iNVESTOR ECONOMiCS

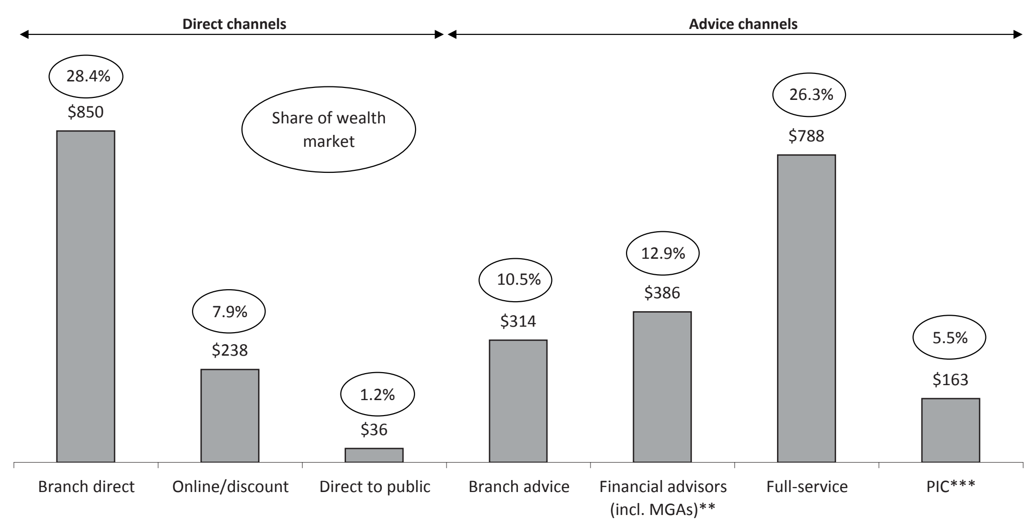
Retail Brokerage and Distribution Advisory Service
Spring 2012 (data to March 2012)

Accessing today's and tomorrow's distribution paradigm

The roadmap that outlines the distribution paths of retail financial products and services is a complex one. This is particularly true when it comes to assessing the available distribution capability, the capacity of channels and the myriad firms and advisors that populate them. Distribution dynamics, in terms of financial wealth and advice elements, are not always what they seem; competition within one channel is often influenced by forces and events in other channels. As economic pressures tilt the playing field in favour of distributors with product manufacturing capabilities and scale, accessing distribution will continue to provide both opportunities and challenges.

The evolution of the *Retail Brokerage Report* into the *Retail Brokerage and Distribution Advisory Service* reflects the importance of distribution channel dynamics and the broad scope of research that has become a hallmark of this publication. In this issue we will provide a map of firms and advisors within today's distribution channel paradigm, focusing on the product availability and accessibility to clients in each channel. The dominance of the Big Six banks is not the only challenge facing distributors and product manufacturers. The shift to fee-based at the advisor level as well as the growth in dedicated sales operations are constraining product manufacturers' access to an increasing number of advisors.

1.1a Today's Retail Distribution Paradigm
Financial wealth in billions of dollars



****Excludes $58 billion (1.9%) in directly held securities.*
*****Excludes $104 billion (3.5%) in insurance/defined contribution plan pools.***
******Excludes $59 billion (1.9%) in estates and trust and stand-alone hedge funds.***

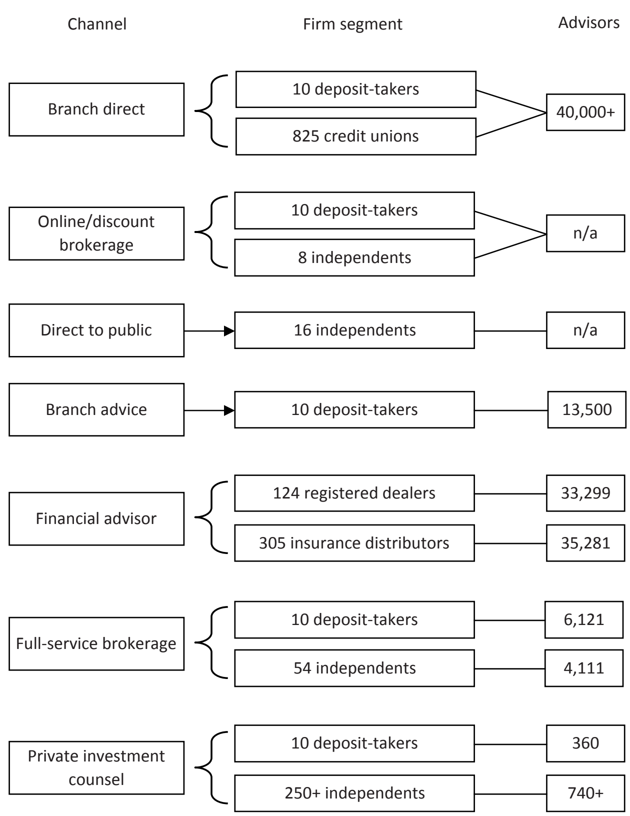
Retail Brokerage and Distribution Advisory Service - *Spring 2012*

Landscape of challenge and opportunity

The mapping of today's distribution paradigm aligns with Investor Economics' *Household Balance Sheet Report* in terms of distribution channels and the financial wealth held in each channel. Descriptions of each channel are provided in the sidebar at the end of the feature.

Figure 1.1a illustrates the competing retail distribution channels—across the direct and advice realms—and provides the relative sizes of each in terms of financial wealth. Figure 1.1b underscores the significant manpower in terms of distributors and advisors delivering the products and value propositions across channels. This landscape of financial services distributors aligned to cater to the financial needs of Canadian households hints at the intense level of competition in the marketplace.

1.1b Assets, Advisors and Firms Abound



But this landscape is hardly a static one. The advent and growing importance of the deposit taker branch advice (BA) channel has proven to be a key catalyst over the past decade in reshuffling of the competitive balance of power in the advice. Indeed, more change is in the offing.

In the years to come, myriad forces will continue to reshape the complexion of the Canadian financial services delivery paradigm. Here are our top 10 picks for "distribution trends to watch out for":

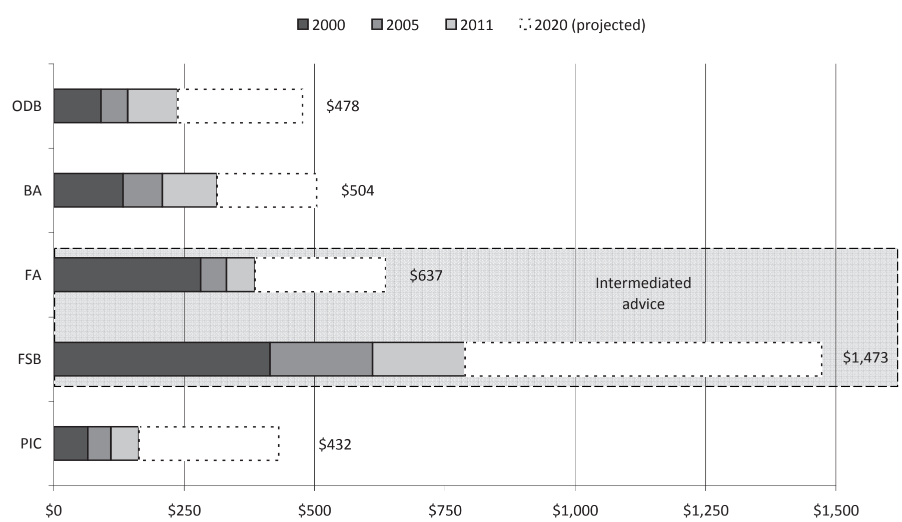
1. Slower growth ahead
2. Aging demographics
3. Advice will reassert itself but its nature will change
4. Self-reliance on the rise
5. Scrutiny of fees (by regulators and clients)
6. Challenging economics
7. Consolidation
8. Competitive footprint of Big Six banks
9. Renaissance of dedicated advisor models
10. Vertical integration

The first six trends reflect key demand side drivers and the challenging economics of distribution, while the final four are supply side dynamics that are shaping the structure and composition of distribution. For manufacturers and distributors alike, these trends will embody both opportunity and challenge.

Financial wallet: Slower growth ahead

In the past decade, as household debt has risen, an unfolding theme of de-leveraging has been gaining traction. Taken together with a generally accepted slowdown in economic growth and the associated expectation of lower market returns, the overall capacity and willingness of households to commit additional resources to wealth accumulation will be constrained. We forecasted overall financial wealth to grow at a compound annual rate of 5.7% from 2010 to 2020, a far cry from the heady pre-crisis period when financial wealth growth hovered around the double digits.

1.2 Growth of Select Distribution Channels: Past, Present and Future
Financial wealth in billions of dollars



CAGRs		
2000 to 2005	2005 to 2011	2011 to 2020
9.4%	9.0%	8.0%
9.4%	7.0%	5.4%
3.3%	2.6%	5.7%
8.1%	4.3%	7.2%
11.0%	6.8%	11.4%

Figure 1.2 plots historical and projected growth for the advice-based delivery channels and the online/discount brokerage (ODB) channel. The advisor channels represent 55% of total financial wealth, and absolute growth in financial wealth will continue to favour advice channels in aggregate over the direct channels in the next 10 years. On the direct side, the ODB channel is an exception and will provide a challenge to advice channels.
The full-service brokerage (FSB) channel is well positioned for future growth due to the nature of its client base and the breadth and flexibility of its product shelf. However, other channels are also in a position to capitalize on the need for advice arising from the emerging affluent segments to the very high net worth segments.

The financial advisor (FA) channel has lagged the other advice channels over the past decade. However, this growth comparison does not take into account the substantial role life insurance plays for advisors practicing in this channel. For insurance-focused advisors, their practice involves risk-based and estate planning products from the insurance realm, such as permanent life and annuities, that are not captured in the asset-based measurement of the household balance sheet.

Aging demographics

With the leading edge of the baby boomers now in their 60s, Canada's population is aging rapidly. In 10 years, approximately 28% of all Canadian households will be eligible for seniors' discounts and will control 41% of the financial wealth.

The impact of the aging clientele will reverberate throughout the distribution and product manufacturing realms. There will be growing demand for payout vehicles and in-retirement advice. An aging population combined with economic uncertainty will translate to an increasing appetite for capital protection, guaranteed income and liquidity. Having cut their teeth on the investment-centric accumulation phase advice, advice-givers will have to expand their arsenal of financial products and services (more on that below). Many advisors will face the first inflection point or retention challenge of their practices—the progression of a large portion of their clients into the payout phase.

Another retention challenge—as well as a new business opportunity—also looms on the horizon. The next decade will see a jump in the number of wealth transfer events, providing both opportunity and challenge for advisors hoping to retain assets. An estimated 1.2 million transfer events will occur over the next 10 years, representing a significant changing of the guard among advisors' clients. Advisors who have not built relationships with clients' families as well as the clients themselves face the risk of suddenly losing assets accumulated over many years. With years of experience, insurance agents and financial advisors in the FA channel are well positioned to meet the growing demand for estate planning.

The aging population will also have a more direct impact on the operation and profitability of distributors. Succession planning is growing in importance as aging advisors will look to retire or scale back their involvement in their practice. There will be a growing need to recruit and develop the next generation of producing advisors. Just as families are transferring wealth to the next generation, advisors will need to transition the face of their practices to better manage the shifting wealth in their client-family relationships.

The new face of advice-giving

The aging population and the complexity of financial products and services ensure that the need for advice will continue to grow well into the future. With the shifting demographic profile and the expanding role of technology, however, the type of advice and the way it is delivered is changing.

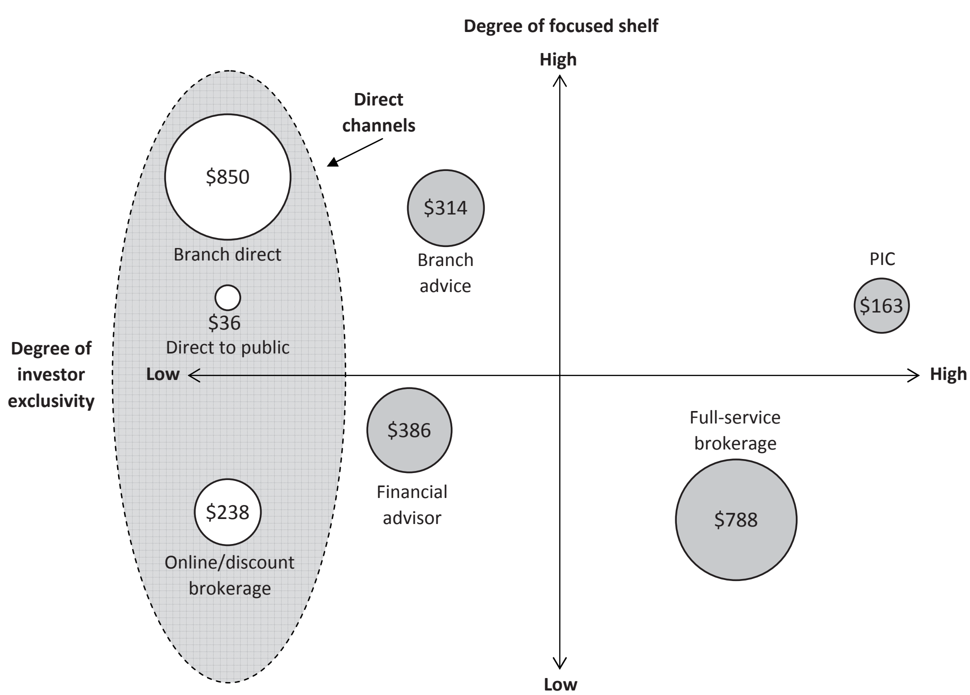
Advisors are finding that the needs of their aging clients are moving beyond the advice that had been successful in the wealth accumulation phase. Their needs encompass elements such as financial planning; debt management, retirement income replacement strategies, insurance, estate planning, cash management and budgeting and saving strategies. More comprehensively expressed as total balance sheet advice, this is a potentially powerful concept that needs to be adapted to the needs of various customer segments in growing their balance sheet, facilitating its deleverage, preparing for retirement and providing the means for accumulated household wealth to be transferred to future generations. Those organizations best able to meet these needs will be in a favourable position to attract and retain households through their lifecycle and in the passage of their wealth to future generations.

Technology is also playing an important role in reshaping the nature of advice and the way it is delivered. Online banking functionality and use has expanded dramatically over the past 10 years. Most notably, technology has allowed for the emergence of the ODB channel as a way to efficiently reach and service a growing number of investing households. This becomes increasingly important for households at the lower end of the mid-market and mass market segments, which will likely find themselves squeezed out of the capacity-constrained and economically-challenged advice channels.

Who needs advice? Who can afford it?

The nature of the advice that distributors deliver is generally constrained by face-to-face capacity as well as by their organizational structure and securities regulations. These constraints affect the products and services they can deliver and the nature of the advice that accompanies the delivery. Figure 1.3 provides a visual representation of the relative size of the distribution channels (including the direct channels) on two dimensions.

1.3 Financial Wealth Drives Accessibility and Choice Among Advice Channels
Financial wealth in billions of dollars

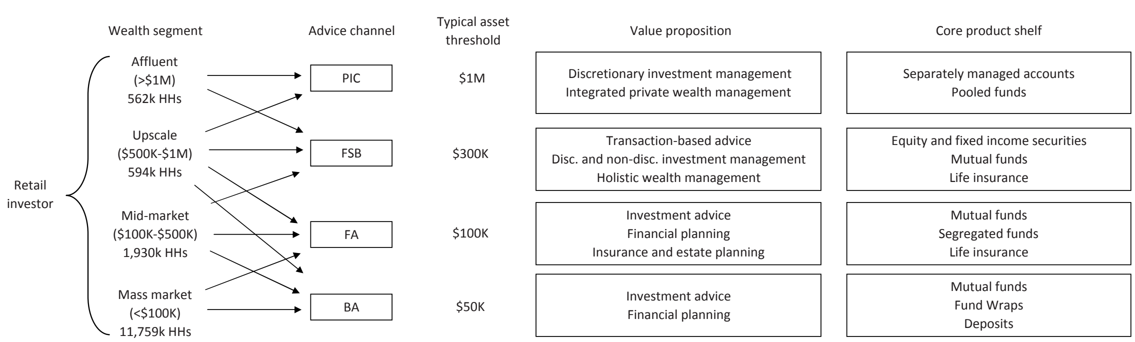


The horizontal exclusivity dimension represents how accessible and/or welcoming the channel is to Canadian households regardless of their financial wealth. In general, channels at the low end of the exclusivity scale have a low wealth threshold for entry and are open to all households regardless of their wealth level. The vertical dimension reflects the degree to which a channel's shelf is focused on, or restricted to, certain products. Channels with a very high degree of focus may be limited in terms of the types of investment securities and/or source of product manufacturer (i.e., proprietary-only products reflect a high degree of product focus). Channels with open shelves or architecture are at the opposite end and offer a full range of investment solutions including third-party products.

The branch advice (BA) and FA channels, which have higher client wealth barriers to entry, sit to the right of the direct channels. The FSB and private investment counsel (PIC) channels, which have an even higher wealth threshold, sit further right on the horizontal axis. Despite its degree of exclusivity, FSB remains the largest of the advice channels, largely due to its broad shelf of products. The FA channel, while largely focused on investment funds and insurance, possesses a mixed degree of shelf "openness." The combination of open shelf and a relatively low entry threshold arguably places the broadest client audience into the FA channel.

Where a retail investor ends up on the distribution landscape depends on several factors. The critical determinant is based on the level of financial wealth they already possess, followed by their preferred method of acquiring advice, if any, and, finally, their specific need for wealth planning and investment services. Figure 1.4 illustrates the overlap in the use of distribution channels by wealth segment and puts some household numbers (demand) onto the face of this demand. Arguably the sweet spot for wealth management services, the mid-market and upscale segments, collectively known as the mass affluent, represent approximately 2.5 million households with wealth of between $100,000 and $1 million. For clients in this bracket, most advice-based distribution channels are accessible with a range of product and services on offer in various channels. Competition between the BA and FA channels is most intense in this demographic segment.

1.4 Key Advice Channels: Overlapping Supply and Demand Dynamics



Households in the affluent segment—those with wealth exceeding $1 million—number 562,000 – a relatively small population considering there are nearly 15 million households in Canada. The affluent investors have their choice of distribution channels, as most advisors are more than willing to open their doors to these clients regardless of channel. Such wealth commands attention and generally leads these investors to discretionary money management, traditionally in the PIC channel, but increasingly through discretionary brokers in the FSB channel.

Growing self-reliance and channel optimization

The broad delivery potential of the ODB channel is underscored by the shear volume of households that may require a direct form of economically delivered advice. In the U.S., the direct channel exists alongside the traditional advice channels, recognizing that an increasing number of households are channel optimizers. That is, they choose to get their advice delivered through a variety of channels and the selection is not always an either/or decision (Cerulli

Associates). The development of more advanced mobile solutions for financial planning and guidance is in its earliest stages, with much room to grow in terms of sophistication and ease of use. Regulatory constraints on the nature of advice versus assistance delivered through the channel will play a role in the pace of development and delivery. The ODB channel is not only self-selected by the mass affluent, but it also represents the most accessible, if not the only investment channel for the majority of households in the mass market segment—including those that may eventually qualify for more exclusive advice channels. The upwardly mobile generations of investors who grew up with the internet may find that the unavoidable time constraints of future life stages will dictate the involvement of a face-to-face advisor. Over time this may well give banks, which are dominant in the ODB channel, the first crack at converting these households to face-to-face relationships.

Fees and roles under regulatory scrutiny, especially in the FA channel

The product mix in the FA channel has changed very little over the past decade. It remains fund-centric and reliant on the embedded compensation revenue model. The post-crisis market rebound has allowed investment fund manufacturers and distributors to postpone needed adjustments, but the coming years will no doubt require a rethink of the revenue models, particularly amid mounting regulatory scrutiny of the embedded cost of investment fund products. This is true for the sales commission paid by the manufacturer on deferred sales charge (DSC) funds, as well as the trailing commissions on both front-end load funds and DSC funds.

Advisors are adapting to some degree. The growing practice of selling front-end load funds at zero load creates a form of fee-based account and suggests that advisors are placing less importance on commission revenues. However, this does little to address the growing focus on embedded trailer compensations. While several FA firms have fully unbundled fee-based accounts on their shelves, they have been slow to get off the ground. This is not isolated to the advice channels, however, as the ODB channel, despite a low reliance on mutual funds in the revenue mix, also benefits from the embedded trailer.

The aftermath of the financial crisis allowed insurance distributors to capitalize on the highly risk-averse environment, leading to an influx of new advisors and encouraging more mutual fund focused FA firms and their advisors to add insurance capabilities. The lower cost associated with compliance and oversight for insurance distributors (MGAs) compared to registered dealers created a degree of regulatory arbitrage, with a number of mutual fund advisors abandoning their registration and moving to an insurance-based wealth and life practice.

The apparent gap in operational oversight and compliance has begun to attract regulatory scrutiny, which the insurance industry has already begun to address. The Insurance Council of B.C. (ICBC), which is responsible for the licensing of insurance agents and managing MGAs in B.C. released a statement reflecting its expectations for MGAs in British Columbia. Intended to clarify and provide additional direction to MGAs, the release immediately generated interest across the industry, and was taken as an indication that some form of MGA regulation appears imminent across Canada.

Unlike their dealer-registered counterparts, the large number of independent life agents typically deal with multiple MGAs to sell a range of insurance products across a number life insurers. Many MFDA distributors, even those with affiliated insurance distribution arms, continue to allow their advisors to place life and segregated fund business with MGAs of the advisors' choosing. As regulators increasingly focus on a broader measure of the client relationship and accountability, several dealers are reconsidering this flexibility in advance of the Canadian Securities Administrators' (CSA) Client Relationship Model (CRM).

The Investment Industry Regulatory Organization of Canada (IIROC) published its CRM model in January 2012, which was accepted by the CSA in April. The policy dates back to the OSC's Fair Dealing Model in 2004. The model focuses on the use of disclosure in the belief that it is increasingly necessary for advisors to ensure that clients have a clear understanding of all fees and the value they are getting from the relationship with the advisor. The implications are both resource-oriented, namely people, and also financial for firms seeking to meet the requirements of the model.

Challenging economics dominate advice

Regulatory costs and the scrutiny of fees come at a time of increasingly static revenue lines, exacerbating the economic challenges faced by advice channels. The economic formula for distribution varies by channel and the key features of each are highlighted in Figure 1.5 for the advice channels as well as the ODB channel. While the overall formulas vary, there are pressure points in the formulae that are common to many channels. As previously mentioned, demographics influence all the advice channels in terms of the shape of demand and the resultant product revenue streams. The economics for any distributor are more attractive when proprietary products are the primary option on the shelf. This has proven to be an advantage for the dedicated BA channel and has helped fund its growth relative to the mix of firms in the FA channel.

1.5 Economics of Distribution Highly Variable, Drives Accessibility

Channel	Pressure points	Scalable	Principal sources of revenue	Principal sources of expenditure
Online/discount brokerage	• Revenue diversity • Client activation • Revenue growth potential	High	• Spread • Equity commissions	• Technology platforms
Branch advice	• Advisor capacity • Qualified advisors • Demographics	Low-medium	• Spread • Mutual fund management fees	• Bricks and mortar • Advisors' salary and direct drive compensation • Operations and support
Financial advisor	• Qualified advisors • Direct drive compensation model • Impending regulation • Demographics	Low (advisor dependent)	• Investment fund trailers • Investment fund commissions • Insurance commissions	• Direct drive compensation • Operations and support • Bricks and mortar
Full-service brokerage	• Qualified advisors • Direct drive compensation model • Compliance • Demographics	Low (advisor dependent)	• Managed asset program fees • Equity and fixed income commissions • Investment fund trailers • Spread	• Advisors' salary and direct drive compensation • Bricks and mortar • Operations and support
Private investment counsel	• Qualified advisors • Competition for discretionary management • Demographics	Low (advisor dependent)	• Investment management fees	• Salaries and variable compensation • Bricks and mortar • Operations and support

On the expense side, the direct drive compensation model, prevalent in the FA and FSB channels, presents a growing challenge as firms and advisors alike struggle to contain costs and maintain profitability. The model has traditionally required a sales velocity that is increasingly difficult for advisors to attain. In the face of persistent uncertainty and as growth in financial wealth continues to slow, this will become more challenging. For many advisors, particularly those in the FSB channel, sales focus has given way to a move towards fee-based practices.

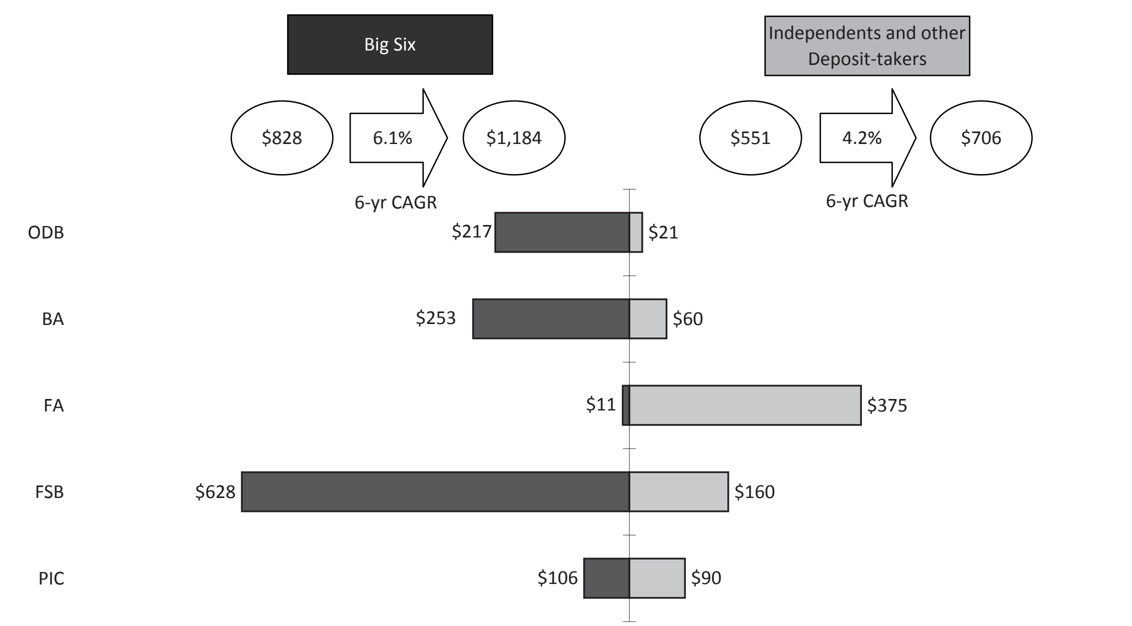
For new advisors and those in practices where revenue growth is transaction-oriented and new-business driven, the shift to fee-based is constrained.

For advice-based distributors in particular, scale remains a challenge—necessary to survive, but costly to obtain. Growing the client base of a firm is no simple task as long as the number of experienced advisors remains static. The resulting focus on competitive recruits creates a takeaway game that is both costly and does nothing to backfill the rapidly aging and gradually disengaging advisor population. Increasingly, the demand for advice is outstripping the supply, with advisors increasingly focused on the top tiers of wealth.

Consolidation and the deepening of the Big Six footprint

The importance of scale is visible in the structure that has emerged across the landscape. The Big Six dominate most distribution channels, and while their dominance has not undergone dramatic gains in the past five years, it has remained firmly entrenched and indeed has enjoyed a growth advantage (see Figure 1.6). Consolidation at the firm level requires scale, and as result, that discussion invariably involves the Big Six footprint. Mid-sized firms are generally focused on growth through the acquisition of individual advisors or advisor teams. Additionally, smaller FA dealer and MGA firms have been coming together under the threat of increased regulatory costs. These impending changes are giving pause for many small owner-operator firms who are now considering monetizing their practices.

1.6 Big Six Expanding Footprint in Distribution
Financial wealth in billions of dollars

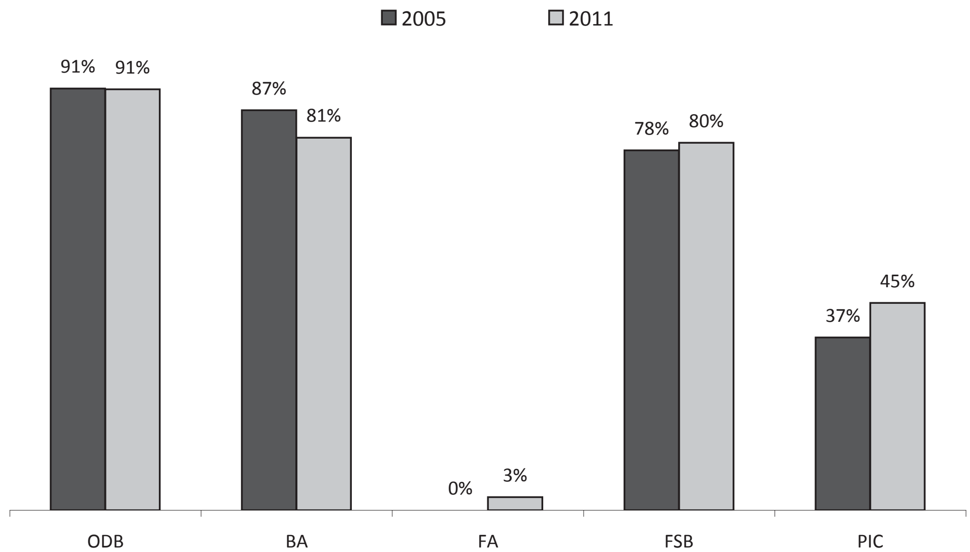


The Big Six managed to grow solidly during the last decade across the vast gamut of products and channels under their corporate umbrella. The market downturn accelerated this growth as they benefited from a flight to safety. But the current size, shape and dominance of many distribution channels and product lines were underway long before the financial crisis, thus reflecting the crystallization of long-term strategies.

The only channel the Big Six remain largely apart from is the FA channel. Competition from the Big Six has largely stemmed through the emergence of the BA channel, and current penetration in the FA channel reflects recent

1.7 Big Six Acquisitions Aiding Share Expansion

As a percentage of total channel assets



acquisitions that included the MFDA arms of Dundee and Wellington West. This footprint reflects distribution ownership and does not include the gains some of the Big Six firms have made into the channel as a third-party manufacturer of investment fund and deposits.

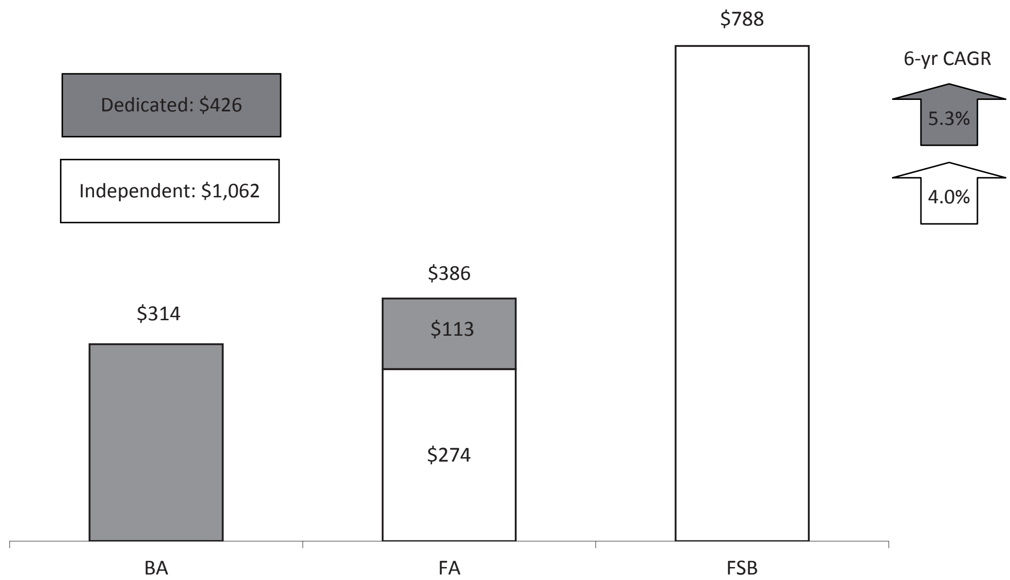
Minor changes in Big Six share reflect the emergence of other deposit-takers, most notably HSBC with its launch of its Premier offering in 2007 in the BA channel (see Figure 1.7). The Big Six acquisition gains in the FSB channel have offset the erosion of their share that occurred earlier in the decade, while in the PIC channel, acquisition and a strong strategic refocus on the high net worth segment has helped the Big Six outpace the broader channel as well. However they approach it, the strategic goal remains clear and formidable: to lock down and increase their share of client wallet through all channels.

Advance of dedicated advisor models will shape accessibility

The breakdown of advisors and assets across dedicated and independent distribution structures provides the most critical measure of the distribution opportunity for third-party product manufacturers. In the case of the FSB channel, the Big Six-dominated ownership structure lacks direct influence over the degree of independence enjoyed by its advisors or the product shelves they work from. On the flip side, the FA channel, while largely outside the control of the Big Six, has a strong, dedicated sales presence.

Figure 1.8 looks at the structure of the BA, FA and FSB channels from the perspective of assets controlled by dedicated sales operations versus independent sales operations. For dedicated sales structures in the FA channel, total assets distributed at the end of 2011 amounted to $113 billion, of which $27 billion were segregated funds held by dedicated insurance distributors.

1.8 Dedicated Distribution Expanding Footprint
Financial wealth in billions of dollars



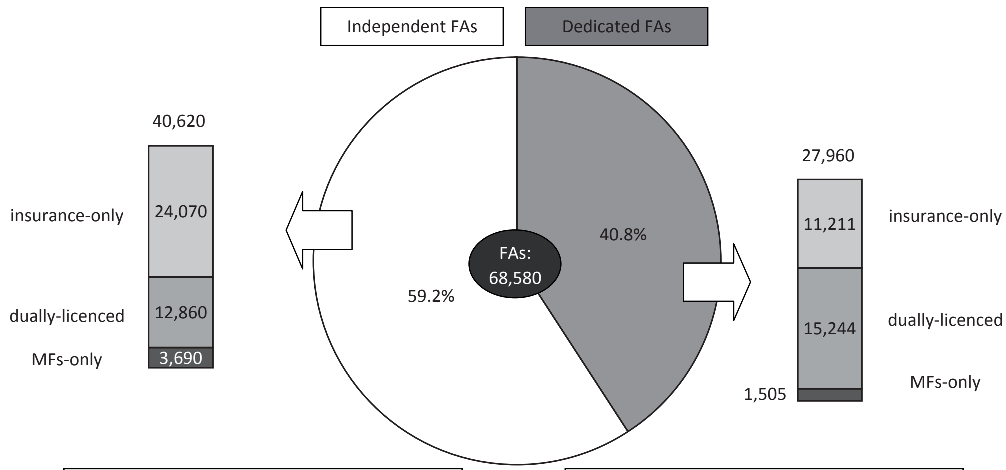
While assets provide a current measure of distribution success, the engine driving that result is the advisors on the ground. Within the FA channel, the mix of dedicated and independent advisors makes for a varied landscape. Additionally, often lost in the discussion is the role the independent FA channel plays in servicing the largest number of Canadian households, many of which might otherwise be excluded from an advice offering by virtue of wealth level.

Figure 1.9 provides a bifurcated view of the total advisor cohort, dedicated versus independent, in the FA channel. Also illustrated is the make-up of the advisors' licensing and registration status. All dually-licensed and MF-only advisors have an MFDA registration and a small number have an IIROC registration (see the sidebar for further explanation). The dually-licensed advisors are also licensed to sell insurance. The dedicated side accounts for 40% of the advisors but only 30% of the assets (see Figure 1.8). A large number of dually-licensed advisors are within the dedicated sales organizations attached to life insurers. Despite their MFDA registration, the practice model for these advisors is focused more on term and permanent life insurance.

Within the cohort of independent advisors, it is important to recognize that the large number of independent life agents inflates the independent advisor counts. In recent years, many of these advisors, who operate largely through MGAs, have begun to grow their wealth businesses through segregated fund sales.

The mix of dedicated and independent advisors can also be viewed along regulatory lines in terms of registered dealers (MFDA and IIROC) and insurance distributors (see Figure 1.10). The presence of dedicated advisors within the registered dealer component of the FA channel is higher than in the insurance distributor component, which has a higher share of independent advisors.

1.9 Independent Advisors Outnumber Dedicated … For Now



Independent advisor growth since 2008:

Insurance-only: +4,610
Dually-licenced: +2,147
MF-only: -535
Total: +6,222

Dedicated advisor growth since 2008:

Insurance-only: -2,529
Dually-licenced: +3,668
MF-only: -3,456
Total: -2,317

Top Independent Firms

Registered dealers
Assante
Manulife Securities
PEAK

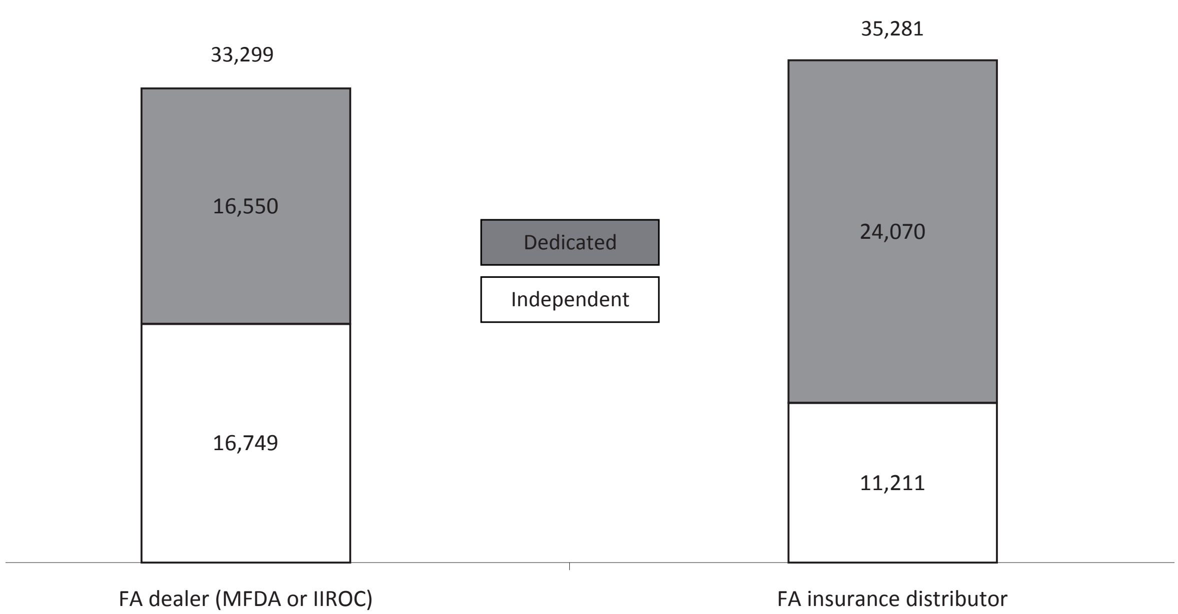
Insurance distributors (MGAs)
PPI Solutions
Financial Horizons
HUB

Top Dedicated Firms

Registered dealers
Investors Group
Quadrus/London Life
MD Management

Insurance distributors
Primerica
Sun Life
Industrial Alliance

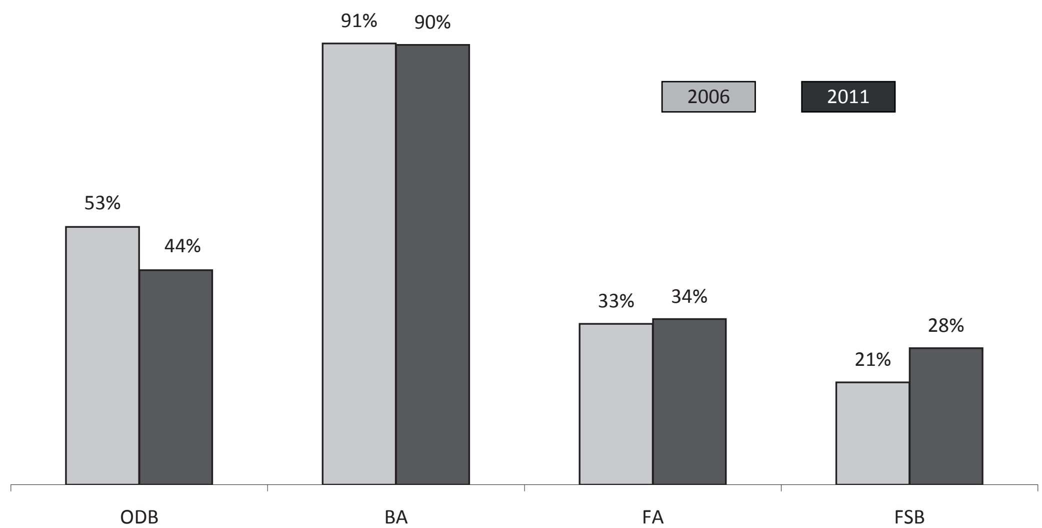
1.10 Insurance Advisors More Independent Than Dealers



Vertical integration and beyond

Dedicated sales forces do not form the only barrier to third-party manufacturers. In addition to the assets held through the dedicated operations of BA and FA firms, there are investment funds sold by affiliated, but otherwise independent, distribution firms, including FSB firms. To capture this aspect, we look at a measure of vertical integration. Figure 1.11 captures the percentage of the total investment fund assets held in each channel that belong to an affiliated manufacturer; including the proprietary funds held by the dedicated sales operations in each channel. The FA channel shows that while only 28% of the investment funds are held by firms with dedicated sales operations, approximately 34% of the investment funds held in the channel are proprietary or from a related party.

1.11 Vertical Integration of Stand-alone Mutual Funds and Fund Wraps by Channel



Some of the largest distributors in the FA channel are owned by mutual fund or insurance manufacturers, but do not operate as dedicated sales forces. Many of these firms are aiming to move to a more vertically-integrated supply chain as a means of neutralizing or limiting the squeeze on margins being felt by purely independent distributors. For example, MFDA member Assante Financial Management (MFDA-FA) sells funds manufactured by, among others, its owner, CI. Mutual fund dealer Dundee Private Investors sells Dynamic funds and both organizations are part of DundeeWealth.

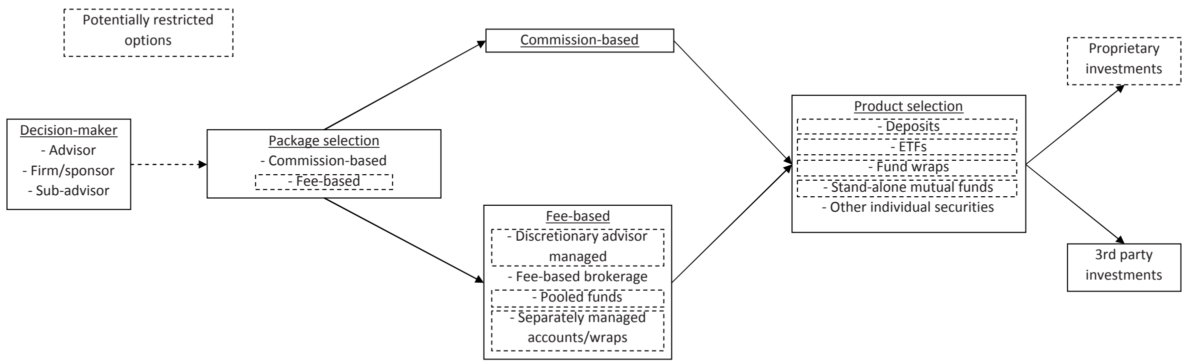
Among the firms in the inherently open-architecture FSB channel, vertical integration of the funds business remains relatively low, though it has been climbing. This has in part been facilitated by the growing focus on fixed income products and the favourable reputations that several bank-owned mutual fund companies have in that asset category.

On the direct end of the distribution paradigm, 44% of the mutual funds held in the ODB channel are proprietary. However, the overall share of assets held by mutual funds in the channel is relatively low—less than 9%.

Fee-based programs and deposits: Raising the level of integration

Within the FSB channel, the breadth of individual product and managed asset programs are creating limitations when it comes to the accessibility of the shelf beyond proprietary investment funds. The notion of shelf access requires consideration of who is the ultimate gatekeeper—the advisor or the firm itself. In the case of the advisor, the nature of the advisor's practice and the mix of products that practice entails is part of the consideration. Figure 1.12 illustrates this line of thinking by segmenting the business into the possible components of an advisor's practice, thus illustrating the extent to which those components may be relatively fixed and unavailable.

1.12 Beyond Vertical Integration…

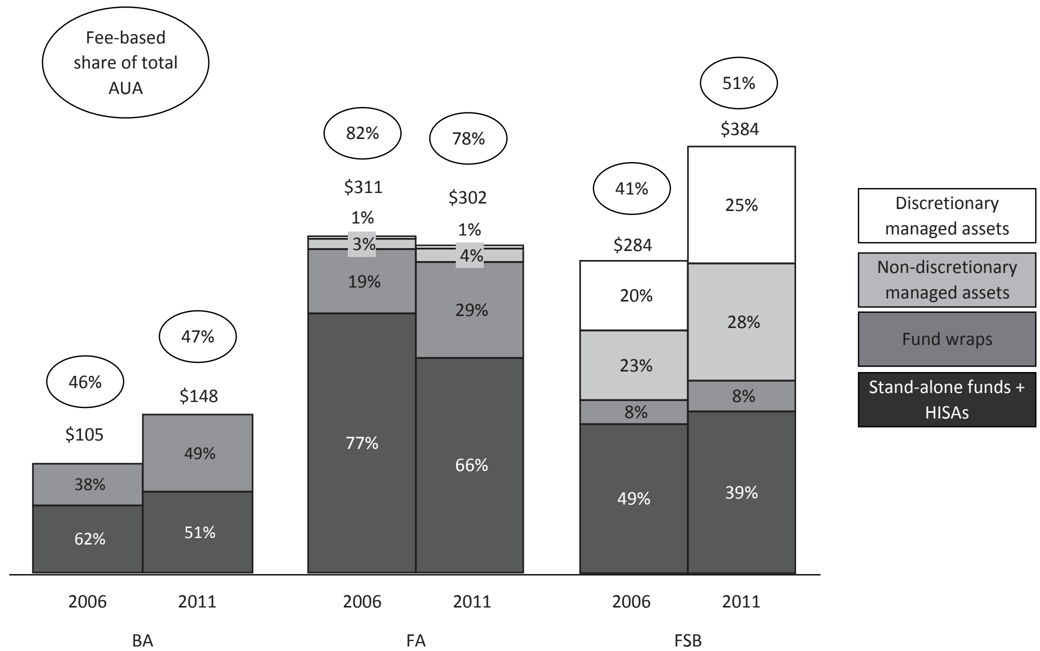


What may not be "open" from an advisor's perspective may still afford opportunity via an institutional arrangement with the firm. Separately managed wraps are but one example. At the advisor level, this managed asset program freezes approximately $27 billion in available asset shelf as the advisor has no control over the content of the individual mandates. An asset manager can gain access to the program via the program sponsor, however (usually the advisor's firm) and then potentially influence the advisor's selection of the mandates on the program's shelf. Similarly, discretionary advisor managed programs are largely based on advisor-determined separate asset models involving direct securities. As a result, these tend to constrain opportunities for mutual fund manufacturers, but can represent an opportunity to ETF manufacturers, particularly those with fixed income and laddered bond ETFs.

The non-discretionary fee-based brokerage programs represent the most open of the managed asset programs. The growth in mutual funds and in particular F-series funds bears this out.

On the individual product or commission-based side of the business, cash on deposit should be viewed as a proprietary product given its complete lack of accessibility to any third-party provider other than as a cash substitute. However, as the experience with HISAs has shown, cash and deposit substitutes are increasingly coming under proprietary control at most of the Big Six firms, having largely supplanted money market mutual funds and commercial paper.

1.13 Packaging of Products Favours Fee-based



Understanding the nature of both the shelf and the advisor's decision-making process is growing in importance as the shift to fee-based practice accelerates. Figure 1.13 provides a look at the overall importance of fee-based within the BA, FA and FSB channels as well as showing the make-up of that fee-based business. The FSB channel is well ahead of other advice channels in terms of employing fully transparent fee-based models within the broader fee-based environment, something the CRM models will drive further. The FA channel is dominated by investment funds, with 66% of the fund business in stand- alone funds, but the economic model remains heavily tied to the embedded compensation of the stand-alone funds and fund wraps. A much higher component of the BA channel's no load fund business is held in fund wraps rather than in the FA channel, thereby reflecting the packaged solution approach to delivering advice. The nature and growth of fee-based products is shaping distribution for all constituents, advisors, distributor firms and product manufacturers.

Final thoughts

The characteristics of shelf and the economic importance of dedicated distribution and vertical integration will continue to not only drive, but also shape the distribution paradigm of the financial wealth market. This feature is intended to provide a high level view of the way the paradigm is viewed today as well as providing some important jumping-off points for future research on the advice and direct channels. The advice channels share some key pressure points in terms of advisor demographics and succession challenges as well as the potential need for critical examination of the direct drive compensation model. Independence and accessibility to shelf are governed by a host of variables; among these are sales force structure and the individual practices of advisors. One thing is certain, however; economic, technological and regulatory developments will continue to push distribution in different directions. Keeping an eye on the movement will be critical for those trying to access distribution as well as for those who are managing it.

A focused primer on the distribution paradigm

The following is a brief re-introduction to each of the channels that were collectively responsible for the accumulated distribution of almost $2.8 trillion in financial wealth at the end of 2011.

Direct channels

Branch direct (BD)
Ten major deposit-takers, including the big banks, dominate the deposit-focused branch direct channel, but there are also over 800 individual credit unions forming the deposit base. The 10 major institutions' branches have representation from approximately 40,000 employees registered to their respective Mutual Fund Dealer Association (MFDA) member arms. These advisors process mutual fund transactions when in-branch demand arises, but they are not actively engaged as part of the deposit-takers' advice offering. Individuals in the channel may progress professionally and move into the firms' branch advice offering. As such, the number provides a potential measure of the advice headcount reserve.

Online/discount brokerage (ODB) and direct to public
Many of the 18 online brokerage firms employ registered representatives in call centre settings. We have not included these registrants, however, because of the limited impact they have on the shelf of the channel and their lack of face-to-face client contact. The channel delivers products and its value proposition largely through centrally managed technology platforms; the direct-to-public channel is in a similar situation.

Advice channels

Branch advice (BA)
The branch advice channel is a creation of the 10 major deposit-takers, including the big banks, and accounts for $314 billion in channel assets. The 13,500 in-branch advisors are engaged primarily in investment and financial planning. Advisors are predominantly registered to the MFDA arms of deposit-takers, although some BA operations are on the Investment Industry Regulatory Organization of Canada (IIROC) platform. Whether MFDA or IIROC, delivery objectives for the firms are to simultaneously transition deposit dollars into investment dollars and consolidate and secure assets with the deposit-taker.

Financial advisor (FA)
The financial advisor channel is the most varied of the channels as it is made up of a wide range of firms: registered dealer firms, unregistered, fee-only planning firms and life insurance distributors. These models have varying degrees of independence and very different product shelf capabilities. In the dealer category, models range from those with dedicated sales forces as with MFDA firms Investors Group, Sun Life and Quadrus; to firms with higher degrees of product independence. This includes dealer firms that are affiliated with mutual fund product manufacturers where some measure of vertical integration is evident, as with Assante, IPC and Dundee Private Investors; all the way to firms such as PEAK, a firm that is national in coverage but has no proprietary product offerings—no vertical integration—but offers multiple platforms for advisors. Several firms provide advisors with an affiliated IIROC alternative to their traditional MFDA platform, though scale is required to maintain multiple platforms; the majority of MFDA firms are small, owner-operated firms that sell third-party product exclusively.

The FA channel also includes insurance distribution firms through which licensed insurance agents distribute life products and segregated funds. The vast majority of these insurance distributor firms (approximately 300) are managing general agencies.

Full-service brokerage (FSB)

In terms of assets, FSB is the largest intermediated channel. The channel includes those IIROC member firms that have client-facing advisors with a retail offering of directly-held securities and fee-based managed asset solutions, including discretionary management. The open architecture and investment dealer registration allow these firms to distribute the widest range of investment products and wealth management solutions of any channel. Over 10,000 advisors operate in the full-service channel, though the number of firms operating in the channel continues to be reduced by consolidation.

Private investment counsel (PIC)

Assets managed on a discretionary basis by portfolio managers and firms registered directly with the provincial securities regulators as portfolio managers (PMs) make up the majority of firms in this channel. Advisors in this channel are typically registered as advising representatives at a portfolio management firm and must meet the discretionary PM requirements. With over 250 individual firms, the channel is fragmented. Many of these firms are small, principal-owned shops or small private client operations attached to large institutional asset management firms. Firms include the dedicated private client operations at major banks and deposit-takers. There are also several IIROC member firms in this channel that we consider to be part of the PIC channel rather than the FSB channel because of their singular focus on discretionary management for the high-end client segment (see Summer 2010 issue of the *Retail Brokerage Report*).

Some considerations for the paradigm

Our mapping and comparison of delivery channels and advisors provides a few simplifications with respect to our December 2011 re-based *Household Balance Sheet Report*. In order to better focus on the retail delivery of financial advice, we have:

1. excluded directly held securities of $58 billion;
2. presented the PIC channel on its own, less stand-alone hedge funds and the assets held in formal estates and trusts and;
3. excluded assets held in insurance pools from the FA channel, representing $105 billion held through defined contribution group plans.

Section 2 - Retail Brokerage Industry Overview

The Retail Brokerage and Distribution Advisory Service findings reflect data collected from the 28 firms listed below in Figures 2.1a and 2.1b. Together, these firms account for over 90% of assets in the full-service and online/discount brokerage channels. The balance is accounted for using data supplied by the Investment Industry Regulatory Organization of Canada (IIROC).

2.1a Participants in Investor Economics' Full-service Brokerage Survey

ATB Securities	Laurentian Bank Securities
BMO Nesbitt Burns	Macquarie Private Wealth
Canaccord Wealth Management	National Bank Financial
CIBC Wood Gundy	Odlum Brown
Credential Securities	Raymond James
Desjardins Securities	RBC Dominion Securities
Dundee Wealth Management Securities	ScotiaMcLeod
HSBC Securities	TD Waterhouse Private Investment Advice

2.1b Participants in Investor Economics' Online/Discount Brokerage Survey

BMO InvestorLine	Questrade
CIBC Investor's Edge	RBC Direct Investing
Credential Direct	Scotia iTRADE*
Disnat	TD Waterhouse Direct Investing
HSBC InvestDirect	
National Bank Direct Brokerage	

***Includes ScotiaMcLeod Direct Investing and TradeFreedom.**

Events in Europe remained central to the world economy in the first quarter of 2012. Aggressive action by the European Central Bank created stability in the banking sector and, in turn, buttressed demand for European government debt from European banks, waylaying fears of a sudden financing drought for any of Europe's large but heavily indebted economies. Slowing economies in China and India also raised concerns about the overall pace of a global economic recovery.

Stability in the European banking sector was conducive to continued—if modest—growth in North America. In Canada, modest growth in 2011 (2.5%) can be attributed to lower demand for exports as well as the clock running out on government stimulus programs. The U.S. economy expanded at 1.7% in 2011, a pace that led to more discussion of fiscal and monetary policy. In the U.S., unemployment remained stubbornly high at 8.3% and continued to result in a drag on the recovery.

For the brokerage industry, the relative calm of the first quarter of 2012 after two quarters of volatility had an impact on activity in RRSP season. Asset growth in the full-service brokerage channel lagged Canadian equity market growth by a slim margin, while asset growth in the online/discount brokerage channel outpaced growth in the markets. The relative quiet in the economy and, in turn, in the markets translated into lower trading activity compared to the 2011 RRSP season as investors stepped back after the ups and downs of 2011.

➔ Figure 2.2 displays key market data for the first quarter. Quarterly equity market growth was encouraging for the second consecutive quarter, while the annual declines reflected the overall economic weakness and market volatility experienced in the second and third quarters of 2011.

2.2 Update on Major Market Indices and Canadian Dollar Exchange Rate—March 2012

	Growth	
	3-mo	**Yr/yr**
S&P/TSX Composite Index - Total Return	4.4%	-10.5%
DEX Universe Bond Index	-0.2%	9.7%
MSCI EAFE ($Cdn.)	7.9%	-6.1%
S&P 500 Total Return Index ($Cdn.)	10.4%	11.7%
	Dec 2011	**Mar 2012**
$Cdn. exchange rate ($U.S.)	**$0.98**	**$1.00**

- The S&P/TSX Composite Total Return index increased 4.4% in the first quarter of 2012. Eight of 10 sectors improved including healthcare, consumer discretionary and financials.

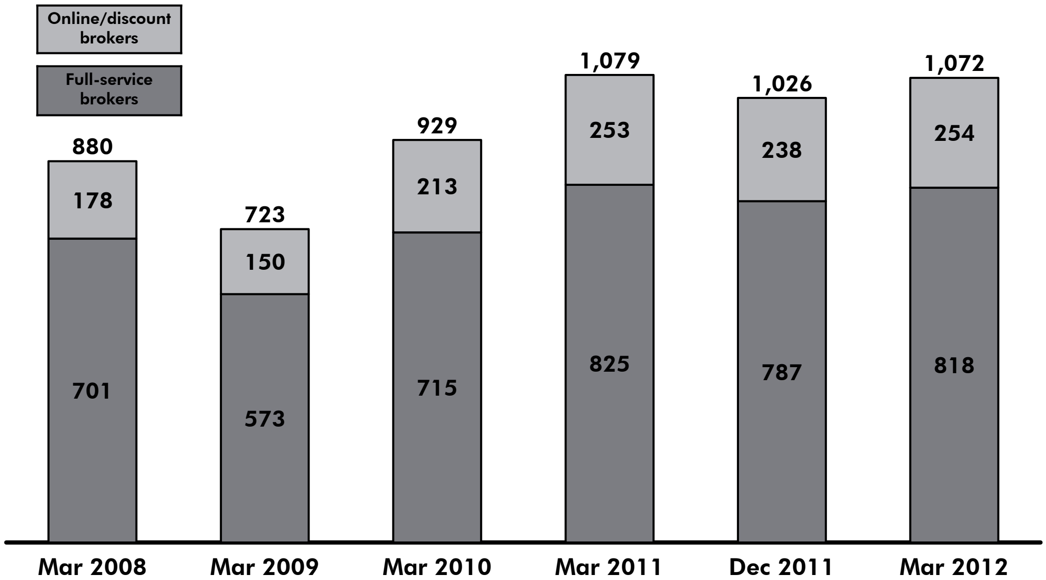
- The DEX Universe Bond Index fell 0.2% for the quarter but recorded a year-over-year gain of 9.7%. Overall, yields were up 15 basis points for the quarter ended March 2012. Short and mid-term bonds were the best performing categories.

- International stock markets saw growth in the period, ending their slump. The MSCI EAFE Index rallied 7.9% in the first quarter of 2012, led by strong gains in Germany and France.

- Despite sluggish economic growth amid improving employment and consumer spending, U.S. markets posted robust quarterly returns for the second consecutive quarter of 2012. The S&P 500 Total Return Index gained 10.4% in the quarter with growth of 11.7% for the year ended March 2012 as nine out of 10 sectors finished in positive territory.

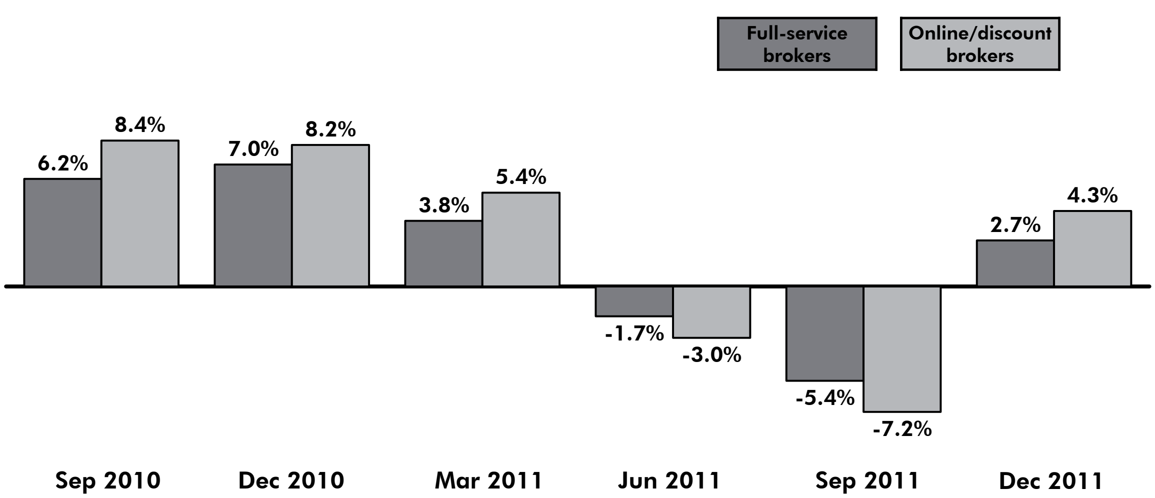
2.3 Retail Brokerage Industry Assets

In billions of dollars



➔ Retail brokerage industry assets were up in the first quarter. With $1.07 trillion in assets down from a record-breaking quarter ended March 2011, the retail brokerage industry experienced its first opening quarter decline in three years (see Figure 2.3). Within the industry, the online/discount channel reached a new peak in terms of assets and share. Since the market bottom of the first quarter of 2009, the self-directed channel has posted a three-year compound annual growth rate (CAGR) of 19.0%—compared to 13.0% for the full-service channel—and increased its share by three percentage points. In the first quarter, the online brokerage channel accounted for one-third of all flows into the retail brokerage business and one-quarter of all outstanding retail brokerage assets.

2.4 Quarter-over-quarter Growth in Assets



➔ Overall, retail brokerage assets experienced greater quarterly growth in the first quarter of 2012 than in the last quarter of 2011 (see Figure 2.4). The online brokerage channel outgrew the full-service brokerage channel by 2.6 percentage points in the same period, supported by a higher equity concentration.

2.5 Quarterly Revenues at Full-service and Online/Discount Brokers
In millions of dollars

	Quarterly revenues			Growth	
	Mar 2011	**Dec 2011**	**Mar 2012**	**Q1 2012 over Q4 2011**	**Q1 2012 over Q1 2011**
Total revenues	**$2,418**	**$2,060**	**$2,218**	**7.7%**	**-8.3%**
Full-service brokers	1,954	1,670	1,811	8.4%	-7.3%
Online/discount brokers	464	390	407	4.3%	-12.3%

➔ Retail brokerage revenues rebounded from the previous quarter to reach $2.2 billion, up 7.7%. Full-service revenue growth outpaced online/discount brokerage growth by 4 percentage points (see Figure 2.5). Improved revenues in both channels were mainly driven by growth in trade volumes compared to the last quarter of 2011, though trading activity was low compared to the previous RRSP season. In the full-service channel, fee-based program revenue also saw growth in the quarter. Annual revenues declined for both channels however, although declines in the full-service channel were mitigated by relatively strong annual gains in fee-based program revenues.

2.6 Quarterly Trading Activity at Full-service and Online/Discount Brokers
Number of trades in thousands

	Quarterly trades			Growth	
	Mar 2011	**Dec 2011**	**Mar 2012**	**Q1 2012 over Q4 2011**	**Q1 2012 over Q1 2011**
Number of trades	**29,989**	**22,493**	**25,800**	**14.7%**	**-14.0%**
Full-service brokers	14,894	11,687	14,044	20.2%	-5.7%
Online/discount brokers	15,094	10,806	11,694	8.2%	-22.5%

➔ Transaction volumes for both channels increased from the previous quarter due to seasonal factors and growth in equity markets (see Figure 2.6). On an annual basis, in sharp contrast, trade volumes in 2011 declined after reaching record levels in the quarter ended March 2011. Trading volumes in the full-service channel exceeded those of the online/discount channel for the second consecutive quarter and outpaced volumes in the self-directed channel by the widest margin since 2005. In the previous quarter we attributed this to a year-end bias towards advice channels; with 20% growth in the first quarter, however, it may also be a sign of the renewed confidence Canadians are placing in their full-service advisors.

Section 3 - Full-service Channel

Typical of RRSP season, the full-service channel received a bump in the quarter ended March 2012, generating growth of 3.9%. While full-service brokerage assets in March were greater, at $818 billion, than they were in December 2011, assets fell short of totals for the first quarter in 2011, when a record $825 billion sat in the full-service brokerage channel.

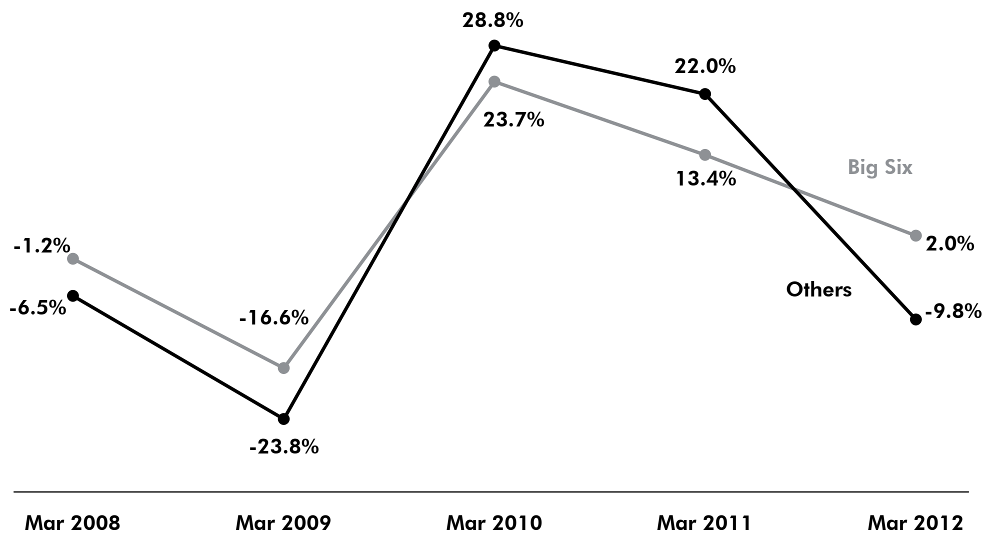
Investment funds and equities led the growth in the quarter after difficult second and third quarters in 2011; political intransigence with regard to the U.S. debt ceiling and the continued upheaval in the Euro countries drove volatility. Returning to pre-downturn norms for the RRSP season, investment fund assets narrowly outgrew equities, likely as advisors topped up registered accounts with investment funds.

After several major acquisitions in the last year, corporate merger activity dried up in the quarter. The National Bank's acquisition of HSBC Securities (Canada) from HSBC Bank Canada has been finalized, although the HSBC brand and advisors have yet to be integrated into National Bank Financial. Thus far in 2012 we have seen teams transfer their allegiance from firm to firm rather than acquisitions at a firm level.

Assets and Accounts

➔ The Big Six firms grew over 2% in the one-year period to reach a record high of $637 billion in assets. The gap in the most recent one-year growth rates between the Big Six and Other firms is due in part to the National Bank Financial (NBF) Wellington West acquisition, which saw assets move out of the Other total into the Big Six.

3.1 Year-over-year Growth of Big Six Bank and Other Full-service Brokers



➔ Figure 3.2 displays the rankings of full-service firms at the end of the first quarter of 2012, a period in which most firms saw growth in assets. The channel grew 3.9% to $818 billion in the quarter ended March 2012. TD Waterhouse generated the strongest quarterly growth of the Big Six firms. After being overtaken by National Bank Financial in the previous quarter, on account of NBF's acquisition of Wellington West, TD returned to the top five. Growth rates fell in a relatively narrow range (3-5%), as firms outside the top 10 once again secured the three highest growth rates. Adjusting for corporate acquisitions, Macquarie Private Wealth recorded the fastest growth for the fourth consecutive quarter. Macquarie was also the only firm to see its three-month asset change rank much higher than its total asset ranking.

3.2 Full-service Brokerage Asset Ranking

Ranked by assets in billions of dollars, three-month growth rates and asset change

	Asset rank		Growth rank	
	Mar 2012	Dec 2011	3-mo growth rate	3-mo asset change
Full-service brokerage assets	**$818**	**$787**	**3.9%**	**$31**
RBC Dominion Securities	1	1	9	1
CIBC Wood Gundy	2	2	13	2
BMO Nesbitt Burns	3	3	12	3
ScotiaMcLeod	4	4	8	4
TD Waterhouse Private Investment Advice	5	6	7	5
Top 5	**$573**	**$550**	**4.2%**	**$23**
Market share	**70.0%**	**69.8%**		
National Bank Financial	6	5	14	6
Desjardins Securities	7	7	11	10
Raymond James	8	8	5	8
Dundee Securities	9	9	6	9
Canaccord Wealth Management	10	10	10	11
Top 10	**$705**	**$677**	**4.1%**	**$28**
Market share	**86.2%**	**86.0%**		
Macquarie Private Wealth	11	11	1	7
HSBC Securities	12	12	15	15
Odlum Brown	13	13	4	13
ATB Securities	14	14	2	12
Credential Securities	15	15	3	14

➔ The importance of equities increased in the opening frame of 2012 as equity investments grew at a faster clip (6.0%) than the channel and all other components of the asset mix. They now represent over 45% of total assets (see Figure 3.3a). Cash and equivalents dropped in the quarter, reflecting a movement of accumulated cash back into equities in RRSP season. In terms of annual growth, investment funds and fixed income were the only categories that saw gains; the respective categories were supported by growth in high-interest savings accounts (HISAs) and GICs.

3.3a Full-service Brokerage Asset Mix

In billions of dollars

	Assets			Growth	
	Mar 2011	Dec 2011	Mar 2012	3-mo	Yr/yr
Full-service brokers	**$825**	**$787**	**$818**	**3.9%**	**-0.8%**
Cash and equivalents	39	38	38	-1.4%	-3.9%
Fixed income	172	173	174	0.4%	1.3%
Investment funds*	227	223	232	4.3%	2.3%
Equities	382	350	371	6.0%	-3.0%
Other	5	3	4	3.5%	-26.9%

Includes assets in HISAs, segregated funds, and fund wraps.

➔ Figure 3.3b provides a more detailed perspective on the asset breakdown in the channel, with a focus on the various deposit and fixed income categories. This view splits the investment fund line in Figure 3.3a into

3.3b Deposit and Fixed Income in the Full-service Mix
In billions of dollars

	Assets		Growth
	Dec 2011	Mar 2012	3-mo
Full-service brokers	**$787**	**$818**	**3.9%**
Deposits	**138**	**139**	**0.6%**
Cash	30	29	-1.1%
HISAs	45	45	0.2%
GICs	64	65	1.6%
Fixed Income	**133**	**133**	**-0.3%**
Cash equivalents	9	9	-2.3%
Money market funds	7	6	-10.5%
Bonds	109	108	-0.3%
Fixed income ETFs	8	9	10.0%
Long-term investment funds	**171**	**181**	**6.0%**
Equities	**342**	**362**	**5.9%**
Other	**3**	**4**	**3.5%**

HISAs, money market funds and long-term investment funds, the latter including bond funds. Further, fixed income ETFs, which are counted among equities in figure 3.3a, are allocated to fixed income in Figure 3.3b thus providing a more accurate view of the asset mix.

3.4 Full-service Brokerage Asset Breakdown by Tax Status and Type of Account
In billions of dollars

	Assets			Growth	
	Mar 2011	Dec 2011	Mar 2012	3-mo	Yr/yr
Full-service brokers	**$825**	**$787**	**$818**	**3.9%**	**-0.8%**
Taxable	**556**	**531**	**550**	**3.5%**	**-1.2%**
Registered	**269**	**256**	**269**	**4.8%**	**-0.1%**
RRSPs*	202	188	196	4.6%	-2.7%
RESPs	4	4	4	6.8%	4.6%
RRIFs	57	57	59	2.3%	3.2%
TFSAs	7	8	10	27.4%	42.8%

Includes group RRSPs.

➔ Taxable accounts represented the bulk of the quarterly increase in channel assets, gaining $19 billion compared to $13 billion for the registered category, which include tax-free savings accounts (TFSAs) (see Figure 3.4). RRSP assets grew faster than taxable assets as RRSP season saw renewed strength across the full-service channel. Quarterly growth in RRSP assets were on par with the quarterly growth rate in March 2011, and both were the highest since 2004. TFSA assets saw the fastest growth of all account types in the quarter and in the one-year period. Year-over-year growth rates have slowed compared to previous periods, however (TFSA assets grew 127% year-over-year in March 2011). Funding rates for new accounts in full-service brokerage were higher than in the online/discount brokerage channel, although ongoing contribution rates to the accounts opened over the past three years have slowed as contribution room has grown to $20,000.

3.5 Full-service Brokerage Number of Accounts
In thousands

	Mar 2011	Dec 2011	Mar 2012	Growth 3-mo	Growth Yr/yr
Number of accounts	5,913	5,712	5,736	0.4%	-3.0%
New accounts opened	257	194	214	10.7%	-16.7%

➔ The number of full-service brokerage accounts saw modest gains in the three-month period ended March 2012, and declined 3.0% compared to March 2011 (see Figure 3.5). Due to seasonal flows in the RRSP business, the number of new accounts opened saw a growth of 10.7% compared to the previous quarter, driven by RRSPs and TFSAs. TFSAs surpassed the 700,000 mark at the end of March 2012. The pace of quarterly new account growth in TFSAs has moderated, however, and the number of new TFSAs dropped nearly 30% in March 2012 compared to the same period one year ago.

3.6 Full-service Brokerage Average Account Size by Tax Status
In thousands of dollars

		Average account size Mar 2011	Dec 2011	Mar 2012	Growth 3-mo
Full-service brokers	**Big Six**	**$187.4**	**$177.6**	**$183.2**	**3.1%**
	Others	**$77.8**	**$77.4**	**$80.4**	**3.9%**
Taxable	Big Six	$280.7	$271.6	$280.6	3.3%
	Others	$89.9	$96.2	$99.9	3.9%
Registered*	Big Six	$128.8	$122.3	$126.8	3.7%
	Others	$78.2	$74.5	$77.9	4.6%
TFSAs	Big Six	$13.1	$12.7	$15.7	23.3%
	Others	$10.7	$11.2	$13.2	17.8%

Registered average account size excludes TFSA assets and accounts.

➔ Figure 3.6 illustrates the average balances across account types in March 2012. Other firms saw their average account size grow at a faster pace than the Big Six in the quarter due to their more equity-weighted mix. On a quarterly basis, the average account balance of the Other firms saw growth of 3.9%. At $80 million, the average account size of the Other firms has rebounded to levels not seen since September 2008. The Big Six, however, outpaced the growth of Other firms in the TFSA category; at $15,700 or 78% of the maximum allowable contribution room, the average balance in a TFSA at the Big Six firms remained higher than at Other firms ($13,200 or 66% of the allowable room). The use of TFSA contribution room in March 2012 declined compared March 2011.

➔ The average account size in the full-service brokerage channel grew 3.5% or $142.7 million in March 2012 as the Big Six firms generally experienced slower growth than the Other firms (see Figure 3.7). HSBC Securities' first place ranking in both size and growth reflected an imbalance between declines in accounts relative to assets. CIBC Wood Gundy rose by one ranking to second and recorded the fastest growth among the Big Six firms. Macquarie saw strong growth for the fourth consecutive quarter, in part due to the firm continuing to recruit high-end advisors.

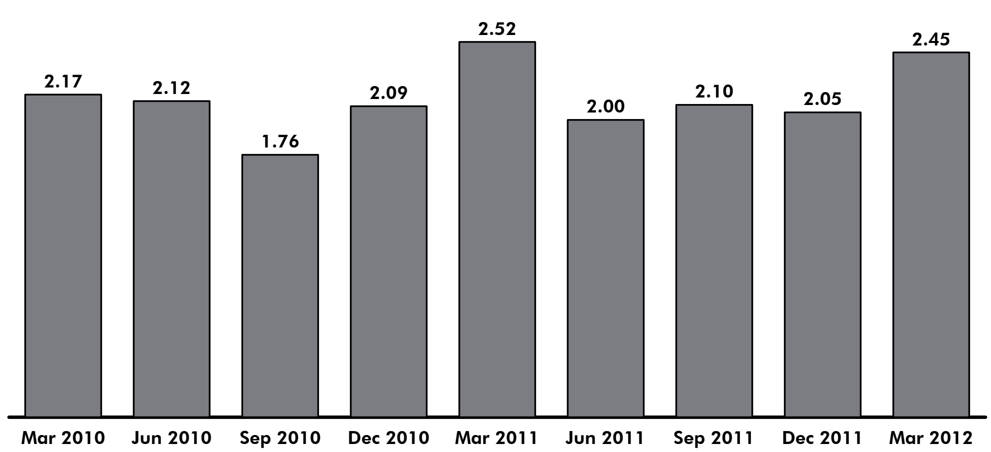
3.7 Full-service Brokerage Average Account Size

Ranked by average account size in thousands of dollars

	Account size rank		Growth rank
	Mar 2012	Dec 2011	3-mo growth rate
Full-service brokers	**$142.7**	**$137.9**	**3.5%**
HSBC Securities	1	1	1
CIBC Wood Gundy	2	3	8
RBC Dominion Securities	3	2	13
TD Waterhouse Private Investment Advice	4	4	10
BMO Nesbitt Burns	5	5	11
Top 5	**$205.5**	**$195.6**	**5.1%**
ScotiaMcLeod	6	6	15
Odlum Brown	7	7	5
National Bank Financial	8	8	14
Canaccord Wealth Management	9	9	6
Credential Securities	10	10	12
Next 5	**$151.9**	**$147.1**	**3.2%**
Desjardins Securities	11	11	7
Macquarie Private Wealth	12	12	2
Raymond James	13	13	9
Dundee Securities	14	14	4
ATB Securities	15	15	3

➔ Figure 3.8 presents data on trades per account over a two-year period ended March 2012 in the full-service channel. At 2.45, trades per account exceeded levels in March 2010 (2.17) but remained in line with March 2011's record high of 2.52. Transaction volumes in March 2012 were higher compared to the previous three quarters, which was partially due to seasonal activity and positive equity markets.

3.8 Quarterly Trades per Account at Full-service Brokerages



Revenues and Regional Segmentation of Advisors and Assets

➔ Figures 3.9 through 3.14 provide a detailed revenue breakdown for the period ended December 2011. Note that this detailed data lags the majority of the data presented in this report by one quarter; the results are therefore subject to different seasonal and financial market influences than those mentioned elsewhere in this report. More specifically, this detailed revenue does not reflect the seasonally strong sales activity of the first quarter in 2012, nor did it benefit from the same level of market growth experienced in the first quarter.

3.9 Quarterly Full-service Brokerage Revenues
In millions of dollars

	Quarterly revenues			Mix			Growth	
	Dec 2010	Sep 2011	Dec 2011	Dec 2010	Sep 2011	Dec 2011	Q4 11 over Q3 11	Q4 11 over Q4 10
Revenues	**$1,607**	**$1,490**	**$1,477**	**100%**	**100%**	**100%**	**-0.9%**	**-8.1%**
Commissions	713	569	558	44%	38%	38%	-1.9%	-21.7%
Fees	721	747	747	45%	50%	51%	-0.1%	3.5%
Spread	159	160	162	10%	11%	11%	1.1%	2.0%
Other	14	14	10	1%	1%	1%	-25.4%	-29.7%

➔ The acquisition of Wellington West Capital was fully reflected in the quarter-ended December 2011 results for National Bank Financial, affecting the Big Six aggregates contained in this section. The results for Dundee Wealth Management Securities Inc. have not been rolled into the results of ScotiaMcLeod and the firm's results continue to be captured within the Other sample of firms.

➔ Industry revenues were down slightly (-0.9%) compared to the third quarter of 2011, largely due to a decline in commission activity as markets remain uncertain and volatile (see Figure 3.9). The other revenue category, while only a small percentage of total revenue, accounted for about 25% of the decline, largely the result of year-end adjustments to revenue that firms often put through this line. Total fee-based revenue was relatively unchanged despite small improvements in market valuations over the quarter. The fourth quarterly revenue decline was much greater on a year-over-year basis as downward trending and volatile equity markets over the course of 2011 took their toll. Compared to the fourth quarter one year earlier, commission-based revenue was down 22% in the fourth quarter of 2011. Also impacting commission-based activity was the growth in fee-based assets, reflected in a year-over-year revenue increase of 3.5%. This growth has been contributing to a slow erosion of commission revenue as advisors shift commission-based practices towards fee-based practices.

➔ A lessening of compression is improving spread revenue at brokerage firms. Much of the reported improvement appears to be due to the ongoing adjustments to the determination of spread which reflect improved transfer pricing arrangements between deposit-takers and their brokerage arms.

➔ Total equity commissions as a percentage of total commission revenue were unchanged from the third quarter (see Figure 3.10), but there was a small jump in new issue activity which, combined with a drop in secondary market trading (common and preferred stock), caused a shift in the equity commission mix. Option and futures commissions dropped to more typical levels following the jump experienced in the previous quarter.

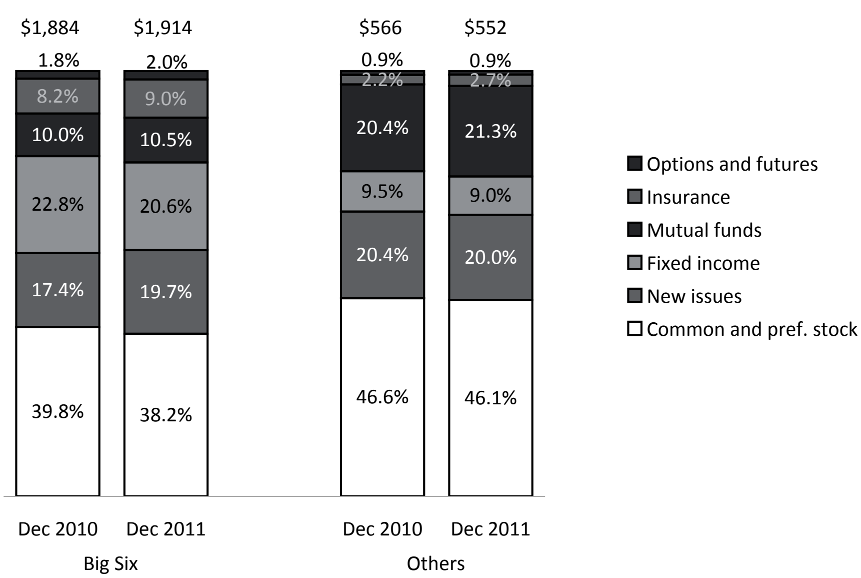
3.10 Full-service Brokerage Mix of Quarterly Commission Revenues
In millions of dollars

	Quarterly revenues			Trailing four quarters ending
	Dec 2010	Sep 2011	Dec 2011	Dec 2011
Commission revenues	**$713**	**$569**	**$558**	**2,465**
	100.0%	**100.0%**	**100.0%**	**100.0%**
Equity	64.0%	59.9%	59.9%	61.5%
Common and preferred stock	41.6%	41.2%	38.3%	40.0%
New issues	20.9%	16.4%	20.1%	19.8%
Options and futures	1.4%	2.3%	1.5%	1.7%
Mutual funds	11.5%	11.9%	12.9%	12.9%
Insurance	6.1%	9.3%	7.4%	7.6%
Fixed income	18.4%	18.9%	19.8%	18.0%

➔ Insurance revenues (this measure includes all insurance revenues) fell back in the fourth quarter relative to the strong showing in the third quarter, but remained on a longer-term upward sloping trend. Fixed income commission levels, while up slightly in the fourth quarter, were well below the levels experienced in late 2008 and 2009 and even 2010.

➔ Figure 3.11 provides a longer-term view of the mix within the commission category, and contrasts the result for 2010 versus 2011 for both the Big Six and the Other firms. The main changes have been improvement in the new issue area for the Big Six. The longer-term declines in fixed income activity from 2010 to 2011 at both the Big Six and the Other firms likely reflect views on the outlook for interest rates and the impact that will have on fixed income valuations. The growing short-term GIC component of the fixed income "book" is also exerting downward pressure on fixed income commissions.

3.11 Full-service Brokerage Mix of Commission Revenues
Trailing four quarters ending December 2010 and December 2011
In millions of dollars



➔ Figure 3.11 also reflects a small gain in mutual fund sales revenue in 2011 versus 2010, but this was largely driven by a very strong first quarter in 2011. Despite the increase, mutual fund sales revenue levels still remain 22% below the levels experienced in 2007 and 2006. The broader shift to fee-based revenue has seen mutual fund-based practices increasingly move away from front-end load commissions and towards greater reliance on the trailer component.

3.12 Full-service Brokerage Quarterly Fee Revenue Mix
In millions of dollars

	Quarterly revenues			Trailing four quarters ending
	Dec 2010	**Sep 2011**	**Dec 2011**	**Dec 2011**
Fees	**$721**	**$747**	**$747**	**3,020**
	100.0%	**100.0%**	**100.0%**	**100.0%**
Mutual fund trailers	29.7%	30.0%	29.8%	30.2%
Fund wraps	4.3%	3.3%	3.2%	3.4%
Fee-based brokerage	27.8%	28.8%	29.3%	28.7%
Discretionary brokerage*	32.3%	32.4%	32.3%	32.3%
Account fees	6.0%	5.4%	5.3%	5.3%

Includes separately managed wraps, advisor managed accounts and in-house managed wraps.

➔ Despite a small gain in equity markets in the fourth quarter, asset-based fee revenues were relatively static for the period (see Figure 3.12) due to mixed results at the product level. The asset growth of fee-based brokerage account programs (FBB) and discretionary advisor managed programs (AM) both generated increases in fee revenue for the quarter. However, those increases were offset by declines in both mutual fund trailers and fees for discretionary separately managed wraps (SMW). These revenue declines reflect a shift in mix that has resulted in a lower average-weighted fee rather than a decline in the underlying assets.

Note: There has been a historical restatement in the mix of FBB and AM revenue within the Other firms. This has not altered the total of the two, but has increased the share attributed to FBB and decreased the share attributed to AM compared to previous reports.

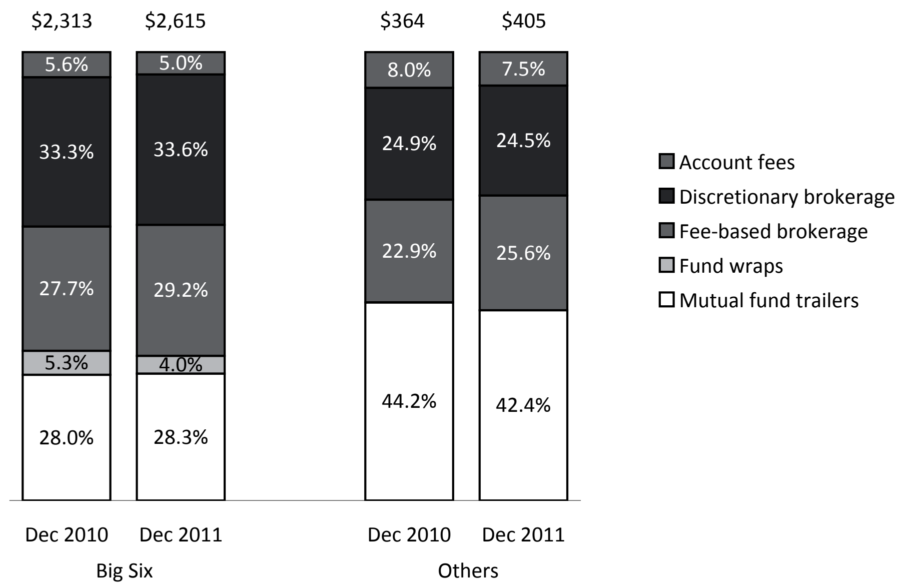
➔ The longer-term growth advantage enjoyed by FBB assets compared to mutual funds and aggregate discretionary assets continued to drive up its share of fee revenue (see Figure 3.13). FBB revenue share at the Big Six climbed from 27.7% in 2010 to 29.2% in 2011, while moving from 22.9% to 25.6% at the Other firms. Discretionary revenue shares remained relatively unchanged for both the Big Six and the Other firms as strong growth in AM revenue was offset by the declines in SMW revenue in 2011.

➔ Account fees and mutual fund trailers continued to experience absolute dollar growth, but growth lagged behind that of FBB revenue, particularly for the Other group, where trailer share of 2011 fee revenue dropped almost 2 percentage points. Weighted-trailer fees are down, thus reflecting the shift in fund mix to fixed income as well as to HISA products, where trailers are much lower than that of balanced and equity fund assets.

3.13 Full-service Brokerage Mix of Fee Revenues

Trailing four quarters ending December 2010 and December 2011

In millions of dollars



➔ Figure 3.14 provides a comparison of turn rates for the four quarters ended December 2011. Turn rates are calculated by dividing revenue by the average assets under administration for the same period. Mutual fund revenues and assets are reflected in total turn rates, but not in any of the other three categories. Turn rates were relatively static, with changes in equity and fixed income reflecting small gains in average asset levels but an overall reduction in commission levels owing to market uncertainty and the continued shift to fee-based revenue. Managed asset turn rates, which includes FBB and AM programs, also remains relatively unchanged, with differences largely owing to timing of asset growth and recognition of fee revenue.

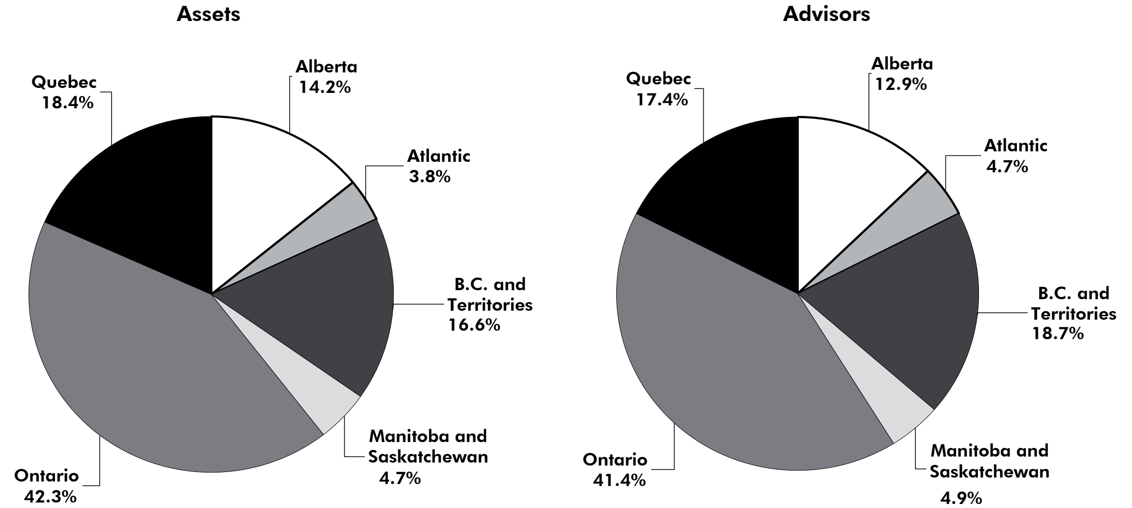
3.14 Full-service Brokerage Annualized Turn Rates for Four Quarters Ending

				Change (bps)	
	Dec 2010	Sep 2011	Dec 2011	3-mo	Yr/yr
Total assets	**0.87%**	**0.89%**	**0.87%**	**(2.9)**	**(0.6)**
Big Six	0.84%	0.86%	0.84%	(2.1)	(0.3)
Others	1.07%	1.12%	1.05%	(7.3)	(2.1)
Equities	**0.53%**	**0.53%**	**0.48%**	**(4.6)**	**(4.7)**
Big Six	0.45%	0.45%	0.42%	(2.8)	(3.5)
Others	0.95%	0.98%	0.85%	(13.5)	(10.4)
Fixed income	**0.30%**	**0.28%**	**0.26%**	**(1.3)**	**(3.8)**
Big Six	0.30%	0.27%	0.26%	(1.2)	(4.0)
Others	0.35%	0.35%	0.33%	(1.8)	(1.7)
Managed assets	**1.03%**	**1.04%**	**1.02%**	**(1.8)**	**(1.5)**
Big Six	1.03%	1.03%	1.01%	(1.7)	(1.6)
Others	1.09%	1.11%	1.09%	(2.4)	(0.6)

Regional Coverage

➔ Figures 3.15 and 3.16 examine the regional landscape of full-service brokerage. Working from a relatively small base, Manitoba and Saskatchewan experienced strong growth in both assets and advisors for the quarter, and were the only regions with gains in advisors at the end of the three-month period. On an annual basis Ontario and Quebec were the only provinces to grow assets. In the same period, Alberta was the only province that saw gains in its advisors. Growth in the western province was part of a development that we discussed in more detail in the Winter 2012 issue of the *Retail Brokerage Distribution and Advisory Service Report*.

3.15 Full-service Brokerage Assets and Advisors by Region—March 2012



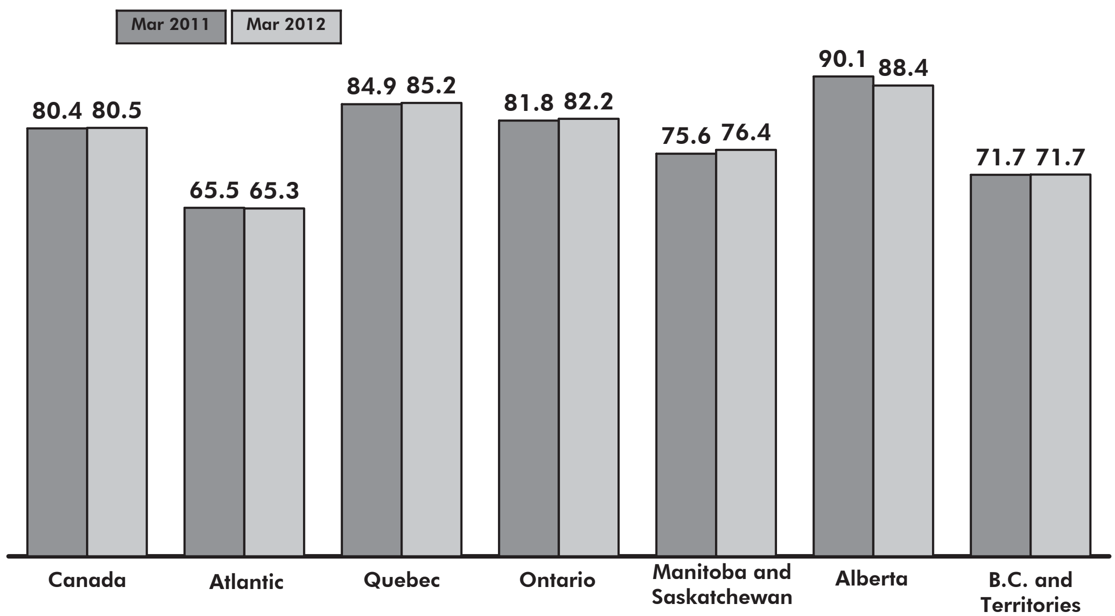
3.16 Full-service Brokerage Assets and Advisors by Region
Assets in billions of dollars

	Assets			Growth	
	Mar 2011	Dec 2011	Mar 2012	3-mo	Yr/yr
Canada	**$825**	**$787**	**$818**	**3.9%**	**-0.8%**
Atlantic	32	30	31	4.2%	-1.8%
Quebec	150	146	150	3.0%	0.3%
Ontario	345	332	346	4.1%	0.2%
Manitoba and Saskatchewan	39	37	38	4.3%	-1.5%
Alberta	117	112	116	3.3%	-0.9%
B.C. and Territories	142	130	136	4.8%	-4.0%
	Number of advisors*			**Growth**	
	Mar 2011	**Dec 2011**	**Mar 2012**	**3-mo**	**Yr/yr**
Canada	**10,266**	**10,189**	**10,170**	**-0.2%**	**-0.9%**
Atlantic	485	480	477	-0.6%	-1.6%
Quebec	1,767	1,774	1,767	-0.4%	—
Ontario	4,221	4,219	4,213	-0.1%	-0.2%
Manitoba and Saskatchewan	515	496	503	1.4%	-2.4%
Alberta	1,297	1,311	1,311	—	1.0%
B.C. and Territories	1,980	1,909	1,899	-0.5%	-4.1%

Industry number of advisors is estimated based on survey respondents plus a gross-up factor.

➔ Figure 3.17 presents data on advisor books by region. The average full-service book of business in Canada grew 4.1% to over $80 million in the first quarter of 2012, a new high-water mark in the industry. The record level was the result of the market growth in the quarter and a degree of advisor attrition. B.C. experienced the highest growth in average book size in the quarter (5.3%) but also the greatest decline in advisors. Manitoba and Saskatchewan saw the smallest growth in book size despite the second-fastest asset growth rate due to net growth in advisors. Alberta saw the largest decline in average book size on an annual basis due to net gains in advisors in 2011.

3.17 Full-service Brokerage Average Assets per Advisor
In millions of dollars



Fee-based programs

In Figures 3.18 and 3.19, the cash held on deposit in transactional accounts is included in the commission-based assets total, just as cash positions within the various fee-based accounts are included in the managed asset totals.

➔ Figure 3.18 examines the business mix within the full-service brokerage channel. All business lines saw growth in the quarter, and fee-based assets widened their margin over commission-based assets. Fee-based asset growth outpaced commission-based assets by 2.2 percentage points in the quarter and 11.0 percentage points in the one-year period. Within the broad fee-based asset pool, managed asset programs outpaced stand-alone funds and HISAs due to strong gains in fee-based brokerage account (FBB) and advisor managed (AM) programs.

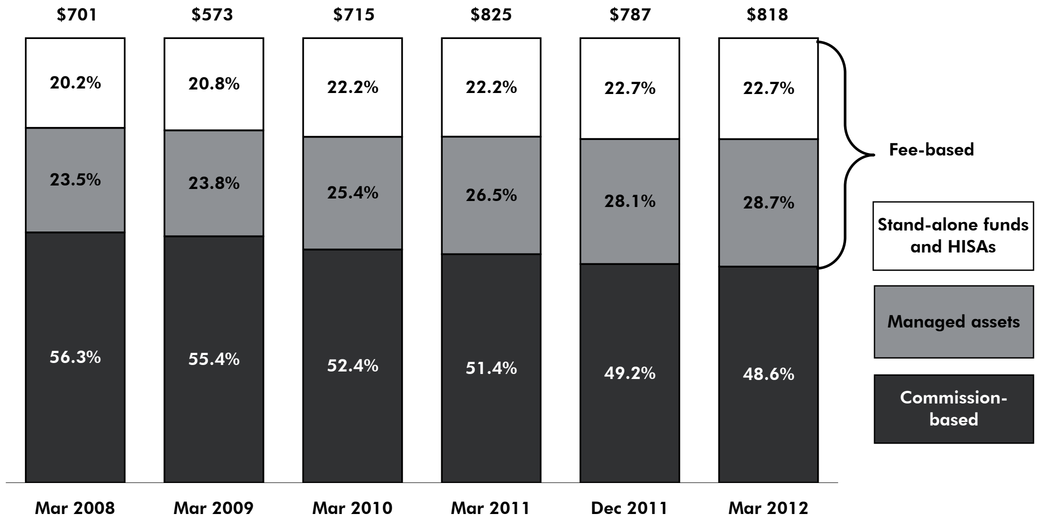
3.18 Full-service Brokerage Business Mix
Assets in billions of dollars

	Assets			Growth	
	Mar 2011	**Dec 2011**	**Mar 2012**	**3-mo**	**Yr/yr**
Full-service brokers	**$825**	**$787**	**$818**	**3.9%**	**-0.8%**
Commission-based assets	**424**	**387**	**398**	**2.8%**	**-6.2%**
Fee-based assets	**401**	**401**	**421**	**5.0%**	**4.8%**
Stand-alone funds and HISAs*	183	179	186	4.0%	1.7%
Managed assets	218	222	235	5.8%	7.5%
Fund wraps	20	19	20	3.9%	-1.2%
Fee-based brokerage	107	109	116	6.6%	9.1%
Discretionary assets	92	94	99	5.2%	7.4%
Separately managed wraps	27	26	27	4.2%	0.7%
In-house managed wraps	13	11	11	1.2%	-10.7%
Advisor managed	52	57	60	6.5%	15.3%

***Excludes double-counting due to funds in managed assets and HISAs.**

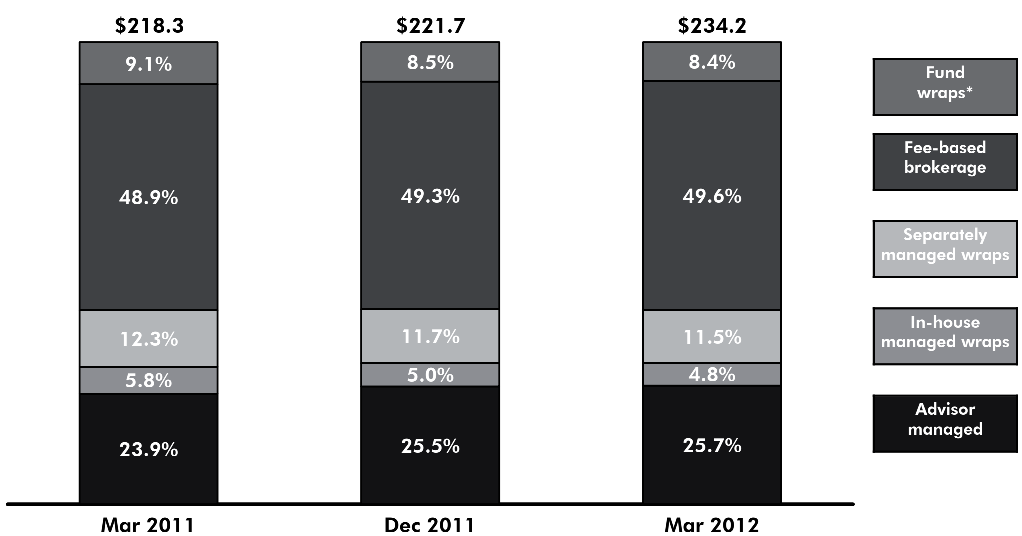
➔ Managed assets continued to increase share, with gains in the past four years coming primarily from flows out of the transaction-based business (see Figure 3.19). Since March 2008, commission-based assets' share of the full-service brokerage mix has declined 7.7 percentage points compared to a 5.2 percentage point increase for managed assets.

3.19 Full-service Brokerage Business Mix
Major components as share of total assets



➔ Within the managed asset universe, FBB and AM programs continued to outpace all other segments. On a combined basis, the two respective programs now control over three-quarters of the managed assets business (see Figure 3.20). Fund wraps (FW) and in-house managed wrap programs (IHMW) saw the slowest growth of all fee-based programs in the first quarter of 2012. Separately managed wraps (SMWs) showed continued signs of improvement as measured by quarterly growth (4.2% in Q1 2012 vs. 3.1% in Q4 2011), although it was not enough to keep pace with the FBB and AM programs. The changing share composition of the channel would suggest that half of all former transaction-based assets are flows into either FBB or AM programs.

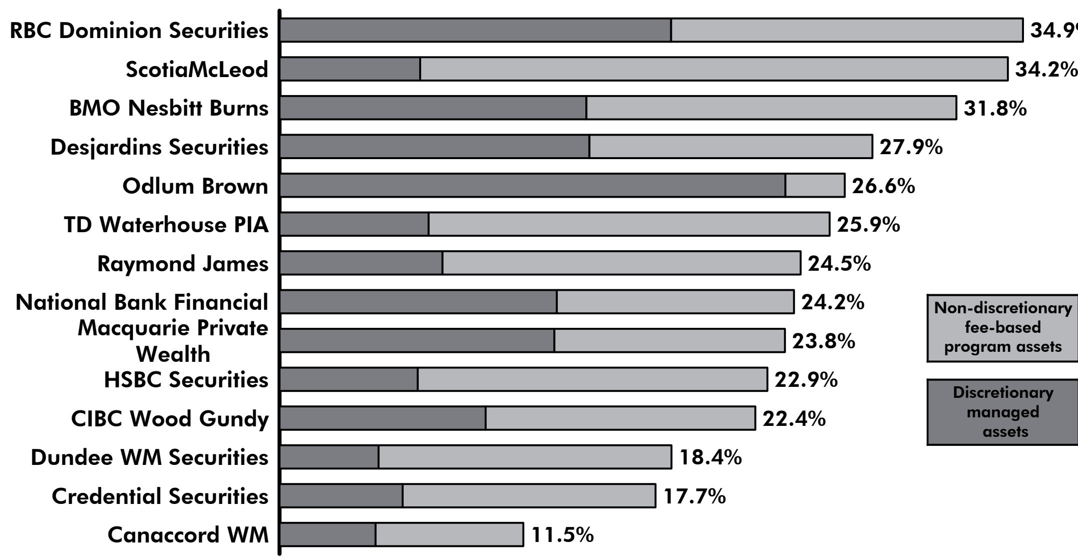
3.20 Full-service Brokerage Managed Assets by Type*



****Fund wraps include both third-party and proprietary fund wrap programs.***

➔ Figure 3.21 displays a snapshot of managed assets as a share of total assets at the full-service brokerage firms in our sample. Managed assets saw further uptake by full-service brokerage firms in the first quarter. Of the 14 firms in Figure 3.21, 12 reported an increase in fee-based program asset penetration compared to the previous period. In terms of rankings, HSBC Securities moved up one spot after falling two in the previous quarter; Dundee Wealth Management Securities moved up one spot due to robust growth in both its FBB and AM programs.

3.21 Full-service Brokerage Managed Assets as a Percentage of Total Assets—March 2012



3.22 Full-service Brokerage Firms Ranked by Total Assets in Fee-based Brokerage Programs
Assets in billions of dollars

	Asset rank			Asset growth rates March 2012	
	Mar 2012	**Dec 2011**	**Mar 2011**	**3-mo**	**1-yr**
Fee-based brokerage	**$116.1**	**$109.2**	**$106.7**	**6.3%**	**8.8%**
RBC Dominion Securities	1	1	1	9	13
BMO Nesbitt Burns	2	2	2	12	10
ScotiaMcLeod	3	3	3	8	9
CIBC Wood Gundy	4	4	4	10	12
TD Waterhouse Private Investment Advice	5	5	5	11	11
Top 5	**$90.4**	**$85.1**	**$82.7**	**6.3%**	**9.3%**
Market share	**77.9%**	**77.9%**	**77.5%**		
National Bank Financial	6	6	6	7	2
Raymond James	7	7	7	13	7
Desjardins Securities	8	8	8	5	6
Dundee Wealth Management Securities	9	10	11	3	3
HSBC Securities	10	9	9	15	15
Top 10	**$105.9**	**$99.4**	**$95.1**	**6.6%**	**11.4%**
Market share	**91.3%**	**91.0%**	**89.1%**		
Macquarie Private Wealth	11	11	12	4	5
Canaccord Wealth Management	12	12	13	14	8
ATB Securities	13	13	14	6	4
Odlum Brown	14	14	15	1	14
Credential Securities	15	15	16	2	1
Wellington West	N/A	N/A	10	N/A	N/A

➔ FBB programs ended March 2012 with $116 billion in assets, an increase of 6.3% from the previous quarter to a reach a new high (see Figure 3.22). The FBB share of channel assets increased yet again in the first quarter of 2012, and now accounts for 14.2% of the FSB business. Growth in the program relative to the channel as a whole has been accelerated by market factors, in part due to its favourable equity-centric mix. Most firms grew at a faster pace than equity markets in the quarter and in the one-year period, suggesting strong net new business flows. The only change in the rankings occurred outside the top five. Dundee Wealth Management Securities moved up one spot to ninth after finishing third in growth in both the quarter and the year. HSBC Securities fell to 10th place with the lowest quarterly and annual growth rate.

➔ SMWs grew 4.1% in the quarter to reach $27 billion in assets (see Figure 3.23a). The discretionary wrap program grew at a faster pace than the full-service channel, which partially reflects the program's higher equity-weighting compared to the channel. The majority of programs saw growth in the quarter; however, the rate of growth remained subdued relative to both AM and FBB programs,.

3.23a Full-service Brokerage Firms Ranked by Total Assets in Separately Managed Wrap Programs
Assets in billions of dollars

	Asset rank			Asset growth rates Mar 2012	
	Mar 2012	Dec 2011	Mar 2011	3-mo	1-yr
Separately managed wraps	**$27.0**	**$25.9**	**$26.8**	**4.2%**	**0.7%**
CIBC Wood Gundy	1	1	1	9	10
BMO Nesbitt Burns	2	2	2	6	8
RBC Dominion Securities	3	3	4	1	1
TD Waterhouse Private Investment Advice	4	4	3	5	5
National Bank Financial	5	5	6	12	3
Top 5	**$20.7**	**$19.7**	**$19.9**	**5.0%**	**4.3%**
Market share	**76.7%**	**76.1%**	**74.0%**		
Desjardins Securities	6	6	5	11	12
ScotiaMcLeod	7	7	7	10	11
Raymond James	8	8	10	4	2
Macquarie Private Wealth	9	9	11	2	4
Credential Securities	10	10	12	8	6
Top 10	**$23.6**	**$22.5**	**$22.9**	**4.8%**	**3.0%**
Market share	**87.5%**	**86.9%**	**85.5%**		
Canaccord Wealth Management	11	12	13	7	7
HSBC Securities	12	11	9	13	13
Dundee Wealth Management Securities	13	13	14	3	9
Wellington West	N/A	N/A	8	N/A	N/A

➔ In terms of rankings, Cannacord's budding CC Investment Counselling program moved into 11th spot, replacing HSBC Securities' Diamond Portfolio program, which has fallen in the rankings for consecutive quarters. RBC Dominion Securities' combined Access and A+ programs saw the fastest growth in the channel, in part due to stronger flows to its unified managed account (UMA) program. With North American equity markets showing signs of strength during the first quarter of 2012, it will be interesting to see whether SMWs revert to an equity-centric mix as opposed to the broader conservative shift observed in the past few years.

3.23b Full-service Brokerage Firms Ranked by Total Assets in In-house Managed Wrap Programs
Assets in billions of dollars

	Asset rank			Asset growth rate March 2012	
	Mar 2012	**Dec 2011**	**Mar 2011**	**3-mo**	**1-yr**
In-house managed wraps	**$11.3**	**$11.2**	**$12.7**	**1.2%**	**-10.7%**
BMO Nesbitt Burns	1	1	1	3	3
RBC Dominion Securities	2	2	2	4	4
National Bank Financial	3	3	3	2	2
TD Waterhouse Private Investment Advice	4	4	N/A	1	N/A

➔ IHMW programs grew a meager 1.2% in the quarter and declined 10.7% on the year to finish the quarter ended March 2012 at $11.3 billion in assets (see Figure 3.23b). The relatively undersized segment lagged the pace set by all other fee-based managed asset programs in the quarter. While still in its infancy, TD Waterhouse PIA's Core Managed Portfolio program has seen the fastest growth for two consecutive quarters.

➔ AM programs were once again the fastest-growing segment in the full-service channel. Assets grew 6.5% in the quarter to reach $60 billion, just a year after AM programs reached $50 billion in assets. A glance at Figure 3.24 reveals that the rankings remained static compared to last quarter. CIBC Wood Gundy's IA Managed Account program saw the fastest growth in the quarter, and was the only program in the top five to rank higher in quarterly growth relative to its asset rank. Of the firms outside the top five, Macquarie Private Wealth and Raymond James were the only firms to rank better than fifth for growth on both an annual and a quarterly basis. Macquarie's Managed Portfolios program saw the fastest growth in the one-year period, which reflects a series of advisor acquisitions made in the second half of 2011.

3.24 Full-service Brokerage Firms Ranked by Total Assets in Advisor Managed Programs
Assets in billions of dollars

	Asset rank			Asset growth rates Mar 2012	
	Mar 2012	Dec 2011	Mar 2011	3-mo	1-yr
Advisor managed	**$60.2**	**$56.5**	**$52.2**	**6.5%**	**15.3%**
RBC Dominion Securities	1	1	1	8	11
BMO Nesbitt Burns	2	2	2	4	6
ScotiaMcLeod	3	3	3	5	8
National Bank Financial	4	4	4	11	2
CIBC Wood Gundy	5	5	5	1	5
Top 5	**$47.1**	**$43.9**	**$40.0**	**7.3%**	**17.8%**
Market share	**78.3%**	**77.7%**	**76.6%**		
Desjardins Securities	6	6	6	13	12
TD Waterhouse Private Investment Advice	7	7	7	12	10
Odlum Brown	8	8	8	6	9
Macquarie Private Wealth	9	9	9	2	1
Raymond James	10	10	11	3	3
Top 10	**$54.6**	**$51.0**	**$46.5**	**7.0%**	**17.3%**
Market share	**90.7%**	**90.2%**	**89.1%**		
Dundee Wealth Management Securities	11	11	12	7	7
Canaccord Wealth Management	12	12	13	9	4
HSBC Securities	13	13	10	10	13
Wellington West	N/A	N/A	14	N/A	N/A

➔ Figure 3.25 outlines the managed asset programs sponsored by firms in the full-service brokerage channel.

3.25 Managed Asset Programs Offered through Full-service Brokers

Company	Fee-based brokerage	Separately managed wraps	In-house managed wraps	Advisor managed
ATB Securities	ATB Fee-based Brokerage			
BMO Nesbitt Burns		Architect Program		
	Meridian Program	Advance Program	BluePrint Program	Managed Portfolio Account
Canaccord Wealth Management	CC Fee-based Account	CC Investment Counselling Program		CC Managed Account
CIBC Wood Gundy	Portfolio Partner	Investment Consulting Service		IA Managed Account Program
Credential Securities	OnPoint Program	Credential Managed Account		
Desjardins Securities	Elite Accounts	Darwin Discretionary Management Program		Advisor Managed Program
Dundee Wealth Management Securities	Summit Investment Program	Vintage Investment Program		Advisor Managed Program
HSBC Securities	Sapphire Portfolio	Diamond Portfolio		The Insignia Program
Laurentian Bank Securities	Le Conseiller	M3		
Macquarie Private Wealth* **	Advised Portfolios	Separately Managed Portfolios		Managed Portfolios
National Bank Financial	Partnership Accounts	Ambassador Portfolio Service	Baskets, Private Wealth Management	Advisor Baskets, Advisor Managed Account*
Odlum Brown	Fee-based Brokerage			Advisor Managed Program
Raymond James	Viridian Account	Partners, Freedom Account		Private Investment Management Group
RBC Dominion Securities		A+ Program		
	Advisor Program	Access Manager Selection Program	Parameters Portfolios	Private Investment Management
Richardson GMP	Asset Management Account	Separately Managed Account		Portfolio Management Account
ScotiaMcLeod	Partnership Plus, i:Partner	The Summit Program		Managed Account Program
TD Waterhouse Private Investment Advice	Cornerstone Program	Premier Managed Portfolios	Core Managed Portfolios	Managed Account Program
Wellington West**	Portage Investment Program	Waterfront Managed Investment Program		Managed Portfolio Program

Reported on a combined basis.

*****Wellington West's fee-based programs have been acquired by National Bank Financial, and are reported as such in our rankings.***

****** Macquarie Private Wealth has changed its fee-based program names in the fourth quarter of 2011.***

Product Analysis

Insurance

The New Normal

On a quarterly basis, the insurance business of the full-service brokerage channel continues to demonstrate a significant degree of volatility. But what appears volatile from December to March is in fact consistent within the context of long-term trends. Insurance in full-service brokerage has remained within a band—for revenue, between $16 million and $23 million since 2006, that is, until the quarter ended December 2010. Since then we have seen record highs and lows in the various insurance products lines, coinciding with what could be termed as the "Great De-risking" by Canadian life insurers, and has proved a watershed for both insurers and brokerage as an insurance distribution channel.

Since 2010, when the first companies announced price increases, all major Canadian insurers have followed suit, updating pricing to reflect the evolving outlook for fixed income, examining their product lineup, addressing profitability and re-examining their strategic focus. The first quarter of 2012 saw segregated funds features trimmed; the guaranteed withdrawal benefit (GWB) sub-segment in particular saw prices increased, features reduced and products suspended.

In company news, at the beginning of the quarter, Standard Life ceased selling individual life products, focusing instead on investment products with lower capital reserve requirements and on group retirement savings and insurance. Transamerica Life took the opposite tack, opting to focus on life insurance products, eliminating some income products and reducing support for others. In April, Empire Life, which has managed segregated funds since the 1950s, launched a family of mutual funds.

To improve corporate profits, the large Canadian insurers looked farther afield when the Canadian market struggled, and took advantage of—and increased—their geographic diversification. Manulife and Sun Life, having forecast modest growth in North America, focused on Asian markets. Within these markets, Manulife focused on manufacturing and distributing insurance, generating three times the net income generated in Canada in the first quarter. In Asia, Sun Life has focused on asset management. What does this amount to? After several quarters in the red, Canada's largest insurers—Manulife, Sun Life and Great-West Lifeco including Canada Life—were profitable in the quarter.

The frequent changes insurers have had to make to their products and pricing whilst rebuilding in the last two years have translated into volatility in the full-service channel. Since December 2010, full-service brokerage saw record quarters for revenue, with $27.1 million at its peak in December 2011, which was well above the band that represents business-as-usual. But in the most recent quarter, the quarter ended March 2012, revenue returned to pre-2010 levels with $21.6 million.

Is this back to normal or something else?

Out-of-the ordinary insurance revenue in 2011 can be attributed to the drive to lock clients in to permanent life products ahead of pricing increases. The strategy served advisors and insurers equally well, providing advisors with the impetus to discuss insurance with their clients and insurers with volume of policies. The decline to date in 2012 can also be attributed to the out-of-ordinary volume of business in 2011; advisors exhausted interest in permanent life products ahead of the changes to cost of insurance.

Whether permanent policies retain their appeal to investors under the new pricing regime remains to be seen. In the most recent quarter, term life (TL) played a larger part than it has in some time, both in terms of revenue and policies with ever larger face values. This suggests that advisors are happy to deploy TL to satisfy insurance coverage requirements and use other tools for income and estate planning needs, even if doing so foregoes the substantial revenue of permanent life policies.

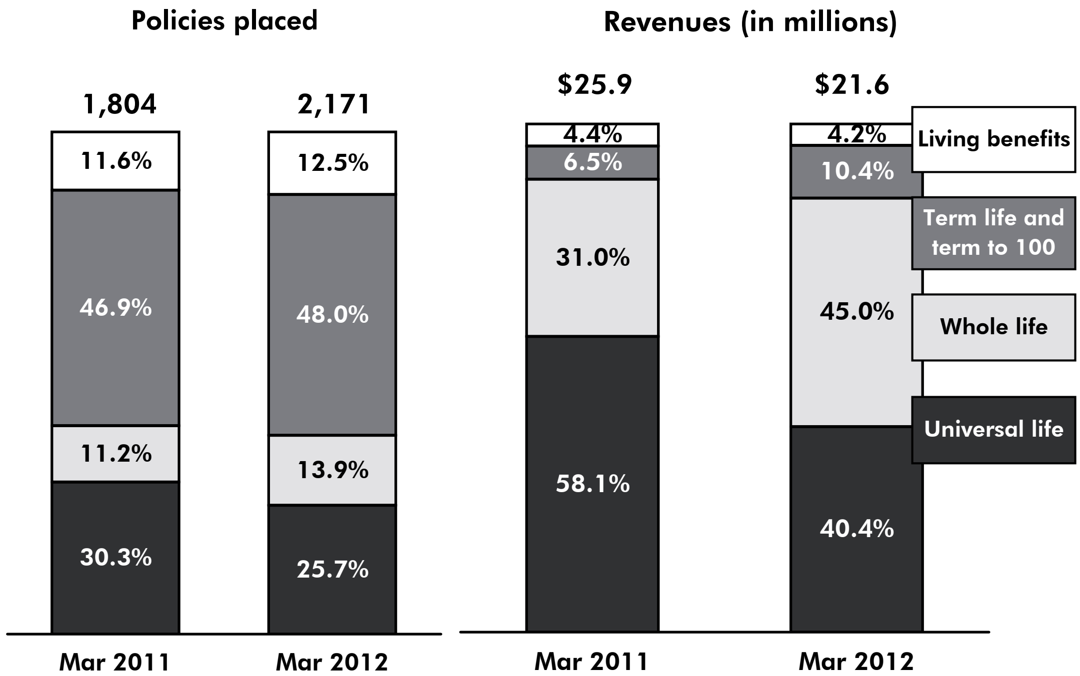
3.26 Quarterly Insurance Results at Full-service Brokers

	Quarter ended			March 2012 vs.	
	Mar 2011	**Dec 2011**	**Mar 2012**	**Dec 2011**	**Mar 2011**
Total number of policies placed	**1,804**	**2,056**	**2,171**	**5.6%**	**20.3%**
Universal life	546	532	557	4.7%	2.0%
Whole life	202	309	302	-2.3%	49.5%
Term life (including term to 100)	846	941	1,041	10.6%	23.0%
Living benefits	210	274	271	-1.1%	29.0%
Total revenues in millions of dollars	**$25.9**	**$27.1**	**$21.6**	**-20.4%**	**-16.8%**
Universal life	$15.1	$12.2	$8.7	-28.5%	-42.2%
Whole life	$8.0	$12.1	$9.7	-19.6%	20.9%
Term life (including term to 100)	$1.7	$1.8	$2.2	23.9%	34.0%
Living benefits	$1.1	$1.1	$0.9	-13.5%	-20.1%

➔ The full-service brokerage channel saw revenue from the sale of insurance products decline sharply in the quarter ended March 2012. In the quarter, the sale of insurance brought in $21.6 million, down 20.4% from the previous quarter and down 16.8% from the same quarter one year prior (Figure 3.26). The decline in revenue reflects an increase in TL that was insufficient to offset a large drop in permanent life revenue. TL saw growth in terms of policies sold, revenue generated and face value, suggesting that TL coverage gained traction as advisors sought to address the insurance needs of a broader range of clients.

➔ Price changes in permanent life policies took effect in 2010 and 2011, and have since caused fluctuations in our data. The two quarters used as points of reference—the quarters ended March and December 2011—saw uncharacteristic revenue due to changes to pricing. The quarter ended March 2011 was among the historically weak quarters for Whole Life (WL), with revenue at $8 million following the announcement of price increases in December 2010. Universal Life (UL) saw the reverse. The quarter ended March 2011 was a record quarter for UL revenue, benefiting from investors substituting UL for WL given pricing pressures and bringing in $15.1 million. In the year since, UL has been subject to the same cycle of scheduled price increases as WL and had its weakest quarter in the quarter ended March 2012 both in share of revenue and revenue dollars.

3.27 Quarterly Distribution of Insurance Business by Product at Big Five Full-service Brokers



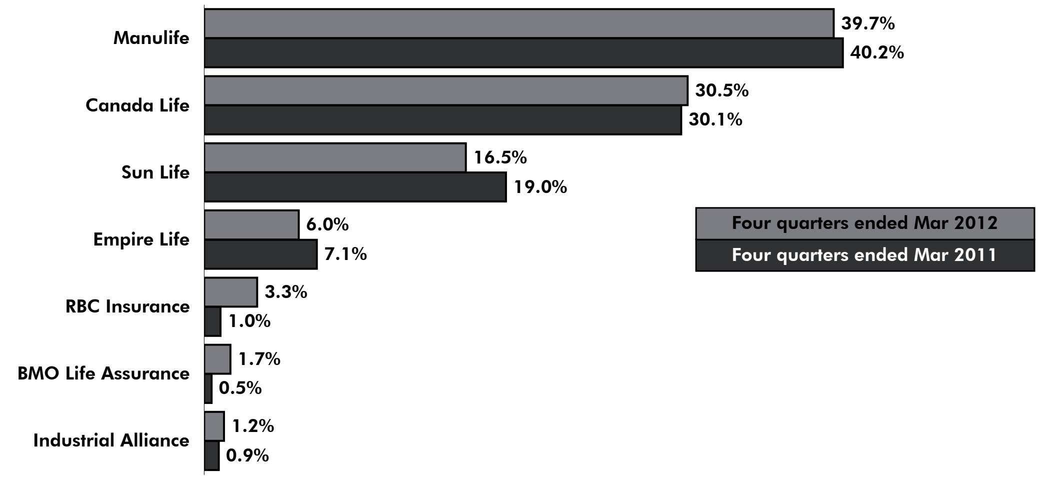
➔ UL and WL continued to generate the lion's share of revenue—$18.4 million between them—but their combined revenue was down more than 23% from the previous quarter and 20% from the quarter ended March 2011. Revenue for permanent life products was at its lowest point since March 2010, albeit after eight quarters in which revenue for those products grew 42%. The share of revenue generated by permanent life policies contracted from 89.1% to 85.4% (Figure 3.27) ceding share to TL, which increased its share of revenues from 6.5% in March 2011 to 10.4% in March 2012 amid continued concerns regarding the value of permanent insurance.

➔ The number of advisors in the full-service brokerage remained relatively stable in the quarter, albeit on a downward trend, down 260 advisors to 10,170 in the three years ended March 2012 (Figure 3.28). The share of advisors who are licensed to sell insurance remained stable throughout.

3.28 Number of Advisors with Insurance and Securities Licences at Big Six and Other Full-service Brokerages

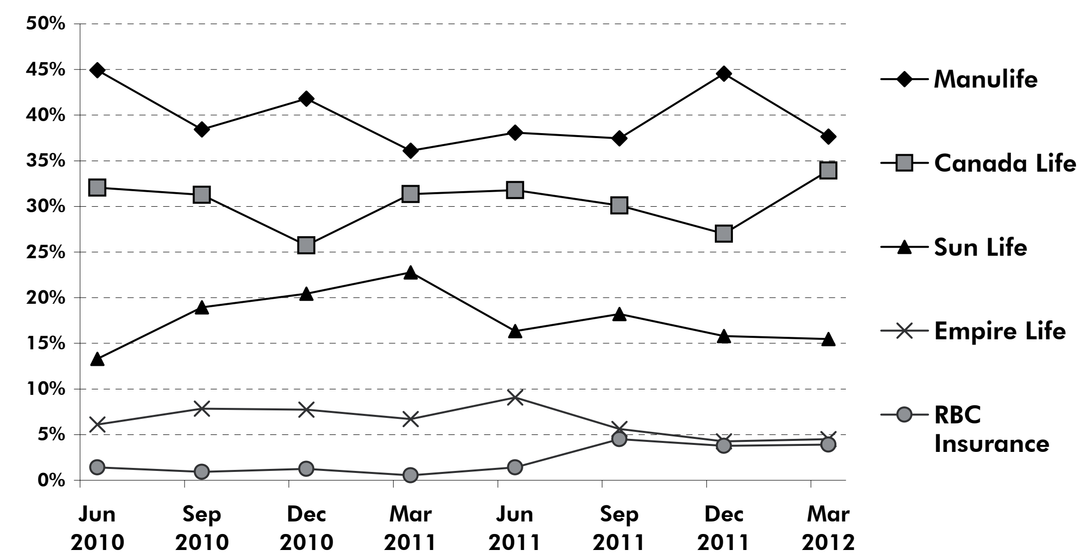
	Advisors					Growth		
	Mar 2009	Mar 2010	Mar 2011	Dec 2011	Mar 2012	3-mo	1-yr	3-yr CAGR
Total advisors	**10,430**	**10,317**	**10,266**	**10,189**	**10,170**	**-0.2%**	**-0.9%**	**-0.8%**
Big Six advisors	6,400	6,227	6,164	6,292	6,272	-0.3%	1.8%	-0.7%
% insurance-licensed	60.8%	63.7%	62.6%	63.2%	63.1%			
Other advisors	4,030	4,090	4,102	3,897	3,898	0.0%	-5.0%	-1.1%
% insurance-licensed	38.7%	54.3%	55.1%	55.3%	55.0%			

3.29a Insurance Companies' Share of Insurance Revenues at Full-service Brokers*



Top seven insurance companies' share of brokerage revenues.

3.29b Insurance Companies' Quarterly Share of Insurance Revenues at Full-service Brokers*



Ranked by share of insurance revenues in the most recent quarter.

➔ Manulife products continued to generate the largest share of insurance revenue in the full-service brokerage channel (Figure 3.29a) despite ceding ground. In the four quarters ended march 2012, Manulife's share of revenues represented 39.7%. Brokers have moved away from the large UL policies that generate substantial revenue, contributing to the overall decline in insurance revenue for the brokerage; for all but one insurer, total revenue was down in absolute terms compared to the previous quarter. Canada Life gained share on the strength of its participating life after leading insurers discontinued similar offerings.

3.30 Full-service Brokerage Insurance Rankings—March 2012
Ranked by quarterly revenues in thousands of dollars and quarterly growth rate

	Revenue rank					
	Total	Universal life	Whole life	Term life	Living benefits	Growth rank total revenue
Total insurance revenue	**$21,569**	**$8,708**	**$9,696**	**$2,249**	**$915**	**-20.4%**
RBC Dominion Securities	1	1	2	1	1	3
CIBC Wood Gundy	2	5	1	5	2	1
BMO Nesbitt Burns	3	4	3	4	3	2
TD Waterhouse	4	2	5	2	5	4
Scotia McLeod	5	3	4	3	4	5

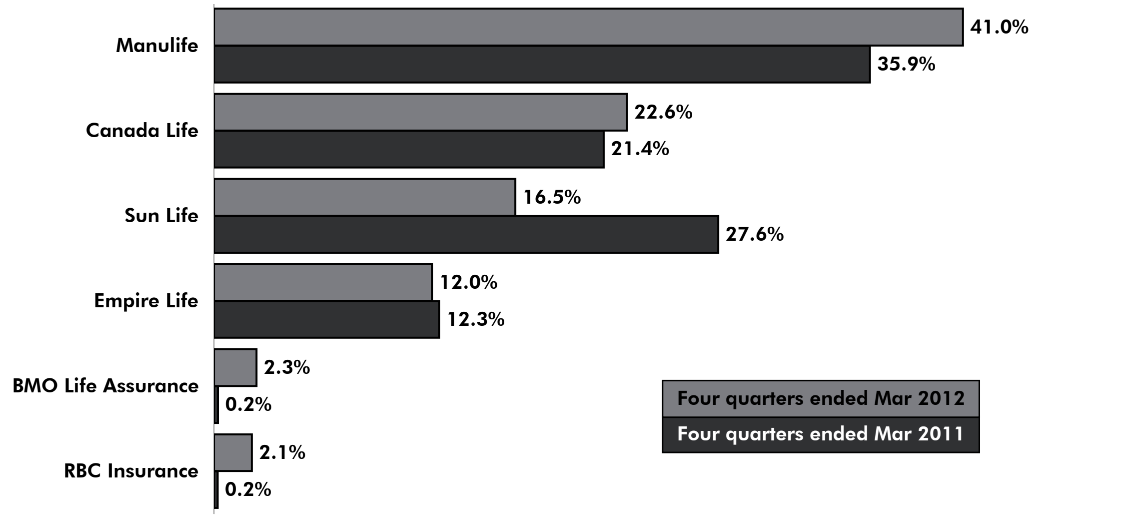
➔ RBC Dominion Securities continued to lead the bank-owned brokerages in terms of total revenue from insurance; however, it did cede lead ranking for WL to CIBC Wood Gundy (see figure 3.30). CIBC Wood Gundy was the only firm that increased its revenue in absolute terms in either permanent life product. CIBC Wood Gundy fell in the rankings for TL however, from second to fifth, as other firms saw TL revenue grow.

3.31 Quarterly Universal Life Results at Full-service Brokers

	Quarter ended			March 2012 vs.	
	Mar 2011	Dec 2011	Mar 2012	Dec 2011	Mar 2011
Number of policies placed	**546**	**532**	**557**	**4.7%**	**2.0%**
Face value of policies placed in millions of dollars	$677	$823	$476	-42.1%	-29.7%
Average face value of policies placed in dollars	$1,240,564	$1,547,157	$855,321	-44.7%	-31.1%
Distribution of policies placed by face value					
$250,000 and under	16.5%	22.9%	23.9%	0.9%	7.4%
$250,000 - $500,000	21.8%	18.4%	24.4%	6.0%	2.6%
$500,000 - $1 million	23.6%	19.2%	20.1%	0.9%	-3.5%
$1 million - $5 million	32.8%	33.6%	24.2%	-9.4%	-8.5%
Over $5 million	5.3%	5.8%	7.4%	1.5%	2.0%
Revenues in millions of dollars	**$15.1**	**$12.2**	**$8.7**	**-28.5%**	**-42.2%**
Gross premiums in millions of dollars	**$42.9**	**$48.1**	**$30.1**	**-37.5%**	**-29.9%**

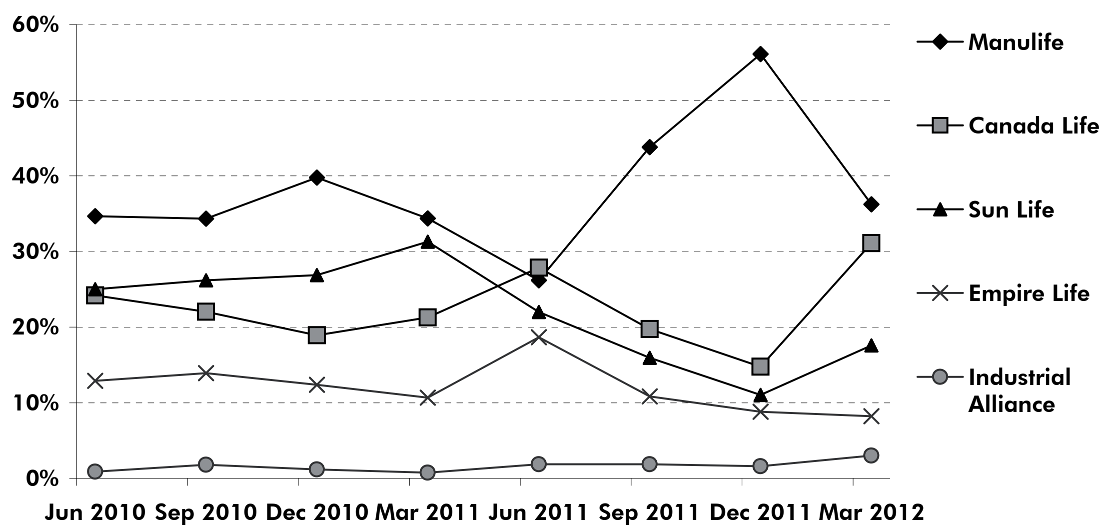
➔ Pricing of UL policies stabilized before the quarter, but the consequences of scheduled price increases continued to play out. With a record quarter for UL in March 2011 and a strong quarter ended December 2011, we have seen sales increase in advance of scheduled pricing raises as advisors locked clients in to UL policies at lower prices. Since the increase in prices, revenues have lagged, presumably as advisors exhausted interest in UL business quarters before pricing changes took effect. The quarter ended March 2012 was at its weakest since 2009, with revenues down 42.2% from its March 2011 peak (see figures 3.31). As was the case with WL one year ago, UL has been subject to a cycle of scheduled price increases and product substitution. With the higher cost of insurance the allure of UL has faded. The number of policies remained strong in the quarter, growing 4.7% compared to the previous quarter's 532 policies; the most growth was among policies

3.32a Insurance Companies' Share of Universal Life Revenues at Full-service Brokers*



****Top six insurance companies' share of universal life revenues.***

3.32b Insurance Companies' Quarterly Share of Universal Life Revenues at Full-service Brokers*



****Ranked by share of insurance revenues in the most recent quarter.***

with face values of less than $500,000 however, which represented nearly half of UL policies, up from less than 40% a year ago and the highest share since the quarter ended June 2010.

➔ Manulife UL products continued to generate the largest share of revenues for the bank-owned full-service brokerages, albeit a larger slice of a smaller pie. In the four quarters ended March 2012, Manulife increased its share of revenue to 41.0% from 35.9% (Figure 3.32a) in the previous four quarters, due in large part to its record share in the quarter ended December 2011 (Figure 3.32b).

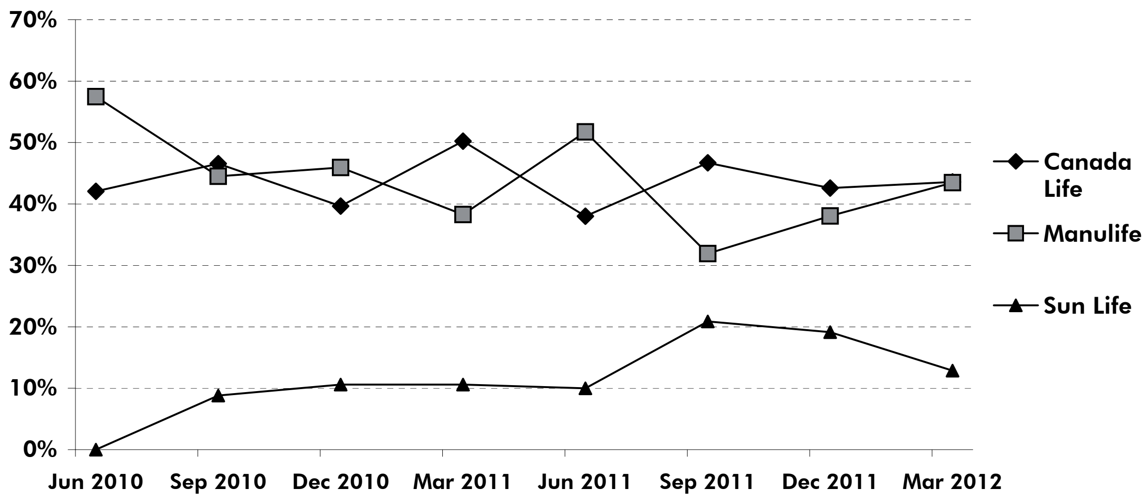
3.33 Quarterly Whole Life Results at Full-service Brokers

	Quarter ended			March 2012 vs.	
	Mar 2011	**Dec 2011**	**Mar 2012**	**Dec 2011**	**Mar 2011**
Number of policies placed	**202**	**309**	**302**	**-2.3%**	**49.5%**
Face value of policies placed in millions of dollars	$251	$403	$355	-11.8%	41.8%
Average face value of policies placed in dollars	1,240,871	1,303,735	1,176,561	-9.8%	-5.2%
Distribution of policies placed by face value					
$250,000 and under	22.8%	22.0%	23.2%	1.2%	0.4%
$250,000 - $500,000	15.3%	13.3%	14.6%	1.3%	-0.8%
$500,000 - $1 million	22.3%	29.4%	30.1%	0.7%	7.9%
$1 million - $5 million	36.1%	32.0%	29.5%	-2.6%	-6.7%
Over $5 million	3.5%	3.2%	2.6%	-0.6%	-0.8%
Revenues in millions of dollars	**$8.0**	**$12.1**	**$9.7**	**-19.6%**	**20.9%**
Gross premiums in millions of dollars	**$10.9**	**$14.2**	**$11.7**	**-17.7%**	**7.4%**

➔ That WL revenue in the quarter ended March 2012 was down 19.6% to $9.7 million in the quarter fails to provide an accurate picture of the product line. The number of WL policies sold stabilized over the past two quarters (Figure 3.33) suggesting a new plateau of around three hundred policies per quarter dating from June 2011. Looking back from the quarter ended March 2011 to the origin of the survey, the number of WL policies had remained at approximately 200.

➔ While revenue was strong in the quarter, the number of policies continued to outgrow face value. The average policy was down compared to both March and December 2011. The downward trend dates to 2009, long predating changes to pricing.

3.34 Insurance Companies' Quarterly Share of Whole Life Revenues at Full-service Brokers



- Canada Life and Manulife continue to compete head on for the bulk of the WL business in the full-service channel (Figure 3.34). With investors seeking income, Canada Life and Sun Life have had the advantage of offering participating life policies, which Manulife discontinued, ultimately ceding its dominant position in the product line in 2009.

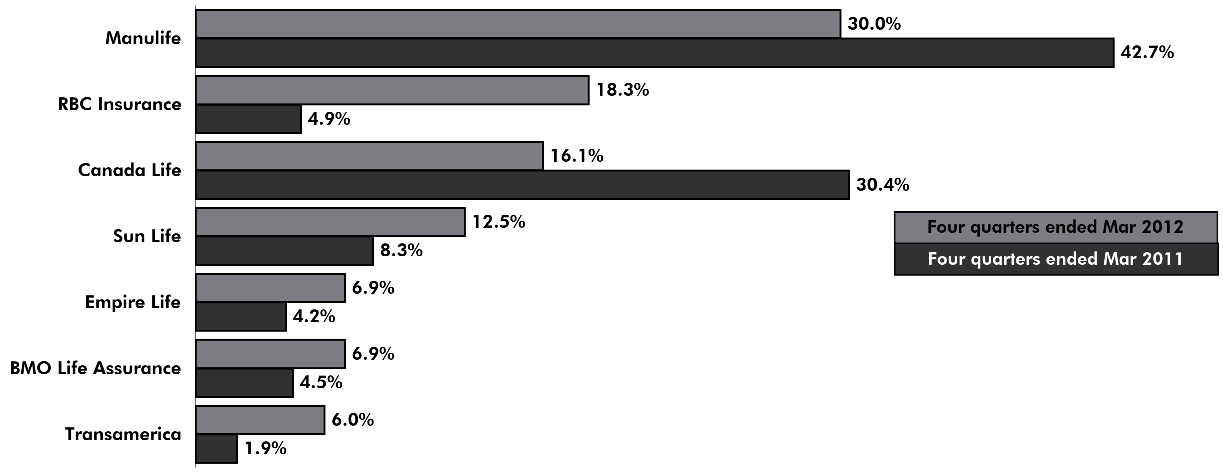
- TL is the only product to buck the trend of declining average face values in the quarter (Figure 3.35). The increase in the number of contracts, not to mention the increase in the number of policies with face values of greater than $1 million, suggests that TL is benefiting from a substitution effect as advisors use TL to ensure adequate insurance levels for their clients.

3.35 Quarterly Term Life (including Term to 100) Results at Full-service Brokers

	Quarter ended			March 2012 vs.	
	Mar 2011	Dec 2011	Mar 2012	Dec 2011	Mar 2011
Number of policies placed	**846**	**941**	**1,041**	**10.6%**	**23.0%**
Face value of policies placed in millions of dollars	$755	$887	$1,025	15.6%	35.7%
Average face value of policies placed in dollars	892,841	942,319	984,602	4.5%	10.3%
Distribution of policies placed by face value					
$250,000 and under	12.4%	14.6%	10.7%	-3.9%	-1.7%
$250,000 - $500,000	18.0%	15.0%	16.8%	1.8%	-1.2%
$500,000 - $1 million	34.2%	29.5%	32.3%	2.7%	-1.9%
$1 million - $5 million	34.4%	39.6%	38.4%	-1.2%	4.0%
Over $5 million	1.1%	1.3%	1.8%	0.5%	0.8%
Revenues in millions of dollars	**$1.7**	**$1.8**	**$2.2**	**23.9%**	**34.0%**
Gross premiums in millions of dollars	**$1.7**	**$1.3**	**$1.7**	**28.9%**	**1.3%**

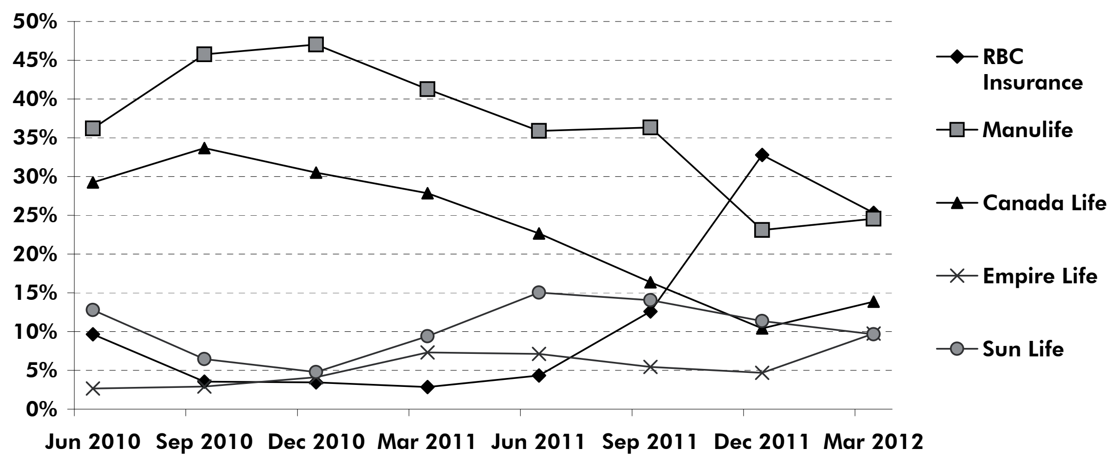
➔ The quarter saw closer competition among TL providers. RBC Insurance increased its share, in the four quarters ended March 2012, to 18.3% from 4.9% in the previous four quarters (Figure 3.36a). Sun Life, Empire Life, BMO Life Assurance and Transamerica all increased their share of total revenue at the expense of Canada Life and Manulife. That said, in the most recent quarter, Manulife regained some of its lost share (Figure 3.36b).

3.36a Insurance Companies' Share of Term Life (including Term to 100) Revenues at Full-service Brokers*



Top seven insurance companies' share of term life revenues.

3.36b Insurance Companies' Quarterly Share of Term Life (including Term to 100) Revenues at Full-service Brokers*



Ranked by share of insurance revenues in the most recent quarter.

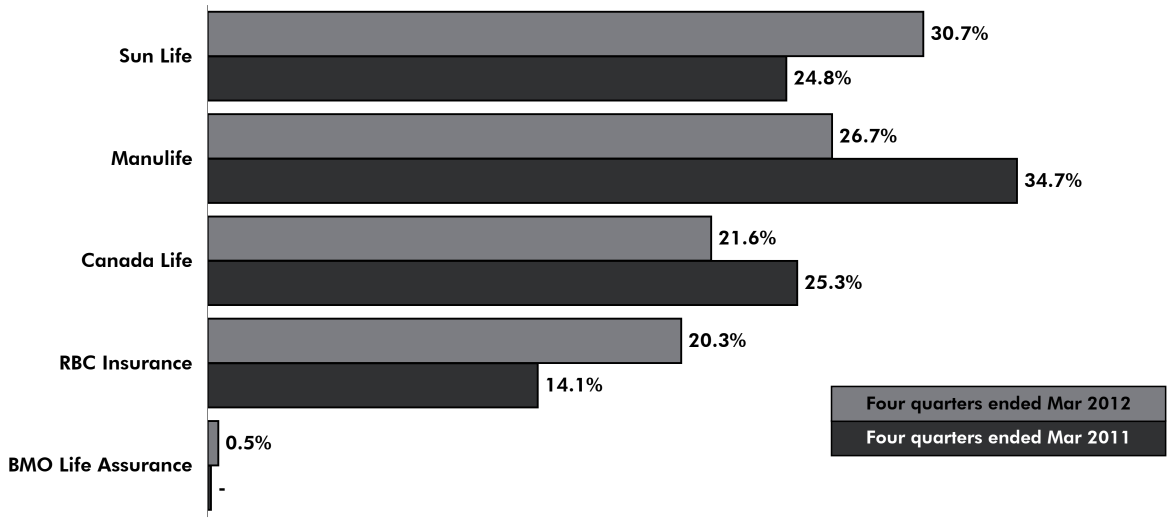
3.37 Quarterly Living Benefits Results at Full-service Brokers

	Quarter ended			March 2012 vs.	
	Mar 2011	Dec 2011	Mar 2012	Dec 2011	Mar 2011
Number of policies placed	**210**	**274**	**271**	**-1.1%**	**29.0%**
Critical illness	103	125	124	-0.8%	20.4%
Disability	84	124	118	-4.8%	40.5%
Long term care	23	25	29	16.0%	26.1%
Revenues in thousands of dollars	**$1,146**	**$1,058**	**$915**	**-13.5%**	**-20.1%**
Critical illness	$739	$640	$422	-34.1%	-42.9%
Disability	$311	$315	$345	9.4%	11.0%
Long term care	$97	$103	$148	44.2%	53.6%
Gross premiums in thousands of dollars	**$953**	**$580**	**$875**	**50.8%**	**-8.2%**
Critical illness	$583	$346	$476	37.4%	-18.4%
Disability	$290	$173	$285	65.2%	-1.7%
Long term care	$79	$61	$114	86.1%	43.4%

➔ Revenue from Living Benefits (LB) saw steep declines in the quarter ended March 2012 both compared to the quarter ended December 2011, down 13.5%, and the same quarter one year prior, down 20.1% (Figure 3.37). The decline in revenue can be attributed in its entirety to the decline in revenue from critical illness, which has been subject to increased costs along with level premium insurance products in the past several quarters.

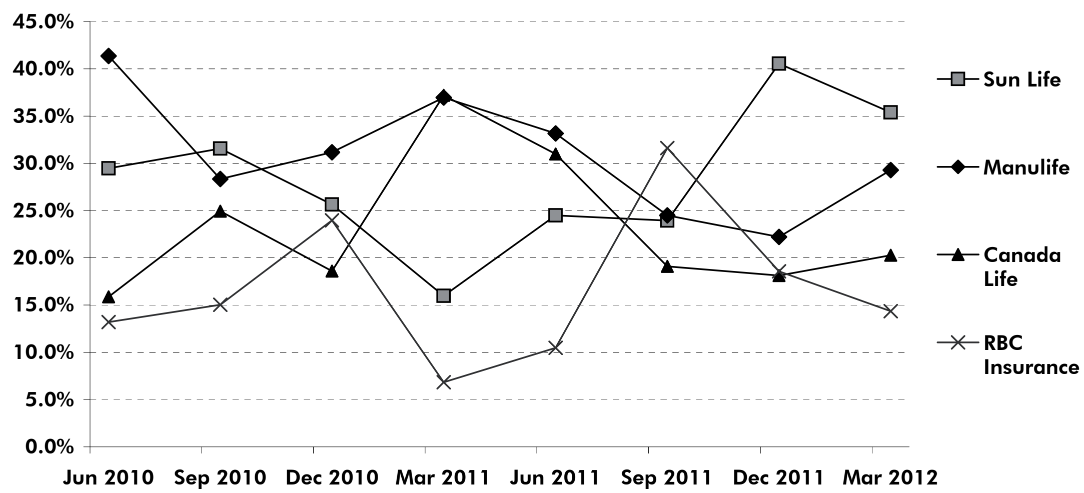
➔ In the year ended March 2012, Sun Life products generated the most revenue from LB, with 30.7% overtaking Manulife for the first time. The segment has become increasingly competitive, with four players each generating more than 20% of revenue (Figure 3.38a). Sun Life's dominant position was built on two successive strong quarters after several periods of ebb and flow through the quarter ended September 2011. (Figure 3.38b).

3.38a Insurance Companies' Share of Living Benefits Revenues at Full-service Brokers*



****Top five insurance companies' share of living benefits revenues.***

3.38b Insurance Companies' Quarterly Share of Living Benefits Revenues at Full-service Brokers*



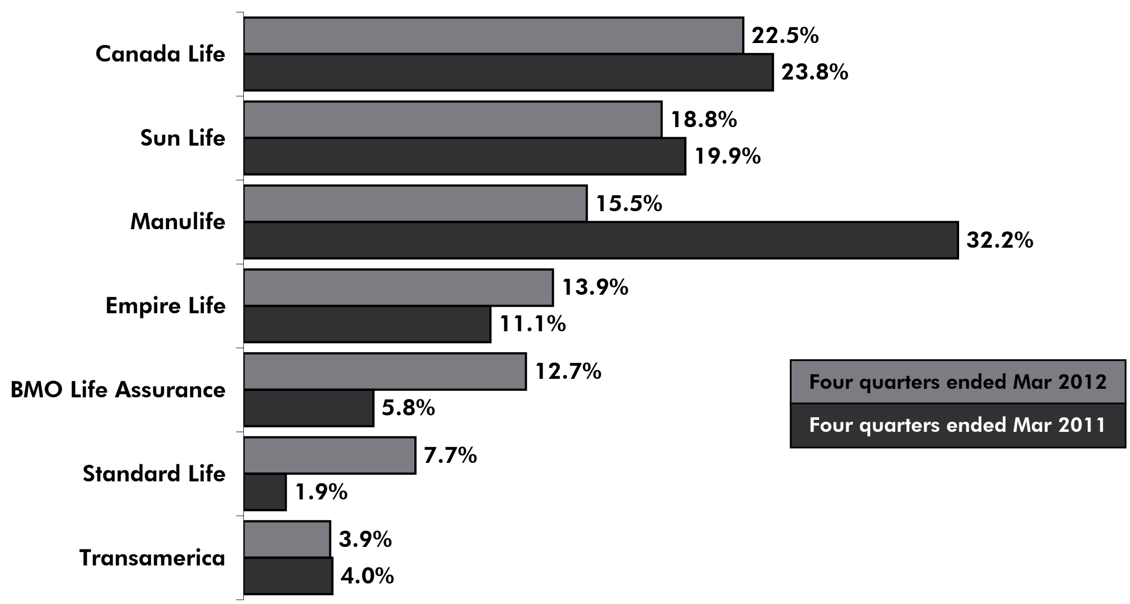
****Ranked by share of insurance revenues in the most recent quarter.***

3.39 Quarterly Annuity Results at Full-service Brokers

	Quarter ended			March 2012 vs.	
	Mar 2011	Dec 2011	Mar 2012	Dec 2011	Mar 2011
Number of annuities placed	254	315	229	-27.3%	-9.8%
Revenues in thousands of dollars	$1,271	$1,472	$1,205	-18.1%	-5.2%
Gross deposits in thousands of dollars	$50,880	$57,142	$48,758	-14.7%	-4.2%

➔ Revenues from annuities in full-service brokerage declined in the quarter as the interest rate environment remained inhospitable (Figure 3.39). Canada Life retained its lead in share of revenue (Figure 3.40) in the four quarters ended March 2012.

3.40 Insurance Companies' Share of Annuity Revenues at Full-service Brokers*



***Top seven insurance companies' share of annuity revenues.**

Section 4 - Online/Discount Channel

The online brokerage business ended the opening quarter of 2012 with $253.6 billion in assets, an increase of $15.5 billion from the previous quarter. Growth in the channel was supported by gains in domestic equity markets as well as net new flows. Activity levels in the channel improved from the previous quarter, a reflection of favourable equity markets (see Figure 2.2), but remained below the peaks experienced in the same quarter last year. Trade volumes were up 8.2% over the previous quarter, as revenue total channel revenue increased by 4.3% (see Figure 2.5). The number of accounts edged up slightly from the previous quarter to 4.47 million. While there were 165,000 new accounts (gross) opened in the channel, it was the lowest first-quarter total since 2008. Quarterly trade volumes, revenues and gross new accounts were all at least 12% below levels set one year ago.

The channel saw four firms either launch a mobile brokerage app or announce their intent to do so. In March, Scotia iTRADE announced the impending release of their mobile brokerage app, which allows clients to trade equities, options and ETFs on smartphones. Shortly thereafter, TD Waterhouse Discount Brokerage launched an updated version of their TD mobile banking app to include brokerage capability to trade Canadian- and U.S.-listed securities. Toronto-based independent Questrade announced it would release a mobile trading app as part of their new IQ trading platform in mid-summer. Most recently, RBC Direct Investing rolled out a mobile brokerage app for Apple devices—with plans to expand the offering for Blackberry and Android platforms.

Several firms introduced inactivity fees and new asset threshold structures to encourage investors to trade more frequently and consolidate their assets online. As of May 2012, Scotiabank consolidated its three online brokerage platforms, unifying Scotia iTRADE with Scotia McLeod Direct Investing and TradeFreedom. Earlier in the year, Scotia iTRADE also announced four additions to its stable of commission-free ETFs, bringing its total to 50.

4.1 Recent Pricing and Other Developments in the Online/Discount Channel

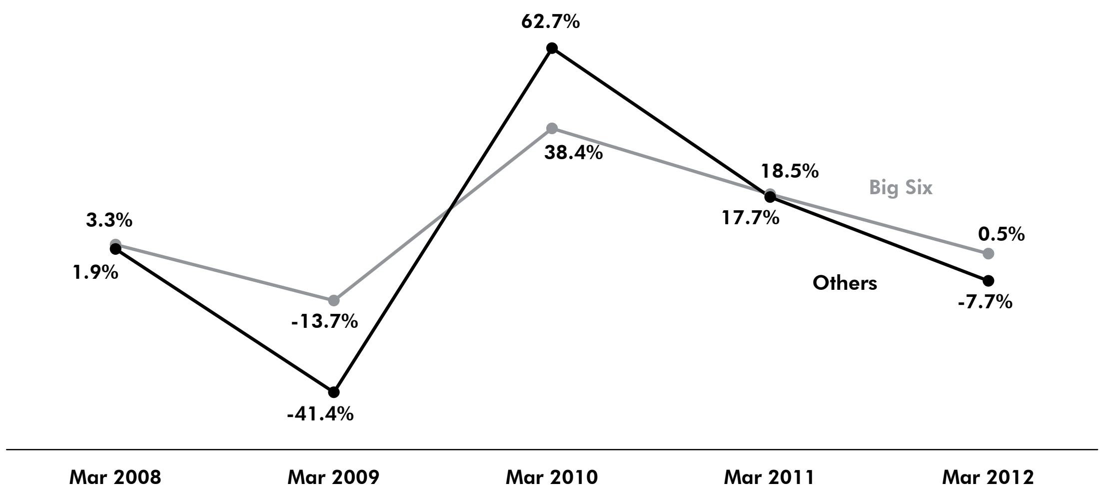
Date*	Online/discount firm	Development
Apr 2011	**Credential Direct**	Announced a partnership with Morningstar Research to provide ETF research to Credential's online brokerage clients.
May 2011	**TD Waterhouse Discount Brokerage**	Announced plans for providing automatic wash trading for TD clients who sign up for this service, thereby saving conversion fees within a registered investment account.
May 2011	**Scotia iTRADE**	Introduced a new platform called FlightDesk, a fully customizable setting with tools and analysis designed for active traders.
Jul 2011	**CIBC Investor's Edge**	Launched a mobile brokerage application, allowing clients to trade securities while viewing market and account information from their mobile devices.
Aug 2011	**BMO InvestorLine**	Enabled the use of U.S. dollar-denominated registered accounts for all clients.
Sep 2011	**Scotia iTRADE**	Introduced commission-free trading on 31 ETFs from Claymore, eight ETFs from Blackrock iShares, and seven ETF's from Horizons.
Sep 2011	**Credential Direct**	Launched a new mobile site allowing online brokerage clients to access their trading accounts while viewing market and account information from their mobile devices.
Sep 2011	**National Bank Direct Brokerage**	Introduced a mobile trading site allowing clients to access their accounts, execute trades, and obtain market information.
Oct 2011	**BMO InvestorLine**	Launched a new ETF screener and comparison tool, allowing clients to compare up to four ETFs at a time, illustrating key fund features and historical performance.
Oct 2011	**Qtrade Investor**	Launched a zero-commission ETF program offering for 60 ETFs, with providers including: Blackrock iShares, Claymore, StateStreet, Horizons, Invesco Canada, and Vanguard.
Oct 2011	**HSBC InvestDirect**	Introduced a new banking and brokerage package which provides clients who have a Premier (assets greater than $100,000) or an Advance (assets between $50,000 and $100,000) relationship with HSBC bank, pricing of $6.88, $9.88 per online trade respectively.
Nov 2011	**Virtual Brokers**	Introduced commission-free ETF trading for 100 Canadian and U.S.-listed ETFs, from providers including: BMO, Claymore, Horizons, StateStreet, and Proshares.
Nov 2011	**BMO InvestorLine**	Launched a new set of resources that will provide investors with expanded company research coverage from Morningstar. Investors can now access Morningstar credit reports for more than 300 North American-listed companies. BMO InvestorLine is the first Canadian brokerage to offer this resource
Nov 2011	**BMO InvestorLine**	Announced the addition Thomson Reuters' Morning News Call newsletter to its list of resources, exclusive to 5 Star Gold and Active Trader Program clients. The pre-market newsletter provides an in-depth overview of what to expect in the Canadian and U.S. markets in the day ahead.
Dec 2011	**BMO InvestorLine**	Announced the launch of its new gold deposit delivery program, which offers a cost effective way for clients to buy and hold phyisical gold in their portfolios. The program allows investors to purchase physical gold through their online accounts and either have it held in a custodial account operated by BMO Nesbitt Burns at an approved third-party storage location or delivered to their homes.
Jan 2012	**Virtual Brokers**	Rolled out a new commission structure allowing retail clients to trade equities for as low as $.99 a trade with a cap of $9.99.
Jan 2012	**BMO InvestorLine**	Enhanced the client experience with additional mutual fund research tools including: new screening tools, access to new interactive Morningstar Quicktake reports, and a new layout making the website easier to view on tablets or notebooks.
Feb 2012	**Scotia iTRADE**	Intoduced four additional commission-free ETFs to its lineup, including one ETF each from Vanguard, Powershares, Claymore and Horizons, bringing the total offering to 50.
Mar 2012	**Scotia iTRADE**	Announced plans to launch a mobile brokerage app, allowing clients to trade equities and options on Blackberry, Android, and Apple devices.
Mar 2012	**TD Waterhouse Discount Brokerage**	Added mobile brokerage capabilities to its TD mobile app, allowing clients to trade Canadian and U.S. listed stocks and ETFs on: Apple, Android and Blackberry operating systems.
Mar 2012	**National Bank Direct Brokerage**	Added access to independent investment research from Morningstar.
Apr 2012	**BMO InvestorLine**	Launched new features for clients to view and manage portfolio holdings.

Date reflects announcement or the month price changes went into effect.

Assets and Accounts

- The Big Six firms outpaced the Other firms' year-over-year growth for the second consecutive 12-month period (see Figure 4.2). With domestic equity markets declining over the year ended March 2012, the Big Six firms benefited from a relatively lower equity weighting and a relatively greater net inflow of new dollars than their counterparts. The combined Big Six firms surpassed the previous AUA peak set in March of 2011.

4.2 Year-over-year Growth of Big Six Bank and Other Online/Discount Brokers



- Figure 4.3 displays asset rankings of firms in the channel. All firms experienced positive asset growth for the quarter. In all cases that growth exceeded the S&P/TSX Composite TRI growth for the quarter. The indication

4.3 Online/Discount Brokerage Asset Ranking
Ranked by assets in billions of dollars, three-month growth rates and asset change

	Asset rank		Growth rank	
	Mar 2012	Dec 2011	3-mo growth rate	3-mo asset change
Online/discount brokers	**$254**	**$238**	**6.5%**	**$15.5**
TD Waterhouse Discount Brokerage	1	1	8	1
RBC Direct Investing	2	2	10	3
BMO InvestorLine	3	3	2	2
Scotia iTRADE*	4	4	4	4
CIBC Investor's Edge	5	5	5	5
Top 5	**$220**	**$207**	**6.4%**	**$13.3**
Market share	86.8%	86.8%		
National Bank Direct Brokerage	6	6	9	6
HSBC InvestDirect	7	7	7	7
Disnat	8	8	6	8
Questrade	9	9	1	9
Credential Direct	10	10	3	10

As of March 2012, includes TradeFreedom and ScotiaMcLeod Direct Investing.

is that most firms experienced large net inflows of new money during the seasonally strong first quarter. Toronto-based independent Questrade led the channel in quarterly growth. BMO InvestorLine had the second-best quarterly growth rate in the channel, and was the only one of the Big Six firms whose growth rate ranking punched above its asset ranking.

4.4 Online/Discount Brokerage Asset Mix
In billions of dollars

	Assets			Growth	
	Mar 2011	Dec 2011	Mar 2012	3-mo	Yr/yr
Online/discount brokers	**$253**	**$238**	**$254**	**6.5%**	**0.1%**
Cash and equivalents	28	30	31	3.4%	10.5%
Fixed income	17	18	18	3.0%	5.0%
Mutual funds	34	33	34	3.5%	-0.1%
Equities	173	157	169	8.0%	-2.3%
Other	1	1	1	28.8%	35.3%

➔ The 8.0% quarterly growth in equities accounted for $12.5 billion of the total asset growth in the channel (see Figure 4.4) with about one-third of that increase coming from new flows into equities and the remainder from improved market valuations. The year-over-year changes point to a different longer-term growth trend. Cash and equivalents and fixed income led all categories in growth as economic uncertainty and market volatility depressed equities and drove investors towards conservative investment options.

➔ High-interest savings accounts (HISA), which we began tracking in recent quarters, currently sit at over $7 billion with growth of approximately 9% in the quarter. The increase suggests that despite strong quarterly flows to equities, some investors still chose HISAs as a destination for their RRSP contribution.

4.5 Online/Discount Brokerage Assets by Tax Status and Type of Account
In billions of dollars

	Assets			Growth	
	Mar 2011	Dec 2011	Mar 2012	3-mo	Yr/yr
Online/discount brokers	**$253**	**$238**	**$254**	**6.5%**	**0.1%**
Taxable	**159**	**149**	**156**	**4.8%**	**-1.6%**
Registered	**94**	**89**	**97**	**9.4%**	**2.8%**
RRSPs*	76	71	77	8.4%	0.6%
RESPs	1	1	2	7.8%	3.3%
RRIFs	11	10	11	7.3%	6.1%
TFSAs	6	6	7	25.9%	25.6%

Includes group RRSPs.

➔ Figure 4.5 reflects the expected seasonal growth in the first quarter as all registered account types outpaced the growth in taxable assets. While contributions to TFSAs have no real first quarter deadline driver, annual top-ups typically occur in the first quarter. TFSA asset growth once again outpaced all other categories in the channel; however, the trailing 12-month growth rate (25.6% in March 2012) continues to fall as contributions accumulate and the asset base grows. By comparison, in December 2011 the trailing 12-month growth rate was 38%.

4.6 Online/Discount Brokerage Number of Accounts

In thousands

	Mar 2011	Dec 2011	Mar 2012	Growth 3-mo	Growth Yr/yr
Number of accounts	4,318	4,462	4,469	0.2%	3.5%
Gross new acccounts opened	204	124	165	33.4%	-19.0%

➔ The total number of accounts in the online/discount brokerage channel remained relatively unchanged from the previous quarter, and increased a modest 3.5% from a year earlier (see Figure 4.6). While gross new account activity reflected the usual seasonal bump, up 33% over the previous quarter, this was the lowest first quarter gross new account total since 2008.

4.7 Online/Discount Brokerage Average Account Size

Ranked by average account size in thousands of dollars

	Average account size rank Mar 2012	Average account size rank Dec 2011	Growth rank 3-mo growth rate
Online/discount average account size	**$57**	**$53**	
BMO InvestorLine	1	1	6
TD Waterhouse Discount Brokerage	2	2	9
RBC Direct Investing	3	3	1
National Bank Direct Brokerage	4	4	8
Scotia iTRADE*	5	5	3
Top 5	**$60**	**$56**	
CIBC Investor's Edge	6	7	7
HSBC InvestDirect	7	6	10
Disnat	8	8	2
Credential Direct	9	9	5
Questrade	10	10	4

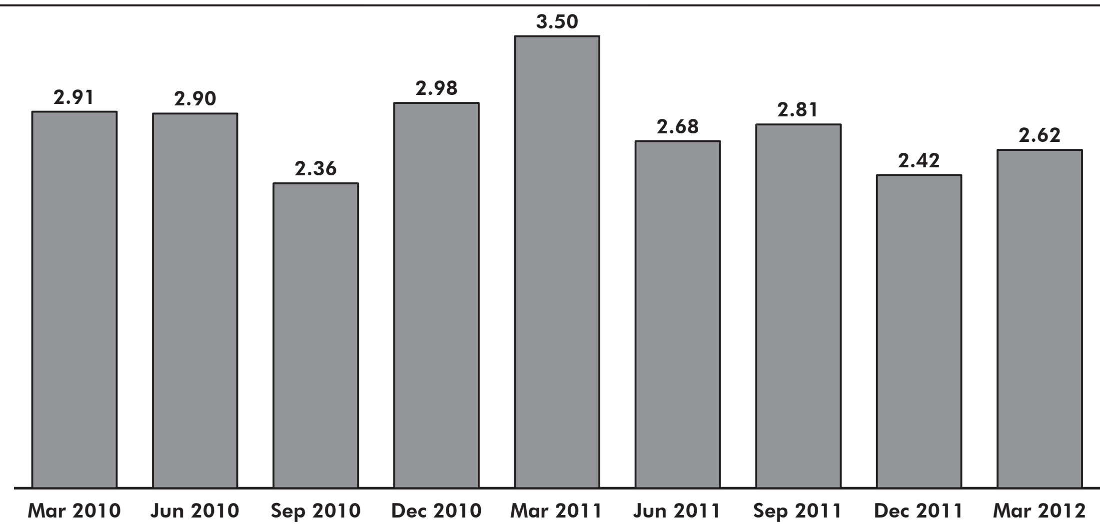
As of March 2012, includes TradeFreedom and ScotiaMcLeod Direct Investing.

➔ With asset growth outpacing account growth, the average account size increased 6.3% in the first quarter to $57,000 (see Figure 4.7). RBC Direct Investing placed first in three-month growth due in part to an operational reduction of accounts, while Disnat achieved the best three-month growth of the Other brokerages.

Trading and Revenues

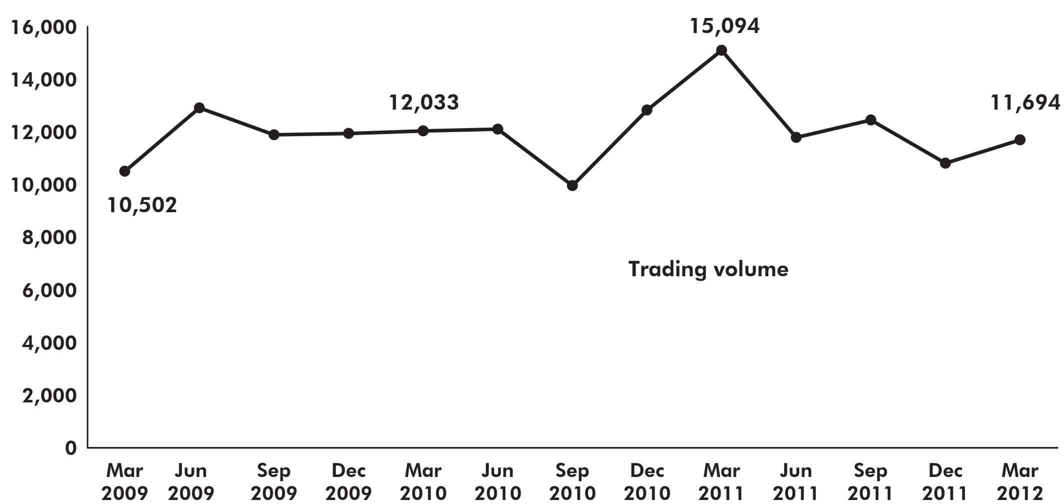
➔ The average number of trades in the opening quarter of 2012 grew to 2.62, as first quarter trade volume managed to outpace the overall growth in accounts (see Figure 4.8). However, current levels are historically low for the seasonally strong first quarter, and were well below the channel's peak of 3.50 set in last year's record-setting investment season.

4.8 Quarterly Trades per Account at Online/Discount Brokers



➔ Figure 4.9 illustrates that while trade volume growth has lost momentum from the pace set in the same quarter one year ago, the 11.7 million trades placed in the opening quarter of 2012 remain within the relatively narrow band established following the 2008 downturn (Q1 2011 being an exception).

4.9 Quarterly Trades at Online/Discount Brokers
In thousands



➔ Seasonal trends are evident in trade growth as all trade types experienced growth over the preceding quarter (8.2% in aggregate), with agent orders up the most at almost 17% (see Figure 4.10). As with account openings, trades of all types showed major erosion (-22.5%) unsurpassed to the 2011 investment season.

4.10 Online/Discount Brokerage Quarterly Trading Activity by Method

	Quarterly trades			Growth	
	Mar 2011	**Dec 2011**	**Mar 2012**	**3-mo**	**Yr/yr**
Number of trades in thousands	**15,094**	**10,806**	**11,694**	**8.2%**	**-22.5%**
Registered representative					
phone orders	1,110	873	1,018	16.6%	-8.3%
IVR phone orders*	130	85	91	6.5%	-29.9%
Internet orders	13,854	9,848	10,585	7.5%	-23.6%

	Share		
	Mar 2011	**Dec 2011**	**Mar 2012**
	100.0%	**100.0%**	**100.0%**
Registered representative			
phone orders	7.4%	8.1%	8.7%
IVR phone orders*	0.9%	0.8%	0.8%
Internet orders	91.8%	91.1%	90.5%

Interactive Voice Response.

➔ Of interest is that agent-assisted trades showed only a fraction of the year-over-year decline (-8.3%) that automated trades experienced. This occurred despite the significant growth in agent-assisted trades recorded in Q1 2011, and is potentially an indication of the support required, at least temporarily, from a growing cohort of mainstream investors new to the online channel. This type of demand is likely exacerbated by continued volatility in the markets.

4.11 Online/Discount Brokerage Firms Ranked by Trades and Trades Growth
Number of trades in thousands

	Trades rank			Growth rank	
	Mar 2012	Dec 2011	Mar 2011	3-mo growth rate	1-yr growth rate
Online/discount brokerage trades	**11,694**	**10,806**	**15,094**	**8.2%**	**-22.5%**
TD Waterhouse Discount Brokerage	1	1	1	9	2
RBC Direct Investing	2	2	2	4	5
BMO InvestorLine	3	4	4	5	3
Scotia iTRADE*	4	3	3	7	9
Questrade	5	5	6	10	1
CIBC Investor's Edge	6	6	5	6	7
Disnat	7	7	7	1	4
National Bank Direct Brokerage	8	8	8	2	8
HSBC InvestDirect	9	9	9	8	6
Credential Direct	10	10	10	3	10

As of March 2012, includes TradeFreedom and ScotiaMcLeod Direct Investing.

➔ With quarterly trade volumes up 8.2% from the previous quarter, most firms in the channel experienced strong quarterly growth, with more than half experiencing double-digit growth (see Figure 4.11). Questrade continues to be the only firm whose trade count ranks significantly ahead of its asset ranking (5th versus 9th) though Disnat punched slightly above its asset ranking this quarter (7th versus 8th).

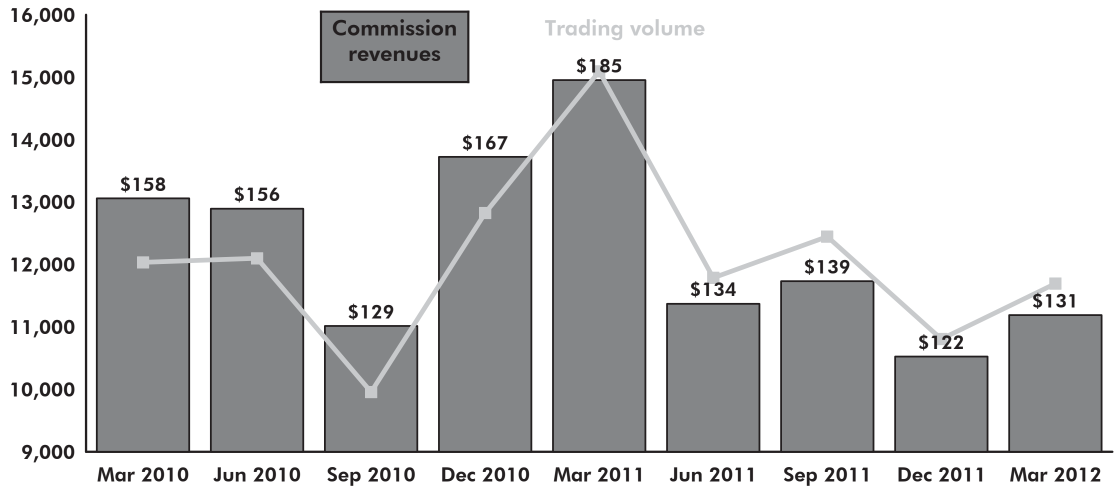
4.12 Quarterly Online/Discount Brokerage Revenues
In millions of dollars

	Quarterly revenues			Growth	
	Mar 2011	Dec 2011	Mar 2012	3-mo	Yr/yr
Total revenues	**$464**	**$390**	**$407**	**4.3%**	**-12.3%**
Commissions	185	122	131	7.8%	-29.1%
Fees	19	17	20	16.0%	4.6%
Mutual fund trailers	37	41	37	-8.6%	-0.1%
Other	223	211	219	3.9%	-1.9%

➔ Improved equity markets and seasonal activity drove channel revenues above the $400 million threshold, $17 million ahead of the previous quarter, but $57 million below the channel's high-water mark set one year ago (see Figure 4.12). Commission revenues accounted for just over half of the channel's quarterly revenue growth, but now sit at only 32% of total revenue compared to 40% in March 2011 after suffering a 29% year-over-year decline.

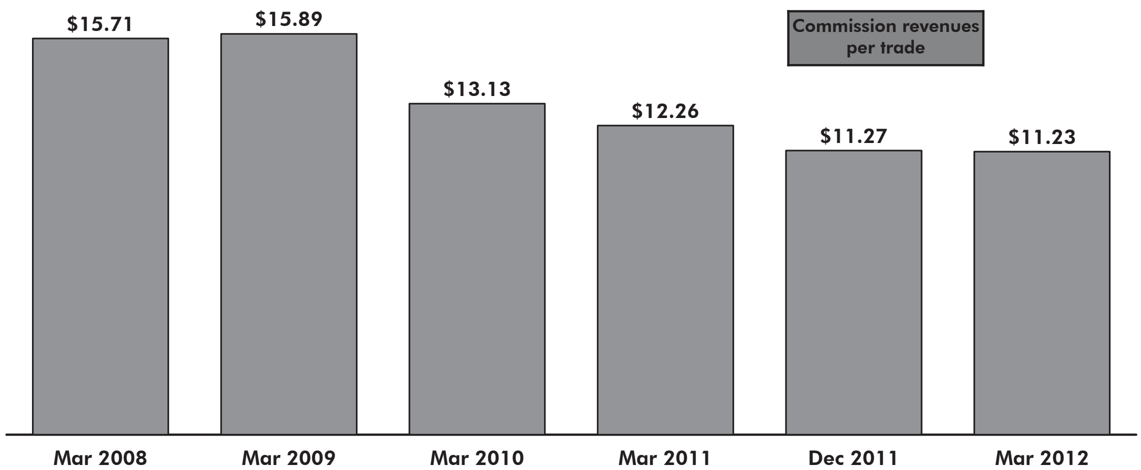
➔ Two firms altered their reporting of spread revenue (in part a move to matched maturity pricing) which has resulted in an upward restatement of the Other revenue line. The change has been adjusted historically, and firms are now predominantly reporting spread on the same basis. While foreign exchange revenue (included in Other revenue with spread) saw strong growth for the quarter, spread on balances remains under pressure from historically low rates and experienced only slight growth on the quarter.

4.13 Quarterly Online/Discount Trading Volume and Commission Revenues
Commission revenues in millions of dollars, trading volume in thousands



➔ Figure 4.13 provides an overlay of the quarterly trading volumes from Figure 4.9 and the quarterly commission revenue contained in Figure 4.12. Driven by a much lower average commission per trade, total commission revenue ($131 million for the quarter) continues to operate at near historical lows, experiencing their lowest first quarter total since 2003.

4.14 Average Quarterly Commission Revenues per Trade



➔ As Figure 4.14 indicates, the average commission earned per trade in the first quarter continues to decline, hitting a new channel low of $11.23. This reflects continued tweaking of commissions as well as growth in commission discounts on balance levels.

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Website: *www.InvestorEconomics.com*

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Key contact—Guy Armstrong
Editorial—Guy Armstrong
Production—Marc Dacey/Dark Star Productions