ESMA Guidelines on disclosure requirements

Scope Ratings GmbH

March 2019

Scope Ratings responses to ESMA questionnaire on the disclosure requirements

Q1. Do you agree with the proposed Guidelines for press releases that accompany credit ratings or rating outlooks? If not, please explain.

Scope appreciates ESMA's efforts on introducing further guidance on the minimum industry standards for disclosures in the press releases and believes that increasing consistency in press releases across the CRAs will be beneficial for the users of credit ratings.

Nevertheless, Scope is concerned that additional requirements may add further administrative burden to the analysts, detracting from the opinion as opposed to the main risk points highlighted for the benefit of investors and without significantly improving the quality of information in the press releases. Additional requirements will also lead to longer documents, which would make the press release more difficult to read.

Q2. Do you agree that a standardised scheme indicating the rated entities level of participation would be beneficial? Do you have any comments on the proposed standardised scheme?

Scope does not agree with an approach in which ESMA would expect the standardised scheme as presented in the proposed guidelines to be included in this form in the regulatory disclosures section on press releases. It should be at each CRA's discretion to decide the format of its rating action press releases. Scope believes it would fully meet the requirements of the regulation to display the degree of the rated entities' participation by using equivalent standardised sentences.

In Scope's view, setting additional formal standards on the way CRA's meet certain public disclosure requirements that go beyond what is required by the CRA Regulation does not add additional value for the users of credit ratings. Scope believes it should be up to the CRAs to decide in which form the disclosure of the level of issuer participation will be presented.

If ESMA were nevertheless to require CRAs to apply the table format, Scope believes it would facilitate proper application of the proposed Guidelines in this regard if ESMA could demonstrate the use of the standardised scheme in practical examples.

Q3. Do you have any comments on specific items under this section? If yes please explain with reference to the proposed item's number?

<u>With regard to item ii. and iii.:</u> Please refer to Scope's answer to Q2.

<u>With regard to item iv.:</u> *"The names, job titles and contact details for the persons responsible for the credit rating together with the name and address of the legal entity responsible for the credit rating."*

The CRA Regulations requires the disclosures of (…) *the name and job title of the lead rating analyst in a given credit rating activity and the name and position of the person primarily responsible for approving the credit rating or rating outlook* (…).

Scope agrees on the importance of providing transparency to the users of credit ratings on the analysts who act as a Lead Analyst and the person approving a credit rating. Scope is also eager to provide for a channel through which the users of our credit ratings can contact the analysts. Scope believes, however, that the regulation should not require a CRA to provide a direct telephone contact number publicly for every individual analyst who acts in this capacity. There are many other approaches to allow access to analytical staff which can be managed by a CRA and which would still meet the requirements of CRA regulation. The proposed approach therefore seems to significantly go beyond the scope of relevant requirements under the CRA regulation. Scope does not agree with the idea of the creation of the proposed additional formal requirements around the contact information that is provided publicly. In our view, it should remain up to each CRA to manage the way these analysts can be contacted and whether the contact details of their employees should be publicly available or not.

With regard to item v.: *"A reference to all substantially material sources used for the report should be listed at the end of the report. Where a fact or figure is cited in the press release this should be referenced via footnote to the sources listed at the end of the press release"*, Scope has a following comment:

The second sentence of this item indicates that all facts or figures that are mentioned in a credit rating action release should be referenced to the sources . Scope notes that it is, to a certain extent, already a broadly accepted practice in the industry to reference specific documents that are cited in a credit rating action, in particular in cases where supporting reports of a CRA would serve to enhance the understanding of the rationale for a particular credit rating action or the methodological approach. The requirement that is proposed in the consultation paper, however, seems to be very broad as it would capture all facts and figures. It would therefore create the need for additional process and governance around the statements that analysts include in their rating action releases. Also, this could potentially lead to delays in the process to release a credit rating action. Scope would therefore recommend re-considering the balance between the creation of additional requirements that are not part of the CRA regulation currently, the benefit for investors and users of credit ratings and the cost and administrative effort that is necessary at a CRA to adhere to this. Scope recognises the need to include a source reference in cases where an external sources for a significant point in the credit rating action release is used. Scope, however, does not agree with the broad approach that is proposed in the consultation paper which would, in our view, go beyond the requirements of the CRA regulation as it would capture every fact and figure that is mentioned in a credit rating action release including situations where internal sources are used. Scope is concerned that such additional requirements on referencing all facts and figures may become excessive, without bringing additional value for the users of the credit ratings to balance the additional process need.

Q4. Do you have any comments on the proposed Guidelines under this section (ESG)?

Scope generally welcomes the focus that ESG factors have gained. We acknowledge that such factors may also contain aspects that are relevant to our credit rating analysis. To address this, Scope has included information in its credit rating methodologies on how ESG factors are taken into consideration whenever they are relevant. Where ESG factors are considered as a rating action driver or as a significant factor to a credit decision, Scope discloses this in its credit rating action releases as appropriate. We would therefore agree that ESG factors should be addressed as a key element underlying a credit rating in cases where they actually have such importance and where they are materially relevant to the credit analysis in accordance with the relevant credit rating methodology.

However, the standardized approach that is proposed in the consultation paper would introduce a completely new disclosure element that would have to be added to the process for every single rating action, regardless of whether it was relevant for that credit decision or not. An approach requiring the disclosure of a certain factor that was not relevant to the analysis would introduce a significant expansion of the current requirement to disclose elements not underlying a credit rating. Scope does not agree with the concept of a requirement to disclose factors that are not underlying a credit rating decision as this would, in our view, distract the users of credit ratings from the information provided on the driving factors for a credit rating decision. Scope would therefore welcome reconsidering the proposed approach to better balance the need for transparency on ESG factors in situations where these are relevant for a credit rating decision as opposed to situations where they are not. In such cases – where ESG factors are not relevant to the credit rating - the proposed approach seems to go beyond the requirements of the CRA regulation.

Scope does not feel that such a standardized approach as proposed is warranted in terms of providing transparency for users of a credit rating. In Scope's view, the CRAs should retain freedom in deciding which factors are relevant for a credit rating, both at the level of developing a methodology as well as in its presentation to credit ratings users.