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

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

James Gorman

Thanks, Sharon. Good morning, everybody, and thank you for joining us. While the third quarter was impacted by the typical summer slowdown across many of our businesses, our results reaffirmed that we can generate solid returns against a more subdued backdrop. Strong performance in Wealth Management and Investment Management and stable results in the market-sensitive businesses demonstrated the importance of the balanced business model.

Wealth Management posted record revenues. Margins remained in excess of our target range. These results were achieved despite slower transactional activity. We continue to witness growth in fee-based assets, which surpassed $1 trillion in this quarter. Clients continued to choose the enhanced service models provided by this offering. This trend has reduced our resilience -- our reliance on transactional activity. Incremental revenues will continue to drive margin improvement, subject, of course, to decisions to invest in initiatives that have the potential to further accelerate growth. These investments include not only our digital build-out but also further enhancements to our advisory platforms, lending cash management products and integrated, goal-based planning solutions.

Within Institutional Securities, Investment Banking showed continued strength, particularly in advisory, notwithstanding the amount of uncertainty around the political and fiscal outlook. Sales & Trading was impacted by the environment, characterized by a seasonal slowdown, muted client activity and low levels of volatility. That said, Equity Sales & Trading demonstrated consistency despite subdued activity. Fixed Income remained above our $1 billion run rate per our average quarterly revenue goal, and Investment Management exhibited steady performance with a combination of positive flows across our actively managed strategies.

Often an underappreciated part of our firm, Investment Management represents a high-returning business with a complementary mix of traditional and alternative platforms. We continue to explore both organic and inorganic opportunities in this space. Our pending acquisition of Mesa West Capital serves as the most recent example. Mesa West complements our existing real estate product offerings and provides us with an opportunity to leverage our current distribution channels.

We continued to see signs of operating leverage across our business model, not just in Wealth Management, where it's most apparent. Incremental revenue is expected to generate higher margins, assuming we continue to manage our cost base with discipline. That said, we won't be shy about reinvesting where we see market and competitive opportunities. The Mesa West acquisition and the continuing build-out of our U.S. banks serve as examples of this choice.

Finally, as has been widely discussed in every corner of our sector, there are 3 additional medium- to long-term drivers of performance improvements for our industry, corporate taxes, rates and any changes to the regulatory framework. To repeat what is commonly understood, as a firm, we have a relatively high corporate tax rate given our meaningful U.S. presence. Second, we continue to be positioned to benefit from higher interest rates. And third, we are heavily regulated, not least in the area of capital, which culminates with the CCAR exam. While the degree of these changes will become clearer only over time, they should not go unnoted. In the near term, we continue to have good client receptivity around the globe. And absent any material changes to macro conditions, we remain confident in the goals we have set for this year.

I'll now turn the call over to Jon.

Jonathan Pruzan

Thank you, and good morning. The operating environment we witnessed in the third quarter, in many respects, represented a continuation of the second quarter's market conditions. Client conviction remained limited. Activity and volatility were muted across several markets, impacting Sales & Trading in particular. Typical summer patterns added to the lackluster tone. Despite this somewhat uninspired trading environment, results remained solid with strong performance in Investment Banking and Investment Management and consistent revenue growth in Wealth Management. At $9.2 billion, firm revenues were in excess of $9 billion for the fourth consecutive quarter. In the quarter, PBT was $2.5 billion and EPS was $0.93. ROE was 9.6%. These numbers were aided by certain tax benefits that I will discuss in detail shortly. These tax benefits contributed approximately $0.05 of EPS and 50 basis points of ROE.

Our year-to-date efficiency ratio of 72% is well inside the 74% target we've set for 2017. This is evidence that the Project Streamline expense savings initiatives we embarked on at the beginning of last year are coming to fruition. Underscoring the firm's operating leverage, year-to-date revenue is up $2.8 billion or 11%, and pretax profit is up $1.3 billion or 20% over the same period last year.

Going forward, our focus will be on ensuring that the savings achieved to date are kept permanently out of the expense base in an effort to maximize operating leverage across all of our businesses. Over the quarter, non-compensation expenses were down $63 million or 2%, primarily driven by the absence of the VAT provision recorded in the second quarter. We continue to exercise compensation discipline, contributing to a 2% sequential decline in total noninterest expense.

Now to the businesses. Net revenues in our Institutional Securities businesses of $4.4 billion were down 8% sequentially. In addition to the seasonal slowdown across several of the businesses, volatility in many asset classes remained at or near multiyear lows. And there were fewer idiosyncratic market-moving events. Consequently, client activity slowed from the second quarter. Non-compensation expenses were $1.6 billion for the quarter, down 3% sequentially. Compensation expenses were $1.5 billion. Our year-to-date compensation to net revenue ratio was approximately 35%, in line with our target of 37% or lower.

Investment Banking continued to show strength in advisory and debt underwriting. Revenues of $1.3 billion were down 10% versus a strong second quarter. We continue to leverage our global franchise, working with clients to provide holistic solutions. This consistent focus has contributed to an improvement in several of our market positions. Advisory revenues for the quarter were $555 million, up 10% sequentially. Despite a decrease in larger transformational deals, M&A volumes are healthy and on par with last year's levels. A combination of challenging organic growth and attractive financing markets continues to drive activity.

Turning to underwriting. While equity volumes have recovered relative to the low levels of activity experienced over the course of last year, the quarter-over-quarter results showed a traditional seasonal trend with slower activity in the summer months. We generated equity underwriting revenues of $273 million, down 33% sequentially. We expect healthy activity levels in the fourth quarter, subject to issuance windows remaining open, which may be impacted by macro-economic uncertainties, geopolitical events and a typical seasonal slowdown at the end of the year.

Fixed Income underwriting revenues decreased 12% sequentially to $442 million, driven primarily by lower investment-grade issuance. High-yield markets have continued to be very receptive to both acquisition financing and opportunistic refinancings, aided by range-bound credit spreads, low volatility and significant market liquidity. Overall, Investment Banking pipelines are healthy and diversified across products, regions and sectors. CEO confidence remains high, and we are actively engaged with our clients. However, we maintain a cautious outlook as political and policy uncertainties may influence management's decision to act.

In Sales & Trading, we supported our clients when opportunities presented themselves and prudently managed risk throughout the quarter. Our results were consistent with the market backdrop. And overall, revenues were in line with historical third quarters. In Equities, we retained our leadership position and expect to be #1 globally. Revenues were $1.9 billion, down 12% sequentially. Our global footprint and diversified strategy continued to enable us to benefit from pockets of regional strength.

Sequentially, Europe was weaker coming off a seasonally high second quarter, but continued strength in Asia buoyed our results. Prime Brokerage revenues remain a source of stability and client balances continue to grow. Derivatives saw a sequential decrease on fewer corporate transactions, which can be lumpy. And cash revenues remain stable as lower volumes and subdued volatility were combined with a more benign market-making environment.

Fixed Income revenues in the third quarter were $1.2 billion, down 6% versus the second quarter. Our macro businesses were negatively impacted by sequentially lower results in foreign exchange and persistently low levels of volatilities in rates, where client activity remain muted. As we have discussed, activity in these businesses is often aided by discrete events or meaningful market trends. Lack of such events or trends weighed on results. In credit, revenues were also down quarter-over-quarter. In aggregate, spreads remained at very tight levels, negatively impacting volatility and client demand. Commodities saw a sequential increase as activity improved in the quarter.

Overall, this quarter's results reinforce the progress we have made in this business. We have continued to support our clients and have generated revenues in excess of the $1 billion goal for 6 consecutive quarters against a variety of market backdrops. We remain confident in the strategy outlined nearly 2 years ago and we are pleased with the performance. Lastly, average trading VaR for the period was $43 million, down versus $51 million last quarter, primarily driven by lower market volatility across both equity and fixed income markets.

Turning to Wealth Management, which reported further growth in both revenues and pretax profits relative to last quarter's record levels. Our business continues to benefit from a shift towards an advice-driven model with a decreased reliance on transactional activity. This quarter's results further underscored this trend as growth in asset management revenues more than offset the seasonal slowdown in transactional revenues.

Third quarter revenues were $4.2 billion, a 2% sequential increase. At 26.5% for the quarter, the PBT margin now exceeds 25% year-to-date. The margin increase reflects the benefit of our scale platform with operating leverage across both compensation and non-compensation expenses. Year-to-date, revenue grew 9% or $1.1 billion. At the same time, we saw a total expenses growth of only 5% with non-compensation expenses down and continued compensation discipline. As a result, pretax profit is up 24%.

Total client assets grew by 3% to $2.3 trillion. We continue to witness strong client demand for our advisory solutions. Fee-based asset inflows were $16 billion in the quarter, contributing to a record year-to-date flows. These flows represent an important organic growth driver of this business. Total fee-based assets increased 4% and are now in excess of $1 trillion or 43% of total client assets. Higher asset levels and strong quarterly flows contributed to asset management revenues of $2.4 billion, representing 4% growth relative to the second quarter. Net interest income of $1 billion is up 2% over the last quarter, reflecting the benefit from both higher rates and lending balances. This was partially offset by higher funding costs, which include a higher blended BDP rate as well as the cost of incremental CDs, saving products and third-party liabilities that are part of our diversified bank funding strategy.

Wealth Management lending in the U.S. banks grew by about $1 billion in the quarter or 2%. Continued strength in loan production offset the impact of higher paydowns in the quarter. With year-to-date net interest income of $3 billion, up approximately 19% year-on-year, we remain on our way to generate full year NII growth in line with the guidance we had provided. Transactional revenues of $739 million were down 4% from Q2. The decline reflected a typical decrease in retail engagement during the summer months across both equity and fixed income markets as well as the slower underwriting calendar.

Total noninterest expenses were essentially unchanged versus Q2. The compensation ratio was 55%, in line with our stated targets. Non-compensation expenses were down 3% sequentially due to seasonally lower marketing and business development expenses. This quarter's performance clearly demonstrates the strength of the franchise and the powerful combination of a highly annuitized revenue mix and the operating leverage that comes from a scale platform. We continued to enhance this business profile by investing in our advisory platforms, digital capabilities and banking and lending products.

Investment Management witnessed another solid quarter with continued growth in asset management fees and strong investment results. Total net revenues were $675 million, up 2% quarter-over-quarter. Overall, AUM grew 3% to $447 billion. We witnessed positive flows and strong investment performance, particularly across our active equity strategies. We continue to see increased investor interest in our high-conviction strategies across the platform. On the back of higher AUM, we saw 5% growth in asset management fees to $568 million. Investment revenues were also strong at $114 million, primarily due to more recent private funds entering carry. As discussed in the past, we expect this line item to continue to be lumpy. Overall expenses of $544 million were up 4% quarter-over-quarter, driven by higher compensation expense on carried interest.

As James mentioned, in the quarter, we announced the acquisition of Mesa West Capital. This will complement our existing real estate and private credit offering with a premier commercial real estate credit strategy. The transaction is expected to close in the fourth quarter. We will continue to opportunistically evaluate tactical acquisitions across our Investment Management platform as we further grow this high-return business.

Turning to the balance sheet. On a sequential basis, total spot assets of $854 billion were up $13 billion. In the quarter, the binding constraint for our risk-based capital ratios shifted from advanced to the standardized approach framework. Our pro forma fully phased-in standardized RWAs are expected to be essentially unchanged as higher credit RWAs offset a decline in market-risk RWAs. Our pro forma fully phased-in Basel III standardized Common Equity Tier 1 ratio is expected to increase slightly to 16.3%. Our pro forma fully phased-in supplementary leverage ratio is expected to remain at 6.5%.

During the second quarter, we repurchased approximately $1.25 billion of common stock or approximately 27 million shares and our board declared a $0.25 dividend per share. Our tax rate in the third quarter was 28.1%. This included a total of $94 million of net discrete tax benefits, $11 million related to the recurring type of discrete tax item for employee share-based payments and the balance primarily resulting from the remeasurement of certain deferred tax assets -- excuse me, deferred taxes.

This quarter, results reaffirm that our balanced business model is performing. At the beginning of 2016, we presented a 2-year plan. Over the last 7 quarters, we have witnessed a variety of economic backdrops. And while this quarter certainly did not present the most constructive backdrop for some of our businesses, our performance was consistent with our stated objectives. We are encouraged by the continued growth in our more annuitized businesses, providing a buffer to those businesses that are more sensitive to quarterly changes in the environment. We remain focused on executing our strategic plan throughout the rest of the year and, absent any material changes to macro conditions, we are confident that we will hit our stated objectives.

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

Question-and-Answer Session

Operator

[Operator Instructions]. And our first question comes from the line of Jim Mitchell with Buckingham Research.

James Mitchell

Maybe just on the Wealth Management side, you guys had very good growth -- sequential growth in deposits. There's been some discussion in the industry about kind of a pricing pressure. Can you discuss where you saw deposit rates in Wealth Management business and how you were able to attract, I think, about $10 billion sequentially on deposit franchise?

Jonathan Pruzan

Sure. I think, as you recall, we've been talking about our deposit deployment strategy for quite some time. And we've been investing excess liquidity into our loan product over the last several years. In the beginning of the year, we told you that, that trend would come to an end. We did see that this year. It happened a bit sooner than we anticipated as we saw more cash go into the markets, particularly the equity markets as those markets rose around the world. And we've seen cash in our clients' accounts at its lowest level. So what we had been doing over the last several years is building out our product suite in that business. As you recall, we were really just a solo product with the BDP product. So we've built out those products, particularly around our cash management engaged initiatives around savings products as well as CDs and other products to sort of supplement our deposit base.

In terms of the pricing, we had 4 rate hikes over the last 2 years. We did, at the end of the second quarter raise our rates across the platform in the broker deposit channel. Those rates were predominantly sort of pegged at 1 or 2 basis points. They're now on average about 6 basis points. But we have been supplementing our deposit base with other savings products and CDs. And you see the cost of that running through the interest expense line. So started the year at $154 billion of deposits, it drifted down to $144 billion as people engaged in the market and deployed their cash. And it's now back at $154 billion again with a slightly different mix, but back to sort of the historical year-end level.

James Mitchell

Okay, great. And maybe, just the follow-up, just on your asset management acquisitions, you've got sort of a new tone, I guess, or more aggressive tone about further acquisitions. Is there particular asset classes you're looking at? Is it focused still on alternatives? Or do you see you'd like to have scale in other asset classes?

James Gorman

I think there are a bunch of areas across the asset management platform we could continue to build out. We have looked obviously at Fixed Income, where we have smaller space. We have a relatively narrow but very productive active asset management business on the long-only side. And so there are some geographic areas where we could fill in. In this case, it was in the alternatives platform. Real estate has been, for most of our history, a tremendous strength. We have a great team running it. The business is doing well. They've launched new funds. This made sense to us. So I think what we're signaling, and Jim, you're picking up on it, is we're open for business to find inorganic pieces that can help build out parts of our platform that make sense. We're not looking for any grand splash here, but we're open for business opportunistically. And this was a perfect example. We looked at another deal over the last couple of quarters. And in the end, it got too expensive, we pulled away from it. So we're going to keep pricing discipline.

Operator

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

Brennan Hawken

Just a follow-up on Jim's question on the wealth deposit cost and the CD program. The CD program has gotten a lot of attention. And it certainly seems to be successful here in bumping up the deposit base. How much of the $25 million in interest expense that you guys saw quarter-over-quarter was attributable to this CD program? And when you guys think about that cash, I believe it's an 11-month program, how sticky do you think that is? And what are you guys working on to try to make sure it's as sticky as possible?

Jonathan Pruzan

Sure. Let me try to take a crack at that. There are a couple of different points. Just remember, we have not made a huge effort historically to build out incremental products in the wealth -- in the deposit side, because we were sitting on so many excess deposits. So this is new for us. We've been working on this cash management engaged initiative as well as building out sort of traditional CD products. And we will continue to diversify our funding mix and our liability stack. And we also have access to wholesale markets, including brokerage CDs and FHLB and external sweeps and other things. So this is really around the right composition and mix of a liability stack. In terms of the interest expense, Brennan, it was a combination of both. The increase -- the BDP increase really happened at the very end of the second quarter, taking up from 1 -- a little over 1 basis point to 6 basis points.

So some of that increase is from that; and the rest would be from a combination of the CDs. We ran some savings promotions as well. Mind you, this is for existing clients and new money only. And we're obviously not alone in running promotional programs to increase the deposit levels. I think in terms of stickiness, as James has mentioned and I have mentioned, we are seeing more of our clients engage with us on the advisory platforms. We're providing more services and products for them. And I think we're approaching the clients holistically both on the asset as well as the liability side. As I said, we're new to this, so we'll have to see what the numbers play out. But we're very confident regarding the liquidity position that we have in the banks.

Brennan Hawken

Okay, great. And -- okay, so the BDP came at the end of the quarter, so there might be a little follow-through to next, that's fine.

Jonathan Pruzan

No, it came at the end of the second -- I think we raised rates either June 30 or July 1. So we did see the full impact of the BDP rate. We didn't see the full impact of sort of the incremental deposits because those were raised over the second and third quarter.

Brennan Hawken

I see, okay. Thanks for clarifying that. As far as shifting gears to MiFID, when you guys think about MiFID coming here in the capital markets businesses, how are you thinking this is going to impact your European business next year? And when you think about balancing not only the payment for research but also the enhanced liquidity throughout European trading operations, how do you manage the potential impact of spreads through that enhanced transparency? And how do you intend to -- how do you think about sizing that potential impact?

Jonathan Pruzan

Well, a couple different components there. Number one, we are the #1 equities business globally with a sort of -- with an integrated platform and a leading research product. MiFID has been coming for a while. And we've been actively engaged with our clients discussing this change. Those conversations are obviously very unique based on usage and needs of our individual clients. But those conversations have been constructive and ongoing. And we've also been investing in the platforms and the infrastructure to be in compliance. In terms of how it impacts the market, remember, we have, give or take, an $8 billion Equity business. This is a smaller component of that business. We have an integrated platform and provide value-added services through intellectual capital access, liquidity and whatnot. And we've approached our Sales & Trading clients holistically.

So it will have an impact. Trying to measure that is sort of hard at this point. Our sense is, it's going to be a little bumpy because it's not clear that everyone is going to be ready for the switchover in January 3. But we would expect it, a, to be manageable; and b, potentially longer term as the #1 player in this space, if people do consolidate trading with counterparties, we would expect to be the beneficiary of that. So overall, a change, but we adapt to change all the time. We think it's manageable. And it has the potential to accrue to our benefit.

Operator

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

Glenn Schorr

Just maybe an update. In Wealth Management, in the past, you've provided statistics on, I guess, the last time you showed it, 100% of days in the year, you earn between $50 million and $70 million. Is that still the right range? Is the range rising as -- interest rates as you go more fee-based and the markets go up? And then while I'm getting greedy, if you might update us on what percentage of assets are in the $1 million and above camp inside Wealth Management?

Jonathan Pruzan

Wow, those are pretty technical questions. I think still good. How about still good. Lots of stability in this business and good tailwinds. Obviously, the total revenues generated are increasing. But I still feel like it's in that range in terms of a good indicator on a daily basis. The nice thing about this business is not only the stability and the growth dynamic, but we've got some nice tailwinds behind it. Also if you look at the fee-based accounts and the fee-based revenues, it's now over 50% of the revenues in that business this quarter. So again, lots of stability and lots of continued operating -- opportunity for operating leverage going forward. The general shape and characteristics of the business are pretty stable.

Glenn Schorr

And maybe a question on the margins inside Wealth Management, obviously a big number this quarter. As interest income becomes a bigger part, as your deposit programs take hold, I mean, obviously markets go up and down. But you're managing cost there. You have another 150 basis point of benefit coming in a little more than a year. Do you think pretax margins can consistently grind higher? And is there any natural ceiling there?

James Gorman

I guess, that's sort of the early question around, "Are we going to change our margin targets or whatever?" Listen, the incremental dollar revenue is coming on with an incremental higher margin than the embedded margin. So in theory, absolutely they grind higher. In practice though, we've got to look at -- we're also focused on growth. And what the management team in that business is doing is looking for ways in which we can drive further growth over the next several years rather than trying to grind out a particular margin in a particular quarter. But you're right. The math suggests with what's happening with retention deals coming off and what's happening with interest rates, margin should grind higher. But again, I'm as much -- more focused frankly on total growth than I am on the incremental margin in a given quarter.

Operator

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

Michael Mayo

Can you hear me?

James Gorman

Yes, we can, Mike.

Michael Mayo

Okay. So your U.S. bank deposits are back to $154 billion and that's almost the size of the 11th largest bank. And I know this is a new realm for you guys, but what is your deposit beta on those $154 billion of deposits? And what I'm really trying to get to is the first couple questions, what should we expect in the future? What do you have planned as far as future CD campaigns or a little bit more on your strategy?

Jonathan Pruzan

Sure. That's a great question, Mike. Let me just step back for a minute and just sort of talk about NII more globally or at the top of the house. We have seen really good growth in that line item. Year-to-date, we're up just under $500 million. Some of that is on an increase in the lending balances. We're up about $6 billion or $7 billion. Some of that is based on the beta concept. As I've just mentioned, we've had 4 rate hikes over 2 years. This was the first time we raised our BDP rate. We raised it, on average, about 6 basis points. So on the last hike, the 6 over 25% would suggest a 25% beta. Based on historical behavior and our model suggests closer to a 50% beta is the right number to look at going forward. But we're in a new environment of, a, rising rates; b, we've seen money market reform; c, there's been a lot of changes in technology and how people save money.

So I would say that, to date, we've outperformed the beta assumption. But we still think that 50%-ish is the right way to think about it going forward. That also being said, as rates get higher, betas get higher, as you know. In terms of the overall strategy, we are getting more mature in this business and in our liability structure. We have sort of made it through, if you will, the excess liquidity position. We still have some, given that we've just raised the deposit number from the $144 billion to $154 billion, we do have excess liquidity today to continue to fund lending growth going forward. But we're going to have a mix of products that support future lending growth.

We still feel good about the lending opportunity within our wealth client segment. Penetration rates are still reasonably limited. And we've seen opportunities to continue to increase penetration there. And the funding will be a mix of all of the liabilities that I talked about earlier. We do -- we would like to continue to build out this cash management engaged initiative, which should bring in savings deposits, some mix. We raised about, give or take, a couple billion dollars in savings this quarter, probably $5 billion or $6 billion of CDs. That's both within the network and externally; and then a couple -- some incremental wholesale liabilities. So again, we have plenty of access to liabilities. BDP will be and will continue to be our primary product and our biggest contributor. But this is a day that we have expected for a long time and have sort of been building out the capabilities in advance of it.

Operator

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

Steven Chubak

I had a question on Wealth Management as well, but just actually on the fee income side of the equation. So as we think about some of the fee income tailwinds outside of higher markets, one of the biggest ones that you've spoken to is the continued pace of conversions from brokerage to fee-based. We certainly saw that, that benefited results this quarter. And especially in light of DOL implementation likely to be delayed and potentially tabled, how should we think about the pace of fee-based conversions from here as that seemed to provide a nice tailwind to some of the acceleration that we saw in recent quarters?

Jonathan Pruzan

Sure. Listen, the year-to-date flows have been very strong and they've not been solely driven by DOL. A significant amount of the conversions this quarter came from non-retirement accounts. So while I think the DOL implementation or the original implementation did form a catalyst for some conversions, it's not been the primary driver, number one. Number two, as we continue to build out the goals-based platform, as we continue to build out digital and our other services, I think our clients are attracted to the value-added proposition of a managed account and we see that trend continuing. It's been a nice tailwind, as you say. And we'll see the benefits of that going forward. As you know, there's a lag between the fees and the flows. But it's been really quite positive and diversified, not only driven by retirement accounts.

Steven Chubak

And maybe a broader question on how you're thinking about capital management and some strategic growth initiatives. And one of the things that comes up quite often in discussions is that, as we look at the various capital constraints, you're much more leveraged than risk-based constrained than many of your peers. And as you think about potential opportunities to either better optimize your capital base or -- and even consider or demonstrate some willingness to explore inorganic growth opportunities, are you open to expanding into areas that are maybe more risk-intensive and which could potentially help you optimize against some of your more constraining capital ratios such as leverage?

James Gorman

Steve, it's James. I think that's a much broader discussion than we'd probably do justice on an earnings call. We've worked very hard in the last several years to get ourselves in a position where our buyback and dividend combined generated close to 100% payout. We still believe we're carrying significant excess capital. And you're right, at this point in time, the leverage ratio has been the constrained at least the last couple of CCARs. Now whether that continues remains to be seen. I think the team, we're acutely conscious of risk-based capital, leverage-based capital tradeoffs. I think we've started, as evidenced by the Mesa West transaction, to show that we're not shy about doing inorganic things where they make sense. We're not interested in particularly making a splash on that front.

We like businesses where we have real scale advantages. That's where we're aggressive. And Wealth Management was the example on that. But otherwise, they tend to be inorganic, should be much more tactical, I would think, in general. So it's a much longer discussion. But at this point, we'd like to continue -- we have a lot of shares outstanding. We've got our dividend to $1 a share on an annual basis. We like to continue to pursue the buyback dividend strategy and excess capital. Once we see more clarity around the regulatory framework, if and when we see we have more excess capital, then we'll put that to work either inorganically or with further buybacks or indeed against some of the risk-based businesses that we're in.

Operator

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

Guy Moszkowski

You alluded, Jon, a little bit to targets for Wealth Management lending growth and kind of the headroom that you see. I was hoping that maybe you could give us a little bit more of a quantitative sense for how you assess your penetration versus competitors, client appetite and, therefore, sort of what you see as a headroom for prudent lending.

Jonathan Pruzan

Well, again, I would say that we've seen continued growth in the lending product across Wealth Management across the 3 products, mortgage, securities-based loans and tailored product. In '16, that was $10 billion. To date, it's been about $7 billion. We've seen good loan production across all 3 channels -- or excuse me, all 3 products. We did see some big payoffs at the end of the quarter that muted our total balances outstanding this quarter. But we continue to see real receptivity within the wealth client network for these products. We're continually designing products that we think that fit within the footprint. Based on market data, it suggests that our penetration rates are lower than some others, so we think that we continue to have room both on the SBL and on the mortgage product. And we've seen consistent production over the last several years. So it sort of gives us confidence that we will continue to be able to grow those balances going forward.

James Gorman

The other thing I'd just add about -- strategically about that business is the lending side provides a lot of stickiness with the relationships. So I was on a phone call with a client yesterday. His adviser left to a competitive firm, a multi-hundred million dollar relationship. We have a significant loan out to that client. And the client has no interest in moving because they like the loan that we have. They like the funding they're getting from that. They -- in fact, after the call, he said they were likely to increase their assets here. So that stickiness for the high end is a big deal. These markets go in cycles as we all know. And people want access to credit. They have large illiquid positions, so concentrated stock in businesses they founded, and they don't necessarily want to liquidate that. And we're in a position where we're dealing with a lot of very, very wealthy people. I think 2% of our assets with clients with less than $100,000 with us. So the vast majority have significant wealth. And it's a real competitive advantage now to be able to compete with the banks and offer these lending products.

Guy Moszkowski

That's a good point. Follow-up question, just on targets again. You were asked the one about Wealth Management margin targets, but what about fixed? Given that in what was clearly a very challenging quarter, you well exceeded that $1 billion quarterly level. Any potential movement on your goal there?

James Gorman

Guy, when we set the targets, it was the beginning of 2016 for 2017. And we said we'd like to see 4 things happen, an ROE range of 9% to 11% in

2017. We've hit that each quarter; efficiency ratio driven by Project Streamline of 74% expense to revenue, and we've been below that for the 3 quarters; Wealth Management margin, 23% to 25%, and we're now operating above that level; and the fourth, of course, was the Fixed Income division's revenues, which we thought, given what the team did with the restructuring in the fourth quarter '15, I think it was, we thought that the business model stood on its own with about $1 billion in revenue. That wasn't obviously an aspirational performance. But we thought that's what it should do. And recall, we've had a couple of quarters around $500 million, $600 million.

First quarter of '16, I think we did about $800 million and change. And since then, we've had, what's that, 6 quarters of consecutive $1 billion-plus. It's actually probably average. I haven't look at the numbers, but my guess is it's averaged $1.25 billion over that time. So clearly, we exceeded the $1 billion. I don't know. We'll think through the end of the year. I don't think there's a lot of point in trying to nail ourselves to a specific revenue target for a business as volatile as that. I haven't seen our competitors do that. What we wanted to do was say we want it full-blown minimum. It's not sort of a race to -- we could drive revenues in that business harder, but we'd use more balance sheet and we wouldn't necessarily have the same risk profile we've got, so there are tradeoffs in it. And at this point, we're really happy with what the team has done. I think they've done a terrific job.

They've taken a business that was really on its heels. And it's clearly become competitive on a global basis. It will never have the macro businesses of the big banks, but it's really performing well across the franchise. So I doubt you're going to see new targets in that. I just don't see a lot of upside for that. And I don't think people can sensibly predict revenue outlooks for something that volatile, but what we did seek to was a minimum revenue number. And let's get through the end of this year, we've got another quarter to go.

Operator

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

Matthew O'Connor

You guys had touched on efficiency a couple of times, and specifically Wealth Management. But I guess, just to circle back, from a firm-wide point of view, how much more opportunity is there? I guess I step back and I think that your businesses are higher expense-based in general, but you also have leading market shares in a lot of what you do, have been executing well, as you pointed out, in getting the efficiency ratio down, you're exceeding your plan this year. But just how much more opportunity is there for maybe continued low-hanging fruit in the back office or within the institutional business?

James Gorman

Yes, I don't think there's a lot of -- Jon will comment on this, but I don't think there's a lot of low-hanging fruit. I mean, we've been at this for a few years. So I think we have a pretty good handle on our expenses. The primary driver is, of course, the compensation expense. And I think, the ranges we have given in each of the businesses make sense. I think, our ISG comp ratio this quarter was around 35%. Wealth Management is obviously higher because of the payout structure in that business, but it's been grinding lower over time as non-compensable revenues come onstream. And the Investment Management businesses tend to come out around the 40%, 42%, 44%, somewhere in that range. So that's a number that honestly is more a function of what the revenues are. The non-comp expenses, we have held pretty tight, in fact, extremely.

And we've taken, I think, the obvious low-hanging fruit off the table. But as you point out, these businesses are scale businesses. The non-comp expenses in Wealth Management, I think, Jon, were down a little bit this quarter on significantly higher revenues. And in the institutional businesses, there's a lot been going on with CCAR and resolution planning that has added expenses. We had the resubmission of CCAR last year. We had the British VAT tax issue, which hit the non-comps. We're still grinding through the last of the litigation from the crisis that you see pop along in little dribs and drabs every quarter. And we're increasing our spend, as you would want us to do, on cybersecurity. We're making big investments in digital.

We're driving a lot of electronic transformation within the institutional business. So there are areas where we're investing in the platform because we want to build a Morgan Stanley of the next 5 to 10 years, not the last 5 years. So short answer is, I think, low-hanging fruit, we have pretty much picked up. Scale in the businesses really matters. That's why you saw, I think, with a 9% year-over-year revenue, it was something like 15% to 18% pretax increase. And we're trading off sensible investments for long-term growth versus short-term fill-ups. And I think what you're going to see with every $1 of incremental revenue, you will still see a higher incremental margin coming on even with those investments. Jon, is there anything I missed there?

Jonathan Pruzan

Yes. No, I think you've hit it. I think we continue -- if you just look at the non-comp line, we continue to try to make progress on there. If you recall, when we came out with our targets at the beginning of '16, we didn't really expect the incremental CCAR that we got from the resubmission. Brexit wasn't on the table. So there are things that pop up all over the place that sort of cause that business -- cause those expenses to move around a little bit. But again, on an incremental basis, we've shown some really nice discipline and trends in both the areas that we can really control. We have seen a little bit of an uptick in the BC&E and transaction taxes as our strength in outside of the U.S. has continued to grow. So Europe and Asia generally come with higher expenses in the Sales & Trading businesses. But our hope is that we'll continue to maintain the discipline. Maybe some of the investments that we're making around automation will lead to better efficiency that might be able to bring down the unit cost a little bit more. But I would agree with James that sort of the low-hanging fruit is sort of -- we've sort of taken that out already.

Operator

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

Gerard Cassidy

I apologize if you've addressed this already, but as an Advanced Approach bank, could you tell us what your LCR ratio, liquidity coverage ratio, was this quarter? And where do you hope to manage that to?

Jonathan Pruzan

Our LCR for the second quarter was in the high 120s. We would expect it to maintain that level or it has maintained that level. It's going to bounce around a little bit. But clearly, the 100% limitation is not a binding constraint for us at all within the liquidity -- within our liquidity framework. So again, it's not -- it hasn't been a constraint for us. I don't expect it to be one in terms of the management of our liquidity. We look at our stress tests and resolution and all the different analysis that we do. And it has generally not been a binding constraint for either -- for the institution.

Gerard Cassidy

Great. Subsequent to your second quarter call, obviously the Treasury came out in October with their new white paper on their views of where the changes in the capital market regulations should head. Can you guys give us some color on 1 or 2 of the regulations that's most important to Morgan Stanley that you'd like to see changed?

Jonathan Pruzan

Well, again, specifically to the October white paper, it was really around the capital markets. I think we're broadly supportive. It was a very large and dense document. Anything that improves the liquidity of markets would be a positive. Anything that reduces the unnecessary administrative burden would be a positive. Anything that reduces complexity around the implementation or the compliance with the regulations would be a positive. Generally, the tone, broadly speaking, has been positive. It's been around recalibration and simplification. And so whether you're talking about Volcker or CCAR or the SLR resolution, which was generally the topics that get discussed, anything that would simplify those, anything that would reduce the complexity and the overlapping nature would be positive. We think the tone, at least from the Fed right now, has been around that simplification process. And we'll see what and if anything gets done over time as people get into their seats and their new jobs.

Operator

And our next question comes from the line of Al Alevizakos with HSBC.

Alevizos Alevizakos

I've got a broad question. Since you mentioned that a lot of your clients moved their money out of deposits and into active products, I'm wondering whether the percentage of your IB revenues have actually increased. And my main question is basically, since Wealth Management is presumably the largest client in the Investment Banking, what is the percent of the total IB revenues that are generated and actually belong effectively to the Wealth Management division?

Jonathan Pruzan

I'm not sure I follow the question so much, so let me just take a stab at what I think you're getting at. In terms of what we've seen in sort of the wealth network, the total sort of cash and money market and cash equivalent balances are down at sort of near-time lows. So it's not only deposits that people have been deploying into the markets, it's just sort of all their -- it's sort of all the cash and cash equivalent categories. There are clear synergies between our wealth business and our institutional businesses. But in terms of the amount of revenue that goes back and forth, I think that's an area that we think the businesses are complementary and they benefit each other, but we don't -- I wouldn't describe it in terms of the ways that you have. Clearly, having that distribution arm is good for a new issue product. It's good for certain structured products. So we continue to develop products that our wealth clients want. But again, the businesses are complementary and we don't measure it like that.

Alevizos Alevizakos

Sure. And as a follow-up question. At the moment, what are the 3 top products that you would say that your wealthy clients are getting out of your Investment Banking franchise?

Jonathan Pruzan

Again, our clients -- we have an open platform. Our clients have access to products across all of the different investment opportunities. Clearly, some of our clients like the new issue product. As I said, we saw a lot of engagement with our clients with the cash and money market balances going down. And it looks like the proportion of invested assets and equities went up across the platform, so broadly speaking, equity product. They enjoy -- also there's structured products that some of the segments enjoy in terms of products that are tied to indices and other markets or other indexes or other rates around the world. But again, it's an open platform. It's a full-service platform. It is integrated with our institutional business, so there are some complementary -- complementarity to it. But again, I wouldn't describe it as the way you're describing it.

Operator

And our last question comes from the line of Devin Ryan with JMP Securities.

Devin Ryan

Maybe first one here, just within GWM, obviously a lot in the mix on the technology front with the robo platform and some of the goals-based technology being rolled out, which hopefully should attract new clients and expand the wall with existing clients. So can you remind us on the timing of maybe some of the key initiatives there? And then, just as digital becomes a bigger theme, I think, for the industry, how does Morgan Stanley think about when it's appropriate to build something that's proprietary versus partnering with outside FinTech?

Jonathan Pruzan

A couple different things. I would say, one, that sort of the digital strategy and the digital product rollout, I would say, broadly is on schedule. We're in beta testing with some of the products right now and are going to go out to the full network soon. So I would say, our investments around product are on schedule. When we think about digital, it's obviously a very important component to the overall franchise, but there's 2 components. There's a revenue component as well as an efficiency and automation component. I would suggest that a lot of the investments that we're making are going to help with the automation and efficiency of our branch network, which should lead to again better operating leverage in the business upfront and will also save time with our FAs and our CSAs, so they'll have more ability to spend time with clients.

But again, when we think about our wealth business, it's a business that's built on scale. And it's built on the fact that people with wealth want personal advice. So it's going to be both a mix of technology and digital with the personal element of the advice channel. And we think that's the winning formula going forward. But digital is important. It's on track. I would say the impact to the financial results are going to lag those investments. We'll see it probably first on the expense side and then later on the revenue side.

Devin Ryan

Yes. Got it, okay. Good color there. And then just follow-up here, maybe one around FIC and just bigger picture. When rates were low, I know many thought that as rates started to move, clients would increasingly reposition portfolios, so that would drive higher trading volumes. And I know you've spoken in the past around kind of Prime Brokerage client leverage. I'm sure it's still low. Are you seeing anything structurally holding back client risk-taking? Or do you just feel like it's simply just not enough buy-in on this market or the economic growth outlook? Just trying to think about kind of if there's something else structurally that's maybe within the leverage levels.

Jonathan Pruzan

Listen, I don't think it's structural. We've seen low volatility across many asset classes. We've seen a lack of sort of idiosyncratic events. When there is uncertainty, in some ways, that's -- or differences of opinions, that generates trading activity. We haven't seen a lot of that more recently. I think the underlying fundamentals sort of the global recovery, if you will, are pretty positive. But we haven't seen real dramatic changes in the rate profile. The 10-year treasury rebounded a little bit here recently. But given the geopolitical risk and the persistently low inflation numbers, it's a pretty tight trading band, FX rates, tight trading band, credit spreads, tight trading band. So again, I don't think it's structural. I think it's cyclical at this point. At some point, there will be catalysts to change the direction of the trading environment, and whether that's tax policy, whether that's better inflation data. But there will be something. And so this has been a sort of a subdued environment. I don't think it persists forever. But when and how that catalyst appears is clearly a question mark.