Good morning, ladies and gentlemen. Welcome to the JPMorgan Chase's Third Quarter 2014 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please standby.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Marianne Lake. Ms. Lake, please go ahead.

Marianne Lake

Thank you, operator. Good morning everyone. I am going to take you through the earnings presentation, which is available on our web site. Please refer to the disclaimer regarding forward-looking statements at the back of the presentation.

Starting on page one, the firm delivered strong underlying performance this quarter with net income of $5.6 billion on strong revenue of over $25 billion, up 5% year-on-year, reflecting growth across most of our businesses, and EPS of $1.36 and the return on tangible common equity of 13% for the quarter. Included in our results with firm-wide legal expense of approximately $1 billion after tax, which relates to a number of matters in large part and estimated amount for FX which was treated as non-deductable tax purposes.

There were also a number of smaller items, most notably a benefit of approximately $400 million of tax discrete items in corporate as well as consumer reserve releases of $200 million pre tax. Excluding these and other non-core items, net income was approximately $5.8 billion reflecting strong core performance.

The quarter was characterized by continued strengths in our leadership positions as well as market share gains across the consumer businesses. Higher levels of market volatility and client volumes than anticipated in CIB and record performance in asset management. Core loan growth for the quarter was strong up 7% year-on-year while maintaining strong discipline across the board and with encouraging trends in consumer. We've also continued to make progress against our capital targets with a CET 1 ratio of 10.1% and firm supplementary leverage ratio of 5.5%. All while returning approximately $3 billion as capital to shareholders the quarter, with growth share repurchases of $1.5 billion.

Turning to page two, adjusted expense that excluding legal was $14.7 billion in the third quarter, down approximately 30 million quarter-on-quarter with an adjusted overhead ratio of 59%. We continued to be focused and diligent on managing expenses, although our third quarter adjusted expense may appear elevated in comparison to our full year target of 58 billion, it was substantially driven by higher market performance versus our earlier expectations. If the positive momentum continues in the fourth quarter, it's likely that our total adjusted expense will be above $58 billion but obviously on higher revenues.

On credit, despite lower reserve releases firm wide credit costs remained very low driven by reduced net charge-offs. We expect total net charge-offs for 2014 to be less than $5 billion which is below our previous guidance. Also included on this page are the returns generated by each of our businesses this quarter. Of note the commercial bank and asset management achieved 18% and 25% ROEs respectively in line with their previous cycle target. CCB was at 19% and if you back out the impact of legal expense in CIB its ROE would have been around 14%.

Moving on to capital on Page 3. The firm reported a fully phased in advanced CET 1 ratio of 10.1% up from 9.8 last quarter reaching our year-end target of 10% plus. Not on the page but for your information the fully phased in standardized ratio was 10.5%. As you know the final U.S. rules on SLR and LTR were published in September, on SLR there were no notable changes and as I just mentioned the firm's SLR was 5.5% reaching our target level and we're at 5.7% for the bank this quarter.

The LTR final U.S. rule had some changes versus the NPR, remember we have been disclosing our LTR compliance relative to the Basel rules. The U.S. final rule is in some ways more punitive but we remain compliant with a more modest buffer.

Moving on to business performance starting with CCB on Page 4. The combined consumer businesses generated $2.5 billion of net income for the quarter on $11.3 billion of revenue and an ROE of 19%. I'd like to draw your attention to the right hand side of the page; it shows that the long-term investments we've been making in the business are paying off. Illustrated by the many leadership positions we hold, we're particularly proud of our customer satisfaction rankings.

We're seeing continued strong growth in the underlying business drivers, average deposits were up 35 billion year-on-year, an increase of 8%. Our active mobile customer base was up 22% and credit card sales volume of $120 billion was up 12% on strong new account originations. Across CCB we've reduced headcount by over 10,000 this year against our year-end target of 8,000 outlined at Investor Day, and we expect a total reduction of 11,000 or so by year-end.

Finally before I move on as you are aware JPMorgan and certain others in the financial services industry experienced cyber-attacks this quarter. We are taking every step to protect our customers and our firm, but these attacks highlight the need for continued and increased cooperation among businesses and the government to systemically reduce and result cyber threats, we are committed to doing our part. To date we have not observed elevated levels of fraud related to this matter.

Turning to Page 5, consumer and business banking. CBB generated net income of $914 million up 20% year-on-year, business continues to improve its operating leverage with an ROE of 33%, up 6 percentage points versus a year ago, with revenue up 5% and expense relatively flat. Underlying business drivers remain strong, average deposits of 476 billion were up 9% year-on-year and client investment assets were up 16% to a record $208 billion. We continued to see strong deposit growth across regions and markets. In fact for the third consecutive year, we led the FDIC survey with the highest deposit growth among the largest 50 U.S. banks. Overall, we grew our deposit share in 46 of our 50 largest markets nationwide and we remain number one in three of the largest deposit markets.

Moving on to revenue, net interest income was up 4% year-on-year, driven by strong deposit growth offset by continued pressure on margins. And non-interest revenue was up 6%, with investment revenue growth driven by Chase private clients and with the addition of over 700,000 households driving stronger fee income. Expense was relatively flat with efficiency improvement in the business being offset by increased cost of control.

Finally on business banking originations, the momentum that we’ve seen in recent quarters continued and we believe we've outperformed the industry with loan originations for the quarter of $1.6 billion up 27% year-on-year, down quarter-on-quarter seasonally. This reflects a combination of industry trends improving driven by business optimism generally continuing to remain strong and improving banking performance, especially in an expansion market as our targeted strategies mature. We do expect the strong growth to continue through the remainder of the year.

Mortgage banking on page 6. Overall mortgage banking net income was $439 million for the quarter, with an ROE of 10%. As expected, the production environment remains challenging, mortgage production and pretax income ex-repurchase was slightly positive for the quarter, a little better than guidance on better than expected expense performance. Originations of approximately $21 billion were up 26% quarter-on-quarter against the market that we estimate to be up approximately 10%. Therefore we believe we've gained share and that share gain has been in high quality jumbo and conventional eligible loans which as you know are the segments we are focusing on.

As a remainder with purchase mix up, the business has become much more seasonal with volume and profitability peaks in the second and third quarters and lows in the first and fourth. Given this, we still expect the fourth quarter results to be a small negative as previously guided.

Finally on production we had a $62 million benefit in the quarter driven by refinements to our repurchase reserves.

On to servicing, net servicing related revenue of 639 million was down 54 million quarter-on-quarter, a gain on the better side of our guidance, due to gains on the sale of Ginnie Mae loans. Looking forward into the fourth quarter, core servicing revenue will continue to decline and we expect less benefit from other revenue sources such as those from Ginnie Mae sales given lower delinquencies and lower loan modification volume.

As a result, we do expect fourth quarter servicing revenue to be $600 million or slightly lower. Servicing expense increased approximately $25 million quarter-on-quarter, due to investments in control and operational improvements. You will note that this represents a delay in achieving our target of $500 million for the fourth quarter. However, we are doing what's necessary to improve our controls and operational processes and we expect servicing expense to continue to decline through 2015 at its lower pace.

MSR risk management was a modest gain of 76 million reflecting regular model updates. On real estate portfolios, we added approximately $6.8 billion of high quality loans to our portfolio this quarter up from $5 billion in the second quarter.

Loan quality remains very strong. We've recorded net charge-offs of $81 million and reserve releases of $100 million in the non-credit impaired portfolio, reflecting improvements in home prices as well as delinquencies.

Lastly on mortgage, headcount was down approximately 6,000 year-to-date, meeting our target for the year outlined at Investor Day and we are on track to reduce it by an incremental 1,000 or so by year end.

Turning to page seven, Cards, Merchant Services & Auto. Net income of 1.1 billion, down 10% year-on-year but up 4% excluding reserve releases with an ROE of 23%, reflecting very strong spend as well as balanced growth of $3 billion year-over-year continuing the momentum we saw last quarter as growth in our core business is now outpacing the runoff portfolio.

Overall, we saw strong and stable revenue of $4.6 billion, flat year-on-year. Loan growth as well as strong sales volume was offset by spread compression and higher amortization of customer acquisition cost. Expenses up 4% year-on-year, predominantly driven by higher (floor) [ph] expense related to Home Depot and higher auto lease depreciation.

In Card, sales growth of 12% led the industry for the 26th consecutive quarter. This industry outperformance is being driven by the value proposition of our core Chase branded and partner products and the investments we are making in customer acquisition, ultimate rewards, marketing and customer service. These investments are driving strong new account originations, up 29%, and the performance of these new accounts, 2013 and 2014 vintages, is exceeding our expectation.

In Merchant Services, volume was up 15% year-on-year driven by continued strong sales performance. But transaction growth was up 6% year-on-year, lagging sales growth, driven by merchant mix and aggregation trends.

In Auto, new vehicle sales continued to grow year-over-year with the third quarter up 8%. We've seen the 12th consecutive quarter of loan and lease growth despite a very competitive market, and credit losses continued to be stable and low with the Auto pipeline remaining healthy, consistent with the recovery in the auto market.

Moving on to credit, the environment remains benign. We continue to see improvements in card early delinquencies, and the card net charge off rate was 252 basis points, an all-time low. This quarter, we released $100 million of auto and student lending reserves with no releases in card.

During September, a new step forward in the evolution of payments was announced, Apple Pay. We are excited to be a key player in a solution that offers improved security and the streamline customer experience. At the same time, we are continuing to develop other innovative payment solutions.

Moving on to page eight and the Corporate & Investment Bank. CIB reported net income of $1.5 billion on revenue of $8.8 billion and an ROE of 10% or 14% if you adjust the legal expense. In banking, total revenue was $2.7 billion, down 6% year-over-year. IB fees were 1.5 billion, up 2%, with revenue growth in advisory and equity underwriting fees on strong market activity being offset by lower debt underwriting fees.

We maintained our number one ranking in Global IB fees for Dealogic with particular strength in ECM in Europe and IPOs globally and we remain a go-to-bank for large deals and related financing. The IB pipeline is strong with an environment supportive of M&A and a strong equity underwriting market.

Treasury services revenue was $1 billion in line with our guidance and lending revenue was down approximately $200 million year-on-year, primarily driven by mark to market losses of over $100 million in this quarter versus modest gains in the prior year on securities received from restructuring.

Let's spend a moment on markets revenue, the green shoot and the potential upside to our performance that we've being seeing in early September did in fact materialize and our reported markets revenues were up 1% year-on-year, despite a strong third quarter last year, a quarter in which we significantly outperformed.

In fixed income, in currencies in emerging markets, a strong quarter and a particularly strong September with pick-up in both volumes and volatility as currency markets benefited from divergence across global monetary policies, an average quarter for commodities and credit and an improving quarter for rates.

In equities we saw quite strong performance for third quarter in line with last year's. Cash was very strong in EMEA on the back of a strong primary market and equity derivatives results were lower versus a record last year, offset by an uptick in prime services revenue on higher balances and continued growth.

Of note customers are taking notice of the progress we've been making in building out our electronic trading platform and we're seeing strong growth in electronic trading volumes up 50% year-on-year in Europe and nearly 20% in the U.S.

Moving on to the outlook for the fourth quarter. We are pleased to have completed the sales of our physical commodities business and detailed portfolio, which were major parts of our business simplification agenda and with limited impacts on ROE overtime. However these sales will present revenue headwinds in the fourth quarter and based upon their contributions to last year's results these will drive an approximately 8% revenue decline year-over-year or approximately $300 million. So outside of the year-over-year decline driven by business exits, we are cautiously optimistic that momentum may carry over. However October so far has been mixed, likely on the back of a changing market sentiment around the prospects of global growth and inflation.

Security services revenue of 1.1 billion was up 8% year-on-year primarily driven by high NII on higher deposits down quarter-on-quarter 5% on seasonality. Assets under custody were $21.2 trillion up 8% year-on-year. Credit adjustments and other are positive $240 million is driven primarily by

DVA and FDA as a result of credit spread widening and refinements to certain assumptions.

Moving on to expense, total expense was up 21% year-on-year with a comp to revenue ratio of 32% for the quarter and year-to-date. Non-comp expense was up 21% year-on-year primarily driven by legal expense but down 2% quarter-on-quarter as increased legal expenses were more than offset by lower cost of business simplification and other expenses. Just quickly on CIB loans, the headline 5% decline for loans is driven by lower client overdraft and trades underlying that traditional credit portfolio and other HFI finance were up by over 10%.

Moving on to Page 9 and commercial banking. The quarter saw a net income of $649 million on revenue of 1.7 billion with a strong ROE of 18%. Revenue was down 3% from the prior year and 2% sequentially reflecting yields compression in our lending book as well as business simplification partially offset by higher loan and deposit balances. Expense of $668 million was in line with guidance and relatively flat year-on-year and quarter-on-quarter despite ongoing investments in control. Loan balances increased 1.6 billion in the quarter driven by continued strong performance in our commercial real-estate businesses.

CRE loans increased 13% year-on-year and 3% quarter-on-quarter both in excess of the industry and our CRE book have now grown to 14 consecutive quarters. C&I loans were relatively flat from the prior quarter broadly in line with industry trends. Of note deposits increased to $5 billion in the quarter mostly in middle market and corporate client banking, this is reflective of our clients still managing with very high levels of liquidity.

Having said that, utilization rates were up slightly for the quarter and pipelines continued to move incrementally higher across the board. Outside of lending we continued to make good progress in building our core franchise. This quarter growth investment banking revenue was approximately $500 million up 12% from last year and on a year to date basis the commercial bank has generated $1.4 billion of investment banking revenues for the firm, up 22%.

Card and merchant services revenue increased 7% from the prior year and finally since this time last year we’ve added approximately 500 new clients in targeted industries. Overall credit performance remains strong with net charge-offs of only one basis point marking the 7th consecutive quarter with net charge-offs in the single-digit or very low or recoveries.

As we think about the coming quarter we do expect current trends to continue, we would like to remind you of the one-time proceeds of approximately $100 million that we received in the fourth quarter of last year from a lending related workout.

Moving on to Page 10, asset management, an excellent quarter in asset management with record net income of $572 million up 20% year-on-year and 4% quarter-on-quarter with a 25% ROE and a 31% pre-tax margin in line with our through-the-cycle targets.

For the full year, we expect these ratios to be below our through-the-cycle targets. You will see that we changed from reporting our revenue by client segment to reporting revenue by line of business to be consistent with how we manage the business. So we are introducing sub line of business results for revenues in global investment management and global wealth management.

Overall, revenue was $3 billion was up 9% year-on-year reflecting an increase in management fees driven by long-term net inflows including $16 billion this quarter. This marks the 22nd consecutive quarter of long-term inflows driving AUM of $1.7 trillion up 11% year-on-year. While we continue to see strengths in our multi-asset and fixed income flows, equity flows were flat this quarter. Asset management expense of 2.1 billion was up 4% from a year ago and up modestly 1% versus last quarter.

In banking, we reported strong performance in both lending and deposits. Record loan balances up 16% year-on-year and 3% quarter-on-quarter with growth coming from both our U.S. and our international markets and a solid pipeline for demand for the remainder of the year. Deposits were also a record up 9% year-on-year and 2% quarter-on-quarter.

Lastly as reported, client assets of 2.3 trillion were up 4% year-on-year and down 5% quarter-on-quarter. However as part of business simplification, we closed the sale of the RPS business during this quarter, recognizing a small gain reflected in GIM. Excluding the impact of the RPS sale, client assets would have been up 10% year-on-year and flat quarter-on-quarter.

Moving on to page 11 on corporate and private equity. Private equity reported $71 million of net income driven by net valuation gains including a small net gain related to the portfolio sale in OEP which we announced in the quarter, predominantly offset by related expenses. Year-to-date the portfolio balance is down by approximately $2.5 billion and with this sale we expect it to be down by about $4 billion by year end. Treasury and CIO reported a small net loss of $30 million with NII slightly positive in the quarter. And other corporate net income at $357 million included in this result were tax related benefits of approximately $400 million as I previously mentioned as well as approximately $500 million pre-tax of legal expense with the remainder of the firm-wide legal expense principally in the IB. At the firm level our tax rate for the quarter was 28% broadly in line with a normalized tax rate of 30% plus or minus. Non-deductible legal expenses in CIB were offset by tax benefits here and other corporate.

Before moving onto our outlook page, Firm NII was up approximately $320 million quarter-on-quarter, driven by lower interest expense in CIB and core NII was up approximately $110 million.

Moving onto page 12, you can see on the page our current outlook which I've already addressed throughout the presentation.

So wrapping up, a strong result for the third quarter despite legal expense of $1 billion after tax. This reflects the strength of each of our franchises and the benefits of the diversified business model. We have made substantial progress against our control and regulatory agenda as well as business simplification albeit with more work to do and we have successfully executed against our 2014 target for capital leverage and liquidity. As I've shown you today, the investments we are making in our businesses are fueling growth and underpinning strong earnings now and in the future and we remain focused on serving our customers and safeguarding their assets and our company.

With that operator, please open up the lines for Q&A.

Question-and-Answer Session

Operator

Okay. [Operator Instructions]. Your first question comes from the line of Matt O'Connor with Deutsche Bank.

Matt O'Connor - Deutsche Bank

Can you just give us a sense of what's left in terms of simplifying the model, maybe split up between the CIB and consumers if that's a good way of approaching it?

Marianne Lake

Yes, I mean -- I would say we -- I think I can’t remember which quarter it was, but several quarters ago, we put a slide out in the presentation that showed what the business -- it was last year showed what the business simplification agenda looked like. I think if you go back and now look at what we’ve done including what we were able to either complete or sign this quarter OEP, and the RPS business, GSOG, commodities, we've certainly broken the back of most of the business simplification agenda.

Having said that, it is an ongoing process and we continue to de-risk clients and industries and continue to simplify our products in mortgage and the like. So I would characterize that the actions that we've taken by the end of this year are substantially all of them but at the margin we continue to look client by client, product by product to simplify things.

Matt O'Connor - Deutsche Bank

Okay, now as a follow up somewhat related as we think about having more clarity on the capital rules and specifically the supplementary leverage ratio as well as the LCR. Is there some opportunity for optimization of the balance sheet now that you have more clarity on those rules?

Marianne Lake

So, we've talked before about the fact that when you take into consideration the combination of the leverage and liquidity rules together with our own point of view on positioning the company for rising rates so therefore our own point of view of being under invested in a duration perspective that we have we believe a relatively optimized balance sheet. Although it looks like we have a significant amount of cash that is in part non-operating deposits that at some point will either flow out or be adequately paid for by the client return and in other parts is part of our overall liquidity.

I mentioned that subsequent to the U.S. LCR rules being made final, that although we have been reporting previously against Basel our compliance in the 20 plus percent range so a buffer of 20 plus percent. The U.S. rules are more punitive in a number of ways, most notably that they look at peak outflows in 30 days rather than cumulative and also on higher outflow assumptions across certain categories given that we are now compliant with a more modest buffer. So we would say that we are largely optimized.

Matt O'Connor - Deutsche Bank

Okay, and then just lastly, the 300 million of revenue going away in the fourth quarter, what would be the expenses and capital against that?

Marianne Lake

So, the capital is relatively minimal in comparison to the overall firm so while it obviously is positive for us if not a noteworthy number. And the expenses just to note that I said the ROE is limited over time this is a business that was still being built and therefore haven't yet reached the maturity stage or a stage where it was returning its hurdle. It will take a little bit more time to take the expenses out so there will be a slight lag in removing expenses. So in the fourth quarter it will be more modest, but over time it would be a large chunk of that $300 million.

Matt O'Connor - Deutsche Bank

Okay, thanks for taking my questions.

Operator

Your next question comes from the line of John McDonald with Stanford Bernstein.

John McDonald - Stanford Bernstein

Good morning. Marianne, I was wondering if you could give us some broader context on the core expenses, is the principle driver of the updated outlook around the 58 billion, is that just comp and can you remind us where you are on the compliance control expenses in terms of leveling off there?

Marianne Lake

Yes, so, look we had a better third quarter than we have been expecting earlier in the quarter. We'll see how the fourth quarter pans out. So, yes it is the case that if we have a better fourth quarter and therefore a stronger second half of the year that our expectations for comp will be higher. They'll still be well within our comp to revenue ratio range of 30% to 35% and you saw for the quarter 32% year-to-date the same. So, in large part it's going to be based on higher revenues in market. This quarter we also had higher revenues in mortgage and also in corporate, so that is the principle driver.

John McDonald - Stanford Bernstein

And as we look out further to '15 and '16, could you give us a reminder of where you're looking to reduce the core expense base and get some savings on one or two year basis?

Marianne Lake

Yes, before I do that you had a second part to your question on the cost of controls, let me just deal with that very quickly. We talked about the fact that we expect our control cost to reach a peak this year, that's still the case. So, I would say that they are substantially in our run rate by the end of the year. They will over time be able to come down and they'll still remain elevated relative to historical because of the new business world we're in.

But we're going to be able to become more efficient, automate things, finish remediations, look back, so over time that will provide leverage.

In terms of looking out to 2015 and '16, while we haven't given specific guidance I'll just point you to a few things; the first is we do expect to continue to see mortgage servicing expense decline on the back of delinquency and credit trends. We would also expect to see improvements in the production space, there is a reasonable fixed cost base and nevertheless as you saw this quarter we've continued to make great progress in residing that expense base. In the non-mortgage space in the consumer bank Gordon has committed to a $1 billion in '16 over '14 principally but not exclusively driven by automation and efficiencies in branch staffing leverage and also the branch footprint optimization. And then while we didn't quantify it, Daniel is very much looking at the expense equation for positive leverage that is reasonably significant over the next two years in the CIB.

So I would say across the board and obviously we're growing in asset management, we're investing in our businesses notwithstanding.

John McDonald - Stanford Bernstein

And then on the legal expense, did you give any color in the beginning on what was that for this quarter and in terms of the FX and LIBOR investigations, are those at the stage that where reserves can be built or can you offer anything on that?

Marianne Lake

At the beginning what I did say is that there are a number of matters in our legal expenses for the quarter but in large part it does relate to FX and consequently you can read into that the things are further progressed this quarter than last but obviously we can't comment any further.

John McDonald - Stanford Bernstein

And then just in terms of share buybacks and capital levels, I was wondering about your thoughts on the prospects for higher G-SIB buffers in the U.S. and how are you going to balance in the near term your growing your risk based capitals against executing the remaining buyback authorization that you have.

Marianne Lake

Just to talk about, so we did $1.5 billion of buyback this quarter same last quarter, obviously we have another two to go in terms of our approval. We don't know what the rule is going to be, it'll come out before the end of the year, we'll have to see what that says. There will be a transition timeline, it will transition on the same timeline phase in timeline that the rest of the buffer is transitioning on through to the 1 of January 2019. So there is no need for us to overreact and rate the compliance, so we would do much as we have done over the course of the last two years which is balance continuing to make good progress, getting to wherever it is that we need to be which we're not going to get at this moment against the desire to want to continue to deliver capital to shareholders in the form of increased dividends and repurchases.

Jamie Dimon

And remember you all have forecast where our CET 1 goes up to 10.5 or 10.8 or something like that, when the new CCAR rules come out we'll probably be able to fine tune where it might look like at the end of 2015.

Marianne Lake

I mean the reality of the situation is sitting at 10.1% wearing good company with the rest of the industry in the context that just given how CCAR operates, its highly likely that there will be overall accretion to capital in the industry over the course of 2015 and we'll be no exception. So we will continue to accrete capital up towards and potentially above our 10.5. But we're not going to recalibrate a target until we understand the rules.

One thing on the target, just when you see the rules yourself know that in our 50 to 100 basis points buffer the reason why we had a range was to allow in part to some of uncertainty and things evolving and so we would obviously want to fine tune and put a finer point a point on our buffer. So it's possible that a buffer may not be as high as 100% too. So we'll deal will all of that when the rules come out.

Jamie Dimon

And we've also been remember very careful, the purpose here to protect and grow the client franchise, meet the regulatory agenda and then we'll adjust to all these changes as they take place, the big ones we're go to know by the end of the year.

John McDonald - Stanford Bernstein

And Marianne just on that point, you had some RWA inflation in the first half as you waited some model approvals you are waiting for I believe. Where are you on those model approvals and your expectations for kind of the ratio of risk weighted assets the total assets as we move forward?

Marianne Lake

So you would have seen our other where it came down slightly in the quarter from the second quarter on the back of model improvements and on later on portfolio run-off. So we're starting to see that bend now. It is the case that as we project forward to the end of 2015, that's the number that we showed you at Investor Day is still relatively good, it's probably a little higher than that, we said 1.5 it will be somewhere between 1.5 and 1.55 by the end of next year. We're not in complete control around the timing of model approvals, we're obviously doing everything we can to be timely and then the regulators need adequate time to approve them.

So we kind of been a little bit more conservative potentially about the duration it takes to get models approved, but we're still on that same basic trajectory.

Operator

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

Glenn Schorr - ISI

So first question on -- deposit growth has been growth and I guess I would love to see higher rates in loan growth. But you are positively positioned for the parallel shift up. I guess my first question is how does that change in more of a flattening environment that we are experiencing right now? Do you capture most of the benefit anyway just getting off zero on the short end?

Marianne Lake

Yes, I mean -- yes there is a significant benefit. If you look at our disclosures, you can kind of see the short-end versus long-end impact. Basically there is a significant benefit coming up off the short-end that we would expect to capture a significant portion of that in the first 12 months but we are obviously are looking for a more normal curve overall overtime.

Glenn Schorr - ISI

Okay. Just -- I know we are not supposed to read too much into it, but in everyone's mid-cycle (DFAST) [ph] results I think everyone was calling for -- or the big banks were calling for higher losses and lower PPNR in general relative to your own self-test from the previous year. Is that conservatism? Because it is a little different relative to the commentary about an improving economy, a little bit better loan growth, good expense control, things like that. I'm just curious what we are supposed to take away from that mid-cycle.

Marianne Lake

So obviously not to comment on everybody else's results but our results were in terms of the size of the economic downturn they were relatively in line and our results were relatively in line with a few minor sort of enhancements to our process. So we weren't actually looking for materially changed results in our mid-year (DEPAST) [ph]. So obviously we haven't had instructions yet, we are expecting them absolutely eminently possibly as early as this week in terms of guidance from the regulators on how to think about the bank holding company scenario for 2015 CCAR to the degree that there are more and more stressful idiosyncratic losses or stresses on leverage or other things, it could have an impact but we have to wait and see.

Glenn Schorr - ISI

Okay, okay, last one. There are a couple of articles on rewriting of banker's agreements between major dealers to resolve some of the early termination rights issues, which obviously is going towards the Fed's issues on living wills. A, did that actually happen or is that just being talked about? And B, does it resolve the issue in the Fed's -- I know you can't speak for the Fed, but does it resolve the issue or do you still have the client side to deal with over time?

Jamie Dimon

So Mark Carney of the FSB and the Bank of England, Chairman said that two major things remain to finish kind of the too big to fail issues. One is the how you deal with derivatives and the second is TLAC and that both of those would be done this year. This is the thing has been done, it's a great example, I think it was 18 firms who got together and came up in a very complex way globally how to deal with this in a way that the regulators and the Fed put out a press release and Mark Carney has been positive about it and it was industry led. So we do think it does solve that issue. So all the buy cycles do it. It will be eventually all the sales side I mean the other way around, all the buy side will eventually want to do it because it’s actually better for the business as a whole, maybe not better for one trading desk but it's better for the business as a whole and it's a little coercive. So that the regulators are basically saying that to do further derivatives you're going to have to adopt these new rules and we think over time a lot of you will do it.

Marianne Lake

And just one thing that the G18 does put a break to the back of the problem and but we are still awaiting actual regulatory guidance. So there is still the strong possibility that the guidance will be broader and we would encourage it to be broader if nothing else for simplicity purposes not necessarily because the G18 alone don't really achieve the result.

Jamie Dimon

And we were also in a position where even if the buy side doesn't for some reason that we would be able to manage that risk overtime and it would diminish overtime because in the short duration of the derivatives.

Glenn Schorr - ISI

Right. And as long as the Fed counts that as "material progress by July of '15", I am cool with it too. Thanks.

Operator

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

Betsy Graseck - Morgan Stanley

Hey, a couple of questions. One is on just RWAs in general. There were some articles around potentially shifting some of the repo activity to more of an agent role and principal role. I don't know if that's one of the ways that you could potentially have a light impact maybe on RWAs but on total footings to help with the ratios. Is that something that's being considered?

Marianne Lake

Yes, so I mean our repo business is as you know substantially client driven and our clients are very interested in ensuring that they are giving us sufficient wallet to allow us to dedicate sufficient balance sheet to their business. So in that sense we continue to see repo as a strategic product for our clients and as cash resource quite frankly. So, it is obviously the case that as we understand any rules but meanwhile leverage rules have been out for a while and we've seen leverage reducing the industry overall but we continue to have a strong and healthy repo business.

Betsy Graseck - Morgan Stanley

And would you be supportive of an industry move towards shifting repo to more of a CCP environment or no?

Jamie Dimon

We’re okay with the higher margin that's generated margin rules and if they go to kind of a tri-party CCP they’ll be fine too and it would elevate other issues at that point in time.

Marianne Lake

I mean between the CCP and I think that FSC even put out a framework last night that talked about cross industry including non-financials standardized higher levels of haircut that we are supportive of. So, I think the combination of those two things achieve a great deal.

Betsy Graseck - Morgan Stanley

That’s great. I asked the question in part because as people are concerned about things like the SIFI buffer increasing and other regulatory capital requirements. I am just trying to tease out what other options you have to your client facing business but yet maybe shrink the footings in a way that deal with these ratios without having to “break up the bank”?

Marianne Lake

So, I mean I think that we would do exactly with this what we’ve done with everything else to-date which is overall we’re only going to put our balance sheet to and allow our clients to use it if the overall relationship over time pays us a sufficient return for that. We have the ability to do that somewhat methodically and so we’re being very surgical and very strategic about how we use our balance sheet. But it is a core strategic product for many of our clients and they want to continue to be able to do that.

So, yes, we could. I mean if you look at the numbers, however, you want to cut them. There is within our repo business we do have a match book. We have inventory financing as well. We have clients. We’ve seen our short term wholesale funding so there are things we could do. We just don’t want to overreact.

Betsy Graseck - Morgan Stanley

Okay, thanks. And then just separately on the payments discussion. In your prepared remarks, Marianne, you highlighted that you are delighted to work with Apple Pay but that you are also working on some other things yourself. Could you speak to what other things you are doing independently?

Marianne Lake

So, I mean we talked before and you will see more over the coming few months about our own wallet and payments capability. So take Chase Pay and Quick Checkout where we would provide the capability for our customers to be able to have a much more seamless experience also for merchants to have a lower abandonment rates and continuing with the safety and security tokenization and other methods. So we're continuing to work on our own proprietary wallet and payment capabilities that will be piloted and then subsequently launched over the course of the next coming months.

And then there's obviously the case that we are out to pilot and in production on our end to end capability including Chase Net. So we're signing up merchants at a faster rate than we expected and again you will hear more about that later. But our ability to now negotiate bilaterally economics with merchants and provide customers with compelling reasons to continue to bring share to us is also something we're working on.

Jamie Dimon

Our basic philosophy has been that you the customer who want to be able to use your debit cards, your credits in a way that you want and then we want to make it available to you whether its Apple Pay, in-store apps other people's wallets, these are wallet, our own -- all of which will have benefits et cetera. And as Marianne said, we think that we can also be friendly to merchants with data, with pricing, with simplified contracts. So we're trying to make this an ecosystem works better for everybody and is far more secure, higher customers on both sides and far more secure.

Betsy Graseck - Morgan Stanley

And I think is it accurate I mean that you mentioned at a recent conference that you were looking to double the spend in cyber security, is that right?

Jamie Dimon

Yes, I was just estimating if I was taking a guess that it will double over the next four or five years.

Marianne Lake

I mean I think it's fair to say that what we're seeing in the cyber space not surprisingly is this relentless constant and evolving set of attacks and we need to be constantly evolving and constantly vigilant in response, so it's entirely reasonable to assume that we'll continue to increase our investments over the course of the next several years and we'll -- so it will be larger our we'll let you know.

Jamie Dimon

I'd like to clarify that quoted in the press not accurately because this is one area where the government and businesses have been collaborating really well. And for a long time is because all these government agencies and I think we need that because the government sees all kind of attacks and they have a fountain of information. And then also industry self-collaborates which is we share information with other banks immediately when we see something happening, so maybe even if something happens to you, you can help one of your brethren avoid a problem like that. And then cyber goes beyond just yourself, its making sure that all your vendors you deal with have proper cyber controls, that all the exchanges have proper cyber controls. So this is -- we've identified this as a huge effort, we've been very good at it, the most recent breach which we're not going to make excuses for. We'll invest any and all things we just do to get it right. Our customers are protected which is critical but we don't want these things to be happening. But it's going to be a battle, you've already seen a lot of very, very serious far more serious than personal data being taken, where social security numbers, security codes, account numbers et cetera. And we do think that unfortunately there are going to be some wins and losses in this.

This is not going to be one of those things where it's going to be absolute and we don't want to be sitting here saying you can absolutely be protected because we think that will put you in a false sense of security.

Betsy Graseck - Morgan Stanley

And those are all great points, I mean you could imagine tokenization moving beyond just payments to any interface with clients at some point?

Jamie Dimon

Yes, tokenization can be more broadly used and that's avoided a certain type of fraud but not other type of frauds. So you have to look at each one of these things and say what does it accomplish?

Marianne Lake

And that certainly helps across the payments phase, but there are other areas of vulnerability obviously.

Jamie Dimon

And [indiscernible] security about who came to what systems, when they use private computers with private lines as opposed to public computers from home. There are all these things we are all doing and we've had some great people come in audit us and this is one area I suggest to most companies, get someone to come who in as an expert at this. . We have our own attacker system where we have our own people trying to get through, so we're always trying to look where we might have a weak spot.

Operator

Your next question comes from the line of Guy Moszkowski with Autonomous.

Guy Moszkowski – Autonomous

I just wanted to follow-up first of all on the question that Glenn asked about the change in the derivatives contracts. From your perspective doesn't this fundamentally render the contract less attractive for users because of the loss of the automatic bankruptcy preference? And if so, would you expect that this is one more potential pressure on the derivatives revenues that you've talked about in the past potentially depressing your revenues by as much as $1 billion?

Jamie Dimon

I don't think it makes it less attractive, for the one reason if you look at one contract that someone may have in one fund or something like that, it may make it slightly less attractive. But if you looked at the improved safety of the system I think it makes it more attractive. So people believe that doing this makes the whole system safer, every institution say while on the one contract side I will prefer to have the optimality but for the total I'd like the fact the system is protected and we have time to work all those out.

If the resolution works that is really, really good for everybody. I mean everybody would have preferred that there was a resolution process in place for Lehman. The pain and suffering would have been far less across derivatives even though they didn't have the same -- they had more protection derivatives at the time.

Guy Moszkowski - Autonomous

And while we are on that topic then, another thing that happened during the quarter obviously was the Fed and FDIC rejecting the living wills. And I was wondering if you could give us a sense for what changes that might have provoked from your point of view in terms of accelerating some of the simplifications that you were talking about earlier?

Marianne Lake

So I think just an important point of clarification for what its worth is the that the FDIC found the industry's 2013 plans not credible and the Fed did not. So it wasn’t a joint agency conclusion at that point. And so we haven’t had to comment on the 2014 plan yet. Having said that we talking to JPMorgan, we made substantial progress even between the '13 and '14 submissions, we’re in dialogs with our regulators to understand even more detail of what they found as being the limitations or the vulnerabilities in our credibility of the plans, we’re committed to remediation in by 2015. It has had little bearing on our business simplification agenda because it was already a very broad and appropriate agenda but we continue to work on all number of things around the place, critical operations, legal entities, simplification and we’ll continue to do so.

Jamie Dimon

Remember the FSB led by Mark Carney has made it -- they have said publically that the two big remaining pieces are TLAC, which should be done this year, and the derivatives stay, that would be common harmonization around the globe and those two pieces are going to be in place and make resolution much more achievable.

Marianne Lake

And we should add that obviously there is a protocol was specifically pointed out in that feedback and the industry voluntarily resolves that issue I think very well.

Guy Moszkowski – Autonomous

Yes, fair enough. I mean I think a lot of times the press reports forget to pull together all the pieces like that.

I hate to beat the regulatory horse too hard here, but one of the things that we were hearing towards the end of the quarter was that our clients were telling us that they were seeing a significant fall off in liquidity in some aspects of the credit markets in particular. And I was wondering, is there any link between that and some of the new filings that you’ve had to start doing on a daily basis for -- not just you, but obviously all the dealers on liquidity? And I think some of the Volcker data gathering has started as well. And I was wondering if there was any linkage there?

Marianne Lake

No. So I mean my point of view on this is that while we have started doing a filing more recently we've been well aware of the requirements for a reasonably long if not very long period of time and have reoriented our business to be compliant in substance with the requirement. So the fact that we are producing metrics at this point isn't having meaningful impact on our business. It is the case that we know over the course of the next year between now and the compliance date next July, we do expect to as an industry receive feedback on that data and we'll have to see how that progresses but it's our point of view that our business is compliant.

Jamie Dimon

Industry wide as people push LCR and capital and some of these rules down to the trading desk that you did see a reduction in inventories et cetera, but our view is that market making is a critical role in society and it has to take place, we have 16,000 clients and so we really do focus on serving those clients and we've electrified more of it, some of them will go to clearing houses, some of it would be -- but we want to be there for the clients and we will see how the industry sorts out. Some people in the industry are making much more drastic decisions than others. And our decision has been to be there, to make markets. And just try to adjust the new rules which may make it a little bit more costly to trade.

Guy Moszkowski – Autonomous

But what I think I hear you saying is that the recent imposition of some of these reporting requirements did not in itself have those liquidity impact?

Jamie Dimon

I think it wasn't the report reporting requirements, I think it was pushing down at LCR, the cost of capital, the cost of debt and the traders reduced their balance sheets a little bit and they were a little more cautious how to use balance sheet. And that's industry wide. And then some people said we simply can't stay in these areas. I've seen people exit certain trading areas.

Marianne Lake

Yes, I mean repo is a good example of that where the level of not concerned but the level of dialogue with clients around our willingness to continue to commit our balance sheet to that business has increased because others are less willing. And so we are seeing some of that visual.

Guy Moszkowski – Autonomous

Got it. And then the last one for me, Marianne, you gave some clarification around loan growth in the CIB. But I am not sure I quite understood it. Basically you said the minus 5% headline number was affected by a couple of it sounded like one time-ish kind of things and what the underlying was. But as I said, I'm not sure I really caught your drift.

Marianne Lake

Okay. So let me give you the down piece of it. One of them is not timing, it's just the continuation of a trend where trade finance loans are down substantially year-over-year. And so when you look at the overall loan balance is being impacted by trade markedly. And then on the client overdraft side, that is something that is a little bit lumpier obviously. So those two things are driving it down. But the point to the comment was a little bit not trivialized reported loan growth which was still positive but with those masking underlying performance in our credit portfolio in HFI loans. So our more traditional credit lending continues to grow and grow at 10% plus pace.

Operator

Your next question comes from the line of Gerard Cassidy with RBC.

Gerard Cassidy - RBC

Can you share with us -- obviously the Federal Reserve is asking for more capital for all the larger global SIFI type banks. What's the minimum cushion would you guys be comfortable running against? You mentioned your 50 to 100 basis points might be a little less. How low would you go in your cushion for meeting those new capital guidelines when they come out down the road?

Marianne Lake

So I think -- look a reasonable point of view on that would be at the lower end of that range, at the 50 basis point. So remember when we -- obviously we'll refine it and would update you but when we have thoughts about having a buffer, it's been, it is there in order to protect us from range of issues including capital volatility driven by AOCI we regularly and routinely stress our portfolio to understand how much stress we could see in AOCI in a short period of time and that's going to be one of the principle drivers. So I would say that's the reasonable benchmark for the level that we would go to. That doesn't mean we have to have that buffer in totality. As I said, buffers phase in between now and January of 2019. So whatever we decided it, however we communicate that to you, that as well as all of the other buffers capital conservation buffer and G-SIB will phase in.

Jamie Dimon

And CCAR may still be a limiting factor, so…

Marianne Lake

As Jamie said the reality is that the why CCAR is operating while there has been good progress in the communication and dialog with the regulator, the reality remains that it is still not clear either quantitatively or qualitatively exactly how everything is working and therefore its unlikely to be the case that in this cycle that you're going to see 100% or greater than 100% distribution, that's my view.

Gerard Cassidy - RBC

Yes. No, regarding the return on equity, at Investor Day you guys gave us the through the cycle target of 15% to 16%. Clearly I would assume that in this year's Investor Day when it comes up, if these capital levels are even higher now than what you originally thought when you gave that guidance, it probably will be a bit lower. What lines of business do you think will see the lower ROE targets, if you decide that you need to lower it through the cycle from the 15% to 16% that you gave us last year?

Marianne Lake

So I mean just before we sort of get onto the business by business lens on it, I mean the reality mathematically is obviously true that if we have higher capital we would prima facie defacto have lower returns. But the reality hasn't been that way over time. So, you know acutely that we've added significant capital over the last, however, many years. And have been able to over time continue to reorient the business and optimize against it to deliver strong returns. So could there be a decline in returns, we will obviously have to see what the rules look like.

Clearly, at the moment, the most clear and present danger relates to higher G-SIB surcharges on short term wholesale funding. So in the first order impact of it would obviously have an impact on directly those businesses and products in the CIB but obviously if the company is holding more capital we'll look more broadly. But I don't think it's a foregone conclusion that you're going to see a pro-rata decline in our returns and obviously we are continuing to focus on our expenses and making sure that the overall business is as efficient as possible.

Gerard Cassidy - RBC

Is it fair to say that today's ROE in today's quarter of about 10%, which obviously is below your through the cycle number. Is it primarily an interest rate issue that's holding it back or is there some other issue, the high elevated expenses that you're running due to all the new regulations and stuff?

Marianne Lake

So I mean 10s in ROE, 13% ROTCE remember the target is an ROTCE target. It's obviously right now in 2014 we're in a bit of a cyclical low in a number of ways, and elevated expenses. So, it's cyclical lows in mortgage at least for the first half of the year cyclical lows and some secular headwinds in the market space. Yes, we are reaching a peak in terms of control expenses so that is in part contributing reserve releases are low a little bit, the credit remains benign but as a relative matter they're lower. But we are staring efficiencies in the face across our businesses over the course of the next two years.

So, control costs will decline, CCP will deliver improvements in expense, CIB will also. Rates will be a meaningful piece. Clearly, you've seen our sensitivity to rising rates is relatively significant, but it's not the only piece. When the economy generally recovers when loan growth recovers and volatility recovers, all those things, good things happen.

Gerard Cassidy - RBC

Shifting gears, if we look at leverage lending the Federal Reserve has come out recently concerned about some of the underwriting that's going on there. And I think they even pointed out that leverage lending now will be used in the CCAR possibly from a qualitative standpoint. Can you guys give us any color on what your understanding is of what is going on with leverage lending today? And will it be included in CCAR?

Marianne Lake

So just to talk about what will included in CCAR, the truth is we don't know. So, what you have seen we have also read but that doesn't constitute any kind of guidance, we haven't received guidance yet. So we're going to have to wait to see that. It wouldn't be entirely surprising if there were some sort of leverage stress in that quantitatively, I can't see to qualitatively. And then yes there have been more stringent guidance on leverage lending from the regulators over the course of the last year. And we've taken a fairly strict line on applying that. So it has in part been one of the reasons why we believe we have seen lower loan growth in some of our business than we would otherwise have seen.

Jamie Dimon

It's going to get a little stricter in the refi part of the leverage loans, and obviously whatever the terms are we will meet the terms and some of that business will go to non-banks, some banks who are not regulated by the OCC and the Fed.

Gerard Cassidy - RBC

You guys gave us some very good numbers on the mobile approximately usage by your customers. What's the penetration rate of your customer base that uses that mobile app?

Marianne Lake

I mean it's still relative to 20 something million customers in household in the 23 something like that million households in the retail sales space is still relatively low. And from recollection we'll check the numbers for you I think is in that 2 million to 3 million range, but nevertheless…

Jamie Dimon

Mobile is much higher than that.

Marianne Lake

Mobile is higher, okay. We'll get back to you.

Gerard Cassidy - RBC

And then finally you guys talked about Apple Pay…

Marianne Lake

It's 18 million.

Jamie Dimon

Its 18, I don't know if that's individuals or households, it's a huge amount.

Gerard Cassidy - RBC

You guys mentioned the Apple Pay and the opportunities there. What are some of the business -- where can you see the growth but at the same time where can Apple Pay cannibalize some of your businesses or are there any that would be cannibalized?

Jamie Dimon

Look again our view is to -- if you're a client and you want to use your Apple Phone to pay with NFC at a merchant, that's fine. We don't want to say you can't use your JPMorgan Chase credit card or debit card. And like we said we're going to be in other people's wallets too and we're going to have our own which we think will have some competitive advantage. So will it cannibalize? Sure, but we're not against cannibalizing our own business or disrupting ourselves if we're building a better business and are gaining share. Certainly our goal is to gain share. We do believe a little bit and you know when Jeff Bezos says your margin is my opportunity, we want to be the people that come with new ideas and stuff that are getting more of our customers using our stuff and happier. And if reduces certain margins somewhere, so be it.

Operator

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

Mike Mayo – CLSA

A follow-up on the loan question from before. You mentioned a little bit more caution with leverage loans. In the past you said you didn't want to compete too much in the commercial space if it's getting too competitive. There's been some current concerns about auto lending with regulators. So my question is, slide 1 highlights that your core loans are up 1% quarter over quarter and the same slide in the second quarter said that core loans were up 4% quarter over quarter. So my question is, are you simply getting more cautious in the loans that you provide or is there a little bit less demand in the market? Really trying to get to is loan growth decelerating?

Marianne Lake

I mean if you look at year-over-year trends, they continue to be in there, I mean I think the first quarter year-over-year was 4%, 8% in the second quarter and 7% in the third quarter. I think we're not expecting those year-over-year trends to be decelerate, obviously quarter-over-quarter things can be impacted just by the timing of closing loans. So fundamentally I would say no we aren't seeing significant deceleration quarter-over-quarter within continued relative momentum solid across the board with obviously more challenges in the C&I space.

Mike Mayo - CLSA

Separately your expense guidance is now for over $58 billion, you said some of that's due to comp. Is any of that increase in guidance due not to comp?

Marianne Lake

Relative through the $58 plus or minus that we previously said, no it's principally in high revenues or higher market performance.

Jamie Dimon

And we always said that might be the case. So we're meeting our overhead numbers and the comp itself is bouncing around a little bit. Remember in the old days we used to break out IB comp in total for that reason.

Mike Mayo - CLSA

Separately which capital ratio is your binding constraint? And using that ratio, what should we use in our model three years out? And I know that's a tough question with all the moving parts, but what's your best guess?

Marianne Lake

So just in terms of what is our binding constraint at the moment, it is CET 1, so Basel III advanced capital and risk based capital at the margin, so it’s not to say that the other ratios leverage liquidity and the like aren't comfortably around it and even stress capital. But that is currently our binding constraints. It’s very hard for us to give you a point of view of where you should do this in your model three years out when we’re staring potentially new rules in the face in the next two months. As I said earlier we are expecting over the course of the next 12 months that we’ll continue to accrete capital at to or above our 10.5% which is basically in line with what you guys all have in your models. Beyond that, it’s our expectation that hopefully anyway putting new rules aside that by the time we are in our fourth or fifth cycle of CCAR we have made substantial industry-wide progress in the sort of non-quantitative aspects of CCAR where we have more credible resolution and the like that we will be able to be more aggressive in our ability to seek capital distribution capability. So outside of any changes in rules we would hope at the end of 2015 into 2016 CCAR to be able to have payout ratios are much higher, but we will have to see.

Mike Mayo – CLSA

Okay. And then last question on the supplement page six, this is a smaller item but it just kind of stands out. Your rate on trading liabilities declined from 48 basis points down to 12 basis points in just three months. Is there anything unusual there?

Marianne Lake

Yes, there is. So about half of that I would call -- approximately half of that I would call relatively normal but included in that result there is actually a one-time item associated with accounting for a previous interest accrual that we released in the quarter which is one time you should expect that interest expense to go back up next quarter is something more normal.

Mike Mayo – CLSA

And how much, what was the dollar amount of that impact?

Marianne Lake

A little less than $100 million.

Operator

Your next question comes from the line of Erika Najarian with Bank of America Merrill Lynch.

Erika Najarian - Bank of America Merrill Lynch

Just wanted to follow up with two quick questions. The first is, Marianne, if we put together everything that you have said on expenses so far in this call, is it fair to assume that without rates the adjusted efficiency ratio of 59% can continue to improve in 2015 and 2016?

Marianne Lake

Yes. So I think – yes it is, it is our belief that we should be able to manage the ratio to be able to improving overtime ultimately getting down to something much more in the mid-50s, so that is dependent on revenue growth associated with rates but not limited to rates. So in the absence of rates, but by the way just to point out, that is still our case that based upon continued improvement in the domestic economy the rates will start to rise in the middle of next year. But having said that even without rates we would hope to be able to continue to maintain the discipline to have that ratio be broadly flat to down.

Erika Najarian - Bank of America Merrill Lynch

Great. And the second follow-up question is, given your expectations for rates to rise in the middle of next year are you still -- and the progress that you -- continued progress you make on deposit share are you still expecting $100 billion in deposit outflows in that case?

Marianne Lake

So since we talked about the $100 billion estimated deposit outflows associated with liquidity draining out in the system, remember that was predicated on believing that it was possible that the Fed would use the reverse repo program in much more size and is likely to be the case today for two reasons. One is that obviously they've made changes to the term deposit that allows them to now be LCR eligible which is helpful in terms of providing another tool in that toolkit and the second is that in September as you know the RRP was capped in total at $300 billion. That cap may or may not be permanent I am sure it will be recalibrated over time but it looks like it will be unlikely to reach the $1 billion that would have driven the $100 billion, so at $1 trillion that would have driven a 100 billion. So you can make your decision about whether its $300 million or $500 million in the foremost of time and scale our operating deposit outflows back relative to that knowing of course that it's already in operation at $300 billion right now.

Operator

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

Brennan Hawken - UBS

So, appreciate that the repo book is substantially client driven. Was maybe hoping that you guys could give us some sense for how much of your repo book is firm financing versus facilitation?

Marianne Lake

Brennan, we haven't disclosed that. A large chunk of it is client driven, that's what we will say.

Brennan Hawken - UBS

Okay. Worth a shot.

Marianne Lake

The larger chunk of it, the larger chunk of it.

Jamie Dimon

We've also lengthened the firm financing part of it.

Marianne Lake

Yes.

Jamie Dimon

To be more compliant with LCR et cetera.

Marianne Lake

Right.

Brennan Hawken - UBS

Okay, that is fair. And I just wanted to try to square something here and maybe I am reading just a little too much into it. You had said that October on the capital markets side has been a bit mixed. But you have also at the same time brought up your expense guidance and it seems like its driven by expected or potentially a component of comp and capital markets. So are those two at odds? Are you just more optimistic that maybe what we're seeing here in October is not necessarily some sort of dramatic shift but a temporary bout in bad volatility? Or how can we square those two?

Marianne Lake

So, I would square in to it, the first is we already did have a better performance in the third quarter than would have been anticipated in our previous guidance given that that guidance was given during the sort of harder times of the second quarter. So that's already in our run rate so to speak in terms of the comp that would accrue to that. And then if you sort of go back and in the form of the time look at the trends because I did say if the performance continues into the fourth quarter. So it will depend. We've always said and evidently maybe we should strip out comp from our adjusted expenses. But we've always said that the adjusted expense absolute number in any period is obviously going to be calibrated to the performance of the market related businesses. And clearly, you would wave in good revenues every day at 32% comp to revenue ratio. So that's really all we were saying, nothing more subtle than that.

Brennan Hawken - UBS

And then appreciate that there is not much color potentially to be added on this charge tied to FX. But just is it possible to let us know if it's tied to a particular geography?

Marianne Lake

No, it's not possible to talk about anything more detail I am afraid. Suffice to say that we are working with a number of regulators across a number of jurisdictions.

Brennan Hawken - UBS

All right, that is fair. And then last one for me. So in looking at the NIM simulation that you guys have provided, and then taking a look at that in light of the interest rate shock disclosures you've got in your Q's, it looks like a 200 basis point rate shock adds about half of what you are looking for in a normalized rate environment. So I guess does that mean that subsequent years sort of the benefit of rolling the portfolio into higher rates is going to exceed the higher deposit cost by about $4 billion to $5 billion? And is there a particular time period that we should think about that or is it going to be too heavily influenced by competitive dynamics?

Marianne Lake

So you are right that when you roll forward during the first 12 months you do get the benefit of being able to continue to reinvest deposits as they mature up the curve in terms of their underlying investments. So that is the compounding effect of what you're seeing in our earnings and risk shock. But what we showed I think and I am going to cease to recall it but maybe it was in the Barclays conference in 2013 is that you would expect once rates start to rise if they rise in a somewhat expected fashion so obviously it depends on what rate cost you want to put on that that you could expect the accumulative NII to be in our impact in three to four years.

Jamie Dimon

And remember the benefit is more for the first 100 a little bit less to the second 100, a little bit less to the third 100, a little bit less to 400 because there is increasing re-pricing of deposits at that level. And we don't know exactly what the yield curve will be four years out. And also we do embed in that our own estimates of competition and re-pricing.

Marianne Lake

That's a very good point actually Brennan. All scenario does contemplate not only a more normal loan to deposit ratio, more normal interest bearing versus non-interest bearing deposit and also a higher feature on retail deposits just given the LCR competitive dynamics, the technology advancements and the like. So, to the best of our ability we've tried to bake that in and that's included in our number.

Operator

Your next question comes from the line of Ken Usdin with Jefferies.

Ken Usdin - Jefferies & Company

Just a tactical follow-up just on the balance sheet. With the non-interest-bearing deposits basically being the fastest growing category of the balance sheet and the resulting asset, the deposit with banks also being the fastest-growing asset on the balance sheet. Just within that context of what you just walked through with Brennan, I am just wondering what changes structurally with the way you think about reinvesting in the securities portfolio with rates as low as they are now. Loan growth is okay, but to your point you are being somewhat selective on -- and want to be careful with pricing and credit. So, just from a -- more so taking the next year or so out, how are your thoughts changing at all with respect to what you do with these deposits given that they might actually not flow out as much given that change to the RRP function?

Marianne Lake

So the deposits there were -- so in part not totality, in part the deposits that were likely to outflow through the RRP were non-operating deposits. And non-operating deposits we do not count for significant liquidity value in the firm we fundamentally has an on deposit at central banks at the Fed and so if they stay so we'll come back to whether we would be willing to let them stay, but if they stay they will continue to basically be treated in that way and they are not included in terms of our assumption around asset sensitivity and forward looking NII.

Obviously over time we are in the same ways we talked about repo, we are looking at non-operating deposits for our client in the context of their overall relationship and so that is another valuable use of our balance sheet with leverage capital alike against it and in the fullness of time we'll expect the overall relationship to pay for that, but we are going to wait and see some of those dynamics play out.

So other than that, I will just go back to the earlier comment I made that we do have a high level of HQLA and not in cap nor in securities but it is in order to make sure that we have adequate liquidity both under our own stresses most importantly but also under LCR and NSFR and we feel good and add modest buffers relative to them.

Jamie Dimon

In the typical quarter end, we have a lot of large clients leave a lot of deposits here which obviously are not necessarily good for us in terms of LCR or capital etcetera and we will be looking at how we manage those client relations overtime too. The other thing I remember is securities portfolio is as rates go up the duration of that extends on its own.

Marianne Lake

Correct.

Jamie Dimon

And so we will be managing that and yes we might invest more than 1 point but we are in a very conservative position right now.

Ken Usdin - Jefferies & Company

Yes, okay. Got it. And then secondly, just two quick ones on mortgage. Default servicing costs have pretty much stabilized the last couple of quarters at a good level that you had talked about getting down to $500 million total by the fourth. And I am just wondering how much more room is there given that improvement in underlying trends that you're continuing to see for that to be a benefit to that cost side of the equation going forward?

Marianne Lake

So we are continuing to see credit trends improve, delinquencies come down, modification pipelines, all the metrics are coming down, obviously they are coming down from a much smaller place this year than they were last and the year before. So the pace of improvement or the relative pace is slower but we are expecting that to continue down through 500s and into the 400s in 2015. And then just more longer term, you know that we are focused on ensuring that through the next cycle we have a smaller delinquency portfolio and so a more normal level would be substantially less than this.

Ken Usdin - Jefferies & Company

Okay. And I noticed that your [multiple speakers].

Marianne Lake

Sorry, that's a longer term view.

Ken Usdin - Jefferies & Company

Yes. And I noticed also that underneath the origination improvement this quarter, there was a decent jump in correspondent. I am just not -- I just wanted to ask if you are doing anything differently in terms of market share opportunities on the mortgage side now that things have shaken out a little bit or any change in your underlying philosophy on where you are looking at originations?

Marianne Lake

Yes, so I mean we talked last quarter about the fact that we had loss share a combination of things primarily our strategy around the government mortgage space but also a little bit of share in what I would call in our target segment. So we've made that back. So in some part it's just continuing to leverage our balance sheet properly due very granular marginal pricing to really focus on changing and improving our customer operating processes. So across the board, we just continue to get very granular and try and be as competitive as we can.

Operator

Your next question comes from the line of Steve Chubak with Nomura.

Steve Chubak - Nomura

Marianne, I appreciated the color you had given on the RWA guidance. I suppose one thing that we have been hearing from a lot of clients, or at least concern from clients, is this notion of regulatory gold plating, essentially the US regulators adopting tougher standards than those that are being enforced in other areas around the globe. And I just wanted to get a sense as to how that's informing your thinking about RWA mitigation plans. You reaffirmed the guidance at Investor Day, but what should we expect in the event that a tougher capital as well as TLAC requirement is in fact enforced against US G-SIBs?

Marianne Lake

So just to be very clear, maybe it's actually slightly higher than Investor Day in terms of our guidance. So look obviously any guidance that we give you and no good deed goes unpunished but any guidance we give is always predicated on based upon what we know today and so if something changes that would change that point of view will obviously have to recalibrate it. But just prima fascia having the requirement to have extra long-term debt or lots of building capital and/or capital wouldn't necessarily prima facie change the overall RWA we have. You have to be careful to ensure that by having higher levels of capital does not incentive to want to stretch in the credit box. So we have very tight credit discipline. So I wouldn’t see that being a material change the outlook but obviously if there is a change in rules that directly affect RWA, that would do.

Steve Chubak - Nomura

And then just switching gears to the investment banking outlook that you had given. I appreciated the color which sounded quite constructive on the backlogs for M&A and ECM. And I guess not just you but the industry in general hasn't given much commentary on the outlook for debt capital markets activity. It has been challenged this year. I think that was something which many of us had expected just given the strength that we had experienced over the last couple of years. But I didn't know if you can just provide some updated thoughts on that revenue stream in particular.

Marianne Lake

I mean look it is the case that a lot of refinance has already happened. So the debt maturity wall is smaller although rates are lower than we may have expected at this point in time. So I would -- so therefore yes it is reasonable to assume that there is going to be some continued headwind but having said that, I think there is going to be windows of opportunity. So we're going to -- M&A and ECM are more constructive and likely to be more buoyant, but I think that capital market still has windows of opportunity.