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# Transparency Report 2022

Scope Ratings GmbH

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## Introduction

This report is published by Scope Ratings GmbH (hereinafter referred to as “SRG”) 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 for the period from 1 January 2021 to 31 December 2021 (hereinafter referred to as the “Reporting Period”) on the [scooperatings.com](https://www.scooperatings.com) website.

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## I. Legal structure and ownership

SRG is registered at the Charlottenburg Commercial Register (Berlin) with company number HRB 192993 B. It is fully owned by its parent, Scope SE & Co. KGaA (hereinafter referred to as “**Scope**”), a company registered at the Charlottenburg Commercial Register (Berlin) with company number HRB 182023 B. SRG is registered as a credit rating agency in accordance with the EU Regulation since 2012.

SRG has its head offices at Lennéstraße 5, 10785, Berlin, Germany and maintains branch offices in Frankfurt (Germany), Paris (France), Milan (Italy), Oslo (Norway), Poznan (Poland) and Madrid (Spain). SRG is the sole owner of Scope Ratings UK Limited (hereinafter referred to as “**SRUK**”), a company registered with the Companies House in the United Kingdom under company number 11810998.

The parent entity Scope together with its wholly owned subsidiaries, SRG (and its wholly owned subsidiary SRUK), Scope Fund Analysis GmbH, Scope Innovation Lab GmbH, Scope ESG Analysis GmbH and Scope Hamburg GmbH are hereinafter referred to together as “**Scope Group**”.

## II. Internal control mechanisms ensuring quality of SRG's credit rating activities

### Governance

SRG's governance structures are set up to meet the business and regulatory standards requirements of a globally operating credit rating agency including EU Regulation and other applicable regional and national laws and to provide appropriate management oversight over SRG's international credit rating activities. SRG maintains an Administrative Board in accordance with the EU Regulation. Independent non-executive directors also serve on the Administrative Board to provide oversight.

### The Administrative Board

During the Reporting Period, the Administrative Board of SRG was composed of the Independent Non-Executive Directors (“INEDs”) and Executive Management (“Executive Management”), see section IV of this report. The Administrative Board oversaw the activities of SRG.

### The Independent Non-Executive Directors

The INEDs were not involved in the daily management SRG's credit rating activities.

The INEDs were specifically responsible for monitoring:

- The development of the credit rating policy and credit rating methodologies;
- The effectiveness of the internal control framework;
- The effectiveness of measures and procedures to identify, eliminate, manage and/or disclose conflicts of interest; and
- Compliance and governance processes.

### Internal control framework

SRG has established a three-lines-of-defence control framework to ensure robust procedures within the agency. In particular during the course of the year 2022, SRG considerably reinforced its control function by in-sourcing a number of internal control functions previously outsourced to Scope. The first line of defence refers to the activities and controls that are directly performed by the operational units within an organisation to manage risks and ensure compliance with applicable laws and regulations. These activities include the analytical rating process and related rating operations. The second line of defence refers to the internal control functions that provide oversight, monitoring and support to the first line of defence. The second line of defence includes the Independent Review function (hereinafter referred to as “IRF”), the

Compliance function, the Information Security function and the Risk Management function. The third line of defence refers to the Internal Audit function.

While the internal control functions operate independently from each other in their respective monitoring and control activities, they cooperate in the elaboration and update of the policy-and-procedure framework and the roll-out of trainings. They maintain a direct independent access to the INEDs with regular interaction.

### **The Independent Review Function**

IRF is a key part of SRG's internal control framework. IRF operates independently from both the analytical business lines and business development. Within IRF, the methodology policy and model review teams are responsible for independently approving, periodically examining and reviewing credit rating methodologies, models and key rating assumptions used in the credit rating process. IRF ensures that credit rating methodologies are robust, rigorous, systematic and continuous and that they are validated, for example, through back-testing.

The credit policy team, which operates independently from the methodology policy team, acts as an internal control function focused on the complete and consistent application of credit rating methodologies and ensuring high-quality credit ratings.

IRF may participate in credit rating committees but has no voting rights on credit rating decisions.

### **The Compliance function**

SRG's Compliance function operates independently from the analytical business lines and business development. The Compliance function oversees adherence to regulatory requirements in each jurisdiction in which SRG operates and from 2022 supervises the Compliance function of its wholly owned subsidiary in the United Kingdom, SRUK<sup>1</sup>.

The Compliance function plays a critical role in ensuring that SRG operates with integrity, transparency and in accordance with applicable laws, regulations and industry standards. Compliance is responsible in particular for the monitoring of regulatory developments, the implementation of appropriate policies and procedures, and the training and education of staff, the conducting of compliance testing and monitoring including compliance investigations in case of a potential breach of the EU Regulation or other applicable laws and the reporting and escalation of compliance-related issues to senior management. The Compliance function provides recommendations for remediation on identified matters. The Compliance function also maintains the relationship with regulatory authorities and collaborates with the Compliance function of Scope Group regarding the application of group policies such as the Code of Ethics, among other internal policies and procedures, and assesses and monitors adherence to those rules. This includes compliance surveillance over SRG's credit rating activities. The head of Compliance reports to the Executive Management of SRG and to the Administrative Board. It also interacts directly and independently with the INEDs on a regular basis to address relevant compliance matters and potential compliance risks.

### **The Risk Management function**

The Risk Management function plays a critical role for the operations of SRG by helping SRG identify, assess and manage risks in a manner that promotes effective risk management and supports the agency's strategic objectives and risk appetite levels. Specifically, the Risk Management function is responsible for monitoring the agency's risk exposure on an ongoing basis and to provide risk management advice in line with the risk

<sup>1</sup> SRG endorses credit ratings issued by Scope Ratings UK Limited under Article 4(3) of the EU Regulation.

appetite of the company. The Risk Management function is responsible for maintaining the agency's risk management frameworks, which include risk appetite statements, risk assessment methodologies, and risk reporting processes. The Risk Management function is maintaining risk management frameworks in particular the Risk and Control Committee (RCC), which comprises the Executive Management of SRG and SRUK as well as the respective INEDs from SRG and SRUK.

During the year 2022, SRG established its own Risk Management function on July 2022 and started to operate according to its own internal charter. Prior to that date, the risk management function had been outsourced to SRG's parent entity Scope, operating with a standardised Risk Committee while reporting functionally to Scope Group's Supervisory Board and in particular to the Chair of the Audit Committee, a sub-committee of Scope Group's Supervisory Board.

### **The Information Security function**

The Information Security function plays a critical role in protecting the confidentiality, integrity and availability of SRG's information assets and helps to ensure that the agency operates in accordance with applicable laws, regulations and industry standards. The Information Security function is responsible for ensuring that SRG's information assets are protected from unauthorised access, use, disclosure, disruption, modification or destruction. It operates independently from the Information Technology team and develops information security policies and procedures, conducts risk assessments, maintains security controls, and provides information security training to SRG employees as well as employees from Scope Group providing dedicated services to SRG.

During the year 2022, SRG established its own Information Security function in June 2022 reporting to Executive Management and the Administrative Board. Prior to that date, the Information Security function had been outsourced to SRG's parent entity Scope, reporting functionally to Scope Group's Supervisory Board.

### **The Internal Audit function**

Internal Audit function provides independent assurance to the Executive Management and Administrative Board that SRG's risk management, governance and internal control processes are operating effectively. The Internal Audit function assesses the effectiveness of internal controls and conducts risk-based audits. It reports findings and provides independent advice and guidance. Internal Audit also monitors progress on audit recommendations and agreed-upon remedial actions to address identified issues. The Internal Audit function operates independently from operational business lines and other internal control functions. It reviews business activities as well as operational processes and internal controls in each jurisdiction in which SRG operates. Audit reports are provided to the Executive Management of SRG and its Administrative Board. SRG established its dedicated Internal Audit function in March 2022, which operates according to its approved Internal Audit Charter. Prior to that date, the Internal Audit function had been outsourced to SRG's parent entity Scope, reporting functionally to Scope Group's Supervisory Board and in particular to the Chair of the Audit Committee, a sub-committee of Scope Group's Supervisory Board.

### **The credit rating process**

The credit rating process protects the independence, objectivity, and integrity of SRG's credit rating decisions. Credit rating actions are not based on the opinion of a single individual but are rather determined by a credit rating committee involving a rating committee chair, a lead analyst and other voting and potentially non-voting expert participants. The credit rating committee follows the principles set out in, among others, SRG's Code of Business Conduct, Rating Governance Policy, Rating Process Manual and Confidential Information Management Policy. Internal procedures cover the requirements over processes, approvals and documentation that SRG's analytical employees have to adhere to in the credit rating process.

### **The credit rating methodology process**

SRG's credit rating methodologies are available on SRG's public website and govern the analytical components applied in SRG's credit rating analyses. The process for the development of new credit rating methodologies or adjustments to existing credit rating methodologies follows the principles set out in, among others, SRG's Code of Business Conduct and SRG's Methodologies Governance Policy. The credit rating methodology review process involves representatives from the analytical business lines and IRF. IRF reviews the credit rating methodologies independently and has final approval over SRG's credit rating methodologies. Internal procedures cover the requirements over processes, approvals and documentation that SRG's employees have to adhere to in the context of the credit rating methodology review process.

### **SRG's public codes and policies**

SRG applies Scope Group's public Code of Ethics, as well as SRG's Code of Business Conduct and other policies that set out the principles all SRG employees are bound to in performing their duties. These codes and policies are updated periodically to reflect changes in applicable rules and regulations. Each year, all SRG employees confirm their awareness, understanding and compliance with these codes and certain SRG policies. In addition, internal procedures support and protect the quality, independence and integrity of SRG's credit rating activities.

### **SRG's conflict management principles**

SRG's policies set out the key principles to prevent, identify, manage and, where relevant, disclose potential or actual conflicts of interest. SRG has adopted policies and procedures that enable the credit rating agency to prevent, identify, assess and manage potential conflicts of interest. In particular, SRG has put in place the following:

- SRG's analysts who participate in credit rating activities are operationally and functionally separated from non-credit rating activities conducted in SRG and in other Scope Group entities.
- SRG has established strict Chinese walls between analytical and commercial activities reflected in SRG's Commercial Separation Policy. In particular, Analysts are prohibited from participating in fee discussions with issuers or their agents and from participating in marketing activities. SRG outsources its business development and sales function to Scope. Scope Group staff are responsible for all commercial relationships with issuers and are subject to SRG's Commercial Separation Policy and operationally segregated from SRG's credit analysts and their credit rating activities.
- As an institution, SRG does not act as a principal or market maker in securities.
- The Rating Process Manual governs the rating process with the objective to identify, assess and manage potential conflicts of interests.
- Analysts are not compensated or evaluated based on the revenue that SRG derives from issuers that the analyst rates or with which the analyst interacts.
- SRG applies a mechanism for the gradual rotation of relevant analytical staff to protect analytical independence.
- Employees must follow specific rules with regard to their personal interests, such as personal ownership of and trading in financial instruments, receipt of gifts or outside business activities. These rules are set out in SRG's Personal Account Dealings Policy, Outside Business Interests Policy, and SRG's Gifts, Entertainment and Anti-bribery Policy.
- SRG's Compliance department monitors employee conduct regarding potential conflicts of interest.
- The SRG's Conflict of Interest team assesses actual or perceived Business and Corporates Conflicts of Interest in relation to the provision of Ancillary Services, Scope's Shareholders and Board memberships.

### III. Allocation of personnel and senior management

The below information refers to allocation of staff to credit rating activities, methodologies, model appraisals, senior management and credit rating activities in the different asset classes for SRG.2

Allocation	Number of Staff
New credit ratings and credit rating reviews	87
Methodology appraisal	3
Executive Management / INEDs	5
<b>Total</b>	<b>95</b>

Asset class	Number of Staff
Corporates	29
Structured Finance & Covered Bonds	27
Project Finance	10
Sovereign/Public Finance	12
Financial Institutions	9
<b>Total</b>	<b>87</b>

#### Structure of rating teams

SRG’s ratings groups are structured in a way that ensures independence, objectivity and consistency in SRG’s ratings process. SRG’s analytical personnel are organised through reporting lines by rating groups and operated across six such groups during the Reporting Period: 1) Corporate Finance, 2) Project Finance, 3) Sovereign and Public Sector, 4) Financial Institutions, 5) Covered Bonds, and 6) Structured Finance. Each rating group consists of experienced professionals from diverse backgrounds, including finance, accounting, economics, and other relevant fields. Each team is led by a managing director as analytical head who has extensive experience in credit and oversees the team's activities. Coordination between the six ratings groups is achieved through an analytical council, which is made up of each ratings group's analytical head or deputy, representatives of support functions to these rating groups and of the Compliance and Independent Review functions. The council facilitates discussions on specific operational or technical credit matters, cross-sector trends, and other relevant topics to ensure coordination across the organisation. The analytical head for each rating group is supported by deputy managers and reports to the Executive Management of SRG. SRG’s teams operate independently from other business areas and have no involvement in any commercial or investment activities. The cross-border reporting structure leads to processes, decisions and escalations being addressed in a unique and systematic manner within each of the six rating groups.

<sup>2</sup> This includes all full-time and part-time employees of Scope. Part-time employees are counted as 0.5 full-time employees. The data provided relate to the status as per 31 December 2022. Numbers are rounded up or down to the next whole number.

#### **IV. Members of management**

As of 1 January 2022, SRG's Executive Management was composed of Guillaume Jolivet and Matthias Böhm. Natalia Bourin and Vincent Wald joined SRG's Executive Management on, respectively, October 17<sup>th</sup> and December 15<sup>th</sup>, while Matthias Böhm left it on November 15<sup>th</sup> for other responsibilities within Scope Group.

The Administrative Board of SRG included Paul Mazataud and Fernando Mayorga as INEDs.

The INEDs were not directly involved in SRG's credit rating activities.

#### **V. Rotation policy for analysts**

SRG maintains an Analyst Rotation Policy, which rotates lead analysts, rating analysts and people approving credit ratings from rated entities and, where relevant, their related third parties. According to the Analyst Rotation Policy, SRG rotates lead analysts every four years, rating analysts every five years, and people approving credit ratings every seven years.

Following the rotation, analysts are not permitted to engage in credit rating activities with the same rated entity and, where relevant, their related third parties for a two-year period.<sup>3</sup>

#### **VI. Record-keeping policy**

As part of its credit rating activities, SRG receives information from or about entities that it rates in various forms, including physical documents and electronic formats. SRG retains all relevant business records that SRG – or SRUK in the case of endorsed credit ratings – receives from external entities or that are prepared internally in relation to the conduct of credit rating activities in line with the requirements of the EU Regulation, applicable corporate laws and other relevant rules and regulations. SRG adheres to the standards set out in its Record Keeping Policy and Internal Record Keeping Procedures. These rules establish best practice for the appropriate and consistent handling and retention of such business records that ensure these are complete and readily available. SRG has established protections around the retention of sensitive information and employees are required to take all reasonable measures to protect sensitive or confidential information and the records maintained in relation with it. Employees are also required to protect all property and business records belonging to or in the possession of their employer from fraud, theft or misuse.

#### **VII. Compliance report**

During the Reporting Period, SRG made various enhancements to compliance policies and procedures to address internal process enhancements and developments in SRG's business activities as well as regulatory requirements including new ESMA guidance. These include:

- updates of various policies related to the management of Individual, Business and Corporate conflicts of interests, such as the Outside Business Interests Policy, Personal Accounts Dealing Policy, Commercial Separation Policy, and Conflict of Interest Policy. The Endorsement Policy, Record Keeping Policy, Confidential Information Management Policy were also updated.

<sup>3</sup> SRUK is exempt from the obligation to maintain an analyst rotation policy.



- the introduction of a new Ancillary Services Policy and corresponding procedure and the Credit Rating Analyst Training Policy and Procedure.

All SRG employees acknowledged the policies and procedures that were in place and certified their adherence to SRG's policies and procedures for 2022. SRG regularly provided compliance training to new employees and conducted comprehensive annual compliance training for 2022 for all its employees and managers.

The Compliance function independently conducted surveillance controls and monitoring reviews over SRG's credit rating activities. Executive Management and, where relevant, the Administrative Board of SRG addressed potential issues identified as a result of such compliance controls or by way of notifications submitted to the Compliance department. Where the Compliance function identified or received a report of a relevant potential or actual breach of the EU Regulation, other applicable laws, or SRG's codes, policies and procedures, it addressed them by way of formal compliance investigations and brought them to the attention of SRG's management bodies. SRG fulfilled its reporting obligations to supervisory authorities in line with the EU Regulation and as per the Guidelines on the Submission of Periodic Information to ESMA by Credit Rating Agencies – 2nd Edition, issued on 5 February 2019. SRG is a category A credit rating agency with the obligation for scheduled reporting on 31 January, 30 April, 31 July and 31 October and on an ad-hoc basis. The surveillance controls and monitoring activities also included credit ratings issued by SRUK and endorsed by SRG.

The Internal Audit function conducted a review of the Compliance departments of SRG and SRUK as a part of its work plan in the first quarter of 2022. This review covered the activities and measures of the Compliance department with a view of the organisational set-up of the department and a focus on the areas of organisation and governance, policies and procedures, compliance monitoring plan, training and onboarding, regulations, knowledge and resources as well as communication and reporting.

## VIII. Financial revenues

The table below provides an overview of SRG's revenues in 2022.<sup>4</sup>

2022 total revenues	EUR
Revenues originating from credit rating activities	15,200,382.25
Revenues originating from non-credit rating activities	3,676,574.61
<b>Total</b>	<b>18,876,956.86</b>

2022 revenues – credit rating activities	EUR
thereof: non-financial corporations/Sovereigns/Public Finance/Financial Institutions	7,127,268.91
thereof: Structured Finance/Project Finance	8,073,113.34
<b>Total</b>	<b>15,200,382.25</b>

2022 revenues – non-credit rating activities	EUR
<b>Revenues originating from non-credit rating activities of business lines providing credit rating services</b>	<b>1,772,536.16</b>
Revenues originating from other non-credit rating activities	1,904,038.45
<b>Total</b>	<b>3,676,574.61</b>

## IX. Governance statement

During the Reporting Period, SRG did 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.

As of 31 December 2022, SRG is a 100% subsidiary of Scope<sup>5</sup>. Through their shareholdings in Scope SE & Co. KGaA, the following individuals/entities had significant (over 5%) indirect shareholdings in SRG:

- Florian Schoeller (via holding companies): 15.5%
- AQTON SE: 14.4%
- Michael C. Wisser (via holding companies): 7.4%
- AXA S.A.: 6.3%

Holdings of other minority shareholders (each one below 5%) totalled 56.4%.

<sup>4</sup> Unaudited numbers

<sup>5</sup> Scope, the group holding company, is a limited partnership on shares (KGaA) and combines the rules and set-up of a public limited company (*Aktiengesellschaft*) with the corporate structure of a limited partnership (*Kommanditgesellschaft* or Co. KG). The acronym Co. KGaA reflects the dual character of this corporate structure.

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Scope Management SE is the general partner of Scope. The Executive Board of Scope Management SE manages the business of Scope and thereby of Scope Group. In addition to their shareholdings in Scope, Florian Schoeller and Stefan Quandt each hold 40% of the shares of Scope Management SE. Scope Foundation, which is a separate legal entity from Scope Group, has held 20% of the shares of Scope Management SE since May 2020. Scope Foundation has no financial or economic interest in Scope and the main function of the foundation is to preserve the European identity of the shareholder structure of Scope Group.

Scope's investor relations team provides timely and regular information to SRG to enable SRG's Conflict of Interest Management team to identify, manage, eliminate and disclose any potential conflicts of interest related to Scope's shareholders.

SRG's Administrative Board oversaw SRG's business activities and the members of Executive Management. The Administrative Board met at least once per quarter.

Each member of the Administrative Board is sufficiently skilled to perform their respective functions. The INEDs have sufficient expertise in all relevant areas of financial services.

The INEDs were not involved in credit rating activities and are free of any business, family or other relationship with SRG, its controlling shareholders or its Executive Management that would create a conflict of interest that could impair their judgement. At least one of SRG's INEDs has in-depth knowledge at a senior level of structured finance markets.

Members of SRG's governance and management bodies such as the Administrative Board and Executive Management have adequate powers conferred to them by the applicable national law, articles of association and applicable bylaws. The articles of association of SRG may be amended in accordance with applicable national law. The operations 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 SRG.

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