High and low: a strengthened economy will aid demand, but regulations will hurt growth

IBISWorld Industry Report 52311
Investment Banking & Securities Dealing in the US
June 2013
Doug Kelly
About this Industry

Industry Definition
This industry is comprised of firms and individuals that provide a diverse range of securities services including investment banking and broker-dealer trading services. They also offer banking and wealth management services and engage in proprietary trading (trading their own capital for a profit) to varying degrees. Investment banking services include securities underwriting and corporate financial services while trading services include market-making and broker-dealer services.

Main Activities
The primary activities of this industry are
- Underwriting, originating or maintaining markets for securities issuance
- Principal and proprietary trading
- Corporate finance services
- Corporate strategy advisory services

The major products and services in this industry are
- Corporate finance services
- Financial advisory services
- Trading and related services
- Underwriting services (equity and debt)

Similar Industries
52312 Securities Brokering in the US
Securities brokers act as agents in buying or selling securities on a commission or transaction fee basis.

52391 Venture Capital & Principal Trading in the US
Firms or individual investors in this industry primarily buy and sell financial contracts (e.g. securities) on their own account.

52392 Portfolio Management in the US
Establishments in this industry manage financial portfolios.

52599 Private Equity, Hedge Funds & Investment Vehicles in the US
These firms manage collection-investment vehicles that invest in a broad range of asset classes.

Additional Resources
For additional information on this industry
- [www.sifma.org](http://www.sifma.org)
  Securities Industry and Financial Markets Association
- [www.federalreserve.gov](http://www.federalreserve.gov)
  The US Federal Reserve
- [www.thomsonreuters.com](http://www.thomsonreuters.com)
  Thomson Reuters Corporation
- [www.valuationresources.com](http://www.valuationresources.com)
  Valuation Resources
Industry at a Glance
Investment Banking & Securities Dealing in 2013

Key Statistics Snapshot

**Revenue**: $149.5bn
**Annual Growth 08-13**: 2.8%
**Annual Growth 13-18**: 3.2%

**Profit**: $22.3bn
**Wages**: $33.9bn
**Businesses**: 9,049

**Market Share**
- J.P. Morgan Chase & Co. 12.4%
- Bank of America Corporation 9.6%
- The Goldman Sachs Group Inc. 9.4%
- Morgan Stanley 7.2%
- Citigroup Inc. 5.9%

**Key External Drivers**
- Corporate profit
- Investor uncertainty
- Yield on 10-year Treasury note
- Regulation for the Investment Management industries
- Initial public offerings

**Products and services segmentation (2013)**
- 10.4% Financial advisory services
- 15.6% Underwriting services (equity and debt)
- 54% Trading and related services
- 20% Corporate finance services

**Industry Structure**
- Life Cycle Stage: Decline
- Revenue Volatility: Very High
- Capital Intensity: Medium
- Industry Assistance: High
- Concentration Level: Medium
- Regulation Level: Heavy
- Technology Change: High
- Barriers to Entry: High
- Industry Globalization: High
- Competition Level: High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 42
Executive Summary

The past five years were a trying time for the US Investment Banking and Securities Dealing industry as it struggled to recover from a financial crisis that brought its business model into question. From 2008 to 2013, IBISWorld estimates that investment banks and broker-dealers saw their revenue increase slowly at a 2.8% average annual rate from a recessionary low of $130.2 billion in 2008 to about $149.5 billion in 2013 – still well below its peak in 2007 at $226.3 billion. Entering 2007, the top five investment banks generated as much as 70.0% of their revenue from securitizing risky subprime mortgage loans and engaging in leveraged principal and proprietary trading with these securities among major financial institutions. In turn, this practice significantly magnified their risk of losses.

However, this model quickly came crashing down. Higher defaults on subprime mortgage loans triggered unprecedented losses that quickly spread throughout the financial system and sent the US economy into recession. By the end of 2008, all five of the top independent investment banks had failed, been taken over by larger commercial banks or re-chartered as commercial banks to survive. Ultimately, government intervention and stimulus prevented the collapse of the financial sector and slowly restarted economic growth by restoring access to credit and capital.

The industry is expected to decline a further 2.3% through 2013 as the US economy continues to be burdened with the economic cost of the recession. Weak economic growth and high investor uncertainty have kept business and financial market activity below 2007 levels. In response, the industry consolidated and aggressively cut wage costs through layoffs over the past five years. Five institutions now dominate the industry: JPMorgan Chase, Bank of America, Morgan Stanley, Goldman Sachs and Citigroup.

Over the five years to 2018, IBISWorld forecasts that industry revenue will grow slowly at a 3.2% annualized rate to about $174.7 billion. The industry will continue to decline through 2014 and be tasked with complying with costly regulations that will require investment banks to deleverage, hold higher capital reserves and limit certain trading practices. However, rebounds in corporate profit and general improvements in the US economy will spur a recovery from 2015 onward by increasing underlying business and trading activity, although the industry will remain below prerecession levels.

Key External Drivers

Corporate profit
Changes in corporate profit are a key driver of equity markets’ performance by affecting how companies are valued, which in turn influences the level of trading and business activity. Higher trading and business activity levels enable investment banks to earn higher trading, underwriting and advisory revenue. Corporate profit is expected to increase slowly over 2013, representing a potential opportunity for the industry.

Investor uncertainty
The investor uncertainty index is a measure of business sentiment and trading activity. Low business uncertainty is a critical part of a growth
Industry Performance

Key External Drivers continued

environment for IPOs, M&A and trading activity. As a result, declines in this index generally precede higher business and trading activity along with stronger industry performance. Investor uncertainty is expected to decrease in 2013, although it will remain at a high level.

Yield on 10-year Treasury note
Interest rates affect both industry investment income and demand. Higher interest rates generally slow business activity by raising the cost of borrowing which reduces industry advisory and underwriting income. However, falling interest rates generally reduce investment income from fixed-income securities, which represent a large segment of industry revenue. As a result, falling interest rates are considered to have a net negative impact on industry performance. The yield on a 10-year Treasury note is expected to increase in 2013.

Regulation for the Investment Management industries
Regulations and changes in legislation affect the participants and the types and level of activities undertaken in this industry. When regulation for the investment management industries increases, it has the potential to impede industry growth. The amount of regulation imposed on the investment management industry is expected to increase over 2013, representing a potential threat to the industry.

Initial public offerings
Investment banks help companies raise capital by underwriting the first sales of company stock (equity) to public investors, known as initial public offerings, or IPOs. IPOs represent a small share of industry revenue, but a high number of IPOs serves as an indicator of increased company demand for capital, which leads to higher overall industry underwriting revenue. The number of initial public offerings is expected to increase in 2013.
Industry Performance

Investment banks and broker-dealers primarily earn revenue from two broad product and service lines: fee revenue from traditional investment banking services (securities underwriting and corporate financial advisory services) and commission and capital gains revenue from trading services. Within the industry, sell-side firms generally facilitate the sale of securities through underwriting client equity and debt securities, promotional research and trading and brokering services such as market-making. However, a significant portion of trading revenue also comes from high-risk, high-reward proprietary and principal trading which involves trading with firm capital. Conversely, buy-side firms generally facilitate the purchasing of these securities from institutional and retail clients such as pension funds, insurance funds, mutual funds and the general investing public through research, investment management and advisory services. Industry firms typically have both buy-side and sell-side components. Depending upon their size, industry firms also offer a wide mix of ancillary securities services including asset management, commercial banking, merchant banking and transaction banking services such as securities lending.

For the past decade, regulatory and market forces have increased industry consolidation and driven changes in its product and services mix. The repeal of the Glass-Steagall Act in 1999 tore down barriers among banking, securities and insurance firms that spurred consolidation across the financial sector and lead to the development of large, full-service financial conglomerates. Competition intensified and pressured prices on industry securities services. At the same time, new electronic trading technologies for generating, routing and executing securities orders were driving changes in the US financial market structure (see IBISWorld report 52321 Stock and Commodity Exchanges), which boosted the speed and volume of worldwide securities trading and lowered trading costs. These trends, accelerated by the recession, lead to the development of larger, full-service investment banks that derive the majority of their revenue from trading activities as opposed to traditional investment banking activities.

The past five years challenged the Investment Banking and Securities Dealing industry as it struggled to recover from a financial crisis and recession that brought its entire business model into question. From 2008 to 2013, industry revenue grew at a 2.8% average annual rate to about $149.5 billion in 2013. Yet, the annualized rate does not tell the full story of the immense recessionary losses and rapidly evolving competitive landscape that investment banks experienced during this time. The industry still remains well below its peak of $226.3 billion achieved in 2007 prior to the financial crisis.

Through 2007, five independent investment banks dominated the investment banking industry: Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers and Bear Stearns. For the past decade, these firms, long-time
Industry Performance

Current Performance continued

pillars of the Wall Street establishment, were making record revenue and profit by underwriting debt securities of bundled housing mortgages. They would trade these mortgage-backed securities among each other and other financial institutions, creating significant risky leverage on their balance sheets. At the same time, these firms used derivatives and collateralized debt obligations to make further leveraged bets that the prices on these securities would continue to rise indefinitely. The erroneous belief that housing prices would always go up created an economic bubble that pushed the stock market up to record levels. Core investment banking activities, such as securities underwriting and lending, initial public offerings and mergers and acquisitions (M&As) also reached record highs in this environment.

2008 financial crisis

The industry’s entire model came crashing down at the end of 2007. Bad lending practices in housing markets triggered higher-than-normal defaults, causing housing prices to plummet. By 2008, this trend triggered large drops in the value of the mortgage-backed securities that investment banks had underwritten and made leveraged trades with amongst themselves and other financial institutions. Investors panicked over the magnitude of these potential losses and credit markets froze, sending the entire US economy into recession. Investors lost confidence in Bear Stearns first, causing the Federal Reserve to bail out the company and force its sale to JP Morgan Chase in March 2008.

By the end of 2008, all five of the top independent investment banks had failed and were either taken over by larger commercial banks or became solely commercial banks themselves.

Bad lending practices in housing markets led to increased defaults, hurting the industry

To make matters worse for the rest of the industry, credit markets froze up, causing the stock market and trading revenue to spiral down, in addition to decreased demand for underwriting and other financial services. IBISWorld estimates that industry profit fell at an astonishing 7.6% annualized rate during the past five years, from 25.4% of total revenue in 2008 to 14.9% in 2013. This decline includes a 35.9% drop in 2008 due to unprecedented losses on principal trading of mortgage-backed securities and related derivatives products.

Industry continues to contract

Since the financial crisis, the combined actions of the US Treasury, Federal Reserve and Federal Deposit Insurance Corporation have prevented the collapse of the financial system, restarted economic growth and slowly restored access to credit and capital. The Federal Reserve’s rate cuts and interventions in markets have driven interest rates to historic lows. The stock market and corporate profit have both moderately recovered. This has driven a rebound in M&A transactions, although business activity and trading levels still remain below prerecession levels. Overall, the US economy continues to be plagued by high unemployment, weak economic growth, fiscal deficits, constrained access to credit
Industry Performance

Industry continues to contract continued

and a depressed housing market that has kept investor uncertainty at high levels. Consequently, the Investment Banking and Securities Dealing industry has been slow to recover. Industry revenue rebounded in 2009 from recessionary lows due to government intervention, but has since declined 7.9%, 4.9% and 3.5% in 2010, 2011 and 2012, respectively. Slowing worldwide economic growth, fiscal deficits in the United States and the sovereign debt crisis in Europe have kept investor uncertainty high. As a result, demand for industry securities and trade services have steadily declined. Based on the latest available data from the Securities and Financial Markets Association, IBISWorld estimates that total corporate underwriting facilitated by industry firms, which includes primary market debt and IPOs, contracted at a 7.1% annualized rate from about $2.7 trillion in 2007 to $1.9 trillion in 2012.

Trade volumes also continue to fall, most notably in equity securities that underpin industry revenue from market-making activities. The industry’s institutional investor clients have significantly scaled back on trading activity due to high uncertainty, despite record high corporate profit levels. Additionally, falling trade commissions have also further reduced demand for research services, leading to reduced profitability and steep layoffs at industry research and trading desks.

In 2013, IBISWorld anticipates industry revenue will further decline 2.3% to $149.5 billion. While underwriting activity has increased, notably corporate debt underwriting, declines in trade volumes and corresponding trading services revenue are expected to continue outpacing these improvements. New regulations stemming from the financial crisis have also required investment banks to hold higher capital reserves, deleverage and limit certain trade practices, which have combined to slow the industry’s recovery. Most notable of which was the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, whose Volcker Rule prohibits banking entities from investing in or sponsoring private equity funds, venture capital funds or hedge funds. These proprietary trading activities were a significant source of industry revenue but also a contributor to the severity of the financial crisis.

Industry employment is estimated to contract at an average annual rate of 5.6% over the five years to 2013 to about 107,964 employees. Mergers with commercial banks brought layoffs, and firms sought to reduce expenses to counter falling demand and high losses. At the same time, investment banks increased IT spending each year, which allowed them to further reduce wage expenses. As a result, wages as a percentage of industry revenue declined from 40.6% in 2008 to 22.7% in 2013. IBISWorld estimates that the number of investment banks and securities broker-dealer firms fell at a 2.7% annualized rate over the five-year period to 9,049 in 2013 as the industry consolidated and smaller firms were squeezed out.

Federal regulation has stabilized the industry postrecession, but also restricts its growth
Industry Performance

Malaise in the US economy

Over the five years to 2018, IBISWorld projects that revenue for the Investment Banking and Securities Dealing industry will grow at a slow 3.2% annualized rate to $174.7 billion in 2018, still well below the industry’s 2007 peak. The industry is forecast to remain in decline through 2014, contracting about 0.4% in 2014. Beginning in 2015, however, the industry is expected to return to growth as rising trade volumes, declines in investor uncertainty and improvements in business activity boost demand for industry underwriting, corporate advisory and trading services. This growth will be suppressed somewhat through regulation stemming from the 2008 subprime mortgage crisis, which will force the industry to endure rising costs and limits on the financial activities investment banks are allowed to undertake. A projected rise in interest rates after 2014 and low initial public offering (IPO) activity will also pose a setback to the industry’s continued recovery.

Trading activity is expected to remain stronger than the overall economy because it is primarily driven by institutional traders and high net-worth individuals who have recovered from the recession much faster than the overall US consumer base. The industry will benefit mainly from fees on increased trading volumes, although new technologies will continue to drive down average trading costs. Strong corporate profit and record cash reserves will also incentivize higher corporate activity (underwriting, IPOs and mergers and acquisitions) over the next five years. Companies look to gain market share in a low consumer demand market by offering new products and services gained through acquisitions. As a result, investment banks will likely experience growth in underwriting and financial advisory services.

As regulation increases, higher compliance costs will cut into industry profit

In addition, to respond to adverse legislation and limitations on the spectrum of financial activities bank holding companies are allowed engage in, investment banks have increasingly moved into other business lines related to trading (i.e., wholesale market-making and investment management). For example, in anticipation of lost revenue from proprietary trading, Goldman Sachs and Credit Suisse AG recently announced the launch of wholesale market-making divisions. These divisions take retail trades from brokers, such as Charles Schwab and TD Ameritrade, and fill the orders internally as opposed to allowing them to go to stock exchanges. They make money off this activity by collecting a small percentage fee on each securities transaction.
Industry Performance

Malaise in the US economy continued

Over the next five years, the number of industry employees is expected to rise at a 2.4% annualized rate to about 121,485 in 2018. This level is still well below peak 2007 levels as industry investments in IT, particularly in electronic trading platforms and high-speed algorithms, continue to reduce the number traders and researchers needed to conduct trading operations. The average industry wage and total wage costs will still rise slightly, however, as investment banks and securities broker-dealers increasingly compete over a limited pool of highly skilled workers with technical and financial expertise.

The average industry profit is also anticipated to improve as demand picks up over the next five years, increasing to about 18.0% of total industry revenue by 2018. The industry’s leaner and more scalable trading operations will be a key driver of improved profitability when trade volumes pick up in the latter half of the outlook period. Higher trade volumes, along with improved demand, are also projected to entice new market entrants. The number of industry investment banks and securities broker-dealers is forecast to rise at a 1.0% annualized rate to 9,488 by 2018. Most of this growth will come in the latter half of the outlook period, mainly from smaller firms that offer specialized services and engage in algorithmic trading that is less labor intensive and costly.

Regulation on the horizon

Regulation in the financial sector will undoubtedly increase in the United States and Europe over the next five years. Part of this regulation is already evident in the conditions imposed on banks in which the Treasury has taken an equity stake. These conditions relate predominately to executive wages and dividend payments, but discussions are underway on the establishment of a system of global financial regulation.

The most significant regulatory changes for the banking industry have come from the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act and the Basel III accords. Collectively, these requirements will change the financial activities banks can participate in, how firms will approach risk management and the level of oversight they must comply with once these regulations are fully implemented. Because of these changes, industry profit growth will be muted, both from higher compliance costs and from a more limited number of financial activities from which investment banks can draw revenue.

New legislation aims to decrease the industry’s volatility and potential for a catastrophic downturn

Dodd-Frank’s Volcker Rule prohibits banking entities from investing in or sponsoring private equity funds, venture capital funds or hedge funds. Banks will no longer be able to engage in the practice of proprietary trading (about 20.0% of 2012 revenue), where banks use bank funds and customer deposits, sometimes leveraging them, to make bets on securities. The rule also limits banks to a 3.0% stake in private funds holdings, which means hedge fund and private equity managers will have to compete over diminished funding from banking institutions.

Basel III is a new global regulator standard on bank capital and liquidity requirements agreed upon by members of the Basel Committee on Banking Supervision (a committee of banking
Industry Performance

Regulation on the horizon continued

authorities established by major central banks). It was developed in response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III strengthens bank capital requirements and introduces new restrictions on bank liquidity and investment bank leverage. The Organization for Economic Co-operation and Development projects that the implementation of Basel III will decrease annual GDP growth 0.05 to 0.15 percentage points as it continues to be implemented through 2013. As a result, banks will have to reassess their risk management strategies and implement more effective safeguards against issuing risky loans.

Systemic risk

The Securities and Exchange Commission and non-governmental, self-regulatory organizations such as the Financial Industry Regulatory Authority, Inc. will continue to look at ways to limit systemic risk to the economy from banking and securities activities. While legislation that restricts derivatives speculation will decrease profit and revenue for banks, in the long-term, it will decrease the industry’s volatility and potential for a catastrophic downturn.
Industry Performance

The level of industry regulation is increasing
The industry is consolidating
Players are increasing in size and expanding their range of services

Life Cycle Stage

- **Maturity**
  - Company consolidation; level of economic importance stable

- **Quality Growth**
  - High growth in economic importance; weaker companies close down; developed technology and markets

- **Quantity Growth**
  - Many new companies; minor growth in economic importance; substantial technology change

- **Decline**
  - Shrinking economic importance

Key Features of a Decline Industry
- Revenue grows slower than economy
- Falling company numbers; large firms dominate
- Little technology & process change
- Declining per capita consumption of good
- Stable & clearly segmented products & brands

**Graph**

- **Life Insurance & Annuities**
- **Stock & Commodity Exchanges**
- **Venture Capital & Principal Trading**
- **Health & Medical Insurance**
- **Investment Banking & Securities Dealing**
- **Securities Brokering**

**Source:** www.ibisworld.com
Industry Performance

The Investment Banking and Securities Dealing industry is in the declining phase of its economic life cycle, characterized by slow industry growth, declining participants and market saturation. Industry value added (IVA), a measure of the industry’s contribution to the overall economy, is expected to contract at a 2.3% annualized rate over the 10 years to 2018; over the same period, GDP is expected to grow at an average annual rate of 2.1%. Historically large and unprecedented losses during the recession further accelerated larger trends that indicate the industry is in decline. While the industry tends to be cyclical, with revenue and profitability moving in tandem with financial and economic market cycles, it also displays longer-term trends of decline.

These trends include rising consolidation, an increase in average firm size and a declining number of industry players. The subprime mortgage crisis has dramatically quickened the pace of consolidation and inflated the importance of very large financial institutions in delivering investment-banking services. Over the past 10 years, the number of industry firms and establishments has declined at annualized rates of 0.9% and 0.1%, respectively. This is an indicator that industry profitability and underlying demand for industry securities and trading services is steadily declining.

The industry is entering an extended period where profitability is expected to reach historic lows. This trend is due more to structural changes in the industry than to changes in financial market activity. The demise of the independent investment-banking model, lower levels of leverage and greater regulation will all contribute to the industry adopting a lower profit and lower risk profile. The industry will continue to offer new services and products, however, and the growing range of services related to wealth and asset management is an expanding revenue source for industry players.

The range of derivative-based products offered by investment banks is increasing, and until the credit crunch, the range of debt products was also increasing.

Growth opportunities in the emerging economies of China, India, Russia and Brazil, as well as opportunities in Eastern Europe and the Middle East, are expected to provide a greater source of investment banking growth over the next five years. The industry may be entering a period where revenue and profit growth for investment banking activities is significantly greater outside the United States than it is domestically.
Where the investment banking industry makes its money is changing as quickly as the industry itself. Products and services in the investment banking and securities dealing industry vary considerably depending upon the financial activities individual investment banks choose to engage in. Smaller and medium sized investment banks target niche industries and smaller companies...
and rely more heavily on traditional investment banking activities such as underwriting and financial advisory. Major industry players such as JP Morgan and Goldman Sachs earn about 70.0% of their revenue from trading activities. They also engage in a wide range of corporate finance, principal and proprietary trading and securities services (prime brokerage) activities.

**Investment banking and corporate lending activities**
Investment banks serve as the middlemen between companies looking to raise capital (equity and debt underwriting) by securitizing the ownership (equity) or debt of a company to be traded to investors in exchange for capital. They assist companies wishing to go public (IPOs) by issuing common stock, preferred stock and other equity-related securities. The other route investment banks offer to companies looking to raise capital is debt markets; investment banks help corporations and governments issue various types of debt instruments such as investment-grade and high-yield debt and bank loans and bridge loans. Combined, underwriting activities make up from 10.0% to 15.0% of revenue for the major players and 15.6% of overall industry revenue.

Financial advisory services include strategic advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings, spin-offs, exchange offers and shareholder relations. Additionally, larger investment banks will also provide advice regarding dividend policy, valuations, foreign exchange exposure, financial risk management, project financing and real estate. For major players, financial advisory represents between 3.0% and 7.0% of revenue, but IBISWorld estimates these services represent about 10.4% of industry revenue.

Some firms include corporate lending as part of their underwriting businesses; other firms report corporate lending as a separate activity. Overlap also exists for major players that also act as commercial banking institutions. For example, industry leader JP Morgan makes about 45.0% of their revenue from corporate lending. Industry firms will provide loans, including bridge loans, at varying terms and contractual conditions, and often trade these loans as part of their proprietary trading activities. IBISWorld estimates industry-wide corporate lending activities account for about 20.0% of industry revenue.

**Sales and trading activities**
Investment banks conduct sales, trading, custodial, financing and market-making activities on securities, futures exchanges and in over-the-counter (OTC) markets globally. Lately, investment banks have favored fixed-income, interest rate and derivatives futures products. They engage in trading across every asset class, however, depending upon requests from clients and their own trading desks. The best way to break down their trading activities is into principal trading and market-making, proprietary trading and prime brokerage.

IBISWorld defines principal trading by investment banks as using client money to buy securities, waiting for price appreciation and then selling these securities to clients. Although similar, IBISWorld distinguishes market-making activities as investment banks providing trade liquidity, meaning to buy, sell or otherwise transact with customers under a variety of market conditions and provide firm or indicative prices in response to customer requests. Basically, investment banks earn revenue from market-making equal to the difference
Products & Markets

Products & Services continued

between buy and sell order prices on client transactions.

Proprietary trading is where investment banks use their own money to buy and sell securities for a profit. Although difficult to determine industry-wide, proprietary trading represents the largest share of trading revenue and overall revenue for investment banks. Since investment banks have access to information on their clients’ trades, a conflict of interest exists where investment banks would often make money by making their trades before their clients, resulting in higher prices for clients. New legislation stemming from the financial crisis, specifically the Volcker rule in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, has banned banks from engaging in proprietary trading beginning in 2012.

Prime brokerage activities, also known as securities lending, occur when investment banks lend capital to hedge funds to make bets on the direction of securities that are greater than the amount of money they have available. Demand for this securities lending has collapsed since the 2008 recession and not recovered, as financial institutions continue to deleverage to prevent future catastrophic losses. Investment banks also face strong and growing competition for lending to hedge funds from custodial banks that have gained significant market share over the past five years. In addition, some larger industry players such as JP Morgan also act as custodial banks and offer securities services (i.e., custody, trade execution and record keeping) to investment banking clients.

Overall, IBISWorld estimates trading and related activities account for about 54.0% of industry revenue. The Dodd-Frank Wall Street Reform and Consumer Protection Act will significantly change investment bank business models over the next five years to 2018 by restricting proprietary trading. See the Industry Outlook section of this report for more details.

Demand Determinants

Demand for the services provided by the Investment Banking and Securities Dealing industry depends on economic and financial market conditions in the United States and globally. More specifically, demand depends upon factors such as interest rates, business earnings, and business and investor confidence. Other factors that can impact industry demand are conditions that create uncertainty in the market, such as natural disaster and political instability, and events that damage the market’s reputation. Regulatory changes can also affect demand for certain services.

Investment banking services include advisory services related to M&A and other corporate activity, and underwriting of debt and equity products in private placements and public offerings. Demand for financial advisory services depends on the level of corporate activity, which in turn depends upon the company earnings, business confidence and the economic outlook. Demand for advisory services in the United States is expected to be weak in 2012 due to ongoing macroeconomic uncertainty that will keep business transaction volumes low.

Demand for underwriting services generally reflects the level of capital raising and business investment. This factor is related to the level of economic activity and business confidence. The level of public offerings generally rises with strong stock market performance. Debt market underwriting includes the underwriting of mortgage-backed securities, collateralized debt obligations
and other complex structured products. Demand for debt issuance of these products has dropped significantly as a result of the subprime crisis and frozen credit markets.

The volume of trading undertaken on the exchange for private clients is closely related to the stock market’s performance and the performance of alternative investments. In turn, this factor is broadly determined by growth in the economy and interest rates. The demand for trading service by business and institutional clients is related to the level of business activity and the amount of funds managed by institutional clients.

Demand for principal trading (where investment banks trade on their own account) is driven by the opportunity to trade profitably. This factor, in turn, depends on the stock market’s performance, currency and commodity markets, levels of market volatility and arbitrage opportunities. It is also based on the skill set of employees. While America has been in a recession, many trading floors were able to profit due to correctly reading the market and the economy’s direction.

**Major Markets**

The Investment Banking & Securities Dealing industry provides a wide range of financial services to governments, financial and non-financial firms and private investors. They also act in principal and agency in trading activities but those activities are excluded from discussion in this section (please refer to product and services section for more information). Historically, investment banks and securities dealers provided corporate finance services (e.g. securities underwriting, corporate lending and financial advisory services) to corporate firms and governments. However, regulatory and technology changes over the past decade have blurred the lines between financial services firms, leading investment banks to now generate over half their revenue from providing trading and related services to corporate and financial firms and private investors.

**Corporate firms**

Corporate firms, defined as non-financial businesses, account for about 65.0% of industry revenue. Investment banks and securities dealers assist corporate firms...
Products & Markets

with underwriting and selling equity and debt securities in financial markets to raise capital. Investment banks also act in a broker-dealer capacity and assist corporate firms with hedging risks and trading securities for a profit. Additionally, depending on the firm’s size, investment banks provide a variety of other financial services to corporate firms such as corporate lending and financial advisory services. Over the five years to 2013, IBISWorld estimates that industry firms have earned less revenue from corporate firms as high uncertainty levels caused corporate firms to scale back mergers and acquisitions, capital raising and trading activities. However, this segment remained relatively steady as a share of industry revenue and is expected to increase over the next five years as corporate firms begin spending records levels of corporate cash they accumulated on their balance sheets between 2008 and 2013.

Financial firms
IBISWorld estimates that financial firms represent about 18.0% of industry revenue. This includes banks, insurance companies, brokerages and financial advisors. Financial firms primarily utilize investment banks for a variety of trading and related services including underwriting and selling securities to manage risk and raising capital; executing client trading orders; and provide related financing, research, financial advisory and wealth management services. Major investment banks also provide trading services such as market-making, clearing, settlement and custody services to financial firms to facilitate their larger scale trading needs. Over the five years to 2013, this segment has declined as a share of industry revenue as a result of lower institutional trading volumes, declines in average trading commissions and overall contractions across the financial sector as a result of the 2008 financial crisis. Due to declines in this market segment, investment banks have increasingly turned toward more retail investor services such as wealth management and financial advisory services over the past five years.

Private investors
Due to declines in core business activities such as traditional investment banking services (underwriting and selling securities and corporate financial advisor services) and trading services, investment banks increasingly began focusing on wealth management and financial advisory services for wealthy private investors over the five years to 2013. IBISWorld estimates that the private investor market segment accounts for about 10.0% of industry revenue. The definition of private investors differs within the industry, but generally includes high-net-worth individuals with at least $250,000 available for investment. This market segment is expected to continue to be a growth opportunity for the industry over the next five years as global population and wealth rises.

Government clients
IBISWorld estimates that federal, state and local government clients represent the remaining 7.0% of industry revenue. Governments use investment banks to underwrite and sell debt securities (i.e., Treasuries and municipal bonds) to raise capital to finance public works projects. While government spending on the state and local levels contracted as a result of lower tax revenue during the recession, increased total US debt issuance over the past five years suggest that this market has remained relatively stable as a share of industry revenue.
International Trade

There is no data available on imports and exports in this industry; however, it is arguable that the industry generates service exports and imports. Service exports relate to US investment banks that provide financial activities to non-resident clients, while service imports relate to non-resident banks in the United States providing facilities to US resident businesses and agencies.
Products & Markets

Business Locations 2013

Additional States (as marked on map)
1 VT 0.2
2 NH 0.1
3 MA 2.9
4 RI 0.2
5 CT 2.4
6 NJ 3.7
7 DE 0.3
8 MD 1.1
9 DC 0.6

Establishments (%)
- Less than 3%
- 3% to less than 10%
- 10% to less than 20%
- 20% or more

Source: www.ibisworld.com
The geographical spread of the Investment Banking & Securities Dealing industry reflects generally follows the distribution of urban population centers across the United States and is most concentrated in areas of historically high economic activity and a prevalence of other firms in the financial services sector. The industry has traditionally been centered in New York City where many major industry firms are headquartered or have significant operations. There are also significant concentrations of industry firms in other major urban centers such as Boston, Chicago, Dallas, St. Louis, San Francisco and Los Angeles. Over the five years to 2013, the industry has become less concentrated in the Mid-Atlantic and has expanded fastest in the Southeast and West, reflecting population shifts and rising wealth in these regions.

**Mid-Atlantic**
The Mid-Atlantic region remains the most important geographical market for industry investment banks and securities dealers with about 26.4% of industry establishments. The state of New York alone has about 17.3% of industry establishments, with states such as Massachusetts and New Jersey also having significant concentrations. The major establishments are located in this regions primarily to be close to major corporate headquarters, financial intermediaries and exchanges (i.e. New York Stock Exchange) to underwrite securities, provide trading services and broker deals in a timely and efficient manner. Prestige and branding also pay a major role in this industry with Wall Street historically housing many prominent industry firms.

**Great Lakes**
The Great Lakes is also an important geographical segment for investment bankers and securities dealers, with more about 19.5% of establishments located in the region to be close to Chicago and the Chicago Board of Options Exchange (CBOE). This region also offers cheaper real estate for establishments compared with other financial hubs, like New York and San Francisco. Within this region, Illinois alone accounts for about 8.7% of industry establishments.

**Southeast and West**
The Southeast region has seen the fastest rise in the number of establishments over the past five years, increasing from having about 13.0% of industry establishments in 2008 to about 18.2% of establishments in 2013. Growing population and wealth in the region has boosted corporate business activity in the region which has correspondingly contributed to the high concentration of establishments in the region. The general population in these regions is a material factor in this industry because they are the retail investors that consume financial products (buy side). In order to raise and sell securities, investment banking and securities dealing firms
need to attract investors. Florida also has a large number of establishments because its institutions attract retirees for investing their savings, with about 7.7% of total industry establishments housed in this region.

The West has grown to account for about 14.6% of industry establishments in 2013, up from about 13.0% in 2008. Establishments in the West are largely represented by California, which accounts for about 11.8% of total industry establishments. The high number of industry firms on a per capita basis in the West is due to California being the most populous state in the country. In addition, large corporate entities and high-tech economic centers (e.g. Silicon Valley) also attract many investment banks and venture capitalist firms. Mergers and acquisitions are prominent for technology firms because entrepreneurs prefer to “lock in” offers rather than meeting the high standards and benchmarks associated with an IPO.
Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

**Market Share Concentration**

*Level*

Concentration in this industry is **Medium**

One overriding outcome of the current financial crisis is the rapid consolidation in the market for financial services. Concentration within the investment banking sector has increased for a number of reasons. Many significant players such as Bear Stearns and Lehman Brothers exited the industry, since existing players have bought up their operations. Bank of America purchased Merrill Lynch in 2008 to form Bank of America Merrill Lynch Investment Bank. In particular, JPMorgan Chase and Bank of America have used their respective acquisitions in 2008 to move into the list of the top four providers of investment banking services in the United States.

The top five players in the Investment Banking and Securities Dealing industry have historically held about a 40.0% market share over the past decade giving the industry a medium concentration level. In 2012, the top four players’ held a market share of about 37.9%, representing revenue generated in the United States. The top five players’ industry market share, the historical barometer for the industry, is about 44.3%. This concentration level is expected to remain steady over the next five years to 2018. The five major investment banks will continue to dominate the market: JPMorgan Chase, Bank of America, Morgan Stanley, Goldman Sachs and Citigroup.

**Key Success Factors**

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

- **Market research and understanding**
  The ability to provide quality research will attract more investors to buy securities.

- **Access to highly skilled workforce**
  Experienced and highly trained staff handle deals in this industry. Clients are attracted to individuals and teams that have successfully raised debt and equity.

- **Having a high profile in the market**
  For institutional brokers and investment banks, a significant presence such as panel memberships and strong dealings can increase one’s profile in the marketplace.

- **Production of premium goods/services**
  It is essential to have the right mix of product offerings that raise sufficient funds on the sell side to maximize returns on the buy side.

- **Provision of a related range of goods/services (“one stop shop”)**
  Provision of a related range of investment products and services can reduce the number of parties involved in a transaction.

- **Having a good reputation**
  A strong brand name, detailed company research and a reputation for customer service are important factors for success.

**Cost Structure Benchmarks**

Cost structures across the industry vary considerably based on the financial activities industry firms choose to engage in. Small and mid-size investment banks have slightly higher profit margins but lower revenue due to their reliance on traditional investment banking activities such as underwriting and financial advisory services. Larger investment banks, such as JPMorgan and Goldman Sachs, earn about 70.0% of their revenue from trading activities, so they have higher depreciation and trading-related costs. Wages are consistently the highest expense across the entire industry.
Competitive Landscape

Cost Structure

Benchmarks continued

Profit

This industry’s profit margins, defined as earnings before interest and taxes, as a share of revenue, have been plundered by the subprime crisis. In 2007, the major industry players had profit margins of about 30.0% to 40.0% of revenue. Over 2008, the major investment banks had pre-tax profit of about 10.0%, with the industry average profit margin falling to about 25.4%. Citigroup and Merrill Lynch had extremely large losses in their investment banking divisions over 2008, close to $50.0 billion. The net effect of these losses has caused the industry to record large losses that reduced profit. In 2013, IBISWorld estimates the industry profit margin to be 14.9% of industry revenue due to declining trading and business activity levels. The average industry profit margin is projected to improve, however, rising to about 18.0% by 2018, as industry IT investments, such as those on electronic trading platforms, increase the scalability of industry trading operations and keep labor costs down.

Wages

Wages make up the largest expense in this industry. Discretionary payments, such as bonuses, are included under other costs in this report. Total compensation costs have historically been about 30.0% to 40.0% of industry revenue. This varies year to year depending upon industry performance, the level of wages paid and employee numbers. The ratio of wages as a proportion of industry revenue has steadily declined over the past decade as firms have invested in new technologies and systems that have reduced demand for industry labor. Wages as a proportion of net revenue rose significantly over 2008,

Sector vs. Industry Costs

Average Costs of all Industries in sector (2013)  
Industry Costs (2013)  
Percentage of revenue

SOURCE: WWW.IBISWORLD.COM
Competitive Landscape

Cost Structure

Basis of Competition

Competition within this industry is high. Competition is broadly based on the level of fees charged, the range of services and products provided and reputation.

Consolidation and the globalization of capital markets have significantly increased the capital base and geographic reach of some industry players, bringing US firms into intense competition with large foreign firms that have more capital, a stronger local presence and longer operating history outside the United States. US investment banks are increasingly competing on a global basis, particularly in emerging markets. In addition, as the level of financial market activity slows domestically, competition for less business is also expected to intensify. Consequently, higher global and domestic competition is expected to put pricing pressure on industry players, driving down industry fee revenue and profit.

Competitive Landscape

mainly because of the dramatic declines in revenue and the increase in wage costs due to severance expenses related to employee layoffs. Over 2013, wage costs as a share of revenue are expected to represent about 22.7% of industry revenue.

Brokage, clearing and exchange fees

The costs associated with brokering, clearing and exchange fees are directly related to the cost of trading on stock exchanges. Therefore, the costs for these fees are directly related to the volume of trades undertaken. As the industry prospered and trade volume expanded, these expenses increased as a share of net revenue. Due to new legislation on the horizon banning proprietary trading, a major source of industry revenue, larger investment banks such as Goldman Sachs have internalized their customer’s trading orders in a process known as wholesale trading, which actually makes brokerage fees a source of revenue.

Other costs

Other industry costs vary widely across the industry. There is a miscellany of lesser costs related to banking, such as insurance and hedging costs, provisions of losses and interest expenses. There are also costs related to administration and general upkeep, including discretionary payments, capital expenditures on upgrading and maintaining IT systems, legal and compliance costs, depreciation, travel costs and advertising and marketing expenses. Over the past five years, these costs have increased, particularly provisions for losses and compliance costs, due to the recession and subsequent wave of new financial regulations. Additionally, investment banks provide corporate and private clients with financing in numerous situations, and most of these funds are sourced through issues of debt securities, which require interest repayments. The general level of interest rates determines these interest repayments, affecting the size of the industry’s interest expenses.

Level & Trend

Competition in this industry is High and the trend is Increasing
Competitive Landscape

Basis of Competition continued

An important point of competition that has emerged since 2008 is the ability of investment banks to access funds. Investment banks that rely less on wholesale markets for funding are likely to have a lower cost structure and better compete for business. The raft of investment banking mergers, acquisitions and restructuring has increased the movement of senior staff between firms. It is possible that banks such as Citigroup that have government-imposed restrictions on the compensation available to senior staff may be at a disadvantage in attracting sought-after personnel.

Barriers to Entry

Providing a set of higher barriers to entry is the capital and regulatory requirements within the banking sector. The level of industry regulation is increasing, and is likely to include the requirement that investment banking activities be supported by an increased level of tier 1 capital, which consists of common stock and disclosed reserves (or retained earnings), but it may also include non-redeemable noncumulative preferred stock.

Entities that want to start up as an investment bank or securities dealer face significant establishment costs in order to gain acceptance and meet market reputation. Furthermore, start-ups require up-front expenses in order to establish proper distribution channels.

The current sharp drop in financial market activity, combined with the expectation that in the longer term, profit will remain below those achieved prior to 2007, may raise barriers to entry. New entrants will likely find it easier to enter financial advisory services, rather than in the more capital-intensive aspects of the industry. Newly formed entities in the industry may find entry eased by the availability of qualified staff, resulting from significant employment cuts.

Barriers to Entry checklist

<table>
<thead>
<tr>
<th>Barriers to Entry</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition</td>
<td>High</td>
</tr>
<tr>
<td>Concentration</td>
<td>Medium</td>
</tr>
<tr>
<td>Life Cycle Stage</td>
<td>Decline</td>
</tr>
<tr>
<td>Capital Intensity</td>
<td>Medium</td>
</tr>
<tr>
<td>Technology Change</td>
<td>High</td>
</tr>
<tr>
<td>Regulation &amp; Policy</td>
<td>Heavy</td>
</tr>
<tr>
<td>Industry Assistance</td>
<td>High</td>
</tr>
</tbody>
</table>

SOURCE: WWW.IBISWORLD.COM

Industry Globalization

This industry is highly globalized in its operations and ownership. Some of the US major players in investment banking generate up to 50.0% of their revenue outside the United States. The level of foreign interaction by local operators is considered high and steady. The largest foreign banks operating in the United States include UBS, Credit Suisse and Deutsche Bank.

With the need to raise capital to replace growing losses from subprime related write-downs, US investment banks are attracting significant investment from overseas sources. In 2007, the sovereign wealth funds of Singapore, Kuwait and South Korea provided about $20.0 billion in capital to Citigroup and Merrill Lynch. In June 2009, Mitsubishi UFJ Financial Group (Japan’s largest financial group) had a 20.0% interest in Morgan Stanley, while China Investment Corporation had about 10.0% interest.
Cross-border sales and acquisitions of investment banking operations are also occurring, as assets are shuffled in the race to raise capital. For example, in 2008, UK bank Barclays PLC purchased the US investment banking operations of Lehman Brothers. The increasing level of consolidation in financial markets driven by the subprime crisis, but also cross-border acquisitions, is increasing the rate at which financial services are offered globally. At the same time, some banks are reducing their overseas operations as they reduce costs and conserve capital for their domestic market. Some of the largest US and UK banks have sold their interests in Chinese banks, mainly because of the need to raise capital.
JP Morgan Chase is a financial holding company, a leading global financial services firm and the largest banking institution in the United States by assets. Headquartered in New York, it operates in more than 60 countries, with 250,095 full-time employees and over $2.4 trillion in assets. The firm holds leading positions in investment banking, financial services for consumer and small businesses, commercial banking, transaction processing, asset management and private equity. Through its subsidiaries, it serves millions of customers and some of the world’s most prominent corporate, institutional and government clients.

JP Morgan’s principal subsidiaries are JPMorgan Chase Bank, National Association, Chase Bank USA and Chase Bank USA NA. Its principal non-banking subsidiary is JPMorgan Securities LLC, the firm’s investment banking firm. IBISWorld estimates it is the largest investment bank in the United States in 2012 by revenue, with an 12.4% market share and leading US market positions in industry-relevant underwriting and lending services.

The investment bank’s clients include corporations, financial institutions, governments and institutional investors. JP Morgan offers corporate advising and lending, underwriting, risk management, market making, prime brokerage and research in all major capital markets. Additionally, the treasury and securities services segment also provides institutional clients with industry relevant principal and proprietary trading services. While the interaction between different business segments makes revenue estimates difficult, revenue from financial advisory, underwriting activities, principal and proprietary trading and corporate finance activities are included.

**Financial performance**

At the beginning of the 2008 financial crisis, the US government helped engineer a deal in which JP Morgan acquired one of the big five independent banks, Bear Sterns, which was failing. By 2010, JP Morgan completely integrated Bear Sterns operations and ceased using its name. Like other investment banks, JP Morgan Chase was not immune to the recession. However, it handled the recession better than other banks. In June 2009, the firm announced that it had received permission to repay the $25.0 billion in TARP (Troubled Asset Relief Program) funds it received from the government. As a result of its strong financial position, it was one of the first financial institutions allowed to repay TARP funds.

Over the five years to 2013, US industry specific revenue grew at an average of 47.9% annually, from a recessionary low of $2.6 billion in 2008 to an estimated $18.5 billion in 2013. The growth rate hides the volatility in JP Morgan’s earnings, however. In 2008, JP Morgan’s US industry-specific revenue fell 68.3%, primarily due to a $7.1-billion loss in trading revenue that
Bank of America is a leading global bank-holding and financial services corporation that serves consumers, small- and middle-market businesses, institutional investors, large corporations and governments with banking, trading, asset management and other financial products and services. Founded in 1904, Bank of America is headquartered in Charlotte, NC, and operates in all 50 states, the District of Columbia and more than 45 countries worldwide. It has over $2.1 trillion in assets under its management and about 282,000 full-time employees. Additionally, its retail banking footprint covers about 80.0% of the US population, serving 57.0 million consumers and businesses through 5,700 banking centers, 17,750 ATMs, national call centers and online and mobile banking platforms. Consequently, revenue from US operations accounts for about 84.0% of total firm revenue.

Bank of America divides its operations into five segments: consumer and business banking, consumer real estate services, global banking, global markets and global wealth and investment management. Industry-specific investment banking and securities have led to declines in revenue and market share, which have been partially offset by the growth of its trading revenue. IBISWorld anticipates continued global macroeconomic uncertainty will continue to negatively impact JP Morgan’s industry-specific revenue similar to that of other major players in the industry, leading to tempered growth of 2.3% in 2013. Largely reflecting the Bear Sterns acquisition, profit grew at an average annual rate of 16.0% over the past five years to $4.5 billion.

### JP Morgan Chase & Co. (US investment banking and securities dealing segment) – financial performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
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<td>2,148.0</td>
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<tr>
<td>2009</td>
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<td>448.6</td>
<td>2,291.0</td>
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<td>2010</td>
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<td>24.4</td>
<td>4,311.0</td>
<td>88.2</td>
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<tr>
<td>2011</td>
<td>16,884.0</td>
<td>-5.2</td>
<td>4,645.0</td>
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<td>2012</td>
<td>18,063.0</td>
<td>7.0</td>
<td>5,383.0</td>
<td>15.9</td>
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<tr>
<td>2013*</td>
<td>18,483.0</td>
<td>2.3</td>
<td>4,506.0</td>
<td>-16.3</td>
</tr>
</tbody>
</table>

*Estimates

**SOURCE:** ANNUAL REPORT AND IBISWORLD
services are primarily provided through its global banking and global markets divisions. IBISWorld estimates that investment banking and securities dealing revenue accounts for about 19.5% of total firm revenue.

Bank of America offers investment banking, global corporate banking and securities sales and trading services. Its investment banking services include debt and equity underwriting and distribution capabilities, merger and corporate advisory services and risk management securities products. In support of its investment banking services, its global banking and global markets divisions also provides advisory, financing, clearing, settlement and custody securities services to facilitate client trading activities, including market-making services in debt and equity markets. In addition, it offers a wide range of lending products and services to corporate clients. Bank of America is a leader in global fixed-income, currency, energy and commodity markets with one of the largest equity-product origination and trading operations in the world.

Financial performance
In 2009, Bank of America acquired struggling investment bank Merrill Lynch during the height of the financial crisis, propelling it up the Investment Banking and Securities Dealing industry rankings. As a result of this acquisition, Bank of America’s market share grew from 5.5% in 2007 to about 9.6% in 2013, making it the second largest investment bank in the United States by revenue, according to IBISWorld estimates. However, like most banks in the industry, the recession hit Bank of America hard. The financial crisis and the subsequent contraction in credit markets put negative pressure on the bank’s core banking and mortgage businesses. As a result, Bank of America received $45.0 billion in government loans under the TARP and operated at a significant loss in 2008.

In 2011, Bank of America announced its new cost-cutting program, Project New BAC, an enterprise-wide initiative to streamline workflows and processes and realign businesses to increase revenue. This program will likely signal layoffs for Bank of America investment bankers and wage cuts, although the cutbacks are expected to be less severe than those to retail banking operations. All aspects of the plan will be implemented by 2014.

Over the five years to 2013, IBISWorld estimates Bank of America grew its US industry-specific revenue from a loss of $4.3 billion in 2008 to $14.3 billion in 2013 due to acquisitions and rebounding economic conditions from financial crisis lows. This growth came primarily from

<table>
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<tr>
<th>Year</th>
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<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
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<td>-262.0</td>
<td>N/C</td>
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<td>2013*</td>
<td>14,309.0</td>
<td>1.6</td>
<td>343.0</td>
<td>-33.9</td>
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</tbody>
</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
Major Companies

The Goldman Sachs Group, Inc. is a leading global investment banking, securities and investment management firm that provides financial services to corporations, financial institutions, governments and high net-worth individuals. Founded in 1869, the firm is structured as a bank holding company headquartered in New York, with offices in major financial centers in 30 countries. It divides its business into four segments: investment banking, investing and lending, institutional client services and investment management. IBISWorld estimates 52.0% of Goldman Sachs employees are based domestically, and about 68.0% of total firm revenue in 2012 comes from the US market.

The investment banking and institutional client services segments contain industry relevant activities. Investment banking offers traditional investment banking services such as financial advisory and capital raising services, including equity and debt underwriting. In its institutional client services segment, Goldman Sachs provide clients with a wide range of securities, financing and investment services such as corporate lending, securities brokerage and proprietary and principal trading services.

the Merrill Lynch acquisition in 2009, which made Bank of America one of the largest equity and debt underwriters worldwide and a leading merger and acquisition advisor. Revenue fell in 2011 due to suppressed business and market activity, particularly lower fixed-income trading. Weak sales and trading revenue growth and despite growing advisory fees are expected to cause revenue to increase just 1.6% in 2013 on lower client activity and volatile market conditions caused by global uncertainty over the European sovereign debt crisis and slowing worldwide economic growth.

IBISWorld estimates US industry-specific revenue grew at a slower annualized rate than the industry over the past five year period. This slower growth reflects losses on mortgage-backed securities during the recession and ongoing weak business and market conditions that negatively impacted Bank of America’s US industry-specific operations more than its overseas investment banking operations.

Financial performance
In the third quarter of 2011, Goldman Sachs announced a cut of 1,000 jobs, shrinking the compensation pool to cut expenses through 2013. This came in response to Goldman posting its second quarterly loss since going public in 1999 due to poor capital and credit market conditions. On the year, Goldman Sachs’ US investment banking and securities dealing revenue fell 8.4% due to significant declines in both its advisory, underwriting and trading activities. IBISWorld also expects continued global macroeconomic uncertainty to dampen Goldman Sachs’ trading and underwriting revenue in 2013. Strong advisory fees will help offset weak trading income to marginally increase revenue 2.9%.

IBISWorld estimates that Goldman Sachs’ US specific investment banking and securities dealing revenue fell at a 6.3% average annual rate over past five years to $14.0 billion in 2013. In particular, the firm experienced significant drops in its advisory, debt underwriting and trading revenue due to lower client activity and adverse market conditions. In 2007, Goldman Sachs was the envy of the investment banking world, pulling in record revenue and profit during a boom in M&A activity and
Morgan Stanley is a leading global banking and financial services corporation that provides financial products and services to individuals, governments, corporations and financial institutions. Headquartered in New York, Morgan Stanley has principal offices in London, Tokyo, Hong Kong and other world financial centers. Worldwide, it operates through 1300 locations in 42 countries with about 57,000 employees. Morgan Stanley was one of the last remaining major independent investment banks prior to the financial crisis, but was forced to convert to a bank holding company in 2008 to receive TARP bailout funding to cover losses sustained on mortgage-backed securities.

Morgan Stanley divides its operations into three segments: institutional securities, global wealth management group and asset management. Industry-specific investment banking and securities activities are conducted through its institutional securities segment.

The company’s institutional securities segment operates through a bull market. It was one of the five large independent investment banks. The financial crisis led to huge losses for investment banks that underwrote and traded in mortgage-backed securities and related derivatives products on leverage, and Goldman Sachs was no exception. The company’s US industry-specific revenue fell 30.7% in 2009, including a 57.9% drop in profit due to these losses and the collapse in demand for financial services during the ensuing recession.

Through emergency assistance from the US government, Goldman Sachs remained afloat while the other four top investment banks failed or were consolidated into commercial banks. Goldman was pushed to become a bank holding company, bringing it under the same scrutiny and limitations imposed on commercial banks. New regulations regarding capital requirements and derivatives trading have also significantly hurt its US trading profit. IBISWorld estimates Goldman Sachs lost significant market share and fell down the US investment bank revenue rankings from the number one spot in 2007 to the number three spot in 2013.

### The Goldman Sachs Group Inc. – US industry-specific financial performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>19,371.0</td>
<td>-19.7</td>
<td>9,919.0</td>
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</tr>
<tr>
<td>2009</td>
<td>21,127.0</td>
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<td>11,504.0</td>
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<tr>
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<td>14,651.0</td>
<td>-30.7</td>
<td>4,848.0</td>
<td>-57.9</td>
</tr>
<tr>
<td>2011</td>
<td>13,421.0</td>
<td>-8.4</td>
<td>3,600.0</td>
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<tr>
<td>2012</td>
<td>13,601.0</td>
<td>1.3</td>
<td>4,272.0</td>
<td>18.7</td>
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<tr>
<td>2013*</td>
<td>14,003.0</td>
<td>3.0</td>
<td>4,481.0</td>
<td>4.9</td>
</tr>
</tbody>
</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
Major Companies

Player Performance continued

subsidiaries Morgan Stanley & Co., Morgan Stanley & Co. International PLC and Morgan Stanley Asia Limited, along with joint venture entities including Morgan Stanley MUFG Securities Co., Ltd. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. These entities also conduct sales and trading activities as principals and agents and provide corporate financing and securities services to institutional investors worldwide.

Institutional securities made up the most profitable business segment for Morgan Stanley during the past five years, maintaining an average profit margin of 18.0%, which is above the industry average. This segment provides products and services through three subsegments: mergers and acquisitions (M&A), global capital markets and securitized product group. The M&A team conducts both domestic and international transactions, including acquisitions, divestitures, mergers, joint ventures, corporate restructurings, recapitalizations, spin-offs, exchange offers, leveraged buyouts, takeover defenses and shareholder relations. The global capital markets segment executes public and private placement of a variety of securities: equities, investment-grade and noninvestment-grade debt and related products. Lastly, the securitized product group engages in an array of activities that include structuring, underwriting and trading collateralized securities.

Financial performance

Morgan Stanley’s institutional securities segment grew at a 1.5% average annual rate over the past five years to 2013. Trading losses and the departure of key talent during the recession dampened revenue growth. Market volatility caused by global macroeconomic uncertainty and weak corporate transaction activity also negatively impacted Morgan Stanley’s institutional securities segment worldwide. In 2009, the government determined that Morgan Stanley needed to raise an additional $1.8 billion alongside the $10.0 billion in TARP funds it had already received to cover losses on mortgage-backed securities and other credit products. However, the company has since focused on aggressive cost cutting, risk management and asset selling to boost profitability and streamline operations.

Despite tough market conditions globally over the past five years, Morgan Stanley grew into an investment banking market leader in equities underwriting and sales in US initial public offerings. It continues to lead investment banks in technology

Morgan Stanley – US industry-specific financial performance

<table>
<thead>
<tr>
<th>Year</th>
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<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
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<tr>
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<td>661.0</td>
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<td>2009</td>
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<td>2,400.0</td>
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<td>2012</td>
<td>8,164.0</td>
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<td>2013*</td>
<td>10,822.0</td>
<td>32.6</td>
<td>1,212.0</td>
<td>N/C</td>
</tr>
</tbody>
</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
Citigroup is a diversified bank holding and financial services corporation formed in 1998 from the merger of Citicorp and Travelers Group Inc. Headquartered in New York, Citi has 259,000 full-time employees that service $1.9 trillion in assets in 200 million customer accounts. According to Bloomberg estimates, Citi has one of the largest financial networks in the world with more than 16,000 offices in 166 countries.

Since its 2008 partial government takeover and restructuring, Citigroup now reports in two segments: Citicorp, which maintains its core business lines such as investment banking, and Citi Holdings, which contains noncore businesses such as retail brokerage that it seeks to spin off.

Within Citicorp, the institutional clients group (ICG) offers industry-relevant securities, banking and transaction services. The securities and banking segment of ICG provides corporate, institutional, public sector and high net-worth clients with securities services, sales and trading services, underwriting, lending and advisory services. Industry-related trading services such as prime brokerage and asset custody are also offered to institutional clients through its transaction services segment. ICG’s services are supported by trading floors in 75 countries and jurisdictions and a proprietary network within the transactions services segment that covers 95 countries and jurisdictions.

Financial performance
In 2008, Citigroup had to write off large losses on defaulted home loans and associated derivatives products tied to housing. These losses led to the US government taking as large as a 36.0% ownership stake in Citigroup in order to calm investor fears. The losses continued through 2009, including a $7.6 billion loss for the firm in the first quarter of 2009. However, Citi has since refocused on core business activities, such as investment banking. In 2010, the company shed noncore businesses, such as retail brokerage and government ownership. Overall, Citigroup saw its consolidated revenue remain below pre-recessionary levels between 2008 and 2013.

Over the five years to 2013, IBISWorld estimates Citigroup saw its investment banking and securities dealing revenue in its ICG group decline at a 7.4% average annual rate to $8.8 billion, primarily due to large losses on mortgage-backed securities during the recession. Revenue declined 12.5% in 2009 as a result. A reorganized Citigroup refocused on its investment banking and securities dealing activities, however, leading to a 4.6% rebound in revenue in 2010 despite continued weak corporate transaction and trading activity in the United States. In 2011 and 2012, ICG revenue fell 15.8% and 13.3%, respectively, due to declining trading activity and intense competition for advisory fees. Performance was
Major Companies

Player Performance

continued

negatively impacted by the heightened investor uncertainty during the year caused by slowing worldwide economic growth, the US debt ceiling debate and subsequent US credit downgrade, the ongoing European sovereign debt crisis and possible break-up of the European Union. These fears led to heightened market volatility and overall declines in trading as clients sought to reduce their risk. IBISWorld expects these concerns, offset by higher corporate transaction and advisory fees, will result in meager 1.8% growth in 2013.

Citigroup Inc. (US institutional clients group) – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
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<td>N/C</td>
<td>2,598.0</td>
<td>N/C</td>
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<td>1.5</td>
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<td>1.8</td>
<td>1,670.0</td>
<td>12.8</td>
</tr>
</tbody>
</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

Other Companies

UBS AG

Estimated market share: 2.2%

UBS offers retail brokerage, investment banking, municipal securities underwriting, real estate, institutional stock and bond trading, asset management and transaction services. Its clients include individuals, institutions, corporations, state and local governments and public agencies. While its US headquarters are in New York, the company has more than 300 offices worldwide. UBS’s US industry-specific revenue is expected to reach $3.3 billion in 2013, equating to a 2.2% market share. UBS is expected to lose market share over the next five years as it sheds its investment banking assets and exits fixed-income trading.

Deutsche Bank AG

Estimated market share: 2.1%

Deutsche Bank is a subsidiary of Deutsche Bank AG in Germany and has operated in the United States since 1872. The company serves government, corporate and financial firm clients and provides a variety of capital raising, market making and brokerage services, including fixed income and equity sales and trading, emerging market activities, equity market research and investment banking services. It also engages in proprietary trading using debt, equity and derivatives along with serving as a primary dealer of US government securities. Within the investment banking division, Deutsche focuses on the healthcare, media and telecommunications, real estate and technology industries. Deutsche Bank operates in the United States through 70 offices in 25 states. The bank is expected to generate $3.1 billion in US industry-specific revenue in 2013, equating to a market share of 2.1%.
Credit Suisse Group
Estimated market share: 1.5%
Credit Suisse First Boston (CSFB) is a subsidiary of Credit Suisse Group. It offers M&As, IPOs and privatizations of government companies. CSFB is based in New York, but it has more than 75 offices in more than 40 countries. US revenue specific to the investment banking and securities dealing business segment are estimated at $2.2 billion in 2013, giving Credit Suisse a market share of 1.5%. Credit Suisse is expected to lose market share as it sheds investment banking assets and loses out to domestic competitors over the next five years due to financial distress caused by the European sovereign debt crisis.
Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Level
The level of capital intensity is **Medium**

Investment banking activities are labor intensive, and wages are the largest expenses in this industry. Labor expenses include the wages, discretionary bonuses and benefits paid to professionals and administrative staff. Industry participants have increased investment in technology as they attempt to improve efficiency and lower processing and administration costs. One factor that has positively affected these areas is the increased development of online services. Information technology and communication spending remain important, particularly given the global nature of investment banking.

From late 2008 and onward, investment banking services are predominately provided by bank holding companies rather than independent investment banks. This change in structure, along with changing attitudes

Tools of the Trade: Growth Strategies for Success

**New Age Economy**
*Recreation, Personal Services, Health and Education.* Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labor skills are key to product differentiation.

**Capital Intensive**

**Traditional Service Economy**
*Wholesale and Retail.* Reliant on labor rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

**Labor Intensive**

**Investment Economy**
*Information, Communications, Mining, Finance and Real Estate.* To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

**Investment Banking & Securities Dealing**

**Old Economy**
*Agriculture and Manufacturing.* Traded goods can be produced using cheap labor abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialize in niche, high-value products.

**Venture Capital & Principal Trading**

**Stock & Commodity Exchanges**

**Life Insurance & Annuities**

**Health & Medical Insurance**

**Securities Brokering**

Change in Share of the Economy

Dotted line shows a high level of capital intensity

SOURCE: WWW.IBISWORLD.COM
Operating Conditions

Capital Intensity continued
toward investment banking compensation and government imposed restraints or regulation on wages, may lower the wages paid by this industry. At the same time, the capital requirements of the banking industry may be raised through changes to the Basel Accord, which is a set of agreements set by the Basel Committee on Bank Supervision designed ensure financial institutions have enough capital on account to meet obligations and absorb unexpected losses. If adopted, these changes would result in a higher capital-to-labor ratio for this industry. They will also push investment banks further toward trading activities that require heavier investment in capital-intensive trading systems. This also has the potential to increase industry consolidation down the road as large investment banks with advanced trading systems will attract the most liquidity and offer the most competitive rates, allowing them to pick up market share over smaller firms. Despite the industry’s labor intensity, IBISWorld puts the investment banking industry at a medium capital-intensity level due to high initial and maintenance costs associated with trading systems.

Technology & Systems

The use of telecommunications services, information technologies and electronic distribution technologies is increasing at a rapid rate. The industry’s technology is used to improve the efficiency and effectiveness of information delivery and services to clients and monitor operational, market and financial risk. These technologies reduce processing costs and labor costs, but also require significant capital investment. Firms that have the best trading systems attract the most liquidity and offer clients the most competitive rates.

The introduction of new computer software, providing more streamlined back office administration, has enabled industry firms to significantly reduce administration costs. Trading desks use platforms to generate high volume algorithmic based trading. Outsourcing of clearing and back office operations is expected to grow over the coming years.

Revenue Volatility

The cyclical nature of the Investment Banking and Securities Dealing industry results in it having very high revenue volatility. Industry revenue tends to follow the financial market cycle very closely. When economic and financial market conditions are good, this industry tends to perform well. When financial markets turn downward, revenue is often hit hard and early. High leveraging can increase profit during periods of low capital costs, but can also increase costs when interest rates rise and the economy slows. Over the five years to 2013, the industry has experienced revenue change ranging from a loss of 42.0% in 2008 to a growth of 30.4% in 2010, leading to an average annual shift in revenue of 32.3%.
Operating Conditions

Regulation & Policy

The Federal Reserve is the federal supervisor and regulator for all US banks and bank holding companies, including financial holding companies formed under the authority of the Gramm-Leach-Bliley (GLB) Act of 1999, and of state-chartered commercial banks that are members of the Federal Reserve System. In overseeing these organizations, the Federal Reserve promotes their safe and sound operation and compliance with laws and regulations.

The Federal Reserve exercises important regulatory influence over entry into the US banking system and the structure of the system through its administration of the Bank Holding Company Act, the Bank Merger Act (regarding state member banks), the Change in Bank Control Act (concerning bank holding companies and state member banks), and the International Banking Act. In carrying out its responsibilities, the Federal Reserve coordinates its supervisory activities with other federal banking agencies, state agencies, functional regulators and other nations’ bank regulatory agencies.

Consolidated supervised entity (CSE)

The SEC, as a consolidated supervised entity, have regulated many US investment banks. Under this program, an investment banking group was subject to group-wide supervision and examination by the SEC. Minimum capital standards were set on a consolidated basis. The SEC ended this program in September 2008.

Bank Holding Company Act

In September 2008, the remaining independent investment banks in the United States, Goldman Sachs and Morgan Stanley, converted to a bank holding company structure. Under the Bank Holding Company Act, a corporation must obtain the Federal Reserve’s approval before forming a bank holding company by acquiring one or more banks in the United States. Once formed, a bank holding company must receive Federal Reserve approval before acquiring or establishing additional banks. Bank holding companies generally may only engage in activities that the Board of Governors of the Federal

Revenue Volatility continued

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.

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Operating Conditions

Regulation & Policy continued

Reserve has previously determined to be closely related to banking under section 4(c)(8) of the Act.

Since 2000, the Bank Holding Company Act has permitted the creation of a special type of bank holding company called a financial holding company. These companies are allowed to engage in a broader range of non-bank activities: Among other things, they may affiliate with securities firms and insurance companies and engage in certain merchant banking activities. Financial holding companies do not have to obtain the Board’s prior approval to engage in or acquire a company engaged in new financial activities under the GLB Act. Instead, the financial holding company must notify the Board within 30 days after commencing a new activity or acquiring a company engaged in a new activity.

2010 Dodd-Frank Wall Street Reform and Consumer Protection Act

Banking regulation stemming from the 2008 subprime mortgage crisis has and will continue to fundamentally change how banks operate. Over the last five years, the most significant regulatory changes for the banking industry have come from the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act and the Basel III accords. Collectively, both sets of requirements will impact the investment banking industry by changing the financial activities firms can participate in, how firms approach risk management, and the level of oversight they must comply with once they are both fully implemented. Higher compliance costs as a result of these changes will cut into industry profit, while also limiting the number of financial activities banks can draw revenue from.

The Volcker Rule prohibits investment banking entities from investing in or sponsoring private equity funds, venture capital funds, or hedge funds. Banks will no longer be able to engage in the practice of proprietary trading (60.0% of industry revenue), where banks use bank funds and customer deposits, sometimes leveraging them, to make bets on securities. The rule also limits banks to holding a 3.0% stake in private funds, which means hedge fund and private equity managers have to compete over diminished funding from banking institutions.

Basel III

Basel III is a new global regulator standard on bank capital and liquidity requirements agreed upon by members of the Basel Committee on Banking Supervision. It was developed in a response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III strengthens bank capital requirements and introduces new requirements on bank liquidity and bank leverage. The OECD estimates that the implementation of Basel III will decrease annual GDP growth 0.05 to 0.15 percentage point as it continues to be implemented over 2011 and 2012. With higher capital requirements, banks will not make as many loans, which will contract credit in the US and impact GDP. Investment banks will have to reassess their risk management strategies as a result, and implement more effective safeguards against issuing risky loans.

Legislation on the horizon

Over the next five years, investment banking legislation is anticipated to continue its upward trajectory. Banking industry profit and revenue will be stymied by additional legislation that limits fees, lending, and financial activities banks can participate in. The SEC along with self-regulatory organizations such as FINRA will continue to look at ways to limit systemic
Operating Conditions

Risk to the economy from banking activities. Derivatives pose the greatest threat as they have the potential to take the world’s financial system down. Banks often use derivatives to hedge risk against changes in interest rates and currency exchange rates, but often speculate on asset prices as well.

Industry Assistance

Before the subprime crisis, governments and their central banks provided little assistance to the Investment Banking and Securities Dealing industry. Beginning in late 2007, this situation radically reversed. In December 2007, the US Federal Reserve allowed banks to borrow money using a range of collateral. In March 2008, it created a new facility, giving securities dealers access to emergency funds. Furthermore, in March 2008, the US government intervened to assist in the takeover of Bear Stearns by JP Morgan Chase, by agreeing to take responsibility for some of Bear Stearns losses.

In early October, the US Congress passed a $700.0 billion rescue plan for financial institutions. The Treasury was authorized to purchase distressed assets. The Troubled Asset Relief Program (TARP) was also announced in October to provide direct equity investments in certain financial institutions. As part of this program, the government took a direct equity stake worth up to $25.0 billion each in Citigroup, JP Morgan, Morgan Stanley and Goldman Sachs. Subsequently, the government provided an additional $20.0 billion to Citigroup and Bank of America.
## Key Statistics

### Industry Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Revenue</th>
<th>Establishments</th>
<th>Enterprises</th>
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<th>Establishments</th>
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### Annual Change

|-------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|

### Key Ratios

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<tr>
<th>IVA/Revenue (%)</th>
<th>Imports/Demand (%)</th>
<th>Exports/Revenue (%)</th>
<th>Revenue per Employee ($'000)</th>
<th>Wages/Revenue ($)</th>
<th>Employees per Est.</th>
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<th>Share of the Economy (%)</th>
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<td>22.03</td>
<td>9.66</td>
<td>310,338.92</td>
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<td>2013</td>
<td>39.79</td>
<td>N/A</td>
<td>N/A</td>
<td>1,384.31</td>
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<td>9.65</td>
<td>314,151.94</td>
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<td>2014</td>
<td>40.38</td>
<td>N/A</td>
<td>N/A</td>
<td>1,381.31</td>
<td>23.18</td>
<td>9.78</td>
<td>320,151.44</td>
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<td>40.96</td>
<td>N/A</td>
<td>N/A</td>
<td>1,418.07</td>
<td>22.86</td>
<td>9.82</td>
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<td>41.88</td>
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<td>N/A</td>
<td>1,436.32</td>
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<td>329,151.59</td>
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<td>43.08</td>
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<td>N/A</td>
<td>1,438.34</td>
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<td>10.30</td>
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</table>

### Figures are inflation-adjusted 2013 dollars. Rank refers to 2013 data.
**Jargon & Glossary**

**Industry Jargon**

- **ASSETS UNDER MANAGEMENT** Term used by financial services companies used to gauge how much money they are managing.
- **INITIAL PUBLIC OFFERING (IPO)** When a company (called the issuer) issues common stock or shares to the public for the first time.
- **LEVERAGING** Investing with borrowed money, which can increase potential gains but also the risk of greater losses.
- **MARKET-MAKING** Where a broker-dealer buys securities to facilitate trading from clients and then quickly trades them at a higher price with the aim of profiting off the difference.

**IBISWorld Glossary**

- **BARRIERS TO ENTRY** High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.
- **CAPITAL INTENSITY** Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.
- **CONSTANT PRICES** The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.
- **DOMESTIC DEMAND** Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.
- **EMPLOYMENT** The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.
- **ENTERPRISE** A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.
- **ESTABLISHMENT** The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.
- **EXPORTS** Total value of industry goods and services sold by US companies to customers abroad.
- **IMPORTS** Total value of industry goods and services brought in from foreign countries to be sold in the United States.
- **INDUSTRY CONCENTRATION** An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.
- **INDUSTRY REVENUE** The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.
- **INDUSTRY VALUE ADDED (IVA)** The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.
- **INTERNATIONAL TRADE** The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

**PRINCIPAL TRADING** When an investment trades financial products, such as equities, derivatives and fixed income products, using its own money to make a profit for itself, also known as proprietary trading.
- **TIER 1 CAPITAL** Secure and transparent core capital comprising equity capital and disclosed reserves.
- **TROUBLED ASSET RELIEF PROGRAM (TARP)** A program of the US government to purchase assets and equity from financial institutions to strengthen its financial sector.
- **VOLCKER RULE** A specific section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that restricts US banks from making certain kinds of speculative investments that do not benefit their customers.
Jargon & Glossary

IBISWorld Glossary continued

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts. It is combining data with analysis to answer the questions that successful businesses ask.

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

Who is IBISWorld?
We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

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