Good morning. This is Sharon Yeshaya, Head of Investor Relations. During today's presentation, we will refer to our earnings release, strategic update and financial supplement, copies of which are available at morganstanley.com.

Today's presentation may include forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially. Please refer to our notices regarding forward-looking statements and non-GAAP measures that appear in the earnings release. This presentation may not be duplicated or reproduced without our consent.

Page 3 of the strategic update shows our reported results and our results adjusted to exclude the aggregate impact of net discrete tax provision in the fourth quarter that resulted from the enactment of the Tax Cut and Jobs Act and other intermittent net discrete tax benefits unrelated to the Tax Act. These adjusted operating performance metrics will be utilized throughout the remainder of this presentation in order to assess our strategic objective established in 2016.

I will now turn the call over to Chairman and Chief Executive Officer, James Gorman.

James Gorman

Good morning, everybody. Thank you, Sharon. Thank you, everyone, for joining us. I'm going to take you through a summary of last year's performance as well as our outlook and plan for 2018. Following my remarks, Jon will take you through the quarter in detail. And after that, we will both take your questions. If we could start by turning to Slide 4 in the deck. At this point in our strategic evolution, it's worth putting our future goals in the context of what has taken place over the last several years. As illustrated in this slide, our primary focus in the early years was to put the troubles of the financial crisis behind us and to complete the full integration of the Wealth Management business. These steps were critical in order to reposition our firm to benefit from our world-class and complementary franchises. Then in early 2016, we outlined a 2-year strategic plan. The plan's primary goal was to achieve a 9% to 11% return on equity by the end of 2017. It also included a number of quantifiable secondary targets that we aim to achieve over the same time frame. Looking forward, with these targets achieved and a solid strategy in place, our management team will continue to work towards generating sustained high returns by investing for growth while maintaining fiscal vigilance and capital sufficiency.

Slide 5. It outlines the key strategic objectives we aim to achieve by 2017. In each instance, our 2017 results are in line with or better than the target ranges.

On Slide 6, we provide a more in-depth perspective, focusing on the financial backdrop that influence these results. As you all know, 2017 was a mixed year. While many financial markets produced strong returns and U.S. monetary policy continued to tighten gradually, benign markets impacted trading conditions. As we're all aware, much of 2017 was characterized by persistently low volatility across both rates and equities. This dearth of activity impacted our more market-dependent businesses. Despite these trading conditions, we were able to gain wallet share and capitalize on pockets of opportunity as they presented themselves.

Our strategic plan for the past 2 years has focused on two equally important goals, increasing profitability and demonstrating stability of earnings. On Slide 7, we show the increase in profitability since 2015 both across earnings per share and ROE as well as return on tangible common equity. As many of you have requested, this is a metric we will highlight going forward.

Turning to the next slide. We illustrate how our business mix has aided the improvement of earnings stability. Of course, this stability is the direct result of many changes, all aimed at building complementary franchises in securities, Institutional Securities, Wealth Management and Investment Management. Importantly, a greater proportion of our earnings are now derived from more stable and higher-ROE businesses. This increased contribution from Wealth Management and Investment Management should help preserve profitability during periods of market disruption.

Slide 9 shows as we look forward and outline areas for organic growth and further operational improvement. At the forefront of this plan is our strategy of deepening our lending footprint across our Wealth Management and Institutional Securities franchises. That will further add to the objectives of stability and consistency that I discussed earlier. We also see opportunities from continuing to press our advantage in our traditional areas of strength. Additionally, we will look for ways to realize the potential of our Investment Management platform, leveraging our attractive business mix, global client footprint and top-tier performing strategies. Our intention is to achieve these objectives while remaining fiscally vigilant and driving efficiency gains. When this disciplined execution is combined with attractive return profile, we feel confident we can deliver ongoing attractive returns.

Slide 10 illustrates the steady growth of our lending footprint as well as the diversity of the overall lending mix. We continue to see demand for financing solutions and opportunities to deploy capital at attractive returns to support our clients' needs. This lending growth is supported by a high-quality deposit base, which is sourced predominantly from our existing Wealth Management client footprint. We look forward to discussing our lending and deposit strategies in greater detail during the year ahead.

Turning now to Slide 11. Since the full acquisition of Smith Barney in 2013, we've focused on opportunities that come from being a premier wealth management provider at scale. We've witnessed material growth in our two main sources of annuitized revenues, fee-based assets and client liabilities, which produces, of course, net interest income. In both cases, we've made significant investments, enhancing our advisory platforms and banking and lending infrastructure, respectively. This has enabled us to take advantage of secular industry trends. At the same time, we continue to optimize our expense base while still investing in future growth initiatives, including our digital offering. Despite investments, noncompensation expenses are actually down from 5 years ago. The margin expansion demonstrates the business' undeniable scale benefits.

Slide 12 shows the resulting impact to our revenue profile. Material revenue growth has been complemented by a change in revenue mix. Transactional activity, historically a more volatile source of revenues, has been significantly reduced and offset by growth in net interest income and fee-based revenue. As a result, average daily revenues have increased. Importantly, looking to the right of this slide, in 2017, 88% of days were above $60 million a day compared to 42% of that number in 2015.

Slide 13 summarizes the future growth and margin opportunities in Wealth Management. Two years ago, we provided a 23% to 25% pretax margin target. This target was premised on an expectation that we would be able to grow both net interest and noninterest revenues while maintaining expense discipline. The objective was achieved, and it resulted in a full year 2017 margin of 25.5%. We continue to see upside to this margin. Over the next 2 years, we expect to achieve a 26% to 28% margin. Achieving this revised target will be dependent on executing on a number of revenue and expense initiatives that are outlined on the right-hand side of the page. Recall that we expect the margin to be positively impacted in excess of 100 basis points as the Smith Barney retention notes will be fully amortized by January of 2019, also at the same time we will continue to invest for growth.

Turn to slide 14, which provides an overview of the progress made in Institutional Securities. The bar chart on the side shows the aggregate wallet of Morgan Stanley and our top 8 peers for each business, with the green circle illustrating our share of that wallet. As you can see, over the past 5 years, we have gained wallet share in each business line. As it relates to 2017, we witnessed solid results across all businesses. Investment Banking, it had its best year post crisis, driven by strong performance in all businesses, including our ECM franchise, which ranked #1 globally in a resurgent underwriting market. In Equity Sales & Trading, we maintained our #1 position for the fourth consecutive year, with a wallet share in excess of 20%, allowing us to maintain revenues of approximately $8 billion despite a smaller wallet. In Fixed Income Sales & Trading, we've gained share while resizing our business to one which is both critically and credibly sized and more appropriate for the wallet opportunity, and it generated more revenues than prior to the restructuring.

Slide 15 outlines the progress we've seen in Fixed Income Sales & Trading franchise since the meaningful restructuring we undertook in 2015. Our target was to maintain our historical revenue footprint, but with reduced resources. As previously discussed, we met this goal in both 2016 and 2017, 2 years that saw very different market backdrops. These results are encouraging, particularly as we're able to navigate a more difficult 2017 and gain share despite a diminished industry wallet. Going forward, we aim to maintain a stable footprint in what we expect to be an improved industry wallet.

Slide 16 outlines our Investment Management business. As I've noted before, Investment Management represents a high-returning business with opportunities for future growth. The approximate $482 billion of assets under management represents an attractive and complementary mix of alternative and traditional platforms. As illustrated, a meaningful portion of our revenues come from businesses such as alternatives, high-conviction equities and emerging markets. These are businesses where we believe we can deliver differentiated client value. As we've successfully undergone an organizational realignment and legacy cleanups over the past 2 years, we're now positioning the business for growth. 3 key drivers of growth will be investment performance, client partnerships and distribution and product innovations.

Slide 17 provides examples of our ability to deliver on this growth potential. Our global distribution capabilities are notable. Approximately 2/3 of our 2017 gross sales have come from outside the U.S. Strong positive net flows from these markets represent a differentiated contributor to assets under management growth. The examples outlined at the bottom of this slide illustrate that funds with differentiated strategies and strong investment performance tend to deliver significant AUM growth. We have identified a broad set of actionable organic growth opportunities within Investment Management. Moreover, as mentioned on our last call, we will continue to opportunistically evaluate M&A opportunities, such as Mesa West, where we can fill gaps or accelerate growth.

Turning now to Slide 18. As a management team, we're focused on fiscal discipline. Optimizing our expense base has been a key driver of this approach as demonstrated by the multiple efficiency ratio targets we have set for ourselves over the years. For 2017, the success of our Project Streamline cost-savings initiative generated an efficiency ratio of 72.6%, a significant improvement relative to 2015, and indeed, inside our target of 74%. In 2018, we will adopt new accounting standards that Jon will touch on. While this change is PBT-neutral, there will be negative impact on the overall firm efficiency ratio. Looking through that lens, the efficiency ratio would have been approximately 73% in 2017, slightly up. Going forward, our goal is to continue to drive efficiencies across the businesses and maintain a ratio below the 73% level.

Slide 19 outlines our historical capital return. In recent years, we've consistently increased our dividend and significantly grown our total payout to over $5 billion in 2017. Our non-objection from the 2017 CCAR submission allows us to return almost $7 billion in dividends and buybacks through 2Q 2018. The increase in capital return has been executed while we've concurrently invested for future growth and maintained adequate capital levels. Strong capital return is a critical element of our future success, and we believe we are more than sufficiently capitalized for our business mix, size and risk profile. We remain optimistic about regulatory refinements in the area of capital. However, it's too early to predict the magnitude of any changes, but we expect some relief while still maintaining extremely prudent capital and liquidity levels.

Finally, let me touch on the impact of the U.S. corporate tax reform on Slide 20. Whereas the impact to the overall economic backdrop and activity levels within our business segments will only become clearer over time, we expect an immediate positive impact to our financial results in 2018. As a result of our significant U.S. earnings contribution, not least here, our Wealth Management segment, we expect to see a meaningful reduction in our effective corporate tax rate. These estimates are based on our current interpretation of the legislative changes. They may change as we receive additional guidance and as the interpretation of the Tax Act evolves over time.

So Slide 21 summarizes our key strategic objectives over the course of the next two years, and they include, delivering a Wealth Management pretax margin of 26% to 28%; expanding our ISG penetration and leadership across the businesses; positioning Investment Management for growth; and finally, realizing a firm efficiency ratio of 73% or better. Together with an attractive capital return profile, the fulfillment of these targets will enable us to continue to drive ROE growth higher. Predicting ROE, of course, is difficult. That said, given our growth initiatives, maintaining expense discipline and recent changes to U.S. corporate tax law, we are increasing our target ROE range to 10% to 13% from 9% to 11% over the medium term. This new range underscores our belief that annually we should be able to consistently exceed our cost of capital across a variety of market backdrops. This management team is committed to executing on our strategy while looking for compelling growth opportunities in order to bring these objectives to fruition, which will provide both future profitability and performance.

I'll now turn the call over to Jon, who will discuss the fourth quarter and annual results in more detail. Then together, we'd be delighted to take your questions. Thank you.

Jonathan Pruzan

Thank you, and good morning. In many respects, the fourth quarter's operating environment represented a continuation of the third quarter. In Sales & Trading, volatility across equity and fixed income markets remained depressed. Consequently, client activity was limited, affecting Fixed Income in particular. Corporate clients, however, remained active, driving strong results in Investment Banking. Investment Management momentum continued. And notably, Wealth Management posted new records. Firm revenues were $9.5 billion. In the quarter, PBT was $2.5 billion, EPS was $0.29 and ROE was 2.9%. Excluding aggregate discrete tax items of $1 billion, adjusted EPS was $0.84, and adjusted ROE was 8.6%.

For the fourth quarter, total noninterest expense was $7 billion, a 5% sequential increase, driven by higher compensation expense on higher revenues and seasonally higher marketing and business development and other expenses. Our full year efficiency ratio of 72.6% is below our 74% target we set 2 years ago. This marks the successful completion of Project Streamline, our initiative to reduce expenses by $1 billion relative to the 2015 levels. The target assumed flat revenues and incorporated a reduction across both compensation and noncompensation expenses. Project Streamline was broad-based, with over 200 separate initiatives across the entire firm. Some notable successes include, improving our workforce strategy by converting consultants and contingent workers into more cost-efficient FTEs and leveraging our U.S. and international centers of excellence; reducing professional services expenses by improved procurement processes and the implementation of technology-enabled solutions to reduce redundancies and reducing our technology-related expenses by consolidating 12 legacy data centers into 5. The adoption of private cloud and virtualization technology was an important component of the compression enabling us to achieve a smaller technology footprint. We have remained disciplined around compensation, achieving compensation ratios for Institutional Securities and Wealth Management below our targets of 37% and 56%, respectively. We have also seen a reduction in litigation expenses. The 460 basis point increase in our pretax margin achieved over the 2-year period provides the best illustration of the success of the project. Relative to 2015, ex DVA, full year 2017 revenue is up $3.4 billion or 10%, while noncompensation expenses are down 3%. This generated an increase in pretax profits of $2.5 billion or 32%. Looking ahead, our focus will be on ensuring that the savings achieved remain permanently out of the expense base. This will be key for us to maintain a firm efficiency ratio of 73% or below.

Now to the businesses. Net revenues in our Institutional Securities business of $4.5 billion represents a 3% sequential increase. The slowdown in Fixed Income was offset by strength in Investment Banking. On a full year basis, net revenues of $18.8 billion were up 8%, representing our sixth consecutive year of growth ex DVA and a new postcrisis high. Noncompensation expenses were $1.7 billion for the quarter, driven by seasonally higher business development and other expenses. Compensation expenses were $1.6 billion, bringing our full year compensation to net revenue ratio to 35%, an approximate 200 basis point reduction compared to 2015.

Investment Banking continued to show strength. Revenues of $1.4 billion were up 13% quarter-over-quarter. The increase was driven by underwriting, particularly in equity, which increased 52%. This was partially offset by a 6% reduction in advisory revenues. Looking at the full year, Investment Banking results benefited from the broad-based rebound in underwriting activity. Equity and Fixed Income underwriting were up 67% and 44%, respectively. Revenue growth across all regions and virtually all products contributed to these results. We continue to leverage our global footprint, working with clients to deliver holistic solutions. From a regional perspective, Asia showed a meaningful sequential increase, particularly in equity underwriting, demonstrating the value of our global franchise. We continue to expect Asian markets to play a key role in 2018. For the year, we were #1 globally in IPOs, equity and equity-linked offerings and #2 in announced and completed M&A. Full year revenues of $5.5 billion represent the second-highest in our history. Overall, our Investment Banking pipelines remain healthy and diversified across products, regions and sectors. Underwriting markets globally remain very receptive to a wide range of issuers with a variety of financing needs as credit spreads remain low, volatility muted and market liquidity deep. CEO confidence remains high, and we are actively engaged with our clients. Results, however, may be impacted by macroeconomic uncertainty and geopolitical events. Despite these uncertainties, we believe that the diversity of our franchise across both products and geographies will position us well for the year to come.

In Sales & Trading, revenues were down 8% quarter-over-quarter. Muted markets characterized by continued low volatility and lack of idiosyncratic market-moving events impacted results. In equities, we retained our leadership position and are 1# globally for the fourth consecutive year. Our full year revenues were approximately $8 billion despite much of the year being impacted by historically low equity volatility. Year-over-year, we saw a growth in EMEA and Asia, offsetting a modest decline in the Americas. From a product perspective, derivative revenues were down on fewer large structured transactions in 2017, which was partially offset by higher cash revenues.

Looking ahead to 2018, the implementation of MiFID II continues to be a focus area for many investors. We continue to see strong client demand for content, liquidity and financing solutions. Based on these early weeks, we have navigated MiFID as expected and have provided support to our clients through this complex process.

Fixed Income revenues in the fourth quarter were $808 million, down 31% versus last quarter. The sequential decline was primarily driven by our macro businesses, which saw low client activity. Low volatility weighed on our rates and FX businesses. Credit results exhibited stability against a favorable backdrop for risk assets, and our lending businesses continued to be a source of stable revenues. In 2015, we made the decision to resize and reshape the business because we believed the size of the wallet would not change materially for the next several years. Since taking action, the wallet has been in a plus or minus $5 billion range from the $63 billion we saw in 2015. In 2017, we generated revenues of $4.9 billion despite a multiyear low for the industry wallet. Importantly, we believe there's operational leverage in the business should the wallet recover.

Now moving to Wealth Management, which posted record quarterly revenues and PBT. Fourth quarter revenues were $4.4 billion, a 4% sequential increase contributing to a full year revenue growth of 10%. The PBT margin was 26.1% for the quarter and 25.5% for the full year, a year-over-year increase of more than 300 basis points. We continue to see the benefits of scale. Total annual expenses grew by only 5%, generating full year pretax profit growth of 25%. The expense leverage has enabled us to maintain a substantial level of investments into our future capabilities, including our digital, banking and advisory platforms, while at the same time increasing our margins. Total assets grew by 3% to $2.4 trillion in the fourth quarter. Total fee-based assets grew by 4%, now comprising 44% of total client assets. And fee-based asset flows of $21 billion capped a record year with total flows of $75 billion. Higher asset levels, combined with strong flows, contributed to asset management revenues of $2.5 billion, representing 3% growth relative to the third quarter. Net interest income of $1.1 billion is up

5% sequentially. The benefit from higher asset yields and lending balances was partially offset by higher funding costs as we diversify our deposit products. Full year NII growth of $576 million or 16% was driven by an increase in average loan balances of approximately $10 billion and higher rates. In 2018, we would expect NII growth to slow based on our anticipated funding mix and higher deposit betas than we experienced in 2017.

Transactional revenues of $790 million increased 7% sequentially. On a full year basis, transactional revenues were stable, following a multiyear decline. Total noninterest expenses increased 5% sequentially, driven by higher comp on greater revenues and seasonally higher market and business development expenses. The full year compensation to net revenue ratio was 55.6%, in line with our target. This quarter's performance again demonstrates the strength and stability of our Wealth Management franchise. Investment Management witnessed another solid quarter with stable asset management fees and broad-based investment gains. Total net revenues were $637 million, down 6% quarter-over-quarter. The quarter included an impairment of an investment in a third-party manager reflected in other revenue. Full year revenues were $2.6 billion, a 22% increase versus the prior year. Our AUM of $482 billion in the fourth quarter grew 8% with positive net flows across all strategies, including strong seasonal flows in our liquidity business. As James discussed, we continue to see increased investor interest for strategies where we deliver differentiated value and strong investment performance. Net flows across our active strategies as well as private fund capital raising reached multiyear highs in 2017. Asset management fees of $572 million were up 1% sequentially. On a full year basis, asset management fees increased 6%, in line with the growth in our average AUM. Investment revenues were $112 million, down 2% relative to the last quarter. Full year investment revenues were $449 million, up considerably from last year, which included sales and markdowns on legacy LP investments and third-party-sponsored funds. As discussed in the past, this line item has potential to be lumpy.

Turning to the balance sheet. On a sequential basis, total spot assets of $852 billion were essentially unchanged. Our pro forma fully phased-in standardized RWAs are also expected to remain stable at $379 billion. In addition, our pro forma fully phased-in Basel III standardized Common Equity Tier 1 ratio is expected to decrease to 16%, and our pro forma fully phased-in supplementary leverage ratio is expected to decrease to 6.4%. The decline in both ratios is driven by the net discrete tax provision recorded in the quarter.

During the fourth quarter, we repurchased approximately $1.25 billion of common stock or approximately 25 million shares, and our board declared a $0.25 dividend per share. Our tax rate in the fourth quarter was 71.5%. And for the full year, it was 39.7%. These rates include the approximate $1.2 billion net discrete tax provision due to the enactment of Corporate Tax Reform in the fourth quarter, primarily relating to the remeasurement of certain net deferred tax assets using the lower enacted tax rate. This was partially offset by other intermittent net discrete tax benefits unrelated to tax reform, which totaled $168 million in the fourth quarter and $233 million for the full year. Excluding these items, the adjusted tax rates were 31.4% for the fourth quarter and 30.8% for the full year. In 2018, we expect our tax rate to be reduced to 22% to 25% for the full year while exhibiting quarter-to-quarter volatility. Our first quarter tax rate is expected to be lower as the vast majority of conversions of employee share-based awards into firm shares will occur in this quarter. 2017 was a year of mixed environments for our businesses. As we look ahead to 2018, we are cautiously optimistic that the trading backdrop we saw in the fourth quarter will not persist. Further, there are a number of possible macro drivers that can positively impact the year ahead. Tax reform, in addition to the direct impact to our earnings, should provide the impetus for further engagement across corporate, institutional and retail clients. Continued monetary policy normalization will benefit our bank franchise and has the potential to lead to greater activity across Sales & Trading. We remain optimistic that regulatory refinement will reduce complexity and the administrative burden.

With that, we will now open the line to questions.

Question-and-Answer Session

Operator

[Operator Instructions]. And our first question comes from the line of Glenn Schorr with Evercore ISI.

Glenn Schorr

So I absolutely like the higher ROE targets. I'm curious if you could outline even just the highest level thoughts of assumptions behind them for both markets and rates. And then maybe more importantly, how much do you consider, like that of -- that, that is numerator growth, meaning returns? And how much does denominator shrink in terms of cap returns? Because you obviously have really high capital ratios.

Jonathan Pruzan

I think maybe I'll take the second half of the question first and then maybe James will add. In terms of numerator and denominator, as we said in the past, we think we're capital sufficient, and we'd like to continue to increase our capital return over the 2-year period that we talked about that. Our capital has actually grown by about $2 billion but, on average, our balance sheet has grown about $40 billion. So again, we believe that we're capital sufficient. And so therefore, the growth in ROE should be driven by the numerator and not the denominator. And in terms of the general capital return, as James mentioned, we haven't gotten the instructions for 2018. So I think it's a little early to predict how all of this sort of works into CCAR. In terms of operating environment, for the assumptions, we generally budget based on sort of a continuation of what we've seen in 2017 and also the forward curve. So generally, a positive macro backdrop and continuation of global growth that we've been seeing around the world.

James Gorman

Yes. Glenn, for a long time here, we've been asked on these calls, "When are you going to get to 10% ROE?" And I think the main takeaway here is that -- our view is we're not going to be below 10% ROE. So that's sort of number one, which is, frankly, a pretty important inflection point for this firm post crisis. We were obviously higher than that pre-crisis, but we also operated with leverage of 30, 40, 44x. We're operating with leverage of 11x. And we're confident in setting a target that says we'll be at 10% or greater. And we put a range out there for lots of reasons, including the ones you're alluding to. We don't know exactly where rates are going to be. We don't know exactly whether global GDP is going to be growing at 4%, 3.5%, 3%. We don't exactly the impact of the U.S. tax reform on corporate earnings.

There are a lot of unknowns. But we're pretty confident, based upon our business mix, our presumed corporate tax rate, taking into account there's still a lot of questions around that, and where the global economic growth is that we will generate above 10%. Whether it will be 10%, 11%, 12% or 13%, that obviously will be driven by economic environment. If we get faster rate increase, that helps our deposits and rate trading business. If we get regulatory relief, which is not embedded in this, that helps the denominator. If we get continued global economic growth, synchronized growth at 3-plus percent, then clearly, we are, like our competitors, highly correlated to GDP growth. So all of those things, all of those things start to play in it.

Glenn Schorr

I appreciate that. The one quick follow-up is on the tax rate. I get it. This has got to be super complex, but I'm curious what might be the big items that would push you towards the top or the bottom of that range in terms of what gets allowed, disallowed in the future.

James Gorman

Jon might have more details on it, but I think it's a little premature to try and parse that right now. The big takeaway is this firm has operated with a 31%, 32% global tax rate. Over time, we have become more U.S.-centric, not less, frankly, by design, built around our strategy of being in the Wealth Management business, which is probably 98% U.S., something like that. Now -- we sold our European business several years ago. So we've sort of labored under a pretty high global tax rate. There aren't many institutions that are operating with 32% or above global tax rates. Certainly, there aren't many U.S. institutions. So we are a clear beneficiary of this, and we have established range with a lot of rules. I'm not going to get into all of the details yet, and I think that's for our accountants to work through, but we thought it appropriate to put a range around it just not to get too cute.

Operator

And our next question comes from the line of Jim Mitchell with Buckingham Research.

James Mitchell

Just a quick question. I guess, is there an impact from Steinhoff or I guess, the appropriate euphemism is a single client. Did you have any issues this quarter with that?

James Gorman

With Steinhoff? No, we did not.

Jonathan Pruzan

Yes, no.

James Mitchell

Okay, so there's no impact there. Okay, that's great. And then maybe bigger picture on efficiency ratio. The gross-up in PBT in '18 on the accounting change. Can you give us -- help us a little bit more on specificity around that? What would the efficiency ratio be in '17 with that? Or put some numbers around it or somehow help us think about what you're efficiency target means in the context of that change.

Jonathan Pruzan

Sure. So as James mentioned, the new revenue rec rules will primarily affect Investment Banking as well as Investment Management. I think I said in the script, the 72.6% would have translated to approximately 73% efficiency ratio for the firm. Again, it's going to be a function of activity levels and expenses related to deals, which is what's driving the biggest change, but sort of in that 40 basis points, which is about $400 million plus or minus both to the revenue and the expenses. The other thing to note is that also we'll obviously have an impact on our comp ratio. While it increases the efficiency ratio, it decreases the comp ratio slightly.

Operator

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

Brennan Hawken

First one on Wealth Management. Helpful to get an update on your targets here with the strategic review. Just curious on the 26% to 28% pretax margin target in wealth. You finished out this year -- or you generated 25.5% this year. You've got in excess of 100 basis points tailwind from retention. You've got, as you highlighted, several other factors driving improvement there. So I guess the question is, the lower end seems pretty conservative, particularly if we think about 2019 when those retention packages roll off. And you've got a primary competitor that's pointed to a 30% long-term target, albeit no date tied to that. So is there any reason why you would think that competitors would have a higher margin upside than yours? And is the framing that the lower end is probably pretty conservative, fair on my part?

James Gorman

Brennan, competitors would not have a higher target than ours unless they had a very different deposit base, which at least one competitor does. But even with that, I think the scale in our business would suggest not. So that's fair. Number two, is it conservative? I guess, I'm coming from -- maybe I'm a little scarred from all the years when on these calls people used to ask if we'd ever get to 15% ROE. So I thought, in our dreams, if we put out a 26% to 28% ROE with revenue growth, that would -- sorry, margin growth, with revenue growth, that would be an extraordinary outcome. And here we are on the cusp of 2018, where I think you're right, if the markets cooperate and with the retention roll-off, although we don't know exactly how that all plays out, if the markets cooperate -- and retention roll-off, I think, is in January of '19 -- 2019, certainly the bottom end of this range, would be, I think you're accurate, it's a conservative number. But we live in a world of great uncertainty.

We're investing a fair bit in our digital platform. And the point we wanted to make in the introductory comments was, notwithstanding those investments, we've been able to keep the non-comp expenses actually slightly down over the time period. So yes, you're probably -- it's probably a fair characterization, but I wouldn't get ahead of the top end of this range. We got to -- a lot can happen in these markets, and I don't think we serve anybody well by just focusing on our margin. We've also want to focus on our revenue growth. And one of the things that was exciting about this businesses here was just how much revenue growth there was.

Brennan Hawken

Yes, no, that's all fair. And we won't quote you on the Freudian slip of 20-plus percent ROEs there. No problem.

James Gorman

Yes, well that's not even Freudian. That's not even a bad dream. I mean, the only way you get a 20-plus percent ROE in these businesses is by doing something you don't want us to do right now.

Brennan Hawken

No, of course. Of course. I just couldn't help that. And then a follow-up on wealth. So we've all focused on the corporate changes to the tax code. But of course, individual tax code changed rather materially. Curious whether or not you're seeing an uptick in Wealth Management client engagement yet? Or do you expect that to pick up? And how are you prepping to ensure that such request for advice would translate into an expansion of those critical relationships for you guys?

Jonathan Pruzan

I would say a couple of things. Client engagement has been very high throughout the course of the year. We've seen, as markets globally have been generally very strong, the cash in our clients' accounts has been down. And we're now at an equity level, in terms of the $2.4 trillion of client assets, that's really are in all-time high. Almost 54% of client assets are in equities, and that's been steadily increasing since 2012. So there's been generally a lot of engagement throughout the course of the year. I think that will pick up and continues to pick up when there are major changes like this. And again, we think that our clients are looking for advice, and we will engage with them. A lot of the investments that we made in digital has helped our offices and our FAs free up more time so they can focus on their clients and not work on some of the administrative responsibilities that they have. And I think that's also going to lead to some of the growth momentum that we have in the margin and in the revenues. So topics like this are things for people who want to hear from their FAs and our clients -- or excuse me, and our FAs are out spending time with their clients.

Operator

And our next question comes from the line of Gerard Cassidy with RBC.

Gerard Cassidy

You guys have done a very good job in increasing your market shares, particularly in trading and equity trading, even though the total wallet size has declined. Can you share with us the strategies you used to do that? And second, some of the European competitors have struggled, and they seem to be back on their feet. So should we expect the environment to get more competitive going forward?

Jonathan Pruzan

I would say, just on the competitive environment, this is an extraordinarily competitive industry across all of our business segments. And where there's pockets of weakness maybe out of one geography, there's always someone trying to get into the business or making a big push. So I think the competitive dynamic that we see hasn't changed dramatically. We compete effectively in this environment. And as you just said, we have been able to grow share. Again, I would say that the resulting share gains across the major businesses is just a function of consistency, of client dialogue and engagement, putting our clients first, offering holistic solutions. Our global network has been in place for quite some time. And as people are allocating more and more capital outside of the U.S., that global network has been a real competitive advantage. So I think it's just, again, some very basic blocking and tackling and staying in front of our clients as the global markets have changed.

James Gorman

I would just add on the -- particularly some of the global trading businesses. While some of the Europeans may be reinvesting, they tend to be reinvesting around banking and trading. It's my observation that there are still balance sheet questions that have got to be sorted out over time, the size of balance sheet. So I think you're right that there are probably a couple of institutions that would move forward in these businesses more aggressively than the last several years would suggest. But there's another category, it's what I call the sort of a national champions. There are a lot of institutions that do very well in their home market. And from time to time, particularly in good trading markets, they have tried to expand that platform globally and generally, those situations sort of get washed out. They sort of retreat back to their home market.

Now obviously, I'm not going to name institutions, but these are global businesses, and they're expensive businesses. If you're not -- if you haven't got decent share, they're very expensive. As we've proven in equities on the positive and we proved in Fixed Income on the negative. We've now addressed some of that with fixed income. So the pickup in market share is very welcome, but it was clearly part of the strategy that we had to get back to a sustainable level, which is kind of the zone that we're now operating in.

Gerard Cassidy

Very good. And then as a follow-up, Jon, you mentioned, you touched on the MiFID comments, that you're supporting the clients through MiFID. Is -- can you give us any idea of what type of revenue impact MiFID might have on you guys? Or is it too early at this point still?

Jonathan Pruzan

I think you answered your question. It is too early. We believe it's manageable given the size of your franchise. There hasn't been any real disruption in the trading environment. And in terms of the long-term impact, it's way too early to call. But we are #1 in the world in this business, and we think we're well positioned to handle it.

Operator

And our next question comes from the line of Matt O'Connor with Deutsche Bank.

Matthew O'Connor

Can you guys hear me?

Jonathan Pruzan

Yes.

Matthew O'Connor

You guys have talked about potentially doing acquisitions within the asset management area. And I'm just wondering like as you step back, can you think about kind of the new regulatory environment, global growth picking up, what other areas are you thinking about strategically investing, maybe one you wouldn't before? And then kind of a subsegment of that, are there areas that you're interested in taking a little more risk than maybe you had in recent years, given the better macro backdrop and regulatory backdrop?

Jonathan Pruzan

So again, I think we've been broadly investing in the franchise across all of the businesses. Investment Management is still an area that we'd like to continue both organically and inorganically look at opportunities; and if something comes around, like the Mesa West, which was a good cultural fit, good product fit and fit very nicely into the franchise. I would say, broadly, in the other businesses, clearly, we think there is some probably opportunity geographically in ISG. On the organic side, we'd like to continue to invest in Asia as people put more capital into that region as transparency and liquidity improves. So I think there's an opportunity for us, but I don't think that would be, per se, acquisitive. That might be more organic. And then on the advisory -- excuse me, on the Wealth Management side, as we said, we are at scale. So we don't need to do anything there, but there could be some -- could be interesting opportunities. We have plenty of capital and capacity to do things, which puts us in a good position. So I think we'll continue to invest in the businesses and drive continued returns.

Matthew O'Connor

And then from a risk-taking point of view, are you more open to maybe taking bigger hold positions within the loan book? Or just how are you thinking about risk-taking kind of broadly speaking? I mean, it never feels good -- never kind of seems like a thing to say that you're willing to take more risk, but it's like the industry has been derisking for several years, including yourself. And now you've got lots of capital, lots of liquidity. There's opportunity to optimize the CET1 versus the SLR. So around the edges, are there some areas that you're willing to take a little more risk than a few years ago?

Jonathan Pruzan

Listen, as you say, we have derisked the franchise, improved our capital and liquidity positions. We're always there to support our clients. We have significant risk capacity. To the degree client activity picks up, we'll be there to support them. You saw our VaR number is really at a multiyear low. So we do have the capacity to increase, but it's going to be a function of what clients want to engage in.

Operator

And our next question comes from the line of Steven Chubak with Nomura Instinet.

Steven Chubak

I wanted to start off with a question on the investment strategy. And I know, Jon, you had just made some remarks on this topic. But Wealth

Management in recent years, it's certainly been helped by your strong expense discipline. You spoke about your ability to make investments in digital technology while keeping that expense base flattish. And I'd say you've been a positive outlier relative to a lot of your peers in that regard within that business. I'm just curious, underlying the 26% to 28%, which James, you noted as conservative, what assumptions are you making on non-comp inflation? And then in addition to that, since it's been asked by a few investors, maybe you could speak to deposit beta assumptions in that segment as well.

Jonathan Pruzan

Sure. Again, what we've been able to do in wealth, a, it's a very large business with $15 billion-odd of revenues, and we grew it at 10%. So we had significant revenue growth behind the margin improvement. Two, as we've been able to rein in non-comp expenses, we have been reinvesting. If we hadn't reinvested, actually, the noncomps would have gone down pretty dramatically. As you know, recruiting generally drives some of that expense leverage. And as deals have burned off and we have the biggest chunk of our deals burning off in January of '19, but deals have burned off every year as we hire people. And so we've been able to reinvest those savings, which is a comp number, and put it into our digital and bank platform. So I would expect that noncomps will grow but at a much slower pace than revenues, and we will continue to see operating leverage and the benefits of scale. And now I forgot your first question.

Steven Chubak

Deposit beta.

Jonathan Pruzan

Deposit beta. Thank you. So listen, we had 3 hikes last year. And if you look at it over the course of the full year, betas were pretty low and realized betas were much lower than our projected model beta of 50%. We raised rates across our network in the second quarter, which I think was the second rate hike of the year. And it went from an average of about 1 basis point to, I think, about 6 or 7. So that was a 5 basis point, 6 basis point type of move on the 25 basis points. But over the full year, it was even lower because of the averaging effect. On the heels of this last rate hike, in December, across the platform, we raised rates by about, on average, 10 basis points. So you've basically gone from a virtual 0 beta to a 20 beta to a 40 beta. So again, I think the betas are going to start to look a lot more like our expected modeled betas of about 50%. But certainly, they're higher than they were last year.

James Gorman

Let me just add in a couple of comments about the margin because I didn't -- I don't want you to misunderstand us. I don't think the range of 26% to 28% is conservative. I think -- what I was suggesting was, given what's going on in the business, the bottom end of that range, we think, is very doable and we should achieve it. In my recollection, and maybe I'm wrong, but I think there's only one firm in the history of the Wealth Management business, and I'm aware of its size, that has generated margin above 28%. And that was, in fact, Smith Barney. And I think it was in 1999, and it was right before the dot-com bust. And it's when retail investors were trading at a level that was both unprecedented and unhealthy. So now the business models have changed a lot since then. There's all the banking deposits, et cetera, et cetera. But just for historical context, a 29% margin outside of this range would be the first time in the history of the industry. So I think we got to be a little cautious here. I'm much more interested in trying to drive revenue growth in that business at 7% with a 27% margin than at 3% with a 28% margin.

So the playoff between revenue growth and margin expansion are the 2 things that we've got to keep in mind here. That said, we put the range out there because that's what we think we will achieve over these 2 years.

Steven Chubak

Fair enough, James. Thanks for clarifying your remarks there. Just one more for me on capital. To follow-up to Glenn's question, you noted that you expect no meaningful change in equity or the ROE denominator as part of the targets that you've outlined. It's pretty clear that you're more than adequately capitalized at this point. Just wondering, if you do, in fact, have some favorable regulatory changes as outlined by the treasury, do you see sufficient capacity to actually shrink that denominator over time while still balancing that with the need to remain prudent on capital and liquidity?

James Gorman

Again, I think it's a very fair question. We've been through many years of CCAR now. You look at our Core CET1 ratios. Core capital ratios are very, very strong. The one that's been closely aligned has been the leverage ratio. It remains -- I don't think a lot is going to change in 2018. 2019 going forward, it remains unclear whether there will be any regulatory changes to which of the ratios are the more dominant ratios or not. There's some suggestion of that. There's some suggestion that maybe -- it's something we have pushed for a long time, to growing the balance sheet under the CCAR models. And I think 4% a year, frankly, makes no sense. There's no way your balance sheet's going to grow unless you're acquiring somebody during a time of severe economic stress. So if that were to happen, that obviously impacts our leverage ratio a lot.

Our current payout, I think, is around 90 -- I'm looking at Jon, about 95%, thereabouts. We're accreting higher than the payout ratio that we're putting out right now. So at a minimum, we would -- we are big believers in not hoarding capital unnecessarily. So at a minimum, you would expect to see those kinds of payout ratios. And then, yes, if we got some serious change, we think, as an institution, we're over capitalized. We think we're over capitalized by several billion dollars. And frankly, on a global basis, I think there's a lot that would support that. So if we got some change that allowed us to take action on that, I think that's something -- in the absence of finding better ways to invest it or better things to buy, we believe in being very shareholder friendly on this stuff.

Operator

And our next question comes from the line of Guy Moszkowski with Autonomous Research.

Guy Moszkowski

First question is on FICC. You guys have been very on point over the last couple of years in terms of your wallet view and the fact that it would be stuck. But I was interested in 2 comments. One, that there was a lot of operating leverage built into the system if it began to grow again, and then one that I think James made during the strategic presentation to the effect that -- and it sounded like you believe that, at this point, the wallet could expand, I guess, on normalization of vol or something. But I was wondering if you could elaborate on how you're thinking about that.

James Gorman

I mean, Guy, given your reference to my comments, I'll start. And first, I just want to acknowledge the job the team did with Sam Kellie-Smith, who we put in to run FICC from equities; Ted Pick, who's now overseeing both equities, which is the #1 franchise, and Fixed Income; and of course, Colm Kelleher, our President, who's overseen this transition over the last several years. I think that group has done a phenomenal, phenomenal job and the team working with them. I think what we're seeing in fixed -- what we said in Fixed Income was, if we couldn't generate on average and we fully expected we'd have quotas that wouldn't meet the average, in fact, fourth quarter didn't meet the average, but on average, $1 billion a quarter, we had a real open question about whether we've taken the right strategy when we downsized 25%, was it enough, was it too much, et cetera, et cetera. And we feel really good about where that's been.

On average, for two years now, for 8 quarters, we've generated $1.25 billion, I think, on average. I think it's been 5 years -- $5 billion roughly plus or minus for both years. And as we anticipated, there's some volatility. I think we have one quarter in there maybe a year ago where it's around $1.7 billion. And we had a quarter like the last one, where it's a bit over $800 million. We didn't get -- we don't get too anxious about that. We're not trying to make Fixed Income a $3 billion a quarter business. So we're not going to be disappointed when it's not. What we wanted was it to be on average. Now what's happened and what we tried to talk about in the opening comments was the market environment last year was tougher. The industry [ph] reported revenues were down, and the team picked up share against that. Projecting forward, I think we'd say 2 things. Obviously, we're keen to hold on to that share, but that can be frankly a mix of macro, micro and all the sub businesses. But secondly, we think that the -- with the global movement, particularly in the U.S. in rates, and just look where the 10-year, I think it was over 2.60% this morning, we're at 2.20% a month ago roughly, you're getting some activity into the rates market. Our credit complex has held up very well. Our SPG business is a terrific business. So do we think that the global revenues pick up? Yes, we do. And do we think that we hold our share or something close to this share with that? Yes, we think that's reasonable. And with that by definition, you've got a significant potential upside in this. But we're not counting on that. We can't predict the revenues. We're not going to. And the good news is, we sit here saying, "If it doesn't play out that way, we're fine with it." I mean, we always want more, but we've got these other businesses for good reasons. And they will -- they are much more stable in these market environments. Jon, I don't know if you want to add, too.

Jonathan Pruzan

No, I think that's right. For two years, we put up on average $5 billion when we saw better markets and we saw worse markets. And we do believe there will be volatility in this business quarter-to-quarter, but we feel good at the position that we're at. And we think that in an improving market, which again, early days, if you just look at the 10-year, if you look at rate expectations or [indiscernible], they've all picked up a little bit here. But in a better market backdrop, we would expect to participate in that recovery. We have capacity to do that. And we'll have to see where the year plays out. But in a rising market, we do expect to play in that.

Guy Moszkowski

That was really helpful. And then the follow-up question would be on the theme of reinvestment. Obviously, that's driven a lot of conversations with investors over the last few weeks. Discrete type of benefits like taxes. Or in your case, one of the things that's coming up in a year or so is the runoff of the retention contracts in Wealth Management. Specifically to that, why should we not think that you would have to reinvest most of that in ongoing recruiting and retention?

James Gorman

Most of the runoff?

Guy Moszkowski

Yes, in the retention. The 100 basis points or so in runoff of those contracts that would otherwise just fall to the bottom line.

James Gorman

Well, I mean, because those deals were put in place for a very specific reason, I think that about 6,000 of our financial advisers back when we did the deal out of 18,000 and now put in place because we recognize, particularly for our advisers with larger complex books, it was a lot of dislocation. We took basically everybody, 16,000 advisers and tens of thousands of assistant, support staff in the branches and we put them on a completely new system. They had to learn new protocols. They had to -- they had a new user interface, so dealing with a new financing planning tool. It was a lot of dislocation for them and their clients. And we felt it was only fair to do that. Once your business is normal, you don't have -- we don't pay our investment bankers retention payments. We don't pay our sales traders. We don't pay our risk managers, and we don't pay our financial advisers. That's just not business as normal. So we won't be doing that. This has been 9 years we amortized [indiscernible] deals are paid partly upfront and partly over time. And it's been a very happy result for our advisers. They deserved it. And obviously, thrilled that they got this. But that's not business as usual.

Operator

And our next question comes from the line of Mike Mayo with Wells Fargo.

Michael Mayo

James, I think you gave me this answer before. So the answer is a journey of 1,000 miles begins with a single step. The question is, why aren't your new targets even higher?

James Gorman

Oh my God, Mike Mayo. We've got a target -- I thought you'd be calling up to say you finally have a 10% plus target.

Michael Mayo

Well, listen to my thought process and correct where you think I'm wrong, and I think the answer is going to be partly because you're reinvesting. But you're at a 9.4% ROE in 2017. And with the new lower tax rate, you're in your new range of 10% to 13%. Your efficiency target of under 73%. You're at 73% in 2017. And Wealth Management, the margin -- again, it's great progress this decade, but your range is 26% to 28%, and you're already at 25.5%. And with the expiration of some of the contracts, you'll be in range. So it looks like it's just looking at your results in 2017 and the things that are definite that you should make your new 2018 to 2019 target. So I guess, my question is, are your new targets high enough?

James Gorman

Well, listen, it's a fair question. I think -- just step back from it a minute and think about how we operate as management. We don't do less because we're suddenly getting ahead of one of our targets. We don't stop and not work. So if we can produce results above and beyond these results, we're in that all day long. We're all shareholders. We're highly motivated. Senior management is paid. A lot of their compensation is based on performance units, which is tied to -- half of it's tied to ROE, half tied to total shareholder returns. So we are all in on delivering better results than what we've publicly said. On the other hand, we don't have credibility as a management team if we put out things which are artificially designed so that to boost confidence.

But we have a low degree of confidence that in a more challenged environment, a more -- these market environments don't always go in a straight line and things happen in these businesses. We're pretty comfortable we can achieve these targets in a more challenged -- not a difficult, not a major recession, but certainly a more difficult market environment. And I think it's in that context that we put the lower end of the ranges. But -- and thirdly, we're just dealing with a lot of uncertainty. We don't know -- I think the regulatory bias will be to provide some relief over time. I don't know that. We might be wrong. I think that interest rates -- there's [indiscernible] be more than two Fed hikes this year. We don't know that, and we are projecting that, that would be absorbed by the market, and we wouldn't tip the country into recession, we can't predict all of that. We think that we are investing at the right level for our businesses, but we don't know that.

And maintaining an efficiency ratio of under 73%, when I think we started this -- I forget the number, but it was over 80%. If we have good revenue growth and invest behind the business and still keep our efficiency rate under 73%, that would be a terrific outcome. So I think we're just -- it's not like several years ago when we started off in quite a stress situation and we felt like we needed to show investors that we could be okay. We're more than okay now. And I think we've got to be smart about this and leave ourselves and all of you the room for us to invest where we find sensible opportunities. And at the end of the day, our results, well, we've got these '18, '19 targets. We have much longer time frame that we are focused on as a firm.

Michael Mayo

Just one short follow-up. I know you're not relying on this, but Jon, you mentioned high confidence that trading would not remain at the low fourth quarter level. What are some items that you're looking at that gives you that confidence? And how has trading been so far this year?

Jonathan Pruzan

Again, very, very early days. Only the 18th, and I think 11 trading days to date. But level of engagement with clients across the complex, as James mentioned, the 10-year now backed up over 20 basis points in the last 2 weeks. We've seen expectation in rate hikes going from 2% to 2.5% in the last 2 weeks. We've seen rate volatility and FX volatility increase in the last 2 weeks. So very early days. But there is signs that from a sales and trading perspective, we are seeing heavy levels of engagement and a little bit more vol and a little bit more activity. And we're obviously in earnings season. So there's just more stuff going on. So we feel good about the start, but very early days.

Operator

And our next question comes from the line of Michael Carrier with Bank of America Merrill Lynch.

Michael Carrier

Just one on the taxes. So just given the range of the 22% to 25%, just -- how are you guys thinking about all that drop to the bottom line versus reinvesting in the business and the employee base over time? And then Jon, just on the 22% to 25%, does that include some of the noise that we'll see from quarter-to-quarter in the equity comp accounting? I just want to make sure that, that either is or isn't. Because some of the firms are kind of disclosing the ranges a bit differently.

Jonathan Pruzan

I'll take the second part first on the actual tax rate. So as you rightfully point out, 22% to 25%, I think is -- not I think, is the full year target. There will be volatility around that number and in the first quarter because tomorrow, I think, is our vesting event, which is the main component of the stock that we'll vest over the course of the year. We'll expect a tax rate lower than that. And then again, clarifications around some of the new regs, earnings mix, geography, all of that will sort of fluctuate, but the first quarter will be our best quarter from a tax rate. And then we think it stabilizes more in the range that we gave you, the 22% to 25% in the out three quarters.

James Gorman

Yes. On the reinvestment, it remains to be seen. But frankly, I don't think it's something that changes our view of overall compensation in a material way. We pay on performance, and we pay based on the firm's performance and how we're doing in each of our businesses. For opportunities to invest, if we find attractive opportunities to invest in that we think we can generate high returns on, we'll invest. And if we don't, we'll give the money back to shareholders. That's shareholders have been hanging in on this up for a long time to generate good returns. And this is one of the things that we'll hope generate that. So good opportunities to invest in, we'll take them. Look after our employees, absolutely. We expect to pay competitively always. And second -- and thirdly, absent those 2 things, it will go back to shareholders.

Operator

Our next question comes from the line of Fan Yang with HSBC.

Fan Yang

What are the drivers of the net interest margin in the Wealth Management? If you have, for example, 3 rate hikes next year, how much of it do you expect to flow through to your net interest margin? And especially on the funding cost, do you expect the deposit beta to increase as well with each rate hike?

Jonathan Pruzan

So on the NII within wealth, you -- as you know, we've actually grown that line pretty dramatically over $2.5 billion in the last 5 years, so averaging about $500 million per annum. And that's been a function of growing the loans and deploying our excess liquidity. As we continue to penetrate our client base with the loan product, our expectations is that there's still room to grow the loan book within wealth, probably at a little slower rate, given some of the dynamics around rising rates in mortgage and the transition that we're going through. But we grew loans by over $7 billion last year. We would hope to continue to grow. It's also over a bigger base. So the percentage increase will decline. So we'll continue to see NII growth driven by loan growth. As I mentioned earlier, we do expect the betas to be higher this year than last year. And because of the funding mix, it's shifting a little bit away from the core single product that we used to have 2 or 3 years ago to a more diversified liability structure. We will see an increase in the funding costs. But bottom line, NII will grow. It will just grow at a slower pace than 2017.

Fan Yang

And then what about on the margin basis? Is the absolute amount will grow? Will the margin grow as well due to the rate hikes? [Indiscernible]

Jonathan Pruzan

By definition, yes. I mean, again, we don't look at sort of a net interest margin in the wealth business. But by definition, we would expect the yields to grow faster than the interest expense. So we'll have improvement in the NIM, which we don't really track.

Operator

And our last question will come from the line of Devin Ryan with JMP securities.

Devin Ryan

One here just on tax reform. I mean, a lot of talk about better client engagement or sentiment across the business as a result, and it would seem to me maybe that most directly impacts U.S. clients. But are you seeing that maybe positive sentiments build into better engagement abroad? What are the puts and takes there? I'm asking more about outside of the U.S. And then also, where does GWM expansion outside of the U.S. fit into the kind of the priority list, if at all?

Jonathan Pruzan

Listen, I think tax reform broadly being accomplished those two things, one, the positive benefits that we just all talked about, but two, eliminate an uncertain outcome. And when uncertainties get reduced, you generally see higher activity levels. So I do think this will be helpful overall to the M&A franchise and some of the other things that corporates are looking at around the world as they now know what the new corporate tax rate is going to look like and they can make informed decisions. Broadly speaking, again, CEO confidence is very high. The data suggests continuation of global growth and sort of very positive macro. I think -- someone told me this the other day, so if it's wrong, we can blame someone else, but of the 192 participants in the IMF, 186 are experiencing growth around the world. So we've not seen that I think ever. So again, I think people feel pretty good about the global growth picture, and we see significant client dialogues and engagement.

Devin Ryan

Okay. And then maybe just a quick follow-up here on the NII questions. Where do you think you are in the securities-based loan opportunity or penetration there? And then just kind of bigger picture, just given where the interest rate curve is and what we're seeing happening on kind of the longer end, what would make you think differently about the duration of the book or that as an opportunity?

Jonathan Pruzan

I think from a penetration standpoint, we saw a couple of billion dollars of growth in the SBL product the last couple of years, and we think that we'll continue to see that type of level of growth. Obviously as a percentage basis, it's slowing. But absolute number has been pretty consistent over the last couple of years. And if you look at our penetration and activity levels at FA at that level, again, we still believe that there's incremental growth in that product. Number one, in terms of our overall positioning hasn't changed very much. As you said, I think there is a view, whether right or wrong, of somewhere between two and three rate hikes for 2018. I think there is a lot of disagreement potentially on the shape of the curve and what happens in the middle to the long end. But from our positioning standpoint, we haven't really increased our duration very much, and our interest rate risk profile hasn't changed that dramatically.