

Supervision and Development of Stock Market and Bond Market

**By Soramon Chaithanagulmongkol
Korakot Phinijphongphan**



**Market Supervision Department
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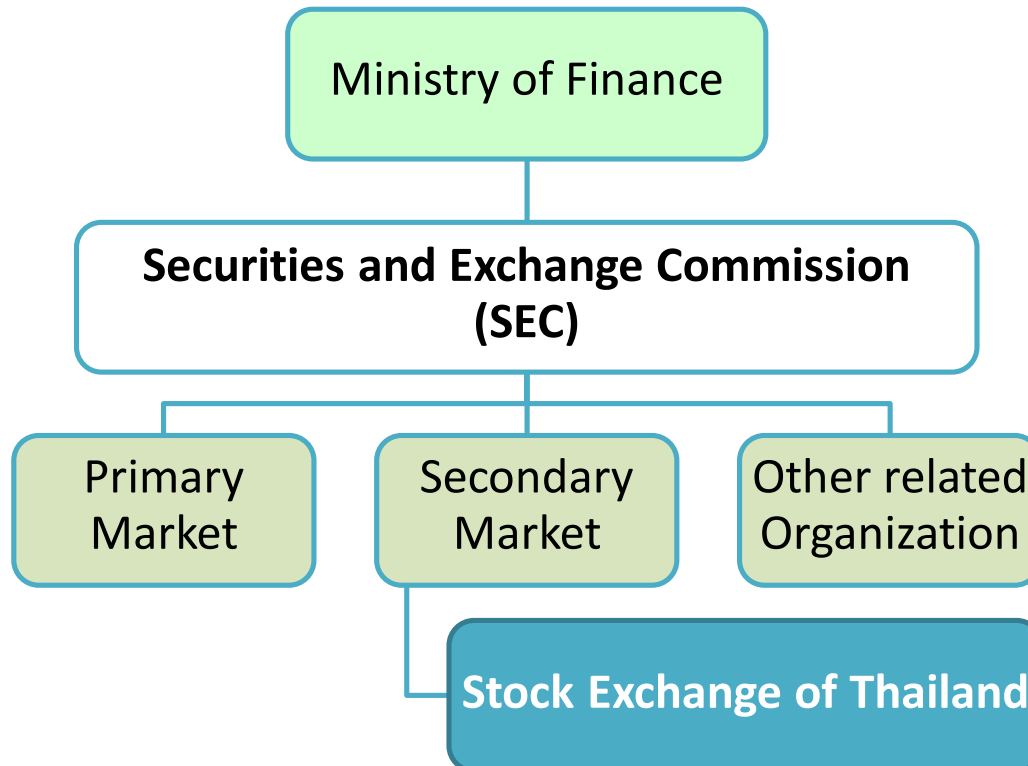
- Section 1: SEC Supervision on Stock Exchange of Thailand (SET) and the SET role in the market supervision
 - Regulatory framework
 - Regulation governing the stock exchange
 - Supervisory function
- Section 2: Key Development of Stock Market
- Section 3: System regarding the over the counter trading
 - Thai bond market structure
 - Trading system
- Section 4: Regulatory system regarding bond market
 - Regulatory Framework of Bond Market
 - Self-Regulatory function
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- **SEC supervision on SET**
 - Regulatory framework

- **SET regulations and its roles in the market supervision**
 - Regulations of stock exchange
 - Supervisory function

Regulatory Framework

The Securities and Exchange Act of 1992 (SEA), stipulates the Securities and Exchange Commission (SEC), as the regulator of the Thai Capital Market. Both primary and secondary markets are regulated by the SEC.



- SET Board is responsible for
 - Formulating SET policy
 - Supervising the Exchange's operation
- Certain SET rules and regulations prescribed by the Board must be approved by SEC.

SET rules/regulations subjected to SEC approval

- The acceptance and withdrawal of listed securities.
- Rates for fees charged by broker or agents in the trading.
- Rules and procedures concerning membership.
- Determination of the membership admission fee, subscription fee, deposits and other services charges.
- Rule concerning accounting and auditing.
- Rules, conditions and procedures concerning the preparation of register of the listed securities' holders
- The inspection of documentation and accounts of members.

Regulation governing the Stock Exchange (member & trading restriction)



- The purchase or sale of listed securities shall be conducted by **securities company which is a member of Exchange.** (section 184)
- **No member of Exchange shall purchase or sell listed securities outside the Exchange** regardless of whether it its action as a broker, agent or in its own name, unless such member has been given an approval from the Exchange. (section 185)

Regulation governing the Stock Exchange (disclosure)



Section 181

- The board of director or Exchange shall submit to SEC a balance sheet with an annual income and expense account

Section 183

- In order to protect the benefit of the public, **the Exchange** or any person authorized by the board or directors of the Exchange **shall have the power to disclose information of a listed company or of a member (securities company) to the public in accordance with the rules as specified by the board of directors of the Exchange**

Regulation governing the Stock Exchange (Inspection)



- The SEC (competent officer) has power to enter into the place of business of SET, clearing house, securities depository center, securities registrar, or place where the data of collected or processed by computers or any other equipment during business hours of such places , in order to examine the operations, assets and liabilities, including documents, evidence or information concerning such institution.

Regulation governing the Stock Exchange (safeguard against damage)



- In case where it is evident to the SEC that the rules of the Exchange may cause damage to the public interest, the SEC shall have the power to order the Exchange to issue additional rules or revoke, alter or modify the existing rule (section 170/1)
- In case where there has been a breakdown in the equipment used in the trading system, the manager of the Exchange shall have the power to order a temporary suspension of trading of all listed securities and shall submit a detailed report to the SEC immediately (section 187)
- In order to safeguard against the damage which may be caused to the public or the economy of the country, the SEC shall have the power to
 - temporarily suspend the trading of all listed securities
 - instruct the board of directors or the manager of the Exchange to do any act or omit to do any act as the SEC deems appropriate (section 186)

SET functions

- Listing and delisting of securities
- Listed companies supervision including information disclosure
- Trading and trading suspension
- Market surveillance and Member supervision
- Dissemination of information
- Investor education

- Supervision of listed companies
 - The Exchange assesses companies' applications using both quantitative and qualitative criteria, e.g. good operational results, operational continuity, no conflicts of interest, proper internal controls, qualifications of management, and minority shareholders which infers trading liquidity.
- Maintaining the Status of Listed Companies
 - Firms must maintain requirements regarding the liquidity of traded securities, conflicts of interest, and the qualifications of their audit committee, management and auditors.

- Delisting of Listed Companies
 - Criteria and conditions for delisting are imposed to protect minority shareholders. This is because delisting affects both shareholders' interests and the securities' liquidity. Delisting of shares can be classified into 2 types as follow:
 - **Compulsory delisting** – firm is unable to maintain the listing criteria
 - **Voluntary delisting** – firm must obtain the approval of not less than three-fourths of the total issued shares of the listed company, without dissenting votes from more than 10% of the total issued shares.

- Supervision over information Disclosure
 - Listed firms are required to disclose any material information which affects investors' and shareholders' investment decisions. The two types of required disclosures are:
 - **Periodic disclosures** – quarterly financial statements, yearly financial statements.
 - **Non-periodic disclosures** – dividend declarations or omissions, increases in capital, investments, purchases or sales of significant assets, related-party transactions, mergers and consolidations, etc.

- Market Surveillance
 - The main tasks of market surveillance are to monitor securities trading activities as well as to detect and investigate abnormal trading activities promptly and resolve such issues in timely manner.
 - SET deploys a computerized system for market surveillance namely "SETWATCH"

- Market Surveillance (cont.)
 - The unusual trading activities specified in the Securities and Exchange Act B.E. 2535 (SEA) are as follows;
 - **Insider Trading** – Any trades executed by any insiders, as defined in the SEA, using nonpublic information.
 - **Market Manipulation** – Any trades executed by a group of persons in co-operation to mislead other persons in trading any securities.
 - **Misstatement** – Rumours or fault information to mislead the public in making securities trading decisions.

- Disciplinary & Appeal Process
 - Any violation will be handled by one of the following responsible departments; Trading, Member Supervision, or Listed Company Supervision department
 - Responsible department gathers evidences and pass on the case to Enforcement Unit.
 - The Enforcement Unit, led by the Sub-Disciplinary Committee, takes necessary actions according to its disciplinary process including imposition of punishment to wrongdoers.

- Disciplinary & Appeal Process (cont.)
 - In case a punishment order is imposed and the offender does not agree with the order, he or she can submit a counterclaim to such order by filing an appeal.
 - The Appeal Committee considers the filing and submits its decision to the Board of SET for any further decision(s) required.

Section 219-222 / Section 224

- Person shall operate the business of a clearing house, securities depository center or securities registrar have to obtain a license from the SEC, except the Exchange or the company that the Exchange held with not less than 75% of total shares

Section 223

- In the operation of a clearing house, securities depository center or securities registrar, person shall comply with the rule as specified in the notification of the Capital Market Supervisory Board

Section 225

- Where securities are deposited with the Exchange, the depositor shall prepare a list of securities holders, whose securities have been deposited with the Exchange, in accordance with the rules and procedures as specified by the Exchange

Section 227

- Any securities owner who has deposited securities with the Exchange may request the Exchange to issue the securities certificates in the own name by submitting an application in accordance with the form specified by the Exchange

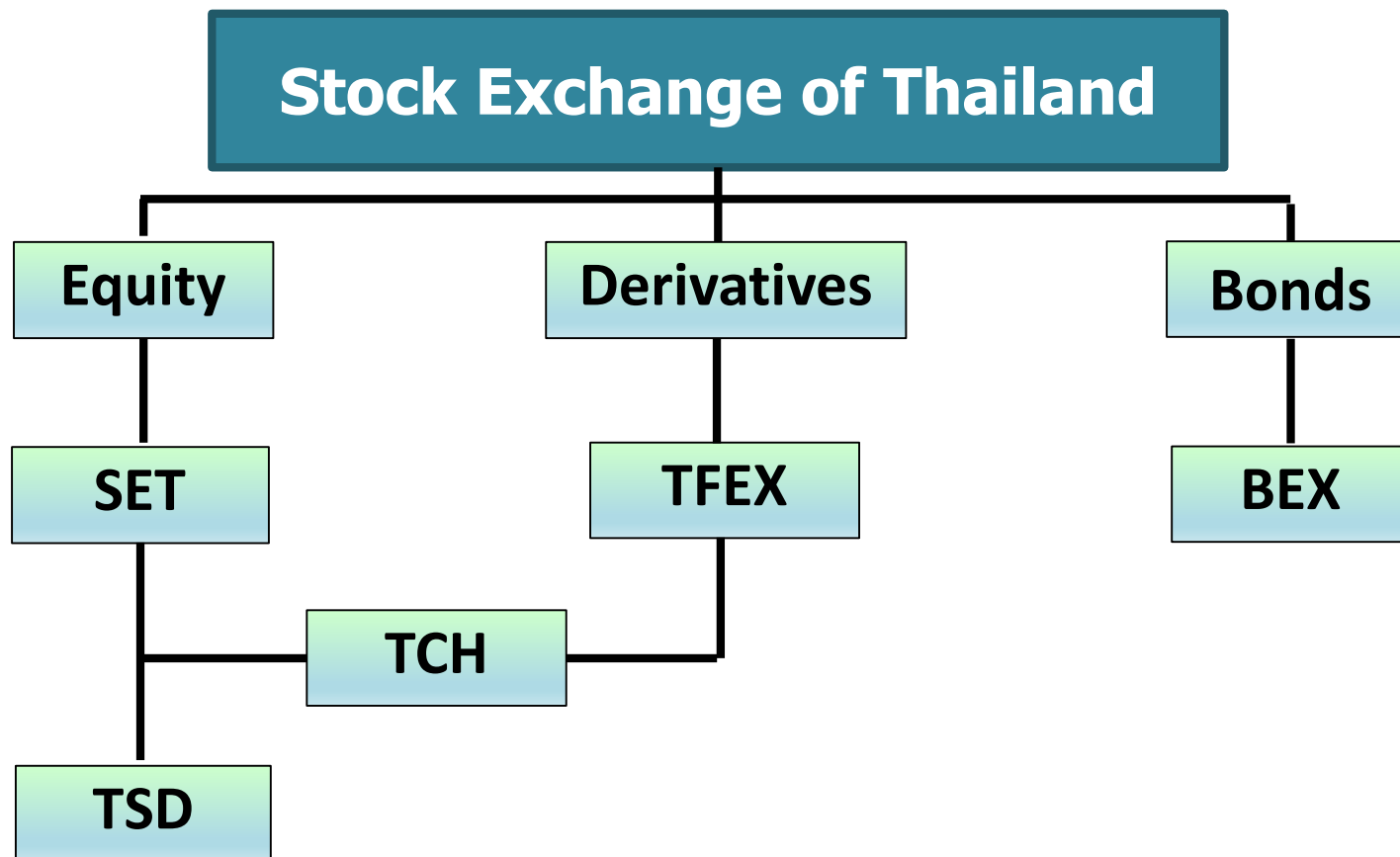
Section 228

- The transfer of securities from the account of a securities depositor to the account of another securities depositor may be made only when the Exchange has received a request from the securities depositor or when the clearing house of the Exchange has notified the Exchange, at the end of each trading day, of the delivery of the securities between member who have traded the securities.

Section 229

- In case where the operation of a clearing house, a securities depository center or a securities registrar is undertaken by the Bank of Thailand, no license from the SEC shall be required.

Section 2: Key Development of stock market



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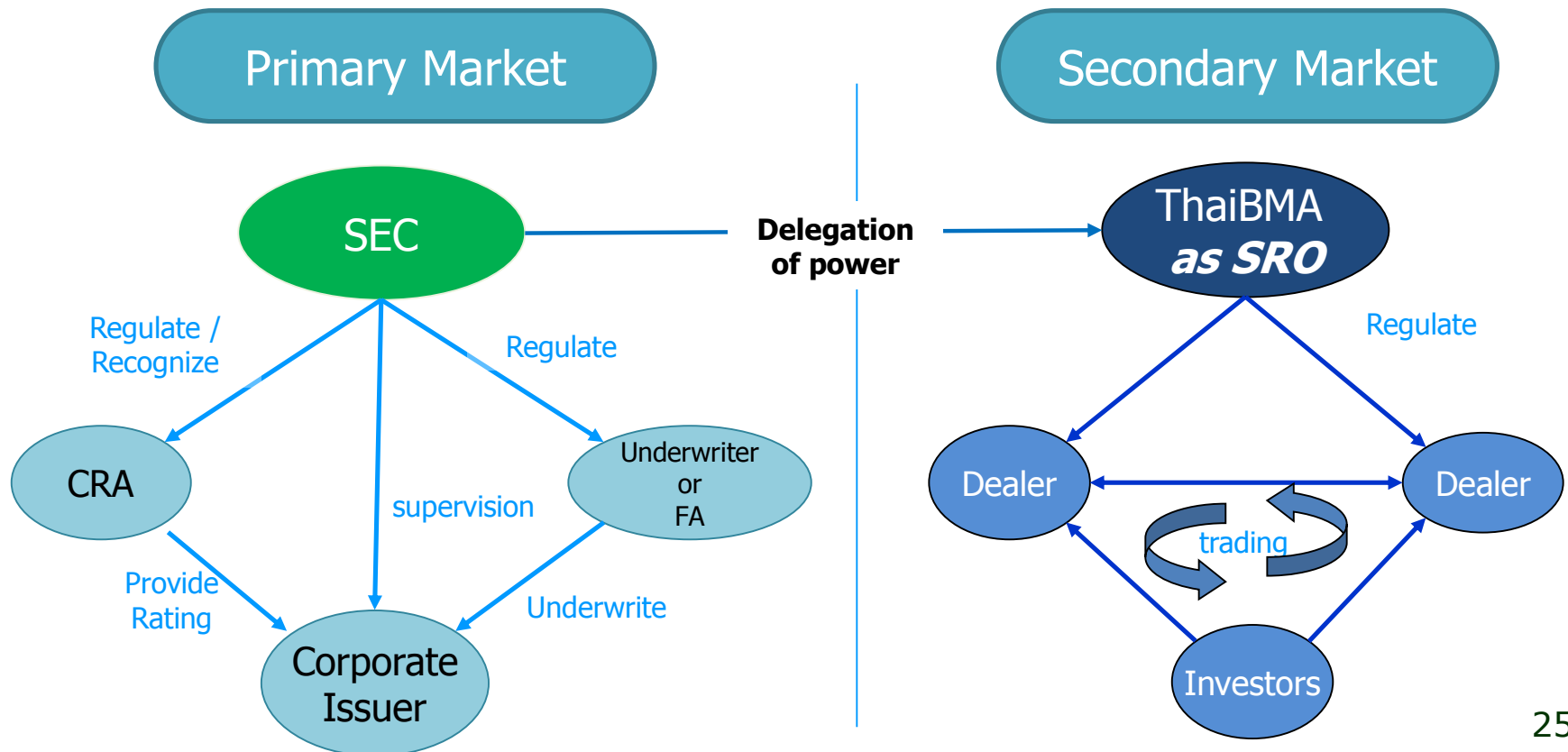


- Create international profile of the SET
 - promote visibility of SET by enabling connections with other ASEAN exchange (“ASEAN Linkage”)
 - Promote foreign products by issuing “Foreign equity offering Regulation” to create alternatives for foreign issuers

- **Systems regarding the over-the-counter trading**
 - Thai bond market structure
 - Trading system

Thai Bond Market Structure

- primary market for bond issuance and secondary market for bond trading
- Only corporate bond issuance in primary market is under SEC supervision
- Trading in secondary market is under ThaiBMA supervision as a SRO



▪ Offering scheme in primary Market

▪ Government Securities

- Most of Government Securities offerings are issued through auction method run by the BOT and PDMO.

▪ Corporate Bond

- Corporate bonds offerings are under the SEC supervision.
- Corporate bond offerings are divided into two main categories:
 1. Public offering
 2. Private Placement offering
 - 2.1 limited number
 - 2.2 Accredited investors (AI) – II + HNW

- **Trading bonds in secondary Market**
 - **Over-the-Counter (OTC)**
 - Most bonds circulated in the secondary market are traded through OTC
 - Negotiations between buyer and seller may take place over the phone or through electronic trading platform. (Almost all of trading takes place over the phone)
 - **Exchange Traded**
 - Automatic Order Matching (AOM) : An investor can place an order with a member of the Exchange or a brokerage company who, in turns, enters the order into trading platform.
 - Put through : For trading of over 10,000 units or 10 million Baht, counterparties can negotiate off exchange and submit the order to Exchange using put through channel.

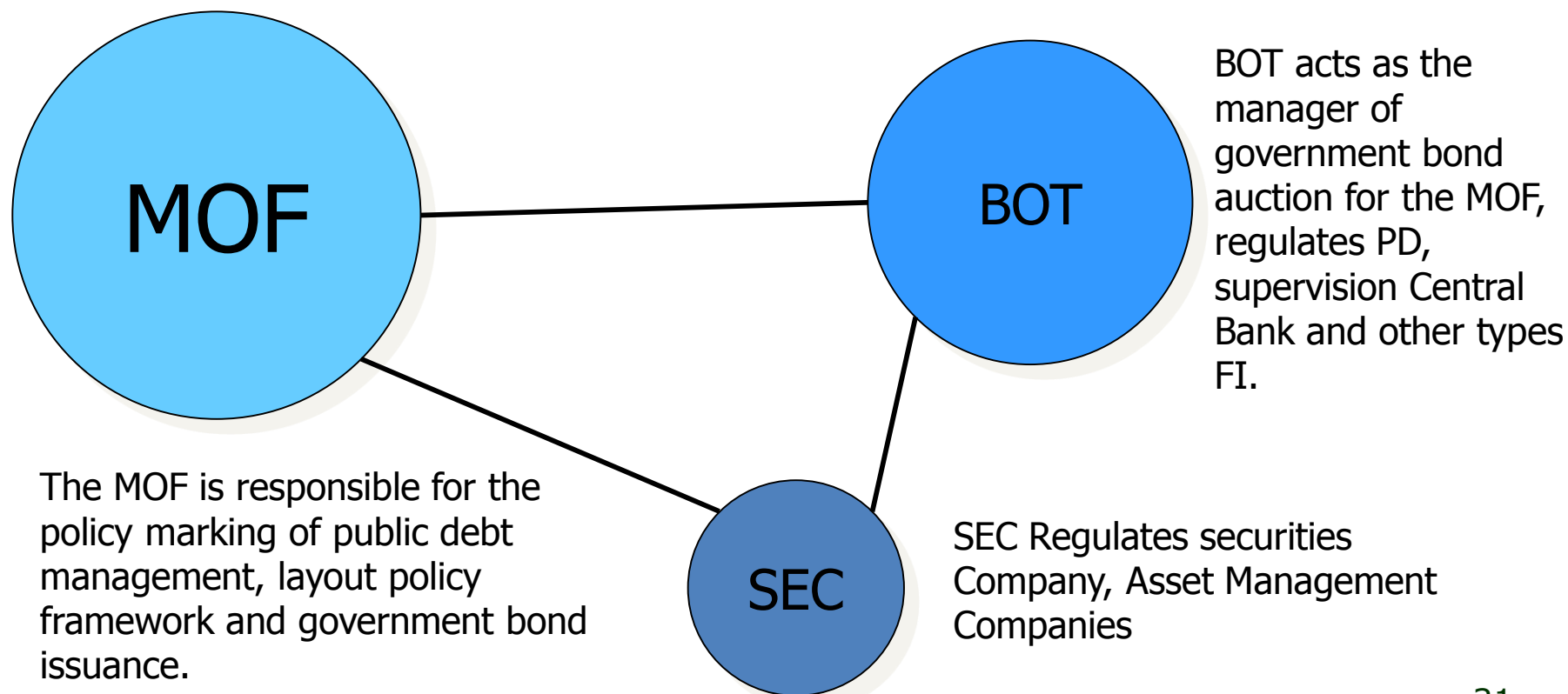
- **Electronic Trading Platform: ETP**
 - Initially developed by Thai Bond Market Association (ThaiBMA)
 - Then, sold to SET as a result of Domestic Bond Market Development steering committee's decision to integrate the bond trading system with other trading systems.
 - Currently, SET serves as a center for trading of all types of securities.

- Electronic Trading Platform: ETP
 - BEX, a subsidiary of SET, has 2 ETP systems
 - **Automatic Order Matching (AOM)** : platform for retail investor similar to that of equity instruments.
 - **FIRSTs** : platform for dealers and institutional investors
 - Trading on the BEX have remained insignificant through which trading value has remained less than 1% of total trading value.

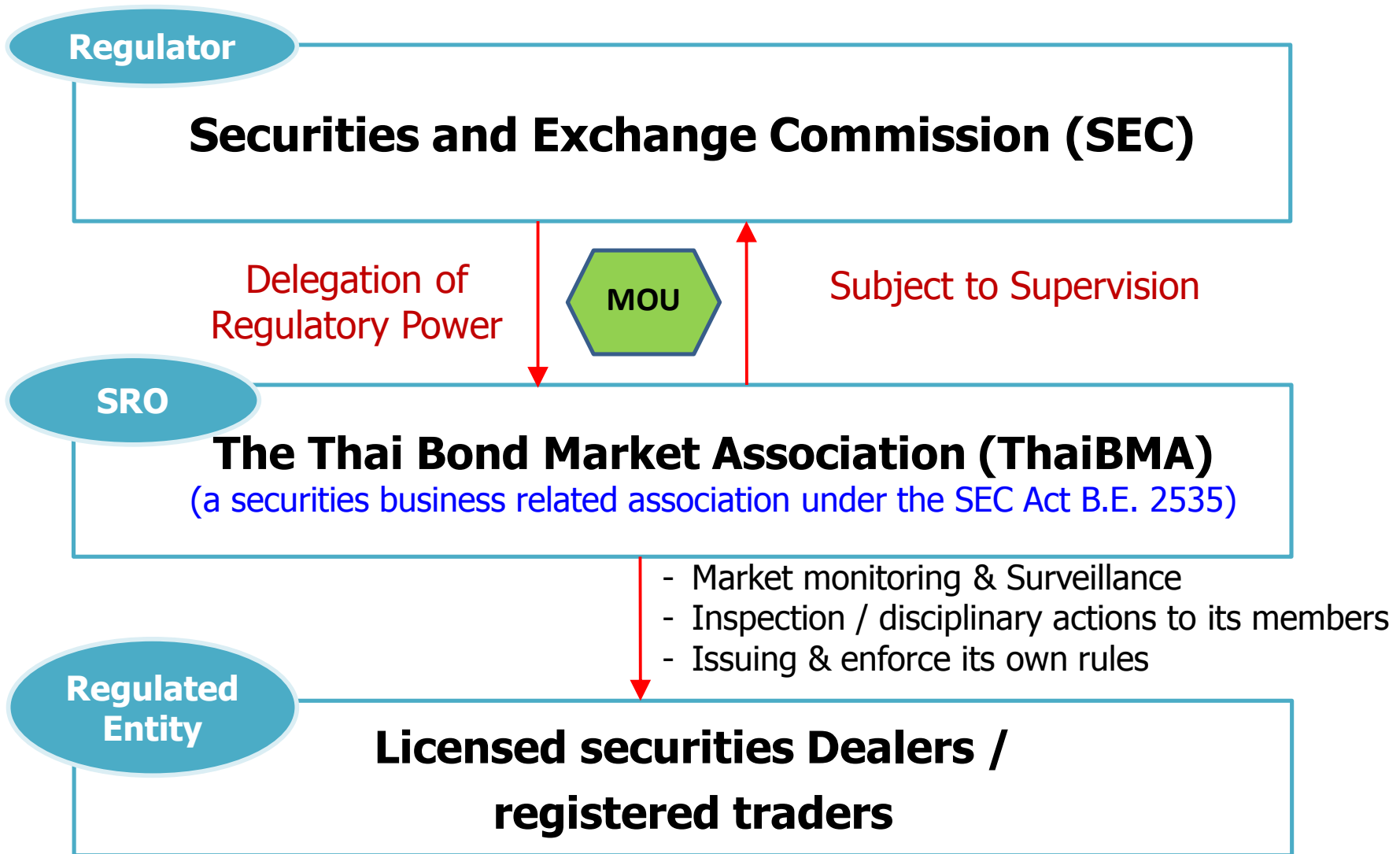
- **Regulatory system regarding bond market**
 - Regulatory Framework of Bond Market
 - Self-Regulatory function

Regulatory Framework of Bond Market

There are three major government and public agencies that have a pivotal role in formulating policies and regulating the Thai bond markets: The Ministry of Finance (MOF), the Bank of Thailand (BOT), and the office of the Securities Exchange Commission (SEC)



Self-Regulatory function



Supporting the SRO (ThaiBMA) of SEC (SRO / bond information center / pricing agency)



- **Membership requirement:**

All SEC licensed dealers are required to be a member of ThaiBMA

- **Trader requirement:**

All licensed dealers must appoint a trader registered with ThaiBMA in bond trading

- **Trading reporting requirement:**

All licensed dealers must report transactions in each bond to ThaiBMA within thirty minutes after trade execution

- **Bond registered requirement:**

Long-term corporate bonds must be registered with ThaiBMA (except for limited private placement offering issues)

- **Offsite monitoring through periodic regulatory reporting**
 - Monthly surveillance report / semi-annually inspection report
 - Disciplinary action report
 - Annual report

- **Prior review of new rules and amendments**
 - SEC representative to be involved in the Market Regulation Committee to consider and provide recommendation to establish and expand roles of ThaiBMA as SRO, to promote ethics and standard of good practice of the bond market / traders
 - Rule related to bond registration fee must be approved by the SEC

- **Approval of directors / appeal committee**
 - Directors / committees have qualifications specified by ThaiBMA's article of association and have no misconduct / dishonesty records
- **Onsite inspection – plan to examine ThaiBMA's operation this year**

- **Facilitating new type of corporate bond issuance**
 - FX bond
 - Sukuk
 - Unrated bond – limited investors to II & HNW
- **Promoting new facility for retail investors to access 30 liquid corporate bond's trading information**
 - Bond supermart – simplified information platform

Q & *A*