Operator

Good morning, my name is Dennis, and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs First Quarter 2011 Earnings Conference Call. [Operator Instructions] Thank you. Mr. Holmes, you may begin your conference.

Dane Holmes

Good morning. This is Dane Holmes, Director of Investor Relations at Goldman Sachs. Welcome to our First Quarter Earnings Conference Call.

Today's call may include forward-looking statements. These statements represent the firm's belief regarding future events that, by their nature, are uncertain and outside of the firm's control. The firm's actual results and financial condition may differ, possibly materially, from what is indicated in those forward-looking statements. For a discussion of some of the risks and factors that could affect the firm's future results, please see the description of risk factors in our current annual report on Form 10-K for the fiscal year ended December 2010.

I would also direct you to read the forward-looking disclaimers in our quarterly earnings release, particularly as it relates to our Investment Banking transaction backlog, capital ratios, risk-weighted assets and Global Core Excess. And you should also read the information on the calculation of non-GAAP financial measures that is pointed on the Investor Relations portion of our website at www.gs.com.

This audiocast is copyrighted material of The Goldman Sachs Group, Inc. and may not be duplicated, reproduced or rebroadcast without our consent. Our Chief Financial Officer, David Viniar, will now review the firm's results. David?

David A. Viniar

Thanks, Dane. I'd like to thank all of you for listening today. I'll give an overview of our first quarter results and then take your questions. I'm pleased to report solid first quarter results for the firm. Net revenues were $11.9 billion and net earnings were $2.7 billion. Earnings per diluted share were $1.56, and our annualized return on common equity was 12.2%. Excluding the impact of a $1.6 billion preferred dividend associated with our repayment of the Berkshire Hathaway preferred stock, earnings per diluted share were $4.38, and our annualized return to common equity was 14.5%.

In 2010, many of our clients' strategic and investment decisions were burdened by fears about the global economic outlook. These concerns were focused on many considerations ranging from European sovereign risk to regulatory uncertainty to the potential for inflation in growth markets. Many of the issues facing the broader operating environment in 2010 continued into 2011, with political unrest in the Middle East and the tragedy in Japan adding to their list of concerns.

Despite these broad macro concerns, we experienced increased client activity across many of our businesses within Institutional Client Services during the first quarter, although volumes were still generally subdued. In part reflecting a typical seasonal upswing, we saw improved client activity in each of the major businesses within FICC client execution in addition to higher volumes across equities as reflected in equities client execution and commissions and fees.

Throughout the challenging operating environment in the past few years, our people have remained focused on helping our clients navigate complex problems and making difficult decisions. The increased activity that we experienced during the first quarter of 2011 reflects our continual investment in the firm's global client franchise.

Another driver of our performance in the first quarter was the increase in asset prices despite the uncertain macroeconomic backdrop, which contributed to greater quarterly revenues in our Investing and Lending segment.

On March 18, we announced that we would redeem the 10% Cumulative Perpetual Preferred Stock held by Berkshire Hathaway. Following a 30-day notice period, we completed the full redemption yesterday.

The depth and breadth of our client franchise positioned the firm to generate solid first quarter results despite our conservative leverage profile and near record levels of liquidity, amidst continued global economic uncertainty. I'll now review each of our businesses.

Investment Banking produced first quarter net revenues of $1.3 billion, down 16% from solid fourth quarter results. First quarter advisory revenues were $357 million, down 43% from the fourth quarter. We advised on a number of important transactions to close in the first quarter, including GDF Suez's $25.4 billion merger with International Power, Allegheny Energy's $8.9 billion sale to FirstEnergy Corp. and Intel's $7.7 billion acquisition of McAfee. We're also adviser on a number of significant announced transactions, including Reliance Industries' $9 billion sale of certain assets to BP, Beckman-Coulter's $6.8 billion sale to Danaher and Liberty Global's $5.5 billion acquisition of KBW.

First quarter Underwriting net revenues were $912 million, up 4% sequentially. Equity underwriting revenues of $426 million were down 23% from the fourth quarter, reflecting a decline in IPR activity from robust fourth quarter levels. Debt underwriting increased 50% to $486 million, reflecting higher activity across leveraged finance and investment grade markets and a reopening of the CMBS market.

During the first quarter, we participated in many noteworthy underwriting transactions, including Hutchinson Port Holdings' $5.5 billion IPO, Schaeffler's $2.5 billion sale of a portion of its equity stake in Continental and J.Crew's $1.9 billion combination bank debt and high yield notes offering. Goldman Sachs ranked first globally in equity and equity-related offerings year-to-date. Our Investment Banking backlog increased from year-end levels.

Let me now turn to Institutional Client Services, which is comprised of FICC and Equities Client Execution, Commissions and Fees and Securities Services. Net revenues were $6.6 billion in the first quarter. Our FICC and Equities client execution business improved significantly from fourth quarter levels, driven by a broad-based increase in client activity.

FICC client execution net revenues were $4.3 billion in the first quarter, more than doubling sequentially as every major business generated higher revenues. This quarter results were quite balanced with a broad contribution across products and regions. Our Credit business benefited from higher origination activity, particularly in high-yield markets. Mortgages produced solid results on improved volumes, largely in our Non-Agency business. Our macro complex, including rates, FX and commodities produced solid results as clients reacted to continued uncertainty in the macroeconomic outlook.

Turning to Equities, which includes Equities Client Execution, Commissions and Fees and Securities Services. Net revenues for the first quarter were $2.3 billion, up 16% sequentially. Equities Client Execution revenues were up 27% to $979 million, reflecting higher net revenues within our derivatives business. Commissions and Fees were $971 million, up 13% from the fourth quarter on higher market volumes. Securities Services net revenues of $372 million were roughly flat.

Turning to risk, average daily value at risk for the first quarter was $113 million, down 6% relative to the fourth quarter. Lower equity and currency risk was partially offset by higher commodity risk.

Let me now review Investing and Lending, which produced net revenues of $2.7 billion in the first quarter. The firm's investing and lending activities across various asset classes, primarily including debt securities and loans and equities securities are included in this segment. These activities include both direct investing and investing through funds, as well as lending activities.

Our investment in ICBC produced a $316 million gain in the quarter. Other equity investments generated net revenues of $1.1 billion across both public and private equity investment. Net revenues and debt securities and loans were $1 billion, generated from interest income and a favorable credit market. Other revenues of $311 million were primarily driven by the firm's investment in consolidated investment entities.

In Investment Management, we reported first quarter net revenues of $1.3 billion, down 16% from the fourth quarter due to seasonally lower incentive fees. Management and other fees were consistent with the fourth quarter at $1 billion.

During the first quarter, assets under management remained unchanged. Outflows in money market and fixed income assets were offset by $12 billion of market appreciation.

Now let me turn to expenses. Compensation and benefits expense, which includes salaries, bonuses, amortization of prior-year equity awards and other items such as payroll taxes and benefits was accrued at a compensation of net revenue ratio of 44%. First quarter non-compensation expenses were $2.6 billion. Depreciation and amortization expenses included impairment charges of approximately $220 million related to assets classified as held for sale during the first quarter, primarily related for Litton Loan Servicing. Total staff at the end of the first quarter was approximately 35,400, down 1% from the end of 2010. Our effective tax rate was 32.3% for the first quarter.

In keeping with the firm's long-standing policy of repurchasing shares to offset increases in share count over time resulting from employee share-based compensation, we repurchased 9 million shares of common stock during the first quarter for a total cost of approximately $1.5 billion.

Many headwinds continued to exist for our global businesses, particularly on the macroeconomic front. This leads to a natural ebb and flow of client activity. As a result, the firm continues to operate in an uncertain environment over the near term. However, we believe our ability to generate industry-leading returns for our shareholders remains intact. We remain committed to building and maintaining valued long-term relationships with our clients. We remain committed to managing our risk prudently and appropriately, balancing risk/return decisions. We remain committed to creating long-term value through continued investments in our global footprint, technology and operational infrastructure. And finally, we remain committed to recruiting and retaining individuals who embrace our culture of teamwork and client focus.

We understand the importance of these commitments not only to our shareholders but also to our clients, our regulators, our employees and the public at large.

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

Question-and-Answer Session

Operator

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

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

So David, to your last point, 14.5% ROE on a pretty low leverage, lower obviously than you've been, but lower than all your peers as well. What do you think holds back picking up leverage a couple of clicks? Is it the CCAR [ph] buffer? Is it opportunity? Because it can be pretty impactful at this level of an ROE?

David A. Viniar

I think I'd start with opportunities. We're not holding back leverage. They're just -- while there was obviously more activity than the fourth quarter, our clients are still cautious given the economic environment, the regulatory environment, other things. And so they are just are not -- we're taking advantage of opportunities where we see them with our clients. But there aren't that many.

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

And what can you tell us -- I think you gave us on the K, the size of the Investing and Lending balance sheet. But I think the returns on the debt side are harder to track. You gave us good 10% market guidance on the Equities side. How big is the balance sheet on the debt securities side, and how much of the gain this quarter was credit improvement versus anything else?

David A. Viniar

Well, let me answer the second part of the question first. The gains were a variety of things. First of all, there's interest. We make loans and I would say, somewhere between 20% and 25% is interest. Then it was a combination of things. As you know, it was a very active financing market. So there were a lot of restructurings during the quarter. There were a lot of repayments during the quarter, and given that we're a mark-to-market firm, if something is repaid at par and it wasn't marked at par, we have gains. So there was just a lot of debt activity, which is beneficial, and then there was a narrowing of spreads as well [indiscernible]. So all of those things contributed to the gains in that segment. As far as the balance sheet goes -- how about if we just get back to you? I just don't have those numbers at my fingers.

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

Not a problem. One last one. So FICC was obviously good and much improved from last quarter. But in the last couple of years, down from '09's highs. Is that, once again, an issue of client activity and the lower leverage? What can you tell us about bid/offer compression as well?

David A. Viniar

Sure. Now as you remember, in 2009 and 2010, when we talked about it, I told you those weren't -- what was going on in the markets then were not sustainable. I think a very big portion of it was a bid/offer spread and the fact that there was just so little capital in the market to service our clients. And we were there and most others were not. And so we had an incredibly high market share, an unsustainably high market share with unsustainably high bid/offer spreads. And so, I think, that market share has come back down to, what I would call -- and I don't like using the word normal, a more normalized level, and bid/offer spreads have come down to a more normalized level.

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

Okay, thanks, David.

David A. Viniar

You're welcome.

Operator

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

Howard Chen - Crédit Suisse AG, Research Division

David, you noted Institutional Client Services results were fairly balanced by region. I was just hoping you could expand on that. For some of your peers, we've seen Europe as a relative source of rebound and wondering if you're seeing something different.

David A. Viniar

Well, I think what I said was Institutional Client Services were balanced by business. And so within the FICC businesses, all the five major businesses were quite balanced. As far as region goes, I would say that overall, our revenues were pretty much in line with what you've seen, mid- to high-50s for the U.S. And outside the U.S., roughly 60%, 40%, Europe, Asia. So not a big change there.

Howard Chen - Crédit Suisse AG, Research Division

Great, very helpful. And then post the CCAR results, you noted the Fed had no objection to you repurchasing stock and a potential increase in the dividend. And I realize your preference would be to organically deploy that capital and you just repaid a big preferred. But could you just give us a sense of what your regulator was comfortable with you, buying back or raising the dividend by?

David A. Viniar

I'm not going to give the numbers, but we continue to work with the regulators and return capital. And we think it's prudent. As you said, we prefer to use it, we prefer to find opportunities to put it to work. But if not, we'll give it back to our shareholders in a way that we think is prudent, given the opportunities that we think are out there and given the financial standing of the firm.

Howard Chen - Crédit Suisse AG, Research Division

Okay, thanks. And then final one for me. Just could you update us on thoughts on pro forma Basel III, capital ratios and where you are in some of your RWA mitigation efforts? I know it's early. Thanks.

David A. Viniar

Yes, it's early. Again, really no change. If we were to do it now at the end of the quarter, our Basel III ratios would be Basel III common. Tier 1 common would be just around 8%. And if we roll it out to the end of 2012 and we assume just consensus earnings and just passive mitigations, things that roll off would be at around 11%, right around. That hasn't changed. And as far as doing anything active, it's too soon to really do it.

Howard Chen - Crédit Suisse AG, Research Division

Okay, thanks. Many thanks for taking the question, David.

David A. Viniar

No problem.

Operator

Your next question comes from the line of Guy Moszkowski with Bank of America Merrill Lynch.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Just to dig in to Investing and Lending a little bit, I was wondering if for both the debt and the equity areas, maybe you could give us a sense of the concentration of revenues in terms of whether a handful of positions contributed to either equity or debt? Or whether it was more diversified than that?

David A. Viniar

It was both. There were a couple of things that were pretty meaningful, but it was also very, very diversified. There were tens and sometimes triple digits of positions that participated in the gains, in both debt and equity.

Guy Moszkowski - BofA Merrill Lynch, Research Division

And when you say there were a couple that were meaningful, what's your definition of meaningful within, say, $1 billion revenue item?

David A. Viniar

Low-triple digits.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Okay, that's helpful, thanks. And then just in terms of the geographic spread within the equity and the fixed income segment sort of to piggyback on Howard's question? And again, I'm within Investing -- I'm talking about Investing and Lending.

David A. Viniar

[indiscernible] Across all of our businesses. And again, I should have given the caveat, which I always give you, that it's a little hard to do things geographically because we have global books, and so you hand off from one region to another. And then when you have a crossboard of merger, if the deal has a U.S. acquirer of a Chinese company. Is that a U.S. deal or an Asian deal? So there's question where things are, but I'd say it's relatively consistent across our businesses. High-50s in the U.S., and then roughly -- mid- to high-50s in the U.S. and then 60%, 40%, Europe, Asia, outside the U.S.

Guy Moszkowski - BofA Merrill Lynch, Research Division

So that still applies largely with respect to the Investing and Lending segment as well? Because that's where I meant to ask the question.

David A. Viniar

Guy, again, I'd have to get back to you to look at that segment specifically. I know it's the case generally across our businesses, segment by segment. I'd have to get back to you on that.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Okay, that would be great. Can you give us a sense -- I think I've asked this question before, but maybe you've had a chance to refine some of the work on the new segment disclosures. Do you have a sense for differences in the margins in Investing and Lending versus, say, ICS?

David A. Viniar

It's a little too early to tell. Well, some of that will be in the Q. Part of it has to do with how you allocate comp to the various segments, how you allocate some other expenses. It's a little too early. It's sometimes hard to do in the middle of the year, because that stuff only becomes clear at the end of the year. So even if you see some of that in the Q, it's really rough estimates. And it's really only what we have at the end of the year that is truly the meaningful margins.

Guy Moszkowski - BofA Merrill Lynch, Research Division

And historically, do you have a sense for as you look back over the last few years? And I know you didn't disclose more than a limited period but...

David A. Viniar

I think you would generally find that the Investing and Lending segment has at the higher end of the margins.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Got it. And then just a comp ratio question. You obviously chose to accrue it at 44. Last year, you used 43 for the first three quarters of the year. You've never actually stepped up to a higher accrual rate for the first three quarters from whatever you used in the prior year. Is there any message there that we should take away?

David A. Viniar

We never accrued as low as 43% in the year before last year either.

Guy Moszkowski - BofA Merrill Lynch, Research Division

That's fair.

David A. Viniar

No. I wouldn't take any message. As you know, it's our best estimate of where we'll be. Now we don't know where we'll be. You know what we've historically done, so you can go look at that. But versus last year, as you know, we have more people in more places that are not necessarily generating as much revenue. And so the very, very slightly higher accrual seemed to make sense to us.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Got it. Okay, thanks very much, David. Appreciate it.

David A. Viniar

You're welcome.

Operator

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

Roger A. Freeman - Barclays Capital, Research Division

So I just wanted to go back to, like, the capital discussion again. How do you sort of think about that roll forward? You've said you're sort of 8-ish percent which is, I guess, consistent with where you've talked about before. And as that sort of rolls forward, you've got your correlation book rolling off, some active mitigation in process. Gradually, you build a buffer here. As you then get sort of Basel III final rules and then Dodd-Frank, are you then able to go to the Fed and kind of lay out the case for confidence level of where you're going to be in the next couple of years and then get approval to do something more meaningful in terms of buyback?

David A. Viniar

I think, Roger, it's too early for me to say that this is exactly how we're going to do it. We'll have to see what the final rules are. We'll have to see what the environment is like. In a tougher environment, we'll keep even more of a buffer. If it's a better environment, we might not. We'll have to look out as to what we think the opportunities are going to be. We're always going to run at higher more conservative capital levels. I think that's just the way we're going to manage the firm. We are in constant dialogue with our regulators. They know where we are and what we have. And we'll just decide over time.

Roger A. Freeman - Barclays Capital, Research Division

Okay. And then on the liquidity buffer, as you said, you're still near record level, I guess, with $171 billion this quarter. How much of that -- if you look at the treasury portion of that, what's the average duration there? I mean, should we be thinking about this as rates go up, that's actually going to be a positive in net interest income, or is it actually going to be a principal loss?

David A. Viniar

I think it's going to be neither. It's really short. I mean, that stuff we can literally turn to cash instantly. So I mean, it is the equivalent of cash.

Roger A. Freeman - Barclays Capital, Research Division

Okay. Lastly, as you think about conforming to particularly Dodd-Frank and really Basel as well, do you ultimately anticipate any meaningful resizing of the FICC businesses in terms of deployment?

David A. Viniar

As we sit here now, we don't think so. We think that business, as you know, is mostly a client-focused business, and we think it is the business that is allowed under Dodd-Frank. We think most of the businesses don't make sense under Basel. We've talked about some of the ones where the capital charges are pretty high. So no, we continue to be hopeful that that business is going to grow over time. And it's going to grow in more places. It's going to grow in the growth markets. We continue to be optimistic looking forward.

Roger A. Freeman - Barclays Capital, Research Division

Are decisions like whether to allow cross margining of swaps and futures in clearing houses going to -- do you think have any meaningful impact on how active your clients are?

David A. Viniar

It's just so hard to say right now.

Roger A. Freeman - Barclays Capital, Research Division

Okay, all right. Thanks.

Operator

Your next question comes from the line of Jeff Harte with Sandler O'Neill.

Jeffrey Harte - Sandler O'Neill & Partners L.P.

The comments of leverage being low is kind of a conscious decision so you're well positioned to take advantage of opportunities when they present themselves. I guess I have two questions along that line. One is, what kind of areas are you specifically looking for opportunities to show themselves? And the second would be from a timing perspective, how patient do you plan to be? I mean, I have some flashbacks to waiting for distressed debt prices to get really low, and they never really did.

David A. Viniar

Well, I mean, it wasn't even so much that distressed debt prices didn't get so low, it's holders of distressed assets just didn't sell them. And so, I think, that was really the issue more than anything. Look, we're looking for -- first of all, we're looking for opportunities of just more client activity. So more client activity results in us using more capital. So that would be the first and best way for us to use our capital. Other than that, it would be opportunities if we saw, distressed assets of really any kind being available for sale. And we just -- we've seen some opportunities, not that many with our clients, and very, very minor opportunities in the distressed asset business, whether it be loans, real estate, other types of credit, very, very few opportunities.

Jeffrey Harte - Sandler O'Neill & Partners L.P.

Okay. So is it much the economy is growing and that always cyclically leads to opportunities as opposed to your watching kind of specific areas?

David A. Viniar

That is the biggest driver. Absolutely. Macroeconomic factors, client confidence, more certainty about regulatory reform. Those things tend to drive client activity, and that drives opportunities.

Jeffrey Harte - Sandler O'Neill & Partners L.P.

Okay, thanks.

Operator

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

Michael Carrier - Deutsche Bank AG, Research Division

David, the ROE picked up this quarter but still a ways from the long-term target. When you look at what can drive that higher, like how much does the weakness in, say, the higher ROE business like M&A weigh on it? How much does the elevated cash level weigh on the ROE? And then just on the trading side and -- I would just say, in general, like customer activity -- like is there any gauge in terms of the level of balance sheet turnover that you would like historically see versus today that's also weighing on the returns in the trading area?

David A. Viniar

You hit almost all of the things, all right? So elevated levels of cash, elevated levels of capital. We repaid Buffet, but those are all on the usage side. And then there's the return side itself, which -- the revenue side, which is really going to be driven by more activity. The higher ROE businesses. The merger business still -- if you look at the volumes compared to GDP, it's still at historic lows. Growth in assets and assets under management would be a high return business where you just haven't seen that much. You've seen a little bit flowing into higher fee businesses but not that much. And then just overall, more activity on the trading side. So you see more flow from our clients. All of those things would help drive ROE. As far as balance sheet turnover, the speed of turnover hasn't changed. It's still quite high, there just isn't as much of it.

Michael Carrier - Deutsche Bank AG, Research Division

Okay, and then maybe just on the FICC side. When you look at that client activity level, do you feel that it's the macro environment that weighs on client interactions, or is it something more on the regulatory side? Meaning long-duration contracts, clients not wanting to get involved until you get more regulatory clarity around certain businesses like the OTC market?

David A. Viniar

Again, you are both asking and answering the questions at the same time. Because the answer is both of those things. I think there is definitely regulatory uncertainty is weighing on activity, people uncertain about how the rules are going to affect them. And the macroeconomic activity -- or the macroeconomic environment is also weighing on people. And I think that's why you've seen, over the last quarter now, but even going back to last year, stops and starts. Some good data comes out and people feel good, then there's no data, then there's regulatory uncertainty, then there's negative views of whether it's peripheral Europe or potential inflation in the growth markets or growth in the U.S. I mean, all of those things, you're seeing varying data. And that varying data causes fits and starts amongst clients. And so it's both. It's both of the things that you mentioned.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then final one, just on some of the capital ratios and regulation going forward. Some of the U.S., like, universal banks, have stated kind of a 7% to 9% Tier 1 common ratio under Basel III. You have some in Europe saying 10 all the way up to 19 on total capital. We haven't heard much out of Asia. But when you think about the nuances, whether its assets, risk weighted assets by country, leverage ratios by country and then the overall impact of financials relative to the economy, like, where do you think or -- do you think these ratios are going to be pretty standard across, or is there going to be a lot of differentiation? And then any clarity on the U.S. from like a timing standpoint in terms of getting clarity, whether it's on the capital ratios, liquidity levels, and then anything around Dodd-Frank on the OTC side?

David A. Viniar

I think it would be great if we had one set of capital rules around the world. But I think that each local regulator has their own views of the world. They look at things differently, and they have the right to regulate their local jurisdictions and I think we and other financial institutions around the world are -- we've always lived with that, and I think we're going to have to live with that. I think they're all trying hard to standardize the regulations as much as possible, but I think it's unrealistic to think that there is just going to be one set for everybody around the world. And as I said, we've lived through that, and we're going to have to live with that going forward. But they're doing the best job they can. As far as when we're going to get complete clarity in the U.S., I'm not sure. I know the regulators are working very hard at this and are trying again to do the best job they can. It's a very hard job. And so we're trying to be as helpful as we can. We're hopeful to get more clarity by the end of this year.

Michael Carrier - Deutsche Bank AG, Research Division

Okay, thanks, guys.

Operator

Your next question comes from the line of Meredith Whitney with Meredith Whitney Advisory Group.

Meredith Ann Whitney - Meredith Whitney Advisory Group LLC

David, in going through your results today, I was reminded of a period that was equally unexciting, which was the early 2000s, no offense intended. But when there wasn't a lot of activity going on and you chose to take the time to do some impressively transformative things to your equity business. And I know you've done a lot in terms of rationalizing expense structures, offshoring, moving people to Utah, but can you talk about some of the transformative investments you're making today? And while you wait, what you're doing strategically on future planning and what businesses that affects?

David A. Viniar

Okay. I think we've talked a little about this. First of all, hard to give you a definitive answer because how some of the regulations ultimately get written could drive how some of the businesses evolve. But we think it's pretty clear that some of the technological advances that happened in equities are going to happen in some of the FICC businesses. The technology and client connectivity are going to be very, very important. And without the 100% knowledge of exactly how that's going to work, which is one of the differences we have this time versus last time, we kind of knew where we were. We just had to get there. We're trying to get as prepared as we can for how we think things are ultimately going to shake out.

Meredith Ann Whitney - Meredith Whitney Advisory Group LLC

Okay. It doesn't sound like it's in Goldman Sachs' nature to wait for client volumes to come back, although obviously you are a product of client volumes. But you should have a pretty good sense. This feels structurally long lived. So I'm not asking you to give an outlook, but what happens over the next few quarters if we still have volumes like this?

David A. Viniar

Look, as you know, I'm bad at predicting. I don't like to do that.

Meredith Ann Whitney - Meredith Whitney Advisory Group LLC

I always ask, though.

David A. Viniar

I don't know what volumes are going to be. But one thing you know about the markets is they tend to get better and worse faster than people think they're going to. And I'm not at all predicting volume is going to pick. They could easily slow down a lot, given some of the macroeconomic uncertainty that is out there. And if volumes continued to stay where they are or get slower, and we think they're going to stay that way, then we would have to make some changes whether it would be the capital, the headcount or it's other expense items.

Meredith Ann Whitney - Meredith Whitney Advisory Group LLC

Okay. Just last sort of wrap up. On a non-comp changes that you've made, in terms of expense reductions, are you over 85% there?

David A. Viniar

We've been -- we, through the downturn, have been very, very careful about our non-comp expenses. So I'd say, we are -- there is not a lot to do in non-comp expenses that we haven't done. There's always more you can do. But there's not that much to do.

Meredith Ann Whitney - Meredith Whitney Advisory Group LLC

Okay, all right. Thanks, David.

Operator

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

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

Can you elaborate more on the backlog? On the one hand, as you mentioned, there's the macroeconomic uncertainty, regulatory uncertainty, at least a couple of your competitors said things were a little bit softer going to the second quarter, and you just had the CEO of U.S. Bancorp saying the second half of the first-quarter was weaker. So you have all those negative factors. Then you say, "Well, backlogs are up." Can you quantify how much the backlogs are up versus the fourth quarter and where that's coming from?

David A. Viniar

Mike, I don't give out the actual numbers. And again, you've got to be very careful with backlog numbers. The increase in backlog is more focused. It's up across the board in both Advisory as well as Underwriting, but it's more heavily weighted toward Underwriting, both debt and equities than it is towards Advisory. And I think you see deals announced on the Underwriting side, both debt and equity. You see that volume's actually been pretty high there, whereas M&A volumes have been much lower. And as we've seen before, a lot of activity, a lot of dialogue level around the M&A business. But unless some of the macro uncertainty goes away, I don't think that's going to pick up. And if the macro uncertainty does go away, I think that could pick up a lot.

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

And by geography?

David A. Viniar

Again, I don't have the backlog by geography at my fingertips. So that's something we'll have to get back to you on.

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

And when we look at the fourth quarter to the first quarter, the geographic growth in revenues, I mean, was it stronger in the U.S. and Europe than emerging markets? Or how did that breakdown?

David A. Viniar

Fourth quarter to first quarter, not really a big difference. Very, very similar. As I said, mid- to high-50s in the U.S., 60%, 40%, Europe, Asia, outside the U.S. Round numbers, plus or minus a percent or two.

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

And switching gears, syndicated lending has really ramped up year-over-year. And how aggressively are you getting involved there? Do you see any warning signals? What were your fees from syndicated lending deals? And any other commentary?

David A. Viniar

Look, we're a participant in that market, but we're not as big a participant to some of our competitors or bigger. Credit terms have tightened. They are more borrower-friendly than they were a year ago. But there are some terms that you might think are too tight. I think one, banks are including us, are being much more careful about the terms, about the amount of leverage in deals. It's still a lot lower than we saw at some of the heights in the market. And the time to market commitment is much, much shorter than it was, which is one of the biggest mitigants for taking risk.

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

And then lastly, any comments on the watch on the government debt? S&P's move yesterday? How would that impact how you do business?

David A. Viniar

It will not impact how we do business at all. And I have no comment on it.

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

All right, thank you.

David A. Viniar

You're welcome.

Operator

Your next question comes from the line of Ed Najarian with ISI Group.

Ed Najarian - ISI Group Inc., Research Division

David, I guess just a question related to the incentive-based stock-based comp, the $1.5 billion that you spent to buy back stock this year to keep shares flat. Could you give us an outlook for approximately what that would be for the remaining three quarters of the year? Is it seasonally higher in the first quarter?

David A. Viniar

Ed, again, I apologize. I'm going to have to -- we're going to have to -- I don't have those numbers at my fingertips.

Ed Najarian - ISI Group Inc., Research Division

Okay, when you give that 11% outlook by the end of 2012 for Basel III-based Tier 1 common, does that include what you would spend to keep the shares flat related to stock-based employee comp?

David A. Viniar

Well, actually, in doing that, we assumed no increase in equity for equity-based comp and no buy backs. So if you assume that they offset each other, then it's the same number. So we just assumed neither in those numbers.

Ed Najarian - ISI Group Inc., Research Division

So you assumed you would not be buying back the stock?

David A. Viniar

Well, it's as if we assumed we would buy back whatever the equity-based comp is. We assumed no increase in equity for equity-based comp and no buy backs. So another way of thinking about it is, we assumed exactly offsetting each other

Ed Najarian - ISI Group Inc., Research Division

Oh, I see. Okay. And then just quick follow-up question. 300-person headcount reduction related to the end of 2010, should we be reading anything into that? Are you going to sort of try to continue to rationalize the headcount a little bit?

David A. Viniar

No, you should read nothing into it. It's just the first quarter is the slow hiring period. And as you know, natural but very low attrition. Most of our hiring is done through the summer. So no, you should read absolutely nothing into that.

Ed Najarian - ISI Group Inc., Research Division

Okay, thank you.

David A. Viniar

You're welcome.

Operator

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

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

Yes, I mean, obviously, there's only so much you can say about capital. But I just wanted to come at it a different way, which is -- I mean, is there a way for us to think about how much capital one needs to run a world-class investment bank? I mean, you're sitting there on $64 billion of tangible common. You have Morgan Stanley and JPMorgan around $40 billion. BofA allocates $31 billion. The Europeans, Crédit Suisse, Barclays, UBS, and Deutsche are all somewhere in the $30-ish billion. And shouldn't we all be thinking that at some point, that that spread between the capital you have allocated and everybody else's, it gets to a silly point?

David A. Viniar

I'm not quite sure how to answer that. I told you, we've been pretty conservative. We have more capital than we need for the business right this second. But there's a lot of uncertainty out there. We can only speak for ourselves. We can't speak for others. There's a lot of uncertainty. We are hoping that we see opportunities. And well, if we don't, then we'll have to give more back. We've said that. But I can't speak for others. You should ask them that question.

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

Okay. And then secondly, can you talk, maybe if not on this call at some other point, in more detail about the Asset Management business? Because I think we're sitting here -- essentially, the AUM is unchanged from where it was three years ago, and we're wondering how do you plan to get that business back into a growth mode? And what's the strategy and plan for doing that?

David A. Viniar

Sure, I'll give you the quick version now and happy to talk as much as you want. Obviously, over the last three years, we had a big decline and then a big increase in there. So 2008 was pretty difficult to the Asset Management business, as well as other businesses. And then it picked up after that, it's been roughly flat over the last year. All of the mix has gotten better. So you've had more of -- fewer money market assets, more alternatives to fixed income assets, still higher fee paying. That's one of our biggest focuses. We are very focused on our distribution and making sure we hire the right number of people so that we can distribute our product. And then we can continue to focus on the performance, because we know, ultimately, that's going to drive things.

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

All right, thank you.

David A. Viniar

You're welcome.

Operator

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

Kian Abouhossein - JP Morgan Chase & Co, Research Division

I had a question regarding your FICC and equity revenues. Can you give me an idea how it would look like on a historic reporting basis, first of all?

David A. Viniar

I don't have that because we stopped calculating it. When we went to the new basis, we're no longer calculating how it would have looked on the old basis. So I really don't know.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Okay. And last time, on the last call, you mentioned that it was just after the FSOC document came out and you were studying it at that point. I was wondering what is your thinking now about market making?

David A. Viniar

Look. Again, there's nothing in that document that's different than where we thought before. But the rules are not written yet. We have to see what the final rules say. Our understanding is if the regulators are trying to write rules that are sensible, that makes sense for the safety and soundness of the financial system but also don't hurt the growth of free flow of capital in our Capital Markets. So we just have to wait and see what the final rules are.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Okay, and in respect to the Investing & Lending business, clearly very difficult to forecast. Also looking at your filing, there's limited information to really come to a good forecasting off of that part of the business. Can you run us through kind of steps how you as an outsider would look at this business so we get a better understanding besides ICBC, how we should forecast the other lines?

David A. Viniar

Well, as you know, and I don't need to tell you, it's hard for forecast any of our businesses. They are not recurring constant revenues. So it is hard to forecast. We give you the asset balances. We give you our potential for 10% declines. Now obviously, idiosyncratic things could affect our portfolios versus others. But I think the best you can do is look at the asset balances, look at the potential 10% declines and make best estimates there.

Obviously, this quarter, we did better than that would have implied. There will be some quarters we'll do somewhat worse. But it is difficult to forecast our businesses.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Is there any kind of -- can we think about recurring revenues that are in there that we could assume? I think you mentioned there's some recurring revenues in these lines.

David A. Viniar

There's some amount of interest in the debt line. I tell you, this quarter, it was round numbers, 20% to 25% of that line. So that's going to be recurring, but that's a small part of it.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And lastly, you gave a very good presentation February 9, and you had this good page to [ph] inventory slide, but they excluded OTC derivatives. And I was wondering if you would include OTC derivatives, how would the slide change?

David A. Viniar

I'm not sure how you measure OTC derivatives as far as inventory turnover goes. Because first of all, there's often restructurings of derivatives. And so, do you count it if it's restructured, is it a new transaction or old transaction. And they're really all over the map. You also have derivatives where you might hedge the derivative. And you might have a long-dated derivative and a short-dated hedge that you constantly roll. So it's very, very hard to measure OTC derivatives, which is why we excluded it. No reason other than the measurement difficulty.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

All right, thank you very much.

David A. Viniar

You're welcome.

Operator

[Operator Instructions] Your next question is from the line of Matt Burnell with Wells Fargo Securities.

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

David, just a quick administrative question. Any effect from CVA DVA in the quarter?

David A. Viniar

Oh, yes. It was about a $40 million gain, and it's virtually all in FICC client execution. So very small.

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

Okay, so not very much at all.

David A. Viniar

No.

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

Just curious about a couple of trends that we noticed in the Securities Services revenues lines quarter-over-quarter. Looks like it was a little flat. And that seems to be in contrast with somewhat greater activity levels that you mentioned in equity and fixed income. Could you provide a little more color on what's going on in the Securities Services business? Are your clients there taking less risk than clients you see in the more FICC and Equity side of the business?

David A. Viniar

So, what I would tell you there, you're right. It was almost exactly flat. And interestingly, it was pretty flat balances and pretty flat spreads quarter-over-quarter. It wasn't much of a change in anything. And there's just -- while activity was up versus the fourth quarter, it's still not that high. And leverage within the hedge fund community is still not very high. And so that hasn't changed all that much.

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

Okay, that's helpful. And then one final question in terms of the net or the flat net flows in the Asset Management business throughout alternative investments equity and fixed-income, that seems to be a little bit in contrast with what we saw with a couple of your competitors. Just curious if you can give a little more color as to what's going on there, outside of the liquidity products, which are obviously down across the street?

David A. Viniar

Right. So what I would say -- look, different firms are different. If you look across, you'll see some up, some down. One thing I would say is that one place where we do not have a big presence is in passive products. And passive products, clearly, were up more than others. And other people who are concentrated there would have had better flows than we would have.

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

Okay, that's helpful, David. Thank you.

David A. Viniar

You're welcome.

Operator

Your next question is a follow-up from the line of Guy Moszkowski with Bank of America Merrill Lynch

Guy Moszkowski - BofA Merrill Lynch, Research Division

David, just quickly, given that commodities markets especially obviously oil were very active and trending in the quarter, I was a little surprised not to hear you call out commodities in any way as you talked about FICC. And I was wondering if you could characterize activity levels there a little bit?

David A. Viniar

Activity levels in commodities were pretty good. I mentioned that it was very balanced, that we had a solid quarter in commodities, as well as the other products. So it was a good quarter in commodities. It was a good quarter in all of the businesses. So I didn't mean to not mention them, because it was a good quarter in commodities. But it was -- as I said, solid quarter in commodities but all the other businesses as well

Guy Moszkowski - BofA Merrill Lynch, Research Division

Got it. Thanks very much.

David A. Viniar

You're welcome.

Operator

At this time, there are no further questions. I will now turn the call back over to management for any closing remarks.

Dane Holmes

We'd like to thank everyone for joining us for our first quarter earnings call. If you have any additional questions, please feel free to reach out to the Investor Relations department and we can answer your questions. Have a nice day.