Summary of Good Practices for Members and their Officers

Due to the current intense competition among securities firms that may lead to various forms of malpractice, The Stock Exchange of Thailand has decided to issue clear guidelines on ‘Good Practices for members and their officers’. These guidelines should help explicate the appropriate rules for supervising the work of staff in both front and back offices of security firms and, in particular, the behavior of their marketing officers. They should also support moves towards International Best Practices in the security industry in Thailand.

Objectives : to encourage fairness, transparency, honesty, accountability, trustworthiness and, ultimately, faith in the securities industry.

These guidelines for good practices are as follows:

Employee recruitment

<u>Principals and reasons</u>: Securities companies should emphasize that disciplinary records be of critical importance in the recruitment process.

<u>Guidelines</u>

1. Managers and supervisors are required to conduct reasonable inquiries and background reviews before making hiring decisions. Such inquiries should include records of any disciplinary sanctions, investigations, fines or criminal records of prospective employees. In every case managers and supervisors should consult with compliance officers and also request written recommendations from previous employers as well as the capital market regulators.
2. Employees, who are the subject to special supervision under the direction of the SEC or the SET, should be identified. In addition, managers or supervisors should understand the special supervisory procedures that they must follow. The employee in question must also be informed.

Evaluation and compensation

Principals and reasons:

- To encourage appropriate levels of compensation and discourage inappropriate competitive practices.
- Managers and supervisors must ensure that their employees comply with the appropriate rules, regulations and ethical standards.

Guidelines

1. New marketing officers without securities brokerage skills should receive a base salary, to be supplemented according to their productivity.
2. In part, marketing officers' compensation should be based on their client assets, their customers' trust, and the quality of their services.
3. Compliance records must be taken into consideration when marketing officers are being evaluated.
4. As part of the performance evaluation process, managers and supervisors should be scrutinized for how closely they monitor the compliance records of their subordinates as well as supervise the marketing officers.

Supervision of employees

Principals and reasons: to support a system for effective supervision of employees

Guidelines

1. Firm's internal policies should provide internal disciplinary actions against employees for specified types of misconduct.
2. Supervisory procedures should be clearly defined in writing and should include an outline of the methods of the supervisory review, the frequency of reviews, reports to be used as guidelines for reviews, record keeping methods, and documentation for revisions.

   Regulatory deputation should also be in writing, outlining the deputation process, the name of the officers responsible, and any annual revisions to the process.

3. Firms should maintain written records of supervisory responsibility for each business unit in the organization. The records may be in the form of organization charts or other kinds of documents that identify the title, status, responsibilities and position in the organization chart of each particular supervisor, plus the time period over which these responsibilities extend.
4. Business unit policies should include a strong emphasis on good sales practices with regular supervisory reviews. These should be part and parcel of the firm's goals, particularly for the sales and trading departments.
5. Companies programs of continuing education plan should be enhanced. The firm should set up a unit responsible for implementing a plan of action for this. Topics should include knowledge about compliance, job related knowledge, and internal and external ethics. The plan should be appropriate to the number of employees, the time period of any seminar program, and reflect the resources of the firm.

Becoming Customer-Oriented

Principals and reasons:

- Customers' interests should be the first priority in any transaction
- Inside information and conflicts of interest must be excluded from all transactions

Guidelines

1. Through recruiting, promotions and policies, senior management should develop a corporate culture that places clients' interests first.
2. Employees who fail to maintain the firm's policy of placing client interests before their own should be disciplined.
3. Employees who deal with the public, particularly marketing officers, traders and research analysts, should be required to conduct their investment and trading in a manner that minimizes any conflicts with the best interests of the customers.

Complying with the rules and regulations

Principals and reasons:

- To enhance compliance with the rules and regulations by employees at all levels
- Enhance the role of compliance officers

Guidelines

1. Insist on compliance and high ethical standards throughout the firm with senior management level leading by example.
2. Emphasize that compliance with related rules and ethical standard is expected of every employee, and that line managers are responsible for effectively supervising their subordinates to insure adherence.
3. Provide appropriate vehicles and resources for the transmission of compliance and regulatory information to employees throughout the firms and sufficiently emphasize compliance and regulatory topics in employee training.
4. Make available to all employees an effective means of communicating (including confidential or anonymous communications, if appropriate) compliance, regulatory or ethical concerns to compliance officers and/or senior management. Those communications should be in writing and followed up as appropriate.
5. Encourage the development, professionalism and retention of the firm's compliance officers through compensation, benefits and recognition commensurate with their contributions.
6. As well as line managers and supervisors, compliance officers should be involved in the firm's internal disciplinary process to ensure fair, consistent and appropriate action when the firm's rules, regulations or ethical standards are violated.
7. The Compliance Department should be involved in all new product development.
8. Firms should support and provide adequate resources to compliance officers.
9. Firms should insure sufficient access to information for compliance officers to enable them to carry out their responsibilities.

10. Knowledge sharing with other firms of techniques that any firm finds effective in improving compliance and supervision, for the common benefit of the industry.

Supervision of Marketing Officers

Principals and reasons:

- To maintain good practice among marketing officers
- To provide guidelines for ethical standards in investment recommendations.

Guidelines to the firm

1. Firms should impose special supervision of marketing officers with any history that involves abuse of sales practices.
2. Firms should have in place written procedures covering the relevant cold-calling rules. The procedures should include details such as the following:
    - Cold calling should be made during the firm's office hours unless permitted by the client.
    - Marketing officers must give their names, their firm's name and telephone number as well as the purpose of the call.
    - Should a client reject cold calling, the firm should put that client's name in the "do not call list", and tell every marketing officer to refrain from making cold calls to that client.
3. Sound written procedures and effective supervision are the first lines of defense in guarding against sales practice abuses, for detecting those problems that do arise, and for taking prompt corrective action.
4. Firms that have engaged in sales practice abuses and have been the subject of disciplinary action should take the necessary steps to avoid those abuses in the future.
5. Marketing officers should not be pressured to sell particular securities or securities from a firm's inventory.
6. Firms should have a cautious policy about recruitment of other firm's marketing officers. For example, head hunting the majority or all of the marketing staff of

another firm should be avoided as this practice could destroy the image of securities industry.

7. Firms should provide adequate resources for branch office managers to supervise the marketing officers for which he/she is responsible.
8. Firms should clearly separate the riskier investments from other kinds of investments when giving recommendations to clients. Marketing officers should always make clients aware of possible downside risks in any investment decisions based on their recommendations.

<u>Guidelines to the marketing officers</u>

1. Comply to know your client rules.

1.1 Gathering the information of clients from the account opening form or from inquiry. This information will be useful in appraising the status of a client and giving investment recommendations. The basic information should include:

- The client's background details such as age, career position, education, etc.
- Their financial status such as their income level, accumulated assets, etc.
- Employer's name and address, if appropriate
- Investment objectives and restrictions
- Level of investment knowledge
- Legal status (company limited, partnership, or individual)
- Tax status
- In the case where a client authorizes someone else to act on his or her behalf, the scope of this authorization for sending buy or sell orders must be in place.
- If the client's honesty is in doubt, ask for more information from other brokerage firms.

1.2 Marketing officers should record and sign their name to verify their acknowledgement of the data gathered from the account opening form or from other sources.

1.3 Use reasonable steps to gather and update information about clients on a regular basis.

1.4 The depth of information to be gathered varies depending on the type of customer. Marketing officers should record their reasons for determining the depth of information to be gathered from each customer. For example, it is not necessary for marketing officers to gather information about the investment objectives and restrictions of institutional clients, clients who follow the process defined in the prospectus in buying securities, or execution-only clients.

1.5 In case a client does not cooperate in providing such information, a marketing officer should take all reasonable steps to obtain it indirectly. If the information gathered, however, is not adequate for evaluating his/her financial status or risk tolerance, or for making suitable recommendations, the marketing officer should not accept his/her application form.

1.6 Scrutinize a client's behavior, if necessary by crosschecking his/her financial status with other brokerage firms or financial institutions. Their habits should be tracked and a record should be kept in order to create a history of their behavior.

2. Suitable recommendations

2.1 Recommendations should always be consistent with the client's investment goals. A marketing officer should recognize that each customer has different types of performance expectations and appetites for risk. Clients need to be reminded that they can win as well as lose when investing. A marketing officer should try to understand the risk tolerance and investment performance expectations of his/her clients. Recommendations should never imply any form of investment outcome guarantee, either directly or indirectly.

2.2 A diversified portfolio of securities should be recommended to clients in order to spread risks, to help avoid a situation where investors receive a lower level of return than they had expected.

2.3 Recommendations should be based on public information, not rumors or gossip.

2.4 Recommendations should based on accurate and sufficient information. Opinions should be identified and segregated from facts. Clients can then make decisions by themselves based on this information.

2.5 Recommendations about the size of the investment and frequency of transactions should be appropriate to each client, based on their financial status and investment objectives. Churning is prohibited.

2.6 Verbal or written guarantees of return are prohibited.

2.7 So-called 'Boiler-room' techniques are prohibited. A client should have a chance to acquire additional information before making a decision.

2.8 Recommendations should not be based on inside information. A marketing officer should not use inside information for their own benefit or for brokerage firms or other related party.

3. Orders should be sent according to the client's needs.

3.1 A marketing officer should use reasonable efforts to execute an order at the best price available.

3.2 An order should not be sent if a client's decision is based on inside information.

3.3 Front running is prohibited.

3.4 Discretionary accounts are prohibited.

4. Fair treatment amongst clients is essential

4.1 Clients should be treated in a fair manner.

4.2 Research reports, which can affect the price of the security, should be disseminated to all clients promptly so that no one can gain advantage by receiving a report before anyone else.

5. Client's assets

5.1 A marketing officer should refrain from affecting transactions in the account of a client or using client's money for anyone's benefits other than the client, whether he/she receives any benefits from doing so or not. Where a marketing officer is in possession or control of a client's script of securities or his/her check, marketing officers should ensure that they are adequately safeguarded.

5.2 A marketing officer should not share part of the benefit or loss that a client has received, even if it is for the purpose of assisting the client.

6. In giving recommendations to clients, should there be any conflict of interest between a client and the brokerage firm, or a client and the marketing officer, that conflict of interest must be clearly disclosed so that the client can evaluate whether it is proper to invest in that security or not. The followings are examples of conflicts of interest and guidelines to handle them:

6.1 In the case where the marketing officer knows or should have known that the brokerage firm is the lead or co-underwriter of any securities, or the executives have any relationships or share benefits with any listed companies, he/she should disclose the fact to a client before giving any recommendations.

6.2 In the case where a transaction will be executed between an order of a brokerage firm or a marketing officer and the order of a client, this fact should be disclosed so that the client may have a chance to consider whether that price is the best or not.

7. A marketing officer should not disclose a client's profile, record of transactions, or financial status to any other persons unless permitted by the client, but may be obliged to disclose these to the appropriate regulatory authorities.

8. Soliciting clients of other brokerage firms in an inappropriate manner, such as entering into a securities trading room of another brokerage firm for soliciting purposes, shall be discouraged.

9. A marketing officer who is planning to move to another firm should not bring his/her clients' accounts to the new firm.