



Inform
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Relentless Business Pressures on Small Firms -- Consolidation on the Horizon

Presentation to NBCN

Date: October 25, 2010

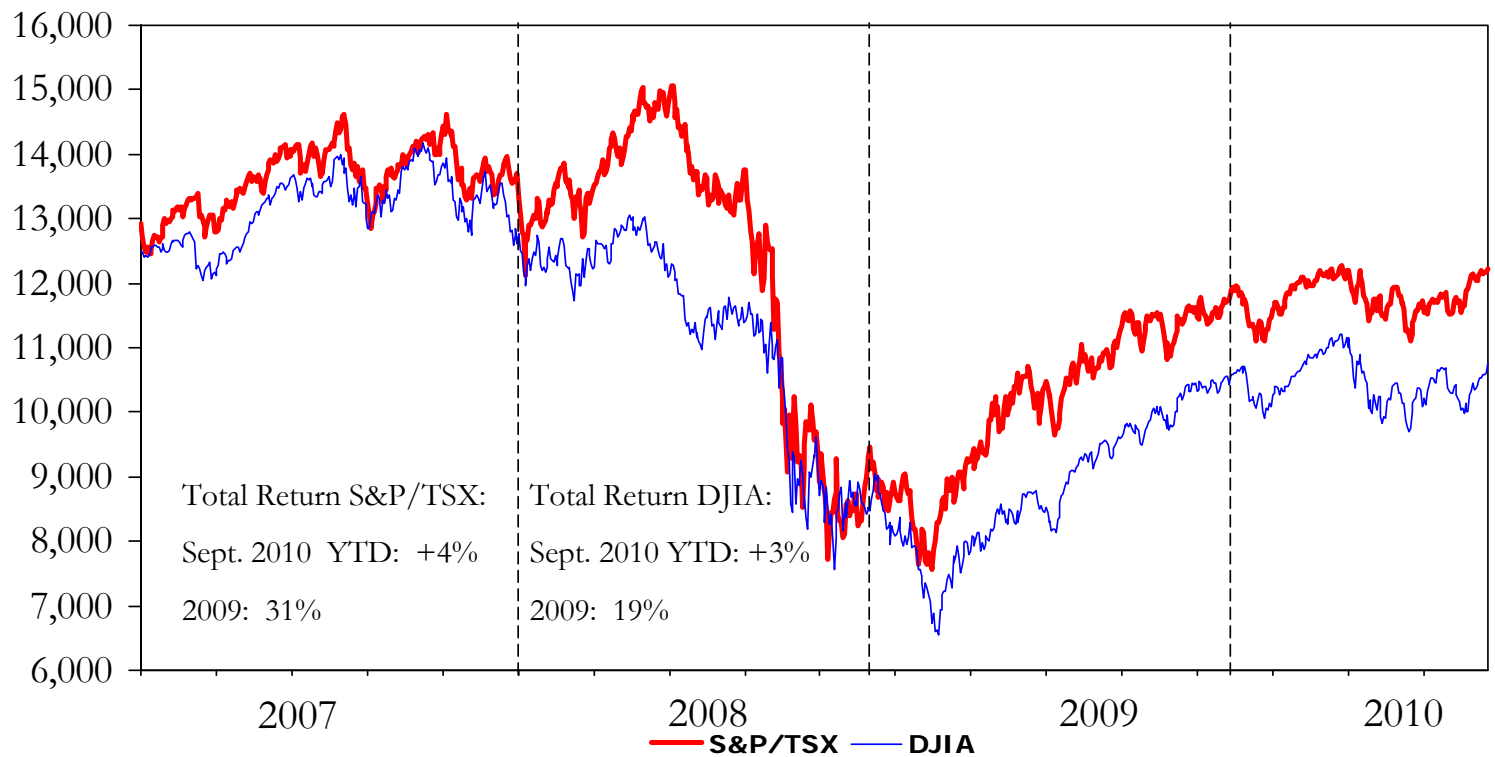


Post- Crisis

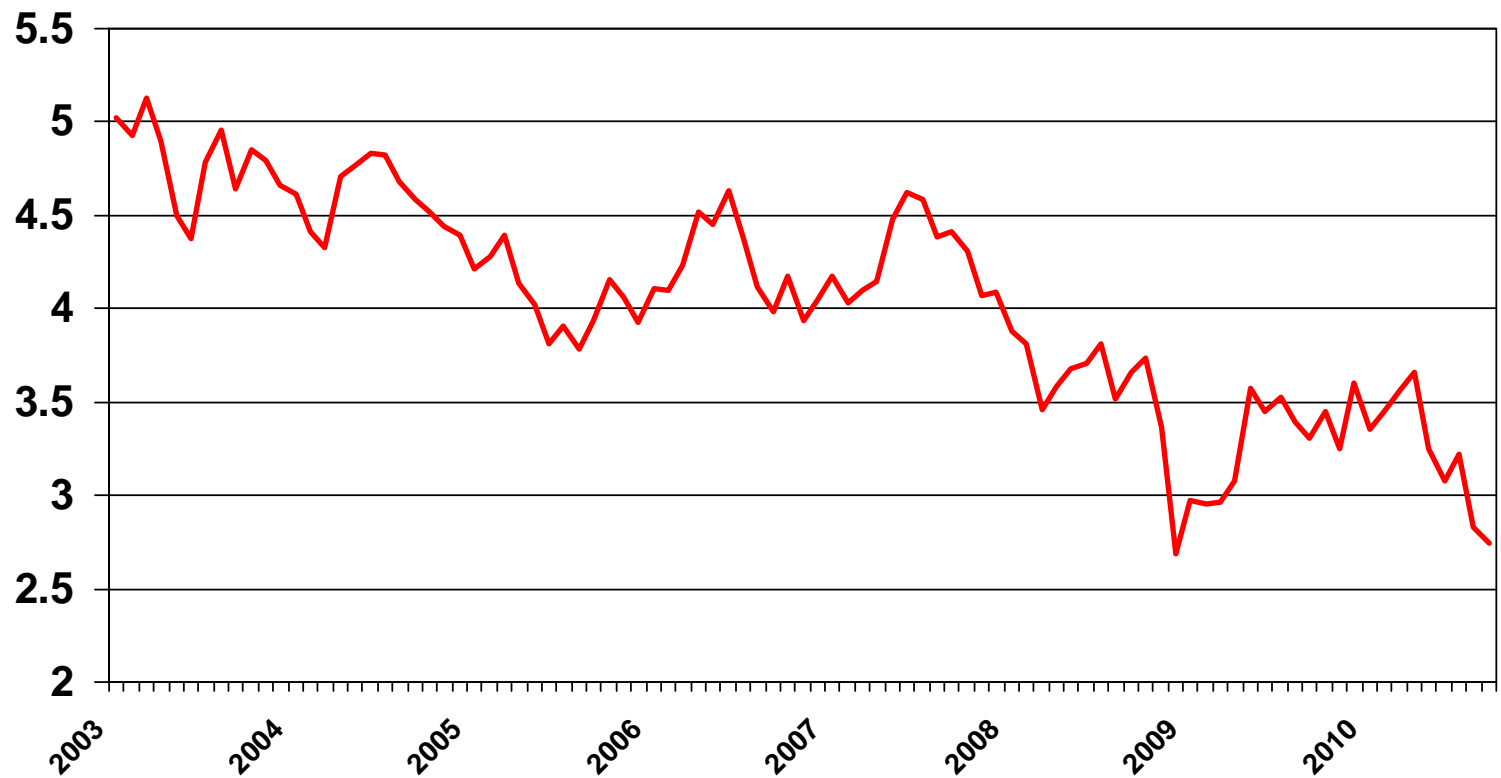
- Government Debt Markets rally in late 2008 and remain volatile
- Corporate Debt Markets rally as credit spreads collapse
- Equity markets rebound in 2009 and slide sideways this year



Canadian vs. U.S Equity Markets



Yield on 10yr Government of Canada Bonds

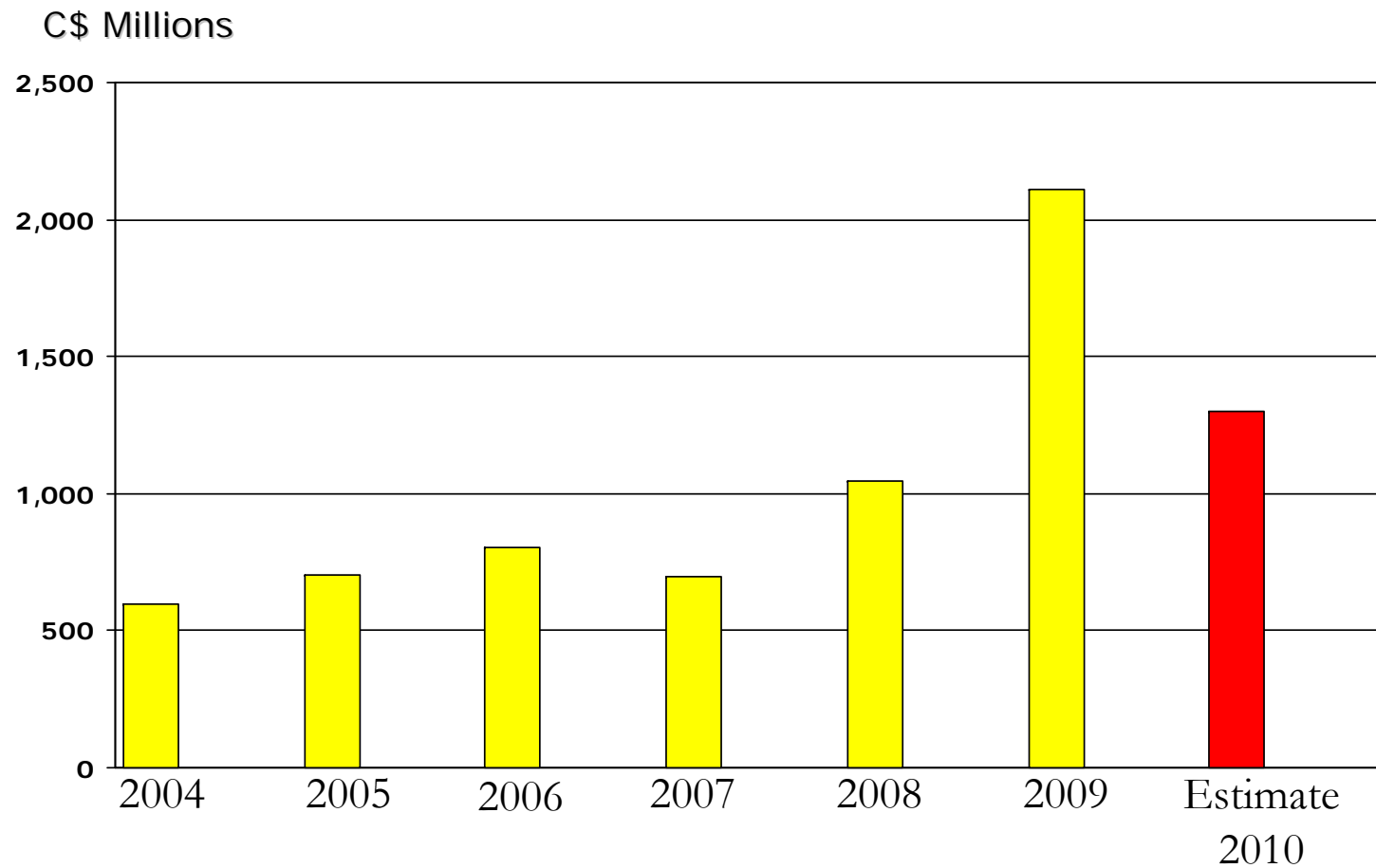


Revenues from Debt Trading and Financings Soar

- Wide bid-offer spreads
- Upward trend in corporate bond prices
- Burst in corporate & government debt financings
- Integrated firms large beneficiaries



Fixed Income Trading Revenue



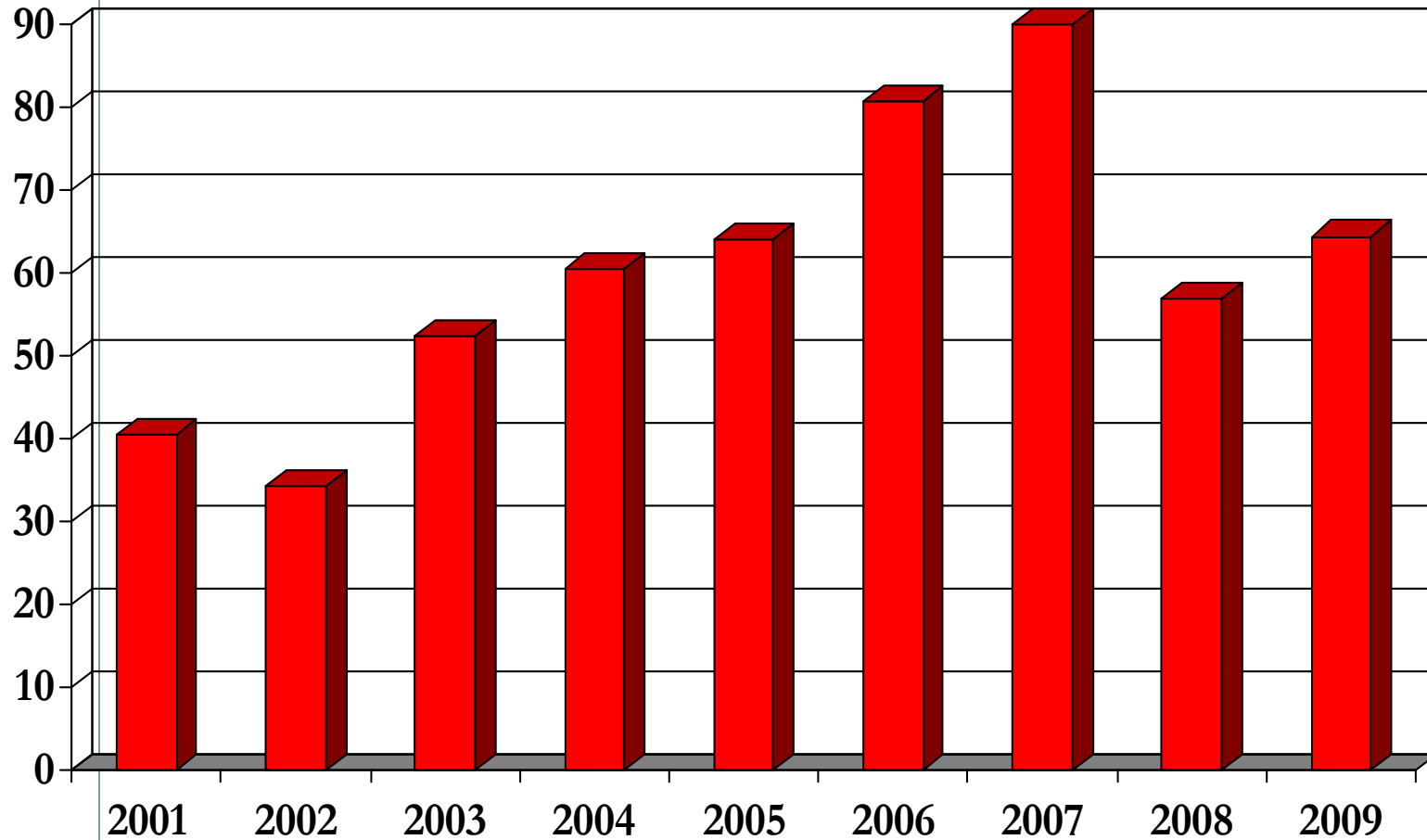
Investment Banking Business Rebounds

- Corporate debt financings soar in past eighteen months
- Large and mid-market equity financings pick up steam but financing activity is sporadic reflecting volatile market conditions

Several large M&A transactions in 2009 and 2010 contributed to earnings



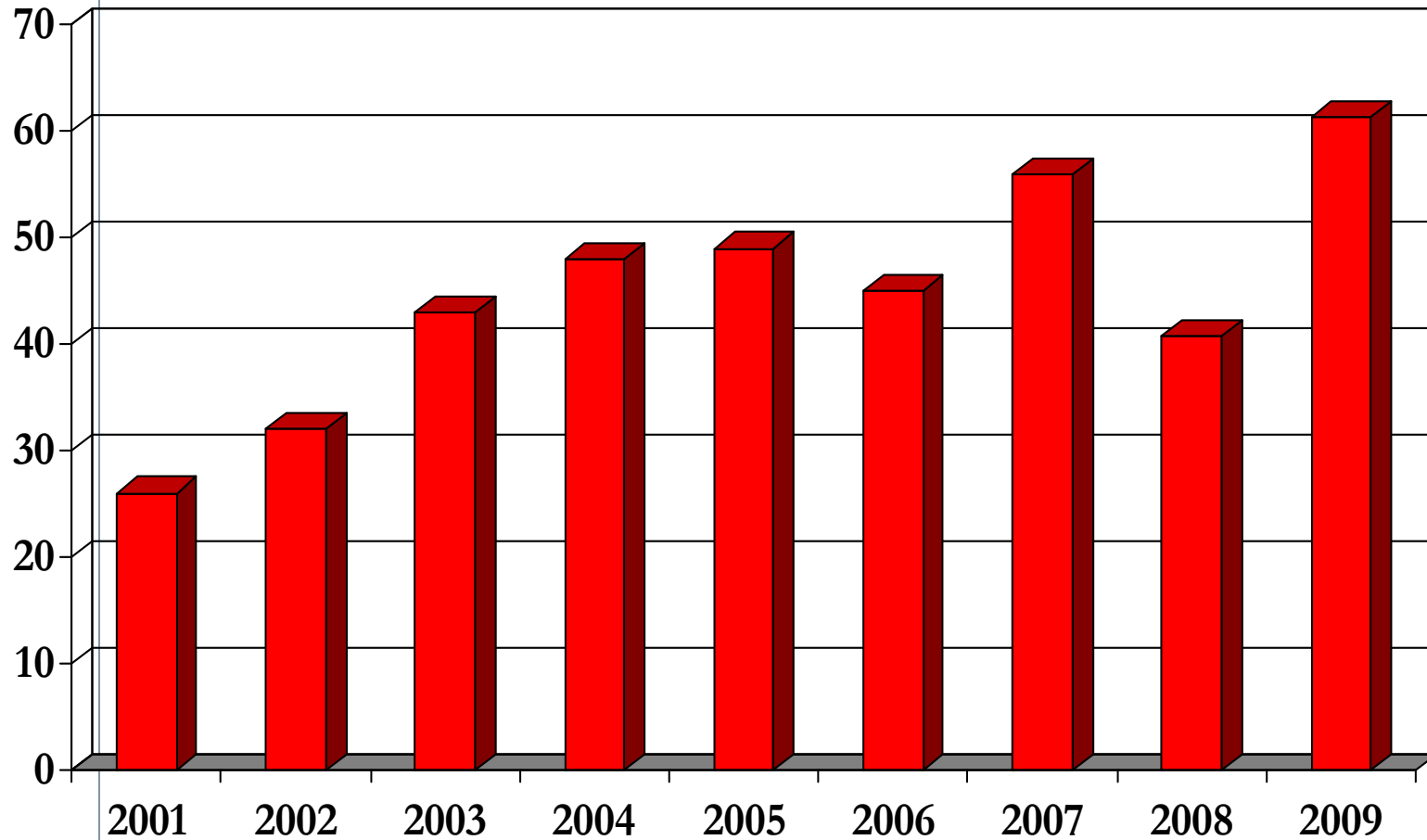
Corporate Debt Financing (\$C Billions)



Source: IIAC



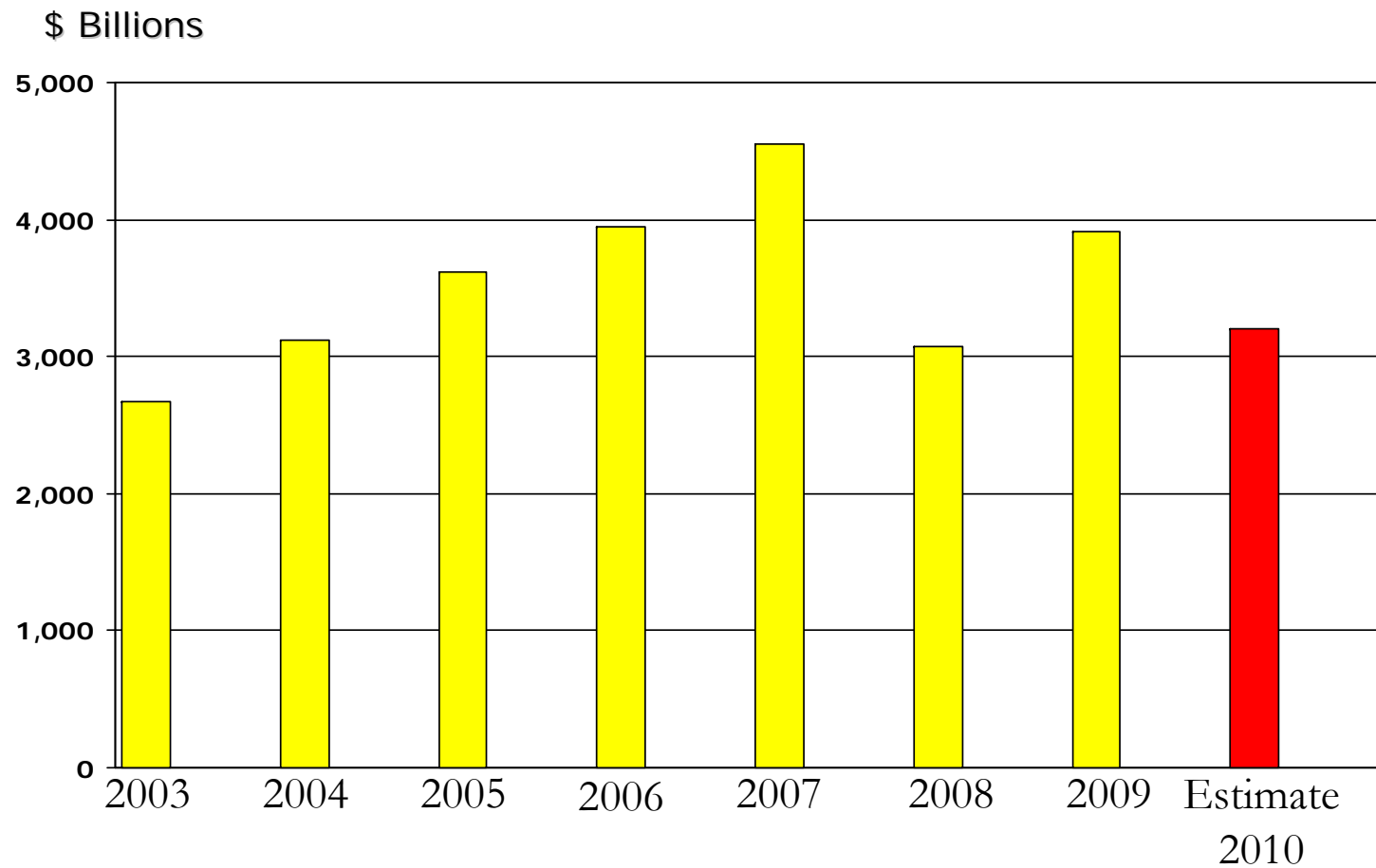
Equity Issuance (\$C Billions)



Source: IIAC

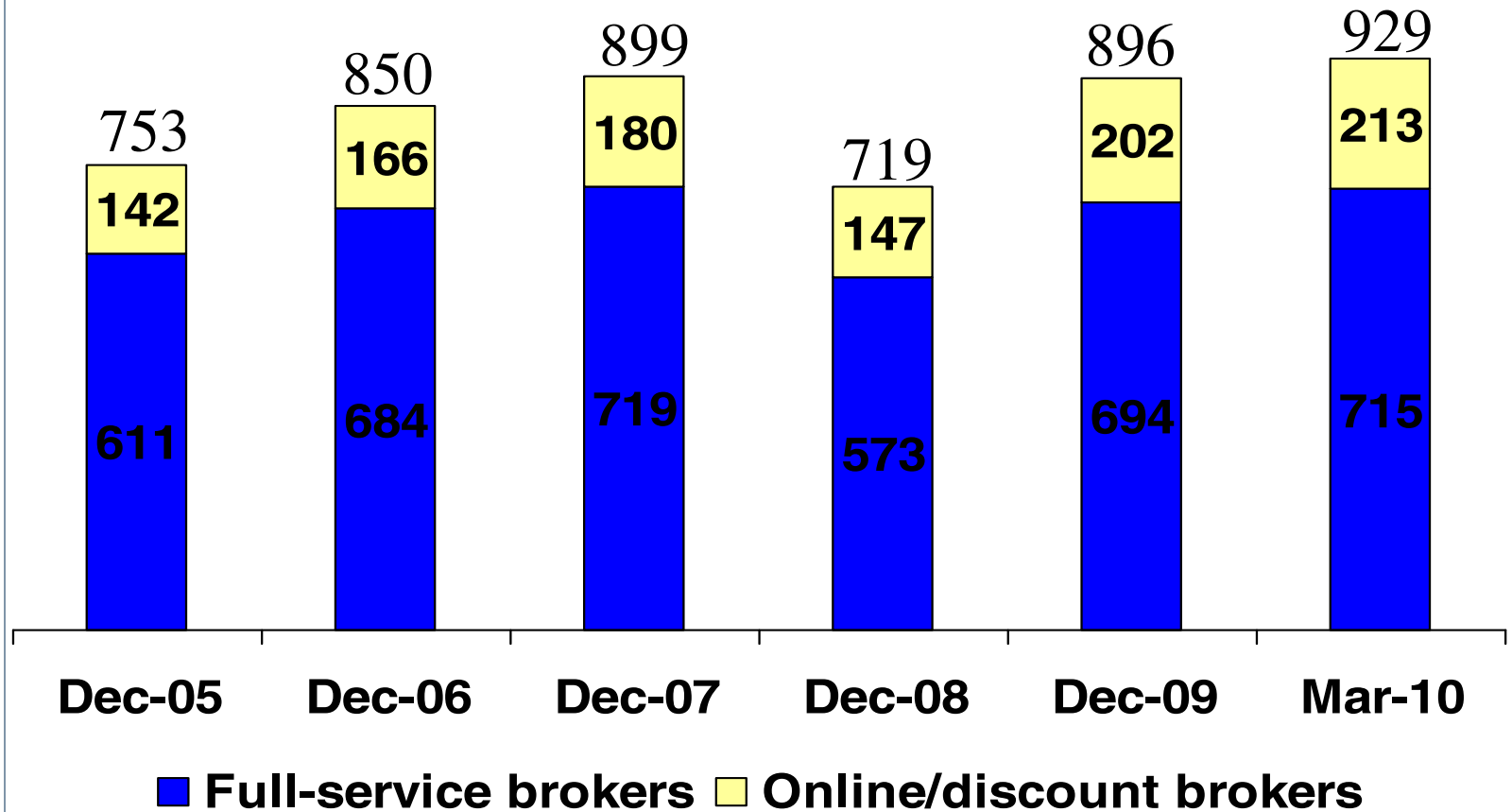


Investment Banking Revenue



Retail Client Assets in Brokerage Industry (C\$ billions)

- Dealers benefit in 2009-10 from valuation and disintermediation to dealers



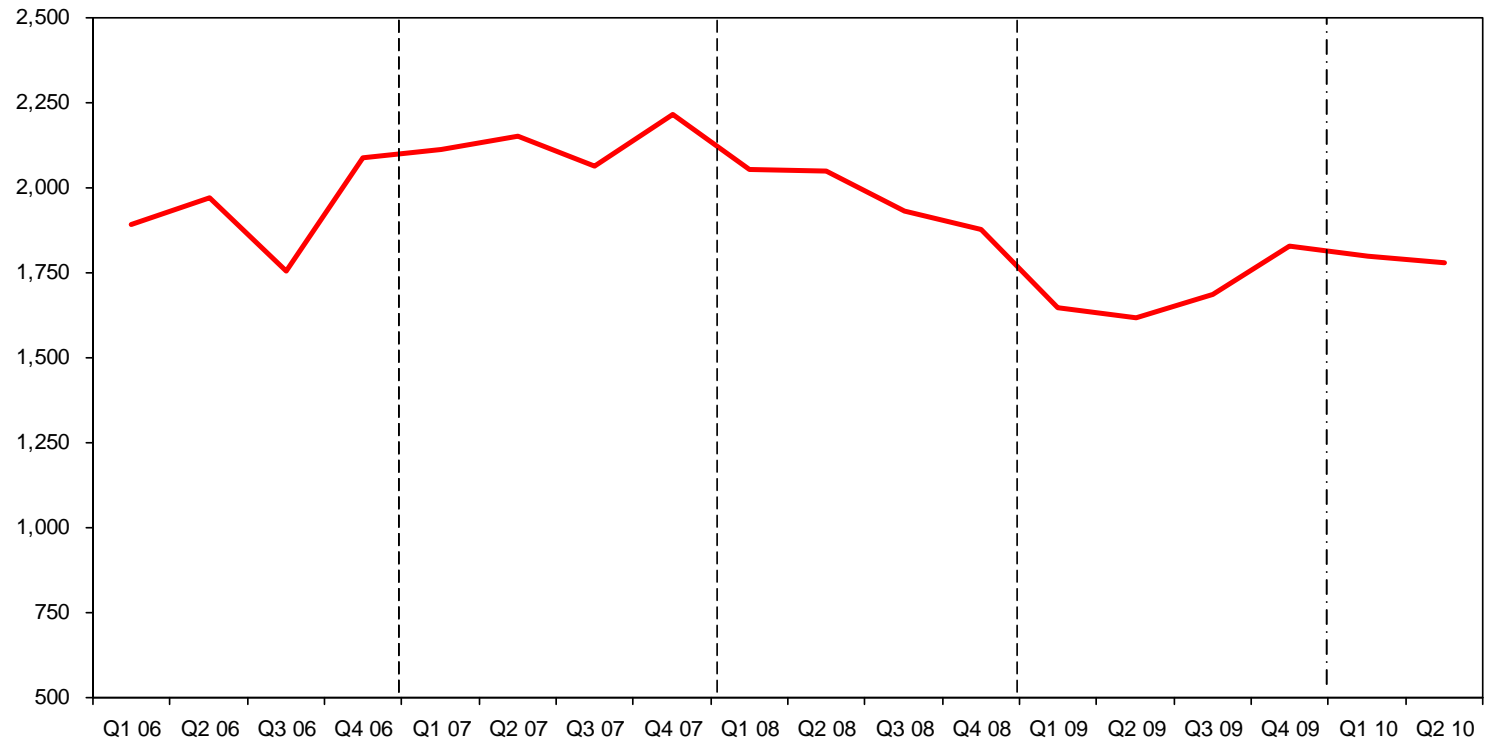
Retail Investors Step-back into Water

- Total retail revenues in first half of 2010 remain well below bull market levels
- All components of retail revenue hit hard, notably net interest (down 50% from bull market levels)



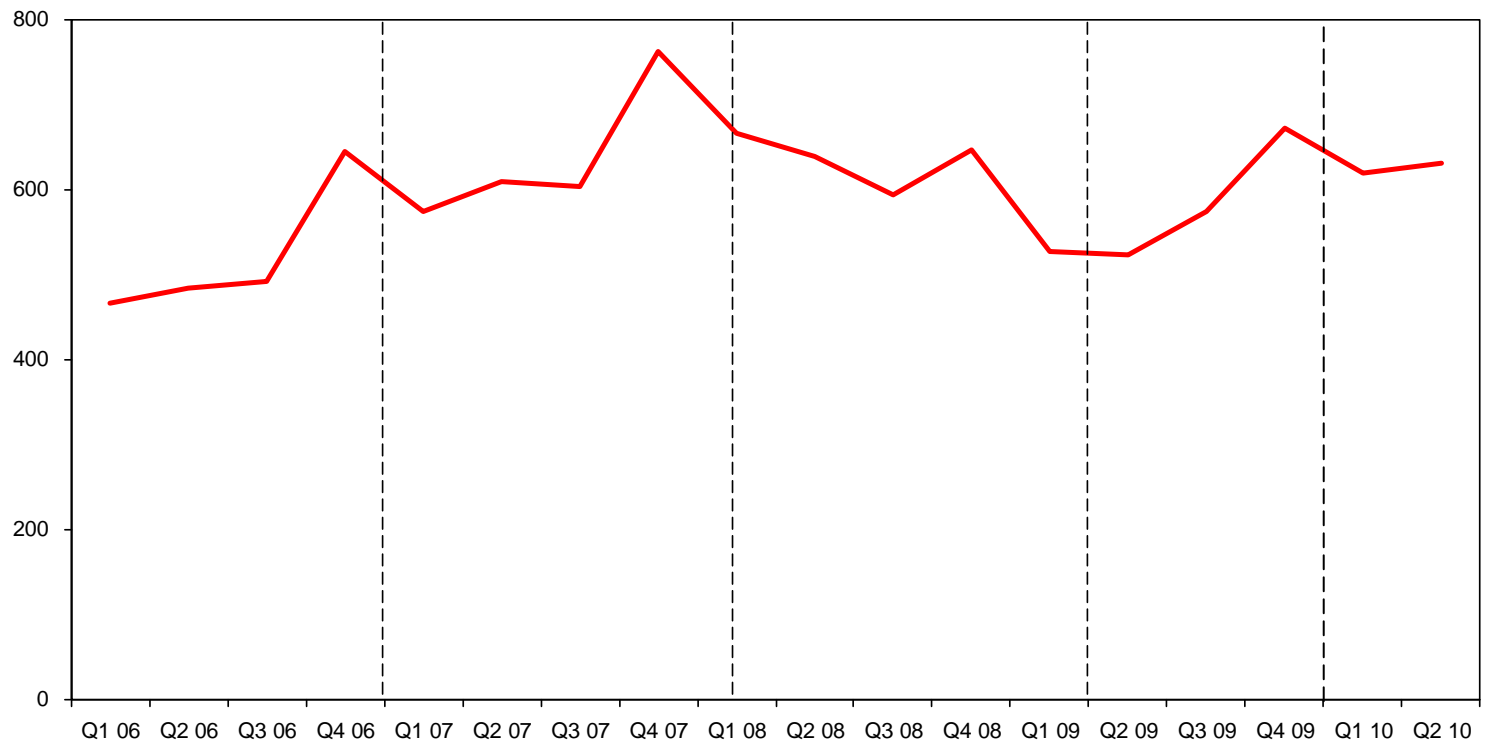
Total Retail Revenue

Quarterly;
C\$ Millions



Retail Fees

Quarterly;
C\$ Millions



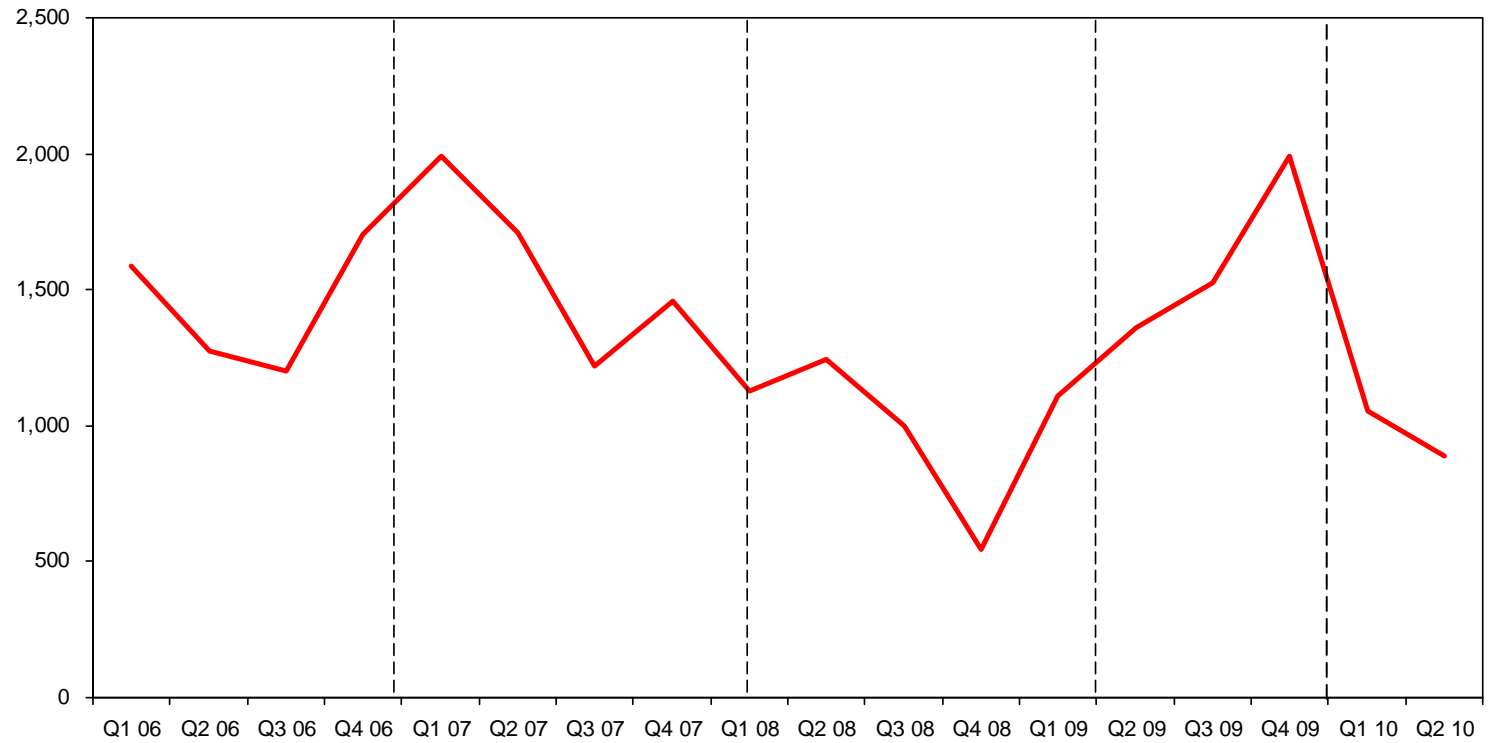
Industry Operating Profit

- Operating profit falls off sharply in 2010 as trading and investment banking revenue decline, reinforcing weakness in retail earnings
- Integrated firms face the brunt of recent earnings squeeze
- Small retail boutiques get modest support from net interest gains in Q2



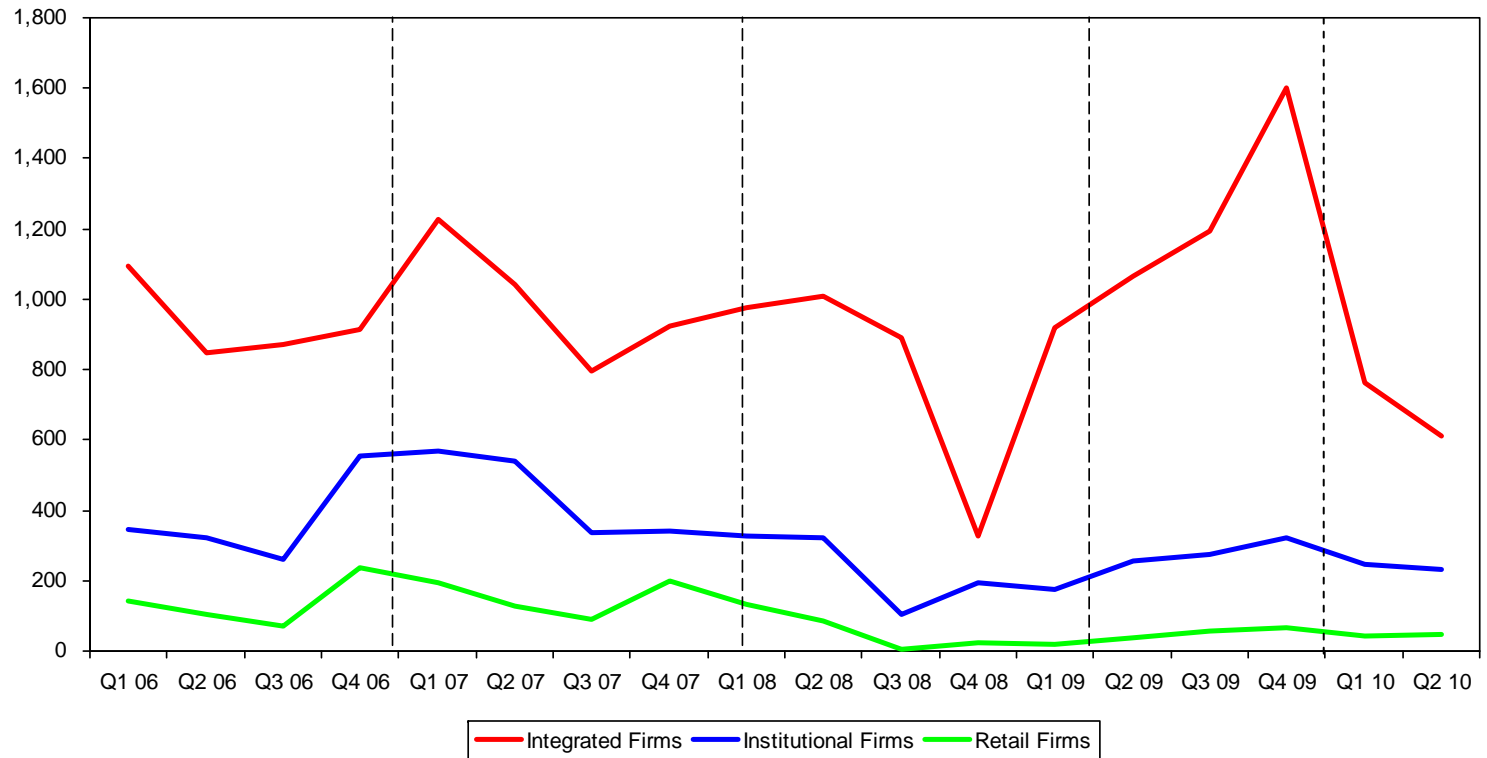
Industry Operating Profit

Quarterly;
C\$ Millions



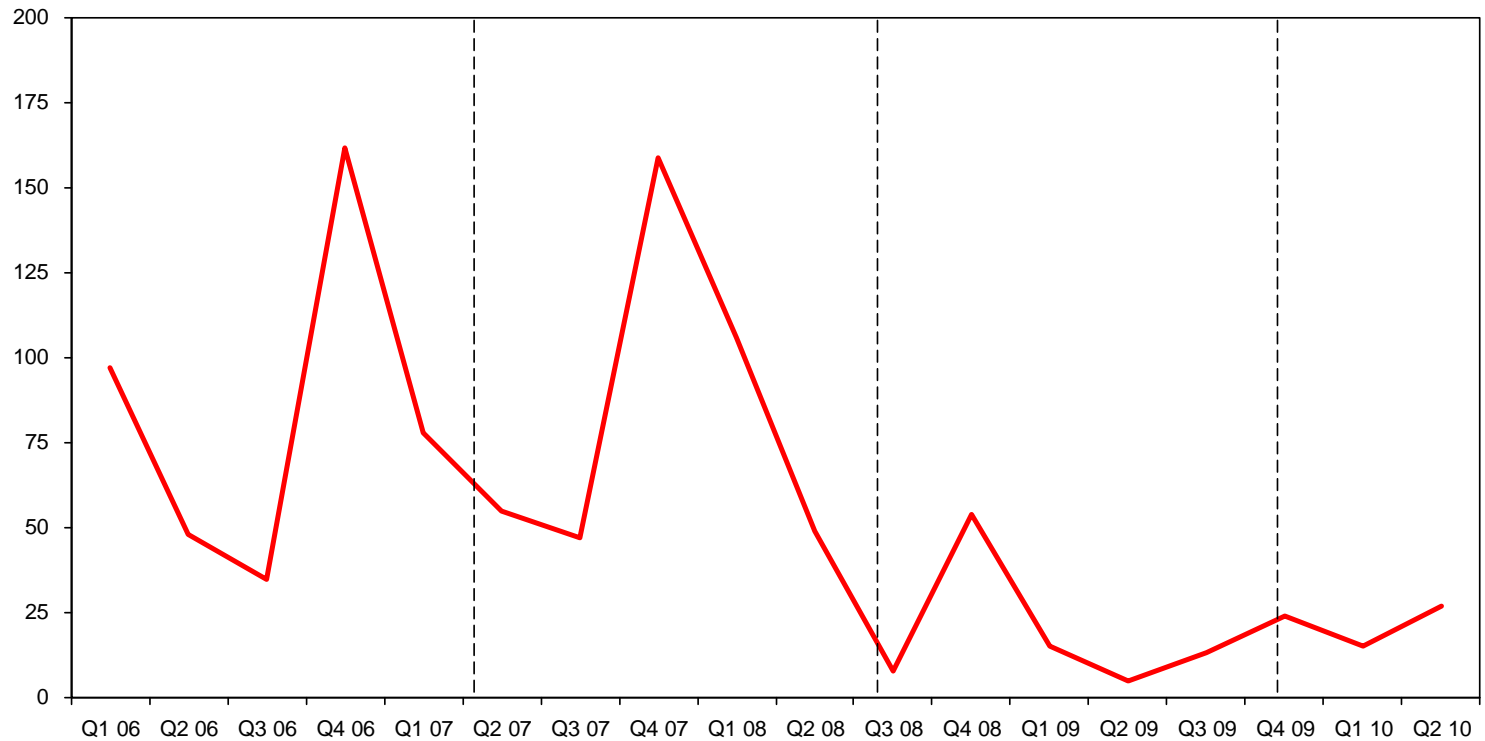
Industry Operating Profit By Firm Group

Quarterly;
C\$ Millions



Retail Introducer Firms Operating Profit

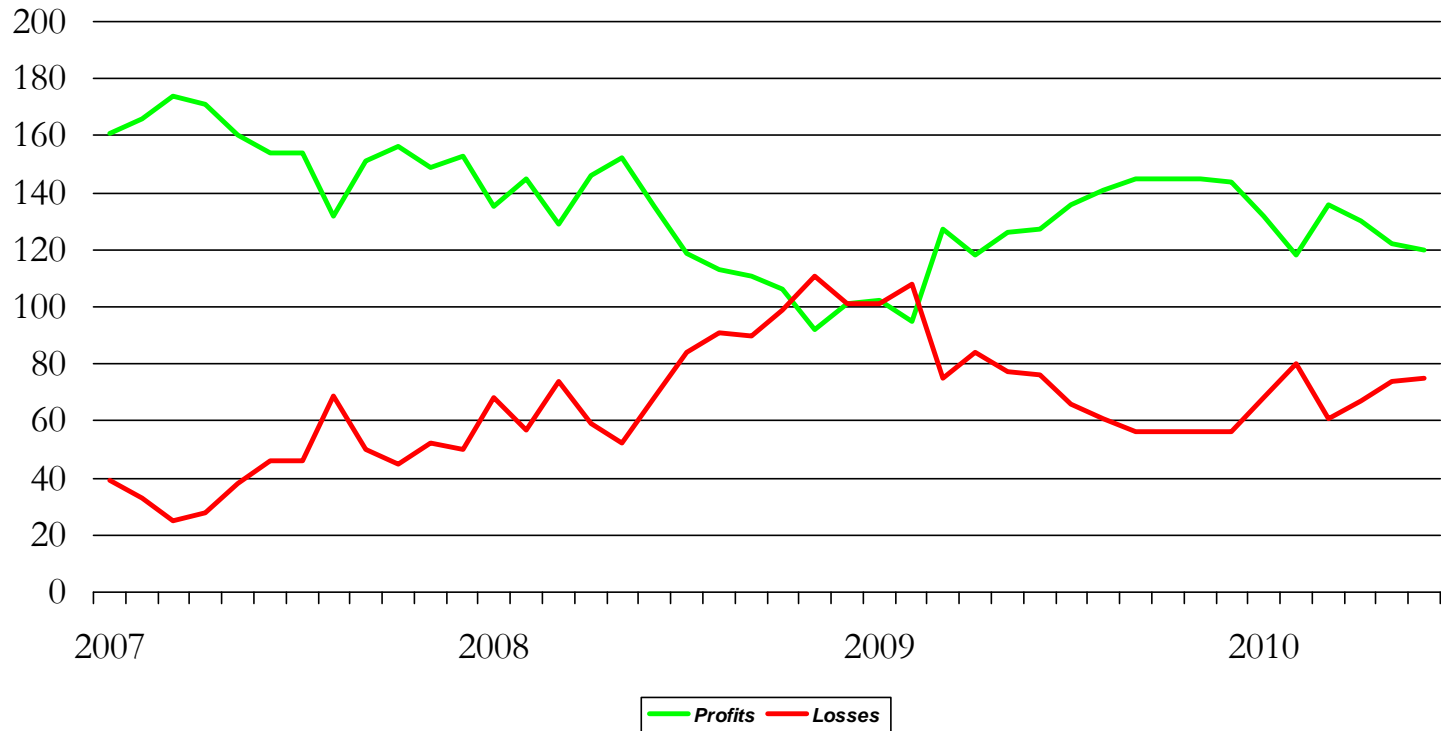
Quarterly;
C\$ Millions



Number of Firms with Profits & Losses

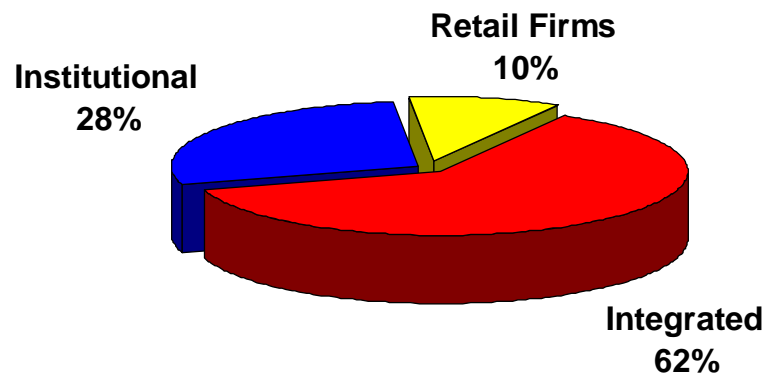
(Monthly)

of Firms



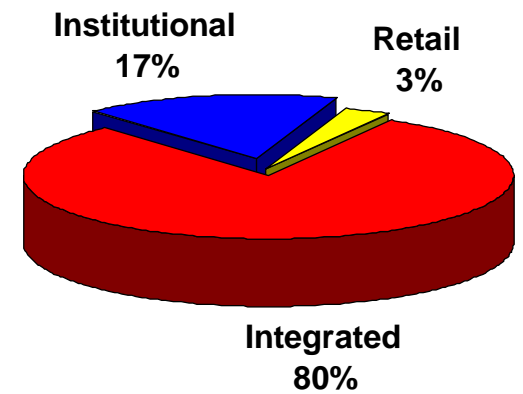
Industry Operating Profit By Firm Group

Pre-Crisis
2007



■ Integrated ■ Institutional ■ Retail Firms

Post-Crisis
2009



■ Integrated ■ Institutional ■ Retail





Small Dealer Challenges

- **Reduction in number of small dealers**
 - Wind ups / Mergers
 - Approximately 12 small dealers were wound up/merged or were taken over since January 2009
 - Business increasingly concentrated among large firms
 - Increased barriers to entry for start up firms
 - Regulatory
 - Economic
 - Operational
 - Fewer entrants leads to less choice, reduced competition and impedes the evolution of the industry



Small Dealers – 2009 Breakdown by Revenue and Business Focus

- **\$10 - \$20 million per year**
 - 17 dealers (15%)
 - 44% total small dealer revenue
 - 65% - retail focus - 35% - institutional focus
- **\$5 – \$10 million per year**
 - 22 dealers (19%)
 - 28% total small dealer revenue
 - 71% - retail focus - 29% - institutional focus
- **less than \$5 million per year**
 - 75 dealers (66%)
 - 28% total small dealer revenue
 - 70% - retail focus - 30% institutional focus



Small Dealer Challenges

- **Poor Operating Performance**

2010 Operating Profits

- On track for some improvement from 2009 levels but.....

- * expected to be 80% below 2008 levels

- * expected to be 90% below 2007 levels



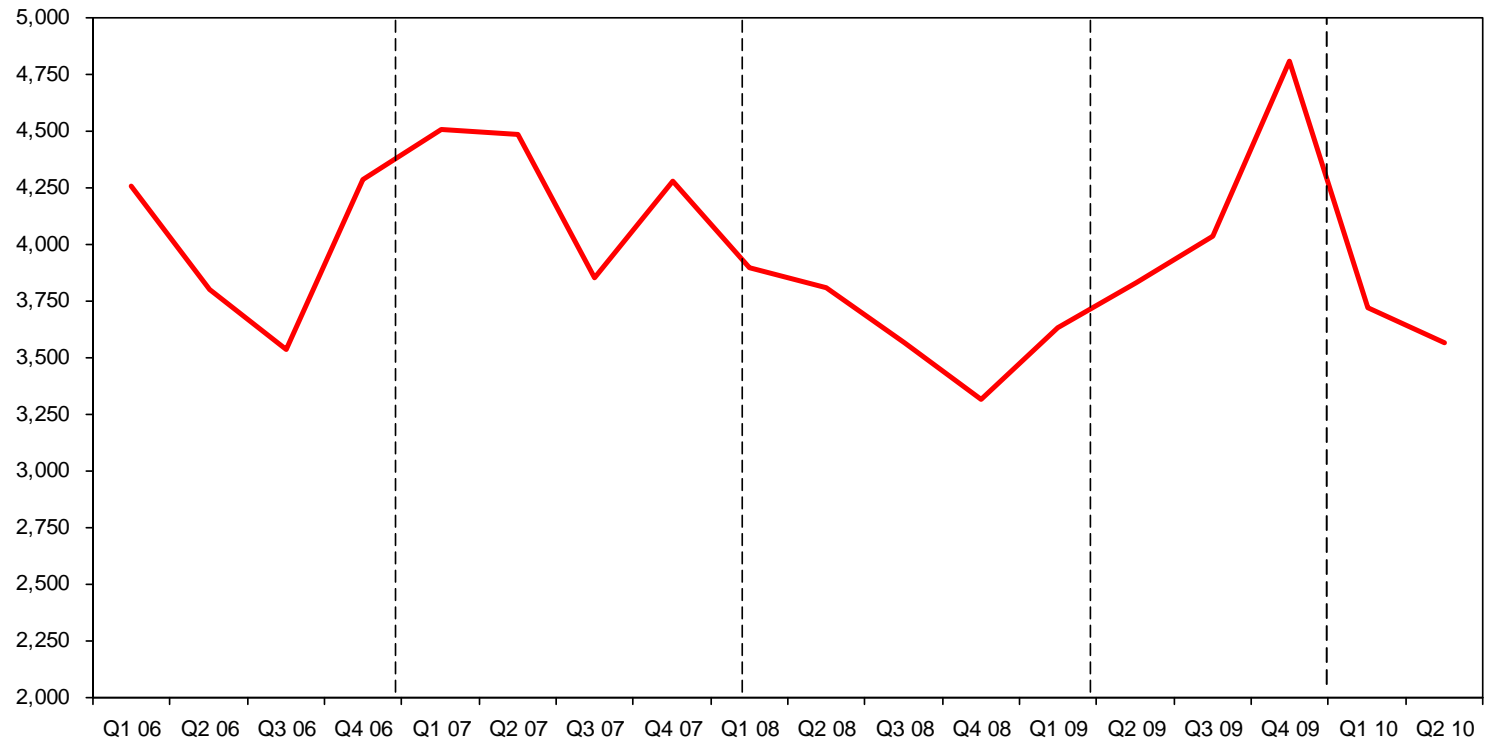
Cost Issues for Small Dealers

- **Fixed costs rising**
 - Back office management
 - Increasing need for a full time CFO
 - Additional registration staff required
 - Compliance personnel
 - Additional compliance staff required
 - CEO as UDP creates challenges
 - Technology
 - Frequent and expensive investments in technology required



Industry Operating Revenue

Quarterly;
C\$ Millions



Strategic Focus

All Firms

- Tight focus on cost control

Integrated Firms

- Aggressive cost-cutting
- Move into mid-market investment banking
- Targeted focus on wealth management
- Improved trading and back office technologies
- Scour for acquisitions

Boutique Firms

- Search for comparable acquisitions for scale and business depth
- Cost-cutting





IIAC Advocacy Initiatives

- Do Not Call Telemarketing Rules
- OBSI Consultations on Client Complaint Process
- Higher Arbitration Threshold
- OTC Fair Pricing Rule



IIAC Advocacy Initiatives

- Unwanted Mailings
- IIROC Rule-making by Notice
- IRS Tax Reporting & Withholding Changes (FATCA)
- Client Relationship Model
- Clarification of HST Exemption for Brokerage Commissions



Tools and Templates

- Product Due Diligence Best Practices
- Fee-Based Accounts
- Member Firm Compensation Survey
- AML Guide for Dealers
- Guidance Note for Quebec Derivatives Act
- Outside Business Activities Template



Knowledge: Conference/Seminars

- IIAC Conference
 - Demographics
 - Equity market structure
- Strategic Seminar for Small Firms
 - Insights to assist strategic realignment of small firms
 - 120 firms earn than less than \$5M per year
- Small Dealer Roundtable
- Winter Compliance Symposium