

**RETAIL BROKERAGE  
AND DISTRIBUTION  
ADVISORY SERVICE**

Fall 2016

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**INVESTOR ECONOMICS**



## Retail Brokerage and Distribution Advisory Service

Fall 2016 Data to  
September 2016

### Special Feature:

Deposits in Brokerage...Not Just For Sitting on the Sidelines?

#### Key takeaways

- Deposits in Canada held their own in asset growth over the past decade – nearly keeping pace with total financial wealth. This, despite low interest rates and rather upward-trending equity markets.
- Aging investor demographics on the demand side and changing product dynamics on the product supply side, have changed the deposit landscape in the full-service brokerage channel.
- In the past nine years, deposits have jumped by \$115 billion – increasing their FSB AUA share from 9.0% to 16.5%.
- Deposits are becoming a greater point of focus for the entire channel. Over the past five years the FSB channel has grown its share of the total GIC market from 11% to over 15%.
- In the past five years the expansion of affiliated issuer HISAs has seen the shelves of the deposit-taker-owned brokerages largely closed to third-party HISA products, while independent firms have retained open, but well monitored, HISA shelves.
- Despite slower, more normalized growth, HISA volumes in the full-service brokerage channel do not appear to have been eroded by persistently lower product yields, despite several strong market growth periods in the past five years.
- The requirements arising from Basel III that helped make retail distribution of HISA and GICs an attractive funding source for lenders – has resulted in attractive pricing, which in turn gained the attention of advisors.
- GIC growth has accelerated over the past three years, in part as advisors have looked to the advantages of the deposit product to form the fixed income portion of their portfolios.

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## Deposits in Brokerage...Not Just For Sitting on the Sidelines?

### The shifting deposit landscape in full-service brokerage

The 2008 market downturn pushed risk awareness to the forefront of investor consciousness – particularly for those who at that time were already in or were heading toward retirement. The need for growth, and the enduring focus on it, has since been tempered by a number of factors ranging from the market downturn and subsequent volatility, persistently low interest rates and aging investor demographics, all of which have caused a shift from an emphasis on investment accumulation to a growing awareness of the approaching need for investment payout.



The FSB channel continued to experience a substantial portion of new savings and investment flows into the deposit category.



These factors saw deposits emerge from the 2008 downturn as an increasingly important asset category across the wealth market and, particularly in the full-service brokerage (FSB) channel. Despite general expectations that the rise of deposits and the accumulation of money on the sidelines during and subsequent to the downturn was in some part a temporary response (*The Retail Brokerage Report, Summer 2011*), the FSB channel continued to experience a substantial portion of new savings and investment flows into the deposit category to the present.

The focus of this feature are the three main elements of the deposit make-up in the FSB channel: cash deposits; the high interest savings account (HISA) vehicles that settle through FundSERV; and fixed-term deposits or guaranteed investment certificates (GICs). The questions that arise for the industry include: exactly how have the movements in these deposit products played out in the FSB channel relative to each other and to other investments in the channel? How have the roles of each element evolved and are the changes representative of a secular shift in liquidity and security preferences, or are they temporary manifestations of rapidly shifting market and economic events? The latter issue of volatility may in and of itself become a permanent fixture in the investment landscape, essentially making a temporary response more of a permanent fixture.

### The broad financial wealth backdrop and deposit landscape

Using the overall wealth market as a contextual setting and starting point, it is evident that while total financial wealth outpaced growth in deposits (see **Figure 1**) over the period of June 2007-June 2016, deposits did not lag too far behind. The combination of a relatively strong period for equities partnered with the beginnings of economic recovery and persistently low interest rates over the period *should* have been favourable for a robust movement from deposits to investment products; however, the fact that deposit volumes grew chiefly on the basis of flows made the continuation of that growth noteworthy.

Liquid deposits topped  
**\$1 trillion**  
 for the **first time** in  
**mid-2016.**

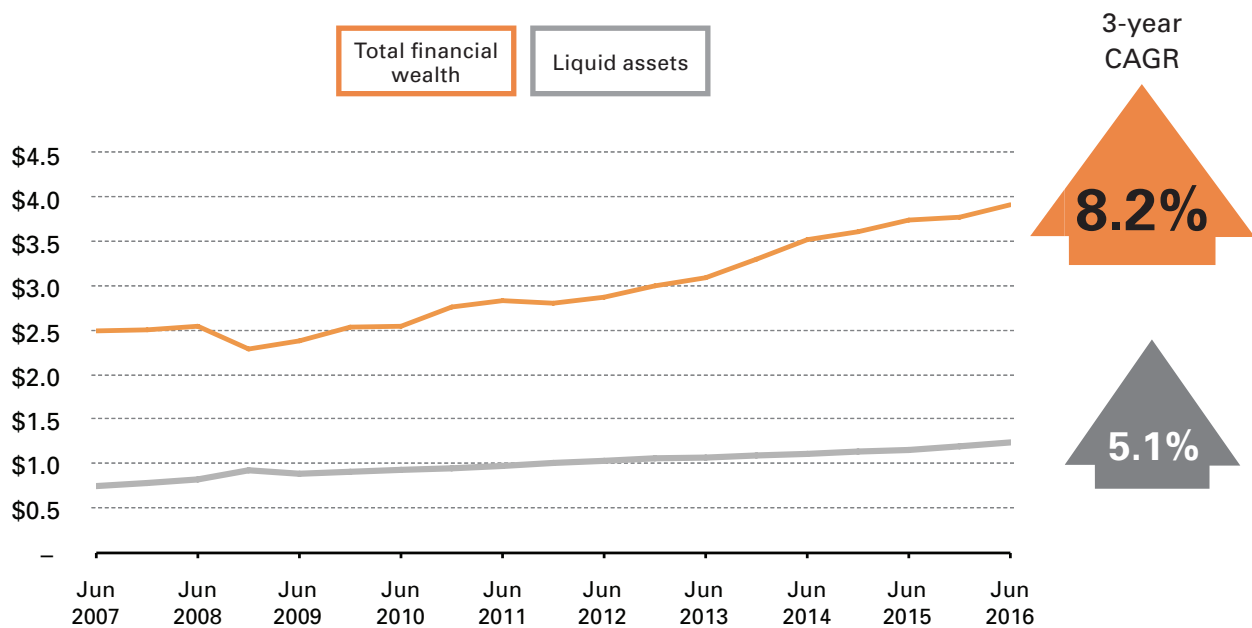
## Deposits in Brokerage...Not Just For Sitting on the Sidelines?

In 2016, deposit balances reached new highs across all channels in the Canadian retail landscape. Virtually all of the deposit growth over the past three years arose from the most liquid products in the deposit category—premium savings and demand accounts. As we will see, this was a case of a somewhat different growth dynamic than what emerged on the deposit shelf of the FSB channel.

Looking at the growth of all savings and chequing products in the market place and adding in short-term GICs (terms less than one year), liquid deposits topped \$1 trillion for the first time in mid-2016. Demand deposits and premium savings account (PSA) products drove much of that growth, as short-term GICs lagged over the past three years: total GIC growth was relatively static, with a paltry 1.5% compound annual growth rate (CAGR) over this period. Within the term structure of GICs, there was little difference between short-term GICs and GICs with terms of one year or greater. This reflected a large, relatively mature business across the branch distribution networks of deposit takers, where GIC growth has been driven, as well as the deposit-takers' growing focus on delivering broader wealth management solutions through their branch advice sales forces.

### 1 Canadian Households Slow to Depart from Liquidity Cushion

Assets in trillions of dollars



	CAGR 3-yr
<b>Total deposits</b>	<b>5.1%</b>
GICs	1.5%
Demand deposits	7.5%
Premium savings	8.0%

## Where is broad-based GIC growth coming from – the market?

All of the GIC growth, outside of short-term GICs, arose from the presence and demand for market-linked GICs (MLGICs) which jumped from \$35 billion in mid-2013 to \$55 billion by mid-2016. Again, this growth throws a spotlight on the conundrum facing clients needing upside growth potential, but with definite assurances about downside risk. MLGIC growth is expected to accelerate going forward, driven as it will be by bank branch-based investors seeking downside protection.

As interest rates begin to rise, as anticipated, participation rates in the underlying market exposure of MLGICs will improve on the upside, as will the level of guaranteed interest on the downside. These products will continue to find their primary home through the branch distribution networks of major deposit-takers. Traction in intermediary advice channels has, anecdotally, been very low largely because advisors view risk/return management as a key part of their value proposition.

The tremors soon to hit the mutual fund market in terms of regulation and the related potential changes in compensation structure may, however, also help support growing demand for these market-linked products across multiple channels. As we noted in our *2015 Household Balance Sheet*, the success of these products will be dependent upon the supply side to develop relevant products. Such products come in many shapes and, in the FSB channel, they tend away from the MLGIC approach and more of a balanced total return approach, in line with the nature of the channel from both a supply and demand perspective.

## The full-service brokerage channel and deposits

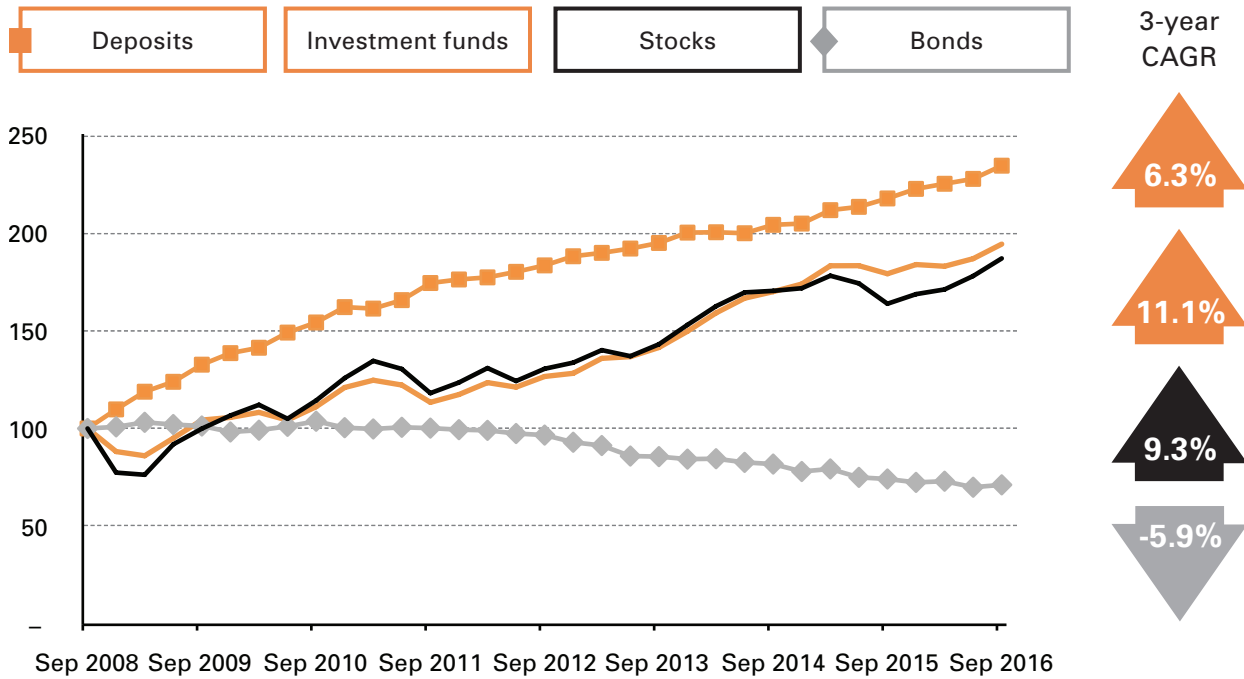
With a deposit shelf coming from a different place and capital requirement factors influencing deposit issuers, the FSB channel reflects a different growth pattern for deposits than is seen across the broader market. Despite, or perhaps because of, the investment-intensive nature historically exhibited by those working in the FSB channel, the changes with respect to deposits have been more significant than those of the wealth market as a whole. Perhaps more surprisingly, the deposit changes evident in the FSB channel have endured through positive rebounds in the market.

**Figure 2** highlights the relative growth pattern of the key product categories in the FSB channel. Specifically, the figure shows the jump in the deposit business coming out of the 2008 downturn and the steady growth since that time when compared to the less-even advance of investment funds and stocks and the dismal slide of bonds. As can be seen, strong market growth to close 2013 and 2014 and then again through much of 2016, pushed three-year equity and investment fund growth well above that of deposits. As is often the case, however, the valuation impacts of market forces in the channel masked the competitive net flow dynamic that favoured deposits. Additionally, the overall growth result also masked the shorter-term volatility in the markets in the period which continued to support consistent upward growth in deposits through net flows. As a result, the three-year growth of total deposits in the FSB channel outpaced total deposit growth across the wealth market.

The three-year growth of total deposits in the FSB channel outpaced total deposit growth across the wealth market.

## Deposits in Brokerage...Not Just For Sitting on the Sidelines?

### 2 Deposits Outpace All Other Investment Options in Full-service Brokerage Channel Since 2008 Asset level indexed to September 2008



From a longer-term perspective, as we sit almost a decade after the pre-crash highs of 2007, deposit growth has significantly outpaced growth in total FSB assets under administration (AUA), investment funds and equities over the period. As indicated earlier, the key driver of that longer-term growth has been the steady short-term growth of deposits, predominantly through net flows, that contrasts favourably when contrasted with the volatility of the markets.

**Figure 3** provides a detailed tracking of quarterly deposit growth rates through periods of market growth, decline and volatility since 2007. Amid persistently low interest rates, quarterly growth provides a reasonable proxy for the rate of net flows to the deposit shelf in the FSB channel.

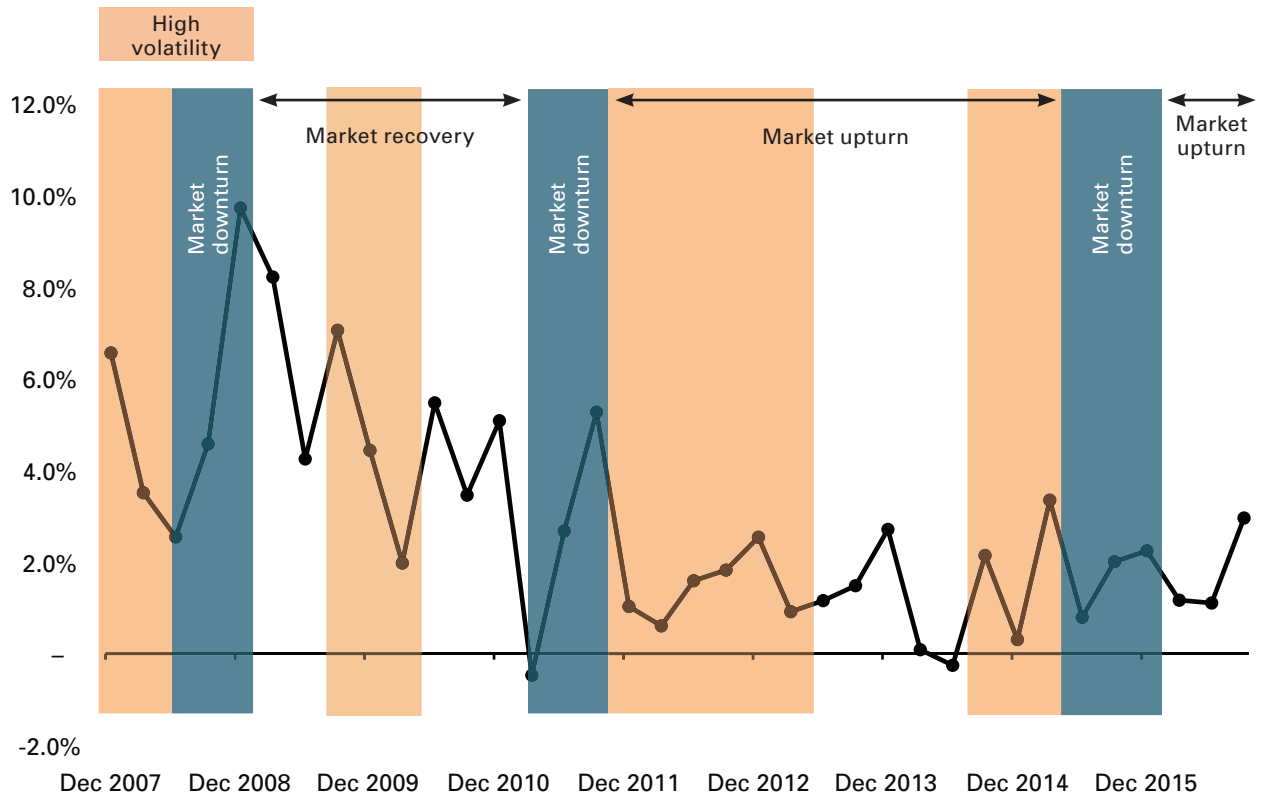
The biggest jump in quarterly growth remained in the 2008–2009 periods, with growth jumps during other periods of volatile and downward-trending equity markets. While the quarterly deposit growth rates were volatile on the upside and settled into a lower band in the past five years, it is striking to note that in only *two* quarters over the past 37 was there a net *outflow* of total deposit dollars—and both were minor following periods of strong market growth.

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In comparison to an estimate of investment fund net flows over the past nine years (based on asset class mix and an estimation of market effect for investment funds in the channel), deposit net flows were more consistent on an annual basis (see **Figure 4**) and remained positive through periods of strong market growth. The substitution effect between deposits and investment funds has been noted in the past and was always shaped by prevailing market conditions and investor expectations and the prevailing sentiments around those conditions.

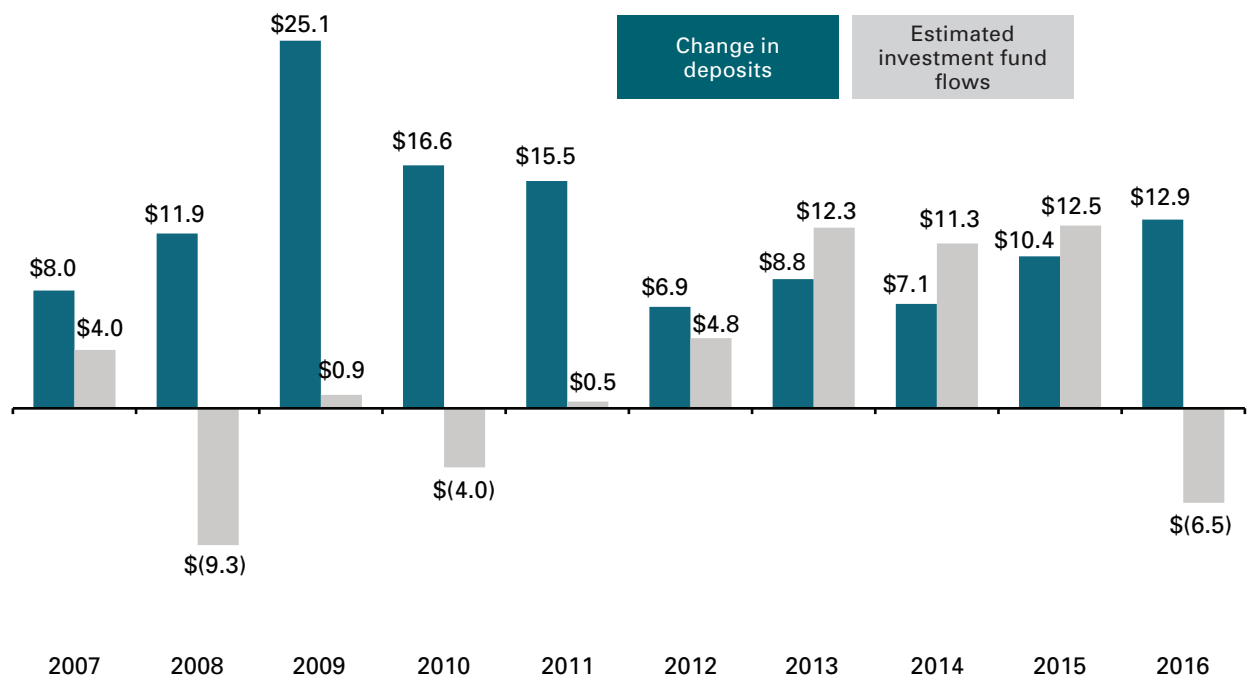
### 3 Volatile Markets Favoured the Growth of Deposits in the Full-service Brokerage Channel

Quarter-over-quarter growth in deposits



### 4 Market Conditions and Investor Expectations Dictate Growth of Deposits and Investment Fund Flows

Assets in billions of dollars



## Deposits in Brokerage...Not Just For Sitting on the Sidelines?

Historically, when the market environment was positive, mutual funds tended to experience substantial inflows, well above the level of new money finding its way into deposits. By contrast, when markets fell or exhibited sufficient volatility, investment fund net flows dried up and flows sought the safety of deposits. What appears new in this direct relationship is that the defensive reaction to market downturns appears more immediate than it was early in the 2000s and the offensive reaction to a market upturn seems far less

When markets fell or exhibited sufficient volatility, investment fund net flows dried up and flows sought the safety of deposits.

punitive to deposits than was evident in the past. This further underscores the fundamental shift in the role deposits have come to play in the channel: they are no longer merely a safe haven.

### Breaking down the full-service brokerage deposit shelf

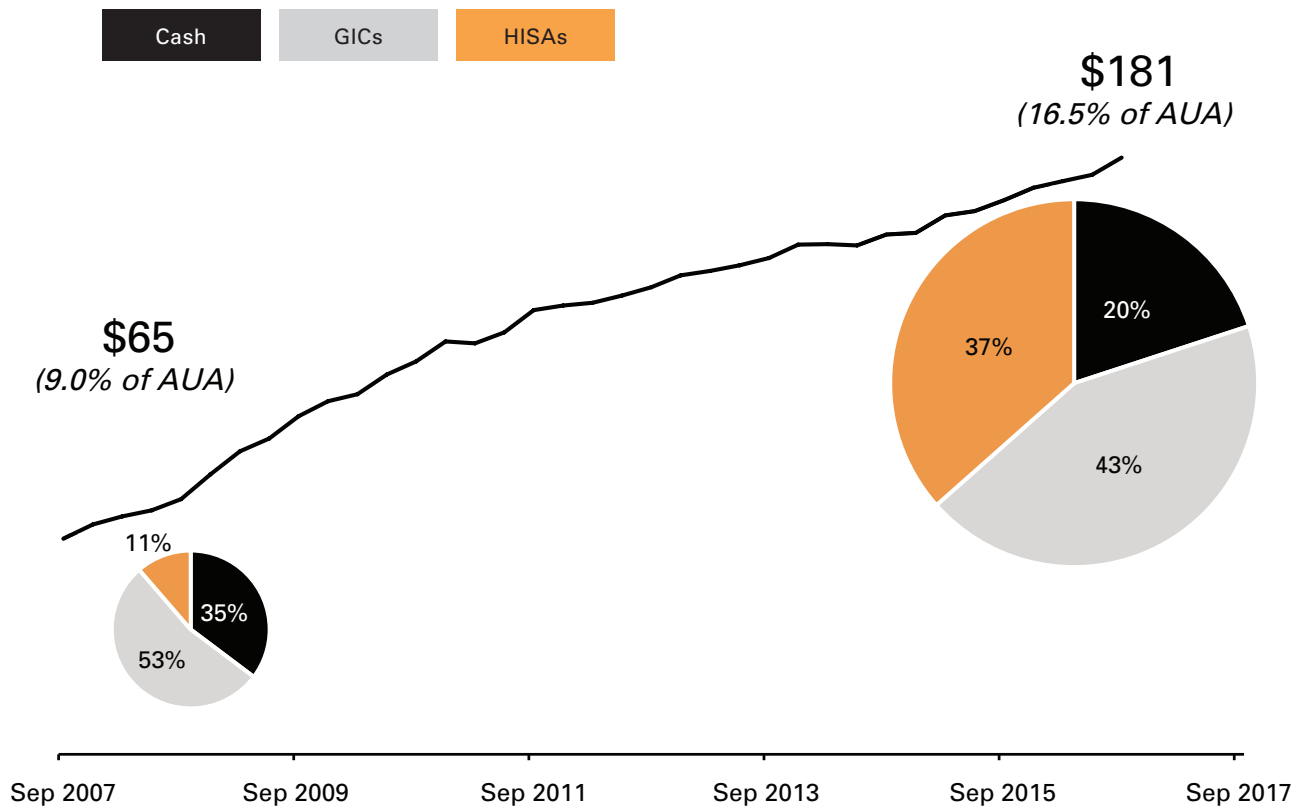
The events of 2008 were a catalyst that helped to shift thinking around deposits and their role in the FSB channel. Other factors also came into play that not only contributed to deposit growth, but shaped the mix of products within the deposit shelf itself.

A closer look at the deposit shelf with the FSB channel and how its composition has changed over time is therefore warranted.

**Figure 5a** traces the absolute dollar growth of deposits over the past 10 years and highlights the shift in product dynamics within the deposit shelf of the FSB channel. In the past nine years, deposits have jumped by \$115 billion – increasing their FSB AUA share from 9.0% to 16.5%. The changing growth dynamic between cash, GICs and HISAs is also evident.

### 5a Deposits Grow in Assets and Importance in the Full-service Brokerage Channel. Shifts in Asset Mix Favour HISAs

Assets in billions of dollars



## 5b Deposit Categories Experience Mixed, but Robust, Growth over Time

One-year total growth and three-, five- and nine-year CAGRs

	Full-service brokerage AUA	Total deposits	Cash	GICs	HISAs
1-yr growth rate	10.1%	7.7%	11.6%	12.3%	0.8%
3-yr CAGR	7.9%	6.3%	4.6%	7.4%	6.1%
5-yr CAGR	7.5%	6.1%	3.3%	5.1%	9.2%
9-yr CAGR	4.8%	12.0%	5.1%	9.4%	27.5%

Growth of each of the three deposit mainstays of cash, GICs and HISAs has varied over years. For example, for the year ended September 2016, HISAs remained relatively flat, while cash and GICs jumped by 11.6% and 12.3%, respectively, driving the overall growth of the deposit shelf. In fact, GIC growth outpaced that for HISAs for the past three years, in part as advisors looked to shore up the fixed income portion of their portfolios using GICs and the demand for HISAs consequently levelled off.

This was quite a reversal of the longer-term growth profile as HISAs, which began largely from virtually a standing start 10 years ago, played a major role in substituting for money market mutual funds, as well as commercial paper. Importantly, HISAs provided advisors with a product that met cash-like liquidity requirements; which gave clients a very favourable yield (relative to other cash-like products); and which provided an alternative to the lack of advisor compensation on deposit balance spread.

### Liquidity...not just for the sidelines

We documented the rise of FSB’s new liquidity focus on HISAs in the *2011 Retail Brokerage Report* feature story and the growth of the HISA product, while slowing from the post-crash period growth, has continued with only the occasional detour. We learned in 2011 that the HISA substitution effect and temporary demand for yield and liquidity had probably run its course and those without a related-issuer HISA product would likely stay that way, feeling they had missed the window of opportunity.

Today, however, we are presented with a different liquidity landscape, with all deposit-taker-owned brokerages offering an affiliated-issuer HISA and those shelves being largely closed to third-party HISA products. Changes brought in through Basel III to strengthen the regulation, supervision and risk

The HISA shelves among the independent FSB firms remain relatively open, subject to traditional assessments of financial stability and suitability of the issuer.

management of the banking sector has made funding through affiliated retail channels attractive to the banks. This has prompted a growing emphasis on the sale of related-issuer HISAs, as well as GICs at bank-owned FSB firms. The HISA shelves among the independent FSB firms remain relatively open, subject to traditional assessments of financial stability and suitability of the issuer.

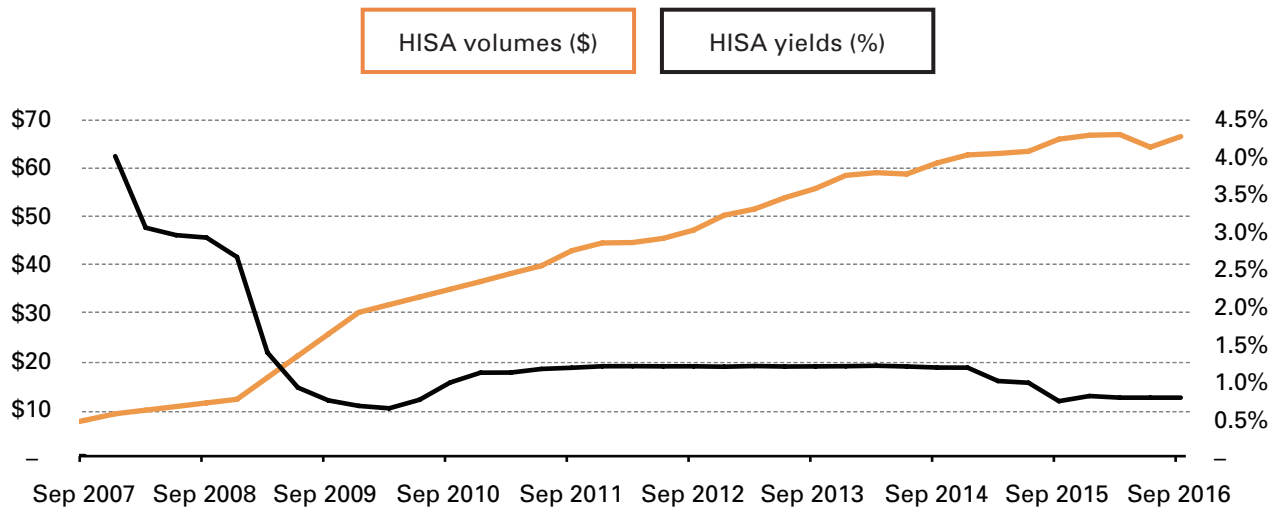
The yield-driven demand posited nearly a decade ago does not seem to have been eroded by persistently lower product yields (see **Figure 6**), despite several strong market growth periods since. Despite the factors accumulating in favour of a diminution of HISA liquidity on the sidelines, among which are economic growth and substantive market gains in the past 10 years, several

## Deposits in Brokerage...Not Just For Sitting on the Sidelines?

factors are restraining a renewed assault on the deposit holdings of brokerage clients. Several of these factors we documented in our *2015 Household Balance Sheet Report*, including demographic factors and related challenges around the payout phase.

### 6 HISAs Ascent Unimpeded by Drop in Yields

HISA volumes in billions of dollars



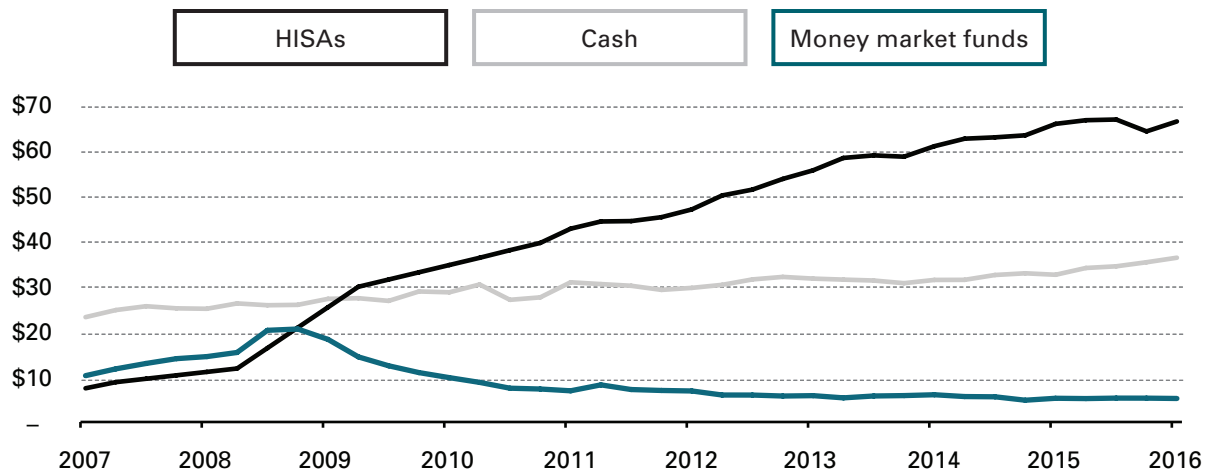
Other factors less obvious working in favour of the HISA product include the shift to wealth management and a focus that extends beyond the pure investment side of the FSB business—managing risk and building a larger float of liquidity. Additionally, with yields and interest rates persistently low, there is an argument that even HISAs and the liquidity inherent in them are taking the place of fixed income investments, a situation which presents significant risk as advisors contemplate the high potential for interest-rate rises.

While HISAs have continued to be the preferred liquidity product among advisors, cash, the other major source of liquidity in the channel, has managed to stay relevant (see **Figure 7**). Cash balances experienced steady growth over recent years and, more recently, have seen an uptick in growth with a one-year growth rate of 11.6%. This rise has occurred along-side a modest growth in margin loan balances, which are netted against total cash balances in the channel (please note that we report on net cash positions as securities purchased on margin are included). Margin loans peaked in June 2008, only to bottom out two quarters later and remained relatively flat until June 2013. They have since experienced a steady climb, with a 10.3% CAGR in the past three years. During the same timeframe, cash expanded by 3.3%, albeit on a much larger asset base of approximately \$35 billion.

While HISAs have continued to be the preferred liquidity product among advisors, cash, the other major source of liquidity in the channel, has managed to stay relevant.

## 7 Cash Volumes Hold, but HISAs are the Growing Liquidity Preference Since Mid-2009

Assets in billions of dollars



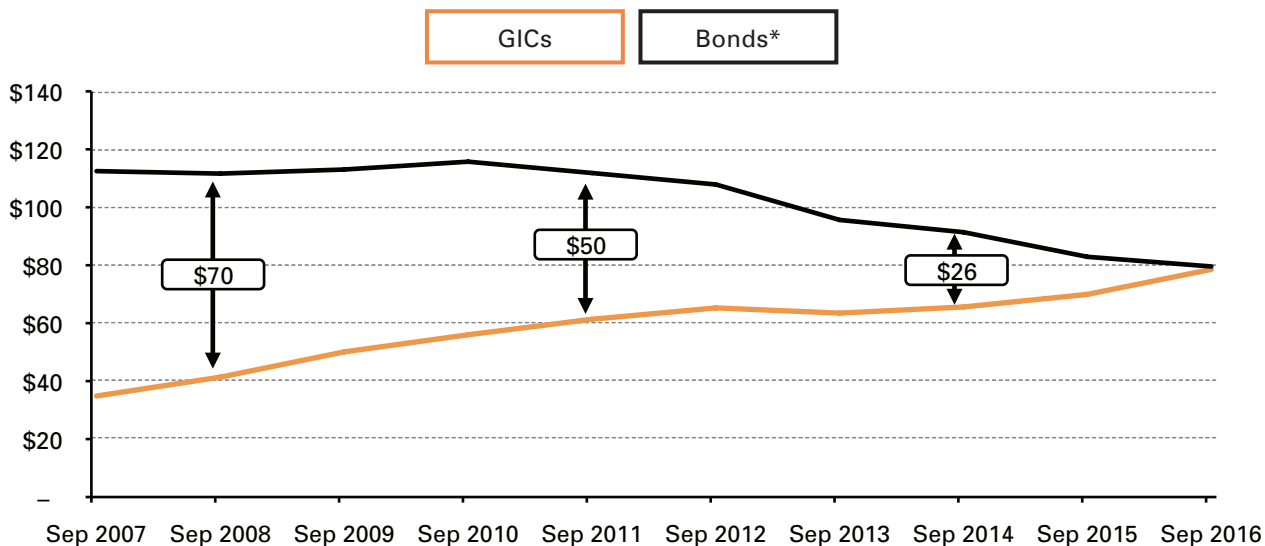
	CAGR			
	1-yr	3-yr	5-yr	7-yr
Cash	11.6%	4.6%	3.3%	4.2%
HISAs	0.8%	6.1%	9.2%	14.7%
Money market funds	-0.9%	-3.7%	-5.5%	-16.4%

### GICs increasingly taking on the role played by bonds

The demand for GICs as a substitute for bonds has been increasing at full-service brokerage firms. As seen in **Figure 8**, the \$70 billion balance advantage that bonds held over GICs in September 2008 has disappeared over the past eight years. Undoubtedly, the traction that fixed income mutual funds have generated, particularly in fee-based, has also helped eroded the bond position, but most firms with which we spoke with stated that the shift was driven by GICs.

## 8 Guaranteed Investment Certificates (GICs) Slowly, or Not So Slowly, Replacing Bonds

Assets in billions of dollars



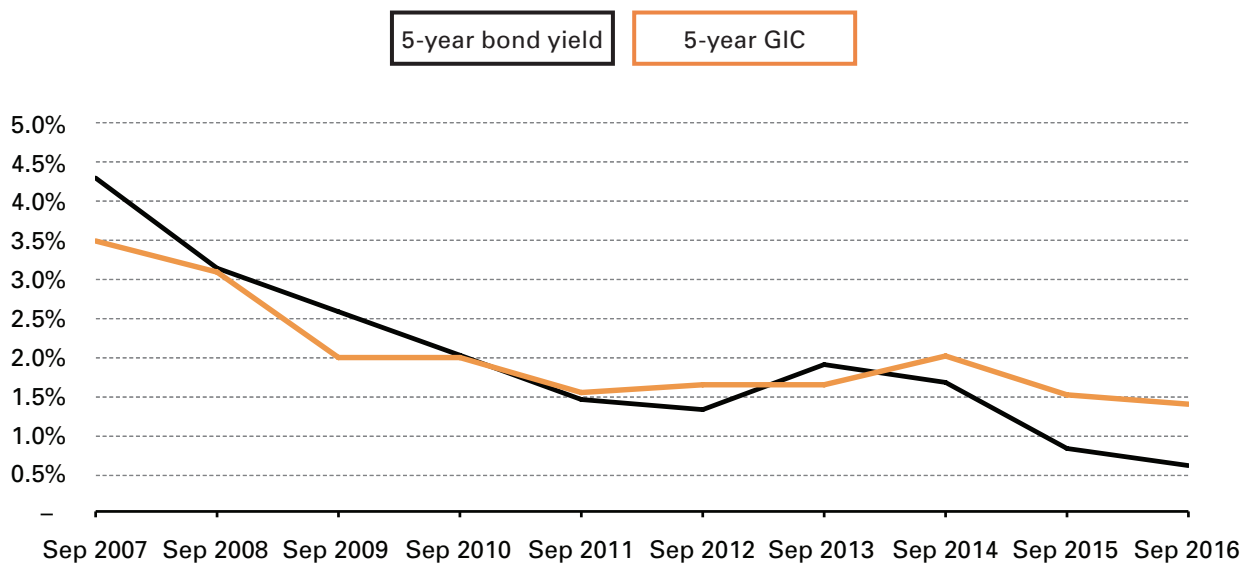
\*Corporate and Government bonds.

## Deposits in Brokerage...Not Just For Sitting on the Sidelines?

The funding requirements that arose out of Basel III and which helped the growth in HISAs have also helped make retail GICs very attractive to issuers – especially when distributed through related parties. This has resulted in better rates being available on GICs, which in turn gained the attention of advisors who were also challenged to manage bond portfolios in a compressed spread environment. It is unclear if this trend will reverse itself, should interest rates rise and spreads widen. Outside fee-based, advisors receive a commission that is generally about 25 basis points per year of term.

From a pure rate perspective, comparing GIC rates and bond yields (see **Figure 9**), shows that the latter experienced a more rapid decline over the past three years, coinciding with the upswing in the popularity of GICs. The interest rate environment continues to create concerns among advisors for bond valuations and shorter-term GICs with better rates and guaranteed principal create a more attractive package than the liquidity of bonds. As several firms indicated, however, with rates as low as they are, the business has become largely rate-driven. Anecdotally, the strong growth in GIC volumes is more prevalent around shorter-term and one-year cashable products.

### 9 GIC Five-year Rates Trending Above Five-year Bond Yields



While the term structure of GICs is not available for the FSB channel, the general trend to shorten terms across the entire market (see **Figure 10**) supports the position that shorter-term GICs are favoured in the FSB channel.

### 10 Preference Growing for Shorter-term GICs

Term (years)	2010	2013	2016
<1	17.5%	26.1%	29.9%
1<x<3	49.1%	42.7%	37.1%
3<x<5	29.5%	28.9%	31.7%
>5	3.9%	2.3%	1.3%

## The role of the banks in the preference for GICs

Distribution of deposits, along with assets in general, has always been dominated by the larger, bank-owned brokerage firms. Their share of channel assets has progressed in the last nine years, rising from 75% in 2007 to nearly 80% in September 2016. During the same timeframe, their reach on deposits has increased at a faster rate, moving from 75% to nearly 84% (see **Figure 11**). Non-Big Six firms have also grown, in both overall assets and deposit assets, and similarly to the Big Six, their deposits have outgrown overall assets – in fact, by a slightly larger margin, indicating that deposits are becoming a greater point of focus for the entire channel. Over the past five years the FSB channel has grown its share of the total GIC market from 11% to over 15%.

### 11 Deposit Share of Overall Assets Has Increased More Among Other Firms—Remains Larger for Big Six Firms

	Sep 2016		Sep 2010		6-yr growth rate	
	Big Six	Other firms	Big Six	Other firms	Big Six	Other firms
<b>Total assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7.6%</b>	<b>4.9%</b>
Deposits	18.1%	13.0%	17.6%	11.9%	8.1%	6.4%
Cash	4.0%	3.4%	3.8%	4.3%	8.5%	0.7%
HISAs	6.4%	4.5%	4.9%	4.2%	12.7%	6.1%
GICs	7.7%	5.1%	9.0%	3.4%	4.9%	12.2%

### And, of course...fee-based plays a role in this

Research on any product in the FSB channel would not be complete without touching on the impact of the fee-based shift occurring in the channel. As of September 2016, unbundled fee-based assets represented close to 44% of total assets in the channel, up from 30% three years ago.

**Figure 12** looks at the movement of deposits both within and beyond fee-based. Deposit growth rates are, like other asset categories, greatly accelerated in fee-based due to the contribution from existing asset conversion. We posited in 2011 that the rise of the HISA product likely helped to reinvigorate the F-series fund structure as advisors looked for liquidity and yield within their fee-based books. It is likely that GICs have lagged that growth slightly as it became a stronger transition target more recently than did investment products.

### 12 All Asset Categories—Deposits Included—in Fee-based Programs Outpace Overall Channel Growth Three-year CAGR to September 2016

	AUA	Deposits	Cash	GICs	HISAs
Full-service brokerage channel	7.9%	6.3%	4.6%	7.4%	6.1%
Fee-based brokerage and advisor managed programs	23.2%	23.4%	25.0%	22.2%	23.7%
Transaction-based accounts	1.5%	0.1%	-4.3%	2.5%	-0.5%

The availability of an F-class treatment for GICs provides a yield benefit to the fee-based value story – the interest rate on the GIC is increased by the commission that is not paid by the issuer at point-of-sale. Because GICs do not pay a trailing commission, they transfer easily to fee-based. In cases where the issuer has paid the commission, the GIC could be viewed as a new issue and the original commission could be therefore interpreted as a placement commission paid by the issuer. Upon term renewal, the higher interest rate would be available to the client.

## Deposits in Brokerage...Not Just For Sitting on the Sidelines?

### The future for deposits

The tendency when thinking about the future of deposits, in any product form, continues to be in terms of the movement of interest rates and market sentiments. This thinking persists, despite the continued growth of deposits in all forms through several periods of favourable market growth and an unwaveringly low rate environment. Having said this, the near future will likely provide a laboratory-like environment in which to assess, perhaps once and for all, the future of deposits in the full-service brokerage channel. Will the inevitable rise in interest rates create an incentive for the channel's aging client households to further reduce exposure to market sensitivity and commit more of their accumulated wealth to deposits? Will these market and demographic factors reshape the liquidity and term structure of those deposits?

As interest rates rise, the funding strategies of lenders and the opportunity for yield could arguably shift demand back to bonds or certainly longer-term deposit structures. The funding requirements imposed by current global and domestic regulation, however, are unlikely to alter the ability of issuers to attractively price GICs in the retail market relative to bond yields and may not reverse the shift from bonds to GICs, but could very well lead to term extension within GICs.

Anecdotally within the channel, there is a growing belief that the aging client population and the scarring left by two bear markets in the past 20 years, has re-established the investment-forsaking interest-rate

threshold at a much lower level than in the past. Investors will have to weigh safety and liquidity against the challenges posed by rising longevity, insufficient savings and the possibility of leaving a legacy. There are *no easy answers* or, to coin another overused understatement, *only time will tell*.

As interest rates rise, the funding strategies of lenders and the opportunity for yield could arguably shift demand back to bonds.

## Key takeaways

- In the third quarter of 2016, the impact of Britain's decision (the *Brexit*) to leave the European Union continued to be felt across markets. However, investors revealed a greater appetite for risk toward the end of the quarter and, in the face of the uncertainty surrounding the U.S. election, equities performed relatively well over the period.
- Retail brokerage channel assets added \$62 billion in the quarter, surpassing the previous quarter's record high in assets under administration.
- The growth in ODB assets outpaced the increase in FSB assets, assisted by ODB's heavier concentration in equities, 68.8% versus 48.4%, respectively.
- Fee-based products were responsible for half of FSB revenues this quarter.
- Although the number of trades on a quarter-over-quarter basis dipped 7.8%, on a year-over-year basis trading activity still saw a modest 3.3% increase.

## Exhibits in this section

- |    |   |   |  |
|----|---|---|--|
| 1a | Participants in Investor Economics' Full-service Brokerage Survey               | 3 | Retail Brokerage Industry Assets                                       |
| 1b | Participants in Investor Economics' Online/Discount Brokerage Survey            | 4 | Quarter-over-quarter Growth in Assets                                  |
| 2  | Update on Major Market Indices and Canadian Dollar Exchange Rate—September 2016 | 5 | Quarterly Revenues at Full-service and Online/Discount Brokers         |
|    |   | 6 | Quarterly Trading Activity at Full-service and Online/Discount Brokers |

The data presented in this issue of the *Retail Brokerage and Distribution Advisory Service* reflects the retail brokerage channel in its entirety. The measures are based on data provided directly by the 23 firms listed below in Figures 1a and 1b, which represent 94% of retail brokerage channel assets. The remainder of the data, which includes eight online/discount brokerage (ODB) firms and 37 full-service brokerage (FSB) firms, is supplied in aggregate form by the Investment Industry Regulatory Organization of Canada (IIROC).

### 1a Participants in Investor Economics' Full-service Brokerage Survey

ATB Securities	National Bank Financial
BMO Nesbitt Burns	Odlum Brown
Canaccord Genuity Wealth Management	Raymond James
CIBC Wood Gundy	RBC Dominion Securities
Credential Securities	ScotiaMcLeod
Desjardins Securities	TD Wealth Private Investment Advice
HollisWealth	

### 1b Participants in Investor Economics' Online/Discount Brokerage Survey

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

After a volatile second quarter, the impact of Britain's decision (the *Brexit*) to leave the European Union continued to be felt across markets, as a rapid deterrence of risk at the beginning of the third quarter was mirrored by global investors' growing demand for the safety of U.S. Treasuries. This reallocation led to a record low in the 10-year U.S. Treasury yield in early July, but this was in turn followed by a sharp rebound in Treasury yields, as the Brexit fallout concerns abated. Investors revealed a greater appetite for risk toward the end of the quarter and, in the face of the uncertainty surrounding the U.S. election, equities performed relatively well over the period.

The impact of Britain's decision (the *Brexit*) to leave the European Union continued to be felt across markets.

Emerging markets experienced a notably strong quarter. Specifically, the MSCI Emerging Markets Index climbed, in Canadian dollar terms, 10.2% over the quarter. Buoyed by

the continuation of the stimulative monetary policies of developed market economies, emerging market currencies moved higher. This move was compounded by the Bank of Canada and the Federal Reserve's year-end announcements to keep interest rates steady. **Figure 2** presents some of the trends in the quarterly and annual performance of several major global indices.

- A recovery in the energy and materials sector helped to lift the S&P/TSX Composite Total Return Index by 5.5%. The gains were broad-based, as 10 out of the 11 sectors in the index experienced positive returns in the third quarter.

- The DEX Universe Bond Index inched higher by 1.2% this quarter and has climbed 6.3% in the past year.
- The MSCI EAFE rallied 6.8% in the July-to-September period, contributing in Canadian dollar terms to a 1.7% one-year return.
- The S&P 500 rose 7.1% over the quarter, pushed higher by seven of the 11 sectors, the most notable being the technology sector, which jumped 12.9%.
- The Bank of Canada's hold on interest rates, along with the minor quarter-over-quarter fluctuation in oil prices, resulted in the Canadian dollar's closing of the third quarter at \$0.76 USD, a rate that was relatively unchanged from its June 2016 levels.

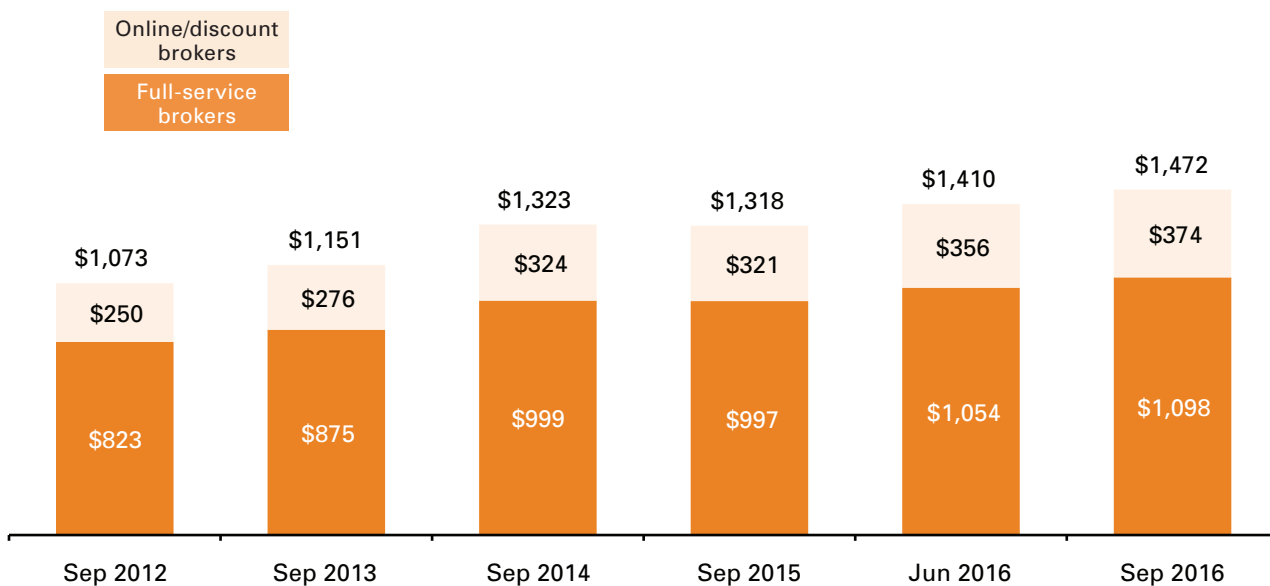
## 2 Update on Major Market Indices and Canadian Dollar Exchange Rate—September 2016

	Growth	
	3-mo	Yr/yr
S&P/TSX Composite Index - Total Return	5.5%	14.2%
DEX Universe Bond Index	1.2%	6.3%
MSCI EAFE (\$Cdn.)	6.8%	1.7%
S&P 500 Total Return Index (\$Cdn.)	7.1%	13.5%
	Jun 2016	Sep 2016
\$Cdn. exchange rate (\$U.S.)	0.77	0.76

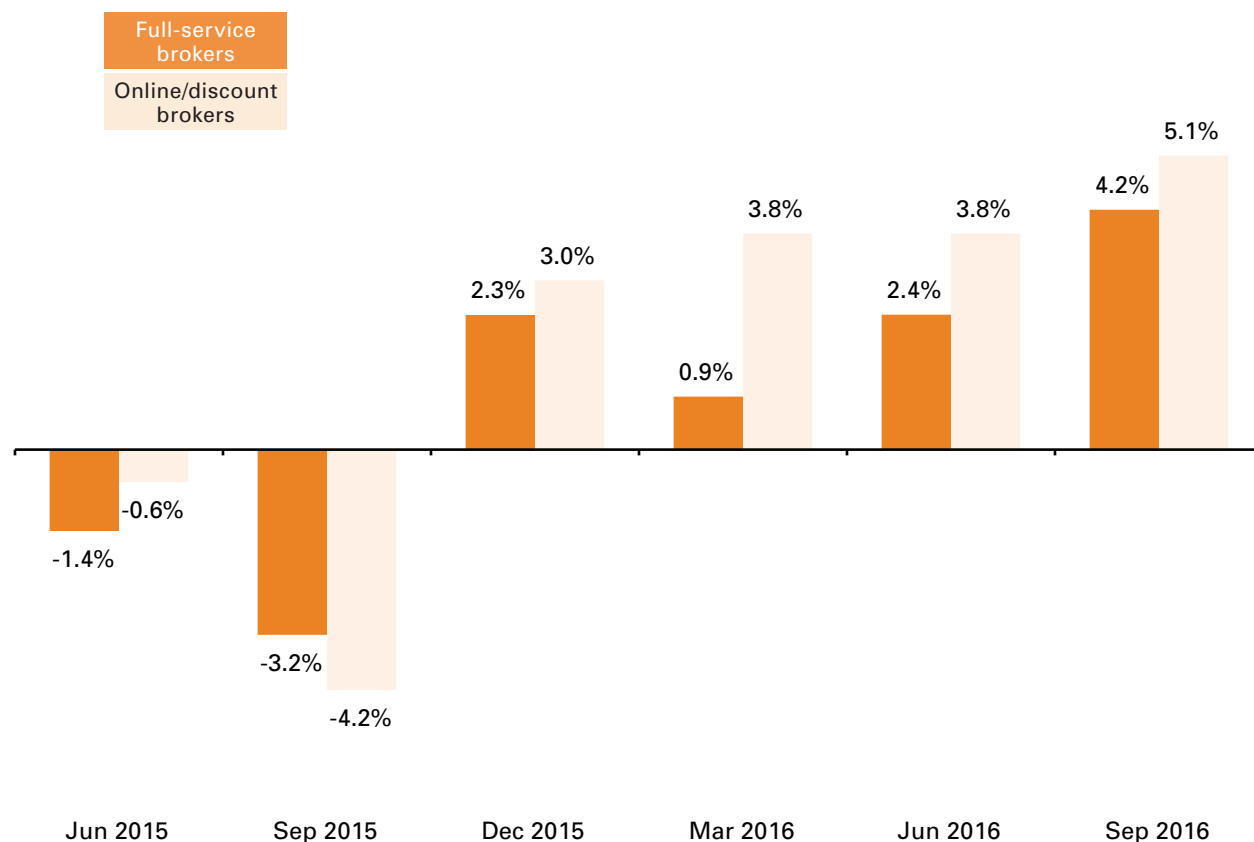
In line with the positive performance of global equity indices, retail brokerage channel assets increased \$62 billion, or 4.4%, in the third quarter of 2016 (**Figure 3**), surpassing the previous quarter's record high in total assets under administration (AUA). Both the FSB and ODB channels achieved record levels. The growth in ODB assets outpaced the increase in FSB assets, assisted by ODB's heavier concentration in equities, 68.8% versus 48.4%, respectively. The 5.1% quarter-over-quarter gain in ODB, relative to the 4.2% rise in FSB assets, contributed to the rise of ODB's share of total retail brokerage industry AUA to 25.4%, up from 22.4% in the same quarter of 2011 (see **Figure 4**).

## 3 Retail Brokerage Industry Assets

In billions of dollars



## 4 Quarter-over-quarter Growth in Assets



The change in retail brokerage revenue is reflected in **Figure 5**. The quarter closed with total revenue of \$2.8 billion, a quarterly and an annual gain of 2.9% and 6.6%, respectively. Bolstered by rising markets and asset levels, fee-based products were responsible for half of FSB revenues this quarter. The growing proportion of wealth flowing into fee-based programs contributed to FSB revenue growth outpacing that of its ODB counterpart from three months prior. The comparative lag in ODB revenues may have been due to the channel's revenue composition, which was driven primarily by commission (28.2% of the total) and spread (49.4% of the total) revenue, which were not as closely tied to AUA levels.

## 5 Quarterly Revenues at Full-service and Online/Discount Brokers

In millions of dollars

	Quarterly revenues			Growth	
	Sep 2015	Jun 2016	Sep 2016	Q3 2016 over Q2 2016	Q3 2016 over Q3 2015
<b>Total revenues</b>	<b>\$ 2,581</b>	<b>\$ 2,673</b>	<b>\$ 2,752</b>	<b>2.9%</b>	<b>6.6%</b>
Full-service brokers	2,147	2,203	2,279	3.5%	6.1%
Online/discount brokers	434	471	473	0.6%	9.0%

As to be expected, given the past seasonal patterns experienced in the summer months, trading volumes for both channels were markedly slower in the third quarter (**Figure 6**). Although the number of trades on a quarter-over-quarter basis dipped 7.8%, on a year-over-year basis trading activity still saw a modest 3.3% increase.

## 6 Quarterly Trading Activity at Full-service and Online/Discount Brokers

Number of trades in thousands

	Quarterly revenues			Growth	
	Sep 2015	Jun 2016	Sep 2016	Q3 2016 over Q2 2016	Q3 2016 over Q3 2015
<b>Number of trades</b>	<b>26,335</b>	<b>29,510</b>	<b>27,196</b>	<b>-7.8%</b>	<b>3.3%</b>
Full-service brokers	14,726	15,424	14,268	-7.5%	-3.1%
Online/discount brokers	11,609	14,086	12,928	-8.2%	11.4%

## Key takeaways

- Full-service brokerage (FSB) channel assets increased by 4.2%, or \$44 billion, reaching a new high-water mark of approximately \$1.1 trillion. Both the Big Six and Other firms posted positive annual growth rates to September 2016 of 9.8% and 11.6%, respectively.
- Asset growth came from all product categories with equities accounting for just over half the quarterly increase in assets and investment funds accounting for just over a quarter of the increase.
- Asset growth arose primarily from market appreciation and flows into existing accounts as total accounts remained relatively static from the previous quarter.
- Revenue, reported for the quarter ended June, reached a new high-water mark, driven by advances in fee revenue, while commission-based revenue continued its descent as assets shifted to fee-based practice models.
- All fee-based program assets, including the previously slumping in-house managed wrap (IHMW) programs, experienced robust growth, driving fee-based programs to 44% of overall channel assets and over half of channel revenue.
- Insurance revenues at the Big Five full-service brokerage firms totalled \$135 million in the first three quarters of the year, representing an increase of 33% since the same period in 2015.
- Incoming changes to the taxation of life insurance policies in 2017 have provided a catalyst for advisors to reengage clients and for clients to act before the new life insurance tax regime comes into effect.

## Exhibits in this section

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| 11  | Full-service Brokerage Mix of Commission Revenues                                       | 33  | Quarterly Whole Life Results at Full-service Brokers   |
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| 16  | Full-service Brokerage Assets and Advisors by Region                                    | 36b | Insurance Companies' Quarterly Share of Term Life (including Term to 100) Revenues at Full-service Brokers |
| 17  | Full-service Brokerage Average Assets per Advisor                                       | 37  | Quarterly Living Benefits Results at Full-service Brokers  |
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**The full-service brokerage (FSB) channel continued to expand its reach during the third quarter of 2016, growing by 4.2%, or \$44 billion, in assets. The channel surpassed its previous quarter's record high in total assets under administration (AUA) – reaching approximately \$1.1 trillion. Growth in the FSB channel is largely driven by the performance of equity markets, as the channel's size and maturity tends to limit the impact of new flows on overall growth. Additionally, the channel's exposure to equity markets is well over 50%, considering directly held stocks and the equity components of exchange traded funds and investment funds, so market movements have significant impact on growth. Although the rise in equities during the quarter was responsible for half of the \$44 billion quarterly growth in assets, asset growth was evident in all major asset categories – long-term investment funds was the next biggest contributory category, adding just over \$11 billion.**

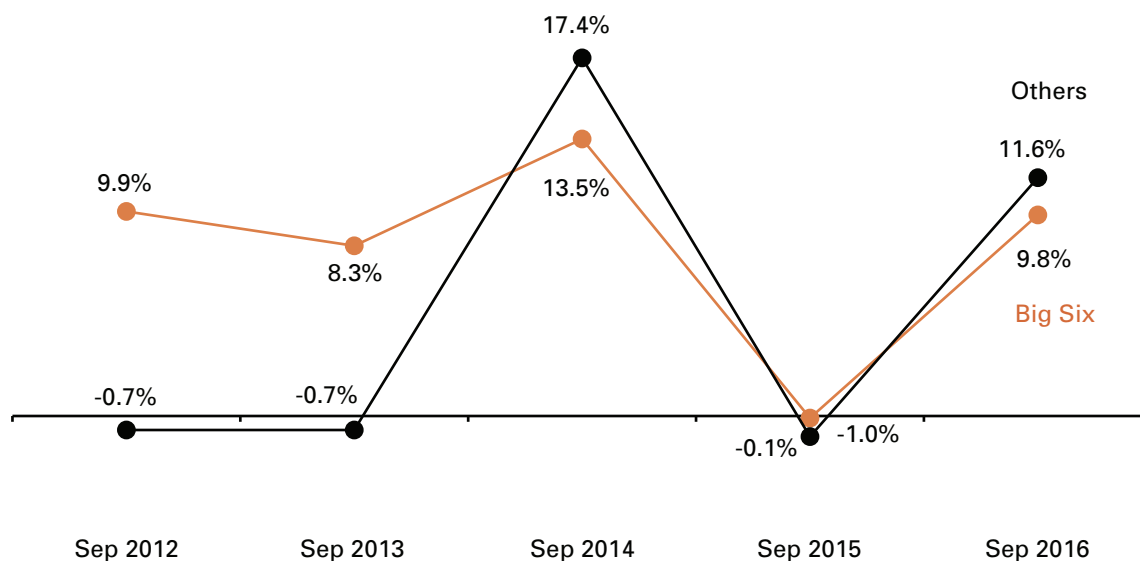
While assets grew over the quarter, the total number of accounts remained relatively static, resulting in a rise in average account sizes across all the firms we track and reaching a new high, across the channel, of \$177,700. Naturally, with the rise in assets, an increase in revenue, particularly fee-based revenue, ensued. Fee-based programs outpaced overall channel growth and made up 44% of overall assets – up 4% from a year earlier – by the end of the quarter. Discretionary fee-based programs continued to be a key focus across FSB firms, as strong asset growth attested.

The number of advisors, which dropped below 10,000 in the previous quarter – for the first time in 9 years – had rebounded above that threshold by the end of September. Anecdotally, advisors that previously departed several Big Six firms found homes among the *Other* firms. Nationwide, average assets per advisors are at an all-time high of \$110 million. Advisor count fluctuation by firm, however, is expected to resume as consolidations in the industry continue. Mergers and the hunt for scale remained a headline theme in the industry: The merger of Raymond James and 3Macs (MacDougall, MacDougall & MacTier, Inc.) closed on August 31, 2016. The growth results of that acquisition, for Raymond James, will not, however, be evident until our next survey covering the period ended December 2016. As the recent announcement of Industrial Alliance's acquisition of HollisWealth indicates, we think it is safe to assume that more such deals are to follow.

## Assets and accounts

Year-over-year growth rates to September indicate that both Big Six firms and the Other firms have done well (see **Figure 1**). The Other firms, which grew at a slightly higher rate, likely benefited from a more equity centric asset mix, particularly within their investment fund mix. These firms also have a much smaller asset and client base, which can be impacted by short term asset and new account flows, more so than the significantly larger Big Six firms. The strong annual growth rates to September 2016 among both sets of firms may also be attributed to the downturn experienced in the third quarter of 2015. Regardless of how the growth was sourced, both Big Six and Other firms experienced strong annual growth rates of 9.8% and 11.6%, respectively—both of which were well ahead of the long-term compound annual growth rates (CAGR) forecasted for the channel in our *2015 Household Balance Sheet*, bringing the two year CAGR in line with that forecast.

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



All the firms we track were on the positive side of the ledger, contributing \$44 billion in assets during the third quarter of 2016 (see **Figure 2**). As is often the case, the larger players ranked higher in the absolute asset growth category, while for the most part the smaller firms did so in the relative growth rate category. With that said, the top five firms ceded 34 basis points in asset share as they were not able to keep pace with the rest of the dealers. Despite this slight slippage, however, no changes in asset rankings occurred.

## 2 Full-service Brokerage Asset Ranking

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

	Asset rank		Growth rank	
	Sep 2016	Jun 2016	3-mo growth rate	3-mo asset change
<b>Full-service brokerage assets</b>	<b>\$ 1,098</b>	<b>\$ 1,054</b>	<b>4.2%</b>	<b>\$ 44</b>
RBC Dominion Securities	1	1	7	1
CIBC Wood Gundy	2	2	10	2
BMO Nesbitt Burns	3	3	11	5
ScotiaMcLeod	4	4	13	7
National Bank Financial	5	5	6	4
<b>Top 5</b>	<b>\$ 777</b>	<b>\$ 749</b>	<b>3.7%</b>	<b>\$ 28</b>
<b>Market share</b>	<b>70.8%</b>	<b>71.1%</b>		
TD Wealth Private Investment Advice	6	6	3	3
Desjardins Securities	7	7	9	8
Raymond James	8	8	2	6
HollisWealth	9	9	12	10
ATB Securities	10	10	8	12
<b>Top 10</b>	<b>\$ 955</b>	<b>\$ 919</b>	<b>3.9%</b>	<b>\$ 36</b>
<b>Market share</b>	<b>87.0%</b>	<b>87.2%</b>		
Odlum Brown	11	11	1	9
Canaccord Genuity Wealth Management	12	12	4	11
Credential Securities	13	13	5	13

The asset mix of the FSB industry is presented in **Figure 3**. All the major categories rose in the quarter. Equities, the largest category, representing about 43% of total assets, accounted for just over half of the \$44 billion expansion. Fixed income, by contrast, was on the other end of the spectrum as bonds, both corporate and government, continued to cede share to GICs. Despite the substitution gains, GICs also ceded overall share (about 10 basis points) to the investment side of the FSB portfolio. Positive markets also had a correspondingly positive effect on the inflow of assets into long-term investment funds.

### 3 Deposits and Fixed Income in the Full-service Mix

In billions of dollars

	Assets		Growth 3-mo
	Sep 2016	Jun 2016	
<b>Full-service brokers</b>	<b>\$ 1,098</b>	<b>\$ 1,054</b>	<b>4.2%</b>
Deposits	181	175	3.0%
Cash	36	35	2.8%
HISAs	66	64	3.4%
GICs	79	77	2.6%
Fixed income	103	101	1.9%
Cash equivalents	6	6	6.9%
Money market funds	5	5	-1.3%
Bonds	80	78	1.7%
Fixed income ETFs	12	12	1.8%
Long-term investment funds	289	278	4.1%
Equities	477	455	4.8%
ETFs*	42	38	8.8%
Other	6	6	5.9%

\*Excludes ETFs reported in the fixed income ETF line.

Growth between taxable versus registered accounts was fairly close, particularly when comparing year-over-year numbers (see **Figure 4**). Tax-free savings accounts (TFSA) continued where they left off in the previous quarter, with a 6.0% uptick in quarterly growth and a substantive 29.1% year-over-year surge in growth rate. Growth of TFSA was not only due to inflows, but also benefited from an asset mix that heavily favours equity because of the tax exempt treatment provided on gains.

### 4 Full-service Brokerage Asset Breakdown by Tax Status and Type of Account

In billions of dollars

	Assets			Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
<b>Full-service brokers</b>	<b>\$ 997</b>	<b>\$ 1,054</b>	<b>\$ 1,098</b>	<b>4.2%</b>	<b>10.1%</b>
Taxable	660	697	727	4.3%	10.2%
Registered	337	357	370	3.9%	10.1%
RRSPs*	226	234	242	3.5%	7.2%
RESPs	5	6	6	2.7%	10.0%
RRIFs	78	83	87	4.2%	11.6%
TFSA	28	34	36	6.0%	29.1%

\*Includes group RRSPs.

Total accounts remained flat in the quarter, with only 1.0% in growth in the past year (see **Figure 5**). New accounts opened in the quarter experienced a 1.5% decline in the three-month period and an even greater drop (-12.8%) year-to-date. It should be pointed out, however, that lower new accounts in the third quarter seems to be an ongoing trend of an easing effect, post the first quarter, when most new accounts are normally added. The drop in new accounts added was evident in all three categories (taxable, RSPs and TFSAs).

## 5 Full-service Brokerage Number of Accounts In thousands

	Sep 2015	Jun 2016	Sep 2016	Growth	
				3-mo	Yr/yr
Number of accounts	6,116	6,164	6,178	0.2%	1.0%
New accounts opened	212	188	185	-1.5%	-12.8%

**Figure 6** displays the average account sizes for Big Six and Other FSB firms by tax status: taxable, registered and TFSAs. Average account sizes were up for both Big Six and Other firms, in all respective categories, a result of very low growth in accounts, while assets had solid gains. The Other firms experienced greater average account size growth than their counterparts, in all three account categories (taxable, registered and TFSAs), in line with an overall asset growth advantage.

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

		Average account size			Growth
		Sep 2015	Jun 2016	Sep 2016	3-mo
<b>Full-service brokers</b>	<b>Big Six</b>	<b>\$ 213.2</b>	<b>\$ 226.7</b>	<b>\$ 235.2</b>	<b>3.8%</b>
	<b>Others</b>	<b>85.8</b>	<b>88.3</b>	<b>92.6</b>	<b>4.9%</b>
Taxable	Big Six	355.2	374.4	390.0	4.2%
	Others	107.3	110.3	115.8	4.9%
Registered*	Big Six	144.0	155.8	161.0	3.4%
	Others	86.6	89.3	93.6	4.8%
TFSAs	Big Six	30.6	36.1	37.6	4.2%
	Others	23.4	26.0	27.6	6.2%

\*Registered average account size excludes TFSA assets and accounts.

Ranking of average account size by dealer is presented in **Figure 7**. All the participants ranked experienced growth in this category – growth rates were relatively close in range, with an identical mean and median (4.1%). RBC Dominion Securities bumped CIBC Wood Gundy off the top spot; the former ranked first in absolute asset growth in the quarter.

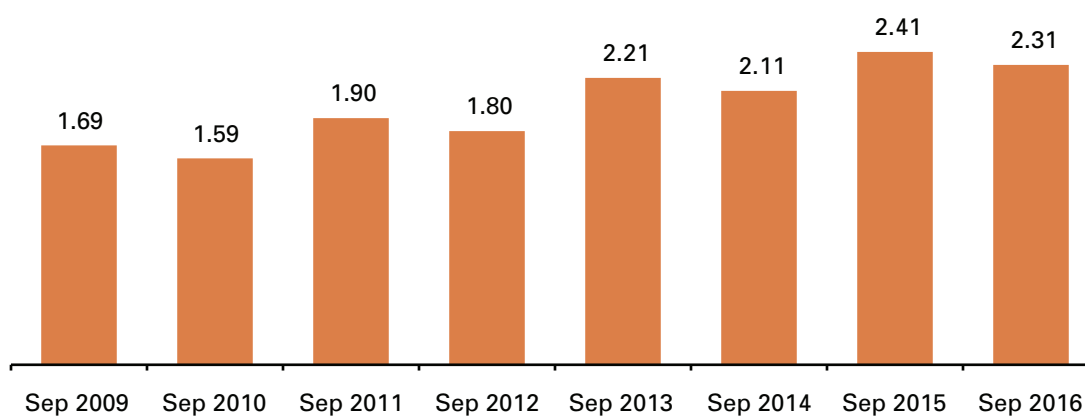
## 7 Full-service Brokerage Average Account Size

Ranked by average account size in thousands of dollars

	Asset size rank		Growth rank 3-mo growth rate
	Sep 2016	Jun 2016	
<b>Full-service brokers</b>	<b>\$ 177.7</b>	<b>\$ 170.9</b>	<b>3.9%</b>
RBC Dominion Securities	1	2	7
CIBC Wood Gundy	2	1	11
BMO Nesbitt Burns	3	4	9
ScotiaMcLeod	4	3	12
TD Wealth Private Investment Advice	5	5	5
<b>Top 5</b>	<b>\$ 244.5</b>	<b>\$ 235.8</b>	<b>3.7%</b>
Odlum Brown	6	6	1
National Bank Financial	7	7	6
Canaccord Genuity Wealth Management	8	8	3
Credential Securities	9	9	10
Desjardins Securities	10	10	13
<b>Next 5</b>	<b>\$ 152.0</b>	<b>\$ 145.4</b>	<b>4.5%</b>
Raymond James	11	11	2
ATB Securities	12	12	8
HollisWealth	13	13	4

**Figure 8** compares trades per account in the third quarter for the past eight years. Although quarterly trades were lower than in the previous year, they remained within a longer term upward trending band. This may be correlated with the move to fee-based, both in terms of the activity required by the move itself and an increase in ongoing transaction activity. In the case of the latter, the big shift to advisor managed programs and the inherent trade efficiencies of those programs, is likely having an upward impact on trade volumes as well.

## 8 Quarterly Trades per Account at Full-service Brokerages



## Revenues & Regional Segmentation of Advisors and Assets

Figures 9 through 14 provide a comprehensive revenue analysis of the FSB channel for the calendar quarter ending June 2016. Please note that the data in this section lags the data in other sections of this report by one quarter. Revenues in this section reflect the second-quarter 2016 results.

Fixed income commissions experienced the largest absolute decline in revenue, inching closer to their lowest point since the first quarter of 2007.

References to the “sample” refer to the combined results of the Big Six firms and the five Other participants. The firms in our sample generate approximately 88% of the total revenue in the retail FSB channel.

Please also note that the results for HollisWealth are considered distinct from ScotiaMcLeod and remain a part of the “Other” firm grouping.

Aggregate revenues trended up by 1.9% in the second quarter of 2016, reaching a new high-water mark of \$1.93 billion (see Figure 9). The rise in revenue was in line with overall asset growth in the channel. The primary theme remains the same; assets shifting from commission-based accounts into fee-based programs, along with their corresponding revenues. As of June 2016, fee-based programs accounted for 43% of overall assets, while generating 50% of overall revenues. This indicates that higher generating revenue assets are transitioning first.

### 9 Quarterly Full-service Brokerage Revenues

In millions of dollars

	Quarterly revenues			Mix			Growth	
	Jun 2015	Mar 2016	Jun 2016	Jun 2015	Mar 2016	Jun 2016	Q2 2016 over Q1 2016	Q2 2016 over Q2 2015
<b>Revenues</b>	<b>\$ 1,894</b>	<b>\$ 1,894</b>	<b>\$ 1,929</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>1.9%</b>	<b>1.8%</b>
Commissions	449	451	413	24%	24%	21%	-8.4%	-8.0%
Fees	1,269	1,259	1,329	67%	66%	69%	5.6%	4.7%
Spread	162	170	171	9%	9%	9%	0.6%	5.8%
Other	14	14	16	1%	1%	1%	13.2%	8.3%

Revenues coming out of commission-based accounts declined by 8.4%, relative to the first quarter of 2016 (see Figure 10). With the exception of insurance, all other categories were in the red. Mutual fund sales commissions in the second quarter went through a typical seasonal (post first quarter) drop. This category was already on a downward slope due to the shift from point-of-sale transaction revenue to fee-based revenue generation. Fixed income commissions experienced the largest absolute decline in revenue, inching closer to their lowest point since the first quarter of 2007.

## 10 Full-service Brokerage Mix of Quarterly Commission Revenues

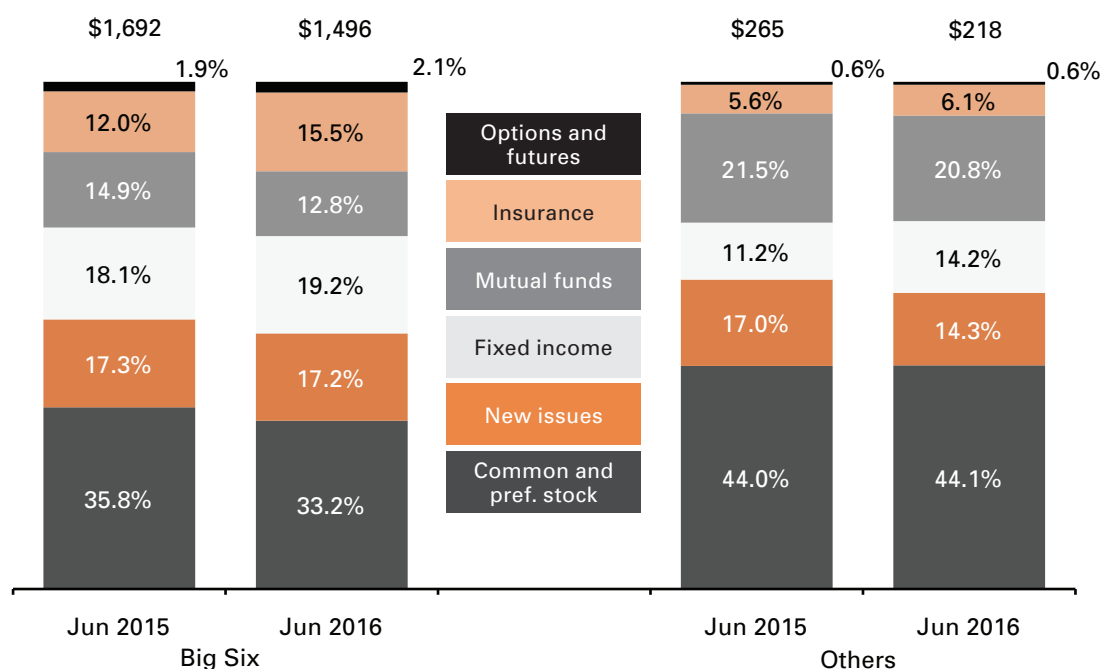
In millions of dollars

	Quarterly revenues			Trailing four quarters ending Jun 2016
	Jun 2015	Mar 2016	Jun 2016	
<b>Commission revenues</b>	<b>\$ 449</b>	<b>\$ 451</b>	<b>\$ 413</b>	<b>1,714</b>
	100.0%	100.0%	100.0%	100.0%
Equity	51.5%	55.6%	54.9%	53.3%
Common and preferred stock	35.3%	32.8%	36.2%	34.6%
New issues	14.5%	21.0%	17.0%	16.8%
Options and futures	1.8%	1.8%	1.7%	1.9%
Mutual funds	16.7%	13.4%	12.1%	13.8%
Insurance	12.9%	12.9%	15.6%	14.3%
Fixed income	18.8%	18.2%	17.3%	18.5%

**Figure 11** compares trailing four-quarter commission revenue mix for Big Six and Other firms. This longer-term measure is used to smooth out any quarterly seasonal shifts in revenue that may have been evident in previous exhibits and it will again be used in **Figure 13**. The downward trend of mutual fund commission revenue was clear among both firm categories, while the opposite shift has occurred in fixed income and insurance revenue. As indicated earlier, overall commission-based revenue is on a perpetual decline, along with its components, as fee-based increasingly substitutes for commission-based. As is often the case in such scenarios over time, the shift in segments has been just that – a shift, not necessarily an increase or decrease in revenue.

## 11 Full-service Brokerage Mix of Commission Revenues

Trailing four quarters ending June 2015 and June 2016  
In millions of dollars



The decline on the commission-based revenue front was certainly not apparent on the fee-based revenue business. This category grows, for the most part, every quarter, with discretionary brokerage leading the pack (see **Figure 12**). Not far behind was revenue streaming out of non-discretionary fee-based programs. The latter two categories made up nearly 73% of aggregate fee-based revenue and 50% of overall revenue in the channel. The rapid growth of these two categories took away share from the other revenue-generating categories, which have also been growing – just not at the same blistering pace.

## 12 Full-service Brokerage Quarterly Fee Revenue Mix

In millions of dollars

	Quarterly revenues			Trailing four quarters ending Jun 2016
	Jun 2015	Mar 2016	Jun 2016	
<b>Fees</b>	<b>\$ 1,269</b>	<b>\$ 1,259</b>	<b>\$ 1,329</b>	<b>5,149</b>
	100.0%	100.0%	100.0%	100.0%
Mutual fund trailers	26.3%	23.1%	22.4%	23.8%
Fund wraps	1.7%	1.5%	1.3%	1.5%
Fee-based brokerage	29.9%	29.4%	30.6%	29.9%
Discretionary brokerage*	38.6%	42.2%	42.2%	41.3%
Account fees	3.5%	3.8%	3.6%	3.6%

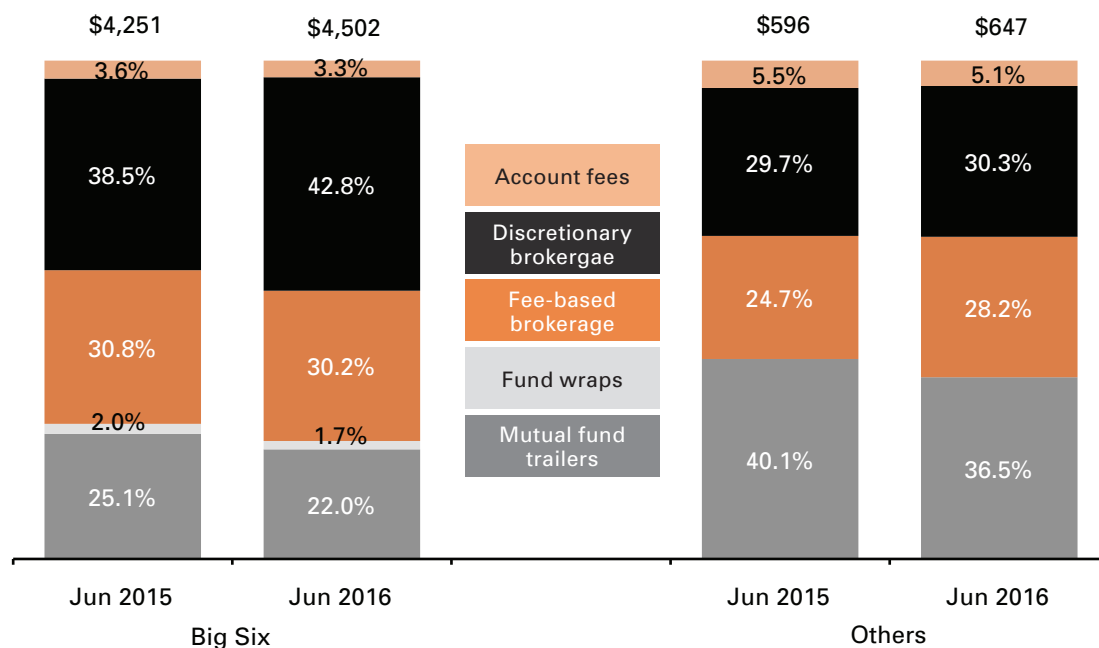
\*Includes separately managed wraps, advisor managed accounts and in-house managed wraps.

The trailing four-quarter view of the fee-based revenue mix provides a similar story (see **Figure 13**). Discretionary brokerage; a mix of discretionary advisor managed (AM), separately managed wrap (SMW) and in-house managed wrap (IHMW) programs, increased their share among Big Six and non-Big Six firms over the quarter. Their combined growth, among Big Six firms, was so rapid that it even took away share from non-discretionary fee-based (FBB) programs. However, not all discretionary programs experienced growth in revenue. While revenues coming from AM and SMW programs grew, in line with their assets, IHMW programs dropped in both categories. The latter faced stiff competition from other, internal and more established fee-based programs and is coming under pricing pressure.

Discretionary brokerage; a mix of discretionary advisor managed (AM), separately managed wrap (SMW) and in-house managed wrap (IHMW) programs, increased their share among Big Six and non-Big Six firms over the quarter.

## 13 Full-service Brokerage Mix of Fee Revenues

Trailing four quarters ending June 2015 and June 2016  
In millions of dollars



Turn rates were calculated by dividing the annualized revenue generated in each asset category by the average assets held in those categories, over the period in which the revenue was generated. Total asset turn rates declined by less than a basis point for the Other firms and stayed the same among the Big Six firms (see **Figure 14**). This indicates that revenue increases among Other firms were slightly lower than the increase in assets. Although not much change is often seen on a quarter-over-quarter basis, all the categories are trending lower – some more so than others. A case in point was the equity category – transactional equity, to be exact – as a result of assets moving to fee-based, which, for the most part, were the higher revenue generating ones.

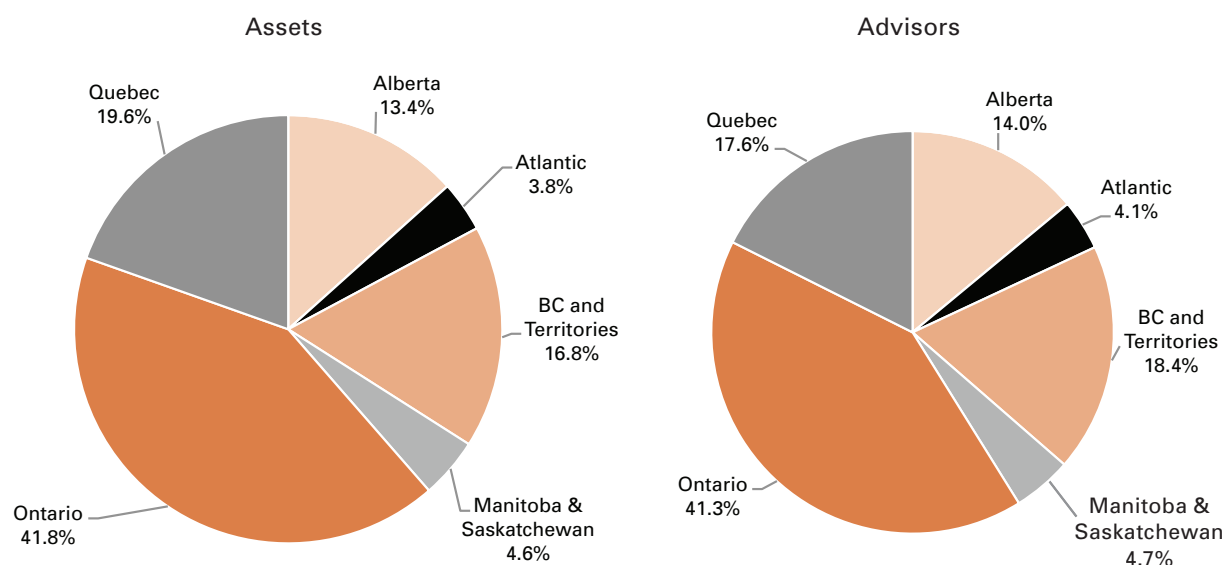
## 14 Full-service Brokerage Annualized Turn Rates for Four Quarters Ending

	Jun 2015	Mar 2016	Jun 2016	Change (bps)	
				3-mo	Yr/yr
<b>Total assets</b>	<b>0.83%</b>	<b>0.83%</b>	<b>0.83%</b>	<b>(0.2)</b>	<b>(0.8)</b>
Big Six	0.81%	0.81%	0.81%	(0.1)	(0.5)
Others	1.02%	0.98%	0.97%	(0.8)	(4.3)
<b>Equities</b>	<b>0.38%</b>	<b>0.35%</b>	<b>0.35%</b>	<b>0.3</b>	<b>(3.3)</b>
Big Six	0.36%	0.33%	0.33%	0.3	(2.8)
Others	0.58%	0.50%	0.50%	0.3	(8.4)
<b>Fixed income</b>	<b>0.24%</b>	<b>0.24%</b>	<b>0.23%</b>	<b>(0.9)</b>	<b>(1.2)</b>
Big Six	0.24%	0.23%	0.23%	(0.9)	(1.4)
Others	0.27%	0.28%	0.27%	(1.1)	0.1
<b>Managed assets</b>	<b>0.98%</b>	<b>0.96%</b>	<b>0.96%</b>	<b>(0.2)</b>	<b>(2.2)</b>
Big Six	0.98%	0.95%	0.95%	(0.2)	(2.2)
Others	1.04%	1.03%	1.02%	(0.6)	(2.2)

## Regional

With equity markets performing relatively well in the third quarter, particularly toward the end of the quarter, assets strengthened in all regions (see **Figures 15** and **16**). Growth rates among the regions were in a relatively narrow range, thus not much changed in regional shares of total assets. In fact, B.C. – generally assumed to be one of the more equity-centric regions in the FSB channel – was the only region to experience an increase in share, albeit a small one at 10 basis points.

### 15 Full-service Brokerage Assets and Advisors by Region—September 2016



### 16 Full-service Brokerage Assets and Advisors by Region

Assets in billions of dollars

	Assets			Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
<b>Canada</b>	<b>\$ 997</b>	<b>\$ 1,054</b>	<b>\$ 1,098</b>	<b>4.2%</b>	<b>10.1%</b>
Atlantic	38	40	42	3.6%	9.7%
Quebec	195	206	215	4.1%	10.0%
Ontario	416	440	459	4.3%	10.5%
Manitoba and Saskatchewan	46	48	50	3.7%	9.2%
Alberta	135	142	147	3.6%	8.5%
B.C. and Territories	166	176	185	4.8%	11.0%
	Number of advisors*			Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
<b>Canada</b>	<b>10,175</b>	<b>9,972</b>	<b>10,007</b>	<b>0.4%</b>	<b>-1.7%</b>
Atlantic	424	413	406	-1.7%	-4.2%
Quebec	1,755	1,742	1,762	1.1%	0.4%
Ontario	4,248	4,112	4,128	0.4%	-2.8%
Manitoba and Saskatchewan	485	480	474	-1.3%	-2.3%
Alberta	1,395	1,396	1,400	0.3%	0.4%
B.C. and Territories	1,868	1,829	1,837	0.4%	-1.7%

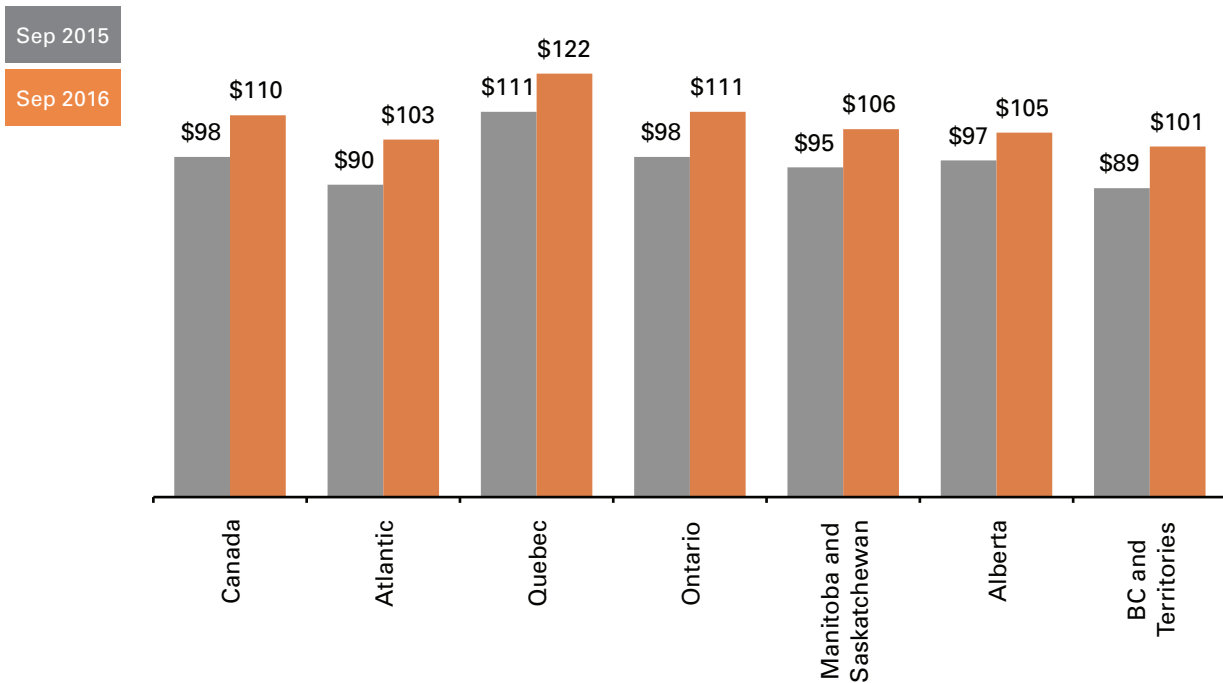
\*Industry number of advisors is estimated based on survey respondents plus a gross-up factor.

The rise in assets per advisor is not surprising given the positive aggregate rise in assets during the period as booked by a relatively flat number of advisors.

Advisor counts bounced back above 10,000, after falling below that threshold in the previous quarter for the first time since 2007. Based on the movement of numbers across firms and anecdotal evidence, it appears as though a number of advisors, who had previously left some of the Big Six firms, either by choice or due to increased productivity pressures, seem to have landed at other firms, primarily in Quebec and Ontario. These two provinces experienced the highest growth in advisor numbers during the period. Total advisor count, however, remains lower than a year earlier.

At \$109.7 million, average assets per advisor reached its highest point to date (see **Figure 17**). The rise in assets per advisor is not surprising, however, given the positive aggregate rise in assets during the period as booked by a relatively flat number of advisors. All regions saw their book size increase in the period, with some even experiencing annual double-digit growth.

**17 Full-service Brokerage Average Assets per Advisor**  
Assets in millions of dollars



## Product Analysis

The commission- and fee-based asset categories in **Figures 18** and **19** include all cash and deposit assets held in each category. Investment funds and high-interest savings accounts (HISAs) may be held as stand-alone products outside of fee-based programs, or they may be held within any of the four fee-based programs. Double-counting between any of the product or practice categories listed in **Figure 18** has been excluded.

Once again, fee-based assets outgrew the channel during the quarter and even commission-based assets, indicating that the flow of assets from one “pond” to the other is alive and well (see **Figure 18**). With strong equity markets pushing growth across all business models, the modest 1.7% growth in transaction- or commission-based assets highlights the fee-based trend.

Within fee-based assets, the headliner(s) continue to be the various fee-based programs, both discretionary and non-discretionary. Non-discretionary fee-based brokerage (FBB) programs remain on top of the heap, as far as total assets are concerned, while on the discretionary side, it was advisor managed (AM) programs sporting both the most assets and, overall, the fastest growth rates. The latter growth rate is fuelled by the upsurge in advisors who have qualified as portfolio managers (PMs) and have converted existing fee-based and transaction based assets to their discretionary practices. More on the individual fee-based programs follows below.

### 18 Full-service Brokerage Business Mix

Assets in billions of dollars

	Assets			Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
<b>Full-service brokers</b>	<b>\$ 997</b>	<b>\$ 1,054</b>	<b>\$ 1,098</b>	<b>4.2%</b>	<b>10.1%</b>
Commission-based assets	344	350	356	1.7%	3.4%
Fee-based assets	653	704	742	5.4%	13.7%
Stand-alone funds and HISAs*	231	227	234	3.0%	1.4%
Managed assets	422	477	508	6.6%	20.4%
Fund wraps	27	28	29	4.1%	7.2%
Fee-based brokerage	192	213	226	5.9%	17.5%
Discretionary assets	203	235	253	7.5%	24.9%
Separately managed wraps	46	51	53	5.3%	16.7%
In-house managed wraps	10	10	11	5.2%	1.2%
Advisor managed	146	175	189	8.3%	29.2%

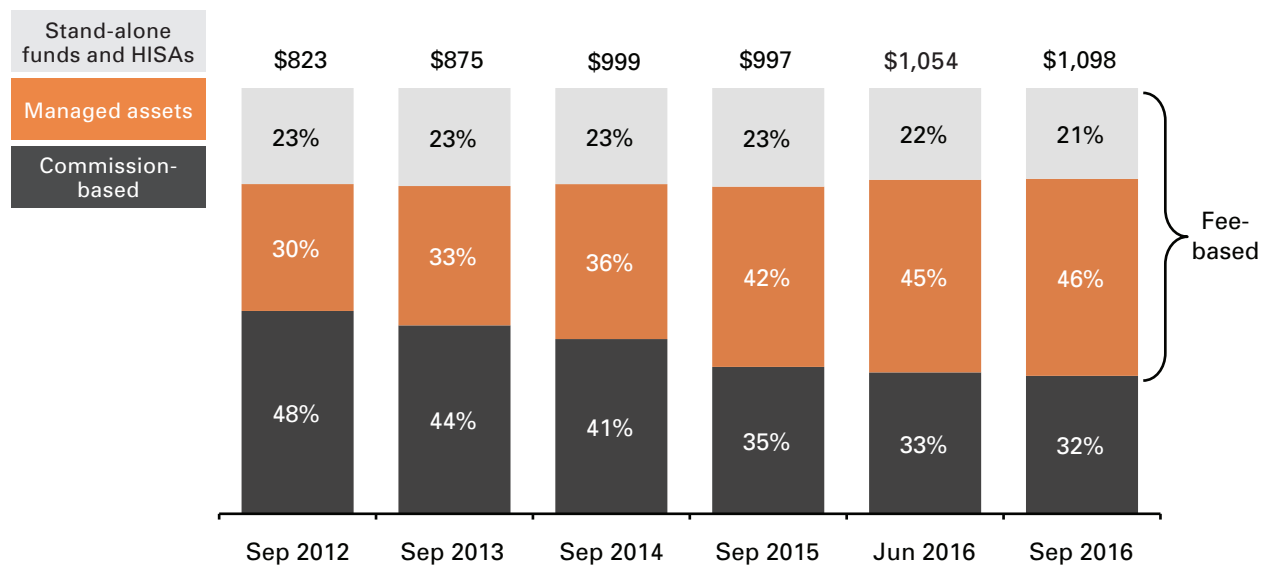
\*Excludes double-counting due to funds and HISAs in managed assets.

The growth in discretionary AM programs has been so rapid that it has taken away share from all other segments.

The transition of assets from commission-based accounts into the fee-based space is best shown in **Figure 19**. Here we see a four-year view of each category’s asset share; we can see a nearly mirror image of commission-based versus fee-based assets, while stand-alone funds and HISAs have maintained steady shares in an overall growth environment for the channel.

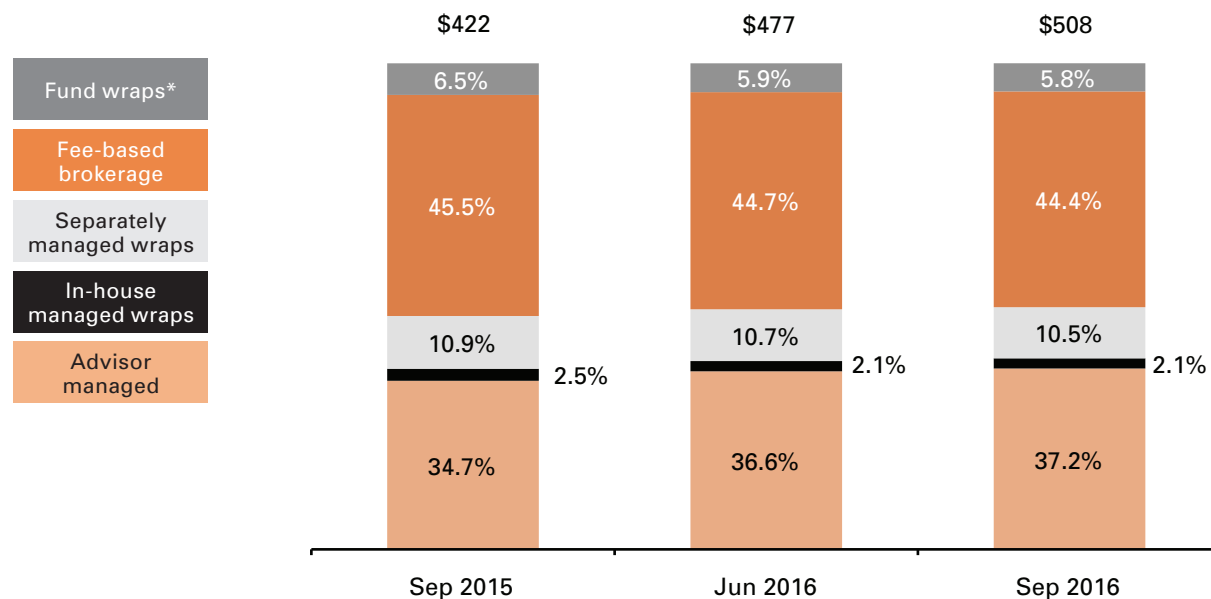
## 19 Full-service Brokerage Business Mix

Major components as share of total assets



Managed assets have shown no signs of slowing down, with all components growing both during the quarter and year-over-year (see **Figure 20**). Not all managed assets, however, have grown to the same degree and that is why we see a shift in shares between them. The growth in discretionary AM programs has been so rapid that it has taken away share from all other segments – gaining 2.5 percentage points in the last year alone. While FBB programs have shed 28 basis points, FBB remained the largest category, taking on a steady flow of assets coming out of commission-based accounts.

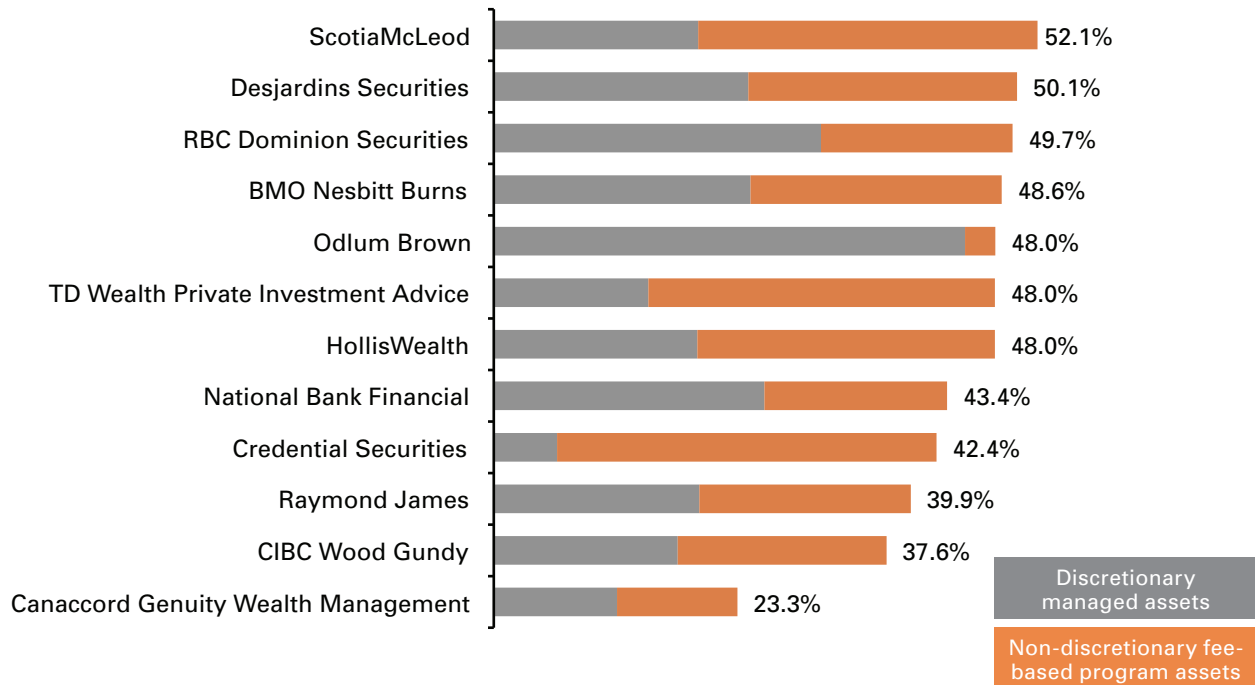
## 20 Full-service Brokerage Managed Assets by Type



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

**Figure 21** ranks the firms we track by their ratio of managed assets to total assets. In addition, each bar provides a visual split of managed assets by discretionary programs (AM, SMW, IHMW) versus non-discretionary programs (FBB and fund wraps); this highlights the variability in practice focus between firms. The focus on managed asset growth was not specific to a few firms, as almost all firms saw their managed asset share increase in the quarter. A few rose faster than others, and due to this, some firms moved up in the rankings. Desjardins Securities and BMO Nesbitt Burns, both went up one spot in this particular ranking.

## 21 Full-service Brokerage Managed Assets as a Percentage of Total Assets—September 2016



The following four exhibits provide asset rankings, as well as quarterly and annual growth rates for the four fee-based programs: non-discretionary fee-based (FBB), separately managed wrap (SMW), in-house managed wrap (IHMW) and discretionary advisor managed (AM) programs.

All programs in the ranking grew during the quarter, with some seeing double-digit growth rates over the quarter and nearly all experiencing double-digit growth rates in the past year.

Non-discretionary fee-based brokerage (FBB) programs continued their rise beyond the \$200 billion range, outgrowing the full-service brokerage (FSB) channel as a whole, both quarterly and year-over-year (see **Figure 22**). Much of the growth in excess of overall channel growth (4.2% during this quarter) was largely the result of net inflows from the transaction-based side of the business, generally the first step in the transition from commission-based assets to fee-based programs. All programs in the ranking grew during the quarter, with some seeing double-digit growth rates over the quarter and nearly all experiencing double-digit growth rates in the past year. TD Wealth Private

Investment Advice moved up one spot in the rankings and is now at fourth place, a move supported by the top quarterly and one-year growth rates among the Big Six firms. Credential Securities' OnPoint remained the fastest-growing FBB program overall, inching closer to the top 10 as credit unions supported by the Credential full-service offer continue to adopt the fee-based practice model in growing numbers.

## 22 Full-service Brokerage Firms Ranked by Total Assets in Fee-based Brokerage Programs

Assets in billions of dollars

	Asset rank			Asset growth rates Sep 2016	
	Sep 2016	Jun 2016	Sep 2015	3-mo	1-yr
<b>Fee-based brokerage</b>	<b>\$ 225.5</b>	<b>\$ 212.9</b>	<b>\$ 191.9</b>	<b>5.9%</b>	<b>17.5%</b>
RBC Dominion Securities	1	1	1	9	10
BMO Nesbitt Burns	2	2	2	10	9
CIBC Wood Gundy	3	3	4	6	6
TD Wealth Private Investment Advice	4	5	5	4	2
ScotiaMcLeod	5	4	3	12	12
<b>Top 5</b>	<b>\$ 167.4</b>	<b>\$ 158.1</b>	<b>\$ 145.5</b>	<b>5.9%</b>	<b>15.1%</b>
<b>Market share</b>	<b>74.2%</b>	<b>74.3%</b>	<b>75.8%</b>		
National Bank Financial	6	6	6	13	8
Desjardins Securities	7	7	7	2	4
HollisWealth	8	8	8	8	5
Raymond James	9	9	9	7	11
ATB Securities	10	10	10	3	3
<b>Top 10</b>	<b>\$ 204.1</b>	<b>\$ 193.1</b>	<b>\$ 175.9</b>	<b>5.7%</b>	<b>16.0%</b>
<b>Market share</b>	<b>90.5%</b>	<b>90.7%</b>	<b>91.7%</b>		
Credential Securities	11	11	11	1	1
Canaccord Genuity Wealth Management	12	12	12	11	13
Odlum Brown	13	13	13	5	7

SMW programs grew by 5.3% in assets during the three-month period (see **Figure 23a**). The segment continues to exceed previous high water marks, with growth in assets evident across most programs. The majority of the growth is coming out of the unified managed account (UMA) programs at three major firms (UMA versus separately managed account (SMA) growth for the quarter was 8.5% versus 2.3%). The UMAs are not just growing via the market and by transitioning assets from transaction-based accounts, they are attracting assets from their affiliated SMA programs. The three UMAs account for about 49% of assets in the SMW space and they are trending upward. During the quarter, Desjardins Securities moved up one spot in the rankings to seventh place.

### 23a Full-service Brokerage Firms Ranked by Total Assets in Separately Managed Wrap Programs

Assets in billions of dollars

	Asset rank			Asset growth rates Sep 2016	
	Sep 2016	Jun 2016	Sep 2015	3-mo	1-yr
<b>Separately managed wraps</b>	<b>\$ 53.5</b>	<b>\$ 50.8</b>	<b>\$ 45.8</b>	<b>5.3%</b>	<b>16.7%</b>
RBC Dominion Securities	1	1	1	2	1
CIBC Wood Gundy	2	2	2	8	7
BMO Nesbitt Burns	3	3	3	6	8
TD Wealth Private Investment Advice	4	4	4	4	6
ScotiaMcLeod	5	5	5	3	4
<b>Top 5</b>	<b>\$ 44.9</b>	<b>\$ 42.3</b>	<b>\$ 37.4</b>	<b>6.0%</b>	<b>20.1%</b>
<b>Market share</b>	<b>83.9%</b>	<b>83.3%</b>	<b>81.6%</b>		
Raymond James	6	6	6	1	5
Desjardins Securities	7	8	8	7	9
National Bank Financial	8	7	7	10	10
Credential Securities	9	9	10	5	3
Canaccord Genuity Wealth Management	10	10	9	11	11
HollisWealth	11	11	11	9	2

After declining for five consecutive quarters, the IHMW category saw some light behind a rather impressive 5.2% asset increase in the quarter (see **Figure 23b**). Nearly all programs saw their assets rise, some even in the double-digits. IHMW programs have generally fallen short compared with other internally competing fee-based programs, including SMWs. The one-year growth rate for the IHMW programs showed improvement over past reports as it is no longer negatively impacted by the presence of Parameters Portfolios (RBC Dominion Securities), which was closed and rolled into the A+ program before the end of September 2015.

### 23b Full-service Brokerage Firms Ranked by Total Assets in Fee-based Brokerage Programs

Assets in billions of dollars

	Asset rank			Asset growth rates Sep 2016	
	Sep 2016	Jun 2016	Sep 2015	3-mo	1-yr
<b>In-house managed wraps</b>	<b>\$ 10.6</b>	<b>\$ 10.1</b>	<b>\$ 10.5</b>	<b>5.2%</b>	<b>1.2%</b>
National Bank Financial	1	1	1	4	4
BMO Nesbitt Burns	2	2	2	3	2
ScotiaMcLeod	3	3	3	1	3
TD Wealth Private Investment Advice	4	4	4	2	1
HollisWealth	5	5	5	5	5

Assets in AM programs grew by 8.3%, or almost \$15 billion, in the third quarter alone (see **Figure 24**). Advisor managed programs are zeroing in on the \$200 billion dollar mark, likely short-term goal, judging by the robust year-over-year growth rates. The rapid growth rates of AM programs are evident among almost all programs we track. Improved capacity, compliance capability and other benefits that come along with being in these programs have increased the number of advisors – particularly those with already successful practices – to switch over at least a portion of their books of business. Advisor penetration rose another 1% over the last quarter to reach 33%. AM programs are thought to be the programs most likely to hold on to the high net worth (HNW) client segment or to act as a selling feature to attract new HNW clients, features that will resonate with advisors looking to improve on their productivity.

## 24 Full-service Brokerage Firms Ranked by Total Assets in Advisor Managed Programs

Assets in billions of dollars

	Asset rank			Asset growth rates Sep 2016	
	Sep 2016	Jun 2016	Sep 2015	3-mo	1-yr
<b>Advisor managed</b>	<b>\$ 189.1</b>	<b>\$ 174.6</b>	<b>\$ 146.3</b>	<b>8.3%</b>	<b>29.2%</b>
RBC Dominion Securities	1	1	1	8	9
BMO Nesbitt Burns	2	2	2	7	8
National Bank Financial	3	3	4	4	4
ScotiaMcLeod	4	4	3	5	7
CIBC Wood Gundy	5	5	5	1	2
<b>Top 5</b>	<b>\$ 143.2</b>	<b>\$ 131.5</b>	<b>\$ 111.4</b>	<b>9.0%</b>	<b>28.6%</b>
<b>Market share</b>	<b>75.8%</b>	<b>75.3%</b>	<b>76.1%</b>		
TD Wealth Private Investment Advice	6	6	6	3	1
Desjardins Securities	7	7	7	10	5
Odlum Brown	8	8	8	6	10
HollisWealth	9	9	9	9	6
Raymond James	10	10	10	2	3
Canaccord Genuity Wealth Management	11	11	11	11	11

Figure 25 presents the variety of managed asset programs offered through the FSB channel.

## 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	Meridian Program	Advance Program ..... Architect Program .....	BluePrint Program	Managed Portfolio Account
Canaccord Genuity Wealth Management	CC Fee-based Account	CC Investment Counselling Program		Private Investment Management
CIBC Wood Gundy	Portfolio Partner	Investment Consulting Service		Advisor Managed Account
Credential Securities	OnPoint Program	Credential Managed Account		
Desjardins Securities	Elite Accounts	Darwin Discretionary Management Program		Advisor Managed Program
HollisWealth	Summit Investment Program	Vintage Investment Program	Diversiflex	Advisor Managed Program
Laurentian Bank Securities	Le Conseiller	M3		
MacDougall, MacDougall & MacTier	Managed Non-discretionary			Managed Discretionary
National Bank Financial	Partnership Accounts, My Wealth	Ambassador Portfolio Service	Private Pools, Baskets, Private Wealth Management*	Advisor Baskets, Advisor Managed Account*
Odlum Brown	Fee-based Brokerage			Advisor Managed Program
Provisus Wealth Management		Transcend		
Raymond James	Viridian Account	Partners, Freedom Account*		Private Investment Management Group
RBC Dominion Securities	Advisor Program	Access Manager* ..... A+ Program .....		Private Investment Management
Richardson GMP	Asset Management Account	Separately Managed Account		Portfolio Management Account
ScotiaMcLeod	Partnership Plus, i:Partner*	The Summit Program	Scotia Managed Portfolios	Managed Account Program
TD Wealth Private Investment Advice	Cornerstone Program	Premier Managed Portfolios	Core Managed Portfolios	Managed Account Program

\*Reported on a combined basis.

## Tracking the financial advisor channel

This issue of the *Retail Brokerage and Distribution Advisory Service* provides our semi-annual update on the financial advisor (FA) channel for June 2016. The 22 dealer firms that we track directly comprise almost 90% of the dealer assets in the channel. The remaining untracked firms' assets are each estimated using publicly available sources and through reconciling to aggregate asset totals provided by both the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA).

Over the past several years, the FA channel has operated in an increasingly tumultuous landscape. Among the trials the channel has faced are enhanced regulatory requirements; increasing competition to attract and retain seasoned advisors; shifting product shelf demands; the challenge of building out fee-based capabilities; and a volatile market environment—and these are only *some* of the top-of-mind challenges dealers have had to navigate. Antithetically, through the turmoil, the FA channel has been producing positive results. In fact, over the past five years, the channel grew at a 6.0% CAGR, outpacing the 5.4% CAGR of its intermediated advice counterpart, the full-service brokerage (FSB) channel. That pace has slowed for both channels, however, over the past 12 months, to 2.6% and 2.3%, respectively (see **Figure F1**). Further discussion, on a semi-annual basis, can be found in our newly launched *Financial Advisor Channel Report*, which tracks the dealer business in the channel from myriad perspectives and the emerging trends, both internal and external, that will influence its future.

### **F1** Assets and Advisors in the Financial Advisor and Full-service Brokerage Channels

Assets in billions of dollars, average book size in millions

	Jun 2015	Mar 2016	Jun 2016	Growth	
				3-mo	Yr/yr
<b>Assets</b>					
Full-service brokerage	\$ 1,029.8	\$ 1,029.4	\$ 1,053.6	2.4%	2.3%
Financial advisors	332.3	332.4	341.0	2.6%	2.6%
IIROC	74.0	76.8	78.5	2.2%	6.0%
MFDA	258.3	255.6	262.5	2.7%	1.6%
<b>Advisors</b>					
Full-service brokerage	10,186	10,060	9,972	-0.9%	-2.1%
Financial advisors	32,962	33,300	33,937	1.9%	3.0%
IIROC	1,757	1,816	1,855	2.1%	5.6%
MFDA	31,205	31,484	32,082	1.9%	2.8%
<b>Average book</b>					
Full-service brokerage	\$ 101.1	\$ 102.3	\$ 105.7	3.3%	4.5%
Financial advisors	10.1	10.0	10.0	0.6%	-0.3%
IIROC	42.1	42.3	42.3	–	0.4%
MFDA	8.3	8.1	8.2	0.8%	-1.2%

As many dealer firms prepare to implement the final requirements of the *Client Relationship Model*, Phase 2 (CRM2), a number of initiatives loom on the horizon. Of particular interest to Canadian distributors are the Canadian Securities Administrators' (CSA) communications as they pertain to a proposed best-interest standard, targeted reforms, and a discontinuation of embedded commissions. Arguably, the firms that are most impacted are those in the intermediated advice channels that have a heavy reliance on sales structures with embedded compensation. What is unclear at the present time is what part of the FA dealer business continues to be supported by the various load structure revenues (DSC, in particular) and which of their clients are holding these products.

Distributors looking for clarity on the path forward will have to wait until the CSA publishes a consultation paper on January 10, 2017, one which will propose reforms to the existing mutual fund fee structures. Certain dealers in the FA channel have proactively shifted their product shelf and load structure choices. The growing upmarket focus on wealthier clients, accompanied by shifts in practice models, such as the transition of assets into fee-based programs, are also factors contributing to the shifts in load structure usage. While these choices, in a broader sense, will be made much clearer should embedded compensation disappear, operationally, a wholesale move to fee-based practices will be difficult for many dealers and advisors as over two thirds of the business currently remains in client name.

With incoming changes to the taxation of life insurance policies, and specifically the rules regarding the exemption test, set to take effect in the New Year<sup>1</sup>, insurance revenues at the Big Five full-service brokerages continued their record-setting pace in the third quarter of 2016.<sup>2</sup> Insurance revenues eclipsed the \$50 million mark over the period, finishing at \$58.6 million for the quarter (see **Figure 26**). Year-to-date insurance revenues totalled \$135.0 million—an increase of 32.9%, compared to the first three quarters of 2015.

## 26 Quarterly Insurance Results at Full-service Brokers

	Sep 2015	Quarter ended		Sep 2016 vs.	
		Jun 2016	Sep 2016	Jun 2016	Sep 2015
<b>Total number of policies placed</b>	<b>2,068</b>	<b>2,266</b>	<b>2,738</b>	<b>20.8%</b>	<b>32.4%</b>
Universal life	317	372	497	33.6%	56.8%
Whole life	470	527	718	36.2%	52.8%
Term life (including term to 100)	996	1,045	1,170	12.0%	17.5%
Living benefits	285	322	353	9.6%	23.9%
<b>Total revenues in millions of dollars</b>	<b>\$ 36.8</b>	<b>\$ 47.0</b>	<b>\$ 58.6</b>	<b>24.6%</b>	<b>59.3%</b>
Universal life	12.0	14.0	17.5	25.6%	46.1%
Whole life	20.9	28.8	37.3	29.6%	78.4%
Term life (including term to 100)	2.8	3.0	2.5	-17.2%	-10.8%
Living benefits	1.1	1.2	1.2	-1.6%	14.2%

Growth in permanent life revenue, such as whole life (WL) and universal life (UL), remained the key driver of total insurance revenue growth. Although the tax changes regarding life insurance are anticipated to impact UL policies to a greater extent, WL revenue growth in fact outpaced UL revenue in the quarter. According to industry participants, this outpacing is likely occurring as the incoming tax changes are catalyzing action among advisors and clients to lock-in policies prior to the implementation of new rules. While many advisors have previously started conversations with their clients on the use of insurance in estate planning, overcoming client inertia can be a challenge. The incoming changes, however, have established a window for advisors to reengage clients, with a firm deadline in place, encouraging clients to act. Irrespective of the motivations, WL and UL revenues both increased substantially year-over-year, rising by 46.1% and 78.4%, respectively. WL remained the largest contributor to insurance revenue at the Big Five brokerages, accounting for 63.8% of quarterly revenues (see **Figure 27**).

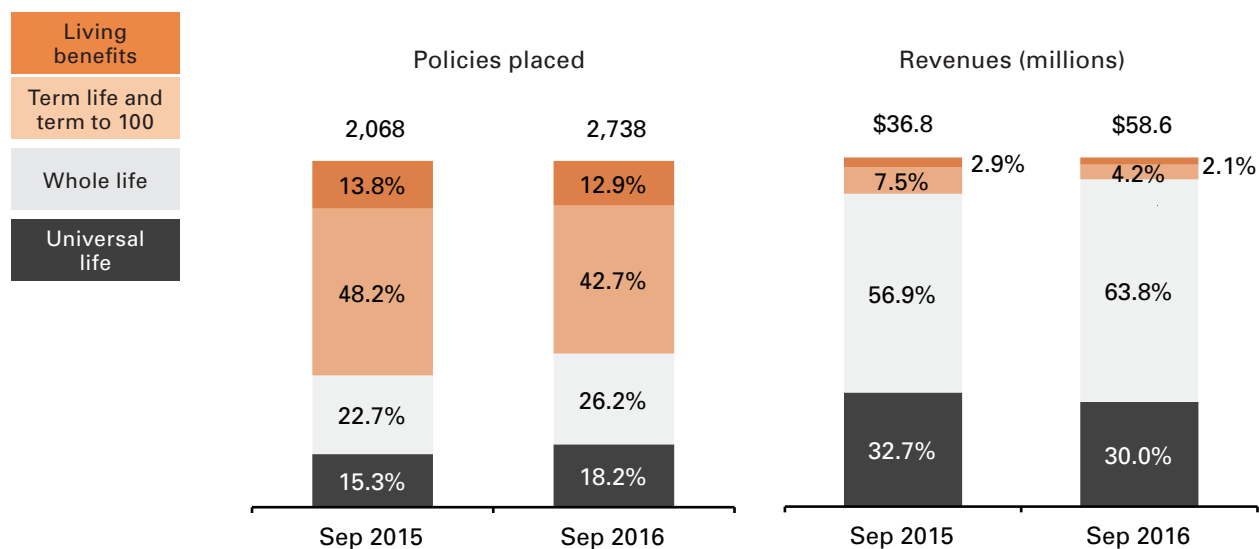
Year-to-date insurance revenues totalled \$135.0 million—an increase of 32.9%, compared to the first three quarters of 2015.

Momentum is expected to carry on into the fourth quarter of 2016 as advisors and clients look to submit applications in time to have their policies grandfathered under the previous tax regime.

<sup>1</sup> For more details, see: <http://www.fin.gc.ca/pub/c43/01-eng.asp>

<sup>2</sup> The "Big Five" full-service brokers: BMO Nesbitt Burns, CIBC Wood Gundy, RBC Dominion Securities, ScotiaMcLeod, and TD Private Investment Advice.

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



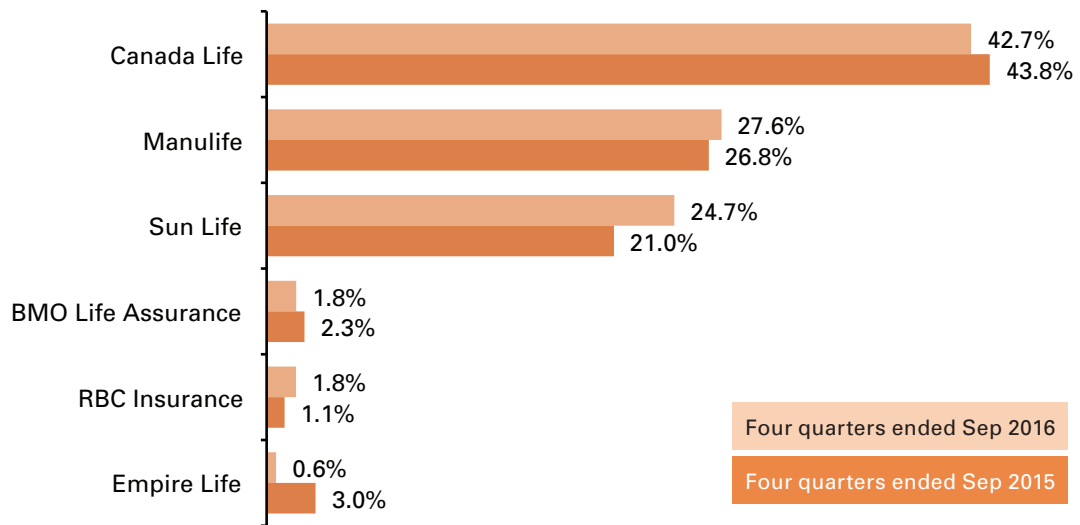
The growth in insurance revenue seen since 2014 occurred against the backdrop of a declining advisor count. Insurance licensed-advisor counts declined by 148 since the third quarter of 2014. Insurance licensing rates were at 69.6% at the Big Six brokerage firms and 48.5% in the Other firms category (see **Figure 28**) in the latest quarter.

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

	Advisors					Growth		
	Sep 2013	Sep 2014	Sep 2015	Jun 2016	Sep 2016	3-mo	1-yr	3-yr CAGR
<b>Total advisors</b>	<b>10,163</b>	<b>10,246</b>	<b>10,175</b>	<b>9,972</b>	<b>10,007</b>	<b>0.4%</b>	<b>-1.7%</b>	<b>-0.5%</b>
<b>Total insurance licensed advisors</b>	<b>6,290</b>	<b>6,309</b>	<b>6,245</b>	<b>6,158</b>	<b>6,161</b>	<b>-</b>	<b>-1.3%</b>	<b>-0.7%</b>
Big Six advisors	6,427	6,413	6,345	6,217	6,206	-0.2%	-2.2%	-1.2%
Big Six insurance licensed advisors	4,429	4,379	4,362	4,325	4,318	-0.2%	-1.0%	-0.8%
Other advisors	3,736	3,833	3,830	3,755	3,801	1.2%	-0.8%	0.6%
Other insurance licensed advisors	1,861	1,930	1,883	1,833	1,843	0.5%	-2.1%	-0.3%

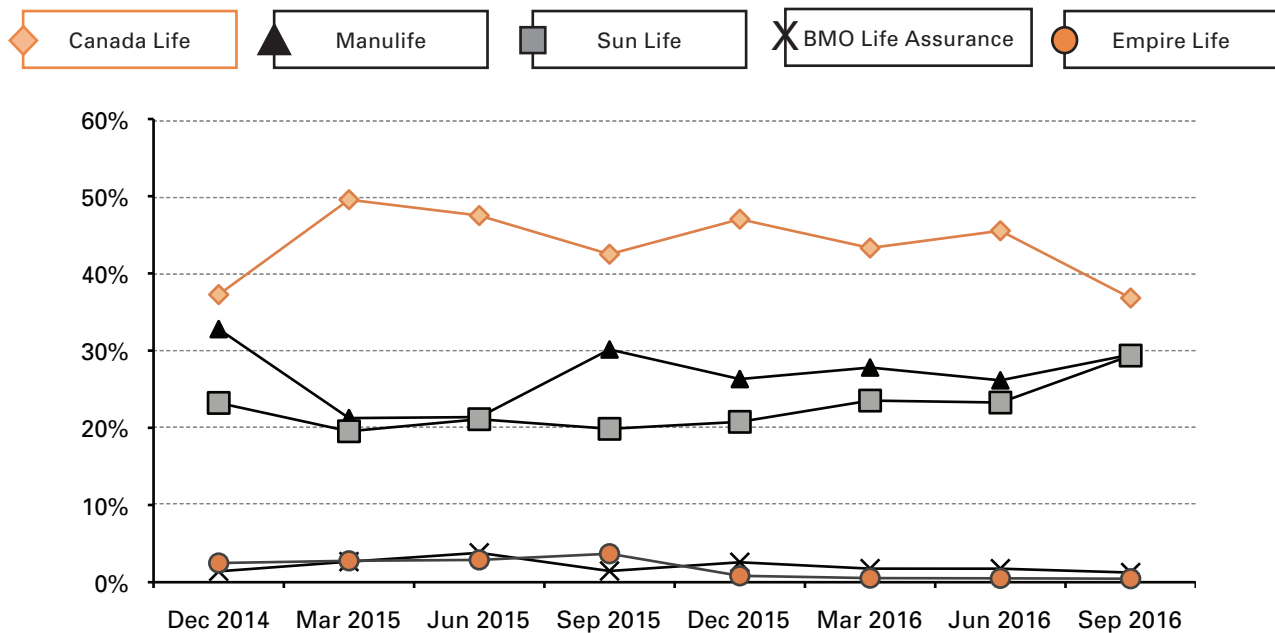
Manulife and Sun Life both recorded quarterly associated insurance revenue gains in the third quarter (see **Figures 29a** and **29b**). Manulife, where their quarterly associated revenue share rose to 71.7%, has been the main benefactor of increased demand for UL products. Since the release of their Manulife UL product line-up in May 2014, Manulife's UL revenue share has been on the ascent. Sun Life, meanwhile, experienced a dramatic increase in their associated WL revenue in the third quarter. Although Canada Life's quarterly associated UL and WL revenue shares declined in the quarter, Canada Life remains atop the quarterly associated insurance revenue rankings.

## 29a Insurance Companies' Share of Insurance Revenues at Full-service Brokers\*



\*Top six insurance companies' share of brokerage revenues.

## 29b Insurance Companies' Quarterly Share of Insurance Revenues at Full-service Brokers\*



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

The Big Five continued to switch places in the quarterly revenue rankings with the exception of RBC Dominion Securities, which maintained its number one ranking (see **Figure 30**). TD Wealth Private Investment Advice moved into the second spot, posting the highest quarter-over-quarter insurance revenue growth rate, growth propelled by an increase in UL product sales. Four of the Big Five firms recorded positive growth in insurance revenues in the third quarter.

### 30 Full-service Brokerage Insurance Rankings—September 2016

Ranked by quarterly revenues in thousands of dollars and quarterly growth rate

	Revenue rank					Growth rank total revenue
	Total	Universal life	Whole life	Term life	Living benefits	
<b>Total insurance revenue</b>	<b>\$ 58,557</b>	<b>\$ 17,548</b>	<b>\$ 37,340</b>	<b>\$ 2,468</b>	<b>\$ 1,200</b>	<b>24.6%</b>
RBC Dominion Securities	1	2	1	1	1	4
TD Wealth PIA	2	1	3	2	2	1
BMO Nesbitt Burns	3	4	2	5	3	2
CIBC Wood Gundy	4	3	4	3	4	3
ScotiaMcLeod	5	5	5	4	5	5

UL revenue increased significantly compared to the previous quarter and year, as the number of policies rose by 56.8% year-over-year and 33.6% quarter-over-quarter (see **Figure 31**). Average face value per policy also rose in the quarter as the number of policies placed with face values between \$250,000 and \$1 million increased. Year-over-year, the number of policies with face values between \$250,000 and \$1 million grew by 82.6%. The number of policies with face values over \$1 million, meanwhile, rose by 45.5% over the same period.

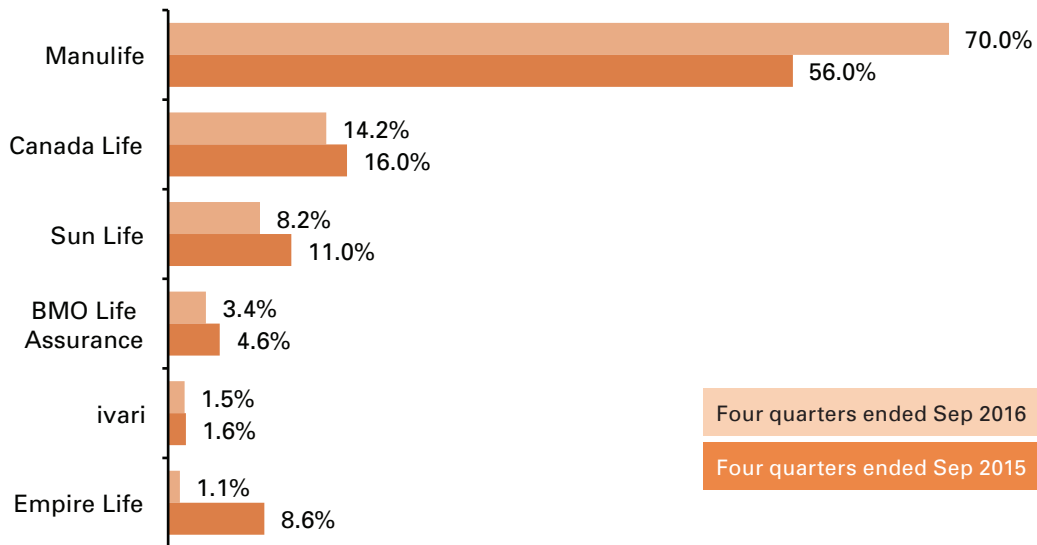
### 31 Quarterly Universal Life Results at Full-service Brokers

	Sep 2015	Quarter ended		Sep 2016 vs.	
		Jun 2016	Sep 2016	Jun 2016	Sep 2015
Number of policies placed	317	372	497	33.6%	56.8%
Face value of policies placed in millions of dollars	\$ 412	\$ 469	\$ 727	55.0%	76.2%
Average face value of policies placed in dollars	\$ 1,300,799	\$ 1,260,418	\$ 1,462,196	16.0%	12.4%
<b>Distribution of policies placed by face value</b>					
\$250,000 or under	17.7%	19.1%	13.3%	-5.8%	-4.4%
\$250,001 - \$500,000	21.8%	23.1%	25.6%	2.4%	3.8%
\$500,001 - \$1,000,000	21.8%	21.0%	25.2%	4.2%	3.4%
\$1,000,001 - \$5 million	33.8%	30.9%	33.4%	2.5%	-0.4%
Over \$5 million	5.0%	5.9%	2.6%	-3.3%	-2.4%
Revenues in millions of dollars	\$ 12.0	\$ 14.0	\$ 17.5	25.6%	46.1%
Gross premiums in millions of dollars	\$ 35.3	\$ 31.9	\$ 32.6	2.1%	-7.8%

As previously noted, Manulife was the principal beneficiary of the renewed interest in UL policies (see Figures 32a and 32b) in the third quarter. This was reflected in their trailing four-quarter share, which reached 70.0% in the third quarter of 2016. Manulife first crossed the 70% quarterly associated UL revenue share threshold in the first quarter of 2016 and continued to surpass it in each of the following quarters. In addition to Manulife's successes, RBC Insurance, Canada Life and ivari also saw increases in their year-to-date associated UL revenues, when their numbers were compared to the same period in 2015.

### 32a

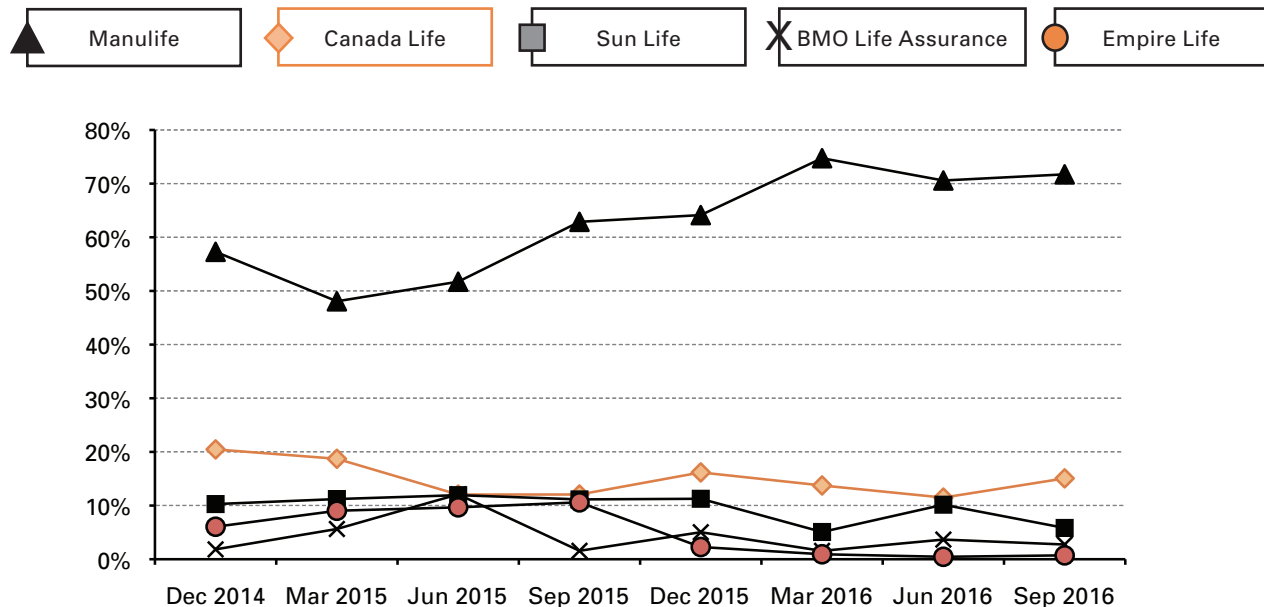
#### Insurance Companies' Share of Universal Life Revenues at Full-service Brokers\*



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

### 32b

#### Insurance Companies' Quarterly Share of Universal Life Revenues at Full-service Brokers\*



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

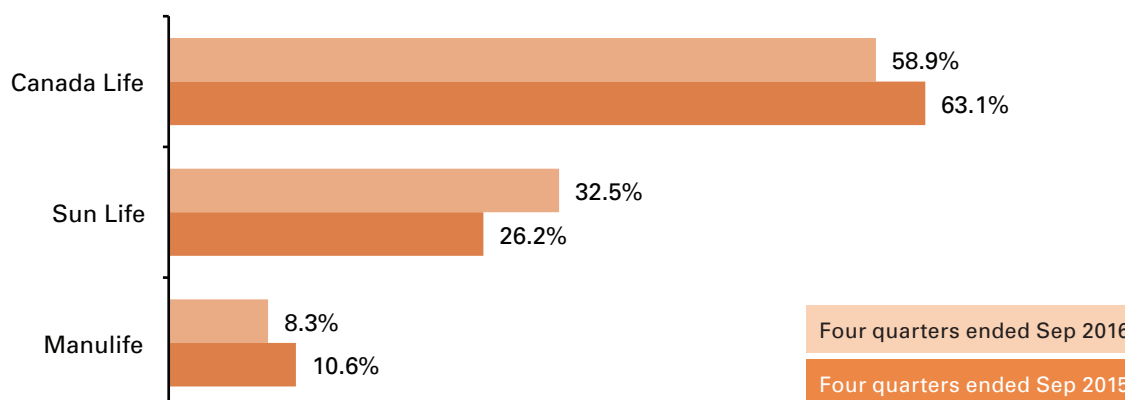
In the third quarter, the WL category set new high-water marks in terms of policies placed, revenue and gross premiums, as increased sales activity of life insurance policies continued to predominantly benefit WL (see **Figure 33**). The number of policies placed, revenue and gross premiums increased 52.8%, 78.4% and 130.2%, respectively, in the third quarter. Similar to UL, the number of WL policies placed with face values between \$250,000 and \$1 million over the quarter rose 79.7%, and 29.2% for policies placed with face values over \$1 million.

### 33 Quarterly Whole Life Results at Full-service Brokers

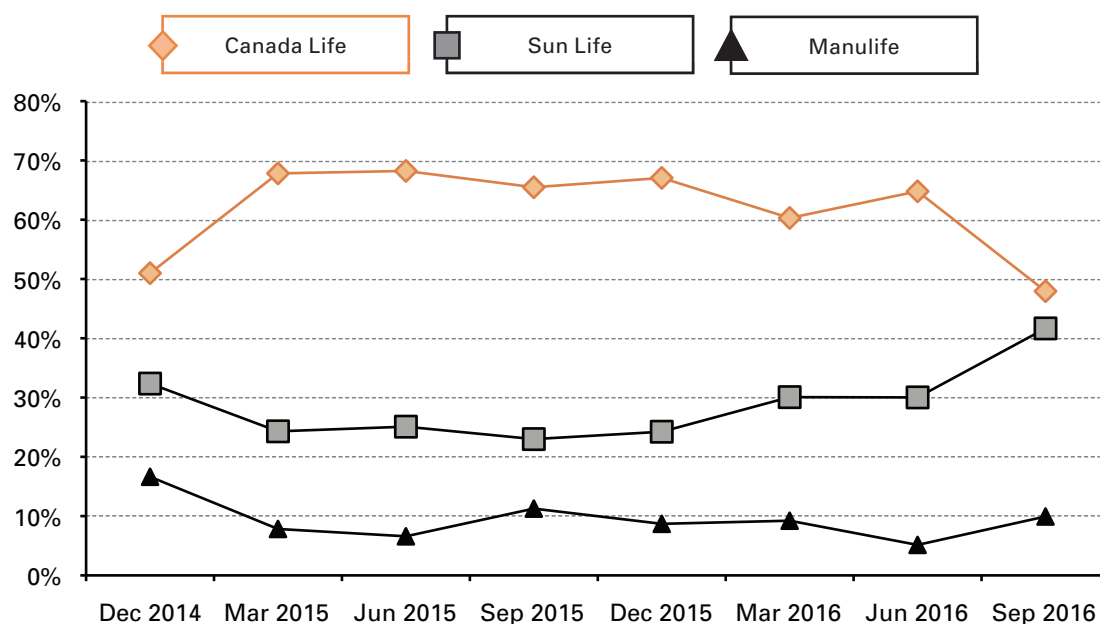
	Sep 2015	Quarter ended		Sep 2016 vs.	
		Jun 2016	Sep 2016	Jun 2016	Sep 2015
Number of policies placed	470	527	718	36.2%	52.8%
Face value of policies placed in millions of dollars	\$ 607	\$ 644	\$ 939	45.8%	54.7%
Average face value of policies placed in dollars	\$ 1,291,354	\$ 1,221,482	\$ 1,307,291	7.0%	1.2%
<b>Distribution of policies placed by face value</b>					
\$250,000 or under	19.8%	18.2%	19.4%	1.1%	-0.4%
\$250,001 - \$500,000	18.7%	20.5%	20.5%	0.0%	1.8%
\$500,001 - \$1,000,000	20.0%	23.1%	25.1%	1.9%	5.1%
\$1,000,001 - \$5 million	36.2%	35.3%	33.6%	-1.7%	-2.6%
Over \$5 million	5.3%	2.8%	1.5%	-1.3%	-3.8%
Revenues in millions of dollars	\$ 20.9	\$ 28.8	\$ 37.3	29.6%	78.4%
Gross premiums in millions of dollars	\$ 21.4	\$ 30.8	\$ 49.3	60.0%	130.2%

While both Manulife and Sun Life experienced increases in their associated quarterly WL revenue quarter-over-quarter, all three insurance carriers listed in the rankings recorded year-over-year revenue growth (see **Figure 34**). Sun Life has now posted positive associated WL revenue growth in the past two quarters and, as a result, increased their trailing four-quarter share to 32.5%.

### 34a Insurance Companies' Share of Whole Life Revenues at Full-service Brokers



## 34b Insurance Companies' Quarterly Share of Whole Life Revenues at Full-service Brokers



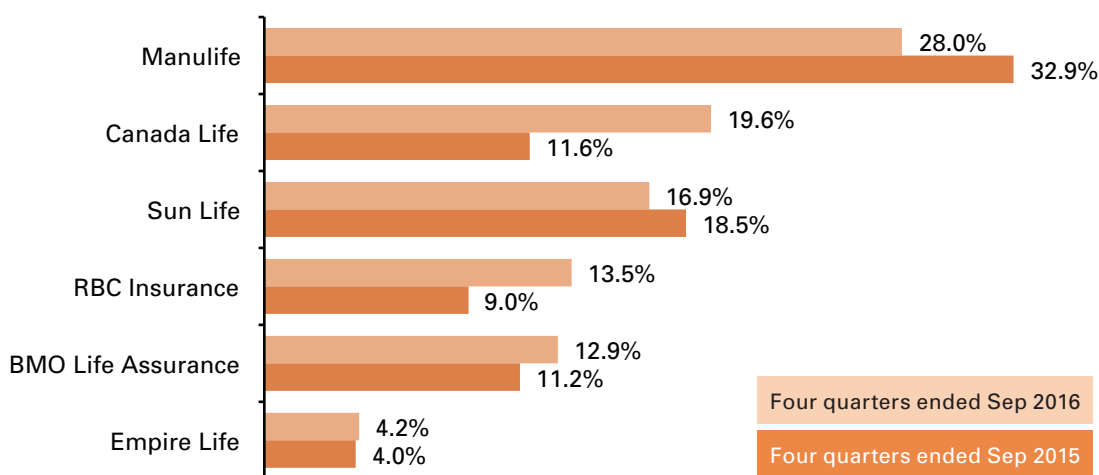
Term life (TL) revenue failed to eclipse the \$3.0 million mark in the third quarter even as the share of policies placed with face values under \$1 million increased (see **Figure 35**). The share of TL policies placed with face values under \$1 million grew to 66.7%.

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

	Sep 2015	Quarter ended		Sep 2016 vs.	
		Jun 2016	Sep 2016	Jun 2016	Sep 2015
Number of policies placed	996	1,045	1,170	12.0%	17.5%
Face value of policies placed in millions of dollars	\$ 1,001	\$ 1,203	\$ 1,276	6.1%	27.5%
Average face value of policies placed in dollars	\$ 1,005,221	\$ 1,151,571	\$ 1,090,795	-5.3%	8.5%
<b>Distribution of policies placed by face value</b>					
\$250,000 or under	13.8%	9.6%	9.7%	0.2%	-4.0%
\$250,001 - \$500,000	23.7%	18.5%	25.3%	6.8%	1.6%
\$500,001 - \$1,000,000	23.3%	27.9%	31.6%	3.7%	8.3%
\$1,000,001 - \$5 million	34.3%	37.0%	32.6%	-4.5%	-1.8%
Over \$5 million	4.9%	7.1%	0.8%	-6.3%	-4.2%
Revenues in millions of dollars	\$ 2.8	\$ 3.0	\$ 2.5	-17.2%	-10.8%
Gross premiums in millions of dollars	\$ 2.3	\$ 2.4	\$ 2.3	-7.2%	-2.9%

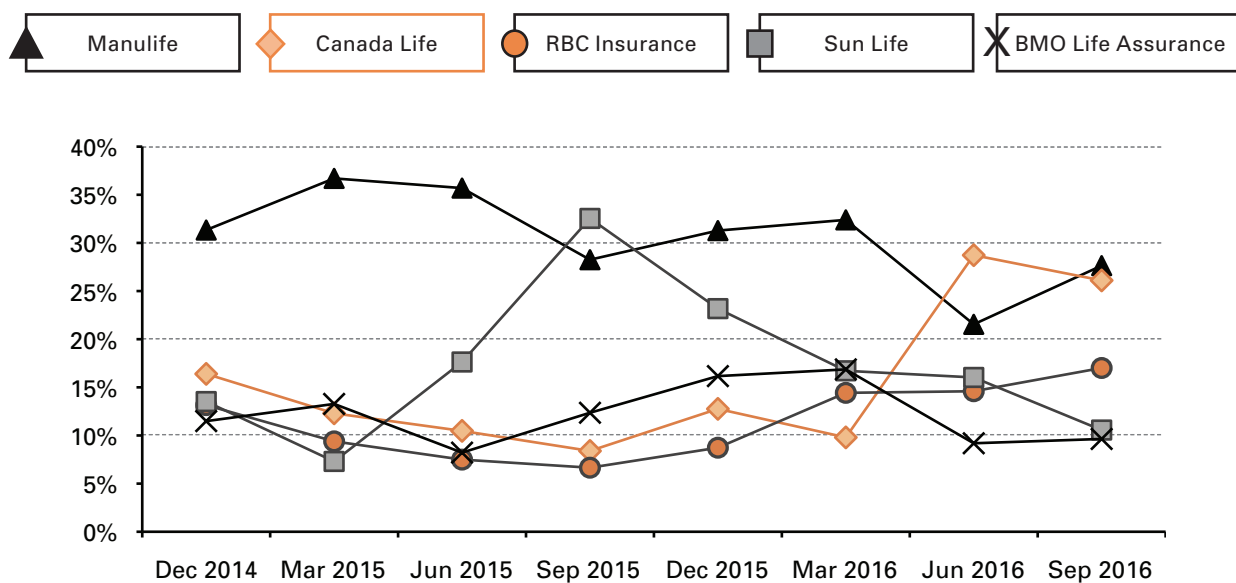
Although Manulife maintained its top ranking in the trailing four-quarter TL associated revenue rankings, the quarterly rankings remained volatile, reflecting the competitive nature of the TL marketplace (see Figures 36a and 36b).

### 36a Insurance Companies' Share of Term Life (including Term to 100) Revenues at Full-service Brokers\*



\*Top six insurance companies' share of term life revenues.

### 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.

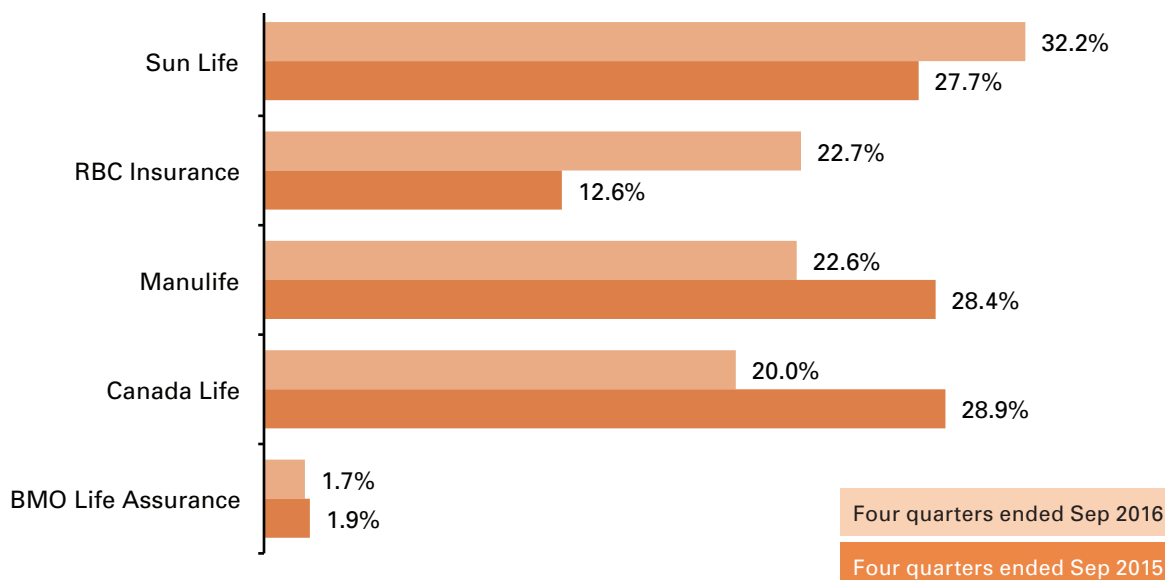
While living benefits (LB) revenue increased by 23.9%, year-over-year, this growth is largely the result of the low volume of policies placed in the third quarter of 2015. The disability product category was the sole product category to experience both year-over-year and quarter-over-quarter growth. Long-term care (LTC) policies placed, however, remained in the single digits. LTC continued to receive attention from the media as the aging of the Canadian population proceeded, but it has failed to take hold in terms of volume, measured by both revenue and policies placed, in the full-service brokerage channel.

### 37 Quarterly Living Benefits Results at Full-service Brokers

	Sep 2015	Quarter ended		Sep 2016 vs.	
		Jun 2016	Sep 2016	Jun 2016	Sep 2015
<b>Number of policies placed</b>	<b>285</b>	<b>322</b>	<b>353</b>	<b>9.6%</b>	<b>23.9%</b>
Critical illness	111	147	146	-0.7%	31.5%
Disability	160	173	201	16.2%	25.6%
Long term care	14	2	6	200.0%	-57.1%
<b>Revenues in thousands of dollars</b>	<b>\$ 1,052</b>	<b>\$ 1,221</b>	<b>\$ 1,200</b>	<b>-1.6%</b>	<b>14.2%</b>
Critical illness	476	767	693	-9.6%	45.5%
Disability	514	439	488	11.1%	-5.1%
Long term care	61	15	20	32.7%	-68.0%
<b>Gross premiums in thousands of dollars</b>	<b>\$ 760</b>	<b>\$ 1,013</b>	<b>\$ 1,033</b>	<b>1.9%</b>	<b>35.9%</b>
Critical illness	341	591	538	-8.9%	57.9%
Disability	359	414	480	15.9%	33.6%
Long term care	60	9	15	73.0%	-75.5%

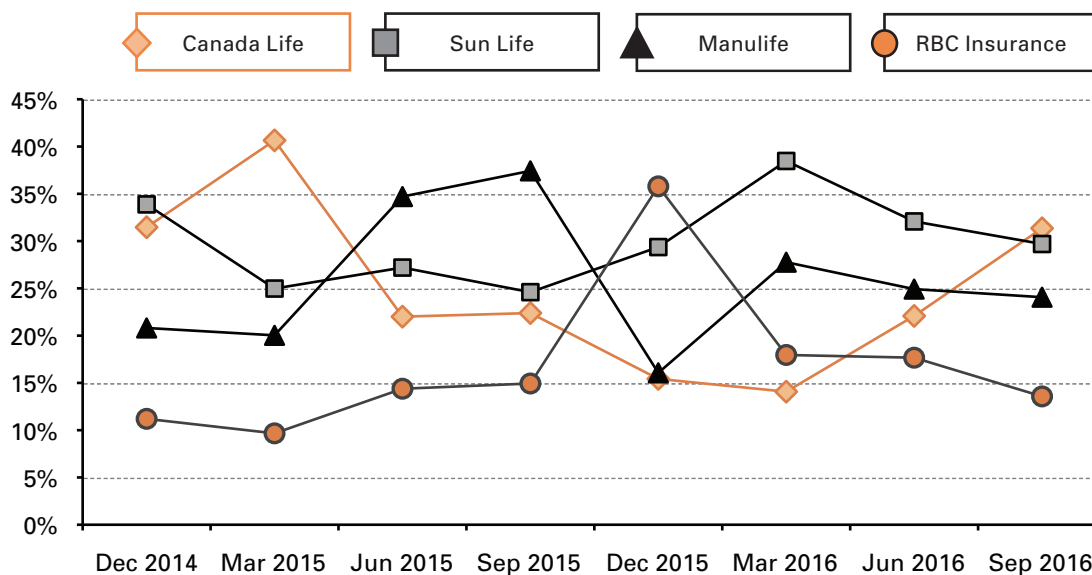
After moving into the top ranking in the first quarter of the year, Sun Life has now held the top position for three straight quarters (see Figures 38a and 38b). Sun Life also led the trailing four-quarter living benefit revenue rankings with a share of 32.7%. RBC Insurance moved into the second position, raising its trailing four-quarter share to 23.1% on the back of strong disability policy revenue growth.

### 38a Insurance Companies' Share of Living Benefits Revenues at Full-service Brokers\*



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

### 38b Insurance Companies' Quarterly Share of Living Benefits Revenues at Full-service Brokers\*



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

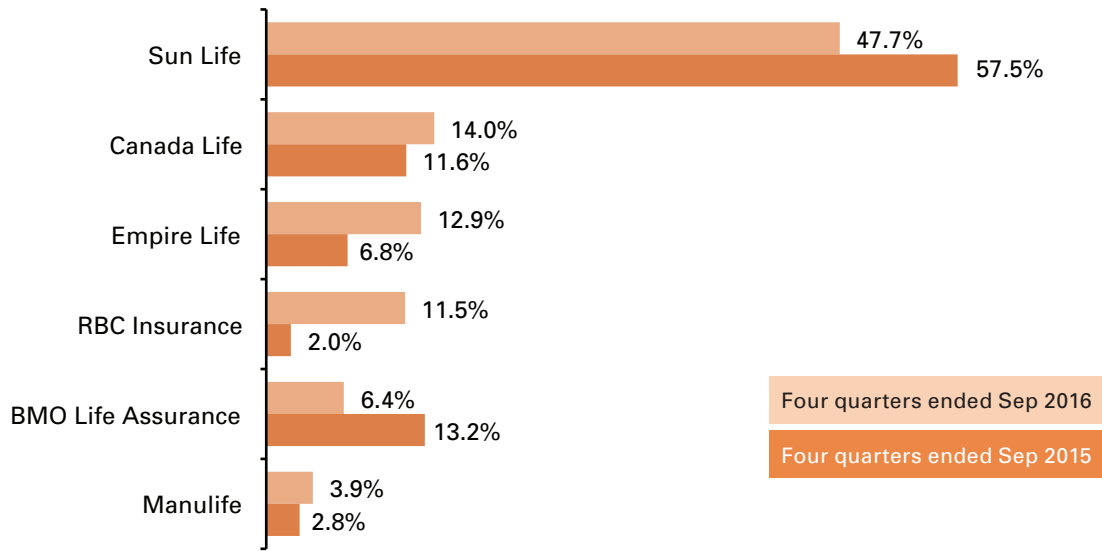
Annuity revenue increased to \$1.3 million in the third quarter, driven by growth in the number of policies placed (see **Figures 39** and **40**). While the incoming tax changes will have an impact on the taxation of prescribed annuities, effectively increasing the amount that will be subject to tax, the first significant quarterly increase in the number of annuity policies placed did not occur until the most recent quarter, well after sales lifts noticed in other products.

Sun Life, Canada Life, Empire Life and RBC Insurance all recorded quarter-over-quarter growth in their associated quarterly annuity revenues. While Sun Life continued to lead the segment, increases in trailing four-quarter shares were widely distributed, as Canada Life, Empire Life, RBC Insurance and Manulife all experienced share gains.

### 39 Quarterly Annuity Results at Full-service Brokers

	Sep 2015	Quarter ended		Sep 2016 vs.	
		Jun 2016	Sep 2016	Jun 2016	Sep 2015
Number of annuities placed	166	158	190	20.3%	14.5%
Revenues in thousands of dollars	\$ 905	\$ 1,055	\$ 1,300	23.2%	43.6%
Gross deposits in thousands of dollars	\$ 34,692	\$ 46,042	\$ 44,320	-3.7%	27.8%

## 40 Insurance Companies' Share of Annuity Revenues at Full-service Brokers\*



\*Top six insurance companies' share of annuity revenues.

## Key takeaways

- Firms are closely following the IROC's proposed guidance on the topic of the suitability exemption for OEO dealer members and what would constitute a recommendation.
- Much of the promotional activity in the ODB space has catered to younger investors.
- Commission-free trading offers have also remained front and centre this quarter as a means of making investment platforms more accessible to a greater number of investors.
- With the exception of the fixed-income category, all ODB asset classes experienced positive growth over the quarter.
- As asset growth outpaced account growth, the average account size in the ODB channel expanded from \$63,980 to \$66,331.
- The lower propensity to trade in summer months was reflected in the modest commission revenue growth numbers in the ODB channel.
- Glidepath Portfolio Services launched their digital portfolio management service for financial advisors.
- Online advice firms added new features to enhance their product offerings: ModernAdvisor added a Custom Portfolios service, and Invisor introduced a new financial planning feature branded as InvisorGPS.

## Exhibits in this section

- |   |   |    |  |
|---|---|----|--|
| 1 | Recent Pricing and Other Developments in the Online/Discount Channel          | 9  | Quarterly Trades at Online/Discount Brokers                        |
| 2 | Year-over-year Asset Growth of Big Six Bank and Other Online/Discount Brokers | 10 | Online/Discount Brokerage Quarterly Trading Activity by Method     |
| 3 | Online/Discount Brokerage Asset Ranking                                       | 11 | Online/Discount Brokerage Firms Ranked by Trades and Trades Growth |
| 4 | Online/Discount Brokerage Asset Mix   | 12 | Quarterly Online/Discount Brokerage Revenues                       |
| 5 | Online/Discount Brokerage Assets by Tax Status and Type of Account            | 13 | Quarterly Online/Discount Trading Volume and Commission Revenues   |
| 6 | Online/Discount Brokerage Number of Accounts                                  | 14 | Average Quarterly Commission Revenues per Trade                    |
| 7 | Online/Discount Brokerage Average Account Size                                | 15 | Developments—Canadian Online Wealth Solutions                      |
| 8 | Quarterly Trades per Account at Online/Discount Brokers                       |    |  |

Among the bustling online/discount brokerage (ODB) background, the Investment Industry Regulatory Organization of Canada (IIROC) has been actively following how order execution-only (OEO) services have progressed over the years and are weighing the alternatives for a shift in policy to ensure that the consumer remains protected as order execution services and client needs evolve in the digital age. In a recent notice<sup>1</sup>, IIROC issued proposed guidance on the topic of the suitability exemption for OEO dealer members and what would constitute a recommendation.

The main concept highlighted in the notice was that certain products and services which discount brokerages offer, such as asset-allocation tools and automatically rebalanced model portfolios, may be serving as recommendations. The notice, however, advances the notion that, “the development of tools by OEO firms

Certain products and services which discount brokerages offer, such as asset-allocation tools and automatically rebalanced model portfolios, may be serving as recommendations.

which could be considered to provide advice/recommendations may have been due, in part, to the competitive pressure on OEO firms to provide clients with these tools as a means of reducing the ‘advice gap’<sup>2</sup>. These model portfolios, as the notice suggests, may help to fill the *advice gap* that some clients may be experiencing as traditional full-service firms raise their investment minimums, which in practice mean the minimum account levels at which they will supply clients with counsel.

IIROC is seeking comment on the possibility of granting standardized exemptive relief in this area, which would potentially allow OEO firms to make available certain limited model portfolios, as defined in the guidance. Firms in the Canadian online brokerage space which currently offer tools that overlap with this topic, including Desjardins Online Brokerage’s

GPS, NBDB’s InvestCube and Canadian ShareOwner’s Model Portfolio Service, will be keeping an especially close eye on these developments.

### Recent developments in the online brokerage space

In attempts to drive account growth and increase trading activity through a younger demographic segment, Canadian ODB firms have implemented and/or maintained a number of initiatives over the past 12 months. Notably, Qtrade, Questrade and Virtual Brokers now all waive fees for investors under the age of 30. The trend of attracting younger investors is reflected in recent product activity, as well (see **Figure 1**): for instance, RBC Direct Investing eliminated their inactivity fees for those with a student brokerage package. Interactive Brokers also made efforts to attract millennials by lowering their minimum account balance to \$3,000 for investors under 25.

<sup>1</sup> See <http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=B75010661AF84E4EB32E338D11875B85&Language=en>

<sup>2</sup> See <http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=B75010661AF84E4EB32E338D11875B85&Language=en>

## 1

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

Date*	Online/discount firm	Development
Dec 2015	Canadian ShareOwner	Canadian ShareOwner Investments acquired by Toronto-based Wealthsimple Financial, subject to regulatory approval.
Dec 2015	Questrade	Released an update to Questrade's IQ Edge platform (IQ Edge 4.2) which adds conditional order capabilities and enhanced stock & option screeners.
Dec 2015	Questrade	Launched a mobile trading platform which integrates Questrade's trading platform and client website. Functionality includes: trading, money transfer, research, charting, and performance reporting.
Jan 2016	Desjardins Online Brokerage	Launched a "Broker@ge 18-30" offer targeting millennial investors. The offer includes \$50 in commission credits, no asset minimums or inactivity fees, and access to training and events.
Jan 2016	Virtual Brokers	Introduced a Commission-Free Trading Account structure which leverages BBS Securities' proprietary Pario clearing system.
Feb 2016	National Bank Direct Brokerage	Launched commission-free ETF trading for Canadian ETFs where the order size is at least 100 units. The commission-free structure will be available to all new and existing clients between February 15 and June 30, 2016.
Mar 2016	Scotia iTRADE	Launched an Apple Watch app allowing clients to access market data and watchlists from their wrists.
May 2016	Questrade	Questrade secured a number of additions to the Questrade Partner Centre including: Profit.ly (which lets investors connect with and learn from other traders online), MotiveWave (a desktop application supplying research tools for active traders), WooTrader (online equity analysis platform) and Magenta Trader (a web-based options trading tool).
May 2016	National Bank Direct Brokerage	Sponsored (for the fourth straight year) the Horizons ETFs Biggest Winner Trading Competition to help investors learn about direct brokerage through a six-week contest with a grand prize of \$7,500.
Jun 2016	CIBC Investor's Edge	Announced that CIBC's reward points (Aventura or Gold Bonus) can be used towards funding an Investor's Edge account.
Jul 2016	Virtual Brokers	Announced a partnership with Aequitas Neo Exchange to provide platform-traded funds (PTFs) to Virtual Brokers' institutional clients.
Jul 2016	RBC Direct Investing	Introduced a new online trading interface.
Jul 2016	Scotia iTRADE	Introduced an updated version of iTRADE's investor education offering with the launch of iTRADE U. The firm also announced a trading education boot camp that will be launched in early October.
Aug 2016	BMO InvestorLine	Released a new ETF screener and comparison tool from Morningstar, replacing the existing interface with one that includes some of Morningstar's filtering capabilities.
Aug 2016	Questrade	Partnered with VectorVest, enabling clients to execute trades in their Questrade brokerage account through the VectorVest platform.
Aug 2016	Desjardins Online Brokerage	Released new Disnat mobile app for clients using the Disnat Classic platform.
Aug 2016	Qtrade Investor	Qtrade Investor launched a promotion for millennials, offering no account minimums, \$7.75 commissions for stocks and ETF trades and no quarterly administration fees.
Sep 2016	Scotia iTRADE	Launched an offer for new accounts that combines a mix of free trades and SCENE points.
Sep 2016	Scotia iTRADE	Launched a series of videos on their YouTube channel and other social media outlets.
Sep 2016	Virtual Brokers	Advertised a new offer for a free one-year subscription to 5i Research upon opening a new Virtual Brokers account.
Sep 2016	RBC	Announced that clients would now be able to pay for trading commissions using RBC's reward points.
Oct 2016	Questrade	Added a new security feature: a PIN code will be used for account protection and in interactions with client service agents.
Oct 2016	TD Direct Investing	Announced the rollout of conditional offers to the WebBroker platform, allowing clients flexibility in the criteria they set around order execution.

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

On the promotions front, commission-free trading offers have also remained front and centre this quarter as a means of making investment platforms more accessible to a greater number of investors. This is true for new account offers, as well as for ETF trading. Questrade currently offers commission-free buying of ETFs, while Qtrade, Scotia iTRADE and Virtual Brokers offer commission-free buying and selling on at least a portion of their available ETFs. National Bank Direct Brokerage arguably topped these competitive offers when they announced in September that their clients can now trade all Canadian ETFs commission-free, subject to certain order-size conditions.

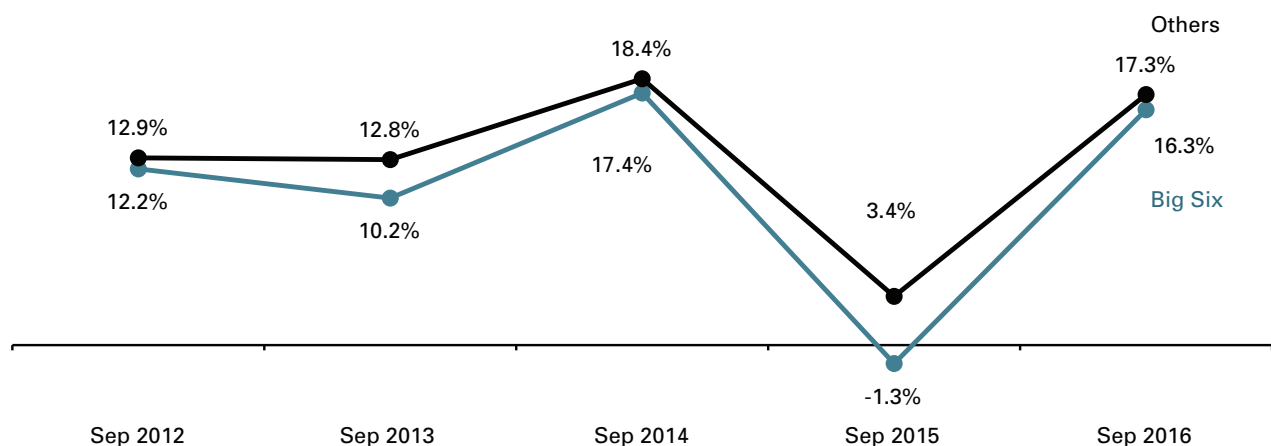
As with advice-based distribution channels, pricing pressures are present in the online channels. This is especially evident in the online wealth management landscape, where new investment offerings, such as those from robo-advisors, are focusing investor attention on cost. In an attempt to find new avenues of growth, ODB firms have turned to differentiation strategies, keeping top-of-mind that an enhanced user experience (UX) is a growing factor and contributor to both client acquisition and retention. On this front, TD Direct Investing, which launched their revamped WebBroker platform earlier this year, announced the introduction of conditional orders to allow their clients more flexibility in their order-execution criteria. Questrade also added a new feature, boosting security measures by adding a PIN function to accounts and client service interactions.

Some firms, looking outside of the UX, have recently maneuvered to improve their broader client experience. Scotia iTRADE, for example, released a series of YouTube videos<sup>3</sup>. In addition to the new media content, the firm has also promoted an offer for new clients that bundles 50 free trades with reward points that can be used at movie theatres. Virtual Brokers has made efforts to differentiate their offerings by including a one-year subscription to 5i Research<sup>4</sup>, for investors opening a new account.

## Assets and Accounts

Equity market performance helped propel ODB channel assets higher by 5.1%, or \$18.2 billion, over the third quarter of 2016. Following a recurring theme, the strength of equity markets tended to be the catalyst which drove growth of *Other* firms, beyond that of the growth of the Big Six. This is evident in the 17.3% annual jump in AUA by *Other* firms, versus a 16.3% increase by Big Six (see **Figure 2**). The upward-trending equity markets provided a healthy bounce-back from the downward slope experienced in the same quarter of 2015.

## 2 Year-over-year Asset Growth of Big Six Bank and Other Online/Discount Brokers



<sup>3</sup> See <https://www.youtube.com/user/ScotiaiTRADE>

<sup>4</sup> See <https://www.virtualbrokers.com/promotions/virtual-brokers-5i-research-promo>

Despite the strong market performance, the asset-based rankings of the ODB firms held steady in the third quarter (**Figure 3**). Questrade demonstrated notable quarterly gains in assets and, among the Big Six banks, Scotia iTRADE recorded the fastest 3-month growth rate. Scotia's higher concentration of equities, relative to most other survey participants, helped to drive this growth.

### 3 Online/Discount Brokerage Asset Ranking

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

	Asset rank		Growth rank	
	Sep 2016	Jun 2016	3-mo growth rate	3-mo asset change
<b>Online/discount brokers</b>	<b>\$ 374</b>	<b>\$ 356</b>	<b>5.1%</b>	<b>\$ 18.2</b>
TD Direct Investing	1	1	7	1
RBC Direct Investing	2	2	8	2
BMO InvestorLine	3	3	5	3
Scotia iTRADE	4	4	4	4
CIBC Investor's Edge	5	5	6	5
<b>Top 5</b>	<b>\$ 322</b>	<b>\$ 307</b>	<b>5.1%</b>	<b>\$ 15.6</b>
Market share	86.1%	86.1%		
National Bank Direct Brokerage	6	6	10	7
HSBC InvestDirect	7	7	2	6
Desjardins Online Brokerage	8	8	9	8
Questrade	9	9	1	9
Credential Direct	10	10	3	10

With the exception of the fixed-income category, all ODB asset classes experienced positive growth over the quarter (see **Figure 4**). The broad-based DEX Universe bond index exhibited positive performance over the three-month period, suggesting the decline in fixed-income assets was the result of either investors selling bonds; reallocating assets to another asset class; or swapping them for fixed-income alternatives, such as specific fixed-income ETF products.

### 4 Online/Discount Brokerage Asset Mix

In billions of dollars

	Assets			Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
<b>Online/discount brokers</b>	<b>\$ 321</b>	<b>\$ 356</b>	<b>\$ 374</b>	<b>5.1%</b>	<b>16.5%</b>
Deposits	64	71	76	7.1%	18.2%
Cash and GICs	47	53	57	7.8%	22.5%
HISAs	18	18	19	5.1%	7.1%
Fixed income	8	8	8	-4.3%	-0.6%
Investment funds	56	59	60	2.9%	8.5%
Money market funds	4	4	4	0.9%	-5.2%
Long-term mutual funds	26	27	27	2.8%	6.9%
ETFs	26	28	29	3.2%	12.1%
Equities	191	216	228	5.5%	19.1%
Other	1	1	1	2.5%	5.0%

\*Includes cash on deposit held net of margin and cash equivalents.

\*\*Excludes HISAs.

Equities in the ODB channel posted a 5.5% gain. Despite the strength of that asset class and its hefty weighting in the channel asset mix, the combined category of cash and high-interest savings accounts (HISAs) was a leading contributor to channel asset growth. Year-over-year growth in the deposit category

The combined category of cash and high-interest savings accounts (HISAs) was a leading contributor to channel asset growth.

finished at 18.2%. This growth is a likely response to equity market volatility from the previous year. The category has also benefitted from a substitutive effect, as investors continued to reduce their holdings of money market funds in favour of cash and HISA alternatives. Both long term funds and ETF growth lagged cash and HISA growth in three-month and one-year periods.

**Figure 5** presents the distribution of assets by tax status and account type. Taxable accounts reported a smaller growth rate over the most recent 12-month period, compared to registered accounts, rising 15.6% and 18.1%, respectively. Tax-free savings accounts (TFSA) remained strong, registering a 40.5% rise in assets over the year, easily outperforming the other types of accounts.

## 5 Online/Discount Brokerage Assets by Tax Status and Type of Account

In billions of dollars

	Assets			Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
<b>Online/discount brokers</b>	<b>\$ 321</b>	<b>\$ 356</b>	<b>\$ 374</b>	<b>5.1%</b>	<b>16.5%</b>
Taxable	195	213	225	5.4%	15.6%
Registered	126	142	149	4.7%	18.1%
RRSPs*	91	100	104	4.2%	13.5%
RESPs	2	2	2	3.8%	16.2%
RRIFs	16	18	19	5.7%	20.1%
TFSA	17	23	24	6.5%	40.5%

\*Includes group RRSPs.

The quarter closed with a 1.5% decline in the number of gross new accounts opened, largely attributable to a slowdown in new taxable and TFSA accounts (see **Figure 6**). Still, the total number of accounts in the channel followed an upward trajectory, increasing 1.4% from June to September.

## 6 Online/Discount Brokerage Number of Accounts

In thousands

				Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
Number of accounts	5,304	5,561	5,639	1.4%	6.3%
Gross new accounts opened	141	164	161	-1.5%	14.5%

\*Includes group RRSPs.

As asset growth outpaced account growth, the average account size in the ODB channel expanded from \$63,980 to \$66,331 (see **Figure 7**). This was the case for all 10 survey participants. In terms of average account size rank, BMO InvestorLine has maintained its leading position. Most other firms held their rankings over the quarter, although HSBC's strong asset growth led to them swapping places with RBC Direct Investing; HSBC currently ranks fifth.

## 7 Online/Discount Brokerage Average Account Size

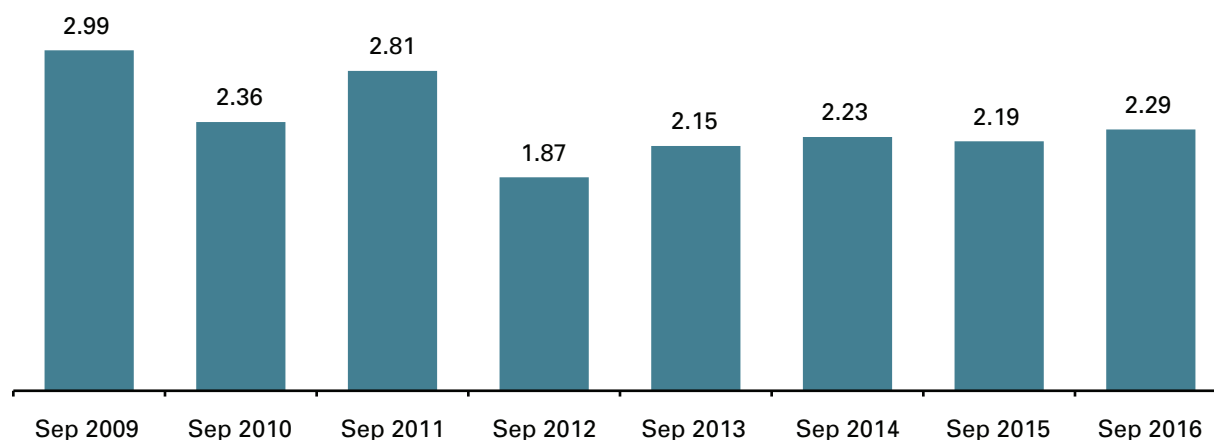
Ranked by average account size in thousands of dollars

	Average account size rank		Growth rank 3-mo growth rate
	Sep 2016	Jun 2016	
<b>Online/discount average account size</b>	<b>\$ 66</b>	<b>\$ 64</b>	
BMO InvestorLine	1	1	6
National Bank Direct Brokerage	2	2	5
Scotia iTRADE	3	3	4
TD Direct Investing	4	4	9
HSBC InvestDirect	5	6	1
<b>Top 5</b>	<b>\$ 75</b>	<b>\$ 71</b>	
RBC Direct Investing	6	5	8
CIBC Investor's Edge	7	7	10
Desjardins Online Brokerage	8	8	7
Credential Direct	9	9	2
Questrade	10	10	3

## Trading and Revenues

Eight years of ODB channel quarterly trades per account are displayed in **Figure 8**. The average number of trades per account increased over the past four quarters by 4.5%, to 2.29 trades per account per quarter, reflecting a modest improvement in investor participation. In line with past seasonal trends, however, trading volumes declined 8.2% from the previous quarter. Total volume, however, was just shy of 13,000, which exceeded levels from a year earlier (see **Figure 9**).

## 8 Quarterly Trades per Account at Online/Discount Brokers



**9** Quarterly Trades at Online/Discount Brokers  
In thousands

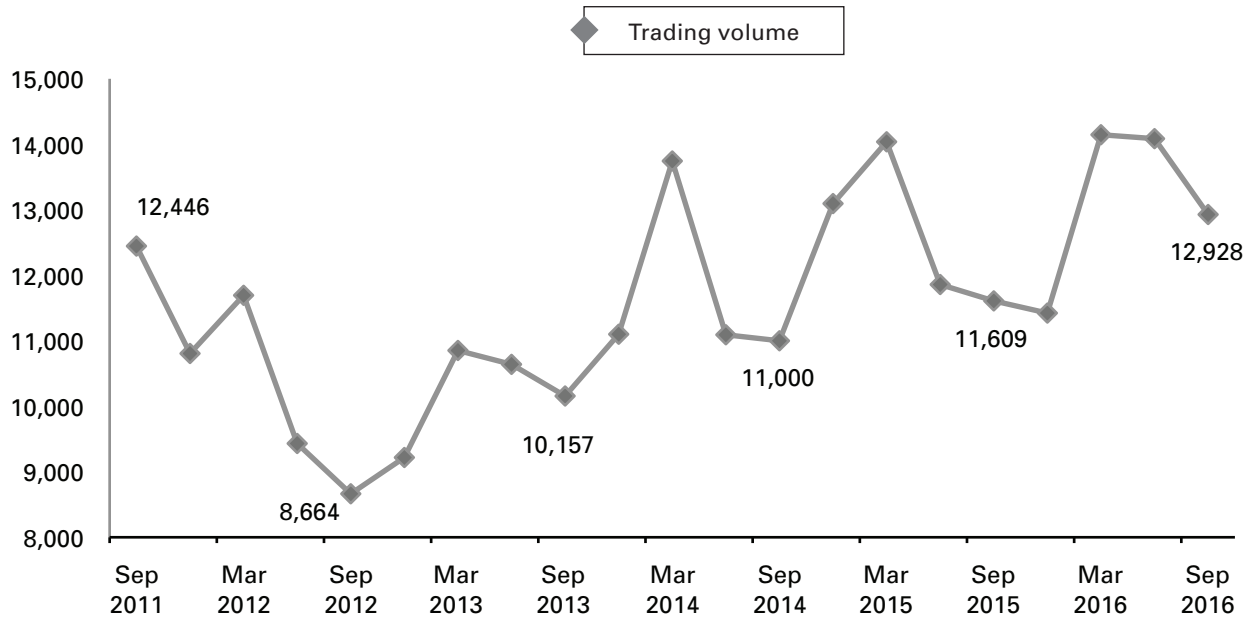


Figure 10 displays the ODB trading activity separated by method. Internet orders continue to make up over 90% of total trades.

**10** Online/Discount Brokerage Quarterly Trading Activity by Method

	Quarterly trades			Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
<b>Number of trades in thousands</b>	<b>11,609</b>	<b>14,086</b>	<b>12,928</b>	<b>-8.2%</b>	<b>11.4%</b>
Registered representative phone orders	890	882	898	1.9%	0.9%
IVR phone orders*	206	314	275	-12.3%	33.8%
Internet orders	10,513	12,891	11,755	-8.8%	11.8%
	Share				
	Sep 2015	Jun 2016	Sep 2016		
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		
Registered representative phone orders	7.7%	6.3%	6.9%		
IVR phone orders*	1.8%	2.2%	2.1%		
Internet orders	90.6%	91.5%	90.9%		

\*Interactive Voice Response.

The Big Six accounted for 80.7% of trading volume this quarter. Among a wide spread of trade volume growth rates, Desjardins Online Brokerage increased their trades at the fastest pace relative to other survey participants, from both a quarterly and an annual view (see **Figure 11**). The rank of trade volumes for the three-month period showed no changes.

## 11 Online/Discount Brokerage Firms Ranked by Trades and Trades Growth

	Trades rank			Growth rank	
	Sep 2015	Jun 2016	Sep 2016	3-mo growth rate	1-yr growth rate
<b>Online/discount brokerage trades</b>	<b>11,609</b>	<b>14,086</b>	<b>12,928</b>	<b>-8.2%</b>	<b>11.4%</b>
TD Direct Investing	1	1	1	3	8
RBC Direct Investing	2	2	2	8	7
BMO InvestorLine	3	3	3	2	5
Scotia iTRADE	5	4	4	7	4
Questrade	4	5	5	4	9
CIBC Investor's Edge	6	6	6	5	6
Desjardins Online Brokerage	7	7	7	1	1
National Bank Direct Brokerage	8	8	8	10	3
HSBC InvestDirect	9	9	9	9	10
Credential Direct	10	10	10	6	2

The lower propensity to trade in summer months was reflected in the modest commission revenue growth numbers in the ODB channel (see **Figure 12**). Conversely, the Other category, of which spread revenue makes up 83.2%, realized the largest quarterly and annual growth rates, as volume spreads improved over the period.

## 12 Quarterly Online/Discount Brokerage Revenues

In millions of dollars

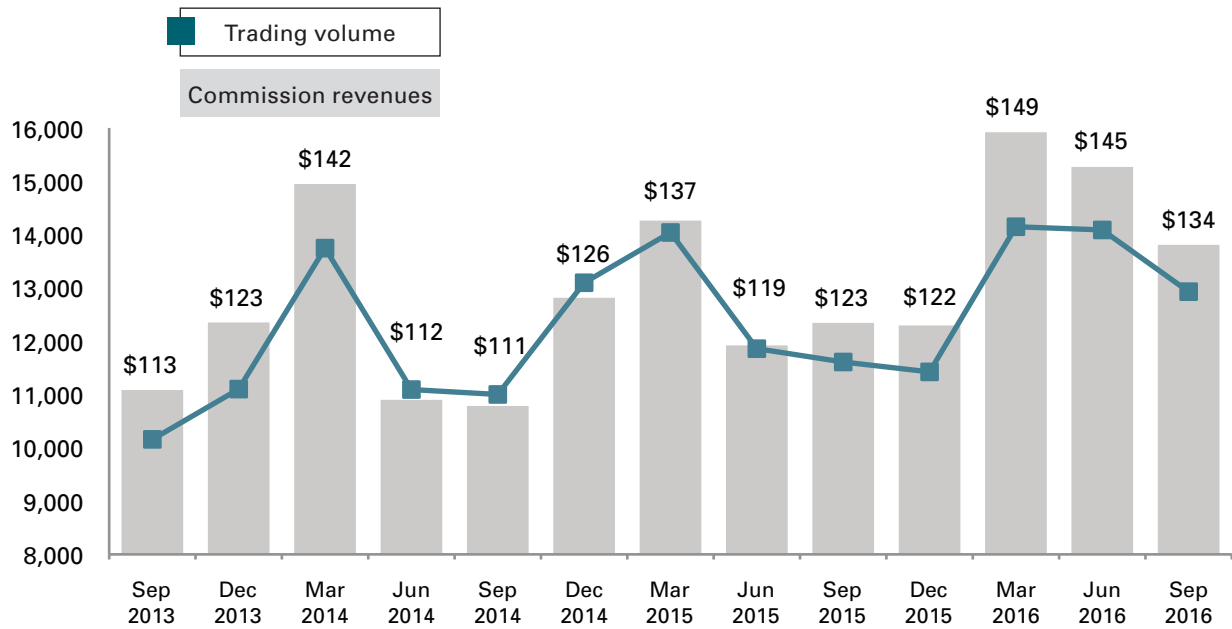
	Quarterly revenues			Growth	
	Sep 2015	Jun 2016	Sep 2016	3-mo	Yr/yr
<b>Total revenues</b>	<b>\$ 434</b>	<b>\$ 471</b>	<b>\$ 473</b>	<b>0.6%</b>	<b>9.0%</b>
Commissions	123	145	134	-7.6%	9.0%
Fees	12	10	10	2.6%	-13.7%
Mutual fund trailers	50	48	49	2.1%	-3.3%
Other	250	269	281	4.6%	12.5%

The relationship between trading volume and commission revenues is portrayed in **Figure 13**. Average quarterly commission generated per trade fell from \$10.56 a year earlier to \$10.33 for the quarter ended September 2016 (see **Figure 14**). The decline in commission revenue per trade was set against a channel backdrop which saw firms lower their standard equity trade commission rates; engaging in promotional activity, which included free trade offers for new accounts; and expanding the number of firms offering commission-free ETF trades.

The decline in the most recent quarter was exacerbated by the distribution of the activity among investors and active traders. The number of trades executed by so-called *hyperactive* traders (150+ trades per quarter)—those who typically trade at lower marginal commission rates—jumped 18.5% from the same quarter last year, while the number of trades placed by *less-active* investors, those paying more for their trades (1-29 trades per quarter), increased 15.1% over the that same time period.

### 13 Quarterly Online/Discount Trading Volume and Commission Revenues

Commission revenues in millions of dollars, trading volume in thousands



### 14 Average Quarterly Commission Revenues per Trade

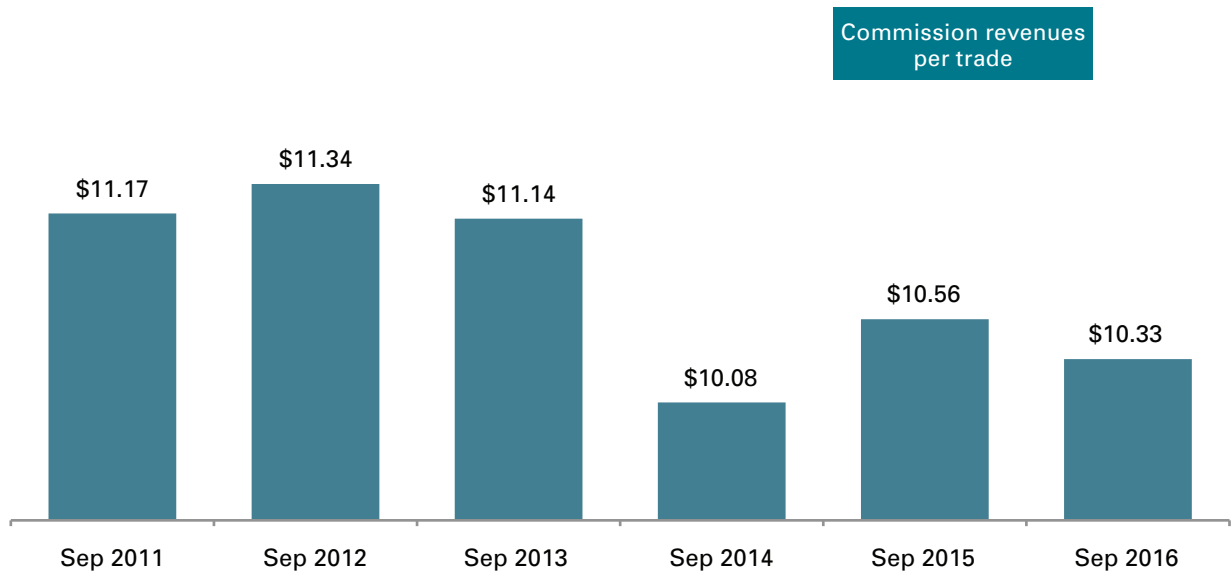


Figure 15 summarizes the recent developments of the Canadian online wealth solutions landscape. Strategic partnerships between start-ups and established firms have been a continued trend as a means of enhancing product features for established firms and distribution channel access for the start-ups. In particular, the number of fintech solutions targeting Canadian advisors has expanded, with products and services that either build on existing systems or provide unique digital mediums as a way of improving client communication and overall user experience.

## 15 Developments—Canadian Online Wealth Solutions

Date*	Online/discount firm	Development
Jan 2016	BMO Nesbitt Burns	Introduced SmartFolio, the first Big Six offering in the online advice space. The service has a minimum account size of \$5,000 with fees ranging from 40-70 basis points.
Jan 2016	ModernAdvisor	Launched their online advice service with fees ranging from 35-50 basis points. ModernAdvisor has also made responsible investment options available to their clients through ESG portfolios.
Feb 2016	WealthBar Financial Services	Announced the firm will now offer its services in both French and English creating a fully bilingual platform.
Feb 2016	Wealthsimple Financial	Announced partnership with Canadian marketplace lender Borrowell to offer Wealthsimple clients RRSP top-up loans.
Feb 2016	National Bank Direct Brokerage	NBDB's investment solution, InvestCube, launched a new U.S. Global Portfolio. The portfolio is composed entirely of ETFs trading in U.S. currency and can be held in a U.S. dollar denominated account.
Feb 2016	ModernAdvisor	ModernAdvisor announced the launch of their Springboard program, which allows new clients to experience online investing for three months using \$1,000 of ModernAdvisor's funds. At the end of the trial, investors could be eligible to keep any gains earned during the trial period.
Mar 2016	Wealthsimple Financial	Eliminated investment account minimum. Wealthsimple's acquisition of Canadian ShareOwner in late 2015 equips clients with the ability to own fractional shares.
Mar 2016	Wealthsimple Financial	Launched a Socially Responsible Investing (SRI) portfolio.
Apr 2016	Justwealth Financial	Launched their online investment management platform with over 60 distinct portfolio options for investors. Management fees range from 40-50 basis points.
May 2016	Transcend Direct	Transcend Direct, a subsidiary of Provisus Wealth Management, launched their online financial planning and wealth management service which offers clients a pay-for-performance structure.
May 2016	Wealthsimple Financial	Wealthsimple launched "Wealthsimple for Advisors", a digital solution for established financial advisors to manage small accounts and non-core clients.
May 2016	Wealthbar Financial Services	Raised \$5.5 million in funding from investors including Howard Atkinson and Nicola Wealth Management.
May 2016	Wealthsimple Financial	Launched a group retirement service pilot project called "Wealthsimple for Work", a digital solution companies offering Group RSPs to their employees.
May 2016	Wealthsimple Financial	Announced a partnership with Mint (Intuit).
Jun 2016	Mylo	BankMe rebranded as Mylo to better align with the company's beliefs and purpose.
Jul 2016	WealthBar Financial Services	Introduced group retirement service offering registered retirement savings plans (RRSP) for companies and their employees. Fees for the service will be 100bps or less.
Jul 2016	Wealthsimple Financial	Introduced a redesigned platform with an enhanced dashboard, more functional and intuitive visuals, and a new education-driven 'Learn' page.
Aug 2016	Responsive Capital Management	Launched an artificial intelligence (AI)-driven online advice firm which adds an active management component to the online advice value proposition.
Oct 2016	Glidepath Portfolio Services	Glidepath announced the launch of their online portfolio management service, which aims to partner with financial planners who wish to outsource the investment-management component of their business.
Oct 2016	Wealthsimple Financial	Wealthsimple appeared on H2 Ventures and KPMG's Fintech100 list of leading global fintech innovators.
Oct 2016	Wealthbar Financial Services	WealthBar added a two-step login process to create an additional layer of security for accounts.
Nov 2016	Invisor Investment	Introduced a new online goal-setting service, InvisorGPS™.
Dec 2016	ModernAdvisor	Launched a Custom Portfolio service available to clients who invest \$150,000 or more with the firm. The service will provide more personalization, based on client needs and preferences taking a more holistic look at a client's net worth.

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

Strategic Insight defines a fintech start-up as emergent, technology-driven and participating in the financial services industry. This ecosystem as it relates to the Canadian landscape is covered in detail in our newly launched *Fintech Advisory Service*.

This quarter, Glidepath Portfolio Services launched their digital portfolio management service for financial advisors. The aim of this service is to enable advisors to deliver custom and automated ETF portfolio management services to their clients. This accompanies the launch of Wealhsimple for Advisors, Nest Wealth Pro and Wiser Investments.

Several online advice firms also took steps to add new features to enhance their product offerings. ModernAdvisor added a Custom Portfolios service for clients with accounts over \$150,000, allowing the firm to provide this subset with a more holistic and rounded service, taking into account the client's full net worth<sup>5</sup>. Invisor also introduced a new financial planning feature branded as InvisorGPS™. The service is free and provides an online goal-setting experience for users aiming at saving for a home, tuition, retirement, or other significant purchase<sup>6</sup>.

<sup>5</sup> See <http://blog.modernadvisor.ca/introducing-custom-portfolios>

<sup>6</sup> See <http://blog.invisor.ca/introducing-invisorgps-pave-the-road-to-your-life-goals>

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