2013 Q3 Securities Industry Performance

Looking Back – and Ahead: What 2013, and Consistently Weak Boutique Firm Earnings, Tell Us About Structural Changes

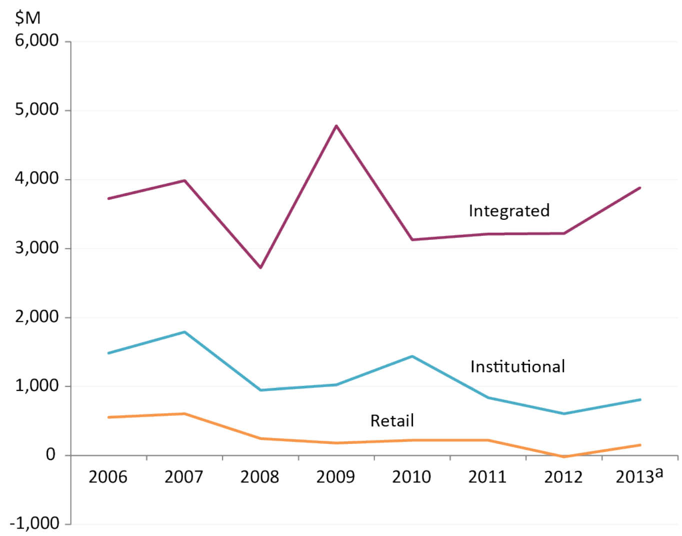
Profits increased in the securities industry last year – but nearly all of the gains accrued to Canada's eight integrated firms. What about the rest – what are their prospects? This President's Letter examines the industry's performance in 2013, focusing on ongoing trends in the Canadian securities industry, in particular the existential struggle faced by the 180 or so boutique firms saddled with chronic weak business conditions and poor earnings, a tough competitive landscape and a heavy, accumulating regulatory burden. Financial data are now available for the first nine months of 2013, and we have annualized these figures (denoted as 2013ᵃ in all charts) to extrapolate revenue and earnings to year-end. Since the wealth management businesses received a modest boost in the closing quarter, reflecting robust equity markets, these quarterly estimates may be somewhat conservative. In particular, given continued anemic financing and institutional trading in small and mid-cap markets, institutional boutique earnings likely stayed at the depressed levels of earlier in the year.

Overall Performance: Feast for Some, Famine for Others

Operating profit in the securities industry rose 27% to $4.8 billion last year, a respectable earnings rebound for the industry. As mentioned above, however, the eight integrated firms accounted for nearly all the earnings gains. A modest uptick in earnings in the retail firm sector contributed to the overall industry profit gains. This divergence in earnings performance last year is consistent with the pattern over the past five years – relatively strong earnings at the largest firms, contrasted with mediocre results at the specialized boutiques. Integrated firm operating profit rose on average 43% in the last five years, with steady gains for most of the period. Operating profit in the retail sector declined 39% in the same period, with steep losses in 2012 accounting for much of the earnings fall-off. For the 58 domestic institutional boutiques, earnings declined 67% over the period, with earnings tumbling to successively lower levels over the last three years.

The sustained divergence in performance across the firm groupings has triggered a complementary shift in the allocation of shareholder equity. Over the past five years, an overall additional $5 billion in equity was deployed in the industry. The integrated firms, led by the bank-owned dealers, accounted for all of the increase, totaling about $4.9 billion. This additional capital reflects the required phase-in of regulatory capital for the institutional trading businesses under the Basel reforms, as well as additional capital to support the build-out of the wealth management business.

Operating Profit



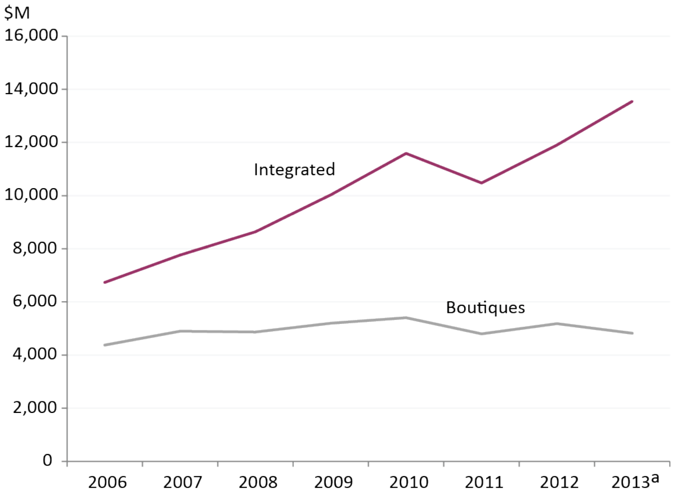
Source: IIAC

The Shifting Tectonic Plates of Invested Capital

Almost $600 million in equity capital has exited the boutique firm sector since 2010, most of it from the domestic institutional boutiques, driven by capital erosion from the extended period of negative earnings, the transfer of registrants from IIROC to the Exempt Market Dealer category, and the shuttering of individual firms and disbursement of capital to shareholders. More modest capital losses in the retail sector relate to the absorption of several mid-sized retail firms by the large integrated firms in 2009-12. The capital base in the boutique sector will likely shrink further this year from continued losses at the institutional firms, additional firm closures and possible acquisitions of retail firms.

It is important to keep in mind that depressed market conditions for capital-raising and institutional trading, from low share prices, cautious investors and predatory algorithmic trading, have not been solely responsible for the earnings collapse in the boutique sector. Other factors, both the compliance costs of the mounting regulatory burden and rising costs of technology and systems for securities execution and clearing/settlement, have eaten into profit margins.

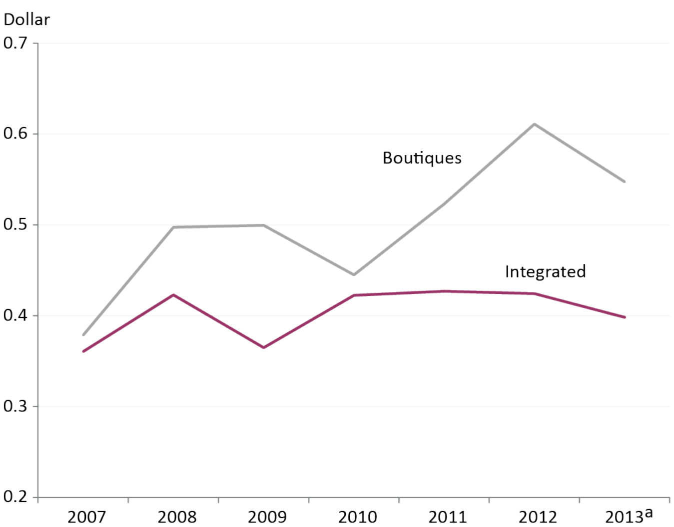
Invested Capital
Integrated v. Boutiques



Source: IIAC

The cost impact on boutique performance is not always immediately obvious from the published data. Operating costs at the boutiques were roughly flat over the past five years. However, the resilience of high operating costs in the face of a marked fall-off in institutional and retail boutique business and revenue indicates the high level and steady build-up in fixed costs. As variable costs have been slashed in response to collapsing business, additional fixed costs have filled the gap. For example, revenue at the institutional boutiques fell roughly 7% in the past five years; yet operating costs have risen 10%. Similarly, revenue at the retail firms dropped 10% in this period. Operating costs at the retail boutiques marginally declined reflecting the withdrawal of several mid-sized firms from the industry, through acquisition and otherwise, in the last three or four years.

Operating Cost per Dollar Revenue



Source: IIAC

The ratio of operating costs per dollar revenue is at record levels in the boutique industry, reflecting the rapid build-up in fixed costs in the past decade or so. The pincer effect of downward spiraling revenue and the inexorable rise in fixed costs have cut heavily into earnings to the extent that nearly half the boutiques have been losing money over much of the past three years. It is not surprising that firms have exited the business and the deployment of capital in the boutique sector has eroded.

The securities industry had been counting on a significant turnaround in business conditions in the next year or so to bring some relief to distressed earnings. The reality is that the industry will likely face further challenges this year and next, from continued weakness in small business resource markets, and from stiff competition from the integrated firms in the wealth management business, as well as from the Exempt Market Dealers in arranging financings for small business.

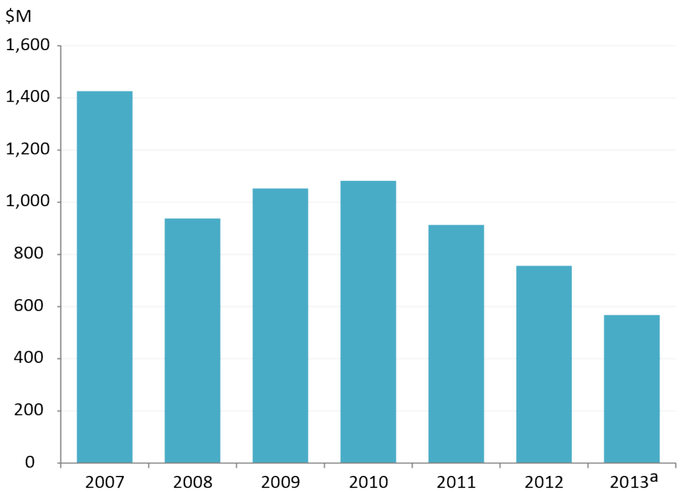
The Challenge Facing Institutional Boutiques

The small cap trading and underwriting business has collapsed steadily since mid-2011. Forecasts of continued sluggish growth this year and continuing depressed conditions in resource markets suggest liquidity and share prices for smaller cap companies will stay depressed. Other negative factors include the continued risk aversion of retail and institutional investors that will discourage investment in speculative equities, the risk that "box-ticking" regulatory oversight of suitability rules could discourage speculative investments, the flexibility for large and small institutional portfolios (traditionally active participants in these markets) to look beyond speculative domestic equities to foreign investments for return, and the proliferation of Exempt Market Dealers to distribute small cap equities in the exempt markets.

Investment banking revenues for the institutional boutiques, cut by half in three years, could slide even further. In this environment, the institutional boutique sector will continue to retrench through consolidation, closure and migration of registration to the exempt dealer regime, restricting their business to accredited investors and institutions. The extended weakness in business conditions, infrastructure build-up to offer necessary research and trading services to clients, high execution and market data costs from the order protection rules (notably compared with other jurisdictions) and escalating compliance costs have eroded earnings and forced cost-cutting, hollowing out many institutional firms in terms of senior personnel, specialized research expertise, trading desks, infrastructure cutbacks, and reduced capital, making them less effective in the marketplace and less attractive as acquisition candidates. The slower than expected pace of acquisition, and the fact many boutiques have simply closed down operations, is testament to this hollowing out. As a result, the opportunities to build stronger viable independent boutiques through acquisition is limited, an unhealthy development for the venture marketplace.

Even if venture market conditions return to health over the next year or so, the substantial costs and expertise involved in rebuilding diversified institutional trading and investment banking boutiques, or even setting up a limited exempt dealer operation under the new regulatory regime, will constrain new firm entry into the marketplace.

Investment Banking Revenue
Institutional Firms



Source: IIAC

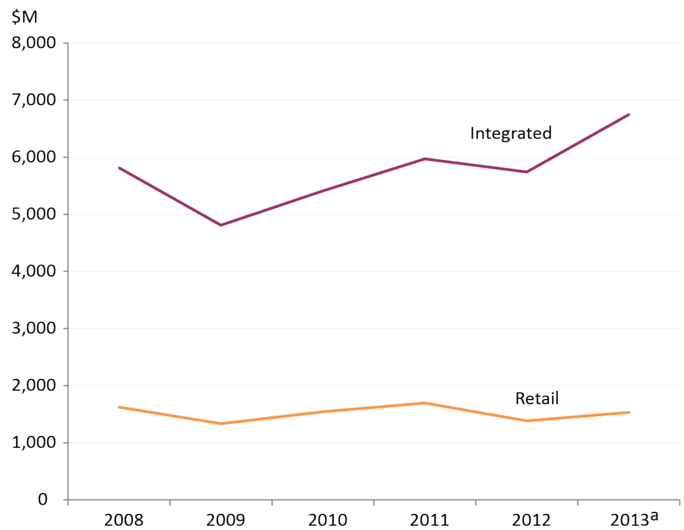
The Changing Environment for Exempt Market Dealers and Resource Companies

Small resource companies, conscious of financing costs, have in the past turned to exempt dealers to distribute new share offerings. These dealers had been more lightly regulated than IIROC-registered dealers, particularly entities in western Canada that had been outside the regulatory ambit, using the so-called "North-West" exemption. These "finders", along with Exempt Market Dealers, have used regulatory arbitrage to compete on more cost-effective terms for small business offerings. Unlike IIROC dealers that offer wide share distribution, company research and after-market support, finders and Exempt Market Dealers are generally one-dimensional, distributing shares to exempt buyers, notably individuals purchasing under the accredited investor exemption, but not contributing to liquid venture markets.

The CSA has proposed a new prospectus exemption to buttress the critical support that IIROC dealers bring to the junior market, as well as reinvigorate retail participation in new junior capital financings. The existing shareholder exemption would allow investors that currently hold securities in certain TSX-V issuers to participate in exempt financings up to a limit of $15,000 without the benefit of investment dealer advice, and above that level if investments are made through an IIROC dealer. This proposed exemption should facilitate a more efficient, less costly and expedited means for junior issuers to raise capital from existing retail shareholders. It also recognizes the critical role of registered investment dealers in issuer support and investor protection.

Further, the CSA is taking positive steps to protect investors and level the playing field making Exempt Market Dealers across the country subject to the new CRM standards of disclosure of the investing process, conflicts, fees charged and compensation to the advisor, enhanced suitability rules and portfolio performance reporting. There is also a move to closely examine, and possibly abolish, the North-West Exemption. This broad application of the rules across all registrants will force rule equivalence and level the playing field. However, the challenge for the provincial commissions across the country will be to provide vigorous and effective oversight, particularly as recent surveys of Exempt Market Dealers have indicated that compliance with disclosure and suitability rules have fallen short of acceptable standards. How will the CSA marshal effective resources to provide effective oversight to over 700 Exempt Market Dealers?

Retail Revenue



Source: IIAC

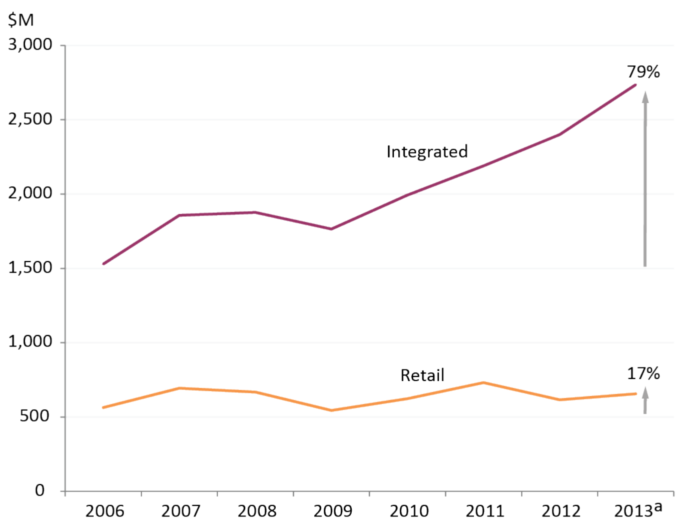
Retail Boutiques: A Cost Challenge – and a Niche Opportunity

Retail revenue at the integrated firms rose significantly in the past four years, outpacing modest gains at the retail firms. Last year accounted for much of the revenue increase, reflecting improved conditions in equity markets, especially the U.S. equity markets. On balance retail revenue at the retail boutiques remains well below 2011 levels, related in part to acquisitions of independent firms by the bank-owned dealers.

The steady gains in fee revenue at the integrated firms, up 46% in five years, and more than double in the past eight years, account for the difference in earnings performance. Fee revenue has expanded at a 13% clip in the past two years. Fee revenue as a share of retail revenue at the integrated firms has risen to account for nearly one-half. The rapid growth in fee income, in absolute terms and as a share of retail revenue, reflects the expanding client shift to discretionary managed accounts and the offerings of specialized services, such as tax and estate planning for aging clients.

Fee income has the attraction of mitigating the cyclical volatility of transaction-based commissions, providing stability to retail revenue. Fee-based accounts can provide a steady source of income, even in volatile and uncertain markets. Further, discretionary managed accounts keep the client effectively engaged in the market, benefitting both client and advisor. The proportionately higher share of client cash holdings at the boutique firms may indeed reflect the predominance of traditional brokerage accounts at the small firms.

Fee Revenue



Source: IIAC

It is also interesting to note the substantial increase in operating costs at the integrated firms, up 18% in the past five years. A significant share of these costs relate to expenditure in the wealth management business, with significant outlays in retail products and services to meet expanded demands as the investor demographic ages. Higher compliance costs are another significant factor behind the cost increases. Broker compensation is not included in these operating costs.

Operating costs in the retail sector have not gone up as much. The operating cost in the retail sector, however, is biased downward, reflecting the acquisition of retail firms by the integrated dealers in recent years. Fixed costs have increased at the retail firms during this period, and will continue to increase in the coming two years, as retail firms meet the CRM requirements. The fact remains that retail firms have not had the same access to funds to build-out their wealth management businesses to meet demands of a rapidly changing clientele. Moreover, these smaller boutiques lack the advantage of scale. These factors foreshadow competitive pressures on the boutique firms to retain and build clientele.

The boutique firms, however, have an important niche business opportunity offering customized wealth management services to clients with smaller sized portfolios, say less than $100K. These clients typically fall under the radar screen of the integrated firms. The boutique dealers and their advisors, with their wide product range and market expertise, can attract significant business from clients in the mass-market channel dealing with financial planners. The new CRM rules mean that small boutiques will be subject to the comprehensive regulations whatever the registration category. However, some retail firms may shift to ICPM (Investment Counsel Portfolio Manager) registration as discretionary portfolio management may be viewed as less exposed to regulatory and civil risk than recommending individual equities, particularly high-risk speculative equities, to clients through traditional brokerage operations.

Conclusion

For the securities industry, 2013 was like a Rorschach test. What it looked like depends on your point of view. For the large integrated firms, earnings gains were significant. But boutique firms faced – and continue to face – challenges they must address, shaping strategies that will allow them to survive and thrive in the midst of change.

Industry

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q3 13	Q2 13	Q3 12	Q3/Q2	Q3 13/12	2012	2011	2010	2009	12/11	11/10	10/09
Number of firms	192	194	198	-1.0%	-3.0%	196	201	201	200	-2.5%	0.0%	0.5%
Number of employees	39,405	39,571	39,870	-0.4%	-1.2%	39,555	40,427	39,917	39,894	-2.2%	1.3%	0.1%
Revenue												
Commissions	1,323	1,386	1,199	-4.6%	10.4%	5,117	5,817	5,631	5,052	-12.0%	3.3%	11.5%
Mutual fund only commissions	606	611	542	-0.8%	11.8%	2,175	2,156	1,950	1,605	0.9%	10.6%	21.5%
Investment banking	693	711	825	-2.5%	-15.9%	3,565	3,977	4,029	3,915	-10.4%	-1.3%	2.9%
New issues equity	335	319	431	5.2%	-22.1%	1,782	2,165	2,234	2,356	-17.7%	-3.1%	-5.2%
New issues debt	219	229	179	-4.4%	22.2%	816	826	809	653	-1.2%	2.1%	23.9%
Corporate advisory fees	139	164	215	-14.8%	-35.2%	967	986	986	906	-1.9%	0.0%	8.8%
Fixed income trading	454	477	254	-4.8%	78.5%	1,176	1,064	1,173	2,109	10.5%	-9.3%	-44.4%
Equity trading	74	-160	205	146.1%	-63.8%	118	-1	267	459	n/a	-100.5%	-41.8%
Net interest	466	469	267	-0.6%	74.8%	1,131	1,376	1,054	914	-17.8%	30.5%	15.3%
Fees	938	889	793	5.5%	18.3%	3,206	3,094	2,721	2,385	3.6%	13.7%	14.1%
Other	201	209	223	-3.8%	-10.1%	1,020	810	1,004	1,473	25.9%	-19.4%	-31.8%
Operating revenue	4,150	3,981	3,766	4.2%	10.2%	15,332	16,136	15,878	16,306	-5.0%	1.6%	-2.6%
Operating expenses[1]	1,804	1,844	1,781	-2.1%	1.3%	7,249	7,355	6,825	6,555	-1.4%	7.8%	4.1%
Operating profit	1,223	1,017	1,009	20.3%	21.2%	3,806	4,273	4,789	5,987	-10.9%	-10.8%	-20.0%
Net profit (loss)	477	347	577	37.7%	-17.2%	2,155	2,036	2,395	2,869	5.8%	-15.0%	-16.5%
Shareholders' equity	18,370	17,643	16,525	4.1%	11.2%	17,087	15,269	16,988	15,225	11.9%	-10.1%	11.6%
Regulatory capital	35,118	34,161	34,008	2.8%	3.3%	34,343	30,383	31,647	29,559	13.0%	-4.0%	7.1%
Client cash holdings	39,653	40,658	37,891	-2.5%	4.6%	38,684	39,304	37,952	36,816	-1.6%	3.6%	3.1%
Client debt margin outstanding	15,829	16,158	13,900	-2.0%	13.9%	14,432	13,458	13,731	11,048	7.2%	-2.0%	24.3%
Productivity[2] ($ thousands)	421	402	378	4.7%	11.5%	388	399	398	409	-2.9%	0.3%	-2.7%
Annual return[3] (%)	**10.4**	**7.9**	**14.0**	**2.5%**	**-3.6%**	**12.6**	**13.3**	**14.1**	**18.8**	**-0.7%**	**-0.8%**	**-4.7%**

[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.

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		
	Q3 13	Q2 13	Q3 12	Q3/Q2	Q3 13/12	2012	2011	2010	2009	12/11	11/10	10/09
Number of firms	11	11	11	0.0%	0.0%	11	11	11	11	0.0%	0.0%	0.0%
Number of employees	25,122	25,169	25,450	-0.2%	-1.3%	25,146	25,595	24,955	25,131	-1.8%	2.6%	-0.7%
Revenue												
Commissions	930	971	852	-4.2%	9.1%	3,597	3,921	3,767	3,384	-8.3%	4.1%	11.3%
Mutual fund only commissions	467	468	429	-0.3%	8.7%	1,711	1,654	1,471	1,226	3.5%	12.4%	20.0%
Investment banking	530	521	616	1.8%	-13.9%	2,596	2,726	2,566	2,598	-4.8%	6.2%	-1.2%
New issues equity	261	231	340	12.9%	-23.4%	1,325	1,390	1,311	1,587	-4.7%	6.0%	-17.4%
New issues debt	185	190	149	-2.7%	24.3%	659	699	682	546	-5.7%	2.5%	24.9%
Corporate advisory fees	85	99	127	-15.1%	-33.3%	612	637	573	465	-4.0%	11.2%	23.2%
Fixed income trading	332	389	191	-14.7%	74.0%	1,031	800	960	1,690	29.0%	-16.7%	-43.2%
Equity trading	77	-140	146	155.3%	-47.2%	166	25	38	332	556.3%	-33.5%	-88.6%
Net interest	372	374	222	-0.7%	67.7%	942	1,165	906	790	-19.2%	28.6%	14.7%
Fees	723	679	600	6.5%	20.7%	2,400	2,189	1,994	1,764	9.6%	9.8%	13.0%
Other	124	127	151	-2.4%	-17.6%	618	456	415	1,233	35.4%	9.9%	-66.3%
Operating revenue	3,089	2,922	2,777	5.7%	11.2%	11,350	11,283	10,645	11,792	0.6%	6.0%	-9.7%
Operating expenses[1]	1,228	1,221	1,201	0.6%	2.2%	4,817	4,818	4,497	4,300	0.0%	7.1%	4.6%
Operating profit	1,003	832	832	20.5%	20.6%	3,219	3,212	3,127	4,782	0.2%	2.7%	-34.6%
Net profit (loss)	469	322	590	45.6%	-20.4%	1,978	1,801	1,610	2,422	9.8%	11.9%	-33.5%
Shareholders' equity	13,547	12,823	11,356	5.6%	19.3%	11,902	10,475	11,585	10,029	13.6%	-9.6%	15.5%
Regulatory capital	26,846	25,912	24,640	3.6%	9.0%	24,989	22,155	22,882	21,372	12.8%	-3.2%	7.1%
Client cash holdings	33,458	34,599	32,255	-3.3%	3.7%	33,018	33,088	31,677	31,451	-0.2%	4.5%	0.7%
Productivity[2] **($ thousands)**	492	464	436	5.9%	12.7%	451	441	427	469	2.4%	3.3%	-9.1%
Annual return[3] **(%)**	**13.9**	**10.1**	**20.8**	**3.8%**	**-6.9%**	**16.6**	**17.2**	**13.9**	**24.1**	**-0.6%**	**3.3%**	**-10.3%**

[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.

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		
	Q3 13	Q2 13	Q3 12	Q3/Q2	Q3 13/12	2012	2011	2010	2009	12/11	11/10	10/09
Number of firms	81	82	80	-1.2%	1.3%	79	78	74	72	1.3%	5.4%	2.8%
Number of employees	2,920	3,027	3,180	-3.5%	-8.2%	3,115	3,108	2,793	2,801	0.2%	11.3%	-0.3%
Revenue												
Commissions	127	141	120	-10.2%	5.6%	558	693	655	623	-19.4%	5.7%	5.1%
Investment banking	127	143	167	-11.6%	-24.1%	756	912	1,082	1,052	-17.1%	-15.7%	2.9%
New issues equity	54	63	63	-13.8%	-13.9%	315	523	634	568	-39.8%	-17.5%	11.6%
New issues debt	21	22	21	-5.0%	1.9%	103	60	58	51	71.6%	3.7%	13.7%
Corporate advisory fees	52	59	84	-11.8%	-38.1%	338	329	390	433	2.6%	-15.6%	-9.9%
Fixed income trading	102	76	49	35.0%	107.3%	93	179	122	249	-48.1%	46.7%	-51.0%
Equity trading	-8	-20	50	58.4%	-116.3%	-61	-44	145	46	-38.8%	-130.1%	215.2%
Net interest	59	60	15	-1.4%	307.8%	63	49	35	33	29.5%	39.0%	6.1%
Fees	47	45	41	4.8%	14.8%	190	174	104	77	9.4%	67.4%	35.1%
Other	41	36	46	15.0%	-10.6%	263	173	453	101	52.2%	-61.8%	348.5%
Operating revenue	494	480	487	2.8%	1.4%	1,863	2,136	2,596	2,182	-12.8%	-17.7%	19.0%
Operating expenses[1]	258	284	269	-9.4%	-4.2%	1,133	1,056	899	923	7.3%	17.4%	-2.6%
Operating profit	194	160	166	21.0%	16.9%	605	839	1,440	1,025	-27.8%	-41.7%	40.5%
Net profit (loss)	17	30	0	-41.3%	4690.5%	276	213	752	444	29.6%	-71.7%	69.4%
Shareholders' equity	3,862	3,865	3,927	-0.1%	-1.7%	3,982	3,632	4,108	3,972	9.6%	-11.6%	3.4%
Regulatory capital	6,869	6,859	7,707	0.1%	-10.9%	7,735	6,617	7,068	6,607	16.9%	-6.4%	7.0%
Client cash holdings	1,946	1,727	1,699	12.7%	14.5%	1,756	1,296	1,306	859	35.5%	-0.7%	52.0%
Productivity[2] ($ thousands)	677	635	613	6.6%	10.5%	598	687	929	779	-13.0%	-26.1%	19.3%
Annual return[3] (%)	**1.8**	**3.1**	**0.0**	**-1.3%**	**1.8%**	**6.9**	**5.9**	**18.3**	**11.2**	**1.0%**	**-12.4%**	**7.1%**

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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		
	Q3 13	Q2 13	Q3 12	Q3/Q2	Q3 13/12	2012	2011	2010	2009	12/11	11/10	10/09
Number of firms	100	101	107	-1.0%	-6.5%	106	112	116	117	-5.4%	-3.4%	-0.9%
Number of employees	11,363	11,375	11,240	-0.1%	1.1%	11,294	11,724	12,169	11,962	-3.7%	-3.7%	1.7%
Revenue												
Commissions	267	275	227	-2.7%	17.7%	961	1,203	1,208	1,045	-20.1%	-0.4%	15.6%
Mutual fund only commissions	137	141	115	-3.0%	19.1%	471	506	478	375	-6.9%	5.8%	27.5%
Investment banking	36	47	42	-22.6%	-13.4%	212	338	381	265	-37.2%	-11.2%	43.8%
New issues equity	21	25	28	-18.4%	-25.5%	142	253	289	201	-43.8%	-12.6%	43.8%
New issues debt	13	16	10	-22.6%	32.0%	53	67	69	56	-20.0%	-3.4%	23.2%
Corporate advisory fees	3	5	5	-42.4%	-34.8%	17	19	23	8	-10.6%	-16.9%	187.5%
Fixed income trading	19	12	14	67.9%	38.4%	52	86	91	169	-39.9%	-5.8%	-46.2%
Equity trading	5	-1	8	499.2%	-40.7%	13	17	84	81	-25.0%	-79.8%	3.7%
Net interest	36	35	31	1.4%	16.1%	126	162	113	91	-22.0%	43.1%	24.2%
Fees	168	166	153	1.2%	9.9%	616	731	623	544	-15.7%	17.3%	14.5%
Other	36	46	27	-22.2%	32.4%	139	180	137	138	-23.0%	31.7%	-0.7%
Operating revenue	567	579	502	-2.0%	13.0%	2,119	2,717	2,637	2,322	-22.0%	3.0%	13.6%
Operating expenses[1]	319	339	311	-5.9%	2.4%	1,300	1,482	1,428	1,332	-12.3%	3.8%	7.2%
Operating profit	27	25	12	7.0%	130.7%	-18	221	222	180	-108.2%	-0.2%	23.3%
Net profit (loss)	-10	-5	-13	-76.9%	24.4%	-99	22	33	3	-559.6%	-34.7%	1000.0%
Shareholders' equity	962	956	1,241	0.6%	-22.5%	1,202	1,162	1,295	1,224	3.5%	-10.3%	5.8%
Regulatory capital	1,403	1,389	1,661	1.0%	-15.6%	1,619	1,610	1,697	1,580	0.5%	-5.1%	7.4%
Client cash holdings	4,249	4,332	3,937	-1.9%	7.9%	3,910	4,920	4,820	4,506	-20.5%	2.1%	7.0%
Productivity[2] **($ thousands)**	200	204	179	-1.9%	11.8%	188	232	217	194	-19.0%	6.9%	11.6%
Annual return[3] **(%)**	**-4.0**	**-2.3**	**-4.1**	**-1.7%**	**0.1%**	**-8.2**	**1.9**	**2.5**	**0.2**	**-10.1%**	**-0.6%**	**2.3%**

[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.

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		
	Q3 13	Q2 13	Q3 12	Q3/Q2	Q3 13/12	2012	2011	2010	2009	12/11	11/10	10/09
Number of firms	58	59	57	-1.7%	1.8%	56	57	54	52	-1.8%	5.6%	3.8%
Number of employees	1,953	2,053	2,177	-4.9%	-10.3%	2,122	2,279	2,013	2,090	-6.9%	13.2%	-3.7%
Revenue												
Commissions	83	90	77	-8.2%	7.9%	362	470	448	439	-22.8%	4.8%	2.1%
Investment banking	87	84	82	3.7%	5.9%	478	666	781	684	-28.3%	-14.7%	14.2%
New issues equity	49	43	47	13.9%	4.6%	265	481	574	468	-44.9%	-16.1%	22.6%
New issues debt	6	5	8	15.3%	-24.7%	41	25	17	17	62.8%	49.6%	0.0%
Corporate advisory fees	32	36	27	-10.2%	16.8%	171	159	190	198	7.5%	-16.2%	-4.0%
Fixed income trading	24	7	10	249.1%	134.6%	34	13	17	38	152.3%	-21.8%	-55.3%
Equity trading	-24	-25	6	3.0%	-480.3%	-67	-44	101	113	-52.2%	-143.3%	-10.6%
Net interest	8	9	6	-15.5%	35.6%	24	28	20	19	-14.9%	40.0%	5.3%
Fees	25	24	20	4.7%	29.3%	98	101	93	69	-3.6%	9.0%	34.8%
Other	14	17	23	-15.6%	-38.0%	184	54	341	25	243.6%	-84.3%	1264.0%
Operating revenue	216	206	224	5.1%	-3.2%	1,113	1,288	1,801	1,388	-13.6%	-28.5%	29.8%
Operating expenses[1]	138	148	143	-6.2%	-3.0%	601	630	554	548	-4.6%	13.7%	1.1%
Operating profit	46	32	37	43.4%	24.7%	321	444	1,008	635	-27.7%	-56.0%	58.7%
Net profit (loss)	-13	-9	-26	-42.1%	50.8%	113	73	536	277	54.9%	-86.4%	93.5%
Shareholders' equity	1,171	1,202	1,223	-2.6%	-4.3%	1,270	1,171	1,737	1,685	8.5%	-32.6%	3.1%
Regulatory capital	1,771	1,791	2,578	-1.1%	-31.3%	2,597	1,749	2,325	1,943	48.5%	-24.8%	19.7%
Client cash holdings	1,016	904	924	12.4%	10.0%	894	967	618	555	-7.5%	56.4%	11.4%
Productivity[2] **($ thousands)**	443	401	411	10.5%	7.9%	524	565	895	664	-7.2%	-36.8%	34.7%
Annual return[3] **(%)**	**-4.4**	**-3.0**	**-8.5**	**-1.4%**	**4.1%**	**8.9**	**6.2**	**30.9**	**16.4**	**2.7%**	**-24.7%**	**14.4%**

[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.

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		
	Q3 13	Q2 13	Q3 12	Q3/Q2	Q3 13/12	2012	2011	2010	2009	12/11	11/10	10/09
Number of firms	23	23	23	0.0%	0.0%	23	21	20	20	9.5%	5.0%	0.0%
Number of employees	967	974	1,003	-0.7%	-3.6%	993	829	780	711	19.8%	6.3%	9.7%
Revenue												
Commissions	44	51	43	-13.7%	1.5%	196	223	208	183	-12.3%	7.2%	13.7%
Investment banking	40	60	85	-33.1%	-53.0%	278	246	301	367	12.9%	-18.1%	-18.0%
New issues equity	5	20	16	-73.8%	-67.6%	50	42	60	99	20.1%	-30.7%	-39.4%
New issues debt	15	17	13	-11.2%	18.6%	62	35	41	34	78.0%	-15.3%	20.6%
Corporate advisory fees	20	23	56	-14.2%	-64.9%	167	170	200	234	-2.1%	-14.9%	-14.5%
Fixed income trading	78	69	39	13.7%	100.2%	59	166	106	212	-64.2%	56.3%	-50.0%
Equity trading	16	6	44	188.8%	-62.6%	6	0	44	-67	n/a	-99.7%	165.7%
Net interest	51	51	9	1.2%	485.4%	39	21	15	14	89.8%	37.7%	7.1%
Fees	21	20	21	4.9%	1.3%	93	73	11	8	27.6%	561.0%	37.5%
Other	27	19	23	42.6%	17.0%	79	119	111	76	-33.8%	7.5%	46.1%
Operating revenue	278	275	263	1.1%	5.4%	750	848	796	794	-11.5%	6.5%	0.3%
Operating expenses[1]	119	137	126	-12.8%	-5.6%	532	426	345	375	25.0%	23.3%	-8.0%
Operating profit	147	128	129	15.3%	14.6%	284	395	432	390	-28.0%	-8.6%	10.8%
Net profit (loss)	30	39	26	-21.9%	18.0%	163	140	215	167	16.4%	-34.9%	28.7%
Shareholders' equity	2,691	2,662	2,704	1.1%	-0.5%	2,712	2,462	2,371	2,287	10.2%	3.8%	3.7%
Regulatory capital	5,097	5,069	5,129	0.6%	-0.6%	5,138	4,868	4,742	4,664	5.5%	2.7%	1.7%
Client cash holdings	930	823	775	13.0%	19.9%	863	330	688	304	161.7%	-52.1%	126.3%
Productivity[2] ($ thousands)	1,148	1,128	1,050	1.8%	9.3%	755	1,023	1,021	3,350	-26.1%	0.2%	-69.5%
Annual return[3] (%)	**4.5**	**5.8**	**3.8**	**-1.3%**	**0.7%**	**6.0**	**5.7**	**9.1**	**9.7**	**0.3%**	**-3.4%**	**-0.7%**

[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.

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		
	Q3 13	Q2 13	Q3 12	Q3/Q2	Q3 13/12	2012	2011	2010	2009	12/11	11/10	10/09
Number of firms	31	31	33	0.0%	-6.1%	33	34	35	35	-2.9%	-2.9%	0.0%
Number of employees	5,420	5,491	5,615	-1.3%	-3.5%	5,547	6,114	6,231	6,072	-9.3%	-1.9%	2.6%
Revenue												
Commissions	141	143	119	-1.2%	18.5%	503	662	675	605	-24.1%	-1.9%	11.6%
Mutual fund only commissions	83	84	69	-0.9%	20.2%	284	302	285	227	-6.0%	6.0%	25.6%
Investment banking	23	34	26	-32.7%	-12.1%	142	233	271	192	-39.0%	-14.1%	41.1%
New issues equity	10	15	16	-35.8%	-42.2%	88	163	195	128	-46.2%	-16.4%	52.3%
New issues debt	12	16	7	-26.7%	59.2%	45	57	61	48	-21.0%	-6.2%	27.1%
Corporate advisory fees	2	4	3	-45.4%	-19.8%	9	12	16	17	-26.6%	-22.5%	-5.9%
Fixed income trading	14	14	8	-0.9%	64.2%	29	57	71	134	-48.8%	-20.0%	-47.0%
Equity trading	1	-2	6	130.0%	-90.2%	3	-5	40	42	163.9%	-111.6%	-4.8%
Net interest	18	18	15	0.6%	18.5%	64	93	62	49	-30.7%	49.7%	26.5%
Fees	93	91	85	1.2%	8.8%	340	354	321	288	-4.0%	10.4%	11.5%
Other	21	21	15	-1.0%	37.8%	64	96	71	57	-33.2%	35.5%	24.6%
Operating revenue	310	319	275	-3.0%	12.8%	1,146	1,491	1,511	1,367	-23.1%	-1.3%	10.5%
Operating expenses[1]	176	189	171	-7.1%	2.9%	719	847	819	752	-15.1%	3.4%	8.9%
Operating profit	10	11	1	-9.9%	1729.0%	-15	51	117	122	-129.7%	-56.2%	-4.1%
Net profit (loss)	-8	-4	-6	-86.0%	-39.9%	-51	-7	34	31	-635.0%	-120.2%	9.7%
Shareholders' equity	682	670	680	1.9%	0.4%	643	798	900	804	-19.4%	-11.3%	11.9%
Regulatory capital	883	868	882	1.6%	0.1%	838	1,051	1,115	987	-20.3%	-5.8%	13.0%
Client cash holdings	2,897	2,875	2,832	0.8%	2.3%	2,783	3,791	3,890	3,620	-26.6%	-2.6%	7.5%
Productivity[2] **($ thousands)**	228	233	196	-1.8%	16.8%	207	244	242	225	-15.3%	0.5%	7.7%
Annual return[3] **(%)**	**-4.8**	**-2.6**	**-3.4**	**-2.2%**	**-1.4%**	**-7.9**	**-0.9**	**3.8**	**3.9**	**-7.0%**	**-4.7%**	**-0.1%**

[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.

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		
	Q3 13	Q2 13	Q3 12	Q3/Q2	Q3 13/12	2012	2011	2010	2009	12/11	11/10	10/09
Number of firms	69	70	74	-1.4%	-6.8%	73	78	81	82	-6.4%	-3.7%	-1.2%
Number of employees	5,943	5,884	5,625	1.0%	5.7%	5,747	5,610	5,938	5,890	2.4%	-5.5%	0.8%
Revenue												
Commissions	126	132	108	-4.3%	16.7%	458	540	533	440	-15.2%	1.4%	21.1%
Mutual fund only commissions	54	57	46	-6.1%	17.5%	187	204	192	148	-8.2%	6.1%	29.7%
Investment banking	13	13	16	4.1%	-15.5%	70	106	110	73	-33.4%	-4.0%	50.7%
New issues equity	11	10	11	6.3%	-1.0%	54	89	94	73	-39.4%	-4.8%	28.8%
New issues debt	1	1	2	61.7%	-49.1%	8	9	9	8	-13.6%	4.8%	12.5%
Corporate advisory fees	1	2	2	-35.8%	-51.9%	8	7	7	-8	18.9%	-4.1%	187.5%
Fixed income trading	6	-2	6	379.3%	1.6%	22	29	20	35	-22.4%	44.8%	-42.9%
Equity trading	4	1	3	620.1%	64.6%	10	22	43	38	-54.8%	-49.7%	13.2%
Net interest	17	17	15	2.2%	13.6%	62	69	51	42	-10.4%	35.0%	21.4%
Fees	75	74	68	1.2%	11.3%	276	376	302	256	-26.7%	24.6%	18.0%
Other	15	25	12	-39.9%	25.5%	75	84	66	81	-11.4%	27.7%	-18.5%
Operating revenue	258	260	227	-0.8%	13.3%	973	1,226	1,125	966	-20.6%	9.0%	16.5%
Operating expenses[1]	143	150	140	-4.4%	2.0%	581	635	609	580	-8.6%	4.3%	5.0%
Operating profit	17	14	11	19.7%	54.3%	-3	170	105	57	-101.8%	62.1%	84.2%
Net profit (loss)	-2	-1	-7	-40.7%	77.9%	-48	28	-1	-27	-270.3%	2942.9%	96.3%
Shareholders' equity	279	286	562	-2.4%	-50.3%	559	364	395	420	53.7%	-7.9%	-6.0%
Regulatory capital	520	521	780	-0.2%	-33.3%	782	560	582	593	39.7%	-3.8%	-1.9%
Client cash holdings	1,352	1,457	1,105	-7.2%	22.4%	1,127	1,130	930	886	-0.3%	21.5%	5.0%
Productivity[2] **($ thousands)**	173	177	162	-1.8%	7.2%	169	219	189	164	-22.5%	15.3%	15.5%
Annual return[3] **(%)**	**-2.2**	**-1.5**	**-5.0**	**-0.7%**	**2.8%**	**-8.7**	**7.8**	**-0.3**	**-6.4**	**-16.5%**	**8.1%**	**6.2%**

[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.

Comments please!

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