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 Third Quarter 2011 Earnings Conference Call. [Operator Instructions] Also, this call is being recorded today, Tuesday, October 18, 2011. Thank you. Mr. Holmes, you may begin your conference.

Dane Holmes

Good morning. This is Dane Holmes, Director of Investor Relations at Goldman Sachs. Welcome to our Third Quarter Earnings Conference Call. Today's call may include forward-looking statements. These statements represent the firm's belief regarding future events that by their nature are uncertain and outside of the firm's control. The firm's actual results and financial condition may differ, possibly materially, from what is indicated in those forward-looking statements.

For 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 fiscal year ended December 2010.

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 calculation of non-GAAP financial measures that is posted on the Investor Relations portion of our website at www.gs.com.

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Our Chief Financial Officer, David Viniar, will now review the firm's results. David?

David A. Viniar

Thanks, Dane. I'd like to thank all of you for listening today. I'll give an overview of our third quarter results and then take your questions.

Net revenues in the third quarter were $3.6 billion. Net earnings were negative $393 million, and earnings per diluted share were negative $0.84. The third quarter continued to be dominated by concerns surrounding the weakened state of the global economy. The market was particularly focused on sovereign risk within the Eurozone, specifically the risk of contagion from smaller GDP countries like Greece to larger GDP countries.

Market participants are also focused on how heightened sovereign risk will impact the banking system within the Eurozone and beyond. The uncertainty surrounding the potential policy responses to these complex issues have amplified the level of concern among market participants. The price performance within European markets was a strong indicator of market fears, with the EURO STOXX 50 down 23% during the third quarter.

As would be expected, the Eurozone concerned heightened worries regarding the implications of these challenges on economic prospects in the U.S. Similar to Europe, equity and debt markets reflected increased fears about the U.S. economic outlook. The S&P 500 declined 14% and the VIX increased to its highest level in more than 2 years. Ultimately, economic concerns within Europe and the U.S. permeated investor sentiment within growth markets as demonstrated by Hang Seng, Bovespa and Shanghai composites, posting quarterly declines of 21%, 16% and 15%, respectively.

Faced with a challenging global economic outlook, CEO confidence and investor sentiment remained under pressure. Whether it was a volatile and unpredictable market that made new equity issuances very difficult to execute, our asset management clients having much less conviction on investment decisions, the broader environment served as a significant headwind to clients moving forward with their business objectives.

As we've said in the past, the firm's opportunity set begins with the client's decision to transact, a decision which has historically been correlated to a growing economic environment. A growing economy is also correlated to increasing asset values and positive revenues from our Investing & Lending activities. Not surprisingly, the macro challenges in the quarter drove lower levels of client activity in Investment Banking and certain FICC businesses and a significant decline in asset values within our Investing & Lending portfolio, resulting in a third quarter loss.

Despite the negative revenues in our Investing & Lending business this quarter, we have a strong track record as an investor and our position to the product of long-term investment decisions. We entered into these positions with a focus on meeting our client's needs for financing, supporting key strategic relationships and generating long-term returns for our clients and shareholders.

The firm also has a full understanding of the fair value implications of these investment decisions, and our third quarter results reflect falling asset prices and are unrealized. Given the significance in complexity of the economic issues facing governments and regulators, we are, of course, cautious about the near-term outlook for our business.

And while we are clearly disappointed about our third quarter results, we remain optimistic about the medium- and long-term outlook for Goldman Sachs. Our global clients continue to place significant value on our services, whether acting as a merger advisor or as a financial intermediary. We will continue to focus on serving our clients' needs and managing shareholders' capital prudently, a commitment which we believe is central to our long-term value proposition.

I'll now review each of our businesses. Investment Banking produced third quarter net revenues of $781 million, down 46% from second quarter results. Third quarter Advisory revenues were $523 million, down 18% from the second quarter, reflecting an industry-wide slowdown in completed M&A transactions. We advised on a number of significant transactions that closed during the third quarter, including Petrohawk Energy Corp.'s $15.1 billion sale to BHP Billiton, Phadia AB's $3.5 billion sale to Thermo Fisher Scientific and GE Energy's $3.2 billion acquisition of Converteam Group.

We also advised on a number of important transactions that were announced during the third quarter, including Nalco Holdings' $8.1 billion merger with Ecolab, ING's EUR 2.7 billion sale of its Latin American insurance and pension operations to GRUPOSURA and Drogasil's $1.2 billion merger with Raia.

Third quarter Underwriting net revenues were $258 million, down 68% sequentially as the more challenging market backdrop significantly reduced new issuance activity. Equity underwriting revenues of $90 million were down 76% from the second quarter, reflecting lower volumes in a volatile and declining equity market. Debt underwriting revenues decreased 61% to $168 million, reflecting sharply lower leverage finance activity and more muted investment-grade issuance.

During the third quarter, we participated in noteworthy underwriting transactions, including ANZ Banking Group's $1.4 billion convertible preferred offering, Carlyle Group's $1 billion sale of a portion of its equity stake in China Pacific Insurance Company and Intel's $5 billion debt offering.

Our franchise remains strong, as demonstrated by year-to-date global LEED table standings, where we ranked first in announced M&A, equity and equity-related common stock offerings and IPOs. Our Investment Banking backlog increased compared with the end of the second quarter of 2011.

Turning to Institutional Client Services, which is comprised of FICC and equities client execution, commissions and fees and security services, net revenues of $4.1 billion were up 16% from the second quarter as activity levels improved in certain businesses despite the continued difficult operating environment.

FICC client execution net revenues were $1.7 billion in the third quarter, up 8% from the second quarter. Our rates business increased sequentially as client flows improved in the midst of higher central bank activity and a more volatile interest rate environment. Commodities improved relative to a difficult second quarter as elevated volatility and macro uncertainty drove higher levels of business across all of our client segments. Foreign exchange revenues were down sequentially as volatility in certain markets proved difficult to navigate. Credit continued to be challenging as a lack of new issuance, wider spreads and a customer risk aversion created a difficult backdrop for hedging and inventory management.

Our mortgages results reflected significantly lower levels of client activity and the negative impact of asset price declines particularly in CMBS. In equities, which includes equities client execution, commissions and fees and security services, net revenues for the third quarter were $2.3 billion, up 22% sequentially. Equities client execution revenues were up 45% to $903 million due to increased client activity in certain equity businesses and effective risk management of customer-driven positions in a more volatile environment.

Commissions and Fees were $1 billion, up 18% from the second quarter on higher market volumes. Security services net revenues of $409 million were down 5% from the seasonally stronger second quarter.

Turning to risk, average daily value at risk in the third quarter was $102 million, largely flat relative to the second quarter. Our quarter-end VaR was higher than the average, largely due to significantly greater volatility in interest rate products.

Now I'll review Investing & Lending, which produced negative revenues $2.5 billion in the third quarter. The firm's Investing & Lending activities across various asset classes, primarily including debt securities and loans and equity securities, are included in this segment. These activities include both direct investing and investing through funds as well as lending activities.

The equity market indices such as the MSCI, down 17%; ICBC, down 35% and the high-yield CDX Index, wider by more than 350 basis points, our longer-term investments posted significant mark-to-market losses for the third quarter. Our investment in ICBC produced a greater than $1 billion loss. Other equity investments generated a $1 billion loss across our portfolio fund and direct investments.

Losses from debt securities and loans were $907 million, primarily driven by wider spreads across our portfolio. Other revenues of $477 million consists primarily of operating revenues from our consolidated investment entities.

In Investment Management, we reported third quarter net revenues of $1.2 billion, down modestly from second quarter results. Management and other fees were 3% lower sequentially at $1 billion. During the third quarter, assets under management decreased $23 billion to $821 billion, largely due to market depreciation in equities.

Turning to expenses. Compensation and benefits expense, which include salaries, bonuses, amortization of prior year equity awards and other items such as payroll tax and benefits was accrued in a compensation to net revenue ratio of 44% for the third quarter of 2011, a ratio consistent with the compensation accruals of the first half of 2011.

Third quarter non-compensation expenses were $2.7 billion, 11% higher than the second quarter, primarily due to higher brokerage clearing and exchange fees as a result of greater equity client volumes and approximately $100 million for the U.K. bank levy.

Total staff at the end of the third quarter was approximately 34,200, down 4% from the end of the second quarter. Our effective tax rate was 30.3% year-to-date.

Given the significant uncertainty regarding the prospects for the macroeconomic environment, there is an understandable focus on the strength and stability of financial institutions. We, like many other U.S. financial institutions, took the lessons from 2008 to meaningfully improve our risk profile. We significantly reduced risk exposures while materially increasing our capital base, resulting in lower leverage and improved risk-adjusted capitalization.

Our strong capital levels have also positioned the firm to prudently manage our capitalization in the current environment, with the firm repurchasing 18.1 million shares for approximately $2.2 billion during the third quarter.

Liquidity is the lifeblood of any financial institution, and given the challenged economic activity, our liquidity levels remain near historic highs.

We have also continued to take a prudent approach to our European region exposures. At the end of the third quarter, our gross funded credit exposure to all sovereigns, financial institutions and corporates in Portugal, Ireland, Italy, Greece and Spain was $4.2 billion, which only includes the benefit of cash and U.S. Treasury collateral. Our exposure net of hedges was $2.5 billion.

Over the past 2 quarters, the operating environment has been dominated by macroeconomic concerns which have translated into generally muted client activity and significant asset value declines in the third quarter. In the near term, several concerns need to be addressed to improve market sentiment and drive higher client activity levels across our franchise.

While we're as confident that the environment will eventually improve, timing is uncertain. We're prepared to stand by our clients, and we'll continue to address their challenges while providing best-in-class service. Ultimately, our ability to adjust and effectively respond to our clients' needs will drive long-term returns for our shareholders.

With that, I'd like to thank you again for listening today, and I'm now happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question is from the line of Guy Moszkowski with Bank of America.

Guy Moszkowski - BofA Merrill Lynch, Research Division

At some of your competitors, we've seen some fairly chunky debt value adjustments for structured products. I know in the past, you've always had a policy of hedging these out but sometimes, there has been something of an impact, and I was hoping maybe you could tell us what it was. And if you have continued your hedging policy, maybe you can just remind us about what you do.

David A. Viniar

Sure. And as you know, Guy, we do try and hedge that exposure as best we can, and it was a more significant number than usual this quarter. It was still pretty modest. It was -- the total amount was $450 million roughly, and roughly $300 million of that was in FICC and roughly $150 million in equities.

Guy Moszkowski - BofA Merrill Lynch, Research Division

And maybe, David, you could just remind us of what you do to try to keep those numbers from being the kind of outside numbers that we've seen elsewhere.

David A. Viniar

Well, we try as best we can to have close-to-offsetting positions against our own credit spreads, not in our own names -- can't do that -- but in whatever names we got.

Guy Moszkowski - BofA Merrill Lynch, Research Division

So you use a basket of some sort of a peer group?

David A. Viniar

Yes.

Guy Moszkowski - BofA Merrill Lynch, Research Division

I wanted to follow up with a Volcker question if I might. Obviously, there is a draft out. It has more questions than answers. And so it's early days but I was wondering if you could give us some thought on any changes in your operating model and compliance regime that you're thinking about at this point given what you have seen.

David A. Viniar

Guy, you kind of started off by saying most of what I was going to say, which is it is early days. The proposed rule, as you said, leaves more questions than answers. In fact, as we add it up, when you add all the questions, there are over 1,000 questions that need to be answered. We continue to work through it and work constructively with regulators. We haven't changed anything at this point because, as you said, more questions than answers. We don't know where it's going to come out.

Guy Moszkowski - BofA Merrill Lynch, Research Division

And in terms of your interpretation of what you did see in the context of your Investing & Lending business, do you anticipate material restrictions there or...

David A. Viniar

As far as we can see, as you know, we've already shut down our Waldorf proprietary business. So that's gone. We think that any investment in funds will be limited to 3%, and other than that, more questions than answers.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Fair enough. I have a final question on Basel III and your Basel III basis Tier 1 common target that you alluded to in the past of getting to around 11%. Obviously, you have deployed a fair amount of capital through share buybacks, which you talked about. It seems like GDP growth, as you also alluded to, is weak, and in the medium term, that seems to dampen earnings prospect. Are you still targeting an 11% Tier 1 common target Basel III basis given all of that?

David A. Viniar

Guy, let me just clarify. I don't think we ever said we were targeting 11% Basel III capital ratio. I think what we said was best calculation we could do right now looking out, using consensus earnings estimates, passive -- no active mitigation, just letting things roll off, at the end of 2012, our best calculation was that we would be at close 11%. That was not our target. In fact, I think that's higher than what our target would probably be. I think if we did that same calculation today, which of course, is not necessarily a meaningful calculation because most of these requirements are in effect in 2012, the number would be closer to 10%, given largely, as you said, GDP down and earnings estimates down. But we still have round numbers best we can tell with all the caveats. It would be roughly 10% at the end of 2012.

Operator

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

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

In -- I guess the question's on equity and risk-weighted assets. In the past, you've showed us that about $32 billion across Investing & Lending over the counter derivs and mortgage trading and securities and trading. And the question was how -- I guess, was some of the regs changing? And then just also just the real weak environment, how quickly does some of that equity and risk-weighted assets get freed up? Is there a cyclical component to it or is most of that given to us for illustrative purposes of if something changes in the regulation, then that's how much can get freed up?

David A. Viniar

Oh, it was the latter, Guy. I'm sorry, Glenn. It was the latter, Glenn. It was -- We were just doing the calculation of kind of if that whole segment went away, how much capital would be freed up. It was not a calculation of what was going to be freed up, when. There was just so much talk that the whole segment would go away. You might let people know if you really think the whole segment's going to go away, here's how much capital is going to be freed up.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Understood. On Investing & Lending specifically, you'd mentioned obviously that the losses in the quarter are all unrealized. The -- I'm assuming that the private pieces might have had bigger marks because they passed some thresholds, so I wonder if you could provide a little color on that. And then the flip side is -- knock wood. It's early. But so far, MSCI is up 6%. ICBC's up 12%. Do the same 10% rules apply after the recent markings or do we have to wait for the new Q?

David A. Viniar

Well, a couple of things. First of all, I would say that there were -- as you said, it was all unrealized as far as the losses. In fact, there were very modest realized gains on some things that we sold which actually offset it. As far as the 10% numbers go, there will be slightly lower because the base will be lower because we lost money last quarter in this, and so the overall amount is lower, and so it's 10% off the lower base but the calculation is going to be the same.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Okay, that's cool. And then last one, I guess, just to try to dig a little further on Volcker. I know we don't want to go too far, but I'll give you my interpretation. You tell me if I'm crazy. In the current form, the way it's written, the specific part in market making that talks about having a very limited amounts of revenue to be made from price movements of the underlying security, and they wanted all to be fees, commissions and bid ask. In my view, that's just not workable in the current market structure, and that would actually be very disruptive. Is that top of your list of questions to ask and things to go through during this comment period?

David A. Viniar

It's very hard to pick one out that would be top of the list. I mean, some of the issues we see are -- and you've kind of a little bit alluded to this as the guy before you, there -- at least as it's now written with lots -- and I'll give all the caveats, lots of questions. There is tremendous operational burden and cost of compliance for the entire industry. Some or all of that would need to get passed through. It could result in diminished liquidity. That would hurt our clients and the markets, and we're also focused on competitiveness in the U.S. financial institutions. So I mean, those are some of the questions at the top of our mind. But as we said, there's 1,000 questions in there.

Operator

Your next question comes from the line of Roger Freeman with Barclays Capital.

Roger A. Freeman - Barclays Capital, Research Division

Let's see. I guess one question's in the VaR components. Is the -- I noticed that the diversification benefit was lower this quarter. Is that a function of higher correlation across asset classes or that your business mix has shifted a lot more into rates, which -- and actually went up and if you were more concentrated there, you'd get less diversification there?

David A. Viniar

I think you hit it more on your first part. It is of much higher correlation between asset classes. And look, I want to emphasize one thing since you raised it as I mentioned in the call. VaR was higher at the end of the quarter. As you know, volatility -- VaR is a combination of position, size and volatility. Volatility was up dramatically as we went through the quarter. I would expect, assuming we made no changes to positions at all, that our VaR would be fairly significantly higher in the fourth quarter than the third quarter.

Roger A. Freeman - Barclays Capital, Research Division

Okay. And then I guess maybe just tacking on that, I mean, what have you seen here in the last couple of weeks? There seems like there's been some decline in volatility, some decline in correlation especially across individual stocks. Do you see that bringing any increased risk appetite?

David A. Viniar

I think it's too soon. We had -- you think of what we've gone through in a little over 2 weeks, first 2 days of the quarter or actually the first day and 3 quarters were horrendous from a market point of view, not from [indiscernible] . Then, things got a little better, were mixed. Last week, big market rally. Yesterday, big market decline. So I think there's still a lot of uncertainty and a lot of it is based on who says what on what day.

Roger A. Freeman - Barclays Capital, Research Division

Okay. And then in Investing & Lending, can you just remind us a bit on the debt securities however you can talk about it, sort of composition of investments? Is this mostly distressed debt structured? What's in this mostly?

David A. Viniar

The main things. It's really a combination of mezz loans. You know we have a fairly large mezz fund and senior debt. So it's really those of the 2 biggest components, would be senior debt and mezzanine debt. There's also some distressed loans in there, but the biggest components would be mezz and senior loans.

Roger A. Freeman - Barclays Capital, Research Division

Okay, and last question just on Basel, the Basel III, the mitigation component of that, have you -- as you've kind of gone through this -- have you found additional ways to mitigate? And also how much is of sort of the roll forward is predicated on monetizing investments in Investment & Lending?

David A. Viniar

The answer to the -- let me do the last question. That's the easiest. It's none. And look, we continue to work through the Basel III numbers. We're really at the early stages of doing it because as you know, these rules don't take effect for several years. So we're focused much more on running the business today, but we do have groups of people that are kind of beginning to look through of how we can mitigate some of the Basel III impacts.

Operator

Your next question comes from the line of Michael Carrier with Deutsche Bank.

Michael Carrier - Deutsche Bank AG, Research Division

One more question on the Investing & Lending. So if we look at the balance in that business and granted it's a quarter late. It's going to be lower but I think it was around $50 billion. So if we think of the mix of the products that are in there, so mezzanine lending, you mentioned the senior debt, private equity, are you still expecting something like a 10% return in that business given the capital requirements? And so if we just translate it, the $50 billion, still like a $5 billion number over the long run. Obviously, private equity returns have been stronger than that over time. But just trying to get a sense of where you think the returns in that business still can be in this environment.

David A. Viniar

Boy, it is a very hard question. I think over the long run, we'd be disappointed with a 10% return in that business. Obviously, as you said, in any quarter, it can be extremely volatile and up or down a lot more than that. But over the long run, we'd be disappointed with a 10% return, and our history has been a lot better than a 10% return.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then just based on the current capital levels, what you're seeing in this environment and maintaining certain ratios, the buybacks ramped up. Just in terms of outlook what you have approval for, any way to gauge that going forward in this environment?

David A. Viniar

It's the toughest question. We have approval to do kind of what we feel we might want to do in this environment. We sit here today. It's a very stressed environment, which causes us to want to conserve capital, but we look at our stock price and we're pretty convinced that looking back, we're going to wish we bought back a whole lot of shares at this price. And so we're just kind of going through it as the quarter goes, and we'll decide what we think is prudent as we go forward. There's no magic answer to it. It's going to be judgment calls as we go through the quarter.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then just on Europe, you gave the updated exposures. I guess when you think about your counterparty risk, when you think about the ways that you manage that risk, requiring collateral, marking it daily, hourly, going to those clients to get collateral if you need it, just trying to understand how -- when you're in that stressed environment, and this is more of the industry, but how do you manage those risks when you can see what your exposures -- the one counterparty, but it's very difficult to see what their exposures are to other counterparties?

David A. Viniar

You see that risk management does not start when you enter a stressed environment. It starts as you enter into transactions. And we have credit limits and we look forward, and the collateral that we're getting tends to be under agreements that were put in place when transactions were first entered into. Very difficult. When the environment gets stressed, you go to a client and say, "We've changed our mind. Now we want collateral from you." So this is really part of our ongoing risk management. We make judgments about how much exposure we should take to individual counterparties but also to industries, to regions, to countries, et cetera. We set limits on those basis and we require collateral on those basis.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then last one on the expense initiative. Any update there maybe on timing and just given the outlook, whether it's from a macroeconomic outlook or regulatory pressures? And more so, I would say, on timing just in terms of where you guys are at in terms of achieving those synergies?

David A. Viniar

We're working through them. We expect to be done by the end of the year.

Operator

Your next question comes from the line of Howard Chen with Credit Suisse.

Howard Chen - Crédit Suisse AG, Research Division

Just back on Europe. I was hoping to dig deeper on the opportunity set as you all see it. I mean, if we rewound to the '08, '09 crises, the firm benefited from outsized share gains in sales and trading but then the distressed opportunity really never came to the forefront. So I guess when you compare and contrast Europe now to what we all went through in the U.S., I mean, how are the environments and the opportunity similar or different as you see it?

David A. Viniar

I think it depends on what ultimately comes out of the powers to be in Europe. There's a chance that we might have an opportunity to help some of our clients raise capital, but we don't know what's really going to come out. There's a chance that we might be able to help them sell assets or possibly buy some of the assets. You said it didn't really materialize in the U.S. There were some. It hadn't really materialized in Europe but we may see some. So I think those are some of the opportunities that might happen, but I think probably the biggest opportunity for us is if they reach some resolution, which gives the markets comfort on how things in going to Europe, that you just see a higher confidence level around the markets and then more activity in general through that course.

Howard Chen - Crédit Suisse AG, Research Division

Right. And I know to that point, client activity's weak, but have you seen any benefit from excess spreads or a pullback in risk capital from competitors in the region?

David A. Viniar

Not really because there's just not enough activity for it.

Howard Chen - Crédit Suisse AG, Research Division

Okay, great. And then we saw a lot of volatility during the quarter in CDS spreads for financial services firms. Just outside of DVA, CVA, just can you just remind us on what CDS spreads actually mean to you operationally? And were there any meaningful changes in client behavior, either positive or negative worth noting?

David A. Viniar

The answer is other than we hate watching them widen, they don't really mean very much to us. They didn't really affect our funding. There wasn't a meaningful change in client behavior. We're in some ways confused and disappointed when we see them where they are, given all the numbers I talked about, given how strong our capital is, our liquidity is, the maturity of our funding, the balance sheet. We kind of scratch our heads a little bit, but it hasn't really affected anything other than our emotions. We don't like seeing it but it hasn't had a big effect.

Howard Chen - Crédit Suisse AG, Research Division

Okay, it makes sense. And then finally, you noted equities was helped by the volatility, and we can see that VaR, equity-specific VaR went down. Just maybe helpful, could you differentiate between why volatility is a tailwind in a quarter like this versus maybe working adversely in a quarter like the second quarter of last year? I mean, has anything meaningfully changed in your equities business as you see it when you compare and contrast those 2 environments?

David A. Viniar

No. The second quarter of last year was really -- I think we talked about that -- and really just specific positions that we got. Clients wanted to be in something. We took the other side and couldn't get out of it. It was really just a specific issue with specific positions as opposed to this quarter where there was just more volumes and equities were pretty high, and it was one of the business where there was more activity and volatility led to more activity and now it's beneficial to us.

Operator

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

Betsy Graseck - Morgan Stanley, Research Division

A couple of questions, one on VaR just as a follow-up. You indicated that end of period was higher. Is that across the board or skewed towards any one asset class?

David A. Viniar

It's skewed towards the interest rate category.

Betsy Graseck - Morgan Stanley, Research Division

Okay. So the rest of them are pretty much in line with where the averages are?

David A. Viniar

Yes. That would be my expectation but remember, we're 2 weeks in, so a lot could change as the quarter goes on.

Betsy Graseck - Morgan Stanley, Research Division

Sure, okay. And then, can you just remind us why you're not able to hedge on the I&L segment?

David A. Viniar

Well, it's a very difficult question. A lot of that is our investment in our funds. That is a business where our clients basically want to be long equities, and we're investing alongside of our clients.

Betsy Graseck - Morgan Stanley, Research Division

So you could hedge if you wanted to? There's no prescription keeping you from hedging?

David A. Viniar

There are some places we can and some places that we couldn't. So for example, we're free to do what we want with ICBC at this point. It's completely free. Some of the equities, we could hedge but the decision's been made not to in that segment.

Operator

Your next question comes from the line of Kian Abouhossein with JPMorgan.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

A few questions. The first one is and you discussed it briefly, the issue of CDS and your CDS widening. At the same time, you're buying back stock. So how should I read this? What is the fixed income market telling you that you obviously don't think is an issue? I'm just trying to understand what is the difference from your perspective buying back stock and the CDS widening.

David A. Viniar

Kian, I'm sorry. I'm not sure I understand the relationship.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

So the funding market is incrementally getting more concerned or more negative in respect to the spreads. That's what the spreads are telling us of Goldman. At the same time, you are very confident about your capital position and buying back stock. So what I'm trying to do is square the 2 movements.

David A. Viniar

Right. Look, that, as I answered before, it's one of the reasons why I'm a little confused because the CDS spreads don't seem to make sense to us given how strong our capital position, liquidity position are. We made a decision as the quarter went on that our capital position and liquidity position are strong enough, that we could use roughly $2 billion of both our capital liquidity to buy back stock given where our stock price was. And as I mentioned, as we think about this quarter, it's a decision that we're thinking about where it is a stressed environment, so our natural tendency is to preserve cash and liquidity even though we have a lot of both. And yet, we look at our stock price being where it is, we think it's extremely low, and that it would be beneficial to our shareholders to be buying back stock at this price. So I said, there's no formula for it but decision we make as the quarter goes on.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And if you look at the cash funding market against the CDS spreads that you're seeing, how do they differ?

David A. Viniar

Again, you're asking -- I mean, it's a very good question. CDS is a much more volatile market than cash. So what we've seen is less day-to-day movement in cash than in CDS. But directionally, cash spreads have widened like CDS have widened, maybe not the same, maybe not on any day the same amount and not nearly with the volatility that CDS has moved, both widening and tightening. But certainly directionally, our cash spreads have widened as well but on very, very little activity.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And then I compare your funding in -- that I see on the screen, relative to some of your money-centered peers, which seems to be much lower. You are implying earlier in the question that it doesn't really seem to make a difference to your business. Is that correct? and is it also correct to assume that because you're not writing any long-dated business? Should there be long-dated business, it would make an impact?

David A. Viniar

It's had minimal impact on our business so far.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And would it be different if there would be long-dated business?

David A. Viniar

We do some long-dated business, and it might affect us versus some competitors who might have lower spreads, but we also compete on execution as well and our execution tends to be pretty good.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Last question is on counterparty risk. Have you changed the way you look at counterparty risk because clearly, there are some concern about certain counterparties in the market, and hence, one would assume that a counterparty has been constrained to certain parties or to certain kind of segments geographically?

David A. Viniar

We haven't really changed the way we look at counterparty risk. We, of course, always evaluate our counterparties based on what's going on and decide where we do and don't want to take exposures. I had mentioned many times in the past that vis-a-vis most financial institutions, without regard to a view on credit, we do so much business back and forth with the other major financial institutions that we all tend to have margin agreements with each other to make sure that credit exposures to other financial institutions never get very large, we had with our counterparties, our counterparties had with us. So we're always making credit judgments as we go on, but the way we do that hasn't changed.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Okay. And lastly, prime brokerage. How do you see balance movements at the moment or last quarter?

David A. Viniar

They've been relatively stable over the quarter. We've had some ins and some outs but relatively stable.

Operator

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

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

David, 2 quick questions. One is given the widening of your cash spreads, which I realize has not been quite as volatile as your CDS spreads and your desire to maintain liquidity, have you thought about repurchasing some of the debt that trades currently in the market?

David A. Viniar

Again, a very good question. It is something that we think about. Given our focus on liquidity, it's not something that we do very often. We make an active mark in our debt. If people want to sell us some, we buy it and we tend to sell it out, but it is something that we consider from time to time but not in a very big way given our focus on liquidity.

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

Okay. Just shifting the question a little bit, and I'm sorry if you went through this. I jumped on the call a couple of minutes late. Just curious about revenue trends across the geographies. And if you can, sort of splitting out some of the trading issues, was there -- were there particular -- was there particular weakness in Europe and relative strength in Asia or is that overthinking it?

David A. Viniar

I think -- from the trading business, I think that is overthinking it. I think we pretty much saw similar trends, not exactly the same but similar trends really around the world. Obviously, our overall revenues in Asia were down a lot given the $1 billion loss in ICBC. But from a trading point of view, I would say the trends were relatively similar around the world.

Operator

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

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

So what is the constraint for share repurchases? What's your authorization from the Fed? I mean you're trading below tangible book value. You say you want to buy stock. How much can you buy?

David A. Viniar

We haven't disclosed the authorization from the Fed.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

When is the blackout period?

David A. Viniar

Blackout period ends tomorrow.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Ends tomorrow?

David A. Viniar

Yes.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

And when did it start?

David A. Viniar

It started towards the middle of August.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Why so early did it start?

David A. Viniar

I'm sorry, middle of September. I had a moment of going back to being in November year end for a second. I apologize. Middle of September.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Why not -- didn't it use to be the end of September? Is that for you or that for everybody?

David A. Viniar

We black out from about 2 weeks before the end of the quarter until our earnings release. So it's about a 5-week, 5-ish week blackout period.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Is there anything else you can do to, I mean, sell off something and buy back stock you have? I mean, based on solely your comment, you think it's a good investment, probably a better investment than some other things. I mean, why not just downsize even more, free up capital and use that to buy back stock? I mean, how do you think about that trade-off?

David A. Viniar

The trade-off is what we think the business opportunities are going to be. And while we're a little cautious right now, we're not so negative on our business that we want to sell off a lot of things and shut it down. So we're still going to run our business, we're still going to trade with our customers, we're still going to have a balance sheet and have inventory. But we are, as I said before, thinking about the trade-offs between being in a stressed environment and having a stock price that, as you said, below tangible book and a fair amount below tangible book. And when we -- I know that someday, we're going to look back and wish we had bought back more at this price.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

The CDS has widened along with everybody else, and you say it's wrong based on your analysis of it.

David A. Viniar

I said it was confusing. I didn't say it was wrong. I don't believe markets are wrong. I think it's confusing.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

But what can you do to help narrow that CDS spread?

David A. Viniar

I don't think we can do anything to narrow the spread anymore than we can do anything to change our stock price. The markets trade as the markets trade. We try and make sure people understand what the extent of our liquidity and our capital and the conservatism of our risk management, et cetera. And we know that over time, our spreads will follow that. In the short term, there'll be a lot of volatility. There'll be times of market stress, and we think it may not at times reflect the quality of the firm. But we're convinced that over time, it does.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

And then lastly, your pace of investing in Asia and emerging markets, emerging markets have pulled back a bit. Have you had any change in your pace of investment?

David A. Viniar

Modestly, but not very much. We still think that the biggest medium- to long-term opportunities are going to be in some of those growth markets. And while just like everything else, as the world slows, we might moderate the pace a little bit, but we're still going to be investing in those businesses.

Operator

Your next question comes from the line of Fiona Swaffield with Royal Bank of Canada.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Just 2 questions. On the non-compensation costs, I know you gave some commentary stripping out brokerage and $100 million. But there still seem to be some growth to me, and there seems to be kind of rather large other expenses number even if I take out the levy if you comment on that. And my second question was on the fact your hedge has gone down a bit more than your original plan, I think, that you gave in Q2 and if you could talk more about staff numbers. And the third issue is I know you've talked a lot about the CDS and funding, but just wondering about the elevated senior debt cost. If I look at some of your issues out there and how you feel about any rollover you've got coming off any maturities, and whether that means you just won't replace them at the current level? Or how should we think about your senior funding?

David A. Viniar

I'll try and remember. I think I wrote them down, so I think I got all 3 questions. So if I don't, then remind me. As far as other expenses, 3 things make up probably close to 2/3 of the difference: One is the U.K. bank levy; second is, as you know and we announced, we bought the rest of Goldman Sachs Australia, which we have had in our partnership, used to be called, JBWere, now Goldman Sachs Australia. So that now became consolidated. And the third was the increase in our litigation reserves, which was not a big number, but when you look at the year-over-year change, if you add those 3 things, it's about 2/3 of the change and then assorted other things that make up the difference. As far as headcount goes, so heads are down about 1,300 from the second quarter to the third quarter. We, as again you know, we sold our servicing platform, Litton, and we consolidated the rest of Goldman Sachs Australia as I mentioned. The net of that was a decrease of about 800 heads. So the decrease, excluding those 2 things, was about 500, and that is part of the expense initiatives that we talked about. And the third thing on our debt, again, that's something that we're just going to consider as the quarter goes on. We'll see what the opportunities are. We'll look at how much cash we have, how much funding, what our spreads are, and we'll make decisions at the time about whether we want to replace maturing debt. We don't have that much debt maturing over the course of the quarter, and we'll decide as the quarter goes on whether we want to replace it or want to wait for a better time.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Could you remind us how much you've got maturing before the end of the year?

David A. Viniar

I think the plain vanilla debt maturing through the end of the quarter, I think, is around $5 billion. If it's very different, we'll come back to you.

Operator

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

Brennan Hawken - UBS Investment Bank, Research Division

So just one quick follow-up. I don't mean to beat a dead horse here on the buybacks but if we -- should we assume after the end of the year that it's likely you'll exhaust the share repurchase so at least looking back, we can know what the authorization was from the Fed?

David A. Viniar

The authorization we have from the Fed is for the year, so it will expire at the end of this year. Then, we will work with the Fed for authorization for next year. It's not a certainty we'll use all of it. So you'll know that whatever we bought back was within our Fed authorization, but it won't necessarily tell you that was all of it.

Brennan Hawken - UBS Investment Bank, Research Division

Fair enough. And on that next discussion, there were some questions raised around the timing of the scheduled stress test and the fact that results won't come out until 1Q is nearly over. Has there been any change or any movement as a result of maybe some back and forth with the regulators there?

David A. Viniar

We continue to discuss that with the Fed, and I think we'll reach a resolution soon.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. And then last one. Given how the year is shaping up to be pretty weak and expectations are low around year-end compensation across the street, how should we think about a catch-up accrual for comp in 4Q?

David A. Viniar

We'll see as the year unfolds. I think that right now, we're accruing as best we can. But as you said, the year is not shaping up as strong as some of the others. And again, as you know, it tends to be in lower revenue years. The percentage comp tends to be higher, but we'll see as we do our comp at the end of the year, and we'll adjust it accordingly if need be.

Operator

At this time, there are no further questions. You may proceed with any closing remarks.

Dane Holmes

We would like to thank everyone for participating in the third quarter conference call. If you have any questions, please feel free to reach out to Investor Relations. Otherwise, have a nice afternoon.