Good morning. This is Sharon Yeshaya, Head of Investor Relations. During today's presentation, we will refer to our earnings release and financial supplement, copies of which are available at www.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 everybody. Thanks for joining us. I'll make a few brief introductory remarks and then Jon will take you through the numbers and of course we both as always look forward to your questions.

Our results this quarter reflect solid performance in an improved but obviously still relatively fragile environment. Our team had several objectives coming into the quarter as follows: managing the uncertain macroeconomic environment; continuing the momentum we are building in fixed income while preserving stability in our other businesses; maintaining expense discipline; and obtaining approval for our capital plan under CCAR. By and large, we met these objectives and despite the overall lack of commission in the market, we executed on our strategic plan and performed well in the areas of traditional strength. We saw continued stability and progress in our core businesses with each performing roughly in line with expectations given the environment. We made particular progress in fixed income and commodities where we generated approximately $1.3 billion in revenue, up significantly from the first quarter. Jon will take you through each of our businesses in a moment.

On expenses, we remain focused on our cost discipline but tactically and through project streamline. We're now a simpler organization and therefore must be leaner and more efficient in our spend. We discussed initiatives that are currently underway last month at our financials conference and are pleased with product streamlines progress to date. Our ROE for the quarter was 8.3% and demonstrated progress towards our 2017 target.

Finally, we received the non-objection from the Federal Reserve on our 2016 capital plan. We believe this decision reflects the changes we undertook as well as our business mix stability. The approval enables us to increase our dividend to $0.20 per quarter and to repurchase up to $3.5 billion in common stock over the next 12 months commencing in the third quarter.

CCARs outcome reinforces our aim to steadily increase the return of capital to shareholders over time and indeed it marks the fourth consecutive year in which we have done so. We were also asked to resubmit our plan due to certain deficiencies that the Federal Reserve found in our capital planning process. We're working extremely hard to ensure a successful resubmission towards the end of this year.

On the macro environment a lot was going on. Britain's decision to leave the European Union created uncertainty that is likely to persist for some time as the market grapples with the political and economic paths forward. As we said publicly, we consider this outcome suboptimal, but it did indeed provide us with a live stress scenario as we endured record high volumes and spikes of volatility, our liquidity remains strong, our systems ran smoothly and our clients access the market quickly and in size.

I will now turn over to Jon to discuss the quarter in detail and again look forward to your questions in a few minutes.

Jonathan Pruzan

Good morning. As James said, the environment in the second quarter was an improvement over the first. However, we continue to see macro uncertainty and with that periods of heightened volatility. Geopolitical events including Brexit have kept market participants on the sidelines as they wait for clearer trends to emerge. Despite this backdrop, Morgan Stanley delivered solid results.

For the quarter, we reported revenues of $8.9 billion versus $7.8 billion in 1Q. Non-interest expenses for the first quarter were $6.4 billion versus $6.1 billion last quarter. The increase is primarily driven by increased compensation expense on higher revenues. Profit before taxes for the quarter was $2.5 billion versus $1.7 billion in 1Q 2016 highlighting the operating leverage we have in the business model.

Project streamline remains on track. In mid-June James highlighted some of the key initiatives that have been identified to meet our objective of reducing our cost base by $1 billion by 2017. These initiatives will continue to be carried out through the next 18 months but substantial progress has already been made. We continue to leverage our global centers of excellence to optimize workforce costs. We have hired 250 employees with our objective of hiring 1,250 employees through the end of 2017. Offsetting this headcount has come down in our metro higher cost locations. We're 50% complete with our objective to close four North American data centers and are on schedule to close the remaining two by 2017.

We continually seek ways to deploy technology to drive efficiencies and automation. To that end, we just rolled out a cloud based procurement platform which will drive future savings through more straight through processing and payments, and greater intelligence and purchasing decisions. We continue to show greater discipline around our non-essential travel and have achieved a 50% reduction through the first half of the year as compared to the first half of 2015.

Turning to Institutional Securities, revenues were $4.6 billion, up 23% quarter-on-quarter. Non-compensation expenses were $1.4 billion for the quarter, essentially flat to the first quarter. Streamline initiatives offset costs associated with rising revenues. Compensation expenses were $1.6 billion. Our ISG year-to-date compensation to net revenue ratio was 36%. We remain committed to our compensation ratio target of less than or equal to 37% we set out at the beginning of the year.

In investment banking, we generated $1.1 billion in revenues, up 12% sequentially. Year-to-date we were number two globally and announced M&A, completed M&A, IPOs and equity and equity linked offerings. Advisory revenues for the quarter were $497 million, down 16% off of a strong 1Q. Dialogue and interest in strategic transactions remain strong but below the 2015 pace.

M&A announced volumes are running 20% to 25% below last year and we would expect that to persist. Equity underwriting revenues were $266 million, up 66% versus 1Q and debt underwriting revenues were $345 million, up 44% sequentially. Although we saw improvements in underwriting, activity remained below historical levels. As we have mentioned on past calls, we have a healthy pipeline of transactions waiting to be executed. Issuer confidence and investor appetite will be critical for the results in underwriting to improve. In equities, we remained our leadership position and expect to be number one globally with revenues of $2.1 billion, up 4% sequentially.

Second quarter 2016 was a strong quarter across products and regions as we continue to work with our clients through uncertain times. Cash equities was up sequentially. Derivatives remained robust. Prime brokerage continues to be a steady performer and we improved the efficiency of our balance sheet. Fixed income and commodity sales and trading revenues were $1.3 billion, up 49% versus the first quarter.

Revenues improved sequentially across credit, macro and commodities businesses. Our credit businesses benefited from a tightening of spreads. In particular, securitized products performed well against this backdrop. In macro, we provided support to our clients leading up to and through the

Brexit referendum were prudent risk management contributed to higher revenue sequentially.

Commodities benefited from better credit performance and market conditions, specifically a stabilization in energy credits resulting in an increase in client activity. Fixed income RWAs were $124 billion and SLR exposure was $353 billion in the quarter. Other revenues were up versus first quarter, primarily driven by better credit performance for a held for investment and held for sale relationship loans.

Lastly, average trading VaR for the second quarter was $46 million, flat to last quarter. VaR was generally range found over the quarter inclusive of Brexit. Wealth management performed well in the second quarter with revenues of $3.8 billion, up 4% sequentially. Even though we have not seen a pickup in retail engagement, this business continues to provide stability against an uncertain macro backdrop.

Total client assets of $2 trillion increased 2%. Fee based assets hit a new high of $820 billion. And flows in the quarter were $12 billion, up from $5.9 billion in the first quarter. Net interest income was essentially flat sequentially, though up 12% year-over-year. Lending balances were up $3 billion quarter-over-quarter and $11 billion year-over-year. which has resulted in a significant increase in interest income.

This growth was partially offset by an increase in amortization as a result of a pickup in mortgage prepayment fees as rates declined. Our bank NII forecast that we shared in May remains unchanged and we are on pace with our bank growth target for 2016. Transactional revenues were $798 million this quarter, up 10% sequentially. This improvement was driven by mark to market gains on our deferred compensation plans and not a rebound in activity.

As mentioned before, transactional activity remains subdued. On expenses, compensation was up 3% quarter-over-quarter. Our compensation ratio decreased to 56.5%, which reflects the benefit of our strategy to grow non-compensable revenues. Non-compensation expenses were essentially flat to 1Q. We continue to invest in digital and our infrastructure to ensure compliance with the DOL.

Our PBT margin for the quarter was 22.5%, up from 21.4% in 1Q 2016. We remain confident we will hit the 23% to 25% pretax margin target we set for 2017, despite the slower than expected pace of future interest rate increases. In investment management, revenues were $583 million, up 22% quarter-over-quarter. Revenues from asset management fees for the quarter were $517 million, essentially flat versus 1Q.

AUM was also essentially flat at $406 billion, a continuation of the trend that we have seen over the last several quarters. Investment revenues in the quarter improved to $50 million versus a loss in 1Q 2016, driven by improved performance across a number of funds including private equity and real estate investments.

Investment revenues remained volatile as global markets and asset prices adjust to the changing political landscape and growth dynamic. Overall, expenses were up 7% quarter-over-quarter driven by higher compensation on investment gains.

Turning to the balance sheet, total assets were $829 billion at June 30, up from the $807 billion at March 31. This spot increase was driven by a high level of activity at the very end of June, primarily due to Brexit as we supported our clients. We have seen the balance sheet retreat from this high in the first few weeks of the third quarter.

Pro forma fully phased in Basel III advanced RWAs are expected to be approximately $365 billion, down from $385 billion in the first quarter. Our pro forma fully phased in advanced common equity Tier 1 ratio increased to 15.8% versus 14.6% in the first quarter. Our pro forma supplementary leverage ratio for the quarter was 6.1%, up from 6% in Q1. As James mentioned, during the second quarter, we repurchased $625 million of common stock or approximately 23 million shares and our board declared a $0.20 dividend per share.

Last night, we announced that we will redeem all of the issued and outstanding TruPS by August 18, 2016. The TruPS carry a blended cost of 6.2%. We received approval to redeem these securities in this years' CCAR. Our tax rate in the second quarter was 33.5%. Going forward we continue to estimate a tax rate of 32%.

After a difficult start to 2016, the markets and improved in the second quarter. However, the world continues to experience significant geopolitical uncertainty and with that the potential for economic underperformance. The Brexit vote and upcoming US elections have only added to a cloudy outlook. It is too early to predict how the second half will play out.

On the one hand, the political uncertainty casts a negative shadow over the markets, and will undoubtedly cause some corporations to pause over future Capex and other expansion plans and many investors, particularly individuals remain cautious. On the other hand, the movement in currencies and the improvement in commodity and some equity prices is leading many clients to begin to position for what might be a volatile second half.

Our pipelines remain healthy and our business is well positioned, but whether this translates into near term business is an open question. As the coming months unfold, we will remain nimble where we see client opportunities, while staying rigorous to our project streamline and other expense initiatives.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Guy Moszkowski, with Autonomous Research. Your line is open.

Guy Moszkowski

Thank you, good morning.

James Gorman

Good morning Guy.

Guy Moszkowski

First just a question on fixed, obviously a very solid result, and you alluded to post Brexit activity, but generally, if you could comment on the ability to produce $1 billion plus quarterly revenue in say despite as you've pointed out the sale of the oil merchanting and the 25% headcount reduction, at the end of last year, is there any warning on sustainability here that you want to issue and if not, maybe just give us a sense for how it is that you could have done a headcount reduction that wasn't as significant as it was and still see revenue in that kind of range.

Jonathan Pruzan

Hey Guy, it's Jon. I'll try to tackle that. I think as you know when we laid out our plan in the beginning of the year, we talked about being a critical incredibly size fixed income business that was relevant to our clients, but also supported are other businesses. And what we said is that we were going to - the goal was to maintain our revenue footprint that we had had on an absolute basis in the last couple of years. Year-to-date, our performance is at around $2.1 billion to $2.2 million so it's in-line with that revenue footprint.

We saw broad support and broad improvement across all the products actually in the second quarter. I highlighted SBG tightening spreads help, strong performance in agencies, FX was aided by the volatility we saw from Brexit, commodities clearly better credit performance we had a much more stable backdrop. Oil prices going from 38 to 48 versus the wild swings that we saw in the first quarter, so broadly a very strong performance. It is only one quarter. In the first quarter when people were talking about our performance we warned that it was only one quarter. We made a lot of changes that we think will help this business and this will take time, but we've been pleased with the progress that we have seen to date.

Guy Moszkowski

So, should we conclude that…

James Gorman

I’d just…

Guy Moszkowski

Sorry, go ahead.

James Gorman

I’d just add to it a little bit obvious FIC is sort of the topic of the day the year and the century, it would appear. Listen, my view was that there was a general overreaction to the underperformance of FIC and from the middle of last year through the first half of the first quarter and I saw very little downside risk to the business. When we’re running at 500 million, 600 million a quarter I thought the downside risk is very small. The upside risk was actually quite high. And that's why we said, we thought on a relatively normalized basis, a billion dollar run rate a quarter was entirely reasonable. The headcount we took out at the end of last year actually many of our competitors have taken out headcount and dribs and drabs, so it wasn’t remarkable against the context of what was going on in the market. We just did it at one point in time.

And clearly we were overstaffed at that point in time. And we came to a fundamental view at the end of last year to do two things, one is to realign the staff for what we thought was a $1 billion run rate business and maybe it's more and maybe we're not going to get ahead of ourselves obviously there's more this quarter. But we don't think it's materially less than that to be honest.

At the same time, the second thing we did was to align all of our sales and trading businesses together. And with that come lots of operational synergies, risk management synergies, overall management client coverage synergies with our SRM our senior relationship management program and I think that wasn't going to evidence itself in the days and weeks following the realignment, but we felt pretty confident in the months and years following it, it would and maybe we're starting to see some of that.

Thirdly just on the particular mix of our business, obviously we're more credit centric to macro, but we do have a very good FX business that benefited, you have seen a lot more volatility in rates and clearly the credit markets as Jon said recovered not just in the core fixed income business, but in commodities. So, the combination of all of these things said that yes it's a good number this quarter. Are we shocked by it? Not really. We weren’t nearly shocked when everybody else seemed to be when we were doing $500 million, $600 million. And that's we're not going to get ahead of it. We set a $1 billion run rate and let's see how it plays out over not each individual quarter, but over the next couple of years.

Guy Moszkowski

Okay that answers the question quite robustly thank you. Second big topic of the century in wealth management is that we keep hearing about is robo advice, clearly fees for advice is the core of your wealth management business proposition. A lot of talk about the application of robo advice to different size accounts, how do you intend to protect the franchise against revenue attrition from this type of incursion and are there ways that you can use these types of technologies to your advantage?

Jonathan Pruzan

Guy, first of all, digital is far more than just robo. And as you’ve heard us say in the past we've been spending significant energy and dollars into investing in our digital platforms in wealth management. As you know, we hired Naureen Hassan earlier this year to run that effort for us. We think that the right business model and the winning hand here is a combination of advice in FAs with technology. We’ve been investing heavily in this area. We’ve had some good early progress with some of our mobile apps with some recognition and awards, but there are really three areas that we’ve been focused on.

One is around data and analytics so providing our clients with better data and analysis so they can more informed and better decisions. Secondly, efficiencies around automation; that will be helpful not only from an expense standpoint, but also giving FAs and clients more time to be together and not focus on paperwork and doing other things like that. And then lastly, most importantly, is how our clients interface with us.

We have 3.5 million households in our footprint. With many different investing needs, but also many different requirements and idiosyncratic wants and likes, and so we have been building out a broader platform in terms of how we interface with our clients whether that's video, whether that's in person with their FA, whether that's mobile, whether that's text, and we have been doing that for quite some time. So, we have been investing in this area. We've told you it's going to be important to the overall business. We believe secular trends here are for advice with technology. And that's the business that we're building.

James Gorman

And again just to add to this one because it is a critical question, I think that one has to take into account that the wealth management market in this country is actually extremely diverse. In our own book of business, only 2% I think of our client assets are in households with less than $100,000. We have nearly $800 billion in households with $10 million or more. So you got to look at the segmentation. You got to look at the complexity of the client needs of which access through distinct technologies is a clear need, but it's by no means the only need for folks who've got $10 million, $20 million, $50 million. Portfolio allocation superior product access to our underwriting calendar all of the other things, which we bring to the party including our intellectual capital through our research. So, it's a very important development the whole digital development in finance. In my view, it is the most important in the payment sector followed by the consumer credit sector followed by the wealth management sector. But we're making the investments. As Jon said through a digit team that we have hired and on arranged leadership and we have made the investments and will continue making them.

Guy Moszkowski

Great, thanks very much.

Operator

Thank you. Our next question comes from Brennan Hawken with UBS. Your line is open.

Brennan Hawken

Good morning James and Jon.

James Gorman

Good morning.

Brennan Hawken

One more on and FIC here, you hit on the increased volatility towards the end of the quarter leading into Brexit and then coming out of it. Do you think that that opportunity allowed you to over earn somewhat in FIC this quarter or at least present a more unusual and robust revenue opportunity, which is why you were able to punch above that $1 billion per quarter run rate, and as we think about that run rate seasonally, when we look into the back half, should we think about that being lower or is it going to be less seasonal because of the changes you made to the business?

Jonathan Pruzan

Hi, Brennan. So, the way we would describe Brexit in the impact, I think in the first quarter if you recall and then through sort of the conference season we said that January and February were very challenging markets. March was more stable, a better backdrop for the businesses that we are in, and then April and May looked a lot like March. What we saw in June was sort of a continuation of that trend as we approach the Brexit referendum we saw people start to realize the potential impact of this outcome. And we saw more risk management and hedging activity. And then for the couple of days right before and right after we saw heightened volatility and significant volumes.

I would tell you that broadly speaking one or two days does not make a quarter for us. It's a much more balanced business than it. Given also all the changes that we made particularly around the Oil Merchanting business and some of the other actions. We would expect less volatility than we've seen in the past. But we are obviously not going to print the billion dollars every quarter on the nose, so we're going to see fluctuations in that number. I wouldn't say that we over earned. I would say that the volume helped for a day or two, but again doesn't drive the overall performance of the quarter. And then, we've been pleased with the results. I don't think that the changes that we made restricted our ability to earn. We weren't constrained in terms of capacity or personnel. And it was a good quarter.

Brennan Hawken

That's really terrific. And then on the seasonality front, how should we think about it just from a modeling perspective? Can you give us any help there?

Jonathan Pruzan

I think it's a little early to call. I would historically tell you that August is generally been a pretty slow month, but we are seeing a lot of new trends this year that we've never seen before. So, I leave it up to you to make those determinations.

Brennan Hawken

Okay.

James Gorman

I would just caution it. From my long experience of doing these calls and discussing fixed income here and observing our competitors it's pretty hard to model quarter-to-quarter every 13 weeks what the fixed income markets are going to do. So good luck with that, but we take a slightly longer term view and again, our base case is billion dollar run rate a quarter we think is what the business should be producing in this time and environment and if it does better than that great, and that's kind of where we are at.

Brennan Hawken

Thanks. Thanks for all that color. That's helpful. And then, a couple on the wealth management business, nice to see a recovery here in the margin. As you think about this business a bit longer term, as well and you think about some of the changes that are coming, from a regulatory perspective, how much do you anticipate your product shelf for commission accounts may be impacted? Could you give us a sense about whether that's going to shrink and maybe frame up how that might shrink and how that might have an impact on revenues, and then whether or not the uncertainty from the fiduciary rule is having any impact on the recruiting market from your perspective.

Jonathan Pruzan

Okay. I think the way that I would try to answer that is a couple of things. One, as you said, we had a nice recovery in the margin that was both driven on the revenue and the expense side. We are confident in our 23% to 25% margin target that we put out there. When we put it out there, we had the draft to the DOL requirements, so we were informed when we put out the targets. I mentioned we have been investing for the ultimate implementation of that new rule. And we also saw this quarter some of the streamline initiatives that are ultimately going to help this business.

I think we are well positioned for that change. We have the largest advisory platform in the industry. We are making the investments in digital. We do believe as a model Brennan that we're going to have that our wealth clients want advice and they will pay for that advice. But the ultimate mix and shift of products that they want and that they need is going to be a function of time. But we believe that we are well positioned to continue to grow this business going forward, even though we have seen lower levels of engagement given the uncertainty in the market.

Brennan Hawken

Okay. And no color on the impact in the recruiting market?

Jonathan Pruzan

You know, I think attrition is clearly running low, and it's been like that for a while. So I don’t think we’ve seen any real changes there.

James Gorman

No, it's not going to be affect it.

Brennan Hawken

Okay. Thanks a lot.

Operator

Thank you. Our next question comes from the line of Mike Mayo with CLSA, your line is open.

Mike Mayo

Hi. Another question related to FIC. The debt underwriting year-over-year performed the worst for you guys versus peers. And the question is, is the reduction in FIC on the trading side impacting the debt underwriting side?

Jonathan Pruzan

I wouldn't say that Mike. I think our debt underwriting business has been a good business for us. We generally perform better from a quarterly perspective, particularly in markets where we see a lot of the non-commoditized that business being robust. In any 13 week period, particularly in low velocity environments, you can get some SKU if you are not in some big deals around the event space. This quarter there were a couple of events that we didn't participate in on the financing because we were on the sell side from an M&A perspective. So that will impact the numbers on a quarterly basis, but again, we feel good about this business. I don't think any of the changes that we've made in fixed income are impairing our ability to do business here. And we are focused on it and we think it's a good business.

Mike Mayo

Second question, retail clients on the sidelines due to Brexit, have they come off the sidelines what are you seeing among retail investors now?

Jonathan Pruzan

I think Brexit is only one event. We've seen sort of subdued transactional revenues for quite some time if you remember it really started back in the summer when we saw some wild volatility in the US markets, but also in Asia and around the world. Those levels have remained low. They picked up a little bit this quarter. It was benefited from some mark to market in our deferred comp. So if you look at the core trends they remain still quite low and subdued. So, I would tell you that we put a good quarter despite the low level of engagement with that we're seeing. And we haven't really seen a material pick up just yet.

James Gorman

I would just add from watching this stuff. I would say the downside risk on the transaction revenue at this point is low. As Jon said it was very subdued in the last several months. The upside risk is whatever it is, if currency engages. So, I don't mean there's a lot of downside from this point, on transaction and we would just see how the macro events that clearly move the investors psychology pretty significantly through this year and as we all know sadly there have been lot of things in the news.

Mike Mayo

And then last question, you had a good quarter, but still just an ROE of 8.3%, I think I heard you reiterate the 9% to 11% target for 2017, so what's left. I guess you have $1 billion of targeted savings for project streamline. How much has been achieved of that and what's left just in general, how do you still get to that 9% to 11% ROE from here?

James Gorman

Mike, I think we've had this question before. But, listen, it was an okay quarter. I don't, honesty I think it was good in bids. The ROE of 8.3% against the standards that we were shooting pricing was okay. It feels good in this environment, but the 8.3% also recall as Jon pointed out the tax rate was pretty high this quarter. And we had the preferred in there this quarter. So you've got a lot of things going on, is there upside from here? Obviously, we have a pretty concrete game plan on the quarter around going forward around what we can do in wealth management where rates ultimately will impact the pipeline that we have in the investment banking calendar, and I think the broader changes going on in the global investment banking industry. And I think Morgan Stanley is emerging from that pack if you will as one of the institutions that is strengthening at this point. So, but again, we are not speaking to the third quarter numbers here obviously. We are speaking to the outlook as you point out over next year and we stand by our 9% to 11% by the end of 2017.

Mike Mayo

I'm sorry. Project streamline what you have left or what have you achieved?

James Gorman

Yes, it’s still going. There's some very tactical stuff going and Jon might want to talk about where we are in some of the broader project streamline. But we've had, I described the wind so far as being largely tactical stuff that it’s easy to execute. The longer term infrastructure changes are progressing Jon’s, it’s all reporting into Jon now, so why don't I just let him talk about it.

Jonathan Pruzan

Thanks. So Mike, you heard some of the comments in my script about some of the things that we’re doing and the progress we are making. I think the best way to look at it is both comp and non-comp on the non-comp if you look at year-to-date results were down about $350 million versus last year. A good chunk of that related to these streamline initiatives and litigation. There is clearly a benefit unfortunately from a lower revenue number, but there is good progress in the non-comp side. On the comp side, also a reflection of revenues, but as you heard, the ISG comp ratio year to date is 36% versus I think it was 38% ex-DVA last year year-to-date. So good discipline on the comp and good discipline on the expenses and we're confident that we're going to be able to hit the $1 billion target.

Mike Mayo

All right, thank you.

Operator

Thank you. Our next question comes from the line of Glenn Schorr with Evercore. Your line is open.

Glenn Schorr

Hi, thanks. One last one on FIC. I know you're not going to give us the number, but I'm looking for anything directional on, profitability must have improved a lot given headcounts down 25%, RWA is down a lot and revenues are now well. I wonder if you could help on any soft comments about overall profitability?

Jonathan Pruzan

I think you characterized it well.

Glenn Schorr

No number. Okay. In the past you've had a lot of seasonality in your FIC numbers. Part of that was the commodities business and you have since sold Oil Merchanting, I'm just curious, not for next quarter, but just as a general comment the pacing of that $4 billion a year target goal, whatever you want to call it. Will it be a little bit more balanced than in the past?

Jonathan Pruzan

I think you highlight the most important factor. This is a volatile business, no doubt that we had incremental volatility given some of the commodities businesses that we were in, so we would expect less volatility, but again, I think we've answered what our goal is in our target for that business.

Glenn Schorr

Okay Jon. The nice drop in RWA in the quarter is down 5%. 15% year-on-year, but GAAP assets had actually increased, I think in your prepared remarks you said something about supporting client activity related to Brexit, but just curious if you could expand on that a little bit, RWA following GAAP assets up more...

Jonathan Pruzan

Unfortunately, it's just math. We continue to make progress on our initiatives to take out some of the high, higher density if you will RWA assets. At the end of the quarter, we saw a spike as you said supporting our clients, a lot of that was in sort of low intensity RWA assets and that sort of drives the discrepancy there.

Glenn Schorr

Okay. So the trend of the RWA going down is what you should focus on anyway. And then, maybe last quickie is two quick number ones, in the past I think the difference between your our ROE and your ROTC is in the range of 130, 140 basis points, nothing should change that right, we should be about that same spread now, just because everybody else gives their return intangible I want, just wanted to do apples to apples.

Jonathan Pruzan

Sure. Again, it's just math. We've got about $9.5 million of average intangibles and goodwill and if you do the math you get that 130 basis points.

Glenn Schorr

All right, awesome. Thanks Jon.

Jonathan Pruzan

Thank you.

Operator

Thank you. Our next question comes from the line of Christian Bolu with Credit Suisse. Your line is open.

Christian Bolu

Great, good morning guys. So couple more questions on costs. The operating leverage in ISG was pretty impressive. Is that 35.5% comp ratio and remotely sustainable on a go-forward basis if FIC revenues are modestly weaker? And then, also if you can comment on any cost implications of FIC in the CCAR issues?

Jonathan Pruzan

I will go first. I'll do them in reverse. So on CCAR as James mentioned, we do have to resubmit by the end of the year. That will take some resources both dollars and people. I think it's a little too early for us to try to size that and whether that has an impact on streamline, so we'll come back to you as we get more deeply engaged in that. We clearly have started to work and are focused on it and will dedicate the appropriate or required resources that we need to make sure that we are successful in our resubmission.

On the second point, I think the target that we laid out is the 37% - ISG comp ratio year-to-date 36% I think looking over the total year is more important than any given quarter but we are also benefiting from the headcount changes that we made in the fourth quarter. And we do think that this is a sustainable ratio and that we will continue to pay for talent and be able to retain and attract talent going forward.

Christian Bolu

Perfect, very helpful. I'm not sure if I caught this right, but on the cash equity business, did you say it was up sequentially, pretty surprising given industry volumes were lower just I was curious if you guys gaining share or any particular initiatives anything you can buck the general industry trends.

Jonathan Pruzan

Yes, you did hear me correctly. On a quarter-over-quarter basis, we were up. We had some improved new issue, volumes were up a little bit that was helpful and less volatility. So yes we were up.

Christian Bolu

Okay, thank you. And then just very quick clean-up question, the trump redemption, what does that show up in the income statement?

Jonathan Pruzan

We announced it last night. We're going to call it's going to be, there are two different call based but by the middle of August that will all be gone. As I said, they carry a $6.20 blended cost and you'll start to see that in the third quarter – just the lack of it in the third quarter.

Christian Bolu

But just from an income statement geography perspective, where does that show up? Is that in the treatment revenues?

Jonathan Pruzan

No, that's an interest expense. You will see it in that line, although again, it's $2.8 billion on a stack of $160 billion or certainly unsecured and then secured debt. So it will flow through that line. It's clearly helpful since the $6.20 we're issuing depending on tender issuing that closer to 3% to 3.5% at this point. The trucks have lost most of certainly all of their Tier 1 treatment and most of their Tier 2 treatment and that was going to continue to phase out so it's sort of expensive debt at this point which is why we obviously redeemed it.

Christian Bolu

Okay great. Thank you very much and congrats on a strong quarter.

Jonathan Pruzan

Thank you.

Operator

And your next question comes from Michael Carrier with Bank of America. Your line is open.

Michael Carrier

Thanks guys. Jon, maybe first question, just on the capital ratios you see Q1 up to 15.8, at least in the U.S. obviously at the extreme end. If we do get some opportunity as we get into next year that you get to release a chunk, when you think about where that ratio is, where your SLR is, and if you are able to release capital from a business mix standpoint, do you feel like you guys are where you need to be and the gist of it is if you are able to release the capital obviously you will see one can come down but your SLR will be somewhat impacted. And then just wanted to when you look at the business mix and how you're positioned for that potential opportunity, do you feel like you are situated in a relatively well?

Jonathan Pruzan

I think despite, we clearly put together our business mix and our business model based on the best estimate of what the future is going to look like. We were very happy that we returned more capital this year versus last year, and we've done it four years in a row. We're going to continue to try to do that. As you've heard James and I talk about, we are expecting some changes in CCAR. We expect to hear something in this half of the year about how the G-SIB is going to be incorporated into the stress test, how SLR is going to be incorporated into the stress test. So I think there is some unknowns out there in terms of which of these ratios will ultimately be the binding constraint, but I think the business mix that we put together is the right mix and if we have to adapt it we will but it is the right mix to generate 9 to 11 ROE that we are targeting.

Michael Carrier

Okay that's helpful. And then just a quick one on the wealth management business if you will. You guys hit on cost and the margins, I think James you mentioned in terms of the transaction part of the business, they're relatively low just given retail engagement. On the flipside, it seems like for the industry we will see a continued trend and maybe an accelerating trend from commission based accounts into fee-based account. So just wanted to kind of balance the - what type of growth we could potentially see on that side which is maybe more annuity like versus the more volatile transaction side of business. And then, for the advisors, do you expect any consolidation in the industry and probably away from your type of platform but to other platforms and then some compensation pressure just given the different models out there?

Jonathan Pruzan

So I'll try to tackle some of the components of that. We have, as you know, we've seen a very good trend into fee-based accounts. We are currently at about 40% of our client assets are in fee-based, the 820 which is a new high for us. We saw acceleration of those flows in the second quarter. I think it's a little early to predict what GOL is going to do those flows. There is a scenario that would help accelerate those flows into the fee based businesses, but again it's really around client choice and we'll see how that plays out. We do believe again the secular trends and a lot of the driving force behind the merger, the acquisition of the Smith Barney platform was that people want advice, and they want and we needed to be of scale. And those are the two drivers that drove that transaction and we're still of the view that that is the longer term trend here. So it's still got time to play out. We feel good about the investments that we are making around the GOL but I think it's still little early to say. What we have said from a client perspective and a results perspective we do believe it's a manageable impact.

James Gorman

And the industry will keep consolidating because this is a high fixed cost industry.

Michael Carrier

Okay, thanks a lot.

Operator

Thank you. Our next question comes from Matt Burnell with Wells Fargo Securities. Your line is open.

Matt Burnell

Good morning. Thanks for taking my question. Just I guess an administrative question on the trust preferreds, will there be any charges related to the calling of the trust preferreds?

Jonathan Pruzan

Yes, we highlighted in our fixed income call that on that redemption. There will be some write down of some amortized fees and we will take that. It's not a material number but there will be a charge for that.

Matt Burnell

Okay, thank you. And then in terms of wealth management, the commission and fee line was down about 4% year-over-year. Even though you do have positive growth in fee-based client account assets, is there a mix shift going on particularly in the fee based client account asset portfolios that is causing a little bit of pressure on the asset management revenue line within wealth management?

Jonathan Pruzan

It's sort of hard to parse through. I think the primary drivers are really the underwriting calendar and the subdued engagement levels that have been driving that activity.

Matt Burnell

Okay. And then just finally from me, could you give us an update on the energy exposure and whether or not that has had any effect on the reported lending balances in the supplement?

Jonathan Pruzan

Sure. So as I mentioned, better credit performance this quarter than last quarter. From a metric standpoint, we're down to about $30.5 billion in energy loans and commitments. That's down from $14.8 billion last quarter. That's being driven by pay downs, terminations and sales. The broad characteristics of that portfolio are generally the same, i.e. about 60% of that is to investment grade counterparties, about 30% of that is funded. In terms of the mix that we've given historically around held for investment versus fair value held for sale, the held for sale fair value portfolio is down a little bit. It's about a 35% that's obviously being driven by some of the sales that we have made in that portfolio.

E&P also a good story there, down to $3.5 billion from the $4.1 billion that we reported earlier. So we continue to make progress in reducing some of our exposures in that sector. Just as a proxy, last quarter we took about $127 million allowance for loan loss. We told you back then that a lot of that was being driven by our energy exposures. This quarter we took a $3 million allowance. So, clearly much better performance than last quarter.

Matt Burnell

Sure, thank you for the detail. Just one follow-up Jon, you've got about 40% of the portfolio that's in fair value. How much of the benefit or how much was FIC results benefited from a lower mark-to-market on the energy portfolio specifically?

Jonathan Pruzan

As I said, about 35% of that portfolio is fair value held for sale and that does flow through the revenue line item but I wouldn't say it was significant.

Matt Burnell

Okay thank you very much.

Jonathan Pruzan

I'm sorry. It’s the other revenue line item.

Matt Burnell

Okay, thank you.

Operator

Thank you. Our next question comes from Matt O'Connor with Deutsche Bank. Your line is open.

Matt O'Connor

Good morning. Can you give an update on the bank effort in wealth management? You have continued good loan growth this quarter, deposits were down a little bit versus last quarter but still up nicely year-over-year. Just how you're feeling about the outlook for both loan and deposit growth going forward.

Jonathan Pruzan

Sure. So as I mentioned, $3 billion of loan growth this quarter, $5 billion year-to-date, continued good growth there and I think we feel pretty good about that trend. As I mentioned, our NII guidance that we gave as part of the fixed income deck, we still feel good about that. On the deposit side, second quarter we usually see a dip that’s being driven by the tax season. So at $150 billion, down $2 billion that was a primary driver. I think the investments that we are making into digital and some of the cash management products make us feel good about our ability to continue to grow broadly our deposit base and again I think the bank strategy has been a real bright spot for us and we would expect that to continue going forward.

Matt O'Connor

Just a couple of number clarification questions. How much were the mark-to-market gains on the deferred comp and wealth management this quarter? And are there offsets on the expense side or is that – does not follow the bottom line?

Jonathan Pruzan

Yes, there are definitely offsets on the expense side. It's generally the net impact is generally reasonably small, and we don't break out that number given the relative size.

Matt O'Connor

Okay. And then just lastly, the premium amortization that was a drag within wealth management, what was that this quarter versus last quarter or recent periods?

Jonathan Pruzan

Again, it was clear as rates drop this quarter, prepayment fees increased and that was the driver of it in the first quarter and rates were pretty stable. So again, that was what caused the NII to be flat this quarter.

Matt O'Connor

Okay. But you won’t give the magnitude of that?

Jonathan Pruzan

No.

Matt O'Connor

Okay. All right, thank you.

Operator

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

Jim Mitchell

Hi, good morning. May be we could just sort of dig into the RWA decline this quarter, I think you were down $20 billion, FIC was down $8 billion, so you actually had more outside of FIC. So when I think about high density RWA, I think typically that would be more in FIC. So just maybe help us understand where the RWA decline is coming outside of FIC and is there more of that to go?

Jonathan Pruzan

I think the $20 billion, another way to think about it is about half of that came from credit RWAs and that was a combination of FIC mostly in the securitization area but also from event. Lending, our balances are down in that business given the light activity. And then the other half was really around the market RWAs which is a function of both the balance as well as the stress bar which was down a little bit.

Jim Mitchell

Is that sustainable outside of FIC the stress bar and those kind of drivers or is there more to go I guess outside of FIC? Because we know your targets are FIC I'm just trying to get a sense of the non-FIC?

Jonathan Pruzan

Again, on the non-FIC the event is going to be driven by activity level. So I think the RWA number that we used was, I don't even remember, in the mid 350s and that number I think is sustainable given what we see in the outlook.

Jim Mitchell

Okay, so it's going to be episodic?

Jonathan Pruzan

It will be but I wouldn't expect to see dramatic movements unless there is significant changes in volatility. I think the composition of our book as you said we are making some minor, we continue to bring down our FIC RWAs but we made a lot of progress there, so I would expect it to be pretty comparable.

Jim Mitchell

Okay, great. Thanks.

Operator

Thank you. Our next question comes from Eric Wasserstrom with Guggenheim Securities. Your line is open.

Eric Wasserstrom

Thanks very much. In this year's CCAR exam, it looked like your leverage ratio was under the adversely stress scenario, but I was approaching the lower bound and obviously that might be exacerbated a bit by the capital return although maybe there's some [indiscernible]. But could you just clarify how you're thinking about leverage particularly as it relates to the regulatory regime?

Jonathan Pruzan

Sure. I covered a little bit of this in one of my prior answers. I think what you have to remember we are managing multiple ratios. We have the risk weighted asset ratios, we have the leverage ratio, we have SLR, how that gets incorporated into CCAR is going to be important. But I think the critical point to recognize here is we did increase our capital return this year and our minimum ratios through the stress test actually improved across the board, both the Tier 1 and RWA ratios but also the leverage ratio was up about 30 basis points. So we continue to accumulate capital and that's really a reflection of the business mix in the de-risking that we've undertaken.

Eric Wasserstrom

Okay. Thank you for that. Another project streamline question, are the costs being removed more or less coincident with the initiatives, or are the initiatives sort of proceeding it and over the many 200 or so that you've identified, how many of them are in process and how far along what ending are we in in terms of the actual initiatives themselves?

Jonathan Pruzan

I think these are being - these are proactive actions that we are taking, so I think we are driving this change. I mentioned the datacenters that we're closing, the workforce deployment strategy that we are implementing. So these are proactive steps that we are taking given the simplification of our business model. In terms of innings, I would say unclear. We are in the early stages, we made progress and we are confident on reaching our $1 billion target in 2017.

Eric Wasserstrom

Thanks very much.

Jonathan Pruzan

Not a big baseball fan.

Eric Wasserstrom

All right. Thank you.

Operator

Thank you. Our next question comes from Steven Chubak with Nomura. Your line is open.

Steven Chubak

Hi, good morning.

Jonathan Pruzan

Good morning.

Steven Chubak

Jon, I wanted to follow-up regarding some the questions on capital. So first on the G-SIB surcharge, it looked like as of year-end, you are right on the cusp of the 3% threshold. And given the reduction that we've seen over the last couple of quarters and many of your more risk intensive assets, where do you believe the surcharge is today and how you are thinking about managing to that going forward given some of the opportunities not just to mitigate but potentially to even grow in some of the trading areas as competitors return?

Jonathan Pruzan

As you said, our surcharge for 2016 is 3%. As we said in the past, we're going to continue to try to manage and mitigate that if we can. And so if there are opportunities to bring that number down or change that number, we will obviously take a hard look at it.

Steven Chubak

Got it, okay. And then, one follow-up regarding some of the remarks you made to Eric's last question. Given that leverage was your binding constraint in the latest exam and that the Fed is incorporating as you noted a tougher SLR requirement, it still looks to us that even if we include the G-SIB surcharge in full pre-mitigation that the SLR or leverage could still be your binding constraint. And I just want to get a better sense as to whether the mitigation plans that you outlined are still on track I believe it was at the early part of the year and the strategic review on the SLR within FIC and are there other opportunities that you see to drive that lower given that that could actually prove to be the determinant of how much capital you need to hold?

Jonathan Pruzan

Again, I think I tried to answer this question clearly not as well as people had liked. Until we actually see what the new requirements are in CCAR, that question is challenging. We do have initiatives in place in fixed income to bring down the SLR. We did build capital on a leverage ratio this year versus last year through the test how the SLR is incorporated will be a driver of some of the decisions we make going forward. And the buffer is as you know is on the risk weighted asset ratios, not on the leverage ratio. So I think we need to see a little bit more before we can be more precise.

Steven Chubak

Thanks, Jon. And one follow-up for me on the wealth management side. James, actually at the Morgan Stanley financials conference, you made a comment regarding loan penetration levels among some of your retail clients. I think the numbers were 2% for mortgage and 16% for SBLs. The 16% number actually struck me a bit high and yet we continue to see really strong growth within that channel. As we think about modeling out the long term growth opportunity here, what should we think or what do you believe a reasonable penetration level that you can achieve across both of these channels to drive further growth?

James Gorman

I don't know that I want to try and put out a penetration on this be it loans. I actually don't agree that it's a high number. It reflects the mix in the business as you move from single stock marginal lending to portfolio annuitized asset based lending. The SBL is going to go up and margin as you would think would go down, actually our margin book has been relatively stable, but the SBL is just a function. We have a lot of wealthy clients who have positions they don't want to liquidate, they want to invest in other things, they want to use money for lots of different sources and whether it's purchasing assets or whatever, so I'm not terribly surprised by it [indiscernible].

Steven Chubak

That's very helpful. Thank you for taking my questions.

James Gorman

Thank you.

Operator

Thank you. That does conclude today's Q&A session. I'd like to turn the call back to management for closing remarks.

Jonathan Pruzan

I think we're good to everybody. Thank you. We will see you next quarter.