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

LETTER FROM THE PRESIDENT

Vol. 101

Ongoing changes to improve productivity and cut operating costs at independent firms: Will they attract capital to the wealth business?

HIGHLIGHTS:

Despite persistent and rapid escalation in operating costs over the past five years the wealth management business has stayed profitable. The benefits of scale to spread increased fixed costs over production have resulted in a divergence in earnings performance between the large integrated firms and independent retail firms.

Firms have taken a broadly-based approach to contain costs, including staffing reductions, increased reliance on technology and out-sourcing, and adjustments to advisor compensation grids. The biggest cost challenge is the exponential ramp up in compliance costs in the past two years.

Firms have put in place a wide range of measures to improve advisory business productivity and performance. These steps are critically important to the bottom line of investment dealers.

WEALTH MANAGEMENT BUSINESS PROFITABLE DESPITE HEADWINDS

Despite low interest rates, cautious investors, uncertain markets and prevailing weak economic conditions, the wealth management business has been profitable over the past five years. In fact, the retail business has been profitable even though operating costs, notably compliance and technology costs, have risen exponentially. The retail industry has been hit by a steady succession of new rules and regulations, mainly falling under the CRM1 and the CRM2 rule frameworks. At the same time the industry has been hit by U.S. tax-reporting rules (FATCA), anti-money laundering rules, anti-spam rules and privacy legislation. The rule-making is expected to continue its frenetic pace in the foreseeable future, led by the CSA's "targeted" reforms, including a proposed best interest standard and possible elimination of embedded fees.

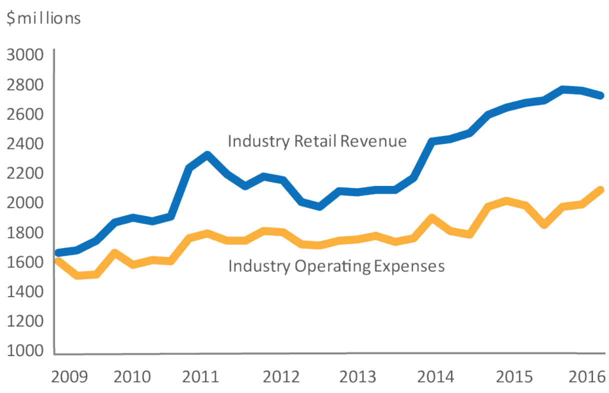
Retail revenue in the industry rose about 6 percent annually, on average, in 2011-2015, outstripping annual operating cost increases by a significant margin (up an average of 2 percent per year). Business activity has steadily increased. Portfolio valuations rose in response to consistent increases in the broad Canadian and U.S. stock market indices, with the TSX Composite Index up about one-third in the 2011-2015 period, pulling up valuations and fee income. The latter rose 13 percent annually over this period.

This performance gives some confidence that future prospects for the wealth management business are positive, conditional on well-managed operations, as aging investors approaching retirement or in full retirement focus on portfolio accumulation, income distribution and ancillary services, notably financial and estate planning, and, for the more wealthy investors, tax expertise.

This exploding demand for advisory services will continue in the near future as the large and growing pool of aging investors and clients drive demand for advisory services, including decision-making in traditional brokerage accounts and discretionary portfolio management options, financial and estate planning, and tax advice. Further, for higher net worth clients, firms will likely set up separate pricing schedules for a range of financial services.

However, there are grounds for guarded optimism. First, there is no guarantee that portfolio valuations will continue the same steady upward trajectory of the past five years. Second, demand for technology will be relentless as the business continues to innovate, improving real-time access and account information to the client and back-office efficiencies for the firm. Third, the reform process marches relentlessly on, with new rules now proposed for the obligations of advisors, both within and outside the self-regulatory system, the implementation of a client best-interest standard, and possible elimination of embedded fees.

Industry Retail Revenue vs. Industry Operating Expenses



Data Source: IIAC

Compliance costs have risen exponentially, and will continue to do so into the foreseeable future. Regulators must slow the pace of future reform to bring a proper cost-benefit assessment to the rule-making process, avoiding unnecessary compliance costs and limiting unintended consequences.

SMALL BOUTIQUE FIRMS STRUGGLE TO SURVIVE

As we have said several times, the solid performance and profitability of the wealth management business has been uneven across firms. The retail business of the integrated firms, with the advantage of scale, rapid adaption of technology and careful management of costs, has stayed consistently profitable in the past five years. The independent retail firms as a group, have been marginally profitable over this period. However, there has been a significant diversion in earnings performance among the independent firms. The larger independent firms, particularly those utilizing a principal-agent model, have posted fairly good earnings.

In contrast, a significant number of mid-sized and small retail boutiques have been unprofitable for most of the past five years. The problem has fed on itself as poor earnings and net income have made it difficult to attract new capital to build scale. The poor performance of these smaller retail franchises suggests difficulties in containing costs and growing revenue sufficient to generate bottom-line earnings and return on capital.

It is this group of poorly performing firms that is now undergoing extensive structural change. Thirty-six retail firms have resigned from IIROC since 2011—eight full-service firms and 28 small introducer firms. We estimate at least 30 additional small retail boutiques are under considerable earnings stress.

Many of the firms relinquishing IIROC licenses have exited through merger and acquisition, while some introducer firms have simply closed shop. In just this past year, several retail franchises have been acquired, one of them a long-standing IIAC member firm. Further, a large and respected independent investment dealer was rumored to be "in play" and on the auction block in October and November. Recently the firm announced it would stay the course.

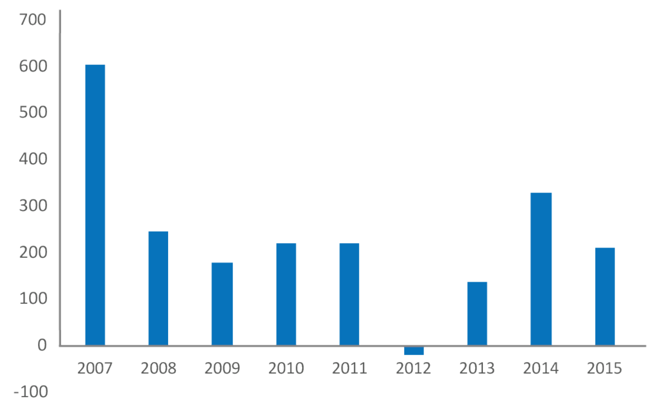
The purpose of this essay is to describe the opportunities and challenges for the retail industry. While we estimate about 30 retail boutiques lost money, on a net basis, in each of the last four years, it is important to stress that many small and mid-sized firms have been profitable. These firms have made herculean efforts to control cost increases while adapting technology internally or through out-sourcing.

MEETING THE CHALLENGE OF CONTAINING RISING OPERATING COSTS

Tight containment of costs is crucial to sustained performance in the advisory business. Retail firms have taken steps to aggressively cut operating costs and improve operating efficiencies. These efforts are reflected in industry operating costs rising at an annual rate of just 2 percent in 2011-2015, despite substantial outlays for technology and compliance costs.

Firms across the industry have taken multiple steps to cut operating costs to stay profitable and earn a competitive return. While significant effort has been made to reduce staffing, these efforts have been blunted by the need to expand sales staff to build scale, and add compliance and systems personnel. Firms have adopted technology at the front end of the business to improve cost-effectiveness and client access to the advisor and account information; improve efficiencies in rule compliance, notably tax-reporting; and enhance back-office operations, such as those related to such client account opening procedures and record-keeping, trade execution and settlement. Firms have done this by taking the needed technology on board directly, and/or relying on third-party service providers and out-sourcing through carrying brokers.

Retail Firms
Operating Profits



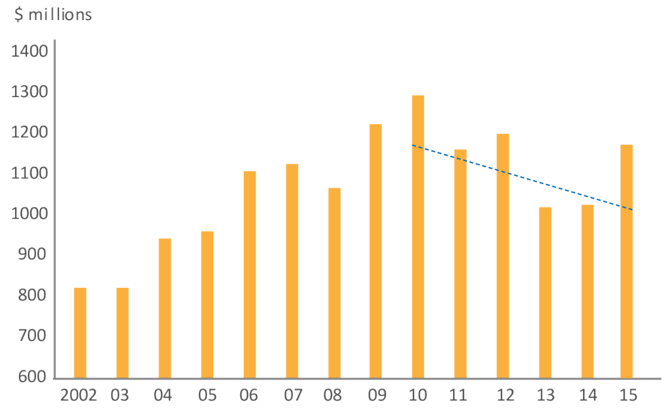
Data Source: IIAC

In an effort to improve the bottom line, several large and mid-sized firms have adjusted the advisor compensation grid to reduce payouts of revenue, particularly at lower levels of gross revenue, to achieve a better revenue alignment between the advisor and firm. In the last four years, and even earlier, the advisor payout percentage has been under downward pressure, as compliance and technology costs in the industry have ramped up, eating into the net income of the retail operations. Meanwhile, risks in the retail business have increased from greater regulatory scrutiny of investment suitability and the treatment of elderly clients, and increased incidence of cyber attacks. Indeed, in recent years the payout percentage at several large integrated firms moved sharply below the 50 percent threshold to the 20 percent range for gross income of roughly $500K, with the percentage remaining in the 50 percent range for higher gross revenues. However, even at higher income levels, the firms are putting pressure on advisor payouts.

The advisor payout percentage would have moved down sooner, but the faster upward trend in revenue in relation to operating costs likely deferred any decision to adjust advisor compensation. At the time, the large integrated firms were building out their retail platforms and attracting new advisors with aggressive compensation packages. It was not the best time to address adjustments in the revenue payout model.

For the small and mid-sized retail boutique firms, it has been a complicated exercise to adjust the advisor payout percentage, particularly in line with the large integrated firms. The payout grid has been fairly sticky at the 50 percent range, even though for many of these firms net income has been marginal at best. It has been difficult for small boutiques to reduce advisor payouts without damaging recruitment efforts to expand operations, or risk losing existing advisors at the firm. And, yet, unless this variable compensation moves into better alignment with firm revenues to compensate for rising costs and business risk, small firms will find it difficult to improve net income and attract shareholders and the capital to acquire assets and build scale. However, the industry–wide efforts to adjust the payout grid, even if at the margin, will mitigate competitive market resistance to adjustments in the grid, and give smaller firms with the traditional compensation model additional scope to make the necessary adjustments or move increasingly to a principal-agent model that achieves a better alignment of revenue between the firm and the advisor.

Shareholders' Equity
Retail Firms



Data Source: IIAC

For mid-sized independent firms, with advisors in a principal-agent relationship with the firm, there is good alignment between advisor and the firm in sharing revenue and costs. Even so the payouts have in some cases been adjusted modestly. In this model, the payout percentage is roughly in the 80 percent range, but the advisor has responsibility for expenses related to office infrastructure, sales staff and technology. For some firms, the payout percentage has notched down to 65-70 percent. Moreover, these advisor-firm arrangements also share in the compliance and technology costs, and in the regulatory and cyber risks. For example, advisors meet firm standards for encrypted technology and take out cyber insurance to protect their clients.

EFFORTS TO IMPROVE ADVISORY PERFORMANCE BENEFITS CLIENTS

Firms have also focused efforts on improving advisor productivity through training and continuing education programs, innovative technology and, in some cases, more efficient out-sourcing. Firms have also boosted their competiveness by providing real-time access to advisors and accounts, a full complement of products and advisory services, a balanced approach between fee-based or discretionary management and value-added financial planning and tax expertise, effective recruitment of advisors and smooth transition from older to younger advisors.

Improved performance in the retail business starts with a broader and deeper offering of advisory services to existing clients, and building out the client book, mainly through existing client reference.

Some firms have segmented advisory services across different client categories and established pricing schedules for individual services.

Successful outcomes from this productivity agenda will foster clients' welfare and improve client satisfaction. For example, the key for higher overall advisor performance in a low interest rate environment and trendless equity markets is to focus on cost-effective discretionary management of market-indexed products, such as ETFs and mutual funds, and value-added financial planning and effective tax advice. Selective and careful investments in certain strategic plays in equity and debt markets, and alternative investments, such as private equity and derivatives, can boost returns for appropriately qualified clients. The modern advisor, in effect, needs a multi-faceted approach focused on the right products and style of investing, and on building deep client relationships, to succeed in today's marketplace.

Firms have also focused on the transition from older advisors approaching retirement to new younger advisors. This successful transition to a new generation of advisors offers the potential for improved performance through new approaches to wealth management and consolidation of books of business to capture efficiencies, and possible adjustments to advisor compensation. The advisor transition process is underway across all firms in the industry, with some older advisors preferring a gradual wind-down of their business and, for some small firms, no clear strategic plan and mechanisms for an effective advisor transition process.

We are optimistic smaller firms will be successful containing operating costs and boosting revenue through innovative wealth management techniques and productivity enhancements. These measures will improve the bottom line and return on equity, drawing capital to smaller firms.

CONCLUSION: GREATER CLIENT DEMANDS LEAD FIRMS TO STEP UP THEIR GAME

The wealth management business has been robust over the past five years, reflecting stronger client/investor demand for financial advisory services. The aging demographic among investors has been a key driver behind this phenomenon. Individual firm performance in the retail business, however, has been dampened by the inexorable and significant rise in compliance and technology costs. Cost pressures have become an indelible part of the industry landscape, and evidence suggests this trend will continue in the future.

The smaller independent firms find operating margins squeezed, and earnings and net returns diminished, not having the benefit of scale, in some cases, limited access to sophisticated products and services, and slower transition to better aligned advisor-firm compensation schemes. While there have been clear efforts to reduce costs and achieve operating efficiencies, it has proven difficult to get control over the cost-cutting agenda, given the unremitting rule-making and related compliance costs, the relentless drive for innovative approaches to the business and need for technology, and the inertia from competitive pressures to adjust advisor-firm aligned compensation arrangements.

For small and mid-sized firms, the resulting extended poor returns in the business have made it more difficult to attract the capital needed to expand operations, get scale and spread increased fixed costs across an expanding business.

While many small and mid-sized firms with a clear strategic plan have boosted revenue and aggressively contained operating costs – and raised new capital – other firms have been less successful. It is these firms that risk being trapped in a downward spiral of weak earnings and an eroding capital base.

Firms across the industry recognize the client demands in the advisory business have become more extensive in terms of products and services, and more sophisticated in the calibre of service delivery. All firms have stepped up their game, providing advisor training and continuing education to boost proficiency standards, and through an expanded array of advisory services. The industry has been transformed with the adoption of technology which has led to operating efficiencies.

There may be further attrition among small and mid-sized firms in the investment dealer retail business in coming years, but the many firms that survive will be effective and profitable purveyors of wealth management advisory services, with their clients the big winners.

Yours sincerely,

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

Industry

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 16	Q1 16	Q4 15	Q2/Q1	Q2 16/15	2015	2014	2013	2012	15/14	14/13	13/12
Number of firms	164	165	168	-0.6%	-5.7%	168	175	189	196	-4.0%	-7.4%	-3.6%
Number of employees	39,939	39,452	39,936	1.2%	-0.6%	39,936	39,918	39,357	39,555	0.0%	1.4%	-0.5%
Revenue												
Commissions	1,408	1,449	1,412	-2.8%	-3.6%	5,838	5,800	5,516	5,117	0.7%	5.1%	7.8%
Mutual fund only commissions	628	651	694	-3.5%	-6.2%	2,840	2,576	2,435	2,175	10.2%	5.8%	12.0%
Investment banking	1,052	796	655	32.2%	5.1%	3,246	3,793	3,191	3,565	-14.4%	18.8%	-10.5%
New issues equity	576	422	258	36.5%	3.1%	1,578	2,057	1,473	1,782	-23.3%	39.6%	-17.3%
New issues debt	220	150	160	46.5%	-0.8%	814	801	938	816	1.6%	-14.6%	15.0%
Corporate advisory fees	256	224	237	14.3%	16.1%	855	934	780	967	-8.5%	19.7%	-19.3%
Fixed income trading	411	486	427	-15.3%	40.7%	1,466	1,644	1,791	1,176	-10.9%	-8.2%	52.3%
Equity trading	207	58	-112	255.4%	902.2%	8	243	153	118	-96.8%	59.1%	29.5%
Net interest	252	245	241	2.9%	21.9%	864	839	536	1,131	3.0%	56.6%	-52.6%
Fees	1,388	1,393	1,420	-0.4%	5.3%	5,343	4,614	3,660	3,206	15.8%	26.1%	14.1%
Other	612	236	238	159.5%	147.0%	980	983	1,073	1,020	-0.3%	-8.4%	5.2%
Operating revenue	5,330	4,663	4,281	14.3%	18.4%	17,745	17,915	15,919	15,332	-1.0%	12.5%	3.8%
Operating expenses[1]	2,159	2,053	2,037	5.1%	5.3%	8,086	7,739	7,296	7,249	4.5%	6.1%	0.6%
Operating profit	1,833	1,275	900	43.8%	78.6%	4,219	4,866	3,986	3,806	-13.3%	22.1%	4.7%
Net profit (loss)	1,179	542	508	117.6%	127.8%	2,063	2,382	2,062	2,155	-13.4%	15.5%	-4.3%
Shareholders' equity	28,908	28,677	28,373	0.8%	-37.6%	28,373	45,367	34,474	17,087	-37.5%	31.6%	101.8%
Regulatory capital	45,411	45,196	44,951	0.5%	-28.3%	44,951	62,363	51,414	34,343	-27.9%	21.3%	49.7%
Client cash holdings	52,086	50,715	50,677	2.7%	11.8%	50,677	45,291	42,124	38,684	11.9%	7.5%	8.9%
Client debt margin outstanding	21,393	20,916	21,173	2.3%	4.2%	21,173	18,913	16,444	14,432	12.0%	15.0%	13.9%
Productivity[2] ($ thousands)	534	473	429	12.9%	19.2%	444	449	404	388	-1.0%	11.0%	4.4%
Annual return[3] (%)	**16.3**	**7.6**	**7.2**	**115.9%**	**265.2%**	**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		
	Q2 16	Q1 16	Q4 15	Q2/Q1	Q2 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	25,536	25,214	25,590	1.3%	-0.3%	25,590	25,430	24,989	25,146	0.6%	1.8%	-0.6%
Revenue												
Commissions	946	985	976	-4.0%	-5.9%	4,019	3,920	3,862	3,597	2.5%	1.5%	7.4%
Mutual fund only commissions	471	490	525	-4.0%	-15.2%	2,145	1,916	1,854	1,711	12.0%	3.4%	8.3%
Investment banking	808	573	463	40.9%	23.2%	2,291	2,749	2,369	2,596	-16.7%	16.1%	-8.7%
New issues equity	435	311	202	40.0%	14.1%	1,158	1,540	1,079	1,325	-24.8%	42.7%	-18.5%
New issues debt	178	121	124	46.9%	-0.2%	652	659	789	659	-1.0%	-16.5%	19.7%
Corporate advisory fees	194	141	137	37.7%	102.8%	481	550	500	612	-12.6%	10.0%	-18.3%
Fixed income trading	337	364	349	-7.3%	37.0%	1,168	1,243	1,383	1,031	-6.0%	-10.1%	34.1%
Equity trading	130	66	-125	97.4%	254.8%	-69	83	96	166	-183.1%	-12.9%	-42.4%
Net interest	226	215	210	5.0%	25.9%	746	686	489	942	8.7%	40.3%	-48.0%
Fees	1,089	1,092	1,128	-0.3%	3.8%	4,226	3,590	2,785	2,400	17.7%	28.9%	16.1%
Other	531	128	151	313.7%	295.5%	565	601	771	618	-5.9%	-22.1%	24.9%
Operating revenue	4,066	3,424	3,152	18.8%	23.0%	12,946	12,873	11,755	11,350	0.6%	9.5%	3.6%
Operating expenses[1]	1,518	1,392	1,380	9.1%	6.2%	5,561	5,290	4,888	4,817	5.1%	8.2%	1.5%
Operating profit	1,543	1,042	741	48.1%	93.8%	3,232	3,572	3,308	3,219	-9.5%	8.0%	2.8%
Net profit (loss)	1,079	464	469	132.7%	188.2%	1,752	2,014	2,007	1,978	-13.0%	0.4%	1.4%
Shareholders' equity	23,833	23,666	23,420	0.7%	-41.7%	23,420	40,082	29,479	11,902	-41.6%	36.0%	147.7%
Regulatory capital	37,480	37,331	37,167	0.4%	-31.3%	37,167	53,841	42,940	24,989	-31.0%	25.4%	71.8%
Client cash holdings	44,304	43,330	43,294	2.2%	13.0%	43,294	38,448	35,760	33,018	12.6%	7.5%	8.3%
Productivity[2] ($ thousands)	637	543	493	17.3%	23.3%	506	506	470	451	-0.1%	7.6%	4.2%
Annual return[3] (%)	**18.1**	**7.8**	**8.0**	**131.0%**	**394.0%**	**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		
	Q2 16	**Q1 16**	**Q4 15**	**Q2/Q1**	**Q2 16/15**	**2015**	**2014**	**2013**	**2012**	**15/14**	**14/13**	**13/12**
Number of firms	88	89	90	-1.1%	-4.3%	90	94	101	106	-4.3%	-6.9%	-4.7%
Number of employees	11,932	11,641	11,645	2.5%	2.3%	11,645	11,537	11,456	11,294	0.9%	0.7%	1.4%
Revenue												
Commissions	309	302	297	2.3%	-1.7%	1,240	1,263	1,120	961	-1.8%	12.8%	16.6%
Mutual fund only commissions	156	158	166	-1.6%	-9.7%	681	644	571	471	5.7%	12.8%	21.4%
Investment banking	60	40	42	47.6%	-14.2%	200	213	180	212	-6.1%	18.4%	-15.2%
New issues equity	36	24	22	52.8%	5.8%	104	130	99	142	-19.8%	31.9%	-30.4%
New issues debt	16	13	14	20.8%	-3.7%	63	57	58	53	10.0%	-1.3%	8.1%
Corporate advisory fees	7	3	6	120.4%	-61.6%	33	26	24	17	27.6%	9.8%	39.2%
Fixed income trading	32	34	12	-6.9%	92.6%	60	74	78	52	-18.7%	-5.2%	50.5%
Equity trading	6	3	5	82.1%	335.0%	8	8	7	13	-1.0%	18.1%	-46.4%
Net interest	32	32	31	0.3%	-10.0%	137	220	121	126	-37.6%	82.2%	-4.1%
Fees	247	240	235	2.9%	10.5%	901	783	675	616	15.1%	16.0%	9.5%
Other	50	44	47	13.1%	24.8%	193	178	172	139	8.1%	3.5%	24.2%
Operating revenue	735	696	669	5.7%	4.9%	2,740	2,740	2,353	2,119	0.0%	16.4%	11.0%
Operating expenses[1]	361	367	364	-1.6%	2.0%	1,422	1,348	1,332	1,300	5.4%	1.2%	2.5%
Operating profit	78	37	36	106.9%	36.2%	212	329	137	-18	-35.6%	140.4%	849.5%
Net profit (loss)	36	-10	51	452.2%	87.6%	103	132	-24	-99	-22.1%	645.1%	75.5%
Shareholders' equity	1,234	1,199	1,174	2.9%	14.7%	1,174	1,025	1,019	1,202	14.6%	0.6%	-15.3%
Regulatory capital	1,697	1,638	1,623	3.6%	7.9%	1,623	1,526	1,491	1,619	6.4%	2.3%	-7.9%
Client cash holdings	5,413	5,026	4,900	7.7%	17.0%	4,900	4,389	3,898	3,910	11.6%	12.6%	-0.3%
Productivity[2] ($ thousands)	246	239	230	3.1%	2.6%	235	237	205	188	-0.9%	15.6%	9.5%
Annual return[3] (%)	**11.6**	**-3.4**	**17.3**	**-442.1%**	**63.5%**	**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		
	Q2 16	**Q1 16**	**Q4 15**	**Q2/Q1**	**Q2 16/15**	**2015**	**2014**	**2013**	**2012**	**15/14**	**14/13**	**13/12**
Number of firms	66	66	68	0.0%	-8.3%	68	71	78	79	-4.2%	-9.0%	-1.3%
Number of employees	2,471	2,597	2,701	-4.9%	-15.5%	2,701	2,951	2,912	3,115	-8.5%	1.3%	-6.5%
Revenue												
Commissions	153	162	138	-5.4%	8.6%	579	617	534	558	-6.1%	15.5%	-4.4%
Investment banking	185	183	150	1.4%	-32.9%	755	830	642	756	-9.0%	29.2%	-15.1%
New issues equity	104	87	34	19.9%	-26.8%	315	387	295	315	-18.5%	31.1%	-6.4%
New issues debt	26	16	21	64.7%	-2.9%	99	85	91	103	16.1%	-6.6%	-11.5%
Corporate advisory fees	54	79	94	-31.6%	-48.8%	341	358	256	338	-4.8%	39.8%	-24.3%
Fixed income trading	42	88	67	-51.8%	42.6%	237	328	331	93	-27.6%	-1.1%	256.4%
Equity trading	71	-11	8	749.4%	211.1%	69	151	50	-61	-54.4%	201.7%	182.9%
Net interest	-6	-2	0	-163.6%	25.8%	-19	-67	-74	63	71.2%	9.3%	-217.8%
Fees	52	61	57	-14.4%	14.3%	216	242	200	190	-10.6%	21.0%	4.9%
Other	31	63	40	-50.6%	-57.4%	222	203	129	263	9.2%	57.7%	-51.0%
Operating revenue	528	543	460	-2.7%	7.1%	2,059	2,303	1,812	1,863	-10.6%	27.1%	-2.8%
Operating expenses[1]	279	294	293	-5.1%	4.7%	1,103	1,100	1,075	1,133	0.2%	2.4%	-5.1%
Operating profit	212	195	124	8.4%	22.4%	775	965	541	605	-19.7%	78.5%	-10.6%
Net profit (loss)	64	88	-11	-27.3%	-48.4%	208	235	79	276	-11.7%	197.3%	-71.3%
Shareholders' equity	3,830	3,812	3,779	0.5%	-13.4%	3,779	4,261	3,976	3,982	-11.3%	7.2%	-0.2%
Regulatory capital	6,234	6,227	6,160	0.1%	-13.8%	6,160	6,997	6,983	7,735	-12.0%	0.2%	-9.7%
Client cash holdings	2,369	2,359	2,483	0.5%	-14.0%	2,483	2,453	2,466	1,756	1.2%	-0.5%	40.4%
Productivity[2] ($ thousands)	855	836	681	2.3%	26.8%	762	780	622	598	-2.3%	25.4%	4.0%
Annual return[3] (%)	**6.7**	**9.2**	**-1.2**	**-27.6%**	**-40.4%**	**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.