Research Update:

Asigna Compensacion y Liquidacion 'BBB+/A-2' Ratings Affirmed; Outlook Remains Stable

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Overview

- We expect that Asigna Compensacion y Liquidacion will remain as the sole clearinghouse in the Mexican derivatives market, with minimal financial risk since it holds no debt obligations.
- We affirmed our 'BBB+/A-2' global scale and 'mxAAA/mxA-1+' national scale issuer credit ratings on Asigna.
- The stable outlook on the long-term global scale rating reflects the rating outlook on Mexico, as well as our view that Asigna will continue to hold a high proportion of its financial safeguards in cash, which enables it to pass our sovereign stress test.

Rating Action

On June 19, 2024, S&P Global Ratings affirmed its 'BBB+/A-2' global scale and 'mxAAA/mxA-1+' national scale issuer credit ratings on Asigna Compensacion y Liquidacion. The outlook remains stable.

Rationale

In our opinion, the long-term foreign currency rating on Asigna will remain one notch above the corresponding rating on Mexico for the next 24 months. In our view, the company could potentially be resilient to a hypothetical default of Mexico. Though tougher operating conditions have narrowed the gap by which it passes this test, Asigna would still have enough financial resources to absorb clearing losses in such a stress scenario. Moreover, it would remain solvent while continuing to meet its regulatory capital requirements, and it would have sufficient financial resources to meet its liquidity outflows.

Therefore, we rate Asigna one notch above the long-term foreign currency sovereign rating on Mexico.

We expect that Asigna will remain the sole domestic central counterparty in the Mexican derivatives market. Asigna maintains a solid local market position, which continues to underpin its competitive position and support its revenue generation. However, Asigna will continue to face notable competition from international financial-market infrastructure companies with respect to its core products, limiting its potential clients and growth opportunities.

Even though the clearinghouse will continue to work on diversifying Asigna's revenue sources, Asigna will remain concentrated in foreign exchange futures and swaps. Asigna is still working to implement various new services and products, such as bond futures, Mini USD futures, the Total Mexico ESG Future, and international single stocks futures and options that are listed in the SIC (International Trading System). We'll monitor closely how these develop and the impact they will have on Asigna's business volumes and risk management metrics.

However, we believe Asigna's product mix won't have significant changes in the short term. For instance, as of March 2024, U.S. dollar futures were still Asigna's main product (representing 50% of its trading volume), followed by swaps (43%) and indexes (7%).

In addition, Asigna has already started operating Funding-Rate TIIE swaps, which are expected to fully replace TIIE 28 swaps by the end of 2025. In our opinion, the transition has been smooth, following Asigna's detailed migration plan.

Similarly, to compensate for less revenue during periods of low market volatility, the global financial-market infrastructure industry is beginning to diversify its revenue sources to include annual fee incomes, data services, or other complementary services. Asigna already offers services to provide market data, but its client base within the Mexican derivatives market remains limited. As a result, we anticipate that this business line won't contribute materially to Asigna's revenue in the near future.

Heightened volatility will boost the use of foreign-currency derivatives, which will, in turn, boost Asigna's business volumes in 2024. In the last 12 months, open interest for dollar futures and interest rate swaps has decreased by roughly 5% and 16%, respectively, as market participants anticipated movements in policy rates and in foreign-exchange rates. Nevertheless, we expect that open interest on both products will recover during the second half as derivatives markets gain dynamism after the elections in Mexico, the upcoming U.S. elections, and progress with respect to geopolitical conflicts. We expect an EBITDA margin of around 42%, in line with historical levels.

We expect Asigna's leverage to remain null as it maintains its conservative financial policies for the next two years. We continue to assess Asigna's financial risk as minimal, reflecting that, given its status as a legal trust, regulations prevent it from issuing market debt. Therefore, we believe Asigna's financial risk profile will remain conservative, with sound earnings capacity. We expect that cash flow from Asigna's operations will be enough for its daily operations and that it will be enough for Asigna to maintain the flexibility to meet capital expenditures and other commitments.

Asigna will continue to have significant concentrations in terms of clearing members compared with other rated central counterparties. Despite our view that the credit quality of clearing members is neutral for the ratings on Asigna, the company continues to have only six clearing members. In our view, the concentration of clearing risks continues to constrain the ratings, as the company's top three clearing members generate almost all of its margins. Moreover, we consider it unlikely that the number of clearing members will rise in the next two years given high competition from other foreign central counterparties. However, the credit quality of clearing members remains supported by the creditworthiness of their international financial groups.

The ratings on Asigna continue to benefit from a one-notch favorable comparable rating analysis adjustment. In our view, Asigna compares positively, in terms of leverage, with peers that are rated in the 'BBB' category, such as Nasdaq Inc. (BBB/Stable/A-2). Moreover, Asigna's stress test demonstrates that it achieves a cover 2 standard in practice, which in our view is consistent with the usual standard that we see at other clearinghouses around the world. Therefore, we apply a positive adjustment to the company's stand-alone credit profile (SACP).

Liquidity

We expect that the company's liquidity will remain strong, supported by its unrestricted cash position, sound cash flow generation, and lack of debt liabilities. We expect that sources of liquidity will exceed uses by about 2.5x during the next two years. Moreover, in a stress scenario where EBITDA falls 30%, we believe Asigna would still have excess cash to meet its financial obligations.

Additionally, Asigna has no access to central bank funding, but it maintains a contingency credit facility from Nacional Financiera, S.N.C., Institucion de Banca de Desarrollo (BBB/Stable/A-2) for 150 million Mexican pesos (MXN). In our opinion, the latter gives the company financial flexibility; however, we believe the effect to be slight. Given the amount of margins that Asigna actively manages, this line wouldn't be enough to compensate for a major liquidity shortfall. Notably, as of today, the company has never had to use its contingent line.

Outlook

The stable outlook reflects our view that Asigna will continue to hold a high proportion of its financial safeguards in cash, which enables it to pass our sovereign stress test. Moreover, we expect that it will maintain its leading market position in the Mexican derivatives market while its concentration in terms of clearing members remains.

Downside scenario

We could take a negative rating action on Asigna during the next two years if we take a similar action on the sovereign ratings on Mexico. We could also take a negative rating action if Asigna is unable to maintain stable margin volumes and its revenue drops consistently below our expectations.

Upside scenario

We see limited rating upside in the next two years because the ratings on Mexico constrain those on Asigna. An upgrade of the company would depend on an upgrade of Mexico, while improving its SACP.

Company Description

Asigna is a Mexico-based clearinghouse company that operates primarily U.S. dollar/Mexican peso (MXN) futures, interest-rate swaps, and indices. Futures and interest-rate swaps represent around 90% of its revenues. It was established as a legal trust (administration-payment) in 1998 and is under the supervision of the Ministry of Finance (Secretaria de Hacienda y Credito Público), the banking regulator (Comision Nacional Bancaria y de Valores), and the Central Bank (Banco de Mexico). BBVA Bancomer S.A. (BBB/Stable/A-2), the Mexican subsidiary of the Spanish banking group, Banco Bilbao Vizcaya Argentaria S.A. (A/Stable/A-1), acts as the fiduciary of Asigna.

Our Base-Case Scenario

Assumptions

- Mexico's GDP growth to reach 2.5% in 2024 and 1.8% in 2025.
- Inflation will continue the decreasing trend, reaching 4.5% in 2024 and 3.5% in 2025.
- Revenue growth of about 8%-10% as volatility enhances and policy rates start decreasing.
- Adjusted EBITDA margin in line with historical levels at about 42% in 2024-2025.
- No debt

Ratings Score Snapshot

Global Scale Issuer Credit Rating: BBB+/Stable/A-2

National Scale Issuer Credit Rating: mxAAA/Stable/mxA-1+

Business risk profile: Satisfactory

Industry risk: Low

Country risk: Moderately high

Competitive position: Satisfactory

Financial risk profile: Minimal

Cash flow/leverage: Minimal

Preliminary anchor: a

Clearing and settlement risk: -3

Membership: 3

Risk management policies and procedures: 2

Preliminary C&S risk impact of notches: -2 notches

Deficiencies in financial safeguards: -1

Total impact: -3 notches

Anchor: bbb

Modifiers:

Diversification/portfolio effect: Neutral (no impact)

Capital structure: Neutral (no impact)

Financial policy: Neutral (no impact)

Liquidity: Strong (no impact)

Management and governance: Neutral (no impact)

Comparable rating analysis: Favorable (+1)

Stand-alone credit profile: bbb+

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Asigna Compensacion y Liquidacion	
Issuer Credit Rating	BBB+/Stable/A-2
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.