Operator

Good morning, my name is Dennis and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs First Quarter 2017 Earnings conference call. This call is being recorded today, April 18, 2017. Thank you.

Mr. Holmes, you may begin your conference.

Dane Holmes

Good morning, everyone. This is Dane Holmes, Head of Investor Relations at Goldman Sachs. First, let me apologize for the slight delay in starting our conference call as we had technical difficulties, but with that, let me welcome you to our first 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 a discussion of some of the risks 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 2016.

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.

Our Deputy Chief Financial Officer, Marty Chavez, will now review the firm's results. Marty?

Martin Chavez

Thanks Dane, and thanks to everyone for dialing in. I'll walk you through the first quarter results, then I'll turn it over to Harvey for some brief comments at the end, then obviously we'll be happy to answer any questions.

Net revenues were $8 billion, net earnings $2.3 billion, earnings per diluted share $5.15, and our annualized return on common equity 11.4%. Net earnings included a $475 million tax benefit related to a new accounting standard for share-based compensation. This benefit increased annualized return on common equity by 250 basis points.

The first quarter of 2017 can be characterized as a period of recalibration. In the fourth quarter, strong economic data, the prospect of higher rates and the potential for more pro growth policies in the United States drove improved sentiment and greater investor conviction. Equity markets responded accordingly, reaching new highs. However, during the first quarter, the market began to reconsider both the pace and strength of economic growth, particularly in light of uncertainty regarding upcoming European elections and legislative challenges in the United States. This confluence of events resulted in tempered expectations, a modest retreat in equity prices from intra-quarter highs, and a more benign market environment.

The operating environment in the first quarter was mixed with lower activity in several institutional market making businesses offset in part by generally higher activity in investment banking. For our investing clients, the opportunity set was negatively affected by lower volatility. For example within FICC, D10 foreign exchange volatility approached its lowest level in two years for the dollar-euro pair. This was a headwind for client volumes. Reduced volatility also negatively affected client activity within another macro FICC market, commodities. In the quarter, crude oil volatility averaged its lowest level in more than two years.

A similar dynamic was underway in the equity markets. For example, realized volatility for the S&P 500 reached its lowest level for first quarter in 50 years. Not surprisingly, U.S. cash equity volumes were generally down both sequentially and year-over-year; however, other client segments were more active in this environment. For example, the first quarter of 2017 was a relatively attractive financing environment for corporate clients. Higher equity prices provided a conducive environment for initial public offering and equity issuance more broadly, and debt issuance remained strong as credit spreads tightened and all-in funding costs remained relatively low versus historical levels.

With that as a backdrop, let’s now discuss individual business performance in greater detail.

Investment banking produced first quarter net revenues of $1.7 billion, 15% higher than the fourth quarter as we saw increases in both M&A and underwriting. Our investment banking backlog decreased since the end of the year. Breaking down the components of investment banking in the first quarter, advisory revenues were $756 million, up 7% relative to the fourth quarter.

Year-to-date, Goldman Sachs ranked first in worldwide announced M&A. We advised on a number of important transactions that were announced during the first quarter, including Reynolds American's $60.6 billion sale to British American Tobacco; Mead Johnson's $18 billion sale to Reckitt Benckiser, and ConocoPhillips' CAD $17.7 billion sale of selected assets to Cenovus Energy. We also advised on a number of significant transactions that closed during the first quarter, including Technip's $13 billion merger with FMC Technologies; Formula One's $8 billion sale to Liberty Media Corporation, and Clarcor's $4.3 billion sale to Parker Hannifin.

Moving to underwriting, net revenues were $947 million in the first quarter, up 22% sequentially reflecting a pick-up in both equity and debt underwriting. Equity underwriting revenues were $311 million. This was up significantly compared to lower levels of activity in the fourth quarter as a result of an increase in secondary offerings. We ranked first in global equity and equity-related and common stock offerings for the quarter. Debt underwriting revenues were up 13% to $636 million and benefited from strong industry-wide leveraged finance and investment grade activity.

During the first quarter, we actively supported our clients' financing needs, participating in Change Healthcare's $6.1 billion financing to support its joint venture with McKesson Technology Solutions; Great Plains Energy's $4.3 billion investment-grade offering to supports its purchase of Westar Energy, and Snap's $3.9 billion IPO.

Turning to institutional client services, which comprises both our FICC and equities businesses, net revenues were $3.4 billion in the first quarter, down 7% compared to the fourth quarter. FICC client execution net revenues were $1.7 billion in the first quarter, down 16% sequentially as client activity was low following a relatively active fourth quarter. As I mentioned, despite a benign market backdrop, low volatility across many FICC-related products constrained the opportunity set for our clients and reduced activity levels. Most of our businesses produced lower net revenues quarter over quarter. Commodities and currencies were significantly lower. Client activity was relatively light amid low volatility. Credit declined despite healthy issuance and tighter credit spreads as clients were less active as a result of low spread volatility.

Interest rates were roughly flat sequentially. Mortgages improved significantly in an environment that included generally tighter spreads. In equities, which includes equities client execution, commissions and fees, and security services, net revenues for the first quarter were $1.7 billion, up 5%

sequentially. Equities client execution net revenues of $552 million were up 20% compared to a weaker fourth quarter, but roughly consistent with the quarterly average for 2016. The business operated in an environment with global equity market strength but lower volatility. Commissions and fees were $738 million, flat with the fourth quarter as activity levels remained generally low. Securities services generated net revenues of $384 million, down 4% quarter over quarter. Turning to risk, average daily VAR in the first quarter was $64 million, up from $61 million in the fourth quarter.

Moving onto our investing and lending activities, collectively these businesses produced net revenues of $1.5 billion in the first quarter. Equities securities generated net revenues of $798 million, reflecting sales, corporate performance and gains in public equity investments. Net revenues from debt securities and loans were $666 million and included approximately $350 million of net interest income. On the Volcker Rule, we applied for and received a five-year extension for substantially all of our remaining covered funds, which totaled approximately $6 billion at the end of the quarter.

In investment management, we reported first quarter net revenues of $1.5 billion. This was down 7% from the fourth quarter primarily as a result of lower incentive fees. During the quarter, management and other fees were roughly flat at $1.2 billion. Assets under supervision decreased $6 billion sequentially to $1.37 trillion, primarily reflecting $35 billion of seasonal liquidity product net outflows. We had $5 billion of long-term net inflows, including $5 billion of outflows from the sale of our local Australian business.

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 41%. This is the lowest first quarter accrual in our public history and 100 basis points lower than the accrual in the first quarter of 2016. The reduction in the accrual rate reflects the completion of the nearly $900 million expense initiative that we announced last year.

First quarter non-compensation expenses were $2.2 billion, 6% lower than the fourth quarter and 5% higher than the first quarter of 2016. The fourth quarter included higher charitable contributions and the first quarter of last year included lower net provisions for litigation and regulatory proceedings.

Now I’d like to take you through a few key statistics for the first quarter. Total staff was approximately 34,100, essentially unchanged from year-end 2016. If you exclude the tax benefit related to the settlement of equity awards, our effective tax rate for the first quarter would have been nearly 30%. Our global core liquid assets ended the first quarter at $222 billion, and our balance sheet and Level 3 assets were $894 billion and $23 billion respectively.

Our common equity Tier 1 ratio was 12.9% under the Basel III advanced approach. It was 14.2% using the standardized approach. Our supplementary leverage ratio finished at 6.4%. Finally, we repurchased 6.2 million shares of common stock for $1.5 billion in the quarter. We also raised our quarterly dividend to $0.75 per common share from $0.65. We have now more than doubled our quarterly common stock dividend per share since 2011.

Now for some brief summary comments. The first quarter of 2017 had its share of puts and takes and served as a reminder of the benefits of having a diversified global client franchise. The diversity of our client franchise is an important input to the revenue stability that we have seen over the trailing 12 months. We have consistently generated roughly $8 billion of revenues in each of the past four quarters despite a variety of different environments. This reflects the relative balance across investment banking, FICC, equities, investing in lending, as well as investment management.

As we look forward, we remain focused on several operational objectives: first, providing world-class advice and execution services to our global clients and delivering the whole firm to them. Second, operating efficiently, which means striking the right balance between addressing challenges and investing in future opportunities. It also means positioning the firm for operating leverage. Third, being a prudent capital allocator, being disciplined around risk-adjusted returns, and looking to return capital to shareholders when we can’t find attractive opportunities to deploy it. Fourth, recruiting, retaining and developing the most talented teams possible at every level, in every business and for every region. Finally, leveraging technology across all of these areas to inform our decision-making and, most importantly, to drive better outcomes. We believe meeting these operational objectives is essential to serving our clients, our shareholders, and the broader marketplace.

With that, I’ll turn it over to Harvey for some closing remarks.

Harvey Schwartz

Thanks Marty. In short, I just want to say thank you to everyone. Over the past four and a half years, I have thoroughly enjoyed engaging with all of you as the firm’s CFO. I’ve also truly appreciated both your support and your challenge during our many discussions. There’s no doubt it’s made us a better firm and it definitely made me a better professional. I really look forward to continuing our relationship in my new role.

As we have talked about in the past, Marty and I have worked together closely for more than a decade. Many of you have gotten to know him better during the transition. During my nearly 20 years at the firm, he's one of the most talented people that I've had the privilege of referring to as my partner. This being my last earnings call, I just want to say again, thank you everyone.

Now back to Marty.

Martin Chavez

Thanks for the kind words, Harvey, and all your support. Well, why don't we just move onto the Q&A portion of the conference call? We are obviously happy to answer all your questions.

Question-and-Answer Session

Operator

[Operator instructions]

The first question is from the line of Glenn Schorr with Evercore. Please go ahead.

Glenn Schorr

Good morning, thanks very much. I can't avoid the FICC question. So I heard all your comments. I'm curious to see how you'd describe what exactly happened in the quarter. When we think about it versus a peer group that was reasonably consistent and stable this quarter, how much do you attribute to maybe the client mix, which I heard a little bit in your remarks, versus maybe just being caught a little bit facilitating client flow during the quarter?

Martin Chavez

So Glenn, unfortunately we don't have a lot of transparency into others' results, so here's how we're seeing it from the perspective of our results. As we mentioned, there were very low levels of volatility in the first quarter and subsequently low client activity. Dollar-euro vol, lowest in two years; crude oil vol, similar figure, and given the strength of our commodities business, this is unique to our firm.

To the extent that the market environment improves, economic growth accelerates, client confidence continues to grow, client activity is likely to increase, and that ultimately drives our opportunity set. We feel great about the competitive position and have a tremendous amount of capacity to serve the clients as activity levels improve, and we believe our clients recognize that.

Glenn Schorr

Okay. Fair enough. Then I personally hate this question but I'm going to ask it anyway, because it doesn't make sense to me, but plenty of talk in the market about some version of Glass-Steagall or some greater separation than we've already seen with the capital requirements and the regulatory environment. Just curious to get your thoughts on this call.

Martin Chavez

Sure. We, like you, don't have any information on what the specifics of a proposal might be, and we wouldn't find it productive to speculate or make assumptions. Our focus is entirely in delivering to our clients under the current regulatory construct of our bank holding company.

Glenn Schorr

Okay. One last simple one, or maybe not. MiFID II, just curious on how you're preparing for what's coming and what your gut reaction is to the outcome. Can Goldman be a net beneficiary?

Martin Chavez

So as we all know, there are many components to MiFID II. As for the execution, we're working with our peers and with our clients on protocols and platforms, and making sure that we have the services and products that our clients require for their execution needs. As for research, we would generally expect the MiFID II changes to bring greater transparency, and as that happens it seems likely that scale and high value-added content will be important components, and we have both of those as a core part of our offering.

Glenn Schorr

Okay, thanks. Appreciate all the answers. Thanks.

Martin Chavez

Thank you, Glenn.

Operator

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

Christian Bolu

Good morning, Marty. Good morning, Harvey.

Martin Chavez

Hello Christian.

Christian Bolu

So just back on FICC again here, could you help us size in just dollar terms the issues around commodities and currencies? It would just be very helpful for us as we think about the forward outlook. Also, I believe you mentioned $8 billion of annual revenues in FICC, if I heard you right. Is that a good way to think about potential revenue generation of that business?

Martin Chavez

Actually Christian, the $8 billion figure I was referring to was $8 billion roughly in quarterly revenues for the firm over the last 12 months. As for the size, I won't break out commodities or FX. What I will say is that it was one quarter. We don't extrapolate from a quarter. We didn't extrapolate from the fourth quarter last year where we outperformed, and we wouldn't extrapolate from this quarter.

Having said that, we did underperform, and the underperformance was driven by commodities and currencies. Ultimately, we didn't navigate the market well, but no quarter defines the franchise. There is always things that we can do better, and it's important to note we're constantly analyzing our results with an eye towards continually improving them.

Christian Bolu

Okay, got it. Thank you. So I know your predecessors never have commented on the current quarter, but just given the circumstance here and obviously some investor nervousness around the strength of the trading business, curious if you can make any comment at all as to how the second quarter has gone.

Martin Chavez

Well, it's only two weeks and there really isn't any information or content there.

Christian Bolu

Okay, all right.

Harvey Schwartz

Yeah, the predecessor is still sitting here!

Christian Bolu

I was hoping that he'd ignore you!

Harvey Schwartz

Come on, it's four and a half years. It's my nature [indiscernible].

Christian Bolu

Okay. Just a last clean-up one here. RWA ticked up in the quarter, both standardized and advanced. Curious if you're seeing anything at all in terms of the ability to deploy incremental capital or seeing demand for some of your capital by your clients.

Martin Chavez

Sure. Let me just quickly take you through the RWAs. These are on the transitional basis. I'll start with advanced. Total RWAs in the quarter ended at $558 billion. That breaks down in $361 billion of credit, $83 billion of market RWAs, $114 billion of operational; and on the standardized approach $507 billion of RWAs, breaking down into $424 billion of credit, $83 billion of market. The ratios have ticked down 20 or 30 basis points since the end of last year, depending on which ratio you're talking about, and really it's on increased credit RWAs, which is primarily driven by lending for the advanced approach, and lending and funding transactions for standardized.

Christian Bolu

Okay, thank you very much for the answers.

Martin Chavez

Sure.

Operator

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

Michael Carrier

All right, thanks guys. Maybe a broader question and not just on FICC, but I'd say FICC and equity trading. It seems like maybe over the past two years, the business has been maybe on a relative basis a bit more challenged, and we can point to a lot of things in terms of the client mix, whether it's hedge funds or investment managers, they're facing some pressures. But just wanted to get a sense - when you guys look at the business and the mix, are you positioned where you want to be, and then when we think about that in terms of the outlook, is there more that can be done on the expense or capital base or do you think that you're still--you're looking for a positive kind of revenue backdrop with the current mix that you have? I know that's a lot in there, but just trying to get a sense because it seems like it wasn't just one quarter.

Martin Chavez

Yes, so I think it's important to note that we're not focusing on revenue share, and while top line revenue and revenue share are among the many factors that we look at, the focus is on serving the clients, our impact and engagement with them, and on returns, so returns, not revenues, and generating strong ROEs over the cycle. As for expenses, it never feels perfect. They're just always really just part of the constant discipline here to look at expenses, and as you know, we have significantly changed that business over the last few years since beginning of 2012 to now headcount, compensation, benefits, risk-weighted assets, balance sheet all down.

Michael Carrier

Okay, and then maybe as a follow-up, if you can give us the--I don't think you guys gave us the fully phased in unit ratios, and I think in the last quarter, maybe a quarter before that, Harvey, you mentioned just in terms of where you think the G-SIB buffer would pan out. Any update there? I know everything is kind of potentially in flux when we look at the outlook, but just how you're thinking about that.

Martin Chavez

Sure. So under the advanced approach, the fully phased ratio at the end of the quarter was 12.5%, and under the standardized approach the fully phased ratio ended the quarter at 13.7%. As for the G-SIB buffer, it's too early to tell. We have lots of capital and a history of adapting.

Michael Carrier

Okay, thanks a lot.

Martin Chavez

Sure.

Operator

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

Matt O'Connor

Good morning. I was hoping you could elaborate on the comment about pipelines being down within the investment bank unit. I guess I'm not surprised on the M&A advisory side, but I would have thought the ECM pipelines, given where market levels are, would have been net pretty solid.

Martin Chavez

Sure. So the pipeline is good and we're cautiously optimistic. Many of the factors that one would look for remain in place, so CEO confidence, attractive financing levels, relatively supportive equity market backdrop. So I'll say cautiously optimistic.

Matt O'Connor

Okay, and then just separately on the comp rate, bringing it down a little bit this quarter. Should we think of that as more of an effort to smooth out the year so that there's not as meaningful of a decline in the back half of the year versus the first half of the year, or is this signaling a downward structural move overall? I realize it's only 1%, but wanted to ask what you're trying to signal there, if anything.

Martin Chavez

It's our best estimate of the comp ratio, and it reflects the $900 million initiative that we announced last year. Because of severance and other effects, $500 million of it last year, $400 million more of additional flexibility in this year, and it just reflects that.

Matt O'Connor

Okay, but no comment on do we get as meaningful of an adjustment in the back half of the year as maybe we have had in the past?

Martin Chavez

It's just our best estimate.

Matt O'Connor

Okay. All right, thank you.

Operator

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

Betsy Graseck

Hi, good morning.

Martin Chavez

Good morning.

Betsy Graseck

A couple questions. One thing we've talked about in the past is during periods of rising rates, at least in the past you've historically seen some improving VAR productivity during those periods. So I've got a couple questions this morning just on 1Q tends to be the highest quarter in FICC, and my thought is, well look, if vol is down so much right now today, as you mentioned that's the biggest driver, do you--as vol increases, do you expect that the VAR productivity could go higher, like it had in prior periods of rising rates?

Martin Chavez

So we would generally expect to see VAR efficiency picking up with greater activity and turnover.

Betsy Graseck

Okay. Second question is on security servicing. You mentioned and you spoke briefly to the year-on-year decline. I just--could you give us a little bit more color there, because in the context of higher values in the markets on the equity side at least, I would have thought that there would have been an uplift in that line item, so I must be missing something. I'm wondering if it's margins or if it's just activity levels. Maybe you could speak to what's going on there.

Martin Chavez

Sure, I'd be happy to. In security services, low volatility affected the opportunity set for many of our clients of that business, and it was evidenced in the weaker security services results which included a lower margin mix of client balances, including a move to easier to borrow securities, which has an effect.

Betsy Graseck

Okay, got it. Then just lastly on the Volcker Rule, Marty, you mentioned that you asked and received the five-year extension here on the $6 billion. That will roll off over the next five years, I assume? I don't know what the duration is on that $6 billion. Is there anything more than that? You might be laughing, like who's asking about five years out, but I'll just ask the obvious question there, but then also how you're thinking about redeploying the capital that frees up as these assets roll off.

Martin Chavez

There's nothing particularly to note. That extension that was granted applies to essentially all of the Volcker-covered funds, and as for redeploying, it's always opportunity driven on behalf of the clients and just when we see attractive returns.

Betsy Graseck

And then it's just a ratable decline over the next five years, or it's back-end loaded? I'm just thinking through how to model out the freed up capital.

Martin Chavez

Yeah, I would just say it's going to be all opportunity set and return driven [indiscernible].

Betsy Graseck

Right, I get that. But the pace of the roll-off of the $6 billion if ratable over five years, or is it back-end loaded?

Martin Chavez

Not really going to further break that out.

Betsy Graseck

Okay.

Martin Chavez

It's all going to be situational.

Betsy Graseck

Got it, okay. Appreciate the comments and color, thank you. And thanks, Harvey, nice working with you.

Operator

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

Martin Chavez

Hello Brennan.

Brennan Hawken

Hey, good morning, Marty. Sorry to give you a hard time here on your first call, but the FICC question, I'm still confused and I think I have some company. Your year-over-year comps were kind of easy. Last year, it was a tough one for you in FICC. I believe, as I recall, there was some market making conditions that were tricky, which certainly we can understand, but we didn't have that this quarter. Everybody else, or a lot of your [indiscernible] peers here have reported pretty solid, both quarter over quarter and year over year. I get it that commodities is a laggard, but is there anything further? Does it have to do with corporate client base being relatively smaller? Does it have to do with retaining some--holding back on some capital because you want to have dry powder for an improving environment? Is there anything further that you can add for us, please?

Martin Chavez

Sure. Well, as I said, we underperformed this quarter, and the underperformance was driven by commodities and currencies. We'd note that some of our competitors had bigger financing businesses and more significant corporate footprints as a result of larger lending books, but again it's one quarter and business mix differences might reflect performance, relative performance quarter to quarter, but we believe our model has lots of leverage improving client activity.

Harvey, would you like to add anything?

Harvey Schwartz

Well, I think Marty's covered it in pretty good detail. I mean, Brennan, I think your question is completely fair, obviously. It's nice of you to say you don't want to give Marty a hard time for the call, but I think this is--in some respects, we've had this conversation on and off over the past four and a half years, and I think last year in the third and fourth quarter, where you might have said we outperformed, that wasn't a moment of celebration for us, and as Marty said, this isn't a moment of bigger concern for us. Quarter to quarter, things are going to vary. There may be differences in franchises, as Marty has already pointed out.

Having said that, we're pretty focused individuals over here, so to the extent of which there's any energy to harness, I can promise you we're all going to harness it. But I think Marty, I think you covered it.

Brennan Hawken

Okay, that's fair. Thanks for that and the patience with whatever FICC question on it. Following up, though, on a component there, a couple years ago you guys had made the effort to try to grow out the corporate client base. Is that still an effort that you guys are focused on? Could you give maybe a high level update on where you stand there, how you're feeling about it, and maybe any updated targets or color you can give on those efforts?

Martin Chavez

I'll just say that the effort to further develop that client base continues as with the client base we already have in our banking business, clearly, and the effort to be more impactful with those clients and engage them more deeply across all of our businesses continues over the long haul. I wouldn't-- we don't have any particular targets.

Brennan Hawken

Okay, that's fair. Last one for me, so Governor Tarullo made some comments as he packed up his desk that the Volcker Rule was too complex, and while I certainly wouldn't expect that you guys would have any insights on what the regulators would come up with, if you all were sitting down or asked to provide input on what adjustments to make to the Volcker Rule, what would you propose? How would the rule look when you retain some of the benefits but then lop off some of the negative impacts to liquidity and such?

Martin Chavez

So I think it makes sense to step back a bit and look at all the rule making that's occurred over the last decade or so, a little less than a decade. If you look at that, it's an impressive body of work and reduces systemic risk and contributes to safety and soundness. At the same time, looking at the approach to the rule making, the rule making proceeded in parallel along many fronts, and you mentioned one of them - the Volcker Rule, and this is happening really before the election. Regulators, for instance the Basel committee, were beginning to step back and look at the totality of the rules, look at all of them holistically and see how they interacted, and began looking at the second and third order effects, so that was happening anyway.

As for the Volcker Rule itself, there could be opportunities to recalibrate, revisit parts of it. Governor Tarullo had some specific thoughts on the Volcker Rule and on other aspects of the regulatory set-up, including for instance CCAR, and it's really too early to comment. We'd have to see what form that would take, but potentially there is an opportunity to reduce some of the reporting burdens around the Volcker Rule.

Brennan Hawken

Okay, thanks for taking the questions.

Operator

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

Martin Chavez

Morning, Guy.

Guy Moszkowski

Good morning. Okay, so umpteenth question on the FICC thing, and I'm just going to follow up on a comment that you made, which is we heard several times that obviously clients were less active and that has lots to do with mix, and that makes sense. But I think I also heard you say that you didn't feel like you had navigated some of the currents as effectively as you might have, and I was wondering if you could break down between the areas that you called out as having been headwinds, which were commodities, FX and, I think to a lesser extent, credit, where in particular maybe there were issues with inventory management or positioning, as opposed to just the customer flow.

Martin Chavez

There's really nothing further I would add there, nothing material in inventory in the context of the firm. It's just we could have done a better job navigating the markets. It's a cyclic market and that's really all I would say.

Guy Moszkowski

Okay, but I mean, it does sound like you're thinking that there were some positioning issues as opposed to it just being customer flow.

Martin Chavez

No positioning issues. It's just in some market environments, one navigates a better outcome than others. That's really all I'd say.

Guy Moszkowski

Okay. Then just changing to follow up to one of the other questions that has arisen a couple times on the comp accrual. Just trying to do a little math around it - if I take that one percentage point and I apply it to the $8 billion of revenue run rate that, as you point out, has kind of been a stable number for the last four quarters, I get a little over $300 million. Is it fake math or good math to kind of compare that $300 million, $320 million to the $900 million of cost saves and think that the message you're sending is that maybe a third or so of that $900 million is on the comp line?

Martin Chavez

Well, math is math. There is lots and lots of inputs to it, and some of the expense initiative was in last year and some of it was in this year. There's lots of inputs to it. There's really no message other than it's our best estimate.

Guy Moszkowski

Okay, fair enough. Then just on that same point, last year you came in at 38.1% comp ratio for the full year.

Martin Chavez

Yes.

Guy Moszkowski

And all else equal, should we think about modeling that ratio down close to 100 basis points based on the signal that you've sent with the reduction for 1Q, and just the thought that usually you apply that same ratio in the second quarter, or is that over-thinking it?

Martin Chavez

I think there's just lots of inputs, and you'll definitely model them. It's our best estimate, and really also, as we always say, it's fundamentally at the end of the year, the comp ratio is an output. It's going to be a bottoms-up process and it will be what it is.

Guy Moszkowski

Okay, fair enough. Thanks very much. Harvey, it's been a pleasure working with you and we'll miss you, but we hope you'll talk to us every once in a while.

Harvey Schwartz

All the time, Guy. Thanks so much, I appreciate that.

Guy Moszkowski

Thank you.

Operator

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

Jim Mitchell

Hey, good morning guys. Just maybe a follow-up on the expense side. As you mentioned, there's a lot of discussion with Tarullo talking about maybe phasing out the qualitative aspect of CCAR, simplification of Volcker. How do we think about the impact on expenses? Is that a material kind of annual thing, that if we see those things go away, that could be quite helpful, or is it something you can at least put a breadbox around for us?

Martin Chavez

First of all, it was certainly his thoughts as he was ending his term and a lot of ideas, but we'd have to wait to see the specifics. I wouldn't call out or break out for you any particular effect on expenses other than to say that we're strong proponents of the stress testing. It's good for the system, it's good for the firms, it's important.

Jim Mitchell

So is there any particular item where you have spent the most incremental money, just so we can think about what is possible?

Martin Chavez

We have since the beginning taken a holistic approach to adapting to all the rules, and we don't break it out. We just don't break it out.

Jim Mitchell

Okay, fair enough. Maybe something--maybe a comment on Brexit. It seems like that's heading for more of a hard exit. How do we think about that impact for you guys? Is it very manageable, or how do you think about it?

Martin Chavez

Sure. So I think not crystal clear what all the different terms around Brexit mean, including hard Brexit. Obviously it continues to evolve. We've all seen Prime Minister May calling a snap election this morning, as we all know. The U.K. triggered Article 50 a couple weeks ago. We have our Brexit contingency plan in place, and as far as that plan is concerned, we've taken no material actions yet along that plan, and we have a plan.

Jim Mitchell

Okay, but--I guess it would just take a certain amount of moving people into--on the continent in the worst case. Is that the right way to think about it, that you already have existing offices there and the incremental expense is manageable, or no?

Martin Chavez

So we have existing offices around Europe. We have existing legal entities around Europe. As you know, we conduct most of our business with EU clients who are outside of the U.K. under the passporting regime, and so much depends on what that looks like during and after the implementation period.

Jim Mitchell

Okay, thanks.

Operator

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

Steven Chubak

Hi, good morning.

Martin Chavez

Good morning, Steven.

Steven Chubak

So two questions, Marty, none on fixed income. I'm just going to kick things off with one on asset management. We're somewhat surprised to see the management fees tick down quarter on quarter, despite what looked to be some favorable remixing in terms of the AUM, as well as just higher average assets. Was hoping you could maybe speak to some of the factors that are pressuring that managing fee yield, and also wondering whether some of the lower fee ETF offerings that you guys have, which have shown very strong growth, whether that's cannibalized fees at all.

Martin Chavez

Well as you know, we're not immune to what's happening generally across the industry - fee compression of various kinds, shift in mix of strategies, and so as you also know from our results over the last year, we've had strong inflows of long-term fee-based assets, and that has offset the modest decline in the effective fee mix.

Steven Chubak

Got it, okay. Just one strategy question. One of your bulge bracket competitors had recently alluded to an new initiative to expand into the self-direct retail brokerage space, and Marty, hearing your remarks about the benefits of revenue diversification, I'm just wondering given your strong track record in leveraging technology expertise and your recent expansion into the retail lending space with Marcus, whether that might be an area that you could look to expand as well.

Martin Chavez

So there are a lot of areas that we're always looking at as options for expansion. I wouldn't call out that one in particular, but we look at many things, and since we do have, as you mentioned, a strong tradition of building tools and applying those tools to deliver results for our clients, that's something we intend to continue. But there's nothing specific that I would call out right now.

Steven Chubak

Okay, that's it for me. Thanks for taking my questions.

Martin Chavez

Thank you.

Operator

Your next question comes from the line of Eric Wasserstrom with Guggenheim Partners. Please go ahead.

Eric Wasserstrom

Thanks very much. Marty, I was hoping you could give us a little bit of an update on what's going on with the Marcus consumer lending initiative ,so maybe you can give us a sense of where originations are now and how they're tracking relative to your firm's initial expectations of a few quarters ago.

Martin Chavez

Yes, so you all know the background on Marcus. We saw an opportunity to enter into a rapidly evolving world of consumer digital finance, starting with a clean sheet of paper and focusing--engaging on thousands of consumers to see what they would be looking for in an offering, and it was clear that they wanted simplicity, transparency, flexibility, and we had no legacy either in branches or in systems, and so we saw the opportunity. Since inception, the entire concept from Marcus is a slow, deliberate, organic build-out - crawl, walk, maybe someday run. What I would say to you right now is it's executing according to the plan. Early days.

Eric Wasserstrom

Okay. Executing according to the plan, but has the plan evolved in any way over the past few quarters based on the competitive environment, or credit or rate expectations?

Martin Chavez

No, the plan, we put a lot into creating that plan, and while we're constantly looking at everything that's happening in the environment, it's the same plan and we're on plan. No material changes.

Eric Wasserstrom

All right, thanks very much.

Operator

Your next question is from the line of Devin Ryan with JMP Securities. Please go ahead.

Devin Ryan

Hey, thanks. Good morning, Marty, Harvey. How are you?

Martin Chavez

Morning. How are you?

Devin Ryan

Good. A question on equities trading. I know you guys have improved your electronic capabilities and increasing market share there has been a big focus. I'm just curious how you feel like the investments that you've been making are going, kind of where you are relative to where you want to be, and just how much more room you still see.

Martin Chavez

So in equities, what I would say is that there is in the current results, I'd point to corporate activity being strong. If you want to look at the client execution line quarter on quarter, it's really about cash and derivatives performance, and then if you're looking year-on-year, it's really about derivatives. As for our offering, as you know, it's a scale business and our clients value the diversity of services that we offer across that business - high touch, low touch, execution, as well as prime brokerage. We have over the last period seen an opportunity to have a deeper engagement with our quant fund clients, and so certainly that's a major emphasis for us and we're starting to see the results in share.

Devin Ryan

Okay, terrific. Just one quick follow-up here on the regulatory outlook. Appreciate that you don't want to speculate on how regulation might evolve, but clearly I think one of the most difficult things kind of post-financial crisis regulation has just been the fact that it's been constantly changing and constantly evolving. So I'm just curious how the current moratorium on new regulation is impacting sentiment at all internally. Essentially, is it freeing up management to focus on other business opportunities or maybe increase risk appetite to do something new? Just trying to get a sense of effectively does this moratorium actually change things, or is it all about where existing regulation goes?

Martin Chavez

I would say we've never been distracted by regulation. It's just part of the operating environment, and working with our clients, regulators, peers through the process of the rule making and the implementation is just something that we've been doing for a long time and it's just part of how the business operates. I wouldn't call out any specific effects ongoing, and we'll see how it plays out.

Devin Ryan

Okay. Thanks very much.

Martin Chavez

Sure.

Operator

Your next question is from the line of Al Alevizakos with HSBC. Please go ahead.

Al Alevizakos

Hi, good morning. Thank you for taking my single question. It's regarding fixed income and equities, however, focusing more outside the U.S. where we haven't really discussed at all. So I'm just questioning what's been the performance outside the U.S., particularly in Europe but also in Asia, if you are slightly disappointed about certain product lines, and also regarding the pressure in European equities being from MiFID II. Have you actually started seeing any of that in 2017? Thank you.

Martin Chavez

No, there's no particular pressure that we would attribute or notice relating to MiFID II. In terms of our business, actually the business mix across regions has remained fairly stable over time. Give or take a point, it's 60-25-15 mix across Americas, EMEA and Asia.

Al Alevizakos

Thank you, and if I can have a follow-up, please, you spoke a lot about volatility being particularly low, which we witnessed as well. I'm wondering whether you see any specific events in Q2 that could actually increase volatility from your point of view. I mean, obviously we see here in Europe via U.K. elections and the French elections as being significant events. Do you believe that these could actually bring the required volatility to see improved numbers in the second quarter?

Martin Chavez

So certainly we're all looking at the same thing as we head into the French election next week - volatility, for instance dollar-euro has picked up significantly since intra-quarter, and we'd also generally see that clarity on outcome increases the probability of action. Other than that, just I'll note, which we've already discussed, there's often a connection between reasonable levels of volatility around market trends driving risk managers to transact.

Al Alevizakos

Great, thank you very much.

Operator

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

Brian Kleinhanzl

Yes, good morning. A quick question. I know you've spent or invested for the Marcus build-out as well as the bank build-out. Are both of those businesses profitable, or are they--and if they are, are the ROEs in these businesses above what you're getting from company overall?

Martin Chavez

So on Marcus, it's in build mode and we're not breaking it out, other than to say that it's operating entirely according to plan.

Brian Kleinhanzl

And the bank?

Martin Chavez

And the bank, I would say the bank is part of our structure under our bank holding company, and the bank is performing well.

Brian Kleinhanzl

Okay. Then I know you just got done with the most recent cost save program, but do you feel like right now from a headcount perspective, you're right sized for the volumes of activity that you saw in the first quarter, if that activity level were to persist?

Martin Chavez

So on that topic of expenses, we had the initiative which we shared with you and mentioned again recently, the $900 million expense initiative. On the other hand, expenses are never perfect, and keeping a close eye on our expenses is just part of the ongoing discipline of running our businesses for the clients and our shareholders.

Brian Kleinhanzl

Okay, thanks.

Operator

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

Martin Chavez

Since there are no more questions, I'd like to take a moment to thank all of you for joining this call. Hopefully we and other members of 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 second quarter earnings call in July. Thank you.