

Moody's derecognition: What it means for South Africa

In April 2026, South Africa's financial regulatory framework underwent a significant development following the Financial Sector Conduct Authority's (FSCA) cancellation of the registration of Moody's Investors Service South Africa (Pty) Ltd (Moody's Ratings-SA) as a credit rating agency (CRA). Consequently, the Prudential Authority (PA) has signalled its intention to derecognise Moody's Ratings-SA as an eligible external credit assessment institution (ECAI) for prudential purposes under the Banks Act, with transitional arrangements extending over a 24-month period.

Why ECAI status matters in practice

South Africa is among the Basel Committee on Banking Supervision member jurisdictions that permit the use of external credit ratings in determining minimum regulatory capital and reserve funds requirements. The external credit ratings that are allowed to be used for capital purposes must be issued by eligible ECAs. In terms of section 85A of the Banks Act (Banks Act), only credit ratings issued by PA-approved eligible ECAs may be applied for regulatory purposes.

However, before a credit rating agency can be recognised as an ECAI, it must first be registered and licensed under the Credit Rating Services Act 24 of 2012 (CRS Act). The PA then assesses the agency against eligibility criteria set out in the Regulations relating to Banks and specifies, through a directive, which ECAs banks may nominate.

Voluntary renunciation

The key for this shift was Moody's Ratings-SA's decision to voluntarily renounce its registration as a credit rating agency in South Africa.

Section 6(1)(a) of the CRS Act empowers the FSCA, after consultation with any regulatory authority that relies on credit ratings, to cancel a CRA's registration if the agency expressly renounces that registration.

Given that the PA relies on such ratings in its prudential supervision, formal consultation took place prior to deregistration. Consequently, on 16 April 2026, the FSCA published CRA Notice 1 of 2026, confirming the cancellation of Moody's Ratings-SA's registration under the CRS Act.

Prudential Authority's derecognition and transitional arrangements

Following the FSCA's action, the PA issued Prudential Communication 9 of 2026, formally notifying banks, controlling companies, branches of foreign institutions and auditors of its intention to derecognise Moody's Ratings-SA as an eligible ECAI.

The PA proposed that derecognition take effect 24 months from 16 April 2026. During period, banks may continue to use Moody's Ratings-SA credit ratings for regulatory capital purposes.

At the end of the transition, the PA intends to issue a Directive to give formal effect to the derecognition. The extended timeframe reflects a deliberate supervisory approach aimed at preserving regulatory stability, capital planning certainty and orderly market adjustment.

What changes – and what does not

Moody's has rated South Africa's sovereign credit since 1994 and established a local presence in 2003. Importantly, the deregistration applies only to its South African CRA entity.

Credit ratings of South Africa's sovereign or other issuers issued by Moody's global group offshore remain unaffected. However, once the transition period lapses, locally issued Moody's Ratings-SA credit assessments may no longer be used for regulatory capital purposes.

Moody's Ratings-SA is also required to notify rated entities of its deregistration and retain records and audit trails during the transition, ensuring transparency and supervisory continuity.

Banks applying the standardised approach to credit risk, the external ratings directly influence risk-weighted assets and by extension, capital adequacy. Where Moody's Ratings-SA provided the primary or sole external rating for certain exposures, derecognition could result in rating substitution or a reversion to unrated exposure risk weights with capital implications. Banks will therefore need to ensure that exposures currently mapped to Moody's Ratings-SA ratings are remapped to ratings issued by other PA-approved eligible ECAs and identify another ECA to be used for regulatory purposes. Banks would have to formally notify the PA of their nominated eligible ECAs, in line with existing directives.