



Scope  
Ratings

# TRANSPARENCY REPORT 2016

## Scope Ratings AG





**I. Introduction**

This report is published by Scope Ratings AG (further referred to as “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 on Scope’s:

- II. Legal structure and ownership**
- III. Internal control mechanisms ensuring quality of Scope’s credit rating activities**
- IV. Allocation of personnel and senior management**
- V. Members of management**
- VI. Rotation policy for analysts**
- VII. Record keeping policy**
- VIII. Compliance report**
- IX. Financial revenues**
- X. Governance statement**

This report further includes relevant information in accordance with Article 12 and Part III, Section E of Annex I of the EU Regulation regarding former FERl EuroRating Services AG (further referred to as “FER”).

## II. Legal structure and ownership

**Scope** is registered at the Commercial Register Charlottenburg (Berlin), HRB 161306. Until 29.11.2016 it was a wholly owned subsidiary of Scope Corporation AG, a company registered at the Commercial Register Charlottenburg (Berlin) HRB 151422 B. As per 29.11.2016, Scope Corporation AG was converted into Scope SE & Co. KGaA, a company registered at the Commercial Register Charlottenburg (Berlin) HRB 182023 B. Scope has its head offices at Lennéstraße 5, 10785, Berlin, Germany and maintained over the 2016 reporting period branch offices in Frankfurt, Germany, and London, UK, as well as representative offices in Paris, France and Milan, Italy. Scope is registered as a credit rating agency in accordance with the EU regulation since 2012.

Former **FER** was registered at the Commercial Register Bad Homburg, HRB 10864, until 24.01.2017 and was registered as a credit rating agency in accordance with the EU regulation since 2011. Until 01.08.2016, FER was a wholly owned subsidiary of Feri AG, a company registered at the Commercial Register Bad Homburg, HRB 7473. On 01.08.2016, all shares of FER and control over FER were transferred to Scope Corporation AG, and FER's former sovereign rating business was assigned to Scope. On 24.01.2017, FER and its remaining non-credit rating business activities were merged into Scope Analysis GmbH, a company registered at the commercial register Charlottenburg (Berlin), HRB 97933, which in turn is wholly owned by Scope SE & Co. KGaA.

## III. 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 national laws and to provide for appropriate management oversight. Scope has established and maintains supervisory bodies in accordance with the EU regulation. This includes oversight by independent members of Scope's supervisory board.

### The Supervisory Board

Scope's supervisory board is composed of three members who are not involved in the day-to-day management of Scope Ratings AG or in Scope's credit rating activities, including two independent members. It oversees Scope Ratings AG's executive board and appoints its members. The supervisory board comprises of reputable individuals with a wide spectrum of experiences and expertise.

### The independent members of the Supervisory Board

The independent members of the supervisory board are 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 ("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 approving and periodically reviewing methodologies, models and key rating assumptions that are used in the credit rating process. IRF further independently examines, challenges and approves Scope's new and existing credit rating methodologies. It monitors that these methodologies are rigorous, systematic and continuous, and that they are validated based on historical experience, including back-testing. IRF may attend but has no vote in credit rating committees. It reports to the CEO of Scope and to the independent members of Scope's Supervisory Board.

### The compliance function

Scope's Compliance function operates independently from the analytic 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. The Chief Compliance Officer reports directly to the CEO of Scope and to the independent members of Scope's Supervisory Board.

### 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 Scope's Code of Business Conduct and Scope's Rating Governance Policy. Further details are governed by internal procedures that provide for minimum process, approval and documentation requirements that Scope's analytic 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. For the development of new credit rating methodologies, or for adjustments to existing credit rating methodologies, the analytical groups are in charge to prepare a proposal to Scope's credit rating methodology approval committee, which is chaired by the Chief Analytical Officer and includes representatives of the lines of business as well as a member of Scope's Independent Review Function. IRF has final approval authority on Scope's credit rating methodologies.

### Scope's public Codes and Policies

Scope's public Code of Ethics, the Code of Business Conduct and Scope's Policies set out the principles that all Scope employees are bound to adhere to. All Scope employees are required to confirm compliance with these Codes and Scope's Policies annually. In addition, internal procedures support and foster the process steps that protect the quality, independence and integrity of the credit rating process.

### Scope's conflicts management principles

Scope is operationally, functionally and physically separated from non-credit rating activities that are conducted in other entities of Scope Group. Further, 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 restrictions on employees on the handling of confidential information as well as with regard to personal interest of employees, such as personal ownership and trading of financial instruments, receipt of gifts or outside business activities. To prevent potential conflicts with Scope's business interests, Scope's business development and sales personnel is operationally and physically segregated from Scope's analytical units and may not participate in credit rating activities. 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.

### Group risk reporting and risk management

Group wide risk reporting and risk management is overseen by the supervisory board of Scope's parent company. This supervisory board of Scope's parent company is composed of four members and discusses potential 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.

## Former FER's internal control mechanisms:

For former FER, equivalent control mechanism were in place during the reporting period, with the adjustments described below, regarding:

- **Governance:** See above.
- **The Supervisory Board:** See above.
- **The independent members of the Supervisory Board:** See above, except for the period of 1. August – 30. September 2016.
- **The internal review function:** At former FER, the independent review function was assigned to an “internal review & methodology committee”, which operated in line with its statutes (“Geschäftsordnung”) to cover the above described tasks of IRF.
- **The compliance function.**
- **The credit rating process:** At former FER, the credit rating decisions were taken by a credit rating committee that operated in line with its statutes (“Geschäftsordnung”) and the applicable credit rating process guidelines of former FER.
- **The credit rating methodology process:** At former FER, the internal review and & methodology committee was responsible for the review, approval and validation of credit rating methodologies in accordance with its statutes (“Geschäftsordnung”).
- **Public Codes and Policies:** At former FER, a public Code and Policies had set out the principles that all employees were bound to adhere to, including conflict management principles. In addition, internal procedures had determined relevant process steps to protect the quality, independence and integrity of the credit rating process.
- **Conflicts management principles:** See above.

Starting in August 2016, FER's internal control mechanisms were sequentially integrated into Scope's internal controls.

#### IV. 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 both Scope and FER in 2016.<sup>1</sup>

##### Scope<sup>2</sup>

Allocation	Number of staff
New Credit Ratings and Credit Rating Reviews	21,2
Methodology Appraisal	1
Senior Management/Board	3
<b>Total</b>	<b>25,2</b>

Asset Class	Number of staff
Corporates	5,4
Structured Finance Covered Bonds Project Finance	9
Sovereign/Public Finance	1,8
Financial Institutions	5

##### FER<sup>3</sup>

Allocation	Number of staff
New Credit Ratings	1
Credit Rating Reviews	1
Methodology Appraisal	4
Senior Management/Board	2
<b>Total</b>	<b>8</b>

Asset Class	Number of staff
Corporates	1,2
Sovereign/Public Finance	0,8

<sup>1</sup> This includes all full-time or part-time employees of Scope and FER, one freelancer at Scope and four at FER. Interns, working students ('Werkstudenten') or other consultants are not included.

<sup>2</sup> Data provided on Scope relate to the status as per 31.12.2016.

<sup>3</sup> Data provided on former FER relate to the status as per 31.07.2016.

## **V. Members of Management**

In 2016, members of Scope's executive board were: Torsten Hinrichs (CEO), Dr. Stefan Bund (CAO) and, starting April 1, 2016, Dr. Sven Janssen.

Until July 31, 2016, members of the executive board of former FER were: Dr. Tobias Schmidt (CEO) and Andreas Kuschmann. As per August 1, 2016, following the integration of former FER into Scope, Christian Werner joined the executive board. As per Dec. 31, 2016, members of FER's executive board were: Christian Werner (CEO), Dr. Sven Janssen and Dr. Tobias Schmidt.

As per Dec. 31, 2016, members of Scope's supervisory board were: Dr. Martha Boeckenfeld (chair), Ian Bell (independent member) and Benoît Claire (independent member).

Until July 31, 2016, members of former FER's supervisory board were: Dr. Helmut Knepel, Prof. Dr. Dr. hc. Rolf D. Cremer (independent member) and Arnd Thorn. As per August 1, 2016, following the integration of former FER into Scope, the members of the supervisory board were: Torsten Hinrichs (chair), Frank Neumann (vice-chair) and Florian Schoeller. As per October 1, 2016, Ian Bell and Benoit Claire were nominated as independent non-executive directors.

## **VI. Rotation policy for analysts**

During the reference period, both Scope and former FER were exempt under the EU regulation regarding the application of the requirements on analyst rotation, as both had fewer than 50 full time employees.

## **VII. Record keeping policy**

Scope receives information from or about entities that it rates in various forms, including physical (hard copy) documents and electronic formats as a part of the conduct of credit rating activities. Business records received or prepared internally in relation to the conduct of credit rating activities are retained in line with the requirements of the EU regulation, applicable corporate laws and other relevant rules and regulations. Scope adheres to internal record keeping procedures to establish best practice standards for the appropriate and consistent handling and retention of such business records so these are complete and readily available. Equivalent record keeping procedures were in place at former FER. Scope has, and former FER had, established protections around sensitive information that is retained, and employees are required to take all reasonable measures to protect such sensitive or confidential information and the records maintained in relation with it. Employees are also held responsible for protecting all property and business records belonging to or in possession of their employer from fraud, theft or misuse.

## **VIII. Compliance report**

The Compliance function oversees adherence to regulatory requirements in each jurisdiction in which Scope conducts credit rating and other business activities. It operates independently within Scope and provides advice to management and employees and monitors internal control structures. The Chief Compliance Officer ("CCO") reports to the Chief Executive Officer ("CEO") and to the independent members of the Supervisory Board ("INEDs"). The same applied equivalently to the Compliance function at former FER.

Following a period where the Compliance function at Scope was directly covered by the CEO, Scope increased staffing of the Compliance and the internal review functions significantly in 2016.

Reports on Compliance matters to the INED's as well as the executive and supervisory boards of Scope and former FER were provided on a regular basis to address relevant matters and potential Compliance risks. Various enhancements to Compliance Policies and Procedures were made in 2016 to address regulatory requirements and relevant changes to the organisational structures at Scope, in particular the integration of former FER and its former credit rating activities into Scope. Compliance Controls were executed in accordance with Scope's and former FER's 2016 Codes and Policies. Potential issues identified as a result of such controls were addressed with management. Further, in December 2016, a formalized process for conducting

Compliance Investigations was introduced and Compliance criteria were embedded into the performance evaluation process for employees within Scope Group to generally foster employee compliance with regulatory requirements going forward. Relevant reporting obligations to supervisory authorities were covered in line with the EU regulation. Further, it was decided to conduct an external review and revision of Scope's governance framework in early 2017 in order to identify potential further enhancements.

## IX. Financial revenues

The below table provides an overview of revenues generated throughout 2016.

### Scope

2016 - Total Revenues	EUR
Revenues originating from credit rating services	3.514.373
Revenues originating from ancillary services <sup>4</sup>	118.675
Total:	3.633.048

Geographical Allocation	EUR
European Union (EU)	3.383.808
Worldwide (non-EU)	249.240
Total:	3.633.048

Revenues – credit rating services	EUR
thereof: Non-financial corporations	1.118.960
thereof: Financial Institutions	532.687
thereof: Sovereigns/public finance	15.766
thereof: Structured finance/project finance	1.846.960
Total:	3.514.373

Revenues - Ancillary Services	EUR
Revenues originating from ancillary services provided to clients of credit rating services	0
Total:	0

<sup>4</sup> Ancillary services include: Credit estimates, Rating Assessment Services, Financial Strength Ratings, Debt Fund Ratings Please see Scope's public Services List: [https://www.scoperatings.com/download/Scope\\_Service\\_List.pdf](https://www.scoperatings.com/download/Scope_Service_List.pdf)



### FER

2016 - Total Revenues	EUR
Revenues originating from credit ratings services	53.844
Revenues originating from ancillary services <sup>5</sup>	3.918.187
<b>Total:</b>	<b>3.972.031</b>

Geographical Allocation	EUR
European Union (EU)	3.972.031
Worldwide (non-EU)	0
<b>Total:</b>	<b>3.972.031</b>

Revenues – credit rating services	EUR
thereof: Non-financial corporations	3.654
thereof: Sovereigns/public finance	50.190
<b>Total:</b>	<b>53.844</b>

Revenues - Ancillary Services	EUR
Revenues originating from ancillary services provided to clients of credit rating services	0
<b>Total:</b>	<b>0</b>

<sup>5</sup> Ancillary services include: Fund Ratings, Asset Manager Ratings, Fund Selection, Award Licenses, Database Licenses, Market Research, Investor Studies, Real Estate Valuation Services, Conference Fees, Credit Judgments.

## **X. Governance statement**

Scope is a German AG and does 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 on Credit Rating Agencies.

As of 31 December 2016, 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: 37.1%
- AQTON SE: 15.4%

Former FER was a wholly owned subsidiary of FER AG until 1 August 2016. As of 1 August 2016, former FER became a wholly owned subsidiary of Scope Corporation AG. It was merged into Scope Analysis GmbH on January 24, 2017.

Scope's executive boards are and former FER's were composed of at least one member for Scope and two members for former FER. Scope's and former FER's business activities and the members of the executive board were overseen by the supervisory boards. Scope's supervisory board met at least twice a year. The supervisory board of FER also met on a regular basis in accordance with German corporate laws. The supervisory board appoints the members of the executive board(s). The compensation of the supervisory board members is not related to the business performance of the company.

Each member of the supervisory boards is of good repute and sufficiently skilled to perform his or her respective function. A majority of the members of each of the supervisory bodies and all of the independent members have sufficient expertise in all relevant areas of financial services.

The term of office of the Independent Members for both Scope and former FER may not exceed five years and is not renewable. The dismissal of independent members shall take place only in case of misconduct or professional underperformance. The independent members are 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 Independent Members are not involved in credit rating activities and are free of any business, family or other relationship with Scope and former FER respectively, 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 Independent Members has in-depth knowledge at a senior level of structured finance markets.

Members of Scope's and former FER's governance and management bodies (such as the supervisory board and the executive board) 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 and former FER.



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