

# **RESERVE BANK OF ZIMBABWE**



## **BANK LICENSING, SUPERVISION & SURVEILLANCE**

**Guideline No. 04-2004/BSD**

### **ACCREDITATION OF CREDIT RATING AGENCIES**

**31 October 2004**

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## **PREFACE**

### **I. Short title**

This Guideline may be cited as **Guideline No. 04-2004/BSD: Accreditation of Credit Rating Agencies**

### **II. Authorisation**

The Guideline is issued in terms of section 45 of the Banking Act [24:20]

### **III. Application**

This Guideline applies to any credit rating agency conducting, or proposing to conduct, credit rating business which encompasses the rating of banking institutions operating in Zimbabwe and/or any part thereof.

### **IV. Definitions**

1. In this Guideline the terms itemized below shall have the meaning assigned to them hereunder: –
  - a) **“analyst”** means, with respect to a credit rating agency, an employee whose primary job function is to determine and vote on ratings, including but not limited to rating team and rating committee members;
  - b) **“applicant”** means a prospective or operational crediting rating agency which has submitted or intends to submit an application to the Reserve Bank for the grant of a

certificate of accreditation to operate as a formally recognized credit rating agency;

**c) “banking institution” means**

- (i) any banking institution registered or required to be registered in terms of the Banking Act [Chapter 24:20];  
or
- (ii) any building society registered or required to be registered in terms of the Building Societies Act [Chapter 24:02]

**d) “credit rating agency” means** (i) a body corporate whose primary business is the issuance of credit ratings on corporate and government debt issues for the purpose of evaluating the creditworthiness or the ability and willingness of issuers to make timely payments of principal and interest. Credit rating agencies also assess the credit quality of, and assigns credit ratings to, debt and debt-like securities; or  
(ii) any organization whose ratings are recognized for regulatory purposes by the Reserve Bank.

**e) “credit rating” means** an opinion, as of a specific date, of the creditworthiness of an issuer of financial obligations in general, or with respect to a credit commitment, a debt or debt-like security, expressed using an established and **defined alpha-numeric rating scale**. In other words, a credit rating is a credit rating agency’s opinion of a borrower or issuer’s likelihood to repay, in a timely

fashion, a particular debt or financial obligation, or its debts. Credit ratings can be either long-term or short-term, reflecting the agency's assessment as to a corporation's capacity to meet its financial commitments over a long-term or short-term horizon.

- f) **“sovereign ratings”** rank a country's creditworthiness relative to all other sovereigns. The rating takes into account political risk and economic risk related to a particular country. Political risk refers to the willingness of government to fulfil foreign debt obligations, while economic risk is related to the ability of a country to repay its foreign debts. Major factors affecting a country's capacity to allow conversion of the local currency into foreign exchange for debt servicing (economic risk) include a country's economic performance, balance of payments and the external debt burden.
  
- g) **“fixed-income securities”** refer to bonds, debt securities, preference shares, and other financial obligations of this nature that credit rating agencies rate. Both lenders and investors in such securities provide capital to a borrower or issuer in exchange for a pre-determined rate of return. This contrasts with investors in equity securities, who in exchange for their capital, purchase ownership in the issuer and have a right to share in the issuer's profits after all financial obligations are settled;

- h)** “**rating action**” means any initial rating, any change, withdrawal, or suspension of an existing rating, any credit watch action, and any other rating indicators including, but not limited to, a rating outlook;
- i)** “**security**” means any note, stock, treasury stock, bond, debenture, evidence of indebtedness, derivative contract or any other financial instrument commonly known as a security; but does not include:

  - i. shares of collective investment schemes, managed funds or money market funds;
  - ii. investments in any retirement plan;
  - iii. personal insurance policies, such as homeowners, life, disability and individual annuity policies; and
  - iv. deposits in and certificates of deposits of banks.
- j)** “**Reserve Bank**” means Reserve Bank of Zimbabwe established by the Reserve Bank of Zimbabwe Act [Chapter 22:15].

- 2.** Any word or expression used but not defined in this Guideline, but defined in the Banking Act [Chapter 24:20] or Building Societies Act [Chapter 24:02] shall have the meaning assigned to it in those Acts.

## 1. INTRODUCTION

- 1.1 In line with the **objectives and commitments** enshrined in the mid-term and third quarter **Monetary Policy Statement** regarding the issuance of certain guidelines to the Banking Sector and the public at large, this Guideline **outlines the criteria** used by the Reserve Bank in respect of the accreditation of credit rating agencies.
- 1.2 Rating agencies play an important role in **bridging the information gap** between issuers and investors, providing a common yardstick for measuring credit risk, and performing a monitoring/surveillance function for investors. In addition credit rating agencies operating in developing countries **encourage the development of bond markets** through education, information dissemination and research activities. **Financial deepening** promotes operational and economic efficiency.
- 1.3 Credit rating agencies **assess the credit risk** of corporate or government borrowers and issuers of fixed income securities. Credit rating agencies may provide credit ratings for different types of debts and financial obligations – including, for instance, private loans and debt securities that are not publicly tradable, zero coupon bonds, preference shares and other securities that offer a fixed rate of return.
- 1.4 Issuers of debt and debt-like securities, fixed income investors, and government regulators use credit risk assessments for a

**variety of purposes** including reducing information asymmetry as well as setting capital charges.

- 1.5 The work of rating agencies is **complementary to regulatory efforts** of promoting financial stability and protecting the interests of investors and creditors. Credit ratings also facilitate market discipline which in turn enhances corporate governance and risk management systems for the assessed institutions. Credit rating agencies **facilitate the realization of regulatory objectives** of protecting investors, maintaining fair, efficient and transparent markets, and reducing systemic risk.
- 1.6 The value investors place on a given credit rating agency's opinion depends on the **reputation** of the agency. The **credibility** of credit rating agencies can be significantly enhanced by the accuracy of ratings or default predictions; quality and integrity of the rating process; transparency and objectivity; independence and avoidance of conflict of interest; and appropriate use of confidential information.
- 1.7 The **degree of independence** of a credit rating agency can be viewed from three perspectives namely – political independence, independence of ownership, and independence from the client. **Transparency** is enhanced through publication of rating methodologies and declaration of conflict of interest.
- 1.8 Ratings are **opinions of credit worthiness** hence are affected by judgmental factors. The quality of the rating agency's staff is, therefore, a very important component of the rating process.

Generally the more **experienced and qualified** the personnel, the better the quality of the credit rating.

## **2. ACCREDITATION OF RATING AGENCIES**

- 2.1** No person, other than an **accredited** credit rating agency, shall conduct or assign a credit rating to a banking institution conducting banking business in Zimbabwe.
- 2.2** Any person who **contravenes** clause 2.1 shall be guilty of an offence and is liable to penalties as may be determined by the Reserve Bank from time to time.
- 2.3** **Each** registered banking institution operating in Zimbabwe shall be rated by an accredited credit rating agency at least once a year.
- 2.4** Registered banking institutions which form part of a **banking group** shall be assigned individual ratings over and above a composite rating at the bank holding company level.
- 2.5** No credit rating agency which is an **associate of a banking institution** and/or banking group operating in Zimbabwe through direct or indirect significant shareholding, common directorship, or common enterprise, shall be eligible for accreditation.

## CRITERIA FOR ACCREDITATION

### 3. APPLICATION FOR ACCREDITATION

- 3.1** Any person seeking to conduct any activity as a credit rating agency, which involves the assessment of, and/or assignment of credit ratings to a **banking institution – or any part thereof** –registered or operating in Zimbabwe, on or after the commencement of this Guideline shall make an application to the Reserve Bank for the grant of a certificate of accreditation for such purpose.
- 3.2** Any person who was immediately before the said effective date carrying on any activity as a credit rating agency, which involves the assessment of, and/or assignment of credit ratings to a banking institution – or any part thereof – registered or operating in Zimbabwe shall make an application to the Reserve Bank for the grant of a certificate of accreditation within a period of **three months** from such date; or cease to conduct any rating activity in respect of a banking institution.
- 3.3** An application for the grant of a certificate of accreditation under clause 3.1 and 3.2 shall be made in a prescribed format, in **Form CRA1**, and shall be accompanied by a non-refundable **application fee**, in a prescribed manner, as determined by the Reserve Bank from time to time.
- 3.4** Any **application** for accreditation shall, among other specific requirements provided for elsewhere in this

Guideline and/or accompanying instructions, be **accompanied by** details of the following, namely:–

- a. principal administrative office in Zimbabwe;
- b. **business plan** and organization structure;
- c. qualifications and experience of senior management and the board;
- d. capital structure, financial statements and projections;
- e. **internal practices**, policies and procedures specifying:–
  - i. long term and short term alpha-numeric rating scales and definition of default;
  - ii. rating process (rating teams and committees, etc);
  - iii. factors considered in rating methodology;
  - iv. content and depth of rating reports; and
  - v. rating action (rating downgrades, watches, etc.)
- f. **Code of Conduct** for analysts and committees containing:
  - i. quality, accuracy and integrity of the ratings;
  - ii. transparency and disclosure policies;
  - iii. independence and avoidance of conflict of interest (political affiliation, relationship with clients, etc);
  - iv. use and protection of confidential information; and
  - v. compliance with legal and regulatory requirements.
- g. Such other requirements as may be prescribed.

**3.5** The Reserve Bank may require the applicant to furnish such **additional** information, or such other particulars as it may prescribe, or it may reasonably require for the purpose of processing the application.

- 3.6** The Reserve Bank, may request the applicant or its authorized representative to appear before it, for personal representations in connection with the grant of a certificate of accreditation.
- 3.7** Any application for accreditation which is **not complete** in any respect or does not conform to the prescribed requirements in Form CRA1 and the instructions accompanying shall be rejected by the Reserve Bank.
- 3.8** Pursuant to clause 3.6 and 3.7 any application whose promoters fail to submit, within **sixty days** from the date of a written request issued by the Reserve Bank to the promoters' last known forwarding address by facsimile or letter, any outstanding information, additional documents and/or particulars reasonably required by the Reserve Bank to finalize any evaluation in respect of accreditation process, shall be rejected.
- 3.9** Where any information furnished by a credit rating agency is found to be **false or misleading** in material facts, or such information is supplied knowing the information to be false or having no reasonable grounds for believing it to be true, such falsification and/or misrepresentation shall form the **basis of rejection** of the application by the Reserve Bank.

## 4. ELIGIBILITY FOR ACCREDITATION

The Reserve Bank shall not consider an application for accreditation unless the applicant meets the following requirements, namely:

### A. Registered Company

- 4.1 The applicant is a registered company or a body corporate with continuous minimum prescribed equity capital, which shall be specified by the Reserve Bank from time to time, as per its audited annual accounts for the **previous two (2) years, or five (5) years** in case of long established entities, prior to filling of an application for accreditation;

Provided that the Reserve Bank shall not accredit an applicant whose **head office is situated outside** Zimbabwe unless it is satisfied that the applicant is authorized by a competent regulatory authority of the country where its head office is situated to (a) conduct credit rating business in that country, and (b) the applicant has been authorised to extend its credit rating business to Zimbabwe.

- 4.2 The applicant has, in its Memorandum of Association, specified rating activity as one of its main objects.

### B. Proven Track Record and Experience

- 4.3 The applicant has a proven track record with **at least two (2) years experience** in rating corporations and securities.

## **C. Professional Competence and Integrity**

- 4.4** The applicant and promoters have adequate competence, professional experience, integrity, financial soundness, human and material resources to conduct a credit rating business, to the satisfaction of the Reserve Bank.
- 4.5** Neither the applicant, its promoters, associates, nor any person directly or indirectly connected with the applicant has in the past been convicted of theft, fraud, forgery, uttering a forged document or perjury, or any other offence, by whatever name called, involving dishonesty, or any economic offence; or has been convicted of any offence and sentenced to a term of imprisonment exceeding six months, with no free pardon.
- 4.6** The applicant, in all other respects, is a **fit and proper person** for the grant of a certificate.

## **D. Adequate Infrastructure**

- 4.7** The applicant should have adequate infrastructure, appropriate size and organizational structure to enable it to thoroughly and competently provide rating services in accordance with this Guideline, to the satisfaction of the Reserve Bank.
- 4.8** A credit rating agency should operate independently of financial and political pressure, have capacity to withstand economic and financial pressures, and have the ability to hire and retain qualified personnel.

## **E. Internal Practices, Policies and Procedures**

### **I. Disclosure of Rating Scales and Definitions**

**4.9** Every credit rating agency shall:–

- a)** **make public**, on a regular basis through press release and websites, the definitions associated with its ratings, along with the alpha-numeric symbols constituting its long term rating scales and short term rating scales;
- b)** **file** with the Reserve Bank a copy of the same and any modifications in rating definitions, structure of rating systems, symbols, and models; or additions made therein from time to time, prior to their implementation;
- c)** provide a description of the purpose and limitations of its ratings; and
- d)** **review** definitions of ratings periodically to ensure currency of the same.

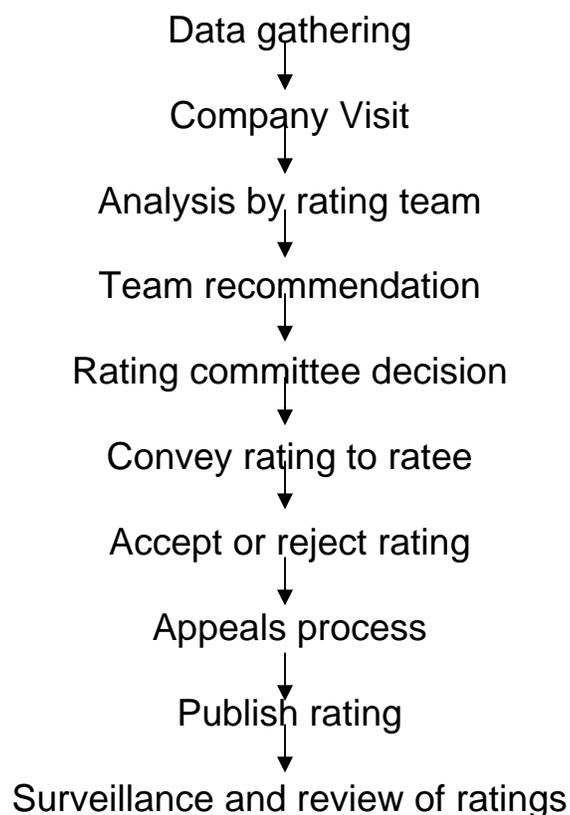
### **II. Quality and Integrity of the Rating Process**

**4.10** Every credit rating agency shall:–

- a)** **establish, adopt, implement and enforce** written procedures and methodologies to ensure that it follows a rigorous, systematic and objective rating process;
- b)** **file a copy** of the same with the Reserve Bank, as well as copies of any modifications or additions made therein from time to time;

- c) **exercise due diligence** in order to ensure that a rating given by the credit rating agent is fair and appropriate, based on all available public and non public information known and believed to be relevant;
- d) set up appropriate **rating teams**, with sufficient skill and material resources, to make a proper rating assessments of all obligations and issuers it rates;
- e) structure its rating teams to **promote continuity** and avoid bias in the rating process;
- f) establish professional **credit rating committees** comprising of persons who, individually or collectively have appropriate knowledge, training and experience to determine the applicable rating for the type of credit;
- g) ensure that all **rating decisions**, including the changes in rating, shall be taken by the rating committee; utilizing **established criteria and methodologies**; and
- h) maintain **internal records** for such period of time, as prescribed at law.

**4.11** For **illustrative purposes**, and guidance of rating agencies a typical rating cycle may entail the following steps:



**4.12** Unless an issuer requests a rating without surveillance, i.e. “a point in time” rating that clearly indicates they do not entail ongoing surveillance, once a rating is published, the credit rating agency should **monitor on an ongoing basis and update the rating** by –

- a) regularly reviewing the issuer’s creditworthiness;
- b) conducting a review of the status of the rating upon receipt of any information that might reasonably be expected to result in a rating action; and
- c) updating on a timely basis the rating, as appropriate, based on the results of such review.

### III. Factors Considered in Rating Methodologies

- 4.13** Every credit rating agency shall establish and **publicly, fully disclose qualitative and quantitative factors** taken into account in rating, and **the rationale**, in both present and future context, for issuer or security under consideration.
- 4.14** Every credit rating agency shall make available to the general public information relating to the rationale of the ratings, which shall cover an analysis of the various factors justifying a favourable assessment, as well as factors constituting a risk.
- 4.15** Rating methodologies should be **modified** for each industry to which they are applied.
- 4.16** Assessment of clients in **regulated industries** should take into account obtaining laws and regulations, as prescribed by a competent regulatory authority from time to time.
- 4.17** The rating of **banking institutions** should at least take into account the **“CAMELS”** components, namely **C**apital Adequacy, **A**sset Quality, **M**anagement and Board Oversight, **E**arnings, **L**iquidity, and **S**ensitivity to market risk.
- 4.18** Any policies on special considerations – such as rating caps on volatile industries, parent-subsidiaries – should be fully disclosed in the interest of transparency.
- 4.19** Every credit rating agency shall publicize any significant modifications to its criteria and methodologies prior to implementation of such modifications in its rating and surveillance processes.

#### IV. Agreements with Clients

- 4.20 Every credit rating agency shall **enter into a written** agreement with each client it proposes to rate, or whose securities it proposes to rate, and every such agreement shall include the following provisions, namely:-
- a. the **rights and liabilities** of each party in respect of the rating exercise;
  - b. the **fee** to be charged;
  - c. **periodic review** of the rating by the credit rating agency;
  - d. the client shall agree to **co-operate** with, and provide the credit rating agency with true, adequate and timely information, in order to enable it to arrive at, and maintain, a true and accurate rating of the client;
  - e. the disclosure, in the offer document, of any rating assigned to the client by any credit rating agency during the last three years irrespective of whether the rating is or is not accepted by the client;
  - f. the client shall agree to obtain a rating from **at least two** different rating agencies for any issue of debt securities whose size is equal to, or exceeds prescribed values; and
  - g. the credit rating agency shall disclose to the client, the rating assigned to it or its securities through regular methods of dissemination, irrespective of whether the rating is or is not accepted by the client.

## V. Policies on Rating Actions

- 4.21** Rating upgrades and downgrades should be **timely**.
- 4.22** A credit rating agency shall have a policy on **consultation** with issuers, and/or resolution of **appeals**, on any material issues or concerns that may arise during the rating and surveillance process, and in respect of rating changes (downgrades, upgrades and watches).
- 4.23** A rating agency may entertain an appeal based upon the availability of material new information or a significant clarification or interpretation of existing information, correction of factual errors, and/or prevention of inadvertent release of confidential information.
- Provided that the rating agency **retains full control over the content and publication** of its Rating Actions, commentary and credit opinions in whatever form it, in its editorial judgment, determines to be the most appropriate.
- 4.24** In order to maintain the integrity and objectivity of the rating processes the rating agency's internal deliberations and the identities of persons who participate in a rating committee shall be kept strictly confidential and shall not be disclosed to persons outside the rating agency.
- 4.25** Subscribers to a credit rating agency's **subscription services** shall not have access to Rating Actions prior to the public.
- 4.26** If a rating is **already public**, a subsequent Rating Action shall also be public.

## VI. Rating Reports

- 4.27** The **content and depth** of analysis in rating reports should reflect the inherent risk associated with the issue credit in order to justify the rating assigned and maintain credibility.
- 4.28** In order to give independent and objective evaluations every credit rating agency shall maintain **complete editorial control** at all times over Rating Actions and all other materials it disseminates to the public, including but not limited to, rating definitions and criteria, reports, research updates, studies, media releases or any other information relating to its ratings.
- 4.29** Every credit rating agency shall establish policies for issuing **unsolicited ratings**, if any, and shall indicate that its ratings are unsolicited ratings.

## VII. Database and Research

- 4.30** Every credit rating agency should **develop capacity** to conduct, at least in the long term, periodic default and associated rating migration studies in order to evaluate the performance of its credit ratings and track record.
- 4.31** Default and transition studies shall **disclose** information on the bases of its default analyses, key assumptions and methodologies, and should be historically verifiable.
- 4.32** **Benchmarks and credit scoring** models may be used to assist in rating.

## VIII. Characteristics of a Good Rating System

- 4.33** In this section, unless the context otherwise requires:–
- a) “**rating agency**” refers to banking institutions and/or external credit rating agencies;
  - b) there exists two different types of ratings: **internal and external credit ratings**. External ratings are generated by external credit rating agencies, and are made public, while internal ratings are private information generated by financial institutions (notably banks) to evaluate the risks they take in their own books, typically not even communicated to the rated firm;
  - c) internal credit ratings and external credit ratings **are of regulatory importance and fulfill dual regulatory functions** of measuring risk and provide a basis for the assessment of a bank’s capital charges; and
  - d) for completeness, the rating industry distinguishes between **borrower rating** (borrower as a legal entity) and **facility rating** (specific loan-cum-collateral).
- 4.34** In light of prudential requirements set out in the Basel Committee on Banking Supervision’s **New Capital Accord**, commonly known as **Basel II**, which provides some methodologies for the assessment of capital charges on the bases of internal and external ratings; both internal and external ratings should consistently preserve their integrity.
- 4.35** Banking institutions, and credit rating agencies where applicable, should adopt a comprehensive framework of

basic rating principles to enhance the standard of their internal and external rating systems as indicated hereunder:–

#### 4.35.1 **Objectivity**

- a) A good rating system must be rigorous, systematic, reflect fundamental creditworthiness, and subject to some form of validation based on historical experience / back testing.
- b) The credit ratings must be subject to ongoing review and responsive to changes in financial condition and the environment.

#### 4.35.2 **Comprehensiveness**

- a) A rating system should be wide and deep enough to be able to rate all past, current and prospective clients.
- b) A rating system should be able to cope with all clients possible, and be flexible enough to cope with all foreseeable types of risk.

#### 4.35.3 **Completeness**

- a) A rating agency should rate all current clients and make an effort to continue to rate all its past clients.
- b) A rating agency should devote appropriate effort in maintaining its rating database.

#### 4.35.4 **Complexity**

- a) A rating agency should have an appropriate number of different rating systems (neither too many nor too few).
- b) The reasons for choosing the number of rating systems should be made transparent.

- c) A rating agency should not change its rating system(s) too often, as it renders backtesting difficult via small data sets.

#### 4.35.5 **Probability of Default**

- a) A rating agency should have properly defined expected probabilities of default (PODs), provide a definition of what it considers to be a default event, and state the time horizon within which a default is considered.
- b) the PODs should be transparent and reasonable and cater for a term structure of ratings (PODs that capture default risk beyond the one year horizon).

#### 4.35.6 **Monotonicity**

- a) The probability of default (POD) and the ratings done by a rating agency should be monotonic, mathematically –
  - i)  $\text{POD}(\text{company X}) = \text{POD}(\text{company Y}) \Rightarrow \text{R}(\text{company X}) \sim \text{R}(\text{company Y})$ ,
  - ii)  $\text{POD}(\text{company X}) < \text{POD}(\text{company Y}) \Rightarrow \text{R}(\text{company X}) \geq \text{R}(\text{company Y})$ ,
  - iii)  $\text{R}(\text{company X}) > \text{R}(\text{company Y}) \Rightarrow \text{POD}(\text{company X}) < \text{POD}(\text{company Y})$ .
- b) The above conditions define the relationship between company credit ratings,  $\text{R}(\text{company})$ , and expected default frequencies and are interpreted as follows:
  - i) If two PODs are identical, the ratings also have to be identical, as depicted in case (a) (i);
  - ii) If the POD of company X is smaller than that of company Y (case (a) (ii)), the rating of company X has to be at least as good as that of company Y.
  - iii) If the rating of a company X is better than that of another company Y (case (a) (iii)), the POD of

company X should be smaller than the POD of the company Y. Note that (iii) is implied by (i) and (ii).

4.35.7 **Fineness**

- a) A rating system should always be as fine as necessary.
- b) (Fineness of a rating system refers to the number of rating categories it has).

4.35.8 **Reliability**

- a) A rating system should be reliable.
- b) A credit rating should change with the creditworthiness of the client, or along the economic cycle, and should stay constant, if the creditworthiness has not changed.

4.35.9 **Back-testing**

The (ex-ante) probability of default should not be significantly different from the (ex-post) realized.

4.35.10 **Informational efficiency**

- a) Ratings should be informationally efficient.
- b) All information available to a rating, both public and private, should be modeled correctly in the rating.
- c) A rating system should cope with known biases.

4.35.11 **System development**

- a) A rating system should be improved over time based on back-testing results and ex-ante management insight.
- b) A rating agency should not wait until (ex-post) back-testing forces system modifications if ex-ante insights (e.g. violation of stationarity) call for system modification.

#### 4.35.12 **Data management**

- a) Past and current rating data should be easily available.
- b) A data management system is a prerequisite for effective back-testing as well as successful system development.

#### 4.35.13 **Internal and External Compliance**

A good rating system should have rigorous procedures to enforce internal and external compliance (see section 6).

#### 4.35.14 **Code of Conduct**

A good rating system calls for a comprehensive Code of Conduct for the credit rating agency and its employees (see section 7 for details).

### **5. ACCREDITATION CERTIFICATE**

**5.1** The Reserve Bank shall issue **accreditation certificates** to credit rating agencies that are able to meet the minimum accreditation requirements.

**5.2** An accreditation certificate issued by the Reserve Bank in terms of this Guideline, shall be in a prescribed form and shall specify:

- a) the name of the accredited credit rating agency;
- b) the rating activities in which the credit rating agency is authorised to engage; and
- c) any other terms and conditions that may apply from time to time.

**5.3** The certificate of accreditation shall be valid for **three years** and eligible for renewal subject to satisfactory performance.

## 6. INTERNAL AND EXTERNAL COMPLIANCE

- 6.1 A credit rating agency and its employees shall **comply with all applicable laws, rules and regulations** governing its activities in each jurisdiction in which it operates.
- 6.2 A credit rating agency shall institute policies and procedures that clearly specify a **person responsible for** the credit rating agency and the credit rating agency employees' **compliance** with the provisions of the credit rating agency Code of Conduct and applicable laws and regulations. This person's reporting lines and compensation shall be independent of the credit rating agency's rating operations.
- 6.3 The internal analyst **reward system** should take into account incentives conflicts and its behavioural effects.
- 6.4 Sophisticated **statistical methods** should be developed and applied to check for internal and external compliance.
- 6.5 Internal and external **quality assurance** assessments should apply techniques capable of identifying significant variations in rating decisions over time, or across firms.
- 6.6 The Reserve Bank **will monitor** adherence to, appropriateness and effectiveness of, established rating standards through continuous or random inspections.
- 6.7 Every credit rating agency shall comply with such **guidelines, directives, circulars and instructions** as may be issued by the Reserve Bank from time to time, on the subject of credit rating.

## 7. CODE OF CONDUCT

### I. Quality, Accuracy and Integrity of the Ratings

- 7.1 A credit rating agency, in the conduct of its business, shall observe **high standards of integrity and fairness** in all its dealings with its clients.
- 7.2 A credit rating agency's analysts should be held to high standards of integrity, and the credit rating agency **will not employ individuals** with demonstrably compromised integrity.
- 7.3 A credit rating agency and its employees **should not**, either implicitly or explicitly, give issuers any **assurance or guarantee** of a particular rating prior to a rating assessment.
- 7.4 A credit rating agency shall not make any **exaggerated statement**, whether oral or written, to the client either about its qualification or its **capability** to render certain services or its achievements in regard to services rendered to other clients.
- 7.5 A credit rating agency shall **not indulge in unfair competition** nor shall they wean away any client to other rating agencies on assurance of higher ratings.
- 7.6 A credit rating agency shall not wilfully make **untrue statements** or suppress any material fact in any documents, reports, papers or information furnished to the Reserve Bank.

## II. Transparency and Timely Disclosure of Policies and Ratings

- 7.7** A credit rating agency should **publish** sufficient information about its **procedures, methodologies and assumptions** so that outside parties can understand how a rating is arrived at by the credit rating agency. This information will include (but not be limited to) the meaning of each rating category and the definition of default and the time horizon the credit rating agency used when making a rating decision.
- 7.8** A credit rating agency, where possible, should publish sufficient information about the **historical performance** of its rating categories in relation to the historical defaults rates.
- 7.9** A credit rating agency should publicly disclose its policies for distributing ratings and reports.
- 7.10** A credit rating agency should distribute in a timely manner its ratings decisions regarding the entities and securities it rates.
- 7.11** A credit rating agency should fully and publicly disclose modification of their practices, procedures and processes.
- 7.12** A credit rating agency should disclose when its **ratings are not initiated** at the request of the issuer and whether the issuer participated in the rating process.

## III. Independence and Avoidance of Conflicts of Interest

- 7.13** A credit rating agency should **adopt written** internal procedures and mechanisms to (1) identify, and (2) eliminate, or manage and disclose, as appropriate, any actual or

potential conflict of interest that may influence the opinions and analyses the credit rating agency makes or the judgment and analyses of the individuals the credit rating agency employs who have an influence on rating decisions.

- 7.14** A credit rating agency shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.
- 7.15** The credit rating agency **should not forbear** or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on the credit rating agency, an issuer, an investor, or other market participant.
- 7.16** Reporting lines for credit rating agency employees and their **compensation** arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest.
- 7.17** The credit rating agency should not have analysts initiate, or participate in, discussions regarding fees or payments with any entity they rate.
- 7.18** No credit rating agency employee should **participate** in or **otherwise influence the determination** of the credit rating agency's rating of any particular entity or obligation if the employee:
- a) owns securities or derivatives of the rated entity or any related entity thereof;
  - b) has had an employment or other significant business relationship with the rated entity within the previous 12 months;

- c) has an immediate relation (i.e., spouse, partner, parent, child, sibling) who currently works for the rated entity;  
or
- d) has, or had, any other relationship with the rated entity or any agent of the rated entity that may be perceived as presenting a conflict of interest.

**7.19** The credit rating agency's analysts and anyone involved in the rating process (or members of their immediate household) should **not buy or sell** or engage in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity within such analyst's area of primary analytical responsibility, other than holdings in diversified mutual funds.

#### **IV. Use and Treatment of Confidential Information**

**7.20** Every rating agency should have internal procedures to prevent the misuse of confidential information.

**7.21** Unless otherwise permitted by the confidentiality agreement or required by applicable laws or regulations, the credit rating agency and its employees **should not disclose** any confidential information about the client which has come to its knowledge, in press releases, through research conferences, to future employers, or conversations with investors, other issuers, or other persons, or otherwise, without making disclosure to the concerned person of the rated company.

- 7.22** The credit rating agencies should use confidential information **only for purposes related** to their rating activities or otherwise in accordance with their confidentiality agreements with the issuer.
- 7.23** Credit rating agency employees should not selectively disclose any non-public information about rating opinions or possible future rating actions of the credit rating agency.
- 7.24** Credit rating agency employees should **not share confidential** information entrusted to the credit rating agency with employees of any affiliated entities that are not credit rating agencies.
- 7.25** Credit rating agency employees should not share confidential information within the credit rating agency except **on an “as needed” basis**.
- 7.26** Credit rating agency employees should not use or share confidential information for the purpose of trading securities, or for any other purpose except the conduct of the credit rating **agency’s business**.
- 7.27** A credit rating agency shall maintain an **arm’s length** relationship between its credit rating activity and any other activity.

## **V. Compliance with Legal and Regulatory Requirements**

- 7.28** Credit rating agencies should take reasonable measures to protect all property and records belonging to or in possession of the credit rating agency from fraud, theft or misuse.

## **8. RESTRICTIONS ON RATING CONNECTED PARTIES**

- 8.1** No chairman, director or employee of a **banking institution** shall be a chairman, director or employee of a credit rating agency or its rating committee.
- 8.2** No credit rating agency shall rate a security issued by its **associate or subsidiary**.
- 8.3** No credit rating agency shall rate a security issued by its **significant shareholder**.
- 8.4** No credit rating agency shall, rate a security issued by an entity, which is ;-
- a. a borrower of its significant shareholder; or
  - b. a subsidiary of its significant shareholder; or
  - c. an associate of its significant shareholder, if
    - i. there are common chairman, directors between credit rating agency and these entities.
    - ii. there are common employees.
    - iii. there are common chairman, directors, employees on the rating committee.

## **9. MAINTENANCE OF ACCOUNTING RECORDS**

- 9.1** The rating agency shall maintain and retain database records for the following books of accounts, records and/or documents:
- a) copy of balance sheet, as at the end of each accounting period;
  - b) copy of profit and loss account for each accounting period;

- c) copy of the auditor's report on its accounts for each accounting period;
- d) copy of the rating agreement with each client;
- e) information supplied by every banking institution;
- f) correspondence with each banking institution;
- g) ratings assigned to each banking institution;
- h) rating notes considered by the rating committee;
- i) record of decisions of the rating committee;
- j) letter assigning rating;
- k) particulars of fees charged for rating; and
- l) other records that the Reserve Bank may specify from time to time.

**9.2** The rating agency shall retain the records for a minimum period of five years.

**9.3** Every credit rating agency shall advise the Reserve Bank of the place where the books of accounts, records and documents required to in terms of this Guideline are kept.

## **10. SUBMISSION OF INFORMATION TO THE RESERVE BANK**

**10.1** All accredited rating agencies shall comply with the provisions of the guidelines, directives, circulars and instructions issued by the Reserve Bank from time to time in relation to the rating of banking institutions.

**10.2** Where any information or particulars furnished to the Reserve Bank by a rating agency has undergone change subsequent to its submission to the Reserve Bank, the

rating agency shall forthwith inform the Reserve Bank in writing.

**10.3** Where any information is called for by the Reserve Bank from a credit rating agency for the purposes of this Guideline, including any report relating to its activities, the credit rating agency shall furnish such information to the Reserve Bank:

- a) within a period specified by the Reserve Bank;
- b) if no such period is specified, then within a reasonable time.

**10.4** Every credit rating agency shall, at the close of each accounting period, furnish the Reserve Bank with copies of its audited balance sheet and profit and loss account.

## **11. PROCEDURE FOR INSPECTION AND INVESTIGATION**

### **I. Reserve Bank's Right to Inspect**

**11.1** The Reserve Bank may appoint:-

- i. one or more of its officers or employees;
- ii. independent experts with relevant experience on such terms the Reserve Bank may determine from time to time; or
- iii. a combination of both –

as supervisor and/or inspector to undertake an inspection or investigation of the books of account, records and documents of any credit rating agency, for any of the following purposes; viz:

- a. to ascertain whether the **provisions** of this Guideline and any applicable laws and regulations are being complied with;
- b. to ascertain whether the books of account, records and documents are being maintained properly;
- c. to investigate **complaints** received from investors, clients or any other person on any matter having a bearing on activities of the credit rating agency;
- d. to investigate into **any other aspect** of a credit rating agency, its management or activities; and
- e. in the **interest** of the financial and capital markets or in the interest of investors.

**11.2** The supervisors and/or inspectors shall have such **powers** as conferred to supervisors and/or inspectors in terms of the Banking Act [Chapter 24:20] as amended from time to time.

**11.3** The inspections ordered by the Reserve Bank under this section **shall not** ordinarily go into an examination of the appropriateness of the assigned ratings on the merits.

**11.4** Inspections to judge the appropriateness of any ratings may be ordered by the Reserve Bank, only in case of complaints which are **serious in nature**.

## **II. Notice before Inspection or Investigation**

**11.5** Before ordering an inspection or investigation under this section, the Reserve Bank will give not less than **seven**

**days written notice** to the credit rating agency for that purpose.

Provided that, where the Reserve Bank considers that **immediate action** is necessary to prevent irreparable harm to investors, capital markets or the financial sector, the Reserve Bank may, by an order in writing, direct that the inspection or investigation of the affairs of the credit rating agency be taken up without such notice.

### **III. Obligations of Credit Rating Agency on Inspection / Investigation**

**11.6** During the course of an inspection or investigation, the credit rating agency against whom the inspection or investigation is being carried out shall be bound to discharge the obligations listed hereunder:–

11.6.1 every director, officer or employee of the credit rating agency shall be bound to render to the inspecting officer all **assistance** in connection with the inspection or investigation which the inspecting officer may reasonably require;

11.6.2 it shall be the duty of every credit rating agency whose affairs are being inspected or investigated, and of every director, officer or employee thereof, to **produce** to the inspecting or investigating officer such books, accounts and other documents in its or his custody or control and furnish him with such statements and information relating to its rating

activities, as the inspecting officer may require within such reasonable period as may be specified by the said officer

11.6.3 The credit rating agency shall –

- a. allow the inspecting officer to have reasonable **access to the premises** occupied by such credit rating agency or by any other person on its behalf;
- b. extend to the inspecting officer **reasonable facility** for examining any books, records, documents and computer data in the possession of the credit rating agency; and
- c. **provide copies** of documents or other materials which, in the opinion of the inspecting officer, are relevant for the purposes of the inspection or investigation, as the case may be.

**11.7** The supervisor, in the course of inspection or investigation, shall be **entitled to examine**, or record the statements, of any officer, director or employee of the credit rating agency for the purposes connected with the inspection or investigation.

#### **IV. Submission of Reports to the Reserve Bank**

**11.8** The supervisor shall, after taking into account all relevant facts and submissions made by the credit rating agency, **compile a report and recommend the penalty**, if any, to be imposed upon the credit rating agency as well as the basis on which the proposed penalty is justified.

**11.9** The supervisor shall, as soon as possible, on completion of the inspection or investigation, **submit a report** to the Reserve Bank.

**Provided** that, if directed to do so by the Reserve Bank, he may submit **an interim report**.

#### **V. Communication of Findings to the Credit Rating Agency**

**11.10**The Reserve Bank shall, after consideration of the inspection or investigation report or the interim report, **communicate the findings** of the supervisor to the credit rating agency and give it reasonable **opportunity** to make representations in the matter.

#### **VI. Procedure before Suspension or Cancellation of Accreditation**

**11.11**The Reserve Bank shall issue to the credit rating agency a **written notice**, at the registered office or the principal place of business of the credit rating agency, setting out the grounds on which action is proposed to be taken against it, and calling upon it **to show cause** within a period of fourteen days from the date of receipt of such notice, as to why the penalty as proposed by the supervisor should not be imposed.

**11.12**The credit rating agency shall, within fourteen days of the date of receipt of the show-cause notice, send a written

reply to the Reserve Bank, together with copies of documentary or other evidence relied on by it or sought by the Reserve Bank from the credit rating agency.

**11.13** If it is deemed necessary, the Reserve Bank may call the credit rating agency to a meeting to make representations against the proposed penalties;

Provided that no lawyer or advocate shall be permitted to represent the credit rating agency at the meeting;

Provided further that where a lawyer or an advocate has been appointed by the Reserve Bank as a presenting officer, it shall be lawful for the credit rating agency to present its case through a lawyer or advocate.

**11.14** The Reserve Bank, after considering the representations of the credit rating agency to the show-cause notice, if any, may call upon the credit rating agency to take such measures as the Reserve Bank may deem fit in the interest of the financial sector, and to ensure due compliance with the provisions of this Guideline and applicable laws and regulations.

## **12. SANCTIONS AND PENALTIES IN CASE OF DEFAULT**

**12.1** A credit rating agency which fails to comply with conditions of accreditation or contravenes any provisions of this Guideline shall be liable for penalties or fines as determined by the Reserve Bank from time to time.

**12.2** Penalties levied in terms of this Guideline may include, but not limited to (a) an order of suspension of accreditation; or (b) cancellation of registration.

### **13. CANCELLATION OF ACCREDITATION**

**13.1** Accreditation shall be terminated by the Reserve Bank where, a credit rating agency:-

- a) is found guilty of fraud, or has been convicted of any offence;
- b) commits contraventions of this Guideline, directives, circulars and instructions issued by the Reserve Bank;
- c) fails to pay to the Reserve Bank registration fees or renewal fees as per this Guideline;
- d) has been declared insolvent or is wound up; or
- e) any other such breaches which in the opinion of the Reserve Bank warrant cancellation of certificate of accreditation.

**13.2** The Reserve Bank shall notify the credit rating agency in writing of the cancellation of accreditation.

### **14. EFFECT OF CANCELLATION OF ACCREDITATION**

**14.1** On and from the date of cancellation or suspension of the accreditation the credit rating agency shall:

- a) cease to conduct any credit rating activity of banking institutions in Zimbabwe; and

- b) be subject to such directions of the Reserve Bank with regard to the transfer of records, documents, securities or reports connected with its rating activities which may be in its custody or control.

**14.2** The order of suspension or cancellation of accreditation passed under this Guideline shall be published by the Reserve Bank in at least two widely circulating newspapers.

## **15. RENEWAL OF ACCREDITATION**

**15.1** An application for the renewal of accreditation shall be made in the prescribed format not less than three months before expiry of the period of validity of the certificate.

## **16. EFFECT OF REFUSAL TO ACCREDIT**

**16.1** An applicant whose application for the grant of an accreditation has been rejected shall not undertake any credit rating activity in respect of banking institutions in Zimbabwe.

## **17. PROCEDURE WHERE ACCREDITATION IS NOT GRANTED**

**17.1** Where an application is considered deficient, the Reserve Bank shall give the applicant a reasonable opportunity to make representations, before rejecting the application.

**17.2** The decision of the Reserve Bank, not to grant or not to renew the certificate shall be communicated to the applicant within a period of thirty days of such decision, stating the grounds for the decision.

**17.3** Any applicant aggrieved by the decision of the Reserve Bank to reject the application may, within a period of thirty days from the date of the letter, apply to the Reserve Bank in writing for re-consideration of such decision.

**17.4** Where an application for re-consideration is made, the Reserve Bank shall consider the application and communicate to the applicant its final decision in writing.

## **18. CONCLUSION**

Rating agencies foster market discipline and transparency in the financial sector. In turn rating agencies thrive on good reputation and credibility in the market. As such, a sound framework for accreditation of rating agencies serves the interests of regulatory authorities, market participants and rating agencies themselves.

## **19. EFFECTIVE DATE**

This Guideline is effective from 31 October 2004.

Questions relating to the Guideline should be addressed to the Division Chief, Bank Licensing, Supervision & Surveillance, Reserve Bank of Zimbabwe, Telephone 703 000 extension 11133.



**N. Mataruka**  
**Division Chief,**  
**Bank Licensing, Supervision & Surveillance**

## APPENDIX 1

### SUMMARY OF CREDIT RATING FUNDAMENTALS

#### Rating Scales:

- Definition of ratings
- Long term scales and symbols
- Short Term scales and symbols
- Default definition

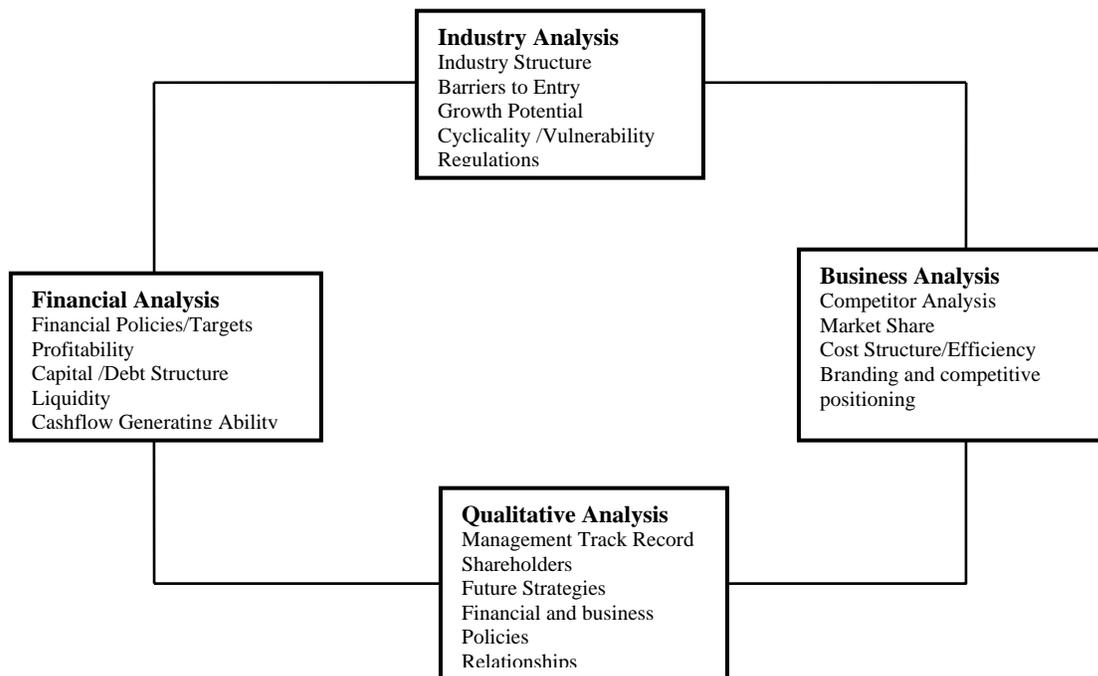
#### Rating Process:

- Time to complete rating exercise
- Data gathering
- Team composition
- Company visit
- Analysis by rating team
- Team recommendation
- Rating committee decision
- Convey rating to ratee
- Accept or reject rating
- Appeals process
- Publish rating
- Surveillance and review of ratings

#### Rating Methodology and Criteria

- Qualitative rating factors
- Quantitative rating factors
- Rating caps on industries
- Rating principles

## Common Factors Considered In Rating Methodology



## Examples of Rating Methodologies

S&P*	Moody's*	Typical bank	Bank Supervision
<b>Financial Risk:</b> <ul style="list-style-type: none"> <li>Balance Sheet</li> <li>Financial Policy</li> <li>Return</li> <li>Capital structure</li> <li>Cashflow</li> <li>Financial flexibility</li> </ul>	<b>Financial risk:</b> <ul style="list-style-type: none"> <li>Cash</li> <li>Liquidity</li> <li>Debt Structure</li> <li>Equity and reserves</li> </ul>	<b>Economic Situation:</b> <ul style="list-style-type: none"> <li>Earning (cash-flow, return...</li> <li>Financial Situation (capital structure, liquidity..</li> </ul>	<b>Capital Adequacy</b> <ul style="list-style-type: none"> <li>Capital Adequacy ratio,</li> <li>Tier 1 Ratio</li> <li>leverage ratio</li> <li>Volume of risk assets</li> <li>Earnings Performance</li> </ul>
<b>Business Risk:</b> <ul style="list-style-type: none"> <li>Industry code</li> <li>Competitive situation</li> </ul>	<b>Competition and Business risk</b> <ul style="list-style-type: none"> <li>Relative market share, competitive position</li> <li>Diversification</li> <li>Turnover, costs returns</li> </ul>	<b>Business situation:</b> <ul style="list-style-type: none"> <li>Industry assessment</li> <li>UPS and competition</li> <li>Product mix</li> <li>Special risks</li> <li>Forecasts: earnings and</li> </ul>	<b>Asset Quality</b> <ul style="list-style-type: none"> <li>Asset classification</li> <li>Provision for non-performing loans</li> <li>Insider loans</li> <li>Concentration risk</li> <li>Borrower</li> <li>Large expenses</li> </ul>

<ul style="list-style-type: none"> <li>Management</li> </ul>	<ul style="list-style-type: none"> <li>Sales and purchases</li> </ul>	<p>Liquidity</p> <ul style="list-style-type: none"> <li>Legal structure</li> </ul>	<p><b>Management &amp; Board</b></p> <ul style="list-style-type: none"> <li>Board and senior management oversight</li> <li>Adequacy of policies and procedures</li> <li>Potential competence, experience and integrity</li> <li>Compliance with banking regulations</li> <li>Risk management practices and corporate governance</li> <li>Succession planning</li> <li>Ratings of other CAMELS components</li> </ul>
	<p><b>Legal Structure And Legal Risk</b></p> <ul style="list-style-type: none"> <li>Consolidation of related firms</li> </ul>		<p><b>Earning</b></p> <ul style="list-style-type: none"> <li>Earnings trend</li> <li>Ability to cover losses and provide for adequate capital</li> <li>Peer group comparisons quality and level</li> <li>Quality and composition of net income</li> <li>Interrelation between dividend payout ratio growth of retained earnings and adequacy of capital</li> </ul>
	<p><b>Quality of Management:</b></p> <ul style="list-style-type: none"> <li>Planning and controlling</li> <li>Management track record</li> <li>Organizational structure</li> <li>Entrepreneurial succession</li> </ul>	<p><b>Quality of management:</b></p> <ul style="list-style-type: none"> <li>Experience</li> <li>Succession planning</li> <li>Quality of accounting and controlling</li> </ul>	<p><b>Liquidity</b></p> <ul style="list-style-type: none"> <li>Policies &amp; procedures</li> <li>Funding strategies</li> <li>Investment strategies</li> <li>Cashflow position</li> <li>Interest rate risk strategies</li> <li>Currency risk</li> <li>Contingency planning</li> <li>Ratio analysis</li> <li>Gap analysis</li> <li>Stress testing</li> </ul>
		<p><b>Customer relationship, account management</b></p>	<p><b>Sensitivity</b></p> <ul style="list-style-type: none"> <li>Reliance on interest sensitive funds</li> <li>Impact of interest rate, ex rate and equity prices on earnings &amp; capital</li> <li>Earnings-at-Risk, Value-at-risk measure</li> <li>Asset/Liability mismatch levels</li> <li>Market risk identification, measure, monitor and control</li> </ul>

\* S&P and Moody have been used here for illustrative purposes and do not portray any preferences on part of the Reserve Bank

## **Policies on Rating Action:**

- Rating outlooks
- Consultation with ratee on downgrades and watches

## **Rating Reports**

- Information content, depth of analysis

## **Rating Database**

- Data updatedness
- Credit scoring model
- Benchmarks

## **Code of Conduct**

- Quality and integrity of rating process
- Independence
- Conflict of interest
- Relationship with clients
- Securities ownership and trading
- Compensation for analysts
- Gifts and political affiliations
- Protection of confidential information
- Use of confidential information

# RESERVE BANK OF ZIMBABWE



## FORM CRA1

### APPLICATION FOR ACCREDITATION AS A CREDIT RATING AGENCY

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#### Instructions on how to complete this form

- a) Attach annexures wherever necessary.
- b) Do not leave any questions blank or unanswered: where necessary answer "Not applicable" or "Not known".
- c) All signatures should be original.
- d) Every page of the form and every annexure must be initialled by the authorised signatory of the applicant.
- e) Upon completion the original of this form and supporting annexures should be submitted to:

**The Division Chief  
Bank Licensing, Supervision & Surveillance  
Reserve Bank of Zimbabwe  
80 Samora Machel Avenue  
Harare  
ZIMBABWE**

Telephone 263 4 703000  
Fax 263 4 705928  
Email: Banking Supervision@rbz.co.zw

- f) All inquiries in respect of this form should be directed to the Division Chief.

**PRELIMINARY**

1. State the name, address and telephone numbers of the promoter(s) / person(s) who may be contacted regarding any questions in respect of this application.

.....  
.....  
.....

**PART 1: PARTICULARS OF APPLICANT RATING AGENCY**

2. Name of applicant as it appears on the Certificate of Incorporation, and date of incorporation

.....  
.....

3. Physical address, correspondence address, telephone numbers, fax numbers, e-mail address of the applicant's principal administrative office in Zimbabwe

.....  
.....

4. Physical address of the applicant's head office

.....  
.....

5. Name and physical address of the applicant's auditors

.....  
.....

6. Name and address of the applicant's principal bankers.

.....  
.....

7. Name and physical address of the most senior executive in the applicant's office in Zimbabwe

.....  
.....

8. Name and physical address of Chief Accounting Officer

.....  
.....

9. Names, physical addresses and occupations of chairperson and directors of the applicant

.....  
.....

10. Capital structure of the applicant:

Authorised Capital (Z\$) .....

Issued and paid-up Equity Capital (Z\$).....

Name, address, percentage shareholding and type of business of any associate of the applicant.

.....  
.....  
.....  
.....

11. Has any associate of the applicant been granted / refused accreditation by the Reserve Bank of Zimbabwe. Give details (date of application, date of accreditation / refusal, reasons for refusal etc.).

.....  
.....

12. Is any director of the applicant a director or principal officer of another rating agency that conducts rating activities in Zimbabwe?

Yes / No. If yes, provide details.

.....  
.....

13. Has the applicant or any director of the applicant ever, under the law of any country: -

a) been adjudged or otherwise declared insolvent or bankrupt and has not been rehabilitated or discharged; Yes/No.

b) made an assignment to, or, arrangement or composition with, his/her creditors, which has not been rescinded or set aside; Yes/No

c) been convicted of theft, fraud, forgery, uttering a forged document or perjury or any other offence, by whatever name called, that is similar to any of those offences; Yes/No.

d) been convicted of any offence and sentenced to a term of imprisonment exceeding six months, imposed otherwise than as an alternative to or in default of payment of a fine, and has not received a free pardon? Yes/No.

If the answer to any of these questions is yes, provide details.

.....  
.....

14. Are there any material disputes between the applicant and the Revenue Authority of Zimbabwe or the authority responsible for collecting taxes in any country with respect to any assessment for income tax or other taxes payable by the applicant? If yes, provide details.

.....  
.....

**15. Declaration**

We, the undersigned chief executive officer and members of the board of the applicant, do hereby certify that:-

- i. all information given in response to and in support of the questions and items in this Part of this application is true and correct to the best of our knowledge and belief;
- ii. this application is made in good faith with the purposes and intent that the affairs and business of the applicant will at all times be honestly conducted in accordance with good and sound business principles and in full compliance with all applicable laws and lawful directives;
- iii. We further certify that to the best of our knowledge and belief there are no other facts or information relevant to this application of which the Reserve Bank should be aware, and we pledge to promptly inform the Reserve Bank of any changes material to this application which may arise while it is being considered by the Reserve Bank of Zimbabwe. We undertake to comply with all reasonable and lawful information requests by the Reserve Bank for purposes of its regulatory / supervisory functions in the banking sector. We hereby authorize the Reserve Bank and any of its authorised staff to make an inquiry or obtain any information from any source for the purpose of determining the correctness of all representations made in connection with this application or of assessing its merits;

.....  
Chairperson of the board (print name)

.....  
Signature Date

.....  
Chief Executive Officer (print name)

.....  
Signature Date

.....  
Director (Print name)

.....  
Signature Date

**PART II: PARTICULARS OF PRINCIPAL OFFICERS (Chief Executive Officer, Chief Accounting Officer, Other Executive Officers)**

For each principal officer, provide the following:

16. Name, nationality and physical address of principal officer

.....  
.....

17. Professional and academic qualifications and employment history (for the past 5 years, listing, in reverse chronological order, the name and address of the employer, the nature or type of business, the job title and duties, the date employed and reasons for leaving) of the principal officer

.....  
.....

18. Does the principal officer act in the capacity of a principal officer, or member of the board of any other rating agency or banking institution? Yes/No.  
If yes, provide details

.....  
.....

19. Has the principal officer ever, under the law of any country: -

- a) been adjudged or otherwise declared insolvent or bankrupt and has not been rehabilitated or discharged: Yes/No.
- b) made an assignment to, or, arrangement or composition with, his/her creditors which has not been rescinded or set aside. Yes/No
- c) been convicted of theft, fraud, forgery, uttering a forged document or perjury or any other offence, by whatever name called, that is similar to any of those offences; Yes/No.
- d) been convicted of any offence and sentenced to a term of imprisonment exceeding six months, imposed otherwise than as an alternative to or in default of payment of a fine, and has not received a free pardon? Yes/No.

20. Provide an affidavit sworn under a Commissioner of Oaths. If the answer to any of the questions above is yes, provide details.

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**PART III: FURTHER PARTICULARS OF PRINCIPAL SHAREHOLDERS OF THE APPLICANT RATING AGENCY**

22. Provide the shareholding structure of the applicant, indicating the names of shareholders, number of shares, percentage and form of ownership or control. *(if the list is long please attach as an annexure)*

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.....  
.....  
.....

23. Provide the following information for any shareholder who holds at least 10% effective shareholding of the applicant: -

a) Physical address, nationality and affidavit sworn under a Commissioner of Oaths indicating whether the person has been censured, disciplined, penalized, suspended, prosecuted, convicted, warned as to conduct, investigated or subjected to proceedings by or at the instance of any government agency, regulatory authority or professional association within or outside Zimbabwe. Provide details.

.....  
.....  
.....

b) Has any shareholder ever been or is now the subject of any litigation, in Zimbabwe or elsewhere, which may have a material effect on his/her resources? Yes/No.  
If yes, provide details.

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c) Has any shareholder failed to satisfy within one year any judgment debt issued in Zimbabwe or elsewhere? Yes/No.  
If yes, provide details.

.....  
.....  
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- d) Are there any material disputes between the principal shareholder and the Revenue Authority of Zimbabwe or the authority responsible for collecting taxes in any country with respect to any assessment for income tax or other taxes payable by the applicant? Yes/No.  
If yes, provide details.

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.....

- e) For individual shareholders, provide a net worth statement certified by an auditor registered as such in terms of the Public Accountants and Auditors Act [Chapter 27:12] and tax clearance certificate.

- f) For corporate shareholders, indicate their legal form, shareholding structure, date of incorporation or formation, and line of business.

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- g) In respect of each corporate shareholder detailed financial statements and cash flow statement certified by an auditor registered as such in terms of the Public Accountants and Auditors Act [Chapter 27:12] and any explanations where necessary, shall be attached.

**24. Declaration**

I/We, the undersigned, do hereby certify that all information given in response to and in support of the questions and items in this Part of this application is true and correct to the best of my/our knowledge and belief:

.....  
Shareholder/Representative (print name)

.....  
Signature, capacity and date

## CHECKLIST OF THE MINIMUM REQUIREMENTS FOR ACCREDITATION OF CREDIT RATING AGENCIES

### **A. The Credit Rating Agency**

1. Completed Application Form accompanied by an application fee of **USD1,000.00** or the Zimbabwe Dollar equivalent, at the ruling foreign exchange rate at date of application, made payable to the Reserve Bank of Zimbabwe.
2. Certified copies of the Certificate of Incorporation, Memorandum and Articles of Association. Credit rating should be one of the main objects in the Memorandum of Association.
3. Evidence of affiliation to an internationally recognized rating agency, if any, and/or contractual agreement that provides for technical and strategic support drawn from international experience.
4. Details of any credit rating activities undertaken for during the last two years.
5. Details of experience in other credit rating activities and related activities.
6. Policies, procedures and methodologies to ensure that opinions issued by the credit rating agency are based on fair and thorough analysis of all relevant information. The policies, procedures and methodologies should cover the following and other pertinent areas:
  - (i) definitions of the different rating categories;
  - (ii) long term and short term alphanumeric rating scale and definition of default;
  - (iii) the rating process and quality assurance;
  - (iv) rating action;
  - (v) disclosure of ratings, content and depth of rating reports;
  - (vi) validation procedures based on historical experience;
  - (vii) Internal records maintenance,
  - (viii) Agreements with clients (provide sample)
  - (ix) Internal and external compliance
  - (x) code of conduct of the rating agency, analysts and committees;
  - (xi) handling and usage of confidential information;
  - (xii) methodology for rating and back-testing;
  - (xiii) Compliance with applicable laws and regulations.
7. Audited financial statements of applicant for the past two – five financial years.
8. A statement, certified by the chairman, a director and the auditors of the applicant, showing the authorized and paid-up capital of the applicant at a date not earlier than thirty days before the date of application.

9. A business plan of the applicant for the next two years including projected financial performance.
10. Information on the applicant's board committee system to facilitate effective oversight of the business – name of committee, its mandate and terms of reference, and frequency of meetings.
11. A description of the credit rating agency's IT systems and facilities for research.
12. Details of any planned significant developments in the credit rating agency's systems and structures.
13. An organizational structure which meets the generally accepted principles of good corporate governance.
14. A statement of disclosure of rating scales and definitions ready for publication, which shows:
  - a) rating definitions;
  - b) structure of rating systems;
  - c) symbols;
  - d) models; and
  - e) any other qualitative and quantitative factors taken into account in the rating process.
  - f) Any other information considered relevant to the nature of services rendered by the applicant.

#### **B. Information on Accountable Persons**

15. Provide detailed CVs of directors and senior management of the applicant in Zimbabwe. CVs of directors should include information on the director's other current and past directorships, if any.
16. A net worth statement certified by an auditor registered as such in terms of the Public Accountants and Auditors Act [Chapter 27:12] and tax clearance certificate for every director and shareholder with at least 10% shareholding.

#### **C. Information on Shareholders**

17. Provide Certificate of Incorporation, Memorandum & Articles of Association, shareholding structure, Tax Clearance Certificates and audited financial statements for the past two years, in respect of all corporate shareholders with at least 10% shareholding.