Good morning. This is Celeste Brown, Head of Investor Relations at Morgan Stanley. Welcome to our first quarter earnings call. Today's presentation may include forward-looking statements which reflect management's current estimates or beliefs and are subject to risks and uncertainties that may cause actual results to differ materially. The presentation may also include certain non-GAAP financial measures. Please see our SEC filings at www.morganstanley.com for a reconciliation on such non-GAAP measures to the comparable GAAP figures and for a discussion of additional risks and uncertainties that may affect the future results of Morgan Stanley. This presentation, which is copyrighted by Morgan Stanley and may not be duplicated or reproduced without our consent, is not an offer to buy or sell any security or instrument. I will now turn the call over to Chairman and Chief Executive Officer, James Gorman.

James P. Gorman

Thank you, Celeste. Good morning, everyone. I'm pleased to be here with Ruth to discuss our first quarter results today. There were several significant highlights in the quarter, but it's important to remind you of some of the steps we've taken to reach this point. For the past 2 years, our team has systematically executed in a number of areas including: selling certain assets and eliminating legacy positions to move beyond the crisis; rebuilding and investing in the client footprint in Institutional Securities, implementing the MSSB integration; increasing fee-based assets and improving the profit margin in that business; deepening and strengthening our partnership with MUFG; building and maintaining a conservative capital, liquidity and leverage profile; and finally, not unimportantly, maintaining strong expense discipline. While this has been a long and at times, arduous journey, our results this quarter are evidence we're on the right track. Ruth will take you through the GAAP results in detail, but let me underscore a few things.

x DVA, our revenue, net earnings, EPS and ROE for the quarter were among the highest since the financial crisis. ROE was over 9%. IC revenues were particularly strong with significant progress in Fixed Income, driven by improved balance sheet velocity and VAR efficiency. This was coupled with continued strength in equities despite challenging markets. We reached an important milestone in the quarter with the successful move for the first wave of legacy Smith Barney Advisors to our new technology platform, with the rest to follow in early May and early July. We are just 11 weeks away from completion of this integration.

Our strategic partnership with MUFG continues to grow as we deepen client relationships and leverage our combined balance sheet to deliver financial solutions. Finally, we have delivered on the promise of expense control. We're disciplined in the approach to compensation, and while overall compensation expense rose, of course, with higher revenues, the actions we've taken in the last few years, we meaningfully reduced the ratio, striking a balance between driving ROE and investing in the franchise.

Similarly, our rigorous non-compensation expense program allowed us to keep a tight rein on spending, and thus, drove significant operating leverage. Clearly, we still have work to do to reach our goals, and I believe the progress we have made further underscores the strength of this franchise globally. I'll now turn it over to Ruth to take you through our earnings in detail.

Ruth Porat

Good morning. To provide greater transparency into our results, I will provide both GAAP results and results excluding the effect of DVA. We will present our results this way, whether the impact is positive or negative, and have provided reconciliations in the footnotes to the earnings release to reconcile these non-GAAP measures. DVA in the quarter was negative $2 billion with $381 million in equity sales and trading and $1.6 billion in Fixed Income sales and trading. Excluding the impact of DVA, firm-wide revenues were $8.9 billion, up 24% sequentially, excluding the impact of the MBIA settlement in the fourth quarter. Noninterest expenses were $6.7 billion, up 10% versus the fourth quarter.

Compensation expenses of $4.4 billion this quarter included approximately $138 million related to severance. Non-compensation expenses were $2.3 billion, down 2% from last quarter, reflecting firm-wide cost-containment efforts.

Income from continuing operations applicable to Morgan Stanley common shareholders was approximately $1.3 billion. Net income from continuing operations per diluted share was $0.71 after preferred dividends.

On a reported or [ph] GAAP basis, firm-wide revenues for the first quarter were $6.9 billion, up 22% sequentially. Income from continuing operations applicable to Morgan Stanley common shareholders was a loss of approximately $103 million, and the reported net loss from continuing operations per diluted share was $0.05 after preferred dividends.

Book value at the end of the quarter was $30.74 per share. Tangible book value was $27.37 per share. Subsequent to the end of the quarter, we closed on the sale of Quilter and the first phase of the Saxon disposition.

Turning to the balance sheet. Total assets were $781 billion at March 31, up from $750 billion last quarter, reflecting increased client activity. Our liquidity pool was $179 billion at the end of the quarter. Although our calculations are not final, we believe that our Tier 1 common ratio under Basel I will be approximately 13.2%, and our Tier 1 capital ratio will be approximately 16.8%. Risk-weighted assets under Basel I are expected to be approximately $319 billion at March 31. Subject to final rule-making, our Tier 1 common ratio under Basel III was between 8% and 9% pro forma as of the end of the first quarter, assuming full Basel III inflation of RWAs and 0 benefit from mitigation. We're in the range as a function of the ultimate revolution around Basel 2.5 NPR. We expect that our Tier 1 common ratio under Basel III at the end of 2012 will approach 10%, reflecting passive mitigation driven by position roll off and consensus earnings.

Now turning to our businesses in detail. Unless otherwise noted, all discussion of income statement metrics and segment results will exclude DVA for the remainder of my remarks in order to differentiate revenues associated with our business from those associated with our borrowings that result solely from our credit spreads.

In Institutional Securities, revenues were $5 billion. Excluding the impact of the MBIA loss last quarter, revenues were up 39% sequentially. Noninterest expenses were $3.3 billion, up 17% versus the fourth quarter. The compensation ratio is 42% in the quarter. Non-compensation expenses declined 5% from last quarter. The business reported a pretax profit of $1.7 billion.

Our Investment Banking results reflect the backdrop of continued low market activity, resulting in revenues of $851 million, down 4% versus last quarter. According to Thomson Reuters, Morgan Stanley ranked #1 in global IPOs and #2 in global completed M&A and global announced M&A at the end of the first quarter. Notable transactions included Glencore's $49 billion acquisition of Xstrata; AIG's $6 billion follow-on equity offering; a $7.2 billion investment-grade bond offering for Petrobras; and a $2.8 billion noninvestment-grade bond offering for United Rentals.

Advisory revenues of $313 million were down 23% versus the fourth quarter as market volumes remain subdued, particularly in the Americas.

Equity underwriting revenues were $172 million, a 9% decline from the fourth quarter, reflecting an industry-wide decline in IPO volume and an unfavorable shift in mix.

Fixed income underwriting revenues of $366 million were up 27% versus last quarter with significantly higher bond issuance activity in both investment-grade and high-yield products. This strength was partially offset by a decline in syndicated loan revenues, which were negatively affected by lower levels of event financing.

Equity sales and trading revenues were $1.83 billion, an increase of 44% from last quarter. Results reflected continued broad-based performance across geographies and products despite lower market-wide volumes. Client revenues remained resilient, demonstrated -- demonstrating ongoing realization of adjacencies across products and diversification of distribution across client segments.

Prime brokerage revenues were up on higher balances and a more favorable mix of activity. We continue to gain market share with notable outperformance in electronic and retail. Strong results also benefited from prudent risk management.

Fixed Income and Commodities sales and trading revenues were $2.6 billion. Excluding the MBIA loss last quarter, revenues were more than double and were up 30% versus a year ago. Results this quarter reflected broad based strength and were also balanced across products and geographies. Stronger performance year-over-year and quarter-over-quarter underscores our continued emphasis on flow products, risk efficiency and increased velocity, with average balance sheets below 4Q '11 and 1Q '11 levels.

Each of our major product areas contributed meaningfully to results this quarter. Rates revenues increased, driven by higher client volumes benefiting from prior investments in our footprint.

FX results were up with lower balance sheet and continued to benefit from our investment in technology. Credit revenues were up both quarter-over-quarter and year-over-year, reflecting improved credit markets and balance sheet efficiency. Commodities revenues rebounded from a slower fourth quarter as client activity, including structure transactions, increased. Securitized products revenues were up sequentially but down versus a strong 1Q '11 comparison.

The other sales and trading line reflects negative revenues of $286 million versus positive $83 million last quarter.

Turning to VAR, average total VAR declined from $123 million in the fourth quarter to $84 million this quarter using a 4-year data series. The decline reflects the full quarter impact of the MBIA settlement that occurred last December. Period-end VAR declined from $87 million at the end of the fourth quarter to $78 million at the end of the first quarter. Our average aggregated VAR by primary risk category for the quarter was $72 million versus $66 million in the fourth quarter.

Global Wealth Management revenues of $3.4 billion were up 6% versus the prior quarter, driven by higher Asset Management fees and an increase in transaction-driven revenues. Specifically, Asset Management revenues were up 7% due to the benefit of higher equity market levels at the start of the quarter. GWM's Investment Banking-related fees increased 24% versus last quarter, primarily driven by fixed income new issuance.

Trading revenues were up 19% versus the fourth quarter, reflecting increased activity and markups in deferred compensation plans. Commissions were roughly flat to last quarter. The other revenue line included lower gains on AFS sales versus the fourth quarter. Noninterest expenses were $3 billion, up 2% from last quarter. Compensation ratio was 62% versus 64% last quarter. Non-compensation expenses were $922 million, flat to the fourth quarter. Migration costs were approximately $75 million. As the integration is completed, we expect these expenses to taper off during the year.

Profit before tax was $387 million, while the PBT margin was 11%, up from 7% last quarter. NCI for the quarter was $74 million, up from $16 million in the fourth quarter.

Total client assets increased to $1.7 trillion due to market appreciation and net asset inflows in the quarter. Global fee-based asset flows were $8.7 billion. Fee-based assets under management grew to $531 billion at quarter end, up 8% year-over-year.

Global representatives at quarter end were 17,193. Bank deposits were $112 billion at the end of the quarter with approximately $57 billion held in Morgan Stanley banks.

Asset Management revenues of $533 million were up from $424 million in the fourth quarter due primarily to markups in Merchant Banking and real estate funds and higher Asset Management fees. In Traditional Asset Management, revenues of $342 million were up 18% compared to the fourth quarter due to higher market levels.

In Real Estate Investing, revenues of $146 million were up 32% versus last quarter. Due to the ownership structure of these funds, the majority of these revenues are passed to third-party investors in the non-controlling interest line.

In Merchant Banking, revenues of $45 million increased from $23 million in the fourth quarter, driven by higher markups on investments. Compensation expense was $218 million in the quarter, up from $183 million in the fourth quarter, reflecting higher revenue. Profit before tax was $128 million, up 64% from last quarter. NCI was $65 million versus $44 million last quarter, reflecting markups and consolidated real estate funds.

Total AUM increased to $304 billion due to higher market levels.

In conclusion, the global markets continue to be affected by ongoing macro uncertainties, but we remain focused on that which we can control. The strategic steps we've taken during the last 9 quarters are reflected in our results with broad strength across our businesses globally on an improved revenue mix, tight expense controls and a stronger foundation of capital and liquidity. Three observations. First, with respect to revenue, our results highlight that the firm is far more balanced and diverse today than we have been in some time. In Institutional Securities, we drove revenue gains across our sales and trading franchise the Morgan Stanley way, based on insight, solutions and technology. Our Investment Banking team continues to be engaged in leading significant transactions throughout the world. Our backlogs remain strong. We benefited this quarter from the absence of the legacy items we have addressed in the last 2 years.

In GWM, after extensive investment and integration work, we are pleased with the platform the team has built. It enhances the FA and client experience, and increases efficiency opportunities by consolidating our business onto one platform. As evidenced by the consistency in revenues, retail wealth management continues to support the stability of the firm's results. It is a more annuity-like, capital-light business that increases its contribution with ongoing growth in both our fee-based assets and our lending business.

Second, our approach to compensation and non-compensation expenses reflects our disciplined expense management. We continue to have success with our firm-wide cost-containment and reengineering efforts, and expect further benefits over the next 2 years.

Third, our capital ratios remain industry-leading. We have a balanced and stable funding mix that will further improve as we exercise our MSSB call options, which will, in turn, add to our deposit base.

Our strategic priorities have also provided funding flexibility. Specifically, as a result of a more liquid flow focused business, we did not refinance the majority of the $16 billion of debt that matured or was retired in the first quarter. Net debt outstanding declined $10 billion in the first quarter, continuing the trend we started last year. Meanwhile, our liquidity pool remained in line with 2011, with ending liquidity of $179 billion.

As I have noted previously, a key input to the sizing of the liquidity reserve is our upcoming maturities. The combined impact of strong liquidity, the declining maturities going forward, put us in an even stronger position with respect to funding flexibility. Parent liquidity debt coverage is up significantly from 2 years ago, an indication of the strength of our balance sheet and our prudent liquidity risk management. We believe these steps put us in an even better position to serve our clients and our stakeholders. Thank you for listening, and James and I will now take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question will come from Howard Chen with Crédit Suisse.

Howard Chen - Crédit Suisse AG, Research Division

Regarding the meaningful improvement across the sales and trading franchises, I was just hoping you could share some thoughts on how you separate what's market-related versus what's related to pay off from all the investments you've made over the past few years.

Ruth Porat

Well, I think we have to start with the investments that we've made over the last couple of years. What we saw this quarter was real strength across products and across geographies, and no one particular driver of results. Across the 5 businesses, all growing kind of within a narrow zone, rates, FX, corporate credit, commodities and investment grade securitization. And what we've been talking to you about over the last number of quarters, quite long number of quarters, is that we felt there was real upside as we moved back in the flow, an area where we've obviously been strong for many years but had underinvested for a period of time and our view was that we were punching below our weight and have the opportunity for market share upside, and invested in particular in rates and FX, and those were 2 of the important drivers. I think the other big driver here was we talked internally about adjacencies when we talk about your equities business, the benefit of adjacencies, which, as we've talked about before, looks at working with clients across the platform. And that approach is very much reflected in the way we're running our Fixed Income business as well. It starts with the leadership team. It starts -- and then goes to our Senior Relationship Management program, our SRM program, and that's yet another investment. And then the third is really the technology investments that we've continued to make. That, in particular, is one I've highlighted over time and it's true again this quarter for our foreign exchange business benefiting from our electronic trading platform. So those all go to investments. I think the fact that we started the quarter with a lower balance sheet and lower inventories really underscores that this is less about marks and more about flow and engagement with clients. And so I would say it helped that there was a -- have a constructive environment, no question, but it goes to what we've been discussing with you repeatedly, quarter after quarter, the investments in the business and the focus.

James P. Gorman

I think also, Howard, the -- I would just take into account the leadership team, Colm Kelleher, who we put in that job a couple of years ago, and Kenny deRegt and Ted Pick in Fixed Income and Equities, respectively. This is now a very seasoned team working extremely well together across the firm. And I do believe the leadership makes a difference.

Howard Chen - Crédit Suisse AG, Research Division

Great. And switching gears, Ruth, on the new held-for-investment disclosure, you had a near doubling of the HFI portfolio in the last quarter. Now is that a function of new clients or active refinancing? And as that portfolio grows, how do you think about the impact to your stress capital ratios, earnings volatility and hedging costs?

Ruth Porat

Well, that's really the driver of the move. We're clearly a mark-to-market shop as we always talk about, but we are a bank. The 15 floor just depository ballpark today and pro forma for the incremental MSSB deposits will be, ballpark, the 12th largest depository. And as we talked about last quarter under the CCAR scenarios, the impact of loans under HFI were less punitive than fair value. And as we're looking to continue to build out our bank, consistent with other banks' practices and regulatory guidance, we've been focused on what's in the best interest of stakeholders. And our view was that if HFI is viewed as a -- or results in being a more capital-efficient way to run the lending book, that's the appropriate way to migrate our lending book. And so what you've seen here is that movement to HFI this quarter, and you'll continue to see that.

Howard Chen - Crédit Suisse AG, Research Division

Okay. And then with respect to the Moody's review, could you just comment on what a downgrade means to you, and what you're all doing to prepare for and maybe prevent a potential downgrade?

Ruth Porat

Sure. We've done a lot to narrow the impact of any potential ratings change and view that -- and our view is that the impact of potential outcomes are manageable. Obviously, ratings reviews started a few years ago, first with S&P and then with Fitch and now with Moody's, and so we have had time to prepare. And so trying to get some perspective on how we look at it or how we think about the impact, structure derivatives is obviously the most affected by ratings change, but it's also an area of focus for regulatory reform. And as we've reduced the scope of our structured derivatives business, that's very consistent with our change in business mix toward cash and flow products. And that's been kind of an over time, and I just comment on with respect to what we're doing broadly in Fixed Income. But what that means is at this point, only 8% of our ISDA contracts have triggers within the Moody's potential range, which helps reduce the size, kind of step 1. The other key point is that a large amount can be centrally cleared, and we were early and aggressive to move to central clearing and become client-central clearing broker. Two of the largest fixed income asset managers were also easy -- early in moving to clearing, and we won mandates to become their clearing brokers. And the trend towards clearing is clearly ratings diagnostics, so that further reduces the pool that's subject to impact. And then beyond that, we have a higher graded derivatives entity, and we've slowly been moving derivatives into our bank. So that kind of sizes and brings down the scope within, and hopefully, underscores the couple of work streams, which underscore why I started by saying we think the potential outcomes are manageable. The other point, I think, is really key is that none of our funding has ratings triggers. So that side of it is very easy to address as well. I think across the platform, we've done a lot to narrow the potential impact.

Howard Chen - Crédit Suisse AG, Research Division

Great, very helpful, Ruth. Maybe just a quick follow-up on the ongoing business. At a percent of figure you noted, is that just number of ISDA contracts or is that -- what does that mean as a percentage of maybe revenues or earnings contribution today?

Ruth Porat

Yes, that is 8% of ISDA contracts, and that's why I kind of started there and then went down to what are the various incremental steps that we've taken. I think the other thing I would point you to is that we're still A-rated by S&P and Fitch, and a lot of clients are doing their own credit assessments, so hard to gauge how that translates into any other impact on the business.

Operator

The next question will come from Guy Moszkowski with Bank of America Merrill Lynch.

Guy Moszkowski - BofA Merrill Lynch, Research Division

I wanted to see if we -- if I could just follow up on what you're talking about just now with respect to the Moody's. I know that, that moving contracts into better-rated entities was pretty far down your list of actions that you've taken. But I'm just interested in the idea of using the bank's unit and any other entity that you might have developed, and sort of how sizable you think that could be in terms of helping you mitigate the impacts.

Ruth Porat

Well, with the respect to the bank broadly, our strategy or objective is to build a robust national bank that's consistent with our Wealth Management business and building a balanced portfolio of assets in the bank, systematically. And I've talked at length, I think, on 2 different topics that are relevant to that. One is building our lending business of institutional and retail, and two is moving derivatives into the bank. And when we've talked about the lending business in particular, on the retail side, I've talked about this being a flow systematic steady build, building out the suite of products that we're offering to our retail clients, taking our time to build that out so that we've got the right credit and quality control over the build. That's one key portion of the asset side. And the other is, we have talked about before, slowly, systematically working to move derivatives into the bank. We started with FX and rates will follow. And our view is the result of both of those steps will be a balanced asset portfolio against $60 billion of deposits, with another $60 billion of deposits to come as we buy in the remaining Morgan Stanley Smith Barney stakes over time. And our view is and have been that we have a higher rated derivatives entity to the extent it's needed and have stayed on this course of a longer-term approach to moving more derivatives into the bank.

Guy Moszkowski - BofA Merrill Lynch, Research Division

And the bank deposit build on the retail side is directly related to the percentage ownership of the joint ventures, isn't that right?

Ruth Porat

As we exercise various tranches of the remaining buy-in for MSSB, we -- with that comes the pro rata portion of deposits, correct.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Got it. I was hoping that maybe you could talk about the restatement of your capital allocations on Page 5 of your supplement. That's always an incredibly helpful disclosure, by the way, as I think we've discussed before, but you did restate it. And I'm not sure I completely understand what the footnote is telling us.

Ruth Porat

So there -- I think one of the key things -- I'm not quite sure what you're referring to, but one of the things as we've allocated here on capital back to MSSB, the reason we increased the allocation to MSSB was consistent with guidance that came out during the CCAR process, which is that associated with NCI under Basel I, one now needs to allocate capital for that NCI. We have been doing that under Basel III and we talked about it last quarter that we had moved from parent capital into MSSB, the NCI portion of capital.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Okay, that helps. And then just on the Institutional side on the restated basis that you now showed us. I noticed that the capital allocation fell by almost $2 billion in the quarter. Is that related to the reduction in VAR and the reduction in the legacy MBIA position? Or is it something else?

Ruth Porat

I'm not sure. Why don't you follow up with IR on that one?

Operator

The next question will come from Michael Carrier with Deutsche Bank.

Michael Carrier - Deutsche Bank AG, Research Division

First on the Wealth Management business. So you had the improvement in the margin this quarter. Given the integration costs, I just want to make sure, is it that simple, meaning as the $75 million or so of integration expense comes out, we should see that 11%? I think if I just do the math, it will move up to maybe 13%, 13.5%. And then just in the near term, given that we've had the market tailwind, you gave some stats in the past in terms of how sensitive that business is to an improvement there and then as well as rates. Any difference there? Because it feels like we're getting the market, at least for the time being, but just any changes in those sensitivities?

Ruth Porat

The focus on margin is still on mid-teens margin by mid next year. And although we're getting the benefit of reduced integration expense, as you pointed out, we're also having some of that offset by increased software capitalization expense as we've talked about on prior calls. So the way we're driving to the mid-teens margin in part comes from integration expense, although it's not quite as big as that full 75, given software cap. It's also additional cost discipline focus and expense discipline focus, is the continued build out of our lending platform that I just mentioned. And it's also the ongoing growth in managed money. Those are really the key drivers of margin expansion. And that's going to continue as we go through next year. We do get a bit of a benefit, in particular, next year when we're all operating on one platform. It makes some of that second category, the expense discipline cost saving programs easier to implement, but it's really the combination of the same items that we've been discussing over time. And then as it relates to the market benefit, we did get a bit of a lift here, given the S&P started the first quarter higher than it was at the beginning of the fourth quarter, and going into the second quarter, we similarly have a bit of a benefit from that. But the mid-teens guidance was -- mid-teen PBT margin guidance assumed no market benefit. And if we continue to have market benefit, that helps. Similarly, if Fed funds rise, that helps.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then just on the buy-in, so we don't have all the details, but when you think about -- obviously, the valuation will play a part, your other options will play a part. And then just how -- what flexibility you have with the Fed, but when we start thinking about timing of that and in other opportunities, what -- is the likelihood you -- still that occurring during the near term?

James P. Gorman

Well, Michael, it's James. Let me address that. We're -- we've said for a long time that we like this business, it's strategically important to us. And while it's been difficult market conditions for a couple of years, we do think we know how to manage it well and we're in the last 10 weeks of a pretty massive, in fact, historically largest integration. So we're on track and the first call option is available, I believe, at the end of May or the 1st of June. And obviously, at that time or some time before that, we'd have a discussion with – with our friends at Citigroup on the first call option. We have a pretty clear path over what is now only 2 years to buy the remaining pieces. We feel no particular compulsion or anxiety to accelerate that. We have great clarity around what we're trying to do with the business. Obviously, we're always prepared to listen, but we're in a position where we have a clear path, we have a clear plan. We've had this plan now for over 3 years and we're frankly, rapidly moving to the end of it. So that's where we are right now.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And last one, just on the ROE for the overall business. Obviously, you've seen a pretty good improvement versus the last, call it, 2 years, but you’re still at 9% in a seasonally strong quarter. So when you think about the legacy assets and the things that you've been doing, even on the trading side, like how far along are you in that process? Because clearly, a better macro environment can still get that up, but you also had the seasonality against you. But just wondering how much of getting rid of some of the legacy issues or transitioning under the new regulatory environment is done versus the rest, more of a macro environment improvement will drive stronger revenues?

Ruth Porat

We'll be the first to agree that ROE, we're still on a path of improving over time and it is benefiting from systematic execution in the businesses, but we are in a path. If you just kind of go through the 3 big buckets of categories that should continue to drive ROE, on the Institutional Securities side we felt really good exiting 2011, having addressed the legacy issues that we have been speaking with you about for so long. And exiting those, having those drags gone is helpful. We have been reducing our presence in businesses which, under Basel III are more capital-consuming and moving to a more -- well, model which is more capital efficient, so you get some lift just from the mix of the business and that's continuing. On the GWM side, moving in the direction of the mid-teens PBT margin, after 3-plus years, as James said, will help as we benefit from integration and a higher PBT margin on that business. And then we're continuing our disciplined approach on comp and non-compensation. So those are just -- those are 3 of the bigger levers that will help continue to drive ROE. We're doing a lot more, but we're comfortable on this path.

James P. Gorman

And I would just add, Michael, I think that there were areas of our business that clearly benefited from a, I would call it, a reasonable market environment, not exactly a bullish market environment. But there were areas that did not. I mean, in the first quarter of the new issued calendar in equities, it was not exactly robust. M&A and advisory work, frankly, was very low across the industry. Our Wealth Management business, as Ruth said, with rates that are basically 0 interest rates and no equity calendar, clearly, that business wasn't exactly operating at a seasonal or market high. So there were pluses and minuses as you put it all together with the cost backdrop that we're working on with the integration stuff we've talked about, the continued retooling we've been doing in securities businesses. We're quite comfortable with the path we're on.

Operator

The next question will come from Glenn Schorr with Nomura.

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

So look, the -- I give you credit where credit is due. The trading results were awesome and awesome on a relative basis as well. And everything that you said about the investments made it all make sense. I guess my question is, what's different about this first quarter that produced such a payoff? In other words, if you look at it relative to, say, the last 8, 10 quarters' average, your increase is literally 50% more than everybody else in both equities and FICC. So I don't want to complain, it's great numbers. I'm just curious on what you think that made this first quarter to pay off.

James P. Gorman

Well, I think, Glenn, firstly, quarters, as I've said often, come around with remarkable frequency, every 13 weeks. We're already 3 or 4 weeks into the end of the next month, so we're talking about ancient history here. But I think it's if you look at equities in the last couple of years, this is not a flash in the pan. This has been a pretty considered and deliberate progress with our franchise, I think, had gained market share of over 350 basis points last year and continued to be strong this quarter. Fixed Income, obviously, there was better balance in the business. A lot of the pieces came together nicely across rates, foreign exchange. Our credit rebounded. A little bit of it was environmental as we said, and a little bit of it was the leadership and a little bit of it was the investments we've made in the platform. So I don't regard it as kind of a bolt of lightning out of the sky here. I think it's the aggregation of a series of things that have been steady investments. Every quarter won't look exactly the same, that's for sure. I'm sure we'll see some ups and some downs over the next several quarters, but it shows evidence that the investments we made are in the right direction.

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

Okay. A question, Ruth, I heard all your comments regarding funding cost and debt issuance or debt decreasing in the quarter. I actually have the opposite question on debt issuance plans going forward. And I think your average maturities in that 5-year range has come down over time where, my intuition would tell me that you'd want to be extending duration especially -- some of the things that Moody's points out on the business needing to stand on its own 2 feet. Can we -- can you help us think through what your debt issuance pay, and so on how you think about today's funding cost, where they should be over time?

Ruth Porat

Yes. The way -- I think it's a great question, and the way I start on that is really looking at funding requirements as a function of our business mix and our balance sheet. And as I spoke about on the last quarter's call, there are really 3 strategic priorities that frame the way I think about funding. First, our strategy for business mix has moved towards flow from structured, and we can fund that efficiently through the secured channel and we are. Second, exiting legacy positions has really decreased the need for unsecured funding. A lot of these positions were less liquid and they were cash-funded, and by exiting them, not only do we -- we free up some of the requirements there. And that was a part of the story this quarter and frankly, over the last couple of quarters. And then the growth of our deposit base, consistent with what we're doing in MSSB, is funding both our corporate and our retail loan book, and enabling us to fund more with the deposit base, it reduces our reliance on unsecured funding. So overall, the strategic moves towards a leaner, more velocity-focused balance sheet have allowed us to extract funding from the balance sheet, which means we're not and we haven't refinanced all the maturities. So specifically, and I made this point, in the first quarter, we paid down $16 billion in debt. We issued $5 billion. In other words, net debt down $10 billion in the first quarter alone. And we've reduced net debt by $16 billion over the past couple of quarters, and we did this while improving revenue strength and capturing market share and maintaining high liquidity. So this is where we really want to be, which is delivering for clients and enhancing our funding. And as I talked about a lot on the last quarter, I felt like I was the beneficiary when I'm thinking about funding of all of the strategic things that have been done. And so very much to your point, our maturities, our rolling 12-month maturities, peaked in September of last year and they've been on a downward trajectory, and that gives us some funding flexibility. And as we think about how to benefit from that funding flexibility, we're looking, as we have consistently over the last several years, at optimizing our unsecured issuance across channels, vanilla debt, structured notes and ongoing work with our partner, MUFG, in the Japanese market with the Uridashi issuance. We're looking across currency and we're being mindful of what's the wham of the overall book. But the way we think about it is, given high liquidity and declining maturities, I mentioned this, liquidity maturity statistic, what's notable is we're now at 38 months coverage. In other words, parent liquidity covers the next 38 months of maturities which is up from 23 months, 2 years ago. And it just goes to the prudent way we're running the balance sheet and the high degree of flexibility we have as a result of it.

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

Of all that's going on, I would think your credit spreads would be tightening more. Maybe last one on that note...

James P. Gorman

We would agree.

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

On that note, with it, again, price aside, I think there's something in it for both sides to do more of MSSB sooner. So price aside, it's highly likely not a big capital call. Is there a thought to just issue a bunch of debt as spreads come in and take the whole thing in?

James P. Gorman

Listen. Obviously, we're not going to talk about a particular transaction. As we've said, our focus is on, number one, getting the integration done. We're 11 weeks away from that. Number two, we will proceed with the first call option, and that's 5 weeks away or something like that. And number three, eventually owning 100% of this business, which we can do on a very clear program over the next 24 months. So I'm in the camp of we like certainty. We have what we think is a well-structured deal that was laid out 3 years ago. We're right at approaching crunch time, which is pretty exciting. But we -- it'd take a lot to encourage us to get off that path.

Operator

The next question will come from Chris Kotowski with Oppenheimer.

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

Yes, I was just wondering -- most of my questions have been asked, but I was looking at the share count and it looked like about 50 million additional shares. What drove that? Was it the annual issuance to employees?

Ruth Porat

I think you have to follow up with IR and they'll give you that.

Operator

The next question will come from Fiona Swaffield with RBC.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Just a couple of things. On the compensation ratio in the Institutional Securities group, could you talk about whether that is a level that could hold for the year? And then secondly, just to double check my understanding of the 8% to 9%, sorry, on Basel III, look through ratio in Q1, is all of that 100 basis points difference the potential impact of the NPR on Basel 2.5?

Ruth Porat

Certainly. So starting with the compensation ratio, we're accruing what we think is reasonable looking at those absolute dollars and ratios. It's obviously early in the year and the same thing we talked about on prior calls remains, which is we're very focused on balancing, driving ROE on the one hand and compensating and retaining talent that's driving that ROE. And this is obviously an industry-wide balance, but we've got a team refocused on it. And within Institutional Securities, the compensation ratio reflects the severance that I commented on. I think it was just over $100 million, $107 million in ISG alone. So that's part of the overall number, but we're still maintaining that very much that lends, which is we've got to get the balance right to drive ROE while paying the talent that's driving that ROE, and it is early in the year. On the Basel III question, you're absolutely correct that the range really reflects the ongoing uncertainty regarding Basel 2.5 NPR. And until there is greater certainty, we think it's most prudent just to give you a range, and we're within that range. We'll tighten up as we also become more clear.

Operator

The next question will come from Roger Freeman with Barclays.

Roger A. Freeman - Barclays Capital, Research Division

I just want to follow up on a couple other questions that have been asked. I guess just on the -- in the sort of the strength of the first quarter, it feels like your strength, your revenue generation actually builds over the course of the quarter with March being stronger, whereas I think others have saw the opposite, January being stronger. I mean was there something that -- were one of these areas particularly strong in March? And then obviously, it's only a couple of weeks into April, but has that momentum carried on?

Ruth Porat

Well, actually, I think we started January coming into the year, I think, with the benefits of LTRO kind of as the tailwind. We started January and things were pretty attractive. I think we were mindful of the fact that we entered the quarter with low balance sheet, and therefore, weren't benefiting from much of a big inventory that would be written up, but sub, a pretty good activity on the sales and trading side in January. I think it got a little muted in the middle of the quarter, and then did end the quarter, to your point, stronger. And I think it's too early to call 3 weeks, 2 weeks into the second quarter. I'd be remiss to try and extrapolate from where we are here, and so much of it continues to be what's going on in the macro environment. You tell me that, and I'll give you a bit of a cleaner forecast for the second quarter. So too early at this point.

Roger A. Freeman - Barclays Capital, Research Division

I can't figure that out either. So just -- it reminds me another point I want to ask on the balance sheet. So these, to the average balance sheet, your inventory levels were down. Can you characterize how the ending balance sheet may have looked versus the average or versus end of 4Q?

Ruth Porat

The average and ending for the first quarter were pretty consistent. It's in the supplement. They were within -- they were close and they've kind of stayed at those levels. We're continuing to run a sub-$800 billion balance sheet.

Roger A. Freeman - Barclays Capital, Research Division

I mean, I'm referring more just to your risk capital within the trading business. I think that's what you're referring to.

Ruth Porat

Oh, I'm sorry. Yes, so that, similarly, really has not changed much, continuing to run at the same kind of more modest levels. And I think when we look at the Fixed Income results, we -- it is a story about breadth across a number of product areas. But in particular, when you look at the fact that we ran at low VAR and the balance sheet, where it was, ROA was up nicely, VAR efficiency was up as well. It's continued to run at those kinds of levels, and no change really there.

Roger A. Freeman - Barclays Capital, Research Division

Okay. And then just back on the credit rating discussion. So your comments around using the higher rate of bank entity, is -- can you -- do you have sufficient capacity, given the size of the bank deposit base that are today to accommodate any existing business that may have technical requirements under – if the rating were to be downgraded to move [indiscernible]. If you hear Larry Fink’s comments yesterday, saying they will have to move some business away. I mean, can we make sure that Morgan Stanley is not on the ones on the list?

Ruth Porat

Well, that's why I went through the various steps and execution paths. We got multiple execution paths, and that's what gives us the comfort to say that outcomes are manageable. So apart from that, which essentially cleared, you're focusing really on and what about the rest of it, and as I indicated, we have a higher rated derivatives entity, and that's a valuable next part of the execution path, longer-term. It goes to the bank, but we've got a number of different execution paths, which is why there are solutions here that make it very manageable.

Roger A. Freeman - Barclays Capital, Research Division

So no one would actually have to leave, right? You can accommodate any requirements?

Ruth Porat

Look, I think I would point to one other thing, which I commented on, which is, first and foremost, I don't want to prejudge the Moody's outcome, but a lot of clients are focused on what are the other ratings that we have for the firm. We're still A-rated by S&P and Fitch, and a lot of clients are doing their own credit assessment. Some of the questions that are coming up are more structure-related than anything else. And for that, we've focused in, I kind of gone through what are the execution options available.

James P. Gorman

And I think, Roger, just on ratings, it's important to note that when Moody's first came out to render their opinion on all of the banks around the world, it was before the stress test was -- the results of that were published, which is obviously important information. And it was before the first quarter results of the large institutions, certainly, in the U.S. So they now have the benefit of 2 concrete pieces of information that they didn't have. And I think it's important and constructive that they're delaying their readout on this until early June as they try to assimilate all of that positive feedback they've had from the industries.

Operator

The final question will come from Mike Mayo with CLSA.

Michael Mayo - CLSA Asia-Pacific Markets, Research Division

What are the investment banking backlogs? And how do they compare to a quarter ago?

Ruth Porat

The equity backlog remains strong and continues to build. And I feel like I've been saying that quarter after quarter and the appropriate question is, and what takes it to move out of backlog and into execution. We did see a bit more of that in March. There was some kind of a bit of a pickup in equity new issue product, and that gives us, I guess I would say guarded optimism that we'll see more of it here in the second quarter. Of course, the market backdrop always being one of the key determinants, but that remains an attractive pipeline. M&A is similarly a healthy backlog and we're having a lot of conversations with clients. I think the view continues to be that there is still CEO concern about the durability of the recovery, not just in the U.S., but around the globe. And therefore, we would be more guarded on the speed of movement of M&A deals out of the pipeline. We'd love to see that accelerate, clearly, but I think the view of our team has been for quite some time, if you look at historical patterns, it's more likely that it is a back half of the year rather than a front half, including second quarter movement out of the pipeline and onto announced transactions.

Michael Mayo - CLSA Asia-Pacific Markets, Research Division

Can you put any dollar amounts? I mean, is it flat, is it up, is it down versus just last quarter?

Ruth Porat

We look at it kind of on a probability-weighted basis and it looks healthy. I think it's kind of generally around the same levels.

Michael Mayo - CLSA Asia-Pacific Markets, Research Division

And is Facebook going to open up a lot more activity or is that a one-off? How do you think about that?

Ruth Porat

We never talk about any deals in registration. We don't want to [indiscernible] it.

Michael Mayo - CLSA Asia-Pacific Markets, Research Division

Right. I just meant generally, do you think the technology IPOs are going to be picking up later this year?

Ruth Porat

Same answer.

Michael Mayo - CLSA Asia-Pacific Markets, Research Division

Okay, that's fine. And then just switching gears, on the brokerage business, what were the net new assets for the quarter?

Ruth Porat

On the brokerage business, I'm glad you asked that because we have included in here fee-based assets. The net new assets were a bit below that, kind of consistent with the trend we saw last year. We have shifted the disclosure, as we talked about previously, to fee-based assets. And the reason for that is that's really strategically where we've been focused, and that is the stronger relationship between funds movement and our P&L is on the fee-based side. And so going forward, given that's the way the senior team is managing the business, we're going to be providing you with fee-based assets.