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Banking on reform: The industry's regulations have tightened over the past five years

IBISWorld Industry Report K66.120

Investment Banking & Securities Brokerage in the UK

November 2018 Raajan Rai

About this Industry

Industry Definition

Investment banks and securities brokers act as intermediaries between those wishing to raise capital (the sell side) and those able to provide it (the buy side). They also facilitate secondary securities trading. Services to the sell side include underwriting capital raisings and advising on mergers and acquisitions. On the buy side, services include research and trading. Investment banks also undertake proprietary trading on their own account.

Main Activities

The primary activities of this industry are

- Underwriting, advising on and assisting capital raising
- Brokering securities and market-making
- Advising on transactions, including mergers, acquisitions and asset sales
- Proprietary trading
- Researching investments

The major products and services in this industry are

- Equities trading
- FICC trading
- Financial advisory services
- Underwriting

Similar Industries

K64.191 Banks in the UK
Firms in this industry provide banking services. Some also have investment banking arms.

K64.303 Private Equity in the UK
Companies in this industry manage private equity funds that invest in private companies.

K66.110 Stock & Commodity Exchanges in the UK
Participants in this industry provide a trading platform and other support services.

K66.300 Fund Management Activities in the UK
Businesses in this industry invest clients' money in financial markets.

Additional Resources

For additional information on this industry

www.afme.eu
Association for Financial Markets in Europe

www.fca.org.uk
Financial Conduct Authority

www.bankofengland.co.uk
The Bank of England

www.pimfa.co.uk
The Personal Investment Management and Financial Advice Association

www.thecityuk.com
TheCityUK

www.thomsonreuters.com
Thomson Reuters

Industry at a Glance

Investment Banking & Securities Brokerage in 2018-19

Key Statistics Snapshot

Revenue	Annual Growth 14–19	Annual Growth 19–24
£52.1bn	2.2%	1.4%
Profit	**Wages**	**Businesses**
£12.9bn	£21.4bn	1,016

Market Share

Barclays plc 14.9%

Goldman Sachs Group Holdings (UK) Limited 10.6%

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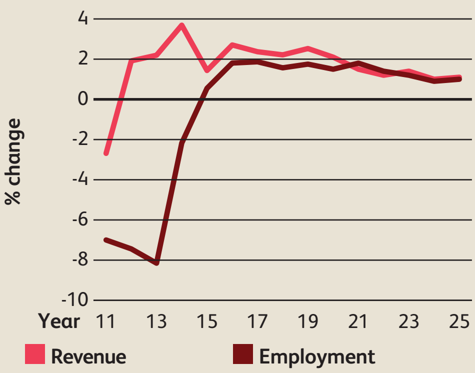
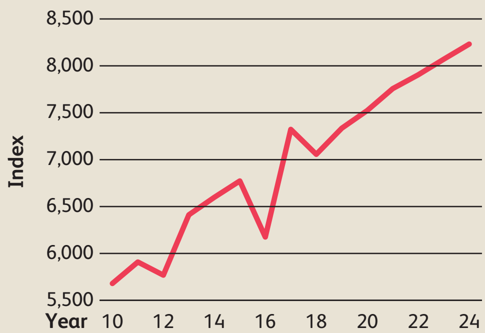
Revenue vs. employment growth



FTSE 100



SOURCE: WWW.IBISWORLD.CO.UK

Key External Drivers

- FTSE 100
- Official bank rate
- Mergers and acquisitions involving UK companies
- House price index
- World price of crude oil

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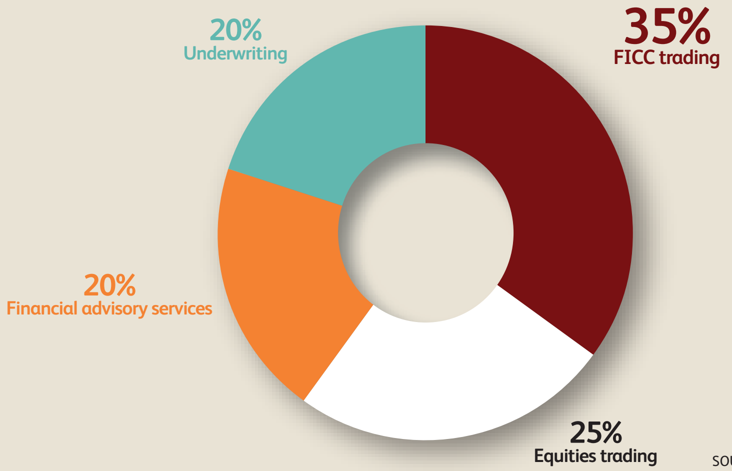
Products and services segmentation (2018-19)



SOURCE: WWW.IBISWORLD.COM

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Heavy
Revenue Volatility	Low	Technology Change	High
Capital Intensity	Low	Barriers to Entry	High
Industry Assistance	High	Industry Globalisation	High
Concentration Level	Low	Competition Level	Medium

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 31

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The Investment Banking and Securities Brokerage industry has endured extensive volatility since the onset of the financial crisis. Despite sweeping regulatory changes, intermittent scandals, large fines for misconduct and an uncertain political environment, the industry has expanded over the past five years. The industry quickly rebounded following the financial crisis as unstable conditions drove up trading volumes and margins. However, some operators were severely affected by the financial crisis and either entered bankruptcy or eventually had to be bailed out.

Ring-fencing regulation and capital standards are expected to change industry dynamics

The industry's regulatory environment has tightened over the past five years. New legislation such as MiFID II and the introduction of ring-fencing regulation and higher capital standards under the Basel III reform are expected to change the dynamics of industry operations. Fines issued by regulatory bodies are likely to continue affecting investment banks and securities brokerages, with scandals such as the FOREX manipulation and legacy issues relating to the sale of residential mortgage-backed securities expected to have resulted in significant penalties over the past five years. Industry revenue is forecast to increase at a compound annual rate of 2.2% over the five years through 2018-19. In the current year, revenue is anticipated to increase by 2.5% to reach £52.1 billion.

The industry is expected to grow at a slightly slower rate over the next five years. The regulatory environment is expected to continue to tighten over the five years through 2023-24, moderating industry revenue growth. Underwriting and mergers and acquisitions activity is expected to increase over the next five years as stronger economic growth presents expansion opportunities for business. As confidence returns to financial markets, the equities and fixed-income, commodity and currency (FICC) markets are likely to increasingly attract investor attention. However, operators in the industry may be negatively affected by the United Kingdom leaving the European Union, and some could relocate some of their operations overseas. IBISWorld estimates industry revenue to increase at a compound annual rate of 1.4% over the five years through 2023-24, reaching £56 billion.

Key External Drivers

Official bank rate

When interest rates decline, financial market activity tends to speed up. Lower interest rates bring about more merger and acquisition activity, higher levels of borrowing to purchase financial assets, and greater investment in the stock market. The official bank rate is expected to increase over 2018-19, following the Bank of England's decision to raise the rate from 0.5% to 0.75% in August 2018 in attempt to curb inflation.

FTSE 100

The performance of the stock market affects the level of equities trading, since investors tend to trade more when the stock market is performing well. The number and size of initial public offerings is also positively correlated with stock market performance. The overall performance of many world equity markets, including stocks listed on the FTSE 100, is expected to be volatile but increase over 2018-19. This represents a potential opportunity for the industry.

Mergers and acquisitions involving UK companies

The level of merger and acquisition activity involving UK companies directly affects the industry's performance, since activities involving mergers and acquisitions are key to the industry. As a result, a decrease in merger and acquisition activity is likely to

Industry Performance

Key External Drivers continued

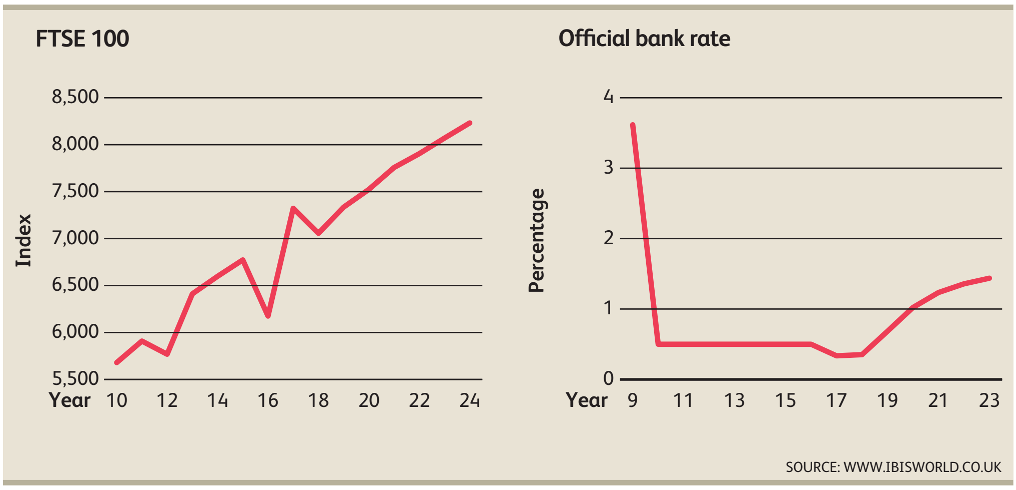
negatively influence industry revenue. Merger and acquisition activity is expected to decline in 2018-19, posing a potential threat to the industry.

House price index

Investment banks deal in fixed-income securities backed by residential mortgages, creating a market between lenders that wish to offload loans in order to raise funds and investors that want a high-yielding, fixed-income product. When house prices crashed, the market for these products dried up. House prices are expected to increase in 2018-19.

World price of crude oil

Energy items, particularly crude oil, are the highest traded commodities by value. Therefore, the industry is exposed to fluctuations in oil prices, which can be highly volatile. Commodity traders and brokers normally benefit from greater volatility in energy prices because trading volumes in energy futures contracts increase under these conditions. Oil prices are expected to increase over 2018, following strong growth in 2017 and sharp contractions in the two years prior.



Current Performance

Prior to the five-year period through 2018-19, the industry faced turbulent economic conditions in the aftermath of the financial crisis, and both revenue and profitability tumbled. Operators have faced further difficulties since then, including a range of scandals, regulatory changes and a fluctuating economic environment. Following a period of volatility, financial markets have since regained momentum. Demand for other investment banking activities, such as financial advisory services in mergers and acquisitions, alongside underwriting services, have performed well for the majority of the past five-year period. The performance of equity trading is expected to have improved over recent years due to more volatile trading conditions arising from the uncertain economic environment that followed the EU referendum, as higher volatility means more risk and therefore higher returns, attracting traders and speculators. Uncertainty surrounding the future trading relationship with the European Union has led to investment banks preparing contingency plans to move their operations to European financial centres. Industry revenue is expected to increase at a compound annual rate of 2.2% for the five years through 2018-19, reaching £52.1 billion. In the current year, revenue is expected to grow by 2.5%.

Industry Performance

EU referendum

Since the EU referendum, the share prices of major UK banks dropped dramatically, with industry players such as Barclays and RBS recording the biggest falls, at nearly 30%. Alongside this, stocks of European banks such as Deutsche Bank and Societe Generale were also markedly down. London, being one of the world's largest financial markets hubs, acts as a base for non-EU companies to passport into the European Union. Passporting allows investment banks to operate more easily across different countries. Depending on the agreements reached with the European Union, if the United Kingdom leaves the EU Single Market, it would lose access to EU passporting rights and the ability to do direct business with clients located in the European Economic Area (EEA). This has raised significant concerns for London-based investment banks, and operators have been preparing for the uncertain future trading conditions with EU countries. A number of banks, such as Barclays, Bank of America, CitiGroup and Deutsche Bank, have announced contingency plans to expand or migrate their operations to EU financial centres such as Frankfurt, Paris and Dublin. Deutsche bank has already moved a large portion of its euro clearing activity from London to Frankfurt.

A number of banks have contingency plans to migrate their operations to EU financial centres

Significant change

The enduring effects of the financial crisis are still influencing the industry. For example, the crisis led to increased regulation, prompted substantial fines and a radically altered trading environment. During the boom period of the mid-2000s, although core investment banking activities such as underwriting initial public offerings and advising on mergers and acquisitions were strong sources of revenue for firms, it was the trading side of the industry that drove much of the industry's growth. Most of this activity was in fixed-income products, commodities and currency markets. However, the huge losses incurred by many industry participants during the financial crisis has led investment banks to shift their focus away from these products. In terms of trading, passive investing and financial products such as Exchange-Traded Funds have become increasingly popular among traders and investors since the financial crisis, particularly among those relatively more risk-averse.

Regulatory conditions

As a result of the financial crisis, investment banks and brokerages have had to contend with a tightening regulatory environment over the five-year period. Regulatory changes are targeting proprietary trading by systemically important firms and those with retail banking arms. Regulators aim to avoid a repeat of the conditions that brought down Lehman Brothers, Bear Stearns and RBS, in which massive, risky proprietary trades posed a risk to bank customers' deposits or the proper functioning of the financial system. Many banks have already taken moves to reduce proprietary trading. Others, such as RBS, have radically reduced their investment banking operations.

Higher capital requirements, introduced under the Basel III banking reforms, are also expected to dramatically influence the industry's operating environment. This change is forecast to negatively affect revenue and squeeze profit margins. Banks have until March 2019 to meet the liquidity coverage ratio,

Industry Performance

Regulatory conditions continued

and the majority of operators are expected to have made the necessary changes to ensure they conform to the requirements. Under Basel III, lenders will be allowed to use an expanded list of assets, including some equites and securitised mortgage debt, to meet the liquid coverage ratio. These changes will limit the damage to revenue and profitability. Loan losses and provisions are expected to remain high. Mounting funding costs, partly caused by rating agencies' downgrading banks, which resulted in buyers of bonds issued by UK banks to demand higher yields to account for the implied increase in default risk, have put pressure on profit margins.

Feeling MiFID

MiFID II, a development of its predecessor Markets in Financial Instruments Directive that came into effect in November 2007, was implemented in January 2018. The new legislation is designed to restore investor confidence following the financial crisis through regulating financial markets in the European bloc, enhancing market transparency across a range of asset classes such as equities, derivatives, bonds, commodities, currencies and exchange-traded funds. Operators in the Investment Banking and Securities Brokerage industry are expected to be most affected by the laws regarding investment research. Currently, research is supplied as part of a bundle of services and has no explicit charge. Following MiFID II, research will have to be priced separately from execution, essentially being unbundled.

The unbundling of research can provide opportunities for the wider financial services sector. For example, it can improve research cost transparency, and allow firms to assess where investment research adds value to their company. However, this can intensify competitive pressures for investment banks engaging in sell-side activities, as it will drive the need for research to be more competitively priced and of higher quality. In turn, depending on the quality of research provided by investment banks, buy-side companies may increasingly opt for the services of specialised investment research companies to obtain the research they consider worthwhile. It also opens a new revenue stream for sell-side firms that previously imposed no charge on their research.

> Research will have to be priced seperately from execution following the implementation of MiFID

Acquisition activity

According to the Office for National Statistics, the number of mergers and acquisitions (M&A) dropped dramatically in 2012-13 to reach its lowest level since 1969, fuelled by the eurozone crisis. According to the Office for National Statistics, the number of outward acquisitions reached its highest level since 2000 in 2017. Despite uncertainty in the UK economy, M&A activity has been supported by outward acquisitions; acquisitions of foreign companies by UK companies. Inbound M&A activity in 2018 has also increased, with foreign companies buying UK companies. A number high-profile and tech IPOs have taken place over the past five-year period. M&A activity is expected to fall over 2018-19, but revenue from fees relating to M&A transactions is expected to have increased since 2012-13.

Industry Performance

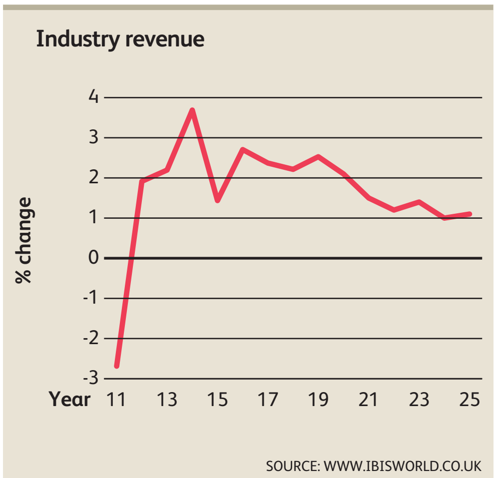
Harsh penalties

In 2012-13, several investment banks were accused of manipulating the London Interbank Offered Rate (LIBOR). Barclays was the first to be found guilty of manipulating its LIBOR submissions. UBS and RBS were also later found guilty. All these banks had to pay hefty fines, between £290 million and £900 million. In 2013-14, Barclays was fined £294 million for manipulating electricity prices in the United States. In 2014 the FCA issued a record £1.5 billion in fines to investment banks. £1.1 billion of this was handed out to five banks as a punitive measure for improper activities in foreign exchange markets. The banks in question were Citibank N.A., HSBC Bank plc, JP Morgan Chase Bank N.A., The Royal Bank of Scotland plc and UBS AG. Both UK and US regulators handed out further fines in 2015, with Barclays receiving a fine of £284 million from the FCA, which is the largest fine the regulator has issued. Further fines were handed out to the bank by US regulators.

The number of companies in the industry is expected to decline over the five year-period as some firms have been forced out of business or taken over. Enterprise numbers are expected to decline at a compound annual rate of 1% over the five years through 2018-19. A number of investment banks have been restructuring their operations and reducing their UK employee head-count. In 2015, RBS moved some of its operations to India, along with approximately 300 investment banking jobs. Barclays has also reduced investment banking employee numbers.

Industry Outlook

Industry revenue is expected to grow steadily over the five years through 2023-24. M&A activity is likely to increase as stronger economic growth and increased certainty present expansion opportunities for businesses. Such opportunities are also expected to increase underwriting activity. Investors are expected to increasingly turn to equity trading as confidence in financial markets improves. Although operators have engaged in restructuring activity and job cuts, a tighter regulatory environment is likely to weigh on profit growth to some extent. Moreover, traditional operators are forecast to continue losing business to more cost-effective online brokers and trading platforms. Depending on the agreement reached with the European Union regarding future trading conditions, investment banks may implement contingency measures, which could significantly shrink the industry. Industry revenue is expected to grow at a compound annual rate of 1.4% over the next five years to reach £56 billion in 2023-24.



Single market

The Investment Banking and Securities Brokerage industry is highly globalised and is likely to be significantly affected by the United Kingdom leaving the European Union. Barclays and NatWest Markets are global firms with significant operations overseas and a number of foreign-owned investment banks also operate in the UK market. The high degree of globalisation reflects the prevalence of cross-border deals and capital flows in a highly interconnected

Industry Performance

Single market continued

world economy. As a member of the European Economic Area (EEA), the United Kingdom currently benefits from access to the single market, which allows operators to conduct their business in any EEA state without requiring further authorisation or incurring additional local costs. Once the new trade relationship with the European Union is established, investment banks are likely to use the transition period to implement contingency measures.

Exit strategy

Large US investment banks such as JP Morgan Chase, Goldman Sachs, Morgan Stanley and Citigroup have long used the United Kingdom as a gateway to the EU market. Uncertain of future trading relationships and in anticipation of the finalised trade agreements, investment banks have been making contingency preparations to relocate some operations to European cities such as Paris, Luxembourg, Dublin or Frankfurt. These companies currently have large operations employing thousands of people in the United Kingdom. Relocation would have a considerable effect on the industry's workforce and could shrink the industry significantly. JP Morgan has stated that thousands of its UK-based employees could be moved abroad to centres such as Paris. Deutsche Bank said it would shift its assets to Frankfurt after the withdrawal, making the city its primary booking hub for investment banking clients.

Confident markets

Banks have benefited from higher M&A activity over recent years as cash-rich private equity firms and hedge funds look for good-value targets across Europe. This trend is expected to continue over the next five years. Stronger economic growth and certainty in financial markets is expected to encourage businesses to expand and improve prospects of underwriting IPOs, increasing earned fees for investment banks. Sovereign wealth funds and companies from emerging markets are likely to engage in investment banks as they consider acquisitions in Europe.

The industry is expected to consolidate over the coming years as larger investment banks gain market concentration over boutique investment banks. High levels of inbound merger and acquisition activity should benefit firms with a global reputation and networks over boutique banks. Moreover, online-brokerages offering trading platforms that allow low latency trading transactions are increasingly attracting investor attention, which is likely to decrease demand for the services of smaller, less established brokerages. The number of enterprises in the industry is expected to decline at a compound annual rate of 0.9% over the next five years.

Banks have benefited from higher merger and acquisition activity over the past five years

Banking reform

Following a report by the Independent Commission on Banking, UK banks will be required to ring fence their core retail operations from their riskier investment banking and wholesaling operations. The safe assets will include approximately one-third of banks' balance sheets, equal to some £2 trillion of assets. This bill, named the Banking Reform Bill, passed its final legislative hurdle when the House of Lords voted to approve it on 16 December 2013. Banks had until January

Industry Performance

Banking reform continued

2019 to make the required changes. RBS reorganised its legal entity structure by creating a ring-fenced bank sub-group and separating the entities that fall outside of the ring-fence, separating its investment banking services from its essential banking services, and renamed its investment bank to NatWest Markets in 2018.

The Parliamentary Commission on Banking Standards announced proposals in June 2013 for a law that would hold bankers legally accountable for reckless misconduct and force them to wait up to a decade to receive their bonuses. The former proposal was included in the Banking Reform Bill passed in December 2013. As a result of this legislative pressure, banks are likely to adopt less risky strategies, restricting revenue growth. The reforms could also result in banks dispensing with their investment banking arms altogether, therefore resulting in changes to the industry's major players. Operators will also have to adjust to MiFID II, which was implemented in January 2018. This new legislation requires companies to have their execution and investment research priced separately and is likely to increase competition in equity, fixed-income, currency and commodity research.

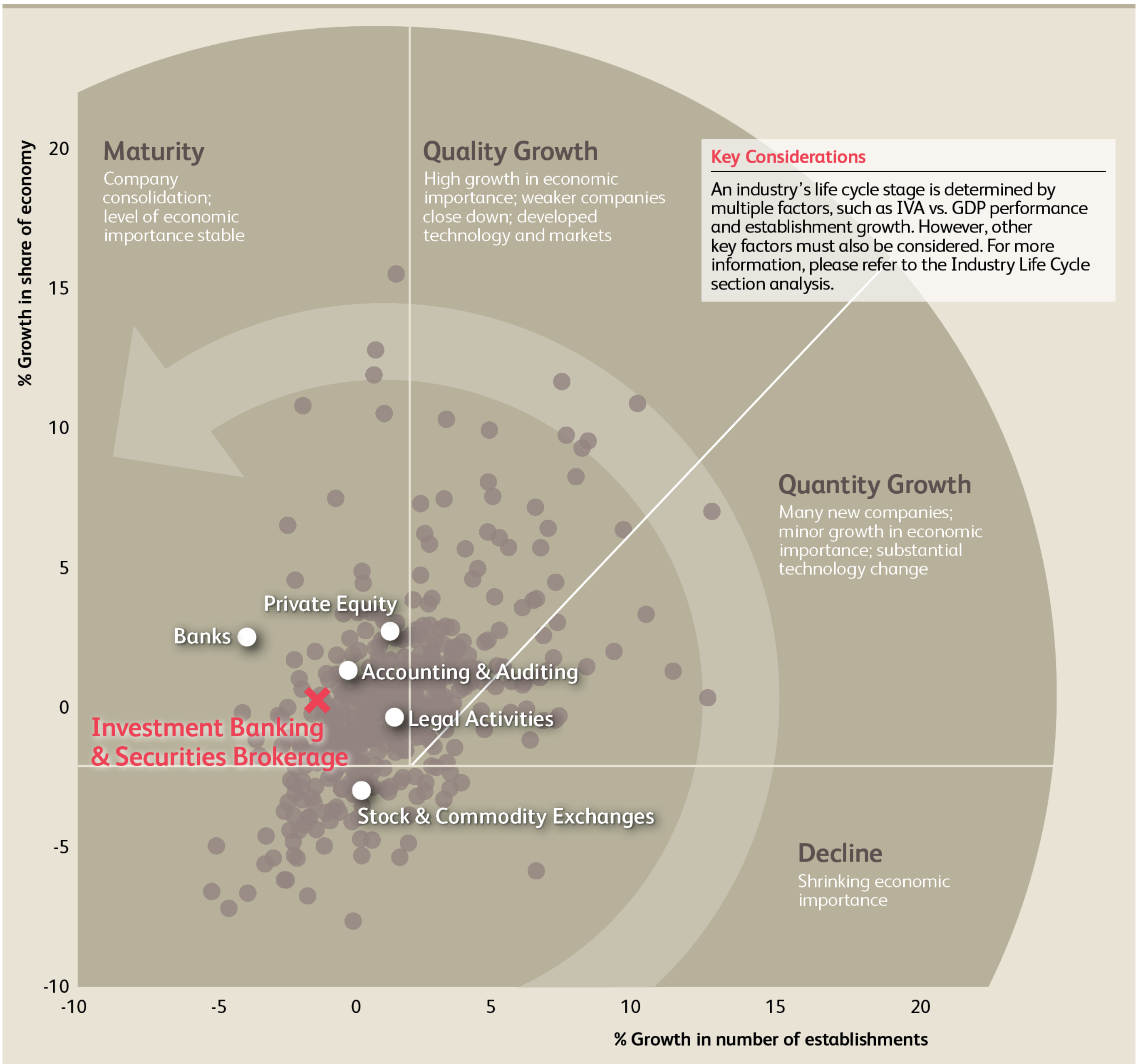
Industry Performance

Life Cycle Stage

The industry is consolidating

Regulation of financial services is increasing

Retail banks are increasing their participation in the industry



SOURCE: WWW.IBISWORLD.COM.AU

Industry Performance

Industry Life Cycle

This industry is **Mature**

The industry is characterised by periodic booms and busts, driven by financial market, economic and regulatory conditions. In the longer term, however, the industry is regarded as being in the mature phase of its life cycle. This is largely due to the mature economies and financial markets of the United Kingdom and Western Europe, for which London acts as the major financial centre. Reflecting this, firms have been pursuing growth in emerging East European nations and Asia, and expanding into services outside investment banking and brokerage, such as fund management and financial planning.

Industry value added, which measures the industry's contribution to the economy, is expected to rise at a compound annual rate of 2% over the 10 years through 2023-24. Meanwhile, UK GDP is expected to rise at a compound annual rate of 1.7% over the same period. Although this suggests that the industry will account for a rising share of the UK economy, the industry is not in its growth stage because the figures have been skewed by the significant contraction in industry revenue prior to the start of the 10-year period as a result of the financial crisis.

Over the past decade, the industry has consolidated, which is an indicator of maturity. An increasing presence in investment banking by retail banks such as RBS, Barclays and HSBC continued through the financial crisis, with a number of large independent global firms such as Lehman Brothers, Bear Stearns and Merrill Lynch absorbed by combined investment banking and retail banking firms like Barclays, JP Morgan and Bank of America. Furthermore, the regulatory changes in the wake of the financial crisis also contribute to the industry's maturity, as they may cause the industry's income sources to narrow slightly.

Products and Markets

Supply Chain | Products and Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

C	**Manufacturing** Investment banks and brokers help many manufacturing businesses to raise capital.
K	**Financial and Insurance Activities** Investment banks act as a market-maker for securities created by the finance and insurance division.
K65.200	**Reinsurance in the UK** Insurance premium income may be invested in securities and commodity contracts.
K66.300	**Fund Management Activities in the UK** Fund managers use the services of stockbrokers to execute trades.

KEY SELLING INDUSTRIES

M69.100	**Legal Activities in the UK** Investment banks and brokerages obtain the services of legal professionals in order to assist them in a wide range of activities. For instance, legal opinions are obtained when providing merger and acquisition related services.
M69.201	**Accounting & Auditing in the UK** Industry participants appoint auditing firms to audit their financial statements in order to ensure their financial statements give a true and fair view.

Products and Services

The industry's activities can be split into three main categories: Fixed income, commodity and currency (FICC) trading. equities trading and core investment banking activities. Core investment banking activities are made up of financial advisory services and underwriting. Equities and FICC trading consist of trades executed on a client's behalf (brokering), principal dealing (market making) and proprietary trading on the firm's own behalf. Brokering generates brokerage fees, which tend to be generated on a per-trade basis. Market making generates income through the bid-ask spread and proprietary trading generates income or losses through speculation in financial markets.

FICC trading

Many firms have teams dedicated to FICC trading. The FICC segment was where many of the difficulties for investment banks came from when the financial crisis hit. Firms lost money from both proprietary trading and market making positions that were not sufficiently hedged. Trading takes place through a range of market and over-the-counter financial instruments. These include fixed-income securities, commodities, currencies and more complex financial instruments such as derivatives. Trading in FICC products is expected to generate 35% of industry revenue in 2018-19. Clients in this area are mostly fund managers, financial institutions and corporate clients looking to manage portfolios through hedging risk and speculating. Revenue generated from FICC trading is expected to decrease over 2018-19, following decreased volatility in fixed-income products.

Equities trading

Equities trading is estimated to account for 25% of industry revenue in 2018-19. Investment banks and brokerages have a diverse client base trading in equities, ranging from individual or retail investors trading on a small scale to institutional clients executing large-volume trades. In equities trading, the focus is on executing trades for clients on central exchanges rather than market making, although larger investment banks do attempt to match orders in-house before routing trades to other exchanges so they can profit from the bid-ask spread. Market making in less liquid mid- and small-cap equities is more prevalent. For the largest

Products and Markets

Products and Services continued

companies, buying and selling activity on the London Stock Exchange provides sufficient liquidity. The performance of equities trading by investment banks and securities brokerages is expected to be relatively strong over 2018-19, buoyed by a projected increase in the FTSE 100.

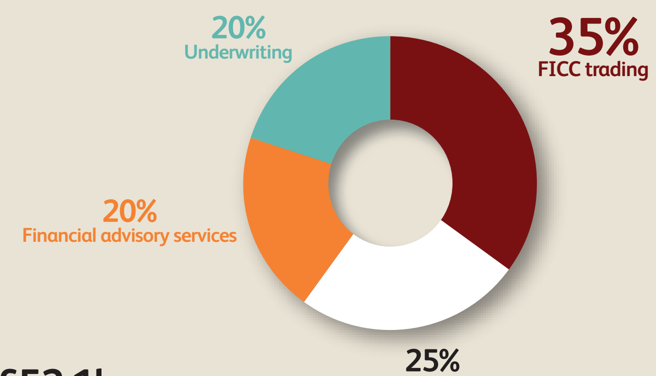
Underwriting

Underwriting is a particular type of market making that involves the sale of a primary issuance of securities (such as shares or bonds) on behalf of a client company. Investment banks use their links with investors to specialise in selling new issues of securities. When underwriting a new issue, the investment bank agrees to take on the risk and responsibility of selling the securities. In exchange for this, the client firm sells the securities to the investment bank at a discount, allowing it to sell them on to investors at a mark-up. In market-making terms, the discounted price that the investment bank pays is the bid price, while the price at which it sells to investors is the ask price. The investment bank makes a profit from the bid-ask spread. This is often referred to as the underwriting spread or the underwriting fee. The financial crisis caused the number of initial public offerings (IPOs) to plummet. However, difficult conditions forced many companies, including the big banks, into secondary capital raisings, which boosted activity in that area. IPO activity has increased strongly more recently. Revenue derived from underwriting is expected to continue falling in 2018-19, being estimated to account for 20% of industry revenue in the current year, as IPO activity slows due to the high levels of uncertainty surrounding the UK's withdrawal from the European Union.

Financial advisory services

The advisory side overwhelmingly relates to merger and acquisition (M&A) and similar activity, such as asset sales. Investment banks act as the advisor or agent when such deals are negotiated. For example, they can assist client companies in valuing businesses and assets. The financial crisis dampened the M&A boom that preceded it by creating uncertainty over values and making it more difficult to raise funds. However, it also meant there were many ailing companies selling off assets or being taken over by stronger competitors. Revenue from advisory services is expected to decline in the current year due to falling M&A activity, with the segment estimated to generate 20% of industry revenue in 2018-19.

Products and services segmentation (2018-19)



Total £52.1bn

SOURCE: WWW.IBISWORLD.CO.UK

Products and Markets

Demand Determinants

Demand levels for the services provided by the Investment Banking and Securities Brokerage industry broadly depend on macroeconomic and financial market conditions, both in the United Kingdom and abroad. Specifically, factors such as interest rates, business earnings and investor confidence all influence demand levels. Other important factors include the level of market uncertainty and regulatory changes.

Investment banking services include advisory services related to M&A activity and other corporate activities, and the underwriting of debt and equity products in private placements and public offerings. Demand for financial services depends on the level of corporate activity, which in turn depends upon earnings, business confidence and the economic outlook.

Demand for underwriting services specifically reflects the level of capital raising and business investment. The level of public offerings generally rises with strong stock market performance. Debt market underwriting includes the underwriting of mortgage-backed securities, bonds and other structured products.

The volume of trading undertaken on exchanges for private clients is also closely related to the performance of the stock market and the performance of alternative investments. In turn, this factor is broadly determined by growth in the economy and interest rates. Demand for trading services by businesses and institutional clients is related to the level of business activity and the amount of funds managed by these clients.

Major Markets

Financial sector

The industry's major market is the financial sector, including clients such as pension funds, hedge funds, insurance companies, banks and other financial institutions. These institutional clients are particularly active in the FICC and equities trading segments, trading huge volumes through the trading desks of the major investment banks for speculative and risk management purposes. Banks and other lenders also use the FICC services of investment banks to originate and sell fixed-income securities backed by their underlying loans in order to raise funds and shift risk from their balance sheets. Investment banks generate revenue from trading by financial sector clients either through execution fees when acting as broker, known as agency transactions, or from the bid-ask spread when acting as a market-maker. Many of these clients also use underwriting and advisory services in a similar manner to other corporate clients, when raising capital and engaging in mergers and acquisition.

Non-financial clients

Non-financial corporate clients and government clients use the industry's services in a similar way. These clients primarily use underwriting and advisory services, but they also undertake trading in equities and FICC securities for investment and risk management purposes. Activity from the corporate client segment slowed substantially following the financial crisis because there was less IPO and M&A activity. Secondary capital raising and asset sales activity did pick up however, because clients looked to raise funds to shore up their balance sheets. IPO activity also increased markedly from the second half of 2013-14 until the start of 2016-17. However, economic uncertainty since the EU referendum has resulted in declining activity and transaction volumes over recent years. Revenue derived from non-financial clients is estimated to account for 25% of industry revenue in the current year.

Products and Markets

Major Markets continued

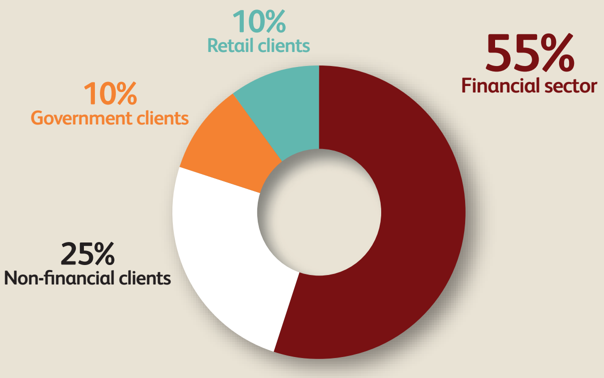
Retail clients

The retail client segment consists of individuals and small businesses trading primarily in equities in small volumes through retail brokerages. Compared with larger trading customers, retail clients pay higher execution fees per trade as they lack the bulk-buying power of institutional customers. This segment is expected to account for 10% of industry revenue.

Government clients

Government clients are estimated to account for approximately 10% of industry revenue. Large deals such as the IPO of Royal Mail, in addition to the sale of government shareholding's in Lloyds and RBS are expected to generate a significant amount of revenue for the industry over the five years through 2018-19.

Major market segmentation (2018-19)



Total £52.1bn

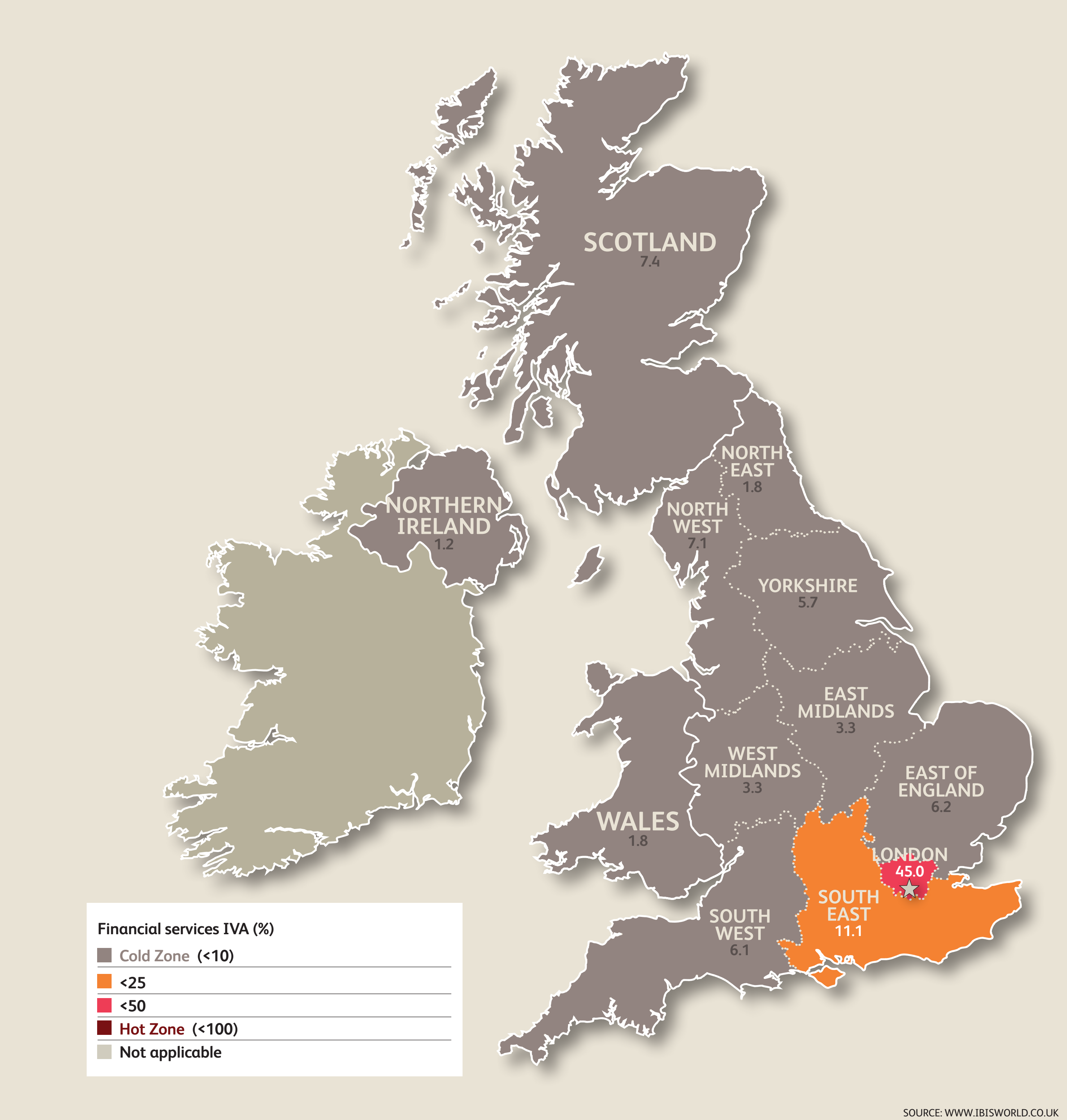
SOURCE: WWW.IBISWORLD.CO.UK

International Trade

International trade is not applicable for the Investment Banking and Securities Brokerage industry.

Products and Markets

Business Locations 2018-19



SOURCE: WWW.IBISWORLD.CO.UK

Products and Markets

Business Locations

London

London is one of the world's largest financial centres. For this reason, it generates an estimated 45% of the financial services sector's value-added to the UK economy. Investment banking activity is strongly centred in London to cater to the many large companies that have their headquarters or European bases located there. Stockbrokers catering to retail clients tend to be slightly more widely dispersed, because the retail brokerage segment's customer base is more spread out geographically.

The concentration of firms in London reflects the city's status as a global banking hub. According to the ONS in 2018, London is home to approximately 38.2% of investment banking and brokerage establishments in the United Kingdom.

The South East

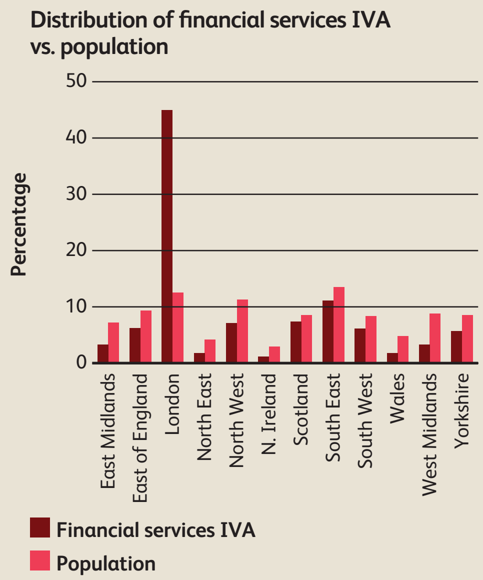
The second largest financial services employment region is the South East, which has just over 10% of employees. The region contains approximately 12.5% of industry establishments.

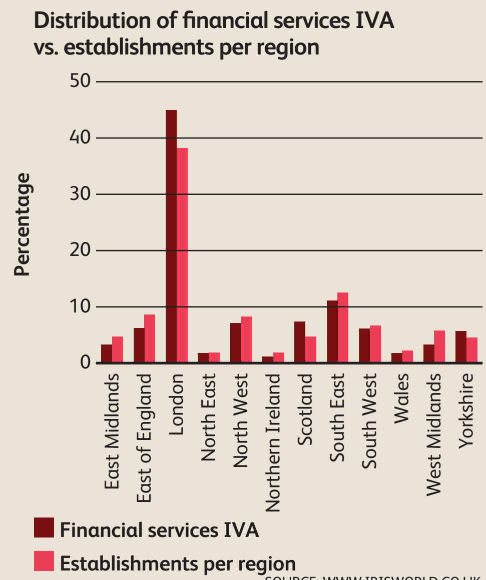
The North West

The North West also makes up a significant number of industry establishments. Large investment banking companies such as Barclays and the Royal Bank of Scotland have regional offices in the area. The region's two largest cities, Liverpool and Manchester, are home to the majority of investment banking activities in the area. However, establishments are also located in smaller cities in the region; Chester is home to a Bank of America Merrill Lynch campus. The North West is estimated to account for 8.3% of industry establishments.

Other

The East of England is estimated to account for 8.6% of establishments, compared to its 9.3% share of the UK population. Other regions that have a notable number of industry establishments include Glasgow and Edinburgh in Scotland and Leeds in Yorkshire.





SOURCE: WWW.IBISWORLD.CO.UK

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalisation

Market Share Concentration

Level
Concentration in this industry is **Low**

IBISWorld expects the two largest firms in the industry to have a combined market share of 25.5% in 2018-19. All other companies in the industry generate less than 5% of revenue, which indicates a low level of concentration. The industry is somewhat stratified by firm and client size, particularly on the institutional client side. Concentration is higher in some areas. The major investment banks, or bulge-bracket banks, tend to cater to the largest clients and dominate activity such as large-cap underwriting, mergers and acquisitions, complex products and large institutional brokerage. Mid-tier, or middle-market banks, tend to cater to mid-cap institutions and offer a narrower range of services.

The demise of a number of companies as a result of the financial crisis has driven up concentration. For example, the collapse of Lehman Brothers and Nomura Holdings' subsequent purchase of its European and Asian units led to greater concentration in investment banking and institutional brokerage. Concentration has also been rising in the online brokerage business. The nature of online brokerage, where the cost of establishing IT systems is high and there are economies of scale available to those trading in high volumes, lends itself to consolidation. For example, T D Waterhouse entered the UK market in 1997. In the early 2000s it made a number of acquisitions, including the 2002 purchase of DLJ Direct, the leading online UK broker at the time. In 2009, it acquired OMX Securities and in July 2014 it acquired the remaining interest in NatWest Stockbrokers Ltd.

Consolidation has also occurred in the independent mid-cap broker segment. Over the course of the financial crisis, larger brokers acquired smaller brokers that had low profit and revenue. In 2008, a large Indian securities firm acquired Hichens Harrison. In addition, QInvest, a Middle Eastern investor, bought a large stake in Panmure Gordon. Some overseas operators have withdrawn from the UK stockbroking market altogether. Further consolidation in the mid-cap broker segment occurred during 2014 as the UK economic recovery strengthened, including the US brokerage Stifel Financial Corp acquiring the UK brokerage Oriel Securities in May 2014.

Companies by employment size, 2018

Employees (People)	Share of total (%)
0-4	67.7
5-9	13.4
10-19	6.5
20-49	4.3
50-99	4.3
100-249	1.6
250+	2.2

SOURCE: OFFICE FOR NATIONAL STATISTICS

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Provision of a related range of goods/services ("one stop shop")
Full-service investment banking firms can cross-sell services. For example, they can offer capital market and advisory services to institutional brokerage clients and wealth management to retail brokerage clients.

Having a good reputation
Having a strong brand name and a reputation for good service give firms a competitive advantage in the industry.

Access to highly skilled workforce
Firms in the industry pay high wages to attract top talent, since many roles require close contact with clients. Employees must be able to sell ideas both inside the firm and to external clients.

Ability to quickly adopt new technology
Brokers must be able to offer clients trading that is fast, efficient and accurate. Executing trades quickly and maintaining client confidentiality is key.

Competitive Landscape

Cost Structure Benchmarks

Profit

Industry profit margins are relatively strong, particularly on the investment banking side, where high margins reflect the level of risk. Profit from investment banking can be highly volatile. This risk was particularly evident when the strong profit margins that characterised the period prior to the financial were replaced by losses for many firms during the economic downturn as asset write-downs and trading losses hit. In recent years margins have come under pressure from increased levels of regulation, higher capital provisions and large fines. In 2018-19, profit is estimated to account for 24.7% of revenue.

Wages

Labour costs constitute the largest expense category in the industry, accounting for an estimated 41% of industry revenue. Investment banks and brokers are well known for their high wages and for having strong incentive-based pay structures based on bonuses and commissions. Investment banking employees' wages have come under greater scrutiny by the general public, government and industry regulators. As a result, the average wage in the industry is expected to decrease over the five years through 2018-19.

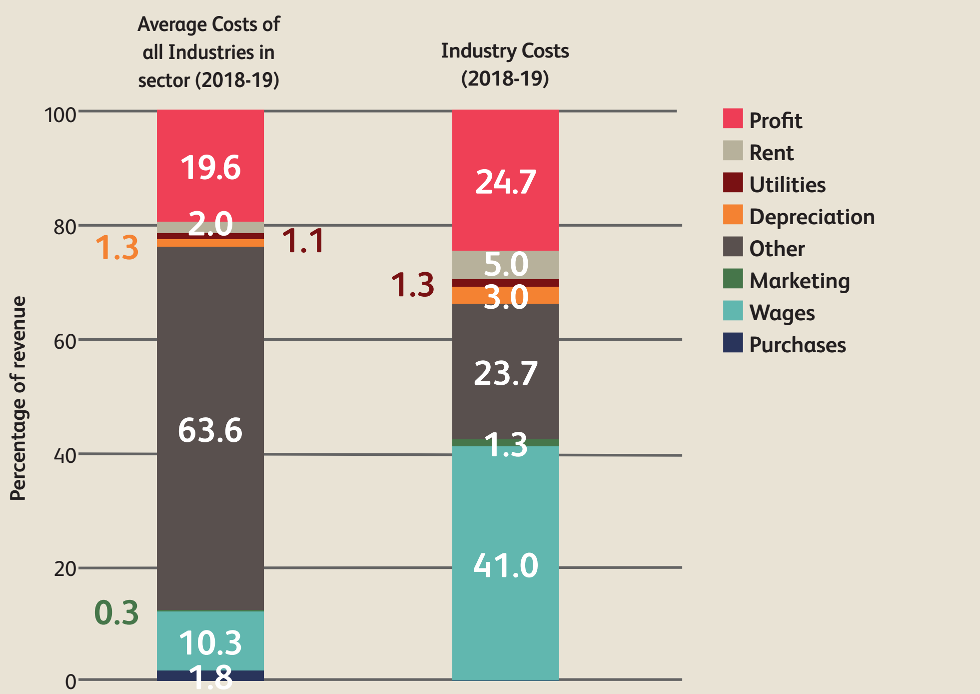
Rent and depreciation

Of the industry's remaining expense structure, rent is a prominent cost due to the need for firms to locate operations in financial hubs in order to be close to clients and labour. Rent is expected to account for 5% of industry revenue in 2018-19. Depreciation has been slowly growing as a proportion of revenue as technology plays an increasing role in financial markets. Automated trading systems operated by the major investment banks are an example of this. In 2018-19, depreciation is expected to account for 3% of revenue.

Other

Costs categorised in this segment absorb a relatively high proportion of industry revenue. When dealing with clients, particularly in financial advisory or

Sector vs. Industry Costs



SOURCE: WWW.IBISWORLD.CO.UK

Competitive Landscape

Cost Structure Benchmarks continued

underwriting services, operators have to pay legal and accounting fees and general administrative costs, all of which can be somewhat high due to the regulated nature of the industry. Due to the client-focused nature of the industry, operators typically incur higher than average client relations costs, particularly when undertaking roadshows. Other costs include marketing, which is estimated to account for 1.3% of revenue, and the fees and costs associated with access to the financial markets. The last of these includes trading fees levied by exchanges and post-trade costs, such as clearing and settlement fees.

Basis of Competition

Level & Trend
Competition in this industry is **Medium** and the trend is **Increasing**

Competition within the Investment Banking and Securities Brokerage industry is moderate. Competition is broadly based on the level of fees charged, the range of services and products provided and a company's reputation. The industry's level of competition has increased over the past five years. Investment banking activities are now provided by investment banks, bank holding companies and brokers and dealers, as well as mutual and hedge funds, commercial banks, insurance companies and private equity funds.

There is a trend toward consolidation in the industry and convergence in the services offered by industry operators, and this trend was primarily accelerated by the lingering effects of the financial crisis. As the industry consolidates and the range of services broadens into those traditionally offered by other industries, the size and geographic reach of industry players is increasing. Furthermore, consolidation and the globalisation of capital markets have significantly increased the capital bases of some industry players, bringing UK operators into intense competition with large foreign operators that have more capital, a stronger local presence and longer operating histories outside of the United Kingdom. As a result, UK investment banks are increasingly competing on a global basis, particularly in emerging markets.

An important point of competition that has emerged since the financial crisis is the ability of investment banks to access funds. Investment banks that rely less on wholesale markets for funding are likely to operate with lower costs, enabling them to better compete for business. Over the past five years the movement of senior staff has increased between operators. Banks that had government-imposed restrictions on the compensation available to senior staff during the recession, such as RBS, were put at a competitive disadvantage when attempting to attract and retain personnel.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **High** and **Steady**

Firms successfully operating in the industry are generally characterised by features such as a reputation of long standing, backing by large and well-known financial institutions or being run by and employing individuals respected in the finance sector. For new firms looking to compete, the need to establish such characteristics forms a major barrier, and as a result entry into the industry is often via the establishment

Barriers to Entry checklist

Competition	Medium
Concentration	Low
Life Cycle Stage	Mature
Capital Intensity	Low
Technology Change	High
Regulation and Policy	Heavy
Industry Assistance	High

SOURCE: WWW.IBISWORLD.CO.UK

Competitive Landscape

Barriers to Entry continued

of new firms by individuals already working in the industry. Although boutique investment banks are commonly established by experienced professional bankers, the small scale of their operations means they lack the capability and capacity to service large clients. Thus, these bankers may be relegated to serving medium-size firms.

Size is a key competitive factor in institutional brokering. For underwriting services, sufficient capital is required to back underwriting obligations. Reflecting this, the major investment banks tend to secure most of the underwriting business for large IPOs and capital raisings. Institutional trading is also generally the domain of large investment banks, which provide a range of services to their clients to support their trading activities. These brokers need to offer a fast and efficient service, have sufficient capital to facilitate trading, offer access to range of trading platforms, and undertake high volumes of trading that allows them to offer a competitively priced service. They will normally also have experienced staff specialising in the trading of particular financial instruments. Furthermore, established investment banks have access to internal trading platforms that allow them to match trades quickly, providing sufficient liquidity. Their ability to act as both broker and dealer means that bulk trades can be executed efficiently without disrupting the market price.

Industry Globalisation

Level & Trend
Globalisation in this industry is **High** and the trend is **Increasing**

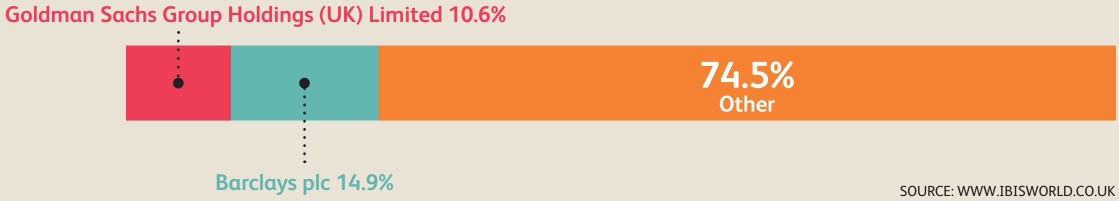
The industry is highly globalised. The UK-based major players, Barclays and RBS, are global firms, with significant operations outside the United Kingdom. Barclays recently increased its degree of globalisation substantially with the acquisition of Lehman Brothers' North American investment banking and trading business. A number of the other large players operating in the UK market, such as Goldman Sachs, JP Morgan Chase, Credit Suisse, UBS, Morgan Stanley, Deutsche Bank, Bank of America-Merrill Lynch and Citigroup, are foreign-owned. This reflects London's position as a major global financial hub, while the high degree of globalisation in general reflects the prevalence of cross-border deals and capital flows in a highly interconnected world economy.

London's status as a financial hub is also reflected in the very high number of foreign-listed companies on the London Stock Exchange (LSE); many foreign companies have a secondary listing on the LSE to take advantage the high level of activity on it. The high level of foreign ownership of UK-listed shares, particularly by institutional investors, results in UK brokers generating strong export revenue.

Major Companies

Barclays plc | Goldman Sachs Group Holdings (UK) Limited | Other Companies

Major Players
(Market Share)



Player Performance

Barclays plc
Market Share: 14.9 %
Industry Brand Names
Barclays
Barclays Wealth

Barclays is a London-based global financial services firm. It operates in the industry through its investment banking division Barclays Investment Bank, which was previously called Barclays Capital, and its wealth management division, Barclays Wealth, which houses its retail stockbroking business. The investment banking division provides financing and risk management services to large companies and institutions. Barclays Wealth provides international and private banking, advisory and fiduciary services, and investment management and brokerage. As of December 2017, Barclays employed approximately 48,700 employees in the United Kingdom and 79,900 worldwide, covering Africa, North America, South America and Asia. In anticipation of the ring-fencing regulation in January 2019, Barclays changed its reporting segments in 2016, merging the corporate banking reporting segment with the investment banking segment. As a result, the relevant figures derived from the company's investment banking activities are estimated from 2016 onwards.

Although many banks were hard hit by the financial crisis, Barclays' investment banking business performed well during the downturn. After agreeing to acquire the North American investment banking and trading segments of the collapsed Lehman Brothers in September 2008, Barclays was able to raise additional capital from private investors at a time when other banks, such as the Royal Bank of Scotland and Lloyds, had to be bailed out by the government. In fact, strength in investment banking helped to offset surging loan impairments in the retail and commercial banking business. The acquisition of the Lehman businesses helped to establish Barclays as a major player in UK investment banking and brokerage.

The reputation of Barclays and many other British banks took a significant hit in 2012. In June 2012, Barclays was accused of being involved in a LIBOR-fixing scandal and was fined £290 million, including £59.5 million by the Financial Conduct Authority (FCA). This prompted the resignation of its chief executive, Bob Diamond. HM Revenue & Customs accused it of designing two schemes to avoid substantial amounts of tax and forced it to pay back £500 million in tax. In 2013, it was fined £294 million for allegedly manipulating electricity prices in the United States. In July 2017, Barclays increased its provision for compensation payments to customers mis-sold payment protection insurance by £700 million, taking the total to £9.1 billion.

In May 2015, Barclays incurred further fines relating to improper actions in foreign-exchange markets. Barclays was handed a fine of £284 million by the FCA, which is the largest fine to be imposed by the FCA. The bank was also dealt a blow by further fines from regulatory authorities in the United States. In total, the bank was fined over US$2.3 billion (approximately £1.5 billion).

Financial performance

Barclays' industry-related revenue is estimated to decline at a compound annual rate of 2% over the five years through December 2018, reaching £7.8 billion, suggesting it has performed worse than the industry as a whole. The investment banking division's revenue declined over the first half of the past five-year period,

Major Companies

Player Performance continued

including a decline of 11.7% in 2014 due to a steep drop in revenue from fixed income, currencies and commodities trading.

Barclays has responded to falling investment banking revenue by awarding smaller bonuses and reducing its headcount to cut wage costs. The investment banking division has also warned of further job cuts in the future. Despite cost cutting initiatives the company's operating profit margin is expected to decrease in 2018 due to decreased operating profit derived from fixed-income operations.

Barclays plc (Barclays Investment Bank segment) - financial performance

Year*	Revenue (£ million)	(% change)	Operating Profit (£ million)	(% change)
2013	8,596	N/C	2,020	N/C
2014	7,588	-11.7	1,377	-31.8
2015	7,572	-0.2	1,611	17.0
2016**	7,731	2.1	1,674	3.9
2017**	7,685	-0.6	1,662	-0.7
2018**	7,754	0.9	1,661	-0.1

*Year end December **Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

Goldman Sachs Group Holdings (UK) Limited
Market Share: 10.6 %

Goldman Sachs is a US full-service multinational investment banking and brokerage specialist. Headquartered in New York in the United States, the company was founded in 1869 and has since grown to have offices in all major financial centres around the world. The company employs more than 6,000 staff in the United Kingdom and approximately 36,600 worldwide. Nearly all of the firm's operations fall within the scope of the industry, except its asset management business, which operates in the Fund Management Activities industry (IBISWorld report K66.300). In August 2018, the company expanded its operations through debuting its online retail bank Marcus in the United Kingdom, however this also falls outside of the industry's reach.

Goldman Sachs' trading and principal investments segment has grown to account for the bulk of the firm's revenue, dwarfing the traditional investment banking activities of underwriting and advisory services. Activities in this segment can be risky, creating the potential for high revenue volatility. During the financial crisis the company suffered its first loss since being listed as a public company, with industry-related revenue declining by 70% as activity in some fixed-income markets seized up and the firm was caught with some unfavourable exposures. The firm returned to form the following year as it adjusted to the new conditions, taking advantage of higher volatility and lower liquidity to make profitable trading bets and expand its market making spreads.

In late 2008, Goldman Sachs took advantage of US government bailout measures in order to remain liquid through the crisis. Goldman Sachs benefited from the Troubled Asset Relief Program; the bailout of major counterparty AIG, which allowed it to pay the billions of dollars it owed Goldman Sachs; and the rushed approval of its conversion to a bank holding company, which gave it access to the Federal Reserve's discount funds window. Once it converted to a bank holding company, Goldman Sachs became subject to regulatory reforms such as the Dodd-

Major Companies

Player Performance continued

Frank Wall Street Reform and Consumer Protection Act in the United States, which was designed to restrict depository institutions' ability to take risks that endanger deposit holders' funds.

Financial performance

The company's industry-related revenue is expected to increase at a compound annual rate of 4.2% over the five years through December 2018, reaching £5.5 billion. The bank has benefited from improving trading conditions and extensive restructuring activities over the past five years. However, industry-related growth is expected to have been constrained over recent years as increased economic uncertainty weakened demand for the company's financial advisory and brokerage services. This has also weighed on profit margins. However, profit has been supported by the implementation of jobs cuts and other cost-cutting initiatives.

Goldman Sachs Group Holdings (UK) Limited - industry-related performance*

Year**	Revenue (£ million)	(% change)	Operating Profit (£ million)	(% change)
2013	4,520	N/C	2,710	N/C
2014	5,021	11.1	2,653	-2.1
2015	5,432	8.2	2,692	1.5
2016	5,535	1.9	2,738	1.7
2017	5,513	-0.4	2,626	-4.1
2018	5,546	0.6	2,568	-2.2

*Estimate **Year end December

SOURCE: COMPANIES HOUSE AND IBISWORLD

Other Companies

Reflecting the global nature of investment banking and the position of London as a financial hub, a number of well-known American and European banking brands hold between 1% and 5% market share in the Investment Banking and Securities Brokerage industry. The two other major retail banking brands in the United Kingdom, HSBC and Lloyds, fall into this second tier, as their investment banking operations are smaller than their high-street banking counterparts.

American banks with a global presence that fall into this second tier include JPMorgan Chase, Morgan Stanley, Citigroup and Bank of America-Merrill Lynch. On the European side, prominent players include the Swiss duo UBS and Credit Suisse, the French companies Societe Generale and BNP Paribas, and the German firm Deutsche Bank.

Player Performance

NatWest Markets plc
Market Share: 1.8 %

The Royal Bank of Scotland Group (RBS) is a diversified financial services holding company, which operates in the industry through its global banking and markets segment. The group is based in Edinburgh but has operations throughout the world. Originally a retail and commercial bank, in the 1990s RBS expanded into other financial services including investment banking, wealth management and insurance. In complying with the upcoming ringfencing regulation, which will be implemented from January 2019, RBS reorganised its

Major Companies

Player Performance continued

legal entity structure through creating a ring-fenced bank sub-group and separating the entities that fall outside of the ring-fence. The company had to separate its essential banking services from its investment banking services, renaming its investment bank to NatWest Markets in April 2018.

Highly leveraged after its participation in a consortium that acquired Dutch bank ABN AMRO in 2007, RBS ran into trouble when the financial crisis deepened. It faced losses on loans and credit market exposures, recording the largest annual loss in UK corporate history in 2008, and when wholesale funding markets dried up it struggled to raise the capital it required to remain solvent. The company required a bailout in late 2008 and a further capital injection in November 2009. As a result, it is now partially owned by the government.

At the height of the government's intervention in the failing bank it acquired an 81% shareholding. However, over recent years the government has reduced its share ownership. As of June 2018, the government had a shareholding of 62% in RBS.

The company has undergone a sustained reduction in its investment banking activities over the past five years. In March 2015 the company announced that it would reduce its 18,000 investment banking employees to just 4,000, although the planned time period for this reduction was not specified. The wider company announced a series of bank closures in 2018, most recently stating to close 54 branches in January 2019, which could result in the loss of 258 jobs. The company last reported revenue of £911 million for the year through December 2017, alongside an operating loss of £1.4 billion. IBISWorld estimates that NatWest Markets will generate revenue of £943 million in 2018-19.

Operating Conditions

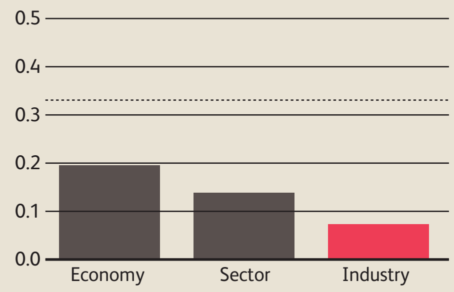
Capital Intensity | Technology and Systems | Revenue Volatility
Regulation and Policy | Industry Assistance

Capital Intensity

Level
The level of capital intensity is **Low**

The industry displays a low level of capital intensity. IBISWorld estimates that for every £1.00 spent on capital, £13.66 is spent on labour. The industry is labour intensive, with employee costs absorbing close to half of industry revenue, dwarfing capital costs. Many employees are highly paid due to their valuable skills in client relations, sales, trading and portfolio management. Compensation also often includes a significant bonus component related to the amount of business brought in or trading performance. Over the past five years, capital costs have increased as fragmentation of exchanges and growth in alternative trading platforms have compelled firms to connect to multiple venues, often spread over different locations. Despite this, the industry's overall level of capital intensity has remained at a low level over the past five years.

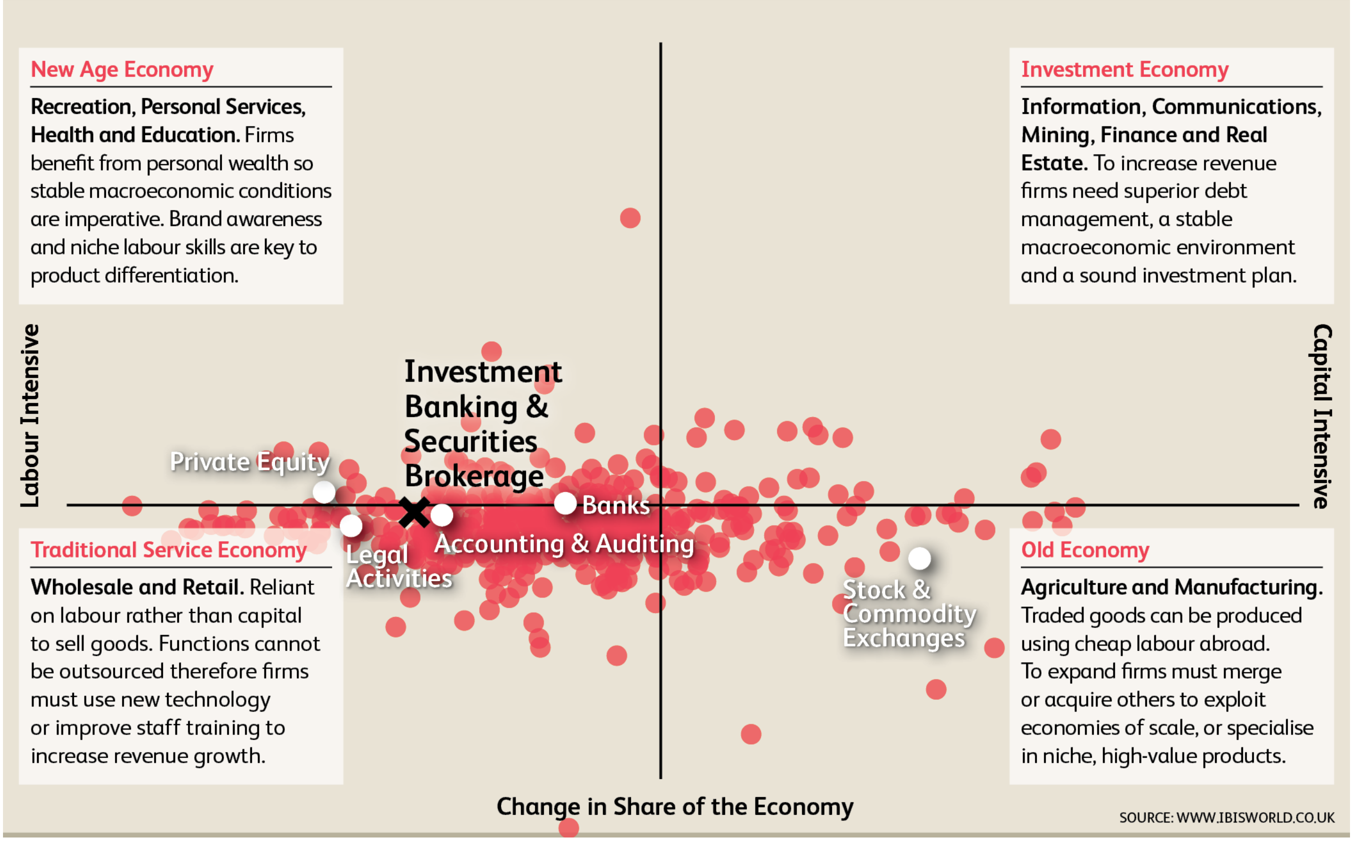
Capital Intensity
Capital units per labour unit



Dotted line shows a high level of capital intensity
SOURCE: WWW.IBISWORLD.CO.UK

Capital levels vary according to the type of firm. For instance, online execution-only brokerage services have higher technology costs and lower wage costs relative to the rest of the industry. Moreover, firms offering high volume trading to institutional clients, such as

Tools of the Trade: Growth Strategies for Success



SOURCE: WWW.IBISWORLD.CO.UK

Operating Conditions

Capital Intensity continued

those using high-frequency trading platforms, also have high technology costs, and there are continual developments in trading technology to improve the level of speed, efficiency and accuracy offered to clients. To make sure trading orders are executed as quickly as possible, firms must locate their trading servers as close as possible to a trading platform's data centre.

Technology and Systems

Level
The level of technology change is **High**

The use of telecommunications services, information technologies and electronic distribution technologies in the Investment Banking and Securities Brokerage industry is increasing at a rapid rate. Technology in the industry is used to improve the efficiency and effectiveness of information delivery and services to clients, and to monitor operational, market and financial risk. These technologies reduce processing costs and labour costs, but also require significant capital investment. However, this investment is generally considered worthwhile as operators with premium trading systems generally attract the most liquidity.

The introduction of new computer software, providing more streamlined back office administration, has enabled industry operators to significantly reduce administration costs. Trading desks use platforms to generate high volume algorithmic-based trading. Investment banking technology also facilitates real-time access to crucial information. In addition, new technology will be able to incorporate qualitative inputs like social media sentiment into investment decisions. Consequently, the level of technological change in the industry is anticipated to remain high over the five years through 2023-24.

Expected technological changes over the next five years will provide even greater control over trading activities and legislation compliance. Similarly, industry operators are expected to continue to consolidate their trading systems in an effort to lower trading costs, boost margins and comply with regulatory changes.

Revenue Volatility

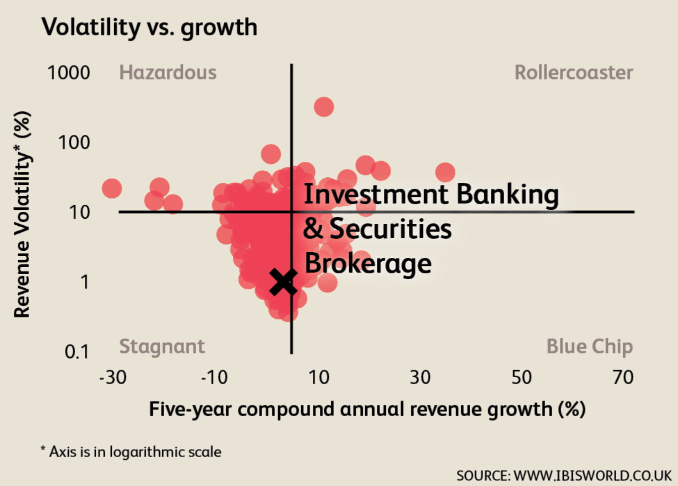
Level
The level of volatility is **Low**

The Investment Banking and Securities Brokerage industry exhibits a low level of revenue volatility. Volatility primarily depends on any aggregate changes in fees for industry operators and trading gains, which in turn rely on the current macroeconomic climate.

Industry revenue tends to follow the financial market cycle very closely. When economic and financial market

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilised capacity if demand suddenly falls, or capacity constraints if it rises quickly.



Operating Conditions

Revenue Volatility continued

conditions are above average, the industry tends to perform well. Alternatively, when financial markets take a turn for the worse, revenue is often hit hard. The leveraging activities used by many industry operators, or the use of borrowed funds for investment, serve only to increase the industry's revenue volatility. While leveraging can multiply gains during economic booms, it can also multiply losses during economic busts. In recent years, gains in equity underwriting and advisory services have been offset by both cyclical and structural changes related to the industry's trading services, moderating revenue fluctuations.

Regulation and Policy

Level & Trend
The level of Regulation is **Heavy** and the trend is **Increasing**

Regulators

The industry is subject to a high level of regulation. The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) are the two main bodies that regulate the financial services sector in the United Kingdom. The Financial Services Authority (FSA) used to be sole regulator until April 2013 when regulatory responsibilities were split between the PRA and FCA. The role of the PRA is defined in terms of its two statuary objectives: to promote the safety and soundness of financial firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policy holders. The FCA's role is to protect consumers, improve the integrity of the UK financial system, and to maintain competitive markets and promote effective competition in the interest of consumers.

All banks incorporated in the United Kingdom have to be licensed by the PRA and FCA. A number of hurdles must be cleared to obtain a licence, such as providing a five-year plan detailing the number of branches and funding plans, a quota of registered directors, and satisfying minimum capital requirements. However, the process of setting up a bank has been made somewhat easier during the past five years after several government inquiries criticised the lack of competition in industry. This was mainly done by lowering the capital that start-up banks must have when compared with other existing banks. Although EU incorporated banks are generally licensed and regulated by their home state regulator, the PRA assesses the risk posed by an EU bank entering the United Kingdom using passporting privileges to determine if the bank meets the requirements under the relevant single market directive.

Basel III

Basel III is a regulatory framework that aims to strengthen the requirements from the Basel II standard on the minimal capital requirement for banks. In addition, it introduces requirements on liquid asset holdings and funding stability, thereby seeking to mitigate the risk of a run on the bank. These requirements were first introduced in 2014 and are being gradually strengthened through 2019.

Stress testing

Annual stress testing was introduced in 2014-15 to determine the ability of a bank to cope during severe adverse economic conditions, such as unemployment rising sharply, the economy slipping into recession and house prices falling significantly. These tests have become increasingly stringent over recent years. If banks fail these tests they are required to take appropriate action, such as building up capital buffers. However, stress testing is only applicable to larger banks. In 2017, only seven banks were subject to stress testing.

Ring-fencing

Banks will be required to ring-fence their core retail operations from their riskier investment banking and wholesaling operations. These activities will have to be undertaken by a separate subsidiary. Although banks will have until 2019 to make the appropriate changes, IBISWorld expects that the influence of the reforms will be felt earlier. Barclays, for instance,

Operating Conditions

Regulation and Policy continued

changed their reporting segments to be in line with these requirements in 2016. The Independent Commission on Banking estimates that these reforms will cost banks between £4 billion and £7 billion per year. In addition, they are anticipated to significantly raise banks' funding costs.

MiFID II

MiFID II is a legislative framework and revision of the European Markets in Financial Instruments Directive that came into effect in November 2007. The revamped version was implemented on 3 January 2018, and is designed to enhance financial market transparency and increase investor protection. The framework covers a wide range of regulations, however those most related to the industry are concerned with the unbundling of research. Investment firms or buy-side companies will have to make explicit payments for the research provided by sell-side firms to demonstrate they are not induced to trade.

Industry Assistance

Level & Trend
The level of Industry Assistance is **High** and the trend is **Steady**

The industry receives a high level of assistance. During the financial crisis, the government bailed out failing banks, rather than risk the damage a collapse would have on the wider economy and the financial system. However, in November 2016, the Bank of England (BOE) announced new rules to make it easier to manage the failure of banks in an orderly way, as part of reforms to end government bailouts in the United Kingdom. This is primarily through the introduction of the Minimum Requirement for own funds and Eligible Liabilities requirements. These requirements will make it possible to resolve failing banks by ensuring that they hold sufficient equity and debt to absorb losses. This process is called 'bail-in'. These requirements will be introduced in two phases. Banks will be obliged to comply with interim requirements by 2020. From January 2022, the largest UK banks will need to hold sufficient capital to allow the BOE to resolve them in an orderly way. Meanwhile, the BOE also provides additional liquidity to banks if the needs arises. For instance, in the aftermath of the referendum result, the BOE provided £3.1 billion of liquidity to banks.

Key Statistics

Industry Data

	Revenue (£ million)	Industry Value Added (£ million)	Establishments	Enterprises	Employment	Exports	Imports	Wages (£ million)	Domestic Demand
2009-10	44,355.6	31,137.6	2,328	1,164	64,013	--	--	21,385.8	N/A
2010-11	43,163.5	29,567.0	2,304	1,129	59,534	--	--	20,502.6	N/A
2011-12	43,990.2	30,441.2	2,300	1,113	55,104	--	--	21,454.7	N/A
2012-13	44,956.2	30,660.1	2,274	1,090	50,612	--	--	21,397.1	N/A
2013-14	46,615.0	31,559.3	2,251	1,068	49,512	--	--	21,223.5	N/A
2014-15	47,284.2	32,049.3	2,242	1,052	49,785	--	--	21,151.6	N/A
2015-16	48,563.6	33,411.1	2,221	1,037	50,684	--	--	21,450.8	N/A
2016-17	49,714.5	34,603.8	2,199	1,028	51,631	--	--	21,345.3	N/A
2017-18	50,815.0	35,105.9	2,165	1,023	52,441	--	--	21,299.1	N/A
2018-19	52,099.4	35,805.2	2,128	1,016	53,360	--	--	21,355.9	N/A
2019-20	53,193.5	36,234.9	2,096	1,008	54,160	--	--	21,462.7	N/A
2020-21	53,991.4	36,814.6	2,058	998	55,135	--	--	21,634.4	N/A
2021-22	54,639.3	37,440.5	2,027	986	55,907	--	--	21,699.3	N/A
2022-23	55,404.2	37,927.2	2,003	977	56,578	--	--	21,807.8	N/A
2023-24	55,958.3	38,344.4	1,977	970	57,087	--	--	21,916.8	N/A

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2010-11	-2.7	-5.0	-1.0	-3.0	-7.0	N/A	N/A	-4.1	N/A
2011-12	1.9	3.0	-0.2	-1.4	-7.4	N/A	N/A	4.6	N/A
2012-13	2.2	0.7	-1.1	-2.1	-8.2	N/A	N/A	-0.3	N/A
2013-14	3.7	2.9	-1.0	-2.0	-2.2	N/A	N/A	-0.8	N/A
2014-15	1.4	1.6	-0.4	-1.5	0.6	N/A	N/A	-0.3	N/A
2015-16	2.7	4.2	-0.9	-1.4	1.8	N/A	N/A	1.4	N/A
2016-17	2.4	3.6	-1.0	-0.9	1.9	N/A	N/A	-0.5	N/A
2017-18	2.2	1.5	-1.5	-0.5	1.6	N/A	N/A	-0.2	N/A
2018-19	2.5	2.0	-1.7	-0.7	1.8	N/A	N/A	0.3	N/A
2019-20	2.1	1.2	-1.5	-0.8	1.5	N/A	N/A	0.5	N/A
2020-21	1.5	1.6	-1.8	-1.0	1.8	N/A	N/A	0.8	N/A
2021-22	1.2	1.7	-1.5	-1.2	1.4	N/A	N/A	0.3	N/A
2022-23	1.4	1.3	-1.2	-0.9	1.2	N/A	N/A	0.5	N/A
2023-24	1.0	1.1	-1.3	-0.7	0.9	N/A	N/A	0.5	N/A

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee (£'000)	Wages/Revenue (%)	Employees per Est.	Average Wage (£)	Share of the Economy (%)
2009-10	70.20	N/A	N/A	692.92	48.21	27.50	334,085.26	1.85
2010-11	68.50	N/A	N/A	725.02	47.50	25.84	344,384.72	1.73
2011-12	69.20	N/A	N/A	798.31	48.77	23.96	389,349.23	1.75
2012-13	68.20	N/A	N/A	888.25	47.60	22.26	422,767.33	1.74
2013-14	67.70	N/A	N/A	941.49	45.53	22.00	428,653.66	1.75
2014-15	67.78	N/A	N/A	949.77	44.73	22.21	424,858.89	1.72
2015-16	68.80	N/A	N/A	958.16	44.17	22.82	423,226.26	1.76
2016-17	69.61	N/A	N/A	962.88	42.94	23.48	413,420.23	1.79
2017-18	69.09	N/A	N/A	968.99	41.91	24.22	406,153.58	1.79
2018-19	68.72	N/A	N/A	976.38	40.99	25.08	400,223.01	1.79
2019-20	68.12	N/A	N/A	982.15	40.35	25.84	396,283.23	1.79
2020-21	68.19	N/A	N/A	979.26	40.07	26.79	392,389.59	1.80
2021-22	68.52	N/A	N/A	977.32	39.71	27.58	388,132.08	1.80
2022-23	68.46	N/A	N/A	979.25	39.36	28.25	385,446.64	1.80
2023-24	68.52	N/A	N/A	980.23	39.17	28.88	383,919.28	1.79

Figures are inflation-adjusted to 2018-19.

SOURCE: WWW.IBISWORLD.CO.UK

Jargon & Glossary

Industry Jargon

FICC TRADING Trading in fixed income products, commodities and currencies. An ancillary service offered by investment banks.

INITIAL PUBLIC OFFERING (IPO) The first time a company sells its stock to the general public to raise money.

LONDON INTERBANK OFFERED RATE (LIBOR) The average interbank interest rate offered by the world's most creditworthy banks.

MID-CAP A term used to describe companies that have medium-size market capitalisations. Market capitalisation is calculated by multiplying the number of outstanding shares by the current stock price.

RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS) Securities that yield cash payments from homeowners paying off their mortgages.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than £0.333 of capital to £1 of labour; medium is £0.125 to £0.333 of capital to £1 of labour; low is less than £0.125 of capital for every £1 of labour.

CONSTANT PRICES The pound figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the pound, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the Office for National Statistics' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within the UK, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by UK companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in the UK.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. Benefits and on-costs are included in this figure.