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**AIMC logo**

**Notification of the Association of Investment Management Companies**

**No. SorJorKor. 2/2561**

**Re: Investment Risk Management Guideline and Due Diligence Checklist**

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This is to set proper investment risk management standards for the fund management business feature effective controls, monitoring, and resolving investment risks, as well as to ensure that members of the Association of Investment Management Companies possess solid knowledge and understanding of complex financial instruments and transactions prior to investment, for the best interests of investors as a reflection of fiduciary responsibilities and good corporate governance.

By virtue of clause 25 of the Regulations of the Association of Investment Management Companies, the board of directors of the Association of Investment Management Companies hereby issues regulations as follows:

Clause 1 The Notification of the Association of Investment Management Companies No. SorJorKor. 1/2556 Re: Investment Risk Management Guideline and Due Diligence Checklist, dated on 31 October B.E.2556 shall be revoked.

Clause 2 In this Notification,

(1) "Association" refers to the Association of Investment Management Companies.

(2) "Member" refers to a member company of the Association of Investment Management Companies licensed to operate a securities business of managing mutual funds and/or private funds that are not provident funds, and/or private funds that are provident funds, and/or property funds and/or infrastructure funds and/or real estate investment trusts and/or infrastructure investment trusts.

(3) "Member of investment management companies" refers to a member of the Association of Investment Management Companies licensed to operate a securities business in the category of mutual fund management.

(4) “Member of provident fund and private fund business” refers to a member of the Association of Investment Management Companies licensed to operate a securities business in managing private funds that are not provident funds and/or private funds that are provident funds.

(5) “Member of property fund business and/or infrastructure fund business and/or real estate investment trust business and/or infrastructure investment trust business” refers to a member of the Association of Investment Management Companies licensed to operate a securities business in the category of managing property funds and/or infrastructure funds and/or real estate investment trusts and/or infrastructure investment trusts.

Clause 3 Member of mutual fund business, member of provident fund and private fund business, and member of property fund business, infrastructure fund business, real estate investment trust business and infrastructure investment trust business shall perform its investment management duties with caution, utilizing the expertise and experience expected of professionals. An investment risk management system must be established to at least set minimum requirements, pursuant to Investment Risk Management Guideline (Attachment 1), except in the case of a private fund invested by institutional investor, ultra-high net worth investor and high net worth investor referred to in the Notification of the Securities and Exchange Commission Re: Classification of Institutional Investor, Ultra-high Net Worth Investor and High Net Worth investor, whereby the member of property fund business shall set an investment risk management system mutually agreed with such institutional investor, ultra-high net worth investor and high net worth investor.

Clause 4 Member of mutual fund business, member of provident fund and private fund business, and member of property fund business, infrastructure fund business, real estate investment trust business and infrastructure investment trust business shall study and understand the characteristics of the risks and investment return by conducting a self-assessment before investing in any complex financial instrument or transaction (due diligence checklist) pursuant to Attachment 2.

Clause 5 This Notification shall become effective as of 4 May B.E.2561 onwards and members shall strictly comply with this notification.

Announced on 4 May B.E. 2561

-Signature-

(Mr. Smith Banomyong)

Chairman

Association of Investment Management Companies

**Association of Investment Management Companies**

**Investment Risk Management Guideline**

**May B.E.2561**

## Investment Risk Management Guideline

### **Objective**

To specify proper guidelines for the management company to establish a good investment risk management process that provides effective control, monitoring, prevention, and resolve investment risks. To prepare for the imminent relaxation of official regulations that would give management companies increased flexibility in managing funds. To raise the caliber of the investment management business to international standards, including upholding the best interests of investors as a reflection of fiduciary responsibilities and good corporate governance.

### **Rationale**

Investment risk management is the core of the investment management business. The management company, which is mandated to act on the customer's behalf, shall perform its investment management duties with caution, utilizing the expertise and experience expected of professionals. In addition to having investment management procedures that are thorough, cautious and prudent, in compliance with the law and policy agreed with the customer, the management company must also emphasize proper investment risk management in order to protect the customer's interests in line with fiduciary responsibilities and corporate governance.

Establishment of an effective investment risk management process will hinge on the company's Board of Directors and senior management. The Board of Directors and senior management play a crucial role in setting the mission, strategy, policy and business plan for the management company. Additionally, they are also influential in establishing a good corporate governance culture. As the investment risk management process is associated with fund management itself, which is dynamic in nature, investment risk management will be a continuously evolving endeavor.

Main elements of investment risk management consist of 4 parts described below:

1. Organization of risk management structure and compliance
2. Risk identification and measurement
3. Risk control and management
4. Monitoring, assessment, and reporting processes about risk levels and operations.

This investment risk management guideline will cover each element of investment risk management shown above. The management company shall fully adopt the guideline and regard this as a key company policy as well.

## Part 1: Setting up the risk management structure and supervision process

### 1. Roles of the Board of Directors

#### Role no.1

1. Board of Directors shall define the risk management structure and clearly prescribe operating procedures to ensure that the company can identify, measure, and manage investment risk properly. This shall be considered a key policy requirement for the company. The aforementioned risk management structure and operating procedures must be aligned with the type, scope, size, volume, and complexity of the company's business operations.
2. The Board of Directors shall ensure establishment of a risk management policy, operating guidelines, and risk management manual (also referred from here on as "policy and procedures") in document form, which shall serve as reference that is accessible by employees.
3. The Board of Directors shall approve or endorse the policy and procedures, which would be reviewed at least once a year or upon occurrence of a significant event. If the management company is a subsidiary of a business group which applies group-wide policy and procedures across all business units, the management company must review such policy and procedures, and amend as necessary, to ensure measures are brought in alignment with the investment management business activities before applying such policy and procedures.
4. The Board of Directors shall be responsible for ensuring the investment risk management system is adequate and effective, including promoting a good risk management culture within its organization.
5. The Board of Directors shall monitor and ensure staff remuneration levels are reasonable, especially staff in charge of funds' investments. This is to prevent adverse damage to the fund from an investment management staff who may veer towards high-risk assets to outperform and seek a performance reward.

The Board of Directors is permitted to authorize any other committee who is independent from the investment management function (also referred from here onwards as "authorized committee") to handle tasks on the Board's behalf. However, the Board remains responsible for such duties. The authorized committee is obligated to report back to the Board regarding the implementation of tasks assigned. The Board of Director may appoint an advisor to provide

consultation on investment risk management, but the risk management process must be adequate and effective, capable of preventing any potential conflict of interests with the fund.

### **Guideline**

1. The Board of Directors shall ensure the establishment of policy and procedures in documented form; the scope must be clearly defined and effective. The minimum requirements for the policy and procedures are as follows:

(1) Duties and responsibilities shall include

- Duties and responsibilities of investment risk management staff and department, such as risk management department, investment management department, and various committees.

- Defining the management structure, reporting lines, and delegation of various responsibilities that takes into account the segregation of responsibilities, quality of supervision, and checks and balances.

- Allocation of resources

- Staff training

(2) Identify the types of investment risks, which include:

- Identification of risk factors associated with the investment management activities, such as market risk, credit risk, and liquidity risk

(3) Tools, techniques, and systems to measure risks, which include:

- Specify tools, formulas, models, and method for measuring the various types of risks

- Specify sources of data used to assess the risks

- Require that the risk measurement tools be tested for their effectiveness on a regular basis (back-test)

(4) Investment risk management, which include:

- Guidelines and method for measuring the level of market risk, credit risk, and liquidity risk

- Frequency of conducting the risk measurements

- Methods, procedures, and factors used to determine maximum risk (Risk Limit)

- Prescribing a Risk Limit that can be tolerated

- Require tests to assess the impact on investment portfolios should a significant event occur (scenario analysis/stress test)

(5) Procedures for monitoring and reporting risk exposure, which include:

- Procedures and frequency for reporting of risk exposure to inform relevant staff

- Procedures for seeking approval to exceed the prescribed Risk Limit

(6) Review and amend the policy and procedures at least once a year or when there is a significant change, to keep policy and procedures updated.

2. The Board of Directors shall supervise the company to ensure the policy and procedures are communicated and circulated to all employees when there are updates.
3. The Board of Directors shall designate staff or unit to oversee the management of investment risk (risk management function), whose duty is to measure, monitor, control, and provide risk reporting to the Board of Directors and senior management regularly and promptly. Such function shall be independent from the investment management department and shall report to the Board of Directors and to other authorized committees.
4. The Board of Directors shall arrange sufficient resources for the risk management operation, suitable for the type, scope, size, volume, and complexity of business activities to ensure an effective risk management system. Allocation of necessary resources include:
  - (1) Office equipment, computers, and risk management system
  - (2) Employee with skills and knowledge about risk management work. Continually provide support for these staff to develop skills and expertise to keep up with innovations of financial products.

The management company may procure external resources such as purchasing risk assessment and monitoring tools from a third party or designate risk management work to an external party with expertise in this field, as applicable. Note that the management company shall ensure the risk management system remains effective.

5. The Board of Directors and senior management shall establish communication channels to facilitate coordination among related departments such as risk management unit, investment management function, and fund operations, to ensure effectiveness of the process.
6. The Board of Directors and senior management shall place special emphasis on investment risk management work by advocating risk awareness among relevant department units and deploy risk factors and data in investment decisions (Risk Budgeting).
7. The Board of Directors and senior management shall ensure the establishment of procedures and processes for the approval of investment in new instruments and financial transactions, especially complex and/or high-risk instruments and transactions. Department units involved should also participate in the process; this ensures that the relevant department units will be able to operate accordingly. The management company may set up a new product committee comprising investment management function, risk management unit, fund operations unit, and compliance unit. Or, it may use existing committees and invite other department units to join discussions on matters that are relevant. Alternatively, no special committee may be created,

but instead, integrate operating procedures and systems into the approval process that already jointly involves relevant departments.

## **2. Risk management function**

### **Role No.2**

1. The company shall arrange staffing that possess expertise, skills, and experience appropriate for the risk management role.
2. Staff or units in charge of risk management (risk manager) shall be independent from the investment management function. The number of staff performing the risk management function must properly match the business strategy, size, volume, and complexity of the company's business.
3. Staff or units in charge of risk management has the duty to monitor the operations of the investment management unit to ensure investment risk does not exceed prescribed levels. This is to uphold the best interests of investors. Duties also cover the establishment of the risk policy and guidelines to be proposed to the Board of Directors, determination of risk management tools, setting of maximum risk limits, risk measurements, monitoring, and controls to keep risk levels below the threshold. Also included is fund performance measurements and reporting work to inform relevant units.

### **Guideline**

1. Staff or units handling risk management work shall be independent from the investment management function and have a straight line of reporting to The Board of Directors.
2. Staff assigned to handle risk management work must have the expertise, skills and experience appropriate for the risk management work.
3. Staff or units handling risk management work are responsible for auditing the work operations of the investment management unit to ensure risk levels do not exceed prescribed limits. This is to uphold the best interests of investors. The minimum requirements are as follows:
  - (1) Formulate policy and procedures to be proposed to the Board of Directors for approval or endorsement.
  - (2) Assess the effectiveness of the policy and procedures regularly at least once a year and upon the occurrence of a significant event. Submit the assessment to the Board of Directors for review and update as necessary to align with the funds' investment assets and strategies.
  - (3) Determine the firm-wide risk limit, and/or jointly set the risk limit for each fund together with the investment management unit.

(4) Participate in setting selection guidelines for financial instruments and counterparties to engage with. Also participate in evaluating new financial instruments or financial transactions (new product) being considered for investment.

(5) Measure, monitor, control and report about the fund's risks and operating performance to inform department units involved on a regular and timely basis. For example, measure and report the fund's risk exposure to inform the investment management unit every business day; submit a summary report to the Board of Directors on a monthly basis.

4. The company is allowed to outsource the risk management duty to a third party, subject to compliance with guidelines prescribed by regulators.

## **Part 2: Risk identification and measurement**

### **1. Risk identification**

#### **Role No.3**

1. The company shall classify all the main types of risks associated with an investment or securities holding or financial contract, etc. which may affect fund operations and/or investors' interests.

#### **Guideline**

1. The company shall indicate the types of risks associated with the various types of investments, according to each fund's policy, strategy, and investment framework.
2. The company shall assess and review the risks associated with the fund from time to time to ensure the status is up to date and appropriately reflect changes in the investment environment.

### **2. Risk measurement tools and measurement process**

#### **Role No.4**

1. Risk management system shall be able to assess and successfully cope with all major investment risks.
2. The policy and procedures must prescribe tools, methods, assumptions, and techniques to measure risk levels of each risk factor to ensure alignment with the strategies, characteristic, and structure of the investment.

3. Risk management tools and processes must be able to assess concentration risk and correlation of risk factors at the portfolio level too.
4. The company shall update risk models used to ensure relevance to changes in market conditions which could otherwise affect the accuracy of techniques used to assess risk levels.
5. The company shall test the accuracy of calculations, assumption, tools, and models used (back-test), and test the impact on the investment portfolio upon the occurrence of a significant event (scenario analysis / stress test). This must be done on a regular basis and well-documented as evidence.
6. To ensure the risk management process is effective, the company must also audit the data used to measure risks.

## **Guidelines**

### **1. Risk management tools**

(1) Ensure availability of tools, techniques, and methods to properly assess and measure risks, appropriate for the characteristics, volume, investment strategy, and complexity of each investment asset type.

(2) Use a variety of risk measurement methods (such as techniques, methods, and tools) to ensure the company can thoroughly assess the risk exposure.

(3) Tools used to measure risks must be able to identify the risk exposure at the securities level as well as the overall portfolio. This is needed to perform risk budgeting when making investment decisions.

(4) Regularly assess the constraints and assumptions associated with the tools, techniques, and models used, to determine whether they remain accurate under various scenarios. Update as necessary.

(5) Perform tests to check the accuracy of tools (back-test) regularly or at least once a year, except if the company uses tools and risk data based on formulas, models, or methods that are common and widely-accepted internationally, for instance, duration beta tracking error. When testing forecasting tools, the company shall compare forecasts and actual outcomes under reasonable confidence levels.

(6) Establish an audit process to check the accuracy of data used. A data connection should be in place to link data between the front office and the back office, as necessary. This improves efficiency and reduces human errors in the operation.

## **2. Risk measurement**

(1) Risk estimation requires both qualitative data and quantitative data. The data source used in calculations and risk measurements must be accurate, reliable, and up to date.

(2) Risk measurements must be up to date, appropriate for the types of investment assets of the fund.

(3) Set guidelines and criteria for selecting securities; prescribe quota amount for transactions with a counterparty. Use both qualitative factors and quantitative factors. Monitor situations that might affect the financial status or business operation of the issuer or contract counterparty regularly. For example, monitor news, credit rating changes, and always review financial statements when released.

(4) Prescribe guidelines and factors used to measure liquidity risk that is appropriate for the fund's investment policy and terms for purchases and redemptions, especially with open-end funds with a high-frequency redemption schedule. Assess the liquidity level of individual securities to determine the liquidity at the group level, and subsequently the liquidity at the fund level, to ascertain suitability with the fund's redemption pattern. This must be implemented for each individual fund under management, both prior and after investing, such as:

- Prescribe liquidity levels for each fund that appropriately reflects the expected payment obligations of the fund, such as purchase and redemption policy, obligations of derivative contracts, etc.

- Analyze the liquidity level of securities and the market in which they are traded on. For example, when investing in a foreign market, assess constraints on payments (repatriation risk) and currency fluctuations (foreign exchange risk). In the case of investment units, know the risk exposure and how the target fund handles with its own liquidity risks. After investing:

- Regularly analyze and forecast the price volatility of the financial instruments, inflows and outflows of the fund, concentration risk and purchase/redemption patterns of unitholders, including any other liabilities. Apply the results of the findings to set proper liquidity levels for the fund.

- Analyze correlations among other risk factors which may impact the fund's liquidity position. For example, a panic redemption of a fund under management that is similar to another fund managed by another company, reputational risk of the holding company may affect a fund management company which is its subsidiary. This provides insights to formulate a response plan accordingly.

(5) The company shall establish an emergency response plan to address a liquidity problem, for scenarios of various severity levels. This ensures preparedness to handle a given situation. The response plan should:

- Establish a workflow on how to communicate with unitholders. Define procedures and designate contact persons who will interact with others and department units involved (crisis communication plan).

- Set guidelines on how to access funding sources to help cope with a liquidity shortage event.

(6) For investment in complex financial instruments and complex financial transactions, the company shall examine and understand the characteristics of their risks and return (due diligence) prior to the investment. Additionally, the company shall identify and manage each risk factor for that complex financial instrument or transaction, according to the underlying asset and the overall risk exposure of such financial Instrument and transaction. This requires approval from the investment committee and risk management committee. While the investment is held in the portfolio, the company must ensure that the investment's suitability is reviewed and risk factors assessed to gauge potential impact on the fund's risk and return profile. For example, what is the company's investment opinion on the asset or underlying, risk and return trade-off for the complex instrument or transaction, etc. A review should be conducted at least once a quarter, or upon the occurrence of a significant event. If the risk has not changed significantly to require a change in the risk management response, the company may submit the assessment review to obtain endorsement solely from the investment committee.

(7) For complex financial instruments and complex transactions previously considered, or the risk management committee had previously approved a clearly-defined investment framework (such as imposing risk factor requirements and risk tolerance levels), and whereby the risk characteristics of the instrument or transaction remains largely the same with no threat to the existing risk management process, the company may conduct due diligence on only some key areas instead. This shall be considered equivalent to a review of the investment's risk and return characteristics and its suitability. Approval may be obtained solely from the investment committee.

### **3. Test of impact on investment portfolio from occurrence of a significant event (Scenario Analysis / Stress Test)**

(1) Conduct tests to gauge the impact on the investment portfolio from the occurrence of a significant event, according to the policy, strategy, and type of investment assets. A proper scenario to use should contain these features:

- Test scenario and testing procedures and process must be approved by all department units involved.

- Scenario is reasonable and plausible.

- Cover all kinds of situations that may likely occur to the fund or investment assets, especially for risk factors that a risk model cannot precisely predict an outcome. Examples of such factors include changes in correlation or liquidity of invested securities.

- Show the possible continuity of the impact into the future.

- Event is severe.

(2) The company must conduct scenario analysis / stress tests regularly, at least once a year and upon occurrence of a significant event. Apply the results of the test to assess the Risk Limit against the maximum loss which may occur. Prepare a response plan for such events.

(3) The stress test may use data from an actual event which have occurred in the past or from a set of assumptions based on an actual event from the past.

### **Part 3: Risk control and management**

#### **1. Determination of risk limit**

##### **Role No. 5**

1. The risk management policy must specify systems to set, measure, monitor, and control the maximum accepted risk level (risk limit) for each type of fund.

2. The risk limit must be approved or endorsed by the Board of Directors and must be suitable with the risk profile of each type of fund and its investments.

3. Establish operating procedures to keep risk levels within the range permitted.

##### **Guidelines**

1. Risk limit specified must be suitable with the risk profile of each fund and the overall profile of all funds under management combined.

2. Risk limit specified should be viewed on 2 levels as follows:

(1) Firm-wide risk limit for all funds under management combined. This is prescribed by the specified by the Board of Directors such as:

- Single company exposure limit of all funds under management combined

- Risk limit for each fund type, such as equity funds, fixed income funds, etc. Furthermore, this must be suited to each sub-fund type, for example, passive equity funds, active equity funds, short-term fixed income funds, or long-term fixed income funds.

(2) Risk limit per fund (fund level) may be jointly determined by the investment management unit and the risk management unit, but remain within the firm-wide risk limit prescribed by the Board of Directors.

3. The Board of Directors may choose to prescribe a firm-wide risk limit that offers flexibility. This may provide practicality for the investment management work. For example, allow for a certain acceptable deviation above or below the normal risk limit. However, to allow a breach of the normal risk limit, the company should clearly state conditions to permit such move, plus guidelines on how to amend, control and revert back within the normal risk limit within a reasonable period.
4. If there is a breach of the prescribed risk limit, the risk management unit must inform other relevant departments immediately. The company must establish procedures to resolve the excess risk and bring the actual risk level back within the framework.
5. Approval to exceed the prescribed risk limit must correspond to the authority level which prescribed the risk limit in the first place. For example, when seeking to exceed a firm-wide risk limit, approval must be obtained from the Board of Directors.
6. Establish measures to contain or reduce investment risk or transaction risk. For example, establish procedures to issue a collateral call or monitor collateral levels, or procedures to raise the quality of investments (credit enhancement).

<b>Part 4: Monitoring, assessment, and reporting of risk exposure and performance.</b>
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<b><u>Role No. 6</u></b>
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| <ol style="list-style-type: none"><li>1. The company shall set procedures and methods on reporting risk-related matters to persons involved on a regular and prompt basis to mitigate, resolve or handle the various investment risks. Fund performance must also be regularly monitored.</li><li>2. Staff and department unit delegated to oversee risk management must produce reports for the Board of Directors, providing details and comparison of actual risk exposures relative to the risk framework prescribed for the fund.</li></ol> |
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**Guidelines**

1. Staff and department unit delegated to oversee risk management shall produce a risk status report and fund performance report.

2. Presentation format and contents of the report must be easily understood and contain thorough information about the risks. The report must at least show actual risk levels compared to the risk framework applicable to each fund, show a summary of investments exceeding the risk limit and results of steps taken to resolve the breach.
3. Set the frequency for reporting on the risk status and fund performance to inform relevant persons on a regular and prompt basis.

(1) Risk status report – staff or department unit overseeing risk management shall report to the investment management unit and/or compliance unit on every business day, or when risks breach prescribed levels. Risk shall be set as a regular agenda at the investment committee meeting, risk management committee meeting, and Board Meeting. Furthermore, whenever a significant event occurs, report to relevant parties instantly.

(2) Fund operating performance report - Report to the investment committee or other designated committees at least once a month, and the Board of Directors at scheduled meeting intervals or upon the occurrence of a significant event. If fund performance reports are generated from a system which has already been tested for accuracy and does not allow further modifications to the output, the company may choose to designate the investment management department to present the fund performance reports instead.

### **Due Diligence Checklist for Complex Financial Instruments and Transactions<sup>1</sup>**

The company, acting on behalf of investors, must conduct its duties with the expertise, skills, diligence, and prudence for the best interests of customers. Therefore, thorough examination and understanding of an investment's features, risks, and return characteristics ("due diligence") represents an important duty for the company to strictly comply.

To ensure that the management company possess adequate knowledge about complex financial instruments and transactions before deciding to invest, based on the best interests of the customer as stipulated by its fiduciary duties, the Association of Investment Management Companies have prepared a self-assessment before the company decides to invest in complex financial instruments and transactions. The minimum requirements of the due diligence are described below.

Each type of financial instrument or transaction have different risk and return characteristics. Financial markets and investments rapidly evolve, bringing new financial instruments and transactions that can be more diverse and complex. The company needs to revise procedures and methods to conduct due diligence accordingly to cope with the risk and return characteristics of new complex financial instruments and transactions. A due diligence must adhere to the following principles:

#### **Due diligence principles**

1. Complex financial instruments and transactions have risk and return characteristics that differ from plain vanilla financial products. As such, the company will need to proceed cautiously when making an investment decision and apply suitable procedures and methods when examining and familiarizing oneself with the investment's characteristics ("due diligence").
2. If the company cannot thoroughly understand the risk and return characteristics of a complex financial instrument or transaction, the company shall not engage itself in the investment of such complex financial instruments and transactions.
3. The company shall emphasize the importance of conducting a due diligence by treating it as an obligation that the company must fulfill as it acts on behalf of the customer. Conduct investment management tasks with utmost care, applying the expertise and experience expected of professionals. Due diligence is not a box-ticking exercise.

<sup>1</sup> The example of complex financial instruments and transactions, structured notes, dividend payment scheme based on formula or other conditions, structured derivatives, etc.

4. The due diligence process must consist of at least 3 steps, namely (1) acquire an understanding of the underlying of the complex financial instrument or transaction, (2) the structure of risk and return of the complex financial instrument or transaction, and (3) consider the suitability of investing in the complex financial instrument or transaction for the fund.
5. It is imperative to perform a due diligence before investing; complete all parts mentioned. While the investment is still held in the portfolio, the company must also monitor and review the quality of those complex financial instruments and transactions continuously in accordance with guidelines prescribed by the Association of Investment Management Companies with regards to investment risk management. This is to ascertain whether the investment held is still suitable as an investment for the fund.
6. 6. The company shall not use a credit rating as a substitute for conducting a proper due diligence.

**1. Complex financial instruments and transactions**

**1.1. Name of financial instrument or transaction:**

Trade name: .....

Financial term (if different from previous): .....

**1.2. Structure of financial instrument or transaction:**

(For example, bill of exchange/ promissory note/ debenture/ derivative / mutual fund/ ETF or other types)

**1.3. Issuer:**

(The issuer must be eligible to issue the complex financial instrument in compliance with regulations; the management company must be able to legally enforce its contractual rights)

**1.4. Investment amount:**

**1.5. Maturity / Contract period:**

(Time to maturity of instrument shall also include terms for early expiration prior to maturity stated on instrument)

**1.6. Underlying:**

(Underlying must be type approved by regulations)

**1.7. Credit rating of instrument:**

**1.8. Credit rating of issuer:**

**1.9. Terms for repayment of principal:**

**1.10. Terms for payment of financial returns:**

**1.11. Fees and charges on the transaction:**

**1.12. Conditions for transfer:**

**1.13. Other conditions:**

**2. Underlying of complex financial instrument and transaction**

**2.1. Underlying:**

Example: An investment in a structured note offers principal protection and financial return is linked to index A which tracks an investment strategy based on equity futures, fixed income futures, and crude oil futures. In return, the fund is expected to receive financial returns tied to the performance of index A if the price of index A at the end of 3 years exceeds the level on the day of investment. However, if index A is lower, the investor does not earn a financial return.

The underlying is index A, determined by a calculation based on equity futures, fixed income futures, and crude oil futures.

**2.2. Factors that affect market conditions for the underlying:**

Example: - The structure of the market in which the equity futures, fixed income futures, and crude oil futures are traded.

- Factors that impact the market for those futures, such as government policy, economic conditions, interest rates, economic sentiment index, political situation, crude price direction, or quantity of oil reserves.

**2.3. Company's view of the underlying in those markets:**

(1) Special characteristics of such underlying

Example: - Equity futures: consists of which stocks

- Fixed income futures: based on which features about the fixed income instruments, such as quality, time to maturity, etc.

- Crude oil futures: based on quotations of which crude oil, traded where, etc.

(2) Factors positively/negatively impacting the underlying, either quality or volume.

(3) Forecasts of the underlying's performance which could shape the financial returns of the complex financial instrument.

Examples: - Examine historical data, current fundamentals. How will the company assess and forecast the underlying's performance and what is the likelihood of generating such financial return for the fund?

**Source of reliable data to monitor current movements of the underlying:**

(Does the data source contain constraints? In what way? What measures will we use to overcome such constraints?)

Example : - Is there sufficient information to assess the quality of the underlying?

- Is information disclosure continuous and up to date?
- Is the calculation of index A being checked for errors?

### **3.Risk and return**

#### **3.1 General characteristics / structure of financial instrument:**

- (1) Structure of the transaction
- (2) Roles and responsibilities of parties involved
- (3) Risk, experience, credibility of parties involved
- (4) Conflict of interests (if any) and solution

Example: The aforementioned structured note may be separated into a bill of exchange and an embedded long call option on index A with an exercise price equivalent to index A on the investment date.

- Separate the components of the transaction. Determine the parties involved to see the obligations imposed on each party and what their roles are. For instance, who is calculating the index, who is ensuring the accuracy of the index calculation, who is the arranger managing the sale of the structured note, etc.
- How credible and experienced are the parties involved? What is the risk exposure? How are their financial status?
- How committed are the parties involved in this transaction? Are there any conflicts of interests? What measures are in place to mitigate and deal with conflict of interests?

#### **3.2 Exposure in the underlying:**

- (1) Method for calculating amount of exposure
- (2) Simulation method if there is a need to run a simulation to calculate the exposure.

#### **3.3 Types of related risks:**

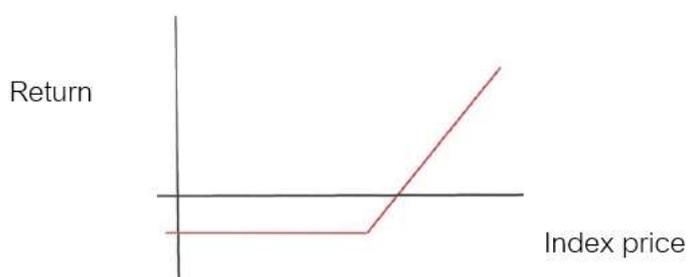
- (1) Sources of risk. For example, market risk, credit risk, liquidity risk, regulatory risk, and any other risks
- (2) Guidelines to calculate, control and monitor risks
- (3) The relevance of assumptions used in the risk model used to measure the risk exposure of the underlying with actual market data.
- (4) Tools or measures to mitigate risks.
- (5) Are terms and conditions of the investment enforceable by law.

#### **3.4 Pay-off diagram:**

- (1) Pay-off diagram for each scenario which includes stressed event  
(Stress event may be based on historical data or simulation data)

Example: Financial return of the fund from the structured note investment

$$= \max \left( 0, \frac{\text{Index A on expiry of 3rd year}}{\text{Index A on investment date}} - 1 \right)$$



- Upon occurrence of a stressed event on the underlying, the fund does not earn a financial return.

(2) Loss does not exceed principal amount invested.

Example: Maximum loss does not exceed the principal amount invested because the structured note protects principal.

### **3.5 Fair value of the financial instrument:**

(1) Pricing methodology for the financial instrument

(2) Risk-return proposition of the investment in the complex financial instrument or transaction (such as whether price proposed is reasonable? How?)

## **4 Suitability of the investment to the fund**

### **4.1 Compliance with regulations:**

The investment must comply with relevant regulations prescribed by authorities or company's internal rules.

### **4.2 Alignment with fund's investment policy and information disclosed to investors:**

(1) How well does the objectives of the investment align with the fund's investment policy?

(2) Does the investment distort the fund's intended investment objectives and policy?

(3) The performance is compared to which benchmark?

(4) Information is disclosed to investors. For example, features of the instrument, credit rating, terms and conditions regarding financial returns, factors affecting the payment of principal and financial returns, etc.

### **4.3 Compliance with fund's redemption policy:**

How does such investment affect the fund's liquidity. Is it properly aligned with the redemption policy of the fund.

### **4.4 Compatibility with the company's operations and internal controls**

The company's operations and internal controls must be able to handle investments in complex financial instruments and transactions. For example:

- (1) There is an approval process to grant permission for a fund manager to invest in complex financial instruments and transactions.
- (2) There is a legal advisor who can provide a legal opinion regarding complex financial instruments and transactions.
- (3) There are valuation methods to determine pricing and fair value, with staff designated to handle valuations and audit. The management company may appoint a third party to calculate valuations, but a process must be in place to audit and verify such valuations. Valuations should not deviate significantly. For case where valuations differ markedly, the management must seek additional explanation and facts from the third party and/or consult the matter with relevant staff in the company without delay.
- (4) Fair value is marked-to-market at least on every trading day.
- (5) Accounts and financial reports are prepared according to generally accepted accounting standards.
- (6) A person is designated to monitor whether the investment in complex financial instruments and transactions comply with stated terms and conditions.
- (7) Party or sales agent is able to explain to investors about the instrument or transaction's risk and return

### **Frequently Asked Questions (FAQ)**

#### **Investment Risk Management Guideline**

No	Questions	Answer
<b><u>1. Role of the Board of Directors</u></b>		
1.1	<p>Can the Board of Directors (BoD) authorize the Risk Management Committee (RMC) to approve or endorse the policy and procedures, or empower the RMC to take action on the Board's behalf?</p> <p>And if the company's BoD is domiciled in a foreign country, can executive management in Thailand possessing similar authority as the Board able to similarly delegate duties to others?</p>	<p>Yes. But the RMC shall be obligated to report about the work conducted according to duties assigned by the BoD. Note that the BoD remains responsible for that role and responsibility.</p> <p>If the company's BoD is domiciled in a foreign country, the Bod can empower the risk management work to an executive committee located in Thailand. This executive committee can further delegate the risk management work to other committees. But the executive committee and the other committee must operate independently from the investment management department and must report to the</p>

No	Questions	Answer
		BoD in the foreign country as well. Note that the BoD in the foreign country remains responsible for the risk management role and responsibility.
1.2	Can executives in investment management be a member in other authorized committees? Their investment expertise can generate valuable advice.	Yes, they can, but they cannot provide final ruling on a vote and cannot occupy the majority number of votes.
<b>2. Risk valuation tool and measurement process</b>		
2.1	Back-tests can be conducted for some models, but not all.	The company may not need to do back-tests if tools or risk data provided from a third party meets internationally accepted standards regarding formulas, models, and method. For example: duration beta tracking error
2.2	Must the company conduct back-tests for every single fund or not.	The company shall do back-tests for all funds, or may choose to only conduct back-tests on a sample fund with the same portfolio model consisting of investment in the same securities and portfolio composition does not differ markedly. This is up to the management company's discretion.
2.3	Guidelines and factors for liquidity risk assessment should not include private funds which do not require preparation of liquidity for redemptions; the investor already acknowledged and agreed to the liquidity conditions for the chosen investment policy.	For a private fund which is not a provident fund, the company shall set liquidity risk management guidelines that aligns with terms agreed with the customer. Ensure that the company has properly communicated with the investor and the investor has acknowledged the liquidity risk of the fund.
2.4	Must methods and factors for liquidity risk assessment for open-ended funds need to be specific down to the individual securities level, if measures are already applied at the portfolio level.	The company shall also set methods and factors for liquidity risk assessment at the securities level to obtain a better picture of the liquidity status. However, it is not necessary to prescribe liquidity levels for individual securities. At the fund level, the company may prescribe measures as follows: <u>1. Set minimum requirements for liquid assets.</u> For example, a fixed-income fund may set portfolio weightings in terms of liquidity (such as grouping assets according to ability to be liquidated within 3 days, 7 days, 14 days, etc.) and require the portfolio to maintain minimum prescribed weights for each group. Alternatively, short-term investments may be

No	Questions	Answer
		<p>preferably staggered such that in every week, some will mature and generate cash to support redemptions.</p> <p><u>2. Assess liquidation period</u> where securities may be successfully sold without impacting its price. For example, an equity fund may collect past data on trading volumes to assess the likely period a position may be liquidated to meet redemptions.</p>
2.5	<p>Do scenario analysis / stress tests need to be conducted for every fund?</p> <p>Examples of some funds which do not seem to require such tests are open-end funds with a pre-determined life containing investment assets that match (term fund), or passive funds with portfolios that match the index's composition, or feeder funds that only invest in one master fund, or any other fund types with similar characteristics.</p>	<p>The objectives of a stress test / scenario analysis are:</p> <ol style="list-style-type: none"> <li>1. To analyze the effect on the investment portfolio under various simulation scenarios to obtain beneficial insights towards the fund management and risk management process.</li> <li>2. Analyze whether the fund has sufficient liquidity, especially for money market funds and fixed-income funds which can be redeemed frequently, under extreme conditions, to obtain useful insights in order to develop a crisis response plan.</li> </ol> <p>When deciding if scenario analysis / stress tests should be conducted for a fund, the management company should consider the investment policy and type of investment assets as a guide. For example:</p> <ol style="list-style-type: none"> <li>1. For a fixed-income term fund which invests and holds instruments until maturity, the company may opt not to conduct analysis/test. However, the company must still monitor credit rating changes of instruments regularly during the holding period.</li> <li>2. For a passive fund that closely matches the composition of its index (full replicate), the analysis/stress test might not be required.</li> <li>3. For a feeder fund that invests solely in a master fund, the analysis/stress test might not be required.</li> <li>4. For funds following the same investment framework, with same securities selection and allocation and not significantly different from other</li> </ol>

No	Questions	Answer
		funds in the same group, the company may use its discretion to only test one fund as a proxy for that group.
<b>3. Maximum risk limit</b>		
3.1.	When prescribing risk limits, can we exclude private funds because the risk tolerance level of private funds is unique to the client unlike with mutual fund or provident fund customers.	In case of a private fund which is not a provident fund, the company must conduct KYC/Suitability Test to determine the risk profile of the customer. Whether to prescribe a risk limit or not, shall depend on an agreement between the company and customer.
3.2.	Can BoD not be required to prescribe portfolio durations for general fixed-income funds? Portfolio duration is strategic and may need to change as the investment climate changes. If BoD has to set them, the BoD meeting intervals may be too infrequent to properly respond to market changes, hence lead to missed opportunities for funds.	<p>The management company must prescribe risk limits on 2 separate levels:</p> <p>1. <u>Firm-wide level</u> BoD might set the risk limit for all funds under management. For example, impose a risk limit on the total exposure of all funds with creditor position against a certain counterparty. Additionally, prescribe risk limits for each fund type such as equity funds or fixed income that properly fits the fund type. Examples of firm-wide risk limits to apply may be a tracking error limit for passive funds, portfolio beta limit for actively managed equity funds, portfolio duration limit for short-term fixed income fund or long-term fixed income fund, etc.</p> <p>Firm-wide risk limit may be specified flexibly to facilitate the investment management process. For example, define a grace area to permit an acceptable deviation above or below the risk limit. With such allowance, the company must establish strict procedures to require a deviation to be corrected within a prescribed time frame.</p> <p>2. <u>Fund level</u> The investment management department may determine the risk limit for individual funds together with the risk management unit, but they must still be within the firm-wide level specified by Bod.</p>
<b>4. Monitoring, Assessing, and Reporting Risk Exposure and Operations</b>		
4.1	The company may regularly produce a weekly risk report, while daily risk monitoring is already built into	<u>Measuring risk</u> : The company may set the frequency of risk calculation for individual securities

No	Questions	Answer
	the risk budgeting system which alerts when limits are breached on that day. When the management company sets risk reporting schedules, can the frequency of reporting be set according to the availability of data generated ?	<p>depending on type of risk exposure. However, the assessment must accurately reflect the risk exposure at any given time. For instance, while beta may be calculated weekly, it should also be calculated promptly if there is a significant event.</p> <p>At the portfolio level, such as portfolio beta, the management company must measure and monitor risk exposure every business day.</p> <p><u>Risk reporting:</u> The company shall report the risk status to the investment management department and/or fund operations department every business day or when a breach occurs. The company can present the risk report as a summary of all funds or show details on a fund by fund basis.</p>

### **Due diligence checklist**

No.	Question	Answer
<b><u>1. Due diligence checklist</u></b>		
1.1	What is the considered a complex financial instrument or transaction?	<p>To assess whether a financial instrument or transaction is complex or not, the company may consider:</p> <ol style="list-style-type: none"> <li>1. Is the structure of the transaction complicated? For example, does it contain legal obligations that are complicated, difficult to comply, involve many contractual parties or persons with diverging objectives and prone to conflict of interests, etc.</li> <li>2. Is the underlying well-known in the financial market or among the investing public? Is information widely disclosed about the issuer, market price and buy/sell volume.</li> <li>3. Is payout of financial return complex? For example, is return based on a complicated formula with many layers of derivatives, or variable according to a formula, etc.?</li> </ol>
1.2	Which committees are responsible for approving a due diligence checklist to be used before investing or during review periods? Must this be included in such committee's meeting reports?	-According to clause 7, page 4 of investment risk management guideline, for new investment, especially in complex financial instruments and transactions, the company shall require relevant departments such as investment management department, risk management

No.	Question	Answer
		<p>unit, fund operations department, and compliance unit, etc., to participate in the approval process before the investment is made to ensure those departments perform their intended roles.</p> <ul style="list-style-type: none"> <li>- After the investment in financial instrument and transaction has been approved, the company shall thoroughly complete a due diligence checklist and receive approval from the investment committee and risk management committee before investing.</li> <li>- While the investment is held in the portfolio, the company shall assess whether the investment remains relevant to fund objectives and monitor various factors which may affect risk and return (such as company's opinion on the underlying, risk status, expected returns to the fund). Conduct such review at least once a quarter, or when a significant event occurs. If risk exposure does not require major changes to the current risk management process, the company may obtain consent for the risk review solely from the investment committee.</li> </ul>
1.3	If the company has already established a new product committee, is it still necessary to require that the investment committee and the risk management committee approve the due diligence checklist?	If the company has already established a new product committee that only approves the investment framework for new instruments or transactions, including complex or high-risk ones, the company will still be required to conduct a due diligence checklist that must be approved by the investment committee and risk management committee. However, a new product committee may ultimately approve a due diligence checklist if its duty also includes conducting a due diligence that includes participation by the investment committee and risk management committee.
1.4	If the company has many funds which intend to invest in one complex financial instrument or transaction, does the company need to conduct a due diligence for each fund?	If the company has many funds which intend to invest in one complex financial instrument or transaction, the company can do an overall due diligence checklist for all funds, but the company is still required to assess the suitability of the investment for each fund.
1.5	If the company has already conducted a due diligence checklist and wants to make a new investment with a similar risk and return	The company shall conduct a due diligence checklist when investing in a new financial instrument. However, if the new financial instrument has the same risk and return

No.	Question	Answer
	structure as a previous one, is a new due diligence checklist required every time?	characteristics as a previous investment already approved, the company may consider testing certain key sections for suitability and as an opportunity to review the risk and return characteristics of previous similar instruments invested. For example, assess risk factors that could impact market conditions for the underlying, the company's latest investment view of the underlying, suitability, etc.
<b>2. Risk and return assessment</b>		
2.1	The company already assesses counterparty risks, prescribes exposure limits, and has internal controls in accordance with guidelines of the AIMC and the company. For other parties, such as index providers and index pricing service providers who are already well-established, financially sound, and widely recognized in the market, is counterparty risk management still required?	The definition of relevant parties is broader than counterparty, index provider, or index pricing service providers. For example, in the case of a collateralized debt obligation (CDO), many parties are involved in the deal yet each may have different objectives which may present a conflict of interests (COI). Hence, the company shall examine and understand the role of each party in the deal, to assess the risks and incentives of each party and COI. Establish guidelines on how to address such risks and COI.
<b>3. Fair value calculation and monitoring</b>		
3.1	Can the company appoint a business counterpart/counterparty to calculate fair values and re-check those figures itself?	The company may appoint its business counterpart / counterparty to calculate fair values, but the company shall deploy a monitoring process to check the figures' accuracy. The fund manager shall acknowledge the principles behind the calculation and figures must be quite similar. If the opinion of the fair value differ significantly from the counterparty's figure, the company must seek an explanation and supporting facts from the counterparty, or raise the issue internally with relevant persons. Verifying valuations through comparison with past valuations might not be appropriate because it neglects proper analysis of factors which are impacted prices.
<b>4. Other questions</b>		
4.1	Due diligence checklist work appears to be redundant in nature. When investing in complex financial instruments or transactions, the SEC already requires the company to conduct a self-assessment	The SEC is currently considering revoking the self-assessment checklist which applies to structured derivatives, and instead administer the due diligence checklist which has more comprehensive coverage of details.

No.	Question	Answer
	checklist. If the company must conduct a due diligence checklist, can we base this checklist on the self-assessment checklist?	
4.2	If the company only manages funds which do not include complex financial instruments or transactions, can the company have its own checklist suitably designed for such investment policy?	If investments do not involve complex financial instruments or transactions, the company is allowed discretion to create its own checklist.

**Summary of 3<sup>rd</sup> Feedback Consultation from 2 Members of AIMC**

**Regarding Investment Risk Management Guideline and Due Diligence Checklist on 25 June B.E.2556**

**After the SEC proceeded to let AIMC enact the draft notification on 12 June B.E.2556**

<b>No.</b>	<b>Topic</b> <b>(Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)</b>	<b>AIMC member's comment</b>	<b>SEC's comment</b> <b>(Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)</b>
<b>A. Role of Board of Director</b>			
<b>1</b>	<p><b><u>Approval of Risk Policy</u></b></p> <p>The Board of Directors shall <u>approve or endorse the policy and procedures</u> and have it reviewed at least once a year or upon the occurrence of a significant event.</p> <p>[Roles of The Board of Directors page 2, table 1, no.3]</p>	<p><u>SCB Asset Management Co., Ltd.</u></p> <p>Can the Board of Directors only approve the risk management policy, but not the operating procedures due to enormous detail and the Board may not have sufficient expertise to properly approve it.</p>	<p>If the Board of Directors (Bod) lacks expertise on operating procedures, the Bod can authorize a committee with such expertise to handle instead. Such authorized committee shall act independently from the investment management function and have the obligation to report results of the operations to the BoD. Note that the BoD remains responsible for their role and responsibilities in risk management.</p> <p>[Refer to guidelines page 2, table 1, last paragraph]</p>

No.	Topic (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)	AIMC member's comment	SEC's comment (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)
2.	<p><b><u>Details of Risk Policy</u></b></p> <p>The Board of Directors shall establish the policy and procedures in written form. Policy framework must be clearly defined and effective. Minimum requirements for policy and procedures must include the following:</p> <p>(3) Tools, techniques, risk analysis system which include <u>tool selection, calculation, models, risk valuation method.</u></p> <p>[Refer to guidelines page 3, no.1(3)]</p>	<p><u>SCB Asset Management Co., Ltd.</u></p> <p>Tools and methodology to measure risk can be clearly defined and standardized, but calculation formulas and models for risk valuation cannot be permanently configured. Risk models are dynamic in nature and need to be adjusted and assessed for every market situation. Hence it is not suitable to set specific calculation formulas and models in the policy. Instead, it is better to focus on defining the objectives and risk indicators used in the model. For example, specify VaR, confidence factor, and holding period. Which assessment method is used, such as as Monte Carlo Simulation or Multi-Factor Statistical Risk Model.</p>	<p>In the risk policy, the company may broadly prescribe a calculation formula and simulation model for specific market conditions or type of financial instrument. For example, for derivative options where return does not follow a normal distribution, consider using a VaR model based on Historical Simulation. On the other hand, return from general equities that follow a normal distribution may use a VaR model based on Delta-Normal. Note that the risk policy must include basic requirements of the guideline.</p>
<b><u>B. Risk management</u></b>			
3	<p>The employee or unit who is in charge of risk management shall be involved in setting <u>guidelines on instrument and counterparty selection</u> of the fund, including participate in the approval of a new financial instrument or transaction for investment.</p>	<p><u>SCB Asset Management Co., Ltd.</u></p> <p>To what extent must the risk management function be involved in setting guidelines on instrument and partner selection of the fund? Can we be more specific? For example, just approve a stock universe</p>	<p>The risk management function shall participate in setting the <u>guidelines</u> on instrument and counterparty selection of the fund to ensure risk of instruments or counterparties match the investment policy of</p>

No.	Topic (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)	AIMC member's comment	SEC's comment (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)
	[Refer to guidelines page 5, no.3(4)]	or must involvement extend to the selection of individual securities? If it is the latter, the investment management process may not be responsive enough to keep up with the market.	the fund. Selection of actual instruments and counterparties relevant to market conditions shall be the responsibility of the investment management function.
<b>C. Risk measurement tools and process</b>			
4	<p><b><u>Determination of risk management structure and procedure</u></b></p> <p>The Board of Directors shall clearly establish a risk management structure and procedure to ensure that the company can identify, assess, and manage investment risks properly. This shall be included in one of the key policies of the company. The risk management structure and procedure shall be in-line with the characteristics, scope, size, volume, and complexity of the company's business operations.</p> <p>[Refer to role of The Board of Directors page 2, table 1, no.1]</p>	<p><u>SCB Asset Management Co., Ltd.</u></p> <p>We are of view that there are some inconsistencies between guidelines that state "Risk management procedure shall be in-line with the characteristics, scope, size, volume, and complexity of the company's business operations" and the guideline on procedures which require the company to deploy all the tools, system, valuation processes, and risk management tasks prescribed.</p>	<p>The guidelines and operating procedures are actually consistent. The company shall establish the tools and risk management system sufficient for the risk management structure and procedure that the BoD deems appropriate for the characteristics, scope, size, volume, and complexity of the company's business operations. Once the BoD has passed its resolution, staff handling those tasks must deploy all the tools, system, valuation processes, and risk management tasks assigned.</p>

No.	Topic (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)	AIMC member's comment	SEC's comment (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)
	<p><u>Use a range of risk valuation methods (such as technique, method, and tool) to enable the company to thoroughly assess its risk exposure.</u></p> <p>[Refer to guidelines page 7, no.1 (2)]</p>		
5	<p>A process must be established to <u>validate the accuracy of the data</u>. Front office and back office should have a data connection to achieve efficiency and minimize human errors. of data in front office and back office to efficiently perform and reduce human error.</p> <p>[Refer to page 7, no.1(6)]</p>	<p><u>BBL Asset Management Co., Ltd.</u></p> <p>Regarding the SEC's opinion that "the management company must have a process to audit the accuracy of data retrieved before using, but if the data is from a reliable source such as the SET or ThaiBMA, auditing is not necessary."</p> <p>When speaking of a reliable source, it would be preferable to actually list all the other acceptable sources besides the SET and ThaiBMA for clarity.</p>	<p>The company shall verify the accuracy of incoming data before using it. If the source is reliable, such as the SET, ThaiBMA, Bloomberg and Reuters, the management company is not required to verify the data before using.</p>
6	<p>The company shall prescribe guidelines and liquidity risk factors that are aligned with the investment policy of the fund, especially for open-end funds permitting frequent redemptions. <u>Set liquidity levels for each security</u>, set liquidity levels at the fund level, assess overall liquidity risks for all</p>	<p><u>SCB Asset Management Co., Ltd.</u></p> <p>If the management company already prescribes liquidity levels for each type of instrument, it seems unnecessary and redundant to impose liquidity level requirements at the individual securities level too?</p>	<p>The company must also specify approach and factors for assessing liquidity risk of individual securities, in order to determine the liquidity levels for the type of securities. The company is not required to set liquidity levels for each security.</p>

No.	Topic (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)	AIMC member's comment	SEC's comment (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)
	funds under management, before and after investing. [Refer to page 7, no.2(4)]		The SEC has amended the wording in the guidelines to make it clearer.
<b><u>D. Monitor, assessment, risk valuation report, and operational reports</u></b>			
7	The employee or unit who is in charge of risk management shall produce fund operational reports for the Board of Directors. [Refer to risk measurements and operational reports page 11, table 6, no.2]	<u>SCB Asset Management Co., Ltd.</u> Risk measurements and fund operational reports must be produced independently from the fund manager. However, the company can achieve this independence in many ways; it is not necessary to only appoint this task to the risk management function.	The risk management guideline only provides a basic minimum requirement that companies should establish. However, if the company has other procedures to achieve the same results as the guideline, it can proceed to do so.
8	<u>Risk status report</u> – Staff or unit in charge of risk management shall report to the risk management function and/or compliance unit every business day or <u>whenever risk exposure exceeds the threshold</u> . Additionally, the company shall designate such report as a permanent agenda in the investment committee, risk management committee, and Board Meeting. Furthermore, if a significant event	<u>SCB Asset Management Co., Ltd.</u> Regarding the frequency of risk status reporting, should it be based on what is appropriate for the type of risk and acceptable risk level, or up to the company's discretion, or should there be clear rules on which types of reports must be produced daily.	Refer to FAQ, page 5, no.4.1 which states that the company shall report risk status to investment function and/or compliance unit every business day or when the risk value exceeds the threshold. The company may provide risk status summary report covering all funds or show specific details for each individual fund.

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	occurs, the company must notify relevant persons immediately. [Refer to guidelines page 11, no.3(1)]		Nevertheless, the company is required to calculate and monitor the risk value for each fund every business day.
9	A due diligence checklist is a required procedure before investing. Ensure all sections are thoroughly completed. While the investment is still held in the portfolio, the company shall <u>continuously monitor and review the quality of the complex financial instrument or transaction</u> to ensure the investment remains aligned with the objectives. [Refer to due diligence page 1, no.5] For <u>complex financial instruments and transactions</u> , the company shall examine and understand the risk and return characteristics (due diligence) before investment. Also identify and manage each risk component associated with the instrument or transaction as appropriate for the type of underlying	<u>SCB Asset Management Co., Ltd.</u> After the due diligence and investment has been completed and the investment is held in the portfolio, what is the required frequency and scope of the follow-up review and assessment?	While the complex financial instrument and transaction is held in the portfolio, the company shall review the investment's suitability and factors which may affect risk and return to the fund. For example, assess the company's view of the investment product, or the underlying, risk status and returns generated for the fund by this complex instrument or transaction, etc. This should be done at least once per quarter and whenever a significant event occurs. The SEC has amended the wording in the guideline for better clarity. The clarification above has also been added to the FAQ.
	asset and type of risk exposure. Approval must be obtained from the <u>investment committee and risk management company before investing</u> . While the	<u>SCB Asset Management Co., Ltd.</u> If we have many funds that intend to invest in the same complex instrument or transaction, do we	If the company has many funds that invest in the same complex instrument or transaction, the company is permitted to conduct a due

No.	Topic (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)	AIMC member's comment	SEC's comment (Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)
	<p>investment is held in the portfolio, the company must establish procedures to <u>continuously review whether the investment remains compatible with the fund and whether the fund's risk profile remains intact with this complex instrument or transaction.</u></p> <p>If the risk exposure and profile has not changed significantly to require changes to the risk</p>	<p>need to conduct a due diligence for each fund separately?</p>	<p>diligence checklist for all funds at once. However, the company shall still assess the investment's suitability for each individual fund.</p> <p>The SEC has already noted the above answer in the FAQ.</p>
	<p>management process, the company may simply submit the assessment and review report to the investment committee for its sole approval.</p> <p>[Refer to guidelines page 8, no.2(6)]</p>	<p><u>SCB Asset Management Co., Ltd.</u></p> <p>If the company has already established a new product committee, is it still necessary to require that the investment committee and the risk management committee approve the due diligence checklist?</p>	<p>If the company has already established a new product committee that only approves the investment framework for new instruments or transactions, including complex or high-risk ones, the company will still be required to conduct a due diligence checklist that must be approved by the investment committee and risk management committee. However, a new product committee may ultimately approve a due diligence checklist if its duty also includes conducting a due diligence that includes</p>

<b>No.</b>	<b>Topic</b> <b>(Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)</b>	<b>AIMC member's comment</b>	<b>SEC's comment</b> <b>(Refer to revised draft of the Investment Risk Management Guideline on June B.E.2556 and latest version of Due Diligence Checklist)</b>
			<p>participation by the investment committee and risk management committee.</p> <p>The SEC has already noted the above answer in the FAQ.</p>