

Bulletin:

# Regulatory Action On Fuh Hwa Money Market Fund Is Manageable

April 26, 2021

Taiwan Ratings Corp. said today that recent regulatory disciplinary action taken on Fuh Hwa Securities Investment Trust Co. Ltd. is unlikely to result in sizeable fund redemption of **Fuh Hwa Money Market Fund** (twAAf+), thereby limiting the risk of significant deterioration in the fund's credit quality and ultimately the rating. On April 22, 2021, in response to a regulatory violation of the discretionary mandate, Taiwan's financial regulatory announced that it would halt the fund house's new discretionary mandate for three months, alongside a penalty of new Taiwan dollar (NT\$) 4.5 million and dismissal or temporary suspension of the staff involved in the recent compliance incident by the fund house. This regulatory action will also constrain some business development of the fund house in the coming years.

We see only a remote likelihood of material fund redemption following the compliance incident. This is based on the impact of similar previous events on fund size and portfolio credit quality in Taiwan. We believe that even under a significant withdrawal of funds, Fuh Hwa Money Market Fund's sophisticated investment management, particularly in terms of liquidity preparation, coupled with the direct sales team's client management, should be able to bolster the stable credit quality of the invested portfolio. Our view is also supported by the buffer of the fund credit score to maintain the current rating level. The compliance incident does not change our management assessments for the fund because the incident is not directly related to the fund's management, in our view.

As of March 31, 2021, Fuh Hwa Money Market Fund's assets under management totaled new Taiwan dollar (NT\$) 21 billion, comprising bank deposits (56%), commercial papers (23%), and repurchase agreements (21%). The portfolio composition and fund size are similar before and after the incident, and the fund credit score is largely unchanged.

This report does not constitute a rating action.

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