



Endorsement Policy

22 March 2021



Endorsement Policy

Scope Ratings GmbH & Scope Ratings UK Limited

1. Introduction

This Endorsement Policy (the “Policy”) sets out Scope Ratings GmbH’s and Scope Ratings UK Limited’s approach regarding the endorsement of Credit Ratings.

Scope Ratings GmbH is the endorsing credit rating agency (“endorsing CRA”) of Credit Ratings issued by Scope Ratings UK Limited as a credit rating agency based in a third country (a “third country CRA”).

Scope Ratings UK Limited is an “endorsing CRA” of Credit Ratings issued by Scope Ratings GmbH as a “third country CRA”.

2. Applicability

This Policy applies to all Covered Employees who are involved in the endorsement process of Scope Ratings GmbH and Scope Ratings UK Limited in their roles as “endorsing CRA” and “third country CRA” respectively.

Both entities as “endorsing CRAs” must verify and be able to demonstrate that the relevant third country CRA has established internal requirements which are at least as stringent as the requirements of the relevant endorsement provisions in the EU CRA Regulation¹ and the UK CRA Regulation² respectively.

Both entities as “third country CRAs” must comply with the relevant endorsement provisions³ of the EU CRA Regulation and the UK CRA Regulation respectively.

The Policy will be disclosed on Scope’s intranet.

For defined terms used in the Policy please see Scope’s Defined Terms Glossary that is available on Scope’s intranet.

3. Initial Conditions for Endorsement

ESMA and the FCA respectively (the “Responsible Supervisory Authority” = “RSA”) have both completed the assessment of the legal and supervisory framework of the UK and the EU respectively.

The endorsing CRA must notify the RSA if it becomes aware that one or more of the conditions initially assessed by the RSA are no longer fulfilled⁴. The internal audit function shall regularly review the control environment for endorsement.

4. Determination of an Objective Reason for Endorsement

The endorsing CRA will determine and document for each rated entity or rated financial instrument to be endorsed one of the following objective reasons:

- The rated entity or the assets of a structured finance instrument are located outside the jurisdiction of the endorsing CRA.

¹ EU CRA Regulation means Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, the regulatory technical standards issued based on this regulation, and any guidelines or other governance specifications prescribed and implemented by ESMA or any other competent EU regulatory body.

² UK CRA Regulation means the Statutory Instrument 2019 No. 266 Exiting the European Union Financial Services and Markets, the Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, the Technical Standard FCA 2019/39 Credit Rating Agencies Regulation) (EU Exit) Instrument 2019 and any UK legislation enacted, or rules, procedures, or other governance specifications prescribed and implemented by the FCA or any other competent UK regulatory body.

³ The relevant endorsement provisions are the requirements set out in Articles 6 to 12 and Annex I of the EU CRA Regulation and UK CRA Regulation respectively except for Articles 6a, 6b, 8a, 8b, 8c, 8d and 11a, point (ba) of point 3 and points 3a and 3b of Section B as well as part III of Section D of Annex I of the EU CRA Regulation and the UK CRA Regulation respectively.

⁴ See item 42 of the Guidelines on the submission of periodic information to ESMA and FCA respectively: CRAs should notify ESMA / the FCA of the results of any internal review that was conducted by the CRA in accordance with Guideline 4.2 Line 17 of ESMA’s Guidelines on the Application of the Endorsement regime. Such a notification should include an update on the appropriate steps taken by the CRA.

- The credit rating relating to an EU/UK entity⁵ or the EU/UK structured finance instrument⁶ is dependent on the credit rating of a subsidiary or parent company which is located outside the jurisdiction of the endorsing CRA.
- Only a small part of the endorsing CRA's outstanding credit ratings in a narrowly defined asset class are based in the jurisdiction of the endorsing CRA and the analytical staff specialised in this asset class is based outside the jurisdiction of the endorsing CRA, and the endorsing CRA continues to build-up specialised analytical staff within its jurisdiction.
- The endorsing CRA has only recently opened an office within the jurisdiction and experienced analytical staff have not yet been located.
- The need for endorsement is caused through the absence of key analytical staff which the endorsing CRA could not reasonably have foreseen or planned for.

5. Disclosure Requirements

The endorsement status is disclosed on the website of the endorsing CRA for each credit rating using the endorsement categories of either "*UK endorsed*", or "*EU endorsed*" respectively. Information on the endorsement status of a credit rating is also provided in a credit rating action. In case of a change of the endorsement status, the disclosure on the website will be adjusted accordingly.

6. Review of Endorsement Status by the Endorsing CRA

The endorsing CRA establishes an Endorsement Committee consisting of the senior executive management of the endorsing CRA to review on an annual basis the endorsement status for each rated entity or financial instrument.

The Endorsement Committee will validate and confirm the existence of an objective reason for the endorsement or a credit rating and document its decision accordingly.

The Endorsing Committee will meet on an ad hoc basis whenever it finds that the conduct of the third country CRA may not fulfil requirements which are as stringent as the relevant endorsement provisions of the EU CRA Regulation and the UK CRA Regulation respectively. The Endorsing Committee will take appropriate steps to clarify the potential breach and take appropriate remedial action.

Those actions may include suspending endorsement of new credit ratings or the withdrawal of outstanding credit ratings which may be affected by the potential breach. The endorsing CRA will inform the relevant RSA about the measures taken.

7. Ongoing Monitoring Obligations of the Endorsing CRA

The internal control functions of the endorsing CRA (Compliance, Internal Review Function, Information Security, Internal Audit) must verify and be able to demonstrate on an ongoing basis that the conduct of the third country CRA fulfils the relevant endorsement provisions of the EU CRA Regulation and UK CRA Regulation respectively.

The internal control functions of the endorsing CRA will monitor the codes, policies, and procedures of the third country CRA. This exercise includes an initial assessment of the relevant codes, policies, and procedures in the third country CRA. Any subsequent material changes to relevant codes, policies, and procedures of the third country CRA will also be reviewed and assessed by the responsible internal control function of the endorsing CRA.

The internal control functions of the endorsing CRA will include in their regular monitoring programme a sample size of credit rating actions performed by the third country CRA. They will review and document on an ongoing basis that the credit rating activities of the third country CRA are performed in compliance with the relevant codes, policies, and procedures. This review may include the review of documentation produced by the internal review functions of the third country CRA.

8. Remediation Actions of the Endorsing CRA

The internal control functions of the endorsing CRA will take appropriate steps if they find evidence that the conduct of the third country CRA may not fulfil the relevant endorsement provisions of the EU CRA Regulation and UK CRA Regulation respectively. Those steps may be proportionate and may include:

⁵ The location of the rated entity defines whether the entity is UK or EU based.

⁶ The location of the assets underlying the structured finance transaction defines whether the transaction is UK or EU based.

- The responsible control function of the endorsing CRA requests clarification from the third country CRA
- The responsible control function of the endorsing CRA requests from the responsible control function of the third country CRA to take an appropriate remedial action within a reasonable time frame, to document the remediation and notify its completion to the endorsing CRA
- The responsible internal control function of the endorsing CRA requests the executive management of the endorsing CRA to suspend the endorsement of new credit ratings of the third country CRA which may be affected by the potential breach
- Based on the severity of the potential breach, the responsible internal control function of the endorsing CRA requests the executive management of the endorsing CRA to withdraw the endorsement status for outstanding credit ratings of the third country CRA which may be affected by the potential breach.

9. Reporting Obligations of the Endorsing CRA

The endorsing CRA will make available to the RSA, on an ad-hoc or periodical basis, any information which the RSA may need to be able to assess and monitor the compliance of the third country CRA with the relevant endorsement provisions of the EU CRA Regulation and UK CRA Regulation respectively.

If the endorsing CRA identifies any factors outside of its control which may create limitations to the RSA's ability to assess and monitor the compliance of the third country CRA, for example resulting from third country legislation, the RSA expects that the endorsing CRA informs the RSA without undue delay. The endorsing CRA will provide the RSA any information relating to an endorsed credit rating or the conduct of the third country CRA.

10. Violation of the Ratings Endorsement Policy

Covered Employees must immediately report violations or suspected violations of this Policy to Compliance.

Any action by Scope Ratings or by any Employee which violates or might reasonably be expected to lead to or result in a violation of, the provisions set forth in this policy is strictly prohibited and can result in disciplinary action, up and including, termination of employment. Any potential infringements of these requirements will be investigated and reported to Senior Management to determine appropriate intervention.

Compliance along with Scope Ratings Management will be responsible for the implementation and the enforcement of this Policy.