

Bulletin:

# Cathay Taiwan MMF Can Manage Impact Of Regulatory Action

April 22, 2024

Taiwan Ratings Corp. believes that disciplinary action taken by Taiwan's financial regulator on **Cathay Securities Investment Trust Co. Ltd.** (Cathay SITC) will somewhat constrain the fund manager's business development over the coming year. However, this is unlikely to result in sizeable fund redemption or significant deterioration in the credit quality of **Cathay Taiwan Money Market Fund** (Cathay Taiwan MMF; twAAf).

Taiwan's financial regulator announced on April 18, 2024, that it would halt some of Cathay SITC's business developments in response to the misconduct by the fund house's discretionary mandate desk. The areas affected include the inception of mutual funds focusing on offshore assets, agent funds, affiliate set-up, and the fund house's discretionary mandate with the government agency.

We see only a remote likelihood of material fund redemption following the regulatory action. We base this on the manageable impact of similar events on fund size and portfolio credit quality at other fund houses in Taiwan over the past few years. The strength of Cathay Taiwan MMF's veteran fund managers, the fund's credit score buffer, and direct sales team should all help to weather the redemption risk and maintain stable portfolio credit quality, even under the assumption of a significant withdrawal of funds. The compliance incident has no impact on our management assessments for Cathay Taiwan MMF because the incident is not directly tied to the fund's management.

As of March 31, 2024, Cathay Taiwan MMF held assets under management of new Taiwan dollar (NT\$) 66.9 billion. This comprises commercial papers (65%), bank deposits (28%), and repurchase agreements (7%). We assess the portfolio composition and fund size to be similar to those before the incident, and the fund credit score remains largely unchanged.

This report does not constitute a rating action.

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