(Unofficial Translation)

This translation is for the convenience of those unfamiliar with the Thai language.

Please refer to the Thai text for the official version

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AIMC logo

Liquidity Risk Management Tools Guideline

30 December B.E.2564

(Unofficial Translation)

Liquidity Risk Management Tools Guideline

I. Rationale

Growth of net assets have raised the significance of mutual funds' in the liquidity of the financial system, which was previously dominated by commercial banks. Currently, the financial market is interconnected, therefore, it is necessary for mutual funds to implement a risk management system with sufficient liquidity risk management mechanisms which can be applied in a timely and efficient manner to address various situations, whilst preserving and upholding the interests of mutual funds and unitholders in-line with fiduciary duties and corporate governance.

Therefore, this Liquidity Risk Management Tools Guideline outlines the Association's framework for members to implement liquidity risk management for their mutual funds in accordance with clause 3/1 of the Notification of the Capital Market Supervisory Board No. Thor Nor. 11/2564 Re: Rules for the Management of Retail Mutual Funds, Mutual Funds for Accredited Investors, Mutual Funds for Institutional Investors, and Private Funds dated 29 January B.E.2564 and any subsequent amendments thereof.

II. Objective

To set a guideline for members to establish an effective liquidity risk management process equipped with a variety of liquidity management tools to assess, control, and monitor the implementation of measures to cope with irregular market conditions, reduce the overall systemic risks whilst emphasizing protection of investors' interests, in-line with fiduciary duties and corporate governance.

III. Scope of Application

1. A member shall establish liquidity risk management tools in accordance with this Liquidity Risk Management Tools Guideline for mutual funds exposed to liquidity risks.

2. A member may use its discretion on whether to not prepare liquidity risk management tools if the member can appropriately illustrate that its mutual fund does not have liquidity risks such as these mutual funds:

   2.1 Mutual fund that does not allow redemptions or have a pre-determined schedule when a redemptions are allowed. Examples include closed-end funds, funds with fixed auto-redemption schedules, funds with redemption intervals longer than 14 days, etc.

2.2 Mutual fund with specific investment mechanisms, such as a buy-and-hold fund, principal protected fund, guaranteed fund, etc.

2.3 Mutual fund established for specific purposes, such as mutual fund listed on the Stock Exchange of Thailand, mutual fund for investor who is a provident fund (MF for PVD), Vayupak Fund 1, corporate bond stabilization fund (BSF), including mutual funds with tax benefits such as retirement mutual fund (RMF), long term equity fund (LTF), super saving fund (SSF), etc.

2.4 Mutual fund exempted by SEC notification.

However, the scope of application does not include Side Pocket and Suspension Of Dealings.

3. For the following mutual funds, a member may adopt the liquidity management tools used by target assets invested. This constitutes compliance with this guideline.

3.1 Feeder Fund

3.2 Fund of Funds

4. To establish and apply liquidity risk management tools for mutual funds, the member shall utilize its expertise, competence, and professionalism. It must emphasize these tasks by establishing a process on how to deploy these liquidity risk management tools, that at least meets minimum standard requirements prescribed by the Liquidity Risk Management Tools Guideline. The fee that a member may collected for the use of each liquidity risk management tool shall be charged to the mutual fund.

Member shall provide details of the utilization of each liquidity risk management tool in the fund scheme and prospectus, or other documents as required by the SEC as information disclosure for unitholders. Any details regarding the utilization of liquidity risk management tools as specified in the fund scheme shall be approved by the SEC; the member shall clearly state details regarding governance and mechanisms associated with decisions to deploy these tools and terms involved. For example, terms and conditions or threshold to deploy a tool takes into consideration what factors? When activating a tool, who is primarily responsible for making the decision? What mechanisms and processes are used to audit the tasks? These should be stated in the member’s liquidity risk management policy or operating manual.

5. A member shall maintain a record of evidence on liquidity risk management tools deployed for auditing purposes.

IV. Glossary of Terms

In this Liquidity Risk Management Tools Guideline,

"Association" means the Association of Investment Management Companies.

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

"SEC" means the Office of the Securities and Exchange Commission.

"SEC notification" means a notification, circular notice, or other document issued by the SEC applicable to current and future funds.

"Mutual Fund" means closed-end fund and open-end fund as specified by the SEC notification.

“Closed-end fund” means a mutual fund which is not redeemable pursuant to SEC notification.

“Open-end fund” means a mutual fund which is redeemable pursuant to SEC notification.

"Buy-and-hold mutual fund" means a mutual fund that only makes a one-time investment to be held till maturity, as specified by the SEC notification.

"Mutual fund for investor which is a provident fund" means mutual fund for investor who is a provident fund (MF for PVD) as specified by the SEC notification.

"Principal Protected Fund" means the Principal Protected Fund as specified by the SEC notification.

"Guaranteed Fund" means a guaranteed fund as specified by the SEC notification.

"Retirement Mutual Fund" means a retirement mutual fund (RMF) as specified by the SEC notification.

"Super Savings Fund" means a savings fund (SSF) as specified by the SEC notification.

"Long Term Equity Fund" means the long-term equity fund (LTF) as specified by the SEC notification, which a member established before 1 January B.E.2563.

"Feeder Fund" means feeder fund as specified by the SEC notification

"Fund of Funds" means a fund that invests in the units of other funds, as specified by the SEC notification

"Project or fund scheme" means the mutual fund management project

"Prospectus" means the prospectus as specified by the SEC notification

"Net amount of investment in units of the fund" means the value of purchases and value of switch-in orders, minus the value of redemptions, minus the value of switch-out orders.

V. Introduction to Liquidity Risk Management

Tools in which costs are charged to unitholder (Pass on Transaction Cost tools)

1. Fee for a redemption order that does not meet terms regarding order size and time period (Liquidity Fee)

1.1 Definition

Liquidity Fee means a fee specified by a member to charge unitholders who redeem and/or switch-out investment units. This may be applied as a condition if the unitholders redeem and/or switch-out investment units before the specified maturity date and/or the redemption or switch-out value of such investment units exceeds the level specified by the member. If the Liquidity Fee applies, the member shall calculate the fee based on the total amount redeemed and switched-out by each unitholder through all channels on a given trading day. A member shall conduct the tasks on best effort basis, given prevailing circumstances and constraints.

This fee collection aims to absorb the expenses and costs that a fund incurs from the corresponding need to buy or sell assets; the fee shall be collected into the mutual fund for unitholders who did not make those transactions.

The Liquidity Fee shall not include any other fees set by a member in the same way specified in the fund scheme and prospectus before this Liquidity Risk Management Tools Guideline is effective, such as back-end fee, exit fee etc.

1.2 Tool utilization

1. A member can consider applying a Liquidity Fee as a tool in the fund scheme only after the member has adjusted the net asset value by a formula that reflects the securities transaction costs (Swing Pricing) or adjusting the fee upwards to reflect the securities transaction costs (Anti-Dilution Levies or ADL) in the fund scheme beforehand.
2. A member may use its discretion on whether to use this tool or not and can consider using it in conjunction with other liquidity risk management tools.

1.3 Operating guidelines

1. To determine the rate and guideline for deployment of the Liquidity Fee to comply with the policies and guidelines set by the member, such fee shall be charged only when necessary based on transaction costs, such as bid-ask spreads on the investment assets that have changed, costs to maintain the portfolio composition, cost of using repurchase agreements to bolster liquidity to cope with a large order, etc. beyond the member's control and expectations. The

member can consider using estimates based on prevailing data and or assumptions and or assessments based on relevant factors, as applicable and achievable given the time and constraints faced.

2. To specify the size of redemptions and switch-out orders to trigger the use of this fee, the member can prescribe as necessary based on the liquidity condition of the assets invested by the mutual fund and the liquidity of the market. For example, setting a threshold at 50 million baht for the total redemption and switch-out orders by each unitholder through all channels for the given trading day, beyond which the Liquidity Fee shall apply, etc. A member shall conduct the tasks on best effort basis, given prevailing circumstances and constraints.
3. To charge this fee, a member shall announce the maximum charge rate in advance, e.g., not exceeding 2% of the NAV per unit, etc.; the member may charge a different rate that varies according to the duration of the holding of investment units and or the value of redemption and switch-out orders. The maximum fee rate and the conditions for fee collection shall be stated in the fund scheme and prospectus. The member can adjust the fee rate on a case-by-case basis, as long as it does not exceed the announced maximum rate.
4. Calculation of the investment units' holding period shall be in accordance with the first in, first out (FIFO) format.
5. The member shall credit the liquidity fee collected into the mutual fund.
6. The member shall sum the total amount redeemed and switched-out by each unitholder through all channels on a given trading day. If orders are placed through a selling agent via an omnibus account, the member shall process the order using information obtained from the selling agent, based on best effort basis given prevailing circumstances and constraints.

2. Adjustment of the net asset value with a formula that reflect the increase in transaction costs to the fund to trade its investment assets (Swing Pricing)

2.1 Definition

Swing Pricing involves adjusting the NAV per Unit to reflect the transaction cost incurred by the mutual fund that may arise from buying or selling its investments under market conditions where asset prices are volatile or trading volume is unusual, or other events that affect transaction costs incurred by the mutual fund, etc. The member can consider using estimates based on prevailing data and or assumptions and or assessments based on relevant factors, as applicable and achievable given the time and constraints faced. Use any of the following methods:

"Full swing pricing" where the NAV per unit is adjusted by a formula to reflect the transaction cost of the mutual fund on any business day without consideration of the threshold prescribed for the net amount of investment in units of the fund.

"Partial swing pricing" where the NAV per unit is adjusted by a formula to reflect the transaction cost of the mutual fund only on the specific business day that the mutual fund sees a net amount of investment in units of the fund exceed the threshold.

2.2 Tool utilization

1. A member can deploy Swing Pricing and Anti-Dilution Levies (ADLs), either one or both, in the fund scheme.
2. A member may use its discretion on whether to use this tool or not. A member cannot redundantly layer Swing Pricing and Anti-Dilution Levies (ADLs) together, but can be used in conjunction with other liquidity risk management tools as appropriate to protect the benefits of other remaining unitholders not involved in the transaction.

2.3 Operating guidelines

A member who uses this tool shall perform the task as follows:

1. To adjust the net asset value with a calculation formula that reflects the transaction cost incurred by the mutual fund (Swing Factor), the member shall follow procedures stated in its policy and guideline. Swing Factor shall be based on the transaction cost to the mutual fund under various situations, such as when bid-ask spreads have changed considerably for trading the asset, the market's volatility, the market's liquidity which have dried up for the asset, costs to maintain the portfolio composition, cost of using repurchase agreements to bolster liquidity to cope with a large order (if any), etc. beyond the member's control and expectations. The member can consider using estimates based on prevailing data and or assumptions and or assessments based on relevant factors, as applicable and achievable given the time and constraints faced.
2. To apply Partial Swing Pricing, the member shall set a threshold defined as a percentage of the net asset value of the fund (NAV). The threshold shall be set according to what is deemed necessary and appropriate, e.g., not less than 1% of the net asset value of the fund (NAV), in consideration of relevant factors

related to the liquidity of the mutual fund, such as portfolio structure, investment policies, market conditions of invested assets, etc.

3. When a member considers to deploy Partial Swing Pricing, it shall only do so if the net amount of investment in units of the fund exceeds the threshold set by the member.
4. The member shall specify the presence of this tool in the fund scheme and prospectus, which should state the maximum of swing factor permissible, e.g., not exceeding 2% of the NAV per Unit, etc. Also state basis for collection, calculation method, the threshold (if any), plus situations or conditions for the member to deploy the tool. This will ensure unitholders or investors have a brief understanding. Do not disclose too much important details to inadvertently allow some unitholders or investors to exploit such information for profit. The member can adjust the fee rate for the Swing Factor on a case-by-case basis. Swing Factors can be based on different rates under these circumstances:
   (1) The value amount of subscriptions and switch-in orders exceed the value amount of redemptions and switch-out orders of investment units.
   (2) The value amount of subscriptions and switch-in orders is less than the value amount of redemptions and switch-out orders of investment units.
5. A member shall use swung NAV per Unit, which is equivalent to NAV per unit adjusted up or down by the Swing Factor, to calculate the subscription / redemption / switching price for the investment unit for orders on that business day. Also use this figure to calculate fund performance or compare fund performance of mutual funds (except investment ratios, management fees, fees, trustees, and registrar fees, etc.).

3. Fee increase for purchase or redemption of units that reflect the increase in transaction costs to the fund to trade its investment assets

3.1 Definition

The raising of fees to buy or redeem units for the purpose of covering the fund’s higher transaction costs (Anti-Dilution Levies or ADLs) means a charge imposed directly on unitholders who buy, redeem, or switch units in order to absorb any higher cost incurred by the fund to subsequently trade its investments assets due to factors affecting the investment asset’s liquidity, market volatility, irregular market liquidity, or events which impact the cost and expenses of the fund, etc. ADL may be charged to those who buy and/or redeem and/or switch fund units.

Members may use forecast estimates based on actual prevailing data and/or assumptions and/or related factors, as appropriate and achievable given the time and constraints.

3.2 Tool utilization

1. A member can arrange to use Swing Pricing and Anti-dilution levies (ADLs), either or both, in a fund scheme.
2. A member may use its discretion on whether to use Anti-dilution Levies or not. The member cannot redundantly layer Swing Pricing and Anti-Dilution Levies (ADLs) together, but can be used in conjunction with other liquidity risk management tools as appropriate, to protect the benefits of other remaining unitholders not involved in the transaction.
3. A member may use its discretion on whether to charge Anti-Dilution Levies (ADLs) only on business days where the net investment unit value exceeds the specified threshold. A member can determine a threshold in one or both cases as follows:
   (1) The subscription value and switch in value of investment units exceed redemption value of investment units and switch out value of investment units.
   (2) The subscription value and switch in value of investment units is less than the redemption value and switch out value of investment units.
   A member can set threshold for case (1) and (2) at different levels.
4. A member can charge Anti-Dilution Levies (ADLs) from those who subscribe and switch-in or from those who redeem or switch-out units, but only from the transaction side where the value amount exceeds the specified threshold. The member may specify different ADL rates and may also have additional terms to charge a specific unitholder that is making a large purchase or switch-in order, or a specific unitholder making a large redemption or switch-out order.

3.3 Operating guidelines

1. To increase the fee to transact units in order to reflect the transaction cost incurred by the mutual fund, the guidelines on the ADLs factor and charging procedures shall be stated in the member's policy and procedures. ADLs factor shall be determined from the transaction cost such as when bid-ask spreads have changed considerably for trading the asset, the market's volatility, the market's liquidity which have dried up for the asset, costs to maintain the portfolio composition, cost of using repurchase agreements to bolster liquidity to cope with a large order (if any), etc. beyond the member's control and expectations. The member can consider using estimates based on prevailing data and or

assumptions and or assessments based on relevant factors, as applicable and achievable given the time and constraints faced.

2. ADLs threshold shall be determined as necessary and appropriate, e.g., not less than 1% of the fund's Net Asset Value (NAV), it shall take into account factors related to mutual fund liquidity, such as portfolios, investment policy, market conditions of invested assets, etc.
3. In case the member considers using ADLs, it shall be used only if it meets the ADLs threshold conditions specified by the member.
4. If the member prescribes additional terms for the collection of ADLs from particular unitholders who place buy and switch-in orders, or redeem and switch-out, in large amounts, the member shall sum all buy and switch-in orders, or redemption and switch-out orders, for each unitholder that are placed through all channels for the given trading day. If orders are placed through a selling agent via an omnibus account, the member shall process the order using information obtained from the selling agent, based on best effort basis given prevailing circumstances and constraints.
5. The member shall specify the usage of this tool in the fund scheme and prospectus, which should state the maximum ADL rate, e.g., not exceeding 2% of the NAV per Unit, etc. Also state basis for collection, calculation method, the threshold (if any), plus situations or conditions for the member to deploy the tool. This will ensure unitholders or investors have a brief understanding. Do not disclose too much important detail to inadvertently allow some unitholders or investors to exploit such information for profit. Fee rate can be adjusted on a case-by-case basis as long as it is not higher the maximum rate stated.
6. A member shall include collected ADLs into mutual fund.

<u>Tools that impose terms and conditions for redemption orders (restrict access to investor's capital)</u>

4. Advance notice of a redemption (Notice Period)

4.1 Definition

The Notice Period means a certain time period before the intended trade date within which a unitholder must inform in advance that a redemption or switch-out order will be placed whereby the amount exceeds the permitted size. This is intended to help the mutual fund manage its liquidity position.

4.2 Tool utilization

1. A member shall consider establishing a Notice Period as a tool in the fund scheme when a member has already established a Redemption Gate in the fund scheme.
2. A member may use its discretion on whether to apply such Notice Period or not; a Notice Period can be used in conjunction with other liquidity risk management tools.

4.3 Operating guidelines

1. A member may consider establishing a Notice Period and guidelines for deployment, in compliance with the member's own policy and guidelines.
2. A member shall only implement a Notice Period when necessary and appropriate to the fund's liquidity constraints or the market's liquidity condition.
3. Members must state the Notice Period and procedures in the fund scheme and prospectus. For example, state that if a unitholder redeems or switch-out units and the amount exceeds THB 20 million, the asset management company may require the unitholder to notify in advance, within the Notice Period specified by the asset management, but not more than 3 business days. However, a member is allowed to use its discretion to choose not to apply the Notice Period if the mutual fund has sufficient liquidity. The member must inform unitholders this fact and the procedure must be applied to all unitholders equally.
4. If a Notice Period is deployed and circumstances triggered the deployment of other tools as well, the member must treat orders subjected to the Notice Period the same way as normal orders being processed on the trade date. The member shall state in the fund scheme and prospectus how a Notice Period would be deployed in conjunction with other tools.
5. The member shall sum the total amount redeemed and switched-out by each unitholder through all channels on a given trading day. If orders are placed through a selling agent via an omnibus account, the member shall process the order using information obtained from the selling agent, based on best effort basis given prevailing circumstances and constraints.

5. Redemption gate

5.1 Definition

By specifying a limit for a redemption order (Redemption Gate), the member will only allow redemption and switch-out orders for amounts not exceeding the actual Redemption Gate in use at the time, when an unusual situations occurs or about to occur. A threshold may be specified to trigger when a situation becomes unusual and requires the use of a Redemption Gate; there must also be a gate period to state how long this will remain in effect. A member may accept redemption or switch-out orders larger than the Redemption Gate under normal liquidity conditions.

Deployment of the Redemption Gate should be only when necessary to allow the mutual fund to manage the sale of its investment assets within the time required. The objective is to minimize adverse impact on the fund's liquidity when there are large redemption and switch-out orders, which could subsequently have a knock-on effect on systemic risk to the financial system, therefore protecting the interests of unitholders overall.

5.2 Tool utilization

A member may use its discretion on whether to use the Redemption Gate or not. The member may consider using this tool under unusual circumstances and combine it with other liquidity risk management tools.

5.3 Operating guidelines

1. Members must specify how it will deploy a Redemption Gate. For example, a member may set a Redemption Gate at 5%, which means all redemption and switch-out orders will be settled and paid if the sum is within 5% of NAV (funds with ample liquidity not included). Also set a gate period, such as specifying 7 business days. Apply the tool only as necessary and appropriate given the prevailing risks and factors involved, such as the fund's liquidity position. The member must state how the tool will be used in the member's policy and operating procedures.
2. A member shall clearly state terms and conditions for using a Redemption Gate that at least cover these details.
   (1) Redemption Gate shall be based on the combined value amount of redemptions and switch-out orders, specified as a percentage of the net asset value (NAV) of the mutual fund.

(2) Orders processed through a Redemption Gate shall be on pro-rata basis of the redemption and switch-out orders on the day the Redemption Gate is applied.

(3) A member can use a different Redemption Gate and gate period each time, but the actual Redemption Gate used shall not be lower than the specified threshold and the gate period shall not exceed the specified period stated in the fund scheme and prospectus.

(4) For the remainder of unprocessed redemption and switch-out orders, the member shall process them on the following trading day together with newly-received redemption and switch-out orders, on a pro-rata basis. Do not prioritize orders based on time received, unless the member's system permits unitholders to cancel their redemption or switch-out orders. With such system, the member may allow those unitholders to cancel any remaining unprocessed redemption or switch-out orders.

(5) A member will process redemption and switch-out orders with an amount not exceeding the Redemption Gate, at the redemption price for that trading day. The member can always process redemption and switch-out orders with an amount beyond the Redemption Gate, if the fund has sufficient liquidity.

(6) Terms stating the right to change the course of action while a Redemption Gate is in effect, i.e., the cancellation of a Redemption Gate before the specified period and utilize other tools instead of the Redemption Gate (if any). In the case it is not possible to settle all the remaining unprocessed redemptions and switch-out orders, a member may decide to cancel all those unprocessed orders and promptly notify the unitholders about the cancellation.

3. A member shall only use the Redemption Gate when an unusual situation occurs or about to occur, such as volatile market conditions, trading volume has dried up, the fund's liquidity position is insufficient to support the volume of redemptions, the amount of redemptions are unusually large or exceed the Redemption Gate, etc. beyond the control of the member. The member may also specify terms to define unusual situations as thresholds too.

4. The member shall state the guidelines on when a Redemption Gate may be deployed, the minimum threshold which is the trigger point, and the maximum

gate period, including a brief summary of the terms and conditions associated with the Redemption Gate. This must be described in the fund scheme and prospectus.

5. A member shall notify unitholders, without delay, when the Redemption Gate is deployed.

6. Procedure for situation where debt issuer or debtor defaults or financial instrument lacks liquidity or unable to sell at a reasonable price (Side Pocket).

The member shall comply with the SEC notification.

7. Suspension of Dealings

A member shall comply with the SEC notification.

VI. Compliance

Members shall establish liquidity management tools according to this Liquidity Risk Management Tools Guideline in accordance with the SEC notification.