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Security Industry Statistics

Business and Profit Trends January - June 1997

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Operating profit totaled \$1 billion in January - June 1997, just above the year ago level. The industry has maintained record profitability this year even as operating costs have escalated through the period. Good market conditions are likely to continue through the remainder of this year, resulting in annual operating profit of \$2 billion, similar to last year's level. Net profit (after bonuses and taxes) will total about \$800 million, close to the \$850 million in 1996.

In the past year, the industry has ploughed nearly half of operating profits back into the business in the form of retained earnings. This increase in retained earnings has been responsible for nearly all the increase in industry regulatory capital. Regulatory capital, comprising shareholders equity and subordinated debt, rose \$1.7 billion to total \$7.9 billion. The need to support growing proprietary trading operations and principal dealings, as well as finance expanding infrastructure, particularly offshore, has contributed to the capital build-up. Higher shareholders equity has depressed returns despite steady profit performance, with ROE at 21% for the first half 1997 versus 26% a year ago.

Revenue gains in the latest first half have been better balanced, with underwriting and advisory business and fixed income trading all making a solid contribution to revenue and profit. Revenue from fixed income trading rose \$97 million to \$459 million in the year ended June 1997. These gains mainly reflect better results from proprietary trading and a higher proportion of dealing in corporate debt securities. If this trend continues, as is likely to be the case given recent strong markets, fixed income trading revenues could reach record levels this year. Strong new issue debt markets, particularly in corporate securities, have bolstered fixed income operations.

These improved results in fixed income operations have significantly boosted the revenue and profit of foreign institutional firms which focus operations mainly on debt underwriting and trading. Revenue and net profit for these firms rose 28% and 13% respectively year-over-year. These firms now account for a larger share of the institutional sector of the industry, a 39% revenue share this year versus 32% last year.

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