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 Second Quarter 2014 Earnings Conference Call. This call is being recorded today, July 15, 2014. 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 second 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 2013. 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 and Global Core Excess. And you should also read the information on the calculations of non-GAAP financial measures that is posted on the Investor Relations portion of our website at www.gs.com.

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

Harvey M. Schwartz

Thanks, Dane, and thanks to everyone for dialing in. I'll walk you through our second quarter results, then I'm obviously happy to answer any questions.

Net revenues were $9.1 billion; net earnings, $2 billion; earnings per diluted share, $4.10; and our annualized return on common equity was 10.9%.

The operating environment for our businesses was mixed during the second quarter, with favorable stable conditions in certain businesses and headwinds in others. It was an environment that, in the end, reinforced the benefits of a global, diversified business and a strong client franchise. All of this helped position the firm to continue to generate strong relative returns.

Over the course of the second quarter, there was a lot of focus across the industry on the challenges facing market-making businesses. Most importantly, how an environment defined by low volatility weighed on client activity and risk appetite. Given how much has already been discussed on the subject, I won't go through the statistics. Suffice it to say in several markets, volatility is at historically low levels.

During the quarter, we continued to see an increase in CEO confidence and a significant pickup in M&A activity. Year-to-date, announced M&A is up more than 70% to $1.8 trillion for the industry. It is nearly double that rate for our firm.

Historically, increased M&A activity has been a favorable sign for a few reasons. First, it traditionally coincides with a positive trend in economic activity and client sentiment. Second, it generally translates into greater client activity, for example, currency, interest rate or commodity hedging.

During the second quarter, financing markets also remained strong, driving our clients' demand for debt and equity underwriting services. As you would expect, rising asset prices created a favorable environment for our equity and debt investments. The quality of the underlying portfolio and favorable markets have also helped drive 8 straight quarters of strong Investing & Lending revenue performance.

And finally, continued success in growing and preserving our clients' wealth has driven solid net asset flows within our Investment Management business. I'll talk more about this later, but it's important to note that assets under supervision reached another record this quarter, finishing at $1.14 trillion.

So while Institutional Client Services is currently facing a lower level of client activity, our other businesses are seeing significant demand for our services. In a mixed operating environment, it's all about being diversified and staying close to our clients. Historically, this has been critical to generating superior returns. It's as relevant today as ever.

Now let me take you through each of our businesses. In Investment Banking, we produced second quarter net revenues of $1.8 billion, flat with the first quarter. Our Investment Banking backlog increased during the quarter, reaching its highest level since 2007. As you would expect, advisory activity was a significant driver of the increase. Second quarter advisory revenues were $506 million, down 26% from a strong first quarter. Year-to-date, Goldman Sachs ranked first in worldwide announced and completed

M&A. We advised on a number of significant transactions that closed during the second quarter, including Sallie Mae's $7.2 billion spinoff of its education loan management business and Illinois Tool Works' $3.2 billion sale of its industrial packaging segment to The Carlyle Group.

While the reduction in completed transactions quarter-over-quarter contributed to the sequential decline in revenues, we experienced a significant increase in announced M&A, which should benefit future quarters and is reflected in the growth of our backlog. For example, we're advising on DirecTV's $67.1 billion sale to AT&T, Covidien's $42.9 billion sale to Medtronic and Holcim's combined EUR 40 billion merger with Lafarge.

Moving to underwriting, net revenues were a record $1.3 billion in the second quarter, up 16% compared to the first quarter results, with significant strength in Europe. Equity underwriting revenues of $545 million were 25% higher, as industry-wide activity increased in the second quarter across IPOs and secondary offerings. Year-to-date, Goldman Sachs ranked first in global equity and equity-related common stock offerings and IPOs. Debt underwriting revenues increased 11% sequentially to a record $730 million due to issuance activity in the high-yield market, particularly merger-related activity. During the second quarter, we were committed to meeting our clients' diverse financing needs, whether it was Apple's $12 billion investment-grade offering, the AUD 2.3 billion financing of Transurban Group's acquisition of Queensland Motorways or B&M Value Retail's GBP 1.1 billion IPO.

Turning to Institutional Client Services, which comprises both our FICC and Equities businesses, net revenues were $3.8 billion in the second quarter, down 14% compared to the seasonally stronger first quarter. FICC Client Execution net revenues were $2.2 billion in the second quarter. Excluding DVA, net revenues were down 22% sequentially, reflecting reduced levels of client activity during the quarter. Currencies was higher sequentially, although volatility in volumes remained relatively low. Mortgages was roughly flat, while credit decreased modestly. Interest rates declined compared to the seasonally stronger first quarter. Commodities revenues declined significantly, following a robust first quarter as volatility in client activity decreased.

Total net revenues for Equities in the second quarter were $1.6 billion. Excluding DVA, results were up 2% sequentially. Equities Client Execution net revenues of $483 million for the second quarter were up 16% quarter-over-quarter. Commissions and fees were $751 million, down 9% relative to the first quarter on weaker volumes. Securities services generated net revenues of $373 million, up 6% sequentially due to seasonally stronger client activity.

Turning to risk. Average daily VaR in the second quarter was $77 million, down 6% relative to the first quarter, mostly due to lower equity VaR. The overall decline was driven by both lower levels of volatility and risk.

Moving on to our Investing & Lending activities. Collectively, these businesses produced net revenues of $2.1 billion in the second quarter. Equity securities generated net revenues of $1.3 billion, primarily reflecting company-specific events, including financings, as well as divestitures.

Net revenues from debt securities and loans were $604 million and benefited from net gains on certain investments and net interest income. Other revenues of $215 million include revenues from the firm's consolidated investments.

In Investment Management, we reported second quarter net revenues of $1.4 billion. Management and other fees were up 4% sequentially to a record $1.2 billion, reflecting the increase of assets under supervision. Following a large performance fee in the first quarter, incentive fees were down quarter-over-quarter.

During the second quarter, assets under supervision increased $59 billion to a record $1.14 trillion. This growth was driven by long-term net inflows of $21 billion into fixed income assets. We also had market appreciation of $23 billion, principally in equity and fixed income assets.

Let me provide you with some detail on our Investment Management business. There are a couple of current themes that are really important to our clients. First, clients are concerned about the potential for rising interest rates. As a result, we saw institutional, private wealth and retail clients seek unconstrained fixed income strategies. Second, our clients are focused on outsourcing portfolio management functions to both create greater efficiencies and focus on their core competencies. They are also engaging us as an advisor to gain expertise and enhance their decision-making around asset allocation, portfolio manager selection and risk management. The demand for an outsourced asset management function and advisory services, particularly for our insurance clients, also contributed to net inflows for the quarter. Additionally, many clients have been looking for other opportunities to generate incremental yield and uncorrelated returns in their portfolios. As a result, we saw continued net inflows into our yield-focused strategies, as well as our liquid alternatives funds.

And finally, clients have a continuing demand for defined contribution retirement solutions. We have been focused on growing our defined contribution product offering. To that end, we completed the acquisition of

Deutsche Bank's Stable Value business, which contributed $11 billion of inflows this quarter.

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 43%, which is consistent with the accrual for the first half of 2013.

Second quarter non-compensation expenses were $2.4 billion, up 4% sequentially due to higher net provisions for litigation and regulatory proceedings. Total staff at the end of the second quarter was approximately 32,400, down 1% from the first quarter.

Our effective tax rate was 30.3% year-to-date. The lower rate this quarter was driven by earnings that were permanently reinvested abroad, as well as changes in the earnings mix.

Moving to capital. As I mentioned on our last conference call, the Federal Reserve approved the firm coming off the parallel run, and therefore, starting this quarter, our capital ratios are subject to the transitional provisions of Basel III. Our Basel III common equity Tier 1 ratio was 11.4% using the advanced approach. Under the standardized approach, our ratio was 10.9%. During the quarter, we repurchased 7.8 million shares of common stock for $1.25 billion.

Now I'd like to spend some time on our balance sheet. Over the past few months, we have received greater clarity on the role of the balance sheet across a variety of regulatory requirements, most notably CCAR and the supplementary leverage ratio. During the quarter, we undertook a comprehensive analysis of our balance sheet. We began the process by examining the return on asset characteristics associated with different businesses. Through that analysis, we identified opportunities to reduce balance sheet with a de minimis impact to our client franchise and earnings potential.

As you would expect, the quarterly reduction largely impacted lower-return asset activities within our matched book and other secured financing transactions. By managing our balance sheet, we've achieved a number of benefits: first, we responded proactively to comply with regulatory developments; second, we improved the overall efficiency of our balance sheet, and third, we positioned the firm to provide additional risk capacity to our clients if needed. Going forward, we will continue to assess our positioning to ensure that we comply with new regulations and remain prudent allocators of an increasingly important financial resource.

In closing, our management of the balance sheet is just one recent example of our firm's mindset and our broader culture of adjusting to a changing environment. In the past, you've heard us use the words adaptable and nimble. While adapting to an evolving backdrop is simple in concept, it can be difficult to implement. Successful implementation requires many things. It requires a culture of collaboration. It requires a talented and dedicated team, and you have to provide them with the necessary tools and analytics to make prudent risk-return decisions. However, the most important factor is our connectivity with our clients. Their needs ultimately inform our actions.

Adaptability has always been important for our industry. However, it may be even more valuable in the current environment, given the numerous regulatory and economic changes underfoot. We do know that regardless of the environment, adaptability has been and will continue to be an essential ingredient to serving our clients and producing superior returns for our shareholders.

Thanks again for dialing in, and now I'm happy to answer any of your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question is from the line of Glenn Schorr with ISI.

Glenn Schorr - ISI Group Inc., Research Division

First question is a follow-up on your comments on the balance sheet reduction. I'm just curious for any type of example of a low-ROA business that doesn't have a broader client implication that's helping reduce the gross balance sheet. I'm assuming it's something in repo land, but just more interested in learning.

Harvey M. Schwartz

Glenn, thanks for dialing in. So as I said, we started this exercise as we got basically increasing feedback on role, effectively, that balance sheet was going to play. And one of the significant inputs into the process, obviously, was CCAR. And so the way we approached it and one of the good things about working with the balance sheet is this notion, and I'm oversimplifying it, but you can effectively sort your balance sheet by return on asset, low to high. Now that doesn't mean necessarily that all low-ROA activities can be taken down. But in this case, it seemed like we had some opportunities that, as I said, would allow us to comply with the rules and give us a lot more flexibility. One example would be the matched book, which, of the $56 billion reduction in the quarter, came down $25 billion approximately.

Glenn Schorr - ISI Group Inc., Research Division

Okay, I get that. Maybe we could switch over to I&L for a second, and you mentioned the results have been great now for 8 quarters. I'm curious on the double-edged sword of the markets continuing to do better and the environment's good, produces good revenues, but we still have that little shadow hanging over us. It's a good shadow, but $9 billion or so in Goldman capital in the Investing & Lending function that eventually has to work its way out. Good environment to work its way out, but I don't know if you could provide any update on the asset side of what's in equity, debt and lending buckets, how much of the $9 billion you've worked through and maybe if you're working towards July of '15 or July '17, because I know we don't know those rules yet.

Harvey M. Schwartz

So it's a great question. So in terms of how we think about the process in terms of complying with the rule, first, let me remind you, this capital, obviously, sits alongside our clients, in funds that our clients are co-investing with us in. So we're harvesting it at a pace that obviously makes sense for those funds and the performance associated with those funds. I won't go through all the numbers, because they haven't moved so materially since the last time I gave you an update. But on the last call, when I walked you through basically a waterfall of flows, the number ended up being roughly $9 billion. Now that was based on the January numbers. If you look at kind of midyear, we're at an $8 billion number now, give or take.

Glenn Schorr - ISI Group Inc., Research Division

Okay, that's helpful. And then I guess the no big change is just a function of markets keep moving higher, so your assets grow with it. So you sell some, but it goes off. Okay, I got that.

Harvey M. Schwartz

So I mean, with respect to the capital, the reality is that as it comes off, we have the flexibility deploying that capital in any way that we think is in the best interest of our clients and the firm, or obviously, we can look to return it. And that will be opportunity-driven in the franchise.

Glenn Schorr - ISI Group Inc., Research Division

Yes, and I've noticed some direct investments being made. That's cool. Last 2 are quickies. One, what was the SLR ratio, and two, what's the geography of the market gain? Like what line item did it go through?

Harvey M. Schwartz

So in terms of the SLR ratio, on the last call, we were at 4.3%, and then you have to make some adjustments. During the course of the quarter, you probably saw that we issued $2 billion in preferred. That adds 10 basis points to the ratio. That gets you to 4.4%. Balance sheet and other basic actions we took during the quarter gets you up to 4.5%. And again, an important fact on this is the one you mentioned earlier. As the capital comes out of the funds, which is punitive from the standpoint of the significant financial institutions deduction, that has to come out, obviously, before you have to be in compliance with the supplementary leverage ratio in 2018. When you do that math, we're north of 5%.

Glenn Schorr - ISI Group Inc., Research Division

Got it. Cool. And the last cleanup was just the geography of the market gain.

Harvey M. Schwartz

So as you know, we keep all those items in our Investing & Lending section.

Glenn Schorr - ISI Group Inc., Research Division

Okay, in Equities?

Harvey M. Schwartz

Yes.

Operator

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

Michael Carrier - BofA Merrill Lynch, Research Division

First one on, just the optimization of the balance sheet. So I understand a lot of the commentary. I guess, can you provide any color on maybe the return impact to the overall firm or what the returns were in the areas that you're exiting? And when you look at the broader balance sheet and given the current relationships and the activity levels, is there much more to do, or was this the bulk of it and you'll just keep an eye on it going forward?

Harvey M. Schwartz

So as I said, the impact, de minimis, and that has a lot to do with how we approach this. So at the beginning of the quarter, when we began this exercise, as a management team, we didn't pick $860 billion as a hard-line target. This is a very iterative process that we go through. We set multiple targets. And just to give you a real sense, our initial target, we basically said, look, let's work down to an $875 billion level. And as we went through it, we realized that there was more capacity in terms of our ability to build in efficiencies and still work with clients and really no impact at the margin. But importantly, as I said before, this allows us to comply with the rules. And again, builds in flexibility in terms of how we deploy capital. In terms of how we go forward, our process will continue the same way. There won't be hard targets to get down, and we'll just continue to reassess.

Michael Carrier - BofA Merrill Lynch, Research Division

Okay. And then just on the Investing & Lending segment. So Glenn hit on the capital side, I think it's obviously a hard business to predict, and so maybe ex the mark-to-market gains that we all try to predict, but can you give us any color on like the current MOC [ph] or the IRR of the portfolio, the seasoning, like normal exit premiums? Just anything to get a sense on how things are doing and what we can expect over the next couple of years as you're running it down or exiting those positions.

Harvey M. Schwartz

So I mean, just for clarity purposes, obviously, the debt line has interest income in it. The equity line has equity positions. To give you some sense of how we look at it in terms of the underlying quality of the portfolio, if you look at the performance in the equity line this quarter, give or take, about 2/3 of the performance was driven by IPOs, other event-related activity in terms of the quarter. And so what you're seeing is the strength of the portfolio as we work through it. In terms of predicting the pace, obviously, some of that is driven by market conditions, but that's really about how these entities are run ultimately within the funds, and the performance has been good. And again, I know there's always some skepticism about the future performance, but as I pointed out, when you look at the last 8 quarters, it's been pretty steady. So we'll see how it goes over time, but the quality of the portfolio feels good.

Michael Carrier - BofA Merrill Lynch, Research Division

Okay. And then just Investment Banking and Investment Management, both those segments, the trends have been very strong, and it's been fairly consistent. When you look at the outlook, obviously, the M&A backdrop, that's easy to see. But when you look across those 2 segments, where do you see the big opportunities at this point in the cycle versus -- are there areas where you're starting to get concerned? Are the risks rising in the overall market that we could start to see some decrease in activity?

Harvey M. Schwartz

So why don't we just start with the Advisory business? I mean, I think if, when we were doing this call a year ago, there was a lot of concern or question around, look, almost -- for lack of better language, will M&A ever come back? And now we sit here in an environment where there's lots of activity. And maybe in retrospect, sitting here, that doesn't look surprising because as sentiment shift and CEOs get more confident and global economic activity stabilizes, starts to grow, you start to see it. For us, during the slower part of the cycle, the slower part of the cycle was really aimed at making sure that we stayed connected with our clients. And I think you see it in some of the statistics. For transactions greater than $1 billion, we are in 60 of the transactions out of 175, and that's, give or take, roughly a 35% market share. And as I mentioned on the call, our market shares have continued to grow on a relative basis during this. Now when you think about other parts of the Investment Banking set and you think about debt, this was a big discussion again we had last year. I remember we hit a record in debt performance in the first quarter of last year, and there were a lot of questions about whether that's sustainable. So I think as economic growth continues to improve globally, the opportunity for Goldman Sachs to provide advice to our clients, capital to our clients, I think it feels pretty good, but it will be environment-driven. But it seems like there's some capacity from here.

Operator

Our next question is from the line of Christian Bolu with Credit Suisse.

Chinedu Christian Onwugbolu - Crédit Suisse AG, Research Division

In the past, you've spoken about the strategic importance of growing the wealth management business. There's been some talk in the marketplace about Goldman expanding their business by acquisitions. Can you remind us about your ambitions and growth plans for that business and how you think about using M&A for growth?

Harvey M. Schwartz

So the business has been a strategic growth focus for us for a number of years. We've taken a number of steps in that business, and this goes back multiple years, to really improve performance. And what you're seeing is you're seeing quality of performance, which is now driving pretty significant inflows and growth into the business. In terms of acquisitions, our philosophy on this is pretty straightforward. If we believe it's accretive to the business and we can provide value to our clients, we'll consider them. I mean, largely, what you've seen us do are bolt-ons. I mentioned the Deutsche Bank Stable Value business. That follows an acquisition we did a couple of years ago, and that's about building scale in a space where we feel we can provide value.

Chinedu Christian Onwugbolu - Crédit Suisse AG, Research Division

That's helpful. Just switching over to FICC, apologies if I missed this on your prepared remarks, but clearly, June saw an improvement in activity levels. Could you provide a bit more color on which businesses and which regions did better? And also, I'd appreciate any insights into how July is progressing so far relative to June.

Harvey M. Schwartz

So in terms of the quarter, as we all saw in the beginning of the quarter, there were some pretty negative forecasts related to kind of general client activity across Fixed Income and Equities. As the quarter went along and investors felt more comfortable, certainly, post the actions of rate policy announcements out of Europe, there was a more significant pickup in activity. I would say that relative to historical markets, volumes, and clearly, you're seeing it in volatility levels, really feel like they're bottoming a bit. But activity improved across the business broadly.

Chinedu Christian Onwugbolu - Crédit Suisse AG, Research Division

Okay. Nothing on July, I take it, then?

Harvey M. Schwartz

Bit too early to tell.

Chinedu Christian Onwugbolu - Crédit Suisse AG, Research Division

Okay, that's fair. Just my last question, really, is more of a broader question on Goldman's long-term competitive positioning. I guess the period post-crisis was really marked by industry consolidation, and since then, there's been significant growth in the non-bank financial sector. And as we move into stronger macroeconomic conditions, it seems to me that there'll be a lot of competition for Goldman's clients. I'll be curious on how you see Goldman competing against -- or competing in the sales and trading businesses against the balance sheet might and customer flow that the money center banks enjoy and also how Goldman competes against less-regulated firms such as the independent M&A brokers and the alternative asset managers.

Harvey M. Schwartz

Okay, so why don't we start with Institutional Client Services? So we obviously have a very long history in these businesses, and one of the things we benefit from is the diversification of the business, so currencies, commodities, interest rates, by the way, also the leadership position we have in equities, client brokerage, derivatives. And our ability to commit capital has always been a defining characteristic for our clients. And so we feel that our competitive position now, relative to the rest of the market, it feels to us like it's a pretty good position. And so we'll have to see it evolves. We've seen pockets of areas where, when volatility has picked up, and I've talked about it in the last quarter, for example, in commodities, as far as we could tell, it felt like there was some kind of advantage, given our commitment and long history in the business, when the markets were volatile. But these are pretty quiet markets, as we discussed, some of the most historically low levels of volatility that we've ever seen. But the competitive position, when we think about our people, ability to hire, the talent, it feels strong.

Operator

Our next question is from the line of Matt O'Connor with Deutsche Bank.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Can you talk a bit about some of the ancillary businesses or business that you get from M&A and the timing of that? So obviously, we've had a lot of announced M&A, and I guess I usually think about the ancillary business occurring closer towards when the deals are actually completed. But just kind of a broader conversation, if you could talk a bit about the other businesses you get from the deals.

Harvey M. Schwartz

Sure. So as I mentioned, the largest part of the growth in the backlog was in the announced, and obviously, we're extremely active in terms of our position in the marketplace. These transactions, as you know, they can take 6 to 9 months to close. Lots of the transactions we've seen have either been cross-border or they've had a debt component, and so there are a variety of different hedging elements that will go on associated with those transactions where we're providing advice. In general, those corresponding activities tend to happen around closure also, not in all cases, but for the most part, given the fact that there's always uncertainty about whether the transaction will be completed.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. So still a lot of that benefit, one would think, to come then?

Harvey M. Schwartz

Yes. Again, as I said, the backlog growth, which is the highest it's been since 2007, the backlog growth quarter-over-quarter really was driven by M&A and the announced transactions.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then just a bigger picture question on rising rates on the Fixed Income businesses. I guess in the old days, people used to think rising rates are bad for investment banks because they hold all this inventory, and you get marks on the way up. Although a higher rate environment, once you get there, might be better for activity. But I've noticed that for the industry overall, the inventory levels have come down pretty significantly versus a year ago. So I'm just wondering how you think about -- if we can split it, like the impact of rising rates as it's occurring versus once you get to a higher level.

Harvey M. Schwartz

So it's a great question. If you look back in history in periods of rising interest rates, it's all very contextual. A lot of it depends on the base that you're coming from and whether or not the market was expecting or not expecting the move in the first place. In the end, it all relates back to is the rise in interest rates something that is a stimulus to activity, so we don't see inflation in the forecast. If you had rising rates as a result of inflation, and you had -- or struggling unemployment, I think generally speaking, that would be bad for activity. But in an environment where it's more of a return to normal, and we've been at such managed low levels for so long, but a normal environment with good, solid, stable economic growth, that may bode well for client activity. But again, it's all going to be activity-based.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then just lastly, on the comp ratio, you have historically done adjustments in the back half of the year, usually, in the fourth quarter. And I think last year, you did some in the third quarter as well. And just if you could comment on that, especially in light of the -- I think the FICC trading comps are pretty easy in the third quarter a year ago, but how, when we put it all together, think about the comp ratio at the back half of the year.

Harvey M. Schwartz

So the 43% that you've seen this quarter, the first half of the year and actually, the first half of last year, for this quarter, obviously, it's our best estimate of where we think we are. We're reviewing it every quarter. Last year, you started to see some of the benefits maybe earlier than we have in the past versus -- in third quarter versus fourth quarter, just because of the cost savings that we had built into the enterprise. And so we'll continue to evaluate it every quarter.

Operator

Our next question is from the line of Betsy Graseck with Morgan Stanley.

Betsy Graseck - Morgan Stanley, Research Division

Just a couple of questions. One's a ticky-tacky on the SLR that you mentioned earlier. I know in your Fixed Income presentation from May, you had the SLR at the end of 1Q '14 at 4.2%, and then the press added the 10 bps to get you to 4.3%. So then on top of that, the balance sheet adjustments added another 10 bps to get us to 4.4% at quarter end. Is that the right math?

Harvey M. Schwartz

No. So I have it at 4.3%, 4.4%, 4.5%, but there's a rounding in there, too, right, so when you go back and forth.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then if we assume all of Volcker-noncompliant $8 billion goes away, that's what gets you to above the 5%.

Harvey M. Schwartz

No, just to be ticky-tacky, too, just so we're very clear, so the $8 billion is what still needs to be managed after you take adjustments for things that are already public, et cetera, et cetera, et cetera. The significant financial institution deduction itself is actually bigger, so that's $9 billion. And so once that's out and with extensions, as you know, the final compliance date is July 2017, as we know it now, that precedes the 2018 SLR requirement. That gets us north of 5%. Is that clear?

Betsy Graseck - Morgan Stanley, Research Division

Yes. And then on the balance sheet freeing-up that you did, you have the relatively low-ROA assets that are not necessarily helping clients as much. I mean, I would think that you're doing that in part ahead of the significant M&A calendar that typically comes with lines of credit, bridge loans, et cetera. Is that fair?

Harvey M. Schwartz

No, we don't -- again, from that perspective, we feel like we have more than enough capital adequacy and certainly more than enough liquidity in the balance sheet to support those franchise activities. This really was directly correlated to, basically, information that we've gained from the discussions around supplementary leverage ratio. And as I said, a significant factor is CCAR.

Betsy Graseck - Morgan Stanley, Research Division

Okay. So then the M&A activity, obviously, announced, as you indicated, up significantly, so we should have a nice second half here into '15. Any lines of credit that you're extending with those activities is on your books today. Is that correct?

Harvey M. Schwartz

Yes, so the way they generally work is if we're committing to a financing, if we're left lead, then those show up as either unfunded commitments, or if they become funded, they show up as funded commitments. That's correct.

Betsy Graseck - Morgan Stanley, Research Division

Great, okay. And so part of that's already in the footings?

Harvey M. Schwartz

That's correct, yes.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then just lastly, as the Volcker-noncompliant rolls off and you're using the capital to reinvest elsewhere, I'm thinking about the fact that your clients have been involved with you on these noncompliant Volcker assets because they are alternatives. They are giving you, potentially, uncorrelated risks -- uncorrelated returns, I'm sorry, and that there's certain elements of this that might look akin to alternative investments. I'm just wondering what the strategy plan is for increasing your offerings in that area of asset management business.

Harvey M. Schwartz

So in terms of the capital, I'll make a couple of points as it comes out. So obviously, we run a very large asset management business, and those clients can participate in that, as I mentioned, as they wish. So obviously, we run a very big alternatives business aside from the capital that's in these funds. Also remember, we can invest those dollars in other Volcker-compliant funds for our clients, and we can offer them those options. We can also co-invest with them in Volcker-approved structures, so there's enough flexibility where certainly, we feel like we can respond and deliver to our clients' needs.

Betsy Graseck - Morgan Stanley, Research Division

Okay. Yes, I get that. I'm just thinking there's some opportunity to expand the offerings even further.

Harvey M. Schwartz

If you want to -- there certainly are as the capital moves around. But if you want to follow up with Dane and the team later, we can break down for you a bit how the alternatives asset line actually moves in terms of activities that we're being asked to exit and those that are growing side by side.

Operator

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

Michael Mayo - CLSA Limited, Research Division

I have 3 questions around balance sheet optimization. The first is, what's left? So you reduced total assets by $56 billion. How much more is there to go? And also, the risk-weighted asset decline was only $5 billion versus the $56 billion. What's your priority looking ahead?

Harvey M. Schwartz

So that's a great question, Mike. So in terms of the balance sheet, again, we're going to continue to reassess as we go forward. Standing here today, there certainly may be some room, but as we approach the third quarter, there are no strategic initiatives at this stage. But I would expect it to be around this area, but we'll see how things evolve. Again, it's going to be very much client-driven. In terms of the metrics, I think this is a great example of when we're complying with the various metrics, some are risk-based, and those are less -- those like the leverage ratio or leverage tests, are, by definition, not risk-based. And so the reason why you're not seeing a corresponding meaningful reduction in RWAs and you actually saw an increase in our Basel III advanced ratio from 11.3% to 11.4% is because this really is in response to those non-risk-based measures.

Michael Mayo - CLSA Limited, Research Division

Got it. As it relates to loan growth, what are your priorities for growing loans, and do you think that loan growth in the industry is accelerating?

Harvey M. Schwartz

So it's hard for me to see across the industry in terms of how it's accelerating. It feels like it may come off the bottom a bit, but I guess I would say the following, which is an important takeaway. So lending for us has always been an important component of how we provide strategic capital to our clients. Obviously, predominantly, our corporate clients and obviously an important component of our private wealth business, we don't target loan growth. Again, these activities, while well collateralized, particularly, for example, in private wealth, while well collateralized, again, this is risk-based capital, and so the way we manage it is through a limit process and through an individual approval process. And so we'd be pretty reluctant to target loan growth.

Michael Mayo - CLSA Limited, Research Division

Can you just elaborate on your comment? You said loan growth does not seem to be accelerating. It's just a downfall...

Harvey M. Schwartz

No, I said I don't have great view into the industry. It's been growing for us over the past year when you look at it, and we've just seen opportunities to work with our clients more closely, so we've been extending more capital. I don't have great view into the industry.

Michael Mayo - CLSA Limited, Research Division

And lastly, if you feel confident enough to restructure your balance sheet and downsize so much, does that mean you have better -- enough clarity on SLR and other regulations to set an ROE target anytime soon? I know I ask that every quarter, but it seems like you're making progress.

Harvey M. Schwartz

So I got to say, Mike, actually, I don't think a quarterly call would feel complete for me if you and I didn't have this discussion. So I think we should plan to have it next quarter, and if we need to, we should have it the quarter after that. I don't mean to be glib, but I do enjoy the discussion. So how are we thinking about capital? And you're right. We're getting increasing clarity. In terms of our strategic priorities over the last several years, we've been focused on a number of things, most importantly, obviously, growing the franchise. And you're seeing pretty significant growth in areas where there's activity: Advisory services, Investment Management. Obviously, we've seen more headwinds in other areas where there's been low volatility. But the most important thing is our focus on our clients. The second thing is about building, and we've talked about this a lot, operating leverage into the business so that we're positioned to grow returns when the environment improves and continues to improve. And so we're going through all these steps. In terms of returns in absolutes, we're being disciplined about how we deploy the balance sheet. You saw some of that this quarter. And in the end, Mike, look, we just aspire for better returns. In this environment, you've seen us do, give or take, 11% for 2.5 years, but we continue to look to aspire for better returns. And I think maybe the balance sheet this quarter, even though it's just 1 quarter, taking it down $56 billion, I think that's a good example of some of the steps we're taking.

Michael Mayo - CLSA Limited, Research Division

I mean, the 11% ROE is so far below where you've been historically. The question is, do you just stay here for a long period of time?

Harvey M. Schwartz

Well, I don't know. My crystal ball has never been quite good on these things, but we could certainly have a discussion around -- if volatility picked up and you saw activity levels, I think that the future will be what it will be. Again, what we try to do during this period where it's been so much lower is find the right balance. And by balance, I mean protecting our client franchise, at the same time, building these efficiencies. And look, I think when you look at it over the cycle, I think our returns, on a relative basis, they look pretty good. They've been superior.

Operator

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

Guy Moszkowski - Autonomous Research LLP

First, I just wanted to revisit the tax rate comments that you made in terms of having made some permanent offshore reinvestment decisions. Is this something that will continue and accelerate going forward? Should we begin to think about tweaking down the core tax rate that we use in computing earnings?

Harvey M. Schwartz

No, so there's 2 things here. One is obviously as we review capital needs around the globe, in this particular quarter, we made an election to permanently reinvest capital. But it's also earnings-mix-driven. And so in terms of the capital needs, I think you should treat that as a one-time event. Earnings mix will be what it'd be, driven by client activity around the globe.

Guy Moszkowski - Autonomous Research LLP

Got it. So this isn't a call to begin to shave a point or 2 off the tax rate that we use in forecasting?

Harvey M. Schwartz

No. We're a high tax payer.

Guy Moszkowski - Autonomous Research LLP

Just wanted to make sure that we get fully phased-in Basel III ratios, core equity Tier 1.

Harvey M. Schwartz

So again, the 11.4% was the transitional and 10.9%, and fully phased-in would be 9.8% and 9.3% -- sorry, 9 -- yes.

Guy Moszkowski - Autonomous Research LLP

All right. Advanced and standardized, in that order, is that right?

Harvey M. Schwartz

That's correct. I'm sorry. I misspoke. I said 9.3% and I should have said 9.4%.

Guy Moszkowski - Autonomous Research LLP

9.4%? Okay. Great.

Harvey M. Schwartz

There's the transitional ratio and then there's the fully phased. And so when I went through it, I just misspoke. I apologize.

Guy Moszkowski - Autonomous Research LLP

Got it. That helps. You obviously mentioned, both in the release and the press and your comments before, that headcount is down about 1% off the end of last quarter. Obviously not a big number, but just makes me want to ask if you can give a say, year-to-date, what the puts and takes are. If not quantified, at least where are you adding and where are you rationalizing, by key line of business?

Harvey M. Schwartz

All right. So well I think in terms of the aggregate, as we come into the third and fourth quarter, our new analysts will be coming on board, so you should expect that year-end headcount will continue to come up a little bit. We've been very focused on the pyramid, as we referred to it, over the last several years, and also simultaneously investing in those areas that have been growing, like asset management. And Gary spoke about this at a recent conference, if you take Fixed Income as an example over the last couple of years, headcount has been down roughly 10%. And so it's very business-specific-driven in terms of how we're adjusting the resources.

Guy Moszkowski - Autonomous Research LLP

Got it. So mostly down in Fixed Income, up in asset management, pretty much stable everywhere else, is that the right takeaway?

Harvey M. Schwartz

That's about right. And also I would say, in general, we feel pretty comfortable in terms of how the global business is right-sized at this stage.

Guy Moszkowski - Autonomous Research LLP

And when you made that comment about the pyramid, does that refer to the fact that in order to try to make the lifestyle implications for the junior staff a little bit more manageable, you've upsized what, 10%, 15% in terms of the analyst class, is that what you're talking about?

Harvey M. Schwartz

No. I was talking more about -- I'm glad you asked me to clarify. I was talking more about post-2008, when we normally get sort of a, call it, every other year, series of retirements of partners, many people elected to delay what otherwise were retirement plans. They just felt like they needed to be here. And so we've just seen some acceleration of that, but it's been fully expected.

Guy Moszkowski - Autonomous Research LLP

Got it. Okay. Yes, that helps. Final question, just to revisit the balance sheet exercise that you went through, and thanks for talking about that, that's very interesting. Is there some way that you can quantify for us the ROE impact over the next year or 2 of having made the changes that you've made, assuming that you can do what you want to do with CCAR?

Harvey M. Schwartz

So obviously, we can't predict future CCAR results, and so that's difficult to assess. I think when you think about how any firm, certainly Goldman Sachs, needs to manage capital in an environment of multiple constraints, it's about finding the right place to comply with the rules, and at the same time, building maximum flexibility, so you can be there for your clients when they need you to be. And when you have excess capital, be in a position to return it. And that's what all these exercises are about.

Guy Moszkowski - Autonomous Research LLP

So you didn't -- you didn't undertake it with the thought that if you optimize in this way, you could add 100, 200, 300 basis points, over time, to ROE in a normalized environment. It's more about, as you said, being prepared to provide more risk and remediation when the markets call for that, that type of thing?

Harvey M. Schwartz

So the way I would think about it is, less figuring out a target in terms of capital flexibility and the CCAR process, because again, we don't have much visibility, we don't know what next year's test is going to look like. The key driver of the exercise is the dialogue we have with clients as we undertake it. And so as we work through that process and we feel the capacity is there, then obviously, it's the more efficient way to deploy our capital. And so we'll see how future CCAR tests go, but look, certainly having more capacity in terms of flexibility is preferred, but again, the key driver is going to be how our clients -- what our clients need from our balance sheet. And as I said earlier, in this case, we're able to reduce the $25 billion out of the matched book.

Operator

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

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

I just have 2 questions, please. One was regarding the deductions, because I was surprised that the look-through, although fully phased-in, ratio hadn't improved more. Could you just go through those again? I think you mentioned an $8 billion number, but then also a $9 billion number. And then the second question was really on the non-compensation expenses underlying. They seem pretty steady, give or take, taking out litigation in the last 3 or 4 quarters. Is there a target to keep them flat over a period of time, and is there quite a lot going on in the background for that to happen?

Harvey M. Schwartz

Okay. So I'm really glad you asked the first question, because I certainly don't want to leave anybody confused on this topic. Those are different numbers. That's the important takeaway, they're different numbers. The first number, the $8 billion, that relates to the dollars in funds that we need to ultimately remove from those funds as we harvest alongside our clients to comply with the Volcker Rule. And the reason I highlighted that in the last call, it's roughly $9 billion, now it's a bit north of $8 billion, was when you look at our financial disclosure, you would see roughly a $14 billion number in terms of total investments. But there are capital, there are capital allowances, there are assets that are already public, there are other funds that are approved, and so I just want to make sure you have some scale. And that number has moved down to roughly $8 billion since January. Okay, that's one number. They just happen to be very close in size. Under the Basel III capital rules, you get a certain allocation for which you are allowed to have dollars invested in what they call significant financial institutions. For us, that is a dollar-for-dollar deduction from capital that is $9 billion. Now as we comply with the Volcker Rule, that $9 billion comes out just side-by-side, which is why we give you some sense of that and its future impact on our capital ratios. Is that clear?

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Just to clarify, the $9 billion deduction under the calculation you disclosed hasn't really moved because of maybe some other offsetting factors? Or...

Harvey M. Schwartz

Okay. So that number is driven by the aggregate. And so that number, again, is a different number versus the $8 billion that is still in funds but isn't yet public, et cetera, et cetera, et cetera. So that includes, for example, that includes assets that are already taken public but are still sitting in the funds and they're working through the sell-down process. And just remind me, what was your second question, Fiona? I'm sorry.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Just on the non-compensation expenses, if you strip out litigation they're very flat over a long period of time.

Harvey M. Schwartz

Yes. So we're staying very focused on non-comp. As you know, several years ago, we went through an exercise to take out roughly $2 billion of cost out of the enterprise. At this stage, we continue to stay very focused on it, but there hasn't been any material movement.

Operator

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

Steven J. Chubak - Nomura Securities Co. Ltd., Research Division

So I just wanted to kick things off with, actually, a big picture FICC-related question. So shortly after Basel III and Dodd-Frank, at a number of investor conferences, you guys highlighted, I suppose, the potential opportunity for FICC industry fee growth in the context of the paradigms, let's call it, of FX and equity electronification, suggesting that we could actually see some improvement in the revenue backdrop. And I thought it was quite telling where, flash forward to the Bernstein Conference last month, I felt as though your comments, as well as Gary's, were a bit more measured on the long-term outlook. And Gary specifically highlighted some challenges to FICC digitization, and relating to that, he even made some explicit references to TRACE. And the TRACE experience, I guess, in my mind, is more of a cautionary tale where you saw really meaningful spread compression in terms of corporate bond pricing and only a modest volume improvement, resulting in a net revenue decline. So we're now 4 years into the adjustment process within FICC, and I'm wondering whether your fundamental outlook for the FICC industry has changed, and more specifically, whether we should even read into Gary's explicit references to TRACE in the context of your views on FICC.

Harvey M. Schwartz

Okay. So let's back up and let's just take history into context a bit. In FICC, and actually in Equities, the advancements in technology, if you will, we would say that's been a secular change that's been in place for well, well over a decade. And whether it was in Equities where, back in what some people call the good old days, you have

$0.06, $0.065 commissions, which collapsed with electronification and decimalization and other rules that the regulators put in place, I don't remember, actually, Gary's explicit comments about TRACE, but I think his point was that when technology first gets adapted, there's an adjustment process that goes through. Now if you look at it over multiple years, I think our experience with TRACE would be similar to the experience we saw in the government bond market with Tradeweb, and the same as I described with Equities where you go through a market adjustment period, but for example, in our, in TRACE, again, I don't remember exactly Gary's comments, but I think he was mostly speaking about the high-yield market when it first came onboard. At first, when TRACE came onboard, I think it was actually disruptive to liquidity. That was the feedback we got from clients. But then as the market adjusted, over time, we actually found that our leverage finance and high-yield franchise got stronger. Now I could give you a whole host of examples like that. Again, the government bond market, when we started trading government bonds on Tradeweb, everyone said that business was over, just like, by the way, they said the same thing when the euro was created. And over time, these businesses have generally -- we've been in a position where we've been able to provide more value to our clients, enhance liquidity to our clients. Now in terms of the last couple of years, obviously, the regulators have been quite effective, and I think they deserve a lot of credit for deploying clearing. We're in the early stages of swap execution facilities. It's not our sense that those things have been headwinds for the business. This has really been much more climate-driven in terms of the low volatility, but it's something we stay quite focused on.

Steven J. Chubak - Nomura Securities Co. Ltd., Research Division

Okay. So essentially, your view hasn't really shifted?

Harvey M. Schwartz

Now, that was a long-winded answer, but you did ask for big picture, so I apologize if that was...

Steven J. Chubak - Nomura Securities Co. Ltd., Research Division

No, it's extremely helpful, so I appreciate it.

Harvey M. Schwartz

No problem.

Steven J. Chubak - Nomura Securities Co. Ltd., Research Division

And then shifting gears and moving on to preferred issuance and your capital structure. So you noted that you had issued $2 billion in the preferreds in the quarter, and to my knowledge, you're the only universal bank which is actually at the 150-basis-point RWA target that's contemplated under Basel III, which -- I guess I can interpret it 2 different ways: either you've taken advantage of the cheap cost of issuing, perhaps, in the current backdrop and have no intention of tapping the market anytime soon; or, in an effort to cover the current SLR shortfall, which currently exists, you actually plan on issuing additional prefs from here in order to optimize your capital structure. I was hoping you could at least explain what's driving the preferred issuance plans going forward.

Harvey M. Schwartz

Yes. So I think the simple question are we full, we'll assess it as we go forward. You also saw in the quarter that we launched a tender for trust preferreds, which is capital that under the Basel rules didn't qualify. And so you should think of this as adjusting in terms of -- again, in complying in response to the regulation, so trust preferreds aren't considered valuable capital and so you'll see preferreds come into the mix.

Steven J. Chubak - Nomura Securities Co. Ltd., Research Division

But do you have any intention of issuing additional preferreds from here? At least in, call it, the next -- in the near to intermediate term, because you are essentially full?

Harvey M. Schwartz

Yes. We'll continue to evaluate it and we'll see how we proceed. But again, this is all part of our capital planning and consistent with our CCAR plan, so...

Steven J. Chubak - Nomura Securities Co. Ltd., Research Division

Okay. And then just one last one for me on the topic of, I guess, the term that we've used internally is bindingness, but the need for U.S. SIFIs to manage to the multiple binding capital constraints that you had talked about earlier. And as far as we can tell, there's 4 constraints that really seem to matter. So you have the 2 risk-based targets, advanced and standardized, and clearly, you screen quite well in those metrics. Separately, we look at CCAR. And clearly, you've been able to support outsized payouts over the last couple of years while getting past the stress test. And then, lastly, we have the SLR. And your comments indicated that you could -- that pro forma, I suppose the reduction in the Basel III deductions to financial institutions, that you'll be just above the 5%. But when looking at required capital levels, it looks as though it's actually going to be highest under the SLR. And while I don't want to ask you for, once again, for an explicit ROE target, I wanted to get a sense as to how you're thinking about the relevant binding constraints and how you plan on -- whether you plan on optimizing your capital position based on the 4 that, I guess, I had just mentioned.

Harvey M. Schwartz

Okay. So as you mentioned, there are a number of constraints, mostly risk-based, right? CCAR, Basel III, standardized -- I'm sorry, advanced, standardized, a bit mix, but also risk-based, and then non-risk-based, which is the bucket I would put the leverage ratio or leverage test into. In terms of the supplementary leverage ratio, because we would agree with you, based on the Basel III advanced and standardized, lots of capacity at this stage. So let's begin honing on the supplementary leverage ratio. A couple of factors. Again, we haven't seen the final rule, so we'll have to see the final rule in the context of the denominator. We don't have to fully comply until 2018 and so the reason I give you the natural adjustment that will happen in terms of the $9 billion coming out of funds is because it's such a tax on the current capital position. And so as that comes out, you can see the flexibility. Now because we haven't seen the final rule, we haven't really taken any steps to mitigate it. As you know, our policy is to see the final rule, and when we see the final rule or have some very strong sense of the final rule, then we're willing to look at how we should comply. Now how do we do that? And we've talked about this in the past, but we'll, we begin, again, by providing tools to the businesses, and then as a leadership group, we figure out the best way to deliver capital to our clients, and at the same time, comply with the rules. Now CCAR obviously as an annual test, last year for us, was a binding constraint. And so you'll see us adjust there as we can as well.

Steven J. Chubak - Nomura Securities Co. Ltd., Research Division

So how do I reconcile those comments that the rules haven't been finalized, so you haven't been actively mitigating, with the balance sheet reduction that we saw in the quarter?

Harvey M. Schwartz

So as I said, the leverage ratio has an impact there, but also CCAR a significant factor.

Operator

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

James F. Mitchell - The Buckingham Research Group Incorporated

Just a quick follow-up, maybe just on the balance sheet question. It was very helpful, you talked about the matched book coming down $25 billion, but the total balance sheet down $55 billion. Could you give any color on the other $30 billion?

Harvey M. Schwartz

So it's $56 billion in total, roughly $25 billion out of the matched book. It was various back-and-forth items in terms of just basically things, as I said, mostly secured client financings, client cash, things like that.

James F. Mitchell - The Buckingham Research Group Incorporated

Okay. Just kind of broad-based. And then if we think about the...

Harvey M. Schwartz

Again, the takeaway, low ROA, Jim.

James F. Mitchell - The Buckingham Research Group Incorporated

Right. Right. No, I here you. And then on the -- just not to beat a dead horse in the SLR, just wanted to make sure I understand this. Sequentially, it seems like you didn't -- if I look at it the right way, it doesn't feel like you got a lot of benefit on the SLR from the reduced balance sheet. And is that a fair way to think about it? Is it just sort of a timing thing, because it's under the SLR guidelines it's average and you did most of that towards the end of the quarter or should we see more to go on the SLR in the next quarter? Just trying to run the math, it doesn't feel like there was a lot of benefit on the balance sheet reduction in SLR.

Harvey M. Schwartz

There were certainly benefits. The big things that factor into the SLR are...

James F. Mitchell - The Buckingham Research Group Incorporated

Obviously, derivatives.

Harvey M. Schwartz

Correct. And so when I say that we haven't taken any steps to comply with those rules, we're going to wait until we see the final rules on that before we really begin to address that. That really has to do with credit derivatives and the way various maturities are treated.

James F. Mitchell - The Buckingham Research Group Incorporated

Right. And you haven't really done much there in terms of whether it's compression trades, things like that yet, as you await the final rules, is that sort of the takeaway?

Harvey M. Schwartz

So compression trades have obviously picked up over the last, call it, year or so within the industry. But again, in terms of addressing that item, we really want to see the final rule before we take any steps.

James F. Mitchell - The Buckingham Research Group Incorporated

Okay. So there still could be more to come there?

Harvey M. Schwartz

I would expect that.

James F. Mitchell - The Buckingham Research Group Incorporated

And then lastly on SACCR, do you still think it's 10 to 15 or have you refined that at all, in terms of the benefit? Because again, some of your peers have been more aggressive in saying it would help them more significantly.

Harvey M. Schwartz

Yes, I didn't include that in the numbers today. We're not -- it's not 100% clear to us that in the final rule, SACCR is going to be a component. It's no different than it was. I did mention it on the last call, but again...

James F. Mitchell - The Buckingham Research Group Incorporated

The 10 to 15.

Harvey M. Schwartz

But again, I don't think we should necessarily -- we don't want to count things that aren't necessarily, we think, in the final rule. So we're just giving you kind of the mark-to-market on this today, and then we can give you adjustments because we know that other capital has to come out of the funds. So those are things we know. But if it does come to fruition, it's 10 or 15 basis points also.

James F. Mitchell - The Buckingham Research Group Incorporated

Right. Okay. And then just switching gears, just last question. In asset management, seems like the performance definitely picked up. You've had good flows, particularly in Fixed Income, and Equities is doing better as well.

But alternatives seem to be still be choppy, even though there's been industry-wide good flows, is that just still struggling performance there or just the type of funds you're offering? How do we think about -- seeing -- when -- how should we think about flows improving on the alternative side?

Harvey M. Schwartz

So when you -- so our alternative performance has been strong also. What you're seeing is the mix of the harvesting versus areas like fund-of-funds. And Dane and the team can give you a breakdown on sort of how those flows, but you can see the growth there also.

James F. Mitchell - The Buckingham Research Group Incorporated

Okay, so it's more of the harvesting.

Harvey M. Schwartz

Right.

Operator

Your next question comes from the line of Chris Kotowski with Oppenheimer & Co.

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

Just curious if you can say -- I mean, $56 billion isn't a lot in assets, and if you view them as CCAR-onerous, surely every other financial institution in the world also views them as CCAR-onerous. So just curious, who took your side of the trade? Or, I mean, is it non-bank financials? Is it funds? Is it -- or is it just that it's a complete tear-up and those positions don't exist in the marketplace anymore?

Harvey M. Schwartz

Yes, it's a good question. So obviously, we have no visibility into our competitors' strategies and certainly how they're thinking about CCAR. I think that a lot's been written about the repo markets. Certainly, our $25 billion reduction in the matched book had no marginal impact in terms of the repo market, but I think this will be interesting to watch how it evolves because, as mentioned earlier, large banks have multiple constraints. Each bank will address their constraints, in they think the way that's most impactful for their clients. That's how we approached it. And so we'll have to see how it evolves in terms of, ultimately, if all firms adopted this strategy, what impact that has on liquidity and how liquidity gets provided, but it's very early in that.

Operator

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

Brennan Hawken - UBS Investment Bank, Research Division

So a quick one, first, on the market piece. I think you had told Glenn it flowed through I&L, but can you give us a sense of how much the Equities revenues were impacted by the gains from that transaction?

Harvey M. Schwartz

So I'm happy to tell you, it was roughly $50 million in terms of market's contribution.

Brennan Hawken - UBS Investment Bank, Research Division

Perfect. And then insofar as the non-comp, just following up on Fiona's question, was there any impact from the sale of the reinsurance business from last year? So like when we look at '13 versus '14, how much should we think about dropping out of non-comp from the sale of businesses? And then if you could also maybe give us a sense of variable and fixed in that line might be helpful.

Harvey M. Schwartz

You can see in the insurance line in the expense base, and then if you check the earnings release, I think we have the detail there. But the reinsurance revenues for the first half of last year were roughly $315 million, I think, $317 million to be specific, but we can give you the full number. But Dane can follow through on the insurance reserves that came out. When you actually look at it, 6 months to 6 months, year-over-year, when you look at that sale, basically, revenues are pretty much flat year-to-year. We replaced that with, obviously, other activity in the franchise.

Brennan Hawken - UBS Investment Bank, Research Division

Yes. No, I'm sorry, I was asking about the non-comp side, on the expense, but okay. And then last one, quickly, is security services. So you guys are tracking to be up a bit here on last year, but pretty well below still prior years. And so I just was kind of curious as to what maybe might be driving that sort of moderate bounceback, given markets at peak levels and some competitors highlighting some strength in that business.

Harvey M. Schwartz

So in terms of our prime services business, that franchise feels incredibly strong to us in terms of its differentiating characteristics. In terms of performance, that'll be driven by a number of factors: balances, the degree to which market participants are short and borrow stock. And so I think it just really reflects the current environment.

Brennan Hawken - UBS Investment Bank, Research Division

So you think it's far more cyclical and not anything specific to the franchise or anything, any changes that you guys have made?

Harvey M. Schwartz

No, definitely not. Definitely nothing in the franchise. As I said, the franchise feels quite good. Part of that business is about lending stock into short positions and sourcing short positions. And in this kind of marketplace, where it's been steadily rising and you have lower conviction, you don't see as much of that performance. But the franchise feels quite good.

Operator

Your next question comes from the line of Matt Burnell with Wells Fargo Securities.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Just a couple of quick ones for me. Just in terms of the -- it looks like the pace of buybacks increased a little bit this quarter, perhaps that was just a second quarter phenomenon coming out of the CCAR approval. But I'm just curious as to how you all are thinking about potential buybacks through the course of the year, given that you got a pretty sizable, about 5 quarters of buybacks, available at this point.

Harvey M. Schwartz

Right. So we did $1.25 billion, as I mentioned, in the quarter. And so -- again, one of the things in terms of the way we approach the capital planning is we really don't want our folks and our investors to think of stock repurchase as a dividend. So one of the things we don't do is we don't announce our stock repurchase capacity at the beginning of the year because we treat it dynamically, it'll be environment-driven. In this particular part of the environment where you see our capital ratios are very high, we just felt like we're in a position to return that capital, and that will be our philosophy going forward.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Okay. And then just a question on the operating risk, RWA. I think you mentioned last quarter that, that was about $90 billion. I guess I'm curious as to whether or not that's changed at all, given some of the litigation issues that have beset other companies. And obviously, you all have had a little bit of litigation running through the P&L as well.

Harvey M. Schwartz

Yes, so when we came off the Basel III parallel run, we didn't -- we weren't asked to make any significant adjustments to up risk capital. It hasn't moved materially quarter-over-quarter, but we will continue to assess it, and the extent to which we have isolated events and we take reserves, it will impact it accordingly.

Operator

Your next question is from the line of Douglas Sipkin with Susquehanna.

Douglas Sipkin - Susquehanna Financial Group, LLLP, Research Division

Just wanted to drill down a little bit on Fixed Income, both primary and secondary. First, I guess -- and so we have the Fed finally announcing they plan to be done with buying, I believe, in October. Anyone inside the organization thinking that could be a little bit of a catalyst for FICC, particularly volatility in treasuries, or is it still really more based on just overall market environment? Because it is continuing to feel like them in the market has been a hindrance for other levels of activity.

Harvey M. Schwartz

Well, I think if you were to look back 1 year ago, and I think it was May 22 in 2013, the initial announcements of tapering came out. I think you -- look, I think you have to consider it a pretty extraordinary success in terms of the way the Federal Reserve has navigated that announcement and the process and the way the market has responded to it. There was obviously some initial volatility because there was some uncertainty on what tapering means. Our sense is that it's been executed quite well. The market understands it. The communication has been good. And so, in a sense, I don't want to say anything is always fully baked in, but I think the market has adjusted to the notion of tapering and so there's not a lot of new information in it for the market to adjust to. Now of course, that's always in the context of what's happening in the global economy and political events and everything else, and so there's always other factors. But I think, narrowly defined, I think we'd call tapering a success.

Douglas Sipkin - Susquehanna Financial Group, LLLP, Research Division

But just expanding on that, I mean just the fact that, potentially, they were maybe crowding out players in the market, and to the extent that doesn't exist anymore, you're not seeing that maybe as a little bit of a boost to the business, post-October or as we get closer to the deadline where they're done.

Harvey M. Schwartz

It's a factor. There are a number of factors. I think sentiment, global growth, what happens with volatilities and trends are bigger, but it's always -- it certainly is a factor.

Douglas Sipkin - Susquehanna Financial Group, LLLP, Research Division

Okay, great. And then just second question. Obviously, the banking continues to be very strong. The debt origination continues to be very resilient. It looks like Europe and maybe some of the high-yield markets in Europe have been really good this year, and I'm just wondering, for the longest time, people would talk about the potential disintermediation of the European lending market versus the bond market being a driver for your industry. I mean, is that something we're starting to see a little bit more of now, with some of the constraints on the banking sector there, that the bond market is picking up. Can you maybe elaborate a little on that, because it did look like European credit, particularly high yield, was really good for the industry this quarter?

Harvey M. Schwartz

So obviously, we've had a long commitment to our European business. And as they work through the geographic regions associated with their part of the crisis, certainly, we've seen opportunities to work very closely with clients. I think the shift from, as you -- we would call it and you would call it, bank-related financing, the debt capital markets, is something that's underway. But that's certainly, I think, a long-term trend and so we'll see it evolve over many years. Now where you have seen, obviously, a huge amount of immediately picked up activity across Europe, was basically in the equity capital markets. We obviously rank #1 there, but the amount of capital raised was pretty extraordinary in the quarter, over $180 billion, 600 [ph] deals in the first half of the year alone. And so there's a lot of activity in Europe.

Operator

Your next question is from the line of Eric Wasserstrom with SunTrust Robinson Humphrey.

Eric Edmund Wasserstrom - SunTrust Robinson Humphrey, Inc., Research Division

Most of my questions have been answered. I just wanted to just follow up on your comments on the VaR. I'm just trying to reconcile the continued compression across volatility in most products, and well as some of the balance sheet reductions. And yet it would seem that some of the more -- well, basically all of the FICC products didn't seem to show too much movement, so I'm just trying to understand the dynamics.

Harvey M. Schwartz

So as I mentioned, quarter-over-quarter, the bigger mover was in Equities, and that was a combination of volatility and risk coming down. When you look across it, most of the movement in the quarter, when you look across the various asset classes, was more volatility-driven, again corresponding with the extremely low vol levels that we've talked about.

Eric Edmund Wasserstrom - SunTrust Robinson Humphrey, Inc., Research Division

And the -- so the balance sheet actions, I guess, didn't have much of a role. And I guess, is that reflected then in the limited changes around RWAs? Just...

Harvey M. Schwartz

Yes. So again, this is this important distinction between those regulatory measures that deal with things that are risk-based, like the Basel III rules, and those things that are not risk-based or not as much risk-based, like leverage tests. And so this was really, as I said, not risk-based parts of the balance sheet, low ROA portions of the balance sheet like the matched book.

Operator

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

Brian Kleinhanzl - Keefe, Bruyette, & Woods, Inc., Research Division

Just 2 quick questions. On the Basel III ratios that you gave, what was the risk weighted assets for the advanced and standardized, and the breakdown there?

Harvey M. Schwartz

So in terms of the quarter, under the advanced, $592 billion, and under standardized, $619 billion.

Brian Kleinhanzl - Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then as you're repositioning the balance sheet, as well as looking forward to next year's CCAR, how do you think about the dry powder that you have with the excess capital that's available that could be deployed into the other businesses. When you submitted last year's CCAR, you were at like a 9.2% under the Basel III standardized. Is that the right way to think about the floor in the capital ratios that you would target to manage the business?

Harvey M. Schwartz

So as we've talked about in the past, we have a target of 9.5%, we're running at an 11.4% level, so clearly, we feel like we have more than enough capital capacity to deploy that capital. And so we feel like we have a lot of flexibility at this stage to respond to our clients' needs. In terms of future CCAR tests, we'll see how they go.

Brian Kleinhanzl - Keefe, Bruyette, & Woods, Inc., Research Division

But would that target move lower now, now that you're doing these balance sheet actions?

Harvey M. Schwartz

It's something we'll look at. It's possible, I certainly don't see it moving any higher.

Operator

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

Devin P. Ryan - JMP Securities LLC, Research Division

Just a couple quick follow-ups here. So first, with respect to the comments on competitive positioning, debt underwriting, you highlighted it was a good market, but you guys have also been moving up the league tables quite a bit there, both within investment grade and high-yield, so that's also showing up within results. So would you attribute that to something that Goldman is doing specifically in those businesses, just given, maybe, better economics, or are peers becoming less competitive, which is creating openings? Just trying to get some perspective there. And then with respect to deal financing, it doesn't sound like that there's any issues that you're seeing, but do you expect any impact just from greater regulatory pressure on the more highly levered deals?

Harvey M. Schwartz

So in terms of our position, obviously, we've been participating in some large significant transactions, and the more that you see -- the more you see financing driven by advisory activity or merger activity, given our role in that marketplace, you'd expect us to be more significantly involved. Now obviously, the debt business has been a very important business to Goldman Sachs for a number of years. Historically, we haven't been the most aggressive lender certainly, we haven't felt the risk return in terms of that activity. But you know, in the most important transactions, where content and execution are at a premium, we've done a pretty good job of staying involved. We won't always be, but we've done a pretty good job. In terms of -- I mean, you're talking specifically about the leverage finance rules. Again, a bit of a work in progress. Obviously, a very significant focus for the regulators. I think this is one of these things where the market, over time, will find its way in terms of those clients that want to use significant leverage. But at this stage, I think the whole market and the industry is sort of adjusting and working its way through. I think at this stage, it hasn't -- it certainly hasn't impacted people's ability to get transactions done in the way they want to get them done.

Devin P. Ryan - JMP Securities LLC, Research Division

I appreciate the color. And then just secondly, just maybe coming at the balance sheet topic again. I really appreciate all the detail in the prior questions. But when thinking about the mechanics of the ROE and what's going to drive it higher over time, just from a really simplistic perspective, profit margins are already back to where they were in 2007, and so it sounds like improving asset productivity is going to be the primary contributor. But when you look at the mix of businesses today at the firm, is there anything that has changed where you feel like there should be further upside in profit margin from where we were during the prior cycle?

Harvey M. Schwartz

So as we've talked about, we feel like we have significant operating leverage from here. Maybe the best way to characterize that, it's a bit of a blunt metric, but if you look at our compensation ratio, call it, post-crisis versus pre-crisis, it's been averaging 900 basis points lower. And so it's a pretty significant change in the cost structure of the firm in terms of the steps that we've taken, and yet when you, and I think this is really important to underscore, when you look at our results and you look at our relative position in M&A, or as mentioned, in the debt activity or certainly in equity, our performance in Institutional Client Services or the growth in asset management, we've been able to achieve all that simultaneously. And that's with certain of our businesses, particularly Equities and Fixed Income, really in a low vol kind of a headwind-oriented environment. And so if we went through a period where we saw revenue tailwinds, we feel like we're well-positioned in terms of our clients and the franchise, and certainly, there's meaningful upside in terms of operating leverage.

Operator

Your next question is from the line of Andrew Lim with Societe Generale.

Andrew Lim - Societe Generale Cross Asset Research

Sorry to flog a dead horse, but small questions on SLR. Do you have particular targets in mind going towards in 2014, or indeed, towards the 2015 CCAR for what SLR you envisage?

Harvey M. Schwartz

So certainly, no targets yet. We want to see, again, the final rule. And again, I think the regulators have done a very thoughtful thing here. In terms of the compliance, given there's a multi-year compliance glide path, if you will, to 2018, we haven't set a target yet. When we see the final rule, we'll work with it, like we have with all the other rules, and then we'll eventually have a target that we'll manage to. As I said earlier, without really taking significant steps, right now, when you add up all the math, the preferred, the balance sheet exercise, and obviously, the capital that will come out from the significant financial institution deduction, we see ourselves achieving something that's in excess of 5%, but there's no target set yet.

Andrew Lim - Societe Generale Cross Asset Research

Right, I see. And in terms of managing that SLR, can you state explicitly whether you can issue more preferred stock over and above that 150 basis point limit on RWAs for the purposes of contributing to the numerator in your SLR?

Harvey M. Schwartz

So I think we have the flexibility, I don't know necessarily that -- again, we'll see the final rule. I don't know necessarily whether it will be a preferred, to use that language, our preferred approach in terms of complying with the rule.

Andrew Lim - Societe Generale Cross Asset Research

So it's not your preferred approach, but you can do if you wanted to, is that correct?

Harvey M. Schwartz

I believe we have the capacity. But again, that would be also something that any firm would have to work through with their CCAR plan, et cetera, right? We're just talking about capital management outside of CCAR, right? So we're being very specific now.

Andrew Lim - Societe Generale Cross Asset Research

Okay. Okay. And then, sorry, how much could you reduce your balance sheet by if you reduced your compression trades, theoretically?

Harvey M. Schwartz

I don't know the number off the top of my head. Sorry.

Andrew Lim - Societe Generale Cross Asset Research

Right. Okay. And then very lastly, just thinking about catalysts to turning around the weak trading environment, obviously, we're living in a world of very low volatility. I think you yourselves and other banks talk about a subdued economic environment causing this low volatility, but to my mind, it's not really that bad. Global economic growth is still positive, and especially in the U.S. and the U.K. I mean what do we really need to get a turnaround in volatility in trading volumes? Are we missing other catalysts here to fall into place?

Harvey M. Schwartz

So in the end, it's going to be economic growth. And look, I agree with you, we've come off a very low level in terms of economic growth and it's positive. But economic growth in the long-term is really what's going to drive sentiment and sentiment will drive activity and not all businesses participate in sentiment in the same way. Again, we've seen a big sentiment shift year-over-year in terms of the way CEOs are thinking about merger advisory activity. Hard to tell when that sentiment shift will change in terms of driving more position changes in terms of the way people think about their portfolios. We'll see.

Operator

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

Harvey M. Schwartz

So again, since there are no more questions, I and the team, we just want to thank all of you for joining the call. Hopefully, we'll get to talk to you, and myself and other members of management will get to see you in the coming months. Of course, if there are any additional questions, please don't hesitate to reach out to Dane. Otherwise, everyone, enjoy the rest of your day, and look forward to speaking with you on the next call. Take care.