



## Policy: Analytical Error Correction

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|-----------------------------------|---|
| <b>Document Number</b>            | : 17  |
| <b>Revision</b>                   | : V1 / 2022   |
| <b>Status</b>                     | : Approved  |
| <b>Effective Date<sup>1</sup></b> | : 2 August 2022   |
| <b>Issued by</b>                  | : SAR Compliance Function   |
| <b>Applicable to</b>              | : All SAR Employees and relevant Employees who are participants in the SAR rating processes |
| <b>Scope</b>                      | : All Credit Ratings Actions  |

Approved documents are held by the Compliance Officer of Sovereign Africa Ratings (Proprietary) Limited.

<sup>1</sup> Date on which the approved document takes effect.



Table of Contents

|     |  |   |
|-----|--|---|
| 1   | Policy Statements .....                      | 3 |
| 2   | Approval of Policy.....                      | 5 |
| 3   | Annexures .....                              | 6 |
| 3.1 | Procedure: Analytical Error Correction ..... | 6 |

## 1 Policy Statements

Analytical errors may occur due to incorrect application of methodology, incorrect methodology design, incorrect model application, or incorrect model design. An occurrence of an error requires an assessment of, and re-evaluation of any affected credit ratings published.

### DEFINED TERMS AND ABBREVIATIONS

|                         |   |
|-------------------------|---|
| Agent                   | Anyone representing a Rated Entity or a Rated Entity agent, whether an individual or a group.   |
| CRA                     | Credit Rating Agency  |
| Credit Rating           | A Credit Rating is an opinion made by a CRA based on a predetermined ranking system of rating categories regarding the creditworthiness of an entity, debt or financial obligation, debt security, preferred share, or other financial instrument, or of the issuer of such a debt or financial obligation, debt security, preferred share, or other financial instrument.  |
| Credit Rating Action    | Any of the following is a credit rating action: <ol style="list-style-type: none"> <li>1. the process through which a credit rating is given to a rated entity or obligation, including credit ratings given during a subsequent rating process.</li> <li>2. When relevant conditions are thought to have been satisfied in the anticipated rating process, a provisional note is removed from a credit rating.</li> <li>3. a change to a credit rating (i.e., upgrade or downgrade).</li> <li>4. placing a credit rating under review, reconfiguring an active review, or removing a credit rating from review (i.e., Credit Rating Confirmation).</li> <li>5. the assignment of, or modification of, an Outlook linked to a Rated Entity or several Credit Ratings.</li> <li>6. Credit Rating Affirmation.</li> <li>7. Credit Rating Withdrawal.</li> </ol> |
| Credit Rating Personnel | Credit Rating Personnel are SAR Analysts, Managers of SAR Analysts, and any other SAR Employees involved in developing or approving methods or methodologies utilised in providing Credit Rating Services, Ancillary Services, or Other Permissible Services. Any SAR employee assigned to a rating team who: (1) is not active in the rating process or (2) supports the rating process only through administrative responsibilities, such as entering data into internal systems, is not included in the definition of credit rating personnel.   |
| Employee(s)             | An Employee is any full-time or part-time employee of SAR or any of its subsidiaries and associated companies.  |

## Sovereign Africa Ratings

|                             |  |
|-----------------------------|--|
| Issuer                      | An issuer is any entity that issues debt, a credit commitment, debt-like obligations, or securities. Examples of such entities include special-purpose vehicles, companies, governments, and local governments.  |
| Lead Analyst (Lead Analyst) | Lead Rating Analyst is a term used to describe an analyst who is primarily responsible for providing details about a credit rating and/or for communicating with the issuer(s) regarding a specific credit rating or regarding the credit rating of a financial instrument issued by that issuer, as well as, when appropriate, for creating recommendations for the rating committee in relation to that credit rating. |
| Manager(s)                  | Managers are employees who oversee managing personnel.   |
| Outlook                     | An Outlook is an opinion regarding the likely path an issuer's rating could take over the medium term.   |
| Prohibited Recommendation   | It is prohibited for SAR analysts or persons who approve ratings to make proposals or recommendations or give advice, either formally or informally, regarding the design of structured finance instruments on which SAR is expected to issue a credit rating.   |
| Rated Entity                | A Rated Entity is any entity rated by a Credit Rating Agency (CRA)   |
| Review                      | A review is an indication that a rating may be changing in the not-too-distant future.   |
| SAR                         | Sovereign Africa Rating (Pty) Ltd is authorised to conduct business as a credit rating agency as per the Credit Ratings Services Act of 2012 of the Republic of South Africa.  |
| Security                    | Security refers to any type of financial instrument, including stocks, bonds, debentures, notes, options, equity securities, convertible securities, warrants, derivative securities (Derivative), and warrants.   |
| Subsequent Rating Process   | Ratings after that Process is the process of determining the Credit Ratings to be assigned (together with the related outlook or review status, if applicable) solely based on the Credit Ratings of a programme, series category/class of debt, or principal Rated Entity that already exist.   |

## 2 Approval of Policy

The board authorised this Policy on [insert date] and it will be reviewed annually.

*Portia Divhani Ravuhali*

Board Meeting, 2 August 2022

Approved by the board

Date

Chairperson of the board

### 3 Annexures

#### 3.1 Procedure: Analytical Error Correction

The following steps must be taken in the instance of incorrect application of methodology:

- The Chief Ratings Officer must be notified
- The affected credit ratings must be placed under review
- The affected credit ratings must be reviewed within two weeks
- The affected credit ratings must be re-rated

The following steps must be taken in the instance of incorrect methodology design:

- The Chief Ratings Officer must be notified
- All affected credit ratings must be placed under review
- The methodology development team must correct the error in the methodology
- The updated methodology must be submitted to the Methodology Review Committee for review and approval.
- All affected credit ratings must be reviewed within six months
- All affected credit ratings must be re-rated

The following steps must be taken in the instance of incorrect model application:

- The Chief Ratings Officer must be notified
- The affected credit ratings must be placed under review
- The affected credit ratings must be reviewed within two weeks
- The affected credit ratings must be re-rated

The following steps must be taken in the instance of incorrect model design:

- The Chief Ratings Officer must be notified
- All affected credit ratings must be placed under review
- The methodology development team must correct the error in the model
- The updated model must be submitted to the Methodology Review Committee for review and approval.
- All affected credit ratings must be reviewed within six months
- All affected credit ratings must be re-rated