

Banking Regulation, Deal Work Spur Growth at London Law Firms

July 9, 2014

By Jessica Morris and Jeremy Hodges

London's most successful law firms saw revenue increase in the last year as banking regulation and mergers fueled some of the strongest growth since the 2008 financial crisis.

Clifford Chance LLP, the highest grossing U.K. law firm, posted the largest increase of the group, with revenues rising 7 percent to 1.35 billion pounds (\$2.31 billion). Linklaters LLP's revenue increased 5 percent to 1.25 billion pounds in the financial year that ended April 30.

These law firms have "been positioning themselves as the go to players for complex and high-profile work," Tony Williams, founder of Jomati Consultants LLP and a former managing partner at Clifford Chance, said in a telephone interview. In the last few years they have been active in "corporate investigations" as regulators increase their scrutiny of banks, he said.

STORY: Jobs Are Still Scarce for New Law School Grads

The earnings reports issued this month by the firms, known as the Magic Circle, are generally an improvement over a year ago when two said income from fees grew only by 1 percent or less and a third said revenue fell.

Increased regulatory scrutiny surrounding the behavior of financial institutions has led to a record 474 million pounds in penalties last year, including a 137 million-pound fine paid by JPMorgan Chase & Co. (JPM:US) over its handling of the London Whale trading loss. The Financial Conduct Authority has already handed out nearly 136 million pounds in fines so far in 2014.

M&A Markets

Still, law firm growth remains tied to the broader economy, James Tsolakis, head of the legal banking services at the Royal Bank of Scotland Group Plc, said in a phone interview.

VIDEO: Indonesian Tobacco Firms Snub Health Warning Law

"They're really relying on growth in the M&A markets," he said.

Clifford Chance cited deal activity as the main factor for its improved finances.

"From the beginning of January there has been strong growth in mergers and acquisitions," Matthew Layton, London-based Clifford Chance's managing partner said last week. "In some ways that's the pipeline activity starting to move after a period of low activity, and also a sign of the growing confidence of boardrooms."

VIDEO: Can Carbon Capture Spur a Global Climate Deal?

The second quarter of 2014 was the best period for takeovers since 2007, with companies agreeing to more than \$900 billion of purchases. Clifford Chance advised on 77 announced mergers and acquisitions worth \$60.3 billion in the financial year that ended April 30, according to Bloomberg data.

"Deal activity has definitely increased," Tsolakis said. "We're seeing increasing volumes of activity, but certainly not to the levels it was six years ago."

Two other members of the so-called Magic Circle of London's biggest law firms also posted higher income in earnings reports released this month. Freshfields Bruckhaus Deringer LLP's revenue increased 1 percent to 1.23 billion pounds while Allen & Overy's revenue increased 2 percent to 1.23 billion pounds.

STORY: Citigroup Still Rolls the Dice on Mortgage Bonds

While London law firms' earnings fell during the global financial crisis, the recent results demonstrate their resilience, Williams said.

"We're in a stage where the bigger group of firms seem to have a pretty robust business model." They're "flexible enough to cope with a pretty brutal downturn and come out of it fairly strongly," he said