



# **Transparency report 2013**

## Scope Ratings

Ref.20140318

As of: March 2014

## 01: Introduction

1. The present 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). It provides information on the operations of Scope Ratings in the EU for the year 2013.
2. Scope Ratings GmbH, registered with the Commercial Register in Charlottenburg (Berlin) HRB 145472 on September 24, 2002. Hereinafter called "Scope Ratings" or "Rating agency", it is a rating agency (CRA), registered with the European Securities and Markets Authority (ESMA) according to EU Regulations. Scope Ratings focuses on the issuance of independent ratings with an emphasis on corporations and groups of companies and their refinancing issues, financial institutions and their bonds, as well as other obligations (debt instruments).
3. In accordance with the general disclosure requirements set out in the EU Regulation, the yearly public Transparency Report shall include the following information:
  - I. An overview of the legal and ownership structure
  - II. Description of internal control mechanisms
  - III. Information on the allocation of personnel and senior management
  - IV. Description of the record keeping policy
  - V. Summary of the annual compliance report
  - VI. Description of the management and the rotation policy for rating analysts
  - VII. Short report on the financial development of the company
  - VIII. Statement of the management board within the meaning of art 46a of 78/660/EEC July 1978

## 02: Legal and ownership structure

4. Scope Corporation AG and all its subsidiaries, also referred to as "Scope Group", are German companies registered with the Commercial Register of Charlottenburg in Berlin between 2002 and 2013.
5. The Scope Group is controlled by the shareholders of Scope Corporation AG. These are seven natural persons and two limited liability companies, each controlled by one natural person. Scope Corporation AG owns 100% of the four operational limited liability companies: Scope Ratings, Scope Analysis, Scope Capital Services and Scope Data.

## 03: Internal control mechanisms

### 6. Administrative and Supervisory Board

The Administrative and Supervisory Board serves as a control and support body and is responsible for ensuring the independence and quality of the rating agency's assignments. The Administrative and Supervisory Body has the following tasks:

- Monitoring and reviewing the development of the rating policy
- Monitoring and reviewing the effectiveness of internal quality assurance measures
- Monitoring and reviewing the effectiveness of processes to identify, eliminate or manage and disclose conflicts of interest
- Monitoring and reviewing the effectiveness of the review function or the rating agency

### 7. Compliance Function

In 2013, the Management Board decided not to apply for the exemption set out in Article 6 point (3) of Regulation (EU) 462/2013 and established an independent Compliance Function according to the guidelines of Regulation (EC) 1060/2009 of the European Parliament and of the Council. The Compliance Officer who manages the Compliance Function is independent of Scope's lines of business. He is responsible for assessing adherence to regional and local laws and regulations as well as for implementing Standard Operating Procedures such as the Code of Conduct, the Chinese Walls Policy. He also provides guidance to Scope's management and staff with regard to CRA requirements. The Compliance Function monitors the adequacy and effectiveness of the measures and procedures put in place to maintain compliance with the regulation and provides reports to the independent members of the Administrative and Supervisory Board as well as to senior management.

## 8. Review Function

The Review Function is responsible for the regular review of the rating models employed in the rating agency, especially in case of changes and adaptations of rating systems. Here, the Review Function is integrated into the framework of the regular validation of rating models applied at Scope Ratings. In summary, the field of activity covers:

- 1) Documentation of the changes and developments of the rating methodologies at Scope Ratings
- 2) Review of the principles underlying adjustments to calibrate the rating methodologies

As the rating methodologies of Scope Ratings are validated regularly, the rating criteria may be adjusted accordingly to reflect the economic environment. These adjustments are based on validation studies carried out by the management of Scope Ratings.

## 9. Rating Committee

The Rating Committee is the authority responsible for releasing a rating during the rating process. This authority pursues the following goals at Scope Ratings: Ratings, preliminary ratings and all other rating actions are decided and assigned by a Rating Committee, which is also responsible for ensuring the quality of the ratings with regard to content and form. The objective is that the composition of the Rating Committee with lead analysts and independent members and the transparent and consistent voting process ensure that there are no conflicts of interests.

## 10. Process Control and Documentation

Scope Ratings uses an individually developed software tool to control and document the rating processes. This web-based tool allows for the allocation of responsibilities on a process and work step level as well as for the determination of substitute regulations. It also enables the Executive Board 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 meets requirements regarding the documentation of process cycles. This is achieved by recording the start and completion of single work steps and phases which are documented by the rating team during the rating process.

### 04: Allocation of personnel and senior management

| Scope Corporation AG                             | Employees |
|--------------------------------------------------|-----------|
| Staff employed in rating groups                  | 0         |
| Staff employed in Review Function /Credit Policy | 1         |
| <b>Total analytical staff</b>                    | 0         |
| Of which analytical supervisors                  | 0         |
| Of which managing directors                      | 0         |
| <b>Total Support Staff</b>                       | 24        |
| <b>Total Staff</b>                               | 25        |

Remark: incl. 6 freelance positions in Business Development and Corporate Communication

| Scope Ratings GmbH                                   | Employees |
|------------------------------------------------------|-----------|
| Staff employed within rating groups                  | 19        |
| Staff employed within Review Function /Credit Policy | 0         |
| <b>Total analytical staff</b>                        | 19        |
| Of which analytical supervisors                      | 6         |
| Of which managing directors                          | 3         |
| <b>Total support staff</b>                           | 7         |
| <b>Total staff</b>                                   | 26        |

| Scope Analysis GmbH                                  | Employees |
|------------------------------------------------------|-----------|
| Staff employed within rating groups                  | 34        |
| Staff employed within Review Function /Credit Policy | 0         |
| <b>Total analytical staff</b>                        | 34        |
| Of which analytical supervisors                      | 6         |
| Of which managing directors                          | 2         |
| <b>Total support staff</b>                           | 8         |
| <b>Total staff</b>                                   | 42        |

| Scope Capital Services GmbH                          | Employees |
|------------------------------------------------------|-----------|
| Staff employed within rating groups                  | 0         |
| Staff employed within Review Function /Credit Policy | 0         |
| <b>Total analytical staff</b>                        | 0         |
| Of which analytical supervisors                      | 0         |
| Of which managing directors                          | 0         |
| <b>Total support staff</b>                           | 2         |
| <b>Total staff</b>                                   | 2         |

| Scope Data Ltd                                       | Employees |
|------------------------------------------------------|-----------|
| Staff employed within rating groups                  | 0         |
| Staff employed within Review Function /Credit Policy | 0         |
| <b>Total analytical staff</b>                        | 0         |
| Of which analytical supervisors                      | 0         |
| Of which managing directors                          | 0         |
| <b>Total support staff</b>                           | 1         |
| <b>Total staff</b>                                   | 1         |

## 05: Record Keeping Policy

11. As part of the new Standard Operating Procedures set up in compliance with regulatory requirements, Scope has implemented the Confidentiality and Record Keeping Policy at a group level. The document defines confidential information and file maintenance and record-keeping requirements and practices that are designed, collectively, to ensure that it maintains adequate records in accordance with all applicable laws and regulations including, but not limited to, the EU Regulation.
12. Confidential documents associated with a rating analysis, such as rating committee minutes, can only be accessed by rating analysts directly involved in the rating process. Other non-analytical personnel, such as administrative or sales staff, must maintain separate recordkeeping so as to comply with the regulatory requirements regarding the separation between sales and rating resources.
13. Scope maintains records for a period of at least five years as follows:
  - (a) 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;
  - (b) details relating to fees received from each rated entity or related third party, or any user of ratings;
  - (c) details of each subscriber to Scope's related services;
  - (d) records documenting the methodologies used by Scope to determine credit ratings;

- (e) internal records and files, including non-public information and work papers, used in taking credit rating decisions;
- (f) Standard Operating Procedures laying out processes and defining limitations according to EU Regulation;
- (g) records of the Collective Agreement signed by all employees, acknowledging to work within the limits of regulation and internal procedures;
- (h) copies of the Bona Fide declarations provided by shareholders and members of the boards;
- (i) internal and external communications.

## 06: Compliance report

14. On October 1, 2013, the arrival of Scope's assigned Compliance Officer was announced by the CEO and his mandate was communicated to all Scope Group staff members. The Compliance Officer is in charge of the Compliance Function and reports directly to the independent members of the Administrative and Supervisory Board as well as to senior management.
15. The Compliance Officer has been mandated to set up the required 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.
16. In addition, the Compliance Officer attends Board Meetings and presents additional reports upon request, maintaining on-going contact with the COO of Scope Ratings. The Compliance Officer regularly provides the board of Scope Ratings with an overview of Scope's compliance with applicable regulations and the developments in the set-up of internal controls. This includes the work relating to new procedures, processes as well as the updated Work Plan. Additionally, the Compliance Officer advises all staff, providing guidance in resolving issues, also conducting investigations and issuing reports to senior management, recommending corrective action when necessary.
17. 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.
18. The Q4 - 2013 Compliance Work Plan comprising administrative actions necessary in setting up the Compliance Function as well as recurring operative engagements has been submitted to ESMA. The yearly Compliance Schedule was set up as a guideline to assist Scope's senior management, the Administrative and Supervisory Board members, as well as ESMA, in monitoring the recurring reporting and monitoring duties of the Compliance Officer.
19. Scope has established a Compliance Incident Inventory, providing public disclosure upon actual and potential conflicts of interest brought to the attention of the Compliance Officer. This document is publicly available on the company website.
20. To further enhance awareness of regulatory as well as internal policies, Scope implemented a Collective Agreement. This document provides an overview of 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 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.
21. To address potential conflicts of interest among Scope's beneficial owners and board members, a Bona Fide declaration will be implemented for reporting stakes held in other credit rating agencies or any potential conflicts of interest.
22. The thirteen core compliance policies, including Standard Operating Procedures such as the Code of Conduct and the Conflict of Interest Management Policy, were implemented by the Compliance Officer in Q4, 2013. These fundamental internal documents were validated by Executive Board Resolution at group level on December 18, 2013. Introducing policies such as the Chinese Walls Policy defining the separation between sales staff and rating analysts, or the Information Security Policy address the latest applicable regulatory requirements and strengthen the internal controls of the rating agency.
23. As part of its commercial activity, Scope provides both public and private ratings as well as ancillary services, as defined by EU Regulation. Opinions issued do not comment on the suitability of any particular type of investment or the appropriate level of risk for any user of these rating opinions. In preparing its rating opinions, Scope neither suggests nor cautions against specific levels of rating or assessment. Scope does not - directly or indirectly - provide advisory or consulting services to any entity.

## 07: Management board and rotation policy for rating analysts

24. In 2013, managing partner Thomas Morgenstern was the sole executive director of the rating agency.
25. Scope's analyst rotation procedure must reflect the requirements set out in 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 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 with respect to structured finance analysts, which require rotation around an originator and/or arranger.
26. 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 less than 50 employees. It will nevertheless develop and implement the Analyst Rotation Policy as part of its Standard Operating Procedures throughout 2014.

## 08: Financial information

27. An overview of the financial situation for 2013 is presented below:

| Year 2013                 |              |
|---------------------------|--------------|
| item                      | EUR          |
| Total turnover            | 2,053,950.02 |
| thereof: rating*          | 1,916,951.85 |
| thereof: corporate rating | 1,115,951.29 |
| thereof: ABDI             | 801,000.56   |
| thereof: other services** | 136,998.17   |

\*rating services include corporate rating (credit assessment, preliminary rating, initial rating, monitoring), rating of asset based debt instruments (preliminary rating, initial rating, monitoring)

\*\*other services include software R-Cockpit, Financial Strength Ratings

Note: In 2013, Scope did not provide clients of credit rating services with any other services

## 09: Governance Statement

28. Scope Group is set up in a manner consistent with applicable local corporate law. Scope Corporation AG and its subsidiaries, Scope Ratings GmbH, Scope Analysis GmbH, Scope Capital Services GmbH and Scope Data Ltd, operate in accordance with applicable laws and regulations, including the EU Regulation.
29. 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 Conduct. Transparent operational processes and an independent implementation of analyses are management's key objectives. To this end, Scope publicly discloses its Code of Conduct as well as the Conflicts of Interest Inventory, making the documents available on the company website.
30. The independent members of the Administrative and Supervisory Board (ASB) undertake their oversight responsibilities with respect to Scope's entire EU operations, including the offices in London and Paris. To ensure that any entity-specific issues are adequately considered, the ASB may arrange meetings with Managing Directors from any entity or call for meetings in any of Scope's offices.
31. Scope's ASB approves and applies global policies, procedures and methodologies. The Compliance Function together with the Review Function ensure their implementation, constantly monitoring that the same standards apply across each of Scope's EU offices in order to ensure a fully consistent application.



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