

PRESS RELEASE

ESMA fines Scope Ratings €640,000 for failings in covered bonds ratings

The European Securities and Markets Authority (ESMA), the EU's securities markets regulators, has fined Scope Ratings GmbH (Scope) €640,000, and issued a [public notice](#), for breaches of the Credit Rating Agencies Regulation (CRAR) in relation to the systematic application of its 2015 Covered Bonds Methodology (CBM) and its revision.

In both instances Scope committed the infringements negligently and failed to meet the special care expected from a credit rating agency (CRA) as a professional firm in the financial services sector.

Scope's breaches of the Credit Rating Agencies Regulation (CRAR)

- Failure to apply methodology systematically - €550,000

In 2015, Scope had adopted a CBM which included, in addition to an analysis of the issuer credit strength, an analysis consisting of two further steps, the first being an analysis of the legal framework and the resolution regime, while the second involved an analysis of the cover pool of underlying loans (cover pool). The CBM also specified that a thorough analysis of the cover pool had to be performed for all rated covered bonds.

However, ESMA found that Scope failed to systematically apply its CBM, since the ratings issued in September and November 2015 did not comprise the type of analysis of the cover pool which was foreseen by the CBM. This had the effect of 559 ratings being issued without analysis being conducted according to the publicly disclosed CBM, out of a total of 622 ratings issued under the 2015 CBM.

- Failure in methodology revision - €90,000

ESMA also found that Scope, before making material changes to its CBM in 2016, failed to inform ESMA and publicly consult with stakeholders on the proposed amendments which were later implemented.

Scope did not, as required by the CRAR:

- notify ESMA of the intended material changes to the CBM;
- publish on its website the proposed material changes to the CBM and invite comments from stakeholders; and
- notify ESMA of changes due to this consultation.

The changes introduced in 2016 to the CBM were material, as they modified the conditions under which an assessment of the cover pool had to be performed under this methodology.

CRAR Obligations

The quality of credit rating methodologies, their systematic design and application and their public disclosure is a key objective of the CRAR. Methodologies must be systematic by design and applied systematically in producing ratings so that investors are protected from arbitrary decisions by a CRA to depart from its public methodology without an objective reason for doing so. This is a key condition for ratings to remain sound and reliable. CRAs must follow several steps when changing their Methodologies, involving disclosure of the changes, public consultation, disclosure of stakeholder comments and informing ESMA. Given the role of CRAs and ratings in financial markets, and their impact on investor trust and confidence, it is essential that ratings are based on sound, reliable and transparently designed methodologies.

Right of appeal

Scope may appeal against this [decision](#) to the Board of Appeal of the European Supervisory Authorities. Such an appeal does not suspend the fine, although it is possible for the Board of Appeal to suspend the application of the decision in accordance with Article 60(3) of the ESMA Regulation.

Notes for editors

1. [ESMA41-356-82 Public Notice Scope Ratings GmbH](#)
2. [ESMA41-356-771 Decision of the Board of Supervisors to adopt a supervisory measure and impose a fine in respect of infringements committed by Scope Ratings GmbH.](#)
3. Scope Ratings GmbH is a German-based credit rating agency registered in the EU since 24 May 2011, with branch offices in France, Italy, Norway and the United Kingdom.
4. [List of ESMA Enforcement Actions](#)
5. [Credit Ratings Agencies Regulation \(CRAR\).](#)
6. Since July 2011, ESMA has been responsible for the supervision of credit rating agencies in the European Union, including their registration, in line with the requirements of the CRA Regulation. ESMA has the power to take appropriate enforcement action where it discovers a breach of the CRA Regulation, ranging from the issuance of public notices to the imposition of fines and withdrawal of registration.
7. ESMA is the European Union's securities markets regulator. Its mission is to enhance investor protection and promote stable and orderly financial markets.
8. It achieves these objectives through four activities:
 - i. assessing risks to investors, markets and financial stability;
 - ii. completing a single rulebook for EU financial markets;
 - iii. promoting supervisory convergence; and
 - iv. directly supervising specific financial entities.
9. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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