



Policy: Methodology Review

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Issued by	: SAR Compliance Function
Applicable to	: 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 Statements

This policy outlines the requirements for methodology reviews. The Methodology Review Committee must ensure that quality is upheld during the process and that the review of various methodologies is conducted periodically to confirm that methodologies are fit for purpose.

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.
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

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		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

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

Approved by the board

Date

Chairperson of the board

3 Annexures

3.1 Procedure

The policy statements are implemented by this Procedure. The Methodology Review Committee (MRC) will approve/not approve methodologies through voting. Decisions will be made by majority vote (greater than 50%).

Periodic Review

All methodologies must be reviewed by the MRC at least annually. Methodologies may also be reviewed on a case-by-case basis where there is a need in addition to annual reviews.

Types of Review

Methodologies may be reviewed for significant changes or non-significant changes. Significant changes are those changes that substantially change the rating approach or changes that affect previously assigned credit ratings whereas non-significant changes are editorial changes that have no bearing on previously assigned credit ratings.

Request for Public Comments

Significant changes to methodologies will be published for public comments which must be considered for methodology updates. Publication of methodologies for public comments will be open for at least 2 weeks (10 business days). The MRC is responsible for reviewing and considering public comments when reviewing methodologies before approving the methodologies. Updates that are based on non-significant changes will not require publication for public comments.

Ratings Affected by Methodology Updates

Where significant changes in methodologies have a bearing on previously assigned credit ratings, all affected credit ratings must be placed under review indicating that they may be affected by methodology changes. The affected credit ratings must be re-rated within a period of six months.

Methodology Review Memo

Methodology Under Review.	
Date of Review.	
MRC Members.	
Chair of MRC.	
Has the chair asked if any members are conflicted?	
Have conflicted members excused themselves from the review?	
Are the changes significant or non-significant?	
Nature of significance of changes (affecting/not affecting previously assigned credit ratings).	
List of affected credit ratings (if any).	
Review techniques used (back-testing/peer review analysis/methodology or model predictive power)	

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MRC Comments.	
Voting tally.	For approval: Against approval:
Approval status and reasons (approved/not approved).	