State Street Corp (STT) CEO Ronald O'Hanley on Q3 2019 Results - Earnings Call Transcript

Oct. 18, 2019 4:36 PM ET
by: SA Transcripts

Q3: 10-18-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.51 beats by $0.11 | Revenue of $2.9B (-1.63% Y/Y) beats by $40.46M

Earning Call Audio

Subscribers Only

00:00 -30:17

State Street Corp (NYSE:STT) Q3 2019 Earnings Conference Call October 18, 2019 10:00 AM ET

Company Participants

Ilene Bieler - Global Head, IR

Ronald O'Hanley - President, CEO & Director

Eric Aboaf - EVP & CFO

Conference Call Participants

Alexander Blostein - Goldman Sachs Group

Glenn Schorr - Evercore ISI

Brennan Hawken - UBS Investment Bank

Kenneth Usdin - Jefferies

Betsy Graseck - Morgan Stanley

Brian Bedell - Deutsche Bank

James Mitchell - The Buckingham Research Group

Michael Mayo - Wells Fargo Securities

Gerard Cassidy - RBC Capital Markets

Robert Wildhack - Autonomous Research

Marlin Mosby - Vining Sparks

Brian Kleinhanzl - KBW

Ilene Bieler

Good morning, and thank you all for joining us. On our call today, our CEO, Ron O'Hanley will speak first, then Eric Aboaf, our CFO, will take you through our third quarter 2019 earnings slide presentation, which is available for download in the Investor Relations section of our website, investors.statestreet.com. Afterwards, we'll be happy to take questions. [Operator Instructions].

Before we get started, I would like to remind you that today's presentation will include results presented on a basis that excludes or adjusts one or more items from GAAP. Reconciliations of these non-GAAP measures to the most directly comparable GAAP or regulatory measure are available in the appendix or slide presentation.

In addition, today's presentation will contain forward-looking statements. Actual results may differ materially from these statements due to a variety of important factors, such as those factors referenced in our discussion today and in our SEC filings, including the risk factors in our Form 10-K. Our forward-looking statements speak only as of today, and we disclaim any obligations to update them even if our views change.

And let me turn it over to Ron.

Ronald O’Hanley

Thanks, Ilene, and good morning, everyone. Turning to Slide 3, we announced our third quarter financial results this morning, reporting EPS and ROE of $1.42 and 9.7%, respectively. Before I go into more detail about our results, I'd like to discuss we're seeing in the macro environment. As one of the world's largest investment service providers, we have a unique window into global capital flows, despite an accommodative monetary policy supporting U.S. equities and global fixed income assets, a significant amount of cash remains on the sidelines. Notwithstanding that, both industry and client flows have improved in recent quarters relative to 2018.

Relative to the year ago period, State Street's total revenue fell 3% reflecting lower interest rates, weaker international average equity market levels and challenging industry conditions, including price compression, partially offset by the positive contributions of Charles River.

When compared to the second quarter, however, total revenue increased 1% driven by higher servicing fees, stronger net interest income and better foreign exchange revenue. We are encouraged by the direction of our servicing fee revenue and believe that our efforts to improve revenue performance are having the intended impact. We are making progress, we are not yet where I would like to see us as a business and reigniting servicing fee growth remains a priority.

Assets under custody and administration increased slightly quarter-on-quarter to $32.9 trillion, and we are pleased with the level of new wins during the quarter of $1 trillion, while assets yet to be installed increased to $1.2 trillion. At Global Advisors, we also had a good quarter. Assets under management increased by 1% quarter-on-quarter to just under $3 trillion, supported by higher period end-market levels and relatively strong ETF and cash inflows. I'm particularly pleased by the third quarter of consecutive net inflows.

We are making good progress across the enterprise, but we are not yet hitting our full potential, which is why reigniting servicing fee growth remains a top priority. I would like to provide you now with an update on some of the strategic progress we are making to improve our revenue growth as well as our operational efficiency. First, regarding reigniting servicing fee revenue growth, we are seeing some tangible progress as demonstrated by this quarter's performance, part of this initial success is due to a strengthened focus on our clients. We have made some appointments in key strategic areas of focus, such as what the recent announcement of our new Head of U.S. Asset Owner Relationship Management. In addition, we have expanded our management committee in recent months adding to the diversity of our leadership and talent. Furthermore, we are taking steps to improve client service quality by reassessing and leveraging the capabilities of our newly combined operations and technology division.

Regarding operational efficiency, expense management remains a key focus for all of us. As a result of ongoing process reengineering and automation efforts, we have been able to reduce high-cost location head count by more than 2,700 year-to-date, already exceeding our initial target of 1,500 by year-end.

Furthermore, our $400 million underlying expense savings program for full year 2019 has already achieved $275 million in total year-over-year growth savings in the first 9 months of the year. You will recall that last quarter, I announced that we are in the process of updating our core business strategy to help us return to stronger revenue growth as well as conducting a fundamental reassessment of our technology ecosystem in order to improve our operational efficiency in the near term. This reassessment is underway and we have taken early actions in this regard.

In recent weeks, we have rationalized some of our technology head count. There are a number of areas we are examining to create better technology outcomes at lower cost, with an increased emphasis on development projects and innovation that have a direct client service benefit and strength in our resiliency. We continue to expect that we'll be able to provide further detail on our reassessment later this fall.

Our vision remains becoming the leading asset servicer, asset manager and data insight provider to the owners and managers of the world's capital. Our front-to-back platform, which we have branded Alpha is key to achieving that vision in our financial targets over the medium term. This Alpha strategy is facilitating deeper client relationships, allowing us to increasingly become their essential partner, while delivering operational efficiencies to both our clients and State Street. Our front-to-back asset servicing platform continues to have a strong pipeline with a number of clients in exclusive negotiations. The level of client engagements remains at an encouraging level. Regarding shareholder return, following our strong performance under the 2019 CCAR stress test, we recently announced an 11% increase to our quarterly common dividend to $0.52 per share and returned approximately $690 million to shareholders, including $500 million of common share repurchases during the third quarter. We expect the changes to regulatory capital requirements will support our ability to return additional capital to our shareholders in the future.

To conclude, our immediate focus is on delivering world-class client service, while finding ways to reignite revenue growth and generate expense reductions through sustainable improvements in our operating model. We are making progress in all of these areas.

And with that, let me turn it over to Eric to take you through the quarter in more detail.

Eric Aboaf

Thank you, Ron, and good morning, everyone. Let me start on Page 4. On the top left panel, we show our GAAP results as well as certain results ex-notable items in the bottom for those of you who want to see some of the underlying trends. On the right panel, we summarize notable items, which amounted to $45 million pretax or $0.09 per share in the third quarter, consisting of $27 million in acquisition and restructuring cost primarily from Charles River as well as $18 million in legal and related expenses.

The A&R costs are in line with our expectations and are helping us deliver on anticipated CRD expense synergies. For period-on-period comparisons, recall that we had no notables in third quarter '18, but we did have $12 million of A&R on a pretax basis equal of $0.03 per share in the second quarter, primarily due to Charles River.

Turning to Slide 5, we saw period-end AUC/A levels decline 3% year-on-year and up slightly quarter-on-quarter. On a year-on-year move was driven by the impact of a previously announced client transition, partially offset by higher spot market levels. Quarter-on-quarter, the modest AUC/A increase was mainly due to higher spot market levels and client flows, partially offset by the same previously announced client transition. In regards to the transition, recall that this was immaterial to quarterly revenues since the end of 2018, and we do not expect any further material revenue drag. AUM levels increased 5% year-on-year and 1% quarter-on-quarter on just about $3 trillion driven by higher U.S. market levels and strong net flows. Third quarter '19 saw net flows of approximately $13 billion, driven by cash products and ETFs for third consecutive quarter of positive inflows.

Moving to Slide 6. Servicing fees were down 5% year-on-year, but down just 3% year-over-year ex-FX. As Ron discussed, while challenging industry conditions persist, the pace of quarter-over-quarter servicing fee headwinds continue to moderate in third quarter with this quarter's results showing a sequential increase, primarily driven by higher average market levels, net new business and some market-based catch-up accruals. And while 2 quarters are not yet a trend, we continue to believe that the actions we have taken since late last year, including the rollout of our new client coverage model and the newly formed executive review committee to strengthen pricing discipline are having an impact. Nevertheless, as Ron also mentioned, we remain unsatisfied with these servicing fee results and recognize that still more needs to be done to reignite revenue growth.

On the bottom right panel of this page, we've again included some sales performance indicators to provide a little more texture. As you can see, AUC/A wins totaled $1 trillion in third quarter, which also raised our assets to be installed. The sizable win this quarter demonstrates the benefit of our scale and capabilities, including a mandate from an existing large client as we continue to grow our relationships.

Turning to Slide 7, let me discuss the other revenue line. Beginning with management fees, third quarter revenue was down 6% year-on-year, driven by the ongoing impact of the late 2018 outflows and mix changes away from higher fee products, partially offset by higher average U.S. equity market levels. Quarter-on-quarter, management fees were up 1% driven by higher average U.S. equity markets, increased head count and good inflows.

FX trading was down 1% year-on-year and up 4% quarter-on-quarter as the business benefited from the volume and volatility uptick in August relative to the prior quarter. Securities finance revenues were down 9% year-on-year, modestly reflecting the CCAR-related balance sheet optimization made in the second half of 2018 and down 8% quarter-on-quarter due mainly to the absence of 2Q seasonal activity. Underlying this seasonality, we are seeing some stability as our new optimization actions will position us for growth as we see client demand rebuild.

Finally, processing fees were up year-over-year reflecting approximately $77 million in revenue contribution from CRD. Quarter-on-quarter, processing fees were down 15%, driven by lower market-related adjustments as well as lower CRD revenue due to the timing of new business and renewals.

Moving to Slide 8. You will see in the top left panel a summary of CRD's operating performance in the third quarter, generating $85 million of stand-alone revenues and $56 million of operating expenses, resulting in $29 million of pretax income. The business also saw $5 million in new client bookings during the quarter, all external. While revenues were a bit lower this quarter due to the timing of new business and renewals, the business continues to perform in line with our expectations. The uptick in operating expense in the quarter was anticipated and driven by a planned increase in investment spending to support new business growth.

I would again remind this audience the lumpiness inherent in the 606 revenue reporting standards and not to read across any one quarter's results.

Turning to the upper right panel on this page, we wanted to, again, provide you an update on our active client discussions, regarding CRD. As you can see here, our client discussions continue to advance. We're now actively engaged with approximately 130 clients, representing approximately $41 trillion in assets. As anticipated these dialogues are resulting in a variety of revenue opportunities, and we remain confident in the revenue and cost synergy goals announced at the time of the acquisition.

On the bottom 2 panels of the page, we've again listed some of the growth and synergy milestones achieved this quarter. As mentioned earlier in the call, our front-to-back pipeline remains strong as we saw an increased number of clients in exclusive negotiations and expect more announcements to come. These front-to-back deals will also help drive growth in our core servicing business, as they typically come with some combination of custody, accounting and middle office revenues in addition to Charles River specific revenues.

Turning to Slide 9. NII was down 4% year-on-year, with our NIM declining 6 basis points. On a sequential basis, however, our NII was up 5%, with our NIM increasing 4 basis points. The sequential increase in NII was primarily driven by episodic market-related benefits worth about 3 percentage points as well as higher client repo activity and active deposit management. Absent these episodic benefits, NII would have been about up 1% sequentially.

We have been seeing some success in our deposit gathering initiatives with our average total deposits growing for the second straight quarter. These initiatives include a variety of efforts such as suite program minimums, targeting new client segments and adding market rate funding. This active deposit management may help us offset a portion of the impact from deposit rotation in some quarters. We were particularly pleased with our success this quarter in that regard, but we still expect to see continued gradual deposit rotation and the effect of lower long rates.

We also responded quickly to Central Bank rate reductions, both in the U.S. and Europe with appropriately aggressive deposit pricing actions.

And finally, on the earning asset side, we continue to target careful growth in client lending in a modestly larger investment portfolio. On Slide 10, we've again provided a view of expenses this quarter, ex notables. So the trends are readily visible. Year-on-year, our expenses, excluding notable items were up 2%, but down 1% excluding Charles River and down slightly quarter-on-quarter.

We've also now seen 3 consecutive quarters of total head count declines, driven by the ongoing reduction in our senior ranks and the previous hiring freeze implemented earlier this year that have reduced our high-cost location head count by more than 2,700 year-to-date, exceeding our original target of 1,500 by year-end. The cumulative impact can be seen in our compensation and benefits line as it is now down 2% year-over-year or down 4%, excluding Charles River. As we've been able to move, we're up to lower cost global hub and achieve greater efficiencies via automation while actively improving client service levels.

Moving to Slide 11, we wanted to show a full year view of underlying expenses, which excludes Charles River, categorized by IT, operations as well as business segments and corporate functions, though you can see where we're delivering expense reductions and where we still see incremental opportunities going forward. As you can see, due to our ongoing cost management efforts for 2019, we expect to achieve year-on-year expense declines in 2 of these 3 major areas, with significant efficiencies realized in operations as well as our business and corporate functions. As we said last quarter, the growth in our IT spend is too high and that is where we are in the midst of the top to bottom review, Ron mentioned earlier in his remarks.

In fact in IT, we have already identified a number of optimization opportunities with this technology reassessment and have taken some early actions, including rationalizing of approximately 275 staff this quarter. We remain confident that we can continue to realize the incremental benefits from automation initiatives, while delivering improved risk quality and expect to share more detail on this assessment and its potential efficiency opportunities before year-end.

Moving to the right side of the page, we remain on track to achieve $400 million in expense savings this year having already realized $275 million in savings year-to-date, we have made some resource discipline and process engineering efforts, resulting in an anticipated 1.5% reduction in our full year underlying expense base year-on-year, which surpasses our original start of the year 1% reduction target.

Moving to Slide 12, our capital ratios remain largely consistent quarter-on-quarter, with our standardized CET1 at a 11.3% and our Tier 1 leverage at 7.4%. We returned a total of approximately $690 million of capital to shareholders during the quarter, $500 million of which were share repurchases. The $690 million is a 45% increase from the $475 million returned in 2Q '19, as we began to execute on our 2019 CCAR plan and deliver on our priority of significantly increasing our capital return to shareholders, and the $690 million represents a 130% of net income available to common shareholders.

On the left side of the page, you will see that our investment portfolio grew sequentially as we reinvested cash and maintained significant CCAR stress capacity. I would again note that we are confident in our capital position believe that we have created some headroom and that has proposed changes deliberate ratio rules are being finalized, we will continue to examine associated capital optimization opportunities.

Moving to our summary and outlook on Page 13. We were pleased to see the continued moderation in servicing fee headwinds during the quarter and our global effects business provided better-than-expected revenue results. NII increased 5% sequentially driven by some episodic market-related benefits, while we saw deposits stabilize in the quarter due to our deposit gathering initiatives. Deposits are tough to predict, of course, quarter-on-quarter and prevailing rates continue to trend downwards. The underlying expense reduction we've achieved to date demonstrates our ability to further bend the cost curve as we've now reduced our total head count 2% year-to-date and are on track to achieve this year's updated expense savings target of $400 million.

Finally, we began to deliver on our priority of increased capital return to shareholders and believe we are well positioned to continue to optimize our capital stack consistent with regulatory development.

In closing, I'd like to cover our 4Q '19 outlook. On a sequential quarter basis, we currently expect fee revenues to be up 1% to 2% driven by CRD, assuming third quarter '19 end of period market levels. We expect servicing fees to be flattish in spite of the third quarter catch-up accruals as pricing pressure continues to stabilize. While management fees are expected to be up 1 percentage or 2 driven by the carryover of strong inflows from this quarter. And while markets are always difficult to forecast, we currently expect our mark of the businesses to be down somewhat assuming lower levels of volatilities than third quarter, while processing fees are expected to be up sequentially driven by fourth quarter seasonality in Charles River and the absence of some market-related adjustments.

In regards to NII, we will continue to see downward pressure from the declining long rates and with another rate cut, we would expect to be down 3% to 5% on a sequential basis, excluding the $20 million of episodic benefits we experienced in third quarter.

On expenses, we expect expenses, excluding notable items and including CRD, to be flat to sequentially. At the same time, we remain confident in achieving our full year underlying expense reduction of 1.5% year-on-year, excluding both notable items in Charles River.

And as we mentioned previously, we are conducting a fundamental review of our technology cost structure and expect that more information to share with you later this year.

Finally, we expect to see the full year tax rate come in at the lower end of our tax guidance of 17% to 19% for the full year.

And with that, let me turn the call back over to Ron.

Ronald O'Hanley

Thank you, Eric. Operator, let's open to questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from Alex Blostein from Goldman Sachs.

Alexander Blostein

So maybe starting with the question around servicing fees, obviously nice to see commentary around migrating pricing pressure again here. Maybe give us an update where that stands, I think, 4% down is kind of how we're thinking about 2019. As you look into 2020, how do you expect these pricing pressures to evolve?

Eric Aboaf

Alex, it's Eric. It's a little early to take a full year look at 2020, but I think we've started to see a couple of quarters here some moderation in 2019. So in second quarter, we've again seen some of those early signs. They continued this quarter as well. And as we have reviewed the book of some of the larger than historical pricing concessions, you recall we were tracking the top 100 clients. We're now through 75%, 80% of that book. And then that gives us an ability to begin to look forward into fourth quarter and even into the first quarter of next year. And as we look forward into those time periods, we continue to expect the moderation to continue. That's the kind of the indicator.

So I think if we step back and ask the broader question for what's driving some of those changes, I think there are really 2 things. I think on one hand, we're beginning to see the effects of our coverage teams and how we have upgraded our coverage force to better client -- better cover clients and bring together the full set of discussions in one place. And then with our executive review pricing committee, we've actually brought up the pricing decisioning to literally just a handful of senior executives. And that's given us the ability to influence the amount and the direction of that -- those pricing adjustments. And at the same time, actually, we're collaborating with our clients around where there is incremental business to be brought on. And I think what we're starting to see is the effect of that senior control and engagement have its effect on the revenues in these quarters.

Alexander Blostein

Got it. And then my second question is around servicing fees, again, maybe a little bit more specifically related to the quarter, it's obviously $1 trillion in wins is a big number, $1.2 trillion pipeline is a big number. Definitely appreciate the effort to sort of communicate the drivers of servicing fees in a more transparent fashion. But in the past, we've seen big AUM, AUC numbers, but the translation sort of into fees have been sort of underwhelming. So can we talk through maybe the impact of these wins on the revenues, and ultimately, the timing of when that's going to hit?

Eric Aboaf

Alex, it's Eric, again. I think as you would expect in our business, our business is lumpy, and it also comes with a range of different wins and new business engagements. I think, it's hard to predict for any one quarter, what the effect of the -- on future revenues. And I think we've been quite clear in the path and sometimes we have large wins that start with one particular product, sometimes we have larger or smaller wins that come on with multiple products and sometimes, we see the follow-on activity. So it's hard to directly translate.

And I think the other texture that I shared with you is that our business is multifaceted across products and regions. And we've talked before pricing differs by region, emerging markets versus the U.S.; pricing differs by product, some of the cross-border funds versus some of the more typical 40 Act mutual funds. So hard to be emphatic about the exact correlation of revenues. But what I would say in one of the reasons we do track the AUC/A wins is we think it gives you an indication of client engagement, we're having the amount of client activity and business. And over time, it has -- that will flow into revenues exactly when and how much that's something that you'll see in the coming quarters.

Ronald O’Hanley

Alex, it's Ron. What I would add to that is that we are very encouraged though by that number. There is a large existing client win in there, which reflects the trend that we've talked about for a long time, which is around outsourcing. But also in that number is a broad-base of very high-quality clients that are -- we think are just adding measurably to our book.

Operator

Your next question comes from Glenn Schorr from Evercore.

Glenn Schorr

Just a couple of combined deposit rate-related questions. First, just definitionally, the down 3% to 5% next quarter, the base that we start from as we take out the 20 this quarter and then take it down 3% to 5% just making sure?

Eric Aboaf

Glenn, it's Eric. That's correct. That's the way to think about it.

Glenn Schorr

Okay. Cool. On the -- if you look at your average non-interest-bearing deposits, they're down 17%, a lot of peers have seen similar numbers, but they're only down 1% quarter-on-quarter. And I'm curious, if you think we're at a more -- we're entering a bottoming stage, this is a more natural percentage of the overall book. Where does that accelerate as we have more rate cuts? Just curious how are you thinking about that?

Eric Aboaf

Glenn, it's Eric. I'd like to see a couple of more quarters here before we make a judgment around the direction of non-interest-bearing deposits. I think, we've seen a consistent reduction, I think, about over the last 2 years in this kind of 15% to -- 18% to 19% range. It's been a little bit lumpy in some of the previous quarters. I think you can look back a year ago, it's a little bit lumpy, up and then lumpy back down and impact the trend. So it's hard to read into one quarter's performance exactly what the future holds.

So I think we'd like to see a couple of more quarters and we'd like to see a couple of more quarters actually at these new prevailing rates because remember part of the driver for the rotation was the higher rates that Fed had brought us to. Now that they've cut rates a couple of times and they're continuing to cut, the differential between non-interest-bearing and interest-bearing becomes smaller. And so that may have an effect as well. So I think we were pleased with the results this quarter on non-interest-bearing, we're pleased with the results on interest-bearing as well, because we're able to manage pricing quite actively as the Fed and the ECB cut rates, and I think we're going to be watching this one closely, I think with everyone else.

Glenn Schorr

Cool. Definitely helpful.

Ronald O'Hanley

And what I would add to that is, it's Ron here, that somewhat analogous to how we're managing servicing fee pricing are, we're managing deposits and deposit pricing at a very intensively at a client-by-client level. So well, nobody is happy with the trends that we're facing in the environment that we're in this. It relates to deposits. I think the team is working very hard to manage these quite intensively.

Operator

Your next question comes from Brennan Hawken from UBS.

Brennan Hawken

Actually just wanted to follow-up on Glenn's questions on deposits. So the interest-bearing deposit cost dropped a lot, you referenced that, you talked about how that's becoming integrated. I think you also referenced until we saw the move by this -- the Fed and the move by ECB. Is there a way to parse out the impact by currency, where you're seeing betas shake out in U.S. dollar and in euro? And can you give us a sense about whether there was noise? And if you guys competitively feel as though you are sort of leading the charge? How are you stacking up versus how some of your competitors are responding?

Eric Aboaf

Brennan, it's Eric. Let me take that from a couple of different directions slightly so I think you've asked the currency question and the different kind of areas of pricing on deposits because it is one that we've been working on intensely. And just for context, for you, but for others as well, right as the -- in the last couple of rate increases, we got to a place where deposit betas were rising and we're quite high. And what we've been able to do in this particular quarter, both in the U.S. and international, have actually effectively run with symmetric betas and reduced pricing quite a bit in line with the Fed and the ECB.

As we -- if I were to summarize the beta analysis for the U.S. our betas were about 50%. So we're able to push down deposit rates quite a bit in the U.S. as the U.S. rates came down by the 25 basis points in the last rate move. And then with the ECB rate cut, that was a 10 basis point move. We're able to actually reduce rates even further even more than the 10 basis points because we're really in a scenario in Europe where we're going to be negative and nonnegative temporarily, but negative for a long, long time. And it needs to be a place where we and, I think, all banks actually kind of at least turn fair margins. And so that's been part of our very active management of deposit pricing. And we'll take that kind of approach around the world as we see rate cuts, whether it's in sterling or Canadian dollars or Aussie dollars or in some of the emerging markets as well.

Brennan Hawken

Okay. Eric, and then when we think about NII in the guidance, I think you had -- you're talking about a number using the midpoint to get you right around $600 million. And yet this quarter for backing out the onetime, the NII was up nearly 2% linked quarter, and you guys previously taken up your guide to about flattish. So I guess, what I'm curious about is, what is embedded in NII? Do you expect your deposit cost dynamics would be similar to this quarter? And what are you expecting from an asset yield perspective? Can you kind of help us understand the composition of that guide?

Eric Aboaf

Yes, I think, let's take 2Q to 3Q and then we'll fast-forward to 3Q to 4Q because it gives you some perspective. I think ex the market-related adjustments on NII from 2Q to 3Q, we certainly had some down draft from long rate, that's affecting us and other institutions. We actually had a slight uptick from deposits, so that was part of our deposit raising initiative. And we got some benefit from our larger loan book and investment portfolio. And then our repo activity did well as well as we continue to grow some of those balances.

If I then think about that in -- from third quarter or fourth quarter, we're going to continue to get it down draft from our -- from long-term rates, right, that's just playing through and it's an effect that the long rate fall from the last 3, 4 quarters are starting to accumulate, and that's what's -- that's the primary item coming through.

We expect to see some reduction from deposit rotation, because, as I mentioned in the previous question, net interest -- non-interest-bearing deposit rotation will continue. We'll try to offset that, but we'll see. And then obviously, as we -- whether we issue a little bit more debt or make other adjustments from the rest of the portfolio, there's always likely to be a little bit of other effects.

So I think we're on this trend line where lower rates create some -- a trend that is not in our favor. And what you've seen us do is everything we can, whether it's with pricing or balances or asset size to try to offset that, and I think what you'll find is in some quarters, we're able to offset those that longer trend, and other cases, we may not be able to. But that's the -- we're very focused on finding ways and pushing on a number of those levers that we have to find offsets where possible.

Operator

Your next question comes from Ken Usdin from Jefferies.

Kenneth Usdin

Eric, to follow up on the cost side, I saw your guidance in the deck just that you're expecting flattish cost both on an ex CRD basis and then I think that's what's implied for the with CRD basis. What I wanted to ask you about is, first of all, when do we get to that right run rate for the Charles River extends growth that we've been seeing, #1? And then

#2 is, once you get to the $400 million run rate also in the fourth quarter, you had this nice 1.5% decline this year, and you've said that you would be focused on still getting cost down at the core. Can you continue that pace of decline as you look ahead into next year?

Eric Aboaf

Ken, sure. A couple of things, I think on Charles River, we're obviously investing in that business as part of our growth strategy. And I think you've seen the revenue numbers. They tend to be little lumpy. But we're very pleased with the early signs around some of the synergy assumptions that we had in some of the -- some of our acquisition modeling that we had done, that we had shared with you back a year ago. The cost will trend upwards in Charles River. I think costs came in a little more quickly this quarter than in third quarter relatively to second quarter than second quarter versus first quarter. So it will come in ways, but it's all meant to try to drive either sales and sales capacity or the installation engineering that we need because that's historically been a bottleneck for them to be able to recognize revenue literally of bolting it on and providing the necessary integration for clients. So that's what's driving some of the cost there. And we feel like that is, well, those are sort of good cholesterol costs, those are the costs that will drive current and future revenues, and we'll continue to invest accordingly.

If I step back on the broader question of expenses, you've seen and we were purposeful on describing Page 11 that historically I don't think we've been as good as we should have been or we would have liked to have been on cost. Since for the last few years, we've consistently grown our expense base. And as you know, with the 1.5% forecast down this year, this is the first year that we are really bending that curve in a significant way. If it -- when it comes to what we're going to do going forward, I think we've said that we have to continue to work on expenses and productivity, right. There is no other course of action in a productivity focused and a slower growth industry like the one we find ourselves in. And as a result, we're going to continuing to find ways to drive down expenses. And what we've tried to do is enumerate on levers so that you can try to see, you can actually see the range of actions, whether it's the comp and benefits side, whether it's on a nonpersonal side, and we've also cut it through the different areas: IT, operations and some of our business costs.

So every one of those lenses provides I think an opportunity for us. We're not going to start to predict next year's cost. I think that we'll spend some time on in January as we report fourth quarter earnings. But I think, you can be assured that the direction of travel for our cost base have to be down, not up, and you've got a management team here that's committed to finding a way to do that. Exactly how much and in which areas and in which quarters, that's the kind of planning that we're assembling like as part of our budgeting right now and we'll be sort of come back with a good amount of specificity in January with our 2020 plans.

Ronald O’Hanley

Ken, it's Ron. Let me just underscore Eric's last point there because of what we've done this year is reduced our expenses while continuing to invest in the business and create a value proposition to our clients that we think is superior to our competitors. But what we recognize that our returns aren't where they need to be. So what you should expect from us is more of the same and we'll come back to you with specifics.

Kenneth Usdin

Great. And one just quick follow up for Eric. Eric, did you say -- sorry, if I missed it, the premium am you would expect that to increase from second to third, can you just tell us where the two win from? And then now that we've re-based, is that at or kind of a flat level from here? Or do you expect an incremental as you go forward?

Eric Aboaf

Yes, Ken, it's Eric. The disproportionately high premium amortization that we saw in the second quarter has begun to burnout and we're pleased with the third quarter results. And so I don't think we expect anything out of source at this point. And that particular part of the portfolio has been -- has now performed much more closely in line with our expectations. I think the one thing we will see is continued effect of long rates, and that's just -- that that's from the overall portfolio and that's a little bit of what's driving the quarter-on-quarter guide on the NII, but nothing unique anymore as we had flagged earlier in the year.

Operator

Your next question comes from Betsy Graseck from Morgan Stanley.

Betsy Graseck

Couple of questions, one on the deposit suites, could you just give us a sense as to how far along in the program you are and how much more running room there is as your clients execute on that?

Eric Aboaf

Sure. Betsy, it's Eric. So deposit suites are one of I'd call half a dozen different deposit initiatives that we're working on all around how do we both serve our clients as well as think about the appropriate kind of offerings, pricing and so forth. For background deposit suites came out as we looked at a large pool of a particular segment of clients. What we found was that we were sweeping down to 0, which ended up causing operational efficiencies and overdraft for clients in a way that wasn't particularly constructive for them. And in some ways, if you think about the retail world put both the client and also the company in a position which didn't make a lot of sense.

And so we've effectively done on that particular initiative. And like I said, it's one of half a dozen initiatives that we have out there. It's just sweep down to a minimum, call it, it could be $1 million level as an example. And anything below that, that's in our client account either at a low rate or look typically at a low rate sometimes at a noninterest-bearing rate. The benefit of that over the course of the last 3, 4 months, it's been on the order of just under $1 billion. So it's something that helps, and that's the -- those are the kind of packets we take. We're rolling that out into some of our European geographies now. So you can now see that scaling a bit. But I guess, I would frame it as one of a long list of initiatives to find the right way to accommodate clients, the right way to do business, the right way to create the services, but also to have appropriate value both for us and for our clients.

Betsy Graseck

So including all of the various programs, same kind of question, how long -- how far along do you think you're already thinking like 25% through, 50% through, 75% through just looking for the legs on them.

Eric Aboaf

It's a good way to ask the question. I think we're part of the way through because as we rollout deposit program 1, 2, 3 and 4, and kind of finish #1 and go to #2, we're beginning to think about what our deposit programs 5, 6 and 7 and then implementing those and then going to 8, 9, and 10. So I guess, we think that the challenge that comes upon us by lower rates and less liquidity in the system, the challenge for -- how do we continue to innovate and expand, what we can do and what you've seen us do here is part of this is around deposits, what can we do in terms of how we take cash and support clients with deposits on our balance sheet.

And then the broader set of engagement with clients, so how do you support them with all their liquidity needs. So think about the cash cascade, it's about what is the offering on deposits, what's your offering on repo and there is several different versions of repo and that's actually contributed to our NII.

What can we do on money market sweeps and actually sweep more of their funds to -- into some of the SSGA areas, and that's where we've actually been particularly successful this year or to other third-party funds if that they're choosing and earn a transaction fee as part of the process. So I think of it as the cash cascade and -- because we don't have as large of a loan book as the more traditional regional bank or universal bank, what we're doing is thinking about where do you innovate and expand on the liability side. And suites is one example. Repo is another example, and so on and so forth are ways that we do that. And we'll -- it's upon us to continue to innovate in those areas and find ways to serve our clients.

Betsy Graseck

And then just as rates come down, I mean, you do have clients that were expected, they are paying you through noninterest-bearing deposits. So as rates comes down, shouldn't the NII be start to grow?

Eric Aboaf

As rates come down, they may choose -- clients may choose to be more noninterest-bearing deposits. I think we don't always see that when rates come down slowly, I think we see that typically in a quick recessionary environment, where suddenly clients have a -- an immediate surplus of clash, they leave it in accounts. I think because the rate environment has been well telegraphed here, clients are disciplined and are going to continue to be disciplined and they're going to think how much we're leaving noninterest-bearing, and we think there will be at certain amount there. I think what we're hoping is that the rotation out of non-interest-bearing slows down and maybe even flattens as rates trend down whereas -- but we need to see -- we need to -- we need more quarters to observe the exact trends in that regard.

Operator

Your next question comes from Brian Bedell from Deutsche Bank.

Brian Bedell

If you can please come back to the big servicing win on the $1 trillion is, I guess, first of all is to clarify is that all one client or essentially all one client? I don't know if you can name the client. But more importantly, what did -- what were you doing for them, specifically? And I read, it was an accounting service mandate, such as may be clarify a little bit of what you are -- will be doing for them now? And any color on the time line of when you will move that, start doing that function?

Ronald O’Hanley

Brian, it's Ron. We're not at liberty to name the client. Firstly that it's not all one client. So as I said earlier, there is a large mandate in there, but there was also a rich mix of both U.S. and non-U.S. clients, new and existing that came through in the quarter. This was a client that was an existing client and then had chosen to outsource accounting to us, and we will be implementing that sometime in the first quarter of 2020.

Brian Bedell

Okay. And they were doing custody with you, just custody or were they doing the office with you as well?

Ronald O'Hanley

They were doing several other things with us.

Brian Bedell

Okay. And then maybe just on the portfolio reinvestment strategy, Eric. As obviously, we get more headwinds with potentially long rates moving down over time, just can you talk really quickly about the ability to either extend duration or move more into ABS from? It looks like you've been actually taking duration down a little bit over the last few quarters and as non-HQLA constraining that or do you think you have flexibility to improve the securities portfolio you'll use via the investment strategy?

Eric Aboaf

Brian, it's Eric. On the asset side, we really think about 2 drivers. We think about what we can do on the securities portfolio and we think about what we can do come on to the lending portfolio. And in fact, the first topic that we spent time on is how can we serve our clients on lending, and you've seen that grow at a -- I think at a better pace this year. It's capital call financing, it's 40 Act, leverage fund financing, it's lines of credit, and I think a nice mix activity. And in a way, it's extending our balance sheet, which clients -- the servicing clients value quite a bit. And it's actually partly a way to help drive some growth in NII and partly a way to solidify and actually drive some servicing fee growth. So that's the first part.

On the investment portfolio, our perspective is that as we maintain stability in the balance sheet, find ways to keep deposit stable or even grow them, there is a natural ability just to continue to invest gently in the market. And I say gently, because we don't think it's a great time to add a ton of duration, given rates. We want to keep a portfolio that's relatively CCAR-friendly. So that means, there's some duration in there, there is a well-diversified book of MBS. And then there is some -- in the international markets, there are some of the high quality sovereigns in some of the other multinationals as well. And so in general, I think we're going to try to build the investment portfolio in terms of size, but we will do it at that pace, and that should be able to create a little bit of a NII.

Operator

Your next question comes from Jim Mitchell from Buckingham Research.

James Mitchell

Eric, maybe just can you discuss a little bit how you're thinking the leverage ratio will evolve for you -- the trust banks? And if that's going to flip your constraining factor to CET1? Or do you think it still be the leverage ratio? And if it's the former, I guess, how do you think about what the right cushion is or right CET1 ratio with the -- inclusive of the SCB?

Eric Aboaf

Sure, Jim. The leverage ratio is right now are binding constraint as we operate the company more than any other factor. And we've been hardened by some of the ruling or some of the legislation in Congress that came out on the leverage ratio and then some of the proposed rule-making that was out for comment, and that the Fed put out there through the spring and summer. And so we're obviously waiting for final rules on exactly how they propose to implement the Congressional legislation. Once that occurs, and we've all seen the proposed rules, so that will create some room in our balance sheet. What that effectively does is move our binding constraints from leverage back into CET1 or capital. And as a result, that should free up an ability on our part to reassess what's in our capital stack, and in particular, the amount of preferreds that we have that form the basis for the Tier 1 capital. And so that will be the approach we take in the first stage of capital optimization.

I think once that occurs, your broader question on, what are the right CET1 target, the common equity Tier 1 target, it's something we have to navigate through, but we need to do it once we see the Fed's proposals on the stressed capital buffer and some of what the Fed has been describing is coming as part of CCAR later this year. And I think once we see that, then we, and in fact, other banks will have a better understanding for what kind of CET1 constraints we'll be under and what kind of targets we'll run -- we'll be able to run at. And I think once we see more of that, we'll be able to give you a little more of an indication of how we expect to operate.

James Mitchell

Okay. That's fair. And maybe just one follow-up question on the pricing efforts. How does that work? Is it more about convincing clients to give you more ancillary business to offset some of the lower demands -- the lower pricing demands? Or are you actually able to kind of work with some of the larger clients to keep the fee rate higher or convince them to -- how does that work, I guess, in practice?

Ronald O’Hanley

Jim, it's Ron. It's a little bit all of the above plus more. It's a -- and that's been part of the management discipline we've imposed here is to ensure that the conversation is comprehensive and not just about what are we paying and should it be less or more. So some of it is consolidating business, some of it is broadening the set of services that we provide, including the discussion on, for example, global markets. This is all occurring against the backdrop where we have fundamentally improved our offering for the addition of Charles River. So some of it is around that in terms of putting in place a move towards the long-term outsourcing of activities to us. So it's a holistic conversation. There's some patterns, but in effect, they're never the same. But it's all about managing it to something much more broad than what is the rate that we're paying -- that the client is paying at any given time.

Operator

Your next question comes from Mike Mayo from Wells Fargo Securities.

Michael Mayo

I guess I'm asking for a little preview of your update before the end of the year. So when you say you are reassessing the tech ecosystem, kind of what does that entail? And is it -- I think I saw online you're looking to get a new CIO, is that correct? And so I guess, the question is, why and why now? And then lastly, Charles River selected Microsoft for the cloud and why did you choose Microsoft? I thought the other parts of State Street are using somebody else for the cloud, so maybe it's a hybrid model. Or just a little bit of color on the cloud strategy, management changes and what you mean by reassessing the tech ecosystem?

Ronald O’Hanley

Well, Mike, it's Ron. As you know, technology is fundamental to what we do and the technology requirements of our business continue to go up. So we're operating in an environment where we've spent a lot. We have to ensure that we're getting the greatest return on that spend, and we have to ensure that we're continuing to innovate throughout this cycle. So for -- what we've done to date is get very disciplined about what's important to servicing and innovating on behalf of our clients, but at the same time ensuring that we're getting a return on that. We're also focusing on making sure that we're operating at the highest levels of technology and operational resiliency.

What that requires is an intensive management of the process not just on a year-to-year, but on a month-to-month and week-to-week. Put in the vernacular, it's all about running the bank and changing the bank and doing that in an optimal way. So we are in the market for a new Chief Technology Officer. Our former technology -- we parted ways with our former Chief Technology Officer. That search is underway, and we'll have more to say about this later on in the year.

In terms of Microsoft and Microsoft as a cloud partner, as we've talked about, I think, repeatedly with you and others, we're building out a true platform in this front-to-back offering. So it's not just about saying we've got a new additional set of products and services, but it's an integrated platform underpinned by the data that we are uniquely positioned to provide and manage. And we want to make sure that we're building that platform carefully. So Microsoft is the cloud provider to us, but is also working with us to help make sure that the platform itself operates as we want it to, that it's as much cloud-enabled as possible. And this was a competitive bid. We talk to basically all the providers there, and our feeling was that Microsoft brought not just a cloud capability, but an ability to ensure that our platform is going to be better than any other.

Michael Mayo

And then, I guess, just separately, when do you look to convert State Street to Charles River, I think you had said you'd be your first client at some point?

Ronald O’Hanley

Yes. You're talking about our SSGA, that our State Street Global Advisors and that conversion is underway right now.

Operator

Your next question comes from Gerard Cassidy from RBC.

Gerard Cassidy

Just speaking on Charles River, Ron, can you share with us the success, the conversion rates that you're having when you go into pitch new business to a customer with the Charles River offerings versus what those win rates were for the traditional State Street business? Are you having more success or is it more challenging?

Ronald O’Hanley

Gerard, if you go back to Slide 8, and we report on this -- we're trying to report on this on every quarter. There's a broad-base set of discussions underway. Those discussions are frankly more than we expected, when we acquired the business a year ago, and they range from "Gee, we do a lot with you already, State Street, and now we see this Charles River thing to be exact opposite." State Street, we do nearly nothing with you, but we're seeing this platform that you're building and recognize that it could help us improve our business, improve our operations and create better investment outcomes.

Those are -- these are discussions often times around the fundamental business model that these asset managers and asset owners have. So almost by definition, they're a -- they have a different cycle than a typical RFP-driven custody, this time it would be. What's encouraging about the discussions is that it's not just about Charles River, it's not just about let's bundle in Charles River to what we're doing with the client already in the back office, in the middle office. But it really is about how do we partner with you, State Street, and think about you as our outsourced partner or service provider and provide us a set of services that can help us create better investment outcomes. So they often time don't follow the usual prescripted RFP kind of time line, but we're highly encouraged by the fact that this pipeline that we've been showing you and again we're showing gross numbers here, but relatively few have fallen off somehow, but relatively few have fallen off and the discussions are continuing. We are in terms of where we are now, we're in exclusive negotiations at this point with several, which is more than we expected to be when we talked to you about the acquisition a year ago. So we remain very encouraged.

Gerard Cassidy

And continuing with this line of sight, is there any synergies with it? If you've brought some Charles River customers on to the State Street platform? Is it -- could it be higher margin business or no? It's just the costs are different, and you just don't see those synergies versus again somebody that doesn't use State Street at all and you bring them on board, you're not going to get the synergy right away?

Ronald O’Hanley

Well, it's a mix of both, but I'll talk to you about some of the early wins here, which has been existing Charles River clients that are now using us for various global market activities. That business tends to be quite high margin by enabling a Charles River user to access some of our various e-channels in the global markets business. We're giving relatively user-friendly access at a very high margin to some good products of ours.

Gerard Cassidy

Very good. And then just maybe, Eric, on the medium-term targets on Slide 16 in the presentation, can you frame out how you define medium term, is that 2 to 3 years or 5 to 7 years?

Eric Aboaf

Sure. Gerard, it's Eric. I think, if you look carefully at the foot notes, we were targeting end of 2021, so that really means end of 2021 in the sum of run-rate basis 2022. And I think the perspective we have is those are the right targets for us as a firm. Now we set them in the very beginning of December 2018 and a few things have shifted since then, right the markets took a turn down and then, at least rebounded that was bad and then good. Interest rates, completely different environment, if you think about where we were in the fall last year and the tenure with that whatever 2.75% as opposed to 1.75% now, but we've seen sub-1.50% and obviously economic activity out there, there's some real uncertainty, whether it's with the foreign trade or global growth.

So I think, some real events have transpired, but if we think about our business and the kind of margins that we should be delivering, the kind of returns that we should have and the kind of capital provision back to investors that's where we're headed. And I think our -- the work we're doing is how and how do we find a way to get there and get there at a -- as fast a pace as possible. And I think related to one of the earlier questions on the call, part of our expense program this year, which they needs to translate to additional savings next year, it's going to be a way to do that, as well as rebuilding the growth engine, because that's equally important than just navigating the rate environment. So I think those we feel are appropriate and we're going to come back over time with how and how we're going to take important steps in that direction.

Operator

Your next question comes from Rob Wildhack from Autonomous Research.

Robert Wildhack

I wanted to ask about the ETF business with the e-brokers all going commission free. There's a view out there that this could be a big positive for the ETF space. Is that a view that you share? And if so, can you give us a sense for how you see that benefit playing out?

Ronald O’Hanley

Yes, Rob, it's Ron. I think that anytime you're lowering your cost to the end user customer, I think it's good for the business. And in this case, we think it's particularly good for us because while we have a low-cost offering, we've not been honest many of the transaction -- transaction cost-free platforms as others. By kind of taking that out, it's enabling us to focus on where we truly are superior, which is liquidity. And if you think about this -- the various SPY offerings that we have, they're amongst the most liquid ETFs on the planet. In many cases, they constitute collectively a significant double digit of exchange volume. And as a consequence have some of the tightest spreads out there often. So we think that this is -- this enables us now to focus on where we are truly superior. So we look forward to this and I think it's a -- it will be beneficial to our ETF business.

Robert Wildhack

And then we've talked a lot about pricing in the moderation you're seeing there, but I'm wondering if you could clue us in on how the pricing improvement is progressing relative to your expectations when you undertook all of these initiatives earlier in the year?

Eric Aboaf

Rob, it's Eric. I think we went into this wave of pricing, which you remember was partly a catch-up as markets appreciate -- clients come back to us. But also realizing that some of our clients were under pressure, and we had to find ways to do right by them and become more efficient on our end to make it work. I think what I'd tell you is that we had patience that we could intervene and there were results that we could secure, but we weren't sure how much we could moderate pricing and at what pace to be honest, right? Because this was a bit of a new environment for us.

What I would tell you as I think we were pleased to see some of the moderation in second quarter of this year because we only really set up, for example, our executive pricing committee late last year. So that's 2 quarters in. We're pleased to see again, third quarter feel a bit better and then have some visibility into fourth quarter as well.

So I think we've been pleased with the pace, and I think it shows that if you put your mind to something and you take action and you put the right senior people and the right processes, you can have an effect. Now, pricing last year and this year will run as a headwind about 4% per year. If we can cut that back by a point and get it to 3%, I mean that's the first stage gate and that's what we're working hard to do. And I think our perspective is, we should continue to lean into our management practices and our approaches on pricing because they're having some of the desired effects, they're having them on a relatively good pace and it encourages us to continue to find ways to do more.

Operator

Your next question comes from Marty Mosby from Vining Sparks.

Marlin Mosby

I wanted to ask a couple of things here. When we look at the $275 million in expense savings and we're saying we're going to get to $400 million by the end of the year. How does that kind of equates, it seems like that's a little bit of a pickup and then we're getting relatively flat expenses between third and fourth quarter. Is that just being offset the growth you're seeing in Charles River or the seasonality of their revenues and expenses that are tied to that. So just wanted to see what the thought was there?

Eric Aboaf

Sure, Marty, it's Eric. I think there are a couple of things at play. I think if you think about the quarterly pattern of the expenses last year and the quarterly pattern this year, we could begin kind of square that circle. I think on a year-to-date basis, ex-Charles River, we're down 2%. So we're certainly running at pace relative to where we were last year in the first 3 quarters of this year. So I think we feel pretty good about that. And I would tell you that expense savings come in waves. We've got very good visibility, 1 quarter out, and so we're quite pleased that we've been able to deliver the $275 million. And we see -- we have solid visibility and high confidence that we'll deliver the next $125 million and we'll put a bow around this and then begin our work on savings for next year as well.

Marlin Mosby

I mean that gives you $30 million of incremental run rate ex savings that you get more in the fourth quarter, which would be a helpful. And then when you think of the premium amortization on mortgage-backed securities and the impact on NII, your quarterly NII peaked out about $700 million towards the end of last year and we're forecasting $600 million as we're going into the fourth quarter of this year. So when you look at that $100 million shift, the very lowest that we got to is around $525 million when we had rates at close to 0. So much of the $100 million that we've lost over the last year in NII is related to the amortization of mortgage-backed securities and the premium there? And then kind of give us the accounting of what happens once long-term rates stabilize? And is there any of that $100 million that's potentially recaptured as those long-term rates begin to flatten out?

Eric Aboaf

Sure. Marty, it's Eric. The MBS premium amortization on the -- some of those Ginnie Mae pools that we had called out, that was worth on the order of $25 million, $30 million against the $600 million or $700 million that you described and that you have in our results. And for that particular pool from 3Q to third -- from 2Q to 3Q, we've actually been able to cut back on the amount of premium amortization, just as we've sold out of a couple of those positions and otherwise seen some burnout. So I think we're feeling good about how we've managed through that uptick, and now have seen that remediate.

I think the broader question you're asking is around what's the direction of rates that the Fed is putting us on, are they going to cut once more or twice or 3 or 4 times, are they going to go back to Fed funds down at 25 basis point range because if they do that, that certainly puts pressure on us and all banks as a way in a manner to drive down net interest income and net interest margin. I think we're just going to have to see. I think what I would encourage you to do is go back though, take a look at one year ago, two years ago, three years ago because I think our low point was further down. And I think our balance sheet is of higher quality now and in a better position to manage through some of what we might have in front of us.

Operator

Your next question comes from Brian Kleinhanzl from KBW.

Brian Kleinhanzl

Just two quick questions. On the $20 million of the episodic market-related benefits as you saw in NII, could you just go into a little bit detail as to what that was and their line items that had impacted?

Eric Aboaf

Sure. Brian, it's Eric. So in NII, there are a couple kind of balance sheet type adjustments that we make at the end of the quarter, that tend to be a little lumpy, sometimes they're positive, sometimes a little negative, they tend to offset, but we had a couple of them that ended up in the positive territory this quarter. One of them was the marks that we take on our FX swap position. And when they trades cross quarter end and we do that just to make sure that we have stability given the volatility in some of those rates, we end up with a balance sheet mark that you take and then it unwinds effectively as the trade matures. So you get a kind of call it a September 30, December 31 that kind of impact, sometimes positive or negative and this time it was positive.

The other activity that we do like all other banks is we hedge our long-term debt. We have to test for ineffectiveness and the ineffectiveness testing is sometimes little positive, sometimes little negative, again that one was positive. So those were the 2 largest drivers. They collectively were about -- they came to about $20 million this quarter. And in the past, they've been bouncing around plus $5 million, plus $10 million, minus $5 million, minus $10 million and just kind of part of what we have to book to as part of our financial process.

Brian Kleinhanzl

Okay. And then a separate question on securities finance. You mentioned that you have new optimization actions ongoing. Can you just give a little bit more detail as to what that is? What the potential revenue opportunity is there?

Eric Aboaf

Sure. Brian, it's Eric, again. Securities finance is one of those businesses that it has 2 features. I think on one hand, we had to make some adjustments to some of our counter-party positions in both FX and securities finance, this past year as part of some of our

CCAR testing and some of our dialogues with the Fed. In the FX space, we're able to navigate through that because it tends to be a market with a large number of counter parties, you can do compression trades, you can do -- and you can diversify counter parties easily, et cetera. Sec finance is a little harder and I think that was one, where we felt more constrained over the last year, which is why our balance -- our lending balances are down and we've also had to constraint some of our activity, which has driven revenues down.

What we have begun to do though is innovate in securities finance and find ways to refine some of our trading activity, some of our structures. We've also been innovating in some areas around peer-to-peer matching, right that creates some more latitude for us. And as we've begun to take some of those actions, we feel like we've begun to free up space relative to the constraints that were effectively imposed upon us a year ago. And so now the team feels as they've -- they're more open for business and so now we're out there engaging with clients. And part of what we now need to see is client demand come back because as you know, there's a lot of money on the sidelines, there's a risk-off sentiment. And so as we see borrowing and lending happen in that space, which particularly is the domain of the hedge funds and other market participants once that rebound since so which is really a kind of an industry demand and client demand question. Once that rebounds, we feel like we are better prepared now to begin to grow our activity.

Operator

There are no further questions. Ms. Fiszel Bieler, I turn it over to you.

Ilene Bieler

Thanks, operator. As a reminder, this conference call is being recorded for replay. State Street's conference call is copyrighted and all rights are reserved. No other person may record for rebroadcast or distribution in whole or in part without the expressed written authorization from State Street Corporation. The only authorized broadcast of this call will be held on the State Street website. Now with that, let me turn it to Ron to close the call.

Ronald O’Hanley

Thanks, Ilene, and thanks to all on the call for joining us.

Operator

This concludes today's conference call and webcast. Thank you for your participation. You may now disconnect.