Operator

Good morning. My name is Dennis, and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs Fourth Quarter 2016 Earnings Conference Call. This call is being recorded today, January 18th, 2017.

Thank you. Mr. Holmes, you may begin your conference.

Dane Holmes

Good morning. This is Dane Holmes, Head of Investor Relations at Goldman Sachs. And welcome to our fourth quarter earnings conference call.

Today's call may include forward-looking statements. These statements represent the firm's belief regarding future events that, by their nature are uncertain and outside of the firm's control. The firm's actual results and financial condition may differ possibly materially from what is indicated in these forward-looking statements. For a discussion of some of the risks and factors that could affect the firm's future results, please see the description of Risk Factors in our current annual report on Form 10-K for the year ended December 2015.

I would also direct you to read the forward-looking disclaimers in our quarterly earnings release, particularly as it relates to our Investment Banking transaction backlog, capital ratios, risk-weighted assets, global core liquid assets and supplementary leverage ratio and you should also read the information on the calculation of non-GAAP financial measures that is posted on the Investor Relations portion of our website at www.gs.com.

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I'll now pass the call over to our Chief Financial Officer, Harvey Schwartz, who is also joined by our Deputy CFO, Marty Chavez. Harvey?

Harvey Schwartz

Thanks Dane and thanks to everyone for dialing in. As many of you are aware, Marty will be assuming my position in April. As you would expect, we’re already working side by side to ensure a smooth transition in the coming months.

Over his career, Mary held positions of increasing responsibility in investment banking, institutional client services and then most recently as our Chief Information Officer. During that time, Marty established a track record of creating tremendous value for both our clients and our firm. Having worked closely with him for over a decade, I have full confidence that Marty will continue that track record as our Chief Financial Officer.

With that Marty would like to make a few comments.

Martin Chavez

Thanks Harvey. Just a few brief words from me. I have really enjoyed the opportunity to meet many of you in my prior role as CIO. I look forward to building upon existing relationships and building new ones in the months and years ahead. I have always found our conversations to be extremely insightful and valuable to effectively managing our firm. Goldman Sachs has a long tradition vigilantly focusing on risk management, operational excellence and maintaining a conservative financial profile. In my new role, I have every intention of continuing that focus and tradition.

With that I will turn it back to Harvey.

Harvey Schwartz

Thanks Marty. Okay, now let's walk through the fourth quarter and full year results then Marty and I are happy to answer any questions.

Briefly on the fourth quarter; net revenues were $8.2 billion, net earnings were $2.3 billion, earnings per diluted share were $5.08 and annualized return on common equity was 11.4%.

With respect to our annual results, we had firm-wide net revenues of $30.6 billion, net earnings of $7.4 billion, earnings per diluted share of $16.29 and a return on common equity of 9.4%. We grew book value per share by 6.7% year-over-year.

When reviewing 2016, it's helpful to contrast the performance between the first half of the year and the second half. The year began with a number of challenges but ultimately ended with a lot of positive momentum.

For example, the start of the year which has historically been a period of high activity, which instead impacted by significant concerns regarding the economic outlook, equity markets posted substantial declines and credit spreads wide and materially at the start of the year. This combination of factors translated into a difficult operating environment for our clients and by extension for our firm.

In the second quarter concerns regarding global economic growth moderated but other concerns including the potential implications of the Brexit vote surface. Ultimately, net revenues in the first half of the year declined by 28% year-over-year with a vast majority of that declining occurring in the first quarter.

Switching to the back half of the year, the global economic outlook improved reflecting solid economic reports particularly in the U.S. The prospect of diverging monitory policy and more pro-growth policies in the United States drove both activity levels and asset prices higher.

For example various fixed income market volumes in the second half of 2016 rose double digits year-over-year.

U.S. investment grade credit spreads tightened by nearly 40 basis points. U.S. high yield spreads tightened by over 150 basis points. And the MSCI World index climbs 6% during the period.

Ultimately this drove improved client sentiment and better environments. As a result, net revenues in the back half of the 2016 increased by nearly 16% year-over-year and included two consecutive quarter of 11 plus percent returns on equity.

In short, we ended the year with positive momentum and a significantly improved operating environment. With that as a back ground, let’s discuss the individual business using greater detail.

As it relates to the quarter, investment banking produced net revenues $1.5 billion, 3% lower than the third quarter. A pick up in M&A was more than offset by a decline in underwriting. For the full year investment banking net revenues were $6.3 billion, down a 11% from 2015 and a decrease in equity underwriting and financial advisory revenues, which was partially by record debt underwriting revenues of $2.5 billion.

Our franchise remains very well positioned. We ended the year as a leader in global announced and completed M&A and as a leading equity and debt underwriter globally.

Breaking down the components of investment banking in the fourth quarter, advisory revenues were $709 million. The 8% improvement relative to the third quarter reflects an increase in a number of completed M&A transactions. We advise on a number of significant transactions that closed during the fourth quarter including Procter & Gamble, $12.5 billion merger with beauty business into Coty. Fortis Inc’s $11.8 billion acquisition of ITC Holdings Corp. And Rackspace Hosting’s $4.3 billion sales were of Apollo.

We also advised on a number of important transactions that were announced during the fourth quarter including Qualcomm’s $47 billion acquisition of NXP

Semiconductors, B/E Aerospace's $8.3 billion sales for Rockwell Collins and Capsugel's $5.5 billion sales for Lonza Group.

Moving to underwriting, net revenues were $777 million in the fourth quarter down 12% sequentially as debt and equity issuance slowed. Equity underwriting net revenues up $212 million were down 7% compared to the third quarter as follow-on offerings decreased.

Debt underwriting net revenues decreased 13% to $565 million from robust issuance levels in the third quarter. During the fourth quarter, we actively supported our clients' financing needs, participating in energies €4.6 billion IPO to Soros $1.6 billion high yield bond offering and it seems [indiscernible] $1.2 billion IPO. Our investment banking backlog improved from the third quarter, it was lower compared with very strong level at the end of 2015.

Turning to Institutional Client Services, which comprises both our FICC and equities businesses, net revenues were $3.6 billion in the fourth quarter down slightly compared to the third quarter. For the full year $14.5 billion of net revenues were down modestly compared to 2015.

FICC client execution net revenues were $2 billion in the fourth quarter, up slightly quarter-over-quarter as many businesses benefited from increased client activity. This more than offset typical year end seasonality.

Commodities increased significantly during the quarter as higher energy prices drove better market making conditions and more client activity. Currencies were higher compared to the third quarter increasing client activity. Rates were down slightly relative to the third quarter, client activity was solid driven by diverging monetary policies. Credit and mortgages decreased in an environment that included lesser issuance and generally tighter spreads.

For the full year, FICC client execution net revenues were $7.6 billion. This translated into a 6% increase year-over-year excluding DVA gains from 2015 results, given the difficult market conditions in the first quarter of 2016, 6% growth particularly notable. In equities, which include equities client execution, commissions and fees and security services, net revenues for the fourth quarter were $1.6 billion down 11% sequentially. Equities client execution net revenues were $459 million, down significantly across both derivatives and cash products.

Commissions and fees were $736 million, up slightly relative to the third quarter as global client volumes increased modestly. Security services generated net revenues of $398 million, up modestly on a sequential basis

For the full year, equities produce net revenues of $6.9 billion down 12% year-over-year. In 2016, we were impacted by less favorable market conditions and lower client activity and equities client execution. This compared to a relatively robust performance in the first half of 2015.

Turning to risk, average daily VaR in the fourth quarter was $61 million up from $57 million in the third quarter.

Moving on to our investing and lending activities, collectively these businesses produced net revenues of $1.5 billion in the fourth quarter. Equity security generated net revenues of $1 billion, reflecting corporate performance as well as sales and gains in public equity investments.

Net revenues from debt securities and loans were $457 million which was largely driven by net interest income of roughly $300 million. For the full year, investing and lending generated net revenues of $4.1 billion driven by $2.6 billion in gains from equity securities and $1.5 billion of net revenues from debt securities and loans. Our net interest income within debt securities was more than $1 billion for the year.

In investment management, we reported fourth quarter net revenues of $1.6 billion. This is up 8% from the third quarter primarily as a result of $224 million in incentive fees largely from alternative investment products. For 2016, investment management net revenues were $5.8 billion, down 7% year-over-year largely due to lower incentive fees. For the fourth quarter assets under supervision finished at a record $1.38 trillion.

The $32 billion increase versus the third quarter was driven by $17 billion of long term net inflows, $31 billion of net inflows into liquidity products, partially offset by $16 billion of market depreciation. On a full year basis, we had $42 billion of long term net inflows primarily driven by fixed income and $52 billion of liquidity product inflows.

Now let me turn to expenses. Compensation and benefits expense which includes salaries, bonuses, amortization of prior year equity awards and other items such as benefits was down 8% for 2016 reflecting the decline in net revenues. This translated into compensation in net revenues ratio of 38.1%.

Fourth quarter non-competition expenses were $2.3 billion. The quarter included a $114 million donation to Goldman Sachs gives our donor advised charitable fund. For the full year non-compensation expenses were down significantly due to a decrease in provisions for litigation and regulatory matters. Excluding litigation provisions, non-competition expenses would have been down slightly year-over-year.

Now I'd like to take you through a few key statistics for the end of the year. Total staff was approximately 34,400, down slightly from the third quarter. Our effective tax rate for the year was 28.2%. Our global core liquid asset ended the fourth quarter at $226 billion and our balance sheet was $862 billion.

Our common equity Tier 1 ratio was 14.5% using the standardized approach. It was 13.1% under the Basel III Advanced approach. Our supplementary leverage ratio finished at 6.4%. Our prudent approach to capital management is demonstrated by the strength of our capital ratios and had supported our return of excess capital to shareholders. In the fourth quarter, we repurchased 7.6 million shares of common stock for $1.5 billion. For the full year, we repurchased $6.1 billion at an average purchase price of roughly $166 per share.

As a result, we reduced our basic share count by approximately 27 million shares for the year reaching a new record low. In addition, we paid out approximately $1.1 billion dollars of common dividends over the course of the year. In total, we returned $7.2 billion of capital to shareholders in 2016.

Before taking questions, a few closing thoughts. As we've said many times before, we have a healthy respect for the dynamic nature of our industry and we have an established track record of being responsive to changes in operating environment.

As we discussed, the first half of 2016 was challenging. In response, we undertook and completed a $700 million expense initiative in the first half of the year. We continued those efforts in the second half of the year and ultimately generated nearly $900 million of run rate savings. When undertaking any expense initiative all about finding the right balance, you want to protect near term results without impacting long term prospects.

We believe we found the right balance in 2016. This can be seen in our ability to effectively serve our clients as activity picked up in the second half of the year. It also reflected in our continued investment in technology and infrastructure including our launch of Marcus.

Most importantly our expense discipline and the strength of our client relationships leaves as well positioned to deliver significant operating leverage to our shareholders in a better operating environment.

In summary, we entered 2017 from a position of strength. We have a robust financial profile ending the year with $226 billion in liquidity more than a quarter of our balance sheet. All of our risk based capital ratios are well in excess of regulatory requirements well our share count sits at a record low. Importantly, this means we have the flexibility to navigate shifts in the operating environment including the positive scenario where we experienced a significant increase in client activity.

Finally, our global franchise remains as strong as ever reflecting our commitment and investment to serve our clients. Meeting their core objectives, we'll continue to be the basis for our long term success.

Thank you again for dialing in. Marty and I are happy to answer your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question is from the line of Glenn Schorr with Evercore. Please go ahead.

Glenn Schorr

Hi thanks.

Harvey Schwartz

Hey good morning, Glenn.

Glenn Schorr

Good morning. So I have a fixed income related question. Back in the first quarter of 2015, the Swiss re-pegged and things went bonkers for a couple weeks and you guys made a ton more money but then things die down for like six quarters. This quarter, we obviously had the election and a couple other events and things went bonkers, but it feels very different to me and more permanent and client needs are changing and we have monetary policy diversion, so I'm leaving the witness here, but does it feel different to you guys and does that equate to this could be the first year in many that the fixed income fee pull could grow?

Harvey Schwartz

Yeah you know it's a great question. I mean the quarter you're reflecting on obviously the first quarter of 2015 very strong quarter for us, we had nearly a 15% ROE. That was the quarter as you point out, there were monetary policy announcements and I think there was a little bit of a relief activity there because that was viewed as increased monetary policy QE and that was a trend now.

As we all saw over a period of time that ultimately led more to concerns about lackluster growth and it led to concerns about deflation and then it led to concerns ultimately that actually QE policies at the limit may not be effective and may actually present risks. I would say you could look at our fourth quarter, but I think it'd be better to look really at the second half of the year and what we saw from clients in the second half of the year was basically a build of confidence and expectation that we might see stronger fiscal policy, divergence of interest rates that we weren't heading into a deflationary cycle more confidence about economic growth, and so I would say there was increased optimism around the world.

Now those are the kind of things that always drive our business, our clients are very sensitive to that it changes sentiment. So I would say that that felt more like a trend across the past six months of the year.

Glenn Schorr

Okay, maybe some of yours ex-colleagues consensus more tweets and increased activity levels, kidding. Let last question on INL. I - we got - it's good to have that reprieve in terms of the INL funded divestments. I'm curious if it changes at all how you approach the way we asked you every quarter about what's left in equity, what do you need to divest, and that whole game plan I'm curious on your thoughts there.

Harvey Schwartz

No, so I'm happy to walk you through it. So I mean in order flow I walk you through every quarter, longer cover fund $106.7 billion you take out an amount that confirms that's $200 million that leaves you with $6.5 billion. Of the $6.5 billion, $1.8 billion of that is inner fund but those entities are already public, they're trading publicly on exchanges. So they are already liquid, they are just in a process of being sold down. So now with respect to Volcker as was more that's expected by the marketplace because you remember under the original construct of Volcker, it was never designed to force sales, it was obviously very encouraging of compliance. So there was an expectation everyone would do what they could save to comply. But again there was no there's no desire for fire sales and so the expectation here is that we've now submitted for the extensions, we'll go through the extension process, but we've been a good say that during if you read their communication, you expect extensions to be approved broadly across the industry.

For us, it hasn't changed the approach of the business. It's always been about ensuring that we provide the best returns for our clients because as you know, we're invested alongside our clients in these funds. Apply more than you wanted, but I just try to cover the whole thing.

Glenn Schorr

I appreciated, thank you. Go ahead we can go on to the next person. Thanks.

Harvey Schwartz

All right, thanks Glenn.

Operator

The next question is from line of Christian Bolu with Credit Suisse. Please go ahead.

Christian Bolu

Good morning, Harvey. And then welcome on board Marty. So hate to nit-pick in a strong quarter, but performance in equities was noticeably weaker than peers. I'm curious if there were any onetime items in the quarter or anything that you think drove underperformance, and then maybe more broadly if you could update us on how you're feeling about the competitive position in that business.

Harvey Schwartz

So look I think you're right to point out it wasn't our strongest quarter. I mean in terms of the franchise, we feel great about the franchise at this stage and certainly we feel quite good about the competitive dynamic. No matter how you look at the business, whether you look at it as our global footprint, prime services, our ability to make capital our position underwriting, we feel incredibly good about it. Quarter-to-quarter there were always going to be one offs, there are a handful of things that we're less than probably this quarter, but I wouldn't read anything into it.

Christian Bolu

Okay. And then as soon as your last one, I'll give you a pretty one accounting question here, but the accounting standards for the tax impact of shared based compensation, I believe this schedule to change this year. I'm giving share based comp is a meaningful part of the income statement curious if that has any impact on your kind of forward the way your incomes may looks going forward?

Harvey Schwartz

Yeah, so it's a very detailed question. It's great that you're asking it actually. So as everyone not might not be as aware as you are Christian but under a gap change, basically the change requires us to recognize the tax impact of the difference and the value of shares that we grant which a grant date versus delivery date and our tax expense line on the income statements. Now prior to the change that would happen and shows equity.

So there is two observations here, so at best we can estimate it today, it could be in a range of $400 million, $500 million in terms of a reduction in the tax rates, but this is just a geographic realignment under gap, this has no impact to capital where the strength of our capital, but you will see a shift in the recognition. And obviously anyone can feel free to follow up more with Dane if you really want to get into the details of the gap stuff.

Christian Bolu

Okay, it's very helpful. Thank you.

Operator

Your next question is from the line of Michael Carrier with Bank of America. Please go ahead.

Harvey Schwartz

Mike, you there? Michael, you there?

Operator

Michael, check your line to see if you’re on mute. One moment. Michael, are you there?

Michael Carrier

Yeah, can you hear me?

Harvey Schwartz

Yeah, we can hear you now Michael, but we couldn’t hear you before, so the asked question we didn’t get it.

Michael Carrier

Okay, no problem. Thanks a lot. First one just on expenses, so you guys have been doing a very good job on controlling the expenses and we saw the operating leverage in the quarter. Just wanted to get a sense depending on what potential changes happened with policy and regulation, is there some way to give us some context on the amount that has been spent whether it's on regulation, compliance, technology it maybe since 2011, 2012 that could either shift around depending on the outlook, obviously there’s a lot of core and that’s going to stay in place, but just wanted to get a sense on what that increase has been despite you guys imaging the overall expense base well?

Harvey Schwartz

Yeah. Difficult to quantify that for you obviously it's been a huge investment in terms of risk, technology, compliance and we continue invest. I think the thing that we've been able to do is as we've invested and as we’ve comply with the rules, we never be use technology and training across the teams to be as efficient as possible which is why this year you would have seen that non-compensation expense was the lowest expense since 2007 and we were able to also execute the $900 million run rate savings, but who knows where we’ll end up in terms of the rule set, but obviously we’ll always look to comply and comply in the most efficient way possible over time.

Michael Carrier

Okay, and then just as a follow-up. It's been a while since we've been in an environment or people may more positive on like the growth outlook, and just wanted to get a sense and this is somewhat Glenn's question and you answer it, but maybe broader on trading and banking. What do you guys look at in terms of seeing that pick up in client engagement, I know you mentioned the IB pipeline is up quarter-over-quarter but even on trading in terms of balances, investment management maybe inflows, just wanted to get some sense on how we can kind of see the follow through or the impact of better economy in that translating into in a stronger revenues?

Harvey Schwartz

Yeah, that’s a great question. Look the thing that informs us the most is the work that all of our people do whether they are in banking, asset management, whether they are in equities or fixed income all around the globe engage with their clients every day. So these are relationship that build up over decades, they are invested in over decades, you know our teams of sitting with CEOs, they are sitting in board rooms. And the best way for us to get a pause on that globally is the feedback we get from clients every day.

And as you know over the past several years there’s been a general sense of concern with respect to global growth that was reinforced by a lot of the monitory policy around the world. And so I would say as we come into 2017, activity levels are quite high. You know we can’t - we’ve come out of a very low volume, low volatility environment for a number of years. We're happy to see how this year progresses. But with the shipping policies around the globe, it's an extraordinary catalyst for client dialog, for decision making and for content and that's really where as a firm that's where we really want to drive value and drive value with content.

Michael Carrier

Okay, thanks a lot.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Matt O'Connor with Deutsche Bank. Please go ahead.

Matt O'Connor

Good morning. Just give us some of the increased optimism that you've talked about on this call and the pipelines, just kind of big picture, how do you think differently about staffs, call it how much you lean forward versus trying to optimize, it's like a last several years you and the industry have been focused on optimizing to kind of lower pool of revenues got for regulatory environment. And just how do you think about you know it's not going to be a complete 180 going to maybe been aggressive, but how do you think maybe about leaning forward a little bit more, whereas the too loaded think that way?

Harvey Schwartz

Yeah. So look, this is all - this is all just about balance. So we are in a cyclical business within a pro-cyclical industry. And so as we make decisions about investing and controlling expenses, you know these things are mutually exclusive. So if you just look at the past year, obviously we responded very quickly to the tough first quarter. As I mentioned we finished with $900 million of run rate savings completed in the year. But at the same time, we never stop hiring. We launched Marcus. We acquired the digital lending platform. And so we stayed very front footed and we feel well positioned.

Now to the extent to which there were more demands on the firm by creating efficiencies to this part of the cycle, it gives us the flexibility to invest in an improved part of the cycle. That's the best thing about having capital ratios as strong as our capital ratios are right now are having liquidity levels where they are because to extent to which there is demand, we can respond to it. So you can be well positioned and you can be efficient at the same time.

Matt O'Connor

Okay, thank you very much.

Harvey Schwartz

Thanks Matt.

Operator

Your next question comes from the line of Mike Mayo with CLSA.

Mike Mayo

Hi.

Harvey Schwartz

Hey, good morning, Mike.

Mike Mayo

This is the first change since the announcement about Gary Cohn, so you know Harvey, how do you kind of approach your new position and then for Marty, how does your past experience you know help you or maybe present a challenge for you in the CFO role going from CIO to CFO is somewhat unique?

Harvey Schwartz

Right so - well obviously we're all going to miss Gary. It's fantastic that he is willing to contribute all of his experience to a country and it's a long tradition of senior leaders that Goldman Sachs doing that. So we're - again we're all going to miss Gary but we're all quite proud on what he is decided to do.

In terms of the transition in my role, I've obviously been CFO for a bit over four years. You David Solomon and I, we've been on management for years. We found the same floor for years and you know which have affinities based on our experience. David spent more time in investment banking. I've spent more time in institutional client services. But I think it lays out pretty easily actually in terms of how he and I will work across the firm. It's big place with lots of clients. So we're both pretty excited about it. And that transition is already underway.

In terms of the transition with Marty, we've already been working side by side. Marty has been shadowing me for a couple of weeks and then he is working on his transition. For those you met Marty, I don't know he about 150 pounds less than I am. So following my shadows sounds like a strange thing. But that's how we are approaching. And we got - and look we have a deep bench Mike, so we've done these things across the firm for years.

Mike Mayo

And can we hare - I mean Mary you are ready to talk?

Martin Chavez

Sure Mike. I'll just add, going to continue to firm's traditions and risk management and maintaining funding profile fortune to inherent such a talented team. And in keeping with the times and industry, applied maths and software to these problems or risk management but continue to do, we've always done.

Mike Mayo

And just one last follow-up for you Marty, so coming from CIO, is that what it's about applying maths and software and how else can you apply your part experience to the new role?

Martin Chavez

Well, there is maths and software and everything that we do and so that's just a perspective - particular prospectively but really it's risk management. And that's what I'll keep doing as I've always done, been let the firm for a long time, worked in many of our businesses always with an emphasis on risk.

Mike Mayo

Alright, thank you.

Martin Chavez

Thanks Mike.

Operator

Your next question is from the line of Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck

Hi, good morning.

Harvey Schwartz

Hey, good morning, Betsy.

Betsy Graseck

I wanted to ask a little bit about for productivity inset, we've had conversations in the past where when we are in a world or at least what we've discussed is in a rising rate with an established trend you know upside rate environment. In the past you've had improving our productivity and I am wondering how you think about that, at this stage do you feel like you've captured what you think you would capture overtime you know step function 4Q versus 3Q or is there more to go here?

Harvey Schwartz

Well I think it's difficult to me forecast. I would say the following I think if rates continue to rise and it's a reflection of optimism and concerns around deflation abate and concerns around economic decline debate and they are replaced with expectations of economic growth and activity and confidence and client sentiment continues to shift. I think there is meaningful upside in terms of the activity levels we could see in fixed income. So we've been pretty optimistic now. We're positioned for a number of scenarios obviously given all the steps we've taken over the years. And whether it's risk or capital, obviously we have a lot of capacity.

Betsy Graseck

And then secondly on INL, in the equity's line even I saw 2Q, 1Q obviously the market overall was up a little bit, certain factors up significantly and I had thought that your focus in many of the activities you have is a bit more of an industrial versus a services angle. So I am wondering if there is some - could you give us some color as to on the INL equity side how much of that was realized versus just a mark and what you still have left in the bag for realizations going forward.

Harvey Schwartz

Yeah, so one thing I really want to point out because I know this question comes up about realizing and better you ask it but everybody asked it realize versus mark. The most important thing is the portfolio was always mark-to-market. So I think what you mean by realize is monetization activity. Obviously in the past year, monetization activity wouldn't have been as high necessarily as in prior years. We don't talk to it that way as much.

You know the INO balance sheet, you didn't ask it but the INO balance sheet is roughly $98 billion and nearly 80% of it is lending related activity. And so it's $21 billion what we call equity. But it's idiosyncratic and what you generally see over a period of time is a portfolio has outperformed markets because of the quality of the investment professionals and asset selections. But I wouldn't say necessarily that it's one category or another. I think you are right to say that obviously industrials are representative but it's very idiosyncratic and a year like this where equity issuance is down. You wouldn't expect to see lots of monetization.

Betsy Graseck

Okay. And then last on fees and asset management you know across the industry been some chatter on see pressure seeing some industry leaders cut season more of the passive oriented products but maybe you could just give us a senses to how you are thinking about that business and managing it for the several years?

Harvey Schwartz

So I think as a management for us among other things also a bright spot. As you saw assets under supervision finish at a record was up 10% for the year. I think we benefit from a number of things, I think we benefit from a fact we have a very unique well franchise. Obviously it was a mix of strong flows underneath that 10% rise. And this reflects a couple of things, obviously the performance we've delivered to the clients but I do think it's the nature of the capabilities that have built over a number of years.

So I think so far if you look at as in terms of asset flows, we're a bit of an outlier. We benefit from scale to your point of fees because we're certainly not immune to the general shipped in lower fees across the industry whether it's conventional pure competitor or competitive that's only dedicated to the asset management space, we are immune to that, but we benefit from having scale in our operation have been near $1.4 trillion on assets.

Betsy Graseck

Great, now I am wondering on the fee rate side is here a bit of uniqueness you have in the high network client relationship versus institutional …?

Harvey Schwartz

No, I think we have strengthened both client segments but our fees are obviously competitive with the rest of the world.

Betsy Graseck

Okay, I appreciate it. Thanks.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

Good morning, Harvey; Marty, welcome to the party.

Martin Chavez

Good morning.

Brennan Hawken

So quick question, I know it's been touched on a couple of times, but it's one that's definitely I think front of investor's minds here, so hopefully you don't mind me touch it on it again. And you spoke a little bit of it Harvey with shifting policies globally, we need a better dialog which certainly is positive. But when we think about is especially in the U.S. seen down administration and the themes of the potential for reduced regulation and taxes seems like it could have both a first and second derivative impact on Goldman and so not only the direct impact of you but the clients and clients feeling better and improvement risk apatite. So how do you think about that opportunity assuming that plays out, is there a particular way in which investors should think about that opportunity and is there any historical context or other periods that you think are particularly relevant or helpful and trying to consider that?

Harvey Schwartz

Well I guess I'd say a few things. I think when you say indirect and direct you mean direct obviously we've been relatively high tax payer and so tax rates come down. We're a beneficiary but obviously changes in tax policy can be a huge catalyst for how all of our clients think about deploying their capital strategic decisions and so that's board room dialog which obviously we’re always front and center to. So I think that’s what you meant by direct and indirect. So I would agree with that.

I think it’s very difficult to quantify just like it was difficult to quantify in 2012, 2013, 2014 how concerns around deflation and low economic growth will impact activity in a number of businesses. I think it’s very difficult to quantify how increased optimism. You know we like to say in some respects, confidence is the best stimulus. And the extent to which we enter a period of increased confidence with respect to economic growth, physical policy, you mentioned tax policy, I think there could be a lot that happens. Now we’ll have to see all these policies of ours. But who knows we could be at the beginning of a long term trend, we may not be. Again it was difficult to predict things in 2012 and how they will be in 2013, 2014 and 2015.

Brennan Hawken

Yeah, now that’s fair Harvey and yeah that was exactly what I was pointing on not only direct impact on you but the clients and the optimism. So okay, that’s helpful. You’ve touched also on the operating leverage, so maybe I want to hit on that a bit. It seems like up taking comp ratio in ‘16 was probably more of a revenue story, so want to confirm that’s true and then when we think about maybe the other side of that blade or the other blade of that knife if we start to see revenue environment improve, how should we think about operating leverage at Goldman given all of the work that you’ve done on the expense front which you’ve talked about a couple of times?

Harvey Schwartz

Well, I appreciate you are recognizing the work. Obviously over the last several years, whether it’s around expenses, de-risking the firm and growing the capital ratios, returning the capital all that work has really been about positioning the firm, while at the same time obviously maintaining all of our connectivity to clients with really, really significant operating leverage. Now this year revenue is down 9%, compensation expense down 8%, obviously that translate into a small uptick in a compensation ratio. But I would say at this stage, the center which we see hail wins in activity and increases in revenue will see that translating even more so now than we would have before to the bottom line in terms of operating leverage.

And so I can’t quantify for you but if we see a big uptick in revenues, certainly you should see a decline in the compensation of ratio at which of course again as an output we’re committed to delivery in this result.

Brennan Hawken

Terrific, thanks a lot.

Harvey Schwartz

Thank you.

Operator

Your next question comes from the line of Guy Moszkowski with Autonomous Research. Please go ahead.

Guy Moszkowski

Thanks.

Martin Chavez

Good morning.

Guy Moszkowski

First question is - yeah, good morning and Marty nice to meet you.

Martin Chavez

Thank you.

Guy Moszkowski

Question on equities related to follow-up one of the earlier questions that was asked, you talked about maybe there were some things that weren't quite so perfect. I was wondering if you could characterize that a little bit further were there some episodic block losses that were significant in the quarter, anything that as we think about sort of what's achievable going forward.

Harvey Schwartz

There were a handful of transactions that's it's always going to be the case in a marking making business when you are providing liquidity to clients that could have an impact that was the case this quarter. Some other things that are normal quarterly contributors and index rebalancing were more neutral and there were impact. Again I wouldn't read a lot into it from quarter to quarter.

Remember we break out equity client execution from the whole business, so that's a different level of disclosure then you are going to get from anybody else. So you should expect given at that's the line where we are most interacting with clients and capital commitments, you should expect that to be more volatile. I just don’t think any of our other competitors whenever break that, so you don’t see it.

Guy Moszkowski

No, that’s fair.

Harvey Schwartz

But that’s not - it wasn’t the greatest quarter but there is nothing in there.

Guy Moszkowski

Okay. And I noticed that when you are doing a full year comparison there you talked about Asia for the full year but not for the fourth quarter, so it was - it was either more of a domestic issue in the fourth quarter or just more broadly global?

Harvey Schwartz

Remembering the first half of 2015, there was a huge uptick in activity in Asia and then basically there wasn’t replicated. You know the client connectivity remained robust in Asia as ever but this year just not as active as it was last year.

Guy Moszkowski

Got it, and then a much broader question, I know you don’t like to set ROE targets but I was wondering if in the context of what you might call for example unshackled interest rate sort of in a post QE environment and more broadly some other things that we talked about in terms of the new administrations goals and expectations thereof, can you speak to a realistic but aspiration ROE?

Harvey Schwartz

Well, again we don’t say targets because that’s not the way we run the business. We run the business through thoughtful and efficient deployment of capital managing expenses and making sure we have the best people and we’re focused on our clients. I guess you saw some of this in the second half of the year right, we had two plus quarters back to back of 11% plus ROEs and that wasn’t on a huge uptick in activity. And again it’s one date point but it’s one all point two you know in the first quarter 2015, we had a 14.7% ROE, again that feels like a long time ago. We’re actually more efficient now with more operating leverage now than we had then. What we feel as front footed in terms of our franchises we ever have, so we feel well positioned which is that we see the activity.

Guy Moszkowski

And just final follow-up on that point about the activity levels and I know we've had all of ten trading days as we get started here, so with all the necessary caveats, how are those activity levels starting the year?

Harvey Schwartz

Way it's too early to count Guy.

Guy Moszkowski

Yeah, fair enough. Okay, thanks so much. Thanks for taking my questions.

Harvey Schwartz

Thank you, have a great day.

Guy Moszkowski

You too.

Operator

Your next question is from the line of Jim Mitchell with Buckingham Research. Please go ahead.

Jim Mitchell

Hey, good morning. Maybe just talk about the revenue side of regulatory change, I know it's not an easy question to answer, but I think there's been a lot of I guess hope and talk about sort of an easing of regulation what that could mean on the revenue side. So I don't know if there's a way to just sort of talk about it generally in terms of where do you see the most constraints right now and what would potentially benefit you the most whether it's easing of market making rules, whether it's some changes like we saw in the UK around exempting cash from the leverage ratio, if you could help that would be great?

Harvey Schwartz

Yeah, I wouldn't point to any one rule. I think what we've seen and one of the things I think gets lost in the global dialog around regulation is that you know eight years past the crisis, the body of work that's been created by the regulators whether it's Basel capital ratios, the implementation of CCAR, stress testing broadly globally, the leverage ratios, the requirements around liquidity, all those things that were designed to address points to systemic risk, clearing, margin requirements, all of that data reporting, I think sometimes gets lost in the narrative and have to step back and look at the past eight years and realize that and it's a credible body of work that regulators, the industry participants and the clients have actually created.

I think long - I think the dialog around regulation and whether or not there should be some degree of pause and stepping back, I think that started really at the beginning of last year maybe a little bit before you saw some of that in the Basel Committee across the second half of the year, and obviously I think market participants regulators and also it seems like a very reasonable point in time to step back and assess we obviously have gotten some great benefits out of the regulation and the question is, is there a cost in economic growth. So this seems like a pretty normal part of the process in terms of taking a step back and evaluating it.

Now specific rules I don't know we'll see what happens, it will change, we'll adapt however they change, I think we demonstrate our ability to do that.

Jim Mitchell

But you can't, you don't feel there's one that's been more constraining than some others in terms of business?

Harvey Schwartz

No, I mean if you actually look at our - if you actually look at our capital ratios they're strong across the board, liquidity is 25% of the balance sheet, and so there's not one thing that we would look at it. I think the bigger question for all of us is it's very difficult to measure the combined impact and the interaction of all these rules, and that's why it makes sense to take a step back.

Jim Mitchell

Now that's all fair. And maybe just a quick one on banking, I think there's been chatter that while I think quote Animal Spirits are better and that's good for the outlook for banking I think there's some concern at least in the near to intermediate term with policy uncertainty that might hold things back a little bit in the shorter term. Are you seeing that it seems like M&A activities continue to be pretty solid, but not sure what you're seeing in terms of activity levels around uncertainty short term policy uncertainty?

Harvey Schwartz

Dialog with - dialog in boardrooms remains quite high for us. I think it's fair to say that anytime you have a shift in administration which may present new policies that can have an impact on timing of transactions, because that could be a component. But it's really - it's a timing issue, dialog remains very high.

Jim Mitchell

But you do see timing being pushed out, what you're seeing or?

Harvey Schwartz

I think it could be a little bit, when you start having discussions around tax policy, tax policy obviously will have an implication for how people think about strategic transactions. But again it's an economic important to strategic transaction. It's not the strategy itself as discussed in the boardroom. And so but it could delay some transactions. Remember the transactions coming through from the pipeline before that will be closing. So again I think we're just talking about a timing issue, I actually think the environment is pretty robust in terms of dialog.

Jim Mitchell

Okay that's great. Thanks a lot.

Harvey Schwartz

Thank you.

Operator

Your next question comes from the line of Chris Kotowski with Oppenheimer. Please go ahead.

Chris Kotowski

Yeah, good morning.

Harvey Schwartz

Hi Chris.

Chris Kotowski

Hi, on these calls Harvey, you always talk about FICC trading activity in terms of volumes you know like commodities and currencies were up and credit mortgage down and so on. But whenever I speak with fixed income investors they always kind of be mown the lack of available liquidity in the markets, they complain that it's very hard to get anything done. And I'm wondering with between the kind of increased activity that you talked about and retrenchment of some of the competitors have bid ask spreads moved are they widening or is that not yet been part of the equation and do you ever expect that to be part of the equation?

Harvey Schwartz

Yeah, that's a good question. I think, I think it's - I think you have to parse it a bit, to be just you mentioned commodities well pick up on commodities. If commodity prices are going to be quite stable or just take energy and they're stable at a level for a period of time that is not necessarily a catalyst for big client segments for us producers of commodities, consumers of commodities, in the institutional investors that invest in energy that's honestly catalyst for decision making.

Because they may have very determined levels at which for example a producer wants to hedge future oil production or project that they want to bring online. And so when you then see a big move in oil prices one way or another that's a catalyst for activity for our various client constituents. In terms of liquidity, I think it's fair to say that feedback from clients and it's not reason it's happened over the last several years across the industry. Is they feel like their ability to execute isn't what it was prior let's say to 2008 as a period it was perceived to have almost limitless liquidity.

I think this activity picks up and volume begins volume you get improvements in liquidity, but every day we come in the door and we're offering our balance sheet, our clients in the best possible way that we can.

Chris Kotowski

Okay and then I guess maybe as a follow up to that, I mean to the extent I guess I'd say consensus expectations build in two or three rate hikes a year, at what point does that become you know the kind of catalyst that you talked about in relation to commodities for activity?

Harvey Schwartz

I can't predict it for you, again in the fourth quarter alone obviously but if you just - if you just look at fourth quarter of a fourth quarter, and I won't talk about necessarily obviously activity was high and it translate into an up 78% year-over-year for us in fixed income, but the catalyst of activity are pretty obvious, right you have the oil policy, interest rate shifts, movement in currencies, all those things are catalysts for activity. I think again it goes back to the broad question what's the driver of that activity, if the expectation is more progress moving away from deflation not inflationary, but not deflationary more inflationary in a normalized period of interest rates. Those were all positive catalysts what they'll be like quarter-to-quarter very difficult, but again coming out of eight years of declining interest rates, I think would - none of us really wanted to get used to that. And so I think getting into a period of normalized economic growth would normalize policy of normalized interest rates, I think that be a good catalyst over the forward for a number of years. Quarter-to-quarter that who knows.

Chris Kotowski

All right. Thank you. That's it from me.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Steven Chubak with Nomura. Please go ahead.

Harvey Schwartz

Hey Steven.

Steven Chubak

Good morning, hey Harvey, hey Marty. So I have follow up just to Jim's earlier question, specifically on tax policy and a comments Harvey that you made on M&A, you said that you view the changes really as more of a timing issue, but one of the constraints that we've been hearing from a lot of folks, is that efforts to broaden the tax base might in fact include restrictions on interest expense deductibility and could increase financing costs and reduce appetite for future debt.

And what I'm wondering is if interest expense deductibility is in fact eliminated we do see reduced appetite from debt from corporates, as I inform your outlook not just from the M&A side, but even for DCM and it might even touch on corporate private equity as well?

Harvey Schwartz

Well, but always puts and takes obviously that would be a very significant change in policies so would have implications for the way issuers would think, investors would think capacity, I think there's a lot of what's in the details around that. But I think it's too early to tell in terms of what the necessary predictions would be.

Steven Chubak

Understood and maybe just sticking to changes in the GOP regime and the implications I could have, but focusing more on the regulatory side there's been a lot of discussion on the prospects of possible repeal or less strict enforcement of Volcker, and Harvey I know you touched on some of the change in terms of just broader messaging, but it just remains to be seen how that might impact your business, I know it's a little bit early, but I just want to get a sense as to if we do see an explicit repeal of Volcker how that would change your strategy, not just on the trading side, but would it in fact how you deploy capital within INL as well?

Harvey Schwartz

Yeah, so it’s a good question. Look as we said before, we don't make any decisions before we see a rule or rule change there be no difference here. I think most of the discussion around will go over the last several years by regulators and industry participants and clients going back to the earlier question is what impact has it had on market making capabilities across the industry, which is obviously the most important part of our business we're providing liquidity to our clients.

I think in terms of the sort of the micro components of Volcker. We would take a look at it, if it changed in terms of our activities, proprietary trading we haven't been in that business in a long time, it was never a material driver and so we would look at it and whatever in the best interest of our clients and our shareholders that's how we evaluate it just like we devaluate any rule change.

Steven Chubak

Thank you very much.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Matt Burnell with Wells Fargo Securities. Please go ahead.

Matt Burnell

Good morning, Harvey, good morning Marty. First a specific question then maybe a larger picture question. Harvey could you give us the updated common equity to one ratios for the fully phased in side of things, and just curious what the driver of the reduction in RWA this quarter was it was down about 5% quarter-over-quarter?

Harvey Schwartz

So I'll just run through you, I'll just run through them both transitional and fully phase just the level side even though I went through them before. So under advanced 13/1 transitional 12/7 fully phased standardized again 14.5 I know I said that before fully phase 14. On the RWAs in advance 550 standardized 497 there were a number of drivers again we continue to focus on being efficient with our capital and sort of risk reduction across the number of items, operational risk in advanced was down from 126 to 115 and not just - that just reflects our continued focus on as best we can I mean zero operational risk events. Obviously that's our goal, and so we're starting to see an operational risk as you're starting to see the benefit of our focus flow through as older items roll off albeit as you know that that's a very slow process.

Matt Burnell

And then for my bigger picture question one of your competitors suggested that there was on a year-over-year basis, but a mid teens decline in European revenues, I guess I'm curious, first of all if you saw that in 2016 versus 2015 in terms of the regional breakout and it with the Prime Minister May's comments earlier this week any update to your outlook in terms of what Brexit might or might not do to quiet activity more broadly across your European client base?

Harvey Schwartz

Yeah. So look I have no visibility into anyone else's franchise, the breakdown in terms of our geographic contribution revenues wasn't materially different year-over-year certainly difference in - no meaningful difference in our European franchise. In terms of Brexit as we go through Brexit we just continue evaluated the same way, it is obviously going to be a long process, so in all kind of contingency planners play a very nature so we'll run through different alternatives.

I thought some of the comments with respect to trying to ensure it's not disruptive, there's a long enough runway, all those things I thought some of those comments, but it is going to evolving situation. And so but I wanted to say the sensitivity to financials and understand a criticality of the industry across Europe. But of all those things we're pretty positive but again we're going to see how this evolves over the next couple years.

Matt Burnell

Okay, fair enough. And then just finally if I can you booked your first loan in Marcus when we spoke last October, just wondering what the growth in that portfolio has been since them.

Harvey Schwartz

Yeah we've booked more loans. I'm not counting and wanted time any more though that would have to be aware coincidence with the last call. It's going according to plan. Not in by that I mean our plan have been very deliberate growing it slowly our primary focus here is on the client experience we believe we've built I mean that differentiated for the consumer. And so we're being very attentive to that making sure we incorporate any feedback we get. And obviously risk management something we've done for a long time. So that's a big component of this, but as we've said many times to be a slow process.

Matt Burnell

Sure, thank you very much.

Harvey Schwartz

You're welcome. Take care now.

Operator

Your next question is from the line of Eric Wasserstrom with Guggenheim Securities. Please go ahead.

Eric Wasserstrom

Thanks very much.

Harvey Schwartz

Hey Eric.

Eric Wasserstrom

Hi how are you? Just to follow up on a couple of questions that have been raised before, but may be taking a little more of a broader view of the balance sheet. I mean your RWAs are now it had fairly low levels now as far back maybe as my model might run. And in INL obviously the balance sheet there continues to decline although you're growing markets a bit. So overall kind of what is your - what should be our expectations about GAAP and RWA growth for 2017 and in particular is there anything that's occurring environmentally that causes you to sort of view that outlook differently than let's say three or six months ago?

Harvey Schwartz

That's a great question. So you know I think I could be wrong on this by the way. So Dan will correct me, but I think it was - I think it was 2012 we were at investor conference and we did our first review of some of the capital tools we have built. And so I guess the best way I would sum it up in terms of how we thought about the risk reduction of the capital of that it goes all the way back to 2012 those tools of course took years to developing themselves. We were just displaying them in 2012 and it's really been about evolving the firm to understand that we need to ensure we use our capital in the most thoughtful way to deliver to our clients.

And as I mentioned before over that period of time we've been able to grow market shares, deliver, I think last for the industry ROEs over a multi-year period of time and at the same time we sit here today with record low share count. So the short answer after that big summary because there are so many people involved across the firm in the divisions with the clients and in the federation it's just been years of hard, hard work and a lot of elbow grease to get us where we are now.

The good thing about that is it gives us a lots of capacity, and it goes back to when we talk about operating leverage sure it's about expenses it's about capital, but it's positioning the firm in a way that we can respond to an uptick. And so I don't know if you asking the question could we grow risk weighted assets I'll tell you it would be - it's not the scenario I've experienced as CFO.

But I would wish it for Marty over the years ahead that if he had the chance to deploy capital back to our clients not to return as much to shareholders grow risk weighted assets that actually with the firm has done for the vast majority of the firms history and those are the environments that you know we thrive in and so it was Marty and I'd pass the baton over the next couple of months, I'm hoping he gets to deploy the capital in that way with all of us across the firm. So that's my long winded answer.

Eric Wasserstrom

Thanks that's very helpful. Thank you very much.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Devin Ryan with JMP Securities. Please go ahead.

Devin Ryan

Thanks, good morning, Harvey, Marty.

Harvey Schwartz

Good morning Devin.

Martin Chavez

Good morning.

Devin Ryan

Maybe timely with Marty in his new role year, but technology headcounts now about a third of the firm has been the fastest growing area in recent years and arguably the most amount of kind of the newer initiatives have come in this area. So I'm going to put the cart before the horse here, but if we are moving towards more of this business friendly backdrop where regulation softening a bit, can you see a scenario where that trend actually changes in investment high touch personnel is where the incremental growth comes from or is it just technology growth is the secular trend diverse is there being some maybe cyclical component there as well.

Harvey Schwartz

Well maybe I'll kick off and then I'll turn over to Marty and he can talk more specifically about technology, but I wouldn't say there's been a lack of investment in, I think the way you described it some of the other growth areas, right. So we've continue to invest and all parts of the firm, asset management, the new business as we've talked about launching, the acquisition of on line platform. So there's been a lack of investment in areas of the firm for years where we've seen more of a multiyear decline obviously they've been super careful as they run those businesses. But I wouldn't describe it as we've invested in technology, we haven't invested anywhere else. I know you weren't being that literal about it, but I just want to make sure we are clear for the call.

But in terms of technology, specifically I'll turn it over to Marty.

Martin Chavez

Yeah, so as Harvey says, we invest in both in high touched and low touched and really agnostic where evolving in the direction that our clients that are taking us. So as for technology has clients have continued to transact more electronically we've invested more heavily in those capabilities, so that we can better serve them. We have a history of that kind of adaptation. We work with the regulators to make sure that those automated capabilities are the best-in-class and to the extent that the markets continue to be more electronic, technology make our people more effective and it strengthens our clients' engagement.

Devin Ryan

Okay, great understood and appreciate all the color and absolutely you know understand the investments been across the firm, just curious on that incremental technology spend, but thank you. And then within DCM just coming back to some other questions you know had a really terrific year there obviously if the M&A backdrop improves from here that it could be supportive, on the other hand you know higher interest rates you see like my constrain some issuance, I know there is a lot of puts and takes. I am just curious kind of after such a good year, how do you feel about the intermediate term kind of outlook they you think that we can grow from here or kind of as you think about all the moving parts that this is the tough bar?

Harvey Schwartz

I'd say a couple of things first, obviously as you point out record year in the underwriting, the team done an amazing job, really working with clients and delivering for clients. So quite proud of that. You know the debt component of the backlog continues to growth, that's a necessarily forecast this year but the level of client engagement is quite high. I think there is always a temptation for all of us. I certainly do it to think of past cycles when interest rates went up in terms of the implications for markets and the market dynamic. This is such an extraordinary scenario that we're coming off of basically a zero rate policy.

So I think if you look at history, the rate levels is still pretty low even though the tenner might have moved up a 100 basis points of one point. So I think if you split your questions and say well could you end up with less refinancing, I think that's certainly a case, but we're still in a very low rate environment by historical standards and so the extent to which we see growth, company see top line growth. There are CapEx activities and they are feeling confident, they want to finance. I think you could see a pretty good period for debt underwriting over the foreseeable future. But if you saw big rate moves disproportionate charts for someone expected reason, obviously that could have an impact too. I don’t think it more up in rates and in itself, it should necessarily be considered a negative in an absolute sense.

Devin Ryan

Great, very helpful, thanks guys.

Harvey Schwartz

Thanks.

Operator

You next question is from the line of Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

Yeah, thanks, good morning. Just two quick questions, one in the investment management, with regards to the flows in liquidity products, I mean you’ve seen those kind of flows pickup in the fourth quarter of last two years, is this just where you saw this quarter again a seasonal effect with regards to liquidity products?

Harvey Schwartz

No, I think that has been a trend has been in place, we had a very big commitment to this business. We’re a scale provider in this business makes us very efficient in terms of an aggregator of those kind of flows. And so I don’t know necessarily there is always some seasonality in these businesses but I wouldn’t - this is a long term commitment of this business, I wouldn’t say that is necessarily seasonality in of itself it’s driving it.

Brian Kleinhanzl

Okay. And then just one quick one to on the European equity franchise, have you seen any impacts yet from if it due and kind of what’s your thoughts on long term impacts from if it due as it becomes adopted?

Harvey Schwartz

Lot of focus on it, too early to tell.

Brian Kleinhanzl

Okay, great, thanks.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Christopher Wheeler with Atlantic Equities. Please go ahead.

Christopher Wheeler

Yes, good morning, gentlemen. Harvey, you've been talking a lot about capital efficiency and obviously you've been very effective in that area. Can I just ask you a question about the way forward here, because you've been obviously very aggressive in buying back stock and keeping the capital sort of very sensible levels, but of course you've enjoyed or you could say haven't enjoyed having stock which is trading at or below book value or tangible book value for the last few years, you've not got a situation very happily where you offered about 1.4 times tangible book. I am just wondering I know that you want to keep the dividend at a manageable basis in terms of your payout ratio so that you don't see in swinging around volatile in a volatile fashion but have you started to think about special dividends which is being the subject that come up rather than buybacks which is start to become dilutive? Thank you.

Harvey Schwartz

Yeah, so look it's a good question. Just one think you said that I thought you said something like we enjoyed buying back a little book, just somewhat clear I never.

Christopher Wheeler

I know.

Harvey Schwartz

I never felt that enjoyable, I am always running for the share price and I am running our shareholders, so for all of our shareholders I am going to be bit confused. We route for a higher trading level.

Capital management is a long term process and so if you actually did a math in terms of the fourth quarter buying back book causes about $0.24 a share. If you actually did a corporate finance analytics around share repurchase versus dividends, share repurchase because you are reducing share and you are returning capital at the same time are always more accretive than a dividend. Now that's a map and that sort of stuff. I think the bigger issue is how we want to run the company. And we're not thinking about changing how we run the company because where the share price is. We try to run the company in the best way for our clients and our shareholders and ultimately that translates to a higher share price.

But out policy respect to the mix being more heavily weighted to share repurchase, that has suited us quite well. It gives us exactly the kind of flexibility we've talked about in the context of this operating leverage goal so that if we see a big pickup in demand, we can deploy that capital to our clients where ultimately that's our preferred way to deploy the capital. But you shouldn't expect any change in long term policy in terms of how we think about share repurchase relative to dividends.

Christopher Wheeler

Thank you, very clear.

Harvey Schwartz

Thank you.

Operator

At this time there are no further questions. Please continue with any closing remarks.

Harvey Schwartz

Great, since there are no more questions, I'd like to take a moment to thank all of you for joining this call. Hopefully Marty and I as well other members of senior management will see many of you in the coming months. Any additional question come up, please don't hesitate to reach out to Dane. Otherwise enjoy your rest of your day and we look forward to speaking with you on our first quarter earnings call on April. Thanks so much everybody, have a great day.