

Research Update:

Russian Broker FG BCS Ltd. Upgraded To 'B' From 'B-' Under Revised Criteria; Outlook Positive

July 26, 2019

Overview

- We reviewed our ratings on FG BCS Ltd. under our revised criteria.
- We believe that there is moderate potential for regulatory restrictions on the group operating companies' paid dividends to FG BCS Ltd., pointing to our view that regulation of securities companies in Russia is looser than in developed markets.
- We are raising our long-term issuer credit rating on FG BCS Ltd. to 'B' from 'B-', and affirming the 'B' short-term rating.
- The positive outlook indicates that we could upgrade FG BCS Ltd. in the next 12-18 months if the group demonstrates effective management of all the risks associated with the increasing complexity of its operations, while maintaining a sufficient capital buffer.

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Rating Action

On July 26, 2019, S&P Global Ratings raised its long-term issuer credit rating on FG BCS Ltd. to 'B' from 'B-'. The outlook is positive. At the same time, we affirmed our 'B' short-term issuer credit rating on the group.

This rating action follows a review of FG BCS under our revised criteria ("Group Rating Methodology," published July 1, on RatingsDirect).

Outlook

Our positive outlook on FG BCS reflects the possibility of an upgrade in the next 12-18 months if the group demonstrates effective operations and management of all the risks associated with the increasing complexity of its operations, while maintaining a sufficient capital buffer.

Upside scenario

We are likely to raise the ratings if we see the BCS group maintaining strong capitalization while

adequately managing risks associated with its growth, changes in corporate structure, and hedging strategy. We could also consider an upgrade if the group achieves stronger geographic diversification outside Russia, which may come from its expanding prime brokerage activities.

Downside scenario

We may revise the outlook to stable if, contrary to our expectations, the group's risk-adjusted capital (RAC) ratio dropped below 10% and earnings declined materially. An outlook revision to stable could also stem from deterioration of the group's risk profile.

Rationale

The upgrade of FG BCS, a Cyprus-incorporated nonoperating holding company, reflects our view that its creditors remain structurally subordinated to those of its operating companies, but that they face less risk than is typical among broker groups globally. We have therefore narrowed to one from two the notches between our 'b+' assessment of the group credit profile (GCP) and our long-term issuer credit rating on FG BCS.

Our reassessment of FG BCS structural subordination centers on our view that there is only moderate potential for regulatory restrictions to payment of dividends by group operating companies to FG BCS. Specifically, we believe that securities companies in Russia, which are regulated by the Central Bank of Russia, have looser regulation than securities companies in Europe and in the U.S. The size of prudentially regulated U.K.-based subsidiary BCS Prime Brokerage Ltd. and Russia-based subsidiary BCS Bank is relatively small in the scope of the group. Moreover, FG BCS has no outstanding debt and therefore minimal liquidity needs.

This view of relatively lighter regulation for Russian securities firms is also captured in our 'b' anchor (the starting point for our rating assessment); it is two notches below the anchor for Russian banks (see "Banking Industry Country Risk Assessment: Russia," published Oct. 16, 2018). The lower anchor for Russian securities firms reflects our view that these entities face higher industry risk than domestic banks because of their weaker institutional framework, higher competitive risk, challenged revenue dynamics, and increased funding risk, because of the lack of central bank access and less liquid, more volatile domestic capital markets.

Our assessment of the BCS group's intrinsic credit strength is unchanged. We view the group as one of the largest and most diversified brokers in the Russian market, with a 25% share of equity market turnover and 12% of retail clients across Russia. We also consider the group's notable international presence and its gradual emergence as a key execution platform for international players in Russia-related markets.

We regard the group's capitalization as strong and expect its RAC ratio to stay at around 14%-15%. Earnings have been strong since 2015, when the group's efforts to build infrastructure started to pay off. Risk-management procedures are sound, in our view, and commensurate with the complexity of the group's operations and activities, which take place across multiple jurisdictions and regulatory regimes. At the same time, the group has exhibited some appetite toward diversity, eagerly developing new businesses, and complex products. We also note that the group has shifted to more stable sources of funding and maintains an adequate liquidity cushion.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded; Ratings Affirmed

	To	From
FG BCS Ltd		
Issuer Credit Rating	B/Positive/B	B-/Positive/B

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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