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

LETTER FROM THE PRESIDENT

Vol. 110

The Investment Industry at Mid-Year: Positive big picture belies earnings turbulence among firm groupings and individual firms

HIGHLIGHTS:

Strong gains in retail revenue in the past three years, driven by fee income, have fueled strong performance in the wealth operations of integrated firms and independent retail firms.

Performance of the institutional boutique firms measured in operating profit and ROE has been uneven and well below pre-financial crisis levels.

The pace of retail revenue growth will slow over the next few years, relative to continued escalation in operating costs, putting added pressure on the boutique sector.

BIG PICTURE LOOKS GOOD

The purpose of this edition of the President's Letter is to provide an overview of recent performance in the investment industry, highlighting developing business trends, the challenges faced by large and small investment dealers, and the outlook for the mainline businesses and firm groupings in the industry.

Industry performance, when viewed on an aggregate basis, has been remarkably solid and stable over the past four years, despite insipid economic growth and a clouded outlook, consistently low interest rates and poor returns, the pressing need to keep pace with innovation and an unrelenting tempo of regulatory reform. However, earnings performance has been far from uniform when examined from a more disaggregated perspective—in terms of type of business and size of firm. Performance at the large integrated and mid-sized retail independent franchises has held up relatively well over the past three years. Independent institutional firms and small retail firms have had mixed results, but on balance recorded relatively poor performance.

Six hundred miles off Norway is Jan Mayen Island where Norwegian special forces tracked Russian submarines in the Cold War. The film, *The Hunt for Red October*, referred to the island as Loran-C station. On the island is a sign that reads:

Theory is when you understand everything but nothing works.

Practice is when everything works but nobody understands why.

At this station theory and practice intersect so nothing works and nobody understands why.

This last statement exemplifies where we now find ourselves in the financial world. The uncharted waters of the so-called "new normal" economy—prolonged weak growth, listless investment, weak productivity and low interest rates—have made it difficult to make sense of prevailing business conditions and their likely direction, and find the right policy prescriptions to break-out of these moribund economic and financial conditions.

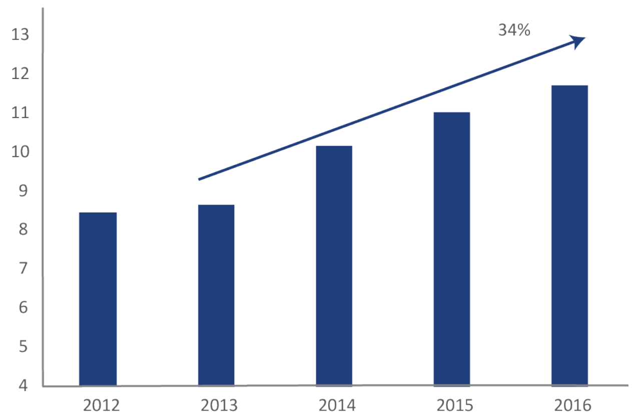
And amid this market uncertainty and stiff competition for retail and institutional services, firms in the investment industry battle unprecedented change: massive demographic shifts and related shifts in demand for financial services sweeping across the client base; accelerating innovation that revolutionizes products/services, channels of communication and delivery of products and services; reduced pace of small business equity financings in public venture markets; and a regulatory juggernaut that sometimes seems detached from strategic moorings.

This report focuses on **five key themes** that impact firm performance:

i. steady protracted revenue increases from wealth management operations, with large and small firms both accruing the benefits;
ii. the collapse and flat-lining in small business equity financings in venture public markets, reflecting weak earning outlook for junior resource companies and retail and institutional participation in venture equity markets;
iii. Unrelenting escalation in operating costs across the investment industry;
iv. Formidable industry drive for enhanced productivity and performance; and
v. Anticipated pressure on earnings as fee revenue gains slow and operating margins tighten.

This President's Letter also touches on the steady consolidation of the industry as many small retail and institutional franchises succumb to a retrenchment in institutional and retail business activity and related squeeze in operating margins, and seek amalgamation with other firms or an exit from the business. This consolidation in retail and institutional firms damages financial markets. It erodes the dynamism in capital markets, weakening trading and financing activity, and undermining market competition; it reduces consumer choice in retail and institutional markets; and, as key participants in public venture markets, the loss of small dealers erodes these markets by making it more difficult for small firms to raise equity capital.

Industry Retail Revenues ($B)



Source: IIAC, IIROC

Policy can only play a limited, but nonetheless important and effective role supporting small firms. Nothing can be done about prevailing business conditions. However, the rapid and unrelenting increase in regulatory compliance cost can be addressed, as can the torpor in venture public markets. First, regulators must implement a more efficient rule-making process to mitigate the regulatory burden on dealers: imposing new rules in a careful, disciplined manner, examining for unintended consequences, constantly paring back inefficient and unneeded rules, and imposing proportionate regulation where possible on smaller specialized firms. Second, the public venture markets need to execute an effective strategic agenda, addressing cross-border tax and regulator impediments to build a core of international investors in speculative equities, and draw listing of small diversified businesses from around the world. Third, a targeted tax incentive applicable on small business shares would promote capital-raising and benefit small dealers. We have recommended a Canadian version of the UK Enterprise Investment Scheme.

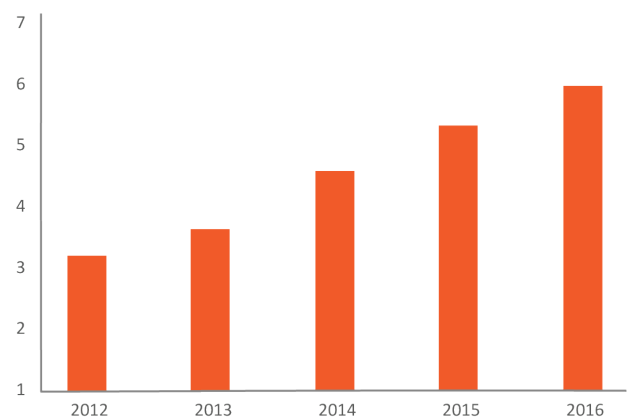
STEADY REVENUE EXPANSION IN THE WEALTH MANAGEMENT BUSINESS ACCOMPANIED BY WIDESPREAD ADJUSTMENT IN RETAIL BUSINESS MODELS

Retail revenues in the industry have expanded at a surprising average annual rate of nearly 11 percent over the past three years. Large and small firms alike have benefitted from sustained expansion in retail demand for financial products and advisory services. This upward trend in financial services has prevailed despite continued low rates, market volatility and an uncertain outlook for the economy and markets. It reflects expanding demand, from both high net worth and middle income clients, for advice and products, to fund stepped-up retirement savings inflows, and to restructure individual portfolios and alter investing patterns as baby boomers move into pre- and post-retirement.

The retail advisory business has become even more the dominant business line in the industry, increasing the retail share of total revenue to about 60 percent in 2016.

The baby boomer retirement trend has altered the focus of client demand for retail financial services and forced traditional retail-focused business models to undergo extensive change. There has been a fundamental shift from asset accumulation through transactional accounts and managed funds, to mixed asset accumulation and distribution through greater reliance on dividend and interest-paying investments, diversified discretionary managed accounts, and access to financial and estate planning. The suite of individual retail products and services to meet client financial re-orientation has widened dramatically. At the same time, advisors and firms have adopted more interactive and deeper relationships with clients, given the need for advice and integration of different products and services.

Industry Fee Revenues ($B)
Excluding mutual funds



Source: IIROC

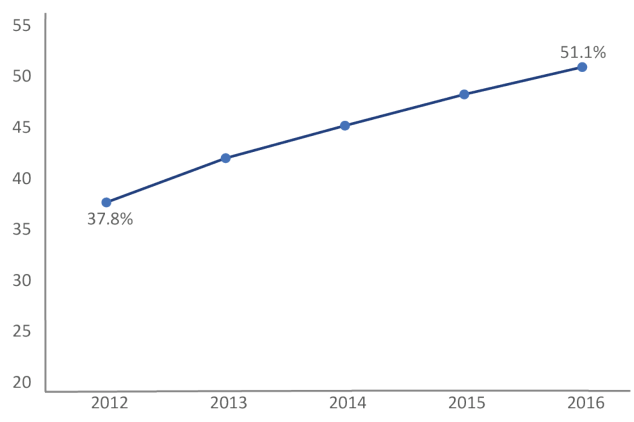
Greater awareness of financial markets, the experience of the financial crisis in 2008 (particularly the risks of investing and the premium put on capital preservation), and greater understanding and use of digital communication, has increased client emphasis and demand for value and convenience. Investors have increased demand for diversified lower risk investments, less complex financial products with lower fees, and have focused more on passively managed fund products. The new CRM rules that mandate greater transparency and standardization of fees and charges, and portfolio performance, will facilitate client choice.
Investors have also embraced online access for account information and communication with their advisor through e-mail and websites

to stay on top of personal finances. Client demand for online advice has extended to online access for share execution, and online advice and portfolio investment, supplementing traditional advisory accounts. New specialized online robo-advisors, both direct access and hybrid models, have sprung up to compete with the advisory business.

Firms are actively engaged in adapting new technology and meeting the compliance challenges of digital communication to respond to these demands. They also continue to find ways to improve efficiencies and cost savings in both front and back office operations.

Given the demand for diversified investment products and services, it is not surprising fee-based accounts have become popular and proliferated widely across the industry. These accounts integrate advice offered on discretionary managed accounts and individual securities with services like financial and estate planning, specialized tax advice, fund transfers, etc. Fee-based accounts now represent an estimated 80 percent of client accounts with dealers. The regulatory scrutiny of investment suitability, and conflicts of interest from the coming Best Interest Standard, will accelerate the shift to fee-based accounts from transaction accounts.

Industry Fee Revenue as a Share of Retail Revenue (%)
Excluding mutual funds



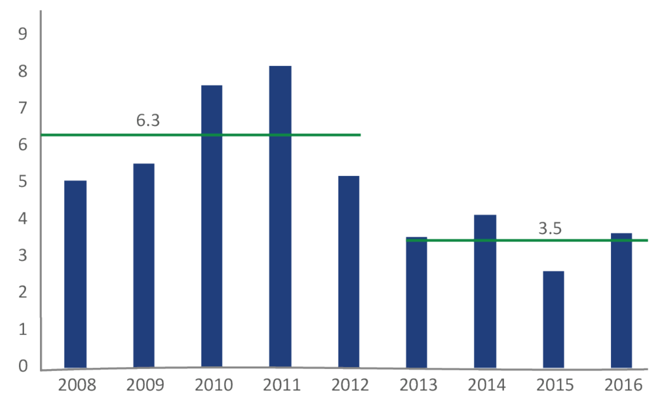
Source: IIAC

Fee revenue from fee-based accounts and discretionary managed accounts has sky-rocketed in the past five years, up almost twofold, to $6 billion in 2016. Fee revenue accounted for slightly more than 50 percent of retail revenue, up from less than 40 percent in 2012. Fees on discretionary managed funds and mutual funds have been driven steadily lower from competitive pressures in the marketplace.

REDUCED PACE OF SMALL BUSINESS FINANCINGS AND RESTRUCTURINGS

Public and private equity financings by small listed companies has never recovered from the extended collapse in the 2008-09 financial crisis, and subsequent downturn in resource markets. Common equity financings have averaged roughly half the value than in 2008-12, with the downturn driven by the collapse in resource markets in the first half of 2011. Increased financings in the tech, bio-tech, pharma and real estate sectors have picked up steam, but not sufficiently to offset the fall-off in resource financings.

Common Equity Financings ($B)
Less than $25 million



Source: IIAC, IIROC

The financing difficulty for small business can be traced to insufficient share values and earnings prospects for companies to issue new shares, afflicting notably certain junior mining and energy companies. However, part of the financing difficulty for small business relates to structural problems in domestic markets that has complicated financings for viable and growing publicly-listed companies. The most serious factor is reduced participation of domestic individual and institutional investors in venture markets, reflecting investor efforts to cut back portfolio risk, partly due to the ageing investor demographic, the shift to passively-managed funds (and reliance on benchmark issues), and, for institutions, alternative risk investments to speculative equities (such as derivatives and foreign securities) and investment scale.

The demise of many small investment dealers has in turn, exacerbated the financing challenges for small companies as these dealers provided the important lifeblood in public venture markets, in terms of the research and profiling of growing successful small business, as well as a liquid after-market for traded shares, and arranging the underwriting and distribution of new offerings. Finally, the reduced pace of equity financing by listed companies relates to the fact that many of these companies are staying private longer than ever, especially successful mid-sized firms, to mitigate costly disclosure requirements and better access to private capital.

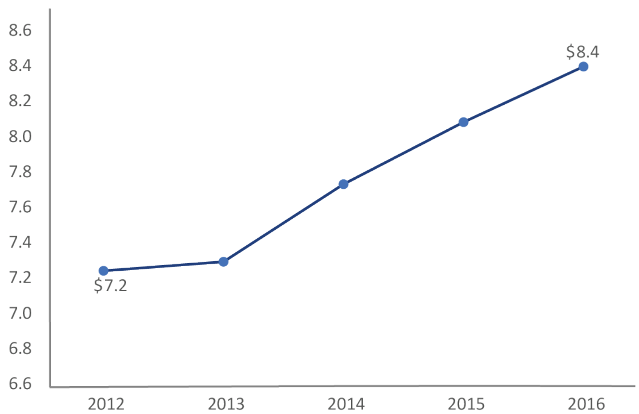
This erosion in the vitality of the venture public markets is a serious concern for Canadian markets and the health of the small business sector. Mid-sized Canadian businesses are dependent on access to these public markets to supplement, and often displace, private venture capital to expand and grow to meet domestic and foreign business opportunities.

CONTINUED RATCHETING UP IN OPERATING COSTS WITH GREATER CERTAINTY OF FUTURE COST INCREASES THAN REVENUE GAINS CAUSING NARROWER OPERATING MARGINS

Industry operating costs have expanded at an annual average of about 5 percent for the past three years. Large and small firms have experienced roughly similar average cost increases in this period. These cost increases reflect the acquisition of ever-expanding technology and systems for business operations, and increased compliance costs for expertise and technology. The cost increase in this period has been somewhat less for the introducer firms. This is because cost increases have been staggered, as the ramp-up in compliance costs related to the CRM exercise has hit the introducer firms just recently, as these firms outsource compliance services through fee payments, rather than make sunk investments in compliance technology and resources.

Cost increases will stay on a steep upward trajectory for several reasons. First, the forward-looking regulatory agenda suggests compliance costs will continue to increase. The extensive CSA targeted reforms of advisor obligations and the regulatory treatment of embedded commissions are close at hand. Further, the OSC initiative to implement a Best Interest Standard is underway. Second, the unremitting pace of financial innovation and competitive tenor in the industry will force the ongoing application of expensive financial technology and continued need to improve systems architecture.

Industry Operating Expenses ($B)



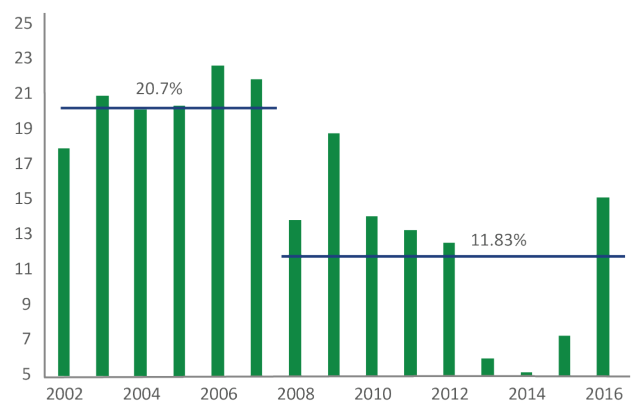
Source: IIROC

INDUSTRY PERFORMANCE AND DRIVE FOR IMPROVED PRODUCTIVITY AND OPERATING EFFICIENCY

Industry performance, measured in terms of return on equity (ROE), has been respectable in recent years, averaging 8.4 percent in 2013-16. The return has been steady with a modest upward trend in recent years. The industry ROEs are nonetheless below returns in the pre-crisis years.

The returns at the integrated firms have been modestly higher, with returns reinforced by strong and steady performance in debt trading and investment banking. The overall return at the retail boutiques averaged 7 percent in the past four years, with slightly higher returns at the introducer firms (9.9 percent over the same period). The problem with the retail sector, despite overall decent returns, is that the performance has varied considerably across the nearly 100 retail franchises. The larger independent firms have generated solid returns reflecting well-run operations and the advantage of business scale. Many smaller retail franchises with a strategic focus on their niche business have turned in similarly successful results. On the other hand, some smaller franchises have struggled to deliver the full suite of financial products and services, even as introducer firms, and cope with escalating costs and limited business scale.

Return on Shareholder Equity (%)
Total Industry



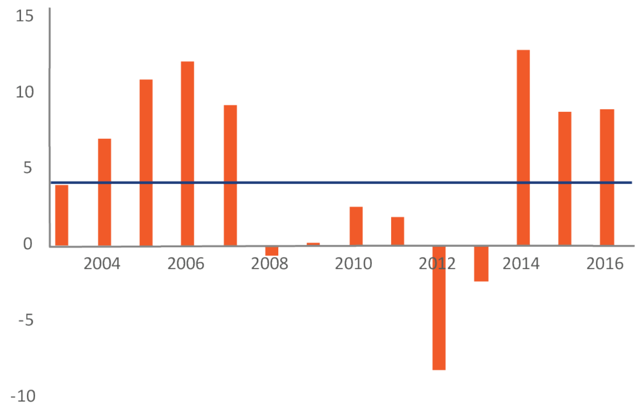
Source: IIAC

Returns in the institutional business have been far less satisfactory, both in terms of magnitude and variability across firms. For example, the ROE for the domestic institutional firms averaged a paltry 3.1 percent in the past four years. This weak return on capital has been a major factor behind the withdrawal of approximately 15 domestic institutional firms from the industry in the last three years. An interesting feature in the institutional firm grouping is the wide swings in return related mainly to the variance in investment banking returns in the resource sector. From earning weak and then negative returns in 2013 and 2015, the group vaulted to a 12 percent return the following year, with notable strong results in the second half of 2016. These strong returns, however, are a less frequent occurrence in recent years, given dependence on the depressed resource sector.

Steady solid revenue growth that has outpaced increases in operating costs has contributed to respectable performance at the integrated and independent retail franchises. Active investor participation through fund investment and securities trading, and the expanding use of financial planning and other services, have driven revenue gains. Additionally, the growing portfolio size from an extended bull market has expanded revenues and earnings. Strong investment banking and fixed income trading results have reinforced performance at the integrated firms.

Sound performance, however, is not just about revenue gains. Firms have taken numerous steps to boost productivity and performance of their retail operations. These efforts will be particularly important to performance when revenue expansion slows. First, firms have adapted technology to lower operating costs and improve client service. Second, firms have taken steps to adjust advisor compensation to take into account rising operating costs and compliance risks, through reduced payouts of gross revenue or a shift to models that give a higher advisor payout in exchange for a higher allocation of business costs. Third, firms have attempted, as best they can, to build business scale through firm acquisition and hiring new advisors. Fourth, firms have also built out advisor teams, adopted firm-wide coaching and training techniques, and put in place arrangements to transition to younger proactive advisors—to improve productivity of the advisor base as well as capture the growing millennial business. Firms will encourage wider, more intensive client coverage for financial products and services, adopting technologies and operations to streamline administrative responsibilities at the advisor level, allocating more time for client coverage, and relationship-building across the advisor's book of business.

Return on Shareholder Equity (%)
Retail



Source: IIAC

Finally, the larger investment dealers with a more diversified clientele have segmented clients across asset/income strata into different categories of products and advisory/ancillary services to improve advisor productivity and efficiency. Client segments break roughly between $250K and $5 million in total assets, and portfolios over $5 million. High net worth clients obtain "high touch" service, whereas smaller clients with limited income/wealth are offered less costly commoditized products and access to automated investment options like hybrid robo-investing. Larger individual firms may break out the delineations in portfolio wealth holdings into even finer detail to deliver product and advice offerings. The objective is to improve the efficiency of advice by focusing on larger portfolios with the greatest need.

The larger firms have greater scope to extract business efficiencies given the wide range of products and services, and the breadth of the client base. However, small firms as well as large firms have benefitted from efficiency gains at the advisor level to reduce the time and effort at administrative tasks, enabling more focus on client contact.

Return on Shareholder Equity (%)
Domestic Institutional

Source: IIAC

COMING SHRINKAGE IN REVENUE GAINS AND TIGHTER MARGINS WILL TAKE A TOLL ON SMALL SPECIALIZED FIRMS

The unprecedented gains in revenue from the wealth management business will likely moderate over the next year or two. The biggest impact on the retail business will be a slowing in fee income as mid and high-income baby boomers move further into the pre- and post-retirement phase and the portfolio adjustments and financial planning needs for retirement are completed and eventually stabilize. Further, against the backdrop of sluggish economic growth and uncertain outlook, the long-in-tooth bull market is likely to lose momentum and limit portfolio expansion, dampening growth in fee revenue. The third factor depressing retail earnings is the steady squeeze in fees on advisory accounts, discretionary managed funds and mutual funds from competitive pressure, and popular low-fee investments like ETFs.

The expansion in financial services delivered to the millennial generation will provide some compensating revenue offset as this demographic group moves into their peak earnings. However, the impact on retail revenue will be mitigated by the emphasis among millennials to rely more on direct order execution and robo-investing, as well as a strong focus on financial value and convenience, putting pressure on operating margins.

The reduction in retail revenues as baby boomer portfolio retirement adjustments run their course, coupled with the incessant rise in fixed costs from regulatory and technology, will squeeze operating margins of both the integrated and specialized retail firms. The stress on small firms will be particularly acute given limited business scale and less scope for efficiency gains. Many of the 26 small retail franchises that lost money in 2016 will be vulnerable to further pressure on operating margins. These small firms have limited chance for amalgamation and are at risk of closing the business.

The outlook for small institutional boutiques is not much better. The reduced levels of investment banking revenue at the domestic institutional firms (down roughly 20 percent in the first half of 2017 from already low levels) will likely remain down for the rest of the year, reflecting continued depressed levels of capital spending, particularly in the resource sector. The significant collapse in trading revenue at the institutional investment dealers is a permanent development as Canadian institutional funds increasingly rely on algorithmic trading through DMA access to lower trade execution costs and improve transaction efficiency. A significant number of the 13 institutional boutiques that lost money in 2016 will be under further earnings pressure.

While a total of roughly 50 or so boutiques lost money in 2014 and 2015, and 39 in 2016, many firms have surplus funds to continue operations. The timing and number of firms closing is, therefore, difficult to gauge, and largely turns on expectations about future revenue and cost trends. The first wave of firm closures—the trigger point—occurred in 2013-15, several years after the 2011 downturn in commodities markets. The closures happened when owners and partners reached a consensus that the downturn was of long duration, and the regulatory burden would continue to escalate.

The next wave of closures will occur when firms similarly reach consensus that retail revenues will turn down, in terms of decelerating revenue gains or actual revenue reductions, reflecting further fee compression, a further weakening in the stock market from an increasingly negative outlook, and a winding down in boomer retirement adjustments. On the other hand, there is widespread industry consensus that compliance costs will continue to escalate reflecting the "targeted reforms" and other regulatory initiatives, and low priority given to any comprehensive review of existing rules to ease the regulatory burden.

IN SUMMARY

The relatively steady performance over the last four years in industry revenue and operating profit belies the turmoil and divergent performance across firms and firm groupings in the industry. For starters, the larger firms have consistently outperformed the smaller boutique firms in the business. Second, the retail firm groupings have solidly outperformed the institutional firms.

The consistent strength in the retail or wealth management business has been the key factor buttressing solid industry performance. The large bank-owned and independent firms have capitalized on the retail opportunity and taken advantage of scale and size. But many small and mid-sized retail and institutional franchises have done well, broadening outsourcing techniques and using technology to compensate for scale, adding advisors and support personnel, taking advantage of their independent and strong niche businesses and brands, and cutting costs. Numerous small retail firms, however, will find margins narrowing as revenue increases fail to keep pace with rising costs from technology and regulatory compliance.

The outlook for the industry turns on the business focus of firms and firm groupings. Similarly, the earnings of the small institutional boutiques with limited and narrow investment banking operations will slip in response to continued weak revenue and relentless rising costs.

Yours sincerely,

Ian C. W. Russell, FCSI
President & CEO, IIAC
September 2017

Industry

	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
($ millions unless otherwise noted)	Q2 17	Q1 17	Q2 16	Q2/Q1	Q2 17/16	2016	2015	2014	2013	16/15	15/14	14/13
Number of firms	166	165	164	0.6%	1.2%	163	168	175	189	-2.98%	-4.0%	-7.4%
Number of employees	40,989	40,344	39,939	1.6%	2.6%	40,130	39,936	39,918	39,357	0.49%	0.0%	1.4%
Revenue												
Commissions	1,431	1,506	1,408	-5.0%	1.6%	5,715	5,838	5,800	5,516	-2.11%	0.7%	5.1%
Mutual fund only commissions	646	641	628	0.7%	2.9%	2,567	2,840	2,576	2,435	-9.60%	10.2%	5.8%
Investment banking	1,006	932	1,052	7.9%	-4.4%	3,744	3,246	3,793	3,191	15.33%	-14.4%	18.8%
New issues equity	485	458	576	5.9%	-15.9%	1,994	1,578	2,057	1,473	26.39%	-23.3%	39.6%
New issues debt	258	199	220	29.7%	17.1%	783	814	801	938	-3.81%	1.6%	-14.6%
Corporate advisory fees	264	275	256	-4.2%	3.3%	967	855	934	780	13.15%	-8.5%	19.7%
Fixed income trading	218	4	411	5433.0%	-47.0%	1,439	1,466	1,644	1,791	-1.81%	-10.9%	-8.2%
Equity trading	40	243	207	-83.6%	-80.7%	129	8	243	153	1547%	-96.8%	59.1%
Net interest	332	337	252	-1.4%	31.8%	1,070	864	839	536	23.86%	3.0%	56.6%
Fees	1,758	1,737	1,388	1.2%	26.7%	5,998	5,343	4,614	3,660	12.26%	15.8%	26.1%
Other	232	196	612	18.4%	-62.1%	1,356	980	983	1,073	38.37%	-0.3%	-8.4%
Operating revenue	5,228	5,217	5,311	0.2%	-1.6%	20,275	17,754	17,915	15,919	14.20%	-0.9%	12.5%
Operating expenses[1]	2,169	2,213	2,159	-2.0%	0.5%	8,405	8,086	7,739	7,296	3.95%	4.5%	6.1%
Operating profit	1,547	1,522	1,813	1.7%	-14.7%	6,335	4,228	4,866	3,986	49.84%	-13.1%	22.1%
Net profit (loss)	859	826	1,179	3.9%	-27.1%	3,504	2,063	2,382	2,062	69.85%	-13.4%	15.5%
Shareholders' equity	24,666	23,869	28,908	3.3%	-14.7%	23,117	28,373	45,367	34,474	-18.52%	-37.5%	31.6%
Regulatory capital	39,217	39,062	45,411	0.4%	-13.6%	39,009	44,951	62,363	51,414	-13.22%	-27.9%	21.3%
Client cash holdings	57,618	61,051	52,086	-5.6%	10.6%	59,944	50,677	45,291	42,124	18.29%	11.9%	7.5%
Client debt margin outstanding	25,886	23,906	21,393	8.3%	21.0%	23,740	21,173	18,913	16,444	12.12%	12.0%	15.0%
Productivity[2] ($ thousands)	510	517	532	-1.4%	-4.1%	505	445	449	404	13.65%	-0.9%	11.0%
Annual return[3] (%)	**13.9**	**13.8**	**16.3**	**0.6%**	**-14.6%**	**15**	**7.3**	**5.2**	**6.0**	**108.46%**	**2.0%**	**-0.7%**

Integrated

	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
($ millions unless otherwise noted)	Q2 17	Q1 17	Q2 16	Q2/Q1	Q2 17/16	2016	2015	2014	2013	16/15	15/14	14/13
Number of firms	10	10	10	0.0%	0.0%	10	10	10	10	0.00%	0.0%	0.0%
Number of employees	26,293	25,920	25,536	1.4%	3.0%	25,886	25,590	25,430	24,989	1.16%	0.6%	1.8%
Revenue												
Commissions	965	1,014	946	-4.8%	2.0%	3,871	4,019	3,920	3,862	-3.69%	2.5%	1.5%
Mutual fund only commissions	480	478	471	0.4%	2.0%	1,928	2,145	1,916	1,854	-10.13%	12.0%	3.4%
Investment banking	728	650	808	12.0%	-9.9%	2,722	2,291	2,749	2,369	18.81%	-16.7%	16.1%
New issues equity	359	318	435	12.9%	-17.5%	1,448	1,158	1,540	1,079	25.04%	-24.8%	42.7%
New issues debt	205	162	178	26.6%	15.3%	634	652	659	789	-2.81%	-1.0%	-16.5%
Corporate advisory fees	164	170	194	-3.6%	-15.6%	640	481	550	500	33.13%	-12.6%	10.0%
Fixed income trading	136	-107	337	-226.5%	-59.7%	1,162	1,168	1,243	1,383	-0.55%	-6.0%	-10.1%
Equity trading	87	134	130	-35.0%	-33.0%	-183	-69	83	96	-164.51%	-183.1%	-12.9%
Net interest	291	292	226	-0.4%	28.7%	954	746	686	489	27.90%	8.7%	40.3%
Fees	1,390	1,344	1,089	3.4%	27.6%	4,691	4,226	3,590	2,785	11.01%	17.7%	28.9%
Other	116	144	531	-19.2%	-78.1%	967	565	601	771	71.10%	-5.9%	-22.1%
Operating revenue	3,885	3,814	4,096	1.9%	-5.1%	15,188	13,041	12,873	11,755	16.47%	1.3%	9.5%
Operating expenses[1]	1,493	1,523	1,518	-2.0%	-1.7%	5,808	5,561	5,290	4,888	4.44%	5.1%	8.2%
Operating profit	1,277	1,198	1,573	6.6%	-18.8%	5,241	3,327	3,572	3,308	57.55%	-6.9%	8.0%
Net profit (loss)	752	726	1,079	3.6%	-30.3%	3,099	1,752	2,014	2,007	76.88%	-13.0%	0.4%
Shareholders' equity	19,425	18,699	23,833	3.9%	-18.5%	17,973	23,420	40,082	29,479	-23.26%	-41.6%	36.0%
Regulatory capital	31,007	30,940	37,480	0.2%	-17.3%	30,896	37,167	53,841	42,940	-16.87%	-31.0%	25.4%
Client cash holdings	49,110	52,142	44,304	-5.8%	10.8%	51,281	43,294	38,448	35,760	18.45%	12.6%	7.5%
Productivity[2] ($ thousands)	591	589	642	0.4%	-7.9%	587	510	506	470	15.14%	0.7%	7.6%
Annual return[3] (%)	**15.5**	**15.5**	**18.1**	**-0.3%**	**-14.5%**	**17**	**7.5**	**5.0**	**6.8**	**130.48%**	**2.5%**	**-1.8%**

[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 17	**Q1 17**	**Q2 16**	**Q2/Q1**	**Q2 17/16**	**2016**	**2015**	**2014**	**2013**	**16/15**	**15/14**	**14/13**
Number of firms	90	90	88	0.0%	2.3%	87	90	94	101	-3.33%	-4.3%	-6.9%
Number of employees	12,257	12,046	11,932	1.8%	2.7%	11,860	11,645	11,537	11,456	1.85%	0.9%	0.7%
Revenue												
Commissions	325	337	309	-3.5%	5.1%	1,246	1,240	1,263	1,120	0.44%	-1.8%	12.8%
Mutual fund only commissions	164	162	156	1.4%	5.5%	632	681	644	571	-7.21%	5.7%	12.8%
Investment banking	85	66	60	28.4%	42.8%	218	200	213	180	8.79%	-6.1%	18.4%
New issues equity	49	43	36	13.5%	34.4%	138	104	130	99	32.10%	-19.8%	31.9%
New issues debt	19	14	16	32.8%	18.4%	60	63	57	58	-4.14%	10.0%	-1.3%
Corporate advisory fees	17	9	7	95.0%	142.2%	20	33	26	24	-39.98%	27.6%	9.8%
Fixed income trading	28	48	32	-41.4%	-12.1%	118	60	74	78	97.32%	-18.7%	-5.2%
Equity trading	4	9	6	-55.1%	-33.1%	24	8	8	7	200.34%	-1.0%	18.1%
Net interest	46	42	32	10.2%	44.3%	136	137	220	121	-0.99%	-37.6%	82.2%
Fees	310	305	247	1.7%	25.6%	1,047	901	783	675	16.21%	15.1%	16.0%
Other	53	56	50	-5.5%	6.5%	213	193	178	172	10.43%	8.1%	3.5%
Operating revenue	865	863	735	0.3%	17.7%	3,002	2,740	2,740	2,353	9.57%	0.0%	16.4%
Operating expenses[1]	391	395	361	-0.9%	8.2%	1,462	1,422	1,348	1,332	2.84%	5.4%	1.2%
Operating profit	116	126	78	-7.7%	49.5%	319	212	329	137	50.63%	-35.6%	140.4%
Net profit (loss)	45	59	36	-23.1%	25.4%	119	103	132	-24	15.56%	-22.1%	645.1%
Shareholders' equity	1,374	1,351	1,234	1.7%	11.4%	1,319	1,174	1,025	1,019	12.36%	14.6%	0.6%
Regulatory capital	1,862	1,815	1,697	2.6%	9.7%	1,802	1,623	1,526	1,491	11.00%	6.4%	2.3%
Client cash holdings	6,084	6,490	5,413	-6.3%	12.4%	6,151	4,900	4,389	3,898	25.53%	11.6%	12.6%
Productivity[2] ($ thousands)	282	286	246	-1.4%	14.6%	253	235	237	205	7.53%	-0.9%	15.6%
Annual return[3] (%)	**13.1**	**17.3**	**11.6**	**-24.4%**	**12.6%**	**9**	**8.8**	**12.9**	**-2.4**	**2.60%**	**-4.1%**	**15.3%**

Domestic Institutional

($ millions unless otherwise noted)	Quarter-over-Quarter					Annual Year-over-Year						
	Quarters			% Change		Years				% Change		
	Q2 17	**Q1 17**	**Q2 16**	**Q2/Q1**	**Q2 17/16**	**2016**	**2015**	**2014**	**2013**	**16/15**	**15/14**	**14/13**
Number of firms	38	38	42	0.0%	-9.5%	41	45	47	55	-8.89%	-4.3%	-14.5%
Number of employees	1,465	1,452	1,549	0.9%	-5.4%	1,481	1,751	1,981	1,946	-15.42%	-11.6%	1.8%
Revenue												
Commissions	88	98	98	-9.8%	-9.8%	384	372	434	351	3.31%	-14.3%	23.4%
Investment banking	70	77	105	-9.0%	-33.1%	412	376	490	396	9.45%	-23.2%	24.0%
New issues equity	45	50	60	-9.4%	-25.2%	245	201	324	233	21.96%	-38.0%	38.9%
New issues debt	7	6	8	24.5%	-16.7%	24	23	26	28	2.69%	-11.4%	-6.2%
Corporate advisory fees	19	22	36	-12.0%	-47.3%	143	152	140	134	-6.04%	8.8%	4.4%
Fixed income trading	5	5	3	2.5%	50.1%	15	-7	28	40	320.95%	-124.4%	-30.7%
Equity trading	-9	-3	14	nm	nm	27	-17	-26	-97	258.32%	35.0%	72.8%
Net interest	-1	0	1	nm	nm	3	17	15	12	-81.99%	13.4%	20.4%
Fees	24	62	25	-61.3%	-2.1%	154	120	137	125	28.67%	-12.8%	9.9%
Other	11	8	17	31.5%	-35.0%	69	68	62	72	0.87%	10.4%	-14.2%
Operating revenue	188	247	262	-23.8%	-28.2%	1,064	929	1,139	900	14.53%	-18.5%	26.6%
Operating expenses[1]	120	120	138	0.2%	-12.8%	560	558	573	561	0.33%	-2.6%	2.1%
Operating profit	38	89	95	-57.1%	-59.9%	365	223	365	181	63.65%	-38.8%	101.4%
Net profit (loss)	3	-3	44	-202.7%	-93.1%	99	-20	52	-13	595.32%	-138.5%	512.3%
Shareholders' equity	746	754	917	-1.1%	-18.7%	822	913	1,377	1,196	-9.92%	-33.7%	15.2%
Regulatory capital	994	1,016	1,167	-2.2%	-14.8%	1,078	1,162	1,963	1,793	-7.26%	-40.8%	9.4%
Client cash holdings	1,210	1,273	1,277	-5.0%	-5.2%	1,269	1,428	1,467	1,464	-11.14%	-2.7%	0.2%
Productivity[2] ($ thousands)	513	680	676	-24.5%	-24.1%	719	531	575	462	35.51%	-7.7%	24.4%
Annual return[3] (%)	**1.6**	**-1.5**	**19.1**	**-203.9%**	**-91.6%**	**12**	**-2.2**	**3.8**	**-1.1**	**647.87%**	**-6.0%**	**4.8%**

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[2] Annual revenue per employee.
[3] Annual return is calculated as net profit/shareholder's equity.