



Scope  
Ratings

# TRANSPARENCY REPORT 2019

Scope Ratings GmbH





# Transparency Report for the Year Ended 31 December 2019

Scope Ratings GmbH

## Introduction

This report is published by Scope Ratings GmbH (further referred to as “Scope Ratings” or “Scope”) in accordance with Article 12 and Part III, Section E of Annex I of the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended by Regulation (EU) No 513/2011 and Regulation (EU) No 462/2013 (hereinafter referred to as the “EU Regulation”) and includes information for the period from January 1, 2019 through December 31, 2019 (hereinafter referred to as the “Reporting Period”) on Scope’s:

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## I. Legal structure and ownership

Scope Ratings GmbH is registered at the Commercial Register Charlottenburg (Berlin), HRB 192993 B. It is fully owned by its parent, Scope SE & Co. KGaA, a company registered at the Commercial Register Charlottenburg (Berlin), HRB 182023 B. Scope Ratings GmbH is registered as a credit rating agency in accordance with the EU Regulation since 2012.

Scope has its head offices at Lennéstraße 5, 10785, Berlin, Germany and maintains branch offices in Frankfurt and Hamburg (Germany), London (United Kingdom), Paris (France), Milan (Italy) and Oslo (Norway).

## II. Internal control mechanisms ensuring quality of Scope's credit rating activities

### Scope's internal control mechanisms:

#### Governance

Scope's governance structures are set up to meet the requirements of the EU Regulation and other applicable regional and national laws and to provide for appropriate management oversight over Scope's international credit rating activities. Scope has established and maintains supervisory bodies in accordance with the EU Regulation. This includes oversight by independent non-executive directors, who serve on Scope's administrative board.

#### The Administrative Board

During the Reporting Period, the administrative board of Scope Ratings GmbH was composed two members who were not involved in the day-to-day management of Scope or in Scope's credit rating activities. The administrative board oversaw the activities of the executive board of Scope Ratings GmbH and provided reports to the supervisory board of Scope's parent, Scope SE & Co. KGaA.

#### The Independent Non-Executive Directors ("INEDs")

The INEDs were specifically responsible for monitoring the:

- Development of the credit rating policy and credit rating methodologies;
- Effectiveness of the internal quality control system;
- Effectiveness of measures and procedures to identify, eliminate, manage and/or disclose conflicts of interest; and
- Compliance and governance processes.

#### The Independent Review Function

The independent review function (hereinafter referred to as "IRF") is a key part of Scope's internal control framework. IRF operates independently from both the analytic business lines and the business development departments. It is responsible for independently approving and periodically examining and reviewing credit rating methodologies, models and key rating assumptions that are used in the credit rating process. It monitors that these credit rating methodologies are rigorous, systematic and continuous, and that they are validated based on historical experience, including back-testing and other validation techniques. IRF may attend credit rating committees but has no voting right on credit rating decisions. It reports to the CEO of Scope and to the INEDs.

#### The Compliance Function

Scope's compliance function operates independently from the analytical business lines and the business development departments. The compliance function oversees adherence to regulatory requirements in each jurisdiction in which Scope operates. Its role is to maintain the relationship with regulatory authorities, to advise and provide training to Scope's employees and managers on regulatory requirements, Scope's code(s) of conduct,

its policies and internal procedures, and to assess and monitor adherence to those rules. This includes compliance surveillance over Scope's credit rating activities and compliance investigations in cases of a potential breach of the EU Regulation or other applicable laws as well as Scope's codes, policies or procedures. The Head of compliance for Scope reports directly to the CEO of Scope and to the INED's.

### The Internal Audit Function

Scope's parent, Scope SE & Co. KGaA, maintains an internal audit function which reports directly to the CFO of Scope SE & Co. KGaA. The internal audit function operates independently from the business lines and the business development departments of Scope Group. The internal audit function is responsible for conducting regular reviews of the business activities as well as operational processes and internal controls in each jurisdiction in which Scope SE & Co. KGaA and its affiliates operate. Audit reports are provided to the executive management board of Scope SE & Co. KGaA.

### The Credit Rating Process

The credit rating process is designed to protect the independence, objectivity and integrity of Scope's credit rating decisions. Credit rating actions are not based on the opinion of a single (lead) analyst but are determined by a credit rating committee. The process to conduct a credit rating committee follows the principles set out in, amongst others, Scope's code of business conduct, Scope's rating governance policy and Scope's confidential information management policy. Further details are governed by internal procedures that provide for minimum process, approval and documentation requirements that Scope's analytical employees have to adhere to in conducting credit rating activities.

### The Credit Rating Methodology Process

Scope's credit rating methodologies are publicly available on Scope's website and govern the analytical components that are applied in Scope's credit rating activities. The process for the development of new credit rating methodologies, or for adjustments to existing credit rating methodologies follows the principles set out in, amongst others, Scope's code of business conduct and Scope's methodologies governance policy. The credit rating methodology process includes representatives of the analytical lines of business and of Scope's Independent Review Function. IRF has final approval authority on Scope's credit rating methodologies. Further details are governed by internal procedures that provide for minimum process, approval and documentation requirements that Scope's employees have to adhere to in the context of the credit rating methodology process.

### Scope's Public Codes and Policies

Scope's public code of ethics, Scope's code of business conduct and several policies set out the principles that all Scope employees are bound to adhere to. These codes and policies are updated from time to time to reflect changes in applicable rules and regulations as well as guidance of the European Securities and Markets Authority (hereinafter referred to as "ESMA"). All Scope employees are required to confirm compliance with these codes and certain of Scope's policies annually. In addition, internal procedures support and foster the process steps that protect the quality, independence and integrity of Scope's credit rating activities.

### Scope's Conflicts Management Principles

Scope's public code(s) and Scope's policies set out the key principles to prevent, identify, manage and where relevant disclose potential or actual conflicts of interests. This includes that Scope Ratings is operationally, functionally and physically separated from non-credit rating activities that are conducted in other entities of Scope group. Further, to prevent potential conflicts with Scope's business interests, Scope's business development and sales personnel is operationally, functionally and physically segregated from Scope's analytical units and may not participate in credit rating activities as set out in Scope's commercial separation policy. At the same

time, Scope's analytical personnel is not permitted to participate in the discussion of commercial matters, including fees, with issuers or their agents. In addition, employees are bound to requirements on the handling of confidential information under Scope's confidential information management policy. Employees are obliged to follow specific rules with regard to personal interests of employees, such as personal ownership of and trading in financial instruments, receipt of gifts or outside business activities that are set out in Scope's personal account dealings policy, outside business interests policy, and Scope's gifts, entertainment and anti-bribery policy.

### Group Risk Reporting and Risk Management

Group wide risk reporting and risk management is overseen by the supervisory board of Scope's parent company, Scope SE & Co. KGaA. The supervisory board of Scope SE & Co. KGaA is composed of three members and discusses potential financial, strategic, legal, regulatory or operational risks in order to assess the probability of occurrence and the effectiveness of existing protections that are in place at Scope Group. An internal function is tasked with the risk assessment and risk management process including a standardized risk reporting into Scope Group's Risk Committee, which provides recommendations for consideration by the executive management board of Scope SE & Co. KGaA.

### III. Allocation of personnel and senior management

The below information refers to allocation of staff to credit rating activities, methodology or model appraisal and senior management as well as on the allocation of staff to credit rating activities in the different asset classes for Scope.<sup>1</sup>

Allocation	Number of staff
<b>New Credit Ratings and Credit Rating Reviews</b>	61
<b>Methodology Appraisal</b>	2
<b>Senior Management/Board</b>	2
Total	65

Asset Class	Number of staff
<b>Corporates</b>	16,5
<b>Structured Finance incl. Covered Bonds</b>	24,5
<b>Project Finance</b>	6
<b>Sovereign/Public Finance</b>	5
<b>Financial Institutions</b>	9
Total	61

<sup>1</sup> This includes all full-time or part-time employees of Scope. Part-time employees are counted as 0.5 FTE. Interns, working students ("Werkstudenten") are also included. Data provided relate to the status as per 31.12.2019.

### IV. Members of Management

From 01. January, 2019 until 18. January, 2019, Mr. Torsten Hinrichs acted as the sole managing director (Geschäftsführer) and CEO of Scope. As per 19 January 2019, Mr. Guillaume Jolivet joined Scope's executive management as a second managing director (Geschäftsführer). Mr. Torsten Hinrichs resigned from his duties as a managing director (Geschäftsführer) of Scope on 31. Dec. 2019.

The administrative board of Scope was composed of two INEDs who are not directly involved in Scope's credit rating activities, Mr. Moritz Kraemer and, starting on 01. Feb. 2019, Mr. Markus Schaber.

### V. Rotation policy for analysts

Scope maintains an analyst rotation policy which is designed to rotate lead analysts, rating analysts and persons approving credit ratings from rated entities and, where relevant, their related third parties. According to the analyst rotation policy, Scope rotates lead analysts every four years, rating analysts every five years, and persons approving credit ratings every seven years.

Following the rotation, these analysts are subject to a two-year period in which they are not permitted to engage in credit rating activities with the same rated entity and, where relevant, their related third parties.

### VI. Record keeping policy

Scope receives information from or about entities that it rates in various forms, including physical documents and electronic formats as a part of the conduct of credit rating activities. Scope retains all relevant business records that Scope receives from external entities or that are prepared internally in relation to the conduct of credit rating activities in line with the requirements of the EU Regulation, applicable corporate laws and other relevant rules and regulations. Scope adheres to the standards that are set out in its record keeping policy and its internal record keeping procedures. These internal rules establish best practice standards for the appropriate and consistent handling and retention of such business records so these are complete and readily available. Scope established protections around the retention of sensitive information, and employees are required to take all reasonable measures to protect sensitive or confidential information and the records maintained in relation with it. Employees are also required to protect all property and business records belonging to, or in possession of, their employer from fraud, theft or misuse.

### VII. Compliance report

The compliance function oversees adherence by Scope and its employees to regulatory requirements and Scope's policies and procedures in each jurisdiction in which Scope conducts credit rating and other business activities. It operates independently within Scope, provides advice to management and employees and monitors internal control structures. The Head of Compliance reports to the Chief Executive Officer ("CEO") of Scope and to the INEDs. The compliance function provided reports on regulatory and compliance matters to the executive managers (Geschäftsführer) as well as to the INEDs of Scope on a regular basis to address relevant Compliance matters and potential compliance risks. Regulatory and compliance matters and potential compliance risks were further addressed on a regular basis by the INEDs and the Compliance function at the level of the supervisory board of Scope's parent, Scope SE & Co. KGaA.

During the Reporting Period, various enhancements to compliance policies and procedures were made to address regulatory requirements, new ESMA guidance, internal process enhancements and developments in Scope's business activities. All employees of Scope acknowledged the policies and procedures that were in

place and certified their adherence to Scope's policies and procedures for 2019. Compliance training was provided to employees joining Scope on a regular basis and a comprehensive annual compliance training for 2019 was conducted for all employees and managers of Scope.

Surveillance controls and monitoring reviews over Scope's credit rating activities were conducted by the compliance function independently.. Potential issues identified as a result of such compliance controls or by way of notifications submitted to the compliance department were addressed with executive management and, where relevant, the administrative board of Scope. Where allegations for a relevant potential or actual breach of the EU Regulation and other applicable laws, Scope's codes, policies or procedures were identified by or reported to the compliance function, these were addressed by way of formal compliance investigations and brought up to Scope's management bodies for decision. Relevant reporting obligations to supervisory authorities, in particular ESMA, were covered in line with the EU Regulation.

Internal Audit conducted, as a part of its work plan, a review of Scope's compliance department in the first quarter of 2019. This review was covering the activities and measures of the compliance department with a view to the organisational set-up of the department and a focus on the areas of compliance training, compliance policies and procedures and compliance surveillance activities. The overall outcome of this internal audit review was "good".

## VIII. Financial revenues

The below table provides an overview of Scope's revenues in 2019:

<b>2019 - Total Revenues</b>	<b>EUR</b>
Revenues originating from credit rating services	9,017,331
Revenues originating from ancillary services	768,954
<b>Total:</b>	<b>9,786,285</b>
<b>2019 Turnover - Geographical Allocation</b>	
European Union (EU)	8,398,415
Worldwide (non-EU)	1,387,869
<b>Total:</b>	<b>9,786,285</b>
<b>2019 Revenues – credit rating services</b>	<b>EUR</b>
thereof: Non-financial corporations	2,463,953
thereof: Financial Institutions	1,059,003
thereof: Sovereigns/public finance	13,500
thereof: Structured finance/project finance	5,480,874
<b>Total:</b>	<b>9,017,331</b>
<b>2019 Revenues - Ancillary Services</b>	<b>EUR</b>
Revenues originating from ancillary services provided to clients of credit rating services	768,954
<b>Total:</b>	<b>768,954</b>



## IX. Governance statement

During the Reporting Period, Scope did not have any shares listed on any regulated exchange. It is established in compliance with applicable German corporate laws and operates in accordance with relevant international laws and regulations, in particular the EU Regulation.

As of 31. December 2019, Scope was a 100% subsidiary of Scope SE & Co. KGaA. Through their shareholdings in Scope SE & Co. KGaA, the following entities had significant (over 5%) indirect shareholdings in Scope:

- Schoeller Corporation GmbH: 23%
- AQTON SE: 15%

Holdings of other minor shareholders (each one below 5,0%) were in total at 62%.

Scope's business activities and the members of executive management were overseen by the administrative board. Scope's administrative board met at least twice a year. The compensation of the administrative board members was not related to the business performance of the company.

Each member of the administrative board was of good repute and sufficiently skilled to perform his or her respective function. A majority of its members and all of the independent members have sufficient expertise in all relevant areas of financial services.

The term of office of the INEDs for Scope may not exceed five years and is not renewable. The dismissal of INEDs shall take place only in case of misconduct or professional underperformance. The INEDs were specifically responsible for monitoring the:

- Development of the credit rating policy and the credit rating methodologies;
- Effectiveness of the internal quality control system;
- Effectiveness of measures and procedures to identify, eliminate, manage and/or disclose conflicts of interest; and
- Compliance and governance processes.

The INEDs were not involved in credit rating activities and are free of any business, family or other relationship with Scope, its controlling shareholders or its executive management that would create a conflict of interests which would impair their judgement. At least one of Scope's INEDs has in-depth knowledge at a senior level of structured finance markets.

Members of Scope's governance and management bodies (such as the administrative board, and of executive management (Geschäftsführung) had the powers conferred on them by German law or other applicable national law, the articles of association and applicable bylaws. The articles of association of Scope may be amended in accordance with applicable national law. The operation of the shareholder meeting, the key powers of the shareholder meeting, and the shareholder rights are provided for in national law and the constitutional documents of Scope.





# Transparency Report for the Year Ended 31 December 2019

Scope Ratings GmbH

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