Good morning. This is Kathleen McCabe, Head of Investor Relations. Welcome to our Second Quarter Earnings Call. Today's presentation may include forward-looking statements which reflect management's current estimates or beliefs and are subject to risks and uncertainties that may cause actual results to differ materially.

The presentation may also include certain non-GAAP financial measures. Please see our SEC filings including this quarter's earnings release and financial supplement at www.morganstanley.com for a reconciliation of such non-GAAP measures to the comparable GAAP figures and for a discussion of additional risks and uncertainties that may affect the future results of Morgan Stanley. This presentation, which is copyrighted by Morgan Stanley and may not be duplicated or reproduced without our consent, is not an offer to buy or sell any security or instrument.

I'll now turn the call over to Chairman and Chief Executive Office James Gorman.

James Gorman

Thank you, Kathleen, good morning everyone and thank you for joining us. The second quarter was very solid across our businesses. We grew earnings year-over-year 34% excluding DVA and the prior year quarter net discrete tax benefit, and as a result, delivered an ROE ex-DVA of 9.1% for the quarter.

We also continue to execute on our strategic plan and deliver on our stated goals. Once again equities was a notable highlight driven by strength in cash, derivatives and prime brokerage across the globe.

Banking was strong. We finished the quarter ranked number one in global IPOs, number two in announced M&A. In particular, we delivered strong performance in fixed income underwriting. The pipeline remains healthy. In fixed income and commodities, we continue to deliver improving results.

Our fixed strategy remains unchanged and we continue to execute on our strategic plan to reshape fixed-income and commodities into a more focused business. We have reduced balance sheet, risk weighted assets, and expenses while maintaining a client focus consistent with our strategy. We believe the recent two notch upgrade and some of the developments in the competitive landscape may give rise to additional opportunity.

In Wealth Management, we remain on plan and delivered a 23% margin. Consistent with our strategy, we also completed the final stage of deposit on boarding and now have close to $140 billion of deposits. We continue to deploy those deposits as part of our bank lending strategy, an important component of our future performance and growth.

Finally, in Investment Management, we delivered a strong quarter that benefited particularly from investment gains in merchant banking and real estate investing. As recent market volatility, particularly driven by events in Greece and China has demonstrated, the near-term landscape can change quickly. This kind of short-term volatility does not change our long-term strategy.

Our trading performance can, of course vary meaningfully in the near-term, the stability of our fee-based businesses gives us comfort that a large portion of our business offers us a more predictable outlook. Furthermore, given our business mix we are overweight the U.S. and benefit from the real and sustainable recovery that is taking place. This balance positions us to continue to live up for our clients and our shareholders.

With that, let me now turn the call over to Jon to discuss the quarter in detail.

Jonathan Pruzan

Thanks, James. Good morning everyone. I'll review our quarterly financial performance and business results and then James and I will be happy to take your questions. Before I discuss the individual businesses, I will first make a few comments on our overall performance.

Revenues were $9.7 billion in the second quarter or $9.6 billion excluding DVA. Revenues are up nicely this quarter, 13% versus second quarter 2014 or 12% excluding DVA. Against that revenue backdrop, we were able to keep expenses well-managed up 5% year-over-year demonstrating operating leverage in our business. The efficiency ratio was 72% in the second quarter and we remain very focused on expense management both in terms of comp and non-comp expenses.

Our effective tax rate was approximately 33% this quarter due to our geographic mix of earnings and given that we would guide you to an effective tax rate of 32% for the rest of 2015.

ROE was 9.9% or 9.1% ex-DVA. We saw strength across certain products and geographies, but still have opportunities to improve results and we are keenly focused on our goal of delivering a sustainable 10% ROE.

Now to the businesses. Our Institutional Securities franchise showed resiliency in the face of more challenging markets in the second quarter. We continue to see a gradual global recovery led by developed markets. Not surprisingly Europe was a softer market and we expect a continuation of muted activity and volumes in the near-term.

We are optimistic about growth in the U.S. and see significant client engagement in greater China. Revenues were $5.2 billion or $5 billion excluding DVA, down 5% and 6% versus first quarter ’15. A significant portion of the decline is attributable to our commodities business where we saw less client engagement and lower volatility.

Non-interest expense was down 3% versus the first quarter. Excluding DVA, the compensation ratio was 38% below our stated target of 39%.

In Investment Banking, we remain encouraged by the level of strategic activity and have seen an increase in the velocity and size of deals. Deal activity is more diversified, the composition is more varied and we’ve seen more cash deals. Buyers are willing to move unilaterally and cross-border activity is up. Investor reactions to strategic transactions have been positive and this has led to nearly $2 trillion in global activity year-to-date.

For the quarter, revenues in Investment Banking were $1.4 billion, up 23% sequentially. As of June 30, Morgan Stanley ranked number one in global IPOs, number two in global announced M&A, and number four in U.S. investment grade debt. Notable transactions in the quarter include an advisory; Morgan Stanley acted as financial advisor to Time Warner Cable on the announced acquisition by Charter Communications valued at $79 billion.

In equity underwriting, Morgan Stanley as lead left book runner priced Fitbit’s $841 million IPO. At $841 million, Fitbit is the largest consumer electronics IPO in history. This transaction highlights Morgan Stanley's continued leadership in transformative technology IPOs.

In fixed income underwriting, we acted as lead left book runner on AbbVie’s sixth tranche $16.7 billion debt offering to finance its previously announced acquisition. We delivered related debt, equity and risk management solutions around this offering. This transaction is a great example of our ability to deliver solutions for clients across M&A, capital markets, and risk products, as well as the power of our partnership with MUFG who is involved in the initial bridge loan.

Turning to the individual businesses, advisory revenues of $423 million decreased 10% versus the first quarter driven by a decrease in the Americas and EMEA, partially offset by increases in Asia. Underwriting revenues were strong at $1 billion driven by a pickup in primary equity issuance and an industry record for quarterly new issue volumes for U.S. investment grade debt, which was aided by an uptick in M&A related financing.

Equity underwriting revenues were up 59% versus first quarter, primarily reflecting increases in follow-ons, secondary sales, and IPOs. Fixed-income underwriting revenues were up 34% versus a strong first quarter. The pipelines are healthy and while the third quarter historically maybe seasonally lighter for capital markets; we think longer-term positive trends remain intact.

In equity sales and trading, our global footprint continues to serve us well. We saw particular strength in Asia, where we have leading market position and cash volumes were up significantly. Performance in the U.S. continued to be strong lead by prime brokerage and derivatives.

Equity sales and trading had another excellent quarter with $2.3 billion of revenue, driven by high levels of client activity across all products. Prime brokerage revenues increased in all regions quarter-over-quarter and derivative revenues remain strong, but were down off of the first quarter.

Our first half results in equities are a testament to the strength of our equity franchise and leadership team. We believe that we have a number one global position year-to-date driven by our focus on clients and best-in-class execution. We are confident in our position and strategy, although results will be a function of client activity and volumes.

In fixed-income and commodities this quarter, we further executed on our stated strategy. We remain focused on reshaping and optimizing this business, as well as on efficiency and how we manage all resources. For the quarter, fixed-income and commodity sales and trading revenues were $1.3 billion excluding DVA, down 33% versus the first quarter.

As I noted before, a significant portion of the decline is attributable to our commodities business where we saw less client engagement and lower client activity. We also saw declines in EMEA off of a very strong first quarter which included the benefit of the start of QE.

Our rates business performed well, although down from the first quarter while the environment for our traditionally strong credit businesses remain softer. We continue to be disciplined on risk weighted assets in end of the quarter at a $157 billion of FIC RWAs.

A meaningful portion of this decline was driven by a reduction in risk as client activity decreased, while Greece dominated the headlines in the middle of June, as well as our continued passive roll off. We anticipate variability in RWAs, as client reengage and re-establish risk positions while staying below our target of $180 billion.

During the quarter, consistent with our strategy of exiting physical oil, we also announced the sale of our global oil merchanting business and expect that to close later this year.

We've dramatically reshaped our business at the same time that the market and our competitors are going through significant disruption, which brings both opportunities and challenges. We have reduced headcount, balance sheet, and RWAs, while remaining a full service global fixed-income partner to our top clients. Rebuilding the business takes time, but year-to-date we have shown progress, in particular, in rates and foreign exchange, though there is more work to be done.

Other revenues were up versus last quarter driven primarily by fees and marks on our lending and event book. Lastly, average trading bar for the second quarter was $54 million, up slightly driven by increased client activity and choppier markets.

Turning to Wealth Management. Our view remains positive as recovery further plays out in the U.S. We see steady performance in our business with growth coming from our bank strategy and fee-based programs. Revenues for the quarter were up 1% sequentially. Asset management revenues were up 3% from last quarter driven by higher fee-based client balances from positive flows.

Global based asset inflows were $13.9 billion bringing total fee-based client assets to 18 --- to $813 billion at quarter end, representing 40% of client assets. We continue to see softness in transactional revenues which were down 8% compared to last quarter, as retail investor activity has yet to increase from subdued levels.

Consistent with the execution of our U.S. bank strategy, net interest revenue increased 7% to $737 million, driven by growth in lending and realization of the forward curve in our Investment Securities portfolio.

Wealth Management lending balances grew $4 billion or 10% from the prior quarter. Non-interest expenses were essentially flat to last quarter and the compensation ratio was 57% driven by increases in non-compensable revenues. As James mentioned in its comments, the PBT margin was 23%.

Deposits in our bank deposit program were $132 billion, down versus the first quarter reflecting seasonality. Wealth Management representatives were down 1% versus the first quarter.

In Investment Management, revenues were up 12% sequentially driven by gains in the real estate and merchant banking business and total AUM ended the quarter at $403 billion.

Turning to balance sheet and capital, total assets were $825 billion at June 30, down from $829 billion at the end of the first quarter. In the last few weeks of June, the balance sheet came down as clients took risk off due to disruptions in the market.

Our global liquidity reserve at the end of the quarter was $188 billion compared with $195 billion at the end of the first quarter. Our capital ratios continue to strengthen, reflecting our best estimates of the Federal Reserve final rules, our pro forma common equity Tier 1 ratio, using the Basel III fully phased-in advance approach was 12.5% at June 30. Pro forma fully phased-in Basel III advanced RWAs are expected to be approximately $429 billion, down from $448 billion in the first quarter.

We estimate our pro forma supplementary leverage ratio under the U.S. final rule to be approximately 5.3% at June 30, up from 5.1% at the end of first quarter. All of these estimates are preliminary and are subject to revision.

During the second quarter, we repurchased $625 million of common stock or approximately 16 million shares under our 2015 CCAR approved higher level and our Board declared a $0.15 dividend per share.

To close my prepared remarks, we saw two different quarters in 2015 in terms of market dynamics, client activity, and volatility. Our global footprint and business mix were able to deliver stable results throughout these two quarters.

With that, we will open-up the line to questions.

Question-and-Answer Session

Operator

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

Glenn Schorr

Hi. Thanks very much. So you have done well across just about every business. I'm trying to get a feel for is, how much seasonality we should think about? And I know it’s always hard to answer, but between Asian equities so strong and second half usual seasonality in FIC and the big results in merchant banking and real estate, I’m just looking for any guidance on how much of that we should expect moderating in the second half, just on seasonality?

Jonathan Pruzan

Well, great. I think as you said, Glenn, the business was much more balanced in the first half across all of our businesses and all of our products, in all our -- all of our geographies in terms of seasonality. All I would say is from a capital markets perspective, the third quarter is usually seasonally slower, but that’s all I would really comment.

Glenn Schorr

Maybe on the merchant bank and real estate, is that a function of sales or its just really good environment and having things to mark up?

Jonathan Pruzan

Yes, I think as you point out in merchant banking and our real estate business, we did see good principal gains in the quarter. It was a combination of both marks in distributions and it's been a good environment for monetizations here.

Glenn Schorr

James noted the two notch upgrade may help in FIC. Can we talk about specifically where and maybe also just flush out within FIC. Normally your great and strong credit -- obviously that was weaker, but your results held up really well to your point on rates and FX. Have -- do you feel like you’ve fully transitioned to a more balanced business?

Jonathan Pruzan

There were lot of questions in there. In terms of the Moody’s upgrade as we said, we’ve gotten some positive feedback from our clients. We were pleased with that result. But I wouldn’t necessarily tie the upgrade to any specific level of performance in FIC. The balance -- the business was much balanced, much more balanced in the first half across products and geographies. You did point out that our historically strong credit businesses and SBG businesses are a little bit softer. We did see strong results across regions in rates in the first half. The FX business was strong in the first quarter given the positive trend in volatility in the U.S., euro FX movements that did come down a little bit in the second quarter as currencies traded in a tighter band and there was more muted volumes, but it was still a strong quarter for us. So I don’t -- I wouldn’t say that we are done here, but we are clearly pleased with the progress that we made and there is more to be done.

Glenn Schorr

Okay. Thanks so much.

Operator

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

Brennan Hawken

Good morning.

James Gorman

Good morning.

Brennan Hawken

Starting out in capital markets, and Glenn touched on this a little bit, the Asian strength definitely a driver again this quarter. Maybe can you help us understand how much of a tailwind that was and then also given some of the volatility we have seen since the end of the second quarter, how are clients reacting to that and what is your expectation for continued strength in the region?

Jonathan Pruzan

Sure. First I will comment our Asia-Pacific results and business, we are strong across all our businesses, equities, fixed income, and investment banking this quarter. We do have a diversified business not only in China, but across all of Asia. So it's not just China and it’s really all products. We did benefit from activity levels being higher in China this quarter. We did see increased volatility there, but given the liberalization of the capital markets in that region we’ve seen significant increases in investor interest in the region. It's obviously a large and important region and has significant growth opportunities there. So we would expect that level of engagement to continue. We saw lots of volatility in the second quarter. I would say that was more broadly dominated with some macro headlines towards the end of the year, not just in China, so we did see as we said risk positions come down and client engagement slow down a little bit in the back half of June and early parts of July. I would say we have started to see some of those headlines tied down and a little bit more stability in some of the volatility indexes come down, particularly in U.S. and in Europe. So we’re starting to see some more reengagements by our clients and our investors. But I wouldn’t -- I would say it’s a little too early to say anything about the quarter, but we feel good about the client activity and the client engagement.

Brennan Hawken

Okay, great. Thanks for that. And then on FIC, clearly year-to-date results have bounced back nicely. What's your view on returns in that business currently? Can you give us an idea of what returns you've been generating here year-to-date and whether or not that is what you're hoping for in an environment like this, and how much more juice there is for continued improvement there?

Jonathan Pruzan

As we've mentioned many, many times, we have been focused on reshaping and optimizing that business. We are clearly focused on improving the ROE in that business and we think we've made real progress here in the first half. We think there is still more opportunity. Some of those opportunities include continuation of the balance sheet optimization strategy that we have. We are very focused also on the velocity of our balance sheet and even though we've kept a tight lid on expenses, we still think there is more to be done in that area as well.

James Gorman

I would just add to that, that obviously we have done a lot of internal restructuring both in cost and in balance sheet. Clearly we have a very focused stable team running our FIC business. We saw the two notch upgrade from Moody's as Jon said you can't draw a direct line from that to activity, but at best, at worse it's neutral and the best it's more than that and the feedback from some clients is that over time it will be additive. And as others have observed in the global FIC investment banking sales trading marketplace, there is clearly more turmoil in other parts of world than there is in the U.S. and we think that there is potential for over a period of time for share gain for our business. So we take a long view on this. We don't really focus on -- I mean we obviously report on the quarterly basis, but we don't get that excited quarter-to-quarter. We are more focused on how we're moving this business over a four or five year period and obviously the more recent result suggest it's moving in the right direction.

Brennan Hawken

Yes. No, agreed. And then switching gears over to Wealth Management, the continued grind down in comp expense, how much of that -- is that purely mix driven? And then as we start to see some rate tail wind here, God willing, that only continues to support the mix shift, right. And then when you think about your loan to deposit ratio it's still low. So should we think about any change in loan growth with Citi's deposits all on boarded now?

Jonathan Pruzan

So I think in our Wealth Management business the drivers are still pretty consistent with what we've seen in prior quarters both in terms of the fee-based businesses as well as the deposit deployment and the improvement in NII. We think that both those trends will continue. We've been very focused on the expense side of the equation. We've been benefiting from increasing NII and therefore non-compensable revenues. I believe the expense ratio came in -- the comp expense ratio came in at 57% this quarter. Our stated target is 55%, so we will continue to drive towards that target. PBT margin was 23%, so that was up nicely from the second quarter. In terms of our deposit deployment strategy and our excess liquidity in our banks, we still think that has room to play out and that will be a continuation and the primary driver of our NII growth going forward. We saw $4 billion of loan lending balances increases in the Wealth Management business this quarter. We saw lending balances increase about $6 billion in totality, so we had about $2 billion of growth from our Institutional Securities client and we see that trends continuing as well. So again, a nice steady quarter in Wealth Management and we'd expect those trends to continue.

Brennan Hawken

Great. Thanks for all that color and congrats on the solid momentum.

James Gorman

Thank you.

Operator

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

Guy Moszkowski

Good morning. So we hear some commentary about potential for FIC share gains obviously there was some press a few weeks ago about whether or not there was a strategic change. At the same time I'm looking at capital balances in institutional and they are down about a couple billion dollars this quarter. I was wondering if you could help us understand how the two things are trading off, the potential for perhaps more FIC engagement and market share and on the other hand the decline in the capital that's allocated to the Institutional Securities group?

James Gorman

Well, let me just start with talking about the strategic issue and given that it was in the press and it's been raised and I tried to address it in my opening comments. It's a good example of don't believe everything you read in the newspaper. And I read a lot of things in the newspaper not knowing the facts I've learned not to believe all of them. What is true is that we did have a two notch upgrade. What is also true is that a number of institutions are going through a relook/restructuring of their fixed income businesses, which is obviously public. And thirdly what is true is that we have been through that process over the last several years and feel like we have a business right sized where the risk weighted assets have come down from I don't know, Guy, about four years ago there were 390 billion I think in FIC and there we just reported somewhere close in the 160s. So it may be even lower than that. So what we've said is the strategy is not changing. That doesn't mean that we won't get more velocity on sheet. That doesn't mean we are not going to be more efficient providers and it doesn't mean that we won't pick up share and that does mean that as these markets continue to grow relatively low volumes there won't be more opportunity for us on the revenue side. So its -- we are not trying to make it more complicated than that. This was a very solid quarter, not a sensational quarter in FIC. Obviously, the fact we are up year-over-year. It was important, but also to be honest a year-ago, we had a relatively light quarter. So we wanted to be up and we needed to be up and we proved we could be.

Guy Moszkowski

And just a follow-up on the reduction and capital that -- that's allocated currently to Institutional Securities. Is that as simple as what you talked about in the opening remarks, that the balance sheet was smaller at the end of the quarter and it was going to kind of bounce around that way, or is there something more strategic going on with respect to for example, run-off of some of those legacy positions that you were talking about that's driving down that FIC RWA, that's driving the -- almost $2 billion reduction in capital NIS?

James Gorman

Well there is certainly nothing strategic going on behind it. I'll let Jon talk about where we ended with the capital in the quarter.

Jonathan Pruzan

Guy, I think your first comments were accurate regarding the balance sheet usage.

Guy Moszkowski

Okay. Fair enough. And then just a follow-up on that. A $1 billion increase in what's allocated to Wealth Management whether we look at average common equity or common equity Tier 1 linked quarter, what's driving that?

Jonathan Pruzan

Again, in terms of those disclosures I think you see a couple of things here. The parent is increased driven by the less segment usage as we just talked about plus the earnings accretion that we had and then the mix is driven by each segments relative contribution to the total.

Guy Moszkowski

Fair enough. And then just one more thing that was topical for investors during the quarter based on your 10-Q. I know you addressed it a little bit at your conference a few weeks ago, but maybe you can talk a little bit about the decline in interest rate sensitivity that was evident in your Q, the degree to which that might have reflected just a difference in asset deployment strategy, securities versus loans, whatever and whether there are any risk management elements that we need to think about with respect to the change there?

Jonathan Pruzan

Sure. I think there is a couple of different questions in there. Maybe I can try to address them in two parts. First would just be our overall interest rate position and how we think about NII, and then the second part of the question really around the disclosures. Let me address the first one. As you heard from James, the on boarding of the Citi deposits came to conclusion this quarter. We brought on a little over $4 billion in the quarter and that program has now run its course. The NII was up nicely and we expect a continuation of that trend. The primary driver of that as we've said before is the deposit deployment strategy. If you look in the supplement you will see that our investment portfolio was down about $5 billion this quarter and our lending balances were up $6 billion. I mentioned $4 billion of that from Wealth Management clients and $2 billion from Institutional Securities clients. That's obviously critically important because as you remember from our January presentation where we laid out some illustrative asset yields you saw that our lending products were generating 150 to 250 basis points more of yield than our AFS or cash or short-term investments. So that is the primary driver of the improvements in NII. We are also starting to see the natural run-off in our investment portfolio being reinvested in higher rates and the realization of the forward curve that's a couple billion dollars a quarter. And then lastly just on our overall interest rate positioning, our NII growth and results are in line and consistent with where we were in the beginning of the year in terms of our views. On the actual disclosure that we have in the Q, a couple comments there. First, you should know that we don't manage to any individual rate scenario or rate shock, instead we're trying to optimize across the range of possible outcomes. The second comment about that disclosure is you know it's a 12 month disclosure and we're clearly focused on a longer term view when we think about our balance sheet and our interest rate positioning. That disclosure as you know is an instantaneous and parallel shock above the base case. So it is our 12 month forward NII base case. The important thing to realize there is that our base case includes two critical things. One of them is our own, which is our deposit deployment strategy which is the primary driver of our NII growth and the second is we use the implied forward curve and today the implied forward curve has 225 basis points increases in the fed fund rates. So we have captured much of NII expectations already in our base case. And the last point I would make is that, that number and that disclosure is going to move around as we manage our overall interest rate risk in the bank.

Guy Moszkowski

Great. That's actually all really helpful color. I appreciate you taking the time.

Jonathan Pruzan

Okay. Thanks.

James Gorman

Thanks.

Operator

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

Michael Mayo

Hi. My first question is on Wealth Management. You said you have a $140 billion of deposits of what's left to redeploy and we estimate a Wealth Management net interest margin of 2%. What would you consider a normal NIM for that business?

Jonathan Pruzan

So in terms of the first part of your question Michael, I think as we said the deposit deployment strategy is one of the critical strategies in wealth and we still think that, that has plenty of room to play out here. We still have excess liquidity in the bank and we will be redeploying those cash balances into the lending product for the foreseeable future. I'm sorry, the second part of the question?

Michael Mayo

Yes. What is your NIM in the Wealth Management business? We're estimating 2%, but if you want to clarify that. But what do you think is the normal margin for lending in Wealth Management?

Jonathan Pruzan

That's really a hard question. As you know, we do have an overall bank strategy, part of that benefit of having the bank appears in Wealth Management, a part of it appears in other parts of our businesses. So that's not really how we look at it. We're obviously focused on the overall PBT in that margin -- PBT in that business which came in at 23%, which is we said before was up nicely and we continue to hopefully make progress in that going into the future quarters.

Michael Mayo

So, where do you hope the 23% ratio to go over time?

Jonathan Pruzan

We've stated in the beginning of the year that our target is between 22% and 25% for the year. We're obviously inside of that target and we're going to continue to try to make progress there both on the revenue side and the expense side.

Michael Mayo

Alright let me switch to Institutional Securities. Prime brokerage, you said has gone up in all regions, and we lack some transparency to see some of the data underneath. Can you just give us some sense as to whether its market share or a percentage increase or really just why. We know many clients left during the crisis. Is that still a factor people coming back or what's the underlying reason for that growth?

Jonathan Pruzan

Listen, I think the underlying reason for the growth in all of our business is our client engagement and client activity. We've just seen a significant pick up around the world and around the globe in terms of engagement with our clients and we're there to meet our client's needs and that's why we've seen the growth in our balances.

Michael Mayo

Okay. How about just a general question, the ROE on a core basis is 9%, and that's below some of your peers and I know the target could get over 10%. But what is the ROE still under 10% when half of your company is a lot more annuity like than some of your peers referring to wealth management, asset management being half, your ROE is still under 10%. If you are to give the three main reasons why that's the case or why it should change, what would it be?

James Gorman

Well, Mike firstly I admire your consistency in coming back to this question every quarter and that's obviously something which remains a focus for us. Reason number one, not to be facetious is what our earnings are. Reason number two is, what our current capital is and reason number three is, what our ability to deploy that capital back to shareholders is has driven in large part by the CCAR process. So in short, we have a high cost problem. We're not capital or short if anything we're capital heavy. We continue to accrete capital as we have already this year significantly above what our presumed pay out and buy back plans are. So our ability to grow our ROE is both the function of improved earnings the firm is generating and the ability to right size that capital base for the business mix and model that we have. Through the first half of this year I think our ROE is running at about a 10% not including the first quarter tax gain which we had. And as we've said publicly we believe we should be running at 10 plus percent ROE business. When we get to that point we'll layout further goals and objectives above it, but this has obviously been -- if you look back over the last four years and you strip out some of the one time whether its MBIA, whether it was Revel, or whether it was the treatment of the deferred comp, whether it was some of the big litigation with Department of Justice, FHFA, you take all of those things out. Essentially the last four years ROEs have gone from 2%, 4%, 6%, 8% pretty much in lockstep. And as I said the first half of this year we're running right on 10%, 9.1% this year quarter I think 11% in the first quarter. So, nothing more to say, nothing more to project. We're as intently focused on this as you are, but it's a function of controlling both the numerator and the denominator and the denominator is a little more complicated given the regulatory world we live in as you obviously know.

Michael Mayo

All right. Thank you.

Operator

Your next question comes from the line of Christian Bolu with Credit Suisse. Please go ahead.

Christian Bolu

Good morning, Jon. Good morning, James.

Jonathan Pruzan

Good morning.

James Gorman

Good morning.

Christian Bolu

So, couple of questions on the longer term prospects of the Wealth Management business. So on the comp ratio, just like to get your thoughts on the competitive implications of driving the ratio below 55%. I do appreciate a lot of that is lending related, but I would imagine some of it also includes some comp rationalization. And what is the hypercompetitive environment for advisor recruitment? Does a lower comp ratio affect your ability to keep or attract high quality advisors?

James Gorman

Let me deal with that, because it’s got a long term aspect which obviously we think a lot about. Firstly the reduction in the comp ratio is overwhelmingly driven by the business mix as in non-compensable for revenues and by the cost structure, non-compensation expenses that we've realized some benefits and scale coming out of the integration a couple of years ago of the Smith Barney deal. The changes to the compensation for financial advisors and support, now actually it’s been very modest and -- but at the same time, I would say the recruiting environment the ins and outs has also been very modest. That is not, it might feel hypercompetitive because some of the wise run every time somebody moves from one firm to another they run a story on it, but actually in the size of these firms now the competitive environment on recruiting is really pretty stable. So that's not what's going to be the big driver here. We are not changing the compensation models for financial advisors to drive those kinds of economics. It's really business mix and it's the scalability of the business. Once you cover your fixed costs, the margins obviously improve.

Christian Bolu

Interesting. So, maybe just another question on that business and advisor growth remains weak, and you've talked about trimming the lower producing FAs. But I'd like to get your thoughts on maybe growing that business via another transformative M&A deal. A number of European banks have very sub-scale presence in the U.S., businesses that look like they could fit very well with yours. I would like to get your thoughts on maybe the appetite for in another deal and any pros and cons of doing a deal?

James Gorman

Well, Christian, I admire the question, but well obviously I wouldn't talk about deals on a call or corporate strategy like that. But suffice to say we're very conformable with business we've got and the size of the business, and we think the opportunity to improve margin with the business we have particularly by building out the bank and by organic growth within the businesses is extremely attractive to us. We had a desire to get to scale, and we are well and truly at scale. So we feel good about that.

Christian Bolu

I appreciate that. I just wanted to get maybe pros and cons of doing a deal, but I hear you. And then just -- one last question, on other revenues within ISG, could you quantify how much loan marks contributed to revenues there?

Jonathan Pruzan

No, again, I think that the primary driver was the marks on the loans in the event book, but I think that's where we will leave it.

Christian Bolu

Okay. Thank you, guys.

James Gorman

Thanks.

Operator

Your next question comes from the line of Fiona Swaffield with RBC. Please go ahead.

Fiona Swaffield

Hi. I just had a quick question following up on the fixed income risk weighted assets. How much of the fall is due to the massive roll-down happening more quickly than expected, because I think that by the end of 2015, you were still thinking you're going to have $25 billion left to roll off. Has that changed at all?

Jonathan Pruzan

Well, I would characterize reduction in RWAs, in FIC, really a meaningful portion of that was a decrease in client activity going into and through the Greece situation. There was some passive roll off, but it was really a mix of those two things and more geared towards the risk reduction of our clients.

Fiona Swaffield

Should we still [technical difficulty].

James Gorman

Did you hear that?

Kathleen McCabe

Sorry, I think we’ve lost you Fiona. Fiona?

Fiona Swaffield

Okay. Hi. Can you hear me?

Kathleen McCabe

Yes. We can hear you now.

Fiona Swaffield

I was just checking whether we should still take the 1, 5, 7 and assume the $25 billion could roll off from the end of 2015?

Jonathan Pruzan

No. I would tell you that, two things. One, we've got a stated target of $180 billion of FIC RWA in that business, we’re going to clearly operate within that target. The actual quarter-to-quarter RWAs is really just going to be a function of the macro backdrop client activity and supporting our clients. So that number can move around, but we're clearly going to operate within our target.

Fiona Swaffield

Okay. Thanks very much.

Operator

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

Steven Chubak

Hi. Good morning.

James Gorman

Good morning.

Steven Chubak

So was hoping to dig a little bit deeper into some of -- into the SLR in particular. It looks like you've reduced leverage exposure by 7% since the 1Q, '14 peak, so continue to make good progress there, but just given the Fed's proposal from Friday which suggested that the SLR will likely be incorporated in CCAR. I just want to get a better sense as to how much incremental SLR mitigation potential you see on the horizon especially given the backdrop for at least the planned strategy to continue to grow Morgan Stanley bank?

Jonathan Pruzan

Well, as you noted the SLR did increase from the 5.1% to the 5.3% that was a combination of both some movement in the numerator and the denominator. On the numerator we obviously had the earnings accretion for the quarter, and on the denominator, not only did the balance sheet come down, but we also made some progress on the SLR add-ons. We're clearly comfortable with that ratio where it is today. That rule doesn't go into effect until 2018. And I would tell you that we're going to continue to manage our business across all of our capital ratios and continue to remain focused on having enough capital to grow our business.

Steven Chubak

Okay. And as a follow-up to that, Jon, just thinking more broadly when you look at the current regulatory landscape and the multiple constraints that you're managing too. What do you believe longer term represents Morgan Stanley's binding constraint, and how does that inform your strategy in terms of where you see opportunities to better optimize those ratios?

Jonathan Pruzan

Well again, it's a complex question because we have multiple ratios. Clearly in terms of capital return our binding constraint is CCAR. CCAR continues to evolve quarter -- year-over-year, and we're going to continue to do our best to manage our capital ratio so we can return capital to our shareholders as well as continue to grow our business.

Steven Chubak

Okay. Thanks. And just one more for me on capital, with the Fed's proposal from Friday suggesting that the advanced approach will be deferred indefinitely in CCAR, I would appreciate if you could disclose, A; the current level of standardized RWAs, and B; how we should think about the trajectory in standardized RWA in the context of some of the mitigation targets that you've laid out in the past?

Jonathan Pruzan

In terms of the -- I think we -- I mentioned in my remarks that the advanced RWAs was about $429 billion on a preliminary basis, standardized is pretty close to that. It's about $420 billion. We've seen those numbers converge over the last several quarters. In terms of the proposal that was put out on Friday, clearly having clarity and simplification around some of the initiatives is very helpful. The delay in the SLR as you said the delay in the advanced approach as well as the removal of the Basel I test it’s helpful for us and positive for 2016. We’ve spend a lot of time and energy on CCAR and any time there are changes. We obviously have to go through a process and model validation and pattern recognition, and so when there are fewer changes it's easier for us just to continue running those models as we've been doing in the past. But overall I think it's too early to comment on the overall 2016 CCAR. This is A; only a proposal, and B; we haven't seen the scenarios or the final instruction. So while this has been positive because it keeps the model similar to what it was last year it's too early to comment overall on the process.

Steven Chubak

Right. Understood, Jon. I appreciate you taking my questions.

Jonathan Pruzan

Thank you.

Operator

Your next question comes from the line of Michael Carrier with Bank of America/Merrill Lynch. Please go ahead.

Michael Carrier

Good morning, and thanks guys. The first question, just on the expenses and your operating leverage, just looking year-over-year I think your revenues are up around 12%, expenses up 5%, the margins are around 27%, 28%. So just, when you think about going forward, in a positive revenue environment, I just wanted to get an update on some of the targets that you had for like the comp ratios by segment and probably more importantly on the non-comp side, because that's been fairly well managed, there's obviously been some volatility around legal in the past. But just when you think about areas where you're still working on efficiencies versus some incremental spend in the business, whether it's on growth or regulatory initiatives. I just wanted to get an outlook on like incremental margins in a positive revenue trending environment.

Jonathan Pruzan

Sure. I think there are a couple questions there. In January, James laid out specific comp targets. They were 39% in ISG; we were at 38% for the quarter. They were 55% in Wealth Management, as I mentioned they were at 57% in the quarter. And we laid out a target of below 40% in Investment Management and its running slightly above that I think about 41%. So again, tightly managing compensation, our non-comp in terms of targets I'm not sure we have specific targets, but we as I said been very focused on non-comp expenses. We've been trying to support the business growth so the level of activity will drive that number. Obviously the level of regulatory change will also drive that number, but we've been very focused on keeping a tight lid on expenses and we will continue to do that going forward.

James Gorman

And I would just add that the -- what should be obvious to everybody is these businesses are enormously scalable. Once you've covered your fixed costs, you'd be hard pressed to grow your non-comp expenses absent legal. You'd be hard pressed to grow it at the pace of what the revenues grow at in the last quarter. So we're going to keep that discipline. Obviously as Jon said, there are certain parts like brokerage and clearing, certain marketing development which do go up as revenues go up, but there's a heck of a lot of it that doesn't which gives you the incremental margin is always going to be higher than the existing margin.

Michael Carrier

Okay. That's helpful. And then just a quick follow-up on the Wealth Management business, just two things there. Just on the transaction revenues, what type of an environment would you start to see that pick up?

Because it’s been a couple of quarters and it hasn't been just you guys, it’s been more the industry. But I just wanted to get, what do you think the big driver, the weakness there is? And then second is, just on the DOL proposal on the common period, do you think its getting ready to close. So I just wanted to get an update on your guys view on some of the challenges or the opportunities if that precedes into the back half of this year.

James Gorman

Sure. In terms of the wealth business and the transaction line, as we stated the retail investor is still somewhat on the sidelines. I think what changes that is the function of consumer confidence, whether that's acceleration of the GDP growth, whether that's rising rates, but I think we need to see some more confidence before the retail investor sort of totally reengages, so that would be on the first question. On the second question on DOL, you did highlight that the, the comment period comes to a close tomorrow. As you know that is a complicated rule and the comment period was actually extended till tomorrow, because there's been a lot of industry dialogue and a lot written on it. FINRA Chairman, Richard Ketchem recently spoke about his idea of a single standard. So to have a single standard across all products and accounts and not treat anything differently like a 401(k) or an IRA and we think that makes sense. Our clients clearly want choice, and we would support an approach that gives our ability to deliver that choice to our clients. So, we'll see where the final rule comes out.

Michael Carrier

Okay. Thanks a lot.

Operator

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

Matthew O'Connor

Good morning.

James Gorman

Good morning.

Matthew O'Connor

Most of my questions have been answered, but I had a follow-up I think I asked it last quarter. The amount of long-term debt you have coming due the next 12 months was a good disclosure and here it’s showing us $27 billion. But what's the difference in the long-term debt rate that's on the balance sheet versus what you get on new issuance? Obviously rates have come down. The two notch upgrade helps. How much revenue benefit or reduction in interest expense occurs as debt rolls off and you get to reissue at a lower rate?

Jonathan Pruzan

So, a couple of things. One, you saw in the first half we did -- we issued about $23 billion, and we took advantage of some very attractive markets and we tried to frontload our issuance. So we would expect our issuance in the back half of the year to be lower. In terms of the rate or the cost of that debt, I think one way I look at it is, if you think about the WAM of our debt stack in 2010 was about five years. So if I look back at 2010 to look where we were issuing debt at that time, it was on an average of about Treasuries plus 210, so our credit spread is about 210 basis points over. That is a debt that is maturing today and our new issue -- our credit spreads today are closer to 120, so two plus 120. So we are clearly getting a benefit as our more expensive debt roll off, recognize that that roll off is not our entire debt stack. We have over $155 billion of unsecured debt, and so that benefit will accrue over time, but that's sort of a magnitude for you.

Matthew O'Connor

Okay. Thank you very much.

Operator

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

James Mitchell

Hi. Good morning. My question was pretty similar to, Matt. If you can give us sort of an update of where you are in your target of reducing funding costs by 25% in the context of the debt issuance conversation, are we close 50% of the way just so if you can give us a sense of how much more we can expect on the lower funding costs?

Jonathan Pruzan

Again, I think -- I tried to answer that question when Matt asked it. I would just say, we continue to see a benefit and until we run through the entire debt stack, we’re going to just keep getting that benefit over time quarter-over-quarter.

James Mitchell

But you don't want to give us like you're 50% of the way there, at 75% of the way there?

Jonathan Pruzan

Correct.

James Mitchell

Okay. Thanks.

Operator

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

Matthew Burnell

Good morning. Thanks for taking my question. Jon, maybe a question for you on the Wealth Management loan growth and deposit growth, now that the city transfers are effectively done, what are you expecting for deposit growth within the bank? And what are you expecting for the growth rate particularly within the retail side of the loan growth in Wealth Management? Its been running about 40% annualized, is the -- other than just the fact that the denominator is growing, is there any reason to think that, that would slow at any point over the next 6 to 12 months?

Jonathan Pruzan

Well, yes, I mean again, I'll answer that last question first. The law of large numbers, that growth rate will come down. But in terms of our FA penetration and our client penetration, it continues to improve quarter-over-quarter. I think we've designed some very unique products for our Wealth Management clients and we've had really good take up both on the SPL product as well as the mortgage product. And I think we feel good about the growth rates that we've seen and our ability to penetrate our client base. So we're comfortable with the growth that we've seen and we will continue to see. And then again I'm sorry; I forgot your first question.

Matthew Burnell

Just in terms of your expectations for deposit growth now that the city transfers are done?

Jonathan Pruzan

Yes, as I mentioned we did see some seasonality for tax season in the deposit number this quarter. We still have significant excess liquidity that we're going to be deploying. I think Greg has mentioned some innovation we're doing around digital cash management and payment solutions, so we think that will be ultimately a good driver for growth. But right now in terms of our deposit balances we have excess deposits that we can deploy without requiring deposit balance but we're going to continue to try to penetrate our client base and grow those deposits with some new products going forward.

Matthew Burnell

Okay. And then if I can just move over to the institutional loan port -- Institutional Securities loan portfolio, that's actually growing in some cases faster than in -- than in the Wealth Management side of things. But I found it interesting that the percentage of the loans that are investor grade are also growing. Can you give us a little more color as to where you're seeing opportunities within the Institutional Securities portfolio?

Jonathan Pruzan

Sure. As I mentioned, we had about $2 billion of growth in the Institutional Securities balances this quarter. What we've seen certainly in some of the M&A and event financing we've seen a shift more towards investment grade borrowers, as we've seen a pick up in strategic activities, so that's a driver. I would say the growth has been balanced between our products in terms of the warehouse lending facility as well as some of our other corporate products, but that shift in investment grade is really being driven by the event book