

The Consultation Paper on

**The proposed principles for amendment to the Securities and Exchange Act
B.E. 2535 (1992) regarding supervision on auditors and audit firms
in the capital market**

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This document is prepared by the SEC to seek consultation from relevant stakeholders

This publication can be downloaded at www.sec.or.th

All consultation and recommendation are welcome, which can be submitted to the SEC via address listed

below or via e-mail: krissana@sec.or.th and jirapa@sec.or.th

The deadline of consultation submission is on September, 21 2020

Further information is available upon request from the following SEC staff:

- | | |
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We hereby express our appreciations for every consultation and recommendation



The Securities and Exchange Commission

333/3 Vibhavadi-Rangsit Road, Chomphon, Chatuchak Bangkok 10900

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Robust financial reporting preparation and disclosure systems provide investors with relevant and accurate information for decision-making. Such systems also promote transparency and reliability of Thailand's capital market and attract potential investors to the capital market, which are impetus for the enhanced competitive-edge of Thailand capital market. Moreover, business-owners will be able to raise funds at reasonable cost for expansion of their businesses which in turn drives Thailand's economy towards strengthened and sustainable growth.

For the financial reporting in Thailand's capital market to be useful and reliable, auditors act as professional practitioners whose roles are essential in auditing and expressing their opinion on the financial statements as required by professional standards. This is to ensure that financial reporting reflects the intrinsic economic substance and business performance. In this regard, the system of quality control in the audit firm plays a pivotal role in ensuring that its auditors are able to perform audit engagement in accordance with professional standards, thus enhance audit quality of the firm.

As of now, the Securities and Exchange Act B.E. 2535 (1992) ("SEC Act") stipulates that auditors of entities in the capital market, which are under the supervision of the Securities and Exchange Commission ("SEC"), shall be approved by the SEC. Accordingly, the SEC promulgated the notification on the qualification of auditors in the capital market, requiring that auditors attach to the audit firm with sufficient and reliable system of quality control in accordance with Thai Standard on Quality Control 1 ("TSQC 1"). However, the SEC's authority to supervise and impose sanctions on audit firms is limited. Particularly in cases where significant deficiencies in quality control system are identified within the audit firm, the SEC's only authority is to suspend or revoke SEC's license from every auditor attached to such firm. This sanction may be overly excessive, not commensurate with the degree of wrongdoing, and have significant impact on auditors, audit firms and listed companies that appointed the auditors.

In response to the fact mentioned above, the SEC engaged Thailand Development Research Institute (“TDRI”) to conduct a comparative study and analysis between Thai capital market’s legislation and mechanism on the oversight of auditors and audit firms and those of foreign countries that have prudent auditors and audit firms oversight regimes; namely, the United States of America, the United Kingdom, Australia, Singapore, and Malaysia. Subsequently, we held focus group sessions to gather opinion from stakeholders as basis for drafting the proposed principles for amendment to the SEC Act and relevant mechanisms. Additionally, TDRI also held public hearing session regarding public opinion to the proposed principles for amendment. TDRI then compiled the inputs received from these sessions to summarize the study and prepare the proposed principles for amendment to the SEC Act regarding supervision on auditors and audit firms in the capital market. TDRI suggested that the SEC amend SEC Act in three main perspectives: (1) the approval of audit firms and auditors (2) fee collection from audit firms and auditors and (3) stipulating penalty for audit firms and auditors to increase efficiency and effectiveness of law enforcement.

The SEC therefore proposed the principles for amendment to the SEC Act regarding supervision on auditors and audit firms as suggested by TDRI. The SEC, under the revised regulation, will be able to exercise its regulatory activities more effectively and efficiently. The enhanced regulatory activities will promote the audit quality, make the financial reporting in Thailand capital market more reliable, and act as mechanism for investors protection. Summary of significant detail in the proposed principles for amendment to the SEC Act regarding supervision on audit firms and auditors is outlined below.

1. The approval of audit firms and auditors

The SEC proposed the principles for amendment to the SEC Act by stipulating that both audit firms and auditors shall be approved by the SEC and the SEC is eligible to issue, in detail, further notification on the characteristic, qualification, responsibility, and conduct of audit firms and auditors. This is to ascertain that both audit firms and auditors are adequately qualified to perform duties in the capital market; and to ensure that they can perform duties with independence and consistent compliance with professional standards. Furthermore, the SEC will also impose certain limitation on audit firms in the SEC Act, e.g., the shareholding structure of audit firm, or prohibiting audit firms from offering

other services that may create conflict of interest or impair independence. For the listed companies whose impact to the client' assets, clearing and settlement system, and overall capital market is trivial, the SEC may indicate them to appoint certified public accountants licensed by Thailand Federation of Accounting Professions as their auditors, ignoring the qualification on audit firm attachment.

2. Fee collection from audit firms and auditors

In an effort to align the fee collection from audit firms and auditors with the lifetime approval system, the SEC propose the principles for amendment to the SEC Act by stipulating that the SEC is eligible to charge application fee (“initial fee”) and annual fee from audit firms and auditors, rescinding the current renewal fee collected from auditors. Amendment to the SEC Act in this section conforms with the fee collection system in used by most countries under TDRI’s study. TDRI also recommended that, to encourage the maintaining of status as auditor in the capital market, the initial and annual fee collected from auditors should be the amount that do not impose burden on auditors. Similarly, to facilitate entrance to the capital market, the initial and annual fee collected from audit firm should be the amount that do not create barrier to new audit firm entering the capital market as well as small audit firm.

3. Stipulating penalty for audit firms and auditors to increase efficacy and effectiveness of law enforcement

The SEC propose principles for amendment to the SEC Act so that the SEC is eligible to stipulate penalty, beside suspension and revocation, for audit firms and auditors in cases where they lacked qualification or violated the conduct as specified by Thailand Federation of Accounting Professions or the SEC. Particularly, should audit firms and/or auditors lacked qualification or violated the conduct, the SEC may impose disciplinary action on audit firms and/or auditors in form of fine, probation, public reprimand, business limitation (for example, limiting number of clients, or limiting acceptance of difficult and complex engagement), suspension, and revocation of the approval status. Also, the SEC will specify a definite upper limit of fine penalty in the SEC Act.

Opinion Survey

**The consultation paper on the proposed principles for amendment to
the Securities and Exchange Act B.E. 2535 (1992) regarding supervision on
auditors and audit firms in the capital market**

General Information

Name of the respondent _____ Occupation _____

Company _____ Position _____

Telephone no. _____ FAX no. _____

E-mail address _____

Stakeholder affiliation (Select all that apply)

- Listed company
- Audit committee of Listed company
- Investor
- Auditors and Audit Firms in the capital market
- Auditors and Audit Firms outside the capital market
- Regulator
- Others, please specify _____

Opinion

The approval of audit firms and auditors in the capital market

1. Do you agree with the proposed principles for amendment to the Securities and Exchange Act B.E. 2535 (1992) Act (“SEC Act”) that Audit Firms should get approved/registered with the SEC? The objectives of this amendment are to strengthen the SEC’s oversight capability to be more efficient and effective, to promote a mechanism that drives audit firms to emphasize on the quality control system over their auditors and adequately support all resources to ensure that their auditors can comply with professional standards and related ethical requirements. Moreover, such amendment will also

enhance the creditability of audit oversight at international level as well as the reliability of the financial reporting in Thailand.

Agree Disagree.

Please state reasons _____

2. Do you agree with the proposed principles for amendment to SEC Act that the SEC is eligible to issue, in detail, further notification on the characteristic, qualification, responsibility, and conduct of auditor firms and auditors to ascertain that both audit firms and auditor are adequately qualified to perform duties in the capital market and to ensure that they can perform duties with independence and consistent compliance with professional standards ?

Agree Disagree

Please state reasons _____

3. Do you agree with the characteristic, qualification, and conduct of auditor firms and auditors, to be specified in the SEC Act in the following areas?

3.1 The requirement that audit firms have established the quality control system as required by professional standards

Agree Disagree

Please state reasons _____

3.2 The requirement that the majority of audit firm's shareholders are professional practitioners.

Agree Disagree

Please state reasons _____

3.3 A prohibition on audit firms from providing any services that may cause conflict of interest and impair independence to perform its work

Agree

Disagree

Please state reasons _____

3.4 The requirement that auditor shall comply with professional standards and ethical requirements

Agree

Disagree

Please state reasons _____

3.5 Other characteristics, qualifications and conducts for audit firm and auditor that should be defined in the Securities and Exchange Act

4. Other recommendations or additional comments

The collection of fees from audit firms and auditors

1. Do you agree with the lifetime approval of audit firms and auditors? The objective of this amendment is to reduce the burden in renewing license for audit firms and auditors and to align the law with the

SEC's regulatory guideline over an oversight of audit firms and auditors whereby the quality of auditor's performance is assessed while the quality control system of audit firm is regularly inspected.

Agree

Disagree

Please state reasons _____

2. Do you agree with the proposed principles for amendment to SEC Act that the SEC is eligible to charge application fee ("initial fee") and annual fee from audit firms and auditors? The objective of this amendment is to align the fee collection from audit firms and auditors with the lifetime approval system.

Agree

Disagree

Please state reasons _____

3. Other recommendations or additional comments

The determination of penalties on audit firms and auditors

1. Do you agree with the proposed principles for amendment to the SEC Act that sanctions on audit firms and auditors should be clearly articulated and cover a wide range of enforcement measures? The amendment will enable the SEC to apply appropriate enforcement measure which is commensurate with the degree of wrongdoing and encourage the alleviation of deficiencies by audit firms and auditors, enhancing the quality control of audit and the reliability of investor in Thailand's capital market.

Agree

Disagree

Please state reasons _____

2. Besides current sanctions which are limited to suspension and revocation, do you agree if the SEC can impose several types of enforcement measures on audit firms and auditors as following?

2.1 Monetary fine

Agree Disagree

Please state reasons _____

2.2 Probation

Agree Disagree

Please state reasons _____

2.3 Public reprimand

Agree Disagree

Please state reasons _____

2.4 The limitation to the business operation (e.g. the limitation to acceptance of the audit work or the acceptance of difficult or complex engagement)

Agree Disagree

Please state reasons _____

2.5 Other penalties on audit firms and auditors that should be specified in the SEC Act

3. Do you agree that a definite upper limit of fine penalty should be clearly specified in the SEC Act?

Agree

Disagree

Please state reasons _____

4. Other recommendations or additional comments

Please submit this opinion survey to Audit Oversight Department

Securities and Exchange Commission

333/3 Vibhavadi-Rangsit Road, Chomphon, Chatuchak Bangkok 10900

or e-mail: krissana@sec.or.th หรือ jirapa@sec.or.th

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