Operator

Good morning, and my name is Dennis, and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs' First Quarter 2012 Earnings Conference Call. [Operator Instructions] Also, this call is being recorded today, Tuesday, April 17, 2012. Thank you. Mr. Holmes, you may begin your conference.

Dane Holmes

Good morning. This is Dane Holmes, Director of Investor Relations at Goldman Sachs. Welcome to our first 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 those 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 our fiscal year ended December 2011.

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 and global core access. 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.

This audiocast is copyrighted material of The Goldman Sachs Group, Inc., and may not be duplicated, reproduced or rebroadcast without our consent. Our Chief Financial Officer, David Viniar, will now review the firm's results. David?

David A. Viniar

Thanks, Dane. I'd like to thank all of you for listening today. I'll give an overview of our first quarter results and then take your questions.

I'm pleased to report solid first quarter results for the firm. Net revenues were nearly $10 billion and net earnings were $2.1 billion. Earnings per diluted share were $3.92 and our annualized return on common equity was 12.2%. For Goldman Sachs, our opportunity set begins with our clients. In the wake of the financial crisis, our clients faced a series of challenges that accelerated in 2011. For both corporate and investment clients, shifting and often conflicting economic data created uncertainty about the outlook for the global economy.

Evolving clarity was complicated by the degree of interdependence among different regional economies. As would be expected, these macroeconomic concerns were reflected in the global Capital Markets, as market participants became increasingly concerned about the economic environment, particularly related to the potential systemic risks presented in Europe. The situation was exacerbated by growing skepticism regarding the willingness of the global political infrastructure to address the economic risks confronting the system. These factors resulted in periods of unprecedented volatility asset values and bouts of prolonged illiquidity, often sparked by perception or conjecture rather than fundamental analysis or actual facts.

Ultimately, economic uncertainty, market volatility and systemic risk factors had a materially negative impact on market psychology in 2011. While macroeconomic challenges persist, there have been some positive developments over the last few months. At the end of December, the European Central Bank announced that it would enhance its long-term refinancing operation to provide term liquidity. By addressing potential funding risks, the ECB materially reduced the markets concern that a systemic event could emanate from a European financial institution. In addition, the market has seen steady progress in 2012 on resolving Greece's debt situation, providing greater comfort that there will be a difficult but organized approach to addressing sovereign issues within the euro area.

In response to these critical events, Capital Markets rallied significantly in the first quarter of 2012. Credit markets improved materially, experiencing tighter spreads, higher activity levels, increased new issuance and most importantly, improved market liquidity. Global equity markets also rallied during the first quarter, with the S&P 500 up 12%, the FTSE up 14.2% and the Hang Seng up 11.5%. Volatility was materially lower as demonstrated by the VIX declining by 1/3. While there were positive developments, announced M&A volumes remained light and equity volumes remain muted, reflecting the longer time required to improve CEO confidence and investor conviction.

Ultimately, the more favorable operating environment, combined with the strength of our diverse global client franchise to create an improved opportunity set for Goldman Sachs in the first quarter of 2012.

I'll now review each of our businesses. Investment Banking produced first quarter net revenues of $1.2 billion, up 35% from fourth quarter results. First quarter Advisory revenues were $489 million, up 4% from the fourth quarter. Goldman Sachs ranked first in worldwide announced M&A globally for the year-to-date. We advice on a number of important transactions that closed in the first quarter, including Hitachi Global Storage Technologies $4.8 billion sale to Western Digital Corporation, Temple-Inland's $4.3 billion sale to International Paper, and Transatlantic Holdings $3.4 billion sale to Allegheny.

We're also advised on a number of significant announced transactions, including TNT Express' EUR 5.2 billion sale to United Parcel Service, Tyco International's $4.9 billion merger of its flow control business with Pentair and Apaches $2.9 billion acquisition of Cordillera Energy Partners.

First quarter underwriting net revenues were $665 million, up 72% sequentially. Equity underwriting revenues of $255 million were up 34% from a weak fourth quarter, reflecting an increase in secondary offerings as IPO activity remained light. Debt underwriting more than doubled to $410 million reflecting higher industry-wide debt issuance. During the first quarter, we participated in many noteworthy underwriting transactions, including Priceline's $1 billion convertible offering, Seadrill's $1 billion secondary offering and Clear Channels $2.2 billion high-yield offering. Our Investment Banking backlog remained unchanged from year-end levels.

Let me now turn to Institutional Client Services, which is comprised of FICC and equities client execution, commissions and fees and securities services. Net revenues were $5.7 billion in the first quarter. Our FICC and equities client execution businesses produced significantly stronger results than during the fourth quarter, driven by an overall improvement in market sentiment. FICC client execution net revenues were $3.5 billion in the first quarter, improving significantly from a weak fourth quarter. This quarter's results reflected a broad contribution across our businesses and products. Our rates, credit and mortgage businesses benefited from higher client activity levels following the LTRO, the improved outlook for the U.S. economy and the orderly restructuring of Greece's debt. Our currency's business benefited from stronger performance in our emerging markets businesses. Commodity results reflected lower volatility levels, which drove fewer opportunities during the quarter.

Turning to equities, which includes equities client execution, commissions and fees and securities services. Net revenues for the first quarter were $2.3 billion, up 33% sequentially. Equities client execution revenues doubled to $1.1 billion, largely reflecting higher net revenues within our Derivatives businesses. Commissions and fees were $834 million, up 7% from the fourth quarter on higher market values in Europe and Asia, and higher volumes in options and futures. Securities services net revenues were $367 million, were down 5% sequentially.

Turning to risk. Averaged daily value at risk in the first quarter was $95 million, down 30% relative to the fourth quarter. Lower interest rate risk was driven by lower levels of volatility.

Let me now review Investing & Lending, which produced net revenues of $1.9 billion in the first quarter. The firm's Investing & Lending activities across various asset classes, primarily including debt securities and loans, and equity securities are included in this segment. These activities include both direct investing and investing through funds, as well as lending activities. Our investment in ICBC produced $169 million in the quarter. Other equity investment generated net revenues of $891 million, reflecting gains that were relatively balanced between public and private equity investments. Net revenues from debt securities and loans were $585 million, largely driven by interest income and a more favorable credit market. Other revenues of $266 million were primarily driven by the firm's investment in consolidated investment entities.

In Investment Management, we reported first quarter net revenues of $1.2 billion, down 7% from the fourth quarter due to seasonally lower incentive fees. Management and other fees were consistent with the fourth quarter at $1 billion. During the first quarter, assets under management decreased $4 billion to $824 billion. Outflows and money markets, and to a lesser extent equity and alternative assets, were partially offset by $22 billion of market appreciation. Now let me turn to expenses.

In the second quarter of 2011, we announced an initiative to reduce approximately $1.2 billion in run rate compensation and non-compensation expenses. We increased the program to $1.4 billion over the course of the year. We have largely implemented our announced expense reductions and continue to review means to further improve our operating efficiency. Compensation and benefits expense, which includes salaries, bonuses, amortization of prior-year equity awards and other items such as payroll taxes and benefits was accrued at a compensation and net revenue ratio of 44%, which is consistent with the firm's accrual in the first quarter of 2011. First quarter non-compensation expenses were $2.4 billion, 8% lower than the fourth quarter reflecting reduced cost across a number of expense categories. Total staff at the end of the first quarter was approximately $32,400, down 3% from the end of 2011 and down 9% from the end of 2010. Our effective tax rate was 33.7% for the first quarter.

During the quarter, we repurchased 3.3 million shares of common stock for a total cost of $362 million. These repurchases reflected the completion of our 2011 capital plan. Today, we also announced an increase in our quarterly common stock dividend from $0.35 to $0.46 per share. While we expect share repurchases to continue to be the predominance of our capital management activity, we have received shareholder feedback related to our dividend and therefore, elected a modest increase. The first quarter brought several favorable developments in the operating environment for our businesses. We believe the probability of a tale event in the euro area has materially declined in the light of the LTRO. In addition, the economy in the United States is showing signs of recovery. China, while potentially slowing, still remains a strong economic growth engine.

Despite these improvements, client sentiment remains fragile. In addition, market developments in recent weeks including weaker U.S. economic data and wider spreads in certain peripheral European countries; remind us of the fragility of this economy. While debt financing markets are open and equity financing markets are improving, M&A activity has not yet gained momentum. Volumes improved in certain fixed income markets, but equity volumes remain under pressure and investor conviction is mixed. We believe in improving macroeconomic picture is the most significant driver of improved market psychology and a healthy, stable Capital Markets over the medium term. In the near term, the current operating environment warrants a prudent approach to managing capital and liquidity levels and a continued focus on expense initiatives.

The last 3 years have brought a series of challenges for Goldman Sachs in the financial services industry, as well as market participants more broadly. We're encouraged by the early signs of improvement in markets and the economy, but remain cautious given the complexity of risks and challenges. Everyone at Goldman Sachs remain steadfast in their commitment to serving our client franchise. We're keenly aware that the quality of our advice and execution in today's challenging market serves as the foundation for maintaining these long-term client relationships and ultimately meeting the needs of all of our stakeholders.

With that, I'd like to thank you again for listening today, and now I'm happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] And the first question comes from the line of Guy Moszkowski with Bank of America Merrill Lynch.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Let me just start with the expense initiatives that you alluded to. Obviously, in the quarter, as you also pointed out, what you reported on the non-personnel side was -- indicated very strong cost management. You can look at some of those items and say, well, some of this is just discretionary spending being kind of stepped on temporarily in a -- in what's still kind of a weak revenue environment. On the other hand, you're telling us that you fully implemented your sizable cost-cutting plans. So I guess that's a roundabout way of asking for a little bit of guidance as to whether we should be straight-lining these levels of non-personnel costs.

David A. Viniar

Guy, I'm always hesitant to give guidance on anything because things change. But I think that you can assume that most of those cost reductions, many of which are related to people, but non-comp expenses are attached to people, are in. And so I think that the numbers that you see are not a bad proxy. All other things being equal and no -- assuming no big changes in the environment for where things are going to run.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Okay. That's helpful. I wanted to talk about the CCAR a little bit. Obviously, your CCAR results highlighted something we've known for a while, which is that your capital position is very strong. The shares have obviously rallied meaningfully in the first quarter, but they're still below tangible book. Maybe you can articulate your philosophy with respect to share buybacks relative to the share price and the degree of price sensitivity that you may show?

David A. Viniar

Well, I'd always like to buy more when the stock price is lower, and less when the stock price is higher. But I've never found myself to be a great predictor of our stock price. And so I'm not necessarily sure when the stock price is lower and when it's higher. We will -- we'll have a plan. We will moderate that plan, based both on our results and how things are going during the quarter, as well as on the stock price. And we'll try to buy more at the lower stock price and less at the higher stock price, but I don't know for sure we’ll be successful at that.

Guy Moszkowski - BofA Merrill Lynch, Research Division

And can you give us some sense of how to think about what authorization you may have received from the Fed as to how much you may buy back?

David A. Viniar

We didn't disclose it last year nor this year.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Got to ask though.

David A. Viniar

I thought you would.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Can you tell us what your pro forma Basel III Tier 1 common and risk-weighted assets were?

David A. Viniar

I can tell you -- I can give you the ratio. I actually don't have it in front of me, both the equity and risk-weighted assets. But with all the caveats of the rules not being done, being very rough estimates, all of those, those caveats take as a given. At the end of the quarter, our Basel III ratio would have been roughly 8%. And if you roll forward to 2013, again, assuming just consensus estimates of earnings and passive roll-off suppositions, so no active mitigation, it would be around 11%.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Okay. Then final question for me is just about Investing & Lending. The outstanding levels of your I&L portfolios have been pretty constant. But going forward, of course, there's going to be limitations on the level of fund commitments and maybe some other limitations under Volcker. How should we think about the portfolio trajectories there, given some of these limitations and the expected runoff of your current portfolio holdings?

David A. Viniar

Look, again, hard to answer the question because the rules are far from final. But certainly, some of our investments in hedge funds are going to come out. We've announced that publicly, and our investments in equity funds are going to be limited to 3%. And so some of those -- some of the investments where we have a higher percentage will roll-off. And so in that way, you could certainly see some of that portfolio come down. But until the rules are finalized, we don't know exactly where it's going to go.

Guy Moszkowski - BofA Merrill Lynch, Research Division

And just in terms of the potential capital relief as we see some runoff, I think you've spoken to about $9 billion of capital held against that portfolio currently, is that still more or less right?

David A. Viniar

Right. But again, not to mislead you, that’s the total capital held against that portfolio, we don't expect that whole portfolio to go away, so we don't expect all that capital to be released. And it's going to be dependent on the final rule set, how much happens and what the ultimate flows are.

Operator

Your next question comes from the line of Howard Chen with Crédit Suisse.

Howard Chen - Crédit Suisse AG, Research Division

I was just hoping to get your latest thoughts on the competitive landscape in the sales and trading businesses. On one hand, you've spoken about the exit of some competitors in big pockets of the business. Curious if you're seeing any improved share trends? And second, on the flip side, are you seeing the competitive landscape heat up and any particular subclusters of thicker equities?

David A. Viniar

Look, I would say the competitive landscape remains tough. We have a lot of very, very good competitors out there. I can go back to 2009, where as you know, we gained a tremendous amount of share. But we all talked about -- you heard me say very clearly that was not sustainable and we knew our competitors would be back, they are. I think there are some competitors, some of the European institutions who have exited certain businesses, so that's helpful. But it's hard to really see that because there's not yet that -- enough improved flow to really see how much share we can pick up from that. I would say our franchise remains very strong. We continue to get a very, very good market share across the trading businesses. But that's not without very strong competition from our major competitors.

Howard Chen - Crédit Suisse AG, Research Division

Great. And then a healthy start to the year, but with the environment still glass half full, glass half empty, how are you thinking of staffing levels and the hiring outlook today?

David A. Viniar

Look, I think we're relatively well positioned assuming that the environment stays pretty much what it is. But you heard me say we're going to look for other means of efficiency because we're still cautious on the outlook. But I wouldn't expect anything major to change from where we are.

Howard Chen - Crédit Suisse AG, Research Division

Perfect. And then final one for me, given the Moody's review for you all in the industry, just -- can you share your latest views on what a downgrade for the firm and the industry means to you and the competitive landscape, if it falls out that your rating comes, lays out at a premium to that some of your major competitors?

David A. Viniar

Look, first, I would say, and I'm sure this will not surprise you, we very strongly disagree with some of the things that Moody's has mentioned in some of their reports. We think that if you look at every single credit metric there is for Goldman Sachs, and frankly, for many of our competitors, none of the actions they've talked about are warranted. We are, as you know, we're quite analytical. And when we do all of the analysis, we cannot figure out why they are where they are. So I just want to tell you that. Look, what the effect is going to be, I think much of it is in the market because they have clearly foreshadowed what they're thinking of doing. I think if they move the whole industry to the left, I think it just -- it will not, in the end, have that big an effect. There are some who might be more affected than others, at least from what they say, we'll be at the higher end, but not the highest. And so I don't think it will have a big effect. And it's hard to say that there will be a real competitive change from what they do.

Operator

Your next question comes from the line of Glenn Schorr with Nomura.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

One of the impossible questions. So look, you guys are the only ones that breakout Investing & Lending separate. There's a component, at least a decent component of it, that would be included in some of the competitors FICC numbers. But with all that said, can we drill down on FICC specifically? It's an interesting quarter because spreads compressed a lot, but you came into the quarter and then -- with lower risk rates and you took VaR down dramatically in rates and currencies. Can we just talk about separating the environment and your derisking versus looking forward to how the business is being shaped? And then, very specifically, how you think about your share within FICC?

David A. Viniar

Okay. In some ways, Glenn, your question included my answer. So look, you're correct about the segments. And so it's hard to compare, it's not necessarily apples and apples. You're correct about our caution. And the way I would describe the quarter is, I would say flow in FICC was good, but not great. And our quarter in FICC was good, but not great, reflecting that. There was big asset price improvement, but we were -- we have been cautious on risk and we remain cautious on risk given the environment. And I think that's also reflective of the fact that our clients have been cautious on risk and remain cautious on risk. And that's why flow, I would say, was good but not great. I think all of those things are related. Our franchise still feels extremely strong. Our market share is very high and the reason that it was a lot better than what you saw in the -- towards the end of last year is because flow and outlook was better, but still cautious.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

I appreciate that. And I'll note that you didn't say anything about future part of the business and the regulatory environment. In other words, this is all a product of your client flow and the business environment.

David A. Viniar

I think that is the great bulk of it. I think some of some of the flow or not great flow is caused by concern about what regulation might do. I think that's a very small part of it. I think most of it is macroeconomic driven.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Okay. I appreciate that. After the quarter, there were some news stories on ICBC sale. Just curious if you -- it wasn't all of it, just wondering how much is it in the funds? How much is it, the Goldman piece and what's left after the latest sale?

David A. Viniar

Sure. The simple answer is, there is nothing different about this than the prior sales. It was purely a derisking sale because our position was quite big. We still have a position that at current market prices is a little bit less than $2 billion. We remain very optimistic about ICBC and about China. We remain very committed to both strategically, and we would expect to have a reasonable size position going forward. But it was just big and we derisked.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Okay. Last one, and I've been through the cycle with you before, but it seems like there's been a decent number of senior producers leaving Goldman over the past couple of months and wondering if you could just put some context around that and how much time you spent worrying about it because I know it comes up in a lot of conversations we have.

David A. Viniar

Sure. And this is -- we talked about it before and I've told you that you should expect what you saw. We have statistically 15% to 20% of our partners leave every 2 years. You go back in history and you've seen that. And over the last 4 years, coming into this year, very, very few left. And I think that was a testament to people's feelings about Goldman Sachs. It was a tough economic environment. It was a tough reputational environment and our partners are completely loyal and felt that they should stay with Goldman Sachs. I think as things have improved somewhat, what you're seeing is a little bit of a catch-up. It's natural and it's actually important and it's warranted because if it doesn't happen, then the next level of people don't have, who are fantastic, don't have the opportunity to move up. And then they'll leave and then when the senior people leave, you'll be missing that middle level. And so there is nothing unusual about it. It is exactly in line with what we would have expected. I would expect that between now and the end of the year, you'll see more partners leaving. I couldn't tell you who they're going to be. It's just kind of the natural progression and our bench is so deep that it's really not an issue at all.

Operator

Your next question comes from the line of Roger Freeman with Barclays.

Roger A. Freeman - Barclays Capital, Research Division

Just maybe just to follow on that, that question. I think you said the headcount was down 3% since the end of 2011. Is that just the holdover of some of the initiatives from last year or is that some of the departures out of place?

David A. Viniar

No. I think it's largely the -- kind of the ends of our expense initiatives that we talked about.

Roger A. Freeman - Barclays Capital, Research Division

Okay. Could you also comment on maybe how -- what the headcount level delta is in the U.S. versus non-U.S., either like over the last year or year-to-date? I'm just curious what the relative growth or contraction rates are.

David A. Viniar

Yes. The contractions, I would say, were more in the U.S. and Europe than in Asia. But pretty similar across the U.S. and Asia, with U.S. and Europe with a little bit less in Asia, given our concentration on growing that business.

Roger A. Freeman - Barclays Capital, Research Division

Would you still anticipate to be growing, say, sort of outside of Europe this year, particularly emerging markets?

David A. Viniar

I would anticipate us to be growing in emerging markets, but I would anticipate that growth to be very moderate in this environment.

Roger A. Freeman - Barclays Capital, Research Division

Okay. On the regulatory front, is there -- are there any significant items, still a lot of rules that have to be written, but obviously, a lot of discussions going on around them. Are there any major issues that you feel at this point have not been acknowledged by relevant -- either members of Congress or regulators to kind of workout?

David A. Viniar

Look, I think the regulators and especially regulators who are writing the rule understand the issues. I think they are very, very difficult issues. I think they are doing what we completely support, which is trying to write rules that make the financial system safer and sounder, while not hurting the free flow of capital and therefore, economic growth and not hurting the competitiveness of the U.S. financial institutions. That's their goal. It's not easy. The rules are very, very complicated. We're very supportive of what they're trying to do and I think they are really trying hard to do this, but it's a difficult task. And they recognize all of the issues involved.

Roger A. Freeman - Barclays Capital, Research Division

Okay. And then just in the equities business, I was curious on the equity derivative comments, on the Europe year-over-year, because from everything I've heard, that's been a much tougher business year-over-year particularly with the volatility down. Is there anything unusual or particularly chunky in there?

David A. Viniar

No. We actually saw more activity from our clients in the Derivatives space. And so that was very helpful to us.

Roger A. Freeman - Barclays Capital, Research Division

Okay. Lastly, just on liquidity. $170 billion I think this quarter, I mean, given all of your comments, things, feeling somewhat better, but obviously still some points of caution, did you anticipate to run at these kinds of levels probably for the rest of the year?

David A. Viniar

We have been running at the high -- an average of the 160s probably for the last 2-ish years. I would not expect, assuming the environment does not change dramatically, I would not expect it to change dramatically. It might go up or down a little bit from here. I wouldn't expect to change dramatically.

Operator

Your next question comes from the line of Michael Carrier with Deutsche Bank.

Michael Carrier - Deutsche Bank AG, Research Division

Your first question, when you started out, you mentioned solid results, yet it's still just 12% ROE. Now granted tough environment and tough environment for all the peers on a relative basis is still pretty good. But I think when we think about the macro environment improving and what that can do to returns, I mean we can all try to gauge that and factor that into the pickup in activity. But when you think about the uncertainty on some of the regulations that are still weighing on the industry, like how much does that limit your ability and the industry's ability to reposition in order to improve returns? Like meaning, if that -- if the regulatory uncertainty keeps getting kicked down the road, like does that significantly limit what you can do to try to improve those returns versus just the macro environment?

David A. Viniar

Look, I think -- as you heard me say before, I think the biggest driver is going to be activity and the biggest driver of activity is going to be the macroeconomic environment. You saw some pickup this quarter, and so you saw a pretty good pickup in ROE, although not something that we consider acceptable. I think there's -- look, let's just be realistic, there's going to be regulatory uncertainty for a while. And I actually think, as I said before, I think the rules are hard and I think I would trade regulatory uncertainty for better rules. And so I think the regulators are taking the appropriate amount of time to make sure they get it right. And in the long term, that's going to be better for us and better for everybody.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then during the quarter, I guess one is on the Asset Management side, so you did one deal. In that business, just on the long-term flows continues to see outflows. So just strategically, how are you guys trying to reposition that? And then you've also been building the Reinsurance business, so where do you see the opportunity there? And is it some firms pulling out, and you see some market share? Longer term, where are the returns there?

David A. Viniar

So look, on asset management, it is still a very, very big focus of the firm. You saw the acquisitions we made were small. As we've told you, you might occasionally see them. They're really to put us in parts of the business that we weren't in before, it was hard to start ourselves. All in very small dollars, but hopefully, it'll give us a platform that we can grow up. One of the things we've seen in Asset Management is our performance in the last several months has definitely improved. And if that continues, I think that would be a good precursor to good inflows of assets. We'll have to see if that continues. Reinsurance, I would say is really just totally opportunistic. We've seen some opportunities where, for various reasons of risk management capital, some people were pulling out of the market. We thought it made sense for us to opportunistically pick up some pieces. But it's a very, very small business within the context of Goldman Sachs.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then last thing, just a number we might have missed it. But just on the DDA, did you split that out, just in terms of FICC and equities?

David A. Viniar

No. It's roughly 50-50 between FICC and equities. A tiny bit more in FICC than equities, but roughly 50-50.

Operator

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

Christoph M. Kotowski - Oppenheimer & Co. Inc., Research Division

I'm looking at the famous Page 25 from the Fed's March 13 CCAR publication, which shows all the banks’ capital ratios, before the proposed capital actions and then after, and for Goldman Sachs, it's a very small difference. So it was 5.8% before the capital actions that you're requested and 5.7% after, which implies that it's 0.1% of your risk-weighted assets, like you only asked for an incremental of $400 million of additional return to your shoulders. And I guess, I'm wondering, a, is that a correct reading, b, that makes it sounds like the only thing you asked for was, for this dividend and not for any incremental share repurchase authorization. Am I reading that correctly?

David A. Viniar

I'll tell you 2 things. One, we did not only ask for dividends, although I'm not going to disclose how much of a share increase. And the second thing I will give you is a bad answer which is, we do not know how the Fed did the calculations.

Operator

Your next question comes from the line of Meredith Whitney with Meredith Whitney Advisors.

Meredith Ann Whitney - Meredith Whitney Advisory Group LLC

I have a question that's sort of related to FICC but broader. And I'm just going to go for it, which is you talk about risk, and your risk appetite differentiated, you last quarter, the year quarter before this quarter. And maybe if you could explain your approach to risk or better articulate -- better explain with maybe some tangible examples of your approach to risk and particularly political risk. And if you comment on the YPF issue with Argentina yesterday? I mean, give me more. It would be helpful, at least for me.

David A. Viniar

Meredith, that was a very broad question. I'll try to answer it as best I can. Look, the biggest thing that drives our risk appetite is our client flow. And what our clients are doing and how much they want to do and obviously, when they do more, we are likely to end up with more risk. They're not necessarily doing that much more because they are cautious as well. Second thing that drives our risk, really, is the traders on the lines view of their ability to analyze the situation. We talked a lot about this last year, about the fact that, really, what was driving markets last year was very largely political as opposed to economic. And so because we're good analysts and think we can try to evaluate the more likely economic outcomes, and we're not always going to be right and we know that, but at least we can analyze it in a situation where it's really politics and speeches and what people are saying more than economic outcomes that are driving the market. It's very hard for us to analyze risk and makes us extremely cautious about being left with any risk. Frankly, it made our clients more cautious too and there was less activity, so we saw all that last year. That's really the philosophy more than anything else. I think the YPF situation, I don't have much to say. I think it's an isolated incident in a certain location. I certainly don't think nor hope it's indicative of the rest of the world.

Operator

Your next question comes from the line of Kian Abouhossein with JPMorgan.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

A few questions. First of all, the Basel numbers that you indicate on the Basel III, are they x NPR2?

David A. Viniar

Yes. Yes, they are.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And when do you expect some kind of finalization around NPR 2?

David A. Viniar

Kian, I don't know. We don't know when the rules are going to be finalized.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And assuming the business -- NPR2 proposals are what will be finalized, how would that impact, in particular, your mortgage business and then also, I guess, your securitization business, but particular your mortgage business?

David A. Viniar

I think it would be very difficult for that business. And look, I can't give you an exact answer. But it's hard to see that business for us, or really anyone under those rules, that business making sense. And I think you'd have to see a big pull back and I don’t think that would be very good for Capital Markets or for the economy. And so we hope that doesn't happen.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Okay. Shifting to FICC, if I look at your numbers over now, I would say 6 quarters, one could make the argument that you have taken a quite risk aversion view. And the revenues, as a result, maybe against some of your peers look weak-ish. How would you or how do you answer that argument? And I'm clearly just looking at clean revenues x DVA, some of them x CVA on a like-for-like basis. How would you argue against that?

David A. Viniar

Look, I think that, basically, we have been cautious. I think our clients have been cautious as well. And I think that our franchise remains very strong. We still believe we're getting a very, very high market share. We're not getting the market share we were in 2009. And remember, I told you in 2009 we weren't going to keep that market share. So I think you always have to be careful where you start. And where you go back to the remnants of 2009, if we lost shares since then, the answer is yes. But we picked up enormous share going into that and we knew we weren't going to keep it. But leaving that aside, we think our franchise has not lost share at all and in fact, it remains very, very strong.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And can you talk a little bit about this quarter, a little bit by FICC business. What were the kind of the bright spots, what's the more difficult areas? We know you're a big mortgage player, was that an area which performed very good or was more difficult than commodities? Can you talk a little bit by sub-segment just what has been performing very strongly and what's maybe a bit more difficult?

David A. Viniar

Well, without disclosing numbers because you know I don't do that. What I would tell you is, I'd say, the rates business had a very strong quarter and all the other businesses had good but not great quarters.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Okay. And lastly, in terms of investing. You've indicated a little bit on the emerging markets side, but can you talk a little bit about the key area that you see for yourself, both in terms of capital as well, in terms of what are the potential growth engine that you see? You've always been very good at looking forward and seeing where you see potential investment opportunities and profit opportunities. Can you talk a little bit about what are actually growth areas as an investment, either geographically or business segments?

David A. Viniar

Kian, I appreciate that compliment. I wouldn't actually think we're always that good at looking forward. I think we're actually better at adapting to the environment. And very good at being nimble and being able to move to where the environment is going. Look, we've told you for a while, too big concentrations are the growth markets and the whole Investment Management business, those continue to be. But we're not -- we think that over time, we'll grow all of our businesses around the world. You've heard Lloyd use the term that we're going to be Goldman Sachs in more places. We're going to do that. We're also going to grow all of the businesses around the world as the environment improves.

Operator

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

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

I just wanted to follow-up more on the buyback. Is there anything that would keep you from buying back your stock aggressively before it -- below tangible book value?

David A. Viniar

Within the context of what we can do with the Fed? No, there's nothing would keep us from doing that.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

And is there anything that would keep you from frontloading your buybacks even if it wasn't spread out evenly over quarters?

David A. Viniar

The only thing would be the inability to fully predict where stock price is going and wanting to make sure that we have some powder for later in the year depending on what the environment is like.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Separately, there's been all sorts of regulatory investigations into the industry. And there was one news report saying that one investigation was complete and the article is related to the Department of Justice. And I know it hasn't come up a whole lot, but it's still out there in some investors' minds. Would we ever hear if they were done with their investigation into you or not?

David A. Viniar

I actually don't know the answer to that question, Mike.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Okay. And lastly, what this quarter, could you say we can extrapolate forward. You don't like giving guidance on Capital Markets and so -- I know you're not going to give any guidance there. But I guess your non-comp expenses, we could say are recurring?

David A. Viniar

Look, I think you can extrapolate somewhat. But remember, one of the biggest non-comp expenses, which is brokerage, clearance and exchange fees is activity related. So that's one that I certainly hope gets higher. If you saw that go up from a non-comp point of view, that would actually be a really good thing, not a bad thing. So there is some activity basing within the non -- even the non-comp. So all other things being equal, I think it's probably a reasonably good proxy for where we're going to go. But all other things are never equal. And so hard to predict. And as far as anything else, I don't think one quarter is at all a predictor of the future.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Well, however you look at it, if you strip out activity-based non-comp expenses, how much did non-comp expenses go down for the quarter?

David A. Viniar

You see them. I mean, you see what they are. And I think, as I said, given similar levels of activity, I think that's a pretty good baseline for around where we'll be.

Operator

Your next question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Graseck - Morgan Stanley, Research Division

I just want to follow-up on the capital ratio question. Just want to make sure I got the denominator right. You're presenting capital ratios on a Basel III basis, but not including the NPR, executive NPR impact?

David A. Viniar

That's correct. That's correct.

Betsy Graseck - Morgan Stanley, Research Division

Okay. So not 1 or 2. And so when would you anticipate incorporating that into your numbers?

David A. Viniar

When we know what the rule is going to be.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And so I mean, it's same with Basel III though too, right?

David A. Viniar

But we have a lot more clarity on Basel III. But we'll see if that rule got passed as is, then we would incorporate it in. And we'd tell you what it was.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then just on the insurance side of the business that you talked about earlier. Could you just give us a sense of how you're integrating that into -- not only your equities business, but also just how you're integrating that into your overall organization?

David A. Viniar

It's run largely separately. Although our risk management is very integrated into it because there are a lot of market related risks in that business. And so our risk management infrastructure is very, very integrated into that.

Betsy Graseck - Morgan Stanley, Research Division

So it should help with your own VaR I would think, no?

David A. Viniar

It's very, very minor in that.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then what about funding? Does it help at all with the funding side?

David A. Viniar

It's largely kept separate.

Operator

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

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

I just have 2 questions. One was on the Basel III look through, and I think you said roughly 8%. And I think at Q4 it was roughly 8%. Am I able to impute, I mean I know you also caveat it with moving parts, but obviously, you're Basel I improved due to retained earnings and the RWAs going down. So has it improved at all through earnings or is it the Basel III RWA is going up? I just wondered if you could help on that.

David A. Viniar

The changes are really immaterial, that's why I gave you roughly the same number. You're talking about tenths of a percent.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Is that because your Basel I RWA is going down wouldn't have been reflected in the Basel III?

David A. Viniar

Again, that is largely correct.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Okay. And then just trying to understand the cost number. You gave a total cost reduction number and then how do I -- I'm assuming we'll see something in salaries potentially at some point, but that won't be clear until the comp ratio -- I mean because it's not just a non-comp, is it?

David A. Viniar

It's not just non-comp at all. And you saw some of that last year in the comp line. So a lot of that is already in there and you saw it last year.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

But if I knew the comp, I mean, you said that would -- could there even have been lower salaries, for example, absolute salary cost in Q1 as well?

David A. Viniar

When you say salary, I assume you mean compensation, not salary.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Yes. I'm sorry, I'm just trying to get all -- you got the variable compensation, which is related to -- I'm trying to understand if you got a number of heads going down.

David A. Viniar

Fiona, I'm sorry, I'm not understanding your question.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Well, it's because of the 44% ratio. I'm just wondering if there could be a lower comp ratio because of the staff reductions that we weren't...

David A. Viniar

That will be dependent on how things unfold between now and the end of the year.

Operator

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

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

I just wanted to get a quick characterization of the business condition changes in both your Asia/Chinese markets and the European markets in Q1 versus Q4. Because we've seen a number of competitors, at least their revenue numbers suggest that those numbers were up fairly dramatically quarter-over-quarter. And I guess I'm just curious if you can provide some color as to how you're thinking about those markets.

David A. Viniar

Look, I would actually say the Asian markets, I mean, you saw there was a pretty big underperformance of the Chinese market in the first quarter. And I think that reflected a little bit some of the activity, but the business was still pretty good. And European activity was better as you saw the markets get better.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

And as the markets have sort of -- the improvement in the markets has stalled a little bit in the last few weeks has that had a chilling effect on activity within the European markets?

David A. Viniar

Look, 2 weeks doesn't really tell you anything. But yes, I think that it has had somewhat of a chilling effect on activity in Europe as markets have stalled. And we'll see how things unfold over the course of the quarter.

Operator

Your next question comes from the line of Douglas Sipkin with Susquehanna.

Douglas Sipkin - Susquehanna Financial Group, LLLP, Research Division

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Just one quick question. Just curious what do you guys think is wrong with the M&A markets? I would just expect with the stock market as strong as it's been, the debt market as strong as it's been, balance sheets, et cetera, just feels like last year, at this point in time, things were a lot stronger for M&A. I'm just curious if you guys have a pulse into that?

David A. Viniar

That is a really good question, because if you gave me the whole picture of the economic environment in the first quarter and said, what do you think will be M&A volumes? I would have said it would be a lot higher than they were. And there is a lot of dialogue and dialogue has really continued to pick up. I think what you're seeing is, given how much economic uncertainty there has been for a while, CEOs are very much in a prove it mode. And they want to see solid growth or at least growth and resolution in Europe and things like that for a longer period than they saw it in the first quarter. And until they have that confidence come back, and it's just going to take a while longer, it's just not going to result in that many transactions. I said there's a lot of dialogue and enough dialogue that if that's CEO confidence comes back, you could see a fairly dramatic pickup in that market. But the confidence has to come back.

Douglas Sipkin - Susquehanna Financial Group, LLLP, Research Division

Would you say that, I mean, Europe is the predominant driver of that, meaning -- I said it just feels like this thing could go on for a lot longer. Or is it more of the United States or sort of non-Europe economies that are driving some of that?

David A. Viniar

I would put Europe as the top of the list, but not the only thing on the list. So if you saw a whole slew of continued better economic data in the U.S, I think that could be a driver. A pickup in China, that could be a driver. But Europe is the #1 thing that's out there.

Operator

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

Brennan Hawken - UBS Investment Bank, Research Division

I know this is sort of a tough one to answer, but I'm going to give it a shot anyway. Is there any way you could give us some color or an idea about how much of a headwind the leveraged loan market being shut, was to your FICC revenues?

David A. Viniar

I'm sorry, which market?

Brennan Hawken - UBS Investment Bank, Research Division

Levered loans.

David A. Viniar

The levered loan market was not shut in the first quarter. I think it was -- they are just -- while there wasn't that much activity because there wasn't that much deal activity, the market was actually pretty aggressive. So I actually think deals that were out there got done and got done pretty well. And so I wouldn't call the market shut at all. I think it was just really lack of activity which goes back to lack of merger volume and lack of CEO confidence more than the market not being receptive. I think the credit markets are actually quite strong.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. And on equities, is there any way you could give some color on how derivatives’ volumes held up in March and April? So what you've seen so far in April and how things are looking? I know it's early but...

David A. Viniar

I actually don't have that, so we can get back to you on that.

Operator

Your next question comes from the line of Ed Najarian with ISI Group.

Edward R. Najarian - ISI Group Inc., Research Division

My question has been answered.

Operator

And your next question is a follow-up question from the line of Guy Moszkowski with Bank of America Merrill Lynch.

Guy Moszkowski - BofA Merrill Lynch, Research Division

David, I just want to circle back on something that came up a few quarters ago regarding the potential for share gains, perhaps on share given up by some of the European banks. I seem remember that you were a little skeptical of the potential opportunities presented by forced European bank deleveraging. Now that some time has passed, have any of the investment opportunities materialize as there was a general expectation in the market we might see from the forced deleveraging of European banks?

David A. Viniar

You mean from the ability to buy assets, is that what you're talking about, Guy?

Guy Moszkowski - BofA Merrill Lynch, Research Division

Primarily, yes.

David A. Viniar

Look, I think there have been some, but not a lot. I would say we have seen some opportunities to buy assets that we think we'll be profitable to hold. We've seen some opportunity to buy that we think would be very good to distribute to our franchise and we participated in some of that. But I would call it some but muted.

Operator

And at this time, there are no further questions. Please go ahead with any closing remarks.

Dane Holmes

We'd like to thank everyone for joining us for our first quarter earnings call. If you have any questions, please feel free to contact us in the Investor Relations Department. Otherwise, please enjoy the rest of your day.