

Bulletin:

# Fuh Hwa MMF Can Manage Regulatory Action

January 16, 2025

Taiwan Ratings Corp. believes that **Fuh Hwa Money Market Fund** (Fuh Hwa MMF) managed by Fuh Hwa Securities Investment Trust Co. Ltd. (Fuh Hwa SITC) can manage the impact of recently announced regulatory disciplinary action on the fund house.

On Jan. 14, 2025, Taiwan's financial regulator announced that it would halt some of Fuh Hwa SITC's business developments in response to the regulator's finding of misconduct by the fund house's former discretionary fund manager. 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 within certain respective time frames. In addition, the regulator imposed a fine of new Taiwan dollar (NT\$) 1.2 million. We acknowledge the disciplinary action will somewhat constrain the fund manager's business development over the coming year. However, we see no rating impact on Fuh Hwa MMF (twAA+f), including either a sizeable fund redemption that may significantly deteriorate the credit quality of the invested pool overnight, or any negative adjustment to our management assessment for the fund.

We see a limited likelihood of a material fund redemption following the regulatory action. We base this view 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 Fuh Hwa MMF's veteran fund manager, the fund's decent credit score buffer, and direct sales team should all help to absorb the impact of the regulatory action and support stable portfolio credit quality. The compliance incident has no impact on our management assessments for Fuh Hwa MMF because the incident is not directly tied to the fund's management. We maintain our assessment of the fund house's strong management and organization as well as risk management and compliance, while our assessment of its credit research and credit culture remains adequate.

As of Dec. 31, 2024, Fuh Hwa MMF holds assets under management of NT\$14.4 billion. This comprises commercial papers (72%), repurchase agreements (19%), and bank deposits (9%). The portfolio composition and fund size are similar to those before the incident, and our fund credit score remains largely unchanged.

This report does not constitute a rating action.

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