

Amended Draft Mapping of Scope Rating's credit assessments under the Standardised Approach

1. Executive summary

1. This report describes the mapping exercise carried out by the Joint Committee (JC) of the European Supervisory Authorities (ESAs) to determine the 'mapping'¹ of the credit assessments of Scope Rating (Scope), with respect to the version published in November 2015.
2. The methodology applied to produce the mapping remains as specified in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 (the Implementing Regulation)² laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (Capital Requirements Regulation – CRR). This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) of the CRR.
3. The information base used to produce this mapping report reflects additional quantitative information collected after the submission of the draft Implementing Technical Standards by the JC to the European Commission. Regarding qualitative developments, the qualitative factors as specified in the Implementing Regulation remain unchanged. Further, Scope has introduced a new methodology for supranational entities.
4. The mapping neither constitutes the one which ESMA shall report on in accordance with Article 21(4b) of Regulation (EC) No 1060/2009 (Credit Rating Agencies Regulation - CRA) with the objective of allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity³ nor should be understood as a comparison of the rating methodologies of Scope with those of other ECAs. This mapping should however be interpreted as the correspondence of the rating categories of Scope with a regulatory scale which has been defined for prudential purposes. This implies that an appropriate degree of prudence may have been applied wherever not sufficient evidence has been found with regard to the degree of risk underlying the credit assessments.

¹ According to Article 136(1), the 'mapping' is the correspondence between the credit assessments of and ECAI and the credit quality steps set out in Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR).

² OJ L 275, 12.10.2016, p. 3-18

³ In this regard please consider http://www.esma.europa.eu/system/files/esma__2015-1473_report_on_the_possibility_of_establishing_one_or_more_mapping....pdf.

5. As described in Recital 12 of the Implementing Regulation, it is necessary to avoid causing undue material disadvantage on those ECAs which, due to their more recent entrance in the market, present limited quantitative information, with the view to balancing prudential with market concerns. Therefore, the relevance of quantitative factors for deriving the mapping is relaxed. This allows ECAs which present limited quantitative information to enter the market and increases competition. Therefore, the relevance of quantitative factors for deriving the mapping should be relaxed. This allows ECAs which present limited quantitative information to enter the market and increases competition.
6. The resulting mapping tables have been specified in Annex III of the Consultation Paper on the revised draft ITS on the mapping of ECAs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013.
7. Figure 1 below shows the result for the main ratings scale of Scope, the Global long-term rating scale.

Figure 1: Mapping of Scope's Global long-term rating scale rating scale

Credit assessment	Credit quality step
AAA	1
AA	1
A	2
BBB	3
BB	4
B	5
CCC	6
CC	6
C	6
D	6

2. Introduction

8. This report describes the mapping exercise carried out by the Joint Committee (JC) to determine the ‘mapping’ of the credit assessments of Scope Rating (Scope), with respect to the version published in November 2015.
9. Scope is a credit rating agency that has been registered with ESMA in 24 May 2011 and therefore meets the conditions to be an External Credit Assessment Institution (ECAI)⁴.
10. The methodology applied to produce the mapping remains as specified in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 (the Implementing Regulation) laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (Capital Requirements Regulation – CRR). This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) of the CRR.
11. The information base used to produce this mapping report reflects additional quantitative information collected after the submission of the last draft Implementing Technical Standards by the JC to the European Commission. Regarding qualitative developments, the qualitative factors remain unchanged, while Scope has introduced a methodology for supranational entities. The quantitative information is drawn from data available in the ESMA’s central repository (CEREP⁵) based on the credit rating information submitted by the ECAIs as part of their reporting obligations.
12. The following sections describe the rationale underlying the mapping exercise carried out by the Joint Committee (JC) to determine the mappings. Section 3 describes the relevant ratings scales of Scope for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of Scope’s main ratings scale, whereas Section 5 refers to the mapping of the short-term rating scale. The mapping tables are shown in Appendix 4 of this document and have been specified in Annex III of the Consultation Paper on the revised draft ITS on the mapping of ECAIs’ credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013.

⁴ It is important to note that the mapping does not contain any assessment of the registration process of Scope carried out by ESMA.

⁵ <https://cerrep.esma.europa.eu/cerep-web/>

3. Scope credit ratings and rating scales

13.Scope produces a variety of credit ratings. Column 2 of Figure 2 in Appendix 1 shows the relevant credit ratings that may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)⁶:

- Issuer rating
- Issuer rating (foreign currency)
- Debt rating
- Senior unsecured debt rating
- Senior secured debt rating
- Preferred senior unsecured debt rating
- Non-preferred senior unsecured debt rating
- Subordinated debt rating
- Subordinated debt (hybrid) rating
- Tier 2 capital securities rating
- Additional Tier 1 capital securities rating
- Short-term issuer rating
- Short-term issuer rating (foreign currency)
- Short-term issue rating

14.These ratings can be divided into two groups, the credit ratings and the ratings of capital securities. Scope provides a general definition for above credit ratings:

- A credit rating is a forward-looking opinion regarding the relative creditworthiness of an issuer, an instrument or an obligation and is issued using an established and defined ranking system of rating categories.
- It reflects a credit opinion on a debt issuer's ability to meet its contractual financial commitments – either long-term or short-term – on a timely basis and in full as a going

⁶ As explained in recital 4 ITS, Article 4(1) CRA allows the use of the credit assessments for the determination of the risk-weighted exposure amounts as specified in Article 113(1) CRR as long as they meet the definition of credit rating in Article 3(1)(a) CRA.

concern. As such credit ratings point to the relative default risk or expected loss of debt instruments, as defined in Scope's respective rating methodologies.

15. Scope assigns these credit ratings to different rating scales as illustrated in column 3 of Figure 2 in Appendix 1. Therefore, a specific mapping has been prepared for the following rating scales:

- **Global long-term rating scale.** The specification of this rating scale is described in Figure 3 of Appendix 1.
- **Global short-term rating scale.** The specification of this rating scale is described in Figure 4 of Appendix 1.

16. The mapping of the Global long-term rating scale is explained in Section 4 and it has been derived in accordance with the quantitative factors, qualitative factors and benchmarks specified in the ITS.

17. The mapping of the Global short-term rating scale is explained in Section 5 and it has been indirectly derived from the mapping of the Global long-term rating scale and the internal relationship established by Scope between these two scales, as specified in Article 13 of the ITS. This internal relationship is shown in Figure 5 of Appendix 1.

4. Mapping of Scope's Global long-term rating scale rating scale

18. The mapping of the Global long-term rating scale has consisted of two differentiated stages where the quantitative and qualitative factors as well as the benchmarks specified in Article 136(2) CRR have been taken into account.

19. In the first stage, the quantitative factors referred to in Article 1 of the ITS have been taken into account to differentiate between the levels of risk of each rating category. The *long run default rate* of a rating category has been calculated in accordance with Article 6 of the Implementing Regulation, as the number of credit ratings cannot be considered to be sufficient, as per article 3(1)(a) of the Implementing Regulation. This is determined by comparing the number of ratings representing the inverse of the long-run default rate benchmark of the rating category, as referred to in point (a) of Article 14 of the Implementing Regulation.

20. In a second stage, the qualitative factors proposed in Article 7 of the Implementing Regulation have been considered to challenge the result of the previous stage, especially in those ratings categories where less default data has been available.

4.1. Initial mapping based on the quantitative factors

4.1.1. Calculation of the long-run default rates

21. The number of credit assessments cannot be considered sufficient for the calculation of the short and long run default rates specified in the Articles 3 – 5 of the Implementing Regulation.

As a result, the allocation of the CQS has been made in accordance with Article 6 of the Implementing Regulation.

22. The long run default rate benchmark associated with the equivalent category in the international rating scale is a key qualitative factor that has been used for the mapping proposal.

23. For D rating category, no allocation has been made based on this methodology since it already reflects a 'default' situation.

24. Withdrawn ratings have been weighted by 50% as indicated in Article 4(3) of the ITS.

25. The default definition applied by Scope, described in Appendix 3, has been used for the calculation of default rates.

4.1.2. Mapping proposal based on the long run default rate

26. The assignment of the rating categories to credit quality steps has been initially made in accordance with Article 6 of the Implementing Regulation. Therefore, the numbers of defaulted and non-defaulted rated items have been used together with the prior expectation of the equivalent rating category of the international rating scale. The results are specified in Figure 10 of Appendix 4.

- **AAA/AA/A/BBB /B:** the number of rated items in each of these categories is equal or larger than the respective minimum required number of observed items given the number of defaulted items in the rating category. Thus the credit quality steps associated with the AAA/AA, A, BBB and B rating categories in the international rating scale (CQS 1, CQS 2, CQS 3 and CQS 5 respectively) can be assigned. Regarding rating category BB, the existing CQS allocation remains while close monitoring will be exercised.
- **CCC/CC/C:** since the CQS associated with the equivalent rating categories of the international rating scale is 6, the proposed mapping for these rating categories is CQS 6.

4.2. Final mapping after review of the qualitative factors

27. The qualitative factors specified in Article 7 of the Implementing Regulation have been used to challenge the mapping proposed by the default rate calculation. Qualitative factors acquire more importance in the rating categories where quantitative evidence is not sufficient to test the default behavior⁷, as it is the case for all rating categories of Scope's Global long-term rating scale.

28. The quantitative factors remain unchanged with respect to the mapping published in November 2015.

⁷ The default behavior of a rating category is considered to be properly tested if the quantitative factors for that rating category are calculated under Articles 3 – 5 ITS.

5. Mapping of Scope's Global short-term rating scale

29. Scope also produces short-term ratings and assigns them to the Global short-term rating scale (see Figure 4 in Appendix 1). Given that the default information referred to these rating categories cannot be comparable with the 3-year time horizon that characterizes the benchmarks established in the ITS, the internal relationship established by Scope between these two rating scales (described in Figure 5 of Appendix 1) has been used to derive the mapping of the Global short-term rating scale. This should ensure the consistency of the mappings proposed for Scope.

30. More specifically, as each short-term rating can be associated with a range of long-term ratings, the CQS assigned to the short-term rating category has been determined based on the most frequent CQS assigned to the related long-term rating categories. In case of draw, the most conservative CQS has been considered. If the most frequent step is identified as CQS 5 or 6, CQS 4 is allocated, as the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR

31. The results are shown in Figure 18 of Appendix 6.

- **S-1+.** This rating category indicates the lowest credit risk with the highest capacity to repay short-term obligations. It is internally mapped to long-term categories AAA to A+, which are mapped to CQS 1 and CQS 2. Therefore, CQS 1 is the proposed mapping.
- **S-1.** This rating category indicates very low credit risk with high capacity to repay short-term obligations. It is internally mapped to the long-term category AA- to A-, which are mapped to CQS 1 and CQS 2. Therefore, CQS 2 is the proposed mapping.
- **S-2.** This rating category indicates low credit risk with good capacity to repay short-term obligations. It is internally mapped to long-term categories A to BBB-, which are mapped to CQS 2 and 3, but mostly CQS 3. Therefore, CQS 3 is the proposed mapping.
- **S-3.** This rating category indicates acceptable credit risk with fair capacity to repay short-term obligations. It is internally mapped to long-term categories BBB to BB-, which are mapped to CQS 3 and 4, but mostly CQS 4. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed for the S-3 rating category is CQS 4.
- **S-4.** This rating category indicates moderate-to-high credit risk with modest capacity to repay short-term obligations. It is internally mapped to long-term categories BB to C, which are mapped to CQS 4 to 6, but mostly CQS 6. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed for the S-4 rating category is CQS 4.

Appendix 1: Credit ratings and rating scales

Figure 2: Scope's relevant credit ratings and rating scales

SA exposure classes	Name of credit rating	Credit rating scale
Long-term ratings		
Institutions	Issuer rating	Global long-term rating scale
	Issuer rating (foreign currency)	Global long-term rating scale
	Senior secured debt ratings	Global long-term rating scale
	Senior unsecured debt rating	Global long-term rating scale
	Preferred senior unsecured debt rating	Global long-term rating scale
	Non-preferred senior unsecured debt rating	Global long-term rating scale
	Subordinated debt rating	Global long-term rating scale
	Subordinated debt (hybrid) rating	Global long-term rating scale
	Tier 2 capital securities rating	Global long-term rating scale
	Additional tier 1 capital securities rating	Global long-term rating scale
Corporates	Issuer rating	Global long-term rating scale
	Issuer rating (foreign currency)	Global long-term rating scale

	Senior secured long-term debt rating	Global long-term rating scale
	Senior unsecured long-term debt rating	Global long-term rating scale
	Subordinated debt rating	Global long-term rating scale
Covered bonds	Debt rating	Global long-term rating scale
Central governments or central banks	Issuer rating	Global long-term rating scale
	Issue rating	Global long-term rating scale
Regional governments or local authorities	Issuer rating	Global long-term rating scale
	Issue rating	Global long-term rating scale
Public sector entities	Issuer rating	Global long-term rating scale
	Issue rating	Global long-term rating scale
Multilateral development banks	Issuer rating	Global long-term rating scale
	Issue rating	Global long-term rating scale
Short-term ratings		
Institutions	Short-term Issuer rating	Global short-term rating scale
	Short-term Issuer rating (foreign currency)	Global short-term rating scale
Corporates	Short-term Issuer rating	Global short-term rating scale
	Short-term Issuer rating (foreign currency)	Global short-term rating scale

Figure 3: Global long-term rating scale

Credit assessment	Meaning of the credit assessment
AAA	Ratings at the AAA level reflect an opinion of exceptionally strong credit quality.
AA	Ratings at the AA level reflect an opinion of very strong credit quality.
A	Ratings at the A level reflect an opinion of strong credit quality.
BBB	Ratings at the BBB level reflect an opinion of good credit quality.
BB	Ratings at the BB level reflect an opinion of moderate credit quality.
B	Ratings at the B level reflect an opinion of weak credit quality.
CCC	Ratings at the CCC level reflect an opinion of very weak credit quality.
CC	Ratings at the CC level reflect an opinion of extremely weak credit quality.
C	Ratings at the C level reflect an opinion of exceptionally weak credit quality.

Notches – Scope's long-term ratings are expressed with symbols from 'AAA to C', with '+' and '-' as additional sub-categories for each category from AA to B (inclusive), that is, 20 levels in total with 19 sub-categories for performing issues and issuers plus the Default category

Source: Scope

Figure 4: Global short-term rating scale

Credit assessment	Meaning of the credit assessment
S-1+	Ratings at the S-1+ level reflect an opinion of the lowest credit risk with the highest capacity to repay short-term obligations.
S-1	Ratings at the S-1 level reflect an opinion of very low credit risk with high capacity to repay short-term obligations.
S-2	Ratings at the S-2 level reflect an opinion of low credit risk with good capacity to repay short-term obligations.
S-3	Ratings at the S-3 level reflect an opinion of acceptable credit risk with fair capacity to repay short-term obligations.
S-4	Ratings at the S-4 level reflect an opinion of moderate-to-high credit risk with modest capacity to repay short-term obligations.

Source: Scope

Figure 5: Internal relationship between Scope's Global long-term and short-term rating scales

Long-Term	Short-Term	
AAA	S-1+	
AA+		
AA		
AA-		
A+	S-1	
A		
A-		
BBB+	S-2	
BBB		
BBB-		
BB+	S-3	
BB		
BB-		
B+	S-4	
B		
B-		

Appendix 2: Definition of default

Scope defines a corporate default as (i) a bankruptcy ii) a failed or delayed payment of interest and/or principal, including payments made within a grace period, or iii) a distressed exchange defined as a debt restructuring, a debt repurchase or any equivalent action initiated with the apparent aim of avoiding payment failure and ultimately leading to an economic loss or a diminished financial obligation for the debt investor.

Source: Scope

Appendix 3: Default rates of each rating category

Figure 8: Number of weighted items⁸

	AAA	AA	A	BBB	BB	B	CCC	CC
01JUL2012	.	.	.	1	5	4	0.5	0.5
01JAN2013	.	.	1	4	9	5.5	1.5	0.5
01JUL2013	.	.	1	5	12.5	5.5	1.5	1
01JAN2014	.	.	0.5	2	4	.	.	.
01JUL2014	.	2	15	4.5	5	2	.	.
01JAN2015	.	1	20.5	4	4	0.5	2	.
01JUL2015	.	1	21	4.5	2.5	2	1	.
01JAN2016	1	1	23	2	3.5	2	1	0.5
01JUL2016	0.5	0.5	12	1	2.5	1	1	0.5
01JAN2017	0.5	2	13	1.5	3	1.5	1	.
01JUL2017	0.5	5.5	13.5	3	2	2.5	1	.
01JAN2018	0.5	6.5	13	5	1.5	2	0.5	.
01JUL2018	0.5	7	15.5	7.5	2	2.5	.	.

Source: Joint Committee calculations based on CEREP data

⁸ Withdrawn ratings have been weighted by 50% as indicated in Article 4(3) of the Implementing Regulation.

Figure 6: Number of defaulted rated items

	AAA	AA	A	BBB	BB	B	CCC	CC
01JUL2012	.	.	.	0	0	0	0	0
01JAN2013	.	.	0	0	0	0	0	0
01JUL2013	.	.	0	0	2	0	0	0
01JAN2014	.	.	0	0	2	.	.	.
01JUL2014	.	0	0	0	1	1	.	.
01JAN2015	.	0	0	0	1	0	2	.
01JUL2015	.	0	0	0	0	1	1	.
01JAN2016	0	0	0	0	0	1	1	0
01JUL2016	0	0	0	0	0	0	1	0
01JAN2017	0	0	0	0	0	0	1	.
01JUL2017	0	0	0	0	0	0	1	.
01JAN2018	0	0	0	0	0	0	0	.
01JUL2018	0	0	0	0	0	0	.	.

Source: Joint Committee calculations based on CERP data

Figure 7: Mapping proposal for rating categories with a non-sufficient number of credit ratings

	AAA/AA	A	BBB	BB	B
CQS of equivalent international rating category	CQS1	CQS 2	CQS3	CQS4	CQS5
N. observed defaulted items	0	0	0	6	3
Minimum N. rated items	0	0	0	55	15
Observed N. rated items	0	0	0	45.5	21.5
Mapping proposal	CQS1	CQS 2	CQS3	CQS5	CQS5

Source: Joint Committee calculations based on CEREP data

Appendix 4: Mappings of each rating scale

Figure 15: Mapping of Scope's Global long-term rating scale

Credit assessment	Initial mapping based on LRDR (CQS)	Review based on SRDR (CQS)	Final review based on qualitative factors (CQS)	Main reason for the mapping
AAA	1	n.a.	1	The quantitative factors are representative of the final CQS.
AA	1	n.a.	1	
A	2	n.a.	2	
BBB	3	n.a.	3	
BB	4/5	n.a.	4	
B	5	n.a.	5	The meaning and relative position of the rating category is representative of the final CQS.
CCC	6	n.a.	6	
CC	6	n.a.	6	
C	6	n.a.	6	
D	n.a.	n.a.	6	

Figure 16: Mapping of Scope's Global short-term rating scale

Credit assessment	Corresponding Global long-term rating scale assessment	Range of CQS of corresponding to Global long- term rating	Final review <i>based on qualitative factors (CQS)</i>	Main reason for the mapping
S-1+	AAA/ A+	1-2	1	The final CQS has been determined based on the most frequent step associated with the corresponding long-term rating category.
S-1	AA- / A-	1-2	2	
S-2	A / BBB-	2- 3	3	
S-3	BBB / BB-	3 - 4	4	
S-4	BB / C	4 - 6	4	