

Media Release:

# Citigroup Global Markets Taiwan Securities Co. Ltd. 'twAA+/twA-1+' Ratings Affirmed On Highly Strategic Importance; Outlook Stable

January 21, 2020

(Editor's Note: In the original article published on January 21, we misstated the liquidity coverage ratio. The misstatement has no rating impact. A corrected version follows.)

## Overview

- We continue to assess CGMTS as a highly strategic operating entity of U.S.-based Citigroup and the ratings and outlook on the Taiwan-based securities subsidiary move in tandem with those on the group's lead operating entity, Citibank N.A. New York.
- We have revised downward the company's stand-alone credit profile because of weakening funding and liquidity credit strength.
- We are affirming our 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings on CGMTS.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings on **Citigroup Global Markets Taiwan Securities Co. Ltd.** (CGMTS). The outlook on the long-term rating is stable.

## Rationale

The rating affirmation reflects our view that the parent Citigroup will provide timely financial support to CGMTS in times of stress, given the securities firm's highly strategic role within the wider Citigroup. The company plays an important vehicle for the group to serve its global clients in Taiwan while CGMTS' business and strategic integration with the group is also high. CGMTS provides the group's global institutional clients with access to domestic equity market. More than 90% of the company's equity brokerage business is through group referrals. The company also assists the group to sell fixed income and offshore structured products to local financial institutions. We therefore believe there is a high possibility that the parent group will support CGMTS if needed, and the ratings therefore move in tandem with those on its parent Citigroup's lead operating entity, U.S.-based Citibank N.A. New York.

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However, CGMTS' fast-growing master agent business for offshore structured products issued by the group, has weakened CGMTS' standalone credit profile, particularly in its funding and liquidity profile. Under Taiwanese regulations, CGMTS, as the mater agent, is jointly liable with the originators for the obligations in respect to the issuance of offshore structured products issued by the group. The increased guarantee liability from this master agent business has pulled down CGMTS' liquidity coverage ratio to 2.2x as the end of June 2019, compared with 8.7x in 2015 when the portfolio was established. We believe CGMTS will continue to grow this master agent business in the coming two years, which will further weaken its funding and liquidity profile with liquidity coverage below our 1.5x threshold for a strong liquidity assessment.

In addition, the ratings continue to reflect CGMTS' very strong capitalization and earnings relative to its risk profile. However, the company's revenue concentration on institutional brokerage business tempers this strength.

## Outlook

The stable outlook reflects the fact that the ratings on CGMTS move in tandem with the ratings and outlook on Citibank N.A. New York. This reflects our view of the strong likelihood that the holding company would provide CGMTS with financial support, if needed, given the firm's highly strategic role within the group's regional operations.

### Downward scenario

We may lower the long-term rating on CGMTS if S&P Global Ratings lowers its ratings on Citigroup Inc. We may also lower the rating on CGMTS if the company's importance to the group significantly declines. This could result from consistent weakening in CGMTS' business strategies and integration with the group.

### Upward scenario

Conversely, we could raise the rating on CGMTS if S&P Global Ratings upgrades Citigroup Inc. while at the same time CGMTS maintains its highly strategic importance to the group. We may also raise the rating on CGMTS if its group status improves to core from highly strategic at present. However, we view the likelihood of this as remote in the coming two years.

## Related Criteria

- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - June 26, 2018
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017

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- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

(Unless otherwise stated, these articles are published on [www.standardandpoors.com](http://www.standardandpoors.com), access to which requires a registered account)

## Ratings List

### Ratings Affirmed

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#### Citigroup Global Markets Taiwan Securities Co. Ltd.

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Issuer Credit Rating	twAA+/Stable/twA-1+
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.taiwanratings.com](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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