



Transparency report 2015

Scope Ratings AG



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I. Introduction

This transparency report is published 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 of the European Parliament and of the Council of 11 May 2011 (hereinafter referred to as the EU regulation).

In accordance with the general disclosure requirements set out in the EU regulation, the 2015 public transparency report includes the following information:

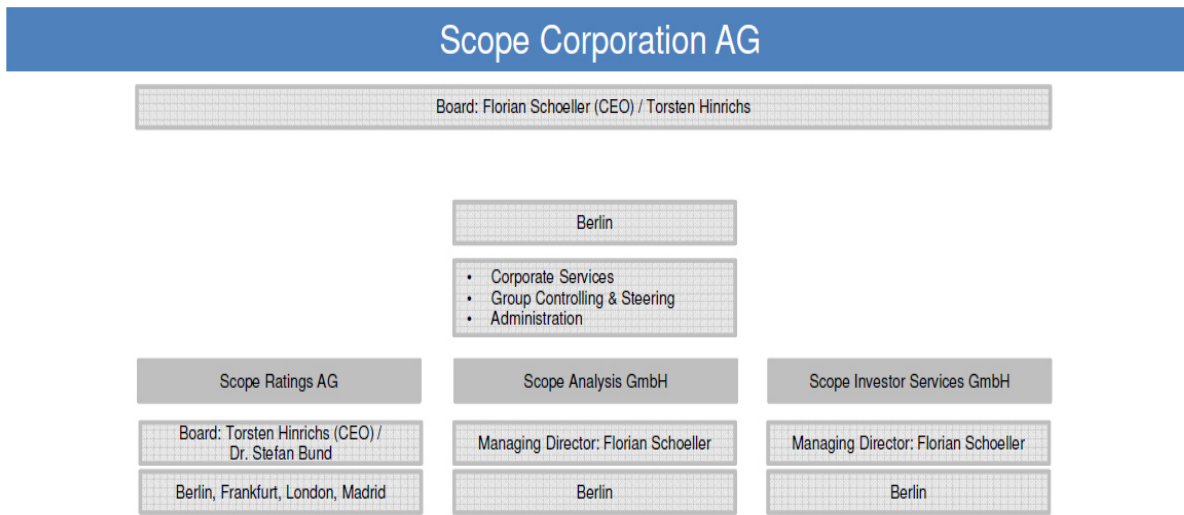
- Overview of the legal and ownership structure
- Description of internal control mechanisms
- Information on the allocation of personnel and senior management
- Description of the rotation policy for rating analysts
- Description of the recordkeeping policy
- Summary of the annual compliance report
- Overview on the financial development of the company (revenues and costs)
- Statement of the management board within the meaning of art. 46a of 78/660/EEC July 1978



II. Legal and ownership structure

1. Scope's legal structure

Scope Corporation AG and all its subsidiaries are German companies registered at the Commercial Register of Charlottenburg in Berlin. The below graph provides a high level overview of the Scope Group.



Scope Ratings AG has been registered since 24 July 2002 at the Commercial Register Charlottenburg (Berlin) HRB 145472. It is a subsidiary of Scope Corporation AG and has offices at Lenéstraße 5, 10785, Berlin. Scope Ratings AG is registered in accordance with the EU Regulation No.1060/2009 of the European Parliament and European Council. Scope Ratings is an ESMA-registered rating agency (CRA) operating in Germany, the UK, France and Spain, and has generally adopted a global approach to managing all of its jurisdictions.

2. Scope's ownership structure

Scope Corporation AG owns 100% of all operational limited liability of Scope Ratings AG.

III. Scope's internal control framework

The internal control framework implemented at Scope is described in an eponymous policy available on Scope's website.

This document provides an overview of the governance, control functions and other control mechanisms comprising the internal control structure that Scope has designed and implemented. Scope monitors and evaluates periodically the adequacy of its internal controls in accordance with its Business Code of Conduct & Ethics and regulatory requirements for credit rating organisations.

The following control functions are integral to the framework. Each function helps to promote the implementation and adherence to regulatory requirements, internal policies and procedures, and methodologies, i.e. models and criteria ('methodologies') for determining and issuing credit ratings.

The Supervisory Board at Scope Ratings AG is composed of three members, with two of the three seats filled by persons who are not directly involved in the rating activity (INEDs). It is a control and support function for Scope Ratings in the implementation of its tasks as a rating agency.

The Supervisory Board of Scope operates according to a governance charter and supporting board procedures to ensure that each respective board has oversight of all Scope policies and procedures related to the:

- Creation, maintenance and enforcement of policies and procedures for determining credit ratings,
- Creation, maintenance and enforcement of policies and procedures for addressing, managing and disclosing conflicts of interest,
- Effectiveness of the internal control system with respect to policies and procedures for determining credit ratings and,
- Compensation and promotion policies and practices of Scope.

It is to be noted that INEDs will focus on the review and monitoring of the following areas:

- Surveillance of the rating agency's rating policy
- Effectiveness of the internal quality-control system in relation to the rating agency's rating activity
- Effectiveness of the rating agency's compliance function
- Effectiveness of the rating agency's review function

The review function, which is responsible for independently examining, challenging and approving new and existing rating methodologies, serves to check that the review process for methodologies is rigorous, systematic and continuous, and that those methodologies are validated based on historical experience, including back-testing. This function is coordinated by the Review Function Officer, who reports on methodologies to independent members of the Supervisory Board.

The compliance function oversees adherence to regulatory requirements in each jurisdiction in which Scope operates by providing advice, guidance and monitoring of internal control structures. The Compliance Officer reports to independent members of the Supervisory Board (INEDs) on the effectiveness of internal controls; the Compliance Officer also reports administratively to the Scope Chief Executive Officer ('CEO').

The rating process, comprised of criteria committees and rating committees, is a critical mechanism for promoting the quality, independence, objectivity and integrity of Scope's rating process, as well as the transparency of the ratings operations.

- Criteria committees: Rating methodologies are initiated, developed and updated by the analytical groups.
- Rating methodologies: The Review Function Officer, who is independent, reviews and has final approval of methodologies for Scope's publication and use.
- Rating committees: Scope's analysis of new and outstanding ratings is presented to a rating committee, which determines a credit rating. The rating committee considers the application of related methodologies, policies and procedures, providing objective and independent rating decisions that reflect Scope's opinion, rather than the view of an analyst(s), and provides a checkpoint for actual and perceived conflicts of interest among analysts.

Other control mechanisms: the following mechanisms also play a part in the framework.

- Scope's Code of Business Conduct & Ethics (referred to as the 'Code'), sets out the principles to which all Scope employees are expected to adhere. All employees are required to review and acknowledge their understanding of and compliance with the Code annually. Supporting the Code are policies and procedures that address and manage the quality and integrity of the rating process, the independence and avoidance of conflicts of interest, the transparency and timeliness of rating disclosures, and enforcement and compliance.
- The finance function, a centralised global function that provides financial reporting and financial risk management services to Scope, is responsible for the management of the financial risks that arise in relation to underlying business needs.
- The information & technology function (referred to as 'IT'), which is also a centralised global function, is responsible for coordinating back-end functions and system development. In overseeing these key processes, IT implements appropriate controls and information barriers to safeguard data protection and security, confidentiality and the independence of the credit rating process.
- Process control and documentation. Scope uses an individually developed software tool to control and document rating processes. This web-based tool enables the allocation of responsibilities on a process and work-step level, as well as for the determination of substitute regulations. It also enables Scope to control the course of the rating processes and to monitor and review the workflow in a simple manner. In addition to the control function, the tool reinforces Scope's willingness to meet regulatory requirements related to the documentation of all steps of credit rating process cycles.

IV. Allocation of personnel and senior management

1. Scope Ratings AG – Allocation of personnel

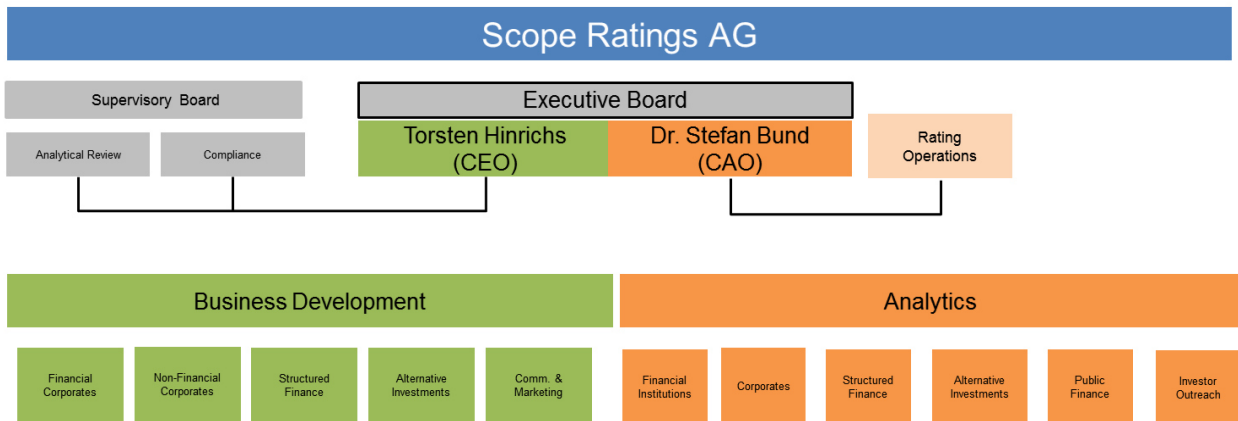
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Scope Ratings AG

Division	Count of Employees
Administration	7
Analytics	26
Business Development	7
Board / Senior Management	2
Compliance	1
Grand Total	42*

* Scope Ratings is an "Aktiengesellschaft" regulated legal entity, as such Members of the Board are not considered employees.

2. Scope Ratings AG – Overview





V. Rotation policy for rating analysts

Scope's analyst rotation procedure must reflect the requirements set out in the EU regulation, establishing conditions with respect to credit rating agencies with over 50 staff. The CRA regulation establishes maximum permissible time periods for covering a rated entity as an analyst (four years), or as a committee chair (seven years), followed by a minimum of two years during which the person may not interact with the rated entity or vote in its rating committees. Further rules are in place for structured finance analysts, which require rotation with respect to an originator and/or arranger.

During the reference period covered in the present document, Scope qualified for the exemption provided by the EU regulation regarding the application of these requirements as it had fewer than 50 employees. It has nevertheless developed (but not yet implemented) an "Analyst Rotation Policy", this document describes procedures governing a gradual rotation of individuals who perform the role of lead analyst, rating analyst and chairperson employed by Scope Ratings AG.

VI. Recordkeeping policy

As part of the standard operating procedures set up in compliance with regulatory requirements, Scope implemented a “Handling of confidential information” policy. This document is designed to establish best-practice standards for the handling of confidential information; it also sets forth requirements related to recordkeeping procedures.

More precisely, the policy sets out a systematic approach to ensure organisational information can be managed efficiently, found when needed, and relied upon to support informed decision-making and effective service delivery.

Requirements set forth in this policy are designed, collectively, to ensure that Scope maintains adequate records in accordance with all applicable laws and regulations including, but not limited to, the EU regulation.

Note:

Scope receives information from or about entities that it rates in various forms, including physical (hard-copy) documents, electronic formats (emails, instant messages, downloaded files), and in other forms, such as oral communications made during company meetings/conferences or by telephone. This policy covers records of all such information, whether public or non-public, as well as documents produced by Scope and its analysts relating to the production and assignment of credit ratings, assessments or evaluations:

- Electronic documents and work papers (received or internally produced) shall be housed in an electronic file (with a filename that follows the naming convention available in Appendix 1 of this policy) and maintained on a central file location that limits access to analysts and/or authorised administrative staff that are responsible for filing information generated by Scope or received from companies/issuers;
- Where possible, such files, particularly those that directly support/evidence a rating action, should be stored in a read-only format to protect such material from alteration.
- Unless specifically cited as analytically relevant to the rating opinion and included in the analytic record of a company/issuer by the analytical team or rating committee, publicly available information, such as certain regulatory filings, articles published in trade journals, press releases, newsletters (including equity or fixed-income research reports), newspapers, magazines or other media publications or any other public document not considered analytically relevant are not subject to the recordkeeping requirements of this chapter.
- For each rating decision, the identity of the analysts participating in the determination of the credit rating, the identity of the committee chair, whether the credit rating was solicited or unsolicited, as well as the date on which the credit rating action was taken should be recorded.

In addition to archiving records of credit rating committees’ decision, Scope maintains records for a period of at least five years as follows:

- (i) Details relating to fees received from each rated entity or related third party, or any user of ratings;
- (ii) Details of each subscriber to Scope’s related services;
- (iii) Records documenting the methodologies used by Scope to determine credit ratings;
- (iv) Standard operating procedures laying out processes and defining limitations according to the EU regulation;
- (v) Records of the Collective Agreement signed by all employees, acknowledging to work within the limits of regulation and internal procedures;
- (vi) Copies of the Bona Fide Declarations provided by shareholders and members of the boards; internal and external communications.

VII. Compliance report

The compliance function oversees adherence to regulatory requirements in each jurisdiction in which Scope operates through the provision of advice, guidance and the monitoring of internal control structures. The Compliance Officer reports to independent members of the Supervisory Board (INEDs) on the effectiveness of internal controls; the Compliance Officer also reports administratively to the Scope Chief Executive Officer ('CEO').

The Compliance Officer is mandated to enforce the standard operating procedures and advise management on the regulatory provisions set out in Regulation (EC) No 1060/ 2009, amended by Regulation (EU) 513/2011 and (EU) 462/2013 of the European Parliament and the Council. The Compliance Officer regularly provides Supervisory and Executive Board members with an overview of Scope's compliance with applicable regulations. This includes the work undertaken by the Compliance Officer, including any investigations and issues discovered and any changes being implemented to support compliance-related activities. The Compliance Officer also discusses any material changes made to Scope's policies and procedures framework and internal control system as well as progress being made against the annual compliance work plan.

The Compliance Officer is also the main contact person for the European Securities and Markets Authority (ESMA), submitting regular reports regarding material changes made to Scope's standard operating procedures, human resources, as well as any modifications in the ownership structure.

Throughout 2015, the primary responsibilities of the Compliance Officer at Scope were the following:

- Advise and assist employees of Scope with respect to meeting regulatory obligations;
- Development and communication of policies and procedures to promote compliance with regulatory obligations by employees;
- Monitoring of adherence to policies and processes to assess compliance with regulatory obligations;
- Perform investigatory work, particularly with respect to policy breaches;
- Track activities of Scope's employees by maintaining records and log files insofar as related to compliance matters (i.e. personal account dealings, outside business interests and activities, gifts and entertainment)
- Conduct annual training based on the compliance plan and ongoing training on policies and regulatory matters.

To further enhance awareness of regulatory as well as internal policies and in order to promote/strengthen Scope's culture of compliance, the Compliance Officer designed and implemented in 2015 a new Collective Agreement.

This document summarises employee duties and responsibilities, making reference to regulatory provisions regarding conflicts of interest, confidentiality requirements and information security measures. The Collective Agreement has been signed by all members of the staff to acknowledge that they have read and understood the regulatory framework applicable to credit rating agencies. This document does not only promote a culture of compliance but also extends the powers of the CRA's compliance function to Scope Ratings' sister companies, where specific regulator-relevant processes, as well as business development staff or rating resources outsourcing arrangements are made.

VIII. Financial revenues and costs – 2015

The below table provides an overview of revenues generated and costs incurred throughout 2015.

Note:

- Revenues originating from rating activities are split across the following types of credit ratings: Corporate Non Financials; Corporate Financials; Sovereign/Public Finance; Structured Finance / Covered Bonds.
- Ancillary services include “Credit estimate”, “Rating Assessment Service”, “Financial Strength Rating”, “Debt Fund Rating”, “AIF Ratings” and “Asset Management Ratings” *
- The revenues in 2015 are distributed between rating activities with 51.93% and ancillary services with 48.07%.

2015 - Total Revenues		
Revenues originating from Ratings activities	2,259,298.71 €	51.93%
Revenues originating from Ancillary Services	2,091,866.60 €	48.07%
Total:	4,351,165.31 €	100%

(Breakdown) Revenues - Ratings activities		
thereof: non-financial corporations	879,864.21 €	38.94%
thereof: financial corporations	176,223 €	7.80%
thereof: sovereigns / public finance	7,234 €	0.33%
thereof: structured finance / covered bonds	1,195,976.79 €	52.93%
Total:	2,259,298.71 €	100%

* Please refer to Scope Services List available under : https://www.scooperatings.com/download/Scope_Service_List.pdf



IX. Governance statement

Scope Group is set up in a manner consistent with applicable local corporate laws. Scope Corporation AG and its subsidiaries, Scope Ratings AG, Scope Analysis GmbH and Scope Investor Services GmbH, operate in accordance with applicable laws and regulations, including the EU regulation.

The Executive Board of Scope Corporation AG pursues the commercial goals of the company in full consideration of the regulatory provisions defined in the Code of Business Conduct & Ethics. Transparent operational processes and an independent implementation of analyses are management's key objectives. To this end, Scope publicly discloses its Code of Business Conduct & Ethics as well as the Conflicts of Interest Inventory, making both documents available on the company website.

The independent members of the Supervisory Board undertake their oversight responsibilities with respect to Scope's entire EU operations. They ensure that any entity-specific issues are adequately considered and addressed.

Scope's Supervisory Board approves and applies global policies, procedures and methodologies. The compliance function together with the review function are working on their implementation, they constantly monitor that the same standards apply across each of Scope's EU offices in order to ensure a fully consistent application.

Scope holds its employees to the highest standards of integrity and seeks to employ only those individuals who meet these standards.

To this extent, Scope Corporation AG and all its subsidiaries, including Scope Ratings AG have adopted a Collective Agreement which not only defines duties and responsibilities for all Scope employees but also promotes the highest standards of ethics and professional excellence.

More precisely, all staff at Scope are requested to use reasonable care and exercise independent professional judgment when conducting professional activities at Scope. Employees are required to not engage in any professional conduct involving dishonesty, fraud and do not commit any act that reflects adversely on professional reputation, integrity or competence. Employees are trained on and are requested to understand and comply with all applicable laws, rules, regulations and internal policies.

Finally, employees are required to practice and encourage others to practice in a professional and ethical manner that will reflect on themselves, the company and the profession.

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