

GOING UNDERCOVER

Posted on 04/01/2017



Category: [Archive](#)



Following their successful entry into the Spanish market, the ‘Big Four’ are now targeting Portugal – some Lisbon lawyers fear decreasing fees and a drain of talent to their new rivals, but others argue that the prospects of success for Deloitte, EY, PwC and KPMG are limited

Look out Lisbon, the ‘Big Four’ have turned their attention to the Portuguese legal market, and they are using their strong foothold in Spain to do it. Deloitte has added the Portuguese firm CTSU Sociedade de Advogados to its legal network, while Lisbon firm RRP Advogados has joined the EY global law network. Meanwhile, it is understood that PwC is expected to make an announcement regarding its own entry into the Portuguese legal market imminently, perhaps even before the end of the year.

EY in Portugal

Established in 2016, twelve-lawyer Lisbon law firm RRP Abogados has joined the EY global law network. RRP includes a group of lawyers who joined from Linklaters earlier this year. The firm focuses on banking and finance, corporate and M&A, tax, real estate, labour, public law and infrastructure.

The 'Big Four' are making such moves due to the fact that the Portuguese Bar association forbids multidisciplinary practices (MDPs) – that is, practices that have non-lawyers as partners – from practicing law in the country. Consequently, the 'Big Four' have now spotted an opportunity to enter the Portuguese legal market by acquiring stakes in Portuguese law firms through their affiliated Spanish legal operations.

Deloitte was the first to make the move by using its Spanish office as leverage, with Madrid-headquartered Deloitte Abogados taking a stake in the share capital of the existing Portuguese firm CTSU. This development has caused surprise in the legal market with one managing partner at a law firm in Portugal remarking: "That can't happen because MDPs are not allowed to practice law in Portugal." However, Miguel Rebeiro Telles, one of the founding partners of CTSU, says the link with Deloitte has been a positive one for his firm. "As regards to the national legal market, we believe that it is still too early to identify any potential relevant or significant impact that such event may have caused in the Portuguese legal market," he adds. "Taking into account that most of the Portuguese law firms are investing in the internationalisation of their legal practices, and furthermore, that globalisation is definitively the goal to achieve, we say that by joining the Deloitte Legal Network, CTSU is currently a more ambitious and stronger law firm with regard to facing the needs of the legal market."

Meanwhile, RRP Abogados – a law firm that was founded earlier this year by Ricardo Reigada Pereira, a former managing associate at Linklaters – joined the EY global law network. "Our affiliation with EY is likely to follow the same path of the associations that presently exist between domestic and international law firms – for example, CMS, Ontier and Lex Mundi," says Reigada Pereira. "Our ties with the EY universe are at the level of law offices run by EY – we are still at the very beginning of our law firm and several things are still being set up. Our project – where the core of the team came with me from Linklaters – is still at the very beginning." Reigada Pereira declines to comment on the next step for RRP's relationship with EY. However, it is understood that it will be along the same lines as CTSU's relationship with Deloitte in the sense that EY's Spanish law firm, EY Abogados, will eventually take an equity stake in RRP.

With regard to PwC, a spokesman said "PwC Spain is not entering the Portuguese legal market." However, while PwC may not be using its Spanish operation to target Portugal, market sources say it is expected that PwC will make a move imminently, possibly before the end of 2016. But the market does not anticipate that KPMG will make any move into the Portuguese market any time soon. When contacted by Iberian Lawyer for comment, a KPMG spokesperson said: "We do not provide legal services [in Portugal]."

Taxing issue

It's argued that 'Big Four' have an unfair advantage over Portuguese law firms when it comes to paying tax. When Portuguese law firms make a profit, each of the firm's partners must pay individual income tax on the profit, which including surcharges, can effectively be as high as 53 per cent. However, MDPs only pay corporate income tax on their income, which is only 21 per cent in Portugal. One founding partner at a law firm in Lisbon says: "MDPs will be a reality in Portugal - maybe the Portuguese Bar association will change its rules [to accommodate them]. I think it's only a matter of time before law firms in Portugal are given the option of being taxed on a tax transparency basis [where partners pay individual income tax on law firm profits] or on a corporate basis."

The Spanish conquest

The entry of the 'Big Four' into the Portuguese legal market is causing concern among lawyers at traditional law firms in Lisbon. Given the impact of MDPs on the neighbouring Spanish legal market, it's not hard to see why. The most recent data shows that PwC Tax and Legal Services (with 2015 billing of €144.8 million), KPMG Abogados (€100.4 million), EY Abogados (€91.1 million) and Deloitte Abogados (€89.8 million) are the third, fourth, fifth and sixth biggest firms in Spain by revenue.

Indeed the only bigger firms in Spain are the traditional heavyweights, Garrigues, Uria Menéndez and Cuatrecasas Gonçalves Pereira. Furthermore, of the 20 biggest law firms in Spain by revenue, the firm to experience the most significant growth in 2015 was EY Abogados, whose billing increased by 14.5 per cent.

Could the 'Big Four' have a similar impact on the Portuguese market? "Potentially yes," says one partner at a Lisbon law firm. "They may have a lot of investment coming from the network and if lawyers are willing to participate in the project, then it could happen."

The worries of partners at traditional law firms regarding the arrival of the 'Big Four' typically revolve around the impact on fees as well as the effect it could have on firms' ability to retain talent. Abreu Advogados partner Ana Sofia Batista says that the "eventual direct presence" of the 'Big Four' in the Portuguese legal market will have an impact on legal fees. "If clients hire the 'Big Four' it will decrease prices – also having a single contact person for transactions involving many jurisdictions is attractive to clients," she adds.

Deloitte in Portugal

Deloitte Abogados has taken a stake in the share capital of Portuguese law firm CTSU, a firm of six partners and seven associates. CTSU's expertise includes: corporate and commercial; mergers and acquisitions; banking; labour; competition; TMT; industrial and intellectual property; real estate and construction; pharmaceutical; litigation and arbitration. The CTSU website states: "CTSU – Sociedade de Advogados is an independent law firm member of Deloitte Legal Network."

Though Deloitte Abogados has taken a stake in CTSU, a source close to Deloitte in Spain says the firm has "no real intention to extend its services into Portugal" and that the acquisition of shares in the Portuguese firm was in order to "get them involved in the Deloitte legal network".

Draining talent

The arrival of the 'Big Four' will change the dynamics of the Portuguese legal market. MLGTS partner Ricardo Andrade Amaro says their presence "could increase mobility in the Portuguese market and make it more difficult for law firms to retain talent."

Andrade Amaro also says that for the new generation of Portuguese lawyers, the entry of the 'Big Four' into the market could provide international career opportunities and lead to the relocation of young lawyers "to countries where Portuguese-based law firms cannot offer similar positions". Moray McLaren, a director at Redstone Consultants who advise both the 'Big Four' as well as Portuguese firms, says the arrival of the Big Four will contribute to a "mid-market squeeze". He adds: "They [the 'Big Four'] have the systems and approach to deliver the standard-type legal work at both a high quality and low price, putting a downward pressure of

fees." McLaren says that the presence of the likes of Deloitte, EY, PwC and KPMG could also lead to a flurry of lateral hires, or possibly law firm mergers. "Gaining critical mass is an important part of the Big Four model", he says. "This could play out in one of two ways – either their Lisbon offices are the Trojan horses that will be looking to grow quickly, or alternatively, the next stage will be merger talks with the large local firms, more likely led from Madrid."

However, some lawyers argue that the prospects of success for the 'Big Four' in the Portuguese market are limited. Vieira de Almeida partner Paulo Trindade Costa says risk management [in relation to potential conflicts of interest] is a concern for the MDPs, so it "limits the scope of their work". SRS Advogados partner Nuno Miguel Prata shares this view: "Quite often, the 'Big Four' have complex conflict of interest issues in relation to deals, so for large companies, traditional law firms are still in play as clients are demanding comprehensive scrutiny when it comes to conflict of interest." He adds that, rather than posing a danger to the traditional law firms in Portugal, the MDPs could boost the whole of the country's legal market. Prata says: "The 'Big Four' are not a threat, but they are an interesting challenge, as the legal market will grow for all of us."

MDPs in Portugal: Advocates and opponents

João Afonso Fialho, president of Portuguese law firm association ASAP (Associação das Sociedades de Advogados de Portugal) and a partner at Vieira de Alemida, says a significant proportion of law firms in Portugal oppose multidisciplinary practices (MDPs). "They believe that it would be extremely prejudicial to the practice of law due to, among other reasons, the potential for generation of conflicts of interest." However, he adds that the large majority of small and medium-sized firms in the country are "strong advocates of the MDP". Afonso Fialho continues: "On one topic all firms seems to be in agreement, there are advantages and disadvantages of both options and, in my role as President of ASAP, I have the duty of always maintaining the topic on the top of our agenda for as long as it may be necessary."

Afonso Fialho acknowledges that some audit firms are trying to implement MDPs in Portugal and expresses concern about audit firms possibly going beyond what is permitted under current regulations. He adds: "There is no doubt in my mind that the current legal framework prohibits the MDP and in order for that to happen, a new act would have to be passed. I am not aware of any authorisation granted by the Portuguese Bar Association to a law firm allowing the acquisition of share capital by audit firms or an MDP and if that happened, such authorisation would be clearly unlawful." Afonso Fialho says the acquisition of share capital in a Portuguese law firm by a foreign law firm which may have a MDP in their home country is a different issue. He continues: "Such an operation would be allowed by law, but the Portuguese law firm would not be entitled to have an MDP by taking into consideration the practice of its foreign shareholder in its home country or any other country in which MDPs are allowed. This is typically the case with Portuguese branches of some Spanish firms, which do not have a MDP, although such a practice is allowed in the country of the mother firm."