Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's third quarter 2013 earnings call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please stand by.

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

Marianne Lake

Thank you. Good morning everyone. I'm going to take you through the earnings presentation, which is available on our website. Please refer to the disclaimer regarding forward looking statements at the back of the presentation.

The firm made a net loss of $380 million for the third quarter, on the back of very significant litigation expenses. So I want to take you first to page two. We've added this page for this quarter only, as we want to be as transparent with you as we can be and give you as complete a picture as possible of our litigation reserves and the current perspective on the evolution of our reasonably possible range of losses for litigation. And as you know, as transparent as we would like to be, we are necessarily constrained in what we can actually say.

Having said that, on page two, I'll start by saying that we appreciate that the litigation expense of $9.2 billion is much more significant than you've been expecting. It's much more significant that we expected until very recently.

The reality is that over the last few weeks, the environment's become highly charged and very volatile. Things have been very fluid, and the situation escalated to the point where we're facing very large premiums and penalties, the level of which has gone far beyond what we reasonably expected. However, those are the facts we're dealing with today in our reserving actions this quarter and are trying as hard as possible to put these issues behind us.

So let me take you quickly through the table on the top of page two, which is a roll-forward of our reserves. We started 2010 with $3 billion in reserves, added around $28 billion through the third quarter, including the actions this period, and have settled a little less than $8 billion across matters, which leaves us with $23 billion approximately of ending reserves, which relate to a broad range of matters and includes a significant reserve for mortgage related matters, including both securities and repurchase litigation exposure.

Remember, our GSE repurchase reserves of over $2 billion are separate from this.

The balance at quarter end reflects the $9.2 billion we're expensing this quarter. This expense also covers a range of matters, including but not limited to mortgage-backed securities. And the impact from their income you can see is high as it's being effected by a portion of the expense estimated to relate to enforcement penalties, which would not be tax deductible.

Again, these estimates relate to a number of cases including, among other things, mortgage, as well as the recently announced CIO settlements. We do expect litigation expenses to normalize over time to much lower levels, but they may be somewhat lumpy quarter over quarter.

Finally, on this page we've included a table which shows a revised range of reasonably possible losses. And those are losses that would be in addition to our reserves. And remember, it's pre-tax. It's very important to emphasize that when estimating this range, it's difficult, and there are significant inherent uncertainties and judgments required.

As you can see, this was estimated at $6.8 billion last quarter, and while the range has gone down versus last quarter, it's only gone down modestly in comparison to the reserve adds. Think of it simply as if the estimate of what was reasonably possible back in the second quarter reflected our best assessment of the environment we were in and our best judgment at that time.

But as I said, we didn't, even a few weeks ago, reasonably expect things to have escalated to where they are now, so we have therefore revised our range to better reflect the reality of this current environment, with a range of up to $5.7 billion.

And before we go back to page one, just a final comment, as we said in the press release, the board and senior management continue to seek fair and reasonable settlement with the government on mortgage-related issues, but at this time, we are unable to report on any specifics.

So just flipping back to page one and just to finish of the front page, the other significant item we've highlighted on the page is the combined $1.6 billion of loan loss reserve releases for the consumer businesses. And if you add the two significant items in the table, which we don't consider to be core to our earnings, they total a loss of $6.2 billion and $1.59 of EPS in the negative.

If you adjust our results for these two non-core items, we would have earned $5.8 billion and an EPS of $1.42 with a return on tangible common equity of 15%. And that's not to discount the items, but rather to show the strength of our underlying performance.

The businesses showed double-digit growth in key drivers, as well as market share gains in consumer and CIB, in banking and market. For the second consecutive year, we led the nation in deposit growth, up 10%. Credit card sales volumes were up 11%, and we maintained our number one IDC ranking with 130 basis points increase in market share. And asset management saw $19 billion of long term net inflows, the 18th consecutive quarter.

So turning with that to page four, and the details of our balance sheet and capital, first, after allowing for dividends and repurchases, our capital declined in the quarter by approximately $2 billion. As a result, our Basel III tier one common ratio remained flat at 9.3% quarter over quarter with the decline in capital being offset by lower risk-weighted assets, primarily driven by legacy portfolio runoff.

We're targeting 9.5% by the end of this year, and still aiming to run at about a 50 to 100 basis point buffer above this level over time. And our 2014 CCAR submission will take both these targets into consideration as well as maintaining the flexibility to increase dividends and to repurchase shares. And just to note, our Basel III ratio under the advanced approach is currently lower than under the standardized approach.

An update, then, on leverage. The firm-wide supplementary leverage ratio under U.S. rules remains at 4.7% this quarter, and similarly the bank leverage ratio remains at 4.3%. And as you know, comment letters were provided recently relating to both the U.S. [MPR] as well as Basel proposals, which included requests for revised treatment for certain assets and exposures. And we don't know what the outcome of the final rules will be, but it's possible there will be some things that improve those numbers.

Finally, we remain compliant with LCR this quarter, and have HQLA of over $530 billion, with around $350 billion in cash at central banks. And as you know, we resubmitted our CCAR at the end of September and expect to receive feedback from the Fed in early December.

So now let's turn to business performance, and while the environment has been, and continues to be, very challenging, remember that there are more than 250,000 people in this company, focused day in and day out on serving our customers and communities. So with that, on page five I'll start with consumer and community banking.

The combined consumer businesses generated $2.7 billion of net income for the quarter, on $11 billion of revenue and with an ROE of 23%. As expected, we've seen a sharp drop in mortgage banking origination volumes and margins. That impacted non-interest revenue in the quarter.

But taking a look at the franchise, we ended the quarter with over 5,600 branches, over 19,000 ATMs, and 1,900 Chase private client locations. And we continue to see really strong growth in the underlying drivers for the consumer businesses. Average deposits were up $40 billion year on year, an increase of 10%.

And for the second year in a row, we led the FDIC survey with the highest deposit growth, and a growth rate more than twice the industry average, with that strength being broad-based across markets. We're number one in our three largest markets, and we gained share in 20 of the 25 largest markets.

Our active mobile customer base grew by 30% year on year. We had record credit card sales volume of $107 billion, up 11% year on year and outperforming the industry for the fifth consecutive year.

This quarter also had record client investment assets of $179 billion, up 16% year on year, reflecting the strong positive momentum of the Chase private client initiative as well as overall higher market levels.

And to close, a moment on expenses, which were down $89 million year on year, primarily due to lower mortgage banking expenses. And across CCB, we will have reduced headcount by over 15,000 for the full year of 2013.

Turning to page six, consumer and business banking, we generated net income of $762 million and an ROE of 27% on net revenue of $4.4 billion, up 2% year on year and 3% quarter on quarter.

Net interest income is up 3% quarter on quarter, driven by the strong growth in deposits I mentioned, partially offset by spread compression. But for the first time in about three years, the deposit margin has not declined quarter over quarter, meaning that rate compression is being offset by higher reinvestment rates. And at current market rates, we would expect, all other things being equal, for our deposit margins to be relatively stable in the medium-term.

On the noninterest revenue side, we continue to see strong growth in both debit and investment revenue. Expenses are up year on year, reflecting the investments we've made in the business, including Chase Private Client as well as costs related to strengthening control and compliance.

And a minute on business banking. You can see loan balances are flat quarter over quarter, up 2% versus last year, and production levels have stabilized at around these levels with a healthy pipeline in that context.

Turning to page seven, and the mortgage bank, overall mortgage banking net income was around $700 million, with an ROE of 14%. And the short story here is significantly lower production income, offsetting higher reserve releases. But if you start at the top with production pre-tax, we guided you that production pre-tax margins would be slightly negative in each of the third and fourth quarters. And excluding repurchases, you can see that's the case for the third quarter, with a net loss of $85 million, or a net negative 21 basis points of pre-tax margins.

As you see, revenues are down over 50% quarter on quarter. This reflects both a reduction in [locks] and the impact of a mix change together driving 120 basis points of revenue margin compression in the quarter.

While [locks] are down 40%, quarter on quarter closed loan volumes were down 17%, reflecting a pull through of the second quarter pipeline. And although you do see that our expenses are down some, around 7%, this reflects primarily the transaction level variable costs. We have taken appropriate actions this quarter to adjust capacity, which will fully hit our run rate in exit Q4.

On the positive side, our purchase volumes continue to increase and purchase mix was nearly 50% of loans this quarter, up from 35% last quarter.

Moving on to servicing, a loss of $226 million pre-tax, excluding MSR risk management. Lower revenues were down due to a couple of items, including the exit of lender pays reinsurance. On an adjusted basis, the servicing revenue would have been up slightly, reflecting the impact of higher rates.

Also, servicing expenses were $858 million for the quarter, including approximately $200 million of foreclosure-related matters. If you adjust for this, our core expenses would have been around $650 million, on track for the approximately $600 million in the fourth quarter as we guided at investor day.

Finally, you see the MSR showed a modest loss this quarter of $180 million, which includes a negative $120 million due to further HPI improvements, which is also driving higher reserve releases in the real estate portfolios.

So, on to the real estate portfolio. Pre-tax income of $1.5 billion includes net chargeoffs of a little over $200 million with chargeoffs expected at around that same level next quarter. As expected, a continued reduction in delinquencies, but importantly improvement in HPI, drove severity down in both NCI and PCI portfolios, which led us to release a combined $1.25 billion of reserves this quarter.

Turning the page to page eight, we'll do card, merchant services, and auto. Revenue of $4.6 billion was down slightly year on year and quarter on quarter as a result of spread compression despite strong sales volumes, with net income of $1.2 billion, up 29% year on year, and an ROE of 26%, excluding reserve releases, which reflect strong and consistent growth in sales and exchange revenue.

In card, year over year growth in both sales and merchant processing volumes was consistent and strong, and 11% and 14% respectively, and we saw a slight increase in average outstandings quarter on quarter. Expenses are flat year over year, and down a little quarter over quarter, but the second quarter included a one-time item.

The net chargeoff rate has reached historic lows at 2.86%, which is down over 70 basis points year on year, and we released $350 million of loan loss reserves this quarter. We expect an additional $150 million of reserve releases next quarter, consistent with our guidance for the second half of the year.

Before we move on, a few words on auto, with originations up 2% year on year and balances 4% year on year. And despite higher rates leading to increased competitive intensity, we're still expecting growth in the fourth quarter year over year.

Moving on to slide nine, the corporate and investment bank. We had very strong performance in CIB, with net income of $2.2 billion and an ROE of 16%, despite being a seasonally weaker third quarter and including a DVA loss of nearly $400 million.

As usual, we'll focus on the numbers excluding DVA. We had net income of $2.5 billion on revenues of $8.6 billion, and an ROE of 17%. In banking, total revenue was $2.9 billion, and we maintained our number-one ranking in global IB fees, with $1.5 billion, up 6% year on year.

We were up in a market that is down overall in wallet, and captured 130 basis points of wallet share over last year. Our market share gains were significantly larger than any of the other top ten players, and supported by landmark transactions like Verizon.

I'll take a segment to just give you some color on the strong competitive performance in ECM this quarter. We're number one year to date in terms of wallet, gaining 140 basis points of share and this quarter we're number one in volume, number one in wallet, and number one in deals.

Moving on to markets, $4.7 billion of revenue, down 2% year on year, versus a strong third quarter last year, in line with our guidance that we provided at Barclays. Fixed income markets revenue of $3.4 billion was down 8% year on year, but remember, the third quarter of 2012 did include modest losses in the synthetic credit portfolio.

Equity markets revenues of $1.2 billion were up 20% year on year, with broad-based strength across cash and derivatives and across regions. Security service revenue of $1 billion was up 3% year on year, with growth in custody and fund services partially offset by lower agent lending spreads. And credit adjustments and other of a negative $409 million was almost entirely DVA.

Expenses of $5 billion were down 7% year on year, primarily driven by comp, with a comp to revenue ratio of 27% for the quarter. Loans were down slightly, primarily due to trade finance. And finally, average CIB VAR remained relatively flat quarter over quarter at $45 million. The current quarter continues to reflect historically low levels of volatility as well as continued risk reduction.

I'll skip page 10 and take you to page 11 and the commercial bank. The quarter saw net income of $665 million on revenue of $1.7 billion, with an ROE of 20%. Revenues were flat year on year and quarter on quarter, reflecting pressure on NII, offset by favorable franchise trends.

Spreads compressed in the quarter 5 basis points or so from a relatively stable landscape in the last few quarters, across most client segments and geographies. And given the environment, it's likely spreads will continue to be under some pressure.

In terms of loan balances of $135 billion, up 9% year on year and 3% quarter on quarter. This remains a tale of two cities. The commercial real estate business continues to grow strongly, up 4% quarter on quarter with loan growth outpacing the market and growing every month for the last 13 months. Multifamily fundamentals are very strong, and traditional commercial real estate is building momentum, with both CRE and multifamily pipelines remaining robust.

However, in C&I, demand remains soft and competitive pressures high, the combination of which has continued to drive relatively flat C&I loans in the quarter. And we continue to focus on quality over growth. Every day we're adding new policy clients, clients with whom we expect to do lots of business over decades to come, and we've added over 600 of these clients year to date. And aside from lending, we continue to cross-sell our existing clients. To evidence that, growth IB revenues were a record $448 million for the quarter, up 16%.

Before we leave CB, two final points. Expenses were up 10% year over year, reflecting higher product and headcount expenses as we invest in front office and controls. And credit reflected a release this quarter, as the risk profile of the portfolio continues to improve.

Page 12, and asset management, another very strong quarter for asset management, with net income of $476 million, up 7% year on year and an ROE of 21%. Revenue was $2.8 billion, up 12% over last year, and while overall high market levels did help, very strong fund performance and flows drove the story. 74% of our mutual fund AUM is ranked in the first or second quartiles of performance over five years. And we saw $19 billion of long term net inflows. This is the 18th consecutive quarter of long term net inflows.

Importantly, we saw this in every single long term asset class, in every region, and it brought our year to date long term flows to $74 billion, which compares to just less than $60 billion for the full year of 2012.

We ended the quarter with AUM of $1.5 trillion, up 12% year on year, and in banking, we continue to see deposit and loan growth across the board. And while we expect loan growth to continue to be relatively strong, it’s likely to be somewhat lower in Q4 given the lower mortgage pipeline.

Expenses increased 16% year on year, as we continue to grow and invest in client advisors. And looking forward, we expect long term flows to remain positive and the breadth of our platform to enable us to grow our business and continue to sustain strong trends.

Moving on to page 13, corporate and private equity, a total net loss of $6.5 billion for the quarter, but breaking it down into its constituent pieces, private equity generated net income of $242 million, reflecting gains on certain investments in our $9 billion portfolio.

Treasury and CIO showed a net loss of around $200 million, but you’ll see that the $261 million of negative NII this quarter is lower than the run rate seen over the last several quarters, which reflects the impact of higher rates, specifically higher yields quarter over quarter, driven by mortgages and reinvestment in munis.

In the quarter, we deployed $32 billion growth in new investments, primarily agency mortgages and munis, including $5 billion of agency mortgages, which we’ve classified as held to maturity. As we continue to invest, if you follow the forward curve, you should expect NII to continue to improve the CIO/Treasury over the next several quarters.

And finally, although AOCI ended up relatively flat quarter over quarter or even up slightly, we did obviously see significant volatility during the quarter. The other corporate net loss of $6.5 billion is driven by the $9.2 billion pretax, or $7.2 billion after tax, for litigation expense in the quarter.

If you exclude litigation, results for the quarter did include a few positive tax adjustments totaling around $500 million relating to prior period adjustments, settlement resolutions, and reserve changes, mostly BAU items.

So finally, page 14 and our outlook. We've covered most of the outlook going through the presentation, so just a couple of things I would highlight. As expected, our firm-wide NIM, core NIM, and NII were relatively flat this quarter, and given market rates, we expect relatively flat NIM and NII in the near term. The firm is positioned to benefit from a higher rate environment, and we are starting to see that in our results.

Turning to expenses, we expect adjusted expenses for the full year to be between $59.5 billion and $60 billion, as we continue to invest in controls and compliance. Overall, our businesses are delivering in terms of leadership growth and financial performance, with double digit growth in key businesses drivers as well as market share gains. And as I said, excluding corporate litigation and releases, we returned a 15% return on tangible common equity.

I'll hand it over to Jamie, who'll go through the final slides.

Jamie Dimon

Great, Marianne. Thank you very much, and hello, everybody. So I'm going to just talk a little bit about things on page 15, because a lot of questions we're getting asked about it. It's three columns. I'll do each one shortly.

First, simplifying our business. If you look at what we're doing, we're spinning off One Equity Partners, selling physical commodities, and we've closed down a bunch of business lines. I think it's a core business principle to always simplify your business and to focus on where you could really win. It's a little more amplified this time because obviously there's a new regulatory environment, capital, and we need to focus a lot of our management mindset on controls.

You also, on that first column, you'll see we're de-risking. We're trying to meet new standards that we've set for ourselves and the regulators want us to set to reduce risk to our company, particularly on anti-money laundering. It will have a revenue effect, so my guess is, if you asked, probably a couple of hundred million dollars across all of our businesses.

The middle column shows you the investments we’re making in control. We want to be best in class. We want to get to Six Sigma. It’s become the number one priority. Just to give you an idea, we’re going to spend about $1 billion more. But that’s not the effort.

The real effort, if you think about it, is how much resources have been redirected to get this right. And there’s unprecedented work streams, like 500 people working on CCAR, 500 people working on resolution and recovery. We just turned in a, believe it or not, 100,000-page plan. We’ve added 5,000 people. And so this is a permanent investment. These costs are not going to go away. I think it’s important we get this exactly right.

If you look at the right hand column, I just want to go down that one by one. As I just mentioned, it is permanent cost structure that will stay in place, but our overhead is very competitive. We’re very rigorous on expenses. And we intend to stay that way.

So you shouldn’t expect to see tremendous increases in our expense base. While we simplified our business, it does not really affect our core businesses or core products. So Marianne went through the four business lines. It’s not going to affect our ability to be extremely competitive. Our [unintelligible] balance sheet is intact, and as you know, critically important to us.

The higher levels of capital liquidity will ultimately affect pricing to clients, but we’ll also be able to push down and optimize across the globe, effectively, as we adjust to the new global financial architecture. I think it’s important to point out that we do have to adjust to a new global financial architecture. It’s not just the [unintelligible], it’s really rules around the world. We’re working hard to do that. We think we will be able to do that. But we go into that with excellent franchises, good underlying growth, and a pretty good long term outlook.

Because while we operate in violent and volatile businesses around the world, markets go up and down, the underlying growth of asset management, equity, debt, capital markets, global multinationals, U.S. consumer needs, and middle market needs in the U.S., will actually be growing over time. So we think we’re in a very good place to serve them.

Our people really have done an outstanding job persevering and performing through these kind of difficult times, and you can actually go back, and it’s been five or six years. If you came to this building, I know a lot of you have, you see the employee morale is very high, and hopefully it will stay there.

And then the last thing, investor day, there's a lot of new rules, they won't be completely finalized, but we'll know most of them, we'll be able to give you a lot more of an update on how we think this affects our businesses going forward. We're pretty optimistic that we'll be able to continue to build a great company.

So we'll stop there and open the floor to questions.

Question-and-Answer Session

Operator

[Operator instructions.] And our first question comes from John McDonald with Sanford Bernstein.

John McDonald - Sanford Bernstein

Just on the legal front, not sure exactly what you can say. I'll give it a shot here. Does the lack of a settlement so far with the government reflect the DC shutdown, or more the fact that you're still negotiating, or a combination of both? Any comment there?

Jamie Dimon

I think it may be a little bit the DC shutdown, but in reality it's a complex thing. It's a board-level issue, and we want a fair and reasonable settlement if we can. And that's all we can really say about it. It involves multiple agencies. So you can imagine the complexity.

John McDonald - Sanford Bernstein

And in terms of the $9 billion provision this quarter, can you give us any sense of how much that reflects revised estimates of government penalties and fines as opposed to refined estimates for damage claims from private parties and things like that?

Marianne Lake

No, unfortunately we did as much as we can to give you as much clarity as we can, but we're not going to be able to break that down for you.

John McDonald - Sanford Bernstein

Could you give one more shot, Marianne, at explaining how the range of possible loss doesn't go down more after such a big provision?

Marianne Lake

The way to think about it, very candidly, is that we didn't expect, when we estimated that… Remember, it's a very difficult thing to estimate the significant uncertainty in terms of the estimates, significant judgment, and when we made those judgments in the second quarter, we didn't anticipate the environment being as volatile and escalating to the point that it has now.

So as we've taken our reserves, the reserves reflect today. So they reflect the current environment and the situation and facts that we're in. And we've now taken that into consideration as we look forward, with our reasonably possible range. That's why it hasn't gone down anywhere near dollar to dollar, obviously.

John McDonald - Sanford Bernstein

Does the settlement negotiations and things that you're doing, does that affect how you project losses on other aspects of legal that you were not negotiating in the last couple of weeks? Or you've kind of upped the projection of what you might have faced on other stuff?

Marianne Lake

All we can say is that we've reserved for what's probable and estimable based upon the facts and circumstances specific to each individual exposure and the overall environment.

Jamie Dimon

It's a tough environment, John, and we're just trying to reflect that.

John McDonald - Sanford Bernstein

On the expense front, I guess Jamie just said that the things that you've added in the control and compliance area are permanent, and that kind of drove up the expense outlook on an adjusted basis, Marianne, of $59.5 billion to $60 billion? So is this kind of the go-forward run rate, the $60 billion adjusted expenses? What would be the opportunity to bring that down over time? Are there any areas where that is kind of still environmentally elevated?

Marianne Lake

Just two things. And I think in the Barclays presentation there was a slide that showed that of the increase in our outlook, there was a chunk of it that related to non-corporate litigation. So it certainly isn't entirely to do with our investment in cost and control, much of which we are funding through efficiencies. Having said that, there is an incremental cost. It is in part permanent, and is going to be affecting our run rate. But there was a good, I think, $500 million of other expenses including non-corporate litigation which, as you know, we don't adjust out.

John McDonald - Sanford Bernstein

And then I guess also in there would be the default servicing, which is still elevated? Can you remind us the longer term target and how that could come down?

Marianne Lake

The longer-term target was a $325 million quarterly run rate, but that's over the longer term. What we said about 2013 and are on track to deliver is that we'd exit the year with about $600 million of expenses in the fourth quarter.

Jamie Dimon

Which we still expect.

Marianne Lake

Yes, which we still expect. If you look at the third quarter run rate adjusted, it's about $650 million, down from just over $700 million in the second quarter. So that trend is moving in the right direction.

John McDonald - Sanford Bernstein

And then the last thing for me is just wondering, Jamie, does the internal control issues this year, some of the headline issues at regulators, does that affect your mindset as you go into CCAR and think about how you'll think about capital return next year?

Jamie Dimon

First of all, we're going to get there when we get there. But obviously this company is very sound, plenty of capital. We want to pass CCAR, but when you talk about capital plans, it's going to be subject to several things. One is the stock price. Subject to passing CCAR with flying colors, which is really the stress test of CCAR, and also subject to wanting to meet our own targets for capital. So we've already said we want to get to probably somewhere north of 10% Basel III tier one capital, etc. And when we know all those numbers, do our budgets, we'll put the proper CCAR plan in place.

Operator

Our next question comes from Glenn Schorr of ISI.

Glenn Schorr - ISI

Just a quick follow up on the CCAR. You didn't say the exact difference between advanced and standardized, but I wonder if you could shed light on the spread between the two. I'm just curious, does it play a bigger role in the process this year? Or you were just kind of pointing it out?

Marianne Lake

I was pointing it out mainly because I think if you go back several quarters over a year ago, standardized for us was lower than advanced by a reasonable spread. And clearly when the Collins [unintelligible] Amendment is applicable, which is not for a period of time, we would be looking at the lower of those two ratios. Right now, it's higher than the advanced approach by a little more than 10 basis points.

Jamie Dimon

We should point out when we do CCAR next year, effectively - it's not the same for every quarter - it will be based on Basel III, which is a far more volatile number, because RWA moves around under stress with the Basel III as opposed to under Basel I.

Glenn Schorr - ISI

Okay, but that spread is a lot tighter, so it's less concerning. So that's good. Curious, we don't have all the answers on how the whole leverage focus is going to shake out, but it seems to be working its way through a little bit. I think your book's down 15% or so year on year, and it's less than 10% of the overall ballot sheet. But is that a correct way to think about it, that that focus is going to start impacting the repo market? And I'm just curious if you could talk about, for your book, what is balance sheet financing versus real customer financing.

Jamie Dimon

Yeah, so SLR, which you're referring to, is at 4.7%. Remember, that would go up by 50 basis points if you just subtracted the cash we hold at central banks. So until the final rules come out, I wouldn't overreact to it. Obviously, SLR will cause you to optimize differently, and a lot of products, which are very high user capital under SLR, think of those as deposits, repo, anything that's short term and low margin. Revolvers, etc.

So it will make you optimize differently, but I think in reality the way to look at it is we'll be able to adjust to it. We'll probably be able to do it by client. We're going to get to the ratio we need to get to, and we want to do it without disrupting all of our clients. So we'll be able to give you a lot more detail on that when we know the final rules.

Marianne Lake

And remember, there is still the possibility that there will be changes made to reflect, I think, the [FIN 41] [unintelligible] which you're talking about, which I think would be positive, clearly positive, to the repo market.

Glenn Schorr - ISI

Shifting gears, just a quickie, I saw the guidance is for flat net interest income dollars. Your loan growth was 1% or 2% quarter on quarter, year on year. But the underlying business, as you mentioned, is a lot better. Just curious, it seems like conservative guidance, but curious on what's behind it.

Marianne Lake

On NII?

Glenn Schorr - ISI

Correct. In terms of NII dollars being flat.

Marianne Lake

Growth has flattened out in terms of interest earning assets. You've seen that obviously take place over the last couple of quarters. And so our guidance is reflecting the fact that we've seen things stabilize, both NIM and NII, and that for the near term, that's what we're expecting.

Glenn Schorr - ISI

Maybe a last one. It's a world that doesn't have a lot of loan growth, has very low interest rates, and capital markets have been far from ideal. To your point, your underlying businesses are operating good, and ex the charge, you're earning that $6 run rate that people are hoping you could get to. I guess the question is, do you have more confidence than you did last year in terms of that $24 billion over the cycle? Because you're kind of at that run rate now with not ideal conditions.

Jamie Dimon

It's your job to forecast the future. We do think there's some very good businesses, and like I said, there's underlying growth. But obviously it could be swamped in the short run by markets and events, etc. We'll report a lot more on investor day, give you much more insight.

Glenn Schorr - ISI

All right. I have more confidence. Thanks.

Operator

Our next question comes from Betsy Graseck with Morgan Stanley.

Betsy Graseck - Morgan Stanley

A couple of questions. One, just another question on [FIC]. We've talked in the past about clearing and clearing requirements. And prior quarters we just had very few trades coming in under the new rules. Can you give us a sense as to how customer behavior has been, and how that's impacted your [FIC] line this quarter?

Jamie Dimon

I think there's two major things. First of all, the pre-trade and post-trade rules are in place, and I think basically they didn't have that much of an effect on the business. And now you have the [steps] in place, and if I'm talking to folks on the trading floor, volumes seem to be down a little bit, but not because of the steps. The steps are basically accepting data at this point. They're not making markets yet. You haven't seen a huge effect of it. And I think over time, it still remains to be seen.

Betsy Graseck - Morgan Stanley

And then on [SLR], did I hear you correctly that you're not going to make any changes to how you're providing credit to clients until you find out what the final rule is? There's no major changes on how you're approaching the market?

Jamie Dimon

Yeah, because we're going to meet the new targets, and retain the capital, and eventually, we are actually already pushing down to the business. We're starting to push down to the business units LCR, all the capital, all this stuff. Eventually, we'll put down SLR, and that will affect pricing and stuff. What we don't want to do is do a lot of it in anticipation. But if revolver [unintelligible] SLR at 100% drawn, the cost of those would go up. And I'm not sure they'll go up immediately, but they will go up over time. And so we'll be able to get there. We just don't want to do stupid things in anticipation of rules that we don't know what they are yet.

Marianne Lake

Our businesses are thinking through all of the implications. When the rules come out, we'll be able to [unintelligible]. If you think about it, it's a measured approach. We don't want to overreact. We want to see how things play out. And at the margin, there will be some changes to products and pricing, but we're going to be very measured.

Jamie Dimon

So cash at central banks doesn't have to hold capital against. That's 50 basis points. If you took revolvers down to what we say is a normal draw, like even a stress draw of 20%, which is what we kind of saw in the crisis, that would be another 50 basis points. So we just want to be a little measured in how we deal with this.

Betsy Graseck - Morgan Stanley

And the second thing, on mortgage, in the mortgage servicing, relatively high charges. The foreclosure piece in there. But just wondering if there's anything else going on in the servicing expenses?

Marianne Lake

No, there's really just the basic underlying run rate, which is about $650 million. It does include some severance, obviously, given actions taken to adjust capacity in the business, together with the $200 million item, which relates to foreclosure matters. There's nothing else.

Betsy Graseck - Morgan Stanley

And portfolio sale coming up at all in that?

Marianne Lake

No, not anything of any significance. We have done some, including recently, but nothing major.

Betsy Graseck - Morgan Stanley

And just lastly, just another question on the litigation, on the page two. I think the Street understands the reason for taking the $9 billion charge, and you’ve got the two comments on page two, which highlight the unpredictable, hard to forecast, but I guess what some folks are wondering is, should we be putting into the model just a higher run rate of litigation expenses going forward? I think over the past couple of years it’s been 300-500 kind of normalized quarter, one to two on a [unintelligible] and up quarter. Is that one to two the new normal until we get through this whole thing?

Jamie Dimon

We would love to reduce the uncertainty around this for ourselves and for you, but it’s very, very hard to do. So the way I look at it is it will probably be elevated the next year or two, not like we just went through, but it will necessarily be lumpy. So as we settle, as we negotiate, as we figure out - remember there are multiple agencies involved in every case now. So you saw in the CIO thing, that we paid four and maybe eventually five penalties, which we really did not expect. And so we just have to deal with it and deal with the reality as it is. It will abate over time, and the underlying power of the company you can see. I wish I could give you a better answer, but one day it won’t be a big number.

Betsy Graseck - Morgan Stanley

So, Jamie, as you think about all the litigation stuff that you’ve got, can you give us a sense as to how much you’re currently in discussions to negotiate, to give us a sense of how far along you think you are?

Jamie Dimon

First of all, the big ones are really board-level type of discussions. And our preference is always to resolve it. It is very hard to fight with your regulators or the federal government, but we want them to be fair and reasonable. We have shareholders. And those shareholders, by the way, I remind people, it’s not me, it’s veterans and retirees, and mothers, and we’re trying to do the right thing. It’s very hard. We’ve got the top people involved inside and outside the company, and hopefully over time we will make this a much smaller issue.

Operator

Our next question comes from Matt O’Connor with Deutsche Bank.

Matt O’Connor - Deutsche Bank

Just looking at slide 15, I think this is very helpful in terms of laying out some of the things that you’re targeting to reduce, on the left-hand side. I guess as we set back that picture and we think about a couple hundred million of revenue given up on the left side, and expense pick up in the middle, and then we factor in the higher capital requirements, the higher liquidity, are you confident that both the long term earnings impact won't be that meaningful and that you don't need to adjust the model that much? And I think that's kind of most people's view, but the nickels and dimes I think there's some concern that it does start to add up as well.

Jamie Dimon

It does, but again, we think we've maintained pretty good margins, and pretty good capital, and we have different ways to optimize. And not all the things we're simplifying were very profitable. And so remember, it lets us focus on other things. And the other things we're doing pretty well. Like, almost every single business we're up in share.

And remember, the reason you go up in share is because\you're doing a good job for clients. They vote with their feet, which means you're satisfying them. And so we're comfortable we'll be able to adjust to the new world and still have great businesses.

And again, you haven't seen all the reprice that might take place, you haven't seen the reactions and changes in business strategies. And some things may move to the shadow banking world, which is fine. We'll figure it out. Like I mentioned, the needs of our clients, consumer, small business, middle market, large corporate, are not going away. They have to be served and satisfied somewhere.

Matt O'Connor - Deutsche Bank

And then just separately, the compensation rate within the investment bank coming down this quarter, just by pretty good revenue trends overall, any additional color on that? I think you've been targeting 35% longer term, or maybe 31% or so.

Jamie Dimon

We've said 30-35%, and remember, we do it pretty consistently, after capital and looking at value creating and stuff like that. So that hasn't changed. It just came down a little bit this quarter.

Matt O'Connor - Deutsche Bank

And then lastly, could you just share what the CIO losses were a year ago? I'm not sure you've disclosed that before.

Jamie Dimon

We said they were modest losses last year.

Marianne Lake

Yeah, modest. We didn't disclose it, Matt.

Jamie Dimon

And they were about breakeven this quarter. It's getting very, very small.

Operator

Our next question comes from Erika Najarian of Bank of America

Erika Penala Najarian - Bank of America Merrill Lynch

My first question is on the new leverage proposals. I think we're hearing loud and clear that you're not going to do anything rash in terms of how you run your businesses, but given that we're still in proposal form in the U.S., and also with Basel, can JPMorgan accelerate capital return in next year's CCAR, even with the proposals fluid on the leverage side?

Marianne Lake

Two things. One is if you just look at the firm-wide leverage ratio for a second, that 4.7%, obviously there may be changes when the final rules are issued. But just take that as a base. We're only 30 basis points from the minimum, and while we're targeting to go higher than that, clearly 30 basis points is not a great distance for us to cover.

And then I would just reiterate what Jamie said, which is when we look at our 2014 CCAR, it will take into account a balanced set of facts and circumstances. So obviously both the quantitative and qualitative nature of the results of the stress test, but also our desire to once again get to capital levels that we've expressed, together with maintaining flexibility through appropriate dividends and repurchases. So all those things together will be considered in the capital plan.

Erika Penala Najarian - Bank of America Merrill Lynch

And my second follow up question is on the advanced versus standardized approach, as it relates to the CCAR. You've told us that the standardized ratio is clearly lower, but as you run your models under stress, what is more punitive for your bank? Is it coming into a stress scenario with a lower starting point on standardized? Or is it the RWA inflation when you stress the advanced?

Marianne Lake

Three things. First of all, just to clarify, currently our standardized ratio is higher than advanced, albeit not by a very wide margin. So just to clarify that point. Just generically, the advanced approach RWA sensitivity to a stressed environment would be more impacted than a standardized approach.

But remember that's a future issue for us, for 2014 CCAR. As we understand the instructions, we will be looking at an additional test on top of the 5% Basel I that will have a Basel I risk-weighted assets for the denominator for the first four quarters, and Basel III standardized for the second four quarters.

So for 2014 CCAR, the advanced approach isn't one of the critical tests, although it will likely be in the future. But in theory, and in reality, that will reduce more dramatically under stress than the other measure.

Operator

Our next question comes from Mike Mayo with CLSA.

Mike Mayo - CLSA

Three small questions, and then one larger one. First, what was the loan utilization on the wholesale side for the quarter versus last quarter?

Marianne Lake

It was relatively flat, in the low 30s, between 30% and 31%.

Mike Mayo - CLSA

And as far as the headcount reduction, you said in CCB you're taking out 15,000 jobs this year, and 11,000 in mortgage. Where are the rest of the jobs coming out from, and how are you able to do that?

Marianne Lake

It's consistent with what we said at investor day, in terms of the remaining jobs coming out of the branch network in consumer as we implement new technology and new operation models and new branch formats.

Mike Mayo - CLSA

And as it relates to slide 15, the repositioning of the business, what inning are you in for that derisking and the control agenda? It seems like derisking might be earlier innings and the control agenda the later stages? But you tell me.

Jamie Dimon

I guess we're making huge progress on it, but it's not going to stop for years. It's permanent.

Mike Mayo - CLSA

And then the larger question relates to the legal issue. How much of the investor losses for the mortgage putback in the mortgage securities relates to Bear and Wamu? I know there's been a lot of numbers in the press, but we haven't heard those numbers from you.

Marianne Lake

Just for what it's worth, on page 2, very small, in a footnote we talk about an estimate of about 80% of NBS deal losses related to heritage Wamu and Bear Sterns. That's losses.

Mike Mayo - CLSA

Okay, 80% of losses. And what's the dollar amount of losses on the mortgage putback side?

Jamie Dimon

When you say mortgage putback, are you talking about the GSE putback?

Mike Mayo - CLSA

What's the total dollar amount of all the losses we're talking about for this potential settlement? That must be public somewhere. For mortgage putback, in aggregate, mortgage securities, what are the dollar amounts? What's the original principal amount and what's the investor loss? Just the dollar amounts, if you can break that down?

Jamie Dimon

I think you have to get that from other analysts who actual have published numbers like that.

Mike Mayo - CLSA

So I guess one question, if 80% of the losses are from the deals, would you have done the deals differently? Did you not read the fine print? Did you not have some additional protection that you might have had? I know it was short notice for these transactions. On the other hand, as you look back now, maybe you wish you did something differently.

Jamie Dimon

Obviously that's true, Mike, because this is very painful for the company. So Bear Sterns, we did do quickly. We didn't anticipate that we'd be paying anything for prior losses for Bear Sterns. I tell people, even at Bear Sterns, remember I think it was $80 billion of bonds were made good, which would have failed that day had they gone bankrupt.

And we did ask. We weren't completely stupid. We did ask the SEC and only the SEC for would they please agree not to take enforcement actions against JPMorgan for things that happened at Bear, which of course they couldn't do outright, but they did say they'd take in consideration the circumstances in which the transaction took place.

And in Wamu, we don't believe we're responsible, by contract. But that does not mean that people can't come after you. So that was a little bit of a lesson learned, too.

Mike Mayo - CLSA

Can you talk more about the tradeoff, then? No one's forcing you to settle. If you really think this is a bad deal, then you obviously wouldn't do it. So what's the tradeoff for not settling versus settling?

Jamie Dimon

We're going to do what's in the best interest of our shareholders, all things considered. It's a board-level decision. It needs to be fair, reasonable, take into consideration all the facts, and if possible, we'd like to get it done. And if we can't, the board will make that decision. It's not a good choice either way.

Mike Mayo - CLSA

And your decision to disclose the legal reserve, as we go back and ask all the other banks, "What's your legal reserve? JPMorgan disclosed it, why don't you?" What were the factors that led you to do that?

Marianne Lake

The factor there was candidly that you were all trying to do this. You had most, or at least a large number of, analysts that published research papers trying to recreate settlements and reserves through time, and for this one time only, we felt like it was helpful and transparent and constructive to show you the magnitude of reserves after these actions, so that you can have that context when you think about the future.

Operator

Our next question comes from Matt Burnell with Wells Fargo Securities.

Matt Burnell - Wells Fargo Securities

Just a couple of quick follow up questions. First of all, Marianne, in the expenses related to mortgage production, those were down about 6% quarter over quarter. Do you have a sense if the trajectory of those costs are going to come down faster over the next couple of quarters? Several banks have discussed that in terms of trying to reduce the expenses at the same time production revenues are also coming down.

Marianne Lake

First of all, just to give context to that, 6-7% down quarter over quarter, there is a portion of our expense base related to mortgage that’s truly variable. So as production levels go down, we pay less compensation on the loans. And as a result, that’s what you’re seeing in this quarter. With respect to then rightsizing the expense base for the opportunity in the market, we have taken actions, as you’re aware, in the third quarter, to start to do that.

However, once you’ve gone beyond the truly variable costs, those actions take in some cases six months to truly get through the run rate. So while we will expect to see that start to come to fruition in the fourth quarter, not completely in the quarter, more as a run rate matter.

And then there is a portion of costs that are more fixed in terms of our ability to be able to participate, whether it’s real estate, technology, and a core infrastructure. Obviously we’re also taking a look at that, but we’re in this business, and so there will be an element of fixed costs obviously into next year.

But you should expect that we’re still seeing, absent [locks] go down tightly into the fourth quarter, you should expect revenues may be down, but expenses will also be down for that net slight negative pretax margin that we’ve guided you to. That’s still what we expect.

Matt Burnell - Wells Fargo Securities

And then just a question on pipelines. You mentioned that the pipeline in commercial banking was healthy. Just curious as to whether or not that is largely due to transactions that have been held up because of uncertainty in the economy, on the part of your borrowers, or is that also being helped by more business being booked by your bankers. And also, if you have a comment on the investment banking pipeline, at this point realizing it's early in the quarter, that would be helpful too.

Jamie Dimon

So let me brag on our commercial bank and investment bank bankers. We've opened up branches, I'm going to say, Jacksonville, Sacramento, Nashville. So we're actually in more places in the commercial bank.

Obviously we've been building on the Wamu footprint in Florida and California, and they've just been doing an exceptional job. And more importantly, a high quality job. We're really happy with the quality of the business they're booking and our investment bankers. You see the numbers in equity and debt.

And we didn't mention all the deals we're involved in, but Verizon and Sprint and Nokia. There's good pipelines and good traffic. You know that can change tomorrow, but the fact is, we're satisfied with our clients, and we're thrilled with the business we're generating.

Matt Burnell - Wells Fargo Securities

And then just Jamie, maybe a question on the buyback. At this point it doesn't sound like you have any concerns about the litigation expenses in this quarter being an issue for the CCAR submission or future buyback trends. Is that what I heard?

Marianne Lake

We don't expect or believe that there should be any repercussions, but ultimately that's the regulators' decision. So we resubmitted CCAR in September. We're still waiting for feedback. We get feedback in early December. We will do a good, thoughtful, and appropriate job of thinking through our capital [asks] as we do the 2014 CCAR. So those will be the things that we do.

Jamie Dimon

And we're doing very little stock buyback right now.

Operator

Our next question comes from Guy Moszkowski with Autonomous.

Guy Moszkowski - Autonomous Research

You mentioned in passing that at the investor day in February you think that there will be a lot more of the rules in place that you'll be able to discuss the impact of. I was wondering the specific ones that you think will be available by then. Volcker, for example? Is it your understanding that you'll have a good understanding by then?

Jamie Dimon

Yeah, Volcker, more detail on SLR.

Marianne Lake

Long term debt.

Jamie Dimon

Some more detail on how much long term debt. I think we have almost 20% of available resources today. And then you can look at things very basic, and simple, and say, okay, well, if cost is a little bit higher, and pricing stays the same, and capital is higher, returns are a little bit lower, that's true. But that doesn't take into consideration things we don't know, which is repricing, competitor strategies, and our ability to optimize by client, by state, by reason, by product.

So all of those things, we just can give you a better idea. We're very comfortable. We've got a very good business. We'll just give you a better idea of what we think it means, by business. You know, for example, we're going to allocate more capital and operating capital to the businesses. We're going to ask them to optimize on SLR. And without damaging the client franchise. So we'll just give you a little more detail, that's all.

Guy Moszkowski - Autonomous Research

Fair enough. One thing that you alluded to a couple of times this morning is the idea of the XLR being maybe 50 basis points higher if you didn't have to carry capital or count into the leverage exposure your deposits with central banks. Since you mentioned it a couple of times, does that mean that you actually have a reasonably high degree of comfort that there will be an exemption for that?

Jamie Dimon

No, I think a lot of people mentioned that they think it was inappropriate to apply capital to that. But the regulators will decide. Whatever it is, we will be able to adjust to it and conform to the rules. I was just pointing out that some of these things can move that number quite a bit, as a reason why you shouldn't overreact to it and just take the time and do it right.

When we know the final rules, we will conform. We can conform very quickly. So why would you conform very quickly and disrupt clients? So just think of it that way. We're just trying to do the right thing for the client base and the company. We could go out tomorrow and say, we're not going to make any more revolvers, and the revolvers [would go up] very quickly. We just don't want to do that. It's just not a rational way to run a business.

Guy Moszkowski - Autonomous Research

At this year's investor day, you identified in the investment bank a $65 billion runoff portfolio that you gave some targets of reduction for at year end. I've also noticed that in your pillar three disclosures you've got a very high CRM, which I have to assume is associated with correlation book stuff, which I guess that runoff portfolio is. Can you give us a sense for whether that's right, and where you are with that runoff portfolio?

Jamie Dimon

We are going to meet our target for the runoff portfolio, which are of course a couple of things. Part of the CRM was a synthetic credit portfolio, which is I'm going to say a tenth of the size it was a year ago. I just don't remember the exact number. And we're still going to be optimizing across other products. There are certain things in mortgages which use up a lot of capital, etc. So we have more to go in kind of optimizing RWA.

Guy Moszkowski - Autonomous Research

And that was a separate synthetic credit portfolios than what you moved over from CIO, or is this part of it?

Jamie Dimon

No, that one. But they had a small correlation book in the IB. This is a synthetic credit portfolio that was moved over to the IB, and eventually those will probably be put together, and much smaller.

Guy Moszkowski - Autonomous Research

We heard recently from some people in the industry that there's the expectation of a major counterparty default as part of the CCAR stress test this year. Are you hearing that that's going to be part of it?

Jamie Dimon

Yes.

Marianne Lake

Yes, we've received instructions, and that's a feature.

Jamie Dimon

It's a rational, idiosyncratic event that people should be prepared for. Remember, we did go through that with Lehman.

Marianne Lake

And it wouldn't be the first time we've modeled such an event as part of our stress testing.

Guy Moszkowski - Autonomous Research

Okay, final question, it's always been very important to you, Jamie, that you have a record of not losing money in a quarter through the whole credit bubble and disaster, and yet this quarter, because of the size of the litigation reserve, you did. Not a large amount of money, but you actually had a net operating loss. Do we take that as a signal of the certainty and the timing of sort of the size of the settlement?

Jamie Dimon

No. I mean, obviously it's very painful, for me, personally, because I agree with you, I don't like losing money, obviously, for my shareholders. We put up, and Marianne's been very clear, these are very tough numbers to estimate. It's a heightened environment, multiple agencies are involved on often the same thing. We're just trying to improve and get better and move on. Remember, these reserves relate to things that took place over multiple years. So it isn't a one-year event. And we still didn't lose money during the crisis.

Operator

Our next question comes from Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch - Credit Suisse

Marianne, you had mentioned the CCAR resubmission. When that comes out, will that be made public? And what will we kind of be able to get from that, and how will that impact your submission going forward?

Marianne Lake

I'm not expecting that the details and results will necessarily become public. Remember, it wasn't a quantitative issue, per se, it was a qualitative issue. So what the regulators are looking for is our response to their recommendations and substantial progress in that. I do think it obviously would be public what their response has been to that, sometime in December, and we'll work out exactly when that would be. So I would expect you to understand whether our plan has been accepted or otherwise at some point in December.

And we're already working on the 2014 CCAR submission. Obviously that submission in early January means that it will be board approved in December, and that process has started. And all of the work - Jamie talked about it. He talked about 500 people, thousands of people involved, models, documentation, [covenants], controls. All of that work that we did for the resubmission is fully being leveraged for ongoing CCAR processes, and we're building on it. So this for us will continue to become better over time, and 2014 will be another step in that process.

Moshe Orenbuch - Credit Suisse

And as far as other changes that you're aware of, you had mentioned the counterparty failure, are there any other kind of large items that would be a change in the way, or in addition to the way, they're approaching the submissions this year?

Marianne Lake

Really, most significantly the other thing that we just talked about, which is that in addition to all of the other minimum levels that we've been testing against, we have new tests under Basel III. It will be a test that recognizes phase-ins in the capital numerator, and also a slightly different denominator through time with different minimum levels of 4% in '14 and 4.5% in '15. So that's the other real big [frame up] change.

Moshe Orenbuch - Credit Suisse

And then related to the taking of the charge in this period, what was the actual information that changed? In other words, the accounting rules tend to require a certain standard to recognize that, and if you haven't reached that agreement yet, what actually did change that required the recognition of that in Q3?

Marianne Lake

We obviously can't comment on any sort of discussion or status of any specifics on litigation. Yes, you're right, the framework is probably estimable, so you should obviously assume that we didn't or couldn't estimate, or these events were not probable at the time. But today, our reserves are appropriate for the current environment and the information that [unintelligible].

Moshe Orenbuch - Credit Suisse

And did you say at the outset that the $9 billion wasn't fully taxed because a portion related to penalties? That would imply roughly about a third of it. Does that make sense?

Marianne Lake

We're estimating some penalties. Given the environment, we would expect that some of the expenses would come with penalty nature, and you can obviously do the math from the front page. But they are estimates, and they include a range of matters, not limited to mortgage.

Operator

Our next question comes from Gerard Cassidy with RBC.

Gerard Cassidy - RBC

Can you guys talk about the commercial loan balances? I noticed that the period end balances had a nice increase from the third quarter, but your averages were almost flat. Is there a pickup in lending activity in the month of September?

Marianne Lake

Actually, it's a great question. There is a fronting in that number of just shy of $2 billion, $1.7 billion, that will ultimately be syndicated in the short term. So I would adjust that out when you're looking at the quarter over quarter numbers. Other than that, it's relatively flat and steady performance in core middle market and strength in real estate.

Gerard Cassidy - RBC

And I know the litigation questions are sensitive, so I don't know if you can answer this or not. The discussion that are going on that we're reading out in the paper with the U.S. government, is it more of a factor of the dollar amounts that's holding it up, or is it more in terms of conditions?

Marianne Lake

We can't comment.

Jamie Dimon

We've already said all we can say about that.

Gerard Cassidy - RBC

Another question is you guys, at your investor day, talked about the Visa partnership that you just announced. Could you give us some more color on how that's going, with the merge [and acquiring] and the payments business?

Jamie Dimon

It's going well, but as [unintelligible] is still building the systems to actually do it, and come up with the products and services that we think can do a better job both for the merchants and for customers. We're still working on that. That's not going to happen overnight. We just think it could be a very good thing over time.

Gerard Cassidy - RBC

I assume you'll give us a good update at the investor day in February, then?

Jamie Dimon

Yes. We'll try.

Gerard Cassidy - RBC

Coming back to the asset deals, you talked about the deposit margins improving quarter to quarter earlier in your call, are we at a point where the asset yields in the securities portfolio have bottomed? Are you replacing securities with securities with equal yields or higher?

Jamie Dimon

Essentially it's flattened out at this point, yeah.

Marianne Lake

And we've begun to reinvest. We're looking at the over portfolio. We're doing some rotation. And that process has started.

Jamie Dimon

And remember, rates did go up almost 100 basis points.

Gerard Cassidy - RBC

Finally, on a go forward basis, once we get over all these issues that everybody's confronting today in the banking industry, with the regulatory and maybe the interest rate environment, what's going to be the capital ratio that's going to constrain your growth? Is it going to be the SLR ratio, the tier one common? What's the one you think will be the real Achilles' heel?

Marianne Lake

At a macro level, just talking about the firm-wide level for a second, we've said that we're looking at running the firm at a Basel III tier one common ratio of between 10% and 10.5%, which would imply in any case tier one capital minimums will be 11% ultimately. So we'll be at 11-plus percent in tier one capital.

And we talked about leverage running at 5.5% over time as well. And if you think about 11%-plus tier one capital, 10.5% Basel III common, and a 5.5% documentary leverage ratio, given the ratio of our risk-weighted assets to our balance sheet, they actually can exist quite happily.

So it is going to be a multi-variant set of binding constraints, but at those levels they exist quite nicely. Obviously the devil's in the detail, when you push down into the businesses client by client, product by product, and that work will go on. And as we do that work, as Jamie's talked about, we expect to be able to optimize, which will include some repricing and some restructuring of products, but at a macro-level, they will coexist relatively well.

Jamie Dimon

I would just add to that, CCAR will be, in our opinion, also another binding constraint over time.

Marianne Lake

Very good point.

Gerard Cassidy - RBC

And I guess coming back to the capital, on the orderly liquidation authority, as we all know, there's certain buckets of capital that have to be maintained. Do you have any clarity yet that the excess over the 9.5% over the tier one common portion, will that be applicable to the other buckets, so you don't have to maybe raise as much in preferred or senior debt?

Jamie Dimon

We don't know those rules yet, but presumably it's going to be equity plus preferred plus unsecured senior debt, and subordinated debt. And I think our number's already at 20% of risk-weighted assets there. So we're already in a pretty good place, but we'll see what the final rules are.

Operator

Our next question comes from Jeffrey Harte of Sandler O'Neill.

Jeffrey Harte - Sandler O'Neill

Most things have been covered, but I'm looking at the loan loss reserve releases from the PCI portfolio. Assuming credit gets better, that theory continues as well. How should we think of that going forward? Is that going to be something lumpy from time to time? Is it going to be more kind of gradual, like it would be on a normal loan portfolio?

Jamie Dimon

I've got to go, because I have a meeting I have to go to, but I appreciate the time with us. And Marianne can answer the remaining questions.

Marianne Lake

Sure. The way to think about the PCI reserve release, it's the first one we've taken, and it reflects obviously improved home prices and lower severities. But it's a life of loan model, so if all of the things from here are equal, then, you know, we are where we are. Obviously if there are significant changes, probably primarily in home prices, but also in delinquencies, then you might see some more reserve releases. These are likely to be more periodic and lumpy, because obviously we will be refreshing our life of loan forecast over time. It's possible that you may see them in multiple courses, but that's not what we're expecting.

Operator

Our next question comes from Derek De Vries of UBS.

Derek De Vries - UBS

I've just got a few questions on the investment bank. And you touched on the comp expense earlier. It was obviously very low as a percent of revenues. Excluding DVA I think it was 27%. So given revenues are down, your bonus accrual must be way down. And my question becomes, is that just coincidence that it happens in a quarter where you take a $9 billion of regulatory litigation costs, or is there kind of a cause and effect there?

Marianne Lake

No, there's no cause and effect there.

Derek De Vries - UBS

And then my second question, you've talked a lot during this conference call about sort of pushing things out to clients when you have more clarity on your leverage ratio, and the rules and what not. I guess just broader, as you think back, not to the leverage ratio but all the Basel III rules we've faced, and all the changes and higher capital requirements and whatnot, are you surprised at how slowly some of those price increases have been pushed down, and how slowly capacity has left the industry? Or do you think it's about right? Or do you think we'll see more of that going forward? Maybe you could just make some broad comments there.

Marianne Lake

I can certainly talk [unintelligible] where as soon as we understand the rules we start to push them down into the organization so that the people who are transacting at the product and client level can make the best and most appropriate decisions to maximize returns and meet hurdles and all of those sorts of good things.

And you're right, over the last several years, we have seen capital and liquidity increase dramatically. Meanwhile, we've still been delivering a core underlying performance in that kind of mid-teens return on tangible common equity. So we're still competing effectively, which leads me to believe that others are doing the same thing and that that's being reflected in the competitive nature of the environment.

I think it's obviously going to continue some, as we and others have set ourselves even higher targets for capital, and then obviously new rules, including the SLR. But I also do think that these things work through the system through time pretty quickly, given the nature of the business.

Operator

Our next question comes from Jim Mitchell with Buckingham Research.

Jim Mitchell - Buckingham Research

One quick follow up on your liquidity holdings. Your excess liquidity pool looks like it increased almost $85 billion sequentially to $538 billion. Just want to know what's driving that, if there's anything you're worried about or thinking about, because I thought your LCR ratio last quarter was above 100%. And if you could just give us your updated LCR ratio, that would be great.

Marianne Lake

Our LCR ratio last quarter was 118%. This quarter we haven't disclosed it, but it's not far off that same level. And the increase in cash is not necessarily because we're trying to do anything from a liquidity perspective, but also reflects inflows from clients, both operating builds, and importantly noncore, nonoperating deposits that we then place with the central banks.