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

Letter from the President

The 2013-2014 Earnings Recovery in the Investment Industry:

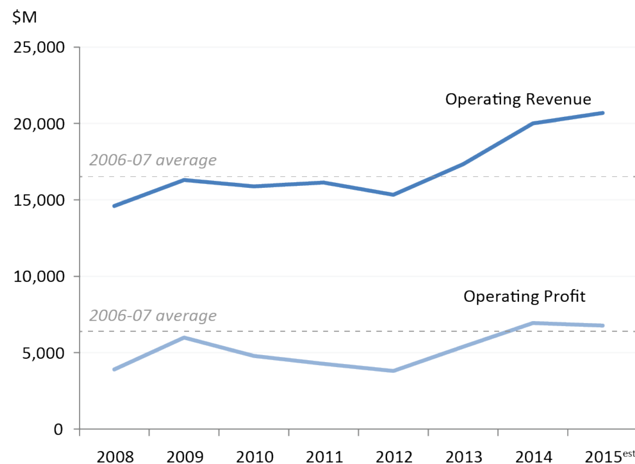
Just a dead cat bounce or a longer term recovery?

Vol. 87

Background

Since early 2013, the investment industry has shown a promising turnaround in fortunes and a sustained recovery in revenue and profit. Perhaps the best news is that the improvement in financial performance has been shared proportionally across all firm groupings, a welcome relief from the steady grind of poor results and ongoing firm attrition that has plagued the industry, and especially small firms, in the past six years.

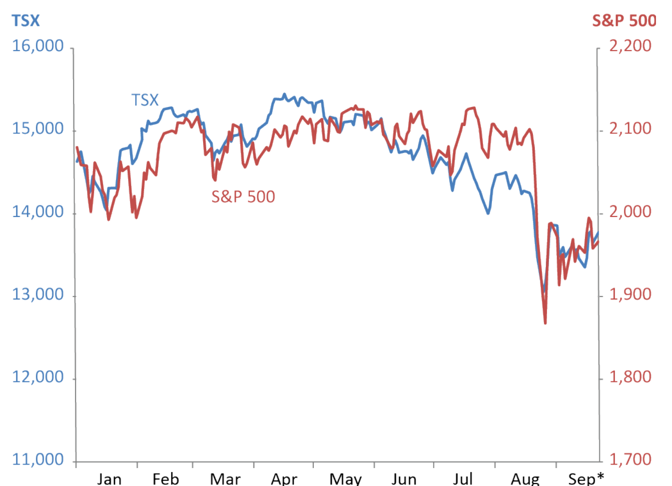
Industry Operating Revenue and Profit



est 2015 figures are estimates Source: IIAC

For the industry as a whole, revenue and profit improved decisively in 2014 (up 15% and 29%, respectively, year-over-year), and are well above the 2006-07 bull market averages. Boutique firms posted similar gains in the period, although earnings for this group remained below the bull market average. Profit would have been even higher, but for the relentless rise in operating costs which rose nearly 6%, on average, in 2014 compared to the previous year. Costs at the integrated firms rose more steeply, averaging 8%. The smaller cost increases at the retail and institutional boutique firms reflect the steady drumbeat of small firms' resignations and withdrawal from the dealer business. In effect, in 2013-14 the remaining boutique firms recouped earlier revenue losses that drove stronger earnings results. As well, the heavy up-front costs for CRM and FATCA compliance have not fully hit the financial statements of the retail introducer firms. These firms have relied on their carrier brokers and service providers to do most of the heavy lifting on compliance technology, but the introducer group will eventually pay higher fees once phased-in compliance with CRM2 and FATCA is complete by mid-2016.

Weakening Equity Markets
In 2015



* as of the third week of September Source: S&P

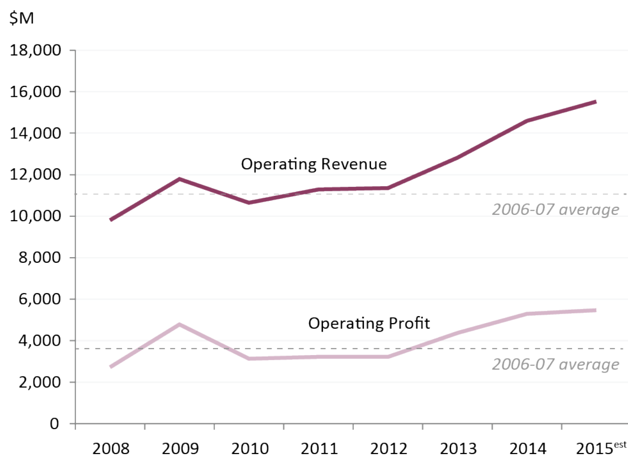
Hopes for a sustained turnaround in fortunes: Have they been dashed?

The rollover in operating revenue and profit in the first half of this year signalled dashed hopes for a sustained earnings breakout. Revenue in the first half was up 3% year-over-year and operating profits down 5%. We have seen this movie before. The collapse in energy prices in late 2014 was the first shot across the bow. However, there was a soft landing, with the anticipated fall-off in financings and trading in energy shares at the large and boutique firms taking hold gradually, with many companies, particularly

those with solid production and strong balance sheets, issuing common shares to supplement cash flows.

The collapse in energy sector financings materialized in the latter part of 2015 when it became evident that lower prices would not reverse in the near term. Further, conditions in equity markets deteriorated more broadly as other factors played into the mix—including evidence suggesting a weakening Chinese economy, and uncertainty about the direction of U.S. monetary policy and strength of the U.S. recovery. The resulting across-the-board decline in equity prices, and stepped-up volatility in equity, debt and derivative markets, further dampened the new issue business and also caused some investor pullback from markets, depressing retail commissions.

Operating Revenue and Profit
Integrated



est 2015 figures are estimates Source: IIAC

The cup is half full

But it is too easy to fall prey to pessimism about industry fortunes. There is no question uncertainties have increased among individual and institutional investors, making them more reluctant to increase participation in equity and debt markets. The outlook for trading and underwriting in resource markets has darkened considerably. Indeed, many domestic institutional boutiques remain heavily dependent on resource markets for trading and underwriting business, and these firms will bear the brunt of the energy price collapse.

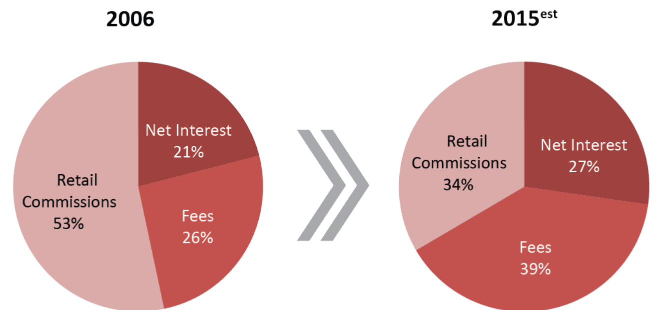
However, many boutique firms have taken steps to broaden their business by expanding their retail and corporate client base through recruitment of advisors and acquisition of struggling boutiques, and are realizing efficiencies through the application of technology. These initiatives will mitigate the impact of weaker conditions and eroding profitability. Moreover, the deterioration in business conditions may be less severe than expected—limited to the energy sector—with a chance for a throttling back of the regulatory burden once CRM2 is fully in place.

The integrated firms: Good prospects

Operating revenue and profit at the integrated firms are expected to increase 6% and 3%, respectively in 2015, if business conditions in the second half of the year stay roughly in line with the first. We think the odds favour such an outcome.

First, we believe investment banking activity will hold up at close to existing levels, even in more volatile markets, reflecting favourable borrowing conditions and the strong demand for equity capital, which is well diversified across the corporate sector (particularly in real estate, technology and bio-technology).

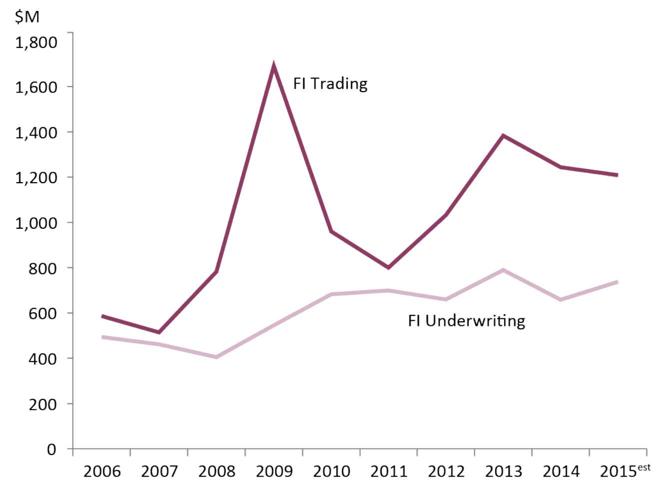
Composition of Retail Revenue
Integrated



est 2015 figures are estimates Source: IIAC

Second, almost half of retail earnings in wealth management business at the integrated firms are now fee-based, insulating revenues and earnings from market volatility and swings in transactional flows.

Fixed Income Trading and Underwriting Revenue
Integrated



est 2015 figures are estimates Source: IIAC

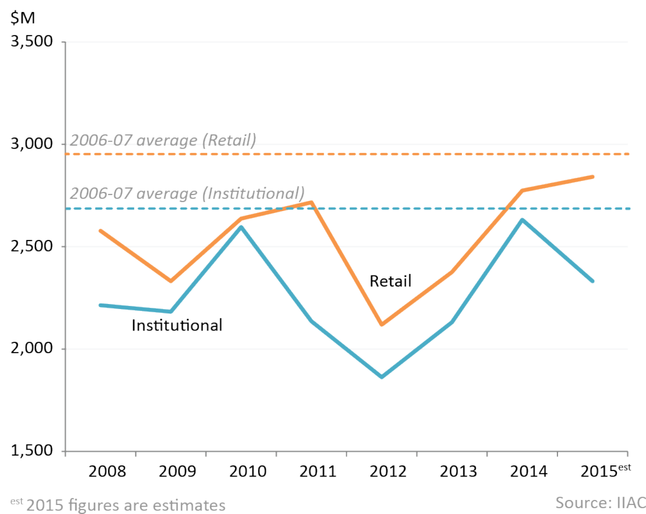
Third, the fixed income trading and financing business will provide ongoing strong support to earnings, at least for the balance of the year, accounting for nearly 15% of total revenues, reflecting the prospect of continued low bond yields.

Finally, net interest earnings (i.e. the spread earned on client cash balances and margin borrowings) should remain at recent higher levels (now about 20% of overall revenue) and could go even higher, if rates move higher.

Institutional boutiques: Worse conditions – with offsetting factors

Operating revenue at the institutional firms is projected to drop 11%, with profits down nearly 20%, if business conditions stay roughly at first half levels. However, conditions are expected to worsen. The pullback of the investment banking business in the energy sector since mid-year suggests performance for the institutional boutiques, particularly many of the resource-oriented boutiques, will deteriorate significantly.

Operating Revenue
Retail vs. Institutional



However, there are several offsetting factors that should benefit boutique firms in the institutional grouping.

First, demand for equity capital has been buoyant and fairly steady in the non-resource sector in recent years, notably in real estate, pharmaceuticals and high tech, and there is no sign that financing activity will decelerate. Boutique dealers with research capability, trading and distribution in these sectors will benefit from a continued solid pace of new financings.

Second, corporate advisory services have begun to pick up, albeit gradually, contributing to the investment banking bottom line. The improvement in the advisory business is expected to be modest, given intense competition across the market and the sporadic nature of these fees.

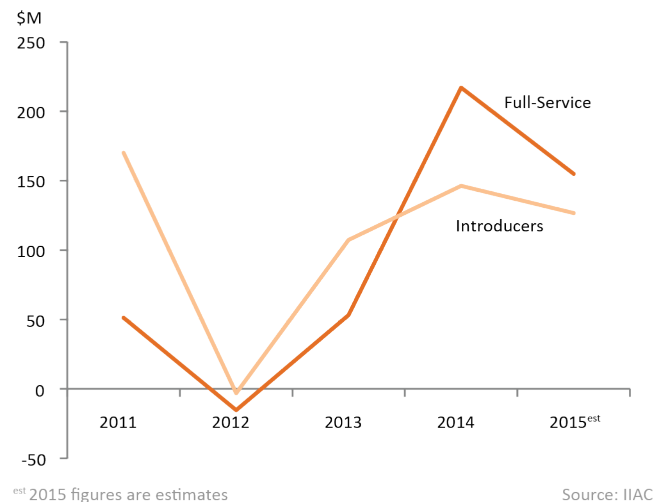
Third, the domestic institutional firms, as a group, have taken over $50 million out of operating costs, mainly from the exiting of some 10 boutique firms in the past three years or so. However, individual firms benefit only if business conditions improve to the extent the residual firms in the grouping can recapture the small and mid-cap market share of the firms that have closed shop. This is still an open question. On the other hand, the boutiques have held cost increases in check mainly because the pace of regulation and needed structural change related to trading in multiple markets has largely subsided.

Prolonged weakness in natural resource prices, coupled with the growing consensus that prices will remain subdued for an extended period of time, will undoubtedly have a significant negative impact on many small institutional boutiques specializing in resource markets. There are many boutiques with a more broadly based investment banking business, and these firms will continue to participate in non-resource financings offsetting the weakness in the resource sector. Further, some boutiques will benefit from a greater incidence of advisory work. Revenue and operating profit will, nonetheless, fall significantly for the domestic institutional group. The resource-oriented firms will be hit the hardest. We expect more than half of the firms in the grouping to struggle over the balance of the year. The recent past has demonstrated that finding partners for merger or firm acquisition is a difficult proposition. We expect a significant number of boutiques, in the range of 20-30 firms, to seriously consider shuttering operations in the coming year.

Retail firms: Operating revenue to be flat, but operating costs up

If market and business conditions hold for the balance of this year, operating revenue is forecast to be $2.8 billion, the highest level in almost a decade. On the other hand, operating profit is likely to drop 23% this year, reflecting continued increases in operating costs (up roughly 6%, year-over-year) related to the increased compliance and technology burden at retail firms. If market conditions weaken over the balance of the year, and investors take a more cautious stance, performance will likely deteriorate from expected levels. However, the growing share of retail fee income will mitigate the negative impact on the retail business as the shift to fee-based accounts from traditional commission brokerage continues. Fee revenue at the boutiques now accounts for more than one-third of total retail revenue.

Operating Profit
Retail Full-Service vs. Introducers



The self-clearing or full-service retail boutiques, accounting for about 60% of boutique revenue, are projected to turn in a much worse performance than the introducing firms. If the retail boutiques manage to keep revenue and profits in the balance of the year close to first half levels, not an unlikely outcome, operating profit at the self-clearers is projected to drop about 30%, compared to a 14% drop in profits at the introducing firms. This is a marked reversal in comparative performance as profit gains at the self-clearers far out-stripped the introducer firms in the previous year. Why the change in fortune?

The biggest negative factor affecting performance has been the continued escalation in operating costs. This is particularly the case at the full-service firms. Operating costs have risen steadily, even with the exit of four self-clearing firms from the grouping. Operating costs at the self-clearers are expected to increase 9% this year, based on the first half year trend. The explanation can be traced to the significant ramping up in compliance and technology costs, in terms of consulting needs, technology requirements and added professional compliance staff to meet the CRM rules. While spending has, on average, increased 15% in the past three years to be ready for CRM1 and FATCA reporting, expenditures are expected to accelerate this year, most likely related to the heavy requirements of CRM2 rules that become fully operational in mid-2016.

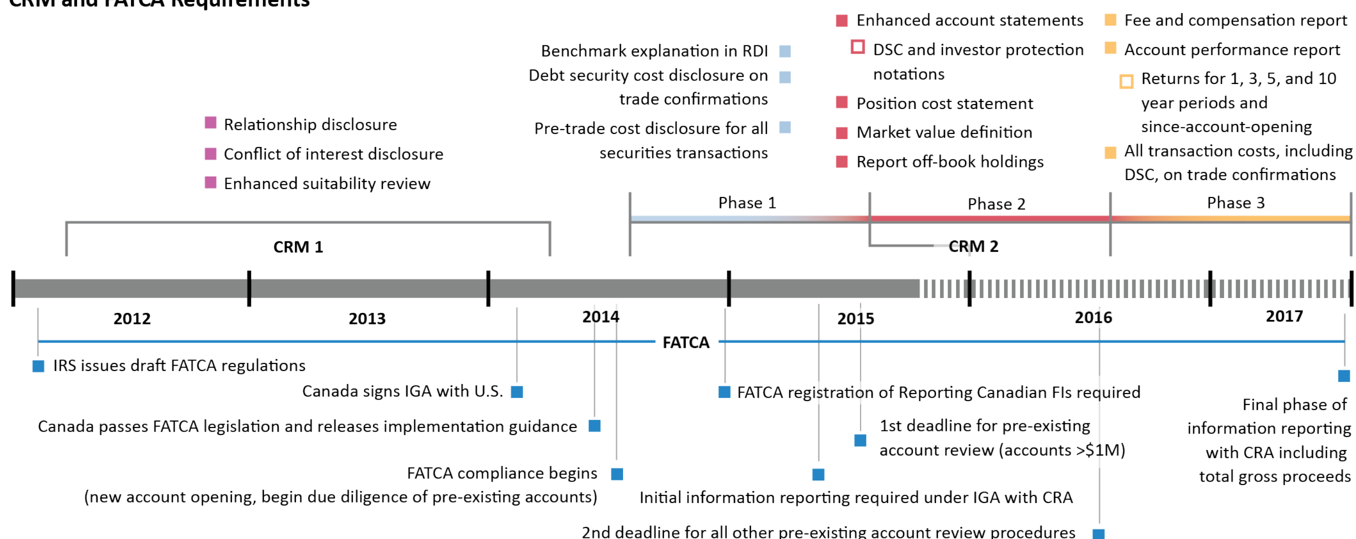
For the introducer firms, these costs have been surprisingly contained over the past three years or so, undoubtedly affected by the loss of almost 10 firms over the period. If these firms had remained, operating costs would be some $80 million higher. The introducer firms rely on their carrying brokers to meet most of the compliance requirement for the newly implemented CRM1 and the soon-to-be-implemented CRM2. As well, these firms will have to devote more internal resources to the CRM rules. Operating costs should escalate sharply over the next couple of years. This rapidly rising cost structure may be enough to force the 20 or so struggling, non-profitable dealers into mergers, or more likely to shutter operations.

If the layering of regulation persists with a fiduciary or formal client best interest standard, the compliance costs will escalate as the industry will be forced to adapt to a full array of necessary rule carve-outs and rule exemptions to carry on existing business within a formal fiduciary regime. This will significantly ramp up compliance costs for the integrated and retail firms.

For the past two years the introducer retail boutiques have steadily improved revenue and profit performance and, if the second half results match first half results, group revenues will equal last year's level and profits will be lower. Revenues could fall back in the second half of this year, but even for the introducing firms fee revenue is two-thirds commission revenue. Many small firms have made strides in moving into fee-based managed products and accounts and away from the reliance on transactions in individual securities. Excessive caution about the regulatory interpretation of suitability decisions has dampened the transactional business for small boutiques specializing in trading and financing in the junior cap markets. Expanding revenue at the introducers suggest the small and mid-sized dealers outside the integrated group have taken on the business from exiting small dealers and are drawing business from the smaller independent mutual fund-insurance brokers.

A positive development for the smaller boutique firms is greater access to the ever-expanding technology to expand business and reduce costs. The carrying brokers have been the catalyst for developing and pushing the technology deep into the boutiques. First, the traditional services of client interface and account management, trading and settlement of securities have become more efficient and related costs have come down. Second, the carriers have broadened to offer a full compliance offering, ranging from managing the CRM2 requirements to FATCA reporting requirements. While carrying broker fees will increase as the offering expands, the decision to outsource compliance must be judged against the fixed and variable costs of managing compliance responsibilities internally. Finally the carriers offer the technology to provide online advice to clients

CRM and FATCA Requirements



Source: IIAC

through "robo-advisor" models. This is an effective way to offer wealth management services to Canadians with savings below the normal threshold for a full-service account and a way to attract millennial investors to the firm. We estimate there are now 10 online advisors in the market registered as dealers or portfolio managers with client assets nearly equivalent to assets in the discount brokerage business.

The carrier brokers provide the traditional front-end client interface and transactional, settlement and custodial services. However, it is evident that innovative and evolving technology has enabled introducer brokers to provide an expanding array of services to improve the competitiveness and, indeed, the viability and survival of many small dealers. The evident reluctance of the 30 self-clearing firms to transition to carrier broker platforms, to access leading edge technology and to enhance their strategic position in the markets, may relate to the heavy sunk fixed costs of self-clearing and less variation in operating cost as trading volumes swing in response to market movements.

The smaller firms recognize the opportunities to build out distribution and scale to strengthen profitability. Small firms have added advisors and support staff to seize opportunities. The firms have used broad-based strategies to build advisor teams. They have attracted advisors from other firms, implemented recruitment programs for new advisors, upgraded proficiency standards for mutual fund dealers (particularly for firms with dual platforms) and have hired independent contractors. IIROC`s decision on limited registrations and incorporation could accelerate the dealers' build out plans.

The landscape for acquisition is fairly picked over, with much of the "low hanging fruit" already selected. It is interesting to scope the size of the potential acquisition pool. The top 14 firms in the retail business—the eight integrated firms and the next six with significant operations and well-capitalized parents—account for nearly 90% of retail revenue and assets under management (AUM) in the industry. That leaves about 90 small dealers with significant revenue and AUM (i.e. total AUM in the range of $150 billion). While this is fertile ground for expanding retail operations, the best opportunities are probably the individual advisors rather than the small dealer firms with little intrinsic value. Smaller firms have also established relationships with independent contractors to expand regional business on cost-effective terms.

Conclusion: Greater volatility, robust financing trends

The outlook for financial markets and business conditions over the balance of the year is difficult to predict.

- The industry is projected to post roughly similar results as the first half of 2015, with the exception of the domestic institutional firms, with many firms still dependent on the recovery of the resource markets for improved performance.

- Equity and debt markets are expected to exhibit greater volatility than earlier in the year, and there is the prospect of further declines in equity prices. Against this backdrop, we expect capital markets financing trends to stay robust, particularly in the non-resource sectors.

- The integrated firms and institutional boutiques with diversified investment banking operations will post profits, albeit at lower levels than 2013-14 for institutional firms. The fixed income trading and new issue business will stay robust.

- The increased reliance of the wealth management business on fee-based revenue will bring some stability and revenue support to retail operations. The self-clearing retail firms will see a substantial increase in operating costs this year and next, severely denting earnings performance. The introducing firms have so far escaped large cost increases, but will be in for a shock over the next few years as these boutiques face an escalation in carrier fees and operating costs as CRM2 rules and FATCA reporting become fully effective.

The outlook for the investment industry over the next year or so will certainly not be robust, but positive business factors leave room for optimism. Moreover, the industry has borne a steadily increasing regulatory burden throughout, leaving the hope that the pace of rule making will slow. A well-diversified industry, with vigorous full-service dealers and specialized retail and institutional firms, remains the order of the day.

Special recognition to Eon Song for analytical and technical support.

Yours sincerely,

Ian C. W. Russell, FCSI
President & CEO, IIAC
September 2015

Industry

($ millions unless otherwise noted)	Quarter-over-Quarter							Annual Year-over-Year						
	Quarters				% Change			Years				% Change		
	Q2 15	Q1 15	Q4 14	Q3 14	Q2/Q1	Q1/Q4 14	Q4/Q3 14	2015[est]	2014	2013	2012	15[est]/14	14/13	13/12
Number of firms	174	176	175	179	-1.1%	0.6%	-2.2%	174	175	189	196	-0.6%	-7.4%	-3.6%
Number of employees	40,192	39,857	39,918	40,282	0.8%	-0.2%	-0.9%	40,192	39,918	39,357	39,555	0.7%	1.4%	-0.5%
Revenue														
Commissions	1,461	1,528	1,527	1,364	-4.4%	0.1%	11.9%	5,978	5,800	5,516	5,117	3.1%	5.1%	7.8%
Mutual fund only commissions	731	719	702	631	1.6%	2.4%	11.3%	2,900	2,576	2,435	2,175	12.6%	5.8%	12.0%
Investment banking	1,001	883	798	1,026	13.4%	10.6%	-22.2%	3,768	3,793	3,191	3,565	-0.7%	18.8%	-10.5%
New issues equity	559	485	405	573	15.2%	19.7%	-29.3%	2,088	2,057	1,473	1,782	1.5%	39.6%	-17.3%
New issues debt	222	238	139	184	-6.5%	70.7%	-24.3%	919	801	938	816	14.8%	-14.6%	15.0%
Corporate advisory fees	220	160	254	268	37.5%	-36.9%	-5.4%	761	934	780	967	-18.6%	19.7%	-19.3%
Fixed income trading	292	460	331	416	-36.5%	39.0%	-20.4%	1,505	1,644	1,791	1,176	-8.5%	-8.2%	52.3%
Equity trading	-26	89	68	-27	-128.9%	31.1%	354.3%	127	243	153	118	-47.9%	59.1%	29.5%
Net interest	794	798	742	773	-0.5%	7.6%	-4.0%	3,184	2,923	1,945	1,131	8.9%	50.3%	72.0%
Fees	1,318	1,257	1,190	1,183	4.8%	5.6%	0.6%	5,151	4,614	3,660	3,206	11.6%	26.1%	14.1%
Other	248	241	306	239	2.6%	-21.2%	27.9%	978	983	1,073	1,020	-0.4%	-8.4%	5.2%
Operating revenue	5,088	5,257	4,962	4,975	-3.2%	5.9%	-0.2%	20,691	20,000	17,328	15,332	3.5%	15.4%	13.0%
Operating expenses[1]	2,050	2,085	2,038	1,852	-1.7%	2.3%	10.1%	8,269	7,739	7,296	7,249	6.8%	6.1%	0.6%
Operating profit	1,614	1,773	1,594	1,786	-9.0%	11.2%	-10.7%	6,774	6,951	5,395	3,806	-2.5%	28.8%	41.8%
Net profit (loss)	517	477	525	581	8.5%	-9.2%	-9.6%	1,989	2,382	2,062	2,155	-16.5%	15.5%	-4.3%
Shareholders' equity	46,343	45,831	45,367	39,733	1.1%	1.0%	14.2%	46,343	45,367	34,474	17,087	2.2%	31.6%	101.8%
Regulatory capital	63,368	62,848	62,363	56,817	0.8%	0.8%	9.8%	63,368	62,363	51,414	34,343	1.6%	21.3%	49.7%
Client cash holdings	46,602	45,871	45,291	43,241	1.6%	1.3%	4.7%	46,602	45,291	42,124	38,684	2.9%	7.5%	8.9%
Client debt margin outstanding	20,529	19,463	18,913	19,420	5.5%	2.9%	-2.6%	20,529	18,913	16,444	14,432	8.5%	15.0%	13.9%
Productivity[2] ($ thousands)	506	528	497	494	-4.0%	6.1%	0.7%	515	501	440	388	2.8%	13.8%	13.6%
Annual return[3] (%)	4.5	4.2	4.6	5.8	0.3%	-0.5%	-1.2%	4.3	5.2	6.0	12.6	-1.0%	-0.7%	-6.6%

Integrated

($ millions unless otherwise noted)	Quarter-over-Quarter							Annual Year-over-Year						
	Quarters				% Change			Years				% Change		
	Q2 15	Q1 15	Q4 14	Q3 14	Q2/Q1	Q1/Q4 14	Q4/Q3 14	2015[est]	2014	2013	2012	15[est]/14	14/13	13/12
Number of firms	10	10	10	10	0.0%	0.0%	0.0%	10	10	10	11	0.0%	0.0%	-9.1%
Number of employees	25,601	25,378	25,430	25,712	0.9%	-0.2%	-1.1%	25,601	25,430	24,989	25,146	0.7%	1.8%	-0.6%
Revenue														
Commissions	1,005	1,040	1,051	917	-3.4%	-1.0%	14.7%	4,092	3,920	3,862	3,597	4.4%	1.5%	7.4%
Mutual fund only commissions	555	540	540	466	2.7%	0.0%	15.9%	2,190	1,916	1,854	1,711	14.3%	3.4%	8.3%
Investment banking	656	675	570	735	-2.8%	18.3%	-22.4%	2,661	2,749	2,369	2,596	-3.2%	16.1%	-8.7%
New issues equity	382	378	308	438	1.0%	22.7%	-29.7%	1,519	1,540	1,079	1,325	-1.3%	42.7%	-18.5%
New issues debt	178	191	105	148	-6.5%	81.2%	-28.8%	738	659	789	659	12.0%	-16.5%	19.7%
Corporate advisory fees	96	106	157	149	-9.5%	-32.5%	5.2%	404	550	500	612	-26.7%	10.0%	-18.3%
Fixed income trading	246	358	233	330	-31.3%	53.5%	-29.3%	1,209	1,243	1,383	1,031	-2.8%	-10.1%	34.1%
Equity trading	37	35	-54	-5	4.6%	164.5%	-910.3%	143	83	96	166	72.1%	-12.9%	-42.4%
Net interest	706	703	634	643	0.5%	10.8%	-1.3%	2,818	2,407	1,555	942	17.1%	54.8%	65.1%
Fees	1,049	980	913	933	7.1%	7.3%	-2.1%	4,058	3,590	2,785	2,400	13.0%	28.9%	16.1%
Other	134	134	191	138	-0.1%	-29.8%	38.6%	537	601	771	618	-10.6%	-22.1%	24.9%
Operating revenue	3,833	3,925	3,540	3,690	-2.3%	10.9%	-4.1%	15,518	14,594	12,820	11,350	6.3%	13.8%	13.0%
Operating expenses[1]	1,429	1,446	1,411	1,257	-1.2%	2.5%	12.2%	5,751	5,290	4,888	4,817	8.7%	8.2%	1.5%
Operating profit	1,323	1,408	1,110	1,417	-6.0%	26.8%	-21.7%	5,462	5,293	4,374	3,219	3.2%	21.0%	35.9%
Net profit (loss)	374	433	449	500	-13.5%	-3.7%	-10.2%	1,614	2,014	2,007	1,978	-19.9%	0.4%	1.4%
Shareholders' equity	40,845	40,444	40,082	34,573	1.0%	0.9%	15.9%	40,845	40,082	29,479	11,902	1.9%	36.0%	147.7%
Regulatory capital	54,564	54,125	53,841	48,362	0.8%	0.5%	11.3%	54,564	53,841	42,940	24,989	1.3%	25.4%	71.8%
Client cash holdings	39,223	38,835	38,448	36,816	1.0%	1.0%	4.4%	39,223	38,448	35,760	33,018	2.0%	7.5%	8.3%
Productivity[2] ($ thousands)	599	619	557	574	-3.2%	11.1%	-3.0%	606	574	513	451	5.6%	11.9%	13.7%
Annual return[3] (%)	3.7	4.3	4.5	5.8	-0.6%	-0.2%	-1.3%	4.0	5.0	6.8	16.6	-1.1%	-1.8%	-9.8%

[1] Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.
[2] Annual revenue per employee.
[3] Annual return is calculated as net profit/shareholder's equity.
[est] 2015 figures are estimates.

Institutional

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	Quarters				% Change			Years				% Change		
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Number of firms	72	71	71	73	1.4%	0.0%	-2.7%	72	71	78	79	1.4%	-9.0%	-1.3%
Number of employees	2,925	2,927	2,951	3,016	-0.1%	-0.8%	-2.2%	2,925	2,951	2,912	3,115	-0.9%	1.3%	-6.5%
Revenue														
Commissions	141	158	167	135	-10.9%	-5.5%	23.7%	597	617	534	558	-3.1%	15.5%	-4.4%
Investment banking	276	153	180	233	80.7%	-15.3%	-22.6%	857	830	642	756	3.3%	29.2%	-15.1%
New issues equity	143	75	74	96	89.7%	1.7%	-23.2%	436	387	295	315	12.7%	31.1%	-6.4%
New issues debt	27	28	20	23	-1.7%	40.1%	-12.4%	110	85	91	103	28.7%	-6.6%	-11.5%
Corporate advisory fees	106	50	86	114	112.9%	-42.4%	-24.1%	312	358	256	338	-12.9%	39.8%	-24.3%
Fixed income trading	30	96	88	72	-69.2%	9.5%	22.3%	252	328	331	93	-23.2%	-1.1%	256.4%
Equity trading	-64	50	126	-20	-227.6%	-60.4%	743.7%	-28	151	50	-61	-118.2%	201.7%	182.9%
Net interest	46	49	62	65	-5.6%	-20.8%	-4.7%	190	262	245	63	-27.3%	6.6%	289.4%
Fees	46	59	64	51	-23.3%	-6.7%	25.0%	210	242	200	190	-13.1%	21.0%	4.9%
Other	74	52	66	59	40.4%	-20.5%	12.2%	252	203	129	263	24.0%	57.7%	-51.0%
Operating revenue	548	618	753	595	-11.3%	-17.9%	26.6%	2,331	2,632	2,131	1,863	-11.4%	23.5%	14.4%
Operating expenses[1]	266	281	281	269	-5.3%	0.0%	4.5%	1,095	1,100	1,075	1,133	-0.5%	2.4%	-5.1%
Operating profit	227	288	421	274	-20.9%	-31.7%	54.0%	1,030	1,294	860	605	-20.4%	50.4%	42.2%
Net profit (loss)	124	23	67	39	435.4%	-65.2%	71.6%	294	235	79	276	25.1%	197.3%	-71.3%
Shareholders' equity	4,422	4,324	4,261	4,162	2.3%	1.5%	2.4%	4,422	4,261	3,976	3,982	3.8%	7.2%	-0.2%
Regulatory capital	7,232	7,153	6,997	6,957	1.1%	2.2%	0.6%	7,232	6,997	6,983	7,735	3.4%	0.2%	-9.7%
Client cash holdings	2,754	2,472	2,453	2,246	11.4%	0.8%	9.2%	2,754	2,453	2,466	1,756	12.3%	-0.5%	40.4%
Productivity[2] ($ thousands)	749	844	1,020	789	-11.2%	-17.3%	29.4%	797	892	732	598	-10.6%	21.9%	22.4%
Annual return[3] (%)	11.2	2.1	6.3	3.7	9.1%	-4.1%	2.5%	6.7	5.5	2.0	6.9	1.1%	3.5%	-4.9%

Retail

($ millions unless otherwise noted)	Quarter-over-Quarter							Annual Year-over-Year						
	Quarters				% Change			Years				% Change		
	Q2 15	Q1 15	Q4 14	Q3 14	Q2/Q1	Q1/Q4 14	Q4/Q3 14	2015[est]	2014	2013	2012	15[est]/14	14/13	13/12
Number of firms	92	95	94	96	-3.2%	1.1%	-2.1%	92	94	101	106	-2.1%	-6.9%	-4.7%
Number of employees	11,666	11,552	11,537	11,554	1.0%	0.1%	-0.1%	11,666	11,537	11,456	11,294	1.1%	0.7%	1.4%
Revenue														
Commissions	315	330	308	312	-4.6%	7.1%	-1.3%	1,289	1,263	1,120	961	2.0%	12.8%	16.6%
Mutual fund only commissions	172	176	158	161	-1.9%	10.8%	-1.4%	696	644	571	471	7.9%	12.8%	21.4%
Investment banking	69	55	48	58	25.2%	15.6%	-17.3%	250	213	180	212	17.1%	18.4%	-15.2%
New issues equity	34	32	23	39	8.5%	37.1%	-40.5%	132	130	99	142	1.7%	31.9%	-30.4%
New issues debt	17	19	14	14	-13.3%	35.4%	4.2%	72	57	58	53	26.2%	-1.3%	8.1%
Corporate advisory fees	18	4	11	5	309.8%	-57.9%	95.4%	45	26	24	17	74.0%	9.8%	39.2%
Fixed income trading	17	6	10	14	194.7%	-42.5%	-31.2%	44	74	78	52	-39.8%	-5.2%	50.5%
Equity trading	1	4	-4	-2	-66.2%	203.9%	-123.6%	11	8	7	13	34.7%	18.1%	-46.4%
Net interest	42	46	46	65	-10.4%	1.2%	-29.6%	176	255	144	126	-30.8%	76.2%	14.6%
Fees	223	218	213	200	2.4%	2.2%	6.8%	883	783	675	616	12.8%	16.0%	9.5%
Other	40	55	49	43	-27.0%	11.2%	15.2%	189	178	172	139	5.9%	3.5%	24.2%
Operating revenue	707	714	670	690	-1.0%	6.5%	-2.9%	2,842	2,774	2,377	2,119	2.4%	16.7%	12.2%
Operating expenses[1]	354	357	346	326	-0.8%	3.2%	6.3%	1,424	1,348	1,332	1,300	5.6%	1.2%	2.5%
Operating profit	63	78	63	95	-18.8%	23.3%	-33.9%	282	363	160	-18	-22.5%	126.4%	979.1%
Net profit (loss)	19	21	9	41	-9.5%	130.5%	-77.8%	81	132	-24	-99	-39.1%	645.1%	75.5%
Shareholders' equity	1,075	1,062	1,025	997	1.2%	3.6%	2.7%	1,075	1,025	1,019	1,202	4.9%	0.6%	-15.3%
Regulatory capital	1,573	1,569	1,526	1,498	0.2%	2.9%	1.9%	1,573	1,526	1,491	1,619	3.1%	2.3%	-7.9%
Client cash holdings	4,625	4,564	4,389	4,180	1.3%	4.0%	5.0%	4,625	4,389	3,898	3,910	5.4%	12.6%	-0.3%
Productivity[2] ($ thousands)	242	247	232	239	-2.0%	6.4%	-2.7%	244	240	207	188	1.3%	15.9%	10.6%
Annual return[3] (%)	7.1	8.0	3.6	16.6	-0.8%	4.4%	-13.0%	7.5	12.9	-2.4	-8.2	-5.4%	15.3%	5.9%

[1] Operating expenses reflect the underlying cost of running the securities firm and exclude commissions, bonuses and other compensation to brokers.
[2] Annual revenue per employee.
[3] Annual return is calculated as net profit/shareholder's equity.
[est] 2015 figures are estimates.