

## Battening Down the Hatches to Weather the Storm

### Another body blow to the industry

There were few green shoots for the Canadian investment industry this spring. In the just completed second quarter April-June this year, the industry turned in the worst results in at least a decade and even longer. Industry operating profit totaled just \$510 million, a 58% drop from the previous quarter. Year-over-year profit, measured for the latest six months, was down 36%, from already depressed levels. The steady, jagged decline in the TSX Composite Index from its February 2012 peak, and an even steeper decline in the TSX Venture Index – triggered by the never-ending bad news out of Europe – cooled out retail and institutional share trading, and put a damper on equity financing and M&A activity.

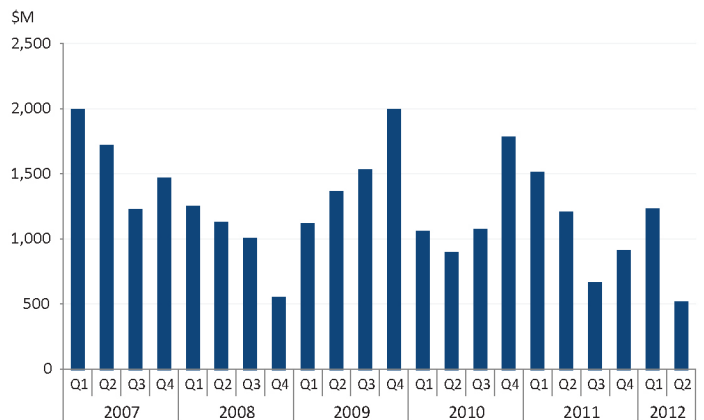
### Slide in Equity Prices - February Through July, 2012



### Tepid market conditions hit everyone

All firm groupings in the industry were caught by weak market conditions. The integrated dealers, with a full complement of business and a national base, fared better than the boutique firms. But even for integrated dealers, operating profit fell to \$520 million, almost half the previous quarter level. The second quarter earnings collapse broke a promising steady improvement in results over the previous two quarters. The integrated firms have benefited from solid fixed income trading results, boosted less from active trading and more from a robust “carry trade” business reflecting the wide gap between lending and borrowing rates in domestic and cross-border transactions. Similarly, these rate spreads have contributed to strong gains in the retail intermediation of client cash balances (net interest income) at dealers. Despite fundamental weaknesses in the wealth management and investment banking businesses, these integrated firms have enough scale and breadth of business to weather the storm.

### Operating Profit - Industry

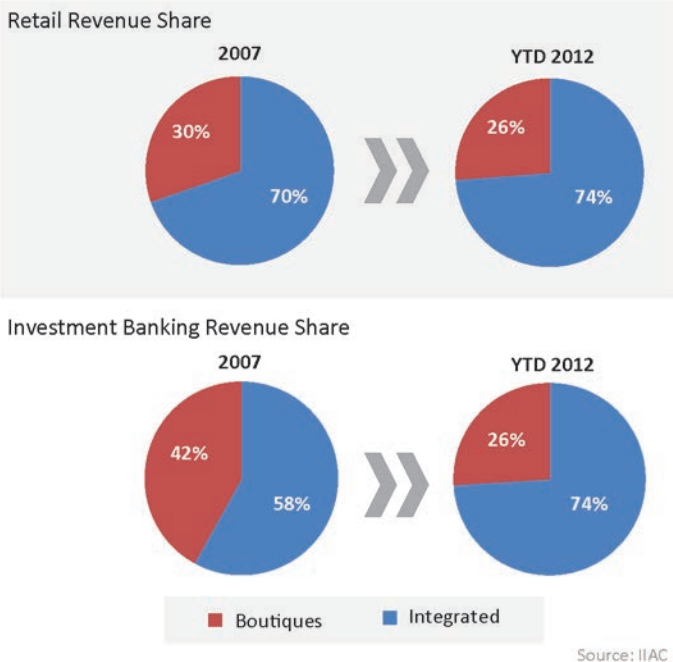


### Boutiques hit by 3 Cs: (Market) Conditions, Competition and Costs

The institutional and retail boutiques, some 180 firms, are under severe pressure from market conditions, intense competition and relentless cost demands from technology and regulatory compliance. Both the institutional and retail firm groupings turned in poor results in the latest quarter. For the first time ever, the roughly 80 institutional firms, as a group, barely broke even in the quarter. But poor performance has been the hallmark for some time – with quarterly operating profit averaging about \$200 million in the past year and a half, and just \$300 million in the two years following the 2008 financial crash. The institutional group eked out an ROE of 6% last year on roughly \$4 billion of equity capital, far below returns in the pre-2008 period. The paucity of sustained corporate financings, stiff competition from the integrated firms, and firms in the exempt marketplace, and a heavy and increasing cost structure have plagued earnings results. The retail boutiques have not fared much better in the past four years. The roughly 110 self-clearing and introducer firms chalked up consecutive operating losses in the last two quarters, the first time the grouping has run up losses. Quarterly operating profit averaged only \$55 million in the full year 2011, and roughly \$50 million a quarter through 2009-10. Profit in the past year or so was a third of the levels in the 2006-07.

At any point in time, the earnings performance of firms in the boutique sector has been divergent, reflecting different business focus, and strategic management. As conditions have worsened this year, this earnings divergence has widened. In the second quarter, more than half the firms in the institutional/retail groupings are now losing money on an operating basis or break-even position – twice as many as just a year ago.

## Integrated Firms Encroach on Boutiques



So where do we go from here? Have we reached rock bottom and about to turn the corner? The industry has benefitted from a summer rally, but not enough to make much difference. The pace of common equity financings picked up modestly in August, and anecdotal evidence indicates modest gains in retail earnings from increased brokerage and higher fee income. But unless stock markets soar in the fourth quarter, an unlikely occurrence even with improving news out of Europe and the recent Q3 announcement at the Fed, industry earnings performance for the year will fall short of last year's mediocre results.

### The strategic response – cutting costs and building scale

#### Smaller institutional firms – building scale or scaling back

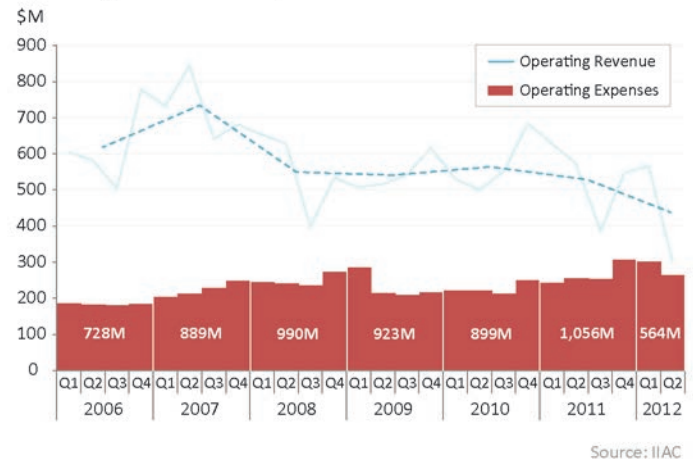
The smaller institutional firms are at an important crossroads. These 80 firms, differing in size and institutional focus, have held on despite persistently weak markets and eroding revenues. Revenues have steadily eroded for the institutional group in the past four years. For example, quarterly gross revenue averaged about \$430 million in the latest two quarters (January-June 2012), down from a quarterly average of \$550 million through 2009-11, and well below peak quarterly revenues of \$670 million in the 2006-07 bull market. Moreover, the institutional and retail boutiques have lost market share of the investment banking business. In the four years since the financial crash, the investment banking revenue share at boutique firms has fallen nearly in half from a 42% share in 2007 to 26% by June 2012.

In the bull market years, these boutiques rapidly built up equity trading infrastructure and research capacity to compete for underwriting and corporate merger and acquisition business. Costs also reflected heavy outlays to meet the technology and compliance requirements for trading interconnectivity to the new

ATS trading platforms. Annual operating costs jumped to roughly \$900 million by the end of 2007, just less than a 50% increase in less than two years. While these costs have leveled out in the subsequent period 2008-12, annual revenues have fallen nearly one-third, devastating profitability.

### Narrowing Profit Margins - Institutional Firms

#### Operating Revenue and Expenses



These firms are engaged in various strategies. First, seeking acquisitions or compatible partners to expand business on one institutional platform, building scale and lowering unit costs. Second, the contrary strategy of retrenchment – cutting operating costs on the existing platform and scaling back the platform, particularly in terms of the trading and research operations. A more extreme version of the latter approach will be to jettison trading and research altogether, and focus on exempt market financings under the EMD registration.

#### Retail boutiques – some breathing room, but a need to deal with scale

The retail boutiques, both the self-clearers and introducing firms, are confronted with similar structural challenges. While these firms have not undergone the same infrastructure expansion as the institutional boutiques, they have encountered significant cost pressures, from technology demands and regulatory compliance.

These firms, however, have some breathing room. Competition among the carrier brokers, with the entry of one large player, lowered costs in the last couple of years. Further, the regulatory burden, notably expanded requirements of the Client Relationship Model, will be phased in gradually. And finally, compliance technology offered by the carrier brokers may lower some net costs for introducer firms.

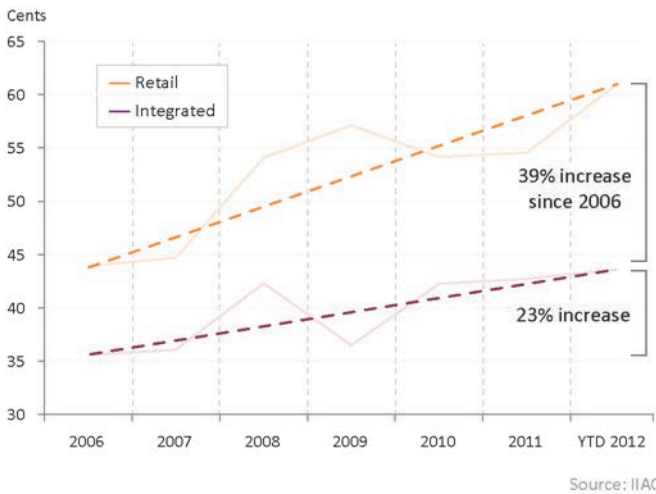
The immediate priority for the smaller self-clearer and introducer firms has been to cut operating costs where possible, tighten advisor pay-out ratios and set minimum performance standards for brokers, migrate to carrier platforms and expand carrier services to include compliance and other financial services. None of this



will alleviate the scale problem for small firms, or the expanding compliance burden. And carrier broker fees are substantial.

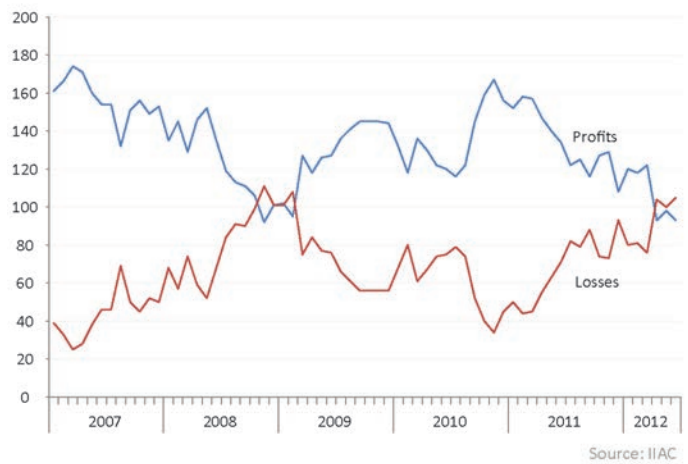
### The Advantage of Scale

#### Non-compensation Operating Cost Per Dollar Revenue Integrated v. Retail Boutiques



The retail firms have also taken steps to expand size and scale. The retail boutiques face an acute scale problem. Per unit non-compensation operating costs are significantly higher at the small firms than the integrate firms and rising at a faster rate. These per unit costs have risen at an average annual rate of about 5% in the past five years, an upward trend that is unsustainable. Firms are aggressively adding advisors – matching corresponding advisor interest moving to larger, more diversified shops, and seeking out merger and amalgamation opportunities.

### Number of Firms with Profits and Losses



The small retail firms have also focused on the advisor practice to build revenues. Firms recognize that strategic and deep client engagement placing the advisor at the epicenter of the client’s financial affairs can generate increased portfolio activity and client referrals, as well as stabilize the existing client base. Further, firms will continue to offer fee-based accounts to complement the traditional brokerage business, and expand product line and services such as financial and estate planning to boost revenue.

### Conclusion: New strategies – vigorous enough, quick enough?

The revenue-boosting and cost strategies underway among the smaller firms in the industry will have a positive effect on their bottom line. We sense they are being implemented at an accelerated pace, with increased, if resigned acceptance that a sustained market recovery is not around the next corner. The concern would be that these remedial steps have come too late for some firms, and have not been taken vigorously enough to counteract the relentless market and competitive pressures. The result could be more pronounced structural adjustment and industry dislocation than would otherwise be the case.

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 12	Q1 12	Q2 11	Q2/Q1	Q2 12/11	2011	2010	2009	2008	11/10	10/09	09/08
<b>Number of firms</b>	198	198	205	0.0%	-3.4%	201	201	200	202	0.0%	0.5%	-1.0%
<b>Number of employees</b>	40,267	40,215	40,657	0.1%	-1.0%	40,427	39,917	39,894	40,836	1.3%	0.1%	-2.3%
<b>Revenue</b>												
<b>Commissions</b>	1,238	1,430	1,442	-13.4%	-14.1%	5,817	5,631	5,052	5,592	3.3%	11.5%	-9.7%
<i>Mutual fund only commissions</i>	527	556	546	-5.3%	-3.6%	2,156	1,950	1,605	1,860	10.6%	21.5%	-13.7%
<b>Investment banking</b>	709	982	1,161	-27.8%	-38.9%	3,977	4,029	3,915	3,077	-1.3%	2.9%	27.2%
<i>New issues equity</i>	313	560	611	-44.0%	-48.7%	2,165	2,234	2,356	1,580	-3.1%	-5.2%	49.1%
<i>New issues debt</i>	228	174	208	31.0%	9.5%	826	809	653	483	2.1%	23.9%	35.2%
<i>Corporate advisory fees</i>	168	248	341	-32.4%	-50.9%	986	986	906	1,014	0.0%	8.8%	-10.7%
<b>Fixed income trading</b>	317	343	229	-7.7%	38.1%	1,064	1,173	2,109	1,045	-9.3%	-44.4%	101.8%
<b>Equity trading</b>	-191	109	34	-275.3%	-665.1%	-1	267	459	-11	-100.5%	-41.8%	4272.7%
<b>Net interest</b>	286	293	355	-2.2%	-19.4%	1,376	1,054	914	1,894	30.5%	15.3%	-51.7%
<b>Fees</b>	785	788	758	-0.3%	3.6%	3,094	2,721	2,385	2,624	13.7%	14.1%	-9.1%
<b>Other</b>	180	276	185	-35.0%	-2.9%	810	1,004	1,473	371	-19.4%	-31.8%	297.0%
<b>Operating revenue</b>	3,324	4,220	4,164	-21.2%	-20.2%	16,136	15,878	16,306	14,593	1.6%	-2.6%	11.7%
<b>Operating expenses<sup>1</sup></b>	1,787	1,873	1,813	-4.6%	-1.4%	7,355	6,825	6,555	6,528	7.8%	4.1%	0.4%
<b>Operating profit</b>	510	1,227	1,200	-58.4%	-57.5%	4,273	4,789	5,987	3,914	-10.8%	-20.0%	53.0%
<b>Net profit (loss)</b>	279	701	616	-60.3%	-54.8%	2,036	2,395	2,869	1,875	-15.0%	-16.5%	53.0%
<b>Shareholders' equity</b>	15,915	15,420	15,619	3.2%	1.9%	15,269	16,988	15,225	13,507	-10.1%	11.6%	12.7%
<b>Regulatory capital</b>	33,664	33,085	31,393	1.7%	7.2%	30,383	31,647	29,559	27,461	-4.0%	7.1%	7.6%
<b>Client cash holdings</b>	37,366	37,679	37,139	-0.8%	0.6%	39,304	37,952	36,816	33,677	3.6%	3.1%	9.3%
<b>Client debt margin outstanding</b>	13,667	14,408	14,469	-5.1%	-5.5%	13,458	13,731	11,048	8,846	-2.0%	24.3%	24.9%
<b>Productivity<sup>2</sup> (\$ thousands)</b>	330	420	410	-21.3%	-19.4%	399	398	409	357	0.3%	-2.7%	14.4%
<b>Annual return<sup>3</sup> (%)</b>	<b>7.0</b>	<b>18.2</b>	<b>15.8</b>	<b>-11.2%</b>	<b>-8.8%</b>	<b>13.3</b>	<b>14.1</b>	<b>18.8</b>	<b>13.9</b>	<b>-0.8%</b>	<b>-4.7%</b>	<b>5.0%</b>

<sup>1</sup> Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.

<sup>2</sup> Annual revenue per employee.

<sup>3</sup> Annual return is calculated as net profit/shareholder's equity.



## Integrated firms

Firms that are national in scope and have extensive retail and institutional operations; includes dealers of the six major chartered banks.

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 12	Q1 12	Q2 11	Q2/Q1	Q2 12/11	2011	2010	2009	2008	11/10	10/09	09/08
<b>Number of firms</b>	11	11	11	0.0%	0.0%	11	11	11	11	0.0%	0.0%	0.0%
<b>Number of employees</b>	25,720	25,675	25,069	0.2%	2.6%	25,595	24,955	25,131	25,973	2.6%	-0.7%	-3.2%
<b>Revenue</b>												
<b>Commissions</b>	869	1,000	966	-13.1%	-10.1%	3,921	3,767	3,384	3,675	4.1%	11.3%	-7.9%
<i>Mutual fund only commissions</i>	416	435	415	-4.4%	0.1%	1,654	1,471	1,226	1,414	12.4%	20.0%	-13.3%
<b>Investment banking</b>	525	727	797	-27.8%	-34.2%	2,726	2,566	2,598	1,874	6.2%	-1.2%	38.6%
<i>New issues equity</i>	234	418	382	-43.9%	-38.6%	1,390	1,311	1,587	967	6.0%	-17.4%	64.1%
<i>New issues debt</i>	187	139	171	34.6%	9.8%	699	682	546	405	2.5%	24.9%	34.8%
<i>Corporate advisory fees</i>	103	170	245	-39.4%	-57.9%	637	573	465	502	11.2%	23.2%	-7.4%
<b>Fixed income trading</b>	289	291	194	-0.9%	48.8%	800	960	1,690	782	-16.7%	-43.2%	116.1%
<b>Equity trading</b>	-91	104	-31	-187.6%	-195.3%	25	38	332	106	-33.5%	-88.6%	213.2%
<b>Net interest</b>	236	248	305	-4.7%	-22.5%	1,165	906	790	1,488	28.6%	14.7%	-46.9%
<b>Fees</b>	590	580	565	1.7%	4.4%	2,189	1,994	1,764	1,877	9.8%	13.0%	-6.0%
<b>Other</b>	116	122	107	-5.2%	7.8%	456	415	1,233	-1	9.9%	-66.3%	n.m.
<b>Operating revenue</b>	2,534	3,072	2,905	-17.5%	-12.8%	11,283	10,645	11,792	9,801	6.0%	-9.7%	20.3%
<b>Operating expenses<sup>1</sup></b>	1,202	1,242	1,186	-3.2%	1.4%	4,818	4,497	4,300	4,145	7.1%	4.6%	3.7%
<b>Operating profit</b>	520	947	905	-45.1%	-42.6%	3,212	3,127	4,782	2,722	2.7%	-34.6%	75.7%
<b>Net profit (loss)</b>	306	527	544	-41.9%	-43.8%	1,801	1,610	2,422	1,502	11.9%	-33.5%	61.3%
<b>Shareholders' equity</b>	10,776	10,479	10,718	2.8%	0.5%	10,475	11,585	10,029	8,637	-9.6%	15.5%	16.1%
<b>Regulatory capital</b>	24,259	24,662	22,316	-1.6%	8.7%	22,155	22,882	21,372	19,334	-3.2%	7.1%	10.5%
<b>Client cash holdings</b>	31,733	32,047	30,986	-1.0%	2.4%	33,088	31,677	31,451	28,157	4.5%	0.7%	11.7%
<b>Productivity<sup>2</sup> (\$ thousands)</b>	394	479	464	-17.7%	-15.0%	441	427	469	377	3.3%	-9.1%	24.3%
<b>Annual return<sup>3</sup> (%)</b>	<b>11.4</b>	<b>20.1</b>	<b>20.3</b>	<b>-8.8%</b>	<b>-8.9%</b>	<b>17.2</b>	<b>13.9</b>	<b>24.1</b>	<b>17.4</b>	<b>3.3%</b>	<b>-10.3%</b>	<b>6.8%</b>

<sup>1</sup> Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.

<sup>2</sup> Annual revenue per employee.

<sup>3</sup> Annual return is calculated as net profit/shareholder's equity.



## Institutional firms

Firms that generate most of their revenues from servicing institutional clients or through capital market operations.

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 12	Q1 12	Q2 11	Q2/Q1	Q2 12/11	2011	2010	2009	2008	11/10	10/09	09/08
<b>Number of firms</b>	80	79	79	1.3%	1.3%	78	74	72	69	5.4%	2.8%	4.3%
<b>Number of employees</b>	3,279	3,263	3,197	0.5%	2.6%	3,108	2,793	2,801	2,926	11.3%	-0.3%	-4.3%
<b>Revenue</b>												
<b>Commissions</b>	141	166	167	-15.3%	-15.8%	693	655	623	777	5.7%	5.1%	-19.8%
<b>Investment banking</b>	140	183	271	-23.2%	-48.2%	912	1,082	1,052	938	-15.7%	2.9%	12.2%
<i>New issues equity</i>	54	87	159	-38.2%	-66.2%	523	634	568	438	-17.5%	11.6%	29.7%
<i>New issues debt</i>	26	23	18	15.0%	43.0%	60	58	51	42	3.7%	13.7%	21.4%
<i>Corporate advisory fees</i>	60	73	94	-17.3%	-35.4%	329	390	433	458	-15.6%	-9.9%	-5.5%
<b>Fixed income trading</b>	23	33	0	-29.4%	n.m.	179	122	249	94	46.7%	-51.0%	164.9%
<b>Equity trading</b>	-92	-5	71	-1852.1%	-228.4%	-44	145	46	-61	-130.1%	215.2%	175.4%
<b>Net interest</b>	17	13	7	34.5%	166.2%	49	35	33	212	39.0%	6.1%	-84.4%
<b>Fees</b>	43	57	29	-23.4%	52.2%	174	104	77	79	67.4%	35.1%	-2.5%
<b>Other</b>	26	119	28	-77.9%	-7.1%	173	453	101	174	-61.8%	348.5%	-42.0%
<b>Operating revenue</b>	300	566	573	-47.0%	-47.6%	2,136	2,596	2,182	2,214	-17.7%	19.0%	-1.4%
<b>Operating expenses<sup>1</sup></b>	263	301	254	-12.4%	3.7%	1,056	899	923	990	17.4%	-2.6%	-6.8%
<b>Operating profit</b>	1	299	248	-99.6%	-99.5%	839	1,440	1,025	947	-41.7%	40.5%	8.2%
<b>Net profit (loss)</b>	2	205	59	-99.1%	-96.8%	213	752	444	382	-71.7%	69.4%	16.2%
<b>Shareholders' equity</b>	3,993	4,025	3,653	-0.8%	9.3%	3,632	4,108	3,972	3,803	-11.6%	3.4%	4.4%
<b>Regulatory capital</b>	7,772	7,030	6,616	10.6%	17.5%	6,617	7,068	6,607	6,118	-6.4%	7.0%	8.0%
<b>Client cash holdings</b>	1,806	1,677	1,382	7.6%	30.7%	1,296	1,306	859	1,326	-0.7%	52.0%	-35.2%
<b>Productivity<sup>2</sup> (\$ thousands)</b>	366	694	717	-47.2%	-48.9%	687	929	779	757	-26.1%	19.3%	3.0%
<b>Annual return<sup>3</sup> (%)</b>	<b>0.2</b>	<b>20.4</b>	<b>6.4</b>	<b>-20.2%</b>	<b>-6.2%</b>	<b>5.9</b>	<b>18.3</b>	<b>11.2</b>	<b>10.0</b>	<b>-12.4%</b>	<b>7.1%</b>	<b>1.1%</b>

<sup>1</sup> Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.

<sup>2</sup> Annual revenue per employee.

<sup>3</sup> Annual return is calculated as net profit/shareholder's equity.



## Retail firms

Firms that generate most of their revenues from servicing retail clients.

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 12	Q1 12	Q2 11	Q2/Q1	Q2 12/11	2011	2010	2009	2008	11/10	10/09	09/08
<b>Number of firms</b>	107	108	115	-0.9%	-7.0%	112	116	117	122	-3.4%	-0.9%	-4.1%
<b>Number of employees</b>	11,268	11,277	12,391	-0.1%	-9.1%	11,724	12,169	11,962	11,937	-3.7%	1.7%	0.2%
<b>Revenue</b>												
<b>Commissions</b>	229	264	309	-13.2%	-25.9%	1,203	1,208	1,045	1,140	-0.4%	15.6%	-8.3%
<i>Mutual fund only commissions</i>	113	122	132	-7.4%	-14.9%	506	478	375	440	5.8%	27.5%	-14.8%
<b>Investment banking</b>	44	72	92	-38.9%	-52.5%	338	381	265	265	-11.2%	43.8%	0.0%
<i>New issues equity</i>	25	55	70	-54.1%	-64.1%	253	289	201	176	-12.6%	43.8%	14.2%
<i>New issues debt</i>	15	12	20	20.8%	-24.7%	67	69	56	36	-3.4%	23.2%	55.6%
<i>Corporate advisory fees</i>	4	5	3	-15.6%	48.9%	19	23	8	54	-16.9%	187.5%	-85.2%
<b>Fixed income trading</b>	5	19	36	-74.6%	-86.8%	86	91	169	170	-5.8%	-46.2%	-0.6%
<b>Equity trading</b>	-9	10	-7	-183.9%	-28.5%	17	84	81	-56	-79.8%	3.7%	244.6%
<b>Net interest</b>	32	32	43	2.3%	-25.4%	162	113	91	194	43.1%	24.2%	-53.1%
<b>Fees</b>	151	150	164	0.7%	-7.5%	731	623	544	667	17.3%	14.5%	-18.4%
<b>Other</b>	38	35	49	6.1%	-23.8%	180	137	138	198	31.7%	-0.7%	-30.3%
<b>Operating revenue</b>	490	582	686	-15.8%	-28.6%	2,717	2,637	2,322	2,578	3.0%	13.6%	-9.9%
<b>Operating expenses<sup>1</sup></b>	322	330	373	-2.4%	-13.7%	1,482	1,428	1,332	1,394	3.8%	7.2%	-4.4%
<b>Operating profit</b>	-11	-20	47	45.2%	-123.2%	221	222	180	245	-0.2%	23.3%	-26.5%
<b>Net profit (loss)</b>	-29	-31	13	5.5%	-326.7%	22	33	3	-8	-34.7%	1000.0%	137.5%
<b>Shareholders' equity</b>	1,145	917	1,248	24.9%	-8.2%	1,162	1,295	1,224	1,067	-10.3%	5.8%	14.7%
<b>Regulatory capital</b>	1,633	1,394	2,461	17.1%	-33.7%	1,610	1,697	1,580	1,744	-5.1%	7.4%	-9.4%
<b>Client cash holdings</b>	3,827	3,954	4,772	-3.2%	-19.8%	4,920	4,820	4,506	4,194	2.1%	7.0%	7.4%
<b>Productivity<sup>2</sup> (\$ thousands)</b>	174	206	222	-15.7%	-21.5%	232	217	194	216	6.9%	11.6%	-10.1%
<b>Annual return<sup>3</sup> (%)</b>	-10.2	-13.5	4.1	3.3%	-14.4%	1.9	2.5	0.2	-0.7	-0.6%	2.3%	1.0%

<sup>1</sup> Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.

<sup>2</sup> Annual revenue per employee.

<sup>3</sup> Annual return is calculated as net profit/shareholder's equity.



## Domestic institutional

Firms that generate most of their revenues from servicing institutional clients and have their head office located in Canada.

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 12	Q1 12	Q2 11	Q2/Q1	Q2 12/11	2011	2010	2009	2008	11/10	10/09	09/08
<b>Number of firms</b>	57	58	57	-1.7%	0.0%	57	54	52	49	5.6%	3.8%	6.1%
<b>Number of employees</b>	2,268	2,285	2,374	-0.7%	-4.5%	2,279	2,013	2,090	2,146	13.2%	-3.7%	-2.6%
<b>Revenue</b>												
<b>Commissions</b>	90	109	114	-17.6%	-21.4%	470	448	439	517	4.8%	2.1%	-15.1%
<b>Investment banking</b>	100	118	198	-15.6%	-49.7%	666	781	684	635	-14.7%	14.2%	7.7%
<i>New issues equity</i>	48	80	148	-39.4%	-67.4%	481	574	468	389	-16.1%	22.6%	20.3%
<i>New issues debt</i>	13	6	6	98.4%	127.7%	25	17	17	9	49.6%	0.0%	88.9%
<i>Corporate advisory fees</i>	39	32	45	20.9%	-13.5%	159	190	198	237	-16.2%	-4.0%	-16.5%
<b>Fixed income trading</b>	7	8	3	-17.1%	150.1%	13	17	38	25	-21.8%	-55.3%	52.0%
<b>Equity trading</b>	-45	-16	-15	-180.1%	-201.2%	-44	101	113	-127	-143.3%	-10.6%	189.0%
<b>Net interest</b>	7	6	8	16.9%	-10.9%	28	20	19	50	40.0%	5.3%	-62.0%
<b>Fees</b>	20	32	25	-37.9%	-17.9%	101	93	69	64	9.0%	34.8%	7.8%
<b>Other</b>	13	113	10	-88.2%	40.0%	54	341	25	57	-84.3%	1264.0%	-56.1%
<b>Operating revenue</b>	191	371	342	-48.4%	-44.0%	1,288	1,801	1,388	1,222	-28.5%	29.8%	13.6%
<b>Operating expenses<sup>1</sup></b>	149	162	162	-8.2%	-8.0%	630	554	548	502	13.7%	1.1%	9.2%
<b>Operating profit</b>	16	156	115	-89.9%	-86.3%	444	1,008	635	484	-56.0%	58.7%	31.2%
<b>Net profit (loss)</b>	-14	109	39	-112.7%	-135.3%	73	536	277	137	-86.4%	93.5%	102.2%
<b>Shareholders' equity</b>	1,241	1,276	1,266	-2.8%	-2.0%	1,171	1,737	1,685	1,563	-32.6%	3.1%	7.8%
<b>Regulatory capital</b>	2,594	1,870	1,861	38.7%	39.4%	1,749	2,325	1,943	1,900	-24.8%	19.7%	2.3%
<b>Client cash holdings</b>	968	890	833	8.7%	16.2%	967	618	555	833	56.4%	11.4%	-33.4%
<b>Productivity<sup>2</sup> (\$ thousands)</b>	338	649	576	-48.0%	-41.4%	565	895	664	569	-36.8%	34.7%	16.6%
<b>Annual return<sup>3</sup> (%)</b>	-4.4	34.0	12.3	-38.5%	-16.7%	6.2	30.9	16.4	8.8	-24.7%	14.4%	7.7%

<sup>1</sup> Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.

<sup>2</sup> Annual revenue per employee.

<sup>3</sup> Annual return is calculated as net profit/shareholder's equity.





## Foreign institutional

Firms that generate most of their revenues from servicing institutional clients and have their head office located offshore.

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 12	Q1 12	Q2 11	Q2/Q1	Q2 12/11	2011	2010	2009	2008	11/10	10/09	09/08
<b>Number of firms</b>	23	21	22	9.5%	4.5%	21	20	20	20	5.0%	0.0%	0.0%
<b>Number of employees</b>	1,011	978	823	3.4%	22.8%	829	780	711	780	6.3%	9.7%	-8.8%
<b>Revenue</b>												
<b>Commissions</b>	51	57	53	-10.9%	-3.9%	223	208	183	260	7.2%	13.7%	-29.6%
<b>Investment banking</b>	41	65	73	-37.1%	-44.3%	246	301	367	303	-18.1%	-18.0%	21.1%
<i>New issues equity</i>	6	8	12	-25.2%	-51.8%	42	60	99	49	-30.7%	-39.4%	102.0%
<i>New issues debt</i>	13	16	13	-17.7%	5.8%	35	41	34	33	-15.3%	20.6%	3.0%
<i>Corporate advisory fees</i>	22	41	49	-47.1%	-55.5%	170	200	234	220	-14.9%	-14.5%	6.4%
<b>Fixed income trading</b>	16	25	-3	-33.6%	643.9%	166	106	212	69	56.3%	-50.0%	207.2%
<b>Equity trading</b>	-46	11	86	-503.5%	-153.6%	0	44	-67	66	-99.7%	165.7%	-201.5%
<b>Net interest</b>	11	7	-1	48.5%	1164.8%	21	15	14	162	37.7%	7.1%	-91.4%
<b>Fees</b>	23	24	4	-3.8%	480.3%	73	11	8	15	561.0%	37.5%	-46.7%
<b>Other</b>	13	5	19	134.0%	-31.3%	119	111	76	118	7.5%	46.1%	-35.6%
<b>Operating revenue</b>	109	195	231	-44.3%	-53.0%	848	796	794	992	6.5%	0.3%	-20.0%
<b>Operating expenses<sup>1</sup></b>	115	138	92	-17.3%	24.3%	426	345	375	488	23.3%	-8.0%	-23.2%
<b>Operating profit</b>	-15	143	133	-110.2%	-110.9%	395	432	390	463	-8.6%	10.8%	-15.8%
<b>Net profit (loss)</b>	16	97	20	-83.9%	-21.3%	140	215	167	245	-34.9%	28.7%	-31.8%
<b>Shareholders' equity</b>	2,753	2,748	2,386	0.2%	15.4%	2,462	2,371	2,287	2,239	3.8%	3.7%	2.1%
<b>Regulatory capital</b>	5,178	5,160	4,755	0.4%	8.9%	4,868	4,742	4,664	4,218	2.7%	1.7%	10.6%
<b>Client cash holdings</b>	838	787	549	6.5%	52.6%	330	688	304	493	-52.1%	126.3%	-38.3%
<b>Productivity<sup>2</sup> (\$ thousands)</b>	430	799	1,124	-46.1%	-61.7%	1,023	1,021	3,350	1,272	0.2%	-69.5%	163.4%
<b>Annual return<sup>3</sup> (%)</b>	<b>2.3</b>	<b>14.1</b>	<b>3.3</b>	<b>-11.8%</b>	<b>-1.1%</b>	<b>5.7</b>	<b>9.1</b>	<b>9.7</b>	<b>10.9</b>	<b>-3.4%</b>	<b>-0.7%</b>	<b>-1.2%</b>

<sup>1</sup> Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.

<sup>2</sup> Annual revenue per employee.

<sup>3</sup> Annual return is calculated as net profit/shareholder's equity.



## /// Retail full service

Firms that generate most of their revenues from servicing retail clients and have their own front and back offices.

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 12	Q1 12	Q2 11	Q2/Q1	Q2 12/11	2011	2010	2009	2008	11/10	10/09	09/08
<b>Number of firms</b>	33	33	34	0.0%	-2.9%	34	35	35	34	-2.9%	0.0%	2.9%
<b>Number of employees</b>	5,709	5,718	6,379	-0.2%	-10.5%	6,114	6,231	6,072	6,018	-1.9%	2.6%	0.9%
<b>Revenue</b>												
<b>Commissions</b>	119	140	167	-14.7%	-28.4%	662	675	605	659	-1.9%	11.6%	-8.2%
<i>Mutual fund only commissions</i>	67	74	77	-9.3%	-12.5%	302	285	227	268	6.0%	25.6%	-15.3%
<b>Investment banking</b>	28	52	62	-45.9%	-54.3%	233	271	192	156	-14.1%	41.1%	23.1%
<i>New issues equity</i>	13	39	44	-66.4%	-70.0%	163	195	128	107	-16.4%	52.3%	19.6%
<i>New issues debt</i>	13	10	17	33.5%	-20.1%	57	61	48	27	-6.2%	27.1%	77.8%
<i>Corporate advisory fees</i>	2	3	1	-41.2%	33.1%	12	16	17	22	-22.5%	-5.9%	-22.7%
<b>Fixed income trading</b>	-3	14	28	-119.6%	-110.0%	57	71	134	136	-20.0%	-47.0%	-1.5%
<b>Equity trading</b>	-7	4	-4	-271.5%	-81.3%	-5	40	42	-50	-111.6%	-4.8%	184.0%
<b>Net interest</b>	17	16	25	3.3%	-33.8%	93	62	49	104	49.7%	26.5%	-52.9%
<b>Fees</b>	84	84	93	0.5%	-9.1%	354	321	288	292	10.4%	11.5%	-1.4%
<b>Other</b>	16	17	28	-7.2%	-43.9%	96	71	57	58	35.5%	24.6%	-1.7%
<b>Operating revenue</b>	254	327	398	-22.4%	-36.2%	1,491	1,511	1,367	1,356	-1.3%	10.5%	0.8%
<b>Operating expenses<sup>1</sup></b>	178	180	214	-1.1%	-16.7%	847	819	752	780	3.4%	8.9%	-3.6%
<b>Operating profit</b>	-19	17	24	-211.4%	-177.9%	51	117	122	29	-56.2%	-4.1%	320.7%
<b>Net profit (loss)</b>	-21	4	5	-598.9%	-514.2%	-7	34	31	-29	-120.2%	9.7%	206.9%
<b>Shareholders' equity</b>	583	607	849	-3.9%	-31.3%	798	900	804	894	-11.3%	11.9%	-10.1%
<b>Regulatory capital</b>	858	874	1,868	-1.7%	-54.1%	1,051	1,115	987	1,094	-5.8%	13.0%	-9.8%
<b>Client cash holdings</b>	2,817	2,868	3,844	-1.8%	-26.7%	3,791	3,890	3,620	2,745	-2.6%	7.5%	31.9%
<b>Productivity<sup>2</sup> (\$ thousands)</b>	178	229	250	-22.3%	-28.7%	244	242	225	225	0.5%	7.7%	-0.1%
<b>Annual return<sup>3</sup> (%)</b>	-14.7	2.8	2.4	-17.5%	-17.1%	-0.9	3.8	3.9	-3.2	-4.7%	-0.1%	7.1%

<sup>1</sup> Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.

<sup>2</sup> Annual revenue per employee.

<sup>3</sup> Annual return is calculated as net profit/shareholder's equity.



## /// Retail introducers

Firms that generate most of their revenues from servicing retail clients and typically do not have back offices (use a “carrier” firm to manage their back office).

(\$ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 12	Q1 12	Q2 11	Q2/Q1	Q2 12/11	2011	2010	2009	2008	11/10	10/09	09/08
<b>Number of firms</b>	74	75	81	-1.3%	-8.6%	78	81	82	88	-3.7%	-1.2%	-6.8%
<b>Number of employees</b>	5,559	5,559	6,012	0.0%	-7.5%	5,610	5,938	5,890	5,919	-5.5%	0.8%	-0.5%
<b>Revenue</b>												
<b>Commissions</b>	110	124	142	-11.5%	-22.9%	540	533	440	480	1.4%	21.1%	-8.3%
<i>Mutual fund only commissions</i>	45	47	55	-4.5%	-18.1%	204	192	148	172	6.1%	29.7%	-14.0%
<b>Investment banking</b>	16	20	31	-20.5%	-48.8%	106	110	73	110	-4.0%	50.7%	-33.6%
<i>New issues equity</i>	12	16	26	-24.1%	-54.3%	89	94	73	69	-4.8%	28.8%	5.8%
<i>New issues debt</i>	2	2	3	-34.2%	-50.1%	9	9	8	9	4.8%	12.5%	-11.1%
<i>Corporate advisory fees</i>	2	2	1	36.6%	66.2%	7	7	-8	32	-4.1%	187.5%	-125.0%
<b>Fixed income trading</b>	8	4	8	74.6%	-0.7%	29	20	35	34	44.8%	-42.9%	2.9%
<b>Equity trading</b>	-1	6	-3	-123.2%	48.3%	22	43	38	-6	-49.7%	13.2%	733.3%
<b>Net interest</b>	16	16	18	1.3%	-14.0%	69	51	42	89	35.0%	21.4%	-52.8%
<b>Fees</b>	67	66	71	0.8%	-5.3%	376	302	256	375	24.6%	18.0%	-31.7%
<b>Other</b>	22	19	21	18.3%	2.1%	84	66	81	140	27.7%	-18.5%	-42.1%
<b>Operating revenue</b>	236	255	288	-7.3%	-18.1%	1,226	1,125	966	1,222	9.0%	16.5%	-20.9%
<b>Operating expenses<sup>1</sup></b>	143	150	158	-4.1%	-9.5%	635	609	580	614	4.3%	5.0%	-5.5%
<b>Operating profit</b>	8	-37	23	121.8%	-64.4%	170	105	57	216	62.1%	84.2%	-73.6%
<b>Net profit (loss)</b>	-8	-35	8	77.8%	-201.2%	28	-1	-27	21	2942.9%	96.3%	-228.6%
<b>Shareholders' equity</b>	562	310	399	81.3%	41.0%	364	395	420	173	-7.9%	-6.0%	142.8%
<b>Regulatory capital</b>	774	520	592	48.9%	30.7%	560	582	593	650	-3.8%	-1.9%	-8.8%
<b>Client cash holdings</b>	1,011	1,087	928	-7.0%	8.9%	1,130	930	886	1,448	21.5%	5.0%	-38.8%
<b>Productivity<sup>2</sup> (\$ thousands)</b>	170	183	192	-7.3%	-11.4%	219	189	164	206	15.3%	15.5%	-20.6%
<b>Annual return<sup>3</sup> (%)</b>	-5.6	-45.5	7.8	39.9%	-13.3%	7.8	-0.3	-6.4	12.1	8.1%	6.2%	-18.6%

<sup>1</sup> Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.

<sup>2</sup> Annual revenue per employee.

<sup>3</sup> Annual return is calculated as net profit/shareholder's equity.



## Comments please!

*Securities Industry Performance* is produced quarterly by the Investment Industry Association of Canada (IIAC).

To join the distribution list, please email [capitalmarkets@iiac.ca](mailto:capitalmarkets@iiac.ca).

We want to hear from you. Send suggestions for future editions and feedback to [capitalmarkets@iiac.ca](mailto:capitalmarkets@iiac.ca).

**Ian Russell, FCSI**  
President & CEO, IIAC  
[irussell@iiac.ca](mailto:irussell@iiac.ca)  
Tel: (416) 865-3037

**Jack Rando, CFA**  
Director, Capital Markets  
[jrando@iiac.ca](mailto:jrando@iiac.ca)  
Tel: (416) 687-5477

**Eon Song**  
Analyst, Capital Markets  
[esong@iiac.ca](mailto:esong@iiac.ca)  
Tel: (416) 687-5480

## Addresses

**Toronto (Head Office)**  
11 King St West  
Suite 1600  
Toronto, ON M5H 4C7  
Tel: (416) 364-2754  
Fax: (416) 364-4861

**Montreal**  
1 Place Ville Marie  
Suite 2001  
Montreal, QC H3B 2C4  
Tel: (514) 843-8950  
Fax: (514) 866-2115

**Vancouver**  
701 West Georgia St  
Suite 1500  
Vancouver, BC V7Y 1C6  
Tel: (604) 637-1676  
Fax: (604) 801-5911



# IIAC ACCVM

INVESTMENT INDUSTRY ASSOCIATION OF CANADA  
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES