www.tje.uvt.ro tje@feaa.uvt.ro

Timişoara Journal of Economics

Volume 3 Issue 3 (11) | 2010

ISSN: 1842-7340 (print)
1844-7139 (online)

Editura Universităţii de Vest

President of the Editorial Board Ioan TALPOŞ

Editorial Board

Robert W. ACKRILL	Nottingham Trent University, United Kingdom
Vasile COCRIŞ	"Alexandru Ioan Cuza" University, Iaşi, Romania
Maurice CHENEVOY	Université d'Auvergne Clermont-1, France
François FULCONIS	Université d'Avignon et des Pays de Vaucluse, France
Orio GIARINI	L'Istituto del Rischio, Trieste – Milano – Ginevra
Aurel IANCU	National Institute of Economic Research, Bucharest, Romania
Vasile IŞAN	"Alexandru Ioan Cuza" University, Iaşi, Romania
Nigel HEALEY	University of Canterbury, Christchurch, New Zealand
Dinu MARIN	Academy of Economic Studies, Bucharest, Romania
Dumitru MATIŞ	"Babeş-Bolyai" University, Cluj-Napoca, Romania
Kozo MAYUMI	University of Tokushima, Japan
Philippe ROLLET	Université des Sciences et Technologies de Lille, France
Mihai ROMAN	Academy of Economic Studies, Bucharest, Romania
Guy SOLLE	Institut d'Administration Economique de Metz, France
Ion STANCU	Academy of Economic Studies, Bucureşti, Romania
Nadine TOURNOIS	Université de Nice Sophia Antipolis, France

Editor-in-Chief Marilen PIRTEA

Assistant -Editor-in-Chief Carmen BĂBĂIȚĂ

Senior Editor Alexandru JIVAN

Editors Costinel DOBRE
Doina DĂNĂIAȚĂ
Vasile DOGARU
Camelia MARGEA

Language Advisors Monica BOLDEA
Anca MAGHEȚIU
Iulia PARA

Editorial Secretary Alina ALMĂŞAN
Miruna NĂCHESCU

Webmaster Romeo MARGEA

Timişoara Journal of Economics

Table of content

Internationalization of Large Retailers and Cross-Cultural Determinants – The Singular Trajectory of Carrefour in România 129
François CASSIERE
Gilles PACHÉ

Rating Agencies on the International Financial Market: an Approach in Terms of the Transaction Cost Economy 139
Monica DUDIAN

Theoretical Aspects of Optimizing The Allocation of Public Financial Resources at Local Level 147
Eugen DOGARIU

Meta Tables, Meta SQL Instructions and Gödel's Theorems of Incompletness 157
László ILLYÉS

Game Theory and Economic Behavior 161
Nicoleta SÎRGHI

Creative Economy-Feasible Option for România 167
Marta-Christina SUCIU
Maria-Liana LĂCĂTUŞ
Mina IVANOVICI

Country Risk – Barrier or Key Factor of Globalization 175
Elena-Mihaela ILIESCU
Marilena CIOBĂNAŞU

Considerations on The Convergence of Romania to The European Union in The Banking Field 183
Costin Daniel AVRAM
Veronel AVRAM

The Economic Rationality in a Period of Crisis 189
Mariana IOVIŢU

A New Educational Model for Criminality Prevention 193
Emilian M. DOBRESCU
Tiberiu-Viorel POPESCU

RATING AGENCIES ON THE INTERNATIONAL FINANCIAL MARKET: AN APPROACH IN TERMS OF THE TRANSACTION COST ECONOMY

Monica DUDIAN *

Rating agencies, by the assigned risk grades, point out the quality of debtors and credit instruments in terms of the probability to cease payments and the recovery possibilities. The existence and development of rating agencies on the capital markets is generally explained by the capacity they have to facilitate transparency and efficiency of markets, by reducing the informational asymmetry between the issuers and investors. It is acknowledged by the professional literature that rating agencies diminish the problems of adverse selection and moral hazard. This paper is another theoretical manner of approach, trying to prove that one of the main explanations of the rating agencies existence is the fact that these organizations allow the economy of the transaction costs. The first part of the article briefly describes the concepts of transaction and transaction costs. Also, this part presents a synthetic image of the role of rating agencies on the capital market. The second part makes an analysis of the transaction with rating, as a contractual transaction and, at the same time, a producer of externalities. The paper explains why the transactions with rating can be considered hybrid mechanisms of governance generating externalities upon the exchanges on the financial markets, allowing the creation of new hybrid organizational structures on these markets. Moreover an attempt has been made to list the main categories of transaction costs saved due to the rating agencies requirements.

Key Words: rating, rating agencies, transaction costs, financial market

JEL Classification: **G24.**

1. INTRODUCTION

For more than a century the rating agencies have been giving opinions regarding the solvability of the issuers of bonds and their financial liabilities. Extension of rating has been facilitated by the presentation manner of the risk grade: an alphabetic or alphanumeric symbol easily interpreted by the actors of the financial market, given that there is a well defined evaluation scale. Thus, all the rating agencies evaluate risk on a scale with two main categories: investment grade and speculative grade. Risk is irregularly rising, starting from class A, towards classes C or D, dependent on the lettering typical to each rating agency. This apparently simple symbol encompasses information whose limit and accuracy are doubtful, according to many empirical studies, many of them being done by the rating agencies themselves. Rating content, difficult to be defined, (understood as a transactional good on the rating market) and its concentrated structure of tight oligopoly of this industry have made the activity of rating agencies a controversial one in many aspects, such as the transparency of the lettering process, the potential interest conflicts generated mostly by issuer-pay model, and also by subscriber-pay model and by consulting services given by the agencies, rating accuracy and performance and their diminished value in comparison with the high market value. The last financial crisis has emphasized once more the failure of the rating agencies to timely and correctly signals the credit quality and the necessity to rebuild the institutional framework where they function. Beyond the polemic concerning the rating

* *Professor, PhD, Academy of Economic Studies Bucharest, Romania*

agencies conduct and the accuracy and performance of ratings, the financial market continues to react to signals defined by risk grades. Rating agencies' mistakes have led to the modification of their regulating framework both in EU, and outside it, including in the USA, but they have not lost the reputation of agencies enough to endanger their existence. It seems to be incomplete the reason of rating suppliers existence in terms of the principal-agent issue, of their capacity to signal and monitor the quality of debt instruments. The objective of this paper is to study the hypothesis in accordance to which one of the main explanations regarding the existence of rating agencies states that these organizations allow the economy of the transaction costs. The methodology used to achieve this objective is the deductive one, based on existing works and theories, briefly presented in the beginning of this paper, and on empirical evidence.

The paper is organized in the following manner: the second part gives the definition of transaction, explains the transaction costs and the role of rating agencies on the capital market. The third part offers a non-exhaustive answer to the question: which are the categories of transaction costs diminished or eliminated through the functioning of rating agencies? The main conclusions to the article are: (i) rating agencies are mainly associated with the transactions generating externalities (ii) rating activity has generated a new hybrid form of governing the financial transactions, i.e. a contract between the financial investor and debtor mediated by the rating agency (iii) saving the transaction costs is a very important determiner of rating agencies' existence, development and survival.

2. THEORETICAL REFERENCES AND CONCEPTUAL BOUNDARIES

2.1. Transactions and Transaction Costs

The term of transaction is not uniformly defined within the economy of transaction costs. Thus, Coase (1988) does not precisely approach the concept of transaction, but he often associates transaction costs with trade of goods on the free market. In this context, transaction can be understood as a transfer of property rights towards certain assets between independent entities. A complex vision on transaction can be found to Commons (1934): "sale and procurement between individuals of rights on future properties on physical objects". Transaction implies a negotiation between the individuals, an adaptation and coordination of individual wills developed within an institutional framework mutually interpreted and adapted by the parties. In line with this thinking, Williamson (1996) considers as a transaction the transfer of rights of using the goods and services between technologically separated units. As Menard (2000) states, transfer does not necessarily take into account the property rights, and thus, transaction does not refer only to the exchange on the free market. Transfer of assets between departments of the same organization or between entities linked by a franchise agreement represents, similar to the market, distinct ways of transactions. Therefore, the object of study of the economy of transaction costs, i.e. transaction, implies the study of the manner of organizing the resource transfer, briefly "how to organize" or "how to govern" (Williamson, 1996). In operational manner, Williamson (1996) points out the main characteristics of the transaction, such as distinctiveness of assets, uncertainty and frequency. Distinctiveness of assets is related to the opportunity cost, meaning that the lesser is the value of an asset in alternative usages to the current one, the more specific that assets will be. Uncertainty is related to behaviour, it refers to the partners' actions and the ex-ante and ex-post opportunism (adverse selection and moral hazard). The parties involved in transactions, entered in a two-sided dependence relationship, have the capacity to anticipate this dependence, to be aware of the contracts incompletion and to build appropriate organizational diagrams. Frequency can be unique, occasional or recurrent and it influences the organizational form picked up in correlation with the other two characteristics of transactions. In accordance with the definition boundaries and the transfer of the property rights, Ullrich (non-dated) classifies transactions as transactions made by exchange, contract transactions and transactions with externalities. The first category comprises the transfer of goods existing before concluding the contract, having clearly defined the property rights. The second category drives at goods resulted from a contract, after its concluding, and this category is characterized by a specific structure of ranging the property rights. The third category refers to the transactions affecting other persons beside the contracting parties, transactions where the transfer of property rights is absent or, in accordance with Ullrich, cannot be accurately defined.

There is no consensus on the concept of transaction, and no definition and unique listing for the transaction costs. Coase (1988) specifies these costs as those induced by the following activities: "to find out who you want to make transactions with, to inform the person that someone wants to make transactions and to render the terms of those transactions, to manage negotiations leading to understanding, to draw up the contract, to review in order to be sure that the contractual terms are observed, etc.". According to Williamson (1996) the transaction costs are "the compared costs of planning, adjusting and tracking the transfer of rights associated to the duties within the alternative organizational settlements". Grellet (1999) defines the transaction costs as "organizational and functional costs of the markets" to which there are added "the costs related to the compliance with the transactioned rights". The organizational and functional costs of the markets refer to drawing-up and implementing the regulations regarding competition

assurance and compliance with the rule of law, but at the same time, the costs resulting from non-compliance with these regulations. The costs related to the compliance with the property rights sum up the costs resulted from the clear definition of the property rights (implicitly related to the rights of property unclearly defined) and the costs resulted from the creation and functioning of organizations and institutions which should guarantee the compliance with these rights. Precisely, from his point of view, the transaction costs comprise "direct costs of obtaining information concerning the exchange conditions, the negotiation costs, the costs related to compliance with the transactioned property rights, as well as indirect costs such as the losses incurred by non-compliance with the clauses of contract or by the economic distortions created through contractual terms, fact generally called moral hazard. Menard (2004) separates in a different manner the direct transaction costs, linked to a particular transaction, from the indirect ones "resulted from the institutional framework required for the transaction to take place". Thus, the direct transaction costs comprise the costs for searching partners, the costs for drawing up the contract and those related to securities, the monitoring cost, the cost induced by eventual dispute solving and the costs of contracts adjustment and renegotiation. The indirect costs refer to the market size, and more specifically, to the overall complexity of transactions on a certain market, to "the production of information on the characteristics of goods involved into the transaction" and to "the institutional framework required for a good transaction and for cheaters' punishment". Similarly, Musole (2009), with reference to Furubotn and Richter (2000), ranges the transaction costs in the following manner: market transaction costs, managerial transaction costs and political transaction costs. The first category is equivalent with Coase's meaning, mentioned above, synthesized through the phrase "cost of using the price mechanism". The second category includes "the costs for wielding the right to give orders into a firm", particularly the costs for building, adjusting and ensuring the functioning of the organization. The third category refers to the costs for construction, adjustment and insurance of the political regime functioning (formal and informal).

Transaction costs are in direct ratio to the uncertainty and the distinctiveness degree of assets and in inverse ratio to the transaction frequency (as repeated games lead to knowing the partners and mechanisms). The economy of transaction costs states that "the economic institutions in capitalism have as main purpose and result the transaction costs economy" (Williamson 1996). According to Williamson (1996), there are three alternative governance mechanisms: the market, the firm and the hybrid form. The criterion of choosing one of the three mechanisms is the one of the transaction costs economy. The market is the governance structure specialized in the exchange of property rights by voluntary agreement of the parties, ensuring the coordination of autonomous individual decisions through the mechanism of prices. An important feature of the markets from the view of transaction costs is that "the markets are organized", meaning that they are "embedded into the institutions which shape them" and they can take various forms, in accordance with the "rules of the game" (Furubotn and Richter, 2000). The transactions through the market take the classical contractual shape, in which the property rights are clearly defined, the parties are independent, the parties' identity is not relevant, and the settlement of eventual disputes is done by appeal to a third party, generally a tribunal. The property rights being clearly defined, the parties' excitement is high, given that the parties' independence excludes the reciprocal administrative control. Beside the formal regulations, the market pressure, more exactly the existence of substitutes, reputation and trust contribute to the observance of the classical contract. Therefore, the contract adaptation through means of market is an autonomous one, done through the mechanism of prices and competition.

Hierarchy, unlike market, is that governance structure where the allocation of resources is done through the agency of the authority, the firm being the best example. This one is based on an internal legal contract, where the parties, whose identity is important, are in a relationship of strong bilateral dependence stating that disputes should be settled inside the organization and not through intermediaries. Therefore, the excitement is decreased, the administrative control is high, and the adaptation is coordinated through administrative decisions.

The hybrid, as its name suggests, is placed between the market and the firm, being less "free" than the market, and less "centralized" than the firm. It is governed by a "flexible" contract (called neoclassical), where the parties' bilateral dependence is non-insignificant but the parties maintain their independence resulting in higher excitement than in the hierarchy case. This contractual form allows both an autonomous adaptation to minor disturbances and a coordinated one, justified by important disturbances. There can be considered hybrid forms all the forms of cooperation between firms in which they maintain their independence but they organize transactions through a unanimously accepted organizational design. Hereinafter, there shall be argued that rating agencies allow the transactions on the financial market under cover of the hybrid governance mechanism.

2.2. Rating Agencies within the Structure of Financial Market

The first credit ratings (1909) appeared after the panic in 1907 in USA, which lead to the decrease of the investors' trust into the financial market and its regulation manner, and the appearance of the need of impartial information,

supplied by neutral entities in respect of the debtors' financial reliability. At present, the international rating market is like an "oligopoly with fringes" represented by three big firms, Moody's, Standard&Poor's (owned by McGraw-Hill Inc.) and Fitch (owned by FIMALAC, France), and other small specialized firms without power on the market. Up to the beginning of the 7th decade of last century, the incomes of the rating agencies were coming from the sale of financial reports to the subscribers. After the '70s the situation changed radically, in the sense that the incomes came mainly from commissions, which represent several percentage points from the value of the evaluated issuance, supported by the issuer (Levich, Majnoni and Reinhart, 2002).

Briefly, the risk grade attached to a corporation, a country, a project or a security emphasizes two aspects: the risk to cease payments and the recovery prospects (Fitchratings, 2009). Though rating agencies state that rating is only an opinion, many authors give bigger importance to rating by saying that it is "the archetype of a new institutional coordinating configuration developed within the conditions of financial globalization" (Sinclair, 2005).

Which is the role of rating agencies on the international financial markets? In accordance to the financial market theory, the prices on this market show the entire information publicly available, but they do not incorporate the private one, in other words, the real market is efficient in a semi-powerful configuration (Fama, 1991). This market failure determines the need of certain signals to allow the classification of debt instruments and debtors in accordance with quality (balance of division). Rating agencies have human, technical and informational resources specific to information collecting and processing in order to assess the debtors' degree of trust (Tang, 2009). These ones have a more "special" relationship with the issuer of securities, given their access to private information, which other participants to the financial market do not have access to, increasing the trust into rating. The place of rating agencies within the corporate governance system can be briefly described as it follows (Figure 1).

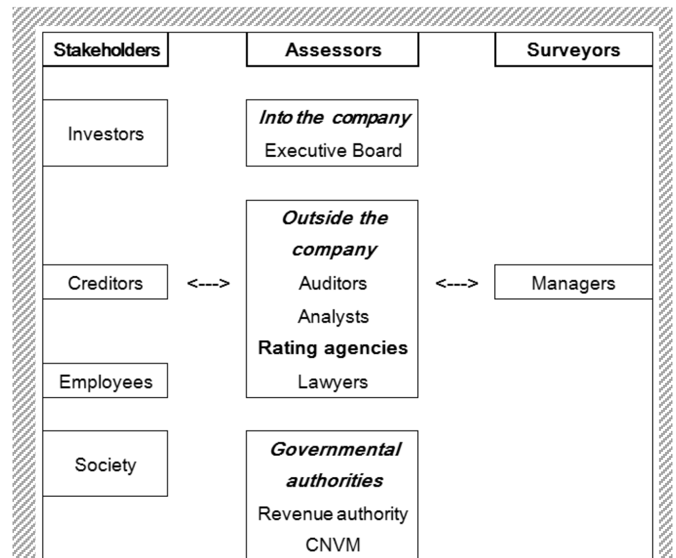

Figure 1. **The corporate governance system**

Source: *Nofsinger 2004: 6*

The Figure 1 shows the structure of the corporate governance system, pointing out the division between owners and surveyors, emphasizing the linking role of monitors between the two executive structures. Moody's (2008) asserts that the rating agencies main and appropriate role is that of facilitating transparency and efficiency of the capital markets, by reducing the informational asymmetry between issuers and investors. In this way, the market gains itself due to the fact that the investors' trust increases and the issuers have access to more funds. The previous assertion, derived from the theory principal-agent, is supported by Duff and Einig (2009) who, through a survey based on a questionnaire, conducted on the financial market in Great Britain, prove that the main source of rating demand is the decrease of agency conflicts between the issuers (agents) and investors (principals). The same study proves that issuers appeal to rating to diminish the informational asymmetry and, thus, the loan cost, and it also proves that "rating decreases the problems concerning the adverse selection, making the title more attractive for a larger group of investors". In addition, rating agencies function as a mechanism of monitoring the debt up to maturity by the periodical review of the initial rating, limiting thus, the manifestation of debtors' moral hazard. The place of rating agencies within financial intermediation can be briefly described as it follows (Figure 2).

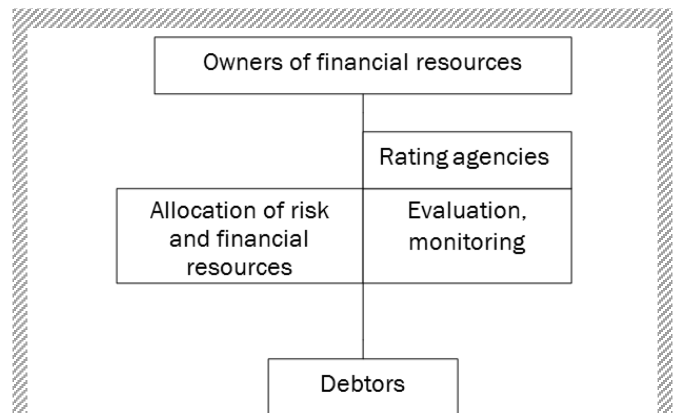

Figure 2. **The place of rating agencies within financial intermediation through the market**

Source: *adaptation after Collin, Sven-Olof, Financial intermediation through markets and organisations: an information-boundary argument for financial organizations, 1997:178*

The regulating authorities on the financial market have granted another important role to rating agencies. Thus, many regulations regarding the capital adequacy to credit institutions and the portfolios of investment funds depend on rating. Therefore, Partnoy (2006) associates a regulation value to rating which explains their exponential development after the '70s. The professional literature sums up the main functions of rating: the information function, the function of catalyst of transactions, the monitoring function, the standardization function (as it is a reference) and the regulating one.

The economy of transaction costs offers a new perspective on the place of rating agencies within the financial market structure, completing the principal-agent theory and referring to the regulating character of rating. Thus, the main funding sources available to potential debtors are the financial market (by issuance of credit instruments) and different categories of financial intermediaries, owners of money availabilities (mainly credit institutions). The decision to place the financial resources as debt is a difficult one, both due to the informational asymmetry between debtor and creditor and due to the uncertainty regarding the future situation of the business environment. In other words, the credit contract is affected by two types of uncertainty: one related to the behavior (Williamson's meaning, referring to what the other people will do) and one external to the relationship itself between partners. Diatkine (1993) states that we can distinguish two forms of uncertainty on the financial market: a structured uncertainty, reducible to risk, if the probabilities of future events could be associated, and a non-structured uncertainty if not. Reducing the uncertainty to risk allows concluding complete contracts, so that the most efficient funding could be the one through the market. The non-structured uncertainty determines the incomplete character of contracts, so that "the lack of initial knowledge must be compensated by a process of learning through a continuous adaptation of contracts and an adjusting mechanism" (Diatkine, 1993). The credit given by the financial intermediaries and financing from internal resources are preferable to the market because they assure the ex-post monitoring and the coordination of the adjustment mechanism functioning.

In this context, there can be defined three main types of organizing the financial transactions: the market, the hybrid forms and the hierarchy (internal financing). Rating agencies are linked to the hybrid forms, which are generally complex contractual structures. A clear hybrid form is the governance of the relationship of running into debt through the credit contract. The financial intermediaries have the human, informational and technological resources required to the initial assessment of debtors and they also have monitoring and facilitating mechanisms of the ex-post adaptation. The investors on the financial market do not have such resources or they can think that accessing them is too expensive, leaving way thus, to the rating agencies. Through the rating-synthesized information, agencies have allowed the adaptation of market transactions to the non-structured uncertainty, and thus there could be introduced a new hybrid governance form of financial transactions: a contract between the financial investor and the debtor mediated by the rating agency. It is possible for this hybrid governance form to be characterized by higher excitement than the one within a credit relationship, due to higher transparency and price fluctuation of the debt instruments on the market, but this assumption must be empirically tested. Administrative control is closer to the market, quasi-zero, lesser than the other governance forms, given that rating is only an opinion, and the agencies do not interfere in internal decisions. This type of hybrid governance allows both an autonomous adaptation, through the mechanism of prices, and a coordinated one, by the flexible contract related to rating.

3. DO RATING AGENCIES SAVE THE TRANSACTION COSTS?

The transactions made by rating agencies are included in two non-detachable categories from empirical point of view: contractual transactions and transactions with externalities. Transactions embody an incomplete contract, due to the fact that they refer to the transfer of certain property rights on rating, a good ex-post result. The same transactions involve also externalities, due to the fact that the transacted good itself - synthetic information regarding the credit quality – is controversial, and rating is disseminated on the financial market and influences the allocation of financial resources. The external effects are intended to be positive: increase of market transparency, wider access to information assured for small investors, favourable legal treatment for those who invest in assets rated as good quality assets, and therefore, diminution of the costs involved into risk management. But rating is mainly developed "beyond cycle" and not "point-in-time", that is why the crisis periods alter the information incorporated by rating, leading to reversing external effects. Externalities, positive or negative, by their nature cannot be internalized as they ultimately result from the investors' trust in ratings and from legal requirements.

The frequency of contractual transactions on rating market is recurrent, encouraging thus the construction of a certain governance structure of the transactions with ratings. Rating distinctiveness degree (assets distinctiveness) is in direct ratio to the complexity of the assessed financial instruments. Associated to frequency, distinctiveness determines the two-sided dependence between the agency and issuer so that, the identification of parties is relevant and the continuation of contract brings value. Therefore, the relationship between the rating agency and issuer can be considered a hybrid form: a long term "flexible" contract (justification doctrine), allowing the mutual adaptation of the parties to important

disturbances inside a definite margin of tolerance. The fact that there is a hybrid organizational mechanism, and the market is not the one governing the transactions, is empirically supported by a certain conflict of interests determined by the regulating authorities on the occasion of the recent financial crisis. In other words, it is the rating agencies experts' involvement into the manner of creating the structured instruments which should have been assessed before displayed on the financial market. The experts' recommendations were leading to better ratings of the structured titles, which were not reflecting correctly their risk, fact proved later on by the financial crisis. More exactly, rating agencies and issuers have used their common informational and human resources to obtain additional gains from the sale of structured titles, this being the equivalent to a kind of hybrid governance form. The hybrid form of governance on the rating market presumes a relationship agency–issuer mediated by the regulating authorities.

Due to the externalities generated by the transactions with rating, the regulating authorities intercede with the often non-formal relationship rating agencies–investors, by requirements of allocating the financial resources depending on rating. These externalities are the ones allowing the motivation of rating agencies existence by their capacity to reduce the transaction costs. A common survey of Treasury and the Australian Securities and Investments Commission (2008) stated in fact that rating agencies "reduce complexity in the financial system and reduce transaction costs associated with financial dealings".

Issuers require ratings in order to point out their quality and thus, to benefit of certain conditions of access to funding. Through rating, issuers communicate to the market "who they want to make transactions with", what the conditions are, and further to obtaining financing, the degree of contractual compliance of their conduct. On the other hand, rating helps investors in selecting debtors, diminishing the search and selection costs of the investment alternatives. In addition, rating acts as a monitoring mechanism of the debt till its maturity. It is up-dated by the rating agency every time important events require this and it is revised at least annually. Rating decay is a signal for the depreciation of the issuer's economic situation and allows investors to activate defence measures. In addition, managers are pushed to develop a conduct leading to maintenance or improvement of the risk grade so that there could be argued that rating acts on them like a mechanism of control and excitement. Therefore, there are three categories of direct transaction costs, whose economy is allowed by the existence of rating agencies: *costs for searching partners, security costs and monitoring costs.* Due to the fact that specific financing conditions are associated to specific ratings (into a certain fluctuation line), there can be said that rating allows *the diminution of time and resources spending for the negotiation of the financing contracts and the decrease of costs of financial resources*, fact implying other direct transaction costs.

With reference to what Menard (2000) called indirect transaction costs, rating acts as a "device" which "speeds" the meeting of debtors and creditors and reduces the limitations at the market entrance (*entrance costs*). At the same time, rating *diminishes the information production costs* on the quality of debt instruments, and the regulations depending on rating affect the *functioning cost of the capital market institutions* and determine *the diminution of the cost of meeting legal requirements*. Therefore, by reducing the transaction costs, rating influences the development of the financial market and the growth of the complexity of transactional instruments.

4. CONCLUSIONS

Failure of rating agencies in assuring the rating accuracy within periods with high volatility and the assumption sustained by empirical surveys that the market succeeds in signalling faster than ratings the future payment difficulties have raised questions regarding the reason of the rating agencies existence. The objective of this paper was to sustain the assertion that rating agencies are the intermediary on the capital market determining by their ratings the transaction cost diminution on this market. In order to achieve this objective, in the first part of the paper there was considered the placement of rating agencies within the theoretical framework given by the economy of transaction costs. The main conclusions of this part are the following:

- the transactions with rating between the rating agencies and issuers or/and between them and rating buyers take the hybrid form; the hybrid form of governance characterizing rating suppose an agency-issuer relationship mediated by the regulation authorities;
- the transactions with rating have generated an important externality: they have led to a new hybrid governance of the financial transactions, i.e. a contract between the financial investor and debtor mediated by the rating agency.

This new structure of governance determines the reduction of the following transaction costs related to the financial market:

- the costs for searching and selecting partners;
- the costs of the negotiation of financing contracts;
- the costs of the financial resources gained from the market;
- the costs of guarantee and monitoring;
- the costs of entering the financial market;

- the costs of the information production on the quality of debt instruments;
- the cost of meeting legal requirements;
- generally, the cost of operating the capital market institutions.

Therefore, there can be said that saving the transaction costs is an important determiner of the rating agencies existence, development and survival, beyond the world economic crises. However, additional studies are required to attest this statement and to measure the value of transaction costs saved by the presence of rating agencies on the financial market.

This work was supported by CNCSIS –UEFISCSU, project number PNII – IDEI 1801/2008.

BIBLIOGRAPHY

1. Coase R.H. (1988). "*The Firm, the Market and the Law*." Chicago and London: The University of Chicago Press
2. Collin, S.O. (1997). "*Financial intermediation through markets and organisations: an information-boundary argument for financial organizations"*, Scandinavian Journal of Management, Vol. 13, No. 2: pp. 175-89
3. Commons, J. R. (1934). "*Institutional economics"*. University of Wisconsin Press.
4. Diatkine, S. (1993). *„Néoinstitutionnalisme et théorie contemporaine de l'intermédiation financière".* Revue française d'économie, Vol. 8 no. 3 (1993), pp. 205-238, available on-line at http://www.persee.fr, accessed: 25 March, 2010
5. Duff, A., Einig, S. (2009). "*Understanding credit ratings quality: Evidence from UK debt market participants",* The British Accounting Review 41 (2009): pp. 107–19
6. Fama, E. (1991). "*Efficient Capital Markets II*." Journal of Finance, 46, no 5: pp. 1575-617.
7. FitchRatings. (2009). "*Corporate Rating Methodology",* available on-line at www.fitchratings.com, accessed: 25 February, 2010
8. Furubotn, E. G., Richter, R. (2000). "*Institutions and economic theory: The contribution of the new institutional economics".* The University of Michigan Press.
9. Grellet, G., Grellet, N. (1999). "*Développement des marchés et coûts de transaction. Une critique des politiques economiques libérales"*, Tiers-Monde tome 40, no 157, Le libéralisme en questions (1999), pp. 37-49, available on-line at http://www.persee.fr, accessed: 25 March, 2010
10. Kenneth, K., Nofsinger, J. (2004). "*Corporate Governance"*. Upper Saddle River: Pearson Prentice Hall
11. Levich, R. M., Majnoni, G., Reinhart, C. (2002). "*Ratings, Rating Agencies and the Global Financial System"*. Boston: Kluwer Academic Publishers
12. Mählmann, Th. (2008). "*Rating agencies and the role of rating publication rights*", Journal of Banking & Finance 32 (2008): pp. 2412–2422
13. Menard, C. (2004). "*L'economie des organisation"*. Paris: Editions la Decouverte
14. Moody's Investors Service (2008). "*Moodys ratings symbols and definition"*, available on-line at www.moodys.com, accessed: 25 February, 2010
15. Musole, M. (2009). "*Property rights, transaction costs and institutional change: Conceptual framework and literature review*", Progress in Planning 71 (2009): pp. 43–85
16. Partnoy, F. (2001). "*The Paradox of Credit Ratings"*, U San Diego. Law & Econ Research Paper No. 20, available on-line at http://ssrn.com/abstract=285162 or DOI: 10.2139/ssrn.285162, accessed: 10 February, 2010
17. Securities and Exchange Commission (2010). "*Amendments to Rules for Nationally Recognized Statistical Rating Organizations*", Washington, DC, available on-line at www.sec.gov/**rules**/final/2009/34-59342.pdf, accessed: 2 May, 2010
18. Sinclair, T. (2005). "*The New Masters of Capital. American Bond Rating Agencies and the Politics of Creditorworthiness"*. London: Cornell University Press
19. Skreta, V., Veldkamp, L. (2009). "*Ratings shopping and asset complexity: A theory of ratings inflation",* Journal of Monetary Economics 56 (2009): pp. 678–95
20. Spatt, Ch. (2009). "*Discussion of ''Ratings Shopping and Asset Complexity: A Theory of Ratings Inflation''*", Journal of Monetary Economics 56 (2009): pp. 696–99
21. Standard & Poor's (2003). "*Corporate Ratings Criteria".* New York: The McGraw-Hill Companies
22. Williamson, O. (1996) "*The Mechanisms of Governance*," New York: Oxford University Press
23. Stolper, A. (2009). "*Regulation of credit rating agencies",* Journal of Banking & Finance 33 (2009): pp. 1266–73
24. Tang, T.T. (2009). "*Information asymmetry and firms' credit market access: Evidence from Moody's credit rating format refinement*", Journal of Financial Economics 93 (2009): pp. 325–51

25. Securities and Investments Commission, Australia. (2008). "*Review of Credit Rating Agencies and Research Houses*", a joint report by Treasury and the Australian Securities and Investments Commission, available on-line at www.asic.gov.au/asic/pdflib.nsf/.../rep143.pdf/.../rep143.pdf, accessed: 19 March, 2010
26. Ullrich, F (nedatat). "*Relationships, Services and the Question of Ownership. A Neo-Institutional Economic Interpretation of Business Relationships in the Service Industry*", available on-line at www.impgroup.org/uploads/papers/129.pdf, accessed: 11 March, 2010
27. Wang, N. (2003). "*Measuring Transaction Costs: An Incomplete Survey*", Ronald Coase Institute Working Papers, available on-line at http://scholar.google.ro/scholar?hl=ro&q=Wang%2C+N.+%282003%29.+Measuring+Transaction+Costs%3A+An+Incomplete+Survey.+Ronald+Coase+Institute+Working+Papers.&btnG=C%C4%83uta%C5%A3i&as_ylo=&as_vis=1, accessed: 21 March, 2010.