of another securities company, to purchase stocks and return them to Ms. Vijittra's account. This is considered use of the securities trading account of an investor to carry out a securities trading transaction for another client.

Case 5: Exploitation of an investor through opportunity at work.

Mr. Prakrit has carried out securities trading transactions under the name of a client for over three years. He learns that the client has not monitored his own account. When a loss occurs or payment of securities purchase needs to be made, Mr. Prakrit

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transfers money to the account. Furthermore, he uses his client's account to make securities trading transactions aiming for a commission fee. This incident leads to a total loss of 2-3 million baht. In addition, he asks the client to transfer money to the account, saying that the client is eligible to subscribe to newly issued shares for existing shareholders despite the non-existence of such stock in the account. Mr Prakit uses that transferred amount for his own transactions. This is considered fulfillment of duties in a dishonest manner, an unlawful act against the assets of investors, including using investor account for his own benefit.

Case 6: Exploitation of an investor through opportunity at work.

Mr. Sontaya looks after the securities trading account of a client using the password given to him to conduct transactions via the internet. However, he also uses this account to make his own transactions and transactions of related parties including obtaining funds for investment from loans. He has carried out trading transactions continually for six months since the opening of this account with the total value over 800 million baht. As a result, he receives a large amount of incentives. This is considered fulfillment of duties in a dishonest manner, an unlawful act against the assets of investors through opportunities at work. It is also considered that Mr. Sontaya uses the investor's account to trade securities for personal and related parties benefits, while involving in the investor's assets.

Case 7: Exploitation of an investor through opportunity at work.

Ms. Mantita agrees to sell nine securities worth over 900,000 baht in total to make profit for a client during the client's business trip abroad. As for the purchase of more stocks, the client will be the person to make the decision. However, she carries out the trading transactions, buying and selling securities in order to cover the losses resulting from day-trade transactions not authorized by the client that she has made throughout the 25 working days. The total trading value is 109 million baht, as such earning huge amount of sales incentives. Upon the client discovering the disappearance of some securities from the portfolio, Ms. Mantita explained that the

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money from the sale is used as the collateral for the securities trading account. In this case, Ms. Mantita has been assigned by a client to make decision in trading on her behalf and has used those assets for her personal benefit in an unlawful manner, including seeking benefit from the investor through opportunities to work.

Case 8: Exploitation of an investor through opportunity at work.

Mr. Pana persuades several clients to purchase stocks that he claims they are during IPO and OTC stocks belonging to a public company that he claims will be registered in the stock market, in order to make profit from the sale of such stock. However, such stock does not exist, is not during IPO process, not registered in the stock market as claimed, resulting in losses on the part of those clients.

2.2 Fulfillment of duties in a responsible and prudent manner as professionals and treatment of all investors in a fair and considerate manner, taking into consideration investors' benefit.

1. Not present false information or documents on important issues which have a severe damaging impact on clients, investors, securities companies, and/or the government, such as:

1.1 Not reveal or disseminate false information such as a forged document, conceal an essential fact or piece of information that needs to be presented to investors, shareholders, securities companies, or the government. The example is not to conceal information or submit false information when seeking an approval for being capital market personnel to the office of the SEC.

1.2 Not conceal or present false information to a securities company to aid an investor. For example, must not conceal or dress up financial information to open an account to receive a credit line increase, or must not use a single bank statement for the application of credit lines for multiple investors.

1.3 Not provide incomplete or false information to deceive investors, or must not help any person with wrongdoing acts to clients, investors, or the government.

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2. Must indicate the true beneficiary in the Know Your Customer/Customer Due Diligence (KYC/CDD) provision. In case of doubt, he/she must prepare an enhanced version of KYC/CDD, or must provide KYC/CDD suitability test for an investor completely.

3. Must not appoint a related individual (a nominee), to open a securities/derivatives trading account, or must not use the securities/derivatives trading account of an investor for others.

4. Must not aid an investor in a securities/ derivatives trading transaction that exceeds the credit status of such investor, for example:

4.1 Must not support or coordinate with an investor in a securities/derivatives trading transaction that exceeds the financial status or creditability of such investor; or any action deemed inappropriate for such investor's investment constraints; such as paying for the securities trading transaction on behalf of the investor.

4.2 Must not be involved in informal money lending for a securities/derivatives trading transaction, including seeking, using, or aiding the use of a money lender/loan shark.

5. Must not produce a false securities/derivatives trading report, such as producing a securities/derivatives trading report (F8) without the investor carrying out the transaction on the trading floor, or acting as an investor to confirm a securities/derivatives trading transaction with or without the consent of the investor.

6. Must not sign a document indicating his/her duties without actually fulfilling such duties, such as signing a securities trading order or a suitability test without actually giving advice to the investor.

7. Must not submit a securities/derivatives trading order in an inappropriate manner.

8. Must impose a restraint on, raise an objection to, or issue a notice to an individual who is likely to be involved in an unlawful securities/derivatives trading transaction.

9. Must provide advice or information, including referable information or documents, to investors in an accurate, complete, timely, unbiased, and independent manner according to professional standards.

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9.1 Must reveal his/her name and the securities company that he/she works with or on behalf of to an investor unless such information is already known by the investor.

9.2 Must provide unbiased and independent advice according to accepted professional standards with supporting documents as reference, while specifying whether the advice is based on a fact or just an opinion.

9.3 Must provide suitable information and advice to an investor in a complete, accurate, reasonable, and non-misleading manner. Must also reveal or provide sufficient information that is important and relevant to the investment decision of investors, without concealing essential information which may lead to misunderstanding or distortion of the facts, for example:

(1) Must reveal or provide information regarding the specific risks to or limitations on a securities/derivatives trading transaction, such as information on stock warrant near to maturity date, a warrant for redeeming a debenture before the maturity date, investment units in a fund undergoing a merger, and auto redemption investment units, etc.

(2) Must reveal or provide information regarding the company issuing a stock, such as during capital increase or decrease, change in major shareholders, and merger.

(3) Must reveal or provide information or warnings regarding a matter that may have an impact on the rights of an investor, such as the risk connected with a fund, as well as providing additional advice should an investor wish to invest in a fund with a higher risk than can be tolerated by the investor, etc.

(4) Must provide a prospectus to investors in case of selling a unit trust. Must also give suitable information or advice to the investor based on an updated customer profile, and must offer information or advice to the investor on a continual basis after such investment.

(5) Must provide information and advice regarding investment criteria to an investor in a clear and accurate manner, such as regarding the collateral, the calculation of excess equities, and forced sale of shares, etc.

9.4 Must exercise his/her discretion in providing advice to an investor. Should he/she offer a piece of advice based on an analysis of news influencing

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investment in securities/derivatives, he/she must inform the investor of the source of the news. Must not be involved in starting or spreading a rumor or an unconfirmed piece of information that may have an impact on the prices of securities/derivatives.

10. Must produce an independent analysis for circulation to investors that meets accepted professional standards with supporting documents to be used as reference. In addition, an investment analyst who offers his/her opinions on the media must disclose information regarding his/her specialization as authorized by the SEC. Must also produce an analysis only under the scope of his/her duties and responsibilities as assigned by the securities company (fundamental or technical analysis) but not out of scope of the approved licence.

11. Must decline if an investor assigns him/her to make a securities/derivatives trading transaction on behalf of the investor.

12. Must not make a decision to carry out a securities/derivatives trading transaction in lieu of an investor.

13. Must strictly obey the instruction of the investor.

14. Must provide securities/derivatives trading service to an investor who owns a securities/derivatives trading account according to the instructions of the investor, or an authorized person acting on behalf of the investor.

15. Must not guarantee an investor a return, a benefit, a loss, or a damage that may result from a securities/derivatives trading transaction.

16. Must not urge an investor to make an investment decision in a rush.

17. Must record consultation with an investor, a transaction order, or a negotiation on an investment in a manner that does not comply with the stipulations of the company. This includes the absence of a specific sound recording on a transaction order or the failure to produce a ticket order or not keeping an analysis report for the period of time specified by the specified regulations.

18. Must fulfill his/her duties carefully in order to prevent a conflict of interests, for example:

18.1 Must avoid persuading or recommending an investor to make an investment that may result in a conflict of interests, except the reveal of gain or loss or conflicts of interest to the investor, for example:

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(1) A securities company, executives, an investment analyst, an investment consultant, or an investment planner, including the spouse or the underage offspring of such an individual, hold over 5% of the total stocks of the issuing company.

(2) A securities company or a related party is the issuer of the stocks.

(3) An executive of a securities company, an investment analyst, an investment consultant, or an investment planner sits on the board of directors of the issuing company.

(4) A securities company or a related company is in the process of providing investment consultancy in accordance with the SEC Announcement Relating to the Approval of Investment Consultants and Scope of Operations.

(5) An investment consultant and an investment planner receive different rates of incentives from persuading or recommending investor to invest in different mutual funds, etc.

18.2 Must fulfill his/her duties in accordance with the criteria specified in the SEC Announcement relating to the Criteria, Conditions, and Methods for Securities Sale. To illustrate, a conflict of interests arises in the case (1) when an investment analyst, an investment consultant, and an investment planner persuade investors to invest in, or disseminate an article or a research study on the stocks. (2) when a securities company serves as an investment consultant to the issuing company or is during the process of serving as an underwriter. In such cases, if the conflict of interests is not addressed in an appropriate manner, investor confidence will be adversely affected. In response to the issue of conflict of interests, the SEC has specified the following codes of practice.

Cases	Codes of practice	Notes
A securities company serving as an underwriter offering shares	1. The company is prohibited from persuading or recommending an investor to invest in a stock five business days prior to the offering date until the sales closing date.	Public offering securities

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Cases	Codes of practice	Notes
to the general public	<p>2. The company is prohibited from disseminating an analysis on a stock 15 business days prior to the offering date until the sales closing date/the completion of overallotment.</p> <ul style="list-style-type: none"> - IPO stocks - PO securities 	<p>Exemption: an analysis of PO securities can be disseminated in the event that all of the following conditions are met:</p> <ul style="list-style-type: none"> - The analysis is part of normal business operations. - The revision of the previous version of the analysis. - Not focusing on the distribution of securities - The analysis discloses a conflict of interests.*
	<p>3. The company must disclose the conflict of interests after the circulation of an analysis* within 30 days from the sales closing date.</p>	
A securities company serving as a financial adviser	<p>The securities company can disseminate an analysis in the event that all of the following conditions are met:</p> <ul style="list-style-type: none"> - The dissemination of the analysis is part of normal business operations. - The revision of the previous version of the analysis. - No focusing on the distribution of securities. - The analysis discloses a conflict of interests.* 	

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*The disclosure of conflict of interests must be made in clear typeface on the same page as the summary of the analysis or in a visible section of the analysis.

18.3 Must inform an investor the fact that the securities company you are working for is the contract party to the securities trading transaction, except where the securities company serves as a market maker or a dealer. In addition, he/she must inform the investor as to what roles of the company in trading transaction with the investor, in the case that the company is a broker and a dealer of the securities.

19. Must protect the confidentiality of an investor; for instance, not disclosing information relating to the personal profile, securities/derivatives trading transaction, and financial status of the investor, except the disclosure as duties.

20. Must not interfere with the assets of an investor, such as not involving in clearing of securities/derivatives, receipt or payment connected with a securities/derivatives transactions, or transfer of securities/derivatives, etc.

Sample cases of the failure to fulfill duties in a responsible and prudent manner as professional standards and to treat all investors in a fair and considerate manner, by taking into account investor's benefits.

Case 1: Presentation of a falsified document to a securities company to aid an investor.

Ms. Panadda processes a credit increase for a client who always trades up to 100% of credit line, by altering the owner's name on the first page of her own savings account to that of the client. She then signs the falsified document to certify her acknowledgement of the client's saving account and submits it to the securities company for a credit increase. Following the credit increase and more securities trading transactions, she enjoys higher incentives. This is considered a wrongdoing in falsifying document to a securities company to aid an investor in applying for a credit increase to make more securities trading transactions.

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Case 2: Failure to crosscheck the documents filed to open an account with the originals.

Mrs. Dara is assigned as a new investment consultant of the Sairak Road branch office of a securities company. A client comes into the office and expresses intent to open a securities trading account. After filling out the application form and an agent appointment agreement, the client is requested to enclose supporting documents but he has not brought them along and promises to send to the office by postal mail later. Upon the receipt of the documents, Mrs. Dara certifies the application form, indicating that the client has signed the application form in her presence and she has crosschecked the supporting documents with the originals. She then carries out the credit line approval step by step. The operations department later discovers that for the documents that are sent by mail, Mrs. Dara has not carried out the crosscheck, and the copy of the fixed account filed by the client is actually falsified using the fixed account of another client who recently applied to open a securities trading account with the company. Mrs. Dara is suspected of conspiring with the client to falsify the supporting documents. Her act results from the failure to comply with the criteria relating to knowledge of clients and verification of client information.

Case 3: Acting as a loan intermediary for a client.

Due to the economic downturn and the low liquidity of a client, an investment consultant deems it appropriate to assist the client by acting as a loan intermediary in order to enhance the client's ability to settle securities trading transactions. In this process, the client has to leave the ATS account and a signed withdrawal form with a finance officer of the securities company, who then completes the form and transfers the withdrawn amount to the account of the company. Each investment consultant also monitors the securities trading transactions made by the client and ensures that the client clears the debt required. This case is considered aiding or collaborating with an investor in making a securities/derivatives trading transaction that is beyond the credit status, settlement ability, or investment constraints of the investor.

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Case 4: Borrowing money from a client to conduct a securities trading transaction by using the securities trading account of the client.

A whistle blowing indicates that loans from a money lender who is a major client of the Sairak Road branch office of a securities trading company are made in order to carry out securities trading transactions. Consequently, the company conducts an investigation of the branch office and discovers evidence via the computer of the branch manager of loan from a money lender. It is found that Mr. Sampan, an investment consultant to the said client, has traded securities for his own benefit by using the securities trading account of the client. As he has no money to pay, he borrows money from the client and has to pay daily interest with the outstanding balance totaling 20 million baht. He also admits having allowed other investment consultants to make securities trading transactions using the securities trading account of that client. This is considered involvement in taking loans through money lending.

Case 5: Arranging a loan for a client and managing money settlement for the client

A securities company reportedly finds that four clients under Mr. Wararach, investment consultant, settled securities trading worth a total of 9.68 million baht paid in 10 cheques with consecutive check numbers issued by Bank A Plc. Initially, Mr. Wararach claims that most of his clients have brought cheques for payment at the branch or transfer money to the securities company account. Some clients are out of town so they pay by someone on their behalf. In the past, there was no case of a delay of payment or unknown sources of payment. However, after the company gained additional information, Mr. Wararach admits that all of the 10 cheques were issued by Mr. Wararach as he wanted to cover up for those clients who missed some payments or it was inconvenient for them to transfer the money. Mr. Wararach was afraid that his clients would lose their credits. Three of the clients had issued a letter of attorney for him to conduct transactions on their behalf, whereby the clients gave 1,000,005 baht (333,335 baht each) to be under Mr. Wararach's responsibility, either one of them was obliged to order securities to Mr. Wararach and determined that Mr. Wararach must pay benefits every three months back to them. Mr. Wararach then opened the A Bank

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Plc. to keep all the funds and issue cheques upon this bank account. The cheques from this account is an evidence for payment from clients. This case is considered the Mr. Wararach supports or cooperates with the clients in securities trading that is not suitable for financial stability, capability to pay debt, and investment limitations.

Case 6: Acknowledging that clients send trading orders for price manipulation but no conclusive arguments.

It is reported by the Stock Exchange of Thailand that Mr. Surachai send trading order for the stock X through Mr Wuth, an investment consultant. The act is considered inappropriate due to no warning to the client. The examples of trading orders are:

- Buying orders of which price increases by one spread causing a total of 36 orders to have their prices increased from 0.40 baht to 0.49 baht.
- Selling orders of which price falls by one spread for a total of 7 orders.
- Wash sale/matched order 1 order of 255,300 shares at 0.45 baht/share.

Besides, it was found that the below conversation between Mr. Wuth and his client showed price manipulation (try to increase the price).

Client: “The problem is when the share price reaches the ceiling at 0.48 or 0.47, it will stop.”

Mr. Wuth: “You need to put in a high bid. After others follow your bid, you can retract it.”

Mr. Wuth’s malpractice is considered to be inappropriate according to the regulations of the Stock Exchange of Thailand in that an investment consultant shall consider the stock order from the clients prior to placing an official order into the stock market. He shall also take into account whether the order results in any negative consequences toward the overall stock market. He shall oppose and warn the client against any violation or breach of the Stock Exchange regulations.

Case 7: Concealing the name and institution or its representative when in contact with an investment consultant unless the information is known to a client.

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Miss Prapa was assigned to be an investment consultant by a securities company to be in charge of Mr. Kamol, a client who just opens an account and needs advice due to a lack of experience in securities investment. However, Miss Prapa has to take care of many clients at a time, her service may not be as effective as it should be. Therefore, the company assigned a trader to do such task for her. Miss Prapa asked the company if she could have business cards made for the trader by using the position of marketing officer of the company. This causes the client to understand that the trader is approved and licensed by the office of the Securities and Exchange Commission (SEC). Subsequently, the trader made transactions without the client's orders and those that did not match the client's demands, causing damages to the client. The client knew from the confirmation report that the person in charge is Miss Prapa; nonetheless, since they never meet her, they file a complaint against the company instead.

In this case, Miss Prapa shall perform her duties for her clients as assigned by the company. She should first introduce herself and get accustomed to the clients before giving them advice. Furthermore, she should prevent the trader from contacting the client directly in all cases.

Case 8: Not providing professionally acceptable advice or citable supplemental documents but disseminating rumours instead.

Mr. Sakarin, an investment consultant, suggests that a client invest in the T securities, claiming that the P Public Co., Ltd. and the T Public Co., Ltd. have merged. This rumour has been around previously yet neither from the stock market nor other news sources, resulting in the higher trading volume of the T securities. Mr. Sakarin does not provide professionally acceptable advice or citable supplemental documents but disseminated rumours instead. The information can affect the share prices as it is not confirmed by any reliable sources or concerned party. Mr. Sakarin should advise according to the company's analysis report (house

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opinion) so that he can give impartial advice as same as the other consultants. In the case that he has different opinion from the company's analysis report, he should make a clear distinction between facts and his opinion. In the case that his advice comes from news analysis that may affect investment in equities or derivatives, the consultant shall inform the clients of the news source so that they can assess its credibility.

Case 9: Giving advice without any analysis report.

Miss Urai is the investment consultant of her close friend, Mr. Wich, who is a speculative investor. She sees that securities that are rehabilitated and will be back to the trading board can speculate substantial profits. Therefore, she recommends that Mr. Wich invest in the P securities (under rehabilitation and be back to the trading board) for 3 million shares at 1.50 baht per unit. Miss Urai claims that she got news about this from her boss who is familiar with the owner of the P Company. The owner of the company guarantees that its trading price will be 3 baht on the first day. However, Mr. Wich's friend tells him that the trading price at the moment is between 0.9 to 1.00 baht. Mr Wich then negotiates for a bargain with Miss Urai but she tells him by telephone and MSN that he should make a quick decision, as these shares are popular among other investors. Later Mr. Wich agrees to buy the shares and requests the analysis report of the P securities, yet Miss Urai informs him that the securities has not been traded; no report is issued. She guarantees that these shares would certainly lead to higher selling price. Afterwards, the securities' price drops from the buying price. Mr. Wich asks Miss Urai whether he should sell them before losing any more money. Miss Urai, however, even suggests that he buy more shares to average the cost. Mr. Wich buys 3 million shares at 0.80-1.2 baht per share. In the end, the price drops to 0.60 baht per share, causing Mr. Wich a significant loss. It can be seen that Miss Urai gives advice to her client without providing any analysis report or supporting documents. Besides, she guarantees the price and rush the investor to make a quick decision.

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Case 10: Failure to provide sufficient information or advice that are significant and relevant to the investor's decision.

Mrs. Nantana is the investment consultant of Mr. C, who just opens an account by transferring the E securities as collateral. It is reported in the news that Mr. C is the shareholder of the E Public Co., Ltd. that would provide a tender offer of E securities. The securities company that Mrs. Nantana works for will be the tender agent. After that, Mr. C trades some shares, while Mr. C has done the tender offer, he calls Mrs. Nantana to order the purchase of 2 million shares of E stock. When the call market approaches, Mrs. Nantana places an order to purchase E securities without informing Mr. C that during a period that since the effective day of tender offer until the last day of tender offer, a tender offeror shall not buy the E securities using channels other than that had previously been specified in the tender offer proposal. Therefore, Mrs. Nantana's malpractice is her failure to provide sufficient information or advice that are significant and relevant to the investor's decision.

Case 11: Giving personal advice without information from prospectus.

Mrs. Siriporn, a bank client, consults via telephon with Mr. Permsak, an investment consultant, who performs his duties at the Thanon Sairak branch that she wants to invest her fixed deposits in a mutual fund that is not risky and brings her higher return of the investment; she did want to invest in securities. Mr. Permsak therefore advises her invest in a trigger open-ended fund 9 and guarantees that such investment would not affect her principal. A few days after Mrs. Siriporn invests 4 million baht and signs documents at the branch. When she receives a letter from the asset management company notifying that the fund invests in securities and the fund will due the next six months. At that time her fund values 3,605,240 baht. She wants to redeem the fund.

Mr. Permsak attempts to explain to Mrs. Siriporn that he, as her investment consultant, is confident that the investment could bring returns as high as in the trigger funds 1-8. After maturity, if the return of the investment is not satisfactory,

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the asset management company's executives will transfer the fund to other funds so that the client can gain profits; therefore, he confirms that there is no effect on the principal. With respects to documentation, since the client orders funds via telephone, she can visit the branch to read and sign the documents as well as receive the prospectus on the following day.

The fact that Mr. Permsak misinforms the client that investment in the trigger fund 9 would not affect her principal and he does not provide her prospectus prior to investment can be considered that he fails to give suitable information and suitable advice to investors accurately and completely. Moreover, he does not give essential and relevant information to his client for the investment decision.

Case 12: Failure to provide information that is beneficial to clients.

A client of Miss Samita, an investment consultant, claims that he buys derivatives warrant as suggested. However, when maturity approaches, Miss Samita does not remind him or offer any information so that he could consider other options of investment, causing him to lose benefits. Miss Samita admits that she forgets to inform the client about the maturity of the derivatives warrant . However, she has never made such mistake before. Thus, she agrees to pay him damages.

The investment consultant's failure to provide information about specific risks and limitations of securities or derivatives, such as warrants that are about to expire, is considered a lack of professional prudence in performing duties. In this case, the consultant should maintain the frequency and duration of contacting the clients; especially, if the client frequently contacts the consultant, the consultant should not forget to provide such beneficial information to the client.

Case 13: Failure to inform the regulations of securities trading.

Mr. Wichai, an investment consultant, is informed by the securities operation unit that he should contact a client named Mr. Apichai so as to notify him of his payment due at noon for his investment of ten million shares in the Y securities at 0.05 baht per share. The securities company regulates a list of volatile stock, which

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requires that investors who invests in the securities in the list must have cash balance, and/or have balance of invested securities in the portfolio worth no less than the value of securities that they wanted to invest. Otherwise, they are required to make payment of the difference of the values on the following working day at noon (12.00 p.m.). In this case, the Y securities belongs to the volatile stock list and Mr. Apichai has lower collateral than the the specified value. However, Mr. Wichai fails to inform the client about this rule before the client bought the securities, causing him to make payment much earlier than usual, in order to be forced sales. In this case, Mr. Wichai does not provide the client with complete information or advice as he conceals necessary information, causing the investors some disadvantages.

Case 14: Failure to inform clients about margin and forced sale.

A client claims that on September 30, B.E. 25XX before Thailand Futures Exchange PCL starts trading, the client owns one derivatives contract, of which value at that time drops to maintenance margin, but not yet at the point of forced sale. Mr.Thawach, an investment consultant, gives the client advice several times that he should offset the contract position since Mr. Thawach is afraid that the value of collateral at the market open may plummet to the point of forced sale even though the client is willing to hold the position. After the market opens, the client notifies the consultant that he wants to close his position, causing him a 35,500 baht loss. However, at the end of that day, the securities price goes up, so the client argues that, as the regulation, the securities company could call additional margin from the client within T+1 day and can request the company for compensation. However, the client closes his position by himself, the company does not pay him any restitution. Yet, the company issues a warning note to Mr. Thawach to inform clients about margin and forced sale more clearly and accurately.

Case 15: Being assigned by investors to make a decision on securities trading on their behalf.

A client contacts Miss Mayuree, an investment consultant, and opens a securities account, mentioning that she has experienced losses from investing in

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securities in another company and wishes to transfer all of her securities to the accounts opened with the company where Miss Mayuree works. Miss Mayuree accepts the request of the client. They have been discussing several ways to solve the problem of the client's loss in the past as well as reporting daily trading. However, it is inconvenient for her client to allow Miss Mayuree contact the client during working hours, so she has to contact her client on mobile phone after working hours and sometimes the client contacts Miss Mayuree after working hours on weekdays or weekends. Her client often asks about her transactions of money in and out of the ATS account. In doing so, the client never shares any benefits with Miss Mayuree. This can be considered that Miss Mayuree action is assigned by an investor to make a decision on securities trading on his/her behalf.

Case 16: Trade Report without sources of clients' orders but the clients accepts the transactions.

The Stock Exchange of Thailand requests a securities company check the wash sale case of a client's account of Mr. Surasich, an investment consultant. After the company investigates and finds no sources of the client's order. Mr. Surasich claims that he receives an order from a representative of his client by line call. The company investigates more on the voice recordings of conversations of this case for three months, no orders are found. However, the company finds that Mr. Surasich talks to the representative as if they were very close friends. In the conversations, Mr. Surasich made securities offers to the representative in terms of types of orders, name of securities, amount and prices. Besides, the offers are agreed by the representative, as can be seen from some examples of conversations, such as "go for it," "yes, sure," "yes," and "done done." At the end of the day, Mr. Surasich reports the securities trading to the representative, as the conversations revealed, such as "you've got the short against port." and "The port is all clear." Furthermore, Mr. Surasich often provides incomplete details of the securities trading to his clients and the representative, yet they never object to or deny Mr. Surasich offers. The action of Mr. Surasich is considered as being assigned by an investor to make decisions for trading securities on his/her behalf.

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Case 17: Making an order before asking for the client's opinion.

Mr. Arun is a capital market investment consultant for his aunt. He calls her 2-3 times every day. Most of the phone conversations are information about securities trading confirmation and advice on investment. However, no clearly stated order is discussed, yet the client let Mr. Arun make a decision on her behalf. During the day, Mr. Arun gives trading reports to the client after the securities trading. The client neither make arguments nor pay attention to her account. There appears a case that Mr. Arun has asked for comments after sending the order. Below is an example of a conversation between Mr. Arun and his client.

IC: The ABC securities prices are at 0.83-0.84. The cost price is at 0.81 baht/share for 2 million shares. Previously, we had 0.83. If you don't want that, do you want me to sell them?

Client: Up to you.

IC: I can't make a decision for you. You have to do so by yourself.

Client: Hmm...

IC: All right. If 0.84-0.85 is not OK, let's sell them.

Client: Yes, sure.

Mr. Arun, however, placed an order 20 minutes ago before calling his client.

Case 18: Solving problems of derivatives that got loss.

A client of Miss Sopawadee, an investment consultant, is a construction contractor who has opened a securities account for over two years. Mostly, the client invests in gold futures starting with credit line of four million baht and now has risen to 10 million baht. The client asks for a change in investment consultant, claiming that Miss Sopawadee is not efficient in monitoring the account as the client lost a lot of money. Lately the problem couldn't be solved and the client lost over four million baht. The company investigates this case by listening to the recorded conversation between Miss Sopawadee and her client. It was found that the client had

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substantially traded gold futures and ordered Miss Sopawadee close 289 gold futures contracts that is getting loss and reaching its maturity in the following week. The client wishes to open a new series of futures, but does not inform the consultant about the number of contracts and specific prices. As gold futures' maturity that is approaching its maturity usually lacks liquidity, Miss Sopawadee attempts to offer options, on which are agreed by her client. Below is an example of conversations between the client and the consultant.

IC: "If you short against the position, would you like to short about half of it?"

Client: "Up to you. Go ahead."

IC: "OK. In the evening, I'll short against the position at 24,010 baht."

Client: "OK."

Miss Sopawadee's action is being assigned by an investor to make decision in derivatives trading. In the case of closing position of an existing contract that is approaching to the maturity and opening for new contract in order to keep required investment status (roll over), the client usually makes decision on the specific price even though the number of contracts to keep may depend on collaterals. In this case there is no clear order from the client, and the evidence from the recording shows that the client allows the consultant make decision on his/her behalf.

Case 19: Making securities trading under the investors' securities account without their orders.

Miss Jariya is the investment consultant who takes care of two clients, a husband and a wife. The husband authorizes his wife to act on his behalf. Thus, she can trade securities under her husband's account. Normally, the wife orders the trading under each of their accounts. She keeps records of what she invested in. In the past, the investment was little and not quite profitable. Thus, Miss Jariya wants to trade more for making profits for her clients. Miss Jariya trades securities with net settlement for both of them for three consecutive days, hoping that her clients would

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be delighted. If there is a loss for a small amount, she will credit cash to her clients' accounts. However, there appears the loss about 200,000 baht. The company investigates from the recorded conversation and finds that the client never place an order. The company has to pay restitution for the client. Miss Jariya's action is considered making decision on investors' behalf to gain benefits for them without their orders.

Case 20: Making securities trading under the investors' securities account without their orders.

A client of Miss Manta asks for her advice in a morning in which price range should invest in stock A. Since A Public Co., Ltd. has great performance since the beginning of the year, Miss Manta suggests that according to the analysis report, its current value was at 20 baht, which would be good for investors to invest for short-term profits. The selling price should be when the share price reaches 22 baht or higher. Her client agrees with Miss Manta; however, the price at that moment is 21 baht, so the client holds the order and stop buying because of a limit of money. In that afternoon, the share price drops to 19 baht.

Miss Manta tries to call her client but could not reach him. The consultant then decides to buy the A securities using the client's account. Because the share price is satisfactory to the client and should be sell out for profit as their previous discussion about the securities in the morning. Miss Manta calls her client again before the market closes, but she still could not reach her. To minimize risks of payment, Miss Manta sells stock B, that brings as much profit as her client had to pay for the purchase of stock A. Miss Manta's action is considered that she made a decision for investors by selling their securities for their benefits with no orders from the investors.

Case 21: Making securities trading under the investors' securities account without their orders.

A client claims that the investment consultant, Miss Phannapha, submits a sell order of 49,000 shares at 17.50 baht per share. The client, in fact, would like to sell a

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total of 50,000 shares at 19 baht per share. Miss Phannapha admits that she sell the securities at that price; however, the selling price is not as high as what her client thinks. Even worse, the price has gone down when Miss Phannapha places an order. In addition, she admits that she trades her client's shares in the past two months without the client's orders because she sees the opportunity for the client to gain some profits. In some cases, the consultant places an order first and then tells the client later. Or the consultant sell shares even though the client does not want to sell. Miss Pannapha's adction is considered making decision to trade securities in client's securities account without client's order.

Case 22: Taking securities orders from a third party who is not the account owner.

Mr. Chalermchai, an investment consultant of a branch office, is in charge of taking care of a group of clients composing a doctor and three nurses working at the same hospital. These nurses are very close to the doctor as the doctor has invested in securities for quite a long time. The nurses informs Mr.Chalermchai that he could accept the securities orders from the doctor on behalf of their accounts. The consultant understands that the nurses already authorizes the doctor in writing to act on one another's behalf. Thus, Mr. Chalermchai does not ask to see the authorized document. When the doctor places a securities order, Mr. Chalermchai asks about the order of the other three accounts and the doctor confirms that the order should be made in those accounts as well. This is the case to be considered that without the authorized document, the investment consultant is not eligible to take securities orders from a non-account owners or from an authorized person.

Case 23: Taking securities orders from a third party who is not the account owner and concealing such malpractice.

From the investigation of the price manipulation, it is found that Mr. Sanong places an order under his client's account, but he receives the order from another person who is not the account owner or the authorized person from the account owner. Yet, Mr. Sanong calls that person as his client to make the company

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misunderstands that the account owner is the person who places the order. He does not even ask the actual account owner to authorize the person to act on his/her behalf despite having regular orders for more than a year. Mr. Sanong's action is considered using clients' account to buy and sell securities for non-account owners' benefits. Such misconduct can severely cause damages to the client.

Case 24: Not use a sound recording system as arranged by the securities company.

A client of Mr. Acha, an investment consultant, claims to the securities company that Mr. Acha sells the stock A at 9.50 baht instead of 10 baht as the client orders him to do so. The client requests that the company revoke the order. After the company investigates to the recorded conversation between the client and Mr. Acha, it is found that the client does not place any order. When being questioned, both Mr. Acha and his client tells that the client places an order via mobile phone. Mr Acha argues that his client asks him to sell the shares immediately at the price at that time. Because there is no evidence to show at which price the client orders Mr.Acha to sell the stock, the company cannot revoke the trading transaction. According to the company, Mr. Acha should record his clients' buying and selling orders more prudently.

Case 25: Using incomplete customer confirmation and portfolio instead of issuing an order ticket.

From the audit of the office of the SEC, it is found that three out of ten investment consultants who work at the Thanon Sairak branch ask their clients to sign the customer confirmation and portfolio report instead of issuing an order ticket. The report contains no detail about time of ordering, time of purchase and sale, time of cancellation, details of securities that purchased, sale, and cancelled. In addition, there is no statement on the report that the client agrees to be the sender of the securities order. Instead, the consultant should ask the client to sign on the order ticket (F8 form). The company claims that the company trains the investment

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consultant to acknowledge the fact and follow the good practice. Such misconduct of the three consultants is considered that the consultants do not prepare an evidence of securities order sending prudently.

Case 26: Redeem with higher prices than current value.

A client of Miss Thanya, an investment consultant, claims that Miss Thanya is the daughter of the client's sister. Miss Thanya persuades the client to invest ten million baht in three different foreign funds. Last year, the client invests two million baht for the first fund and receives profit approximately over a hundred thousand baht. The other two funds are initially profitable and the client informs Miss Thanya that he/she wants to sell the funds, yet the consultant advises the client hold on the funds, as the profits are still little. When it comes to the time that the client needs to use money, he/she sends Miss Thanya a fax stating the determination to sell those two funds. Yet, Miss Thanya does not proceed the request. Later, the funds' prices drop, causing nearly a two hundred thousand baht loss. Miss Thanya go to see the client at home and informs the client that she would buy the two funds from the client worth 6.85 million baht, together with an interest and principal totaling 7.0 million baht in December. However, those two funds are not transferred the ownership to Miss Thanya. In December, when the client contacts the consultant to follow up the case, Miss Thanya denies that she had not bought those funds and there was no signed contract of sale and mentioned that the client has to file a lawsuit against the bank. From this case, Miss Thanya's promise to pay an interest together with the principal totaling 7.0 million baht while the funds' value at that time was 6.85 million baht can be considered a guarantee the return of investment.

Case 27: Disclosure of clients' trading information

Mr. Chai receives a phone call from Mrs. Song, who calls to order some securities. Mrs. Song knows that Mrs. Neung has bought the same securities earlier. After having a conversation with Mrs. Song for a while, Mr. Chai realizes that these two clients are sisters. Therefore, he provides Mrs. Neung's trading information to Mrs. Song. He then comes to know subsequently that these two sisters have been in

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disputes with each other about heritage. Mrs. Song claims that her sister purchases securities with the heritage money so as to conceal the real amount of heritage value. Mr. Chai's action is considered inappropriate since he disclosed his client's confidential information regarding securities trading.

2.3 Administrative Penalties

There are three levels of administrative penalties.

1. Revealing inappropriate behaviour refers to performing regular duties but no repeated misconducts is permitted within one year.
2. Suspending licenses and duties refers to suspension of all assigned duties as personnel in the capital market authorized by the office of the SEC within a range of one month to two years. In order to return to duties, an ethical examination shall be required before performing duties for the rest of licence validity.
3. Revoking licenses and duties refers to a termination of assigned duties as personnel in the capital market authorized by the office of the SEC within a range of one to ten years. The return to duties shall require an approval of the office of the SEC and take a full examination as in the case of new registration.

2.4 Violation of the Securities and Exchange Act (No. 5) B.E. 2559 (2016) according to Market Misconduct

1. **Concealment of information that causes any damage to investors and capital market.**

1.1 There shall not be any notification, dissemination or revelation of false or misleading information.

According to Section 240, no person shall inform, disseminate, or certify any statement or information that is false or materially misleading about financial status, business operation, the market price of securities or any other information related

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to an issuing company in such a manner that is likely to have an effect on the price of securities or the securities investment decision.

1.2 There shall not be analysis or stipulation about a securities company that can affect securities prices or securities investment decision.

According to Section 241, no person shall analyze or forecast the financial status, the business operation, the price of securities or any other information related to a an issuing company by using information known to be false or incomplete which may mislead materially the making of such analysis or forecast, or omit to consider the accuracy of such information, or by distorting the information used in the making of the analysis or the forecast, and disclosing or giving an opinion on the analysis or the forecast to the public in such a manner that is likely to have an effect on the price of securities or securities investment decision.

2. Using inside information to take advantages of other investors.

2.1 There shall be no securities trading by insider trading.

2.2 There shall be no front running by using clients' securities orders.

According to Section 242, no person who knows or possesses inside information related to an issuing company shall:

(1) purchase or sell securities or enter into a derivatives contract related to securities, either for oneself or other persons, except in the following cases:

(a) action in compliance with the law, the court's order, or the order of an agency with the legal power;

(b) action in accordance with the obligations to a derivatives contract that has been made before one becomes aware of or possesses inside information related to the issuing company;

(c) action not agreed upon or decided by oneself but assigned to an approved or registered person under the law on management of capital

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or investment to make a securities trading decision or enter into a derivatives contract related to such securities; or

(d) action not having a characteristic of taking an advantage of other persons or any characteristic as specified in the notification of the SEC.

(2) disclose inside information to other persons, either directly or indirectly and by any means, while one knows or ought reasonably to know that the receiver of such information may exploit such information for trading securities or entering into a derivatives contract related to such securities, either for the benefit of oneself or other persons, except when such action does not have the characteristics of taking an advantage of other persons or has the characteristics as specified in the notification of the SEC.

3. The securities trading shall not be an attempt to make a price manipulation.

3.1 The securities trading shall not mislead others about prices and amount of securities trading.

According to Section 244/3, no person shall take any of the following actions:

(1) placing a trading order or trading securities in such a way that misleads other persons regarding the price or volume of the securities trading;

(2) placing a securities trading order on a continued basis with an intent to cause the price or the volume of such securities trading to be inconsistent with the normal market condition.

3.2 There shall be no securities trading orders that aim to fluctuate the prices and amount of securities trading from its regular market condition.

According to Section 244/5, any of the following acts shall be presumed to be an act that has caused other persons to have a misunderstanding of the price or

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volume of the securities trading under Section 244/3 (1), or an act that has caused the price or volume of such securities trading to be inconsistent with the normal market condition under Section 244/3 (2), as the case may be:

- (1) purchasing or selling securities in such a way that beneficial ownership of such securities is on the same person;
- (2) placing a securities *purchasing* order while being aware that oneself or an associate has made an order to *sell* the same securities or will do so at a similar amount and a similar price within a similar period of time;
- (3) placing a securities *selling* order while being aware that oneself or an associate has made an order to *buy* the same securities or will do so at a similar amount and a similar price within a similar period of time;
- (4) placing, modifying, or cancelling a securities trading order during the pre-opening or pre-closing period of the Stock Exchange or the over-the-counter center, as the case may be, with an intent to cause the opening or closing price of such securities to be higher or lower than it should have been;
- (5) placing, modifying, or cancelling a securities trading order in such a way that obstructs securities trading of other persons, which causes other persons to place a trading order at a higher or lower price than it should have been.

4. There shall be no use of account name or nominee for unethical securities trading.

According to Section 244/6, it shall be presumed that a person who has committed any of the following acts is the principal for committing the offenses under Section 244/3:

- (1) opening a joint bank account for making a payment or receiving a payment related to or because of a securities trading;
- (2) allowing any person to seek benefits by using one's own bank account for making payments or receiving payments related to or because of securities trading;
- (3) allowing any person to use one's own securities trading account;
- (4) making a payment or receiving a payment for a securities trading for any person;

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(5) placing money or other assets as collateral for securities trading of any person;

(6) allowing any person to receive benefits or oversee payments related to or because of one's own securities trading; or

(7) transferring or receiving a transfer of securities between each other.

4. No placement of securities orders in the trading system of the Stock Exchange of Thailand that causes delay or discontinuation.

According to Section 244/7, no person shall place, modify or cancel a securities trading order through the securities trading system of the Stock Exchange or the over-the-counter center even though it is known or ought reasonably to be known that such act is likely to cause the price or volume of the securities trading to be inconsistent with the normal market condition and cause the securities trading system to delay or discontinue.

Sample behaviors that violate the Securities and Exchange Act (No. 5) B.E. 2559

Case 1: Being an instigator and being involved in price manipulation.

The Office of the Securities and Exchange Commission (SEC) receives an examination report from the Stock Market and the truth is that Miss Chanida, an investment consultant, and Mr. Somchai are instigators who involves in the price manipulation of stock A. The scheme is that they seek securities accounts of three investors for trading the stock A to Mr. Somchai, who places securities orders in the names of these three investors. The three investors testifies that they permits Miss Chanida to use their securities trading accounts and make payments for them, in which case they sign the withdrawal slips of their ATS accounts and leave the slips with Miss Chanida.

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In addition, it is found that other three more investment consultants: Mr. A, Mr. B, and Mr. C. together places securities orders inappropriately using the three names and accounts in which Miss Chanida uses to make price manipulation. Most of the orders aims to increase the price by purchasing at the offer price until the price increases. They also split trading orders into many orders with the same price. Nonetheless, there is no sufficient evidence or witness to implicate them. Instead, they are considered lacing inappropriate orders, causing malpractices.

2.5 The investment consultant shall comply with the guideline for securities trading in the capital market by getting permission from clients to make decisions in securities/derivatives investments on their behalf in their discretionary account.

In the case that investors would like the investment consultant to make decisions in securities/derivatives investments on their behalf, the investment consultant shall comply with the guideline for securities trading in the capital market by getting permission from clients to make decisions in securities/derivatives investments on their behalf in their discretionary account. They must do the following.

1. There shall be an agreement on providing services to clients.

Prior to opening an account for a client, an agreement made by the securities company as the entrepreneur should include the following matters.

- 1.1 Steps and methods of receiving the client's order in the capital market;
- 1.2 Scope and conditions of services and the client's rights to services;
- 1.3 Information on that service is not a private fund;
- 1.4 Risk disclosure statement;
- 1.5 Disclosure of conflict of interest (if any);
- 1.6 Work procedure for losses that are more than stop-loss limit, especially when the client may not be reachable;

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1.7 Terms and conditions for the turnover ratio of securities products in the capital market and disclosure of such information; and

1.8 Work procedure in emergency or unexpected cases that services cannot be provided. For example, assigned investment consultants may not be able to perform their duties due to significant changes in some information, in which cases the entrepreneur shall immediately tackle the issue and review as well as improve agreements on the providing of services and information.

2. There shall be clear terms and conditions of receiving and placing orders as well as order handling time

2.1 There are two ways for naming securities/derivatives and credit amount for securities trading

1. Naming securities/derivatives and separate credit amount for each securities. For example, clients shall invest in A securities only at the credit amount of 100,000 baht or 1,000 shares.
2. Total credit amount, The client can name each type of securities/derivatives but no more than 10 securities or contracts.

2.2 There shall be a stop-loss-limit regulation, whereby clients shall identify maximum loss of each securities and total loss of the investment.

2.3 The time frame for services on clients' orders shall be no longer than three months.

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Chapter 3: Providing Suitable Investment Advice

Learning Objectives:

1. Explain meaning, significance and process of suitable investment consulting
2. Distinguish types and differences of qualitative and quantitative information, understand significant issues of each type of information to investment planning
3. Explain meaning of acceptable risk level, analyse the composition and distinguish differences of factors used to evaluate the level of willingness to take risk and risk acceptability of consult taker
4. Explain the objectives of investment in accordance to required return
5. Distinguish and analyse limitations or conditions of investment aspects of consult taker
6. Analyse and distinguish characteristics of consult takers according to the acceptable risk level of them from suitability test
7. Explain concepts, significance of asset allocation process, including factors affecting to asset allocation consideration
8. Explain meaning of asset class and distinguish securities for asset allocation having the same properties
9. Explain the strategies to investment asset allocation, either short term and long term
10. Explain the concepts of portfolio construction and management
11. Explain how to monitor and evaluate investment, including the concept of portfolio rebalancing to be relevant to changing environment and situations of consult takers

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Chapter 3

Providing Suitable Investment Advice

Investment consultants play a vital role in the securities industry because they help members of the public understand how to invest and how to build wealth. At the same time, the advice that investment consultants give helps drive securities trading. The issuance of debt securities and equity securities are the primary way corporations raise funds in the capital market. The proceeds from the sale of financial securities are often the main source of capital that listed companies use to expand. As corporations grow, they generate more jobs, enabling the government to collect more taxes, thus boosting the economy and strengthening Thailand's capital market.

Every time they give investment advice, an investment consultant must take into consideration each individual client's investment objectives and each client's ability to accept risk. Investment consultants must collect data from their clients and analyze the data in order to provide the most suitable, consistent investment advice.

This chapter will show how to apply several investment concepts in order to propose suitable investment advice to clients. The first section in the chapter is an overview, emphasizing the importance of providing suitable investment advice and the process of providing advice. The second section explains how to collect data from clients, the first step in the process of providing suitable investment advice. Investment consultants need to understand each client's required return, risk tolerance, and investment restrictions. The third topic is a demonstration of how to analyze a client's data in order to evaluate his or her risk tolerance. The last topic is asset allocation. The final section introduces the preliminary concepts of constructing and managing portfolios so as to suit a client's needs. Investment consultants must review regularly the investment advice they give, so that every client receives timely, appropriate advice even as a client's needs change and as the economy changes.

3.1 Providing Suitable Investment Advice: Concepts and Process

The process of offering investment options and investment strategies to a client is called providing suitable investment advice. An investment consultant should recommend the types of securities and investment strategies which match a client's

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investment objectives, risk tolerance, investment restrictions, and the client's financial status.

Investment consultants need a process by which to collect and analyze client data so that they can give suitable investment advice to each client. Investment consultants must be knowledgeable about a full range of investment options, such as bank deposits, bonds, debentures, convertible debentures, preference shares, mutual funds, common stocks and more.

A client trusts an investment consultant to provide advice and may even entrust the consultant with their investment portfolio. The investment consultant needs to understand the principles underlying the concepts of diversification, asset allocation, and portfolio management. Investment consultants must continually monitor, evaluate, and rebalance the client's portfolio to suit the client's changing needs and to suit the changing investment environment.

3.1.1 The definition and the importance of investment advice

Investing is a process that begins when a client sets aside some funds instead of spending the money. The money set aside may be used to buy financial securities, such as debt securities or equity securities. Investing, more generally, is a process whereby a client aims to receive more cash flow in the future in order to cover the opportunity cost of the funds she or he has set aside. The higher cash flow in the future must offset the decline in the benefits the client receives today because they chose to defer consumption or spending to the future. Clients may suffer a loss of future purchasing power due to unexpected inflation, or clients may face greater risks from their investments in securities or financial instruments throughout their investment horizon. Investors build their wealth in the future by foregoing spending today, in the hope that their wealth will increase so they can spend more in the future.

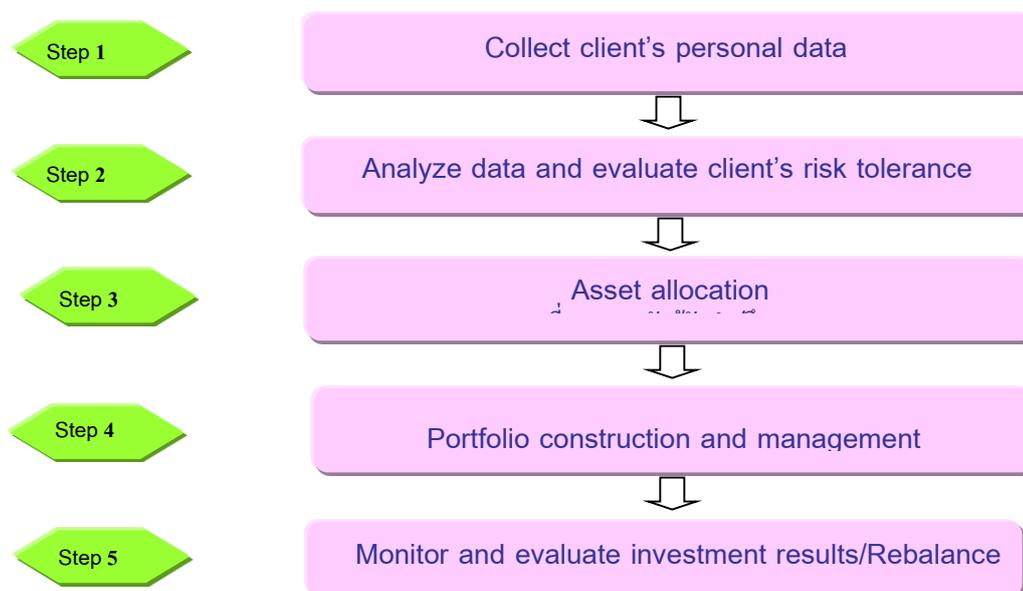
If a client has the knowledge and understanding to select suitable investments, she will have the opportunity to receive higher returns and make her wealth grow faster. Suitable investments help clients diversify the risks of investing more effectively and thus lower the risk from fluctuations in securities prices. Suitable investments will also give a client the opportunity to achieve his investment goals more quickly.

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3.1.2 The process of creating suitable investment advice

The key to providing suitable investment advice is to carefully consider a client's needs and objectives. An investment consultant must know their clients so that when each client's personal data are collected and analyzed, the consultant can use the information correctly and provide suitable investment advice. In order to give effective advice on asset allocation and portfolio management, an consultant has to consider the prevailing conditions in the financial markets and the capital market. The process of providing suitable investment advice is never-ending; the process continues until the client achieves his or her goal. Figure 9-1 shows the process of providing suitable investment advice.

Figure 3-1: The process of providing suitable investment advice



Step 1: Collect Client Data

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Data collection is an extremely important first step. If the data collected are incomplete or inaccurate, the investment advice will not be suitable for a client's investment objectives. The data can be divided into two categories:

Qualitative Data

Qualitative data include personal details about the client such as her personal profile, age, investment objectives, investment restrictions (if any), and her investment expectations. The qualitative data helps an investment consultant understand a client's knowledge of investments as well as his attitude toward saving and investing. With a client's personal information, an investment consultant can analyze the client's ability and willingness to accept risk.

Quantitative Data

Quantitative data are numerical data such as a client's financial status and current investments. These data show the financial health of a client and the stability of the client's financial position. The quantitative data help an investment consultant identify investment opportunities and assess the client's ability to achieve his investment goals.

Step 2: Data Analysis and Evaluation of Risk Tolerance

Investment consultants must analyze precisely each client's risk tolerance and investment restrictions. A careful analysis will reveal a client's current financial status and the client's expectations regarding future investments. A careful analysis is the necessary first step before determining the investment allocations and the appropriate securities which are consistent with and suitable for a client's risk tolerance level. A client with a high risk tolerance will be able to invest a large portion of her assets in higher-risk securities. On the other hand, a client with a low risk tolerance should invest a smaller portion of his assets in higher-risk securities. The returns from each client's investments may differ significantly because the proportions of high-risk securities are quite different.

In practice, the evaluation of a client's risk tolerance is complex. An investment consultant must evaluate a client's willingness and ability to accept risk. The complex analysis requires an investment consultant to consider many factors which measure a client's risk tolerance level.

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Step 3: Asset Allocation

After evaluating the risk tolerance of the client, the next step is to give asset allocation advice suitable for a client's investment objectives, risk tolerance, and investment restrictions. Asset allocation advice can be divided into several dimensions. For example, clients with high risk tolerance levels will be able to invest more in high-risk securities than clients with lower risk tolerance levels. However, clients may have different investment objectives, investment horizons, and investment restrictions.

To start the asset allocation process, the investment consultant has to take into consideration a client's investment restrictions in order to construct a portfolio that is the most suitable for the client.

Step 4: Portfolio Construction and Management

After giving asset allocation advice to clients, investment consultants should advise their clients on the merits of diversification across several asset classes. Also, investment consultants should cover which asset sub-classes are suitable for investment and how to select securities or other assets in each asset sub-class.

Step 5: Monitor and Evaluate Investment Results and Rebalance the Portfolio

After giving investment advice to clients, the investment consultant has to monitor the results. The frequency of monitoring may vary. Monitoring may be needed on a monthly, quarterly or semi-annual basis. At a minimum, the investment consultant and the client should review the portfolio once a year. Investment consultants should monitor each of their client's needs and objectives, as well as current economic forces, financial market forces, and the current political situation. These factors are constantly changing and, as a result, the investment consultant may need to adjust the investment strategies of their clients.

3.2 Collecting client information

The collection of client data is an important step in providing suitable investment advice. Investment consultants use the data for three main purposes: to analyze a client's financial status, to evaluate a client's readiness to invest, and to estimate a client's risk tolerance. Once the investment consultant has completed these three steps, the consultant can take the next step: specifying the asset allocations.

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3.2.1 The importance of client information

A set of complete and accurate client data will help an investment consultant know their client. The set of client data is a key factor in the analytical process and is absolutely essential in order for an investment consultant to make accurate analyses. Accurate data, combined with careful analysis, will lead to more accurate and suitable results. In contrast, no matter how good the analytical process, if the data are incorrect, the results will also be incorrect. The availability of clear, accurate data enables an consultant to provide suitable investment advice.

3.2.2 Qualitative Data

Qualitative data consist of a client profile and profiles of the client's dependants, the client's age and age(s) of their dependants, the client's occupation, investment objectives, investment restrictions, and more.

Personal Profile and Dependants

A client's personal profile and the profile(s) of their dependant(s) contain general information related to the client such as his or her name, address, phone number, birthday, marital status, and contact address. The personal profile also includes information on the client's dependants. An investment consultant uses these key data items to analyze the client's ability to accept risk. For example, an unmarried client may have less financial burdens and financial responsibilities than a married client, and a client with children may have more financial burdens and financial responsibilities than a client with no children. Typically, financial burdens and responsibilities are inversely related to a client's ability to accept risk.

Age

A client's age may be a significant, useful gauge of a client's ability to accept risk. A younger client will have opportunities to change his or her portfolio if he or she makes an investment mistake. This is just one example of a younger client's ability to accept more risk than an older client.

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Occupation

A client's occupation is more than his or her current job. Information about a client's occupation should also include the type of job, the employer's location, the client's position, salary, bonus, years of service, and the client's expectations for future advancement. The information should also include the possibility that the client may change to a new job. Information about a client's occupation reflects the stability of a client's income stream and the client's ability to accept risk.

Investment Objectives

An investment consultant should have a good understanding of a client's investment objectives and have a good understanding of the size and type of returns the client expects from their investments. For example, a client's investment objectives may run the gamut from capital protection, constant current income, capital appreciation or high total returns. The types of returns that a client expects can reflect a client's willingness to take risk.

Investment Restrictions or Criteria

Each client will have different investment restrictions. Because of this, before providing investment advice, an investment consultant should know a client's investment restrictions, if any. For example, two clients may need different levels of liquidity or may have different investment horizons.

A client's investment restrictions and criteria may affect his or her investment objectives and goals. Some examples of investment restrictions and criteria are:

- Liquidity and marketability – Liquidity is the ability to exchange securities for cash, at suitable prices, without any significant change in the prevailing market prices. Marketability is the speed and the ability to sell securities when funds are needed. Liquidity and marketability are important characteristics of any security. Liquidity and marketability are also important issues to address when giving investment advice, no matter whether a client is making short-term or long-term investments. Often, a client making a long-term investment will invest in assets that have less liquidity but provide higher returns in the long run. However, a client with long-term investments will still

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need to invest some of their funds in high-liquidity assets in order to cope with any unexpected, near-term expenses.

- **Horizon** – The investment horizon is the time frame, specified by the client, for his or her investment goals. The investment horizon affects directly the asset allocations, the securities selected for investment, and the rates of return from the investments. The longer the investment horizon, the wider the range of options a client will have in order to achieve his or her investment objectives.

- **Taxes** – Tax considerations refer to the personal income taxes a client may have to pay based on his or her assessable income in the current fiscal year. Tax considerations also include tax deductions or payments required based on the returns received from each of a client’s investments, and tax privileges which may come along with other investment choices. Each client has a different tax burden. By selecting investment options that will provide tax benefits, an investment consultant can boost the returns to his or her clients.

- **Laws and regulations** – Laws and regulations refer to the legal requirements affecting a client’s investments. Every individual client and every institutional client must respect the investment rules and regulations issued by securities market regulators. However, for institutional clients, the rules and regulations may be stricter than for individual clients.

- **Unique needs** – Each individual client has their own special requirements. The client’s unique needs arise from their unique circumstances.

3.2.3 Quantitative Data

Quantitative data is no less important than qualitative data since these data reflect a client’s ability to accept risk. The major quantitative data items consists of:

Current Investment Portfolio

The securities currently held in a client’s investment portfolio reflect the client’s investment behavior, knowledge, and expectations. The contents of a client’s portfolio can be incorporated into the analysis of a client’s willingness to take risk.

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Personal Financial Information

A client's financial information reflects his or her investment readiness, required liquidity level, debt burden, wealth, spending behavior, and the ability to generate income. This information can make the analysis and evaluation of a client's risk tolerance more accurate.

A client's personal financial information consists of assets, liabilities, income, and expenditures.

- Assets refer to the resources, owned by the client, which have economic value. Assets have a cash value or can generate cash flow in the future. An individual's assets can be cash, fixed deposit accounts, securities, life assurance policies, insurance policies, real estate, and more. A client's assets reflect his or her current sources of funds and his or her attitudes toward investments.

- Liabilities refer to obligations that a client has to pay in the future such as outstanding debts, future principal (debt) repayments, and interest. The investment consultant should also note the date that the debt was incurred and the date when future installment payments are due. A client's liabilities will help an investment consultant foresee the chance that the client will lack liquidity in the future.

- Income reflects a client's risk tolerance. The important elements of the income data are the consistency of the client's income, the time needed to generate income, and the stability of the income that the client receives. A person who has only one source of income will have a lower level of income stability than a person with many sources of income.

- Expenditures refer to cash that a client spends in order to buy the goods or services he or she needs. This information will provide an investment consultant with a client's spending behavior and the structure of the client's expenditures. An investment consultant can then evaluate a client's ability to save and invest.

3.3 Analyzing clients' personal profiles and risk profiles

The evaluation of a client's risk tolerance is a very important starting point when an investment consultant wishes to provide suitable investment advice. If client does not have an understanding of risk or know his or her risk tolerance, the outcomes from their investments may not be as expected. Unexpected losses may damage the client's

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way of life. However, it is quite difficult to assess a client's risk tolerance. The assessment process is quite complex, as there are many factors involved when a client sets his or her personal risk tolerance. These factors may vary due to the personal and psychological preferences of each client. Therefore, investment consultants must have a deep understanding of risk tolerance evaluation methods in order to give investment advice to each client.

An assessment of a client's risk tolerance has to include both the client's willingness to accept risk and the client's ability to accept risk. Each client will have a different level of willingness to accept risk and a different ability to accept risk. A client with a high level of willingness to accept risk and a high ability to accept risk will be able to invest in high-risk securities. In contrast, an investment consultant should recommend stable, low-risk securities for a client with a low level of willingness to accept risk and a low ability to take risk.

3.3.1 Willingness to accept risk

The evaluation of the willingness to accept risk can be assessed from the following factors:

Attitudes toward risk

A client's attitudes toward risk can be inferred from the client's behavior, such as how much the client likes challenges or how much risk the client can take. According to research by the MacGruder Agency, written by Marilyn MacGruder Barnewall, attitudes toward risk can divide clients into two categories:

1. **Passive investors:** Passive investors usually avoid risk or dare not to take risk. Passive investors take a long time to make decisions and like to mull over any investment decision. This type of investor typically will focus on investments that protect their capital. Members of this group will not act carelessly when they invest. However, this group may lose good opportunities to invest. In general, this type of client does not like to invest on his or her own but will hire experts to manage their investments. Passive investor clients are commonly:

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- People who obtain capital without having to put in any effort to get the capital. Some examples are clients who get rich from an inheritance or from selling an expensive piece of land.
- People with few assets who are afraid of losses.
- High-ranking employees at large corporations such as lawyers, legal consultants, accountants and others.

2. **Active investors:** Active investors usually have a greater willingness to accept risk than other investors. These clients like challenges; sometimes their investment decisions are made impulsively. A loss of invested capital can be recovered, and the base of invested funds can be rebuilt. This type of client is likely to manage their investments by himself or herself because they have high confidence. Clients who fall into this category are:

- People who got rich by building their own business.
- People with a lot of assets who have little or no fear of losses.
- Self-employed persons.

Types of Required Returns

An investment consultant can provide suitable investment advice by focusing on what types of returns the client wants from the investments. Once an investment consultant knows the desired returns, he or she can allocate a client's assets across investments which may have totally different characteristics, different returns, and different risk levels. The type(s) of returns that a client desires can also be used to gauge a client's willingness to accept risk. The types of required returns that will be used to evaluate a client's willingness to accept risk consists of:

1. **Capital protection:** Capital protection refers to investments for which a client has low or no willingness to accept risk. The funds may be the last amount of capital the client has, or a client may have a short-term need for their capital. Investment consultants should advise this type of client to invest in low risk or very low risk financial instruments which will provide low returns, such as treasury bills or other high-quality, low risk securities.

2. **Current income:** Current income refers to the type of investment that generates regular cash flow to cover a client's living expenses. The investments will

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be limited to financial instruments that provide regular income such as interest income, or stocks which pay dividends on a regular basis.

3. **Capital appreciation:** Capital appreciation refers to the type of investment that earns a profit through changes in the value of the investment. This type of investment carries higher risk. Clients who prefer this type of investment must be willing to accept losses that may occur during their investment horizon. Examples of this type of investment are shares of common stock of newly established companies and share of stock in companies with good growth potential and the chance for high returns.

4. **Total return:** Total return refers to the type of investment where a client demands some part of their return in the form of capital appreciation and the other part of their return in the form of regular income. A client will still demand capital protection, meaning a client has a moderate level of willingness to take risk. An investment consultant should recommend allocating the client's assets to a combination of securities that provide regular income and securities that provide capital protection. The proportions are based on the client's ability to accept risk.

Past Investment Behavior

Past investment behavior can be used to analyze a client's willingness to take risk. If a significant portion of a client's funds is in a commercial bank savings account, it means that this client has a very low or almost no willingness to take risk. A second client, who has invested in a commercial bank savings account and debt securities, has a higher willingness to accept risk. Now consider a third client that owns a range of investment types, such as equity securities, derivatives, real estate, and other investment options. The third client is willing to take more risk than the first client who invested all of their money in a commercial bank savings account.

3.3.2 Ability to accept risk

A client's ability to accept risk is the result of the investment consultant analyzing a client's financial status to see their level of risk tolerance. By analyzing a client's financial status, an investment consultant can decide a suitable investment horizon, assess the risk from either investment losses or from investment mistakes,

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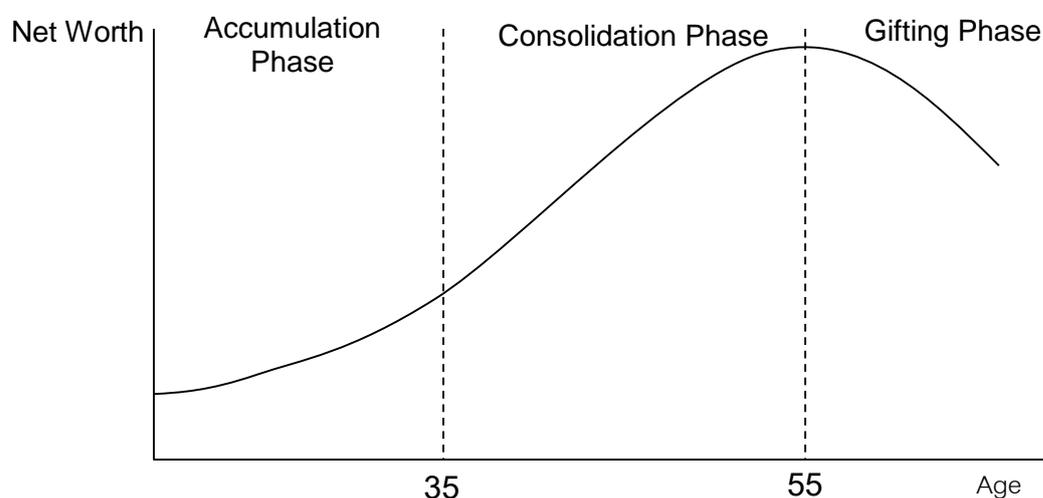
and assess how well the client can accept losses. A client's ability to accept risk is a key factor that investment consultants must measure and understand, so that the consultant can decide what types of securities are suitable for a client. The factors used to evaluate the ability to accept risk are as follows:

Age

A client's age will affect their ability to accept risk. A younger client has a higher ability to accept risk than an older client. Younger clients will have opportunities to make up for losses if they he makes any investment mistakes. The asset allocation will depend on the client's age. Figure 9-1 shows the typical relation between net worth and age.

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Figure 3-2 Relation Between Age and Net Worth



1. The accumulation phase begins when a young person starts working, earning a low but regular income, and lasts until middle age. When the client is young, he or she does not have many responsibilities so they will have a high ability to accept risk. In this phase, clients try to accumulate assets for short-term needs such as a car, a home, or for speculative investments. Clients also attempt to accumulate assets for the longer term by investing in retirement mutual funds (RMFs) or making contributions into a provident fund or the government pension fund.

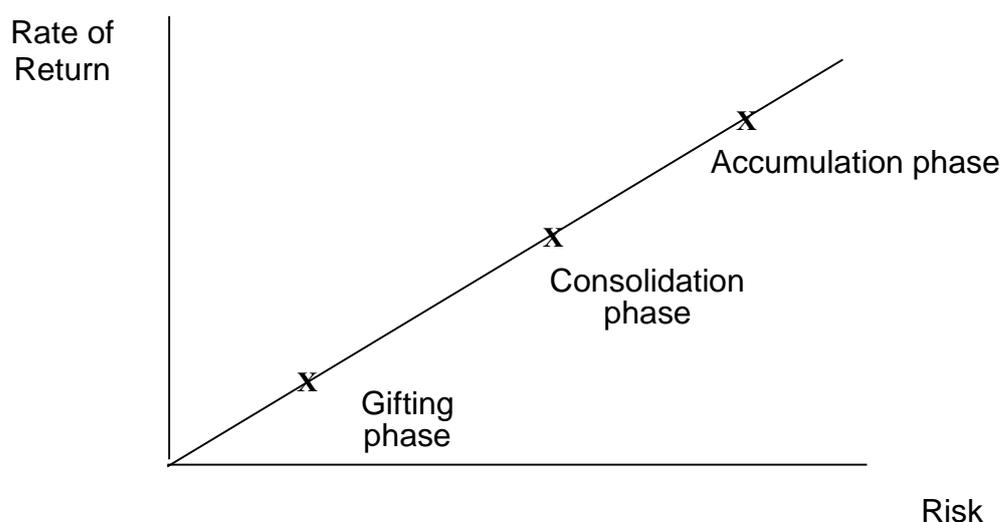
2. The consolidation phase begins when a person reaches middle age. In this phase, the client typically has a higher regular income, in accordance with higher positions at work, and has increasing responsibilities such as family obligations. In this phase, a client's debt burden is lower or a client may be debt-free. As a result, the client will have more money and can make more investments. However, the client's advancing age and increased family responsibilities will lower their ability to accept risk. Clients in this phase may need money for retirement. As a result, the investment advice provided to clients in this phase should focus on long-term investments which have low risk but provide regular and certain returns. An investment consultant may recommend investments aiming for capital protection.

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3. The gifting phase starts when the person retires from work, meaning they will have less chances to add more income. Some may work part-time jobs as consultants or advisors, and some may not work at all. This is the phase where the client starts to spend accumulated assets, such as pensions received from social security, or provident funds, or a government pension fund. Investment advice for people in this age must focus on investment stability, together with protection from inflation because inflation decreases the purchasing power of the client's investments. Any capital remaining after the client pays their living expenses can be given to family members, underprivileged persons, or donated to charities.

Figure 9-2 shows the rates of returns and risks that may occur from the investments at each age interval. The accumulation phase begins when a person is around 35 years old. This is the age interval when a client can invest in high risk securities offering high returns. The client is still young, so the client has a higher ability to accept risk. In contrast, if the client is in the spending and gifting phase, the client will choose to invest in less risky securities because of their lower ability to accept risk.

Figure 3-3 Comparing Rate of Returns and Investment Risk in Each Age Interval



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An investment consultant must consider a client's financial status in order to evaluate their risk tolerance. The following factors can be used to make this analysis.

1. Comparison of income and expenses — A client who has more income than expenses will have a higher ability to accept risk. If the investments give unexpected results, the client still has enough income to cover their expenses with little effect on their daily life and lifestyle. The client may still have some surplus for additional investments. If the client has a higher level of income, the client may want to invest in high-risk securities that can provide high returns. Even if the client has high purchasing power, the client may still want to allocate a small portion of their assets to high liquid, low-risk securities.

2. Adequate cash reserves — Cash reserves are funds for use in an emergency that can be immediately withdrawn. The recommended minimum cash reserve is equal to six months of monthly expenses. A client with adequate cash reserves will have a higher risk tolerance. If the client's investments show unexpected results or if an emergency occurs, the client will still have a cash reserve to pay expenses and will not need to sell any securities for cash.

3. Contractual debt burden — If the client does not comply with the terms of a debt contract, he will be declared bankrupt or the assets may be seized. A client with a debt burden may have a lower risk tolerance than a debt-free client. If a client does not have enough income to pay his or her debts or pay any other financial obligations, the client might have to sell his or her investments. If the securities are sold when prices are low, the client is likely to encounter losses.

4. Net worth — Net worth refers to a client's net assets after the deduction of all liabilities. A client with a low net worth may focus on investments that provide certain returns with low risk and high liquidity in order to exchange the investments for cash in an emergency. Investments with low risk and high liquidity are treasury bills, commercial bank saving accounts, and other investments.

3.3.3 Instruments to measure risk tolerance

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It is difficult in practice to infer a client's risk tolerance from their willingness to accept risk and their ability to accept risk. As a result, an investment consultant may use questionnaires for the evaluation process.

A questionnaire used to evaluate risk will consist of questions on attitudes toward risk, types of returns the client needs, and previous investment history. The answers to the questions will also provide information regarding a client's ability to accept risk, such as questions on investment objectives, investment horizon, financial status, and age, as well as investment conditions or restrictions. Scores will be given to each answer. The total score will not only help classify a client according to their risk tolerance level but also provide guidelines for asset allocations. Each financial institution may have different classifications of risk tolerance and asset allocations. The following questionnaire was developed by the Securities Exchange Commission. The questionnaire has been used as a standard questionnaire for the preliminary evaluation of a client's risk tolerance, so as to incorporate the client's risk tolerance into the investment consultant's advice.

In order to evaluate a client's risk tolerance, we have to divide clients into three risk tolerance levels as follows:

- **Conservative investor:** Refers to clients who do not have a strong financial status, or are fearful of risk, or have investment objectives that are quite important. If the investment objectives cannot be accomplished or yield high losses, the outcome will affect the client or the standard of living of the client's family.
- **Moderate investor:** Refers to clients with financial stability and a moderate attitude toward risk. If the investment objectives cannot be accomplished or yield losses, the client can accept this outcome, up to a certain level. The unfavorable outcome will not impact the client and the standard of living of the client's family.
- **Aggressive investor:** Refers to clients who can take higher investment risk. The client expects to receive higher returns in the long run, and these returns will offset any losses that may occur. The client also hopes that the losses incurred will be short-term losses which will not have any significant impact on the client and the standard of living of the client's family.

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Standard Questionnaire to Evaluate Investment Suitability (Suitability Test)

Questions 1-10 will be used to evaluate your investment suitability.

1. How old are you? Points
- A. More than 55 years old B. 45-55 years old
C. 35-44 years old D. Less than 35 years old
2. Your current financial burden and fixed expenses (such as home mortgage, car lease payment or car loan payments, plus personal and family expenses) are which proportion of your total income? Points
- A. More than 75 percent of total income
B. Around 50-75 percent of total income
C. Around 25-50 percent of total income
D. Less than 25 percent of total income
3. What is your current financial status? Points
- A. I have less assets than debts.
B. My assets and debts are equal.
C. I have more assets than debts.
D. I am confident that I have enough savings or investments for after retirement.
4. Do you have any experience or any knowledge about any of the following asset groups? (can select more than one answer) Points
- A. Bank deposits
B. Government bonds or government bond mutual funds
C. Debentures or fixed income funds
D. Common shares or equity funds or other high-risk assets

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8. How do you feel if you must choose to invest in assets that will provide high returns but also have a high chance of losses?

- A. I feel anxious, panicky, and I am afraid of losses Points
- B. I feel uncomfortable but I am somewhat aware of the risks
- C. I understand and I am able to accept the fluctuations up to a certain level
- D. I have no worries about the high possibility of losses because I expect to have

higher returns

9. Which level of loss on your investment value would make you feel anxious or disappointed? Points

- A. 5% or less B. More than 5-10%
- C. More than 10-20% D. More than 20%

10. Assume you invested 100,000 THB last year. You just found out that the value of your investment decreased to 85,000 THB this year. What will you do? Points

- A. Panic and want to sell the rest of the investment
- B. Feel anxious, and I will move some of my investment to lower-risk assets
- C. Continue to hold the investment and wait until there is an improvement in returns
- D. Still be confident because it is a long-term investment. I will add more money to average my investment cost

Questions 11 and 12 are used as additional information to provide investment advice

Answer the next question only if you have a direct investment in derivatives and/or equity-linked notes.

11. If an investment in derivatives or equity-linked notes succeeds, you will get very high returns. But if the investment fails, you will lose all your capital and may have to invest more to offset the losses. Can you accept this type of investment?

- A. No, I cannot. B. I can accept it in part. C. Yes, I can.

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Answer the next question only if you are considering overseas investments.

12. Apart from investment risks, how do you rate your ability to take foreign exchange risk?

- A. I can take no risk. B. I can take some risk. C. I can take risk.

Total Score for Questions 1 - 10:

Points

Scoring

Sum up the points from the answers on Questions 1-10. Do not include the scores from Questions 11 and 12.

A = 1 point

B = 2 points

C = 3 points

D = 4 points

Remarks: 1. For Question 4, if the respondent gives more than one answer, use the score with the highest value.

2. The answers from Question 11 and 12 have no impact on the total score. These responses only provide information about the client's perception of the returns and risks associated with two specific types of investment products. Clients should know the risks and returns before making a decision to invest in these products.

Source: The Securities and Exchange Commission

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Levels of Risk Tolerance

Total score	Level	Type of investor	Advice
<input type="checkbox"/> Less than 15 points	1	Low risk tolerance	You are a person who can accept little or no risk. Your investment objectives are mainly to preserve your capital and maintain high liquidity. You are willing to accept lower returns in order to meet this objective.
<input type="checkbox"/> 15 – 21 points	2	Low to Moderate risk tolerance	You are a person who can accept low to moderate risk. You aim to preserve your capital and maintain high liquidity. You also expect to earn somewhat higher returns.
<input type="checkbox"/> 22 – 29 points	3	Moderate to high risk tolerance	You are a person who can accept moderate to high risk. You would like to get higher returns and aim to have your investments grow.
<input type="checkbox"/> 30 – 36 points	4	High risk tolerance	You are a person who can accept high risk and/or volatility. You hope to get higher returns from your investments and want your investments to grow in value more rapidly.
<input type="checkbox"/> 37 points or more	5	Very high risk tolerance	You are a person who can accept very high risk and/or volatility. You hope to get higher returns even if higher losses can also occur.

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3.4 Asset Allocation

The allocation of assets in a portfolio is the key to diversification because diversification can reduce the overall risk of a portfolio. This section will increase your awareness of the meaning and the importance of asset allocation. Clients can understand the process of diversification and use different types of investments to pursue different diversification strategies. Clients can then understand and implement the asset allocation patterns recommended by an investment consultant.

3.4.1 Asset classes

An asset class is a group of assets or securities that have similar or nearly identical characteristics. Assets or securities of different classes will have different characteristics. There are a few straightforward rules for asset classes:

- (1) Assets in the same asset class must have the same characteristics.
- (2) Each asset class has to be mutually exclusive.
- (3) An asset class must have a distinctive diversification characteristic and should have a low correlation with other asset classes.

The types of asset classes can be sorted according to the above characteristics and sorted based on the expected returns and risks as follows:

- *Near-cash assets* refer to assets with high liquidity, low risk, and low expected returns. Near-cash assets are used to meet daily expenses and serve as a reserve in case of emergencies. Each client will have a different requirement for this class of asset. Examples of this class of asset are bank deposits, certificates of deposit, and bills of exchanges.

- *Debt securities* refer to assets where the holder is a creditor and has the right to receive returns in the form of interest payments, agreed in advance, and receive the redemption value of the asset at maturity. Debt securities issued by a government are called government bonds. Those issued by private companies are called corporate bonds or debentures. Debt securities are a type of asset with moderate liquidity and moderate risk. Debt securities provide higher expected returns than commercial bank deposits, making this type of investment suitable for a client whose investment objective is current income.

- *Equity securities* are assets that are ownership claims on a corporation. The holder has the right to receive a share of profits in the form of dividends. Two examples

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of this type of asset are preferred shares and common shares. Equity securities are assets with high liquidity and high risk, so expected returns are also high. This type of investment is suitable for a client whose investment objective is capital appreciation.

- *Derivatives* refer to contracts written such that the holder may receive returns based on another type of asset. Derivatives have higher risk and higher volatility than the other types of assets mentioned above. As a result, clients expect very high returns. This type of asset is suitable only for clients who have a very high ability to accept risk.

The different types of assets clearly provide different expected returns and have different risks. But if we take a closer look, we will find that within one asset class, the risk and returns may differ substantially. For example, common shares provide different expected returns and involve different risks if the shares are issued by different companies.

3.4.2 The importance of asset allocation

Asset allocation refers to dividing a client's investment into different proportions, and investing portions of the portfolio in different asset classes (diversification) to prevent the loss of the entire investment. If a client encounters losses from one asset, they may have gains on the investments they made in other asset classes. The gains may offset the losses.

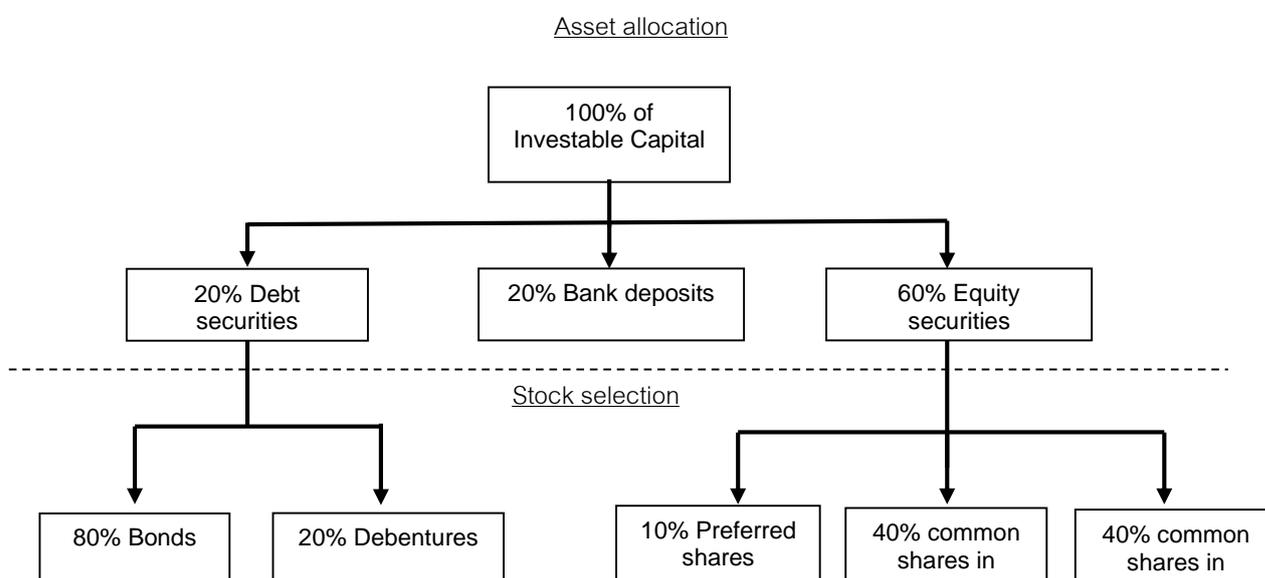
The proper proportions for asset allocation will depend on the expected return the client desires and ability of the client to accept risk. An investment consultant should study and understand the financial market situation in order to know which types of assets are suitable for each client. Done properly, asset allocation spreads the client's investments across different types of assets in order to diversify and reduce risk. The allocation can be adjusted to cope with changing market conditions.

Gary Brinson, Randolph Hood, and Gilbert Beebower published a research paper titled "Determinants of Portfolio Performance" in the Financial Analyst Journal in the July - August 1986 issue. This study evaluated the link between investment strategies and rates of return, as shown in Figure 9.3. The authors evaluated three strategies:

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- Asset allocation: Selecting from various types of assets such as commercial bank deposits, debt securities and equity securities.
- Stock selection: Using fundamental analysis to pick securities which had market prices below their intrinsic values.
- Market timing: Using technical analysis to understand the movement of the capital market and let clients trade according to market movements.

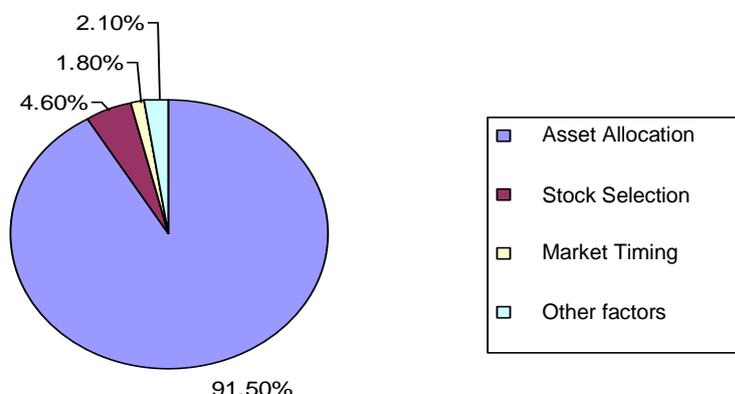
Figure 3-4 The Relationship Between Asset Allocation and Securities Selection



The authors analyzed data from 91 large provident funds and collected investment statistics for 12 years, from 1973 to 1985. Figure 9-4 shows that 91.5% of the investment returns came from the allocation of assets in the portfolios. The allocation of assets means dividing the investable funds among bank deposits, debt securities, and equity securities. The stock selection and market timing strategies were less effective in determining the investment returns. The stock selection and market timing strategies provided only 4.6% and 1.8% of the total investment returns respectively. In addition, the stock selection and market timing strategies lowered returns because of additional volatility. The researchers concluded that asset allocation is the key factor to lowering investment risks and determining investment returns in the long run.

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Figure 3-5: Strategies that Determine Investment Returns



Factors related to asset allocation

The allocation of assets in the portfolio will depend on each client's fundamental factors and the conditions of the financial market at that moment.

- Client's Basic Information

1. The required rate of return

The higher the rate of return the client desires, the higher the proportions of high-risk securities must be in order to get the desired returns.

2. Risk tolerance

Risk tolerance is determined by two factors:

2.1. Willingness to accept risk — Each client may have a different willingness to accept risk depending on their attitude toward risk, the types of required return, and past investment experience. To give suitable investment advice, an investment consultant must evaluate a client's willingness to take risk.

2.2. Ability to accept risk — A client with a stronger financial status will have a higher ability to accept risk and can choose to allocate a larger portion of their portfolio to high-risk securities. As a result, the client will receive a higher expected rate of return. Moreover, clients at different ages will have different abilities to accept risk, as explained in the previous section. If we rank the ability to accept risk according to age, we will find that clients in

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the accumulation phase will have a higher ability to accept risk than clients in the consolidation phase. Younger clients still have time to make new investments if they incur losses. Clients in the gifting phase definitely have the lowest ability to accept risk.

However, if a client's willingness to accept risk and their ability to accept risk point in opposite directions, the investment consultant should base his or her investment recommendations on the lower of the two risk levels. For example, if the client has a lower level of willingness to accept risk when compared with his or her ability to accept risk, the investment consultant should use the client's willingness to accept risk as the deciding factor to measure her client's risk tolerance.

Risk tolerance levels will affect the asset allocations. For a client with a low risk tolerance, the investment consultant should advise the client to allocate higher proportions of their investment to low-risk securities, and lower proportions to high-risk securities. On the other hand, a client with a high risk tolerance can allocate lower proportions of their investment to low-risk securities and more to high-risk securities, in order to receive higher expected rates of return.

3. Investment restrictions

Investment restrictions affect the asset allocation decision. Some examples of investment conditions or restrictions are:

- Liquidity and marketability — If a client desires high liquidity and marketability, the investment consultant should recommend to the client investment choices that are easily traded. Liquid and marketable investment choices are commercial bank deposits, treasury bills, and money market funds.

- Investment horizon — A client's investment horizon is closely related to liquidity and the ability of a client to accept risk. If a client's investment horizon is short, the investment consultant may advise his client to invest a greater proportion of their portfolio in highly-liquid assets. Highly-liquid assets typically exhibit less changes in asset value over a short investment horizon compared to a long horizon. For example, if a client has an investment horizon of six months, all of the client's investments should be directed to money market assets, such as treasury bills, bank deposits, or bank guaranteed promissory notes. However, these investments may provide low returns. If a client has a long investment horizon, the liquidity of the assets may be less of a

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concern. The investment consultant can advise the client to invest in securities with higher rates of return and higher risks.

- Taxes — Taxes are another important factor to consider. The effect of taxes can shape the recommendations for investments in real estate or common shares of companies that are not listed on the SET.

- Laws and regulations — Laws and regulations can determine the investment strategy of individual clients and institutional clients. Legal restrictions or requirements may prohibit a client from investing in certain types of assets, or the client may not be able to manage all of their investment risks. For example, only individuals can invest in provident funds. In the case of mutual funds, one regulation specifies that a fund cannot hold more than 45% of its net asset value in near-cash assets in each fiscal year. During a capital market crisis, a fund is prohibited from selling all of its securities or other risky assets and holding only cash and other highly liquid, near-cash instruments. Bills of exchange provide an example of a special requirement. A commercial bank may require an individual to make a minimum purchase of Baht 10 million. As a last example, the use of material, non-public inside information (insider trading) is strictly prohibited by law.

- Unique needs and circumstances will differentiate the investment advice given to each individual client. For example, if a client has limited investment knowledge or has no time to manage his investments, an investment consultant should advise the client to invest in mutual funds. In some cases, an investment consultant may have to avoid recommending some types of securities because of a client's unique needs. For example, a client may prefer not to invest in companies which damage the environment during their production processes. The investment consultant should avoid recommending investments in such companies even if these types of companies may provide high returns. An investment consultant may avoid recommending derivative securities if a client does not want to invest in very high-risk securities.

- Financial Market Situation

The financial market situation is the investment consultant's assessment of the current investment environment, made to help the asset allocation decision-making process. For example, if an investment consultant anticipates an economic expansion

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and an upcoming rise in the stock market, the consultant may recommend the client allocate more of his or her portfolio to equity securities. A second example would be the launch of a new financial innovation in the capital market such as derivatives. A financial innovation will provide a new investment option, plus an opportunity to increase returns and diversify a client's investments. In this case, a client may decide to allocate some of their investment portfolio to these securities if the risk does not exceed the client's risk tolerance level.

3.4.3 Asset Allocation Strategies

The determination of the investment proportions can be accomplished through two approaches: strategic asset allocation and tactical asset allocation.

Strategic Asset Allocation

Strategic asset allocation can be considered from two viewpoints: a client's life cycle or a client's risk tolerance.

Strategic Asset Allocation by Age

Making a strategic asset allocation by age is an easy way to allocate the assets in a portfolio. As shown in Table 9-2, the proportion invested in higher risk assets will decrease as a client's life cycle changes from the accumulation phase to the consolidation phase and then to the gifting phase.

Table 3-1: Strategic Asset Allocation by Age Interval

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Age Interval	Asset Allocation Proportions by Risk Level		
	Low risk securities	Moderate risk securities	High risk securities
Accumulation phase	10%	30%	60%
Consolidation phase	20%	35%	45%
Gifting phase	30%	50%	20%

Strategic Asset Allocation by Risk Tolerance

Strategic asset allocation by risk tolerance means the assets in a client's portfolio are allocated based on the client's risk tolerance. Table 9-3 shows the suitable investment proportions for each type of asset.

Table 3-2: Strategic Asset Allocation by Risk Tolerance

Type of investor	Investment Proportions				
	Savings and short-term debt securities	Government securities maturing in more than one year	Debt securities issued by private companies	Equity securities	Alternative investments*
Low risk	>60%		<20%	<10%	<5%
Low to moderate risk	<20%	<70%		<20%	<10%
Moderate to high risk	<10%	<60%		<30%	<10%
High risk	<10%	<40%		<40%	<20%
Very high risk	<5%	<30%		>60%	<30%

* including commodities and futures contracts

Source: The Securities and Exchange Commission (SEC)

Tactical Asset Allocation

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Tactical asset allocation is used to make short-term adjustments to the investment proportions in a portfolio. Tactical asset allocation is used to take advantage of changing market conditions. The portfolio manager can take advantage of changing market conditions to generate higher returns. However, the short-term adjustments should not exceed the specified investment framework established by the client. The outcome of a tactical asset allocation exercise may call for investment proportions different than the proportions determined in a strategic asset allocation exercise. The tactical asset allocation exercise may cause the proportions of each asset in the portfolio to increase or decrease. For example, an investment consultant may specify the equity portion of a client's portfolio at 50% after a strategic asset allocation exercise. However, a tactical asset allocation exercise may increase or decrease the equity proportion by 5 percentage points from the original investment level. If the investment consultant or portfolio manager anticipates a rise in the stock market, he may increase the equity proportion to 55%. In contrast, if the investment consultant or portfolio manager forecasts a sluggish market, she may lower the equity investment proportion to 45%. Tactical asset allocation helps define the portfolio boundaries, making the investment portfolio more flexible and making the portfolio more able to reflect the market situation.

3.5 Constructing and managing portfolios

After completing the asset allocation exercise, the next step is to construct the portfolio, pick the securities that should be included in the portfolio, and manage the portfolio.

3.5.1 Portfolio Construction

Portfolio construction means assembling a portfolio comprised of securities from several asset classes such as money market instruments, debt securities, or equity securities. The portfolio is built according to the framework determined by the asset allocation exercise. The construction of a portfolio consists of selecting stocks and determining the suitable proportion for each security. For instance, an investment consultant may recommend common shares of Company A, B and C in specific proportions. The investment consultant may recommend the client trade the selected

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securities at a suitable time. An investment consultant may use tools such as technical analysis to help determine the suitable time for the trades.

A client can typically choose from a wide range of securities in each asset class. It is more convenient to divide each asset class into sub-classes and then select the securities for a portfolio. For example, in the common stock or common shares asset class, an investment consultant may create sub-classes such as large and small market capitalization common stocks, or sub-classes such as value stocks and growth stocks. The sub-classes for each asset class are subject to a client's risk tolerance level and investment restrictions.

After setting the sub-classes for each asset class, the next step is to select the securities, such as a large-capitalization common stock, or a value stock. For the common stock asset class, a client may use fundamental analysis to choose stocks. The basis for fundamental analysis is looking at how each company's forecasted profits will affect its future price. A client may use technical analysis study the behavior of other investors to help them make their investment decision. However, a client should diversify their investments across a number of industries and companies to lower the level of non-systematic or idiosyncratic risk in their portfolio.

The selection of suitable securities is one of the important ways to reduce investment risk. The selection process screens out securities that do not comply with an investment consultant's advice and recommendations. Furthermore, careful selection can help clients choose the correct securities to buy, meaning securities that will generate the desired levels of profits and cash flow. Selecting securities by using instinct, hunches, or gut feeling instead of systematic analysis may keep a client from receiving the expected rates of return. A client who foregoes systematic analysis is more likely to make wrong decisions. By using a suitable securities selection process, the client can rely on the discipline that careful investment analysis brings, rather than on blind speculation. Securities selection will also reduce emotion-driven investment decisions and greed.

3.5.2 Portfolio Management

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Portfolio management means creating wealth through a client's portfolio. The key to portfolio management is rebalancing the portfolio so it is in line with the current investment environment. For example, suppose an investment consultant has recommended the purchase of debt securities. Later, interest rates are forecast to rise, which will push down the prices of debt securities. In this circumstance, an investment consultant should recommend that the client lower the proportion of debt securities and increase the proportion of equity securities which have attractive prices at that time. As a result, the client may be able to make more profit by rebalancing their portfolio.

There are two portfolio management strategies: active portfolio management and passive portfolio management.

Active portfolio management is the management style whereby a portfolio manager tries to find securities that can create higher rates of return for a given risk level. Active portfolio management relies on the tools of fundamental analysis and / or technical analysis.

Passive portfolio management is the management style where the rate of return on the portfolio is equal to or close to the market's rate of return. This management style is not concerned with selecting any specific securities or groups of securities. Passive portfolio management focuses on the investments that mimic the various indices used as market benchmarks or portfolio performance benchmarks, such as a stock market index, or an industry index. Passive portfolio management focuses on holding securities for the long-term.

Which strategy to choose? The decision hangs on the cost of managing the portfolio. With active portfolio management, the portfolio manager has to try to beat the market. The portfolio manager needs to hunt for and select specific securities to purchase. Active portfolio management often means more trading or turnover in the portfolio, compared with passive management. Thus, the costs of searching for securities and the costs of trading are higher than the searching and trading costs of a passive portfolio management strategy. On the other hand, active portfolio management will more often find opportunities to get higher returns than passive management.

3.6 Measuring performance and making adjustments

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An investment consultant should monitor and evaluate the needs and the investment criteria of the client, monitor the economy and the investment climate, plus manage each client's portfolio. By accomplishing these tasks, the investment consultant can find suitable strategies to cope with any changes that may arise.

An investment consultant should monitor the investment results and compare them with the benchmark targets. For example, a mutual fund may measure its performance against the SET Index, which represents the market portfolio. By monitoring the investment results, investment consultants and clients are aware of the performances of their portfolios. If a portfolio does not meet a target, a client can rebalance the portfolio accordingly to increase their chances of achieving their investment goals. Moreover, as time passes, the investment environment will change and each client's status may change as well. The portfolio may need to be rebalanced to reflect the client's changing status or changing needs. There are several reasons to rebalance the portfolio.

3.6.1 Changes in a client's personal status and financial status

As time passes, a client's investment criteria and their status may change. For example, the client may lose his job, his family status may change, he may have children, or he may change his investment objectives. The investment plan may need adjustments to reflect the changes in the client's risk tolerance level. For example, a drop in a client's risk tolerance level would mean the proportion of high-risk securities in the portfolio should be lowered.

3.6.2 Changes in the investment climate

Changes in the investment climate are due to factors beyond our control. When there are changes in the investment climate, the investment consultant will need to adjust their recommended investment strategies according to a client's investment goals. Economic changes can influence changes in the investment climate. For instance, if interest rates are lower than expected, the returns from the investments may be lower. In addition, laws and regulations frequently change. An investment consultant has to inform his client about the changes. The changes may lead to new

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recommendations or adjustments in the investment consultant's advice based on the changing conditions and circumstances.

3.6.3 Changes in investment vehicles and new financial products

An investment consultant has a responsibility to her clients to monitor whether or not the current set of financial tools or financial instruments can still be used to meet the client's initial investment goals. At the same time, an investment consultant has to evaluate new types of financial tools and instruments. The consultant may use the new tools and instruments to provide new investment advice that can respond effectively to a client's investment goals and requirements.

3.7 Examples of Appropriate Investment Advice

A case study of investment advice suitable for investors who can tolerate low-moderate investment risk

Somporn has a fixed deposit account and she has already received the 20 million baht interest payment. Somporn realizes that the fixed deposit interest rate has been low for a long period of time, so she is interested in investing in other financial products rather than owning a fixed deposit account only. She then asks for some information from an investment consultant at a bank branch. The consultation details are as follows:

Duangjai: Hello, Ms. Somporn. My name is Duangjai and I am an investment consultant at this branch.

Somporn: Hello. I would like some investment advice. Are you the only person I can talk to or can I talk to other regular bank employees at the counter?

Duangjai: Our bank has separated the deposit and withdrawal services from investment consultancy service because depositing money in the bank and an investment are different in many ways, especially regarding risk-related issues. The deposit accounts are protected by the Deposit Protection Agency. The coverage amount is currently up to 15 million baht per depositor per financial institution until August 10, 2018, and, in the following years, the coverage amount will be decreased to ten million baht and five million baht, respectively.

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After August 11, 2020, the coverage amount will be one million baht according to the documents of the Deposit Protection Agency. To invest in financial products, be aware that different products are of different risk levels. Do you have any interests in an investment or investment goals?

Somporn: Deposit interest rates have been too low for a long time. I want to invest in something for better returns, but I do not want to take high risks. Do you have any advice?

Duangjai: Can I have your identification card to access and check your information in the system? (Client verification)

Duangjai: Thank you. You took the suitability test with us more than two years ago, so I will have to ask you to review the information again. (Duangjai hands the suitability test to Somporn.)

Somporn: I have signed it. (Somporn signed the suitability test paper and returns it to Duangjai.) Please answer my questions. You can access my information on the computer, can't you? I have read the information, but I cannot quite understand it and the text is rather small.

Duangjai: I am so sorry. This suitability test will tell us your investment risk tolerance level which will be taken into consideration in order to suggest suitable investment products. I will read this document to you slowly. It might take quite some time, but this document is very important. To draw up guidelines for selecting appropriate financial products, you have to take the test on your own. (Duangjai explains the questions in the suitability test and Somporn answers all the questions.)

Duangjai: Thank you so much. Please give me a minute to sum up the score. Your tolerance for investment risk is at level 2 or at a lower moderate level, so the investment portfolio appropriate for your risk level is as follows:

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Scores	Level	Investor Type	Advice
<input type="checkbox"/> 15 – 21	2	Lower moderate risk tolerance	You can tolerate lower moderate risk. It means that you attempt to protect the investment principal in order to secure its stability, safety, and liquidity, but you

Type of investor	Appropriate investment portfolio				
	Deposits and short-term fixed income securities	Government bond with maturity less than 1 year	Debentures	Equity	Alternative investments*
Lower moderate risk	<20%	<70%		<20%	<10%

* Including commodities and future contracts

Instead of depositing money in the bank, I would like to show you several types of mutual funds.

Duangjai: Your first option is to invest in a money market fund (Duangjai provides Somporn with a fact sheet for consideration.) This mutual fund invests in deposits, short-term fixed income securities in both private and government sectors, locally and internationally. However, it has full exchange rate risk prevention and average portfolio duration of less than three months. Similarly, the fund manager lends the fund to government and private sectors for a short period of time. The investment risk level of this mutual fund is at level 2 or a lower moderate level, which is in line with your investment risk tolerance level.

Somporn: How about the interest rate?

Duangjai: In the fact sheet, you can find past return rate for 3, 6 months, 1 and 3 years, and the returns since the inception of the fund. This fund will be

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benchmarked with the past average three-month fixed deposit rates of three specified banks as shown in the fact sheet.

Somporn: Compared to the returns of my deposit during the past 3 months, this mutual fund has given much greater returns. If I invest my money in this fund, can I be certain that the returns will be similar to what I have seen? It is written here that the past performance of the fund is not a guarantee for future performance.

Duangjai: Mutual funds are different from deposits. Investment is not depositing your money in the bank. Mutual funds managers, including me, cannot guarantee returns to investors. This particular mutual fund invests in short-term fixed income securities and the returns are expected to be similar to the short-term interest rates of the market deducted by the mutual fund expenses. This mutual fund is highly secured since it mostly invests in treasury bond, short-term government bonds. In terms of investment in private sector enterprises, it only invests in financially stable companies with investment grade.

Somporn: Is it like I buy the government bonds by myself?

Duangjai: Not exactly. This mutual fund partly invests in private sectors for higher returns and the returns from money market fund reflect the value of each unit trust. There is neither tax nor 15% withholding tax on the returns. This is different from direct investment in bonds or fixed deposits. However, investing in this money market fund also has limitations that are different from deposits. You can withdraw the money from your savings account whenever you want, but if you invest in this money market fund, you have to give a notice before 3.30 p.m. one working day prior to the day you want to withdraw the money or according to the conditions set by the asset management company. For example, if you invest in this money market fund and you want to use the money on Wednesday, you have to submit a redemption request to the bank or the asset management company on Tuesday before 3.30 p.m. The asset management company will then put the money into your account on Wednesday before noon or according to the time specified by the asset management company. Each time, your additional subscription and redemption amounts must be at least 1,000 baht.

Somporn: What else do you have?

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Duangjai: The second option is to invest in a fixed income fund, detail as shown in the fact sheet. The policy of this fund is to invest the money in deposits as well as intermediate-term government bond and debentures, either foreign or local investment. Like money market funds, it has full exchange rate risk prevention; however, the average duration of medium-term fixed income securities portfolio is generally 2-3 years. The risk of this mutual fund is rated at level 4 or a lower moderate level which is the same as your risk tolerance level. The risk or fluctuation of returns is higher than money market mutual funds which are rated at risk level 2. It means that there is a possibility that you will receive higher income from this mutual fund when compared to money market funds; however, it is possible that at some point of time the fund can be in deficit.

Somporn: It can be in deficit. Does it mean that the returns can be less than the original investment?

Duangjai: It is possible. If you need the money when the interest rate in the market rises, the fund can be in deficit during that period. I am using these two lines on the graph to illustrate the adaptation of prices of both funds. You can see that the money market fund has gradually risen and, according to its past performance, it has never been in deficit. On the other hand, the fixed income fund has given higher returns in the long run, but at some point of time the price was adjusted lower to achieve higher returns in the long run. The fund's past performance is included in this fact sheet.

Somporn: When I want the money, do I have to submit a redemption request to the bank in advance too?

Duangjai: For this particular fixed income securities, you have to give a notice before 3.30 p.m. two working days in advance. For example, if you want to receive the money on Wednesday, you have to send a notice on Monday before 3.30 p.m. and those three days must not be holidays. Unlike this mutual fund, if you send a request for redemption from the money market fund that I have mentioned earlier before 3.30 p.m. today, the money will be transferred into your account before noon tomorrow and those two days must not be holidays.

Somporn: I seem to understand it now. Is there anything else?

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Duangjai: The third option is a closed-end fixed income fund. For example, according to the fact sheet, the investment period is 180 days or six months. This mutual fund invests mainly in local and foreign debentures that are affordable and provide higher returns. The investor's risk tolerance must be at level 4 or a lower moderate level in order to invest in this fund. The fund manager has a list of fixed income securities that he/she plans to invest in and the returns shown in the document are the expected returns which might be different from the actual returns you will receive. It depends on the returns received from the investments that the fund manager makes when the investment period is over. However, unlike the first two funds, this fund lacks liquidity as you cannot request for redemption before the specified date.

Somporn: It is the same as depositing money into a fixed deposit account, isn't it?

Duangjai: They are different in many ways. For example, unlike a fixed deposit account, a mutual fund will invest the money in debentures, so there are credit risks involved when the payment deadline may be missed, but it gives higher returns. In terms of liquidity, if you withdraw the money from your fixed deposit account before the specified date, you will receive the interest at the rate of a savings account. On the other hand, if you invest in a closed-end fixed income fund, you will not be able to receive the redemption payment before the specified date, and when the investment period is over, for this particular fund, you will receive the money two working days later or on the date set by the asset management company as stated in the fact sheet. In addition, depositing money in a bank account can be done every day while you can put in an additional subscription in your fund account for a money market fund or fixed income fund before the specified time on any working days. However, for a closed-end fixed income fund, there is an additional subscription period. For example, the fund that I am showing you now is open for subscription only until tomorrow. If you want to purchase a closed-end fixed income fund next week, you will have to wait and see if the asset management company will have new closed-end fixed income funds, and the policy or time length might be different.

Somporn: How about LTF? I have read from the newspapers that it offers very good returns. What type of mutual fund is it?

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Duangjai: LTF or long-term mutual funds invest mainly in stocks, creating more possibilities for higher returns when compared to long-term fixed income securities; however, it is extremely risky. LTF investors will receive personal income tax allowance based on the conditions set by the Revenue Department. According to the given information, you no longer have a monthly salary. Do you still file annual personal income tax?

Somporn: I do not file my personal income tax. My husband is a retired government officer who receives a pension. He still files his personal income tax, but I no longer do so.

Duangjai: LTF is suitable only for people who still file annual personal income tax. If you do not have a monthly income that needs to be filed anymore, I would like to suggest other mutual funds. However, considering your investment risk tolerance, equity funds are too risky for you.

Somporn: Investing in stocks? I think I should wait. I will ask my son to come with me, so that he can talk to you. He has to file his annual personal income tax and he wants to make an investment too. For now, please help me choose what to purchase.

Duangjai: I can give you the information, but you have to make the decision. For example, the money market fund is low-risk investment which will give you lower returns compared to other funds, but it has high liquidity as you can submit a request for redemption before the specified time one working day in advance. For the fixed income fund, there is a possibility to receive higher returns; however, its short-term risk is also higher. For this particular fund, if you want the money, you have to submit a redemption request two working days in advance. In addition, for the closed-end fixed income fund, you have an idea of how much you will later receive, but there is no liquidity after the subscription. You will have to take this information into consideration and make the investment decision based on your risk tolerance and limitations.

Somporn: For this amount of money, no liquidity is needed. I will invest ten million baht in the six-month fixed income fund, three million baht in the fixed income fund, and two million baht in the money market fund. Then I will talk to my son about the five million baht I have left first.

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Duangjai: I have prepared for you the fund account opening form, subscription order form and additional documents ensuring that you are not a retail investor for the closed-end fixed income fund investors as it is considered a high risk investment as mentioned earlier. All the documents are ready, so I will submit them to my supervisor or the branch manager for consideration. Please wait a few minutes. Since you are over 60 years old, my supervisor also has to examine the advice.

Investment advice on low-to-medium fixed income securities or mutual funds

Somporn and Sompop (her son) go to the same bank branch to ask for additional investment advice on higher risk investment options from the investment consultant.

Sompop: I would like some investment advice for my mother after her retirement.

Duangjai: Last time, she invested in a fixed income fund and a six-month fixed income fund to earn higher returns than deposits while the liquidity is manageable. So what are your additional investment objectives?

Somporn: I would like to receive higher returns. It can take longer since I do not need to use this amount of money in these four to five years, but I do not want to invest in stocks.

Duangjai: We are currently selling the Ministry of Finance's three-year savings bonds with an interest rate of 2% (data as of December 2016) that pay out interest two times a year in the middle of June and December. The Ministry of Finance will withhold tax at the rate of 15% on the interest paid. The minimum subscription amount is 1,000 baht and the maximum subscription amount is two million baht as stated in this fact sheet.

Sompop: Is there any investment that gives more returns?

Duangjai: If you want to ensure security of principal, you have to invest in longer-term government bonds. Now, we have the Ministry of Finance's seven-year savings bonds with an interest rate of 2.56% (data as of December 2016). It might take slightly longer than you prefer, but it gives higher returns, while the interest payment conditions are the same.

Sompop: Seven years is a bit too long. If my mother needs the money, will she be able to get it before the specified redemption date?

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Duangjai: As stated in the fact sheet, the bond holder can sell the bonds before the maturity date, but it has to be after the first interest payment in June 2017. However, the bonds cannot be sold within 30 days before principal payment is due. The bonds can be sold to financial institutions or individuals at the agreed price, so the money received from the bond sales might not be equal to the maturity value.

Somporn: Are there any other options that will give higher returns and do not take so long?

Duangjai: If you want to increase your returns, another option is to invest in private fixed income securities or corporate debentures. We are now selling debentures of ABC Company, a distributor of mobile devices, such as mobile phones and tablets. The debenture will mature three years from the date of issuance and bear interest at a rate of 3.9% per annum payable every three months. The debenture is rated as investment grade at BBB by Tris Rating Company. The minimum subscription amount is 500,000 baht and the debentures are offered to institutional investors or high net worth individuals. You are regarded as a high net worth investor since you have invested over ten million baht in stocks as stated in the offer document and fact sheet. However, investing in private debentures involves higher risk compared to government bonds in terms of principal and interest payment (credit risk). ABC Company's debenture is rated as investment grade (BBB) which is in line with your risk tolerance level.

Sompop: I have heard my friends talking about income funds. Are they interesting?

Duangjai: To invest in income funds, you have to study the investment policies very carefully. Most of them invest in stocks, fixed income securities, high yield fixed income securities and real estate investment trusts (REITs) to generate regular income, so it is suitable for long-term investment. Some income funds invest in risk assets, such as high yield stocks and fixed income securities. However, the income fund that we are offering will invest less than 30% of all investment in stocks and less than 25% of the investment in high yield fixed income securities. The fund is rated at risk level 5 or a moderate level which is slightly higher than your investment risk tolerance level. The returns will be in the form of the redemption of investment units automatically every month. There is no

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withholding tax on the returns and the returns are not required to be filed with personal income tax as it is regarded as a fund redemption which is different from dividend payment that contains withholding tax specified by the Revenue Department. The details of investment unit redemption and past performance are included in the fact sheet. If your investment objective is to generate long-term income, you can invest in it too. However, you will have to also sign the risk acceptance form.

Somporn: There is a lot of detail. Do you think I should buy it?

Duangjai: I am an investment consultant who is responsible for providing you with information for decision-making. You will have to be the one who makes the decision. The goal of this mutual fund is to generate long-term income. Its risk level is higher than your investment risk tolerance level because the fund can fluctuate at some point of time. If you are interested in it, you might start investing in it with a small amount of money.

Sompop: I think you should first start investing a small amount of money in the income fund.

Somporn: I will invest three million baht in ABC Company's debenture and two million baht in the income fund. Does it sound good?

Duangjai: You have to be the one who makes the decision. I will prepare a debenture application form, accredited investor status certification, an income fund application form and a risk acceptance form for you to sign. Also, I will have to submit the documents to the manager for consideration, like last time.

A case study of investment consultation on appropriate investment in equity instruments

Jaraneer, aged 55, is working at the Bank of Thailand. She is in charge of money exchange. She invests in different investment products in order to allocate investment risk. As soon as she sees the advertisement for foreign stock investment, she is interested in investing in another product, so she calls to ask for investment advice.

Jaraneer: Good morning, Veeranda. Do you remember me? I am Jaraneer.

Veeranda: Good morning. I have not heard from you for a long time. It has been almost a year since the last time we talked.

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Jaraneer: I have taken a look at the portfolio from time to time. I have been busy with my daughter's wedding, the one you attended. She has moved to England to be with her husband, so I also went there with her to be with my grandchildren.

Veeranda: Which stock are you especially interested in? Would you like me to provide you with some suggestions? First, I will have to review your information since you are retired now. (The investment consultant asks the client for any changes in the client's personal information, such as career, income, and sources of income.) I would like to ask you for a favour. Since you took the suitability test over two years ago, I would like to ask you to do the test again.

Jaraneer: Well, for me, it has to be high-risk investment only. I think I do not have to take the suitability test again because you are already familiar with my investment.

Veeranda: I do know that you can tolerate high investment risks; however, I have to inform you that there are new official criteria now. Investment consultants like me have to be very careful to offer appropriate advice and give services. I have to review the information against the criteria regularly and I have to be more careful with clients who are over 60 years old, so I have to ask you to review your risk tolerance information again. Is it convenient for you to do it online, just like last time, or do you want me to read it to you?

Jaraneer: I would like to do it on my own, so that I can read it carefully and learn the questions at the same time. When I finish the test, I will call you again.

..... (The client is taking the suitability test.)

Veeranda: Your score has been calculated. It is 29, which means that your tolerance for investment risk is at level 3 or a high-moderate level. Therefore, the investment portfolio suitable to your risk tolerance level is as follows:

Risk Assessment Report

Group	Score	Types of Investors	Investable Instruments and Options for Investment
3	22 - 29	High-moderate risk investors	You are an investor who can tolerate risk at high-moderate level, in order to receive

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Group	Score	Types of Investors	Investable Instruments and Options for Investment
			higher returns and expect that part of investment will increase its value.

*Risk assets refer to equity, unit trusts of foreign mutual funds, alternative assets or other assets.

Investment Advice

Types of Investors	Asset Allocation				
	Deposits and short-term fixed income securities	Government bond with maturity more than 1 year	Debentures	Equity instruments	Alternative investments*
High-moderate risk investors	<10%	<60%		<30%	<10%

* Including commodities and derivatives

Veeranda: Now, we are going to talk about the investment portfolio that is suitable for you based on your risk tolerance level in detail. The first proportion of the portfolio is invested in deposits and short-term fixed income securities that is government bond with maturity less than 1 year. You have already invested in them before investing in stocks. The second proportion focuses on more investments than the other proportions, most of which are either government bond with maturity more than 1 year and debentures.

Jarane: What are the composition of those two types of fixed income securities?

Veeranda: Since your investment risk tolerance is at level 3, you can invest in the fixed income securities with investment risks at levels 1-5.

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- Risk level 1 : The fixed income securities I had previously mentioned to you.
- Risk level 2 : Government bond with maturity 1-5 years.
 - : Fixed income securities with maturity less than 1 year, rated AA- or higher.
- Risk level 3 : Government bond with maturity more than 5 years.
 - : Fixed income securities with maturity 1-5 years, rated AA- or more.
 - : Fixed income securities with maturity less than 1 year, rated A+, A and A- or higher.
- Risk level 4 : Fixed income securities with maturity more than 5 years, rated AA- or higher.
 - : Fixed income securities with maturity more than 1 years, rated A+, A and A- or higher.
 - : Fixed income securities, rated BBB+, BBB and BBB-
 - : Structured notes or complex bond that have stock/stock index or fixed income securities / prevalent local interest rates with principal guaranteed 100% or more.
- Risk level 5 : Hybrid bond / fixed income securities with call option.

Jaranee: If I would like to read the details about risk levels of fixed income securities or mutual funds, where can I obtain the information?

Veeranda: You can find it from the suitability test with clear explanations. Let us continue with the third proportion.

Investing in equity instruments is your favorite option and, according to your risk tolerance score, you can invest in medium risk equity instruments. I would like to suggest that you invest in dividend stocks or growth stocks. They should be more suitable for you at the moment compared to day-trading stocks and speculative stocks. Although you used to prefer these types of stocks in the past, the local market is now highly fluctuating and investing in these stocks involves high risk. However, dividend stocks also allow investors to speculate profits as this type of stock is an investment method for stockholders to gain

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dividends from companies or businesses. To invest in such an investment requires a lot of research on insightful information and trends of businesses as their performance will be an indicator of how much dividends investors should receive and the performance of a company is an indicator for stock prices..

Jarane: You are right. The fluctuation is quite scary. Actually, I used to like speculative stocks, but then I looked at my portfolio that contains both dividend stocks and speculative stocks and found out that I had made more profit from the dividend stocks compared to speculative stocks. However, the dividend stocks needed a bit more time to study. Anyway, how about growth stocks?

Veeranda: Growth stocks have recently gained attention from Thai investors as they emphasize on growing companies (good and high-priced stocks). The outstanding feature of this type of stock is its soaring profit shares. The three characteristics of growth stocks are as follows.

1. Shares with the payout ratio lower than the market averaged in the same group of industry. Companies need to reserve working capitals for their business expansion, contributing to higher ratios of returns of the investment than paying dividend to the investors.
2. Shares with the P/E ratio higher than the market averaged in the same group. The companies with successful performances in terms of profit and profitability, so the investors are willing to pay a higher price, or willing to accept high P/E ratio.
3. Shares with the price-to-book-value (P/BV) ratio higher than the market averaged in the same group. These types of stocks contain a combination of those stated in 2.

Jarane: This is why analysts often say that growth stocks are shares with high P/E and P/BV ratios but low dividend yield, isn't it?

Veeranda: You are absolutely right. Let us now look at the last proportion, alternative investments. This group of investments is any other type of investment that we have discussed. They can be TFEX, commodities, or offshore trading in which you are interested.

Jarane: But with my current level, do you think I can invest in offshore trading?

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Veeranda: Don't worry. Your risk tolerance score and the appropriate investment portfolio I have mentioned are only basic suggestions offered based on the result obtained from the suitability test. Before you decide in which products you want to invest, I will try my best to explain to you about each product's features, conditions of returns and risk. The suitability test result is a factor that indicates an acceptable level of risks for you prior to investment. It acts as a guideline for investment portfolio according to the test result. Before you make a decision on which product to invest in, it is my responsibility to further explain to you about its features in order that you have a profound understanding about terms and conditions of returns, risks of investing in products, and factors that can have direct and indirect effects on your choice of investment.

Jarane: Do you have time to explain to me about investing in foreign stocks today? You can explain it to me briefly first.

Veeranda: Yes, I do. Opening an account for foreign stock investment is similar to opening an equity account. There are several additional conditions. First, we have to submit a request for permission from the Bank of Thailand and the Securities and Exchange Commission. The Bank of Thailand will grant the approval for investors to invest in foreign stocks, while the Securities and Exchange Commission will approve the financial amount for foreign stock investment. The offshore trading is done through a cash balance account only. The process begins with cash deposit to the company before the offshore trading can be made. An important term and condition is that money deposited and money in foreign currency, an investor will receive no interest or any other benefits from the investing money. Another major risk in offshore trading is currency exchange risk. Since the settlement of money is in the form of foreign currency, the returns of the investment can be significantly affected by an unexpected fluctuation of the exchange rate. This will occur when foreign currency changes its value comparing with Thai baht, which may occasionally or permanently occur any time. If you are aware of such risk, you can certainly invest in offshore trading. Will you spare your investment money for other necessities or do you wish to put all of it into a two to three year investment?

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Jaranee : I have ten million baht ready for investment. It is separated from the money I have saved for my daily expenses and retirement savings.

Veeranda : If that is so, there will be no problem. I will send all the detailed information to you via email. When do you want to see me? I would like to explain to you in detail about investment portfolio that is suitable for your investment risk tolerance level, expected returns and additional needs.

Jaranee: You can send the information to me via email first. I will study it and call to make an appointment with you later.

Veeranda: Thank you for your trust. It is my pleasure to have the opportunity to offer you appropriate advice and services again.

3.8 Scope of responsibilities of investment consultants in giving appropriate investment advice

According to the Securities and Exchange Commission, an investment consultant is defined as a person who provides investors with investment advice, including sending out investment invitation and giving advice on trading and investment in capital market, without offering investment planning and or investment analysis. Besides giving advice in an approved products, investment consultants can offer advice about basic asset allocation in order for them to realize and understand the importance of appropriate asset allocation and transaction.

At the beginning of the investment consultation process, an investor takes a suitability test created by the office of the Securities and Exchange Commission or by financial institutions. After knowing the test result concerning the investor's investment risk tolerance level, an investment consultant has to provide the investor with a guideline for appropriate asset allocation based on the test result, so that the investor can use the given information in the investment decision-making process. It is important to note that the asset allocation advice is given based on the test result only. No addition in-depth data collection from the investor is conducted.

One caution for investment consultants is that offering specific investment planning service by performing in-depth data analysis of client tolerance for investment risk and goals requires additional in-depth data collection from clients in the specific investment planning and advice process; however, investment consultants are not

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allowed to perform this task since it is under the responsibility of “investment planners” who hold another type of license requiring knowledge and understanding of more advanced financial planning.

However, talking to the clients and asking for more information is very helpful in providing investment advice and it is what investment consultants can do when the scope of the service does not cover specific investment planning. With the understanding of concepts and principles of client data collection and analysis as well as appropriate investment consultation process, investment consultants are able to make practical use of the knowledge in providing investment advice to investors, so that they can invest appropriately according to their investment risk tolerance levels.

Conclusion

Investment consultation has become increasingly important due to Thai people’s longer lifespan, less stable labor market, greater wealth of clients, especially in Asia, commercial banks’ declining deposit interest rates and more complex investment decision-making resulted from latest financial innovations. Therefore, investment consultants have to possess thorough knowledge and understanding about various investment products, or clients need to know their own needs in order to receive more appropriate advice.

In order to give practical investment advice, the clients must be taken into consideration. Therefore, it is important to get to know the clients to collect and analyze information in order to successfully provide excellent investment advice. In addition, in order to come up with appropriate investment advice, the consultants must pay attention to the environment of related money and capital markets. The obtained information will be useful in determining effective advice about capital asset allocation and portfolio management for the clients. Therefore, the investment consultation process must be strictly followed until the client’s goals are achieved.

The investment consultation process consists of 5 steps: data collection, data analysis and assessment of clients’ acceptable investment risk level, asset allocation, investment portfolio creation and management, investment follow-up and evaluation, and portfolio adjustment. This is very important for the clients as they will have more opportunity to receive higher returns of investment and their investment risks are well

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balanced. It increases the possibility of achieving investment goals set by the clients within the specified time, and at the investment risk tolerance levels.

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