MOODY'S
INVESTORS SERVICE

Credit Opinion: Mercado a Término de Buenos Aires S.A.

Global Credit Research - 14 Jun 2010

Buenos Aires, Argentina

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Ba3
NSR Issuer Rating -Dom Curr	Aa2.ar

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Opinion

SUMMARY RATING RATIONALE

Moody's assigns a Ba3 global local currency rating and a Aa2.ar Argentinean National Scale long-term local currency issuer rating to Mercado a Término de Buenos Aires (MATba). These ratings have stable outlooks.

The rating takes into consideration MATba's modest earnings base and non-diversified operations, which reflects in part the volatile nature of the Argentinean operating environment, as well as the lack of depth of the domestic derivatives market.

As with other clearinghouses and exchanges, MATba's key credit risks include: the reliance of the business model on technology and constant innovation, which requires continual investments; competitive threats that could erode its market share and pricing power; as well as the importance of risk management to deal with operational, credit, market, and liquidity risks.

On the other hand, MATba's conservative margining practice (i.e., margins must be replenished before the beginning of each trading session), as well as daily stress analyses, ensure a close risk monitoring in situations of considerable volatility. MATba's lack of financial leverage is also a credit-positive given a robust capital base representing 90% of total assets as of year end 2009.

Credit Strengths

Credit strengths for MATba are:

- Relevance to the development of the Argentinean derivatives market as the main clearinghouse for commodity-related futures and options operations in the agricultural sector

- Consistent risk management practices with ex-ante and daily ex-post stress tests and back testing using an in-house technology platform

- Robust margining process, featuring multiple layers of liquidity and capital to support transaction defaults

- Limited exposure to default risk from the operators, as MATba only bears the risk of one-day price variations in commodities, as margins have to be replenished on a daily basis

- No track record of failures from market participants

Credit Challenges

Credit challenges for MATba are:

- Volatile operating and political environment

- Low trading volume relative to global peers

- Monoline business orientation

- Weak derivatives market depth which limits the product bundle.

Rating Outlook

All ratings on MATba have stable outlooks.

What Could Change the Rating - Up

An upgrade would depend on a significant increase in business volume, which would derive from a deeper domestic derivatives market.

What Could Change the Rating - Down

A downgrade of MATba would be likely should the domestic capital market shrinks significantly, which would erode business volumes. Finally, a downgrade would be considered if the current harsh risk management practices were to be softened, provoking a worsening of financial indicators.

DETAILED RATING CONSIDERATIONS

Franchise Strength and Diversification

MATba was established in 1907 to foster the development of the agricultural sector in Argentina. It was located in Buenos Aires, a major port of the country. It offers futures and American options for soybean, wheat, corn and sunflower.

Today it remains a regional reference in a market overwhelmingly dominated by the Chicago Mercantile Exchange (CME). As an illustration, MATba has a share of 0.12%, 0.1% and 0.02% of the total operated volume of soybean, corn and wheat contracts respectively, whereas the CME surpasses 80% for all of these contracts.

As a main clearinghouse, the primary role of MATba is to act as the counterparty to all traded commodity-related contracts; therefore, the company may incur credit risk because of the risk of default by one or more of its trading members, which in turn are trading either on their own account or on behalf of a third party.

Ownership Structure and Corporate Governance

MATba's current shareholder list is extremely granular (300+), composed by individuals, companies and banks (e.g. Banco Patagonia and Banco CMF). The governing body is the Board of Directors, which is composed of twelve regular members each with a three-year mandate with the possibility of being re-elected for another term. It is important to mention that the board is not independent. Being a shareholder is essential to being a regular or deputy member of the Board of Directors. Consequently, the board represents all the main sectors of the Argentinean agribusiness industry.

Every year, the board appoints a chairman, a vice-chairman, a secretary, a treasurer, a vice-secretary and a vice-treasurer. All of them are elected for one year and they may be re-elected as long as they are Directors.

MATba is entirely devoted to its shareholders, as it does not have any debt outstanding.

Type of Contracts Cleared

MATba clears and settles futures (90% of the volume) and American options (10% of the volume) on soybean, wheat, corn and sunflower. The entity is also concentrated in terms of customers (from big producers to individual investors, albeit in a small market), geography (all rural regions are subject to event risks and thus have a high risk correlation) and asset class. MATba only offers futures and options but, as mentioned above, with limited room for sophistication.

MATba's most critical risk is counterparty failure--that is the failure of a trading member acting as a buyer or seller to pay margins. Nonetheless, management has been able to cope with major stress scenarios that have involved not only a shrinkage in capital markets volume (cf. 2001-2002 and 2008) but also collapses of the main domestic agricultural players (e.g. Sasetru, Safra).

Legal Issues and Regulation

MATba is regulated by the CNV (essentially regarding to public offerings), which imposes audits three times a year. Besides the already mentioned controls on money laundering, the entity is also monitored by the Financial Information Unit regarding the compliance of the traders' best practices.

Even though MATba was subject to litigation derived from the 2001 crisis, these did not imply misconduct on the part of the entity. In addition, the entity has consistently avoided any failure among the brokers owing to the direct involvement of senior management. Moreover, MATba performs annual audits on all brokers, as well as applying a strict admission process when admitting new brokers. Finally, the entity has to comply with current CNV regulations, which also might include money laundering assessments. Indeed, before being able to trade, each operator has to pass an aptitude test on derivatives and submit audited financial statements as well as undergo a money laundering assessment. These "best practices" are contained in MATba's Code of Conduct.

Competitive Environment

MATba's closest competitor significantly lags the entity's business volume regarding commodities. As an illustration, MATba holds 100% and 75% of the traded wheat and soybean markets, respectively.

Moreover, MATba is challenged from abroad by the Brazilian BM&F. Nonetheless, the latter has competitive disadvantages vis-à-vis MATba, particularly on the volume of demand for future contracts.

MATBA's Financial Safeguard System

In Moody's opinion, MATba has developed genuine safeguards against a clearing member default and has robust financial resources should a default occur. MATBa maintains basically two different layers of financial protection:

1. Margin Contributions

2. MATba's Equity

The most important protection is afforded by margin contributions (additional and initial margin contributions, which are used sequentially in this order). These contributions are required as a proportion of outstanding open interest. In the case of a clearing member default, these layers are sequentially applied to cover losses.

If the margin deposits are exhausted after a clearing member's default, MATba would have to tap its own equity. Each operator's position is marked to market on a daily basis, and must be replenished to minimum specified levels based on prevailing contract prices. The amount of margin required is determined through MATba's in house risk management system (SVR), which, through scenario simulations, computes the intrinsic risk of the position and the eventual margin to be charged.

A back-testing is then performed for each operator, in order to verify whether margins would be sufficient in case of default. The daily expected tail loss for MATba represents less than 1% of its shareholder equity. In other words, MATba's margining adequacy is statistically robust.

In terms of frequency of collection, margin payments -- initial and extraordinary - are calculated in real time and margin calls must be settled before the beginning of the trading operations on t+1. In case of excessive market volatility or substantial increases in open interest, MATba activates its intra-day margin call mechanism.

In case a broker fails to honor its margin call, MATba proceeds to liquidate his or her position through another broker. On the other hand, if a broker is suspected to be in a troubled position, senior management can restrain his scope of operations, ask for extraordinary margins and even prevent to open new positions. It is important to mention that in the case of a troubled broker, MATba will call on the latter to liquidate the position rather than have the entity do it (i.e. using the margins). The entity can also rely on the significant reputation risk a failure (and consequent ban from operating in the Argentinean financial market) would represent to the broker.

Second Layer of Financial Protection: MATba's Equity

The entity's capital base represents the last cushion for absorbing losses, and would be used in a case where all clearing members defaulted. MATba's retains a considerably sound capital base, amounting to Ar$ 42.7 million and representing 90% of total assets as of December 2009.

Operational Risks

MATba used multiple systems to protect itself against operational risks. Backup information, technological upgrades and process controls are constantly monitored.

Revenue and Profitability Dynamics

MATba fees amount to 0.05% of the value of the contract and are set by the Board of Directors. On the downside, diversification of earnings is low because of the limited number of different types of contracts cleared. Nonetheless, the entity has maintained a good trend in profitability based on its sound risk management practices, which lead to consistent core earnings. Profits have also benefited from consistent operating efficiency.

Diversity of Contracts Cleared

The range of financial contracts cleared is modest with only 21 different contracts - between futures and options - cleared.

Trading Volume Trends

The trend in trading volume has been overall positive as reflected by steady volume growth between the aftermath of the 2002 crisis (i.e. from 2003 and 2007). In 2008, volumes sunk essentially because of the farmers' strike that took place between March and July 2008 as well as because of the severe drought also during 2008. Volumes have since picked up and are expected to show solid performance in 2010, as forecasts have harvests attaining record levels.

Commission erosion

Our opinion is that MATba's fee-based revenues have long-term viability. In other words, the probability of an erosion of fees is not significant, as the amount charged is small when compared to the volumes involved and also because of MATba's competitive advantage in terms of liquidity vis-à-vis Rofex, its main competitor. Currently, the latter operates at around 34% of MATba's volume (measured by commodity-based contracts).

Operating efficiency

Efficiency ratios (measured as operative expenses as percent of operative income) have been volatile in the last years, with a steady decline until June 2008 and a strong pick-up lately, essentially fuelled by high domestic inflation rates. As of December 2009, MATba reported an efficiency ratio of 55.4%.

Recent Results

MATba has managed to maintain profitability even during the 2008 market slump. As of December 2009, MATba posted a net profit of Ar$ 2.9 million, which compares positively with the result recorded at the end of 2008 (Ar$ 1.6 million). Higher business volumes (fee-related income jumped 50%) and income from securities (an increase of Ar$ 2.3 million) were the two main variables which fuelled profitability.

MATba offers high pre-tax margins (measured as personnel expenses against operating revenues), albeit very volatile margins over the last three years, essentially brought on by both external and domestic negative supply and demand shocks. On the other hand, there is business potential for the entity, as just 20% of the total harvest goes though MATba currently.

MATba's capitalization and liquidity are sound. Indeed, MATba's Investment Committee places liquidity in both government and corporate bonds (90% are investment grade), having as a policy the investment of all of its equity in government securities. As of April 2010, the 1%-VaR of the aforementioned portfolio was around U$S 200,000 (or a low 1.8% of total equity). The duration was computed at 3.32 years.

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