



Policy: Banning Structuring Recommendations

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Applicable to	: All SAR Employees and relevant Employees who are participants in the SAR rating processes
Scope	: All Credit Ratings Actions

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

¹ Date on which the approved document takes effect.



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1 Policy Statement

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 the SAR is expected to issue a credit rating.

Aside from the aforementioned prohibitions, Credit Rating Personnel is not allowed to make formal or informal suggestions or recommendations regarding the design of financial instruments for which SAR anticipates providing a Credit Rating. These limitations do not apply to defenses and criticisms regarding any methodology that SAR has made available to the general public.

Any Employee who thinks they might have been requested to submit a Prohibited Recommendation must follow the procedure specified in the document's annexure to determine whether any additional action is necessary.

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"> 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. 2. When relevant conditions are thought to have been satisfied in the anticipated rating process, a provisional note is removed from a credit rating. 3. a change to a credit rating (i.e., upgrade or downgrade). 4. placing a credit rating under review, reconfiguring an active review, or removing a credit rating from review (i.e., Credit Rating Confirmation). 5. the assignment of, or modification of, an Outlook linked to a Rated Entity or several Credit Ratings. 6. Credit Rating Affirmation. 7. Credit Rating Withdrawal.

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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.
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)	Rating (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

This Policy was approved by the board, 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: Banning Structuring Recommendations

The policy statements are implemented by this Procedure.

Statement of Purpose

This procedure outlines the steps employees must take to report requests for Prohibited Recommendations from Issuers, Rated Entities, or their Agents in order to implement the Policy Banning Structuring Recommendations Associated with Credit Ratings. It also defines what constitutes permissible feedback and what constitutes a Prohibited Recommendation.

Practice

The appropriate Employee may explain and clarify to an Issuer, Rated Entity, and/or its Agents the assumptions, methodologies, application of methodologies, procedures, and rationales used to reach rating decisions and how they apply to the specified transaction or proposed transaction when working on a Credit Rating and, if applicable, the related rating Outlook or rating Review². Any element of credit rating methodology or the application of techniques for which there has been public disclosure may be explained in detail by the appropriate employee. Furthermore, if an Employee believes that the data provided by an external counterparty is insufficient for SAR to produce a Credit Rating, that Employee may request more data.

Employees are not permitted to make editorial revisions or comments on any deal documents or suggest any disclosures in such documentation that the counterparty may furnish since doing so can be interpreted as making a Prohibited Recommendation.

Before making the intended communication, employees who are unsure of whether it might be a Prohibited Recommendation or incorrect structuring should consult with a manager, Chief Operating Officer (COO), or Chief Executive Officer (CEO).

The basis for a Reportable Request for a Prohibited Recommendation

An employee might occasionally find themselves in a predicament where an outside entity requests a Prohibited Recommendation in relation to a Credit Rating, either directly or indirectly. As stated below, these events must be reported to the Compliance Officer. A reportable event is one in which, despite the Employee's best efforts to remind the counterparty that SAR Employees are not permitted to offer recommendations or advice either formally or informally, regarding the design of structured finance instruments on which SAR is expected to issue a credit rating, the issuer insists on receiving the recommendation or advice. Also, after being informed that SAR cannot and does not offer that type of recommendation, an external counterparty requests advice from an employee on how to structure a debt offering to achieve a particular rating result; or, after being

reminded that SAR does not offer recommendations, an external counterparty requests instructions on how to modify a debt offering to obtain a better rating.

Certain occurrences, such as the following, do not need to be reported to Compliance: (a) an Employee prevents his or her counterparty from asking for a recommendation and successfully steers the counterparty away from making such a request; or (b) an Employee clarifies or explains that SAR cannot provide recommendations or advice but can explain methodologies, the application of methodologies, assumptions, procedures, and rationales, as well as the interaction that occurs between those methodologies. There is no need to notify the compliance officer in a scenario like this. In order to understand SAR's approach, an external counterparty might, for instance, 1) ask the credit rating analyst detailed questions about the methodology used and the scorecard or model after learning that SAR cannot provide debt structuring recommendations, or 2) avoid making such requests after being reminded that SAR does not provide recommendations and instead ask detailed questions.

An Employee shall not respond to any questions or provide any Prohibited Recommendation in response to a request for a Prohibited Recommendation.

E-Mail Requests

If an email containing a reportable request is received and addressed to an Employee, the sender(s) should instantly receive the customary response as follows:

"Thank you for giving SAR the chance to explain and make clear the premises, methods, processes, and justifications SAR relies upon to make credit rating decisions and how they relate to or may relate to you or your transaction. Please be aware that SAR cannot offer recommendations or offer advice regarding the design of structured finance instruments on which SAR is expected to issue a credit rating, including the terms of your transaction agreements."

The employee should promptly share with the Compliance Officer the original email they received and the response they sent. Any employee who is not an analyst or part of the commercial team but receives a request similar to this should get in touch with the compliance officer for more information before responding.

Verbal Requests

If you receive a reportable request during a meeting or phone call, do not make any prohibited recommendations about the transaction. Inform them that this advice is not permitted by SAR’s policies and applicable legislation. Send an email to the Compliance Officer after the conversation or meeting summarising the events, including how the verbal request was handled.

To report a verbal request to compliance, employees can mail the matter to the compliance officer.

3.2 Practice Tables

Table of acceptable and unacceptable feedback from analysts to issuers, and other third parties.

Acceptable	Not acceptable
General information	
Any market participant, including issuers, intermediaries, and investors, should be given an explanation of SAR’s rating methodologies.	Include elements or clauses that are recommended or required for a certain security to receive a certain level of rating under a specific SAR rating methodology.
Discuss features of public credit or features of other rated entities that are present in public transactions (such as those covered in a published issuer report).	Impose conditions on transactions, such as that one transaction is structured similarly to another or in a similar manner, or that an issuer takes specific actions to resemble another rated issuer.
Application of rating methodologies	
Explain the credit implications for the analysis using SAR rating methodology and state the credit impact of a specific provision, feature, or issue.	Suggest or mandate a transaction's structure to fit inside the analysis constraints of a specific SAR rating methodology or to obtain a specific rating. Advise on how to modify an offering to obtain a particular rating or on how to set up a debt offering to obtain a particular rating.
Discussion of credit drivers	
Share your thoughts on the credit criteria that the rating committee considered.	Suggest or mandate the modification of a credit driver's underlying elements.
For the issuer to make an informed choice, clarify the credit implications of specific risks or features under SAR techniques.	Suggest or mandate the reduction of a specific risk.

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Acceptable	Not acceptable
Analyst's work on models	
Confirm the issuer-provided data that have been entered into the model. Talk about the credit drivers affecting the model.	Recommend modifications to the structure in light of the model analyst's work.
Ratings	
After the rating committee members have voted, provide the rating level.	Give the rating level before the rating committee members have voted.
<p>If the issuer has supplied credit enhancement levels, communicate the rating level chosen by the rating committee.</p> <p>If the issuer has given updated credit enhancement levels, convey the rating level chosen by the rating committee for the same transaction.</p> <p>Assign ratings at the level determined by the rating committee, including for transactions where credit enhancement has already been given.</p>	Give the issuer or its representative a level of credit enhancement if the rating level was the previous feedback.
Credit enhancement	
When the credit enhancements are provided by the issuer or its agent, indicate the level of ratings approved by the rating committee.	If the issuer or its agent does not provide the credit enhancements, provide a level of credit enhancement (i.e., a rating committee cannot provide feedback on both credit enhancement and rating levels at the same time).