

## SEC Thailand's Public Hearing on Term Fund Regulation

Term Fund ("TF") is often perceived as a fixed deposit since it has a fixed maturity of 3 months, 6 months, or 1 year, with an (expected) fixed return. In light of this, TF is a popular investment vehicle among investors with deposit culture and is well promoted by asset management companies ("AMC"), often together with their parent banks. Despite its popularity, there are drawbacks in investing in TF which arise from the fact that it normally invests in term deposits, short term bonds, debentures, and held these products until maturity. Thus, TF has fundamentally distinct characteristics from other types of mutual fund. For example, the inability to redeem investment units before its maturity date and the high concentration risk which results from a concentrated portfolio in a few issuers, securities, sectors, and countries. Accordingly, in case an issuer defaults, this may largely reduce the fund's net asset value ("NAV") and, in worst case, could adversely affect the confidence of investors and mutual fund industry, as a whole. Hence, with an aim to mitigate the aforementioned risks and to have sufficient information for making informed investment decisions, the SEC Thailand intends to revise 'Term Fund regulation' and would like to invite comments from the public on the proposed regulations, as follows:

1. Increase diversification by decreasing the deposit limit for a single issuer from  $\leq 20\%$  of NAV to  $\leq 10\%$  of NAV (only of retail TF).
2. Disclosure requirement:
  - 2.1 Revise the risk spectrum of term fund as follows:
    - Risk Level 4: net exposure to single country or sector  $\leq 20\%$  of NAV;
    - Risk Level 5: net exposure to single country or sector between 20% to 60% of NAV; and
    - Risk Level 6: net exposure to single country or sector  $\geq 60\%$  of NAV.
  - 2.2 Additional key risks dimension to explicitly indicate the investment concentration in a single country or sector.

- 2.3 Additional risk warning statement on TF's passbook to emphasize that TF has a higher investment risk than that of bank deposits : "Investment in investment units is not bank deposits and is subjected to certain risks. Therefore, investors may receive the amount of less than the money in which the investors initially invested".
3. Sale Process: prescribe additional set of regulation on the sale process which requires AMC to prepare e.g. 'checklist questions' for the selling agents to utilize at the sale point to warn the investors of the inherent risks of their investments.

For further details on this public hearing, please visit [www.sec.or.th/hearing](http://www.sec.or.th/hearing) or contact Investment Management Policy Department at 0-2033-9612 or [impd@sec.or.th](mailto:impd@sec.or.th).

Please submit written comment by July 10 to August 8, 2019

Investment Management Policy Department  
The Securities and Exchange Commission, Thailand  
333/3 Vibhavadi-Rangsit Road, Chomphon,  
Chatuchak Bangkok 10900, Thailand  
Email: [impd@sec.or.th](mailto:impd@sec.or.th)