



# Quarterly Review of FSA Authorisations and Cancellations

## Second Quarter 2009

“Trends in UK regulated financial services”

## Trends in UK regulated financial services

IMAS published its quarterly review of authorisations and cancellations for FSA regulated companies for the second quarter 2009. Highlights from this review include:

### Deterioration slowing

- First quarterly increase in FSA authorisations since Q1 2008
- Quarterly FSA cancellations lower than cancellations for Q1 2009
- Growth in FSA registered and EEA authorised entities during the quarter
- However, no 'green shoots' as FSA cancellations are still running at over two times the number of FSA authorisations

### Strong activity in Financial Advisory community

- Availability of opportunistic pools of capital is promoting activity in the Financial Advisory community<sup>1</sup> particularly hedge/fund management and private equity
- The Financial Advisory community continues to benefit from the fallout of larger financial institutions with individuals leaving to set up/join newly-authorised entities

### London shows resilience

- London is the only UK region that has not seen a decline in quarterly net authorisations
- Underpinned by activity within the financial investment community
- Fund managers, hedge fund managers and private equity are consistently demonstrating a strong location preference for the West End of London over the City of London or other UK regions

### Future copies of this report

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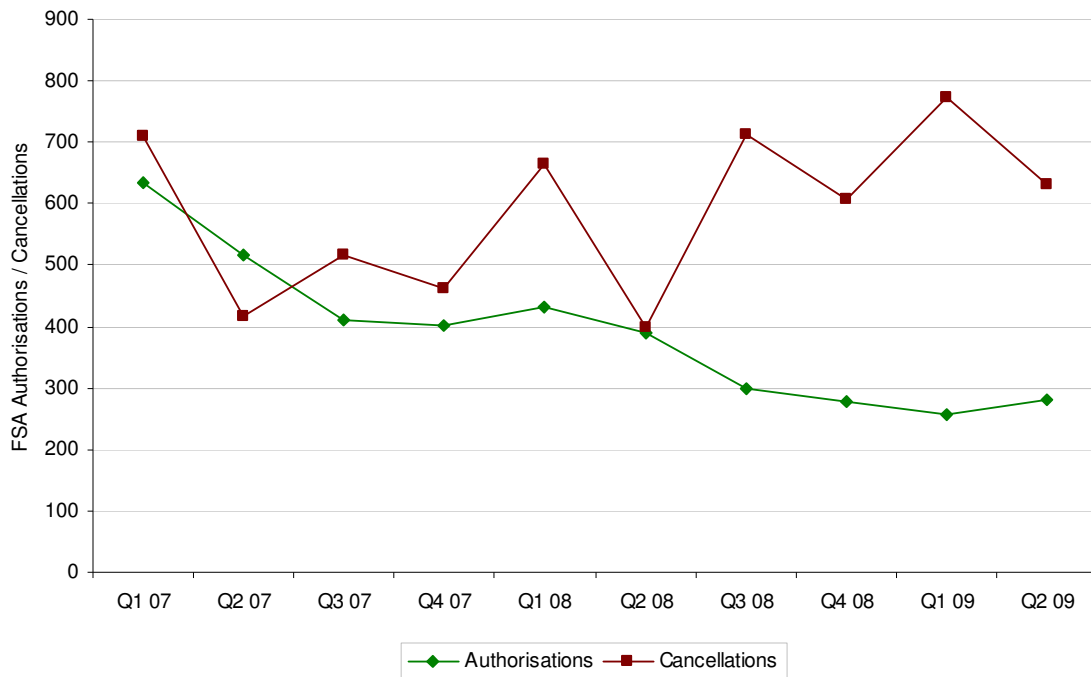
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<sup>1</sup> Includes corporate finance advisors, fund management, hedge fund management, private equity and private client wealth management

## Historic quarterly trends since Q1 2007

FSA Authorisations and Cancellations Q1 2007 - Q2 2009



Source: FSA Register

### Commentary

**Q2 2009 shows a minor uptick with the first quarterly increase in FSA authorisations after four quarters of decreases and lower cancellations compared to the previous quarter.**

**However, cancellations still significantly outnumber authorisations by over two-to-one, thus we believe further improvements in the health of the UK regulated financial services sector is required before the gap between FSA authorisations and cancellations closes.**

2009 is expected to be the weakest over recent years for net authorisations with quarterly authorisations hovering at their lowest levels since Q1 2007 and half year cancellations for H1 2009 at a record half year high since 2007.

Notwithstanding the small authorisations increase in Q1 2009, overall confidence is low given that quarterly authorisations are still over 50% down on Q1 2007. Questions therefore remain as to whether this marks the start of a recovery or a simply represents a temporary blip in the data.

## Statistics

Year	Authorisations by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	633	516	410	403	1962
2008	431	390	300	278	1399
2009	257	282			539

Year	Cancellations by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	711	416	515	461	2103
2008	663	399	713	607	2382
2009	773	631			1404

Year	Net Authorisations / (Cancellations) by Quarter				TOTAL
	Q1	Q2	Q3	Q4	
2007	(78)	100	(105)	(58)	(141)
2008	(232)	(9)	(413)	(329)	(983)
2009	(516)	(349)			(865)

Source: FSA Register

## FSA authorisations and cancellations by business sector<sup>2</sup>

Financial Advisory, General Insurance and IFAs have consistently dominated (over 70%) new quarterly authorisations both in Q1 and Q2 2009.

Financial Advisory also features as the financial services sector with the greatest decline (in both absolute and relative terms) in FSA cancellations compared to the previous quarter.

Business Sector	2009 Authorisations				2009 Cancellations			
	Q2 09 No.	Q2 09 Mix	Q1 09 No.	Q1 09 Mix	Q2 09 No.	Q2 09 Mix	Q1 09 No.	Q1 09 Mix
Financial Advisory	76	27%	65	25%	16	10%	33	20%
Financial Trading	22	8%	17	7%	4	3%	7	4%
General Insurance	48	17%	36	14%	17	11%	19	12%
Life Insurance	76	27%	85	33%	8	5%	15	9%
Lending	23	8%	26	10%	11	7%	15	9%
Other financial services	6	2%	2	1%	1	1%	3	2%
Other non financial services	25	9%	20	8%	96	61%	71	44%
Other	6	2%	6	2%	5	3%	0	0%
<b>TOTAL ANALYSED SAMPLE</b>	<b>282</b>	<b>100%</b>	<b>257</b>	<b>100%</b>	<b>158</b>	<b>100%</b>	<b>163</b>	<b>100%</b>
<b>TOTAL ALL ENTITIES</b>	<b>282</b>		<b>257</b>		<b>631</b>		<b>773</b>	

Source: MaxImas, FSA Register

From the business sectors above, certain sub-sectors accrued five or more newly authorised entities in Q1 and Q2 2009:

Business Sector	Sub-sector	2009 Authorisations	
		Q2 09 No.	Q1 09 No.
Financial Advisory	Corporate Finance	12	14
	Fund Management	20	19
	Hedge Fund Management	17	18
	Private Client Wealth Management	9	5
	Private Equity	18	8
Financial Trading	Stockbroking	8	8
General Insurance	Commercial Lines	21	10
	Personal Lines	10	9
Life Insurance	IFAs	74	81
Lending	Mortgage Brokers	23	23

Source: MaxImas, FSA Register

### Authorisations

Q2 2009 saw a c.10% increase in FSA authorisations on the previous quarter to 282. Highlights as follows:

- The fallout from the larger financial institutions continues to drive growth in Financial Advisory authorisations as individuals leave to set up / join newly authorised FSA entities
- The availability of opportunistic pools of capital to invest in the downturn has promoted strong growth in authorisations of financial investment businesses including private equity (over 100% increase on Q1 2009), fund management and hedge fund management

<sup>2</sup> Based on IMAS definitions of business sector. Note that General / Life Insurance and Lending includes entities taking underwriting risk as well as distributors. Other non financial services includes, inter alia, motor dealers.

- The increase in authorisations in commercial lines insurance also reflects the fallout from larger institutions, particularly participants in 2006 / 2007 consolidation who are now at the end of earn-out / lock-in periods
- IFAs and Mortgage Brokers have also shown consistently high authorisations over Q1 and Q2 2009 and collectively represent over one third of authorisations for Q2 2009

## Cancellations

FSA cancellations are nearly 20% down on Q1 2009 albeit that absolute numbers are still above average quarterly cancellations for the period since 2007. Highlights as follows:

- The most notable fall in cancellations quarter-on-quarter is in the Financial Advisory sub-sector where the rate of deterioration appears to be slowing
- Life insurance (mainly represented by IFAs) has also seen a reduction in quarterly cancellations. Otherwise FSA cancellations across other financial services sectors has been consistent with Q1 2009
- Motor dealers continue to account for the bulk of cancellations being 59 of the 96 cancellations in “Other non financial services”

## FSA authorisations and cancellations by geography<sup>3</sup>

Overall, the UK has seen a 1.7% weighted average fall in net FSA authorisations (authorisations less cancellations) in Q2 2009, down from a 2.6% fall in Q1 2009.

Regionally, London has again demonstrated the greatest resilience to the downturn with no change in net new authorisations compared to falls recorded in all other regions.

Geography	Total Authorisations 30/06/09		Q2 09 Authorisations / Cancellations				Q1 09
	No.	Mix	Authorisations	Cancellations	Net Change	Net Growth	Net Growth
London	5,460	26%	114	114	-	-	(0.9)%
South England (excl. London)	6,346	31%	67	226	(159)	(2.4)%	(2.6)%
Midlands and East Anglia	2,677	13%	20	70	(50)	(1.8)%	(3.7)%
North England	3,849	19%	49	146	(97)	(2.5)%	(3.5)%
Scotland	1,293	6%	15	31	(16)	(1.2)%	(3.1)%
Wales	635	3%	15	23	(8)	(1.2)%	(4.5)%
Northern Ireland	405	2%	2	21	(19)	(4.5)%	(4.0)%
<b>TOTAL</b>	<b>20,665</b>	<b>100%</b>	<b>282</b>	<b>631</b>	<b>(349)</b>	<b>(1.7)%</b>	<b>(2.6)%</b>

Source: FSA Register

The overall slowing in the rate of decline has been relatively consistent across the major UK regions, although a number of variations should be noted:

- As mentioned earlier, London has benefitted from the fallout from the larger financial services institutions, particularly in the Financial Advisory (including financial investment) sector. This has kept London relatively resilient compared to the other UK regions with no change in net FSA authorisations
- However, South England (excl. London) continues to suffer with the rate of decline (2.4%) significantly above the UK average rate of decline (1.7%). In Q1 2009, South England's rate of decline was at the UK average of 2.6%
- In relative terms, Northern Ireland suffered the greatest quarterly contraction in FSA authorised entities (4.5% fall on Q1 2009) and was the only region to see an increase in the quarterly rate of decline

Specifically in the Financial Advisory sector, we have also looked at the geographic location and the use of Limited Liability Partnership legal structure for new authorisations in the financial investment sub-sectors for Q2 2009:

Sub-sector	City of London	West End	Other London	Other UK	Total	LLP %
Fund Management	6	12	1	1	20	50%
Hedge Fund Management	3	11	3	-	17	47%
Private Equity	3	12	1	2	18	61%

Source: MaxImas; FSA Register

Key points to note:

- There has been a relatively even spread of authorisations across the three key financial investment sub-sectors in terms of overall numbers (18-20)
- Perhaps surprisingly their choice of location has also been relatively similar with a strong bias for the West End of London over the City of London or any other UK region. This has helped to underpin London's strong regional performance in Q2 2009 as noted above
- These sub-sectors have strongly favoured (47% to 61% of authorisations depending on sub-sector) the use of an LLP structure relative to the Q2 2009 national average of 24% (see overleaf)

<sup>3</sup> Authorisations exclude EEA Authorisations

## FSA authorisations and cancellations by legal structure

'Limited' status continued to be the favoured legal structure of choice for new authorisations during Q2 2009, although 'LLP' status is now becoming an increasingly important alternative.

In addition 'Unincorporated' status continued to lose ground to 'LLP' status in Q2 2009 representing just 5% of new authorisations compared with 9% in Q1 2009.

Legal Structure	2009 Authorisations				2009 Cancellations			
	Q2 09 No.	Q2 09 Mix	Q1 09 No.	Q1 09 Mix	Q2 09 No.	Q2 09 Mix	Q1 09 No.	Q1 09 Mix
Limited	199	71%	188	73%	407	65%	484	63%
Limited Liability Partnership	68	24%	45	18%	20	3%	34	4%
Public Limited Company	1	0%	1	0%	4	1%	5	1%
Building Society	0	0%	0	0%	3	0%	1	0%
Unincorporated	14	5%	23	9%	197	31%	249	32%
<b>TOTAL ANALYSED SAMPLE</b>	<b>282</b>	<b>100%</b>	<b>257</b>	<b>100%</b>	<b>631</b>	<b>100%</b>	<b>773</b>	<b>100%</b>

Source: FSA Register



## Composition of FSA regulated firms

Whilst this report focuses on FSA authorised entities, as they account for the bulk of the financial services industry in terms of turnover and value, three times as many firms are FSA registered rather than FSA authorised.

Interestingly whilst the number of FSA authorised entities continued to decline in Q2 2009, FSA registered and EEA authorised entities grew c. 2% and c. 1% respectively during the quarter.

FSA Status	Q2 09 No.	Q2 09 Mix	Q1 09 No.	Q1 09 Mix	Q2 09 Change	Q2 09 Growth
FSA registered	71,088	72%	69,935	72%	1,153	1.6 %
FSA authorised	20,681	21%	20,866	21%	(185)	(0.9)%
EEA authorised	6,382	7%	6,329	7%	53	0.8 %
<b>TOTAL</b>	<b>98,151</b>	<b>100%</b>	97,130	100%	1,021	1.1 %

Source: FSA Register

### FSA Registered firms

FSA Registered firms generally fall into two broad categories:

1. Those firms whose principal activity is not financial services related but have some element of their business caught under the definition of financial services e.g. the travel industry selling travel insurance.

Typically they become an appointed representative of a regulated entity and act as a distributor of one company's products.

2. Firms who are purely financial services focussed but have chosen to be regulated indirectly by a firm specifically set up for this task, commonly referred to as "networks".

The largest three appointed representatives are Tesco, Sainsbury and Wal-Mart.

The largest IFA firm that operates as an appointed representative has a turnover of around £10m. The vast bulk of IFAs who are appointed representatives have income of less than £1m.

## About this report

All base data for this report has been sourced from the FSA Register with further analysis undertaken by IMAS Corporate Advisors to provide a breakdown by business activity, geographical spread and legal structure using its proprietary knowledge management system, MaxImas (see below).

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## About IMAS

Founded in 1992, IMAS is a corporate finance adviser with unparalleled expertise in selling unquoted companies across the UK financial services sector. We have completed over 100 transactions since inception.

IMAS's principals all have extensive experience in working for major UK financial institutions. IMAS combines in-depth knowledge and understanding of the specific issues affecting the financial services sector with our corporate finance experience to provide our clients with discreet, experienced and independent advice.

In addition, MaxImas allows us to present a range of options to our clients that would otherwise be unavailable. For further details, please contact us or visit our website: [www.imas.uk.com](http://www.imas.uk.com)

## About MaxImas

MaxImas is IMAS's proprietary knowledge management system that 'maps' the UK financial services industry, analysing over 50,000 UK financial services businesses.

MaxImas provides us with detailed knowledge and insight into individual sectors within the UK financial services industry, including the participants within them as well as financial and other trends. We use this proprietary knowledge to help us achieve our clients' strategic objectives.

Summary data derived from the underlying analysis on MaxImas can be viewed on a public access website: [www.MaxImas.uk.com](http://www.MaxImas.uk.com)

## Contacts for further information

If you are interested in buying or selling in the UK financial services sector, we have a unique capability to source opportunities not otherwise available in the corporate finance advisory marketplace. If you would like a demonstration of this capability, please contact:

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