



Case M971

The merger of BDO Limited (Guernsey) and PKF (Channel Islands) Limited

Decision

Redacted Version for Publication

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Guernsey Competition & Regulatory Authority

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Executive Summary

1. This decision relates to the proposed merger between BDO Limited and PKF (Channel Islands) Limited, both companies registered in Guernsey. The merger was notified and opened to public comment and consultation on 19 March, and no comments or enquiries were received. This transaction is a direct result of the merger between BDO LLP and PKF (UK) LLP in the UK.
2. Both companies are “mid-tier” firms of chartered accountants which operate as part of international networks with affiliated businesses around the world. The transaction would see BDO Limited acquire the assets and business of PKF (Channel Islands) Limited, both then operating as part of the BDO international network. The transaction falls within section 13 of the *Competition (Guernsey) Ordinance 2012* by virtue of the turnover of the parties in Guernsey. The transaction therefore requires the approval of the GCRA (“the Authority”).
3. This is a service sector that is dominated worldwide by the “big four” accounting firms, (PwC, Deloitte, Ernst & Young, KPMG) each with global turnover in excess of £10 billion. The position in Guernsey is similar, these four dominate the Guernsey market and the parties identify them plus Grant Thornton as their main competitors in the local market. While there are a number of specialist areas of expertise within the market for audit, accountancy and related services, the underlying qualifications are standard and recognised worldwide. Barriers to entry into the market are small and services can be provided to clients in the Bailiwick from companies based outside the jurisdiction.
4. The market share of each party is [**Redacted**], the combined business’ share of the market will be less than 10%. Therefore the Authority does not perceive any detriment to the market or significant lessening of competition from this degree of concentration; indeed, there may be benefits to customers and the economy as a whole from the creation of a larger competitor more able to compete with the “big four”.
5. Therefore the Authority approves the transaction in accordance with section 13 of the *Competition (Guernsey) Ordinance 2012*. The issues and reasons for the decision are set out in more detail below.

The parties

6. BDO Limited (“BDO Guernsey”) is a Guernsey registered company and subsidiary of BDO LLP, a UK limited liability partnership, which operates within the BDO international network. Although it is the fifth largest global accountancy network, it remains substantially smaller than those of the “big four”. BDO in Jersey is a separate business within the BDO network, independent of BDO in the UK or Guernsey. It is not part of this transaction or the UK merger.
7. PKF (Channel Islands) Limited (“PKF Guernsey”) is a privately owned company also registered in Guernsey, which operates within the PKF international network.
8. Both are firms of chartered accountants registered¹ with, but not regulated by, the GFSC (Guernsey Financial Services Commission). Both are “recognised auditors” listed by the Guernsey Registry² under the *Companies (recognition of Auditors) Ordinance, 2010*; so may act as auditors for any market traded company (listed on a recognised exchange).
9. Both provide audit, accountancy and tax advisory and compliance services to finance sector businesses and individuals in Guernsey although with slightly different areas of expertise.

The Transaction

10. The main reason for the merger is that BDO Guernsey’s parent, BDO LLP in the UK, has merged with PKF (UK) LLP. The UK merger was completed on 2 April 2013. It was not notified to the OFT (Office of Fair Trading).
11. The transaction will take the form of the acquisition by BDO Guernsey of the business and net assets of PKF Guernsey. The combined business will become part of BDO LLP and operate within the BDO International Network.
12. The turnover of BDO Guernsey [Redacted] for the year to 31/12/12. Turnover for PKF Guernsey was [Redacted] for the 9 months to 31/1/13 [Redacted] on an annualised basis. Therefore the merger falls within the thresholds laid down in the *Competition (prescribed mergers and acquisitions) (Guernsey) Regulations 2012* and the approval of the Authority is required prior to completion.
13. Of this turnover, the majority arises from audit and accountancy fees, [Redacted] for BDO Guernsey and [Redacted] for PKF Guernsey. The majority of the remainder is from tax advisory and compliance fees (PKF) and business advisory fees (BDO).

¹ In accordance with *The Criminal Justice (Proceeds of Crime) (Legal Professionals, Accountants and Estate Agents) (Bailiwick of Guernsey) Regulations, 2008*; from which businesses operating wholly within Guernsey or with a turnover <£50k per annum are exempted.

² See Guernsey Registry <http://www.guernseyregistry.com/article/4016/Recognised-Auditors-Register>

Consultation

14. The merger was notified on the CICRA website on 19 March 2013, opening a consultation window that closed on Tues 2 April 2013. No responses or requests for information have been received in connection with that consultation.

The Market

15. It is difficult to estimate market shares by value because little information on the audit, accounting or advisory sector is published. Businesses in Guernsey are not required to place in the public domain annual reports which would set out the costs of audit and other services. However, the parties have been able to provide the following breakdown by sub sector, based on the number of clients and total number of businesses in various sectors:

Sector	Number of entities	estimated Market share		
		BDO	PKF	Combined business
Funds	1,164	[Redacted]		[5-10%]
Fund managers	644	[Redacted]		[5-10%]
Captive Insurers	739	[Redacted]		[5-10%]
Trading Entities	15,821	[Redacted]		[< 5%]

16. Given that market share figures are estimated on the number of businesses served, rather than turnover or fees, GCRA considers they may overestimate market share. Larger businesses tend to pay higher fees but are more likely to be served by one of the big four, or to be part of a wider group that is served by one of the big four.
17. For the purposes of this assessment, the Authority has taken the view that the relevant market is the market for Chartered Accountancy audit and related services and that the relevant geographic market is Guernsey.
18. Consideration was made as to whether the market should be further broken down, into services requiring recognised auditor status and other services or specific sectors for audit, accounting, tax advisory and compliance services. However, GCRA is not minded to do so for this particular transaction. There are no sub-sectors in which either PKF or BDO is currently dominant or in which the combined business would be dominant. Narrowing the market definition or considering a number of distinct markets would not, in this case, affect the GCRA's reasoning or decision.
19. The majority of clients are based locally and services to parts of the business in other jurisdictions are often provided by another partner within the chosen accounting

network. Parties from outside the Bailiwick which wish to provide services locally need either to acquire recognised auditor status or to be registered with GFSC.

Consideration

20. Under Section 13 (1) of the *Competition (Guernsey) Ordinance 2012* prescribed mergers are defined by regulations issued under subsection 13 (3), currently the *Competition (Prescribed Mergers and Acquisitions) (Guernsey) Regulations 2012* and are prohibited unless approved by the Authority.
21. According to 13 (2) of the Ordinance, the Authority shall not grant approval unless satisfied that the merger or acquisition would not
 - (a) *Substantially lessen competition within any market in Guernsey for goods or services; and*
 - (b) *would not be to the prejudice of*
 - (i) *consumers or any class or description thereof,*
 - (ii) *the economic development of the Bailiwick, and*
 - (iii) *the public interest.*
22. The market for accountancy services is highly competitive. There are 51 accountancy firms registered with the GFSC³, including BDO Guernsey and PKF Guernsey. There are 13 firms registered⁴ under the *Companies (recognition of Auditors) Ordinance, 2010* which are therefore approved to audit companies listed on relevant exchanges. However, not all are independent, so the list includes the UK businesses BDO LLP and PKF (UK) LLP as well as the Guernsey based businesses.
23. While there can be a number of specialist areas within the market, the barriers to entry are minimal. The main costs are staff related, the business requires no significant investment in plant or machinery, and qualifications are common across the sector and globally recognised. In support of this there have been a number of new entrants to the Guernsey market in recent years, including AG Accounting Services Limited; Baker Tilly CI Audit Limited; Begbies Traynor (CI) Limited; Legis Tax Services Limited; Mark Davies & Associates (Offshore) Limited. In addition, many UK firms are represented in the Channel Islands but there remain a significant number which are not but would be able to enter the market should they wish to do so.
24. One area of exception may be in the provision of services to significant listed businesses, which might either require a global capability (so the majority of the provision would fall outwith the Guernsey market) or a certain degree of experience and reputation. This part of the market is dominated globally by the “big four” (PwC,

³ GFSC <http://www.gfsc.gg/Registered/Registered-Entities/Pages/Prescribed-Businesses.aspx> ; as of 03/13.

⁴ See Guernsey Registry <http://www.guernseyregistry.com/article/4016/Recognised-Auditors-Register>

Deloitte, Ernst & Young, KPMG) and because many global businesses require a single audit firm for their worldwide business, they also dominate the market for the larger customers in Guernsey. Nevertheless, as noted earlier, 13 firms are registered under the *Companies (recognition of Auditors) Ordinance, 2010* and would be able to provide such services locally. Even allowing for companies which are part of the same network and excluding the parties involved in this transaction, there are 8 separate independent groups – including the “big four” – which can provide these services in Guernsey.

25. Local experience reported by the businesses involved indicates that conditions are similar to the UK and reflect the provisional findings of the Competition commission’s report into the audit market in the UK⁵. This identified adverse effects on competition in a market dominated by the “big four”, and where although tendering is not uncommon, it is not yet the norm and switching auditors is rare. That report suggests that for the UK, additional competition in the market place should be encouraged.
26. The best estimates of market share, which were provided by the applicants based on the number of businesses in various sectors registered with the Guernsey Registry, shows a total of 18,386 Limited companies of which around [Redacted]% are served by the applicants. Their largest sector is Captive Insurance where they provide services to almost [5-10%] of the 700+ registered entities.
27. In the absence of any adverse comment from the consultation, GCRA sees no material detriment to the market from the concentration caused by this transaction. In this market, which is dominated by the “big four” accountancy firms, there are potentially significant benefits to competition from the creation of stronger competitors through the merger of mid-tier accountancy firms.
28. GCRA believes that this particular transaction will not significantly lessen competition and may in fact strengthen competition in the sector. There will not be an adverse effect on customers or the economy or the public interest and there may be significant benefits to customers as a whole as the greater scale and scope of the merged business should allow it to compete more effectively with the “big four”.

Decision

29. In accordance with Section 13 of the *Competition (Guernsey) Ordinance 2012*, the Authority approves the merger without conditions.

⁵ Competition Commission: Statutory Audit Services Market Investigation; provisional findings, 22 Feb 2013.

4 April 2013

By order of the GCRA board