BMO Financial Group

CIBC 2017 Eastern Institutional Investor Conference

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Pat Cronin *BMO Financial Group - Group Head, BMO Capital Markets*

CONFERENCE CALL PARTICIPANTS

Robert Sedran *CIBC World Markets - Analyst*

PRESENTATION

Robert Sedran ***CIBC World Markets - Analyst***

Okay, good morning, everyone. Our next guest is Pat Cronin. He is the group head of BMO Capital Markets, a role he has had since last year. He has been with the Bank since 1993, which in the part of the Bank where not many of us stay in the same place for that long, that's an impressive track record with Bank of Montreal.

Before we begin, I have been asked to tell you that if I have done my job properly, Pat Cronin's comments may include some forward-looking statements. Actual results could differ materially from forecasts, projections, or conclusions in these statements. Listeners can find additional detail in the public filings of BMO Financial Group.

So welcome to the conference, Pat.

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***

Thanks for having me, Rob.

Robert Sedran ***CIBC World Markets - Analyst***

I'm going to start off with a bit of a different question. There's been a series of natural disasters in a few parts of the world recently. Not part of your P&C footprint in the U.S., but I know in BMO Capital Markets, you do have some exposure in some of the affected areas. Has there been any impact on your business or the Bank more broadly?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***

I would say certainly for capital markets, it's very muted. We do actually have a physical operation in Houston where we have about 100 people and where we have had virtually no disruption to operations.

And then indirectly through our clients, of which we have many in both Houston and in Florida. Again, most are outside of the affected areas. And so as we scour through our lending exposure principally, we don't see anything that would cause us any concern there. There could be some operational slowdowns, but certainly nothing that would fall into the PCL category. So we're relatively comfortable from that perspective.

Elsewhere in the Bank, there will be some elevated impact certainly in our insurance business. And so we do have a reinsurance business that operates globally and has exposures in those areas. We are coming off of what is clearly a pretty historic season for both hurricanes and earthquakes.

And so that's going to lead to some elevated exposure for us, likely the result of which you will see in Q4. Our estimate is that -- our insurance business generally earns about $60 million to $65 million in net income in any given quarter. And so on the back of the disasters that have unfolded, that actually could be potentially a small loss for Q4, where we likely will take a charge.

And then these things are always hard to estimate because the claims take a long time to come in. And we are fairly high up in the waterfall because we are a reinsurer of reinsurers. So it takes even longer for the total sizes to come in.

But there are some really good independent estimates that are out there right now. And on the basis of those, again, we see that charge coming in somewhere maybe slightly north of a quarter's worth of earnings, which you will see in Q4. And worse case, it's possibly two quarters of earnings impact on our insurance business.

But long term, that insurance business has been a really good production business for us. And so while this will be an impact for Q4, we don't expect it to have an impact on the run rate of the business going forward.

Robert Sedran *CIBC World Markets - Analyst*
Okay, we haven't heard much out of that business I guess since the tsunamis back in 2012. This the same kind of idea, right? It is reinsurance and so you are going to have to wait for the actual numbers to come in. But for now, there will be something in the Q4 results?

Pat Cronin *BMO Financial Group - Group Head, BMO Capital Markets*
There will definitely be something in the Q4 results. And again, it is likely to put us into a breakeven to slightly loss position. But yes, it's been a long time actually since we've had any real material disasters, never mind one of historic proportion like this. So again, that's why we're confident this business -- other than this quarter -- will go back to its normal run rate.

Robert Sedran *CIBC World Markets - Analyst*
Yes, for everybody involved, I'm hopeful we don't have too many of these kinds of things happening.

Pat Cronin *BMO Financial Group - Group Head, BMO Capital Markets*
Likewise.

Robert Sedran *CIBC World Markets - Analyst*
Okay, thank you for that.

Pat Cronin *BMO Financial Group - Group Head, BMO Capital Markets*
No problem.

Robert Sedran *CIBC World Markets - Analyst*
So getting more toward your part of the business, one of the themes yesterday in a lot of the sessions was how great everything is. The economy is doing great, unemployment is low, customer confidence is high, growth is good.
In the capital markets part of the business, that translates into not a lot of volatility and maybe not the best operating environment. Loan losses are low, which is great, but other than that. Can you talk a little

bit about how you are feeling about your business right now?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
Well, volatility aside, actually, we are feeling actually quite confident about our business. You have seen I think, really a sequence of really good quarters for our capital markets franchise and particularly our trading businesses, which you would think of as most exposed to volatility.

Up until probably Q3, our most recent quarter, where you really mostly saw the impact of the total return swap business runoff, and we can get into that later if you'd like, but once you adjust for that impact, the rest of the trading business actually had a decent quarter, notwithstanding the fact that it was quite low volatility.

Our clients just tend to be active even in low volatility times for starters. But secondly, the business is so diversified that the low volatility you're seeing is really primarily in the equity markets. And so we saw low secondary and low ECM activity. But it was a really strong quarter for FX, and you saw the FX numbers, even across the street, we finally got some real movement in the dollar Canada, which is one of our principal trading pairs. And so that drove a really good FX quarter for us.

And then similarly commodities -- commodities was a really solid quarter in Q3, on the back of, that stability in the oil price environment actually caused some activity on the hedging side, which drove one of our best commodities quarters ever. And so that diversification -- one business might experience low volatility and another not.

And then going forward, I've seen lots of periods of low volatility like this. Typically, actually, you see this kind of level of volatility between crises. So if you look at between 2002 and 2007, we actually saw a very similar volatility environment then.

And so we expect things to return to something more normal. I am a big believer in mean reversion and so you will see volatility pick up. It also typically coincides with the slowly rising equity markets. And so unless you think equity markets are going to continue to slowly rise forever, sooner or later we will get some volatility.

Robert Sedran ***CIBC World Markets - Analyst***
You mean they're not?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
Well, that would be good, too. And then the other thing is we haven't had any catalyst-type events. And you saw the other end of this spectrum back in Q4 last year and Q1, where we had change in interest rate policy. We had an OPEC decision. Those types of things really are -- more so than kind of day-to-day volatility, that catalyst-type event is really what drives client trading activity.

And so we are optimistic in Q1. The comparison to Q4 and Q1 of last year are going to be tough. Those were fantastic quarters. But on average over the course of the next 12 months, I expect to see higher volatility and improved trading numbers.

Robert Sedran ***CIBC World Markets - Analyst***
I am not sure we are going to see a U.S. election catalyst like that for some time. Some people think one of the reasons for the lower vol is the preponderance of ETFs that we haven't had before. You guys at BMO are a big ETF player.

Do you have any particular insight that that gives you in terms of whether that is one of the driving forces and what might change that?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
Yes, I wouldn't say I have it because we are an ETF player, but that ETF phenomena is generally viewed as one of the rationales for low volatility. And it's a combination of two things. One, it's obviously a passive strategy and so the volume of trading that that generates is obviously lower than an active strategy.

But there's also been a real preponderance of volatility-related ETFs, particularly inverse volatility ETFs that have been extremely successful, as you can imagine in this environment, that are attracting a lot of new money. And so those are typically volatility-dampening type strategies.

And so the combination of shift from active to passive, the options-related ETF type strategies that are out there in the ETF world now, are definitely contributing factors to what you are seeing.

Robert Sedran ***CIBC World Markets - Analyst***
Okay. You mentioned the TRS impact on trading revenues. And I gather you have done as much of the remedial action as you can take to redeploy the capital that was associated with that business and the resources associated with that business. Can you talk a little bit about what that was?

And then beyond that, how is an external user of financial statements supposed to gauge your success at trading revenue? How do I measure whether you are taking right amount of risk for right amount of revenue? And I never get it right, but at the very least I'd like to know how I'm supposed to at least think about how you are doing.

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
I will start with the TRS question. I will start with the impact of the total return swap business for the most part is now in the run rate. So what you saw in Q3 is more or less what you should expect going forward.

I would caution to say that people shouldn't assume that that's therefore the new run-rate of the business. Because as you mentioned, we do have mitigating strategies. It's less a capital-intensive business, so it's not necessarily a redeployment of capital. What that business really is, it's a financing business. And so it's really the wholesale funding and the cash that's utilized in that business to finance assets for our clients that's getting redeployed.

In the environment that we are in now, particularly with higher funding costs, with the leverage ratio constricting how much cash some of the global banks are putting out there, there's a real demand for that business. So we found to actually quite easy to redeploy the cash assets that were in the total return swap business into other total return swap activity or other financing activity. For us, that's been principally in the United States.

So you don't necessarily see it in the financials, but you've seen a reduction in our equity TRS footprint in Canada. But a commensurate growth in that total return swap footprint in the United States.

And it's a really powerful lever for us with our clients because that then is the conversation. Not only is it a good revenue-generating and ROE business for us, but it's then because that cash demand is so great for financing in the U.S. -- there's less providers -- it's now become the door-opener, particularly with our institutional investor clients, for other types of business. It's like the lending relationship with corporate clients driving other ancillary business. This is the door-opener and the driver for other ancillary with our investor clients. And so we found that not only would we be able to replace the revenue, it is actually allowing us to deepen our relationships with our investor clients in the U.S., which as you know is our big growth focus.

In terms of how to think about the trading business, I wish it was more predictable than it is. Again, volatility is certainly part of the story. In Canada, for sure, market share is a big part of the story. And as you can imagine, the top five or six firms dominate the market share league tables. So as you see shifts in those league tables, which will happen from time to time, that should give you some perspective. That plus the deal volume should give you some perspective of how we are doing.

The rest of the trading business -- I think if you look back even quarter-to-quarter in terms of trading revenue -- maybe not quarter-to-quarter, but on an LTM basis or a full-year basis -- you see some reasonably consistent numbers from trading revenue. And so over the longer periods of time, not just at the trading revenue level but at the total net income level for capital markets, as I look at where I think we are going to come in for this year, where we were last year, 2015, 2014, there's actually a fairly low degree of volatility in capital markets net income.

Quarter-to-quarter, it's noisy. There’s lumpy transactions that are in there. There’s expense items that come in from time to time. So quarter-to-quarter, I can understand it's very hard to gauge, but on an LTM or full-year basis, I think you will see some reasonable consistency.

So for us, I think about our business as $1.25 billion, $1.3 billion-ish net income. And if you look back historically, it's been a fairly steady pace around that number. So it's a pretty low volatility business, but quarter to quarter, unfortunately, I don't think I can help you too much, Rob.

Robert Sedran ***CIBC World Markets - Analyst***
No, that's fair. There is obviously a perception that capital markets earnings are of low quality. And that's probably because of the quarterly volatility, but the annual numbers I think it is fair as you look out.

And so it kind of leads me to my next question about how important BMO Capital Markets is to the consolidated group of BMO. How big or small that contribution would like to be. And what I'd like to hear more of is okay, so the U.S. is a growth engine for us, what are you doing in the U.S. and how does that fit into the broader picture?

Like, are resources being shifted to the U.S.? Is the Canadian market more mature? Where are we in terms of the geographic split as well?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
So in terms of where we fit in the overall Bank, we don't have a particular cap on the size of capital markets, but it is something we monitor. And we monitor it partly because the reality is capital markets revenue is felt to have a lower multiple. And at any given size to have a lower multiple than others, probably because of that difficulty to predict what it is going to look like. But partly because as a bank, we want diversification across businesses. But the reality is regardless of whether we monitor it or there was a cap, it actually hasn't really fluctuated in terms of percentage of the whole very much for the last five years.

So typically it will run either revenue or net income in that 21%, 22%. And notwithstanding the growth aspirations that we have in capital markets, which are substantial, we don't actually see us bumping that percentage up to any real degree because the rest of the Bank will be growing.

And historically that's what's happened. We've grown our revenue and our net income and the percentage hasn't changed. So I would expect that to continue going forward. So as a manager of the business, I don't see that as a constraint. Nor do I see us growing to a point where it changes that diversification profile that the Bank wants.

But the U.S. definitely is the growth engine for us. Canada is a mature market. We have a dominant market share. So our strategy in Canada really is to protect that market share position and we see that is number one or number two in virtually every single asset class that we operate in. There is obviously not a lot of new clients that are there. But I don't see it as zero growth either. The economic backdrop, as you mentioned earlier, is obviously positive.

The other thing we are seeing in Canada, though, is we are seeing a retrenchment of foreign firms. They come and go from time to time, so you will see a wave come back. But particularly European firms that have historically been smaller positions in lending syndicates for our corporate clients have really pulled back, retreating to core markets or realizing that that is a sub-hurdle ROE situation for them have exited lending syndicates.

So that has given us a chance to actually improve our position. And I'm sure it's no secret that your position in a lending syndicate for a corporate client often is the single biggest driver of where you rank in terms of equity new issue, debt new issue, and M&A.

So we've seen that as a really nice opportunity for us. And in fact, our loan book in Canada has grown at about the same pace as our loan book has grown in the U.S., where you would think the bigger opportunities are.

The big opportunity obviously in the United States is new client acquisition. And again, we are seeing very much the same phenomena. There is a real market share shift that's happening. And we are not deluding ourselves or think we are going to be taking large chunks of market share from Goldman or Morgan Stanley or BofA. But there is a huge swath of coverage in the U.S. that's done by mid-tier and boutique dealers, some of whom have very niche expertise, which is clearly an advantage for them, but a lot are generalists.

And we think when we look at our platform in the U.S., we have got really high-quality content, both research, economic strategy, trade desk ideas, advisory capability, and M&A, plus definitely a superior capital position, a superior funding position, a superior amount of product breadth, really high-quality people that we brought in from bulge bracket firms post crisis. And so when I add up that package together, I think all of that market share is available for us. And frankly, for other Canadian firms as well. But the size of just the addressable market for us in the U.S., and that's in that mid-market focus that we've talked about in the past, is three times the size of what it is in Canada. So picking up those small pieces of market share can really add a lot to the net income.

And you've seen that in our segmented results. Our U.S. net income has been growing quite nicely. This year it will be another really solid growth year for us. You have seen the numbers already. Just after three quarters, we have already eclipsed what we did in all of last year and the fourth quarter looks good, too.

And our strategy is really fairly simple. We are focused on five key sectors in the U.S. healthcare, industrials, real estate, energy, and business services. So when you think about that focus, that's where our capital is going, that's where our people are going.

And when you surround that then with all of the ancillary products -- sales and trading and research coverage -- it adds up to a really profitable piece of business for us already. You can see the ROE of our segmented results. We think we are actually towards the top of the pack even amongst U.S. firms that are in that business.
And it's really the payoff from 10 years of just grinding it out in that market, continuing to put capital where we see attractive opportunities. And then mining that capital into a broader relationship that’s now starting to drive the real high value.

Robert Sedran *CIBC World Markets - Analyst*
How much overlap is there with the personal and commercial bank? The commercial bank has very much a mid-market focus on their business -- not dissimilar, I guess, in a lot of ways. How much overlap is there and how much do you feed off of each other?

Pat Cronin *BMO Financial Group - Group Head, BMO Capital Markets*
I would say historically we haven't done as good of a job as we could have. I think there actually is a large overlap, certainly for particular types of products. That mid-market, even at the high end of commercial, are not going to be prolific equity issuers. But they definitely do a lot of debt transactions. So there is a lot of overlap there.

But then they are also extremely active on M&A. And we haven't had the level of coverage that we have now historically. And so I think it's really an untapped opportunity for us.

So the acquisition of Greene Holcomb Fisher, the M&A boutique that we bought at the end of last year, has already started to show us the opportunities that are there. That's a very mid-market-focused pure M&A boutique that we bought. And the interaction with commercial bankers – it has been a win for both sides. It has obviously added incremental revenue opportunities for us. But for a commercial banker to now be able to pitch not just lending and cash management services, but to show up with a really experienced M&A banker has been a big win for us.

And I think we are just scratching the surface of that relationship. Some of that is just coordination. Some of that is working out internal structure. But once you get through some of the machinery fixing, we think as our growth opportunities go, that's definitely in the top five for us in the U.S.

Robert Sedran *CIBC World Markets - Analyst*
You mentioned how great the opportunity is in the U.S., but the industry-level C&I lending has been soft. Very much unlike Canada, by the way, where Canadian growth has been far more robust, to the point where people are questioning why Canada is so robust and the U.S. isn't. With your position on both sides of the border, do you have an answer for that question? Because I'm going to use it if you do.

Pat Cronin *BMO Financial Group - Group Head, BMO Capital Markets*
Well, I don't know that I have the answer, but I can tell you what we are seeing. I think part of what's happening is you are seeing some higher-end commercial clients accessing the debt markets. And the markets are definitely open, particularly in the leveraged finance space. We've seen sequential quarters and now almost sequential years of really high levels of leveraged finance activity. And in that arena, you are seeing that $200 million to $2 billion, even $5 billion of EBITDA-type company show up there that otherwise probably was accessing the commercial loan market.

So rates are good, there is an enormous amount of cash out there that's searching for yield, and the debt markets have been wide-open. So that is why they are certainly getting access, and not only access, they are getting access at really attractive terms, both for leverage and outright interest rate.

Robert Sedran ***CIBC World Markets - Analyst***
This is historically the point in the cycle where credit terms are relaxed, pricing gets aggressive, loans no longer hurdle, because the ancillary business is totally going to come this time.

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
I noted a sense of sarcasm there.

Robert Sedran ***CIBC World Markets - Analyst***
Just a little bit. Are you seeing that kind of behaviour? Or are banks generally being still a little bit of the crisis hangover and wanting to protect some profitability, particularly with low rates?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
I would say certainly in the leveraged finance market, I can't argue that we haven't seen some terms that are getting towards the frothier end. It went in a little bit of a cycle. There was some regulatory pressure, particularly on leverage. I think when you get up into 6 times and greater type leverage, the regulatory pressure started to come in. And so you saw it take a pause, but now it feels like it's coming back.

And some of that is just -- I think a lot of that is really just the competitive pressures that are out there to rebuild revenue and net income streams that maybe post-crisis weren't as attractive. And you are seeing -- that's typically where you will see the foreign firms who retrench and then start to come back. That's the first place they come back is leading with capital in segments where the deal flow is extremely active. And so they will be the ones to push terms, thinking it's a loss leader to get back into relationships.

So we have tried to be really careful. We are probably passing on a lot more deals than we ever have in the past. And for us, our strategy is where we see deals that we like, where the leverage makes sense, where the cash flows of the company can support certain types of leverage. So it's not that we will never do a deal that might look frothy on the surface, but if we don't like it, it gets killed pretty quickly.

But if it is a really attractive deal, you will see us lean in with larger size than historically we have. So instead of trying to just shotgun and scoop up bits of every deal, the deals that we really like we'll take a larger piece of, and the deals we don't like, we just pass on altogether.

Robert Sedran ***CIBC World Markets - Analyst***
And is that experience different on the different sides of the border?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
It is. And obviously in Canada, there really isn't anything remotely close to that kind of high-yield leveraged market like you would see in the U.S., and there’s far less players. So you will see, generally speaking, terms are pretty consistent. If you look at lending spreads in the U.S., you've seen this phenomena. Gross spreads come from 4 post-crisis in a straight line all the way down to about 2 now.

Whereas in Canada, you've seen lending spreads been almost dead flat for the course of a couple of years. And that partly reflects just the high-quality investment-grade nature of Canada. Five or six banks who are all generally having the same risk appetite and on a fairly stable client base. There is not a lot of new clients up for grabs, so playing the aggressive price game doesn't really make a lot of sense in Canada.

Robert Sedran ***CIBC World Markets - Analyst***
When I think about the growth rate of this business generally, I mean, it's easy for me to -- personal and commercial banking and wealth management and some of the other segments to say, well, this is the theoretical growth rate and what it should be tied to the economy.

Do you link -- when you think about your three- to five-year growth rate, do you link it to economic activity? Because you mentioned it's been relatively stable, but you've been growing with the Bank, which means around mid-single digit growth rate. What do you look at in terms of the indicators when you plan for a longer-term cycle?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
Sure. We segment into Canada and the U.S. And so in Canada, it's absolutely an economic forecasting starting point for us. When we look at our Canadian business, again, given that we don't expect huge amounts of movement within the market share no matter what the product is, it will ebb and flow based on big lumpy transactions that happen to come in with a client that's a house client for a certain bank. And that kind of changes the market share.

But over longer periods of time, generally speaking, the market share rankings don't change a lot. So it is very much dependent on the economy. And then a little bit in terms of cyclicality within sectors.

So if you see the energy market or the mining sector go through a boom market, you will see firms like ours where we have global expertise do better and vice versa. But so that's how we usually tend to look at Canada.

But the U.S. is a very different story. So the economic backdrop is obviously part of it. And so for Canada, we will forecast 2%, 3% type growth rates for this year. In the U.S., we will forecast much higher. That's starting point the economic backdrop, which we think is good. But we've got a large installed resource base there and so our expectation is that we are going to drive a lot of leverage off that cost base. So that's people, that's capital, that's a physical locations, client relationships that are now maturing into deeper relationships. We think that drives at least high-single digits.

Plus then on top of that, we've been continuously introducing some new products. And so as we start to round out the product suite because our corporate clients are now coming to us for more product types, we will add product types in response. That then adds another element of growth on top.

So for us, when we look at the U.S., notwithstanding an economic backdrop that might suggest 2%, 3%, maybe 4%, our expectation in the U.S. is more for low double digit. And so that may average out, given the relative proportion of the two businesses to something like high-single digits. But clearly the U.S. is the big driver.

And we are relatively optimistic. It's not a long-term aspiration anymore. It is a near-term aspiration. A good example of this year would be in our investment banking revenue, this year will actually be higher in the U.S. So far year to date, it's higher in the U.S. than it is in Canada. We are running at about 60% U.S., 40% Canada in terms of IB revenue.

And so we are starting to see the benefits of all those things that I just talked about. So to us, those growth rates feel pretty realistic.

Robert Sedran ***CIBC World Markets - Analyst***

So a good top-line outlook. We don't talk a lot about expenses when it comes to your segment. I think analysts are a little sensitive about capital markets expenses. I know I am.

But in terms of operating leverage -- and not just people, I mean, which is obviously the biggest expense. But increasingly systems is an important expense that can really get you off-side on risk if you are not careful. Talk a little bit about how you think about the expenses and operating leverage in your business.

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***

Well, as you know, so much of the expense load is direct cost around people, so I will segment that for a second. Although I do believe that part of our strategy is technology investments - to enable the capabilities of people is going to be a big part of the efficiency story going forward.

An average salesperson right now maybe could cover 25 accounts. With technology that's more or less commercial now, never mind what we will see in a year from now, we think we could easily double or triple that number and have them be just as effective. So there is an efficiency play there.

But to touch on your point around risk, I really couldn't agree more. I think the underinvestment in risk technology infrastructure has been one of the key reasons for some of the issues that firms have had, particularly in a crisis.

The good news at least for us is we have spent an enormous amount, and I would say a painful amount, over the course of the last five years on risk technology. We did a complete risk overhaul in BMO Capital Markets that frankly we needed to do anyway. But it has really set us up for things like FRTB that are coming in, a lot of the new regulatory requirements that require more sophisticated risk reporting and segmentation.

So it would more or less had to be spent anyway. But we think if you underspend in that area, you are really just asking for a problem later. So technology investment is a big focus for us.

And then there is a digital agenda in capital markets as well. People tend to think that that's more of a personal and commercial story. But for us, things like digitizing the onboarding experience for clients, it's a huge pain point having to fill out thousands of forms. And so we're digitizing that part of the process.

Electronic interfaces obviously have been a big change in capital markets for a while. But you are starting to see that really push into the debt markets. So if you are not investing in electronic capabilities and electronic trading capabilities for debt, you are probably behind the curve as well. So we are spending money there.

Then lastly, the big focus for us is on client data. Our belief is the winners and losers of the future will be dependent on how well they harness the power of data. And so similar to the rest of the Bank, we are putting a lot of tech investment dollars into not just harnessing the power of the data that we have, but incorporating all of the vast amounts of data that is out there now.

And it's a rich data environment, partly because of the regulatory drivers that have changed what we need to accumulate even as a firm for data. But it's a rich data environment. And so I think if you are not figuring out your data strategy and then availing yourselves of the technology that's out there now, then you are not investing smartly. So that's what we are doing.

Robert Sedran ***CIBC World Markets - Analyst***
And this revenue environment's allowing you to do that while still putting up positive operating leverage?

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
It's tough. This year our operating leverage will be roughly flat, but it's less around tech investment as opposed to investments more broadly in the regulatory environment. So changes as a result of things like MiFID, changes like the NSFR, which has really changed the funding cost environment. Other reg changes have really been the drivers of that.

So that's caused us to have to think long and hard about which tech investments we want to make. I look at our plan for F18, our tech investment is actually going to go up for next year. I still see us achieving at least neutral to positive operating leverage next year as well.

Robert Sedran ***CIBC World Markets - Analyst***
I probably could use 10 minutes just on the regulatory stuff, but we are out of time.

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***
Okay.

Robert Sedran ***CIBC World Markets - Analyst***
Thanks very much for your participation.

Pat Cronin ***BMO Financial Group - Group Head, BMO Capital Markets***

Thank you. Appreciate it.
