



Quarterly Review of FSA Authorisations and Cancellations

First Quarter 2009

“Trends in UK regulated financial services”

Trends in UK regulated financial services

IMAS produces the first ever quarterly review of authorisations and cancellations for FSA regulated companies for the first quarter 2009. Highlights from this review include:

No 'green shoots'

- New quarterly authorisations are at a record low since 2003
- Fourth successive quarter of decline of authorisations
- Two years ago quarterly new authorisations broadly equalled cancellations; now quarterly cancellations are running at three times the level of new authorisations

Who is feeling the pain?

- Quarterly cancellations in the West London postcode, at 16% of authorised entities, easily topped all UK postcodes as hedge fund managers feel the pain
- Surprisingly, of the UK regions, Wales has been hit hardest with the highest percentage of cancellations at 5.8% of authorised entities
- As a sector, Financial advisory (including fund managers, hedge fund managers, private equity firms, corporate finance businesses) has suffered the most cancellations for businesses with assets over £100,000

Any good news?

- By far the highest level of cancellations was from motor car dealers who had been directly authorised, partly reflecting the crisis in this industry. This puts the actual level of cancellations amongst the financial services community into perspective
- Collectively London experienced a net decline in authorised entities of only 1% as well as the highest level of new authorisations by region at 2%. This suggests no loss of confidence in London as an international centre for financial services

Future copies of this report

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Detailed highlights

New authorisations are at a record low since 2003

- Quarterly FSA cancellations were over double the number of FSA authorisations in Q3 08 & Q4 08 and over three times the number of FSA authorisations in Q1 09
- Quarterly FSA authorisations have declined by 59% since Q1 2007, from 633 authorisations to 257 authorisations in Q1 2009
- At the same time, quarterly FSA cancellations have grown 86% since Q2 2007 from 416 cancellations to 773 cancellations in Q1 2009

IFAs up; significant changes in the Financial advisory sector

- Collectively the Financial advisory sector (including fund managers, hedge fund managers, corporate finance houses and private equity) accounted for 25% of new FSA authorisations for the quarter, as individuals who have left larger firms impacted by the credit crisis have set up their own FSA authorised entities
- However, the Financial advisory sector also suffered the highest proportion of cancellations from the financial services sectors at 20%
- The Independent financial advisers (“IFAs”) sub-sector accounted for the highest number of new authorisations in Q1 2009 at 32% of the quarter’s total FSA authorisations
- Motor car dealers accounted for over 30% of the FSA cancellations analysed in Q1 2009, again reflecting the impact of the credit crisis

Mixed news for London; Wales suffering

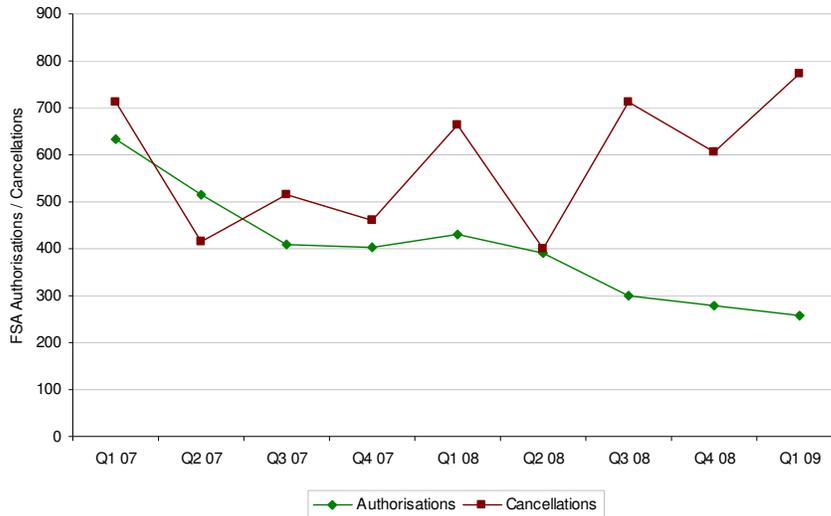
- London suffered the lowest net loss of authorisations by region in Q1 2009 (0.9% net decrease in authorisations) with Wales suffering the highest (4.5% net decrease)
- London’s apparent buoyancy reflects new registrations by individuals who have left the major London-based advisory firms
- Wales has suffered the highest proportional cancellations during Q1 2009 at 5.8% of FSA authorisations as at 31st December 2008

Growth in the LLP legal structure

- Limited company structures accounted for the majority of authorisations and cancellations for the quarter at 73% of all authorisations and 63% of all cancellations for the quarter
- The Limited Liability Partnership was the only legal structure to grow its overall number of FSA authorisations after cancellations
- Unincorporated businesses saw the highest level of net cancellations, partly reflecting reorganisation into corporate or LLP structures

Historic quarterly trends since Q1 2007

FSA Authorisations and Cancellations Q1 2007 - Q1 2009



Source: FSA Register

Commentary

From Q1 2007 to Q2 2008, FSA authorisations and cancellations were roughly in line with each other. This trend has changed since Q2 2008 when cancellations started to outgrow authorisations, with cancellations being three times the number of authorisations in Q1 2009.

Over the past two years quarterly FSA authorisations have been in overall decline with authorisations falling 59% from 633 in Q1 2007 to only 257 authorisations by Q1 2009.

With the exception of Q2 2007, FSA cancellations have consistently exceeded authorisations in each quarter since Q1 2007. Quarterly cancellations have materially exceeded authorisations since Q3 08, with cancellations running at over double the number of authorisations per quarter and increasing to over three times by Q1 09.

Overall, the data reflects the impact of the 'credit crunch' on the regulated financial services sector.

Statistics

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

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

Source: FSA Register

FSA authorisations and cancellations by business sector

Over 70% of new authorisations for the quarter were in Life insurance, Financial advisory and General insurance. Most FSA cancellations were in Financial advisory and Non financial services.

Business sector ¹	Q1 2009 Authorisations		Q1 2009 Cancellations Sample ²	
	Number	Sector Mix	Number	Sector Mix
Financial advisory	65	25%	33	20%
Financial trading	17	7%	7	4%
General insurance ³	36	14%	19	12%
Life insurance	85	33%	15	9%
Lending ⁴	26	10%	15	9%
Other financial services	2	1%	3	2%
Other non financial services ⁵	20	8%	71	44%
Other	6	2%	0	0%
TOTAL OF ANALYSED SAMPLE	257	100%	163	100%
TOTAL OF ALL ENTITIES	257		773	

Source: MaxImas, FSA Register

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

Business Sector	Sub-sector	Number
Financial advisory	Corporate finance	14
	Fund management	19
	Hedge fund management	18
	Private equity	8
Financial trading	Stockbroking	8
General insurance	Commercial lines broker	10
	Personal lines broker	9
Life Insurance	IFAs	81
Lending	Mortgage brokers	23

Source: MaxImas, FSA Register

Authorisations

The highest number of new FSA authorisations in Q1 2009, at 33% of total authorisations for the quarter, was in life insurance. This was driven almost exclusively (81 of the 85) by newly-authorised independent financial advisers (“IFAs”), including a number of IFAs previously indirectly authorised through an IFA network now seeking direct authorisation. IFA networks, however, still account for a very significant number of indirectly authorised IFAs.

Financial advisory saw 65 new authorisations (25% of total authorisations for Q1 2009) including 19 fund management businesses and 18 hedge fund managers, as well as a number of corporate finance (14) and private

¹ Based on IMAS definitions of business sector

² Cancellations sample throughout this review is based on research being restricted to corporate entities with net assets in excess of £100,000 as shown by accounts filed at Companies House. 32% of the 773 cancellations in Q1 09 are unincorporated and thus excluded. This analysis covers 31% of the remaining 524 incorporated entities.

³ Includes entities taking underwriting risk as well as entities acting in a distribution capacity

⁴ Includes entities taking underwriting risk as well as entities acting in a distribution capacity

⁵ Includes, inter alia, motor car dealers

equity businesses (8). This reflects departures from the larger investment houses that have been impacted by the 'credit crisis' of individuals who are now setting up their own FSA authorised entities.

General insurance has seen a number of companies started by individuals who previously sold their businesses to one of the consolidators and are now seeking to re-enter the market. This trend may accelerate as the consolidators are now looking to rationalise their business activities and reduce costs. Commercial lines businesses (10) and personal lines brokers (9) formed the majority of new authorisations during the quarter.

Notwithstanding the weak general market conditions in the mortgage industry, 88% of the new authorisations (23 of 26) in the lending business activity were for mortgage brokers. With relatively low barriers to entry, a number of these have been founded by individuals who have left larger entities with similar business activities.

Cancellations

The most material number of cancellations in Q1 2009 relate to motor car dealers, representing 75% of the 71 cancellations in the "Other non financial services" business activity. This is consistent with recent financial distress in the automotive industry as well as our understanding that motor dealers can carry on their financial services-related activities of offering financing and insurance without being directly regulated.

Sectors with material cancellations include financial advisory (16 fund managers and 11 hedge fund managers), as well as 19 general insurance cancellations, which have been driven in part by acquirers cancelling the authorisations of their target businesses following acquisition.

The life insurance cancellations again relate to IFAs. Whilst a number of IFAs have been acquired by larger organisations, the majority have ceased trading (the representatives themselves often move with their existing clients to another IFA).

The lending cancellations are largely represented by nine mortgage brokers. Given recent falls in activity in the housing market and our understanding that a number of mortgage brokers have been thinly capitalised, we believe that others are likely to cancel their authorisations in the coming quarters.

FSA authorisations and cancellations by geography

Overall, the UK has seen a 2.6% weighted average fall in net FSA authorisations (authorisations less cancellations) in Q1 2009. Regionally, London suffered the lowest net loss of authorisations in Q1 2009 (0.9% net decrease in authorisations for the region) with Wales suffering the highest (4.5% net decrease).

Region	No. of authorisations 31/12/08 ⁶		Authorisation changes in Q1 2009 ⁷		
	Number	Regional mix	Authorisations	Cancellations	Net
London	4,469	21.2%	2.1%	3.0%	-0.9%
South England (excl. London)	7,406	35.2%	0.9%	3.5%	-2.6%
Midlands and East Anglia	2,639	12.5%	1.0%	4.7%	-3.7%
North England	4,097	19.5%	1.2%	4.7%	-3.5%
Scotland	1,344	6.4%	1.2%	4.3%	-3.1%
Wales	664	3.1%	1.3%	5.8%	-4.5%
Northern Ireland	434	2.1%	0.5%	4.5%	-4.0%
TOTAL./AVERAGE	21,053		1.3%	3.9%	-2.6%

Source: FSA Register

Authorisations

Overall, most regions across the UK saw a 1% increase in new FSA authorisations (before cancellations) during Q1 2009, the exceptions being Northern Ireland (0.5%) and London (2.1%).

London is notable in that it registered both the highest increase in new authorisations (at 2.1%) as well as the lowest regional net loss in authorisations of 0.9%. This is consistent with London seeing the greatest proportion of individuals leaving large authorised entities due to the 'credit crunch' and setting up their own FSA authorised entities. London's data for the quarter does not suggest that London is fading as an important player in the UK financial services sector.

Cancellations

Wales has suffered the highest proportion of cancellations at 5.8% of FSA authorisations at 31st December 2008, although in absolute terms South England suffered the highest volume of FSA cancellations.

However, the West London postcode suffered the highest level of cancellations by some margin of any UK postcode at 16% of FSA authorisations at 31st December 2008, reflecting hedge fund closures. Other postcodes with cancellations in excess of 10% were, in declining order, Dumfries (12.5%), Wakefield (11.8%), Inverness (11.6%), Sunderland (11.1%), Birmingham (10.5%) and Llandrindod Wells (10.0%).

⁶ Authorisations exclude EEA Authorisations

⁷ Changes based on authorisations for each region as at 31st December 2008. Averages are based on weighted averages

FSA authorisations and cancellations by legal structure

During Q1 2009, Limited company structures accounted for the majority of authorisations and cancellations for the quarter at 73% of all authorisations and 63% of all cancellations for the quarter.

LLPs are becoming an increasingly important structure for FSA-regulated businesses. We expect this trend to continue, particularly as the tax burdens on companies and individuals increases following recent budget changes as LLPs potentially provide greater financial flexibility.

Legal structure	Q1 2009 Authorisations		Q1 2009 Cancellations	
	Number	Mix	Number	Mix
Limited	188	73%	484	63%
Limited Liability Partnership	45	18%	34	5%
Public Limited Company	1	0%	5	0%
Building Society	0	0%	1	0%
Unincorporated	23	9%	249	32%
TOTAL	257	100%	773	100%

Source: FSA Register

Authorisations

Whilst the Limited company structure dominates new authorisations in the quarter, the Limited Liability Partnership (“LLP”) structure has also been popular at 18% of authorisations for the quarter. LLP authorisations are also interesting in that new authorisations have significantly exceeded cancellations in absolute terms – the only legal structure to grow its net FSA authorisations after cancellations.

Far lower levels of unincorporated businesses are being authorised (23) relative to cancellations (249), indicating a material shift away from the use of the unincorporated entity structure.

Cancellations

Whilst we see a relatively high level of cancellations in unincorporated businesses, we understand that a significant number of these cancellations represent business reorganisations from unincorporated to incorporated (limited company) status.

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.

FSA Status	Number ⁸	Percentage
FSA registered	69,935	72%
FSA authorised	20,866	21%
EEA authorised	6,329	7%
TOTAL	97,130	100%

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.

⁸ As at 30th April 2009

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).

If you would like to receive further FSA quarterly review reports produced by IMAS, please go to www.MaxImas.uk.com and request a copy by going to the Enquiries & Feedback tab.

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

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

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