Guide

Scope Group

Guide to nominate Scope as an ECAI

This document aims to provide clarity and guidance to investors and other financial market participants about External Credit Assessment Institutions (ECAI) and how they can nominate Scope as an ECAI.

Scope Ratings (Scope) was registered in 2011 as a credit rating agency (CRA) with the European Supervisory and Markets Authority (ESMA). Rating coverage of debt issuers and instruments across all asset classes has grown steadily over the years.

In an analysis of the EU Credit Ratings Market published by ESMA in April 2023, Scope ranked second in coverage of sovereign and public sector debt instruments and third in coverage of corporate debt instruments. As such, ESMA identified Scope as one of the "Big-5" CRAs.

With the emergence of Scope as one of the Big 5 and the European alternative to the US CRAs, financial institutions have started using Scope's ratings in addition to S&P, Moody's and Fitch or they have stopped using one of the US CRAs.

In November 2023, the European Central Bank accepted Scope as a new ECAI for the purposes of the Eurosystem Credit Assessment Framework (ECAF) because of the breadth of its ratings coverage, the quality of its analysis and the robustness of its processes and systems. As the first European rating agency to be accepted by the ECB as an ECAI, this is good news not just for Scope but also for the development of Europe's capital markets and financial sovereignty.

Scope can be used as an ECAI by investors in several jurisdictions. For example:

Licences & registrations

European Securities & Markets Authority

registered since 2011

Financial Conduct Authority

Temporary registration since Brexit.
Permanent registration from 3 Nov 2023.

Swiss Financial Market Supervisory Authority

registered since 2018

French, Swedish & Norwegian central banks

Accepted since 2016, 2020 and 2022 respectively

European Central Bank

Accepted as ECAI and for ECAF purposes since 10 Nov 2023.
Scope is the only European CRA.

U.S. Securities Exchange Commission

Application planned for 2025

Why are "nominated ECAIs" relevant to investors?

Insurance and re-insurance companies need to nominate one or more ECAIs to calculate their Solvency Capital Requirements according to the standard formula. Credit institutions such as banks may also nominate ECAIs to determine the risk weights to be assigned to assets and off-balance sheet items as part of the Capital Requirements Regulation.

The European Supervisory Authorities (EBA, EIOPA and ESMA) map the credit ratings assigned by ECAIs in the EU to Credit Quality Steps (1 is best, 6 is worst) for comparison purposes. Credit Quality Steps are used for purposes of the Solvency Capital Requirement and the Capital Requirements Regulation.

Asset managers and pension funds do not need to formally inform their regulators which rating agencies they have nominated but they are encouraged to internally recognise Scope as a valuable source of credit rating information for their investment, risk management and client reporting needs.

What is the process for investors to nominate Scope as an ECAI?

The process of adding Scope and changing nominated ECAIs typically involves several steps:

1. **Review regulatory requirements:** Clearly, investors must continue to meet regulatory requirements, including in the use of credit ratings and ECAIs.
2. **Evaluation of Scope:** Investors assess Scope based on factors such as reputation, methodologies, rating coverage, performance, value-add, ease of use and fees. The evaluation ensures that Scope can support investment, risk management and regulatory needs.
3. **Internal approval process:** The decision to change its nominated ECAIs involves a series of internal approval processes such as approval from senior management, a risk committee or the board of directors, depending on internal governance structures and policies.
4. **Notification to regulators:** Investors may be required to notify regulatory authorities of its intention to add Scope and change its nominated ECAIs. This notification may include details such as the reasons for the change and any supporting documentation or analysis.
5. **Regulatory review and approval:** The regulator may review the request to change nominated ECAIs and assess whether the proposed changes meet regulatory requirements and are consistent with the company's risk management framework.
6. **Implementation of nominated ECAI changes:** Upon receiving approval from their regulator, investors formally confirm the changes to its nominated ECAIs. This typically involves updating internal documentation, contracts, and systems.
7. **Ongoing monitoring and reporting:** After the changes are implemented, investors will continue to monitor the performance of newly nominated ECAIs. They may also have reporting obligations to (i) regulators regarding the changes made and any associated impacts on their risk management practices, and (ii) the market through their periodic Pillar III reports, which include information about nominated ECAIs such as the asset classes for which each ECAI is used.

Scope can support investors who are considering or are in the process of nominating Scope as one of their ECAIs. This support typically involves Scope providing investors with:

→ Personalised portfolio coverage checks. This is where Scope analyses to what extent the investor’s portfolio is covered by Scope’s ratings.

→ Rating data integration. Scope can systematically provide its ratings to any investor by means of its own ScopeOne API or indirectly through Scope’s data delivery and distribution partners.

→ Other queries. Scope’s service centre is readily available to support with any questions.

Why do investors nominate or recognise Scope as an ECAI?

European Lens and Coverage

Scope's European angle on credit risk leads to greater diversity of opinion. This European perspective also supports investors bearing fiduciary responsibilities meet the prudent person principle.

Scope is the largest European rating agency and rates some debt issuers not rated by US CRAs. Scope is also the only European CRA with ECAF status with the ECB. When investors nominate Scope as an additional ECAI or replace an existing US CRA, they will generally achieve a capital optimisation benefit and cost saving.

Easy to use

Enterprise licences: It is easy to use Scope's credit ratings across the whole company and for any purpose, as there are no restrictions on their internal use cases. Customers can also opt to distribute Scope's credit ratings and/or Credit Quality Steps to their clients.

Easy Access: Investors can connect to ScopeOne and/or the ScopeOne API to access Scope's ratings. Alternatively, they access the ratings from Scope's delivery partners such as asset managers or market data vendors.

Fair charging

We only charge once for use of our ratings, since we do not charge investors for internal use of ratings already paid for by the issuer.

Scope offers its rating licences from the regulated rating agency itself, not by an unregulated sister-company so permitted rating use-cases are clear. At the same time, Scope's pricing structure is fair and predictable, which will result in significant cost savings for investors over time.

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