Good morning. This is Sharon Yeshaya, Head of Investor Relations. During today's presentation, we will refer to our earnings release and financial supplement. Copies of which are available at morganstanley.com.

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I will now turn the call over to Chairman and Chief Executive Officer, James Gorman.

James Gorman

Thank you, Sharon. Good morning, everyone and thank you for joining us. At the beginning of 2016, we laid out several strategic priorities that we aim to achieve in 2017. The most important of which was to generate an ROE within the range of 9% to 11%. Other priorities included achieving a wealth management pre-tax margin of 23% to 25%, delivering on project streamline and improving results across our fixed income division. These priorities were consistent -- were contingent upon modest revenue growth, a continuation of our capital distribution plan and the absence of any outsized litigation expenses or penalties.

2017 has started well. We remain focused and continued to demonstrate strong expense discipline. Wealth management recorded a pre-tax margin well within our target range, and the fixed income division delivered revenues meaningfully north of our $1 billion average quarterly goal.

These public markers, combined with continued strength in investment banking, leadership and equities and improved returns in investment management, all contributed to one of the strongest quarters in recent history. The net impact of these efforts was an ROE north of 10%, again well within the range related to 12 months ago. We're pleased to see the results of the many difficult decision and business growth initiatives best proved as we begin 2017. In addition, in the first quarter, the Federal Reserve announced that it did not object to our resubmitted 2016 capital plan. Separately, along with all our peers, we recently submitted our capital plan for the 2017 CCAR cycle. Strong capital return remains a critical element to our future success.

All of that said, we live in uncertain times. You are well aware the political and geopolitical uncertainties that exist on the domestic front, as well as abroad. How this will impact markets during the rest of the year is too early to predict. We will remain nimble should the macro environment change materially. Notwithstanding these risks, given our business model and leading positions in several franchises,we expected continue to deliver appropritate returns in the absence of a major disruption.

In addition to the obvious uncertainties, there are two notable policy areas that could meaningfully affect us in a positive way in the next several years; first, the potential for reduction of the domestic corporate tax rate. Almost all of our wealth management business and a significant part of our institutional securities businesses are based in the United States; secondly, the perspective regulatory changes. At the very least, it is hard to imagine the regulatory burden increasing from this point forward and some of the policy proposals being floated, make good common sense. Given Morgan Stanley's very strong capital and liquidity position potential modifications could substantially impact us over the coming years. I am sure, we'll talk a lot more about this at the rest of this call and in subsequent quarters.

I will now turn over to Jon to discuss this particular quarter in greater detail.

Jonathan Pruzan

Thank you, James and good morning. Results in the first quarter were strong, aided by an active new cycle, improved sentiment and solid economic data. Firm revenues of $9.7 billion were up 8% compared to Q4. In the first quarter, CBT was $2.8 billion, EPS was $1 and ROE was 10.7%. Our performance was buoyd by typical first quarter seasonality as well as momentum, following the U.S. elections. Importantly, we produced results characteristic of constructive markets and we controlled expenses, highlighting the operating leverage in our business. Our efficiency ratio improved to 71% this quarter.

I will spend a minute on our expenses and project streamline before turning to the businesses. Compared to the fourth quarter, non-interest expenses of $6.9 billion were up approximately $160 million or 2%. This increase was driven by higher compensation expenses, which rose 9% sequentially due to higher revenues and the impact of mark-to-market on our deferred compensation plans across the firm. Non-compensation expenses were down approximately $220 million or 8% quarter-over-quarter. Recall, Q4 included elevated seasonal expenses and a provision in connection with the tax reporting issue. Given fourth quarter seasonality, the year-over-year comparison maybe more relevant when trying to understand the impact of project streamline.

Year-over-year revenues were up $2 billion while non-compensation expenses increased by only $100 million over the same period. These results demonstrate our operating leverage and discipline. We remain well on our way to executing roughly 200 expense initiatives that we identified as part of project streamline. This is included; using robotic process automation to consolidate our technology support; rationalizing our North American data centers and to modern and environmentally sound centers that now host high density technologies; and introducing a cloud based procurement platform, which uses more straight through processing and payments; informing more intelligent purchasing decisions. We also continue to implement the workforce strategy we have shared with you last year. During the remainder of 2017, our focus will be on completing the remaining initiatives and more importantly, on keeping these costs permanently out of the expense base.

Now to the businesses. Our Institutional Securities franchise performed well in Q1. Our businesses built on Q4 momentum and produced strong results with total net revenue of $5.2 billion, up 12% quarter-over-quarter. Non-compensation expenses were $1.6 billion for the quarter, down 7% sequentially driven by lower seasonal expenses, partially offset by higher execution related costs. Compensation expenses were $1.9 billion, reflecting an ISG compensation to net revenue ratio of approximately 36% consistent with our target of maintaining a ratio at or below 37%.

In Investment Banking, we generated $1.4 billion in revenues, an 11% increase over the fourth quarter. The increase was driven by strong underwriting results across both debt and equity, partially offset by a decline in advisory revenues. Advisory revenues for the quarter were $496 million, down 21% versus a very strong fourth quarter. Clients remain engaged and interested in discussing strategic transactions, and pipelines are healthy.

Turning to underwriting, continued investor optimism combined with stable capital markets characterized by low volatility and tighter credit spreads, translated into strong underwriting activity in the first quarter. While equity volumes are still well below peak levels, Q1 represented a more constructive new issue market with low overall volatility and fewer specific risk events. Against this backdrop and with a strong pipeline coming into the new year, equity underwriting revenues were $390 million, up 73% versus the fourth quarter.

We expect activity levels to remain healthy, although upcoming events such as European elections and continued policy uncertainty, may affect issuance windows. Fixed income underwriting revenues increased 26% sequentially to $531 million, driven by strength in investment grade bond and high yield financing issuance in attractive credit environment.

Our sales and trading business performed well as constructive market conditions witnessed in the fourth quarter carried into the first quarter.

Revenue increased 10% on a sequential basis to $3.5 billion. In equities, we were number one in the U. S. and expect to retain our number one global position. Despite a decline in volumes, first quarter revenues were $2 billion, up 3% compared to the fourth quarter. Results were driven by strength in both derivatives and cash equities in a more stable trading environment.

The first quarter results underscore the importance of our product breadth and geographic diversity. We saw strength in Europe and continued stability in the Americas, which was partially offset by weaker results in Asia. Despite various economic and political challenges, we remain committed to our global footprint. Fixed income revenues in the first quarter were $1.7 billion, up 17% versus a strong fourth quarter. A constructive trading environment and uptick in client activity, variability in interest rate expectations and a favorable credit environment, contributed to these results.

In our credit businesses, we saw continuation of the increased market volumes that followed on the back of the U. S. elections. Steady client activity and favorable market conditions across products, drove strong performance. In particular, our securitized product business performed well, driven by spread tightening and strong demand. Our macro businesses witnessed a sequential decrease in revenues. While our rates business benefited from increased client activity related to repricing of interest rate expectations in the U. S., this was partially offset by a decline in foreign exchange. After a challenging environment in Q1 2016, this quarter marks the fourth consecutive quarter with revenues in excess of our $1 billion target.

The results have increased our confidence as the business has experienced good momentum, reinforcing that it is critically and credibly sized. Average trading VaR for the period was $44 million up versus a historically low level of $39 million last quarter. As we have discussed, the derisking of our balance sheet over the last several quarters has provided us with significant capacity to prudently raise VaR to support accretive client opportunities. In the first quarter, we saw both strong client demand and pockets of volatility, contributing to an increase in both spot and average trading VaR.

Now turning to Wealth Management .In the first quarter, we reported record revenues of $4.1 billion, representing 2% sequential increase. The CBT margin at 24% was the highest since the Smith Barney acquisition and sale firmly within our 2017 target range. Importantly, drivers of this business are healthy. We witnessed increased fee-based asset flows, additional lending, better client engagement and eliminate FA attrition.

Client assets reached $2.2 trillion, a record high, reflecting rising domestic and global equity industries. Fee based assets increased 6% to $927 billion, including net asset flows of $19 billion. This represents the highest fee based asset flows since 4Q14. Asset Management revenues were flat sequentially. Higher asset levels and positive flows were largely offset by the effect of fewer calendar days in the quarter.

Net interest income was up modestly. The benefit of higher rates and loan balances in the first quarter was partially offset by the impact of lower prepayment amortization in the fourth quarter. Year-over-year, we have seen strong net interest income growth of 20% and we remain confident with the net interest income guidance we provided in February. We are positioned to continue to benefit from higher rates and lending growth. Bank lending balances were up $1 billion quarter-over-quarter.

Transaction revenues of $823 million were up 6% from 4Q16. Higher mark-to- market gains on our deferred compensation plans had a meaningful impact on the sequential increase. Additionally, we witnessed a recovery in the underwriting calendar, especially in structured projects as issuers capitalize on increased retail demand for new issue product.

Total expenses were flat versus 4Q as seasonally lower business development expenses were partially offset by higher compensation expenses. The compensation ratio of 57% was negatively impacted by seasonality and the impact of mark-to-market on our deferred compensation plans.

Looking forward, we remain optimistic about the outlook for this business. The steady increase in fee based assets position us well to build our annuatized revenues. We continue to invest in our digital capabilities, which overtime, will encourage asset aggregation and increase FA and client engagement. We look forward to sharing more with you on this topic later this quarter.

Finally, we are confident in the attractiveness of our platform and the opportunities that affords us to recruit and retain talent as the landscape continues to favor scale players. Investment management saw stable asset management fees and better investment results. Total net revenues were $609 million, up 22% quarter-over-quarter. AUM grew to $421 billion in the quarter. Market appreciation and equities and fixed income, and positive flows and alternative products, contributed to a modest uptick versus 4Q16.

Asset management fees for the quarter were stable at $517 million. Investment revenues were $98 million, up $122 million compared to the fourth quarter, which was adversely impacted by the sales and markdowns of non-strategic third-party LP investments. Overall expenses were up 7%

quarter-over-quarter, primarily driven by compensation expenses attributable to higher carried interest.

Turning to the balance sheet. Total spot asset increased to $832 billion. As I mentioned earlier in the year, we had the capital capacity to increase our balance sheet if the client opportunities and returns justify the usage. Pro forma fully phased-in Basel III advanced RWAs are expected to be approximately $360 billion, down $10 billion from the fourth quarter, driven by lower operational risk RWAs.

The reduction in RWAs contributed to a 70 basis point increased in our pro forma fully phased in Basel III advanced common equity Tier 1 ratio of 16.6%, bringing it more in line with our pro forma fully phased in Basel III standardized common equity Tier 1 ratio. As the two ratios have almost converged, we will be disclosing both, going forward.

Our pro forma fully phased in supplementary leverage ratio for the quarter increased to 6.4%. During the first quarter, we repurchased approximately $750 million of common stock or approximately 17 million shares, and our Board declared $0.20 dividend per share.

Our tax rate in the first quarter was 29%. This includes $112 million tax benefit attributable to the employee share-based payment accounting change adopted in January. This accounting change is permanent, and will impact our quarterly and annual effective tax rate. Given our stock vesting schedule, the most meaningful impact will occur in the first quarter of each year when restricted stock units convert into common stock. If our stock appreciates over vesting period, we will have a benefit and if our stock depreciates between the grant and vesting date, we will have an expense. This change, along with the variability of our geographic mix of business, will make the tax rate somewhat more volatile.

We expect our tax rate for the remainder of the year to be in the 32% to 33% range. As James said in the opening, the strong results this quarter provide support that our strategy is working. The post election momentum continued into 2017 and provided a healthy backdrop for most of our businesses. Our M&A and underwriting pipelines remain healthy and macro events should continue to provide opportunities for our trading businesses.

Our wealth business is performing well and has several tailwinds that have begun to materialize. Our investment management business have seen flows stabilize and better investing performance. However, questions around timing and achievability of the new administration's policy initiatives, resulted in more sporatic client activity towards the end of the first quarter. This was consistent with a broader theme that began to crystalize in late

March. The contrast between the strength of the global economy and the unease around U. S. policy outcomes and potential geopolitical streams. We’re cognizant that uncertainty can weigh on market physiology and activity levels.

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

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from the line of Brennan Hawken with UBS. Your line is now open.

Brennan Hawken

So really encouraging to see securities business put up another good quarter. And so now that it seems like it’s pretty hard to argue, it’s not very much unstable footing, the restructuring worked out very, very well with that really repositioning. What are you focused on from here, when you think about the potential for less hostile regulatory environment. Where that might provide opportunities versus how your franchise is positioned, how should we think about that, going forward? And how do you balance the idea of potentially getting better returns in that business versus returning capital to shareholders. Could you help us how you're thinking about that?

James Gorman

Brandon, I think I'd have to write you a 10 page paper on that one, hell of an opener. Let me stop, because that's going to feed into, I suspect about two-thirds of the questions we get on this call. Firstly, just on the business, I mean; frankly, what we’re focused on is to do it for full year not for one quarter. Obviously, happy with the way the quarter turned out. I think the team did a terrific job in navigating an environment that was clearly not consistent through the quarter. As Jon said, the back half of March was much tougher than the early part of the quarter.

So number one, is just keep executing; manage our expenses in the businesses where we can keep up share, pick up share in the businesses where we’re holding share, hold it; so that's number one. Number two, we are committed to returning capital in a meaningful and accelerating basis in the years ahead. And if we continue to accrete earnings of this level, there's no reason why we shouldn't keep doing that. And with that retire a number of shares that we're very focused on our share count.

So the combination of dividend increases and further buybacks are critical to further driving the ROE performance of this firm. And not the only thing but they fully, given that drives the denominator, they're pretty important part of the answer. We just submitted the 2017 plan obviously, getting the resubmission on 2016 done successfully was critical. The 2017 plan is we've had I think four or five years of dividend and capital increases. And I think it's fair to say that we like that trajectory. I'm not going to get into what our ask was but between us and the federal reserve until we get the results. But we retained a lot of earnings last year and we like to keep driving our capital returns up. So let me just leave it at that.

On the regulatory front, there's huge moving parts, I mean -- and on fiscal policy; first the corporate tax rate, as we said, we have a large business that is almost entirely in the U. S. and large parts of the rest of the firm are in the U. S. So anything on the corporate tax rate front is positive to Morgan Stanley, and it appears likely whether it's this year ultimately or next year, there will be movement on that rate. I suspect it will be a little more modest and some of the numbers that have been thrown out. But nonetheless, anything sub 30%, appears probable would be very positive.

On the regulatory front, I think the weight of opinion is that while the U. S. financial system is demonstrably healthier than it was going into the crisis and in the years following, we've reached a point where the amount of capital burden and regulatory burden on the system and some of the elements of that and some of the lack of transparency elements are right for real change, and that has been acknowledged all the way from board members of the federal reserves on down. And so as we said, it's too early to predict what regulatory changes occur. But let me give you just a very simple one.

If the banks are able to submit their CCAR plan, get the results bad and then submit what they capital ask is, there'll be no guessing about how much capital you have or you don't have. It would be up to the boards of directors and the banks to figure out what the right capital ask is given how much capital they've got. Had Morgan Stanley done that last year? We would have had $2 billion of extra capital to adjudicate on with that board. That's a simple and to me very obvious fix to stop the guessing of what capital you've had.

I think there's a compelling argument to move a lot of these regulatory programs to every other year. We're six to seven years into it. I think the system has been build inside the banks, which make them much more predictable. And in terms of the CCAR, CLAR resolution planning processes, I'm not sure putting all of these on an annual cycle, which is very expensive, very time consuming, is terribly additive. The amount of response time you have to those is matter of months before you resubmit again.

So we'll talk more may be on the call about some of the other specific things. But I think there are a number of very specific fixes that both relieve the expense and time consumption, now that the plans are relatively mature, without attracting all from the regulatory rigor that is necessary for strong and healthy banking system. And for those banks that are fully capitalized, which we clearly count ourselves among them, it provides them with an opportunity to return that excess capital to shareholders.

Brennan Hawken

That's very helpful and really thorough. I know it was a pretty broad question, but thanks for that James. Taking in a little bit, we heard some -- there seems to be some momentum behind the SLR and may be some potential for changes there. Not asking you to predict what could change with that calculation. But just more broadly, if we do see SLR relief, what would you feel about as far as your PV business, how much further momentum do you feel like you can grow? And do you think that that should continue to provide a nice tailwind on to the equities business broadly, just given the non-box approach.

James Gorman

I don't want to be evasive, Brennan. But I also don't want to presume. I think there are too many contingencies in there, if this and if that then what would happen. I think it's fair to say the denominator in SLR clearly should be adjusted. And I think there has been lot of discussion in the White House in treasury and across the various regulatory bodies about that. And making it A, more consistent with the Europeans, I think there is also an argument by the way bringing the ratio, which is currently 5% of capital to the growth that balance sheet to the European level, I suppose 3%.

So there are some pretty significant differences between different jurisdictions. And I think harmonizing those makes sense. I think you will see an adjustment to the denominator, the total balance sheet under the, what I suspect will be the ultimate new SLR rules. But I don't want to predict, and I'm pretty sure Jon doesn't either, on how that might affect our equities business and what that implies about our prime, so it's a little early for that. We have a terrific equities business. We think our PB is the best on the street and obviously, that's a source of focus and growth for the firm.

Operator

Thank you. And your next question comes from the line of Jim Mitchell with Buckingham Research. Your line is now open.

Jim Mitchell

May be a quick question on -- you guys seemingly loss but gave up little market share when you trim 25% of the workforce, but it's obviously a strong momentum. Since then as you my guess is picked up recaptured some of that market share. What have you guys been doing differently? And do you think that momentum in market share can continue given where you are currently?

Jonathan Pruzan

Listen, we're been very pleased with the performance in that business, as you said. We had it, went through a major restructuring. We're now generating significantly more revenues and we had before that restructuring with lower expenses and less people. So the operating leverage in that business has been very good. Our market share and momentum in that business has been good. And I think we feel confident that we will continue to be relevant to our clients, support other ISG businesses. And the ultimate results will really be a function of the markets. In a growing market, we would expect to participate in that growth. And in the shrinking market, it becomes more challenging and we would try to defend our positions.

Jim Mitchell

Maybe and just a follow-up on regulatory question. Seems like everything is moving your way except where there has been some discussions about new glassed eagle would look like. If it's similar to the ring fencing in the UK, is that something that concerns? Or how do you think about that that's your wild card?

James Gorman

I get a little concerned when somebody tells me everything is moving our way. We have a lot of years where everything has not being moving our away. So it's nice that something is moving our away, and I'll leave it at that. I heard one of my peers say every time he hears about 21st century glassed eagle, he ask everybody around what the heck does that mean. I'm not sure what it means, maybe there's a ring fencing along that sort of vickers rule in the UK. Again, we have a very different business model from the universal banks, but we do have a significant deposit business.

And I am comfortable on a global competitive basis the more pure investment bank models would be least effective by that kind of structure or holding company structure with separate divisions with so called ring fences around them. But it's a little early. I don't really don't want to guess. I mean, I think there is and should be in zero appetite for reshooting glassed eagle itself, obviously. And happy to see that that seems to be the prevailing view. But whether we move to this ring fence model, I'm pretty confident we can deal with that here at Morgan Stanley. But I don't want to predict whether we get them on our own.

Operator

Thank you. And our next question comes from the line of Glenn Schorr with Evercore ISI. Your line is now open.

Glenn Schorr

Maybe I'll try a little bit more color on FIG business, and obviously the great growth over the last four quarters. I guess I'd like to get towards, and I appreciate you don't want to spell-out business-by-business underneath the covers. But maybe how diversified across products has the growth been, what your biggest business? Or how do you would define your identity? I think it's been great, we're just looking for more color.

James Gorman

The best way to describe it is just look at the quarter-over-quarter results and describe the macro backdrop that we were operating under. We had really good performance in the Americas around our credit businesses, good environment there, both tightening spreads and activity levels, securitized products, as well as the credit complex more broadly. On the macro side, given what we've going out with the Fed and the guessing game of when and how, we did see more activity. And our rates business was stronger in the quarter, that was offset by the FX business where we -- it's a smaller business for us, but it was still impacted really by really low volatility in that sector, as well as less client engagement.

And then commodities, which is a smaller business for us now, performed well over the stable environment. So a reasonable amount of hedging activity, and client engagement there. So broadly speaking, a good quarter for the businesses and the strength was pretty much across all products, except for really FX.

Glenn Schorr

That actually helps a lot, defined on the product that level. Geographically, do you have a stronger weighting in the Americas, or is it reasonably global diverse?

James Gorman

Definitely, the global footprint is important. But basically in all of our ISG businesses, the Americas would be the biggest contributor. You see our revenue breakdowns, I know as a firm and the supplement which has about 70% of our revenues coming, give or take from the Americas. But we do have strong footprint in both EMEA and Asia and so we had good performance across the board.

Operator

Thank you. And our next question comes from the line of Steven Chubak with Nomura. Your line is now open.

Steven Chubak

So want to kick things off with a question on CCAR in the capital stack, your CET1 ratio is clearly very strong. As we await the results for the upcoming CCAR exam, historically, leverage has tended to be a bit more constraining for you guys. And with the inclusion of the SLR in this upcoming test and also given the latest preferred issuance you announced, I was hoping you could just shed some light on how the introduction of the SLR constraint actually informs your thinking in terms of excess capital; and how we should expect you to manage the capital stack going forward, whether we should see some incremental pref issuance from here.

Jonathan Pruzan

Sure. So as you said, first of all, in terms of our capital and how we think about it, a couple of quick things; one, in the beginning of '16, we said we were capital sufficient for the business mix and our risk profile. James did mention we accumulated capital over the course of the year. We have started to put some of that capital back into the businesses. We grew the balance sheet a bit here in the first quarter. It's the first time in a while that we've done that, but we saw a good client engagement and good return opportunities.

CCAR is our binding constraint when it comes to capital. And as you highlight, the leverage ratio has historically for at least the last two years been what has been our lowest ratio post stress. SLR new this year, again the models aren't particularly transparent but we'll have to see what the results are when we get them back in June. But we have generally been more constrained around leverage than we have around the risk rate asset ratios because we've taken risk dramatically down -- our RWAs dramatically down, particularly in our fixed income business.

So leverage still the constraint and then I think your last comment was on the stack. We did do a preferred issuance, it's been effective, a cost effective capital contributor. And we'll just obviously have to see what our results are and what the markets are going forward to determine how we manage that stack.

James Gorman

I would just give, add something to that. I mean the constraints and the way that supplemental leverage ratio is going to play out, all presume but the current CCAR methodology and approach continues as is. And again, back to some of the -- what I would regard as practical fixes to CCAR, I give you one in addition to ones we kicked off this with. The banks are required to continue to presume they will distribute -- do their buybacks for nine quarters after we're in a billable scenario. So in our case, the buyback last year was 3.5 billion, nine quarters is approximately 7.7 billion. So you're carrying effectively 7.7 billion, but in theory you continue to payout to shareholders for nine quarters after in a billable scenario. Not only is that unlikely but there is a very easy fix for that. You could had the board sign a letter or give the federal reserve feeder right to eliminate the buyback program the moment we get into this kind of scenario, that would be a very easy fix.

I understand the logic of holding banks whatever their dividend program is because in previous crisis some banks did not cut their dividends to try and evidence strength. But there is no bank board that we continue to buy back stock when their capital is being depleted. So that of itself creates an enormous capital access sitting inside these institutions before you get to which leverage ratio, which constraining ratio it bumps into. So fixes like that, which are pragmatic, sensible just obvious things that could be done to make the thing more transparent and more realistic about the way they real operates, I think is part of what I hope the new administration is going to be looking at it. And I think they should look at it because U. S. financial system should be operating on the same footing as financial systems around the world.

Steven Chubak

And actually it’s interesting, because certainly Trula Velez had advocated for some of those practical changes as part of his stress capital buffer approach. But also as part of some of those proposed changes that he outlined and this was back in September, did note that we want to include surcharges in the CCAR exam as well. And didn’t know if you could just provide some thoughts as to whether you thought some of the changes that he outlined were in fact sensible, since he is no longer in that seat and there is -- it's unclear whether some of those changes he outlined will in fact be implemented.

James Gorman

I don’t want to speak for formal governor or Trula. Obviously, I read the speech and had this discussion many times. So I think that change in the second one was the balance sheets grow during the times of financial stress. I don’t know how you have balance sheet growth and unless you do an acquisition. So again, it is clearly illogical to have balance sheet growth during a time of financial stress. The assets would depreciate in value and institutions will be shrinking not growing. So those two things, the buy back and balance sheet growth, drove up the capital levels.

When you took those out I guess the view in that speech was you would simply replace that with a buffer. Well to me that’s just whether it’s balance sheet growth and holding buy back or buffer is kind of irrelevant. But the objective would seem to be in that case simply add a buffer of capital to the institutions. My question is why, why do they need that? If they're capitalized at the level where the global institutions are capitalized and some, it appears to me that that would be a perfectly proven place to start with. So I'm a big fan of commanizing the buy back and the balance sheet growth. I'm not a big fan of being taking that off the table, but simply replacing with a buffer. I don’t think that makes good sense.

Jonathan Pruzan

I think Steve one of the big challenges with all these questions is we just don’t know, and there is no new guidance for 2018. We haven’t gotten our 2017 results back, governor Trula did give a speech, but he is no longer in that seat, that seat is currently vacant. And until it gets filled then we get some more guidance, it's really just speculation at this point.

Operator

Thank you. And our next question comes from the line of Guy Moszkowski with Autonomous Research. Your line is now open.

Guy Moszkowski

So we’ve talked a lot about capital, and I appreciate all the views on regulatory things that might change ahead or would make sense to change. I guess the question that I have been now that is what kind of visibility might there be to reducing excess capital over time, quite apart from regulatory change, which is of course hard to forecast at this point. Maybe you could give us some sense for the outlook in terms of further reduction in

ISG's capital consumption. Just from runoff over the medium term of legacy positions like long dated derivative. I couldn't help, but notice, but you had $3 billion reduction and ISG's allocated equity during the quarter?

Jonathan Pruzan

You did see our new -- the capital allocation for the year. As you know, we allocate once and then keep it steady for the current year. We did continue to derisk the balance sheet over the course of the year, and fixed income and then you can see the results that we brought down capital in that business. As I said before, we have capital capacity to grow that business. If the client opportunity there as well as the returns are there, I think we look at the sales in trading business now as one business and allocate resources to the business, and then try to optimize across the internal products, which were within that set. We increased our investment and the balance sheet this quarter, as I mentioned, in the sales and trading business. So we continue to see roll down of long-dated stuff, but I think at this point, it's not really material and it's not really part of the management of the business.

Guy Moszkowski

And then just a follow-up question to something that James mentioned earlier, specifically with respect to the CCAR. That was an interesting proposal that came out of Congress, actually to change the CCAR to every other year. And obviously, I hear you in terms of the potential cost saves. But is that really true, would you have to maintain significant apparatus and personnel, and maintain the systems and everything and probably one in parallel, overtime. Do you really save that much money from only running it every year? And I guess to put it in context, have you guys thought about what -- how that might compare to say the savings that you might be able to generate from a meaningful reduction in the Volcker risk reporting? How do those two compare in terms of cost saves?

James Gorman

Let me start-off with, forget about what the cost saves are, and just say what is the intended benefit of the CCAR process to determine if an institution has sufficient capital and the stability of the scenario. And if it has been sufficiently robust in testing its processes, its risk management, anticipating risks and arriving that conclusions. And it's a qualitative and quantitative aspect of it. My point is that it is an enormous task. In our case it's something like 25,000 pages, I think, Jon, we submit on an annual basis. And it takes an enormous effort by our regulators to digest; there are many, many meetings between the regulators and management; there are horizontal review teams across all of the fed reserve.

And then eventually reporters produced pinning on whether you passed the quantitative and the qualitative by how much and various feedback relating to quantitative and qualitative. And then you resubmit again some months later. I just think the amount of time it takes to process all this information to meaningfully act on it, then the next annual submission appears very rapidly. So as a practical matter for an exercise of this rigor and substance, I think there would just be more value added in having people digest it for year and have really proper thoughtful responses over the longer time frame. Does it reduce the cost to the organization? Of course, it's just the time management from myself down through to the heads of risk, audit, finance, compliance, legal, all down through the organizations and the whole CCAR. And yes, it’s a huge effort internally and with external consultants in the preparation of the 25,000 plus pages.

Is that the primary driver of this? No, in my opinion, the primary driver should not be expense driven, it should be outcome driven. What is the right outcome to achieve the best result, which the regulators and frankly tax payers and the institutions and the shareholders want. And I think a more thoughtful outcome would be every other year, given the magnitude of it, so that's really my focus. It's not about money saving, does it have the additional outcome that expense would come down and distraction for an organization, sure. But that's not the objective. We all want a healthy and very safe and sound financial system, nobody is pushing against that. I think more time to digest changes and adjust to them for institutions of this complexity on a two year cycle would just make good common sense.

Operator

Thank you. And our next question comes from the line of Eric Wasserstrom with Guggenheim Securities. Your line is now open.

Eric Wasserstrom

Jon, my question goes to the net interest income, I know you talked a bit about it. But I'm a little confused still on the sequential trends, particularly as it relates to the cost of funds, which intuitively would have seen to have moved higher given rate hikes, both in December and recently. So can you just help me understand what's occurring there?

Jonathan Pruzan

Sure. I think if you're looking at the asset sensitivity or the net interest income in our wealth business, which is generally where most of the asset sensitivity is, a couple of things. We've grown that line item quite aggressively over the last several years over $2 billion in the last four year, including $500 million of growth last year. What I said in February is that we still expect to generate good growth in net interest income, albeit at a slightly slower pace. And we still feel good about the guidance that we've given you.

What we've seen now that we've been through three, I guess, rate hikes in the last year and change, is that the model data has been higher than what's actually happened, in terms of the deposit base. And we still think that roughly the 50% data that we've been using is the right, is a reasonable estimate going forward. But again, it's a model and we haven't really seen that many rate hikes over a long period of time, particularly given money market reform and digital products in terms of deposit behavior.

So at this point, we still think it's a reasonably good estimate. But our performance in wealth NII is strong and we still feel confident that we can grow that business, because of the lending products that we're offering to our clients, as well as the benefit of the forward curve this year and the potential for future rate hikes.

Eric Wasserstrom

But specifically understanding that maybe the deposit data isn't as high as you've anticipated. How would that reconcile with the actual decline in interest expense that you saw in Wealth Management, sequentially? Was it a change in liability structure, or I mean I guess I'm just surprised that that number went down, given that rates went up twice over that time frame.

Jonathan Pruzan

You're referring to the 91 to 85?

Eric Wasserstrom

Correct.

Jonathan Pruzan

The $6 million, again, I don't -- that's a small number to track. I think that liability stack is pretty consistent quarter-over-quarter.

Operator

Thank you. And our next question comes from the line of Matt O'Connor with Deutsche Bank. Your line is now open.

Matt O'Connor

I was wondering if you could take about the equities business, it was fairly to resilient year-over-year. Just a little more color on that. And then obviously one of the drags was in prime and you mentioned higher funding cost. Maybe just so I question, but I thought there be, maybe an offset where your funding cost go up where you can pass that along to the clients as well. So just talk about that, but then more broadly speaking, the fact that the revolver is quite resilient versus a fairly solid year ago level.

James Gorman

Sure. As you said, this is a very resilient business for us. We're number one in the world. We've got a very full service platform in providing intellectual capital for our clients globally, and the business has preformed quite well. We did see a pick up in cash and derivatives this quarter, PB was stable quarter-to-quarter. If you look at year-over-year, from the press release, we did see higher funding cost but that's really a function of the increased liquidity that we've carried across the entire firm. And we allocate liquidity to those business, so that sort of that dynamic there; but again we're number one; we feel very good about our position; our performance was very strong, particularly in Europe this quarter; its global; we've got a good product set and we feel very good about our position and our continued momentum there.

Operator

Thank you. And our next question comes from the line of Fiona Swaffield with RBC Capital Markets. Your line is now open.

Fiona Swaffield

I have two questions on Wealth Management, could you talk lending growth, because to me it seems to slowed markedly. Do you think you will meet the targets you set out in the February presentation on the lending side, and where we're on penetration? And then separately just the non-compensation in Wealth Management, which was pretty low. I think you mentioned seasonal, but I mean its still looking good year-on-year. Is that something that that level could be sustained? Thank you.

Jonathan Pruzan

On the first point, when I do the second point first, because I forgot your first point. On the second point, the non-comps, we continue to manage aggressively non-comps across the firm. Wealth has been very good at that over the course of the last several years, improving the margins from below 10% to now its current 24% level. The seasonality when we go from a fourth quarter to a first quarter, it's not a great sort of non-comp expense comparison because of the seasonality and some of the spending accounts in the -- marketing of business expenses and wealth, but very strong expense discipline in that business and we would expect that to continue, and then on the target.

so the targets that we put out or the guidance that we gave in February, I still feel very confident about, particularly since we, if you recall, at that point, we were looking at two rate increases probably one in the middle of the year and one at the end of the year. And we have seen one happen in March so it clearly happened earlier and the data has been a little bit better then we expected. So my confidence in that guidance overall in NII is still very high. The lending growth in the wealth products was good. As we said before, we would expect mortgage probably to slow, given the rising rate environment. But broadly speaking, the lending targets that we have are on track to provide the NII growth that we expect.

Operator

Thank you. And our next question comes from the line of Devin Ryan with JMP Securities. Your line is now open.

Devin Ryan

Maybe another one in equities here, we're starting to get a number of questions on MiFID II as it moves closer. So being the leader in equities, it would be just great to get some perspective on what you're hearing from clients and how you're preparing for it. And ultimately, do you think this kind of a risk for the business or do you see an opportunity for Morgan Stanley to take more market share?

James Gorman

So just generally on MiFID II, as you would expect, we have been preparing for quite some time for the implementation in the beginning at 2018. There are operational and implementation requirements and cost that go with that and we budgeted for that, it's mostly around IT and systems. And we expect to be in compliance in the beginning of '18 when the new rule comes into effect. In terms of the impact, clearly when you have a change, there is probably the potential certainly early for disruption as people adjusted to the new rule.

In terms of how that affects market structure longer term and whether people start trading with fewer counterparties or not, I think it's too early to tell. But again, we are number one in the world in this business and we would expect to maintain that position. And if there is an opportunity for people to consolidate their trading counterparties, we would expect to be part of that benefit.

Devin Ryan

Just quick follow-up here, securities based loans begin some attention recently. I guess just maybe seeing a little bit more scrutiny and obviously, it's been a nice product for Morgan Stanley. It seems like a nice natural product for your clients. I am just curious if there is any change in how you're thinking about that product specifically within the overall bank mix?

James Gorman

No. Again, I think as you highlighted, it's been a good product and an important product for our clients. It's part of our full service product offering. Our clients like the products if it helps to manage their liquidity. It's actually reasonably easy and efficient application process. And if you look at the rates relative to other products like HELOC and unsecured, it's an attractive rate for our clients. So it's a good product for the clients. From our perspective, it's highly collateralized. The weighted average LTV on the product is a little over 40%. It's really not a credit risk issue, it's really -- the risk is really around operational risks of fraud. And we haven't really seen any material losses in that business. So again we feel good, it's floating rate, it's a nice product for us to offer and it's a product that our clients like.

Operator

Thank you. And our next question comes from the line of Matt Burnell with Wells Fargo Securities. Your line is now open.

Matt Burnell

I guess just following up on the question on MiFID, what's going on in Europe. Jon, you mentioned Brexit as being a potential catalyst for volatility. Could you provide a little more color on that given the announcement this week of June election? And does that increase your view that there could be a greater level of volatility in the second quarter into the third quarter than you might have previously assumed?

Jonathan Pruzan

In terms of -- let me make some comments on Brexit, I don't recall saying increased volatility for Brexit. But clearly, we have been as have all of peer firms been trying to plan for Brexit for quite some time, we individually have an extensive network of offices and licenses across the EU 27. So we have options, several options that will work once we understand what the ultimate outcome is. We've been in Europe for 50 years, it's an important market for us and we're committed to supporting our clients, whether that be from London or from some other location.

I'm not sure the election changes that. Certainly, doesn't change our analysis of it. It's clearly another risk event out there for people to focus on and concentrate on. But I don't think it changes much of our work and until the election happens, we're more importantly some of the negotiations are more advanced, it's really hard to tell you what the ultimate market structure and outlook is going to be.

Operator

Thank you. And our next question comes from the line of Andrew Lim.

Andrew Lim

Just wanted a bit more clarity on the high interest rates, and how that's coming through. You talked about the possibility to that you're on, but are you seeing any signs of having to pay any event or way to try and intensify deposit rates. And if not yet then maybe how do you expect that at some point in the future? And how -- at what level would you expect that to turn towards maybe a third or maybe a 50% of the higher interest rates for that to be paid away?

Jonathan Pruzan

As I mentioned, Andrew, the deposit pricing, our deposit pricing hasn't changed dramatically here so the actual beta has been lower than the model beta. And I said, we continue to model about 50% beta and we think that's a reasonable expectation. But ultimately we'll have to see what happens around customer behavior and competitive dynamics and see how it plays out over time.

Operator

Thank you. And our next question comes from the line of Michael Carrier with Bank of America Merrill Lynch. Your line is now open.

Michael Carrier

Just quick two on Wealth Management, so first one. Just on -- obviously, the trends have been strong, but just given you know what we've been seeing with the DOL in terms of delay and potentially it falls through. Just wanted to get a sense on how you guys are positioned if you're seeing any impact in either direction? And then just on the deposits, it seemed like that you've dipped down a bit in the quarter. I didn't know if you already covered that. But if there was anything that drove that versus the underlying growth that we've seen long term.

Jonathan Pruzan

So on DOL, we've been very consistent in saying that we want to provide our clients choice and we will continue to do that with compliance solutions if DOL goes into effect. And we're prepared if it does to go into effect to be compliant. We've had good momentum broadly in the business. And some of the secular changes and secular flows that we've seen continue around fee based assets and just benefits accruing to scale players. So I think all of that momentum is playing well in our system, in our network. It probably has had a chilling effect on recruiting, attrition has been low. We are in attractive place to work and we've seen some good opportunities to bring in talent, so that’s all been positive from that prospective. And we'll ultimately have to see if DOL gets implemented, delayed again, or ultimately, I guess shelved. On the second question, Michael [multiple speakers] BDP seasonality.

So it's obviously not a particularly large move but one of the comments I made about client engagement one of the ways that we gauge that metric is around what people are doing with their cash. So every quarter people receive dividend and interest. And periods of volatility around certainty, we've seen BDP balances grow, if people keep it in cash or take it out of the system. What we saw that quarter is significant investments and the dividend and interest going back into the market. We've seen some seasonality where that happens in the first quarter, both the combination of people putting that money to work but also cap season. So nothing alarming and real stability in our deposit base