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AIMC Logo

Notification of the Association of Investment Management Companies

No. SorJorKor. Ror. 5/2545

**Re: Guidelines and Procedures for Determining the Fair Value of Investments for the
Calculation of Net Asset Values of Mutual Funds**

To establish the procedures and method for estimating the fair value of investments for the calculation of net asset values, reflecting fair market price that is standardized and comparable, in line with Thai Accounting Standards no. 42 Re: Accounting for Investment Entities. By virtue of Clause 25 of the Articles of the Association of Investment Management Companies, the board of directors of the Association of Investment Management Companies hereby issue the guidelines and procedures for determining the fair value of investments for the calculation of net asset values of mutual funds as follows:

Clause 1 The notification of the Association of Investment Management Companies no. SorJorKor. Ror. 4/2543 Re: Guidelines and Procedures for Determining the Fair Value of Investments for the Calculation of Net Asset Values of Mutual Funds dated 29 December B.E.2543 shall be revoked.

Clause 2 In this Notification,

"Management company" refers to a securities company licensed to operate a securities business involving mutual fund management.

"Trustee" refers to a trustee of the mutual fund.

"Association" refers to the Association of Investment Management Companies.

"Member" refers to a company that is a member of the Association of Investment Management Companies that is licensed to operate a securities business involving mutual fund management.

"Mutual funds" refer to closed-end funds and open-end funds.

“Closed-end fund” refers to a mutual fund which is not redeemable before maturity and operated by a management company.

“Open-end fund” refers to a mutual fund which is redeemable and operated by a management company.

"Investment" shall be interpreted as defined in Accounting Standards no. 42 Re: Accounting for Investment Entities.

"Main bourse" shall be interpreted as defined in Accounting Standards no. 42 Re: Accounting for Investment Entities.

"Actively-traded market" shall be interpreted as defined in Accounting Standards no. 42 Re: Accounting for Investment Entities.

"Stock exchange" refers to the Stock Exchange of Thailand.

"Fair value" shall be interpreted as defined in Accounting Standards no. 42 Re: Accounting for Investment Entities.

"Amortization cost" shall be interpreted as defined in Accounting Standards no. 42 Re: Accounting for Investment Entities.

"Market maker" refers to a financial institution or securities company that provides liquidity for particular securities.

Clause 3 When determining the fair value of various investments for calculation of the net asset value of the mutual fund, the member must comply as follows:

3.1 For an investment in an actively traded market, if it is only actively traded in one market, the fair value shall be determined as follows:

3.1.1 Use the latest Closing Price for the day the net asset value is calculated.

3.1.2 Use the latest traded price of the day before (Prior Price) the date of the net asset value calculation, provided that economic or market conditions have not deviated significantly between the day of the most recent trade and the date of the net asset value calculation.

3.1.3 Use the Last Bid for the day the net asset value is calculated.

3.2 For an investment actively traded in more than one market, the price shall be reference by following these steps:

3.2.1 Use the Closing Price on the main bourse on the day the net asset value is calculated.

3.2.2 Use the last traded price on the main bourse on the day prior (Prior Price) to the date the net asset value is calculated, provided that economic or market conditions have not

deviated significantly between the day of the most recent trade and the date of the net asset value calculation.

3.2.3 Use the Closing Price in the second most-broadly traded market relative to the main bourse. The aforementioned price data must be on the same day as the date the net asset value is calculated, or the Prior Price may be used if economic or market conditions have not deviated significantly between the day of the most recent trade and the date of the net asset value calculation.

3.3 The fair value of listed securities which are purchased or acquired from foreign board shall be based on pricing data from the main board. Follow procedures described in Clause 3.2.

3.4 Although an investment may have been traded in the market on the date of the net asset value calculation and pricing data is disclosed to the public, members may choose to treat that investment as not supported by an actively traded market on that particular day if all of the following conditions are met:

3.4.1 The investment is inactive with bids, offers, and trades not occurring frequently. Trading volume in the market is low compared to the market's total volume, hence the traded price does not properly represent the fair value of the investment.

3.4.2 The previous bid or offer appeared significantly long ago since the day the valuation is being determined.

3.4.3 The bid price and the offer price are significantly different, or the trading price fluctuates considerably.

When a member assesses that the particular investment does not have an actively traded market pursuant to all of the above conditions, the member must explain its justification in writing and proceed to estimate the fair value of the investment by complying with the guidelines applicable to the respective type of investment as described in Clause 4 or Clause 5.

Clause 4 When determining the value of various investments that do not trade on an actively traded market, or investments that do trade on the Stock Exchange of Thailand or Thai Bond Dealing Centre or any other active market but assessed by the member as being illiquid, the estimation of investment fair value shall be determined according to the method described below. Once that investment becomes actively traded again, the member shall determine fair value by using pricing method described in Clause 3.

4.1 Common and preferred stocks

4.1.1 Common and preferred stocks listed on the stock exchange or any other active market shall be estimated of investment fair value by using the following criteria:

(Unofficial Translation)

4.1.1.1 The fair value shall be estimated by comparing the Price to Earnings Ratio, or the Enterprise Value to Earnings Before Interest, Tax, Depreciation and Amortization, or the Price to Book Value, the Price to Net Asset Value, or other suitable ratios or valuations applicable to common and preferred stocks of the same type, category, and key features. For example, compare with shares in the same industry sector or have similar attributes that are also listed on other stock exchange or other actively traded markets.

4.1.1.2 Estimate the fair value by using the bid price quoted by a market maker.

4.1.1.3 Estimate the change in the fair value of the investment by using the price movement of comparable common or preferred stocks (stocks of similar type, key features, etc. also listed on the stock market or other actively traded market) over the same period as reference. Alternatively, reference against the price movement of the sector index of the stock market or other actively traded market.

When a member decides to estimate the fair value of any common or preferred stock by using a prescribed method, the member must consistently use that method. The member may only change the method if evidence suggests that the method being used is no longer the best estimate of that particular securities' fair value.

4.1.2 For common or preferred stocks which are Initial Public Offerings aiming to be listed on the stock exchange any other actively traded market, regardless of whether acquired at the Initial Public Offering price, or a higher or lower price than the Initial Public Offering price, the fair value shall be set at the Initial Public Offering price, excluding fees or other expenses to obtain those shares.

4.1.3 For common or preferred stocks acquired before an Initial Public Offering and not yet been offered to the public as an Initial Public Offering, or common or preferred stocks that is part of a capital increase by a company non listed on the stock exchange or any active market, or rights to subscribe to common or preferred stocks that is part of a capital increase by a company non listed on the stock exchange or any active market, the fair value should be determined by using the average cost to purchase those stocks on the latest day; also include fees and any other expenses needed to acquire those stocks. Or, use the latest price at which those stocks were sold off. However, when using the aforementioned reference price to determine fair value, use the price that is nearest to the day the net asset value is calculated.

When there is an initial public offering with objective to be listed on the stock exchange or other actively traded markets, the member shall apply the guidelines described in Clause 4.1.2 to determine the fair value.

4.1.4 For common or preferred stocks that are part of a capital increase of a company listed on the stock exchange or any other actively traded market that are not yet registered to trade, or rights to subscribe to common or preferred stocks that are part of a capital increase of a company listed on the stock exchange or any other actively traded market that are not yet registered to trade, the fair value shall be determined from the inference price of those common or preferred stocks when combined with other existing shares of that company (Implied Value Method), using guidelines described in Clause 3.

4.2 Transferrable subscription rights

4.2.1 For transferrable subscription rights and their exercisable shares that would later be listed on the stock exchange or other actively traded markets, the fair value shall be determined by using the price of the exercisable shares pursuant to the criteria in Clause 3 minus the subscription fee. However, the resulting valuation must not be less than zero.

4.2.2 For transferrable subscription rights that are not listed, or not yet listed, on the stock market or any other actively traded market, whereby the exercisable shares would correspondingly not be listed on the stock exchange or any other actively traded market, the fair value shall be determined by using the average acquisition cost on the latest day; also include fees and any other expenses needed to acquire those transferrable subscription rights. Or, use the latest price at which those transferrable subscription rights were sold off. However, when using the aforementioned reference price to determine fair value, use the price that is nearest to the day the net asset value is calculated.

4.3 Warrant

4.3.1 For warrants with an option to buy the securities listed on the stock exchange or any other active traded markets, the fair value shall be estimated by using the price of shares to receive from exercising the warrants, pursuant to the guidelines described in Clause 3 minus the exercise price. However, the resulting valuation must not be less than zero.

4.3.2 For warrants of securities not listed on the stock market or any other actively traded market, the fair value shall be estimated by using the average acquisition cost to obtain the warrants on the latest day; also include fees and any other expenses needed to acquire those warrants. Or, use the latest price at which those warrants were sold off. However, when using the aforementioned reference price to determine fair value, use the price that is nearest to the day the net asset value is calculated

4.4 Derivative warrant or covered warrant

4.4.1 For derivative warrants or covered warrants, exercisable into securities which would be listed on the stock exchange any other actively traded markets, and whereby the issuer

(Unofficial Translation)

already has securities outstanding to support the conversion (Fully Covered), the fair value shall be estimated by using the price of the securities to receive from exercising those warrants, according to guidelines described in Clause 3 or Clause 4.1.1 minus the exercise price. However, the resulting valuation must not be less than zero.

4.4.2 For derivative warrants or covered warrants whereby the issuer has allotted a proportion of shares outstanding to support a conversion, but not for the full amount, the fair value shall be estimated by using the following criteria:

(1) Use the average acquisition cost to obtain the warrants on the latest day; includes fees and any other expenses needed to acquire the warrants. Or, use the latest price at which those warrants were sold off. The fair value must be based on a price nearest to the day the net asset value is calculated.

(2) Use the price of the securities to receive from exercising the warrants, for the portion where there are already outstanding shares to support the conversion. Estimation of the fair value of shares to receive from exercising the warrants shall be based on guidelines described in Clause 3 if shares received will be tradable in a actively traded market. Use guidelines described in Clause 4, if shares received will not have an actively traded secondary market. However, the valuation must not be less than zero.

When a member decides to estimate the fair value of any securities by using any prescribed valuation method, that member shall use such method consistently. A member can change the valuation method when there is reliable evidence that the estimated fair value based on the current method is no longer the best representative of that securities' fair value.

4.4.3 For derivative warrants or covered warrants exercisable into shares which are neither listed on the stock exchange or any other actively traded market, the fair value shall be estimated by using the average acquisition cost to obtain such warrants on the latest day; also include fees and any other expenses needed to acquire those warrants. Or, use the latest price at which those warrants were sold off. The fair value must be based on a price nearest to the day the net asset value is calculated.

4.5 Corporate bond, government bond, and transferrable long-term bonds.

4.5.1 For corporate bond, government bond, and transferrable long-term bonds, the fair value should be determined as follows:

(1) Base the price on the latest yield transacted in Thai Bond Dealing Centre, by calculating the price up until the day the net asset value is calculated, using the formula prescribed by the Thai Bond Dealing Centre, issuer, or underwriters. If there is no such yield, use the latest price.

(Unofficial Translation)

The member shall monitor prices at least on the 15th and last business day of the month. Check if there is a more updated price or yield transacted on the Thai Bond Dealing Centre since the previous review date to the current review date. If said date falls on a holiday, the review shall be performed on the next business day. If there is no newer price or yield during the aforementioned period, the member shall proceed according to steps described in (2).

If a member prescribes additional review dates besides the 15th and last business day of the month, the member must assess the price or yield of the bonds according to the first and second paragraph, regularly on every review date.

(2) Use the bid price or bid yield from the market maker on the review date to calculate the fair value pursuant to (1) until there is a new price or yield in the Thai Bond Dealing Centre, or until the next scheduled review date.

(3) When there is no price or yield according to (1) and no bid price or bid yield from the market maker pursuant to (2), the member shall estimate fair value adopting the following steps.

(a) Estimate fair value by comparing against yields of transactions in the Thai Bond Dealing Centre, or the bid price or bid yield from the market maker during the latest review period pursuant to (2) for bonds with identical or similar credit rating or duration (Comparative Bond Method) as bonds being valued.

(b) Estimate fair value by using the Reference Yield Curve Method for bonds with identical or similar duration as bonds being valued.

(c) For bonds having, or may have, financial problems, the fair value shall be estimated by using the Adjusted Book Value Method or the Liquidation Value method to determine the market price.

The estimated fair value according to (a), (b), or (c) must not be higher than the present value of expected cash flows, discounted properly to reflect investment risk in the corporate bonds, government bonds, or long term bonds.

(d) If the financial strength of issuer or the bond market changes significantly before the next scheduled review date pursuant to (2), the member shall immediately conduct an updated valuation for that investment in accordance with (2) or (3).

4.5.2 For corporate bond, government bond, and transferrable long-term bond which will mature within 90 days without provisions for an extension, the member shall estimate the fair value by applying the guidelines described in Clause 4.5.1 (1). Use the yield of securities with remaining maturity equivalent to 90 days or the yield to acquire securities which will mature within

90 days from date of acquisition. This is for cases where the financial strength of the issuer and the financial markets have not changed significantly.

4.6 Convertible bonds

4.6.1 The fair value of convertible bonds shall be estimated as follows:

(1) The price is based on the yield of the latest transaction in the Thai Bond Dealing Centre. Calculate the price up until the date the net asset value is calculated, according to the formula prescribed by the Thai Bond Dealing Centre, issuer, or underwriter of the securities. If there is no yield data, the member shall apply the latest price.

The member shall monitor prices at least on the 15th and last business day of the month to determine whether the securities have a more updated market price and yield transacted on the Thai Bond Dealing Centre since the previous review date. If the said date falls on a holiday, the review shall be performed on the next business day. If there is no newer price or yield during the aforementioned period, the member shall proceed according to steps described in (2).

If a member prescribes additional review dates besides the 15th and last business day of the month, the member must assess the price or yield of the securities according to the first and second paragraph, regularly on every review date.

(2) Use the bid price or bid yield quoted by the market maker on the review date to determine the fair value of the securities according to guidelines in (1) until there is a new price or yield transacted in the Thai Bond Dealing Centre, or until the next scheduled inspection date.

(3) If there is no price or yield data as stated in (1) and no price or bid price or bid yield quoted by the market maker as stated in (2), the member shall estimate fair value by following these steps.

(a) If the securities being converted would be listed on the stock market or any other actively traded markets, estimate the fair value by applying the higher value between the comparative price or the securities' theoretical value derived from calculations according to guidelines described in Clause 3, based on conversion ratio minus cost of conversion. The price of the debenture itself can be estimated using comparative pricing method against yields transacted on the Thai Bond Dealing Centre or yields quoted by a market maker during the review period as described in (2). Use bonds with identical or similar type, credit rating, or duration as the portion of bonds not eligible for conversion (when using Comparative Bond Method) or bonds with identical or similar duration when using Reference Yield Curve Method to value the portion of bonds not eligible for conversion.

(b) If the securities being converted will not be listed to trade on the stock market or any other actively traded markets, estimate the fair value by determine the value of the debenture itself. Estimate its value by using comparative pricing method against yields transacted on the Thai Bond Dealing Centre or yields quoted by a market maker during the review period as described in (2). Use bonds with identical or similar type, credit rating, or duration as the portion of bonds not eligible for conversion (when using Comparative Bond Method) or bonds with identical or similar duration when using Reference Yield Curve Method to value the portion of bonds not eligible for conversion.

(c) For convertible bonds having, or may have, financial problems, the fair value shall be estimated by using the Adjusted Book Value Method or the Liquidation Value method to determine the market price.

(4) If the financial strength of issuer or the debt market changes significantly before the next scheduled review date pursuant to (2), the member shall immediately conduct an updated valuation for that investment in accordance with (2) or (3).

4.6.2 On the date of conversion, the member shall estimate the fair value of securities obtained from the conversion, using valuation methods applicable to the respective type of securities as prescribed in this notification.

4.7 Unit trusts

The value of investment units shall be determined from its net asset value per share.

When calculating the fair value pursuant to the criteria in Clause 4, use the average acquisition price inclusive of fees and any other expenses to acquire the investments, or use the selling price. The member shall assess whether the price appropriately reflects its fair value or not. If the price is not suitable, the member must follow procedures described in Clause 7.

Clause 5 When calculating the fair value of other types of investments not covered in Clause 3 and 4, the member must proceed as follows:

5.1 Bank deposit

Estimate fair value by using principal plus accrued interest until the day the net asset value of the fund is calculated.

5.2 Promissory note, bill of exchange, certificate of deposit and treasury bill

5.2.1 The fair value of non-transferrable promissory notes, bills of exchange, certificates of deposit and treasury bills shall be determined as follows:

5.2.1.1 Promissory notes, bills of exchange, certificates of deposit and treasury bills that pay interests are calculated by using principal plus accrued interest until the day the net asset value of the fund is calculated.

5.2.1.2 Promissory notes, bills of exchange, certificates of deposit and treasury bills that have been discounted shall be calculated by using the amortized cost method. Amortization shall be based on the effective interest method or other methods producing a result not drastically different from the effective interest method.

5.2.2 The fair value of promissory notes, bills of exchange, certificates of deposit and treasury bills shall be estimated pursuant to Clause 3.5. However, the member may choose to apply other valuation methods in the case of promissory notes, bills of exchange, certificates of deposit and treasury bills which are either listed or not listed on the Thai Bond Dealing Centre but will mature within 90 days (without provisions for extension) from the day the net asset value of the fund is being calculated. If the financial strength of the issuer or market conditions does not change significantly, estimate the fair value by using Clause 5.2.1. The fair value shall be based on the yield if the duration is equal to 90 days or the purchased yield if the securities will mature within 90 days from date of purchase.

5.3 Promissory notes, bills of exchange, certificates of deposit and treasury bills which the issuer may redeem by offering bonds or other securities as payment.

For promissory notes, bills of exchange, certificates of deposit and treasury bills listed on the stock market or any other actively traded markets, if the member assesses that there is no liquidity then adopt procedures described in in Clause 3.4. For promissory notes, bills of exchange, certificates of deposit and treasury bills not supported by a actively traded market, use the lower value calculated from (1) and (2) below.

(1) The fair value of the instrument itself, namely the promissory note, bill of exchange, certificate of deposit, and treasury bill, shall be estimated according the guidelines described in Clause 5.2

(2) The fair value of the bonds or other securities which may be received as payment as principal and/or interest earned from the promissory note, bill of exchange, certificate of deposit, and treasury bill pursuant to (1) shall be estimated by following valuation guidelines applicable to each respective type of security, as prescribed by this notification.

Once the promissory note, bill of exchange, certificate of deposit, and treasury bill in the first paragraph is and actively traded again, the member must promptly calculate valuation based on Clause 3.

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Clause 6 The Association may announce additional guidelines, conditions, processes, and procedures for the valuation of funds' investments, with approval by the Securities and Exchange Commission. Such additions shall be considered an integral part of this notification.

Clause 7 If a member considers that the fair value of a specific investment as stated in the criteria in Clauses 3, 4, 5 and 6 does not best represent a fair value, a member may adopt an alternative valuation method subject to approval by the trustee. The member must properly document this action in writing to explain the justification whenever a different method is adopted; the memo must be submitted to the trustee.

When calculating the fair value of investments, members must conduct this process with integrity, taking into considerations factors shown below. The member must clearly demonstrate that it has used its best efforts to acquire all the necessary data.

- (1) Financial status of the issuance
- (2) The issuer's business plan and financial plan
- (3) Acquisition cost of the investment
- (4) Ratio of investment relative to total investment. Liquidity of the investment in an actively traded market.
- (5) Limitation of the contract for selling or managing investment in securities
- (6) Same type of financial instrument also concurrently issued to the public by the same issuer.
- (7) An action involving corporate restructuring which is impacting the fair value of investments held by investment entities, such as a merger proposal, takeover bid, or debt restructuring plan.
- (8) Publicly traded price and volume for similar financial instruments issued by the same issuer or other comparable issuers.
- (9) Ability of the issuer to increase capital when necessary.
- (10) Changes to economic factors affecting the issuer
- (11) Latest acquisition or disposal of resources in exchange for benefits to the business (a measure of the business' liquidity condition)
- (12) Price of same type of financial instrument but issued by other issuers.
- (13) The issuer's financial statements

The member may estimate the fair value of an investment by using various methods when conducted in good faith. The member must adopt the method that is appropriate, backed supported by facts and reflect current market conditions, to ensure that the valuation best

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represents fair value. Examples of valuations include the present value of the expected cash flows discounted at a rate that reflects the riskiness of those cash flows, option pricing valuation models, bi-directional valuation, and mathematical models. When calculating valuations, the member must take into account constraints, features, remaining maturity, price volatility and currency.

Clause 8 In the event that a member becomes aware that, based on analyzed data, there is an event that affects the performance and/or financial position of the issuer, which may cause the issuer to fail to honor its debt obligations and/or liabilities involving securities issued by the company, the member shall promptly revalue the fair value of such securities with the approval of the trustee in accordance with Thai Accounting Standards (No. 36) Re: impairment of assets. The member must document the justification in writing and provide details of the new valuation each time.

In the event a member assesses a possibility that the fund will not receive an income or principal from any securities, the member must conservatively proceed to cease booking that income and/or reverse any accrued income booked and/or set aside loss provisions to prepare for possible loss on the securities, with consent provided by the trustee. The member must document such action in writing each time valuations are adjusted as such.

Clause 9 This Notification shall be effective from 2 July B.E.2545 onwards and member shall strictly comply.

Announced on 20 June B.E.2545

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(Mr. Vichate Tantiwanich)

Chairman of the Association of
Investment Management Companies