

Recent Trends and Performance in Canada's Securities Industry

IIROC FAS Conference

September 2014



Key Observations

- Robust Canadian and U.S. equity markets
 - More active trading and financing
 - Increased demand for wealth management products and services
 - Fee-based revenue now largest retail revenue component
- Overall Improvement in industry revenue and profits
- Welcome rebound in boutique earnings
- Client AUM at record levels
- Some margin pressures persist
- Industry consolidation continues

Equity Markets



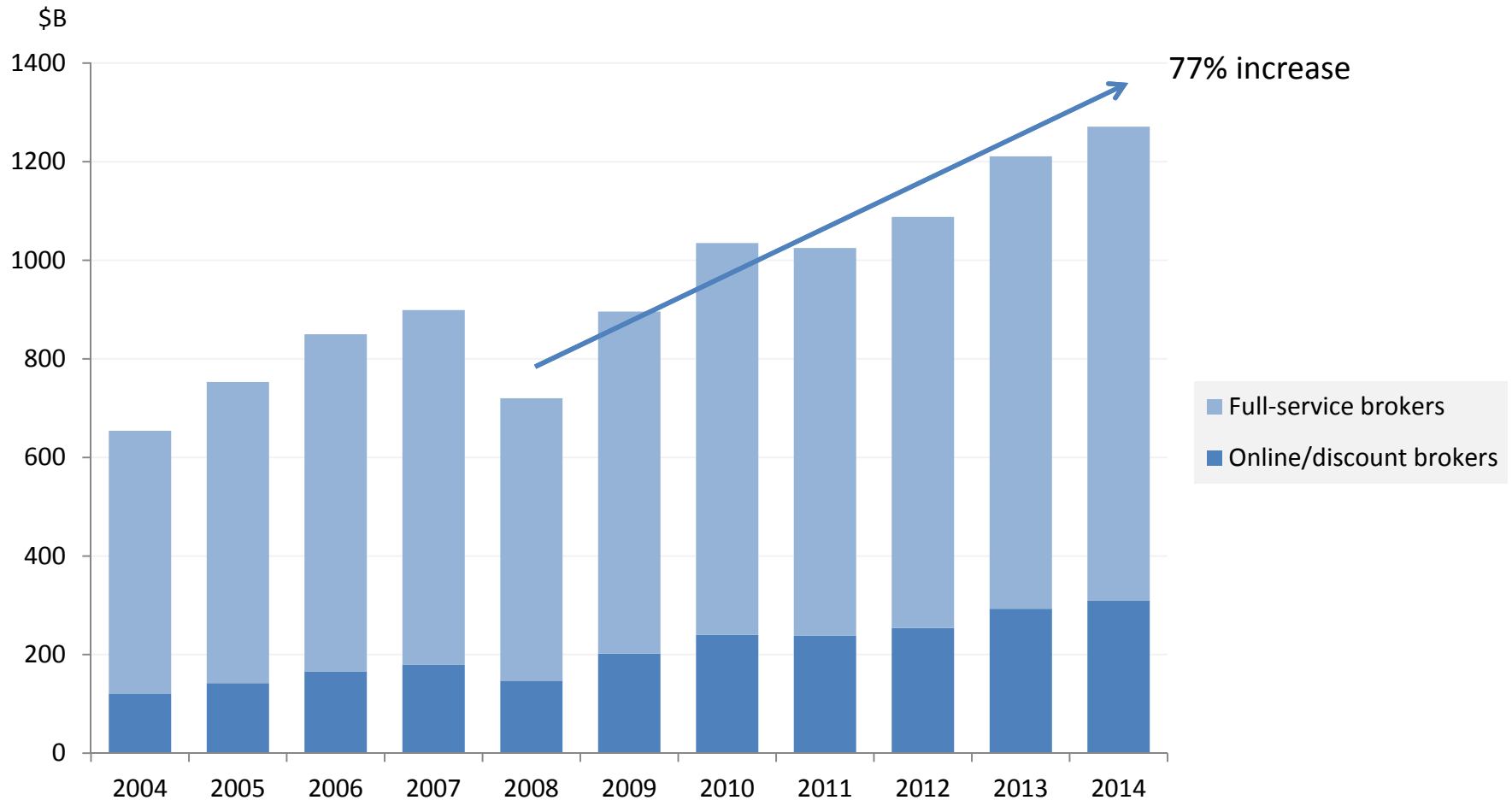
Source: S&P

TSX Venture Market



Source: S&P

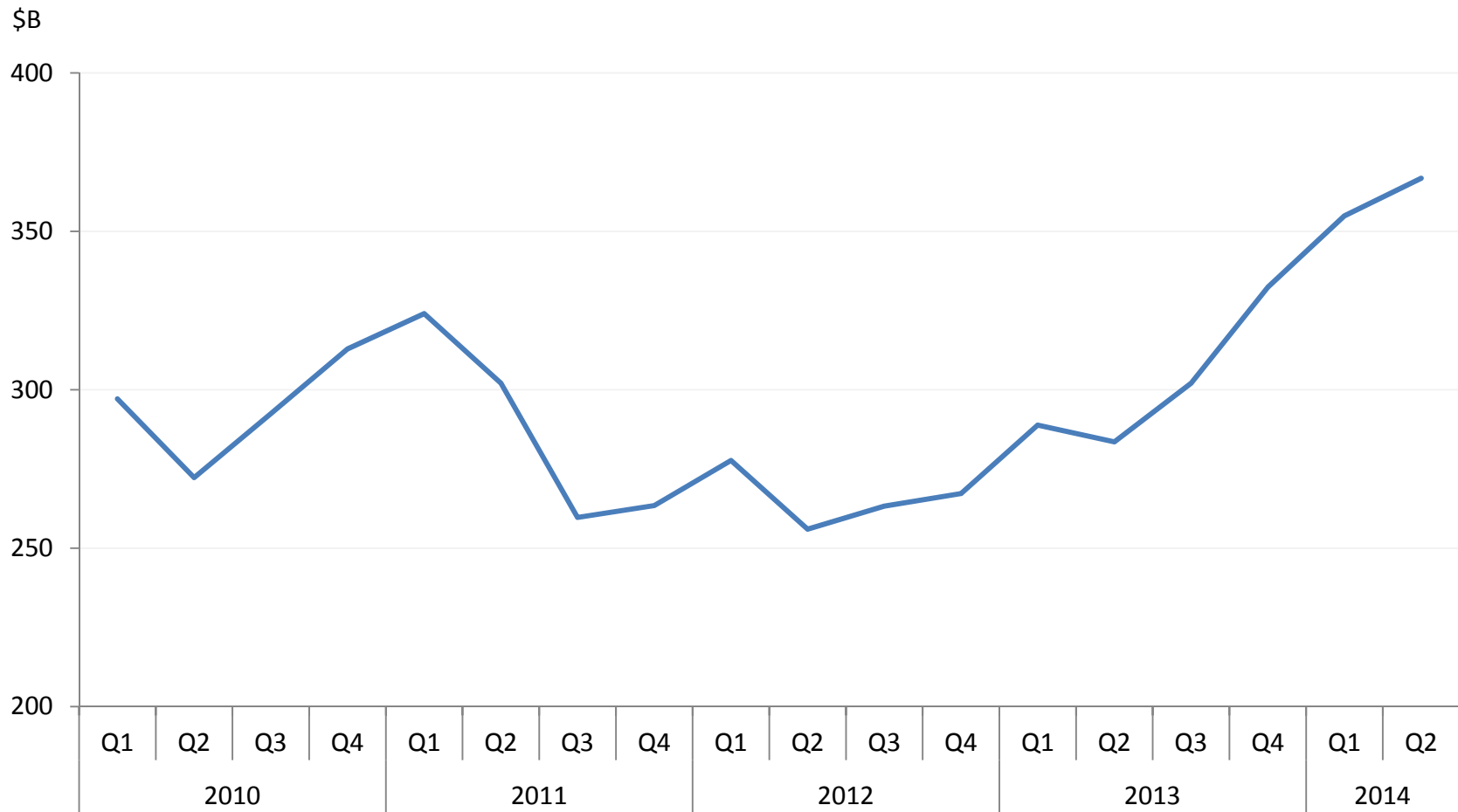
Client Assets Under Management



Source: Investor Economics

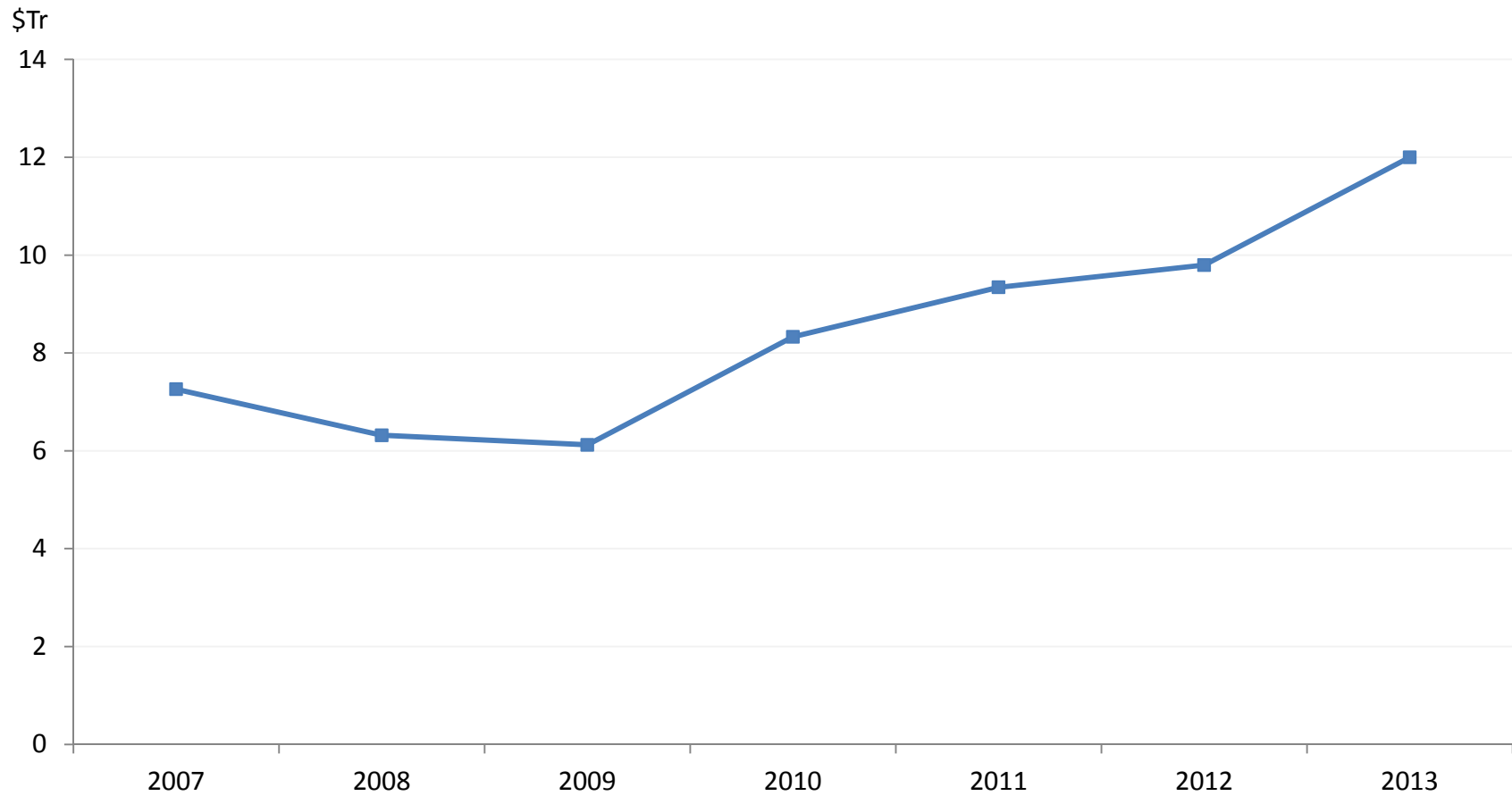


Assets in Equity Mutual Funds

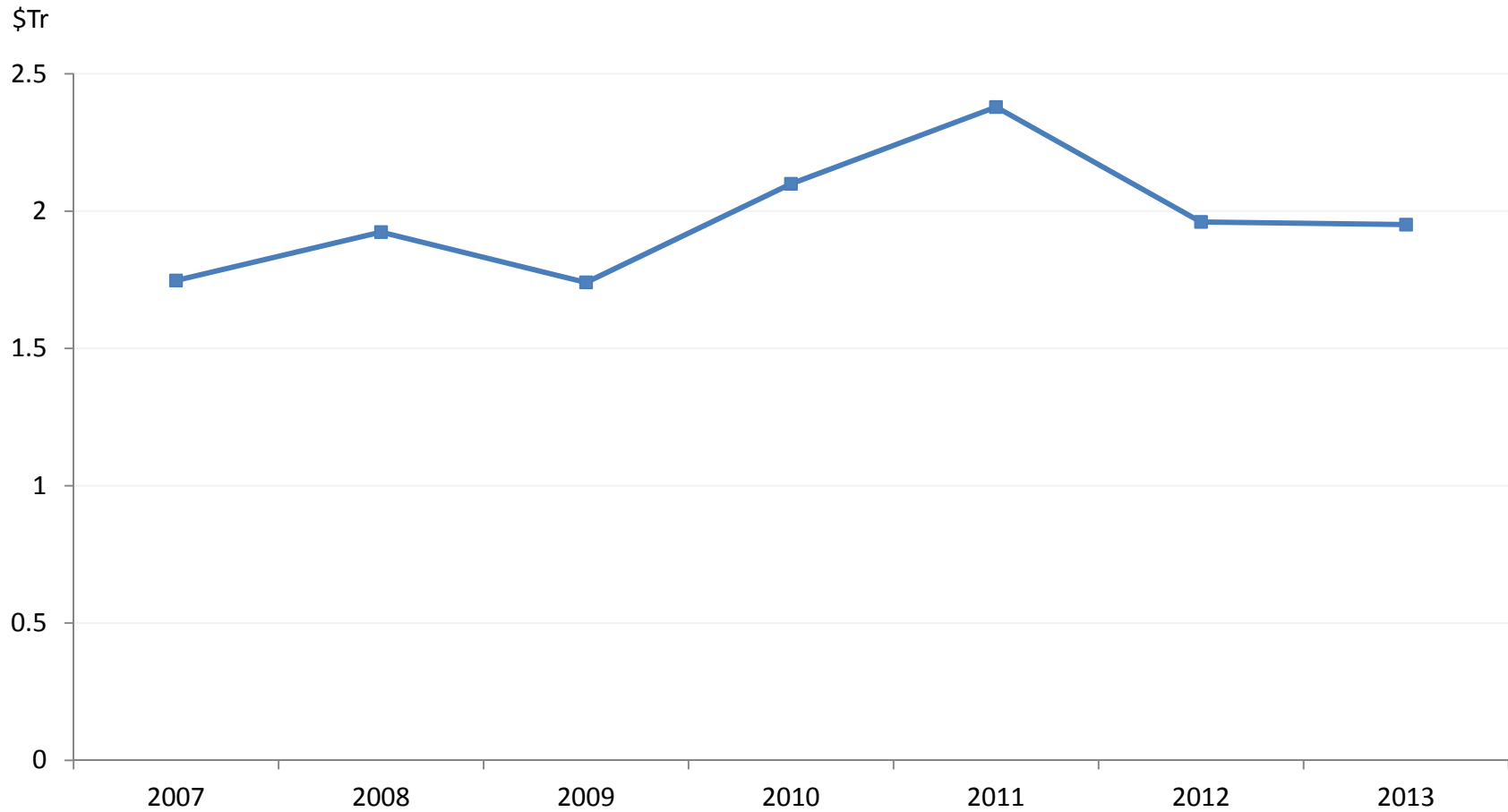


Source: IFIC

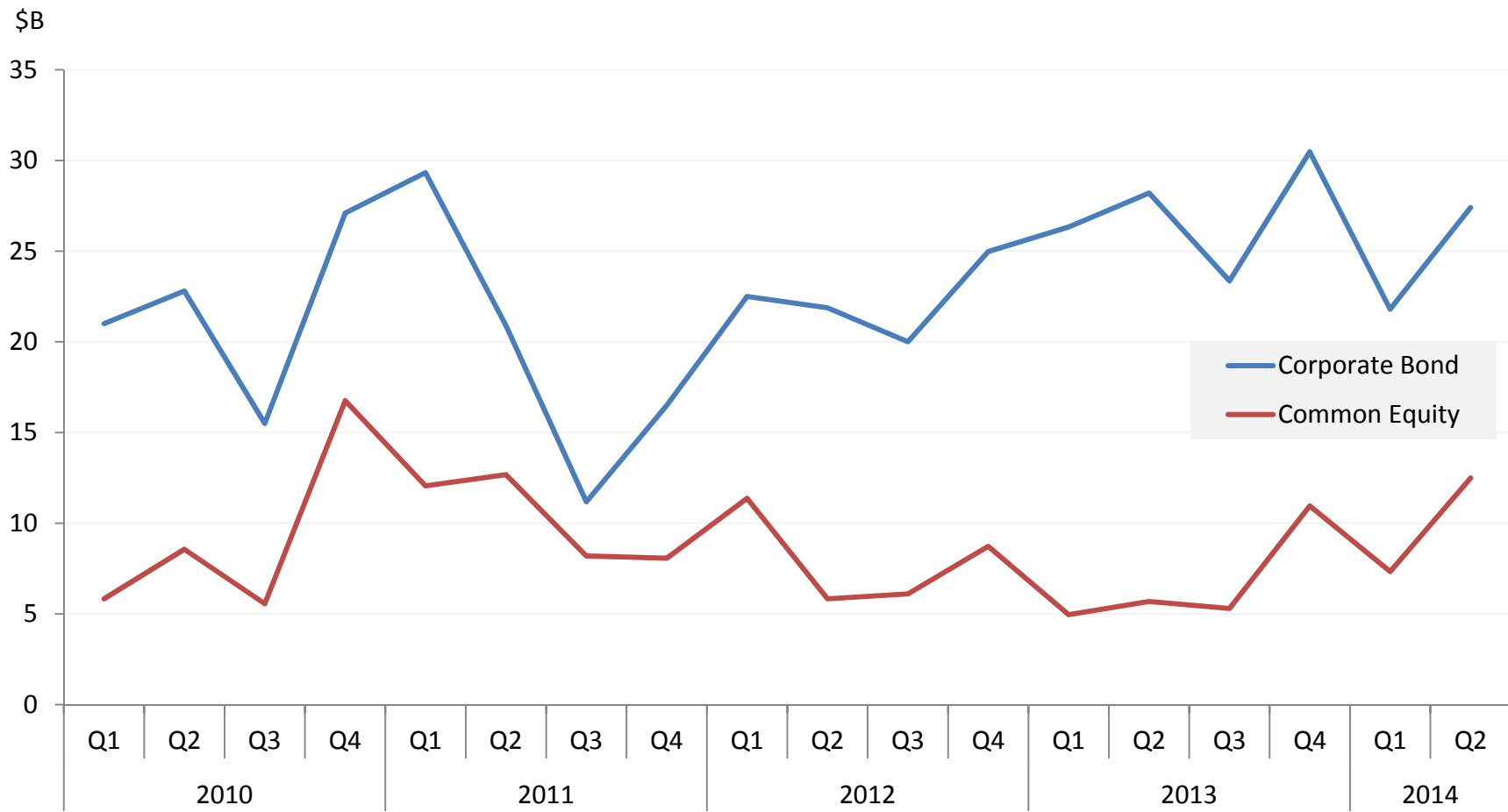
Secondary Bond Trading



Secondary Equity Trading

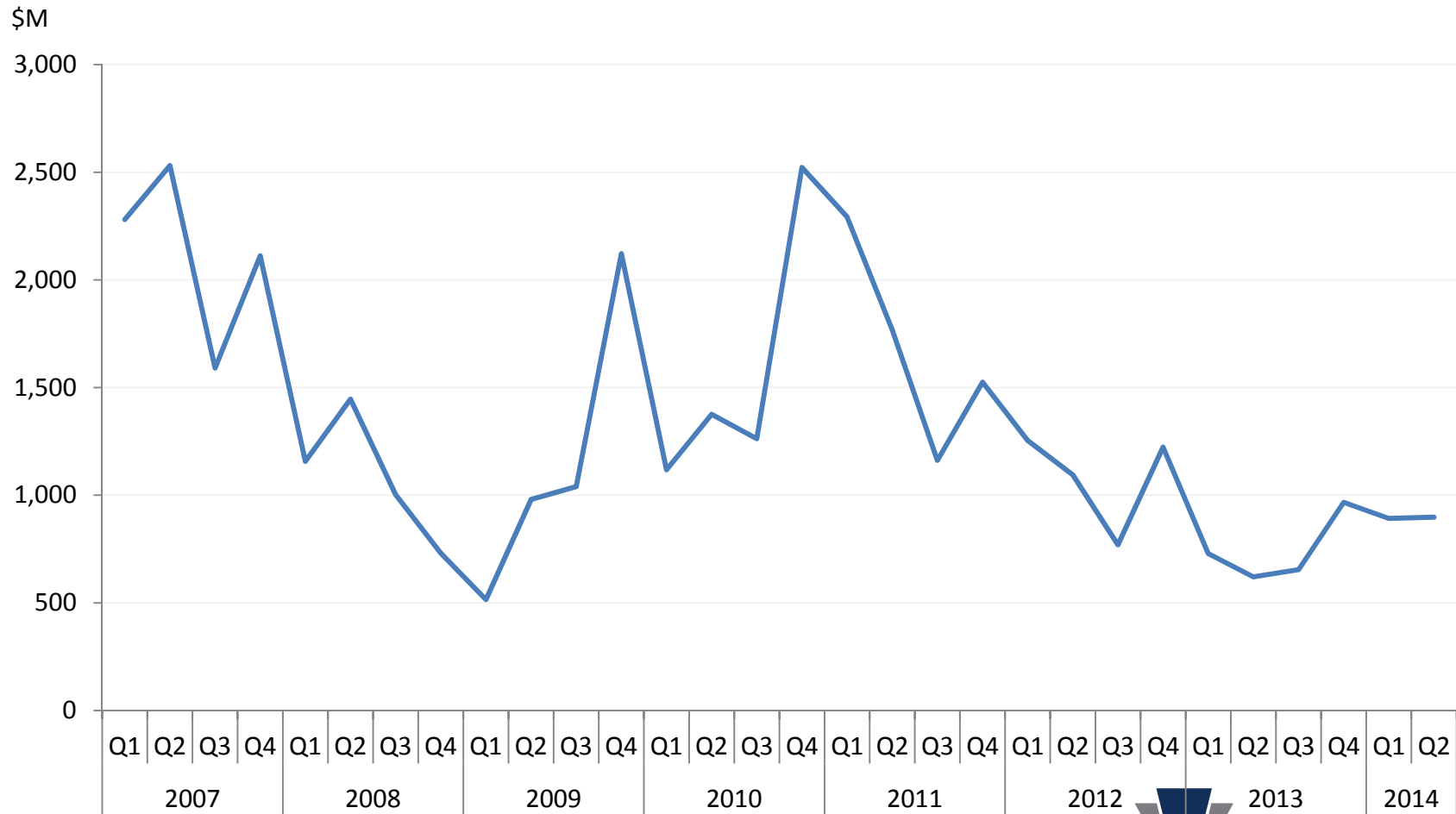


Debt and Equity Financing



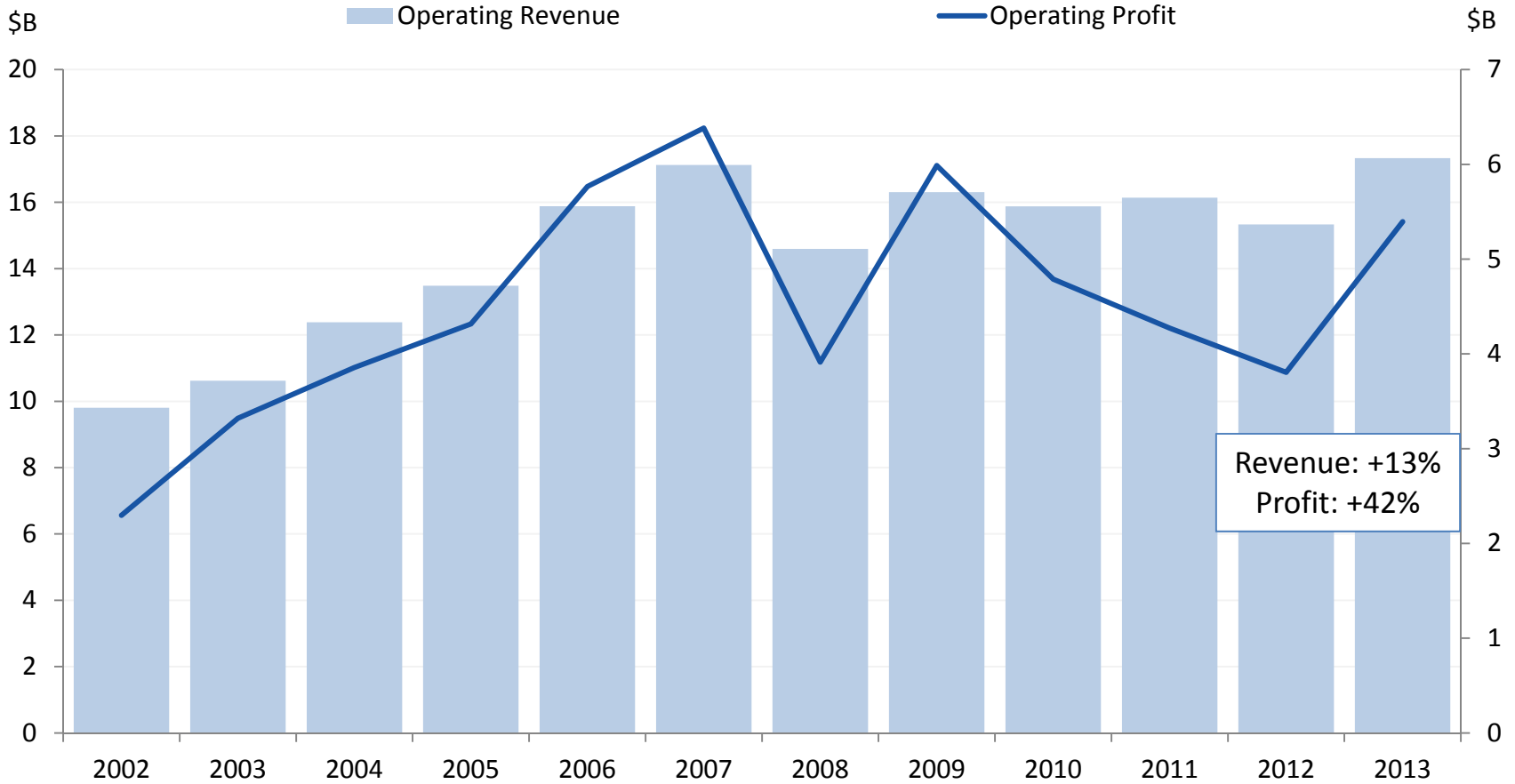
Small Equity Financing

Deals < \$20M

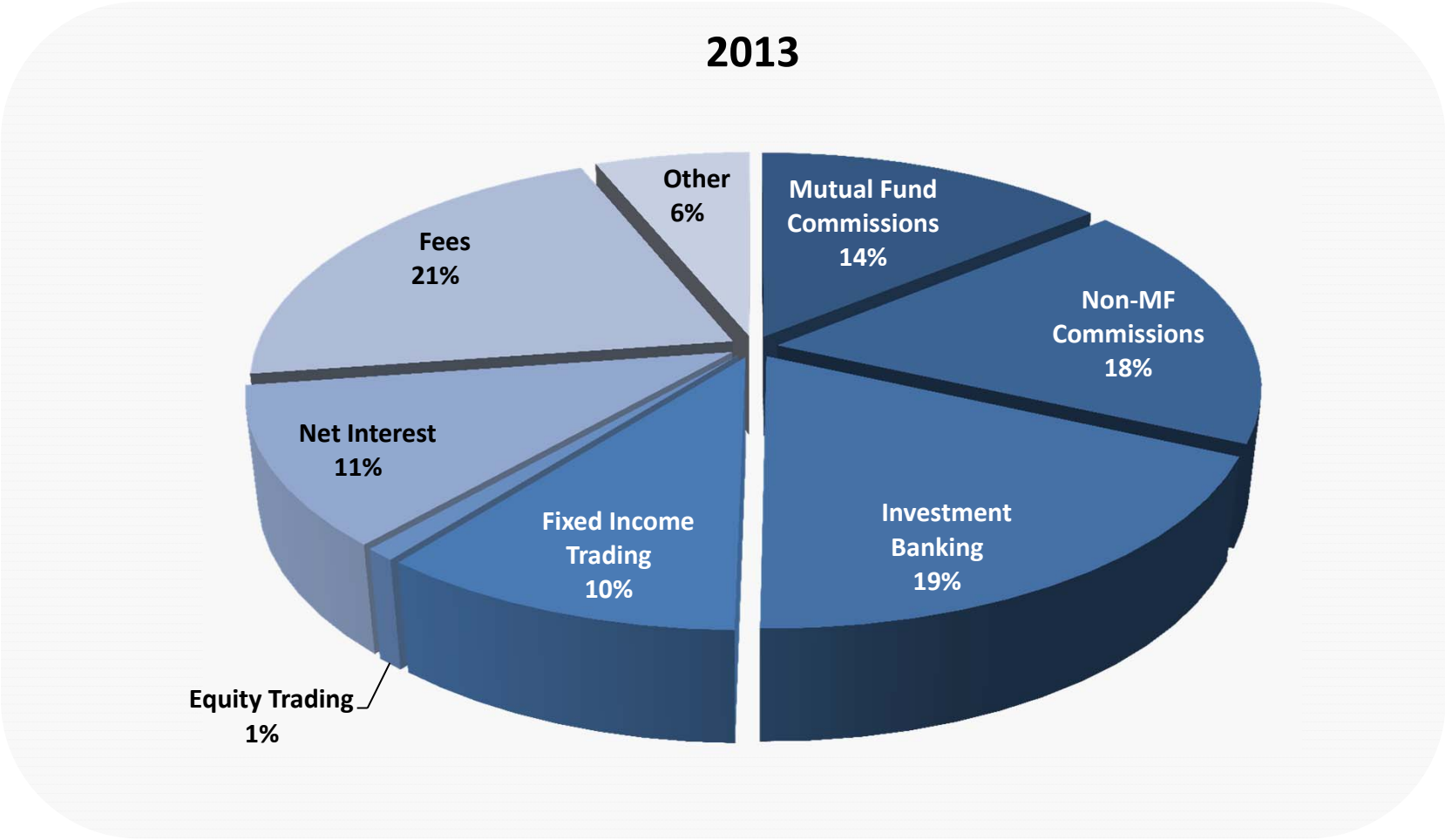


Operating Revenues and Profits

Industry

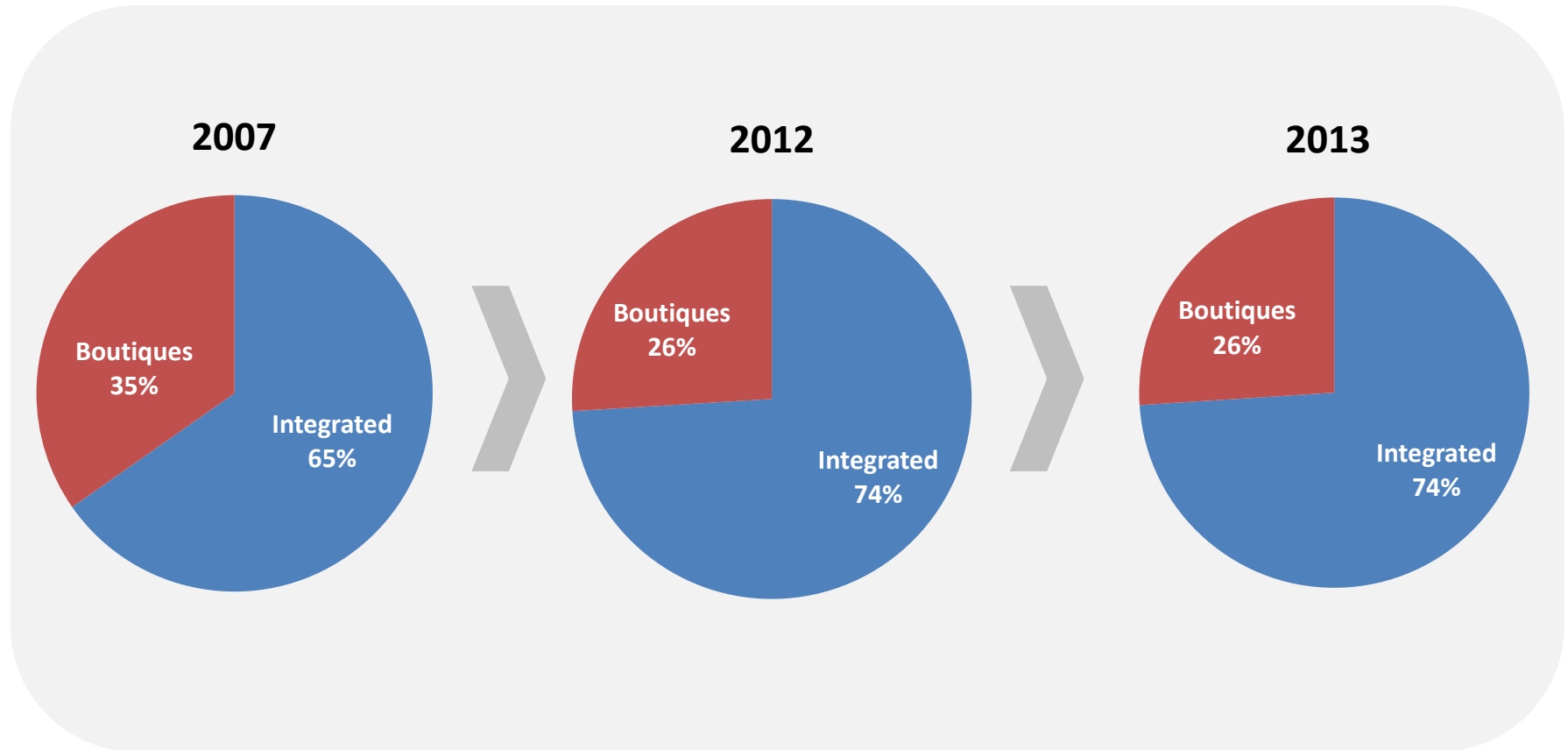


Revenue Breakdown

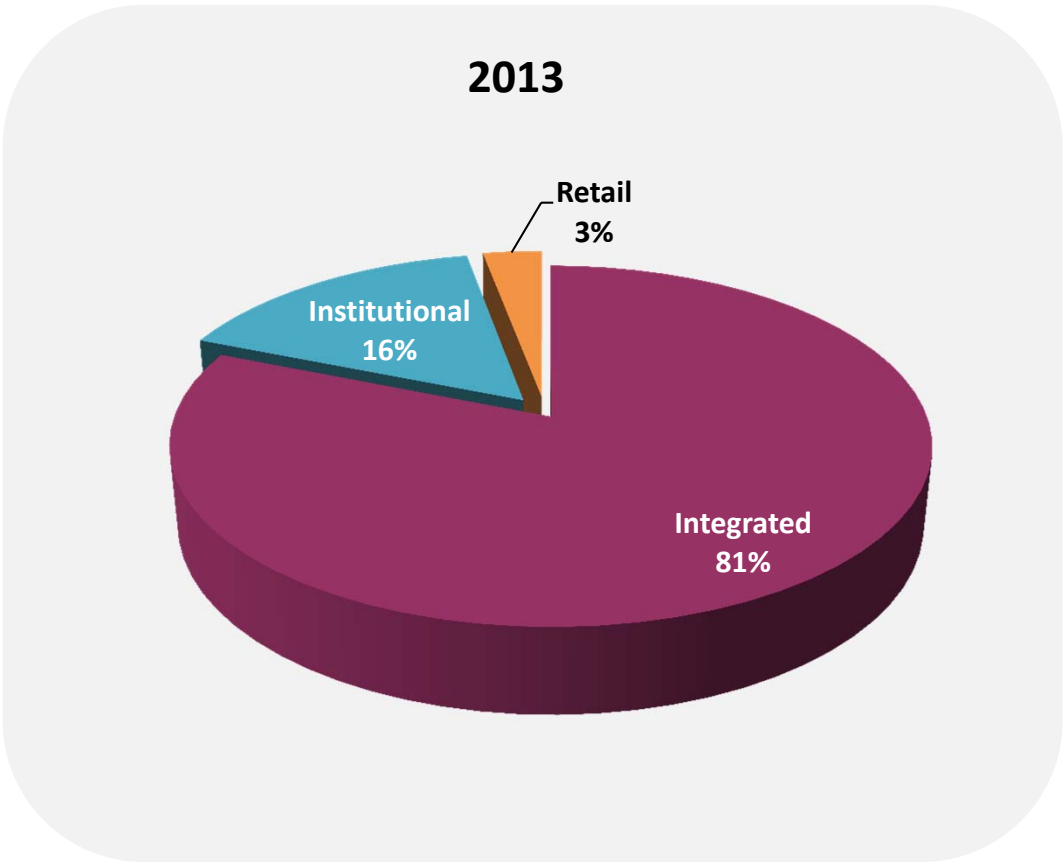


Revenue Share

Industry Total Revenue



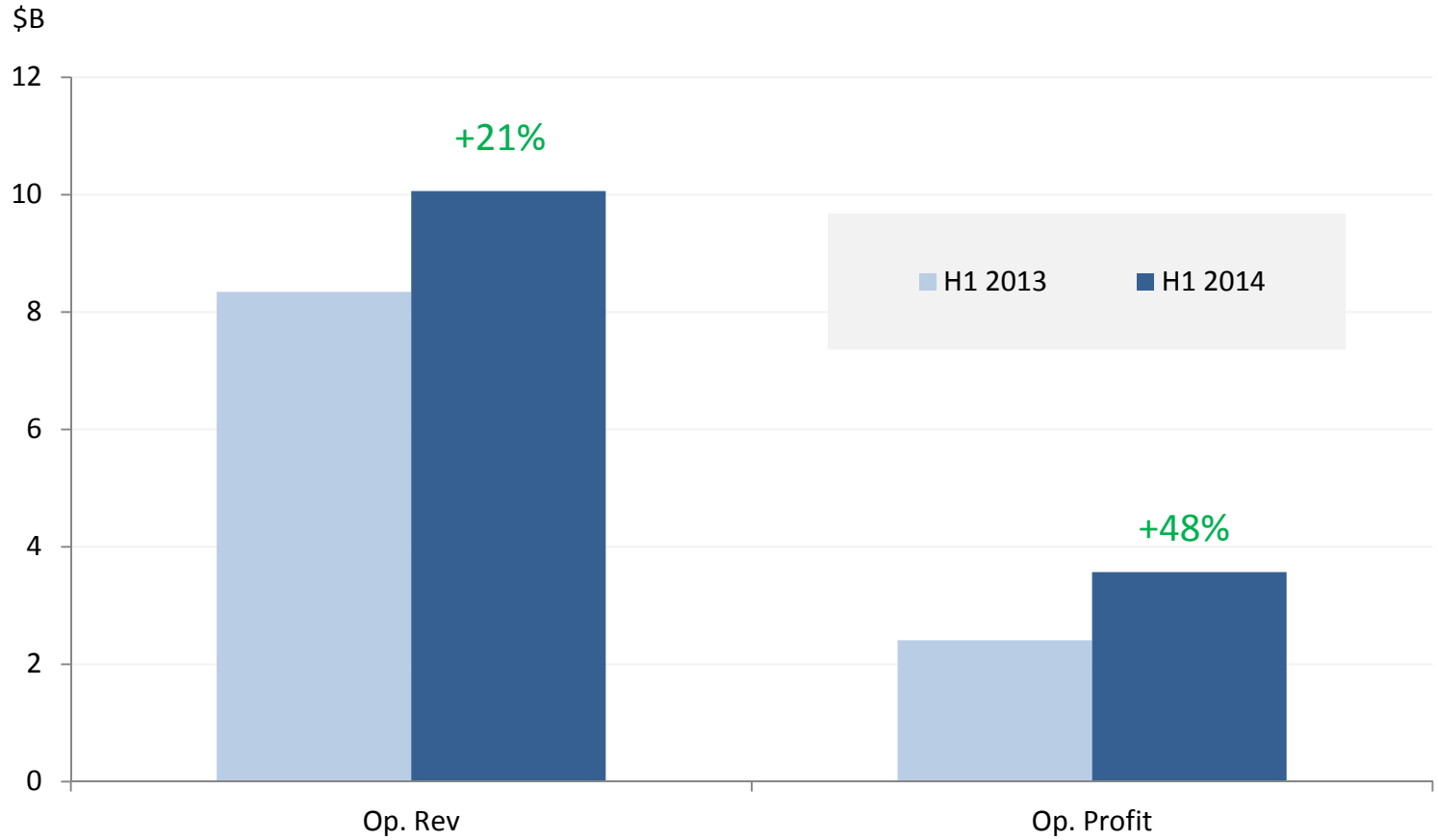
Profit Distribution



	2013	% change
Integrated	\$4,374M	36%
Institutional	\$860M	42%
Retail	\$160M	979%

Industry Operating Revenue and Profit

H1 2014/2013

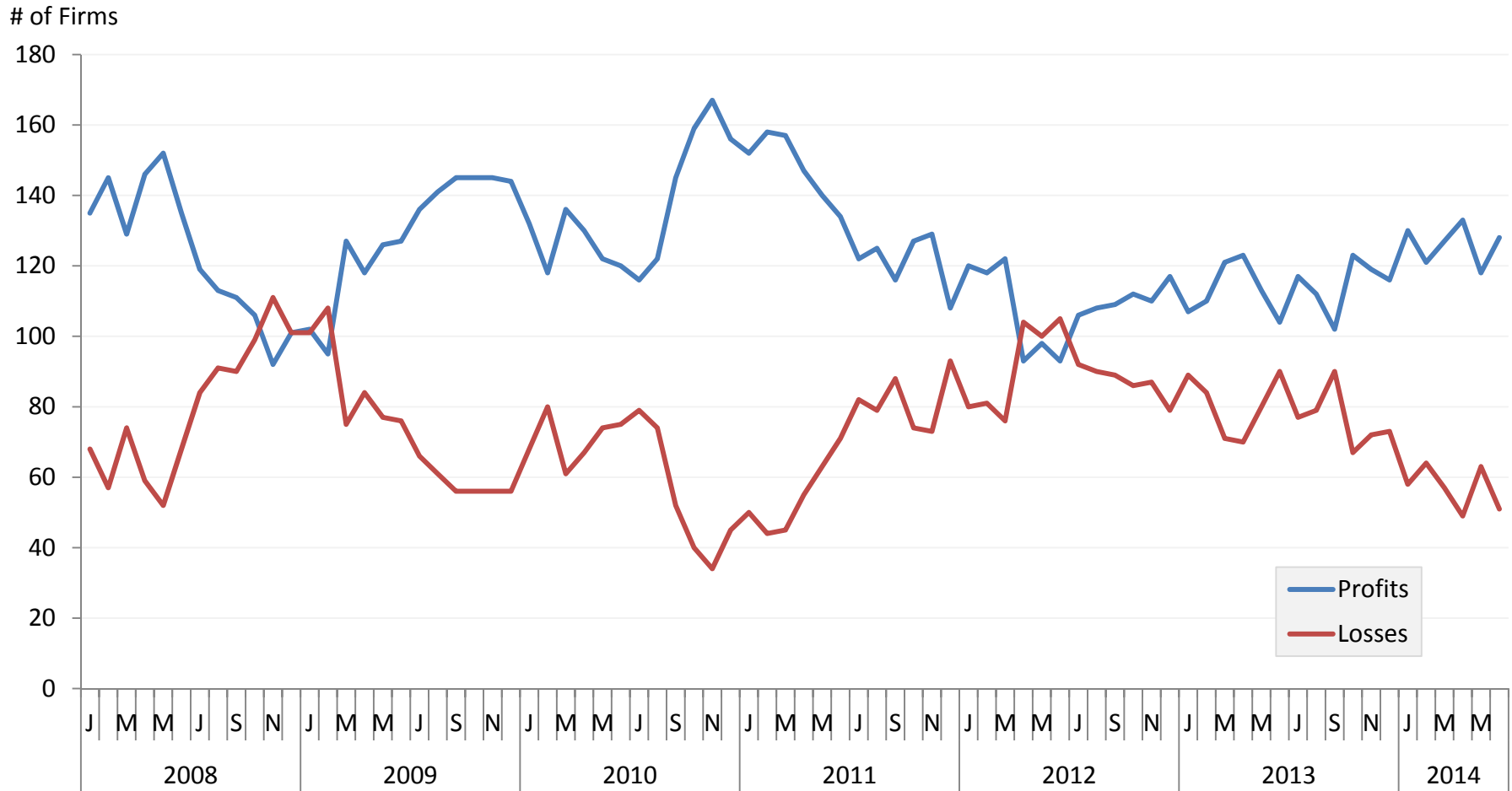


Overall Profitability

Number of Firms with Operating Profits and Losses

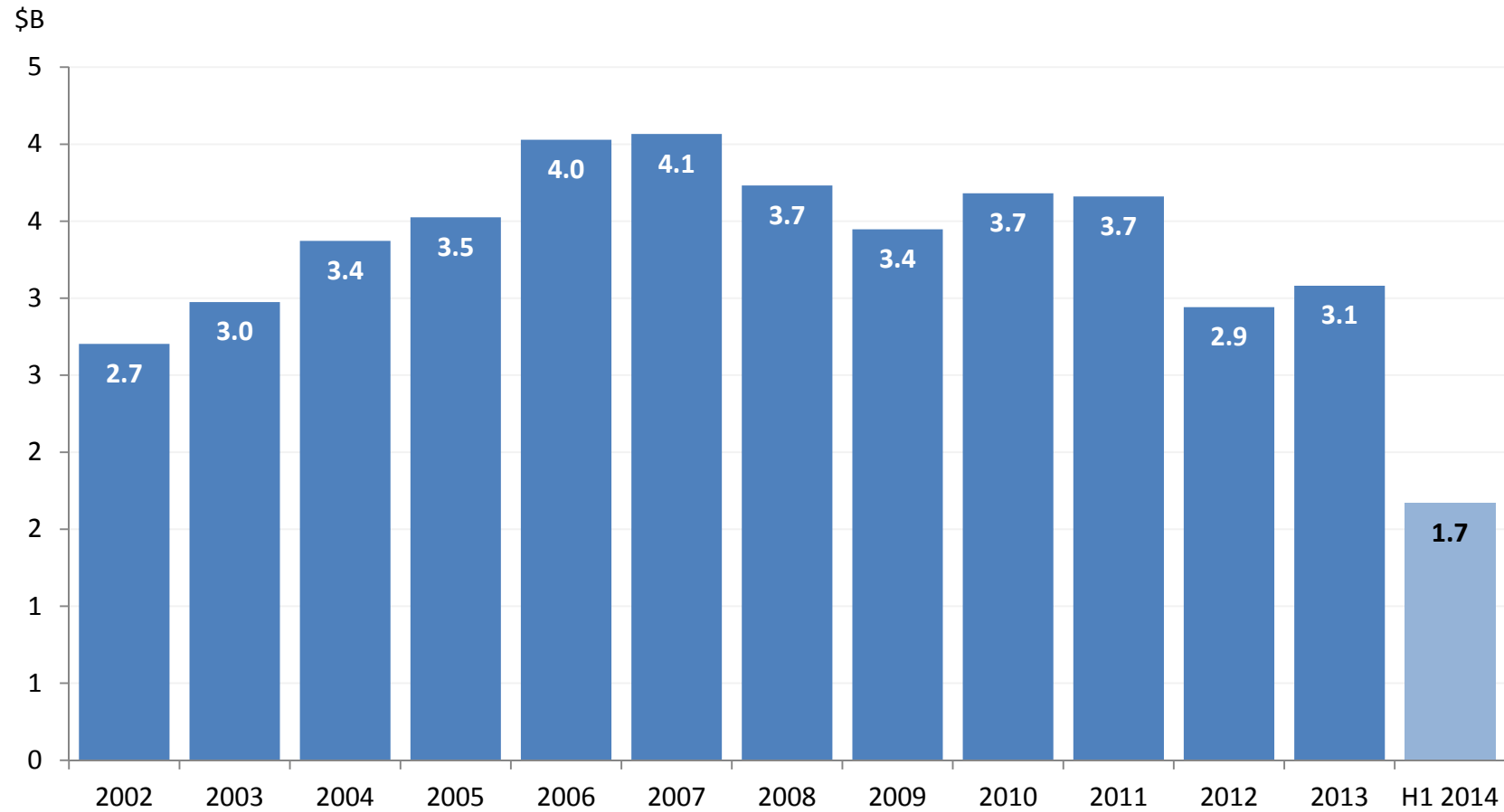


IIROC Firms with Profits and Losses

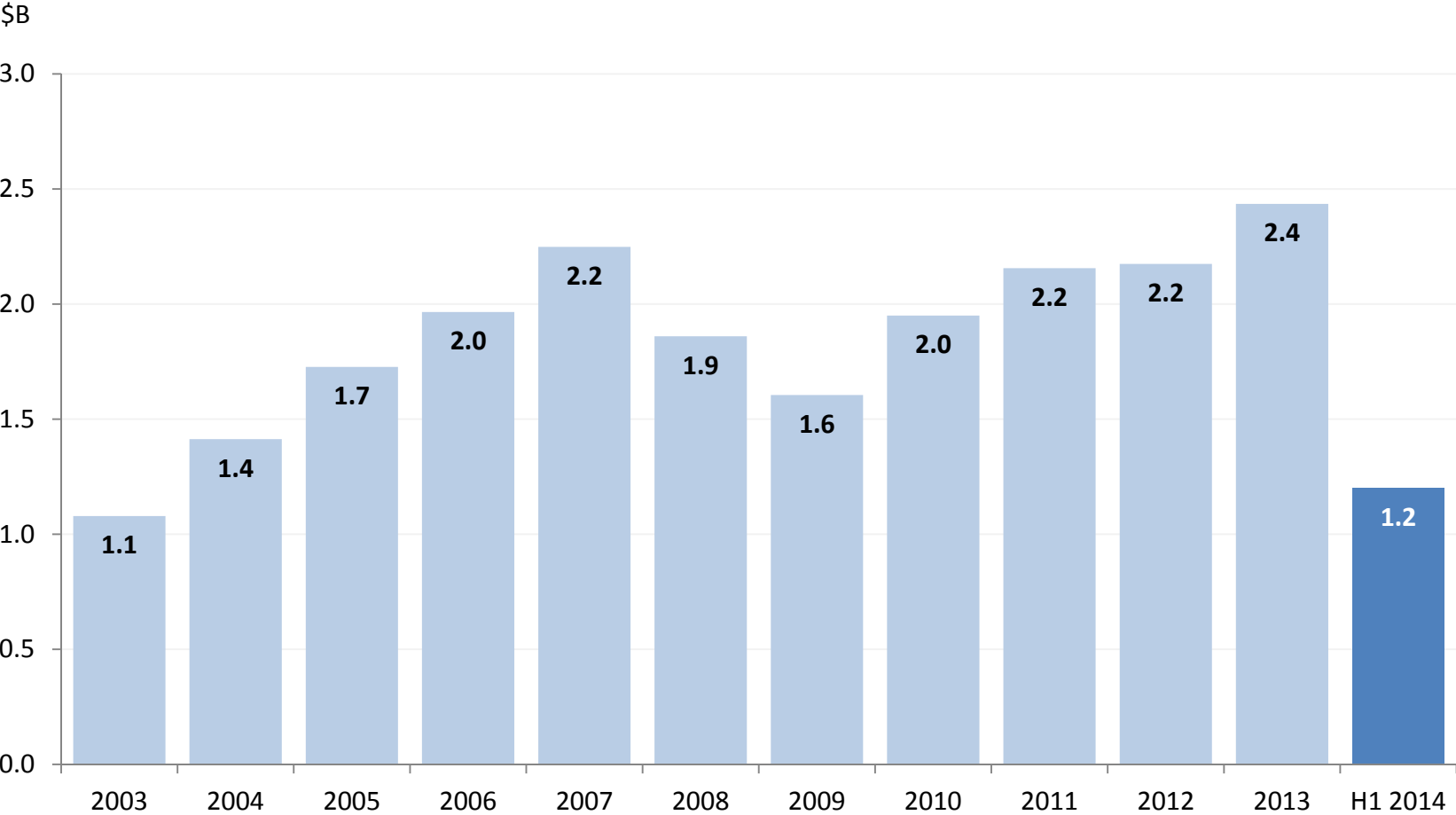


Commission Revenue

Excluding Mutual Fund Sales



Mutual Fund Revenue

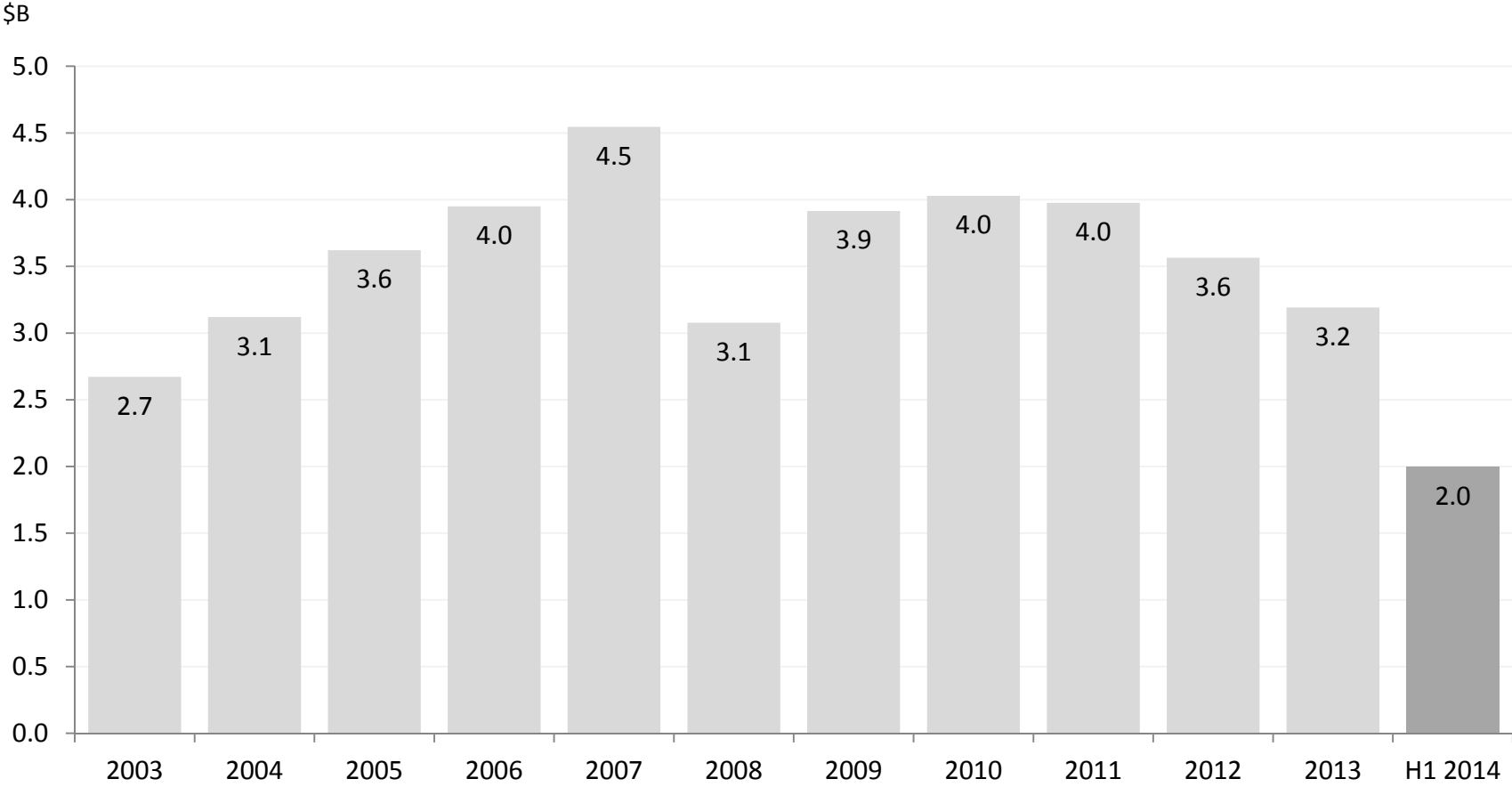


Net Sales of Equity Mutual Funds



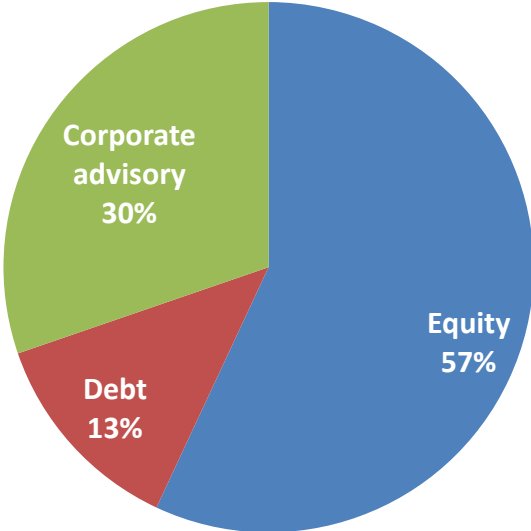
Source: IFIC

Investment Banking Revenue

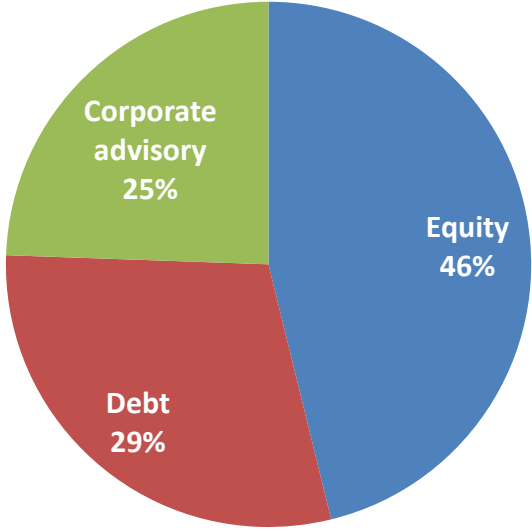


Composition of Investment Banking Revenue

2007

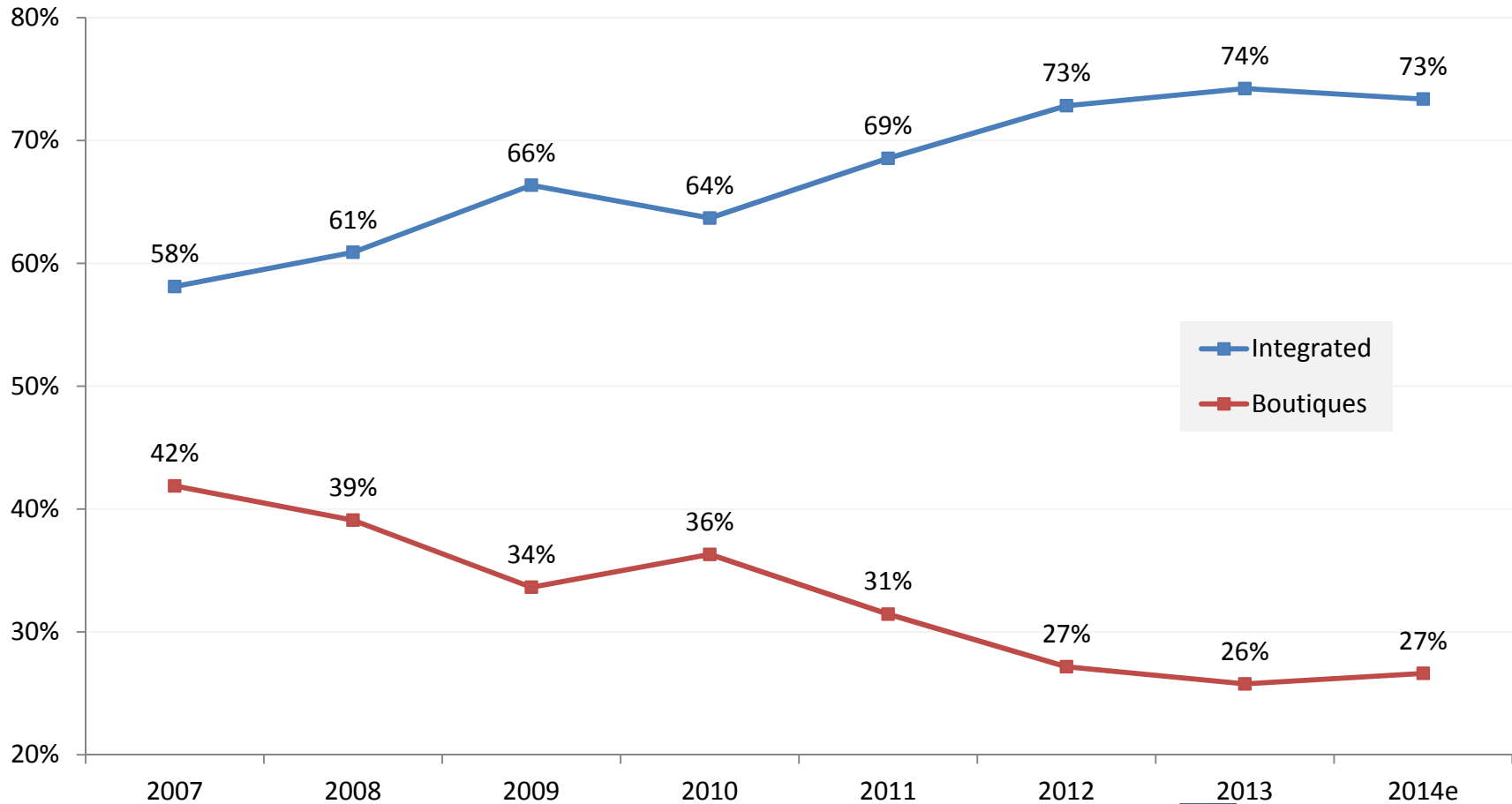


2013

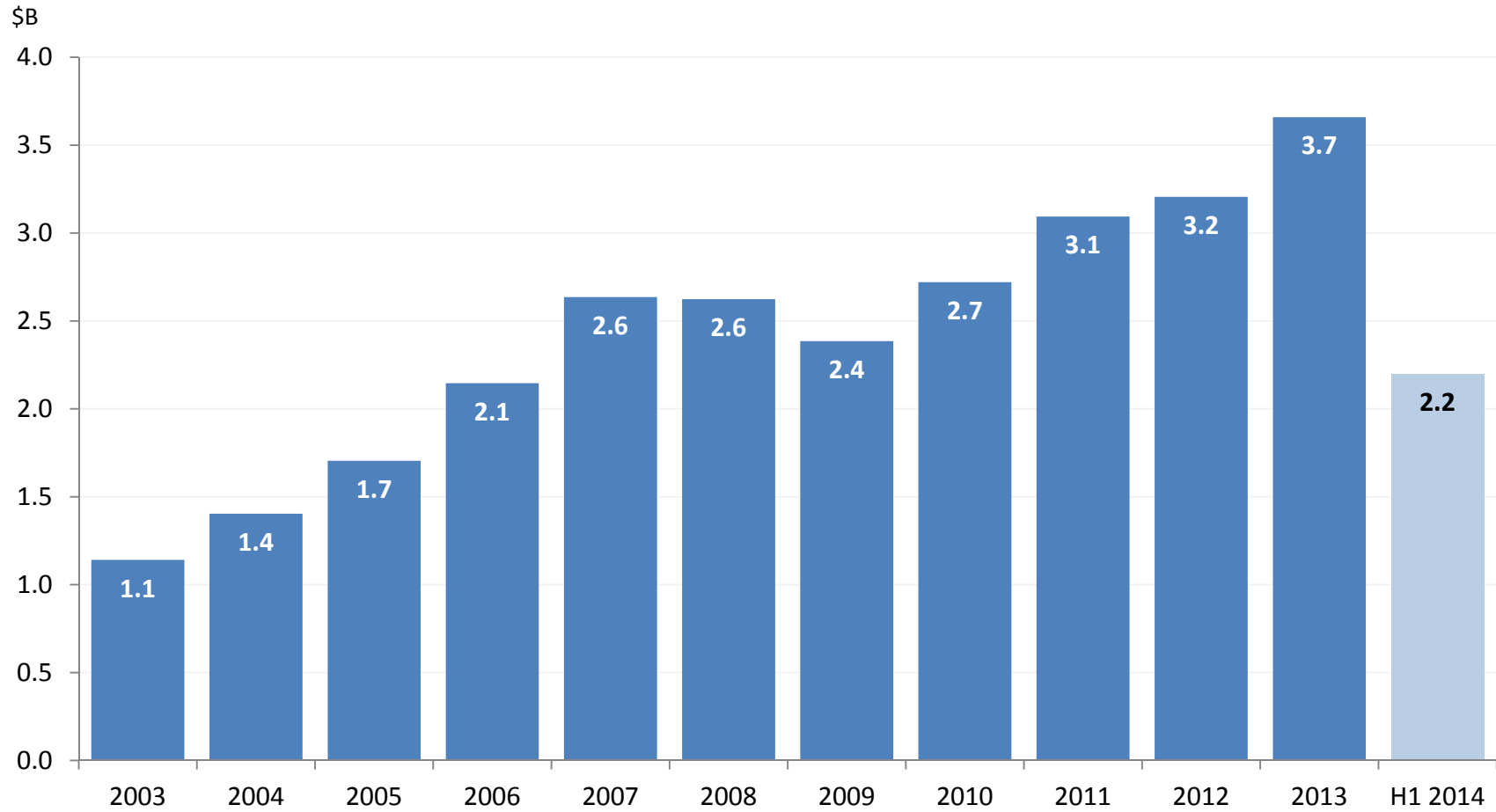


Share of Investment Banking Revenue

Integrated v. Boutiques



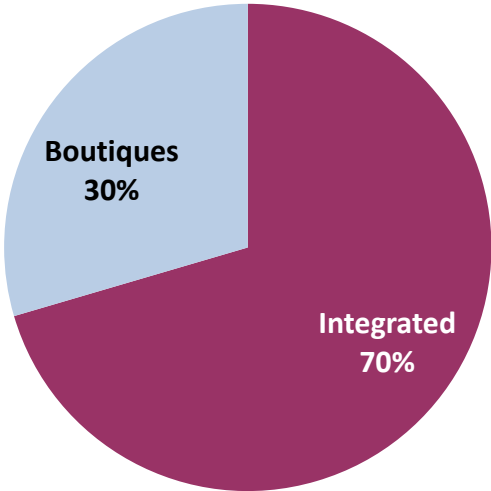
Fee Revenue



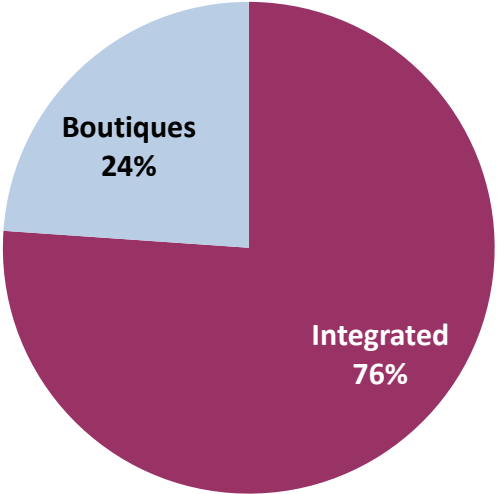
Industry fee-based revenue

Market Share

2007

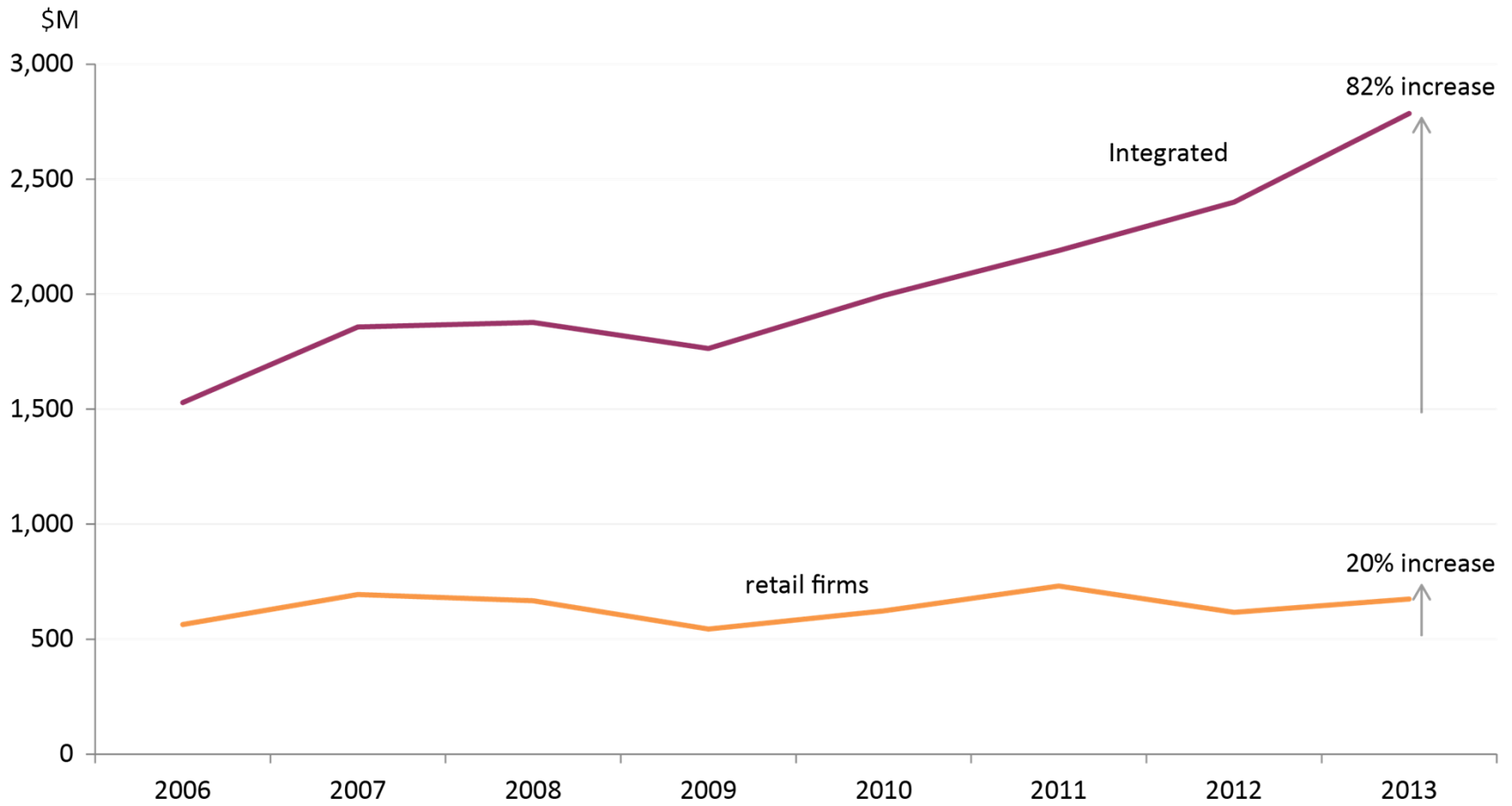


2013



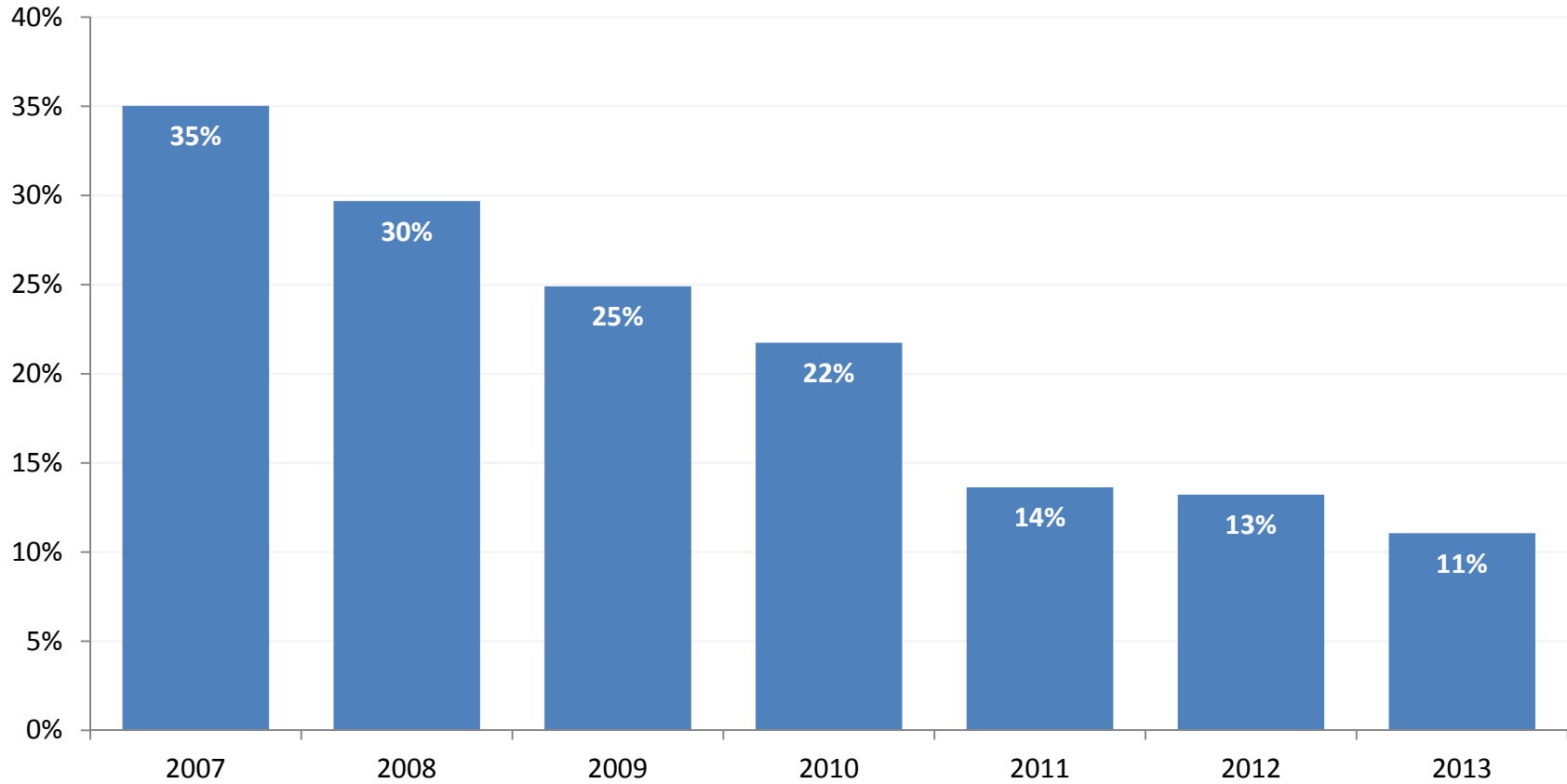
Fee-based Revenue

Integrated v. Retail boutiques

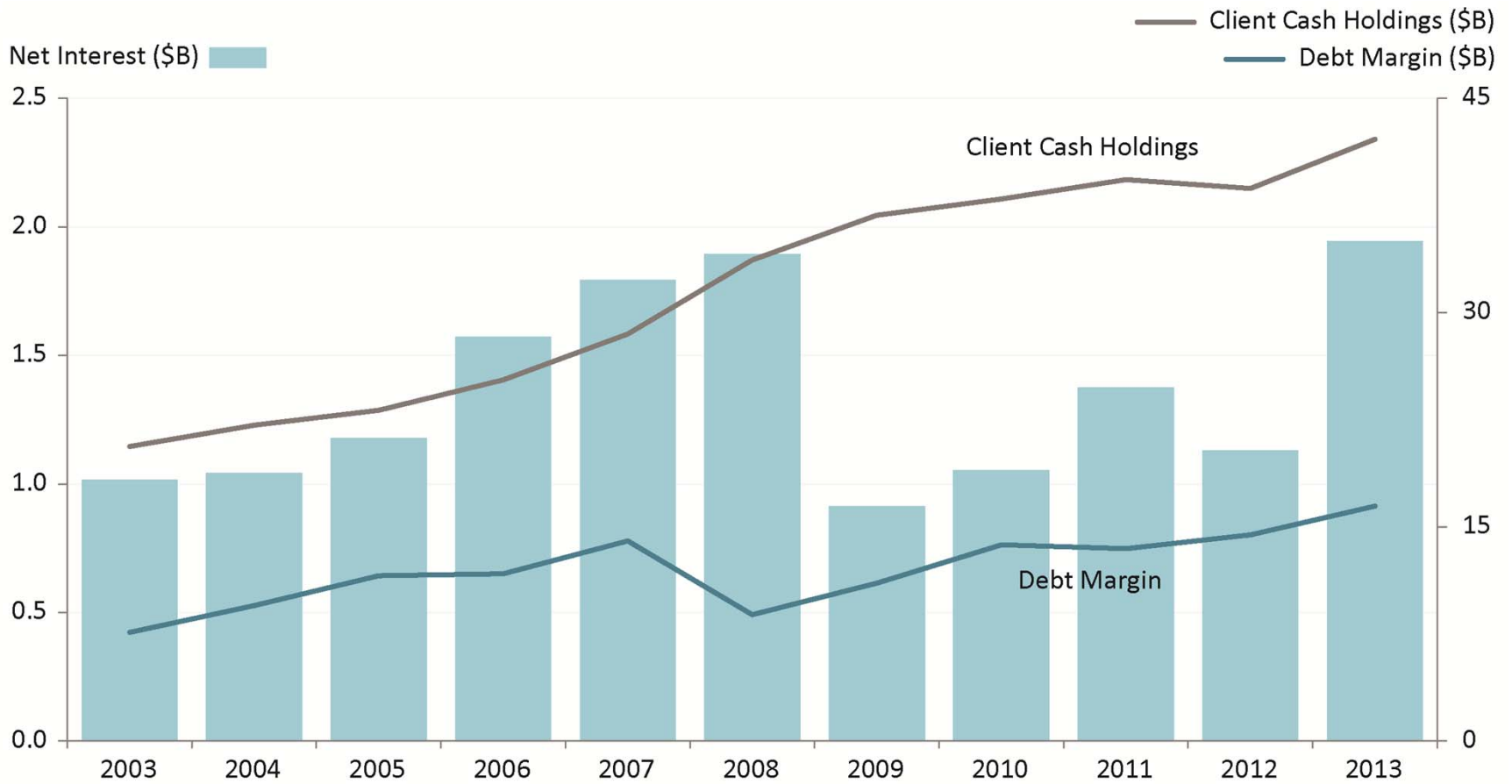


Retained Earnings

Boutique's Share of Industry Total

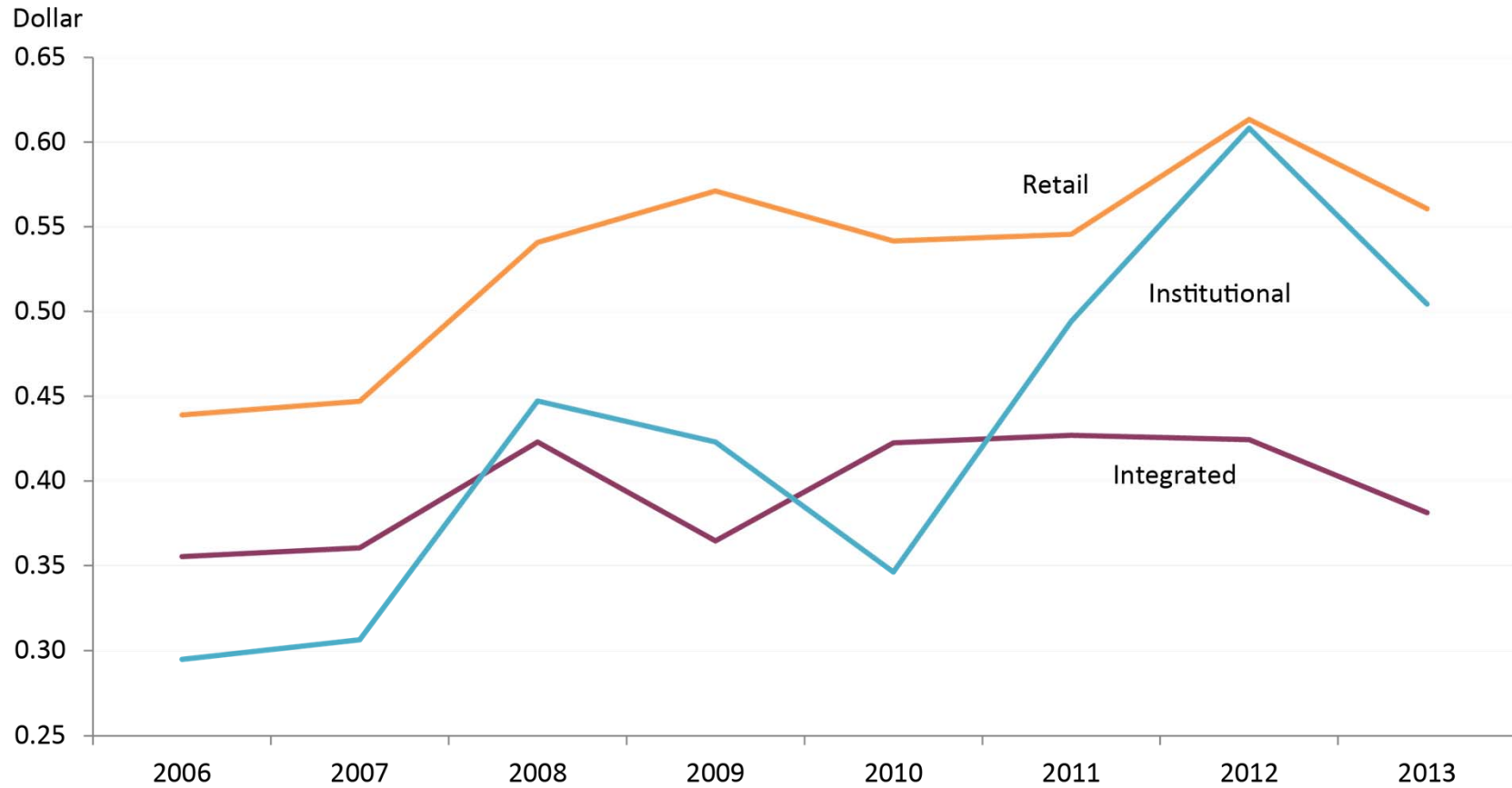


Net Interest

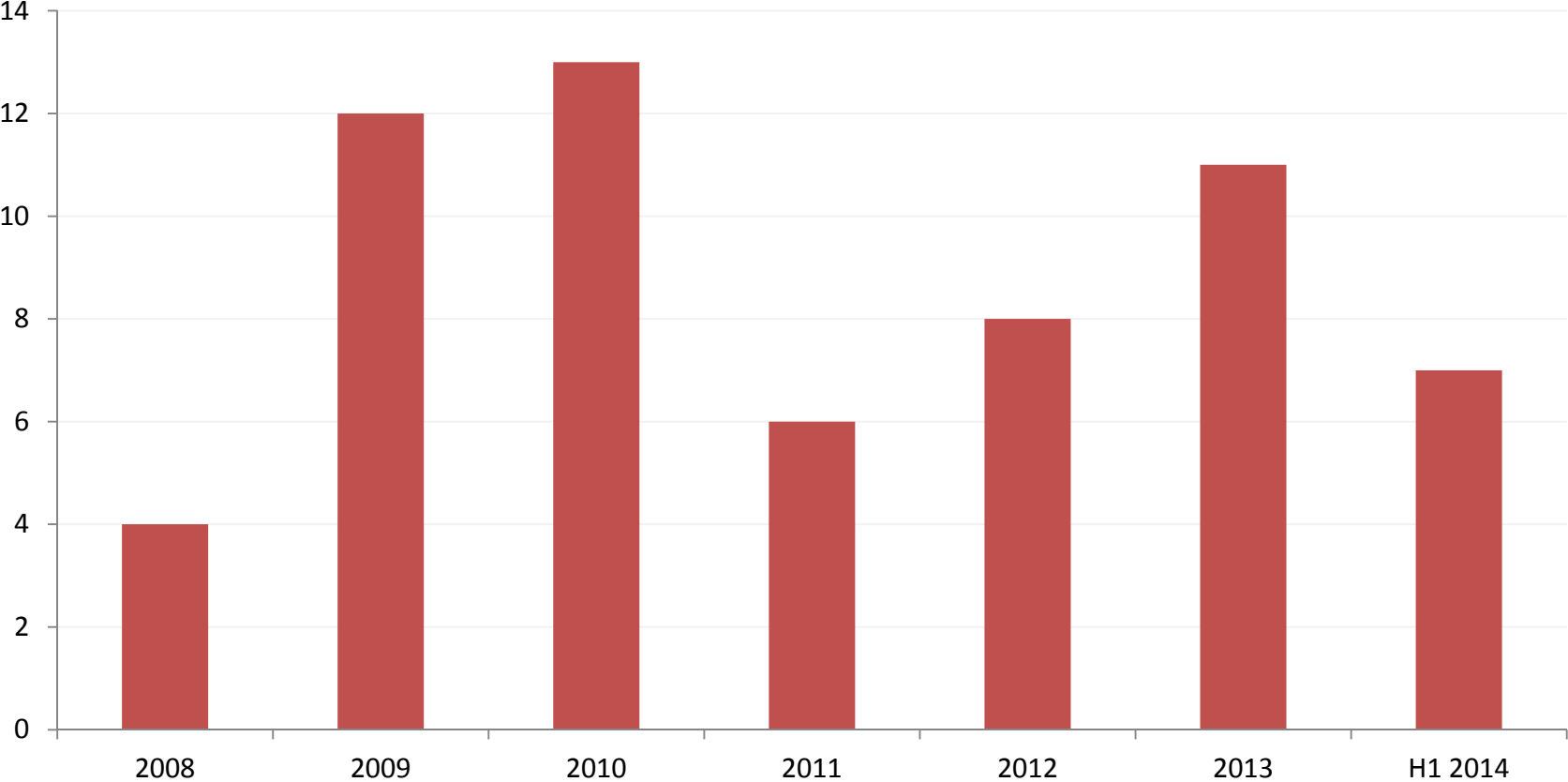


The Advantage of Scale

Operating Costs per Dollar Revenue



Industry Consolidation: IIROC Resignations*



* Resignations include amalgamations and acquisitions



Summary

- Competition in industry remains high
- Diversified business lines
- Soundly regulated
 - Regulatory capital at historic high
- Demand for Canadian investment product strong internationally
 - Canadian dollar growing as a reserve currency
- Canadian Capital Market Infrastructure
 - Efficient clearing and settlement systems
 - Already well regulated → further bolstered by new IOSCO Principles

Strengths

Summary

- Boutique firms continue to face pressures:
 - Prolonged poor earnings
 - Wide dispersion in profitability
 - lack advantage of scale
 - Competition: Downstream from EMDs Upstream from Integrated
- Changing investor demographics/preferences
- Significant technology and compliance fixed costs
 - CRM – gradual phase-in of CRM requirements
 - FATCA – July 2014
 - Mutual Fund Point-of-Sale
 - OTC Derivative Reporting – July 2014
 - Debt Securities Transaction Reporting – pending
 - Fiduciary standard - unknown



Threats

Summary

- Dealers benefit from improved markets & economy
 - Investor and issuer confidence improved
 - More active trading and financing
- Increased retail investor participation
 - greater demand for financial and estate planning and retirement products and services
 - High cash holdings
 - Record AUM levels
- Capital raising for corporations and governments
- Strategic partnerships/amalgamations

Opportunities

**IIAC Advocacy
and
Member Support Initiatives**



Staying Connected to the IIAC

- New and Improved Website Launched
 - Don't forget to register for 'Members Only' section
 - Industry Job Board
- Revamped weekly electronic newsletter
- IIAC Blog
- IIAC conferences/events/seminars/webinars
- Participate on IIAC Committees or Working Groups