Seeking Alpha
Transcripts | **Financial**

The Bank of New York Mellon Corporation (BK) CEO Todd Gibbons on Q3 2019 Results - Earnings Call Transcript

Oct. 16, 2019 2:42 PM ET | 1 Like
by: SA Transcripts

Q3: 10-16-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.07 beats by $0.08 | Revenue of $3.86B (-5.11% Y/Y) misses by $-56.98M

Earning Call Audio

Subscribers Only

00:00 -52:36

The Bank of New York Mellon Corporation (NYSE:BK) Q3 2019 Earnings Conference Call October 16, 2019 8:00 AM ET

Company Representatives

Todd Gibbons - Interim Chief Executive Officer

Mike Santomassimo - Chief Financial Officer

Magda Palczynska - Head of Investor Relations

Conference Call Participants

Glenn Schorr - Evercore ISI

Brennan Hawken - UBS

Gerard Cassidy - RBC

Kenneth Usdin - Jefferies

Brian Kleinhanzl - KBW

Alexander Blostein - Goldman Sachs

Brian Bedell - Deutsche Bank

Mike Carrier - Bank of America

Rob Wildhack - Autonomous Research

Operator

Good morning, and welcome to the 2019, Third Quarter Earnings Conference Call hosted by BNY Mellon.

At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference call will be recorded and will consist of copyrighted material. You may not record or rebroadcast these materials without BNY Mellon's consent.

I'd now like to turn the call over to Magda Palczynska, BNY Mellon's Global Head of Investor Relations. Please go ahead.

Magda Palczynska

Good morning. Today, BNY Mellon released its results for the third quarter of 2019. The earnings press release and the financial highlights presentation to accompany this call are both available on our website at bnymellon.com. Todd Gibbons BNY Mellon's Interim CEO will lead the call. Then Mike Santomassimo, our CFO, will take you through our earnings presentation. Following Mike's remarks, there will be a Q&A session. As a reminder please limit yourself to two questions.

Before we begin, please note that our remarks today may include forward-looking statements. Actual results may differ materially from those indicated or implied by our forward-looking statements as a result of various factors, including those identified in the cautionary statement in the earnings press release, the financial highlights presentation and in our documents filed with the SEC, all available on our website. Forward-looking statements made on this call speak only as of today, October 16, 2019, and will not be updated.

With that, I will hand over to Todd.

Todd Gibbons

Thank you, Magda. Good morning, everyone. Glad to be back with you. As it's my first time speaking to you as CEO, I will focus my comments on my immediate priorities, as well as my perspectives on our businesses and will only briefly touch on our third quarter results. I'll leave that to Mike.

First, let me say how tremendously excited I am to be leading this great organization. During my long career at BNY Mellon, I've held leadership roles across risk, finance, client management and many of our businesses and I believe that gives me a strong grasp of the fundamentals of our company and what our stakeholders need and expect from us. I'm looking forward to continuing to work with Mike and the rest of the executive committee, as well as all of our employees, to stay on course and positioning our franchise to drive better performance and create sustainable growth.

We've got an ambitious agenda and I strongly believe that we're absolutely on the right path. The improvements we've made to our culture are clear. We're acting with a greater sense of urgency and greater responsiveness and I'm proud of the team's ability to stay focused through leadership change and to continue to deliver great service to our clients.

It's my intention to ensure we maintain a strong performance culture and remain focused on service quality, continue investing in technology and innovation and improving every aspect of our operations. Through that focus we've made significant progress in the last few years, which I believe positions us to improve our results over the longer term.

Now, while I was Head of Global Client Management, as well as a number of our servicing businesses, I've had the pleasure of working closely with our clients. During this period I've seen us meaningfully improve our services, as well as provide the technology and expertise to help them navigate challenges and achieve their goals. Our investments in our operations and technology are proving and broadening our capabilities and the adjustments we've made to our client coverage model are helping us deepen relationships and identify more opportunities.

Before getting into the quarter, let me run through what I'm seeing in our businesses. In Asset Servicing we continue to see the opportunity to do more for our clients, as changes in the asset management business puts pressure on their operating margins. These trends should offer more outsourcing opportunities in key segments, such as alternatives.

In terms of what we're actually doing, we're focused on continuously improving quality, which is fundamental. We are also investing in expanding capabilities to server alternatives such as private equity, credit funds, real-estate and ETFs. For example, we just recently implemented a significant mandate with Goldman Sachs Asset Management who pointed us to deliver a range of asset services for their newly launched European ETFs and we are encouraged by our attraction in this space.

We are building data and analytic solutions to help clients navigate a changing Investment Management landscape. The basic offering starts with a powerful aggregation capability. We can then apply analytics around that. Leveraging our data and analytics solutions technology, we enabled a large global asset manager to insource $250 billion of AUM within three months. The client now has a higher level of transparency in to cash and positions for the front office trading and has achieved better operational efficiency by leveraging their previous investments in our technology.

We think our data and analytics capabilities will be a true differentiator over time, but the alliances we are forming will create a more integrated front-to-back operating model. We recently announced a strategic alliance with Bloomberg to integrate our data analytics and servicing capabilities with Bloomberg's Portfolio Management, training and compliance platform. This will allow our common clients to experience faster onboarding, higher straight-through processing rates and more efficient data exchanges.

This new partnership comes on the back of the one we announced with BlackRock's-Aladdin platform earlier this year. Client reception to our partnerships has been positive as it helps them simplify workflows, improve efficiency and drive their performance.

In Pershing, we're focused on helping our clients drive their business in a dynamic industry. The pipeline of opportunity remains strong and we on-boarded a number of new clients in the Broker Dealer and Registered Investment Adviser Space. In the high growth Wealth and Advisory Segment we're investing in technology to improve the client experience, as well as investing in talent and strengthening brand awareness.

One of our priorities is to meet emerging client needs as investor preferences drive firms to transform. For example, we are enabling clients to integrate our technology and leverage pre-built business functions such as trading, reporting and asset movement, without them having to make big investments in their own technology. Overall, we're very excited about the potential for Pershing.

Moving on to Clearance and Collateral Management, it’s a key differentiator for us. Tri-party Collateral Management balances are up, mainly the result of growth from existing clients and new business and to a lesser extent from last year's client conversions.

We are confident in the organic growth prospects of this business. We are currently rebuilding our platform to give our clients the ability to seamlessly move securities globally, as well as offer enhanced resiliency and data and analytic capabilities, not currently available in the market. We think it will significantly boost our ability to attract new market participants, as well as additional business from our existing clients.

In Corporate Trust we're seeing benefits from the investments we’ve made in structural products and we continue to build out capabilities to better serve clients. This is broadening our relationships, especially in the important alternative Asset Manager Segment.

In Treasury Services we've been refocusing on higher margin and high growth businesses such as trade, foreign exchange and our liquidity offering. Our clients consistently tell me our service is excellent, which reflects on the quality of our people. In addition, we're looking to build off the investments we have made in real time payments.

In asset management we feel good about a number of the underlying strategies and continue to invest in the U.S. and build solutions to meet investor demand. We are actively launching new products across a number of areas including fixed income products, ESG, enhanced data and multi asset solutions.

For example, Alcentra raised 5.5 billion euros for its European Direct Lending Fund, double the minimum target. We are investing in rebranding to consistently use the BNY Mellon brand and make it easier to navigate our multi-boutique model. Lastly, performance has been solid across many of the largest strategies.

Moving to Wealth Management, it's strengthening our banking investment products and creating a strong foundation by investing in people, technology and platform.

Now let me turn briefly to our results for the third quarter. EPS was $1.07, that's up 1% versus a year ago. Total revenue was down 5% year-over-year and that was largely driven by net interest revenue. There are a couple of items that impacted both revenue and expense and Mike will walk you through those in some detail.

Our Investment Services fee lines were nearly or were up nearly across the board as the investment decisions we've been making are starting to yield some incremental positive results. Operating margin was once again resilient at 33% and we continue to deliver strong capital returns to shareholders.

With that, let me turn the call over to Mike.

Mike Santomassimo

Thanks Todd and good morning everyone. Let me run through the details of the results for the quarter. All comparisons will be on a year-over-year basis unless I specify otherwise.

Beginning on page three of the financial highlights document. First, the table at the bottom of the page summarizes a couple of notable items in the quarter that had a very small impact on earnings on a net basis, but did impact net interest revenue and expenses. I will describe them later in more detail, and as a reminder, the table also includes some items we highlighted in the third quarter of 2018.

This quarter, total revenue was down 5% to $3.9 billion. The notable items negatively impacted revenue by a little under 1.5%. The remaining decline primarily reflected lower net interest revenue, the impact of prior outflows in asset management and lower performance fees, as well as the impact of a stronger U.S. dollar.

While total fee revenue was down 1% year-on-year, investment services fees were up in most categories as Todd mentioned, excluding securities lending.

Net interest revenue was down 18%, partially driven by a $70 million lease related impairment. The impairment was for a legacy portfolio of leases and decreased net interest revenue by 8% and earnings per share by $0.06.

Expenses were down 5%, mainly reflect a $74 million net reduction of reserves that benefited non-interest expenses and increased earnings per share by approximately $0.06. This was related to a pretax charge that was recorded in the second quarter of 2014 in connection with potential tax related exposures of certain Investment Management funds that we managed. Excluding this and the impact of lower litigation charges, expenses were essentially flat.

A few other highlights from the page. Pretax income declined by 4% to $1.3 billion. The effective tax rate was 19.1% compared to 16.5% in the year ago quarter. We generated $1 billion of net income applicable to common shareholders, earnings per share of $1.07 was up 1% and our pretax operating margin was 33%.

Now, moving to capital and liquidity on page four. Our capital and liquidity ratios remain strong. Our key ratios were similar to the second quarter. Common equity Tier 1 capital totaled $18.3 billion and our CET 1 ratio was 11.1% under the advanced approach. Our average LCR in the third quarter with 117% and our SLR was 6.1%.

Turning to page five; my comments on the balance sheet will highlight the sequential changes, as this is a better comparison for you. Our average interest earning assets increased due to the client deposits driving our balance sheet higher. The average rate earned on interest earning assets declined in the third quarter, primarily as a result of the impairment that I mentioned earlier. Excluding this the average rate would have been down only slightly.

The average rate was negatively impacted by the Fed and ECB lowering interest rates. This resulted in U.S. short term rates moving lower by 20 to 30 basis points, while the long end was down by around 50 basis points since the second quarter which impacted the yield in our securities portfolio. This was partially offset by a modest benefit from our legal activity.

Loans increased in Clearance and Collateral Management and our trade loans grew within treasury services. However we continue to see low appetite for leverage in Pershing, which continues the impact of our margin loan balances.

As expected, non-interest bearing deposits declined, while interest bearing deposit increased. Deposit basis were broadly in line with our expectations and the net interest margin decreased by 3 basis points to109 basis points excluding the impairment.

Page six gives you some more detail of the drivers of the net interest revenue decline versus the second quarter. As I mentioned, we saw a continued decline in average non-interest bearing deposits, which had a negative impact on net interest revenue. We had a benefit from the increase in average interest bearing deposits, as well as lower deposit pricing due to the rate cuts.

Competitive pressure on deposit rates appears to have stabilized since the second quarter, but remains high. The yields on the securities portfolios was down by 15 basis points, which more than offset the benefit of higher portfolio balances.

Loan balances were mixed, with non-margin loans up and margin loans down and coupled with lower rates as the assets are typically a floating rate which negatively impacted net interest revenue.

We continue to look for opportunities to deploy our balance sheet and took advantage of higher reverse repo rates, which modestly benefited net interest revenue. As a reminder, we engage in limited hedging and funding activities, but this quarter positively impacted our interest revenue and our net interest margin by approximately 2 basis points. There is an offset to that reflected in FX and other trading.

Finally, the lease-related impairment of $70 million reduced net interest revenue to $730 million.

Now page seven detailed our expenses. On a consolidated basis expenses of $2.6 billion were down 5%. The decrease reflects the reduction of reserves for tax related exposure of certain Investment Management funds and the lower litigation expenses that I mentioned earlier. Excluding those items, expenses were largely flat with our investments being offset by declines and other expenses.

Turning to page eight, total investment services revenue was down slightly. Assets under custody and administration increased 4% year-over-year to $35.8 trillion, primarily reflecting higher market values and net new business, partially offset by the unfavorable impact of a stronger U.S. dollar.

Within asset servicing revenue was down 4% to $1.4 billion, primarily reflecting lower client activity, securities lending revenue and net interest revenue, as well as the unfavorable impact of a stronger U.S. dollar. As we have said in the past, we have not seen an acceleration in pricing pressure in the business.

Securities lending revenue continues to be negatively impacted by lower balances on the back of weak market demand and tighter spreads and foreign exchange and other trading revenue was slightly down as FX volumes and volatility remain subdued.

In Pershing, revenue was up 2% to $568 million, reflecting higher client asset values and accounts together with higher clearing and custody volumes. This was partially offset by lower net interest revenue.

Clearing services fees were up 7% as we continue to onboard new clients and we benefit from growth of existing clients. We are encouraged by the momentum we're building in the business with both RIAs and broker dealers. Issuer Services benefited from higher activity in depositary receipts. Revenue was up 3% to $466 million with 13% fee growth, mostly offset by lower net interest revenue.

Growth in Corporate Trust benefited from new business and volumes and depositary receipts revenue was up due to the timing of fees and higher cross border selling activity.

Treasury Services revenue was down 4% to $312 million with fees up slightly year-on-year, while net interest was lower. Deposit balances increased year-on-year by over 20%.

Clearance and Collateral Management revenue was up 11% to $293 million due to higher clearance volumes related to high levels of U.S. treasury issuance. In recent quarters the majority of our growth was driven by the client conversion from last year, but in the third quarter this shifted with more than two-thirds of the increase coming from existing and other new clients.

As a reminder, the client conversions were in the run rate starting in the fourth quarter of 2018 and average tri-party collateral management balance were up 19%, and I also want to note that the recent volatility in the repo markets was not a driver of the revenue growth in Clearance and Collateral Management.

Page nine summarizes the key drivers that affected the year-over-year revenue comparisons for each of our investment services businesses.

Turning to investment management in page 10, total investment management revenue was down 12%, asset management revenue was down 14% year-over-year to $605 million, primarily reflecting the cumulative AUM outflows since the third quarter of 2018, as well as lower performance fees, the impact of hedging activities and the unfavorable impact of a stronger U.S. dollar, principally versus the British pound, which was partially offset by higher market values. Performance fees decreased due to a particularly strong year of performance for our LDI strategy of last year.

Our largest revenue strategies continued at solid performance over both short and longer time frames. We had inflows of $1 billion in the quarter, primarily driven by cash inflows and abatement and index outflows. We had $11 billion of inflows into cash and $2 billion of inflows in to fixed income products, while our other strategies saw outflows of $12 billion.

Overall assets under management of $1.9 trillion are up 3% year-over-year due to higher markets, partially offset by the unfavorable impact of a stronger U.S. dollar and net outflows. Wealth Management revenue was down 8% year-over-year to $285 million, primarily reflecting lower net interest revenue, partially offset by higher market values.

Turning to our other segment on page 11, total revenue and net interest expense decreased year-over-year and sequentially, primarily reflecting the lease related impairment and corporate treasury activity. Looking ahead to the fourth quarter, there are a few things to consider, with respect to net interest revenue, market dynamics are changing quickly, but let me walk you through what we are seeing now, which I'll remind you is very early and you should make your own assumptions as well.

The market appears to be pricing in a Fed cutin October and another in early next year potentially January, which impacts the forward curves. We expect the average non-interest bearing deposit balances will continue to come down.

As of now our interest bearing deposits are a little lower than the third quarter. We do not expect the issues in the repo market to repeat themselves. This will negatively impact net interest revenue by approximately 1% versus the third quarter and we expect the portfolio yield to come down versus the third quarter. If these assumptions persist, we would expect that net interest revenue will be down sequentially by approximately 4% to 6% versus the lease-adjusted net interest revenue in the third quarter.

In Issuer Services we expect full year fees to be around the same as in 2018, give or take a little bit, so we expect a down-tick in the fourth quarter. As we announced during the third quarter, we entered into a definitive agreement to sell our interest in Promontory Interfinancial Network, with an expected after tax gain of approximately $600 million. We expect the transaction to close in the fourth quarter subject to approvals.

As we continue to streamline and optimize the company, we may look for opportunities to accelerate actions which could result in pretax charges in the fourth quarter in the range of $100 million to $200 million. And a reminder that we had some notable items in the fourth quarter of 2018; something else to factor into your modeling.

With that operator, can you please open up the lines for questions?

Question-and-Answer Session

Operator

Yes sir. [Operator Instructions]. Your first question comes from the line of Glenn Schorr with Evercore ISI.

Glenn Schorr

Hello! Thanks a lot. I know it's a different client base, but I'm curious if you think the price in reductions on the E-broker side and the retail side of E-broker LAN can have an impact on to your Pershing RIA clearing business? Just, could you help us think through that?

Todd Gibbons

Sure, good mooring Glenn, its Todd. Our business model is quite a bit different than the E-traders. As you know, we are a B2B; we are not a B2C business, so we don't actually charge commissions. We get paid on a number of different revenue streams like assets, as well as the clearing and settlement. So we don't foresee this as having any material impact at this time.

Glenn Schorr

Okay, and then maybe just a quickie follow-up on the NII, because I appreciate – I just want to sure I wrote it down. The NIR down 4% to 6% versus the lease adjusted number in the third quarter, and could you just repeat that part. I just want to make sure that we get the right jumping off point for 4Q and rolling into the next year?

Mike Santomassimo

Yeah, hey Glenn, its Mike. If you look at page six of the deck, you know the lease adjusted number for the third quarter was 800. So that's your jumping off point and so the 4% to 6% off of that base and if you – in my commentary I also mentioned part of the decline is related to the modest benefit we saw from the repo activity in the third quarter, so that's about a percent of it.

Glenn Schorr

And the rest is just the cuts we've seen and the deposit migration?

Mike Santomassimo

Correct, yeah it's net interest bearing deposits coming down a little bit, it's the yield on the portfolio continuing to grind down a bit, and it's based on where we see the positive balances right now, which are a little bit lower than what we saw in the third quarter, but as you know it's very early in the quarter to project with a high degree of certainty at this point.

Glenn Schorr

Okay, and I just want to make sure. You saw some extra deposit slide in from the repo mess in the quarter, but unclear if they stick around. I'm putting words in your mouth, but I just want to see what your thoughts are?

Mike Santomassimo

Yeah, no. I think the deposits we saw, the incremental deposits we saw in the third quarter were not necessarily related to the repo volatility; that was just underlying client behavior. We made some money by deploying some of our excess liquidity into the repo market, you know during those few days. That coupled with our cleared repo program that we've got you know for clients is where we made the extra money during those few days of the volatility.

Todd Gibbons

And Glenn, that wasn't a huge amount of money. I mean we had – we have a lot of liquidity. If there's a little bit of a distortion in the market, we'll take advantage of it and we did and it had a little bit of help, but it didn't impact balances.

Glenn Schorr

Okay, I appreciate that. Thank you.

Operator

Your next question comes from a line of Brennan Hawken with UBS.

Brennan Hawken

Good morning guys. Thanks for taking the question. Todd, first just a quick one on sort of a high level. Just wanted to – you know interested in your thoughts on level setting and very helpful to hear your comments in the beginning of the call. But clearly we had a bit of a movement on the top here with BK with you know Charlie moving on and you stepping in.

And so clearly you were part of the management team, you've been at Bank of New York for a very, very long time, developed their plan, so that seems straightforward. But can you help us maybe think about tactical timeframes; how's the Board thinking about their search at this point? Most investors assume that you're going to be part of the consideration for that search; is that fair? And could you help us think about, just in the near term how there might be some tactical adjustments in strategy or is it going to be very, very similar to how we've been going, you know steady as she goes, so to speak.

Todd Gibbons

Okay Bryan. There is a lot there, but let me start that you know with the change at the top, the board executed its succession plan and is going through the due-diligence. It has initiated a search and I have indicated my interest to be a part of that, so that's in the process and we don't have any strict time frames on that, that will flow as it flows.

In terms of my own priorities and you know anything tactical that we're seeing, frankly I've been in the middle of driving the change agenda that's been going on that Charlie had lead over the past couple of years, and I really felt like I'm an integral part of it. Actually I've enjoyed it. So what I'm not going to do is revert back to some of the ways that things were. So we're going to continue to drive a very strong performance culture.

I see us holding ourselves more accountable. We're expecting – we really expect and demand excellence from each other and I'm not going to let that change, so that's at the high level. The investments that we're making in technology are going to continue. They are going to be focused on a number of things, not only that we make our services more resilient, that we improve the client experience and where we are having some real successes around improving operational efficiency. So that continues to be high on my list and I think there is a lot more that I would follow in my next point here is that we will automate and continue to approve operations.

I think we've got a lot of attraction that we can point to, a lot of successes and opportunity to do more. I got to stay focused on regulatory relations given who we are and what we're doing and so that will be a high priority, and finally you know Mike and I are now pouring through the planning process and we've got to make good decisions around our investment opportunities. We have quite a number of them and that actually will be fun.

So I think it's been a very smooth transition. At this point I don’t think anything has changed people and I really am quite pleased with the leadership team, how smoothly they've moved on.

Brennan Hawken

That's great color, thank you so much Todd for that. One question here for Mike. Previously you guys had guided to the back half of 2019 being flat for operating expenses versus the back half of 2018. I believe that the core expenses in the back half of 2018 were $5.4 billion. It looks like core expenses this quarter is 2.7. Does that mean that we should be looking at core expenses for the fourth quarter to be roughly flat with the core to this quarter, is that fair?

Mike Santomassimo

Yeah I mean, I think it would take a little bit Brennan, so – but yeah, I mean I think the guidance we gave in terms of sort of being flat, you know year-on-year give or take a little bit still holds.

Brennan Hawken

Okay, you mean you obviously laid out the charges, but that would not be core, right?

Mike Santomassimo

Correct.

Brennan Hawken

Yep, thank you.

Mike Santomassimo

You have to look through that.

Brennan Hawken

Perfect.

Operator

And your next question comes from the line of Gerard Cassidy with RBC.

Todd Gibbons

Good morning, Gerard.

Operator

Gerard, you may be on mute.

Gerard Cassidy

Thank you. I apologize about that, I was on the mute. Thank you. Following up on your comments about the repo destruction and how you had a small benefit, and I know you don't expect it going forward. Can you guys give us any color? Is there any benefit of the treasury now or the Fed I should say coming back in. They are not calling a quantitative easing, but we know they're going to come in and start buying securities. Do you guys see any benefits for your business from their activities?

Todd Gibbons

Well, you know the Fed conducts its open market transactions through repo and they do use our repo platform, our tri-party platforms for some of those transactions. It would be very, very modest if any impact to our revenue. So it will obviously impact the rate at which repo trades, but it's a deminimus impact.

You know the good news about the business and the tri-party business and our management businesses is it continues to grow. So we've seen – you know we saw a significant growth in the past quarter. Some of that, less than about a third or so of that was from the conversions that we had from last year. But the rest of it is either new clients or additional growth with existing clients.

Collateral management and repo, it is growing as the unclear margin rules grow and the demand for secured credit grows. So we like our position there and you know I can go on more about this, because we're – one of our biggest investments is in what we call the future of collateral management, in making our systems interoperable in a way that just makes it seamless for our clients to move collateral; that will have a huge benefit to them. So the key focus for us, but the disruption in the repo market had little if any impact.

Gerard Cassidy

Very good. And then just as a follow-up, you gave us good color on the sequential look into net interest revenue and what you know the forward curve is saying about future fed fund rate cuts. If you guys could paint us a picture for 2020, what would be an ideal interest rate environment for you to benefit from a net interest revenue standpoint? Again, I know it’s – and I’m not going to hold you to it, but just curious what would be that ideal environment.

Todd Gibbons

I'll take it. I’m looking at Mike here. You know a steeper yield curve and fewer uses; it really isn’t a lot more complex than that.

Gerard Cassidy

Very good. No, I appreciate that, thank you.

Operator

Your next question comes from the line of Kevin [ph] Usdin with Jefferies.

Kenneth Usdin

Hey, good morning guys. I just have a couple of follow-ups on the NII front. Hey Mike, so can you talk a little bit about – it seems like you know if the balance sheet were to be flattish from here even, that the NIM obviously is still grinding down. Can you talk us through – you mentioned a little less competitiveness on the deposit side, but the dynamics of the asset portfolio re-pricing, that whole, you know the three-quarters aspect versus what you are seeing on the deposit betas. Can you give us some color on both sides of what you are seeing? Thanks.

Mike Santomassimo

Yeah, and I'll start with the portfolio Ken. And you know obviously what you are seeing in the portfolio is you know yields continue to grind down as sort of rates have come down. It's really no more complicated I think than that, and about a third of our portfolio re-prices every quarter, either through you know securities maturing and getting reinvested or through the floating rate you know component of it; and in those cases you know the rates in the portfolio are moving ahead of when the Fed moves and so you are going to see a decline in the asset yields first and then when the Fed moves you are able to move deposit pricing down and so you are going to have that lag and so that rates are declining and it's negative – it has a negative impact you know during that period.

I think on the pricing side, you know what I said was you know pricing remains competitive, although its stabilized over the last you know 90 days, 120 days or so and so we're seeing you know pretty consistent competition across a whole series of our competitors, but we're not seeing anything that's irrational you know across that set right now.

Kenneth Usdin

Okay, and I guess as a follow-up then, so if we just play it forward and you look at your forward curve and you mention the October and the potentially early '20, at what point do you see the yields on the asset side starting to level up because of that three quarter roll through. Like do we get to a point in early next year where you just kind of have flushed everything down? How do we start to assess like when that bottoming point might happen?

Mike Santomassimo

You know, I mean look, I think that's the question I think most people are thinking about and I think as you sort of look at it, it's really going to – it starts to stabilize when forwards start to stabilize, right, and I think when you look at forwards right now, it's still declining as you look out, and so I think when forwards start to stabilize you'll start to see the portfolio yield stabilize as well.

Kenneth Usdin

Okay, thanks Mike. I appreciate it.

Operator

Our next question comes from the line of Brian Kleinhanzl with KBW.

Brian Kleinhanzl

Great! Yeah, just two quick questions. I wanted you to mention that the promontory sales is going to close this quarter. Was that – I mean that gain could be used for addition share repurchase if you decided to do that or is that already included in the CCAR plan?

A - Mike Santomassimo

It's something we'll consider as we look forward for our capital plan next year.

Todd Gibbons

So no, it was not included in our CCAR plan for this year. So we couldn't – you know we could take that because it hadn't taken place.

Brian Kleinhanzl

Okay, but you're not going to do additional share purchase this year?

A - Todd Gibbons

We will – we'll consider it as part of the plan next year.

Brian Kleinhanzl

Okay. And then just focusing on the investment management business, I mean you have negative operating leverage in there. Year-on-year, I mean what does it take to kind of generate the positive operating leverage in that segment again?

Todd Gibbons

So if you look at our investment management businesses, a number of the businesses are doing pretty well. Our LDI business continues to grow. Our Altrin [ph] – credit business in Alcentra is doing pretty well and in fact our managers in the U.K. are doing reasonably well.

Where we are challenged is in our business in the states and we've taken some steps to combine those businesses into what we now call Mellon, but until we see that stabilize, it's going to be – that's where the challenge really resides. So we need to see some improvement in the performance. We think by combining there are things that we can do operationally to continue to manage the cost, but that's our focus point.

Brian Kleinhanzl

Okay, great, thanks.

Operator

And next we'll go to Alexander Blostein with Goldman Sachs.

Alexander Blostein

Great! Hey, good morning guys. A question around deposit growth this quarter, some pretty nice trends sequentially. I know there's been a strategic focus for you guys to get a larger share of kind of customers' wallets over time. So maybe talk a little bit about the sources of growth this quarter and sort of the attraction you're getting into the wallet share gain, thanks.

Mike Santomassimo

Yeah, this is Mike. Yeah, as you highlighted, you know we’ve been focused for the – you know the better part of a year or a little over that, sort of really driving more share of client deposits through a whole series of initiatives that I think you know I mentioned in my commentary around treasury services, which is a good example where you know deposits are up you know around 20% and I think that's a great example where you know it's not only about getting deposits.

It also brings with it other activity and fees with it as we sort of go after that, those relationships. And I think that effort that we've got is really across every single one of our businesses, with the asset servicing, corporate trust, treasury services, wealth management, and I think at varying degrees we’ve had success in growing our share of operating deposits across the different client segments.

Todd Gibbons

Yeah, I would add to that Alex. This was not a focus of ours in years gone past, especially in zero rate environments and with leverage ratios and so forth, but today we’ve established a couple of these campaigns and we've been pretty successful and you know we’re a very attractive client or counterparty for depositors and we can connect it to the businesses. It makes a lot of sense. The more we can get to payments business, the more opportunity we've gotten to grow our deposit base. So it's largely just increased focused and targeted campaigns.

Alexander Blostein

Got it, thanks. And then a more tactical question I guess. With the Fed being back in the market by T-bills, historically we’ve kind of used the deposit rebates of the trust banks that are somewhat correlated with the level of excess reserves in the banking system. Would this create a similar dynamics – in other words if the Fed becomes again more aggressive in buying back our treasuries and T-bills, would that be an overall helper to the size of the balance sheet as we move forward?

Todd Gibbons

You know, I think you know – I mean the deposits have been correlated you know in the past to excess reserves, but you sort of – you really need to look at it over a period of time and in any given quarter that may or may not be the case and we'll see how the most recent announcement and activity levels sort of play out and the Fed's just getting into the market now with this week. I think some of those you know trade settle later in the week for the first time, and so I think it's too early to know exactly what impact it's going to have and I think you really need to think about it over you know some period of time and quarter-to-quarter it may not play out exactly as the historical trend might indicate.

Operator

Your next question comes from the line of Brian Bedell with Deutsche Bank.

Brian Bedell

Great, great, thanks very much. A question for both Todd and Mike on the expenses. I think Mike, you mentioned – if I have wrote this down correctly, an estimate of $100 million to $200 million of restructuring charges in the fourth quarter. If you can talk about the underlying expense that is projected to reduce, I guess going into next year, you know cognizant that you probably don't want to give guidance for next year yet, but just to get a sense of that.

And then I guess bigger picture Todd, you talked for a long time about investing in a technology to increasingly automate the business and reduce that operational costs and you've done a lot over the last several years in making progress on that. So just trying to get a sense of as we move forward over the next day one to two years, is this – did we have a lot more runway and there is initiative to the extent that we can keep the expenses at least flat for the organization or even down.

A - Todd Gibbons

Okay, Brian why don't I take the latter part of that and I'll hand it over to Mike for the earlier part of the question. We've got nearly 100 programs in place so we do continue to see significant opportunity to automate a lot more things like reconciliations. When we look at the accounting platforms and the NAV calculations, there are still many manual processes in there that we are targeting, so I kind of look at – and there are still you know locations that we can – that we need to manage where there's opportunity.

And as we look out to 2020 and some of the things that we can accelerate, I'll call out you know a couple of items. Number one, I think around reconciliations we can increase the scalability of the plant. We've actually been applying machine learning and creating much much more automated reconciliation process. It doesn't seem like a lot, but if you think about what we do as a company, it is a massive undertaking with a huge amount of headcount dedicated to it.

We're also investing in a client inquiry system where we'll digitize all of the clients' inquiries into us. That doesn't sound like a lot either, but if you can imagine the millions of transactions that we process. If we can automate how we capture inquiries around it, we're also automating our instruction capture and as I mentioned earlier, there's opportunity for us to do more around the accounting services and striking net asset values.

So as I look out over the next two or three years, this is not a -- we're not stopping, there's a lot more that I think we can do here.

A - Mike Santomassimo

Yeah, and I think as you think about the charges, that investments we're making, we've got a very disciplined process to look at the ROI's and the payback periods for each of the investments and we do that for all of them, so you should assume we're doing that as we look at the investments we're making.

Brian Bedell

Okay, that's all great color. And then just to follow up on the asset servicing. I think Todd you talked about increasing some of the servicing capabilities for alternative. Do you feel that your – the platform that you have for that right now is adequate to do that or are there potential significant enhancements to come either organically or through acquisition and I guess could you leverage BlackRock's eFront, with the recently acquired eFront platform. I know you've got the relationship with Aladdin.

A - Todd Gibbons

Yeah, I mean let me go to the beginning of that. When we look at the real estate servicing business, we're growing that quite rapidly from investments that we've made previously and that's just continuing to capture the market. So we see opportunity there without a whole lot of more investment. We'll have to obviously keep the platform firm.

Where we are making some investments is more around private equity and credit platforms, so we've got a couple of potential wins there and we are not just looking at BlackRock, but at others for potential partnerships that we might be able to leverage as well. So yeah, we think in the wealth space, without a huge amount of investment we can continue to capture some growth and some market share.

Brian Bedell

Got it. Great! Thanks very much.

Operator

[Operator Instructions]. Out next question comes from the line of Mike Carrier with Bank of America.

Mike Carrier

Hi, good morning and thanks for taking the questions. May be first, just given some of the traction you're seeing in Pershing and Collateral Management, where is the firm today in terms of maybe market share and which strategies are you putting in place to drive additional organic growth and bring on additional clients?

Todd Gibbons

Okay. Well, I'll start with Collateral Management first. So if you think about our Collateral Management business, it's primarily around tri-party repo, but there are also un-cleared margin rules that are going into effect where the buy side now has to collateralize it's derivative transactions. And those are phased in and so that market is actually growing, so we are benefiting from that.

Where we are investing is to make it seamless for our clients to move collateral around the world on our platform, which will make them much more efficient, effectively what it does for them, it reduces the amount of liquidity and capital as they have to commit to their own business. So it generates real funding benefits to them, so they are quite excited about it.

The other thing we're doing is we're investing in automation of the rule set. So if you think about the tri-party repo, two parties have that rules and we've automated that rather than making it a manual process which makes it much, much easier for them to initiate transactions. So that's number one.

Number two, if you look at the worlds repo market, only about 25% of that uses tri-party today and as we provide these type of services and make it much more attractive for people that are doing things, what they call a bi-lateral repo, which is just doing it directly, so we think we can either use tri-party services or act as a custodian. So we think there is growth potential there, so that's one of the things that were driving for and that will be a two-year process and we're pretty excited about the prospects there. There is a lot of going on in this space.

The other question was around Pershing. Yeah, Pershing is a little less impactful on the Collateral Management space. Pershing's really providing, clearance and custody for broker dealers investment advisers and to some extent there is some prime business there with hedge funds as well. And the beauty there is that market is growing, the advisory business is growing quite rapidly, we're on the corporate side of that. So there was some lost business due to consolidations. We've now implemented enough new business to start to offset that. I think Mike had made that very clear on previous earnings calls and so we see the - we see ourselves in the potential to start showing growth there.

Mike Carrier

Alright, that's helpful, and then just a quick clean up. Mike just on the reserve release did you fully exit the exposure on the utility and then same thing on the tax rate, just on the low end. Any update in terms of the guidance or the outlook?

Mike Santomassimo

We did fully dispose of the exposure for the utility, so there is no more left. And on the tax rates, it's a little noisy just given the in's and out's this year, but we haven't given employer guidance, but what we said in the past was sort of 21-plus or minus. My guess is we'll be a little bit below that 21.

Mike Carrier

Okay, thanks.

Operator

Next question comes from the line of Rob Wildhack with Autonomous Research.

Rob Wildhack

Good morning guys. In the business can you give us some details or some thoughts on client attrition and how that has been performing recently versus prior years and what you're doing to maybe improve retention?

Mike Santomassimo

Rob your phone like gave out there a little bit, on which business you were talking about. Which business was it?

Rob Wildhack

The core business.

Mike Santomassimo

The Asset Servicing business. Sure, I think Todd can add some color in there. You know I think as we as look at the things that we're doing to continue to improve the quality of the service we have, that is directly aimed at continuing to reduce attrition and improve the service level for our clients and I think where we have put focus on that with our largest clients, we are seeing really good traction and results. I think so when you look at the impact that client losses or attrition had in the quarter, it's pretty similar to what you would have seen over the last number of quarters or a couple of years.

Rob Wildhack

Okay, thanks. And then Todd, you mentioned decision making around upcoming investment opportunities. It seems like we've talked about a few of them here, but maybe at a higher level can you talk about your priorities and any additional color on the opportunities you are most excited about? Thank you.

Todd Gibbons

Yeah, I spelled out the priorities earlier and they really continue to basically be, continue with the change agenda that I've been part of over the past couple of years, and I look forward to continuing to drive that. So we are not going to revert to practices that we are weaker than where I think we are now, that's for sure.

In terms of right now where I think we are seeing opportunities is in the wealth space around Pershing and our own wealth management business and we talked about the client business probably in too much detail and I gave you a lot of color there.

But asset servicing still has quite a few opportunities, we talked a little bit about alts. But to Mike’s earlier point around attrition, as long as our capabilities are as strong as they are and our service is as good as it is, the attrition rate will go down and I think that, I think we'll keep moving the needle on it. You're always going to have some clients leave for some reason or other. We've got to make it more and more difficult for them to leave. That's why we're pretty keen on these – on these partnerships that we've had.

The one that we announced with Bloomberg in the quarter is another indication of that and by being able to make it much more convenient for them to do business with us, by a single sign on through Bloomberg to get all kinds of custody information makes, it more difficult to leave and that's what we want to do.

Rob Wildhack

Got it, thank you.

Todd Gibbons

Thank you, Rob.

Mike Santomassimo

Alright, thanks everyone. We’ll talk to you next time.

Operator

Thank you. This concludes today's conference call. A replay of this conference will be available on the BNY Mellon Investor relations Website at 2:00 p.m. Eastern Standard Time today. Have a good day!