Good morning. This is Sharon Yeshaya, Head of Investor Relations. During today's presentation, we'll refer to our earnings release and financial supplement, copies of which are available at morganstanley.com. Today's presentation may include forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially. Please refer to our notices regarding forward-looking statements and non-GAAP measures that appear in the earnings release. This presentation may not be duplicated or reproduced without our consent.

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

James Gorman

Good morning, everyone, and thank you for joining us. The Firm's results in the third quarter were strong. Fee-based client assets and lending balances continue to build in wealth management, contributing to a 28% margin. Institutional Securities revenues were $5 billion with solid performance across all divisions, despite a mixed trading backdrop and investment management, assets under management surpassed $0.5 trillion as strong performance continues to attract positive long-term net flows. In aggregate, the firm produced an ROE and ROTCE of 11.2% and 12.9% for the quarter.

Before Jon takes you through our results and answers your questions, let me share a couple of thoughts. The wealth management business is powerful. A $2.6 trillion of assets annualizing over $17 billion in revenues and margins at historic highs, the business is clearly stabilized in the firm. I am convinced there remain several meaningful avenues for growth. The biggest is we look to aggregate assets held away. Our core client segment should see significant asset growth over the next decade.

Further expansion of our services across the wealth spectrum from the highest end family offices to employees service through Morgan Stanley at Work provides us with the potential $4 trillion asset opportunity, also international opportunities, particularly Asia and continued growth of our loan portfolios are among the exciting opportunities that remain in this business. But the most attractive part is every incremental dollar revenue is arriving at a high margin than the margin of the existing business. And while you may not see this expansion over any individual quarter, over time, the business will grow and the margin will expand.

Our Institutional Securities business mix has proven to be very resilient. Against a relatively difficult trading environment characterized by some seasonality and volatile markets, we performed well. This segment made $5 billion in revenues and for the fifth time out of the last seven quarters, and it underscores the strength of our client franchise in all three lines of the business, investment banking, fixed income and equities.

We've been the beneficiary of client share consolidation to date and expect this to continue as competitive dynamics evolve. Finally, our asset management business is well-positioned in the most attractive growth segments in the public and private markets with our leading active equity strategies and significant alternatives and solutions platforms. The growth in assets and profitability of the last few years are a testament to the refocus on this business. And as I said earlier, we passed $0.5 trillion in total assets with positive net long-term flows.

One ongoing challenge of our continued pursuit of higher ROE performance has been the amount of equity we're required to hold, despite how we've repositioned the firm to benefit from the more stable revenue streams.

To address capital which of course drives ROE, our current constraint is the leverage ratio. As the Federal Reserve adjusts the capital framework, we expect the focus will transition to CET1 which should benefit us in the aggregate.

Given global competitive dynamics, the strength of the brand, the stability of the institution, there is reason to believe, we can gain share in several of our businesses. The combination of growth, stability and potential for share gains leaves me with confidence that there remains tremendous upside here.

Overall, we remain cautious today as trade talks swirl and interest rate paths continue to be debated, but expect us to look beyond the next few months and focus on continuing to enhance the stability of the franchise and growing the business. Our job is to continue to manage this institution for the long term.

All of that said, I don't want to take away from the strength of the quarter and I'll now turn it over to Jon to discuss the results in greater detail. Jon?

Jonathan Pruzan

Thank you, James, and good morning.

In the third quarter, Firm revenues were $10 billion, representing the fifth quarter with revenues over $10 billion out of the last seven, and our highest third quarter in over a decade. The 2% sequential revenue decline from the prior quarter is reflective of seasonal trends. PBT was $2.7 billion and EPS was $1.27, resulting in an ROE of 11.2% and an ROTCE of 12.9%. Year-to-date, ROE and ROTCE are 11.8% and 13.5%, respectively.

Total non-interest expenses were $7.3 billion in the third quarter. On a year-to-date basis, total non-interest expenses declined 1% and our efficiency ratio was 72%. As we continue to invest in technology, workplace enhancements and the integration of Solium, we remain focused on controlling more discretionary expenses, particularly marketing and business development and professional services.

Now to the businesses. Institutional Security revenues were strong, particularly in September. Despite a mixed market backdrop, revenues of $5 billion were the highest for a third quarter excluding DVA in 10 years. Non-compensation expenses were $1.9 billion for the quarter, increasing 5% sequentially on higher volume-related costs driven by increased client activity. Our compensation to net revenue ratio remained at 35%.

In the context of fluid markets including trade and political uncertainty, economic growth concerns and central bank responses, we remain focused on serving our clients, while actively managing our risk.

Investment banking revenues were $1.5 billion, increasing 4% sequentially. The quarter-over-quarter increase was driven by improvement in fixed income underwriting and advisory, particularly in the Americas. Notably, fixed income underwriting produced record revenues as issuance activity accelerated. Advisory revenues increased 9% quarter-over-quarter to $550 million. Completed M&A industry volumes increased supported by larger strategic transactions.

Underwriting results were robust. While equity underwriting saw a sequential decline, it was more than offset by the strength and share gains in our debt capital markets business. Equity underwriting revenues declined 27% to $401 million. Following a particularly strong second quarter, IPO issuance witnessed a notable decline partially offset by convertible issuances. Fixed income underwriting increased 39% sequentially to $584 million on the strength across both investment grade and leveraged loan issuance. Activity was particularly strong in September. Issuers took advantage of the rate environment and the summer backlog of event-driven transactions was executed.

Overall, our pipelines remain healthy. CEOs are engaged and confident and strategic activity is supporting both our advisory and underwriting businesses. However, conversion from pipeline to realized remains highly dependent on market conditions.

In equity sales and trading, we retained our leadership position and expect to be number one globally. The quarter was strong with revenues of $2 billion. The 7% sequential decline was consistent with seasonal trends.

Prime brokerage revenues rose sequentially. Higher financing revenues supported by an increase in average client balances were partially offset by regional seasonality. Cash revenues saw a slight decline versus the prior quarter on lower global volumes. However, revenues here were resilient as we have an increased share in a consolidating market. Volatile market conditions weighed on derivatives performance.

Fixed income sales and trading revenues increased 26% sequentially to $1.4 billion, driven by the strength in the credit complex. Micro results were robust across all major business lines, particularly securitized products. Activity levels were high and balance sheet velocity remains an area of focus and has improved versus last year. While macro revenues increased sequentially, absolute performance was impacted by a challenging environment, particularly over the first half of the quarter. Sequential results benefited from increased client activity, including structured transactions. Commodities revenues improved quarter-over-quarter driven by North American Power and Gas. Investments declined $212 million sequentially.

The prior quarter benefited from realized gains associated with an investment's IPO and subsequent mark-to-market gains on remaining holdings which partially reversed in the third quarter.

Wealth management revenues and pretax profit were $4.4 billion and $1.2 billion, respectively. The business produced a PBT margin of 28.4%, while continuing to absorb expenses related to technology investments and the Solium integration. On a year-to-date basis, the PBT margin was 27.9%.

Asset management revenues were $2.6 billion, up 4% quarter-over-quarter, benefiting from the improved asset levels we saw at prior quarter's end. Total client assets ended the quarter at $2.6 trillion, in line with the prior quarter. Net fee-based flows were strong at $16 billion. Fee-based assets now comprise 46% of total client assets, up from 45%. We expect the secular increase in the allocation of assets towards advisory to continue.

Transactional revenues were $595 million, down 18% from the second quarter. Transactional activity remains subdued. Seasonally slower client activity, a weaker equity calendar and negative movements in our deferred compensation plan investments impacted results. Retail investors remain cautious given the continued uncertainty around the outlook.

Net interest income was $1 billion, up 3% sequentially. On a year-to-date basis, net interest income was unchanged. Excluding impacts of mortgage prepayment expense, NII year-to-date is up mid single digits. Loan growth was strong as balances are up 3% sequentially and 8% versus last year. We continue to see good receptivity of our lending products and expect loan balances to continue to grow at a similar pace annually.

We saw stable BDP levels this quarter and continued success at raising deposits. Putting these NII components together, strong loan growth and more stable deposits will be more than offset however by the current and expected rate path.

Total expenses were essentially unchanged compared to the second quarter, despite the integration of Solium. The impact of higher compensable revenues largely offset the movements related to our deferred compensation plans. Non-compensation expenses were effectively unchanged. Our target margin is 26% to 28%. This quarter, we pierced the high end of that range. As always, there could be movements quarter-over-quarter but full-year results will be solidly within our range.

Investment management produced revenues of $764 million. The business saw a strong and broad-based positive net flows and assets under management surpassed $0.5 trillion. The growth story for this business remains intact. Year-to-date revenues are up 17% and the business is running nearly $1 billion more revenues versus 2016 levels. The investment environment remains constructive as investment revenues were $105 million. As we have previously said, this line has the potential to be lumpy, though we continue to see the benefits of broad-based performance across our private funds.

Total AUM increased to $507 billion of which long-term AUM was $335 billion. Positive net flows drove the higher AUM. Our equity strategies continue to deliver strong investment performance, driving net inflows. And we are beginning to see the benefits of the investments we have made into our fixed income platform with the second consecutive quarter of net inflows.

Asset management fees of $664 million increased 8% sequentially. Performance fees were aided by a non-recurring realization in the quarter. Additionally, management fees benefited from rising average AUM.

Turning to the balance sheet. Total spot assets rose to $903 billion, driven by increased client activity which also drove growth in RWAs. As a result, our common equity Tier 1 ratio declined to 16.2%.

During the third quarter, we repurchased approximately $1.5 billion of common stock or 36 million shares at an average price of $41.92, and our Board declared a $0.35 dividend per share.

Our tax rate in the quarter was 21.4%, excluding $89 million of intermittent net discrete tax benefits. These discrete tax items added approximately $0.06 to EPS and 50 basis points to ROEs. We continue to expect our full-year tax rate will be in line with the 2018 tax rate, excluding intermittent discrete items.

As we look ahead, we're cognizant of the seasonal patterns of the fourth quarter, but we are encouraged by client engagement and activity levels and are off to a good start. We are pleased with our competitive positions as the industries continue to see share consolidation and we are executing on our growth strategies.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Mike Mayo with Wells Fargo. Your line is now open.

Mike Mayo

Hi.

James Gorman

Hey, Mike.

Mike Mayo

You are certainly making progress over time with the ROTCE 13%, but you're doing that when you look at year-over-year where expenses grew faster than revenues. And I know it's just one quarter but non-comp expenses were up 7%, comp was up a little bit. What sort of confidence do you have that revenues will grow faster than expenses, if not just for the quarter, but for the next year and how are you thinking about that relationship?

James Gorman

Mike, firstly, that's what we are paid to do. If we're in a business where we're growing expenses faster than revenues long term, we're not kind of very good business. So, we're maniacally focused on it. And you're right, in any given quarter obviously, you're going to see bumps and bounces a little bit. We had slightly high litigation this quarter relating to some stuff way back 10 years ago from the crisis, and some of that just sort of makes its way through the pipes at different moment, so. And the BC [ph] was quite active given the activity, particularly in September. Some of the integration stuff relating to Solium, various other things, some of the tech spend we've been doing, developing out our tech platform. But, I'm not -- frankly, I wasn't concerned about that. And I would say, I'm certainly not concerned about it for the next year. We intend to maintain the discipline that we've brought to this place for the last several years, and that's not going to change.

Mike Mayo

All right. And then, just as a follow-up, I guess, there were some one-timers, you didn't really specify the amount. So, just generally, as it relates to technology and improving efficiency, where can you see the efficiency ratio going over the next one or two years?

James Gorman

Well, I'm not going to get ahead of what we do at the earnings call in January where we lay out our expense targets. I think, we've taken the efficiency ratio, forget where we started this, but it was certainly in the 80s and target originally was $0.79 on the $1 than $0.77, $0.75, and I think we've been -- last year was -- this year's $0.73. We -- listen, we're generating scale economics. Look at the wealth management business. I think, non-comps were down about $10 million or $20 million including some costs that we're absorbing relating to the integration. There is no reason why those non-comp numbers need to grow in that business. We've made a lot of investments the last few years. We're starting to realize the benefit of those. Rob Rooney is leading a major reformation of our technology platform internally and it has the full focus for the organization. And while we are having to -- and wanting to spend on some of the new technologies that are obviously coming to the market, we're also taking costs out from what has been a legacy system that hasn't been terribly efficient over the last 20 years.

So, I think, I'm not going to give you an expense ratio number now. That's obviously premature. But, we're clearly focused on the long-term scale leverage in this business.

Operator

Thank you. And our next question comes from Brennan Hawken with UBS. Your line is now open.

Brennan Hawken

Good morning. Thanks for taking the questions. So, this quarter, we saw a pretty significant move by the discount brokers moving commissions to zero. Obviously, transactional revenue is easiest part to commoditize. But, there are some investors that are concerned that the next move that they could make could be against advice. Do you consider that a threat? And, do you think that your recent tech investments have placed you well or there is still wood to chop on that front?

James Gorman

Why don't I have a go at this and Jon may want to add something. Firstly, I wasn't surprised that the online brokers went to zero commissions. I was surprised at the timing, frankly. I think, given the backdrop with where rates are, it was curious timing, but it is what it is. And as you point out Brennan, I think,, the commission activity of buying and selling stocks and bonds in our wealth management business is a very small percentage of that business, and obviously, half of that for the whole Firm, given that it's less than -- it's about 40% of the firm wealth management. So for us, it's a whole different discussion. You're rightly questioning, will there be pricing pressure on advice. I mean, at the level, the clients are paying, I think it's in the mid 70 basis points, Jon will correct me for advice on dollars of assets. It's a great value equation. I mean the advice pricing holds up as long as clients are getting value. And when you put together the research, the trade execution, the financial planning, tying people in with their long-term charitable, giving their trust and estate planning, working with their accountants, it's complicated stuff. And being wrong on this and the tax implications are being wrong absolutely overwhelm a few basis points on the fees.

So, having high quality advisers giving high quality advice is in my view a winning strategy. The real question is for what level of assets is it relevant. And you've seen in our business for households between zero and 100,000 in the last 10 years has dropped precipitously. That is not an accident. That's by design. We basically price that segment out of the core channel into the online channel for a reason. Somebody with $39,000, as I've said many, many times does not need a financial adviser and won't get the attention of the financial adviser. But households with more than $10 million just with us, and bear in mind, those households tend to have two to three relationships like that have grown dramatically over the last decade. And that is the sweet spot for what we're doing for our business between $1 million and $10 million and more than $10 million. That's where the growth is. And in my view that is where the advice fee is very fair and very reasonable given the way you create it.

Brennan Hawken

Thanks for all that color, James. That's helpful and very extensive. One follow-up here. You guys recently bought Solium. You're in the process of integrating. You guys made reference to that with your comments around Morgan Stanley at Work. That might be a platform that's a little closer to where the discount brokers are. Is this -- do you think this might impact that business? Do you think that might impact a little bit of the potential returns on that investment or was this part of the scenario planning that you guys undertook when you made the acquisition that eventually commissions would head in this direction and competitive pressure would take you there? Thank you.

Jonathan Pruzan

So, Brennan, it's Jon. We're still very excited about the Solium acquisition. It's very early days, but the integration is going well. We're continuing to put money and investments behind the integration. The receptivity of the product, Morgan Stanley at Work has been quite good. We've actually seen a pickup in new client wins. We've won about 265 clients -- corporate clients since the closing of that transaction, and the product receptivity is quite high. This combination of sort of state-of-the-art technology and platform for stock plan administration with financial education and tools for investing in savings is going over quite well. Additionally, we continue to convert our business onto their platform, and that's going well. So, early signs and early days, but the integration is going well.

And in terms of the economics and how we think about this business, it was really to get access to a younger and different client base. It's a direct channel. As James mentioned, there is about 2.5 million employees in these companies with $1 billion -- or excuse me, $1.5 trillion of assets away. And we're going to start using our digital tools, our virtual advisers to provide service for those clients. And that'll be priced competitively. And we still think the economics of that channel and getting into that business is a very attractive one for us. So, early days, going well, and we're still really excited about it.

Operator

Thank you. And our next question comes from Gerard Cassidy with RBC Capital Markets. Your line is now open.

Gerard Cassidy

James, you touched on capital with the leverage ratio being your binding constraint. And you also indicated that, as the Fed adjusts its capital framework, it will shift to the CET1 ratio. When do you think that shift may take place? And then, when you look at your CET1 ratio, clearly, it's the highest amongst all your peers at over 16%. What's a good number that you think is more appropriate, once we move to the CET1 ratio?

James Gorman

Gerard, you are asking me to step into lion pit here. Listen, I think, the Fed has been really constructive and stepping back and looking at what's happened with the regulatory framework. It was obviously critical to have the banks, recapitalize, raise their liquidity and build discipline around that. And I think the health of the U.S. banking system, if you look at the results of our peers in the last week, is clearly reflective of that. I think, all of them are in dramatically better shape than they were 10 years ago, including Morgan Stanley.

I think, I've argued for a long time publicly and privately that a simple leverage ratio is a constraint when it's not looking at what is the intrinsic quality, and liquidity of the asset on the balance sheet does not make sense, levering illiquid security versus a treasury. It doesn't make sense in terms of treating those equal, and much more relevant to the business is where our risk weighted assets lie. So, I think, this change which has been advertised by the Federal Reserve as the likely, I should say, it's up to the Fed and their own rule-making, I'm not going to presume it, but as the likely outcome of this transition seems to me to be sensible. And most people would agree with that. It's certainly gives investors and rating agencies and regulators a much better sense of where the risk lies within the firms. That said, none of us want to get back to the pre-crisis leverage ratio where banks were levered 30 to 60 times.

So, as to the specific timing, I don't know. And I don't want to pre-guess that. But it's not years, it's in the sort of months period is my guess. And what that translates for us again, I think, it's probably -- it's a little early to get into that. I just think it's hard for me to see a scenario where our capital stay flat or go up. So, I start off that simple premise. Therefore there is only one alternative. How much change that delivers depends on what the SCB buffer is and a bunch of other factors that would go into the new regime. So, a little bit wait and see. And once we see what we're dealing with, then, we will act accordingly as an institution.

Gerard Cassidy

Great. I appreciate your insights. And then, Jon, you talked about on the equity trading that the cash revenues in the consolidating market helped boost the cash revenues. What's driving that? Is it just economies of scale? Is it the technology that you guys have on your desk that's driving more business that way? And then, when you look at your cash equities relative to prime brokerage or derivatives, is that the largest contributor to the equity trading number?

Jonathan Pruzan

So, the answer to your first question is really yes and yes. It's economies of scale and it's technology. Additionally, we're seeing some people step away from that business. We've got a really good technology kit, obviously. Here, we've seen an increase in our percentage of the trading volume. The volume is down a little bit. But, as I said, it's been pretty resilient. And we think that you'll continue to see consolidation of share in that business, and that's an opportunity for us. In terms of the different businesses, obviously, prime brokerage is our biggest business. It's sort of the center of the machine, if you will. We've got a really nice mix of both people and intellectual capital and technology that sort of drives the entire plan. And as I said, we're number one in the globe there for about the last five years. So, it's a very strong and powerful business. Between cash and derivatives, that will bounce around quarter-to-quarter based on client activities, but the PB business is clearly the biggest.

Operator

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

Jim Mitchell

Hey. Good morning. Maybe just talking a little bit about wealth management flows. I think, fee-based asset flows of $16 billion were pretty strong relative to what we saw at one of your competitors. How much of that is being driven by just the shift from brokerage into fee-based versus just solid organic growth that you're driving through I guess, more focused franchise?

Jonathan Pruzan

Yes. We were pleased with the flows and we continue to think that we're very-focused on attracting both new assets, and we're continuing to see that secular trend of people wanting to convert their accounts into the fee-based format because of the services provided and the value proposition. So, it was a good mix of the different dynamics, new assets as well as flows from our brokerage. And we expect to continue to see that. We're now at about 46%. That number has been creeping up; we expect it to continue to creep up over time here.

Jim Mitchell

And maybe just a regulatory question, now that we have a final Volcker Rule. Any thoughts on the impact you guys, doesn't seem like it's big, but just whether it's expenses, revenues, how do we think about that at all?

Jonathan Pruzan

Yes. Again, there is a final rule out, but there is still some additional, incremental adjustments that will be made. But from our perspective, it's not really -- have a material impact. It's clarified a few things for us, maybe simplified it a little bit, but no real impact.

Operator

Thank you. And our next question comes from Christian Bolu with Autonomous Research. Your line is now open.

Christian Bolu

Good morning. Maybe just on equities, and this one might be a bit of an unfair question, given the good job Ted and team have done in that business, but I'll ask anyway. If I look at market share relative to the U.S. peers, it looks like it peaked at the end of 2017 and has basically steadily drifted down. So, curious kind of what -- any color on what's driving this, sort of the leverage constraints, you alluded to an issue, and maybe anything else you've seen on the competitive front in that business?

Jonathan Pruzan

I'm not sure I know what you're referencing. When we look at the global market, we've grown share over the last couple of years and it's stabilized over the last year or two in sort of the 21% share type numbers. We do think there is opportunity to grow that. We're not going to see the lockstep jump that we've seen historically, but there are share consolidation going on, particularly in the cash market. We think there's opportunities in derivatives, as well as James mentioned, Asia continues to be an interesting market as people divert more capital into that market. So, again, we're very pleased with the results. It's a competitive market. It's always been a competitive market. I think, you've seen over a long period of time a real shift from or a consolidation into the top two or three providers, most of that has come from probably the European peers. So, we're very pleased with the performance, we're very pleased with the position.

James Gorman

You might also be referring to -- there has been a shift obviously from the European into the U.S. banks in some of the prime brokerage balances and other parts of the equities business. And, we always look at business opportunity in terms of what kind of returns we can get. So, we're not just trying to drive share, we're trying to drive profitable share. And as Jon said, what we look at, at global numbers not regional numbers, frankly.

Christian Bolu

Okay. I can -- I mean, when I look at you relative to the U.S. peers, you're about 31% in 4Q, and it started 27%. But, I hear your point on global versus Europe. Maybe switching to wealth management, just on the zero commission discussion on the online brokers, trying to get exposure here. I do appreciate that it's probably small. But, it'd just be helpful if you could detail how much you make on ticket charges and if you hear any pressure from the field to sort of reduce any sort of trade ticket charges?

James Gorman

I mean -- I don't have the details on how much we make per ticket. We don't really look at it that way, because obviously, Christian, as you know very different types of businesses within it, whether it's for a $300 million family office, somebody liquidating a large concentrated position or the average investor selling a $1 million of stock or $100,000 of stock or whatever. So, it's just not -- that's not really the way we focus on. But certainly, I've heard nothing. Jon, have you heard anything from the field? Nothing, I don't think so.

Jonathan Pruzan

No noise from the field. And again, I think that the business model is different here. And our clients are looking for more than zero dollar trades. They're looking for the value proposition that we put forth. And we haven't heard anything really from the field.

James Gorman

Yes. An adviser who is working hard and is being paid by commission rather than by a management fee wants to get paid. I mean, that's the deal. It's not an after profit. So, they're not exactly calling up and saying take away our revenues from us. They want to get paid fairly for the job that they're doing. So, I'd be very surprised if we had any feedback on that.

Operator

Thank you. Our next question comes from Glenn Schorr with Evercore ISI Group. Your line is now open.

Glenn Schorr

First one on wealth management, please. So, the $4 trillion held away, I get the Solium piece straightforward and in motion of the 2.5ish held away in wealth management accounts. I'm curious if you could talk to some of the more specific things you're doing to incent clients to consolidate with you. I mean, we're seeing part of it each quarter, but that's a drop in the really big buckets. I'm just curious on the tactics of what you're doing?

Jonathan Pruzan

Sure. I mean, it's really around, again, the value proposition but also a lot of the technology investments that we've made. Clearly portfolio construction and execution costs have been commoditized. And so, we're trying to provide the financial planning and service to our clients. We're really doing it with our technology around four places, advice; service; relationship management; and asset acquisition. On the asset acquisition side, I would say the best or the most impactful technology we have is really around both asset aggregation and our risk analytics. It allows us to do stress scenarios and testing real time. So, it's not paper-based on different scenarios and look at concentrations. And once we have a much better picture of all our clients' assets with our asset aggregation tools, we found that we've had an ability to attract more of their assets. So, it's really around the technology that we're developing to try to drive that asset acquisition. And then, we've enhanced our digital experience, we're enhancing our client experience, and we think all of that leads to a better ability to attract those assets.

The other last point I would make is, those assets in the high wealth or the high net worth bucket are actually growing quite fast as well. So, it's not only the incremental assets they have outside of the firm, but their assets inside of the firm, and their wealth are growing quite quickly.

Glenn Schorr

And are you still periodically doing specials, if you will, on cash management products to bring over assets in a low rate environment? Do you still have room to reduce wholesale funding and bring in some more deposits?

Jonathan Pruzan

We do. I'm not -- we're not really -- your comment around specials, we've developed a new high-yield savings account, which more attracts sort of Fed funds, if you will. We've seen great receptivity to that. I think, about $12 billion of new money has flowed into Morgan Stanley in the last two quarters. And that does come in at attractive rate relative to the wholesale or the CD market. So, there's a good spread there. So, we continue to develop the products, and we've seen really good receptivity.

Operator

Thank you. Our next question comes from Steven Chubak with Wolfe Research. Your line is now open.

Steven Chubak

So, I wanted to start with a question on the capital strategy. And James, you'll have to indulge me. I'm going to ask you to step a bit deeper into the pit. But, ahead of the SCB implementation, the big sticking point with many investors is the higher CET1 burden, which at 16% is 250 bps above your next peer. That gap translates into roughly a 200 basis-point drag on your return. So, certainly has a material impact on the valuation. I know, you've spent many an occasion talking about the shortcomings in the models. We looked at prior transcripts, I think, going back as far as 2014 publicly. But despite those efforts, we really haven't seen the progress. And given the slow progress that's evident, if the Fed doesn't seem receptive to the changes, I'm wondering if you can give us some context as to what alternative actions you can take to potentially reduce that capital burden?

James Gorman

Steve, I think, you want to give the Fed a little bit of credit here. I mean, there actually has been progress. Just the change in the rules around -- and I'm not talking specifically on Morgan Stanley from them, but the change in rules around which banks are designated as systemically important, the change in the qualitative test and taking away that sort of qualitative hurdle and just relying on annual supervisory letters, the changes that have taken place in the Volcker Rule, more transparency that came through the last CCAR proposal, the openness of the Fed to consider, not counting buybacks and dividends against capital basis, and the potential removal of the leverage ratio is sort of the gating constraint on firm's capital positions, the movement towards the SCB structure. And when we see how all of this plays out, and as I said earlier, I forget who asked the question, I think it was Gerard, how we feel this playing out, we will then -- we'll have a better sense of what our capital needs are. As I said, they're not going up. That much I'm confident about. And I don't think they are staying flat.

And then, you look idiosyncratically at Morgan Stanley, obviously we're affected by the leverage ratio; we're also affected by the PPNR modeling and the expense structure within the models where as I said on the last call, we find quite a disconnect between what we're doing and what the models would suggest our expenses would do in the time of systemic stress. And that's a discussion we're having very openly with the Fed. And for the first time this year, we have some transparency as to where the source of that difference is, which enables us to dig in on it.

There is a different openness for 10 years into this for addressing some of these issues of the Federal Reserve. Obviously, there's different leadership on the supervisory side from the last 10 years. And I think it's prudent to step back and figure out what's right for the industry. The financial sector is critical to the health of the economy. Having banks properly capitalized and not overcapitalized is the essential for them to grow their balance sheets and provide lending capability to businesses and individuals.

So, I'm not going to take you bait and try and get into what if they are next, because I don't know where we're going to be in the next couple of months. I'd rather wait and see that. We have shown a willingness to adjust our business model over time. And I think the build out of the wealth management which is -- was clearly part of that strategy, build out of asset management of strategy and the stabilizing revenues within the institutional business as we've gone away from the prop trading and the more volatile parts of the fixed income franchise. So, it may not satisfy you, but I'm not going to get into a guessing game. I'd rather see what the results are and see what we're dealing with and then deal with it.

Steven Chubak

Okay. Fair enough. I appreciate all that color, James. And just one follow-up for me on NII. Based on the forward curve, it's pricing in roughly two cuts through 2020. I'm just wondering if you can give us some expectation for what the NII trajectory might look like for 4Q and 2020.

Jonathan Pruzan

Why don't I try to take that? And, I think for 4Q, given that we've already had two rate cuts last quarter, the benefits of the higher loan growth -- or excuse me, the higher loan balances as well stabilization of the BDP will be more than offset by where rates are, in terms of the absolute level. In terms of next, so that's a fourth quarter look. So a negative bias towards NII. And then, obviously, as we get into the fourth -- excuse me, when we get into next year, we'll give you some more thoughts around it. There is just a lot of variables right now. But, clearly, a low rate and a declining rate environment, puts negative pressure on NII.

Operator

Thank you. Our next question comes from Devin Ryan with JMP Securities. Your line is now open.

Devin Ryan

Just I guess first one following up on Steven's question. If NII is moving lower, how should we think about, I guess, the comp ratio in wealth management, all else equal, just given kind of the positive comp dynamics that creates?

Jonathan Pruzan

Yes. I think, as we mentioned in my script, compensable revenues has ticked up a little bit as a percentage. And so that will impact the comp ratio. But, we're very-disciplined, obviously across the platform, specifically in wealth management around comp. And I think, you'll see sort of some stabilization, but the mix is important.

Devin Ryan

Okay. Thanks, Jon. And then, I guess, the follow-up here just within investment banking. So, you mentioned in the script that backlogs are healthy. It does seem that the equity underwriting backlog has been strong but some of that keeps getting pushed forward. And then, the M&A outlook still -- it seems constructive. But, as we move closer to U.S. election, I'm curious if you're hearing anything around corporate sentiment there. So, maybe if you can just talk a bit more about the tone within the various investment banking businesses right now and anything else you can add around kind of the near-term and intermediate-term outlook as we move into 2020?

James Gorman

Why don't I start? And Jon can add in as he indeed was a former investment banker. I guess, you're always an investor. Right? So, I mean, the discussion -- CEOs are obviously concerned about the direction of the trade talks and that this stays within sort of guardrails of reasonableness. Nobody wants to see a global economic slowdown. On the other hand, financing is cheap, people remain confident about the U.S. economy, and transactions are getting done. And, I think the backlog has been healthy. The advisory number was strong. As you pointed out, some of the ECM numbers with some of the deals that came to market of the last several months and things that got pulled. That has put a little bit of a dampener on that. On the other hand, we made a major push with our DCM business, and I think you saw the results. I think, our share was around 14% this year -- this quarter, which is the best share we've had for many years. So, I think, there is still a sense where despite all the naysaying and all the news and all the pundits, the reality is the U.S. economy is in good shape and the consumer balance sheets are in good shape. People are continuing to spend the -- earnings coming out of the last week or so demonstrated very solid performance across the board. So, I think, it remains stable. Jon, I don't know if you disagree on that.

Jonathan Pruzan

Yes. No, I would agree. And I think, as James mentioned, CEOs still feel pretty good about where they are. And at some point, you just can't wait for every unknown to settle down and what we've seen is CEOs have strategic imperatives and initiatives that they want to execute on. And they're doing that, because the markets are constructive. M&A market continues to be active. We think we'll have probably another $3.5 trillion type year, which is a very healthy M&A market and there is a potential to do that again next year. The lot of the ingredients behind M&A around the search for growth and scale and synergies, LBO and sponsor activity, all of that's still intact. So, a healthy environment. Now, we can't have a dislocation or a break in the market. But right now, the healthy -- pipelines are healthy and the market is constructive.

Operator

Thank you. Our next question comes from Mike Carrier with Bank of America. Your line is now open.

Mike Carrier

James, you mentioned upfront some of the market share opportunities that you still see. You provided some color on the $4 trillion in wealth management. I guess, just on the institutional securities, you guys have done well over time. But, what initiatives are in place now to increase share, whether it's on the banking side or the trading side?

Jonathan Pruzan

Yes. I think, in the simplest, you've sort of highlighted our growth strategies. Right? We're clearly trying to grow assets, both in the investment management and the wealth management business. And we're looking to grow share in ISG. And I think it's just a lot around execution. We continue to see opportunities in Asia, we continue to see opportunities within investment banking to consolidate share, and as I mentioned, in equities we continue to see more share go to the top providers who offer a differentiated service. So, we feel good about the momentum in that business. We've gained probably 3 or 4 points in share in all of the ISG business combined in the last several years. We like the momentum. And assuming the market stays constructive, we believe we continue to build share across all three segments.

Mike Carrier

And just a quick follow-up on the last question. Just on confidence in activity levels, you mentioned trade. If on the Brexit side we get some follow-through here, on the news this morning. How much is that weighed on activity, particularly in Europe versus the trade issues?

Jonathan Pruzan

Brexit specifically, it’s probably most impactful in the UK. We did see some softness there, not dramatic. It would be nice to get something resolved. Obviously, the market doesn’t like uncertainty. So, hopefully this deal will get approved and will get executed, and that will be taken off the table. I think, though the European results were probably more impacted just about the global growth dynamic and what’s going on in individual countries than Brexit per se.