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Addendum 1 to the CRI Technical Report (Version: 2015, Update 1)

This document updates the Technical Report (Version: 2015, Update 1) and details (1) the enhancements made to the credit event database and (2) the replacement of the stock index in Morocco. This change has been implemented for the Probabilities of Defaults (PDs) and Actuarial Spreads (AS) released on 17th December 2015.

I. Addition of discretionary credit events

Variations in bankruptcy laws across the globe would preclude certain credit events from being recognized as defaults under the standard classification scheme. As a result, companies undergoing a certain credit event may be seen to have defaulted in one jurisdiction but not in another, even though the type of financial distress faced by these companies remains similar. In recognition of the bifurcating treatment of credit events with comparable characteristics, the credit event classification scheme will be enhanced to allow for discretionary credit events. Where the event is significant and the impact meaningful, the CRI team of analysts may apply their discretion to recognize certain events as defaults, even if these are not immediately being recognized as such by the standard scheme.

II. Replacement of stock index, Morocco

The RMI-CRI uses the MASI Free Float All Shares Index (MOSENEW Index) for the index returns data needed in the calculation of the Probability of Default (PD) for Moroccan companies. Previously, the index returns data was based on the CFG 25 Index (MCSINDEX Index). However, intermittency in data updates by Bloomberg for the MCSINDEX Index has led to data quality concerns. After a thorough review, the RMI-CRI team has decided that a replacement was necessary.

Time series data for the MOSENEW Index is available, starting from 31 March 1995. Therefore, the PD for Moroccan companies would reflect this component and start from that day onwards. The PD of the companies for periods before 31 March 1995 will still continue to be calculated based on the MCSINDEX Index. To prevent a sudden change in PD as a result of the transition, a scaling factor will be applied to the MCSINDEX Index data for the periods before 31 March 1995.