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

LETTER FROM THE PRESIDENT

Vol. 97

Continued Weak Performance in the Independent Firm Sector and the Rising Consumer Cost of the Wealth Management Business

HIGHLIGHTS:

Tsunami of change continues to batter the Canadian investment industry: regulatory reform, consumer demand in retail financial services, cyber threats, chronically weak resource markets.

Larger firms widen their competitive advantage with more balanced business models and scale, pushing small firms to the sidelines.

Larger independent firms have the advantage of more entrepreneurial and faster decision-making, and superior trading and securities placing power in the mid-corporate market.

28 small institutional firms and 35 retail firms exited the investment industry in the past four years.

Implementation of CRM 2 and POS rules forces advisors and firms to articulate the value proposition to justify now fully disclosed fees and charges.

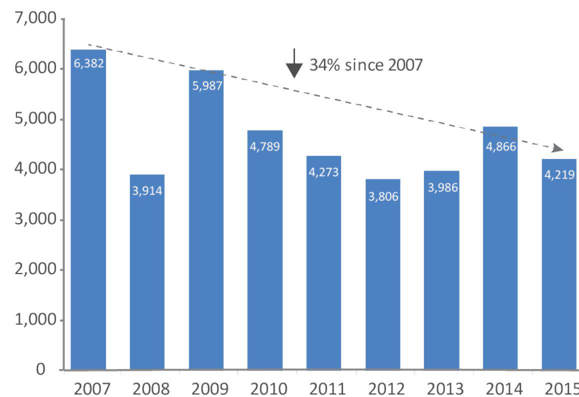
Wealth management products and services become more expensive for investors, reflecting the application of technology/systems and compliance burden.

Promising recovery disappoints

Following two years of back-to-back earnings gain, overall operating profit for Canada's investment industry declined 13% year-over-year in 2015. A steep decline in investment banking revenue, and setbacks in fixed income and equity trading revenue at the integrated firms, dragged down performance. The relentless upward climb in operating costs, traced to regulatory compliance and technology costs, has cut into operating margins.

The sharp drop in oil prices, the contraction in energy investment spending, generally weak economic conditions, uncertainty about the overall outlook, and financial market volatility made equity financing more difficult for large and small companies, notably in the all-important energy sector, especially leveraged mid-cap firms with negative cash flow.

Annual Operating Profits ($M)
Industry



Data Source: IIAC

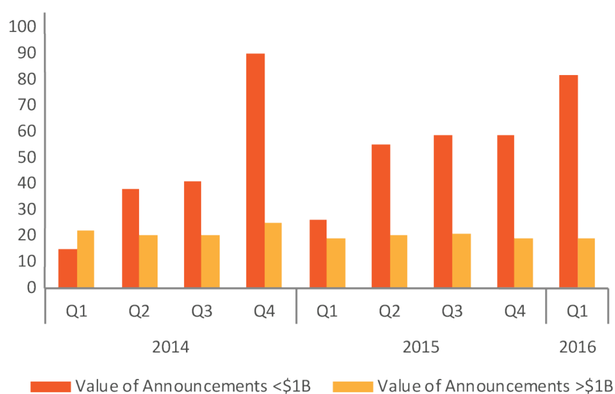
Both revenue and profit improved for the industry as a whole in the first quarter of 2016 relative to the fourth quarter of 2015.

Investment banking clobbered

2015 saw a 14% year-over-year decline in investment banking revenue for the industry as a whole, driven by reduced equity offerings across the corporate sector. Corporate advisory fees were down for the year (-8.5%), but only because the payment to dealers of the fourth quarter surge in advisory fees in the subsequent first quarter 2016. Most of the uptick in corporate restructurings in early 2016 was large-sized U.S.-based transactions, benefitting the large Canadian integrated dealers and U.S. investment banks. The banking revenue of the smaller independent dealers was much harder hit, as many small and mid-sized companies that look to the boutiques for banking services were shut out of the capital markets. The advisory business in the mid-cap sector has picked up modestly this year in response to improving crude oil prices and stepped up acquisitions of over-extended firms in the oil patch. But the benefits have fallen to the integrated firms more than proportionately. More on this later.

The financial picture turned brighter as the first quarter of 2016 drew to a close, as financial market volatility abated somewhat, and global oil prices moved off recent lows. First quarter investment banking revenue was up 22% for the industry compared to the fourth quarter 2015, with improved conditions continuing through mid-year. M&A transactions contributed to increased investment banking revenue in the first quarter. Large-sized acquisitions by Canadian companies of foreign targets dominated the M&A scene. Canadian companies made 151 acquisitions of foreign targets valued at $62 billion in the first quarter 2016, compared to 165 transactions valued at $30 billion in the first quarter 2015, according to Crosbie & Company. This was driven by the need for diversification and growth. For example, three of Canada's largest pension fund managers were part of a $6.5-billion deal to purchase Australian rail, port and terminal operator Asciano Ltd. Large and mid-sized companies, especially healthy mid-cap energy companies, turned to public equity markets.

M&A Quarterly Announcements ($B)

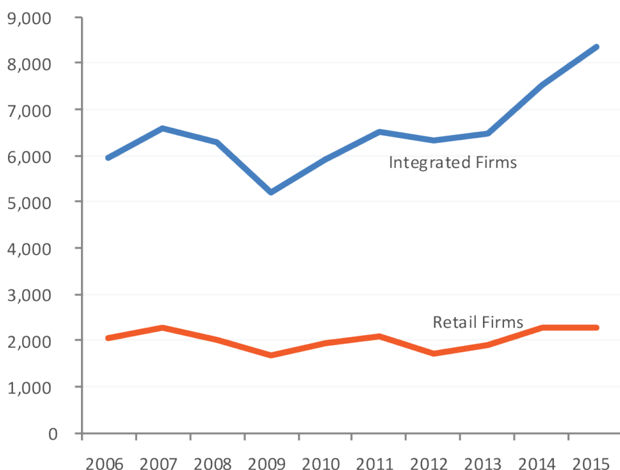


Data Source: Crosbie & Companys Canadian M&A Report Q1 2016

The retail business maintains steady upward momentum

With improving economic conditions this year, and more stability and positive tone in the energy sector, retail revenue gains picked up steam in the early months of 2016. Retail revenue at the integrated firms, accounting for approximately 75% of total retail revenue, continued its upward trajectory that began six years ago with the abrupt turnaround in investor sentiment after the 2008 financial crisis. The independent retail firms have kept pace with the larger firms, meeting consumer demand for discretionary managed products, and providing enhanced client services through white-labeled client-firm interface for advisor and account access, and back-office processing, on carrying broker platforms. Revenue at the independent retail firms rose about 30% over the past three years, compared with a somewhat lower revenue increase (14%) at the integrated firms. However, operating costs rose over 3% per annum, on average, through the 2012-15 period for the independent retail firms, dogging performance. Operating cost rose at an even faster clip at the integrated firms, up an average 5% per annum in the period.

Retail Revenue ($M)

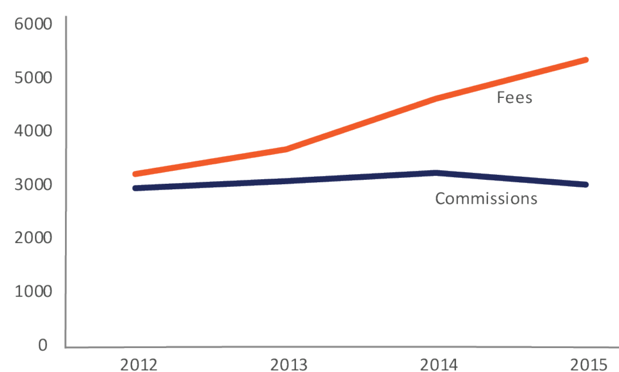


Data Source: IIAC

Transformative change

The wealth management business has expanded steadily in the last five years on response to strong client demand for financial advice and services. This expansion has taken place in the midst of a dramatic transformation in business operations, in terms of the steady shift to asset distribution from an exclusive focus on asset accumulation, and the shift to discretionary investment management and fee-based services, from traditional transactional brokerage. The numbers tell the story. Three years ago, the fees from discretionary managed and advisory accounts approximately equaled brokerage commissions in the industry. Fee-based earnings now dominate, with overall fees more than one-third higher than stock commissions.

Fee-Based Revenue vs Commission Revenue ($M) (Excluding Mutual Funds)



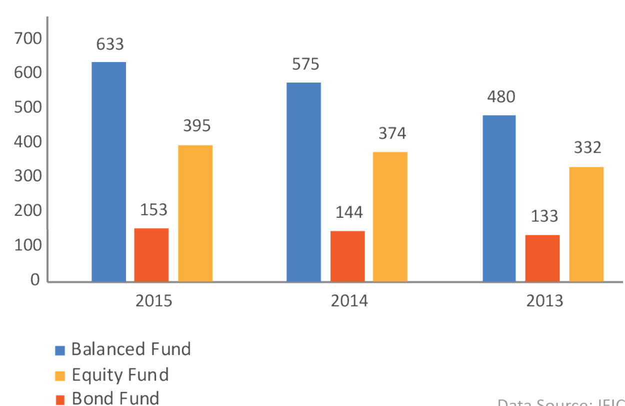
Data Source: IIAC

And the trend continues. The shift to fee-based revenue reflects burgeoning client demand for discretionary managed accounts and the full range of ancillary services, including financial planning, estate planning, etc., and reinforced through the intentional move by dealers away from individual share transactions, especially speculative securities, because of the increased compliance burden and reputational risk for the dealer. Individual share distribution, particularly for speculative securities, is increasingly the preserve of the Exempt Market Dealer through distributions to accredited investors, and the small managed IC/PM-registered investment funds. These funds, however, are themselves constrained as they found it increasingly difficult to find shelf-space for distribution through the large retail financial groups.

Balanced mutual funds take the lead

The other notable development in the retail business in recent years has been the steady pronounced increase in mutual fund sales and commissions. Mutual fund commissions increased 10% year-over-year in 2015, after posting a 6% gain in 2014 and a 12% increase the year before. The popularity of mutual fund investments among the relatively sophisticated clients of IIROC-registered dealers has happened despite increased publicity about high-cost mutual funds, and the need for greater disclosure of product structure and fees and charges, and the availability of lower cost ETFs.

Mutual Fund Net Assets ($B)



Several factors explain the surge in mutual fund sales and commissions.

- First, the periodic and significant downdrafts in financial asset prices, in both equity and fixed income markets—events such as the "taper tantrum" over the summer of 2013, the credit downgrades the same year, and China growth fears—have increased investor interest in balanced mutual funds, away from singularly-focused ETFs, to mitigate exposure to financial, economic and geo-political events. Balanced mutual funds are a more cost-effective way to achieve a balanced portfolio and reduce fund volatility than combining individual stocks or ETF shares into a diversified portfolio.

- Second, the move to balanced mutual funds is part of the overall shift to discretionary management enabling the advisor to devote more time to client engagement and administrative responsibilities.

- Third, mutual fund Management Expense Ratios (MERs) and commissions continue to decline under competitive pressure, resulting in a better-valued product in terms of performance and cost.

- Finally, the increase in mutual fund commissions may, in part, reflect the migration of MFDA advisors to the IIROC-registered platform. Even though advisors have upgraded proficiency qualifications, they likely have a heavy bias to the mutual fund business. IIROC recently issued a White Paper for comment on the prospect for eliminating proficiency upgrades as the condition for entry to the IIROC platform. There is a good chance this rule modification will go forward, accelerating the shift of advisors to the IIROC platform, and a corresponding increase in the proportion of mutual fund sales and commissions in the retail business.

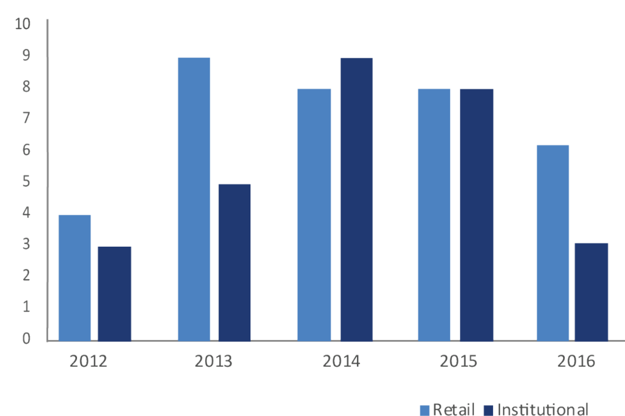
The implementation of the CRM2 and POS (Point of Sale) provisions at year-end, related to disclosure and portfolio performance, and recent publicity about a proposed ban on mutual fund trailer fees, will have an impact on IIROC-registered firms. The extensive disclosure and, in some cases, different disclosure (calculation for portfolio performance reporting) will unsettle, surprise and confuse clients. It will give advisors the opportunity to explain and justify the escalating cost of delivering the wealth management business—costs arising from technology/system outlays and the substantial increases in compliance costs to meet new rules. Higher costs through commissions, fees and charges are an inevitable reality for all retail clients.

There may be some client pushback on charges and fees, given the greater clarity on fees and on trailer commissions. It will be incumbent on advisors to explain the corresponding value proposition to the client. This process may result in clients shifting to a different mix of product and service, and some clients moving to another advisor and firm, and relying more on self-directed accounts. The shift will be concentrated among the small investors invested in mutual funds. These investors will look for lower priced alternatives at the same firm or elsewhere. This competitive search will, over time, force the design of new lower priced products and services that rely heavily on technology and pre-packaged mutual funds.

The disappearance of independent firms

The deteriorating earnings performance of the independent institutional firms since 2011, with a brief positive interlude in 2014, driven by poor investment banking revenues and relentlessly rising costs, has forced many firms out of business. Twenty-eight institutional firms have exited the industry in the four years since 2012 through amalgamation with other firms or shuttering operations. Thirty-five retail boutiques have left the industry in the same period. Moreover, there are 53 small independent firms who lost money in 2015, nearly one-third the total number of independent firms in the industry. Many of these firms have been in a money-losing position throughout the past four years, surviving through continual capital injections by the partners.

IIROC Resignations: Amalgamations & Firm Closures
Retail vs Institutional



We estimate about 13 of the money-losing firms in 2015 are in the institutional grouping. Unless market conditions improve significantly in the near-term, many firms in this group will likely disappear in the next year or so. This would leave a small core group of some 20 or so strong and well-capitalized firms in the

institutional boutique grouping.

Few of the estimated 40 retail firms losing money are likely to survive over the next couple of years, given further ratcheting up in the regulatory burden as the "targeted reforms" for the CRM rule framework and potentially a client best interest standard are introduced. The pool of IIROC-registered firms is anticipated to fall well below 100 within the next five years.

The extensive CRM rule framework, and Point of Sale rules for mutual funds, have been put forward and implemented without evident fundamental analysis, say, to assess the impact of these rules on the efficiency of markets, the unintended consequences and unnecessary costs imposed on the investing public— in effect, no comprehensive cost-benefit analysis. This has also meant the complexities of complying with the new rules arose only at the implementation phase of the rule-making exercise. Compliance costs turned out higher than anticipated and the timetable for implementation in some cases was moved forward to allow sufficient time to build the necessary compliance systems.

The IIAC is pleased the CSA has recently stated intentions to carry out a post-implementation review of the extensive rules put in place in the past four years or so. This approach should measure the costs of these rules and whether they have achieved the benefit to the end-investor. We look forward to hearing more detail about these intentions in due course.

Client assets under management by IIROC-registered firms are projected to expand beyond $2 trillion, reflecting the consolidation of the industry around the bank-owned and large independent firms, and the continued shift of business from the MFDA-registered advisors to the IIROC platforms. The removal of the proficiency upgrade requirement will accelerate this advisor shift.

Speculative capital dwindles

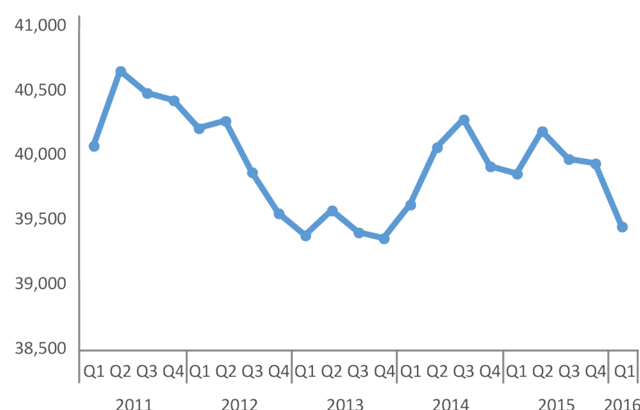
The consolidation of the wealth management business around the bank-owned dealers and the mid-sized and large independent firms, coupled with the shift to discretionary management and higher regulatory standards (notably suitability), has reduced access to retail investment capital for small and mid-sized publicly traded companies. These companies rely more and more on specialized institutional investors (including venture funds) and wealthy individuals. It has meant that many mid-sized companies stay private (limiting growth) or seek out mergers and joint venture partners at an earlier stage of development. The upshot is an overall shortage of speculative equity capital for growing Canadian businesses.

The not-surprising appearance of industry layoffs

The faltering institutional independent firm sector has triggered significant employment reductions in the industry. As of the first quarter of 2016, layoffs were up sharply, amounting to about 518 on net, or 17% of total employees in the firm grouping since 2012. These are the first significant layoffs in the boutique sector in many years. On the other hand, employment losses were more significant in the integrated firms in the immediate aftermath of the 2007/2008 financial crisis (a net job loss of 1900 people between 2007 and 2010) reflecting major staff adjustments in terms of layoffs combined with selective hiring of compliance and technology/systems personnel, and new sales and trading personnel.

All firms in the investment industry have actively recruited advisors and sales staff, compliance professionals and technology/systems personnel, to meet client demands and the operational needs of the firm. The large integrated firms have been particularly aggressive in attracting quality investment advisors across the industry. This option to expand retail operations is increasingly important, as the number of potential firm acquisitions has shrunk dramatically. Advisor incentives have notched towards 100% or higher of annual trailing earnings, amounting to a 20% compensation increase, if amortized over five years. The integrated firms are well placed to compete effectively in this bidding war for advisor talent, funding the compensation premium by boosting advisor productivity through a wide range of products and services, and various support mechanisms, and the scope to reduce payouts for low performing advisors.

Total Industry Employment



Data Source: IIAC

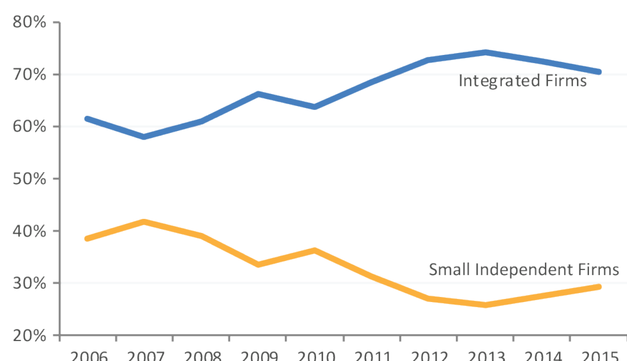
Competition intensifies – compounding the business challenge faced by small dealers

The tougher business conditions in the marketplace in recent years, particularly in investment banking, have stiffened competition as the integrated firms moved down the corporate "food chain" to compete for the equity new issue business and advisory services of the smaller public companies.

The bank-owned dealers have leveraged their banking relationships and their size to compete for public and private market offerings of new securities for mid-sized companies. The integrated dealer share of total equity new issue revenue has increased by ten percentage points to 73% in the past four years, reflecting both the greater incidence of large corporate financing as well as successful penetration by the integrated firms of the mid-cap underwriting market. The integrated share of total investment banking revenue increased to 70% in the past four years. In the past year or so, the integrated firms have also competed aggressively for corporate

advisory work, particularly for mid-cap business in the energy sector.

Share of Investment Banking Revenue



Data Source: IIAC

The surviving independent institutional firms, however, have consolidated operations, cut costs aggressively and honed their competitive edge, to push back and compete effectively for the traditional mid-cap investment banking business. These advantages include effective research on mid-cap companies, broad and effective securities distribution and trading capability, well-coordinated research and trading expertise, and strong institutional and corporate relationships.

The large integrated dealers have also expanded competitive reach in the wealth management business, capturing an increased share of business from low to mid-income Canadians, and from high net worth clients. The shift in the wealth management business to discretionary managed funds and fee-based advisory accounts away from stock picking, has given the larger integrated dealers a natural advantage.

- First, the integrated firms have a wide range of managed product across the retail shelf; from third party to proprietary mutual funds; to third-party wrap accounts; to structured debt and equity products. The large firms also provide a full range of financial and estate planning services, and mortgage/lending facilities.

- Second, the commoditization of retail managed product has meant pricing is a significant factor in attracting business. The integrated firms have the size to lower unit costs and compete effectively on price.

- Finally, the ageing demographic has reduced interest on stock picking, especially for speculative securities, the traditional advantage of the independent firms. The need for broadly based financial services as older client move towards and into retirement, and have less interest in speculative investments, has encouraged older clients to consolidate accounts with the large integrated dealers.

Rising cost of the retail business for investors

The expenses related to the wealth-management business have escalated dramatically for both small and large investment dealers. Rising operating costs reflect the technology/systems demands of the retail client, including the client-firm interface for account access and reporting, increased focus on cybersecurity, greater use of predictive analytics to better understand clients, and the massive escalation in regulatory compliance costs, especially CRM2 requirements. Much of these variable and fixed costs will be passed on to the consumer in higher commissions, fees and charges, despite competitive pressures.

In sum, the wealth management business has gotten more expensive for all investors. The higher-end client will pay more for customized and value-added products and services, and the small investor will pay higher charges and face more limited advice options.

For smaller clients, wealth management firms are transitioning to a 'utility model' in a bid to maintain profitability and reduce operating costs. The fixed cost increases will increasingly mean clients with smaller accounts and less portfolio activity will be forced to seek shrinking options among platforms offering commoditized products and services, automated options—such as self-directed accounts and robo-investing—and less customized dealing overall. At the same time, investment returns are constrained by persistently low interest rates and the desire to mitigate portfolio risk. This is occurring at the same time as retirement savings carry a much higher priority with investors.

Conclusion - The changing landscape

The competitive pressures on independent institutional and retail firms have intensified, as business conditions have remained weak. Moreover, these independent firms are coping with the rising fixed costs from technology and regulatory compliance demands of adapting business models. The industry is rapidly bifurcating between the large integrated dealers and larger specialized independent dealers. The small boutique investment dealer firms are squeezed by scale and product/service depth.

However, structural change is endemic across the financial sector. The smaller mutual fund dealers are under the same competitive and cost pressures as the small dealers. The mutual fund channel will continue to integrate into the IIROC dealer platform, driven by need for scale, the logic of business integration and regulatory accommodation. The managed fund industry will continue to consolidate as the mid-sized and the large players, reflecting the need for scale and the reality of commoditization, swoop up smaller investment funds.

The eventual consolidation in the investment industry will have consequences for underlying business trends. Broadly based competition across the institutional and retail sectors will narrow as firms leave the industry. However, competition among the integrated firms and large independent retail and institutional franchises will intensify. The institutional sector will focus on the mid and large cap businesses for investment banking and trading, and less on small public companies. Many small companies will

stay private longer and look to complete an IPO and TSX listing at a later stage of development. The venture markets will become less important as a source of capital-raising, with the exception of renewed resource financing if resource markets show sustained recovery.

The bank-owned and independent integrated firms will compete aggressively for the middle income and sophisticated investor. Small investors will turn to the large bank and insurance companies. Firms will rely on packaged fund products and technology to deliver financial advice to these investors.

Yours sincerely,

Ian C. W. Russell, FCSI
President & CEO, IIAC
July 2016

Industry

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q1 16	**Q4 15**	**Q1 15**	**Q1/Q4**	**Q1 16/15**	**2015**	**2014**	**2013**	**2012**	**15/14**	**14/13**	**13/12**
Number of firms	165	168	176	-1.8%	-6.3%	168	175	189	196	-4.0%	-7.4%	-3.6%
Number of employees	39,452	39,936	39,857	-1.2%	-1.0%	39,936	39,918	39,357	39,555	0.0%	1.4%	-0.5%
Revenue												
Commissions	1,449	1,412	1,528	2.6%	-5.2%	5,838	5,800	5,516	5,117	0.7%	5.1%	7.8%
Mutual fund only commissions	651	694	719	-6.2%	-9.5%	2,840	2,576	2,435	2,175	10.2%	5.8%	12.0%
Investment banking	796	655	883	21.6%	-9.8%	3,246	3,793	3,191	3,565	-14.4%	18.8%	-10.5%
New issues equity	422	258	485	63.5%	-13.0%	1,578	2,057	1,473	1,782	-23.3%	39.6%	-17.3%
New issues debt	150	160	238	-5.9%	-36.7%	814	801	938	816	1.6%	-14.6%	15.0%
Corporate advisory fees	224	237	160	-5.5%	39.7%	855	934	780	967	-8.5%	19.7%	-19.3%
Fixed income trading	486	427	460	13.6%	5.5%	1,466	1,644	1,791	1,176	-10.9%	-8.2%	52.3%
Equity trading	58	-112	89	152.0%	-34.7%	8	243	153	118	-96.8%	59.1%	29.5%
Net interest	245	241	195	1.5%	25.6%	864	839	536	1,131	3.0%	56.6%	-52.6%
Fees	1,393	1,420	1,257	-1.9%	10.8%	5,343	4,614	3,660	3,206	15.8%	26.1%	14.1%
Other	236	238	241	-0.9%	-2.3%	980	983	1,073	1,020	-0.3%	-8.4%	5.2%
Operating revenue	4,663	4,281	4,654	8.9%	0.2%	17,745	17,915	15,919	15,332	-1.0%	12.5%	3.8%
Operating expenses[1]	2,053	2,037	2,085	0.8%	-1.5%	8,086	7,739	7,296	7,249	4.5%	6.1%	0.6%
Operating profit	1,275	900	1,170	41.6%	9.0%	4,219	4,866	3,986	3,806	-13.3%	22.1%	4.7%
Net profit (loss)	542	508	477	6.5%	13.6%	2,063	2,382	2,062	2,155	-13.4%	15.5%	-4.3%
Shareholders' equity	28,677	28,373	45,831	1.1%	-37.4%	28,373	45,367	34,474	17,087	-37.5%	31.6%	101.8%
Regulatory capital	45,196	44,951	62,848	0.5%	-28.1%	44,951	62,363	51,414	34,343	-27.9%	21.3%	49.7%
Client cash holdings	50,715	50,677	45,871	0.1%	10.6%	50,677	45,291	42,124	38,684	11.9%	7.5%	8.9%
Client debt margin outstanding	20,916	21,173	19,463	-1.2%	7.5%	21,173	18,913	16,444	14,432	12.0%	15.0%	13.9%
Productivity[2] ($ thousands)	473	429	467	10.3%	1.2%	444	449	404	388	-1.0%	11.0%	4.4%
Annual return[3] (%)	**7.6**	**7.2**	**4.2**	**0.4%**	**3.4%**	**7.3**	**5.2**	**6.0**	**12.6**	**2.0%**	**-0.7%**	**-6.6%**

Integrated

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q1 16	**Q4 15**	**Q1 15**	**Q1/Q4**	**Q1 16/15**	**2015**	**2014**	**2013**	**2012**	**15/14**	**14/13**	**13/12**
Number of firms	10	10	10	0.0%	0.0%	10	10	10	11	0.0%	0.0%	-9.1%
Number of employees	25,214	25,590	25,378	-1.5%	-0.6%	25,590	25,430	24,989	25,146	0.6%	1.8%	-0.6%
Revenue												
Commissions	985	976	1,040	0.9%	-5.3%	4,019	3,920	3,862	3,597	2.5%	1.5%	7.4%
Mutual fund only commissions	490	525	540	-6.6%	-9.2%	2,145	1,916	1,854	1,711	12.0%	3.4%	8.3%
Investment banking	573	463	675	23.7%	-15.0%	2,291	2,749	2,369	2,596	-16.7%	16.1%	-8.7%
New issues equity	311	202	378	53.8%	-17.7%	1,158	1,540	1,079	1,325	-24.8%	42.7%	-18.5%
New issues debt	121	124	191	-2.6%	-36.5%	652	659	789	659	-1.0%	-16.5%	19.7%
Corporate advisory fees	141	137	106	3.2%	33.3%	481	550	500	612	-12.6%	10.0%	-18.3%
Fixed income trading	364	349	358	4.3%	1.5%	1,168	1,243	1,383	1,031	-6.0%	-10.1%	34.1%
Equity trading	66	-125	35	152.7%	87.9%	-69	83	96	166	-183.1%	-12.9%	-42.4%
Net interest	215	210	162	2.7%	32.6%	746	686	489	942	8.7%	40.3%	-48.0%
Fees	1,092	1,128	980	-3.1%	11.5%	4,226	3,590	2,785	2,400	17.7%	28.9%	16.1%
Other	128	151	134	-14.9%	-4.5%	565	601	771	618	-5.9%	-22.1%	24.9%
Operating revenue	3,424	3,152	3,385	8.6%	1.1%	12,946	12,873	11,755	11,350	0.6%	9.5%	3.6%
Operating expenses[1]	1,392	1,380	1,446	0.8%	-3.7%	5,561	5,290	4,888	4,817	5.1%	8.2%	1.5%
Operating profit	1,042	741	868	40.7%	20.1%	3,232	3,572	3,308	3,219	-9.5%	8.0%	2.8%
Net profit (loss)	464	469	433	-1.1%	7.2%	1,752	2,014	2,007	1,978	-13.0%	0.4%	1.4%
Shareholders' equity	23,666	23,420	40,444	1.1%	-41.5%	23,420	40,082	29,479	11,902	-41.6%	36.0%	147.7%
Regulatory capital	37,331	37,167	54,125	0.4%	-31.0%	37,167	53,841	42,940	24,989	-31.0%	25.4%	71.8%
Client cash holdings	43,330	43,294	38,835	0.1%	11.6%	43,294	38,448	35,760	33,018	12.6%	7.5%	8.3%
Productivity[2] ($ thousands)	543	493	534	10.3%	1.8%	506	506	470	451	-0.1%	7.6%	4.2%
Annual return[3] (%)	**7.8**	**8.0**	**4.3**	**-0.2%**	**3.6%**	**7.5**	**5.0**	**6.8**	**16.6**	**2.5%**	**-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.

Retail

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q1 16	Q4 15	Q1 15	Q1/Q4	Q1 16/15	2015	2014	2013	2012	15/14	14/13	13/12
Number of firms	89	90	95	-1.1%	-6.3%	90	94	101	106	-4.3%	-6.9%	-4.7%
Number of employees	11,641	11,645	11,552	0.0%	0.8%	11,645	11,537	11,456	11,294	0.9%	0.7%	1.4%
Revenue												
Commissions	302	297	330	1.8%	-8.3%	1,240	1,263	1,120	961	-1.8%	12.8%	16.6%
Mutual fund only commissions	158	166	176	-5.1%	-10.0%	681	644	571	471	5.7%	12.8%	21.4%
Investment banking	40	42	55	-3.4%	-27.3%	200	213	180	212	-6.1%	18.4%	-15.2%
New issues equity	24	22	32	9.3%	-24.9%	104	130	99	142	-19.8%	31.9%	-30.4%
New issues debt	13	14	19	-5.5%	-30.9%	63	57	58	53	10.0%	-1.3%	8.1%
Corporate advisory fees	3	6	4	-45.6%	-28.6%	33	26	24	17	27.6%	9.8%	39.2%
Fixed income trading	34	12	6	181.2%	509.5%	60	74	78	52	-18.7%	-5.2%	50.5%
Equity trading	3	5	4	-31.2%	-19.2%	8	8	7	13	-1.0%	18.1%	-46.4%
Net interest	32	31	39	2.8%	-18.0%	137	220	121	126	-37.6%	82.2%	-4.1%
Fees	240	235	218	1.9%	9.9%	901	783	675	616	15.1%	16.0%	9.5%
Other	44	47	55	-6.5%	-19.4%	193	178	172	139	8.1%	3.5%	24.2%
Operating revenue	696	669	706	4.0%	-1.5%	2,740	2,740	2,353	2,119	0.0%	16.4%	11.0%
Operating expenses[1]	367	364	357	1.1%	2.8%	1,422	1,348	1,332	1,300	5.4%	1.2%	2.5%
Operating profit	37	36	70	4.5%	-46.4%	212	329	137	-18	-35.6%	140.4%	849.5%
Net profit (loss)	-10	51	21	-120.1%	-148.2%	103	132	-24	-99	-22.1%	645.1%	75.5%
Shareholders' equity	1,199	1,174	1,062	2.1%	12.9%	1,174	1,025	1,019	1,202	14.6%	0.6%	-15.3%
Regulatory capital	1,638	1,623	1,569	0.9%	4.4%	1,623	1,526	1,491	1,619	6.4%	2.3%	-7.9%
Client cash holdings	5,026	4,900	4,564	2.6%	10.1%	4,900	4,389	3,898	3,910	11.6%	12.6%	-0.3%
Productivity[2] ($ thousands)	239	230	245	4.0%	-2.3%	235	237	205	188	-0.9%	15.6%	9.5%
Annual return[3] (%)	**-3.4**	**17.3**	**8.0**	**-20.7%**	**-11.4%**	**8.8**	**12.9**	**-2.4**	**-8.2**	**-4.1%**	**15.3%**	**5.9%**

Institutional

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q1 16	Q4 15	Q1 15	Q1/Q4	Q4 16/15	2015	2014	2013	2012	15/14	14/13	13/12
Number of firms	66	68	71	-2.9%	-7.0%	68	71	78	79	-4.2%	-9.0%	-1.3%
Number of employees	2,597	2,701	2,927	-3.9%	-11.3%	2,701	2,951	2,912	3,115	-8.5%	1.3%	-6.5%
Revenue												
Commissions	162	138	158	16.8%	2.3%	579	617	534	558	-6.1%	15.5%	-4.4%
Investment banking	183	150	153	22.0%	19.6%	755	830	642	756	-9.0%	29.2%	-15.1%
New issues equity	87	34	75	155.4%	15.8%	315	387	295	315	-18.5%	31.1%	-6.4%
New issues debt	16	21	28	-24.9%	-42.0%	99	85	91	103	16.1%	-6.6%	-11.5%
Corporate advisory fees	79	94	50	-15.7%	59.4%	341	358	256	338	-4.8%	39.8%	-24.3%
Fixed income trading	88	67	96	31.7%	-8.8%	237	328	331	93	-27.6%	-1.1%	256.4%
Equity trading	-11	8	50	-232.1%	-121.8%	69	151	50	-61	-54.4%	201.7%	182.9%
Net interest	-2	0	-6	-682.7%	62.6%	-19	-67	-74	63	71.2%	9.3%	-217.8%
Fees	61	57	59	7.3%	2.6%	216	242	200	190	-10.6%	21.0%	4.9%
Other	63	40	52	58.3%	21.0%	222	203	129	263	9.2%	57.7%	-51.0%
Operating revenue	543	460	562	18.0%	-3.4%	2,059	2,303	1,812	1,863	-10.6%	27.1%	-2.8%
Operating expenses[1]	294	293	281	0.3%	4.6%	1,103	1,100	1,075	1,133	0.2%	2.4%	-5.1%
Operating profit	195	124	232	57.8%	-16.0%	775	965	541	605	-19.7%	78.5%	-10.6%
Net profit (loss)	88	-11	23	897.4%	280.2%	208	235	79	276	-11.7%	197.3%	-71.3%
Shareholders' equity	3,812	3,779	4,324	0.9%	-11.8%	3,779	4,261	3,976	3,982	-11.3%	7.2%	-0.2%
Regulatory capital	6,227	6,160	7,153	1.1%	-12.9%	6,160	6,997	6,983	7,735	-12.0%	0.2%	-9.7%
Client cash holdings	2,359	2,483	2,472	-5.0%	-4.6%	2,483	2,453	2,466	1,756	1.2%	-0.5%	40.4%
Productivity[2] ($ thousands)	836	681	769	22.7%	8.8%	762	780	622	598	-2.3%	25.4%	4.0%
Annual return[3] (%)	**9.2**	**-1.2**	**2.1**	**10.4%**	**7.1%**	**5.5**	**5.5**	**2.0**	**6.9**	**0.0%**	**3.5%**	**-4.9%**

[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.