



COMPANHIA PORTUGUESA
DE RATING, S.A.

**Ref.: Consultation Paper ESMA's Technical Advice to the Commission on Fees for CRA
Supervision**

Lisbon, 24th April 2011

Dear Sirs,

Please find herewith Companhia Portuguesa de Rating, S.A. (CPR)'s contributions to Consultation Paper ESMA's Technical Advice to the Commission on Fees for CRA Supervision. We hope they can help you improved the proposals you have on the subject.

Kind regards,

José Poças Esteves

Pedro Braga da Cruz

Q1: Do you agree with ESMA's preferred option to raise a periodic supervisory fee? Do you agree with the proposed fee calculation method to ensure that the fee is proportionate to the turnover of the CRA?

and

Q2: Do you agree that the minimum supervisory fee is charged regardless of the annual turnover of the CRA? Do you agree that this fee amounts at least around 2,000 - 5,000 euros?

It is public knowledge that the European Commission "believes the CRA market is too concentrated, and more competition and diversity would be positive" ("Improving EU supervision of Credit Rating Agencies – frequently asked questions" (MEMO/10/230 of 02/06/2010)).

It has also been frequently defended by multiple authorities around the world (including European ones) the crucial role (American) international credit rating agencies had in the present economic and financial crisis, namely through the enormous mistakes they made in attributing credit ratings in the securitisation segment (both methodological ones and related to wrongly designed corporate governance rules that allowed undesired conflicts of interest) and in the present European sovereign debt crisis.

We fully agree with these views, and support the necessity of enhancing competition in the credit rating industry, especially in Europe. But that competition and diversity is particularly difficult in a market / industry that lives from the credibility created in the past. So, one has to understand that the



COMPANHIA PORTUGUESA
DE RATING, S.A.

present situation is the consequence of several decades of a closed market (by law) in the USA, where a few CRAs had the possibility to develop without any competition, with the results we just witnessed these last few years. The answer should, then, be also through a legislative channel: legal incentives to competition.

The proposed fee calculation method “to ensure that the fee is proportionate to the turnover of the CRA” can be another big step to the run to end up with the small competition that was still emerging in the rating industry in Europe. In fact, small emerging CRAs in Europe already had to support very high (fixed) costs in proportion to their turnovers to be able to deal with all the consultation papers, papers, regulations, manuals, CESR/ESMA instructions, CEREP, internal adaptations in organization, methodologies, documents, manuals, codes of conduct, meetings in CESR/ESMA premises in Paris and with local authorities, etc.. Small CRAs in Europe should have been subsidized by the European institutions to support all these costs, that, let us recall you again, were driven by the enormous mistakes and misconduct of the (American) international credit rating agencies. In fact, these (American) international credit rating agencies also incurred the same costs described, but were the originators of them and are much bigger and, as such, dilute them over a much larger cost base, which minimize their impact in their cost structure and, at the end of the process, get the benefit of a penalty on the smaller CRAs.

For all these reasons, we agree the supervisory fee should be proportional to the turnover of the CRA, but we strongly defend that there should exist a maximum fee of, let us say, 500 € for small CRAs (as defined by article 6.3 a of the Regulation) at least for the first three years of registration. This should limit the impact of the mentioned fixed costs on small CRAs, creating an incentive for their development and to more competition in the market, and making the true originators of the need for this regulation on the rating industry pay for it.

Q3: In case that audited revenues are not available, what should be the basis for calculation of the supervisory fees?

Q4: Do you agree that a flat fee for certification applications is established? Do you agree that the fee amounts around 2,000-15,000 euros?

Q5: Do you agree that an annual flat supervisory fee for certified CRAs is established? If the CRA is certified during the course of the year, do you agree to charge this supervisory fee on a pro-rata basis? Do you agree that the fee is set at a level close to the amount of the minimum supervisory fee?



COMPANHIA PORTUGUESA
DE RATING, S.A.

Q6: Do you agree with the criteria ESMA is considering for establishing the fee bands (i.e. type of credit ratings (structured finance instruments), existence of branches and use of endorsement)? Do you agree with the criteria ESMA is considering to establish the exact fee amounts within the bands (i.e. number of employees)?

The same reasoning mentioned above in the answer to questions 1 and 2 applies in this answer, aggravated by the fact that the mentioned fixed costs incurred by small CRAs occurred precisely during and due to the registration process.

The bands of registration fees' option, as presented, is even much worst than the minimum supervisory fee in what concerns penalising small CRAs, unless ESMA decides to decrease significantly the lower band – divide it by 4 or 5 - and increase at least tenfold the upper band.

We would suggest a much simpler approach of charging a double supervisory fee in the first year, to cover the costs of the registration process.

Alternatively, a registration fee could be established as a percentage of expected turnover in the first year of activity of the CRA subject to ESMA supervision (let us say 0,1%), adjusted “a posteriori” for the effective turnover of the first year, again with a maximum of, let us say, 500 € for small CRAs (as defined by article 6.3 a of the Regulation).

Q7: Do you agree that the registration fee is partly reimbursed in case of withdrawal of the application? Do you agree with the reimbursement proportions which ESMA is considering for its advice?

Q8: Would you be in favour that the supervisory fees are paid in one single payment per year (option 1) or in two payments per year (option 2)? Would you agree with the proposed dates?

We would favour two payments per year (option 2). We would prefer to have later dates of payment (let us say June and September), so that the turnover of the previous year could be considered in the calculations.