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**The Bank of New York Mellon Corporation NYSE:BK**

**FQ2 2023 Earnings Call Transcripts**

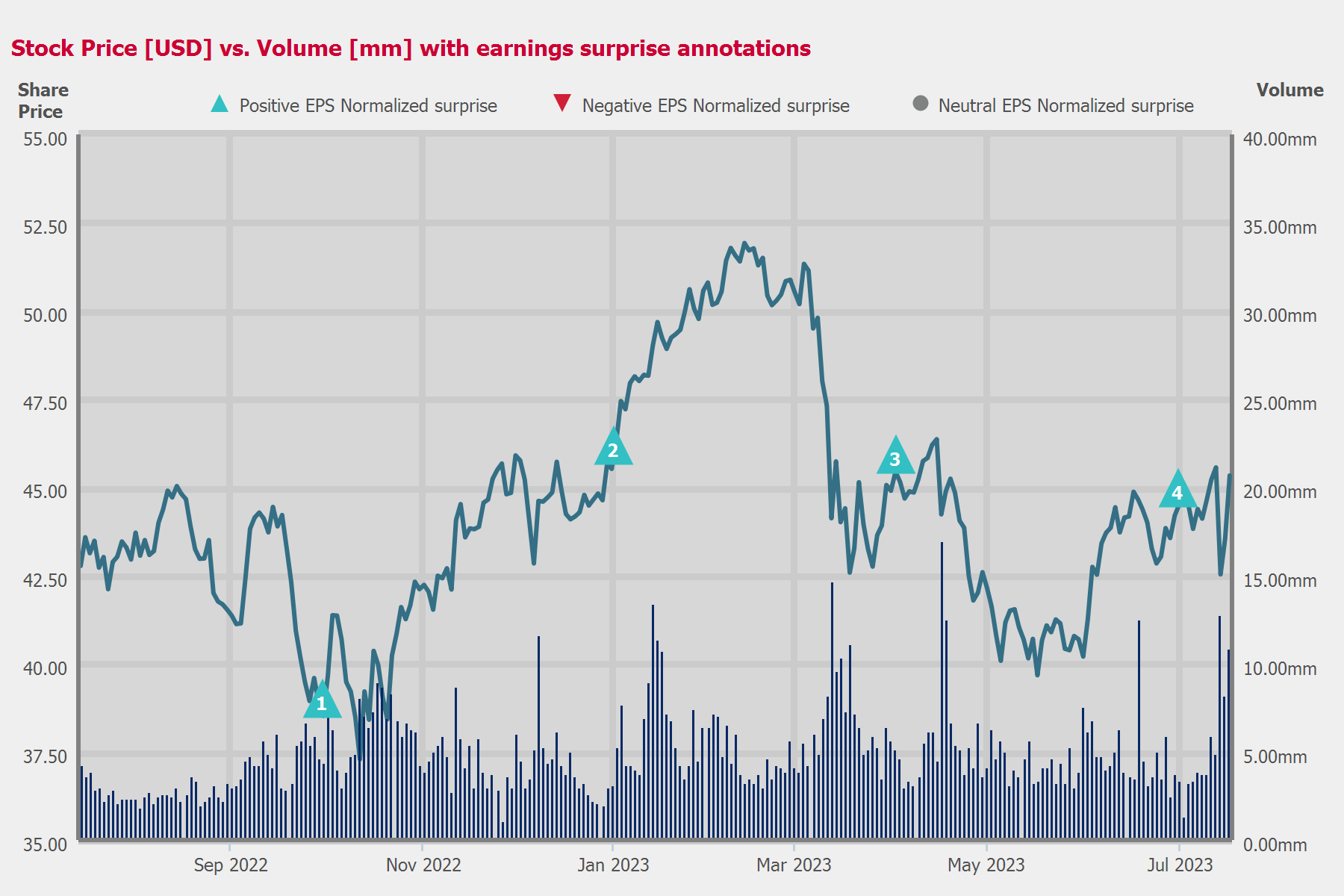
**Tuesday, July 18, 2023 2:30 PM GMT**

S&P Global Market Intelligence Estimates

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|  | **-FQ2 2023-** | | | **-FQ3 2023-** | **-FY 2023-** | **-FY 2024-** |
|  | **CONSENSUS** | **ACTUAL** | **SURPRISE** | **CONSENSUS** | **CONSENSUS** | **CONSENSUS** |
| **EPS Normalized** | 1.22 | 1.38 | 13.11 | 1.18 | 4.78 | 5.14 |
| **Revenue (mm)** | 4364.13 | 4454.00 | 2.06 | 4384.30 | 17496.17 | 17866.03 |

Currency: USD

Consensus as of Jul-18-2023 3:14 AM GMT



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|  | |  | | **- EPS NORMALIZED -** | |  |
|  | **CONSENSUS** | | **ACTUAL** | | **SURPRISE** | |
| **FQ3 2022** | 1.08 | | 1.21 | | 12.04 % | |
| **FQ4 2022** | 1.24 | | 1.30 | | 4.84 % | |
| **FQ1 2023** | 1.11 | | 1.13 | | 1.80 % | |
| **FQ2 2023** | 1.22 | | 1.38 | | 13.11 % | |

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| **Call Participants** | | |
| **EXECUTIVES**      **Dermot William McDonogh**  *Senior Executive VP & CFO*      **Marius Merz**  *Head of Investor Relations*      **Robin Antony Vince**  *President, CEO & Director*      **ANALYSTS**      **Alexander Blostein**  *Goldman Sachs Group, Inc., Research Division*      **Betsy Lynn Graseck**  *Morgan Stanley, Research Division*      **Brennan Hawken**  *UBS Investment Bank, Research Division*      **Brian Bertram Bedell**  *Deutsche Bank AG, Research Division*      **Ebrahim Huseini Poonawala**  *BofA Securities, Research Division*      **Gerard Sean Cassidy**  *RBC Capital Markets, Research Division*      **Glenn Paul Schorr**  *Evercore ISI Institutional Equities, Research Division*      **Kenneth Michael Usdin**  *Jefferies LLC, Research Division* | **Rajiv K. Bhatia**  *Morningstar Inc., Research Division*      **Robert Henry Wildhack**  *Autonomous Research US LP*      **Steven Joseph Chubak**  *Wolfe Research, LLC* |  |

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**Presentation**   
   
   
**Operator**   
   
Good morning, and welcome to the 2023 Second Quarter Earnings Conference Call hosted by BNY Mellon. [Operator Instructions] Please note that this conference call and webcast will be recorded and will consist of copyrighted material. You may not record or rebroadcast these materials without BNY Mellon's consent.   
   
   
I will now turn the call over to Marius Merz, BNY Mellon Head of Investor Relations. Please go ahead.   
   
   
**Marius Merz**   
*Head of Investor Relations*   
   
Thank you, operator, and good morning, everyone. Welcome to our second quarter 2023 earnings call. As always, we will reference our financial highlights presentation, which can be found on the Investor Relations page of our website at bnymellon.com.   
   
   
I'm joined by Robin Vince, President and Chief Executive Officer; and Dermot McDonogh, our Chief Financial Officer. Robin will start with introductory remarks, and Dermot will then take you through the earnings presentation. Following their remarks, there will be a Q&A session.   
   
   
Before we begin, please note that our remarks include forward-looking statements and non-GAAP measures. Information about these statements and non-GAAP measures are available in the earnings press release, financial supplement and financial highlights presentation, all available on the Investor Relations page of our website. Forward-looking statements made on this call speak only as of today, July 18, 2023, and will not be updated.   
   
   
With that, I will turn it over to Robin.   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Thanks, Marius, and thank you, everyone, for joining us this morning. Dermot will walk you through the financials for the quarter shortly. But in summary, the company delivered good financial performance amid a very dynamic operating environment, and we've continued taking actions to position the firm for higher underlying growth and enhanced operational efficiency over time.   
   
   
Referring to Slide 2 of our financial highlights presentation, BNY Mellon reported second quarter earnings per share of $1.30, which was up 26% year-over-year on $4.5 billion of revenue, an increase of 5% year-over-year. Consistent with our focus on driving pretax margin expansion in 2023 and beyond, we drove meaningful positive operating leverage as we maintained strong expense discipline while continuing to make significant investments to improve our growth trajectory and transform our operating model. As a result, our pretax margin improved to 30%, and we generated a return on tangible common equity of 23% in the quarter. As I've said many times before, disciplined execution and consistent progress from milestone to milestone is the key to unlocking the financial opportunity inherent in our high-quality franchise. While we're conscious of the work ahead of us, we're pleased to see the momentum building across the company.   
   
   
First, we're getting an increasingly firm grip on our expense base. I'm proud of our people who are embracing the task of making BNY Mellon a more efficient and scalable company, which gives me confidence in our ability to deliver tangible results in 2023 and beyond.   
   
   
Remember, in January, we committed to essentially cut expense growth in half this year, roughly 4% growth excluding notable items in 2023 compared to roughly 8% ex currency in 2022. Halfway through the year, I'm pleased to report that we're on track, even a little ahead of our plans.   
   
   
Second, the strength of our balance sheet, the resiliency of our business model and our proactive balance sheet management continue to differentiate us with clients and create value for our shareholders. Net interest revenue and deposits were both bright spots in the quarter, and the Federal Reserve's 2023 bank stress test demonstrated our capacity to withstand an extreme stress scenario. As a result of the test, our preliminary stress capital buffer requirement remains at the regulatory floor of 2.5%. And while our overall approach to returning capital to shareholders remains unchanged, we increased our quarterly common dividend by 14% to $0.42 starting this quarter.   
   
   
Third, we remain laser-focused on driving sustainably higher underlying growth across the firm. We've talked before about the advantages of our business model. Businesses such as Clearance and Collateral Management, Pershing, Depositary Receipts, Corporate Trust and Treasury Services offer us a breadth and diversification in comparison to traditional trust banks.   
   
   
We saw strength in some of these differentiated businesses in the second quarter, and new business pipelines are healthy across the board. And importantly, we continued pushing ahead with new innovative client solutions that we expect to become growth accelerators for the medium and long term.   
   
   
Less than 2 years after hiring employee #1, Pershing X is now live with Wove, our open architecture wealth management platform that addresses a major pain point in the advisory market by better integrating advisers' core applications.   
   
   
Wove allows us to integrate some of the best solutions from around BNY Mellon, including from our Investment Management business as well as from leading third-party fintechs. Our launch at Pershing's INSITE Conference in June has garnered significant early enthusiasm from clients and industry influencers who see Wove as a promising solution. The client pipeline is growing nicely, which we will report on more in the quarters ahead.   
   
   
More broadly, Wove is a proof point of our ability to execute at speed. We can deliver leading solutions quickly when we empower our people, surround them with the expertise and tools that they need and drive forward with a product mindset, leveraging our great platforms. It's also a reflection of the change in mindset we are cultivating here, more commercially oriented with a greater sense of ownership and a greater focus on execution.   
   
   
I'll also call out Treasury Services, which continues to innovate in areas like faster payments and Banking as a Service. This quarter, the business announced a strategic alliance with Mobility Capital Finance or MoCaFi, a Black-founded fintech whose mission is to enable underserved communities to access banking services. This is just the latest example of how we are deploying our capabilities to advance financial inclusion in an innovative way.   
   
   
Now I've spoken in the past about the opportunity to do more things for our clients by connecting the dots for them through our 1BNY Mellon initiative and how we're going to operationalize that. To help us realize this potential and more broadly, to sharpen our commercial focus and elevate the client experience across the firm, in May, we welcomed Cathinka Wahlstrom as our first Chief Commercial Officer and member of our Executive Committee. In addition to taking on oversight responsibilities for Global Client Management, I've tasked Cathinka to embed 1BNY Mellon into the operations of our company. It's important that we commercialize this opportunity through training, by properly incentivizing our people to collaborate across the firm and by developing deliberate approaches to multiproduct solutions.   
   
   
Stepping back for a moment, let me provide a few thoughts on the macro environment. We acknowledge that the path of interest rates, continued QT and elevated U.S. Treasury issuance activity carry meaningful uncertainties for the environment in the months ahead.   
   
   
From our vantage point as the primary clearer of U.S. Treasuries and through touching roughly 20% of the world's investable assets, our data tells us that more than half of recent T-bill issuance has been absorbed by funds flowing out of the Fed's RRP, but a good chunk of the balance has come from the banking system.   
   
   
Most of the money market fund demand for T-bills has been concentrated at the very front end as funds have been less comfortable extending duration past the end of July, ahead of an expected rate hike later this month and continued uncertainty on the path of rates thereafter.   
   
   
We're also not seeing much foreign demand as cross-border flows into U.S. Treasuries of all maturities are negative and have been for some time. Together, this is likely going to put some incremental pressure on domestic funding sources funds, banks and corporates as well as state and local governments to absorb upcoming supply unless T-bill prices cheapen materially from current levels. For this reason, we do expect some further pressure on deposit balances across the industry in the months ahead. As you would expect, we are positioning ourselves prudently given these uncertainties but see these flows as benefiting our broader cash ecosystem.   
   
   
We manage over $1.3 trillion worth of cash on behalf of clients across deposits, money market funds, repos and securities lending. And we're the biggest provider of collateral services globally as well with about $6 trillion of tri-party balances on our platform. This $7 trillion of relevance to money market flows allows us to retain a connection to the money when it moves around various short-term investment alternatives and allows us to help our clients find the right solutions for their investment needs.   
   
   
Let me conclude my comments on a reflective note. As I've acknowledged before, strategy matters, but execution and culture matter \* even more. As we close the books on the second quarter, we're entering the back half of the year with good momentum and confidence \*in our ability to drive change by executing consistently and at pace.   
   
   
Over the past couple of years, we've been able to attract high-caliber talent to upgrade multiple important roles across the company. Our existing team, together with these new leaders, are rising to the challenge of unlocking our potential. And it's clear to me that we have a tremendous opportunity in front of us by leveraging our unique combination of businesses, our preeminent client franchise and the power of our culture and people. I'm encouraged by the initial progress over the past couple of quarters and excited about what lies ahead.   
   
   
With that, over to you, Dermot.   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
Thank you, Robin, and good morning, everyone. Let me start on Page 3 of the presentation with some additional details on our consolidated financial results in the second quarter.   
   
   
Total revenue of $4.5 billion was up 5% year-over-year. Net interest revenue was up 33% year-over-year primarily driven by higher interest rates, partially offset by changes in balance sheet size and mix. Fee revenue was down 2% driven by the sale of Alcentra in the fourth quarter, the mix of cumulative AUM net inflows and lower FX revenue on the back of lower volumes and volatility, partially offset by the abatement of money market fee waivers.   
   
   
Firm-wide AUC/A of $46.9 trillion increased by 9% year-over-year. This increase reflects the impact of higher market values, client inflows and net new business. Assets under management of $1.9 trillion decreased by 2% year-over-year. The impact of lower market values driven by a year-over-year decrease in the U.K. fixed income markets and the sale of Alcentra was partially offset by cumulative net inflows over the last year and the favorable impact of a weaker U.S. dollar.   
   
   
Investment and other revenue was $97 million. We continue to see strength in fixed income trading and positive seed capital results. Expenses were flat on a reported basis and up 1% excluding notable items. This was driven by higher investments and revenue-related expenses and the impact of inflation, partially offset by efficiency savings and the Alcentra divestiture.   
   
   
Provision for credit losses was $5 million in the quarter, reflecting changes in the macroeconomic forecast, resulting in higher reserves relating to commercial real estate, largely offset by reserve releases related to financial institutions. As Robin mentioned earlier, earnings per share were $1.30, up 26% year-over-year or up 20% excluding notable items. Pretax margin continued to improve to 30%. Our return on tangible common equity improved to 23%.   
   
   
Turning to capital and liquidity on Page 4. Our regulatory capital ratios remained roughly unchanged. The Tier 1 leverage ratio was 5.7%, down 14 basis points quarter-over-quarter primarily driven by an increase in average assets. Tier 1 capital increased slightly driven by capital generated through earnings net of capital returns through buybacks and dividends. The CET1 ratio was 11.1%, up 10 basis points quarter-over-quarter primarily reflecting higher CET1 capital.   
   
   
As we said on our earnings call in April, we tapered buybacks in the second quarter to maintain conservative buffers above our management targets being mindful of the uncertain environment. Overall, we returned 72% of earnings, including approximately $300 million of common dividends and approximately $450 million of buybacks in the second quarter. On a year-to-date basis, we have returned 119% of earnings.   
   
   
The consolidated liquidity coverage ratio was 120%, an increase of 2 percentage points compared with the prior quarter. Our consolidated net stable funding ratio, which we are reporting publicly for the first time this quarter, was 136%, well in excess of the regulatory requirement.   
   
   
Moving on to net interest revenue and further details on the underlying balance sheet trends on Page 5, which I will describe in sequential terms. Net interest revenue of $1.1 billion was down 2% quarter-over-quarter driven by deposit mix shift, partially offset by higher interest rates. Overall, deposit balances have remained elevated relative to our expectations, as they increased 1% sequentially on an average basis. Interest-bearing deposits were up 5%. Noninterest-bearing deposits were down 11%, in line with our expectations. Average interest-earning assets increased by 4% quarter-over-quarter. Underneath that, cash and reverse repo was up 15%. Loan balances were flat. Our investment securities portfolio was down 5%.   
   
   
Turning to expenses on Page 6. Expenses for the quarter were flat year-over-year on a reported basis and up 1% excluding notable items relating to litigation and severance. As I mentioned earlier, this reflects higher investments and revenue-related expenses and the impact of inflation, partially offset by efficiency savings and the Alcentra divestiture.   
   
   
To summarize, we continue pushing forward with our multiyear investments to increase the growth trajectory of the firm and transform our operating model for greater scalability over time. Importantly, we remain focused on driving positive operating leverage and delivering continued pretax margin expansion. As an example of the expense discipline that Robin mentioned, for the second quarter, we self-funded the entirety of our incremental investment spend and importantly, are on course to do the same for the full year.   
   
   
Turning to our business segments, starting with Securities Services on Page 7. As I discuss the performance of our Securities Services and Market and Wealth Services segment, I will comment on the investment services fees for each line of business described in our Earnings Press Release and the Financial Supplement.   
   
   
Securities Services reported total revenue of $2.2 billion, up 12% year-over-year. Fee revenue was down 2%. Within this, investment services fees were flat. FX revenue was down 20% on the back of lower volatility and volume. Net interest revenue was up 46%.   
   
   
In Asset Servicing, investment services fees were flat with healthy underlying growth from new and existing clients, offset by lower client transaction activity, reflecting the current market environment. Importantly, strength in attractive market segments continued. Despite an industry slowdown for private markets and hedge fund launches, we saw strong growth in our Alts servicing business. High single-digit growth in both ETF AUC/A and number of funds serviced continued.   
   
   
Within Issuer Services, investment service fees were up 3% driven by our Depositary Receipts business. Here, the impact of a large client corporate action in the current quarter was tempered by the absence of Russia-related client activity in the second quarter of last year.   
   
   
Next, Market and Wealth Services on Page 8. Market and Wealth Services reported total revenue of $1.4 billion, up 10% year-over-year. Fee revenue was up 5%. Net interest revenue increased by 24%.   
   
   
In Pershing, investment services fees were up 4%. The increase reflects the abatement of money market fee waivers and higher fees on sweep balances, partially offset by lower transaction volumes, consistent with the decline in U.S. equity exchange volumes and the impact of lost business.   
   
   
The net new assets number was a negative $34 billion in the quarter, reflecting the deconversion of a regional bank client that was acquired in May. Excluding the impact of this ongoing deconversion, which we expect to weigh on our reported net new assets for several quarters, net new assets grew at a mid-single-digit annualized growth rate. We remain confident in Pershing's underlying momentum and prospects. Importantly, our continued investments to enhance Pershing's core platform as well as the business' access to the strength and breadth of the whole company is being recognized by clients as a differentiator, especially in the current market environment. Also, as Robin mentioned earlier, Wove is off to an excellent start.   
   
   
In Treasury Services, investment services fees decreased by 2%, reflecting higher earnings credits for noninterest-bearing deposit balances and lower payment volumes, partially offset by continued momentum across payment and liquidity solutions.   
   
   
In Clearance and Collateral Management, investment services fees were up 10% driven by U.S. government clearance volumes reflecting elevated volatility and U.S. Treasury issuance following resolution of the debt ceiling. We also saw healthy growth in collateral management fees. As the largest truly global collateral manager, we continue to increase market connectivity by expanding our tri-party platform to include new markets, trade types and collateral pools. Our average tri-party collateral management balances increased by 16% year-over-year to $6 trillion.   
   
   
Turning to Investment and Wealth Management on Page 9. Investment and Wealth Management reported total revenue of $813 million, down 10% year-over-year. Fee revenue was down 10%. Investment and other revenue was $12 million in the quarter primarily reflecting seed capital gains, and net interest revenue declined 37% year-over-year.   
   
   
Assets under management of $1.9 trillion decreased by 2% year-over-year. As I mentioned earlier, this decrease largely reflects lower market values driven by the year-over-year decrease in U.K. fixed income markets and the Alcentra divestiture, partially offset by cumulative net inflows and the favorable impact of the weaker dollar. In the quarter, we saw $9 billion of net outflows from long-term products as clients continued to derisk and rebalance their portfolios. And despite competitive investment performance, we saw $9 billion of net outflows from cash.   
   
   
In Investment Management, revenue was down 9% year-over-year, primarily reflecting the sale of Alcentra and the mix of cumulative net inflows, partially offset by improved seed capital results and lower money market fee waivers. While in Wealth Management, revenue decreased 10% driven by lower net interest revenue and changes in product mix. Client assets of $286 billion increased by 8% year-over-year, reflecting higher market values and cumulative net inflows.   
   
   
Page 10 shows the results of the Other segment. I will close with a few comments on our current financial outlook for the second half of the year. Number one, our net interest revenue outlook for the full year '23 remains unchanged for 20% growth year-over-year. This is based on market-implied forward interest rates towards the end of the quarter. We are pleased with our net interest revenue trajectory and balance sheet management year-to-date, but mindful that we are operating in a very uncertain environment with continued rate volatility, a higher for longer rates market backdrop and uncertainty surrounding meaningful U.S. Treasury issuance in the coming months.   
   
   
Number two, we are ahead of plan when it comes to executing on our efficiency efforts. We remain focused on outperforming our target of 4% expense growth excluding notable items for the full year '23 and will work hard to drive this closer to 3% in the coming months. While we expect the operating environment to continue to weigh on fee growth relative to what we expected at the beginning of the year, our progress on the expense side continues to give us confidence in our ability to deliver positive operating leverage this year.   
   
   
Number three, we still expect to return 100% of our earnings or more to our shareholders over the full year '23 while continuing to position ourselves conservatively with respect to our capital levels, considering the amount of operating uncertainty.   
   
   
In conclusion, I am pleased to report that the company continues to perform well against the backdrop of complex operating environment, and we continue to execute with a great sense of urgency against our growth and efficiency initiatives.   
With that, operator, can you please open the line for Q&A?

**Question and Answer**   
   
   
**Operator**   
   
[Operator Instructions] And our first question will come from Brennan Hawken with UBS.   
   
   
**Brennan Hawken**   
*UBS Investment Bank, Research Division*   
   
Dermot, I'd like to start with which you just touched on, the unchanged NII outlook. Curious what you're seeing as far as deposit cost pressure. We've begun to see that emerge. There are peer firms of Bank of New York's that have flagged some upward pressure in the back book. How is it that you are able to avoid these pressures and keep on your NII outlook that you had provided earlier?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
Thanks for the question, Brennan. So I will accept the fact that the pressures are there, but I think the team is doing a great job managing both sides of the balance sheet in a very dynamic environment. So if we kind of look at the first half of the year, I think we're very pleased with where we've come out in the first half of the year and feel we're on a very good footing for the back half of the year. In January, when we spoke to you, we kind of gave a guidance of 20% and that was with a mid-single-digit decline in deposits over the course of the year.   
   
   
If you reflect on the 2 quarters just behind us, we had elevated deposits in Q1 on the back of uncertainty around regional banks. We had elevated deposits in Q2 on debt ceiling, which really speaks to the strength of our balance sheet and the strength of our franchise and clients looking to use us in times of uncertainty.   
   
   
Now when you look to the back half of the year and our average deposits in Q2 were around $277 billion, up 1% sequentially. We do expect this growth to moderate in the back half of the year, and we do expect declines in our balances as a result of the Treasury issuance, which I think is going to be announced in August in terms of what they're going to do between bills and coupon payments. And the interplay between QT, RRP and bank reserves is something that we're all watching carefully.   
   
   
So we do expect our balances to go down to mid- to high single digits from here. But when we reflect back and do the bottoms-up, top-down and talk to clients and see what's happening in the marketplace, we come back to the same place as where we started at the beginning of the year in terms of our overall feel good about the guidance of 20%.   
   
   
And specifically to your point on deposit costs, look, our client base, unlike others, is largely institutional. And our betas are in the mid- to high 70s. We feel our book is kind of -- we passed on the rate rises to our clients over the last 1.5 years. So we feel pretty good about where the book is.   
   
   
We price competitively. Clients come to us not just for deposits. They come for a broad range of goods and services, and deposits are part of our overall product mix. So we feel very good about where the book is and where the cost is. Notwithstanding, there are pressures given the higher for longer rate environment and people looking to optimize their net interest income. So that's it.   
   
   
**Brennan Hawken**   
*UBS Investment Bank, Research Division*   
   
That's very helpful. I appreciate that. And so switching gears a little bit on the fee revenue side. This was a pretty good outcome for you guys here this quarter. How should we be thinking about jumping off into the next quarter? Is there anywhere in particular where you would flag some adjustments that we should be making to the baseline? Or is this a fair way to think about it?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
So as it relates to fees, Brennan, look, I think when I look across the various businesses and the feedback that we're getting from clients and when I talk to our teams, our backlogs are good. We're winning our fair share of deals.   
   
   
I have to say the enthusiasm and the energy of the team when they came back from the INSITE conference having launched the Wove product gives us great optimism about the future and what we can do for our clients. So overall, I would say our backlog is good in a very uncertain environment. We're winning our share. And our yet to be installed book of business in Asset Servicing is healthy and strong.   
   
   
**Operator**   
   
And our next question will come from Alex Blostein with Goldman Sachs.   
   
   
**Alexander Blostein**   
*Goldman Sachs Group, Inc., Research Division*   
   
Just a quick follow-up first maybe around the deposit discussion. So Dermot, if I hear you correctly, no kind of catch-up from the back book that you expect to see in your deposit pricing for the rest of the year. But I guess, if we look at the deposit beta over the course of this quarter, it looks like it was pretty close to 100% on a currency adjusted basis. Maybe help us break down the deposit cost in U.S. and non-U.S. and maybe the type of -- what kind of deposit pressure and client conversations are you seeing in the kind of different regions?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
So on the catch-up, Alex, I would say -- when we talked about this last quarter, we kind of said our Q1 results were kind of largely a little bit of the price lag there, which we feel is largely behind us, and that catch-up has happened in Q2. So overall, I think we feel pretty good about the catch-up. Cumulative betas are in the mid- to high 70s for dollars. And look, it's reasonable to expect that they will continue to grind higher from here, but I would say no meaningful change.   
   
   
If you take the overall deposit book in total, it's largely a dollar-based book, 80% dollars and then 10% split between euros and sterling. And the betas for sterling and euros are roughly in the kind of 50% to 60% range. And then I'll just reiterate like the point, and I think it's a very important point. The deposit book is largely institutional, sophisticated clients. And we've really repriced our book quite efficiently over the last 1.5 years, and that's really the message I'd like to leave you with.   
   
   
**Alexander Blostein**   
*Goldman Sachs Group, Inc., Research Division*   
   
Makes sense. And then, Robin, a question for you, maybe a little bit more on the strategic side. When we look at the Investment Management business at BNY Mellon, there are some areas that one could maybe characterize as sort of subscale. The organic growth has been muted, and obviously, margins is something you guys, as previously said, need to sort of work on. So, are there any strategic areas where you feel like you could address some of these issues by either divesting or adding scale to businesses that are subscale? So just kind of thinking more holistically about that business in the context of BNY Mellon.   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Thanks for the question, Alex. Obviously, this is an area, a segment we spend a lot of time on. Just to remind you, we did a series of strategic reviews all across the company. Going back over the course of the past 9 months, we've looked at every function, we've looked at every business. And we did spend a particular amount of time digging in to our Investment and Wealth Management segment.   
   
   
Look, in terms of IM in particular, if you think about it as part of the IWM segment, 2 years ago, that whole segment was a 30% pre-tax margin segment. There's no reason to think we couldn't get back there over time. But there are a series of different things that we have set out to do ourselves. And so the execution of all of that is going to be really important.   
   
   
There's going to be a combination of improving top line, what you'd expect in terms of really focused on meeting client needs, strong investment performance, new products, et cetera, and also some of the de-siloing and expense management that's really in there. But the thing I'm going to call out to you, which I really think of as the BNY Mellon superpower, and I think everyone needs to have a superpower these days, in Investment Management is our distribution.   
   
   
And so that's a place where strategy for the whole company really meets strategy for Investment Management because if you step back from the way that we were organized, Investment Management was its own silo in the company and, frankly, a bit landlocked over there in its silo. But our distribution capabilities, $2.5 trillion worth of retail distribution as one example, but obviously, we have other distribution as well in the company on the institutional side, was separately landlocked over in a different corner of the company.   
   
   
So our plan here is really to lean in to what we think of as one of our superpowers, distribution, and then allow the business in this newly configured format to really be able to stretch its legs in this non-siloed format and then go from there. And we think that, that's a good path forward.   
   
   
**Operator**   
   
And we'll take a question from Betsy Graseck with Morgan Stanley.   
   
   
**Betsy Lynn Graseck**   
*Morgan Stanley, Research Division*   
   
I know we talked a lot about deposits, but I did just want to drill down on how you're thinking about the life of the deposits. And is that at all changed versus history? And part of the reason for asking is just trying to understand if there's any impact on the securities portfolio as you put that deposit flow to work.   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
When you say life of deposit, Betsy, do you mean like tenor and duration of the deposit that stays with us, just to clarify the question?   
   
   
**Betsy Lynn Graseck**   
*Morgan Stanley, Research Division*   
   
Yes, what you are assuming the life of the deposit is because I'm expecting that drives how you're investing in those deposits.   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
Okay. So let me start like talking about the $277 billion of average balance sheet that we have. Important point number one, 2/3 of those deposits are operational or what we call sticky. Here at BNY Mellon, we don't classify between insured and uninsured. We call it sticky and nonsticky. So the vast majority of our deposits are with us because the clients are in our ecosystem for the long term and need to have cash with us to execute their business. So that's why we think about it in that way.   
   
   
On the asset side of the balance sheet, like I would like to go back 18 months when we kind of made some strategic decisions about positioning for this rise in interest rates. We took a view in terms of how we wanted to set up the balance sheet with a rapid increase in interest rates. And so we've done a lot of work last year in terms of repositioning the portfolio in terms of higher for longer. 60% of our portfolio is in AFS. And a big part of that is 60% of the portfolio is also fixed. That has a weighted average maturity of about 4 years. So think of about rolling off a quarter every year. So if you take on the asset side, the amount of money that we have in cash plus the amount that's rolling off from fixed to floating, and the investment yield pickup of that is about 300 basis points. We feel when you look at both assets and liability together combined, we're really well positioned over the next 12 to 18 months to manage through this rate environment.   
   
   
**Betsy Lynn Graseck**   
*Morgan Stanley, Research Division*   
   
Okay. And you would say that the deposits already reflect the rates that obviously have come through to date, right?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
Largely, yes, absolutely, which is why cumulative betas are in the mid- to high 70s. And we expect them to grind a little bit higher from here. But we -- as I've said, we pay our clients a competitive rate. And they are sophisticated, and they know what they're doing.   
   
   
**Betsy Lynn Graseck**   
*Morgan Stanley, Research Division*   
   
Yes. Okay. And then just a separate question on op risk RWA. Next week, I guess, we're getting the Basel III end-game rules. And just wondering, I know we don't have the final rule, but I'm sure you've thought a lot about this op risk RWA component that's being added to standardized. Maybe you can give us a sense as to how you're thinking through and how we should think through assessing your position when those rules come out next week.   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
So again, look, we've talked about this pretty much for the last 12 months. So just to kind of recap what we've said before. Based on what we know, we expect operational risk RWAs to be in the Standardized Approach, and that will drive an increase in our standardized RWAs. Based on our internal analysis, we think that will have a smaller increase than what the QIS has shown in the past. And so we kind of feel like capital levels will be a little bit higher. But we feel we will have the ability to adapt and live with whatever the outcome is. But again, it's been delayed a couple of times. So I think for us, we're just waiting to see. And we'll turn it around quickly, and we'll communicate to you when we have something tangible to say.   
   
   
**Operator**   
   
And our next question will come from Steven Chubak with Wolfe Research.   
   
   
**Steven Joseph Chubak**   
*Wolfe Research, LLC*   
   
So wanted to dig into noninterest-bearing deposits. They're now firmly within your 20% to 25% guidance or target range. Your peers have offered more conservative guidance on NIB deposit trends. I know some of your businesses and your mix is pretty unique or idiosyncratic, but I wanted to just better understand what's driving the resiliency in NIB trends and your confidence level at that 20% to 25% range is still appropriate.   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
Okay. Thanks for the question, Steven. Let me again go back to my last call when it was at 26%. And I guess everybody on the call was looking to see why weren't we guiding higher. And we kind of said history has told us that through the cycle and the trough, our history and our experience, and we have data going back 20 years, and we look at that, the history tells us we should be in the 20% zip code. So we've done a very much bottoms-up analysis looking at the history.   
   
   
Important point to make here is our mix of businesses today is a little bit more diversified than it was 20 years ago premerger 2007. We have a more diversified range of business, as you said. We have Corporate Trust, Treasury Services, Asset Servicing, Clearance and Collateral Management. And each of our clients in each of those business segments use us for different reasons, and deposits behave in a slightly different way within each of those businesses. And the mix between NIB and IB in those businesses varies. And so that gives us a really good confidence level in terms of the diversified business model nature that we have. So our internal analysis is kind of pretty solid.   
   
   
And then we look at what industry is saying and what you analysts are writing about, and we kind of take that into accommodation, also what other people have guided and what our clients are telling us. And we take all of that together, and we kind of feel, at the end of the day, consistent with what we've said in the last 2 quarters is 20% is the best we can give you in terms of through the cycle, which importantly then feeds into our NII guidance of 20% over the course of 12 months. So it's important to remember, it's a 12-month guidance as opposed to managing it quarter-to-quarter.   
   
   
**Steven Joseph Chubak**   
*Wolfe Research, LLC*   
   
That's really helpful. And just for my follow-up, encouraging to see the 30% margin for Securities Services this quarter. That said, the IWM margin remains subdued, running in the low teens year-to-date.   
   
   
I know, Robin, you had talked about distribution being a big focus, but what do you see as an achievable target versus that low teens level you're running at today? And how much of that margin improvement is contingent on revenue opportunities like improved distribution versus efficiency gains?   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Sure. So looking at the whole company, the Securities Services margin was 29%. We've given previously the guidance and the target around getting that to 30%. We're very pleased with the progress.   
   
   
But there's no question that we've had some sort of easier tailwinds in the form of rates, and we have to continue to get after this deliberate cost to serve. And so I just put that as a footnote on the Securities Services point. We are laser-focused on continuing to drive that margin higher. We're not complacent about this at all just because it happens to be approaching our original target.   
   
   
But look, on Investment Management, and this goes a little bit to the prior question, 2 years ago, this was a 30% pretax margin segment. So we look around the world, we look at what's happened, how has it come down the various quarters, some of which is obviously a little bit cyclical. And our conclusion is we don't see any reason why we couldn't get back there. But execution comes in a bunch of different pieces, as I touched on before, and we really have to get after that execution.   
   
   
And I think for me, this point about the superpower of distribution, remembering that we are a diversified set of businesses at BNY Mellon. And we've had these tremendous distribution capabilities, which we have really not put alongside this Investment Management manufacturing capability as well as we could have. And so that's a strategic change in the company.   
   
   
And as we pursue that strategic change, and it will take a little while, that, we think, is going to have some important opportunity. I'll also call out the expenses. I've talked to you before about the fact that one of the other problems with silos as well as not bringing all of our company to bear on problems is the fact that we have duplicate costs.   
   
   
And Investment Management is a great example of this. We have, in our Investment Management central team, additional expense that duplicates to the rest of the firm. And we can find better ways of bringing those capabilities together to actually execute better. So there's opportunity there as well.   
   
   
So collectively, we're going to pursue all of these things. It's going to take us a couple of years realistically to see all of the benefit of all of this work, but we feel reasonably optimistic about our path forward here. And of course, we're going to continue to report it, and we'll keep you updated as we go on the journey.   
   
   
**Operator**   
   
And our next question will come from Glenn Schorr with Evercore ISI.   
   
   
**Glenn Paul Schorr**   
*Evercore ISI Institutional Equities, Research Division*   
   
So the FedNow platform has started for interbank payments. I'm assuming you're going to be playing a big role in this, but I'm curious what you think the expected impact for the industry and for BK is? Like these things are usually good for expenses, good for capital efficiency but bad for revenue. But I'm just curious if you can tell us what you think?   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Sure. So immediate payments, which is the umbrella I'll put both FedNow, which is the new service coming into production from the Fed, and also The Clearing Houses' real-time payments rails, that the whole immediate payments world does to us represent an interesting disruption opportunity in the ecosystem of payments because there hasn't been a ton of disruption over the course of the past sort of 20-or-so years. And so when these evolutions occur, we see that as an opportunity because we've been a bit underrepresented. Although we're the seventh largest U.S. dollar payments clearer, we feel a bit underrepresented in some parts of the flows of that ecosystem. So we've deliberately invested to be ready as a market-leading participant in the real-time immediate payments, let's call it, evolution.   
   
   
So yes, we think it's important. Yes, we think it's an opportunity. We were the first bank to do a test in the original rails. We've seen good traction. It's still early days. I think FedNow will be a bit of an accelerant to this because it creates more awareness of real-time payments, and it broadens out the overall sort of participation rate, I think. We've been very involved in them -- with them on this initiative. And we're trying to position our payments platform as rail-agnostic. And so clients of ours can come to us and say, hey, BNY Mellon, I want to make a payment.   
   
   
They don't need to care about is it going to be FedNow or is it going to be the RTP rails? How do they want to migrate away from checks? How do they want to treat it -- a payment on the Fed wire versus ACH versus one of these new capabilities.   
   
   
And remember, we wrap them in new services, so the ability to offer real-time request for payment, bill pay capabilities, the ability to wrap additional fraud services in this whole thing, we think this will be quite an interesting evolution.   
   
   
And to your point about volumes versus price, one of the good things about being a disrupter when you don't have as big a share of some of the credit card flows and some of those other things, which admittedly have a higher price on them, we aren't. So we get the opportunity to bring this unconflicted approach and benefit from the upside, frankly, without sacrificing much on the other side.   
   
   
**Glenn Paul Schorr**   
*Evercore ISI Institutional Equities, Research Division*   
   
Very interesting. Separate but related, I think you guys have done a very good job of taking that 20% net interest income growth you expect this year, offsetting a couple of percent expense growth and bringing that operating leverage. I'm trying to think out loud. The mid- to high single-digit expected deposit decline in the back half makes for a tougher full year '24. So even with good expense control, I guess my question is, how much do you need more of those -- get clients to do more with Bank of New York cross-selling mentality to kick in to produce that operating leverage next year?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
So look, that's a kind of a crystal ball-type question, Steven (sic) [ Glenn ]. So I think it's a bit too early for us to comment on '24. There are 3 parts to the question. It's like 1BNY Mellon client franchise, we go at it every single day with incredible intensity. We want clients to do more with us across different parts of the firm, and we're really working hard at that.   
   
   
The second point is expenses. Two quarters in, we're very pleased with where we are. We like the forward in terms of how we're executing and how the firm has set up to execute. I would remind you, like this time last year, we conducted a bottoms-up exercise where we took 1,500 ideas across the company from all our team members around the world, put a bit of investment dollars behind it. Digitization, automation and eliminating manual processes. And in the expenses flat quarter-over-quarter, you're beginning to see the dividends of that paying through.   
   
   
And importantly, in my prepared remarks, I said that we funded the entirety of our investment plan for the second quarter from efficiency, and we expect that to continue over the medium term. And then NII, we'll just prepare as we go. And the outlook is uncertain, but we'll manage through it.   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Glenn, I'll add one thing to that, which is as you look across our strategy, we were very clear at the beginning of the year about what we wanted to achieve this year. We set out these 3 points of our outlook, our guidance for 2023. And of course, the year is always going to evolve a little differently than you imagine it will right at the beginning of the year. And we've certainly had a year like that this year, where we've had unexpected things happening in all quarters of financial markets. And so what we have done is we stuck very deliberately to our medium-term plan. And we've not allowed ourselves -- while, we manage every quarter, of course, deliberately every individual thing that we're doing every day, generating more fees, focused on NII, focused on expenses. What we're really doing is preparing our company for this medium- and longer-term journey of delivery and achieving our objectives. And so there are always going to be a little bit of pluses and minuses in the quarter. But we really think that, that sort of broader strategy is what we're about, just deliberately executing and bringing the culture to bear. So I hear you on the next couple of quarters, but I would just continually remind you and put you back to that guidance that Dermot mentioned about what we're trying to do this year.   
   
   
**Operator**   
   
And we have a question from Ebrahim Poonawala with Bank of America.   
   
   
**Ebrahim Huseini Poonawala**   
*BofA Securities, Research Division*   
   
Just had a follow-up, Dermot, on the NII side. So heard everything that you talked about. You've done a good job in terms of forecasting NII and depositor behavior. Give us a sense of if we don't get any rate cuts over the next 12 months, where does NII trough, given the repricing on the security side that you expect and assuming no big surprises on deposits relative to your current expectations. Just is there a natural trough to NII without -- before we bake into it any Fed moves?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
So look, the path of -- it's a difficult question. The path of interest rate matters, yes, level of rates, timing. If you look at the last 8 months, the market, broadly speaking, hasn't got it right relative to Fed dota and has now come into line over the last several weeks. I think the 2 things that I'm looking at are -- it's pretty baked in that the Fed will hike in July. Then you have Jackson Hole. That's going to be a very important meeting. And then what happens in November because if it's one hike every 2 meetings, between July and November is a long time, and there will be a lot of data in that period. And so if they pass on November, it's going to be very hard for them to restart again. So I think when we look at our balance sheet, we positioned it higher for longer. And that kind of has informed our guidance of 20% for this year. And the book over the next 12 months, 12 to 18 months, we're broadly neutral on the outcome for rates up a little bit or rates down a little bit, and that's kind of how we think about it.   
   
   
**Ebrahim Huseini Poonawala**   
*BofA Securities, Research Division*   
   
Got it. And I guess just one follow-up maybe, Robin, you made efficiency improvement a huge focus for the last year or 2. And as we think about it -- and without sort of asking for guidance into next year, as we think about these efficiency benefits to the bottom line, should we think about it in increments much like you achieved it this year? Or should we expect a larger move at some point as you had the time to assess operations and maybe we see something larger next year or so?   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
It's an important question, Ebrahim. And I'm going to frame it slightly differently to you, which is we are focused on things that are going to be relatively quick wins associated with cleaning things up that we thought were inefficient. And we've also laid out for ourselves a series of medium-term things and a series of long-term things. And so we have a variety of initiatives in each of those buckets. Of course, we've been executing on them in parallel, but you've only seen the benefits of some of the shorter-term things right now. So Dermot gave you the example of the ideas that our people generated, and we're going after those. And we said those were sort of a 3-year-or-so implementation to get after that. We've talked about the fact that we did some work, some delayering in the organization at the end of last year into the beginning of this year, which has been quite helpful. That's also been a slightly shorter-term thing.   
   
   
At the same time, we're looking very deliberately and remembering that we are essentially a diversified financial services company because all of these different businesses that we have, and we have a lot of embedded platforms within that, platforms that have been operated in sort of nonplatform ways as a result of our sort of slightly siloed past. So now we're getting after organizing those things a little bit differently. And as we organize that, there'll be some expense benefit from that. But also then having organized them in that way, we get to really deliberately go after the duplication of systems and processes that are inside the company. And that's also when we really get to go after the digitization.   
   
   
So it's harvesting a little bit for the short term, focused on the things that we think make the company a well-run company, organizing ourselves to be able to structurally operate ourselves as we think of the company and then harvesting the benefit of that. So there's a 1-year story, a 2-, 3-, 4-, 5-year story associated with doing all of those things. But as with everything, we have to execute it really well. And we want our people to come along with us on that journey because a lot of this is change of behavior from how people have worked in the past, which is why we have a strategy. We're laser-focused on the execution, and culture really matters.   
   
   
**Operator**   
   
And we have a question from Ken Usdin with Jefferies.   
   
   
**Kenneth Michael Usdin**   
*Jefferies LLC, Research Division*   
   
Just a follow-up, to your point about being able to beat that expense expectation for the year and in reaction to a little bit different outcome on the fees than initially expected, I just wonder if you could just talk to us about both sides of that. Number one, the beating on the expense side, is that doing anything incremental in terms of either the severance effects or delaying investments? Or is it just the core?   
   
   
And on the fees side, I'm just wondering if you can kind of catalog for us which businesses have underperformed a little bit. And do you have a better line of sight for a better rate or change for those going forward?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
Okay. So I'll take that on the expense side. So like the guidance was 4%, okay? So -- and that's kind of down from 8% ex notables, ex currency, important point to kind of stress there. And so then it really comes down to executing and operational excellence in everything that we do on all the points that Robin made. And I think the Executive Committee and the firm and the team coming together and seeing that it can be done in a different way and then executing on that.   
   
   
If you double-click into different businesses, and let's take the Market and Wealth Services segment for a second, that's a segment that has a mid-40% margin. We're growing that segment. We're investing in that segment. We're putting big budget dollars to work there, and that's evidenced by our launch of Wove.   
   
   
If you go to our Securities Services segment, that is about increasing our margin through the cycle to 30%. And within that, we're insanely focused on our cost to serve, automation, digitization, serving our clients in a more differentiated way that brings down our cost to serve. So it does mean different things to different businesses at different points in the cycle. Plus in the first instance, it's all about how we show up and how we execute.   
   
   
On the fees, I think generally, we feel very good about our backlog. We feel very good about the pipeline. We're winning our share of what the market has to offer, and our clients like what we have to offer. So on the forward, we feel we have excellent momentum, and we're executing well with our clients.   
   
   
**Operator**   
   
And moving on to Brian Bedell with Deutsche Bank.   
   
   
**Brian Bertram Bedell**   
*Deutsche Bank AG, Research Division*   
   
Most of my questions have been asked and answered. But maybe just a follow-on on the 1BNY Mellon initiative. Maybe on the revenue side of that, it sounds like, obviously, there's a lot of low-hanging fruit on the cost side that will run well over the next 1 to 2 years. But on the revenue side of that, I guess, how would you -- just in a comparison perspective relative to expenses, how would you cite the revenue potential for 1BNY over the next couple of years? And if you can point to any one early example of cross-sell traction.   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Sure. So let me -- Brian, I'm going to split this into 2 pieces. So one is specifically on 1BNY Mellon, which we think of as increasing wallet share with our clients, being able to do more with existing clients, also attract new clients, of course, to the platform and sort of dealing with this issue that the median client at BNY Mellon is a consumer of products from one of our businesses. So that started as an initiative. If I really look back to the very origin of it, it was almost a bit of a movement. So it was a heart-to-mind exercise around getting people focused on the fact that this was an opportunity. And that was a good way to start. We set ourselves targets for 2022. We exceeded them. We set ourselves targets for 2023. By the way, we've achieved 80% at the half year mark, 80% of our full year sales targets for that initiative, and at least 50% of our sales force has made at least one referral. So we feel good about the way that we started.   
   
   
But as I mentioned in my prepared remarks, actually kind of industrializing that, embedding it into the way that we actually run all of our sales and relationship management groups all across the company, that's the next critical phase of this. And so that's when it becomes part of sales targets and part of the way in which we assess people's performance. And we incentivize them, and we train them. And to enable that, we made an important new hire, and I mentioned Cathinka in my prepared remarks because we needed to put somebody and wrap that strategy deeply into how we actually operate the company. So that's the specific 1BNY Mellon initiative. We feel very good that, that creates an underlying boost to whatever our growth would have been without that on the new business side.   
   
   
In addition to that, the point that I made earlier on about de-siloing the company, that has -- we talked about that more through the lens of expenses. But actually, it has an equally important component in terms of growth. And so we're investing in growth in how we actually operate our existing businesses in addition to the new innovations that we've talked about like Pershing X and outsourced trading and others. And so I'll give you a few examples of that.   
   
   
Let me give you one good classic example, which is we're a large clearing firm. We're known for having that as one of our businesses, but we actually have 2 institutional clearing platforms at BNY Mellon, one embedded in our Clearance and Collateral Management business and one embedded in our Pershing business. And remember, I'm talking about institutions here. So this isn't including the wealth piece in Pershing. And it didn't make any sense because we had multiple platforms, clients were confused. We did it in different ways. And so we've taken those 2 businesses, and we've combined them. And now we have one institutional clearing business at BNY Mellon. We're in the process of executing that change right now.   
   
   
I can give you the same types of examples around the way that outsourced trading came into being, which was originally landlocked inside Investment Management. We took it out. We aligned it next to our Markets business.   
   
   
We have another example of that with trading that we do for certain clients where we had multiple examples. So we have a long list of things where we were operating kind of independently. And part of our growth is by bringing those together, yes, we will get benefits in terms of efficiency, but we expect more client business from it, too.   
   
   
**Brian Bertram Bedell**   
*Deutsche Bank AG, Research Division*   
   
Yes. That's fantastic color. Maybe if I could just finish up on the deposit, one more on the deposit side for you, Dermot. You mentioned that your pricing is already very good. You're not seeing a great deal of pressure on deposit costs other than the grind higher that you cited.   
   
   
Within the Asset Servicing segment specifically, so the Asset Servicing part of Securities Services, are you seeing a different dynamic there whereby clients are looking to either shift out of NIBs or look for better deposit pricing? And then in those contracts that you have, servicing contracts that you have, do you have provisions for embedding sort of a level revenue type of outcome depending on whether they pay via fee or compensating balance?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
So look, Brian, I think you're trying to do a read across. So I think it's not really appropriate for me to kind of get into the detail on any specific business because we aggregate up to the firm and we give you a firm view. So I wouldn't say -- I'm not seeing anything within Asset Servicing as it relates to the mix of IBs and NIBs that would cause me to think there's been an outlier change quarter-over-quarter or something that's unusual and out of line with what we expected at the beginning of the year.   
   
   
**Operator**   
   
And we have a question from Gerard Cassidy with RBC.   
   
   
**Gerard Sean Cassidy**   
*RBC Capital Markets, Research Division*   
   
Dermot, earlier Robin pointed out that, obviously, there's going to be a lot of Treasury issuance in the second half of the year. Could you guys quantify the benefit or the monetary benefit that you'll see from this type of issuance because you're the primary clearer of Treasuries, of course? Is there any way of quantifying that for us?   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Well, I'll take that actually, Gerard. So look, when you look across all of our businesses, we recognize that growth comes in lots of different forms and our clients growing their wallet share with us. We can have market appreciation. We can have transaction balances, the total addressable market can go up. There are different ways in which we see opportunity. And in the Treasury market, given the role that we play in the Treasury market, at the end of the day, more Treasuries is a benefit for us because there are more Treasuries that get traded in the market. There are more Treasuries that need to get funded in the market. There are more Treasuries that get issued in the market. So there's a broader set of benefits there. And you've seen that as we've reported some of our results in Clearance and Collateral Management, which obviously has been a growing business. Now that business isn't only about Treasury. It's also about international clearance. It's about global tri-party outside of the U.S. So I don't want you to zero in and only think about that being driven by Treasuries. But clearly, Treasuries is a market we serve. And so when there are more of them and more activity, we regard that on average as good.   
   
   
**Gerard Sean Cassidy**   
*RBC Capital Markets, Research Division*   
   
Very good. I appreciate that. And then, Dermot, you were talking about the balance sheet and how the portfolios, the securities portfolios are positioned going forward, especially if we're in a higher for longer rate environment. What if we get surprised sometime in the spring of '24 and the Fed starts cutting rates? How quickly can you reposition the portfolio for that? Or would you need to do that? Can you give us some color on the opposite of what everybody expects today of higher for longer?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
The quick answer is a large part of our portfolio is cash, so reprices very quickly up or down. So we kind of think of our balance sheet as broadly neutral. So if they cut by 25 basis points or 50 basis points, we're okay. I think also our CIO has taken a couple of a little bit of protection on NII for '24 in terms of locking some of the gains in. So I would say, again, to the question a little while ago, we're broadly neutral up or down over the next 12 to 18 months.   
   
   
**Gerard Sean Cassidy**   
*RBC Capital Markets, Research Division*   
   
And then just if we were to move into this lower rate environment, because your deposit betas are so high so far year to -- from the beginning to where we are today, I would assume you would be able to cut rates pretty quickly -- deposit rates pretty quickly?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
Symmetrical. 100% accurate. Yes. Equally on the way down as on the way up.   
   
   
**Operator**   
   
And we have a question from Rob Wildhack with Autonomous Research.   
   
   
**Robert Henry Wildhack**   
*Autonomous Research US LP*   
   
I wanted to go back to the theme of fees versus expenses and drill down a little bit into Securities Services and the margin in there. I mean, what portion of the margin improvement you're aiming for do you think will come from sheer expense discipline? And then what portion do you think comes from all the fee opportunities that you're speaking to?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
So I'm not too sure I would like to give guidance at that granular level of detail. But what I would say is Emily and Roman are intensely focused on delivering a better cost-to-serve model than what we've done in the past. And we want to give clients a better experience with respect to automation, digitization and how we deliver our products to them. And so that is an intent focus of the team.   
   
   
Also, we feel we have -- we're the world's largest custodian. We're #1 in a lot of different things in the Securities Services space so we like our hands. We're winning our share. As I said earlier, our backlog is very strong, and we have a good medium-term opportunity set in front us that we're looking to win and execute on. Our yet to be installed book of business is very healthy. So I think we're going after the 2 legs with equal intensity, and both will deliver that margin of 30% through the cycle, very important. This quarter, we had a nice healthy pickup from the rate back up. But as Robin has said in an answer to another question, we're just not relying on that. We know we have a lot of work to do, and we're getting about it.   
   
   
**Robert Henry Wildhack**   
*Autonomous Research US LP*   
   
And then just one more on Pershing. Excluding the deconversion, performed pretty well again in terms of net new assets. Can you speak to some of the drivers there. Remind us what the revenue impact is and how you're thinking about the pipeline for that business specifically?   
   
   
**Dermot William McDonogh**   
*Senior Executive VP & CFO*   
   
So I don't want to do a revenue outlook based on the deconversion because I don't think it's right to talk about any single particular client. But what I would say ex the deconversion over the quarter. We had like 4% growth. Pershing is a business that's grown really well over the last number of years. We're very competitive. We're #1, top 3 in different things. And so I would say the feedback from our conference in Florida, INSITE, where we launched Wove, was really, really good. And Robin spoke about this at length in terms of the appetite about Wove. So we kind of think over the next several quarters, we like the business momentum. We have a lot of stuff in the pipeline. I think come October, we're going to have a couple of deals that we're going to be able to talk to you about that are quite exciting and will make you feel pretty good.   
   
   
**Operator**   
   
And our final question comes from the line of Rajiv Bhatia with Morningstar.   
   
   
**Rajiv K. Bhatia**   
*Morningstar Inc., Research Division*   
   
Just on that Pershing business, can you remind us how much of your revenue is from RIA custody side? And then can you talk about what you're seeing from a competitive standpoint? Goldman Sachs seems to be expanding in this area. Envestnet has partnered with FNZ. SEI has also made some moves here. So curious how you see the competitive landscape evolving.   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Sure, Rajiv. Look, we don't split out the RIA versus the broker-dealer. As you know, we're #1 in broker-dealer, and we're in the top 3 in RIA. So we're clearly a market leader. It's interesting the names that you picked because none of them are in the top 3 on either of those measures.   
   
   
So having said that, we're obviously not complacent about newer entrants into the market or other people who want to sort of get into this. This is a business that we've been in for a long time. We understand it, and we have scale.   
   
   
I'm just going to repoint you to the $2.3 trillion of assets on that platform that we think is -- gives us a tremendous starting point with clients and then the innovation that we've got in it. So we've gone multi-custody, which is very important in that business.   
   
   
We're innovating -- a lot of our services traditionally have been focused on the investor, but now we're delivering to the adviser as well with the Wove platform. We've innovated into direct indexing capabilities, financial planning capabilities, tax-aware investing capabilities.   
   
   
We're deploying BNY Mellon advisers and the capabilities from Investment Management because we have a $1.9 trillion investment manager. We have existing technology from our Wealth Management franchise, which is market-leading. And we're adopting a 1BNY Mellon mindset to that. So we're taking that technology and delivering it through Wove to other adviser clients.   
   
   
So we've got this whole breadth to how we're actually approaching this opportunity. And while we, of course, welcome the competition from some of these other folks, I don't think any of them can deliver that breadth of capability to our clients. And so for advisers and investors, we feel very good about our direction of travel in this business.   
   
   
**Operator**   
   
And with that, that does conclude our question-and-answer session for today. I would now like to hand the call back over to Robin with any additional or closing remarks.   
   
   
**Robin Antony Vince**   
*President, CEO & Director*   
   
Thank you, operator. And thank you, everyone, for your interest in BNY Mellon. If you have any follow-up questions, please reach out to Marius and the IR team. Be well.   
   
   
**Operator**Thank you. This concludes today's conference call and webcast. A replay of this conference call and webcast will be available on the BNY Mellon Investor Relations website at 2 p.m. Eastern Standard Time today. Have a great day. Thank you.

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