Operator

Good morning. My name is Dennis, and I'll be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs Third Quarter 2015 Earnings Conference Call. This call is being recorded today, October 15, 2015. Thank you. Mr. Holmes, you may begin your conference.

Dane Holmes

Good morning. This is Dane Holmes, Head of Investor Relations at Goldman Sachs. Welcome to our third quarter earnings conference call.

Today's call may include forward-looking statements. These statements represent the firm's belief regarding future events that by their nature are uncertain and outside of the firm's control. The firm's actual results and financial condition may differ possibly materially from what is indicated in those forward-looking statements.

For discussion of some of the risk and factors that could affect the firm's future results, please see the description of risk factors in our current Annual Report on Form 10-K for the year ended December 2014.

I would also direct you to read the forward-looking disclaimers in our quarterly earnings release particularly as it relates to our Investment Banking transaction backlog, capital ratios, risk-weighted assets, global core liquid assets, and supplementary leverage ratio. And you should also read the information on the calculation of non-GAAP financial measures that's posted on the Investor Relations portion of our website at www.gs.com. This audiocast is copyrighted material to Goldman Sachs Group, Inc. and may not be duplicated, reproduced or rebroadcast without our consent.

Our Chief Financial Officer, Harvey Schwartz, will now review the firm's results. Harvey?

Harvey Schwartz

Thanks, Dane, and thanks to everyone for dialing in. I'll walk you through the third quarter and year-to-date results, and I'm happy to answer any questions. Net revenues were $6.9 billion. Net earnings $1.4 billion. Earnings per diluted share $2.90, and our annualized return on common equity was 7%.

For the year-to-date, net revenues were $26.5 billion. Net earnings $5.3 billion. Earnings per diluted share $10.84, and our return – our annualized return on common equity was 8.8%. Book value per share is up 5% relative to year-end 2014, despite recording net provisions for litigation and regulatory matters, up $2.1 billion for the year-to-date. These provisions largely from legacy issues reduced our annualized return on common equity for the first nine months of the year by approximately 3 percentage points.

Moving to the third quarter, parts of our franchise performed quite well, while others operated against a more challenging backdrop. Our M&A franchise continued to deliver robust results and our outlook remains positive. We continue to see net inflows in our investment management business. Of course, they're the usual seasonal drivers due to the summer slowdown, but in addition the third quarter also had more than its fair share of significant macroeconomic developments.

Both the Chinese economy and the country's monetary policy came into focus. Our clients evaluated the potential implications of a slowing Chinese economy, the decision by the People's Bank of China to devalue its currency, and the resulting volatility in global markets. As it relates to the U.S. economy, our clients remain focused on the Federal Reserve's interest rate policy. Over the course of the third quarter, client's expectations for an interest rate hike began to shift. Mixed economic indicators drove uncertainty about the pace of U.S. economic growth. Ultimately, there was doubt about the timing and magnitude of the future rate increase.

Another significant macroeconomic theme in the third quarter, commodities. Prices fell across a number of different products. WTI was down 24%. Copper and natural gas were both down approximately 10%. The price slump let the market to focus on the credit risk of commodity producers, trading houses, and those economies with significant commodity exports. These concerns drove an increase in credit spreads, particularly across the energy sector. The sum impact of these various events led to lower levels of client activity and a significant repricing of the equity and credit markets.

The S&P was down nearly 7%, the MSCI world was down almost 10%, and the Shanghai Composite was down close to 30%. In the credit markets, European high yield spreads were 107 basis points wider and U.S. high yield spreads were 153 basis points wider. Not surprisingly, we produced lower quarterly revenues across many of our businesses, given both declining asset prices and reduced level of client activity.

Now, I will discuss each of our businesses. Investment Banking produced third quarter revenues of $1.6 billion, 23% lower than a strong second quarter as underwriting slowed. Although issuance declined during the quarter, our Investment Banking backlog remains strong and was up compared to both the second quarter and the end of 2014.

Breaking down the components of Investment Banking in the quarter, advisory revenues were $809 million, roughly consistent with the second quarter. Year-to-date, Goldman Sachs ranked first in worldwide announced and completed M&A. During this period, we served as an advisor on nearly $900 billion of completed transactions. This is roughly $350 billion more than our next closest competitor. We advised on a number of significant transactions that closed during the third quarter, including DirecTV's $67.1 billion sale to AT&T, eBay's $46.8 billion spin-off of PayPal, and Baxter's $20.3 billion spin-off of Baxalta.

We also advised on a number of important transactions that were announced during the third quarter. These include Energy Transfer Equity's $37.7 billion acquisition of the Williams Companies, Humana's $37 billion sale to Aetna, and Procter & Gamble's $12.5 billion merger of its beauty business into Coty.

Moving to underwriting, revenues were $747 million in the third quarter, down 38% sequentially, primarily due to a significant decline in equity issuance. Although global activity was weaker, our franchise remains strong with a number one ranking in global equity and equity related and common stock offerings for the year-to-date.

Equity underwriting revenues were $190 million. This was down substantially compared to the second quarter, due to a decrease of industry wide IPOs and secondary offerings, as higher volatility and a decline in prices reduced activity. Debt underwriting revenues of $557 million were down 8% quarter-over-quarter, a decrease of industry wide issuance volumes was partially offset by acquisition related financing.

During the third quarter, we actively supported our client's financing needs leading HP Enterprises $14.6 billion debt offering related to a spin-off from HP, Biogen's $6 billion debt offering, and Simporno's [ph] $1.4 billion rights offering.

Turning to Institutional Client Services, which comprises both our fixed and equities businesses. Net revenues were $3.2 billion in the third quarter, down a 11% compared to the second quarter. Within the number of our businesses, the macro concerns I have already talked about impacted both client conviction and activity.

FICC Client Execution net revenues were $1.5 billion in the third quarter and included a $147 million of DVA gains. Net revenues were down 9% from the second quarter and market-making conditions continue to be challenging.

Currencies improved sequentially, as the devaluation in the Chinese yuan sparked significant client activity within our emerging market franchise.

Commodities increased relative to a more challenging second quarter, as declining commodity prices and higher volatility benefited results.

Interest rates was significantly lower, as uncertainty related to the direction of U.S. interest rates impacted activity. Credit decreased, as client activity remains generally low amid continued spread widening. Mortgages was significantly lower as conditions remained challenged with limited client activity. In equities, which includes equities client execution, commissions and fees and security services, net revenues for the third quarter were $1.8 billion, down 12% quarter-over-quarter and included $35 million in DVA gains. Equities' client execution net revenues decreased 29% sequentially to $555 million.

Broadly speaking, client activity declined versus the second quarter, as higher volatility and global equity market weakness impacted investor conviction and risk appetite. However, as is often the case in more volatile markets, we did see activity pickup in our lower touch electronic channels, as a result commissions and fees were up 7% quarter-over-quarter to $818 million. Security services generated net revenues of $379 million, down 14%, compared to the seasonally stronger second quarter.

Turning to risk, despite an increase in volatility, average daily bar in the third quarter was down $3 million sequentially to $74 million.

Moving onto our investing and lending activities, collectively these businesses produced net revenues of $670 million in the third quarter. Equity securities generated net revenues of $370 million. The declining global equity markets negatively impacted net revenues and public equities during the quarter. Net revenues from debt securities and loans were $300 million with the majority coming from net interest income.

The Investment Management reported third quarter net revenues of $1.4 billion, down 14%, excuse me, 14% from the second quarter, as incentive fees declined. Management and other fees were down 3% sequentially to $1.2 billion. Assets under supervision reached a record $1.19 trillion, as long-term net inflows more than offset market depreciation.

With respect to long-term flows, organic net inflows were strong at $23 billion. We also closed the Pacific Global Advisors acquisition during the quarter, which added $18 billion of assets. This represents our 7th acquisition since the beginning of 2012. Over that timeframe, total long-term net inflows were $195 billion. $71 billion of these net flows came from acquisitions.

Moving to performance across the global platform, 72% of our client mutual fund assets were in funds ranked in the top two quartiles on a three-year basis, and 70% in funds ranked in the top two quartiles on a five-year basis.

Now, let me turn to expenses. Compensation and benefits expense, which includes salaries, bonuses, amortization of prior-year equity awards and other items such as benefits was accrued at a compensation to net revenues ratio of 40% for the year-to-date. This is 200 basis points lower than the firm's accrual in the first-half of this year and consistent with the year-to-date compensation ratio at the end of the third quarter of 2014.

Third quarter non-compensation expenses were 30% lower than the second quarter. Substantially all the decrease was driven by a larger litigation charge taken in the second quarter. In the third quarter, net provisions for litigation and regulatory expenses were $416 million.

Now, I'd like to take you through a few key statistics for the third quarter. Total staff increased by 2,000 to approximately 36,900, which was up 6% quarter-over-quarter. Roughly half of the new staff was from the federation, largely technology and operations. The other half was primarily spread across Investment Banking and Investment Management. The increase was dominated by campus hires and reflects both the activity levels in certain businesses and our continued investment in regulatory compliance.

Our effective tax rate for the year-to-date was 31%. Our global core liquid assets averaged $193 billion during the quarter. Our common equity Tier 1 ratio was 12.4% using the Standardized approach, it was 12.7% under the Basel III Advanced approach. Our supplementary leverage ratio finished at 5.8%. And finally, we repurchased 5.4 million shares of common stock for $1.1 billion in the third quarter. As we have discussed related to our share repurchase capacity, any potential share repurchases over the next three quarters will be more back-end weighted compared to the last two quarters.

Before we turn to Q&A, I'll share some thoughts around the market and industry broadly. The third quarter served as a reminder of the fragility and sensitivity of markets, investor sentiment, and the path to strong global economic growth. As you know over the last several years, the financial services industry has faced a series of headwinds. These pressures have forced many within the industry to rethink their footprint or their level of commitment to a variety of businesses, particularly within the more capital intensive businesses of fixed income, currencies, and commodities.

At Goldman Sachs, our strategy remains intact to be the leading advisor, underwriter, liquidity provider, financier, and investment manager. To that end, we are always looking for ways to deliver more differentiated value to our clients. We're also keenly aware of the challenges facing the industry. While some of our businesses are experiencing year-to-date growth, for example, Investment Banking and Investment Management, other parts of the business are in a more difficult part of the cycle.

However, we're hardly complacence. For example, within FICC, we are proactively responded to industry wide challenges, including asset sales, expense initiatives, and balance sheet reduction. The goal of these various efforts is to maintain margins, improve returns, prudently manage risk, and protect the global client franchise. We will always look for additional opportunities to improve our FICC operations. However, we will also never lose sight of the tremendous value that we can bring to our FICC clients over the long term.

In closing, we believe that our long-term prospects are quite favorable. Our global pipe franchise, it's as strong as ever. Our lead table rankings and track record of superior returns are a byproduct of that strength. In addition, we have the people, the risk culture, the embedded operating leverage and clarity of purpose to deliver superior value to you, our shareholders, particularly as the environment improves.

Thank you, again, for dialing in. And I'm happy to answer your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Please limit yourself to one question and one follow-up question. Your first question comes from the line of Glenn Schorr with Evercore ISI. Please go ahead.

Glenn Schorr

Hi. Thanks very much.

Harvey Schwartz

Hey, good morning, Glenn.

Glenn Schorr

Good morning. Harvey, Harvey, maybe we pick up where you left off on the whole cyclical versus structural debate in FICC. And I heard everything you said and I think you're right, and I think you are who you say you're for your clients. But I look at the backdrop and I say, the Europeans are actually starting to need to adjust their balance sheets and shrink parts of the business. And so the thought of Goldman maintaining is optionality all these years. This would seem like the pay off and yet a pick up in volatility in several asset classes, it feels like actually the world that was coming your way, but yet the revenue reduction for Goldman relative to peers, and I'm not just talking this quarter, last couple of quarters is more pronounced. I'm just trying to do the smell test of all, why is that, because I actually do think that things are lining up that you would be more important to your clients, not less and there would be more opportunities, not less.

Harvey Schwartz

So, well, first of all, completely agree with that thesis, maybe let's back up a little bit. And I think it's worth having a discussion, because I think the easy way to the have it is sort of break it down into three parts. Let's just talk about the quarter for a minute. Obviously, it's a tough quarter for us in fixed income. But if you think about how we're running the business, I think that's the more important two parts.

If you look back over the last several years at the expense initiatives we've taken where we have reduced headcount fixed income by more than 10%. We have shrunk the balance sheet by 20%, and if you actually look at it on RWA basis since we switched over to Basel III, we really very softly [ph] managed the capital deployment.

So in this part of the cycle, we have been very disciplined about how we managed those resources. Now, of course, your thesis is our thesis, which is we're in a deep and somewhat long cyclical part of the fixed cycle. But when you think of the forward, our construction simplified is twofold. Our level engagement with our clients tells us clients still need the services. It's like M&A, Glenn.

M&A, the services weren't active in 2009 and 2010, people questioned whether or not M&A would come back. But our dialogue told us that client engagement and the services we provided to the liquidity provider were important. So when we think about the forward and we hear the announcements and we're in this part of the cycle, but it's going to take a while for that to transition through, because I think so far it's been more than announcements than a retrenchment, and you won't really see it happen in all the steps we've taken until you see a pick up in client activity and the competitive environment continue to shift, that may take a while.

But in the meantime, look, we'll benefit as a firm, because we would diversify until you saw a pick up in certain part of equities, you've seen the strength in banking. But certainly a tougher quarter for us in fixed income this quarter.

Glenn Schorr

May just a last follow-up on the FICC conversation is, how if any, does the new vocal reporting requirements changed? How you managed the business? How you reported? I'm just curious, because we can't see any of them?

Harvey Schwartz

No chance that we managed the business. Any steps in terms of vocal adoption happened a number of years ago, where we shutdown certain business. And all of the U.S. firms are subject to the same rule set in vocal, so not an issue. I really think it's a question of client environment. In the third quarter, the environment for all the factors I mentioned was very challenging, it was hard for us. And if we go back to the first quarter the first quarter environment was one with more activity and better performance on our part, but we don't want to overreact to a particular quarter.

Glenn Schorr

Okay, I appreciate that. Thank you.

Harvey Schwartz

Thanks, Glenn.

Operator

Your next question is from the line of Michael Carrier with Bank of America Merrill Lynch. Please go ahead.

Michael Carrier

Thanks, Harvey.

Harvey Schwartz

Hi, Michael.

Michael Carrier

Hi. Just first, you mentioned some of your comments on the commodity, I guess pressures in the quarter. Just wanted to get kind of an update. When you guys look at commodities and that everyone call it asset class. Just how do you view your exposure to that part of the market or the economy? And then, when you look at it from a client base, what has been happening, meaning our – the clients in those areas lot – less active, more active, and are you seeing that spread to any other areas of the economy?

Harvey Schwartz

So in terms of the exposure, we're not a big lender to the energy space. I think the best way to characterize it for you is just to take a look at two parts of that. First, any of our funded exposure to non-investment grade parts of the sector, it's a bit over $1.5 billion, $1.6 billion. And the other sector, which obviously came to focus in the quarter is the trading houses. And we're less than $200 million in exposure to those trading houses. So they're not, as I said, we're not a big lender, not an important part of our business.

In terms of the aggregate impact, in terms of client activity, things have been moving so quickly that sometimes as advantageous to client activity and intensity when things are more trending. I think the whole world is adjusting to basically a longer-term consideration of commodity prices being lower in the intermediate term. And ultimately, that will be a catalyst for activity, as clients considered hedging strategies, as they think about financing alternatives, as clients and companies struggle for refinancing.

So lower for longer in commodity prices, while very good for the consumer and the global consumer and the broader economy, which is also a tailwind, certainly, it should be a catalyst for client activity also.

Michael Carrier

Okay, thanks. And then just as a follow-up, maybe on capital and the ratios, if you have the CET1, maybe like the fully phased immerse of the transitional, and then just given the decent buffers, just any outlook in terms of where you think you would run that? In the buyback pace, just seemed like it ramped up. I know you guys have been saying, it's backward weighted, but it just seemed like this quarter was probably a bit sooner than expected. So just wanted to understand, is that because of the movement in the stock or is it just the plan with the CCAR process being pretty normal from what you guys expected?

Harvey Schwartz

Yes. So on the capital ratio, so with the G-SIB buffer finalized that what you said 10%, and obviously we have a lot of capacity above that. Our target zone would be 50 to 100 basis points above that. If you're just looking at that set of metrics and obviously our supplementary leverage ratios in very good shape at 58, but CCARs are binding constraints. And so, at least, it has been.

In terms of the share repurchase capacity and what we'll do, obviously as you know, we don't disclose that, we don't disclose it for the very simple fact that we don't want our shareholders to think of share repurchase as dividends. And we also reserve and really look forward to actually deploying the capital back into the business. Now, in terms of the mechanics of what is possible part of the profile that you saw over the last two quarters certainly dictated by the specifics of the test. But to an extent, which we use the capacity over the next three quarters, as I said in my early remarks, you should expect it to be more back-end weighted than you've seen in the prior two. Does that helpful?

Michael Carrier

Okay. And – yes. And then just to see if you want, if you had the fully phased in, and I think you guys gave the transitional?

Harvey Schwartz

So on Standardized or are you talking Advanced?

Michael Carrier

I think if you have both, but Advanced probably more…

Harvey Schwartz

[indiscernible] began. So on a transitional advanced 12.7%, fully phased in 11.9%, on Standardized 12.4%, and fully phased 11.7%. So as I said a lot of capacity over our 10% minimum and our operating range of 10.5% to a 11%.

Michael Carrier

Got it. Thanks a lot.

Harvey Schwartz

Okay**.**

Operator

Your next question is from the line of Christian Bolu with Credit Suisse. Please go ahead.

Harvey Schwartz

Hey, Chris, good morning.

Operator

Mr. Christian, check your phone to see if your line is on mute, sir?

Christian Bolu

Hello, good morning. Can you hear me now?

Harvey Schwartz

Yes, sure.

Christian Bolu

Yes, sorry by that. I will ask the FICC question of another way, as it's a focus of investor this morning. I guess, three of the last four quarters, performances lagged peers. How do you rationalize this? Is it a business mix or customer mix issue? And then looking forward just a bear market backdrop, or is there any proactive steps you can take to improve performance?

Harvey Schwartz

Well, there's always things we can do better, we're not perfect. So we always look at them. Christian, we don't see as much value in comparing revenues certainly revenues quarter-to-quarter movements, but we certainly study them and we look for any valuable insights. But I think if you really look to the quarter-to-quarter noise, you run the risk of over steering the business.

So, for example, in the first quarter, we didn't glean huge value out of that in terms of comparing competitors, I don't know how much value we'll get out of this quarter. So we don't have a lot of visibility into their businesses. Our focus has to be on a hand of things, most importantly, our client engagements, and then our profit margins, the risk management, and the ultimate returns. And so that's really what we'll focus on. In fact, now it's interesting, because you brought up the issue of volatility of revenues, and I make a couple of important points.

If you look over the years, revenues don't really tell a great story. And as a shareholder, if you want a collection of businesses, and if you actually look at our performance, consistency of ROE, and returns and earnings, we're the most stable. And so it really is about from wide earnings, not revenues. Anyway I don't know if that helps you or not.

Christian Bolu

Yes, no, that helps, and thanks for the clarifications. Maybe just a broader question on pricing power in the business. I guess, what lessons have you learned from the price increases implemented in the prime brokerage business from what we can see revenue generation has not suffered at all for any of the top players. Maybe does that tell you that the industry has more leverage in pricing, and maybe can we expect this and other business to maybe offset some of the weaker activity trends?

Harvey Schwartz

So I think there's two things driving. Your first is a question of really strength of franchise. And we've had a long, long history of being a dominant player in the prime brokerage business, and I think it really is the value proposition that we offer our clients globally, that is the differential in that business. I think the capital rules, as they come into play and the balance sheet impact of those capital rules in the class has forced a very natural repricing in terms of how much balance sheet we and the industry can provide the clients. And clients are being very judicious about that, but they're also been making a differentiated judgment about who the best value providers are, and we're certainly one of those. And so we're seeing pricing power.

Christian Bolu

And any other businesses you think you can accept that pricing power?

Harvey Schwartz

So, certainly in as we talked about in the past from time-to-time when activity has picked up, I don't know necessarily, I would call it pricing power as much as I would call it an absence of competition. But certainly in the commodity space several quarters ago, there was a lot of activity where certainly competition, which if you want to call that pricing power, I think of it a little bit differently. But certainly clients were going to engage us differently. And then in the derivative businesses globally, as you're seeing firms exit parts of the CDS business and other parts of the equity derivative businesses, I think it's early days, but certainly you're seeing a reduction in competition, and that translates into pricing power or maybe better said better returns.

Christian Bolu

Great. That's helpful. Thank you, Harvey.

Harvey Schwartz

Thanks, Christian.

Operator

Your next question is from the line of Matt O’Connor with Deutsche Bank. Please go ahead.

Harvey Schwartz

Hey, Matt.

Matt O’Connor

Actually first is the quick follow-up to that very last comment you made about some repricing in parts of equity derivatives. I just I haven’t heard that before. Maybe I haven’t been paying attention. But what areas there?

Harvey Schwartz

So it’s really two parts we’ve seen some of it in Europe where competition used to be sort of more significant, but also given the requirements around collateral worlds and things like that where you may have at times had marginal participants actually pricing that levels where we would have thought the risk return didn’t make sense. Now you’re seeing more rational and improved pricing I’d say that’s a general trend.

Matt O’Connor

Okay. And then just separately, can you give us an update on the bank deposit and lending strategy. You obviously announced a deal to acquire some deposits and have had a key hire in the lending side I think in the second quarter. So just give us an update on what you are thinking there and will we see this business grow to be meaningful at some point?

Harvey Schwartz

Sure, great question. And the way the first thing I will emphasize on that question is really the separation between a liability strategy, and potential asset strategy. So these two things are completely separate, but I think it’s natural that people would link them.

The online deposit strategy, where we requested approval for the deposit platform that really is all about funding diversification we have spent sometime contemplating building our own platform this platform became available, it seemed attractive and timely for us and for GE. And so, but we would do that independently of any asset driven strategy.

Now, in terms of the digitally led lending strategy, which you talked about is not a lot to update you on since we last talked. We’re thrilled to have Harvey on board as our partner, he brings a wealth of knowledge and we feel like there is a handful of reasons why we maybe able to have an impact on this space here.

One our real core competencies, and risk management, and technology. And we feel like we maybe able to provide a differentiated product that is accretive to the firms current returns, but it’s going to be slow going obviously, we built lots of business at Goldman Sachs this is a new business. Again it’s great to have Harvey here, because he brings all the expertise’s and when we have more to talk you about we’ll certainly update you, but it’s going to be very deliberate in terms of its development.

Matt O’Connor

And I guess just a quick follow-up, on the funding side, as we think about the deposits growing over time, is that something that will benefit you in down turns or is it also something that will benefit the earnings incrementally from lower funding costs?

Harvey Schwartz

I think it’s too twofold I mean, we have always been very conservative about our liquidity profile and a part of being conservative is about being diversified and so we’re always looking for diversification I’m always looking for cost-effectiveness. But when we think about liability management, again it it’s really about making sure we have the strongest financial footings at any given point of time.

Matt O’Connor

Okay, thanks for taking my questions.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck

Hi, good morning.

Harvey Schwartz

Hey, Betsy, how are you?

Betsy Graseck

Good. So, just a question about how you think about your market share. As you indicated, revenues were tough way to measure things, because people have different positions and marks, et cetera. So, I'm interested in understanding how you think about how you are doing on market share, really from a transaction side. I know you talk about client engagement. So thinking that from a transaction perspective ignoring the P&L impact where do you think you stand in your various businesses?

Harvey Schwartz

So, I know you're asking me question narrowly, but in terms of running those businesses and particularly FICC, it really is multipart. So our client engagements in the businesses that we're focused on feels quite good. So for example we're not the biggest emerging markets firm as you know, because we don't have offices in hundred countries and it's never been the biggest part of our footprint there are certainly always things that we're focused on and if you think about our client base, we're more skewed I think, because we're not the biggest lender in the globe, we're more skewed to professional money managers and investors and you saw and you could see their activity moves around.

But we feel good about our client engagements and our market shares, but it's a multi-part question is – it's not just about clients although they're the most important part and running these businesses, it really is about margins returns over the long-term.

Betsy Graseck

Okay then separately on the INL space last quarter you gave a very helpful dissection of a third, a third, a third in terms of revenue flows that were a function of public marks versus not so public versus private. Do you have any kind of breakdown on how the quarter was impacted by that?

Harvey Schwartz

Sure, so let's just maybe step back. So at the end of the second quarter the INL balance sheet was $89 billion and roughly 75% of that is debt related. So the balance really equity related and then it breaks out.

But the breakout I gave you last time really was public equities, which were down and they [part 11 1: 41]more or less in line with global markets and they started $4 billion at the quarter and so certainly there was just the path to mark-to-market.

And then in private equity the vast majority of the performance that offset the public portfolio was event related and by event related I mean sales, pending sales IPOs. And we really benefited from the idiosyncratic nature of the portfolio. We're not large for example in some of the hardest hit sectors like energy and that kind of stuff.

Betsy Graseck

Okay. Thanks, very much.

Harvey Schwartz

Thank you.

Operator

Your next question is from a line of Mike Mayo with CLSA. Please go ahead.

Mike Mayo

Hi.

Glenn Schorr

Hi Mike.

Mike Mayo

Questions on trading both equities, and fixed income. What percent is electronic or automated and has that compared to five years ago. And then the second question is, kind of what percent of the business would you say pricing is more rational than it's been in the past?

Harvey Schwartz

So, on the second part I'd say it's the trend is improving in terms of rational pricing, but it's in a market where the client engagement from quarter-to-quarter has been very different right, so we saw it in the first quarter, we saw less in second quarter I think that I would answer the electronic trading question as sort of long-term.

The secular trend, which has been in place long before the crisis, that just continues and to some extent is aided by the creation of SEPs and things. This quarter what we've seen in the past, what we saw in this quarter where when volatility is quite severe particularly in the equity markets.

Clients really look to de-risk or add risk and they tend to trade electronically, so I would say it's a trend, but I don't have the specific numbers for you Mike, in terms of the quarter contribution of electronic versus cash, but we can certainly get to that stuff.

Mike Mayo

I think, can you just give even a ballpark. If electronic 5%, 10%, 20%, 50% just any sort of ballpark figure?

Harvey Schwartz

Well, I don't want to guess on a ballpark, certainly in the third quarter there was a meaningful pick up in electronic activity relative to cash in the equities business and again I don't want to guess at a number for you Mike, we'll be happy to get you one.

Mike Mayo

Sure, and then just a follow-up on the pricing. What areas in particular are you seeing the best pricing improvement in trading?

Harvey Schwartz

So, I'd say balance sheet intensive business is broadly and that really is as firms globally around the world adjust capital requirements and have to be more thoughtful about the marginal deployment of balance sheet.

And then other things, that are potentially balance sheet consumers like longer dated derivatives swaps and certainly when commodities has picked up, we have seen circumstances where and this is obviously augmented by the fact that their trading houses have gone through some pretty significant pressure now. What we're saying reduce competition, but again it's harder to see it certainly translate through unless the client activity levels are high. I think that's why we're seeing this big back and forth swing between a quarter like the first quarter where we had a 14.7% ROE and in this quarter we have a much tougher quarter.

Mike Mayo

All right. Thank you.

Harvey Schwartz

Thanks, Mike.

Operator

Your next question is from the line of Guy Moszkowski with Autonomous Research. Please go ahead.

Harvey Schwartz

Good morning.

Harvey Schwartz

Good morning.

Guy Moszkowski

I just wanted to follow-up a little bit first on the composition of the change in revenues in equities and FICC from the second to the third quarter in FICC you alluded I think to rates first off as having contributed significantly, and then you mentioned credit and mortgages, was that kind of the ordering of the degree to, which they impacted the revenue move?

Harvey Schwartz

Mortgages, was a bigger driver if you're doing year-over-year comparables.

Guy Moszkowski

Right. But I mean for the second quarter to third quarter shift?

Harvey Schwartz

Mortgages remain challenged. The biggest driver was interest rates and then followed by mortgages.

Guy Moszkowski

Okay. So the widening of credit spreads that was actually pretty significant in the quarter didn't really – it wasn't as impactful overall on FICC as just what was going on in rates and mortgages?

Harvey Schwartz

Yes, we saw it more in those two businesses, but it was still challenging obviously for credit markets.

Guy Moszkowski

And then really to the same question for equity, you've talked in the release on a year-over-year basis about cash versus derivatives. But can you talk about, as you move from second to third quarter, what was driving the change in client execution?

Harvey Schwartz

So, it's pretty straightforward. Obviously, lots of volatility in Asia, which had an impact on the entire market structure in terms of global market responded. But basically there instead of the shift I talked about earlier, tougher market conditions in Asia and then a shift to electronic activity, which boosted commissions and fees.

Guy Moszkowski

Got it. And then just final question, which I think is going to relate to I&L, in the release you alluded to a pretty hefty decline in level III assets linked quarter about 15%. Is that largely driven by I&L, and if so, can you give us a sense for how much of the reduction is due to actual runoff for planned portfolio sales versus just the impact of negative marks?

Harvey Schwartz

A pretty meaningful driver was actually monetizations and harvesting that was really the driver.

Guy Moszkowski

So, actually underlying the negative mark-to-market on the public portfolio. It really does sound like there was very significant positive activity in terms of just being able to reduce positions?

Harvey Schwartz

Yes, I don't – in terms of reduced positions, you mean, in terms of harvesting…

Guy Moszkowski

Yes, monetization let's put it that way?

Harvey Schwartz

Yes, the portfolio did well. As I said, the vast majority of the driver of the performance in the portfolio came from event driven things like IPOs, asset sales. Obviously, the public portfolio suffered with public markets.

Guy Moszkowski

And in terms of – just a follow-up on exactly that comment, would it be as straightforward as to saying the public portfolio was $4 billion in equities, the MSCI as you've alluded to was down about 10% that the mark there would be about that, or is it more complex to that?

Harvey Schwartz

It can be different from quarter-to-quarter, but I would say that's pretty reasonable.

Guy Moszkowski

Okay. Thanks, Harvey.

Harvey Schwartz

Thanks so much.

Operator

Your next question is from the line of Fiona Swaffield with RBC. Please go ahead.

Harvey Schwartz

Hey, Fiona.

Fiona Swaffield

Just – hi. Just few things. One is the difference between the CT1 ratios and obviously the difference in Advanced and Standardized has gone down quite a lot. And it seems to be something to do, I just wondered, is it the operational risk RWA, I don't know if you could talk through the differences in those numbers?

And the second is just a geographic question. I mean, you've alluded to Asia a few times, but could you kind of give us a feel for year-on-year geographic revenues, or kind of trends EMEA versus Asia, were those any big change versus on Q2? Thanks.

Harvey Schwartz

Yes. So in terms of the ratios in Advanced and there was a pick up in operational, which impacted and there was a pickup in operational, which impacted the operational, but the real driver in the improvement of the ratios was on harvesting, in general risk reduction and you're seeing it more in standardized, because obviously there are things that are not eccentric, which impact that more like things like clearing and other things and notional and so that's why you're seeing the compression. In terms of geography, it has been pretty much 55% in the U.S. and then the balance is really two-thirds EMEA and one-third Asia.

Fiona Swaffield

Like what time period would that be is that Q3?

Harvey Schwartz

No that's this quarter.

Fiona Swaffield

Great. Thank you.

Harvey Schwartz

Thanks.

Operator

Your next question is from the line of Jim Mitchell with Buckingham Research. Please go ahead.

James Mitchell

Hey. Good morning.

Harvey Schwartz

Hey, good morning.

James Mitchell

Just a question on the M&A outlook. I think there's been some concern with the disruptions in the market in U.S. hitting the record level that the M&A cycle might be peaking. I just wanted to get your thoughts on that. It seems like number of deals haven't really moved. International volume still remained very well. So I just maybe some thoughts on how you guys think about where we are in the M&A cycle given some of the concerns out there?

Harvey Schwartz

So, the two factors that, obviously we rely on most is the backlog, and the pipeline is good. And as I said it was up at the end of the third quarter and then really the most significant information component for us is the level of dialogue that board's CEOs are having and the dialogue feels quite good. I think it's always natural for folks to question when the market has been robust, whether there is information content in the actual activity level as peaking and maybe that's a factor.

But when you look at past cycles they've been more significantly driven by LBO activity where certainly you can get some market capacity and how much debt can be borrowed and it's a 100% accurate to note that certainly the cost of financing is a contributor to the transactions that are happening today, but they're much more strategic and a reflection of slower global growth and how confident CEOs are at this stage. And that could always get disrupted, you can have a market event, but I don't know necessarily that the aggregate activity levels to-date are the best indicators that they would slow down. If anything, some of these large transactions very naturally have spin-offs and foster other activity across industries. That wouldn't be the most significant factor we'd look at.

James Mitchell

So, you would kind of think is the large deals as this maybe potentially a leading indicator, because a lot of these smaller deals and the number of deals have been lagging.

Harvey Schwartz

That's correct, but so if you get large deals in a sector, it can have a knock on effect and you get spin-offs that can be a leading activity for more activity, but I think in short our indicators tell us that if the current environment continues the level of activity will be high. Again that could always change, a lot of things in the world can shift.

James Mitchell

Sure. Okay and maybe just a follow-up on the balance sheet. I think if I look at your disclosures you guys balance sheet was up to a level we haven't seen in a I think over a year I think balance sheet was up 20 billion plus quarter-over-quarter yet it was a volatile environment, it just looked like you pulled back on risk at least in the bar, can you kind of just help me think through that, you didn't close on the deposit franchise acquisition this quarter – third quarter?

Harvey Schwartz

No, that's subject to regulatory approval.

James Mitchell

Great.

Harvey Schwartz

No, the balance sheet growth, when you cut through it is really all driven by prime brokers' activity and so is all client driven in terms of client assets that came in during the course of the quarter.

James Mitchell

Just sort of interesting, putting on leverage or?

Harvey Schwartz

No actually, you get somebody to fix when people de-lever, actually you can get cash that comes in and actually comes into the balance sheet so client assets can grow partial driver.

James Mitchell

Okay. Thanks a lot.

Harvey Schwartz

No problem.

Operator

Your next question is from the line of Chris Kotowski with Oppenheimer. Please go ahead.

Christoph Kotowski

Yes, hi your comp ratio on a full-year basis have been trending down ever so slightly last couple of years and you were able to keep the year-to-date comp ratio flat at 40% with revenues being down a percent. Going into the fourth quarter how should we think about the full-year comp ratio in terms of that there'd be upward pressure on it if the full-year revenues miss a bit more from here or continued downward pressure the fourth quarter ends up being better and driving you above where you were last year?

Harvey Schwartz

So, no change to the compensation philosophy the 40% at this point a year is our best estimate. And we'll have to see I can't predict the outcome for you in terms of where the Roland obviously we've spent in number of years really building in pretty significant operating leverage, but we'll have to see how the year plays out, but we'll go through our normal bottoms up top down process.

Christoph Kotowski

Okay, all right. Thank you.

Operator

Your next question is from the line of Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

Morning, Harvey.

Harvey Schwartz

Good morning.

Brennan Hawken

The you made a point in the press release about the IB backlog building and just was kind of curious whether or not in your view that's a function improving business outlook or just deals getting held up due to market volatility in some of the trends that we saw impact the FB underwriting line?

Harvey Schwartz

Yes, so all parts of the backlog were up. The biggest part of the backlog, that was up with equity underwriting. And part of that is the markets being more challenges, and challenge in part of the season, but I think that the more important takeaway is less about market influence over the quarter and more about activity levels client confidence, which certainly at times for CEOs would have been tested as we came during the quarter. But the transactions that they're contemplating are very long-term and strategic. And so I think it speaks more to corporate confidence than anything else.

Brennan Hawken

Okay, but thanks for that color. And then thinking about that point and then connecting it to I&L and the commentary around monetization events and such. Can you help us understand how, when, the exit strategy or ability to use the IPOs or equity markets is weaker how you guys were able to have an up-tick in monetization and episodic events in I&L I was just trying to connect those two dots please.

Harvey Schwartz

So, again it's just it's the nature of the portfolio, it won't always necessarily be this way in the quarter, but there will be opportunities for us to sell assets and in taking company's public and those kind of things those were usually on a schedule, it usually don't happen instantaneously they can certainly get delayed by market activity. But I can't answer the question any better for you than it's the nature of the portfolio.

Brennan Hawken

Okay and I mean did you rely on M&A in addition to IPO, it sounds like you were purely relying going on the IPOs market right?

Harvey Schwartz

There's IPOs, private sale they can come in a number of different forms, so there's certainly transaction that you wouldn't see the public eye parts of the portfolio are in real estate not really heavy and financials or anything like that not heavy in energy. So that gives you some of the background why maybe the portfolio on it's surface would have performed better than you might have expected.

Brennan Hawken

Great, thanks for the color Harvey.

Operator

Your next question is from the line of Steven Chubak with Nomura. Please go ahead.

Steven Chubak

Hi good morning.

Harvey Schwartz

Good morning Steven.

Steven Chubak

Harvey, I appreciated all your comments on the quarter FICC strategy how are you still committed to business at the same time aren't going to be complacent. And just looking at some of the capital metrics, it feels as though the RWAs have been slight to maybe honest slightly downward trajectory, but we haven't seen any meaningful change in terms capital and risk allocations.

And just want to get a sense as to and trying and obviously making a concerted effort not to simply be complacent whether you're going to look to shrink risk on and any meaningful way within that business if the pressures persists on the revenue side?

Harvey Schwartz

So, the risk reduction again well level said it since we want obviously the risk reduction is pretty significant right RWAs were down a third across ICS, which is vastly, which is mostly FICC and so I think the risk reduction effort, the balance sheet reduction, the cost reduction exercises have been pretty significant.

So I don't think we can be accused of being complacent around the cycle again this is about finding that right balance. If the cycle continues and it stops we'll continue to evaluate the business that is an ongoing process that never stops. If the cycle picks up then, we will obviously participate and that we can feel good about the competitive environment and our client engagement. Now away from fixed, obviously, we're doing lots of other things. So, I talked about the fact that we made a number of acquisitions in asset management and that fee-based business continues to grow and be a bigger part of the firm. Obviously, full engagement in IBD and or the merger activity and their performance I think has been stellar.

So there's a lot going on under the hood in terms of reallocating resources. But we are being very disciplined about the fixed business during this part of the cycle, as you would expect us to be.

Steven Chubak

Okay, thanks for that, Harvey. And it's a fair point on the RWA, as I was talking more in the near-term context over the last few quarters. But certainly, since we've been monitoring all the Basel III measures, you made a pretty substantial progress?

Harvey Schwartz

That I also think, look, I think if you look at our capital management and the capital we've been able to return over the last several years, we've been as judicious as we can given the capital rules, and managing the firm in a way to make sure that the financial footings are perfectly solid.

Steven Chubak

Okay. And then as you mentioned the capital rules, there is one quick follow-up. Did you say buffers have all been published by the Fed, it looks like you guys fell into the 3% bucket. I just wanted to get a sense as to whether you see any opportunities to optimize or shrink into that lower buffer 2.5 or given that CCARs are binding constraint, at least, for the moment as maybe not such a pressing need to do that?

Harvey Schwartz

So, well, I think the big picture, the first thing we'll do obviously is in any opportunity that we think we can reduce our systemic footprint now that the rule is finalized. Obviously, we would look to do that. I think that's just good practice. I think the trade-off obviously is whether or not in making those reductions, does that really impact your ability to deliver to clients. Now the rules are finalized. There are certainly things we can do.

As you said, we're not bound currently by our state of capital ratios, CCARs are are constrained, we'll have to see how CCAR evolves over time, that certainly could be an influence, because it could ultimately reprice the cost of that capital relative to the services we provide. But I think it's a bit early for that, at least, for us.

Steven Chubak

All right. Thanks for taking my questions, Harvey.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Eric Wasserstrom with Guggenheim Securities. Please go ahead.

Eric Wasserstrom

Hi, how are you? Just to follow up on the I&L discussion. Can you give us a sense of how we should think about sort of the quarter-to-quarter risk management practices within that unit, given how market volatility can have such a profound effect on revenue recognition in any given period?

Harvey Schwartz

Well, again, I think, one of the – I think one of the things to point out is, if you think about the transformation of the I&L balance sheet over the last several years, it has changed pretty significantly. The composition today, as

I said earlier is really 75% debt. And roughly two-thirds of that is HFI accounting, which is just good old-fashioned bank accounting. The balance is equities and if you compare that to, for example, go back to 2011, in 2011, I think the whole portfolio was more than 50% equities. And so the composition of the portfolio has changed significantly.

Now, if you're going to have $4 billion public equity portfolio, which is the result of us monetizing asset out of the portfolio and we're in a sell-down process, if the markets move around a lot that's going to move around a lot. And ultimately, if the markets decline for extended periods of time or increase for extended periods, obviously that drives value of underlying assets and it drives activity for all businesses in all industries. But the portfolio composition has changed pretty dramatically over the last several years. And when you talk about the volatility, I can't help to remind you that over long periods of time, I&L has been a pretty big driver of book value.

Eric Wasserstrom

No, certainly, I mean, I guess, my – I'm trying to make sure I sort of fully understand, given that so much of the, at least, equity opportunity does come from seed investments sort of then hit their liquidation strategy, sort of how that shifts the risk management discussion when you move from no liquid to an – to a liquid asset, whose risk parameters are somewhat different?

Harvey Schwartz

Yes. So we obviously consider that I think the most important risk component in the discussion is about the point of actually establishing the investments and that's a long-term process of being disciplined that has to be the philosophy, so look if we see a number of quarters of back to back declining in market that may be the right time to actually being to put capital to work which is why we run with excess capital and we run with excess liquidity because we want to be there for those opportunities and we want to be there for our client. So we size the risk of the investment at the point of making it. Once you have it you can certainly do things but prudent risk management really is the point of the initial decision.

Eric Wasserstrom

Got it and that makes a lot of sense and if I can just sneak in one quick follow up on the RWA discussion within the trading businesses. Was there any real change in RWA over the course of the quarter?

Harvey Schwartz

There were I mean in advance, we finished the quarter at 570 that was down a little bit. In standardized we finished at 582 which you would expect to be down given the move I gave you in the ratios earlier.

Eric Wasserstrom

And presumably most out of FICC or someone else?

Harvey Schwartz

Sorry, what was that?

Eric Wasserstrom

And I was just saying was that mostly because of changes in FICC composition or something else?

Harvey Schwartz

The big mover was really in markets which in advanced went from 13.6% to kind of 11.9% and Standardized went from 13.7% down to 12.0% and that really is about derisking.

Eric Wasserstrom

Great. Thanks very much.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Marty Mosby with Vining Sparks. Please go ahead.

Marlin Lacey Mosby IV

Thanks. Good morning Harvey.

Harvey Schwartz

Good morning Marty.

Marlin Lacey Mosby IV

I wanted to give you a chance to stop the drum beat that we have had on levelling out the comp ratio through the year when you mentioned earlier that some consistency of returns for the whole company and not the volatility of revenues. So, just wanted to see whether or not you think coincidentally, the way that this line is up as you go through the calendar year, revenues are typically stronger in the first half, and you get the comp ratio benefit in the second half and somehow coincidentally that kind of hedges each other. I just wanted to get your thoughts on that?

Harvey Schwartz

So we don't do it that way as other way that we think about it. There's some seasonality to the business which historically has been the case for the entire industry. As it relates to the compensation ratio from quarter-to-quarter, we just make our best estimates of where we think the performance of the firm is and what the compensation ratio should be. In the fourth quarter we will go through our normal process which again will be firm performance rather than to the businesses and to the individuals and it would top down to bottoms up and we will just have to see where things turn out for the fourth quarter.

Marlin Lacey Mosby IV

So that's why I was mentioning coincidentally. I know you don't tie them together like that but it kind of works out in the favour of, kind of stabilizing as you go through the year. The second thing I was going to ask you was you mentioned the acquisitions in the asset managers and what we used to do is look at certain businesses where you could really leverage your economic capital while not really impacting your regulatory capital and I thought this is probably a business that might fit into that category and just thought is that kind of how you look at it and also there are other businesses you might be able to take advantage of that in?

Harvey Schwartz

So we're always looking really at the quarter. We are always looking at ways where we can enhance the client experience and so you know all these acquisitions which I mentioned, they really break down to three large buckets, secular growth opportunities like advisory and in that it was referenced in the – as I said in the Pacific Global Advisors' acquisition, and those things like new product capabilities where we certainly develop new products internally, but there are times both in demand is better for us and that's an example, that would be Westpeak and ActiveBeta and then there are times when we just want to scale existing products like money markets and you have seen us do acquisitions in that space. It really is all about – thing about how we can differentiate with our clients. Now from a regulatory capital perspective, we don't necessarily think about that as much as we think about what is the best way to deploy our capital. Obviously we have to manage our regulatory capital but this is a result of regulatory requirements or anything like that. We will always look at acquisitions or ways to grow or deploy our capital that are long-term accretive for the firm. We want to just to grow obviously those that consume more regulatory capital and those that consume less.

Marlin Lacey Mosby IV

And those that will have a little less or little more efficient and use of the capital that you have, but thanks and I appreciate your comments.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

Okay. Thanks. So I just had a quick question on the deposits strategy. You mentioned that was all about the funding diversification. So if you look at the second quarter deposits were about 12% of total liabilities. What percentage that you need to get to for you to consider that to be you've to meet your diversification levels as you want?

Harvey Schwartz

So it's not so much that we are targeting a specific level. We cannot – not to target specific levels around things like that, because it is much about the asset footing as it's about liabilities.

In our liability structure, we just like that having a diversified geographic client base, source of liabilities, we just think that's prudent risk management. When you think about it, it's all really about where various investors want to provide capital to the firm and so that's how we think about it. So we haven't set a target. The reason we don't set targets and things like that is we always are concerned about building up too much of a warehouse of liquidity, we obviously hold a very significant liquidity cushion at $193 billion. Like you don't want to feel yourself getting pressed into deploying those liabilities, you don't want the liabilities to drive your asset strategy, you want your liabilities to inform it and you want to have diversified safe funding.

Brian Kleinhanzl

Do you anticipate that there will be some benefit on interest expense over time as you might take off maybe short-term borrowings?

Harvey Schwartz

It could be over time I don't think in terms of the online deposit I don't see a huge cost advantage there. Again it's all maybe about how can we deploy that funding into the asset opportunities.

Brian Kleinhanzl

Okay great there was no other question.

Harvey Schwartz

Thanks.

Brian Kleinhanzl

Operator

Your next question is from the line of Kian Abouhossein with JPMorgan Chase. Please go ahead.

Kian Abouhossein

Yes, hi. First question relates to commodities, you mentioned, so you talked about the lending exposure, but frankly I'm not really interested in that I'm more interested how you manage your counterparty exposure.

And if you can talk a little bit about how you think about these trading entities that you deal with, how you are managing counterparty exposure considering rating downgrades that we have seen, but also concerns about some of these entities.

And if you can just run us little bit through how you manage counterparty risk on your off balance sheet exposure?

Harvey Schwartz

Yes. Hi Kian. I'm sorry you must've missed it what I was saying before was our exposure whether it's lending or through any derivatives or counterparty exposure to the trading entities is less than $200 million today.

Kian Abouhossein

So that's your net exposure off balance sheet and on balance sheet?

Harvey Schwartz

Yes correct that's for the trading out. Again they often intend to position us as more as competitors than clients.

Kian Abouhossein

Yes.

Harvey Schwartz

So that's our current credit exposure.

Kian Abouhossein

And just in that context clearly you must adjust to rating downgrades as well as your own view around some of the counterparties, the margins or collateral calls etcetera. Can you just explain a little bit to us how you do that? You said the adjustment happening beside the credit ratings, which will drive it?

Harvey Schwartz

We have a long history obviously managing counterparty exposure, which has been tested through pretty volatile markets and again the most important decision made at any point in time is when you establish that credit line it's really no different than lending, but obviously the dynamics are different.

And we have a very diligent marking policy and we monitor collateral calls very vigilantly as you would imagine. And obviously as sectors are weaker you're very thoughtful about it, but when we make these decisions over long-term we have lot of experience doing it.

Kian Abouhossein

Okay and in respect just coming back to your fixed-income business the way I at least to myself explain the weakness and please correct me if I'm incorrect is the fact that you are weak on macro and weaker in corporate so just probably correlate it and you're strong in credit and hedge fund business. And first of all is that an incorrect assumption relative to your peers, I mean, especially some of your money centered peers?

And secondly, if I'm correct, what are you doing? Do you think about diversifying more as a business into and particular as a macro business? And what are you doing to adjust that mix?

Harvey Schwartz

So, again, I don't have great visibility into the competitors. I would say, I do think there are two obvious things which I talked about before. We're not at big in emerging markets, again, we don't have a footprint in hundreds of offices and we're not a big lender to corporate. Our competitors are much greater lenders than we are. And so that certainly can influence your client base.

In terms of macro, I think, you are wrong about that. And certainly, in commodities, we've had a long history being commodities and it feels now like we're bigger in commodities as the number competitors have pulled away from the business. That – those are the effects I would give you in terms of what I can say.

In terms of things we're trying to do, we feel pretty good about the diversified business. I mean, if you think about the course of the year to be sitting here basically nearly flat revenues with our fee-based business is picking up activity, which is compensating for our capital intensive parts of the firm, which you would expect to be more challenged in this kind of market environments. If you look at end of the day when you adjust for legacy costs, we're nearly a 12% ROE. I know the business grows pretty diversified.

Kian Abouhossein

So you don't this argument valid off of the nimble credit geared to rather than macro in certain periods of the environment, depending on the environment we will just perform slightly differently from some of our peers, you don't see that against your money-centered peers?

Harvey Schwartz

I think a lot of the peers have different footings, some are more domestic, some are more emerging-market base, I think the comparables are harder. Again look, take a look at the first quarter. In the first quarter, the way you look at it, we would have outperformed all the peers, that's information for us. But we're not going to steer the business in a different direction, because of that we're not going to over steer it [Technical Difficulty] their revenues on the surface would greater than ours. We're always going to look ways to improve the business. So that you should just incorporate by reference.

Kian Abouhossein

Okay, very helpful. Thank you.

Harvey Schwartz

Thanks, Kian.

Operator

At this time there are no further questions. Please continue with any closing remarks.

Harvey Schwartz

Since there are no more questions, I'd like to take a moment to thank all of you for joining this call. Hopefully, I and other members of the senior management will see many of you in the coming months. If any additional questions arise, please don't hesitate to reach out to Dane, otherwise enjoy the rest of your day, and look forward to speaking with you on our fourth quarter earnings call in January. Take care, everyone.