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 www.morganstanley.com.

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

James Gorman

Thank you, Sharon. Good morning everyone. Thank you for joining us. After a challenging end to 2015, and frankly difficult start to this year, Morgan Stanley is back on track and delivered solid results in the third quarter.

The major strategic goals we outlined are trending in the right direction. Wealth management's pre-tax margins hit the lower end of 23% to 25% range for next year. Fixed income is on course for an annualized quarterly revenue run rate of $1 billion per quarter and project streamlines progress is evidenced in 73.3% efficiency ratio this quarter. The 9% to 11% ROE target for next year remains our focus. Traditional businesses of strength namely equities and investment banking remain solid. Additionally, investment management rebounded from its underperformance a year ago but more progress needs to be made.

We're comfortable with our strategy in competitive positioning but by no means are we complacent. We have much more work to do.

On the business side, expense management program has to run its full course. Fixed income needs to evidence continued consistency and our wealth management business needs to adapt to ongoing changes such as DOL and digital innovation.

On the regulatory front, we need to successfully meet our obligations that include resubmitting our capital plan and addressing shortcomings in our recovery and resolution plan. Furthermore, we have to ensure we're prosecuting our business optimally given the proposed inclusion of the GSIB buffer into CCAR and any other regulatory changes.

The firm is well positioned to move past these challenges and then focus on growth opportunities.

Finally, we must remain extremely vigilant about our collective actions and constantly reaffirm Morgan Stanley's core values. Putting our clients first and doing the right thing essential to our culture. If we embrace these simple objectives every day of work and every time we face the decision, I'm confident that the inevitable outcomes of these efforts will be achieving our financial goals.

Needless to say, we can never control for all the vagaries of market and geopolitical uncertainty, but our job is remain nimble as circumstances warrant and mitigate risk when called upon. Our senior team is battle hardened, loyal, and highly motivated to succeed. I'm proud of the way they are leading our employees through these ever changing times and I have every confidence they will continue to do so.

I'll now ask Jon to discuss this specific quarter in much more detail.

Jonathan Pruzan

Thank you, James. Good morning. The third quarter results demonstrated progress against the strategic objectives we outlined earlier this year. While slower summer markets generally impacted client activity and volumes, our business mix generated solid results. For the quarter, we reported firm revenues of $8.9 billion unchanged versus the second quarter. PBT was $2.4 billion and EPS was $0.81 a sequential increase of 8%. The results yielded an 8.7% ROE.

Before discussing the businesses performance I want to touch briefly on the progress we have made on projects streamline. We remain on track to achieve our objective of reducing expenses by $1 billion by year-end 2017 on flat revenues. Year-to-date non-compensation expenses have decreased by approximately $800 million or 10% versus the same period last year. While some of that benefit is related to lower revenues, the vast majority of the 200 expense initiatives identified internally are yielding results and will continue to be carried out through year-end 2017.

We continue to leverage our global centers of excellence and have hired more than 650 employees in lower cost locations. The vast majority of these hires have been offset by a corresponding reduction in the headcount in our core locations. We are progressing towards our target of hiring 1,250 employees in our centers of excellence through 2017. We have begun to recognize savings from shutting down the two North American data centers and are on target to close the remaining two next year.

Further last year's restructuring of fixed income sales and trading continues to be a tailwind through the overall non-compensation expenses base. In addition to the meaningful divisional headcount reduction, we have also realized savings in operations and other support services.

In addition to support service efficiencies, our streamline targets were predicated on compensation savings and lower litigation spend. Year-to-date our ISG compensation to net revenue ratio was 36% compared to 38% over the same period last year, excluding DVA. Litigation expenses have also decreased year-over-year. Our targets continue to assume that we will not see any new outsized litigation expenses or penalties.

Our CCAR resubmission as well as potential future cost associated with Brexit, will serve as headwinds to streamline. The CCAR resubmission has demanded resources both people and money and will remain a medium-term expense.

Despite these cross turns we are on track to deliver the $1 billion reduction in expenses by year-end 2017.

Now to the businesses. Our institutional securities franchise performed well in the third quarter. We showed leadership in our businesses of traditional strength, equity sales and trading, advisory and IPOs while continuing to make progress in fixed income sales and trading. ISG net revenues were $4.6 billion essentially unchanged on a sequential basis. Non-compensation expenses were $1.5 billion for the quarter up slightly on a quarter-over-quarter basis but down versus the prior year. Compensation expenses were $1.7 billion and year-to-date our ISG comp ratio was 36%.

We remain disciplined on compensation and are committed to our target ratio of less than or equal to 37%.

In investment banking we generated $1.1 billion in revenues in line with our 2Q results. Year-to-date we were number one globally in IPOs and number two in announced M&A, completed M&A, and equity and equity linked offerings. Pipelines are stable and markets are generally constructive but as one would expect the timing and pace of future deals will be a function of the market backdrop, issuer confidence, and investor appetite.

Advisory revenues for the quarter were $504 million up 1% versus 2Q '16. M&A announced volumes are running approximately 35% below last year's heightened levels as lingering uncertainty and increased regulatory scrutiny have weighed on activity. However the pipelines remain healthy and clients are engaged and interested in discussing strategic transactions.

Equity underwriting revenues were $236 million, down 11% versus 2Q. Debt underwriting revenues were $364 million, up 6% sequentially. Equity underwriting activity remains well below historical levels. We saw a slight pick-up in IPO activity toward the end of the quarter and we will have to see if that trend continues. In equities, we expect to be number one globally. Revenues were $1.9 billion representing our best third quarter in recent history with solid results across regions. Revenues were down 12% versus the strong second quarter impacted by a lack of specific macro events, a muted underwriting calendar, and light volumes that are traditionally seen over the summer months.

Third quarter results were driven by continued strength in derivatives as performance was aided by a number of meaningful corporate transactions underscoring the collaboration and cooperation across our investment bank.

Results were offset by a sequential decrease in cash revenues on lower volumes and lower prime brokerage revenues driven by seasonality.

Fixed income sales and trading had a solid quarter with revenues of $1.5 billion, up 14% versus the second quarter. A more constructive backdrop in the last two quarters resulted in an improved trading environment.

The benign credit environment with tightening spreads broadly and in Europe in particular following the Brexit vote yielded stronger sequential performance in corporate credit. SPG also benefited from a favorable credit environment and increased volumes in agency trading further benefited our micro businesses. In macro, we witnessed an increased level of client engagement in rates largely attributable to divergent expectations around central bank policy.

Fixed income RWAs were $124 billion and SLR exposure was $344 billion at September 30. Fixed income revenues year-to-date are $3.6 billion. We remain comfortable with our objective of maintaining the revenue footprint we had over the last few years. This restructuring is a multiyear process and we remain focused on supporting our clients and delivering results.

Other revenues were up versus the second quarter primarily driven by gains on our relationship and event held-for-sale loans as a result of an improved credit improvement.

Lastly, average trading VaR for the third quarter was $42 million down versus $46 million last quarter and $53 million last year. The de-risking of our balance sheet as we continue to adjust the composition of our inventory contributed to the reduction in VaR.

Wealth management performed very well and continued to provide stability in the third quarter. Net revenues were up 2% to $3.9 billion which is a record for the business. The PBT margin was 23%. Despite retail investors remaining cautious, we have good momentum in this business. Total client assets increased 3% sequentially to a new high of $2.1 trillion. Fee based assets increased 4% to $855 billion which is a new high both in absolute terms and as a percent of total client assets. The increase included $13.5 billion in asset flows. These trends position us well for 2017.

Asset management revenues increased 2% quarter-over-quarter reflecting positive flows and generally higher indices. Net interest income was up 7% sequentially and 18% year-over-year. The sequential increase was attributable to both loan growth and lower amortization driven by a slowdown in mortgage prepayment fees.

Bank lending balances were up approximately $3.5 billion quarter-over-quarter and a $11 billion year-over-year on track to meet our lending goals.

Transactional revenues of $791 million this quarter were largely unchanged from Q2 but down sequentially when excluding the impact of mark to market gains on our deferred compensation plans as client engagement remains subdued.

Total expenses were essentially flat on the quarter. Non-comp expense were down 3% reflecting continued execution of our expense initiatives, notwithstanding continued investment in our digital platforms and enhancements to our infrastructure to ensure compliance with DOL.

Investment management saw stable asset management fees and less volatility in the investments line. Total net revenues were $552 million, down 5% quarter-over-quarter. AUM grew to $417 billion due to market appreciation and positive flows primarily in our liquidity products as a result of money market reform.

Asset management fees for the quarter were $508 million essentially unchanged versus 2Q 2015.

Investment revenues in the quarter were $51 million essentially unchanged versus last quarter reflecting a more stable investing environment. Overall expenses were down slightly 2% quarter-over-quarter driven by lower non-compensation expenses.

We currently have approximately $2.3 billion of investments in and relationships with legacy covered funds subject to the Volcker Rule across the firm. While we expect to request additional extensions for the overwhelming majority of these investments, we continue to consider various alternatives to be in compliance with the rule, including sales, redemptions, and liquidations where the amounts we ultimately realize on these investments may be less than their current carrying values.

Turning to the balance sheet. Total assets were $814 billion on September 30, down from $829 billion on June 30. The spot decrease was primarily due to a redesign of our wealth management client suite -- excuse me client cash suite program in light of money market reform and a decrease in firm liquidity following Brexit.

Pro forma fully phased in Basel III advanced RWAs are expected to be approximately $368 billion essentially flat to the second quarter. Our pro forma fully phased in Basel III advanced common equity Tier 1 ratio increased approximately 20 basis points to 15.9%. Our pro forma supplementary leverage ratio for the quarter was up approximately 10 basis points to 6.2%.

During the third quarter we repurchased $1.25 billion of common stock or approximately 41 million shares and our board declared $0.20 dividend per share. Our tax rate in the third quarter was 31.5% and going forward we continue to estimate a tax rate of 32%. We have good momentum in our business and have made demonstrable progress towards our 2017 9% to 11% ROE target. That said we have more work to do. We must continue to execute on the plan we laid out at the beginning of the year including the implementation of our bank strategy and focus on expense management.

We also continue to invest in our businesses through digital offerings, electronic trading capabilities, preparation for DOL, and additional regulatory conformance. We will continue to focus on the levers within our control and we feel confident that our ROE target is achievable.

Currently markets are constructive but both markets and investor sentiment will be impacted by some major events on the near-term horizon, including the upcoming U.S. election, the outcome of Fed policy action, and the Italian referendum to name a few. Closure around some of these risk events will be an important factor for investor conviction and corporate confidence.

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

Question-and-Answer Session

Operator

[Operator Instructions].

Our first question comes from Brennan Hawken with UBS. Your line is open.

Brennan Hawken

Good morning. Thanks for taking the question. One I guess starting out on FIG, not really, really encouraging to see the solid back to back results here this quarter and last. Can you help us understand whether or not there may be might have been some changes to risk management that has gone along with the new leadership team and may be could you have any facts you can share behind it may be, inventory loss facts or something along those lines to support may be a higher base line results or at least less volatility?

Jonathan Pruzan

Sure, I'll take a try. I think when we said out on this restructuring what we said is we wanted to have a credible and critically sized business that was relevant to our clients and supported adjacencies that exist within our ISG franchise, for example, leverage finance with our M&A business. We also said we wanted to maintain the revenue footprint while reducing the balance sheet, the capital, the expenses, and the headcount in this business. We're three quarters into it Brennan, we've generated $3.6 billion of revenue year-to-date so that put us on track to maintain our revenue footprint that we saw over the last couple years.

I think the success that we've had have has boosted confidence and the team continues to jell. But it is early. This is good results for the quarter but we need to do this over multiple years not multiple quarters. I think the leadership has started to jell and bring the sales and trading businesses together. Consolidating, as you said, the risk management and some of the infrastructure support behind that and we've seen some real learning's from that experience and I think that's been a positive from a results perspective. But this quarter also benefited from just a good backdrop particularly for our businesses around new credit and SPG line items, we saw tightening spreads, better environment in Europe on ECB buying, better distressed trading volumes, better volumes in SPG, so good backdrop and good performance against that.

Brennan Hawken

That's helpful, thanks Jon. Do you have -- can you give us a sense, is it possible to give a sense about how much you guys might guess the positive environment helped result this quarter; is that just too difficult to try to see that?

Jonathan Pruzan

Any question where you ask if you want me to guess, I'm going to have to say no. Thank you.

Brennan Hawken

All right. And then shifting gears on to the wealth management business, can you share any plans that you might have around Fiduciary rule compliance, a very large competitor of yours has confirmed their direction, which is to not use the deck and so curious about what gets into your approach there and whether or not, you see potentially divergent policies as the business opportunity here as we move forward?

James Gorman

What whether or not, I'll touch on that. Firstly the team is going to be coming out making some announcements over the next couple of weeks. So Brennan I would like to get ahead of them but I think it's fair to say our firm view is that optimizing choice for our clients given them the choice of how they deal with the firm, services to access, how they pay for those services, is critical to how we operate as a firm. At the same time obviously we're operating on whatever the regulatory constraints are. But the choice has been a fundamental sort of guiding like for the firm and that is unlikely to change.

Brennan Hawken

Okay. That's very clear, it's very clear, thanks James. And then I guess one more question I would have is on -- also on wealth management. We saw the deposits drop quarter-over-quarter and isn't it that 2Q is sort of a soft base to build off of given the taxes. So could you help us understand what drove the change in deposits this quarter versus last within wealth management; is there any shift happening there?

Jonathan Pruzan

From a fundamental perspective there is no real shift in sort of client behavior as I mentioned Brennan in our -- in my prepared remarks that we did change our client cash management suite program because of money market reform. We had clients that were in prime funds that we're going to go to a floating NAV and with the gates and so forth, we did make a change in sort of how we sweep deposits based on thresholds and client preference first into BDP and then into government funds, so that had a slight decrease overall but it did actually improve the liquidity of those deposits as uninsured went down and insured went up.

But the BDP number is relatively flat quarter-over-quarter, so we haven't really seen any major change in behavior and as I said before it's still pretty subdued in terms of the investor sentiment.

Brennan Hawken

Okay, terrific. Thanks for clarifying that, much appreciate it.

Operator

[Operator Instructions].

Our next question comes from Glenn Schorr with Evercore ISI. Your line is open.

Glenn Schorr

Thank you. Jon two quick follow-ups from some of the comments you made earlier. One I appreciate all the color you had on project streamline. I just want to make sure, did you or can you give us a number of what of the billion is in the current run rate or what's less? And then your comments around as we approach the July 2017 deadline on broker compliance, I appreciate the potential filing extension, but what is the size and type of funds that we're talking about I'm assuming it's some of the real estate funds that we built with Asia but such size and type of funds and are they above or below cost base right now? Thanks.

Jonathan Pruzan

I'm going to go back to the first question first which I now actually forgotten.

Glenn Schorr

Project streamline, what is in there?

Jonathan Pruzan

Streamline thank you. So again there are a couple of different components to it. I think it's what I would say is that we're going to -- we feel very confident about the $1 billion. We've shown good -- we've shown good progress on the controllable expenses around as I said. If you look not quarter-over-quarter but year-over-year around occupancy, around T&E around some of the professional services that $800 million I'm not going to go line by line there is some benefits from the fact that revenues are down a bit, but we feel confident that we're going to hit both or the $1 billion target which obviously includes compensation savings.

On Volcker its $2.3 billion which is why we highlighted that number there has been some confusion around it. And we have our intent is to file for extensions through the overwhelming majority of that. We have options for the other funds well as it relates to the July deadline.

And then to your question I mean obviously currently the funds are at NAV now. They are basically historically whether it be real estate or private equity but it's the mix of the businesses and asset classes that we have been in historically.

Glenn Schorr

I'll go appreciate that last follow-up or it's question may be James. RWA is down a lot it's like down 16%, you got 15.9% CET1. You had a great result in capital return but capitals buildings is this high class problem you have, I think you'd be at the high-end of your ROE target range now if you had a similar capital ratio to the peers and you're above 10 on a tangible so. Can you talk about how you address that in terms of just keep doing what you're doing try to get more out is the give and take but it's kind of capital.

James Gorman

Yes, it is. I mean Glenn we're you know this is not a trend, it's obviously a marathon we're trying to build a firm that's resilient forward times, we're trying to be ahead of whatever the regulatory requirements are. That has been as you and everybody else know is a moving piece. We have the GSIB buffer coming into play obviously there is going to be some netting against that, if I read the speeches right around the shape of the balance sheet growth and around whether one is told to buyback commitments for the nine quarters.

So we need to see the GSIB buffers. We took our buyback from zero to 500 to 1 billion to 2.5 billion to 3.5 billion in the last several years. We took our dividend from $0.05 to $0.10 to $0.15 to $0.20 a quarter. So pretty significant progress. But you're right; we have a high class problem. I mean, I was amused watching some of the pundits on TV the other day talking about ROE and how different is from pre-crisis and I was one the yellow, the screen yellow well that might have a little bit to do, with the capital being a little different pre-crisis.

We had $30 billion of capital pre-crisis; our ROEs would be comfortably above $0.20 now if we were operating the business like that, but clearly that would not be a good or appropriate operating model.

So we are approaching I think we were at or near the top of the large banks in terms of payout ratio. I can't remember exactly but I think it was in the high 80s or even 90% ratio. This year we're continuing to create at a pretty spotty numbers as you point out and but we've got somewhere to talk in between times. We've got a resubmission on CCAR; successful resubmission would dictate whether our current capital program remains intact. So that has all of our attention. And then the 2017 CCAR program is just around the corner in April I think the submission is. So if you got to have a problem in terms of returns in this business that might rather be because you got too much capital. That I would argue as our problem.

Achieving a 100% payout ratio is obviously a terrific position for us to target and that's what we're targeting and then we'll sort of take it from there. But this has been a multiyear restructuring, I don't think any bank has wanted to try and get ahead of the capital ratios given that all of the rules have not been fully baked in as Jon just said we're dealing with the Volcker dispositions that will happen and whatever extensions we get from June 2017 but obviously we got some dispositions going, we've got the GSIB buffer in action, the resolution plans are still working, working their way through, all the banks are resubmitting those, so there is a still a lot of moving parts.

Glenn Schorr

Fair enough. Thanks James.

James Gorman

As a shareholder, frankly I as a shareholder take comfort from the fact that we have the capital that we have.

Operator

[Operator Instructions].

Our next question comes from Mike Mayo with CLSA. Your line is open.

Mike Mayo

Hi. Another question on fixed income and I hope you can appreciate some concern about fixed income given the record over the last 10 to 15 years they were certainly much better than expected. To what degree are the fixed results are taking more risk, page six of the supplement shows VaR is down for rates in FX and commodities but up in the credit portfolio and to what degree are the better results in fixed result are taking shares say from European banks and if you can address prime brokerage too?

James Gorman

I may be just start on that Mike and I will let Jon get into it. But listen we're not and did not in the second quarter run any victory lap around fixed income. We said we're targeting a $1 billion a quarter on annualized basis. We said there will be volatility around that by the very notion, very aspect of the markets. We're obviously did much better than probably anybody thought this quarter and part of that is the functional mix of our fixed income business but a more credit dependent business.

But that said we have made real changes to this business. We did bring down the RWAs from $390 billion to about $125 billion now. We did take out 25% of the total headcount cost and people in December of last year and we're currently on track for the $1 billion run rate in fact a little above it but again we're not too focused on the quarter-to-quarter moves and I think the question underlying it is, the teams do something on the risk front which was sort of further standard deviations out from what we have typically been doing the last couple of years, I think the answer is clearly no.

And we can, Jon, will take you through some more details if it's more to add to it but this is the business which, as you know, and if you look at the street numbers, I think all of the banks surprised on the upside but it was a better macro environment, there was more volatility post-Brexit, there was more volatility around rates because of the Fed multiple talking voices of the Fed and the credit markets turned out.

So if you're in the fixed income business, you're going to have a better quarter, we're in -- we had a better quarter, what I am pleased about is we did it with 25% less people. Jon, do you want to add anything?

Jonathan Pruzan

Not now. I'll add Mike with other parts of I'm sorry -- with the other parts of the question that James didn't addresses it you like me to tackle.

Mike Mayo

Well at least, I guess the flip side is the market share gains, I mean to the extent that you have to potentially use your balance sheet more than some global banks that are restructuring, how much of that is a factor in FEC or trading or capital markets generally?

Jonathan Pruzan

Listen I think what we've generally said is that we feel very comfortable with our competitive position, you can see our ranking quarter-to-quarter share is sort of hard to look at because as James mentioned these businesses move around. But certainly over the medium to long-term, we have a very strong position, we've got a nice global footprint, we have got to defined strategy, I wouldn't say not all of our peers could probably say that, so I think over the medium to long-term, we think our competitive position will bode well for us.

Mike Mayo

All right, thank you.

Operator

Thank you. Our next question comes from Christian Bolu with Credit Suisse. Your line is open.

Christian Bolu

Good morning. May be just a clarification of project streamline, just unclear you've done $800 million in expenses so far versus the $1 billion target, does that imply $200 million to grow by 2017 or am I wrong?

Jonathan Pruzan

There is a couple of things. One is the project streamline is a total expense number, so that would include comp and non-comp, the $800 million is a non-comp number that's number one.

Number two the premise around streamline was a $1 billion expenses assuming a flat revenue environment. But if you look at year-to-date although we've shown nice progress in the second and third quarter as you recall, the January and February market environment but also the first quarter was quite soft. So we're actually running year-to-date below our revenue from 2015 and so therefore the apples-to-apples comparison is a little more challenging. So I don't think you can do the math that you just did.

The one thing I will say is that we're confident even with the incremental CCAR and Brexit planning expenses that are probably in the budget at this point. We're confident that we will be able to get a $1 billion of expenses out of that total $27 billion expense line from last year in 2017.

Christian Bolu

Okay. Thanks for the clarification. And then just on sales practices, I'm wondering if you can comment on the Massachusetts securities officers, enforcement action around your sales practices, you have to change anything, does that impact any your kind of efforts to increase lending penetration.

Jonathan Pruzan

No it doesn't. We are not changing things we are -- we put out a public statement related to Massachusetts we're not going to comment on that. We run our business consistent with the base of doing everything we can to support our clients, we'll continue to do that.

Operator

Thank you. Our next question comes from Guy Moszkowski with Autonomous Research. Your line is open.

Guy Moszkowski

Thank you. Good morning. I just wanted to have a couple of follow-up questions on equities and fixed. In equities, you had mid- single-digits revenue growth year-over-year and of the five global dealers reporting so far there is once again a big separation between the three firms that have sizable prime brokerage activities yourselves and the other two and the other players who have really fallen behind. Can you talk about that is this sort of a coincidence or can you see real evidence that because of the strength of that business may be ability to reprise or concentrate share of flows that you really -- you're really able to break out.

Jonathan Pruzan

I will try Guy listen we are number one in the world in this business. And I think we're seeing the benefit of being able to provide clients with value across the globe. As I mentioned the third quarter was our strongest in equity since the crisis. So we are seeing the benefit of being the number one in the world and I think you're going to see just like in many other financial services products the concentration of market share among the top players and that's what you're seeing in equity.

Guy Moszkowski

And in fixed, can you give us a sense or the degree to which may be a long side strong flow activity that you commented on that that revenue might have been supplemented by positive marks on legacy long-dated derivatives or other position?

Jonathan Pruzan

Listen Guy certainly some of our fixed income businesses we carry inventories in those businesses as particularly in our credit and SPG areas and tightening spreads around the world we benefit from that. But I can't -- I won't comment on the -- I think your derivatives but it was a good constructive backdrop for this business.

Guy Moszkowski

And just as a follow-up to a follow-up on that one those types of positions are they still absorbing meaningful amounts of capital driving the significant part of the RWA that that persists and when we get back to the whole idea of long-term capital return potential should we be looking over the next three to five years for a significant free up of capital from positions of that type that don't generally generate pretty much revenue.

Jonathan Pruzan

The way I would think about is we have a $125 billion of fixed RWAs today. We are not meaningfully above or above 2017 target which was $120 billion and our longer-term target. So we continue to move towards those goals. We're positioned to running off overtime as we've talked about given the liquidity we saw I made a comment that we have been working on our composition of our inventory. We saw opportunities to come out of some of the liquid positions. We've seen a trend towards our clients wanting to trade in more liquid products given their view of the world. So we're going to continue to manage that business, we're going to continue to run those down overtime, and I think we're pretty close to the ultimate targets in that on our balance sheet perspective as it is today.

Operator

Thank you. Our next question comes from Devin Ryan with JMP Securities. Your line is open.

Devin Ryan

Hi, thanks good morning. On GWM may be bigger picture, it still seems disconnected from history here that retail engagements so as to do it against the backdrop where risk assets have performed well and municipal assets are growing. So I'm just wondering is there any data or anecdotes that you point to that would suggest that this isn't a secular change around your products or demographics?

Jonathan Pruzan

No, I think, listen there is just been a lot more headlines, there has a been lot more volatility, yes markets have been trading up over the course certainly at this quarter and we're seeing indices at reasonably high levels. But on the flip side transaction revenues have historically been driven by underwriting calendar, where we've seen a very slow 2016. I think the geopolitical risk and some of this political risk and some of these risks that are much harder for retail or actually any investor, the probability way can get their hands around and probably push people to the sidelines. I don't know if it's secular or cyclical at this point but certainly it's at very low level.

James Gorman

I think as having watched this business over two or three decades, I don't think I've seen transaction levels lower than this. And just supposed against that that the business had record revenues is a testament to the managed money side of it, the banking side of it, the deposit side of it, things that frankly 15 years ago really didn't exist to a highly dependent transaction activity. And the world has changed, investors have changed but we're sitting on $2.1 trillion of assets. And their behavior has changed whether the transaction stuff picks up; I don't know post the election, post the Fed moving it remains to be seen. My guess is over time it does, I feel just intuitively, it feels like a low but can it go low, I guess it could go low but probably there is a bias to moving up rather than moving down of the next couple of years that said more and more money is going to fee based accounts.

Devin Ryan

Got it, great. That's very helpful and then you guys have $27 billion debt maturing over the next 12 months. How should we think about the delta between those rates relative to the current market rates to try and get a sense of what is the magnitude of impact assuming you replace that?

Jonathan Pruzan

Well I think a little way back we said that we had a good funding tailwind as the maturing debt was much more expensive than what we're putting on. I think at this point that has run its course in terms of our new issuance is generally in line with what's been rolling off. So I think there is still some benefit of sort of annualization and things of that nature but we come to probably the end of material end sort of the funding arbitrage that was going on.

Operator

Thank you. Our next question comes from Fiona Swaffield with RBC Capital Markets. Your line is open.

Fiona Swaffield

Good morning. My question was about net interest income in wealth management. Could you talk more about margins and they do seem to be pretty strong in the third quarter. But if you adjust for the prepayment which I don't think you really knew how much that's impacted Q2, could you help us on the trends in margins in wealth management. Thank you.

Jonathan Pruzan

Yes at 23.2%, it's obviously at the low end of our range, what we saw in the second quarter if you recall in June, rates are coming down, so then prepayment fees were accelerating, so we had a negative impact from that. We had obviously the opposite this quarter as generally rates have been rising throughout the quarter, was not significant contributor to the margin, we feel good about the progress that we've made. And at the low-end of the range that is 23.1% -- excuse me 23.2%, you should also recognize some seasonality in this business in terms of the expenses in the fourth quarter but again as James said and I said in my prepared remarks given the flows in managed money given the lending progress that we've made, we feel good about the margins and sort of the progress that we've made here.

Fiona Swaffield

I'm trying to check on the net interest income margin specifically there is no funny that that's a good base from which to focus going forward is just so much higher as percentage of assets and it's been for a while?

Jonathan Pruzan

Yes that's a good basis, there is going to be some -- some nominal volatility because of prepayment fees as our mortgage book grows but that's a good base.

Operator

Thank you. Our next question comes from Michael Carrier with Bank of America. Your line is open.

Michael Carrier

Thanks guys. I guess either for Jon or James, just on the DOL, James you mentioned you are providing customers with options, just wanted to get your sense on how to manage that versus say like the legal side or the legal risk. And then I think in the past, you guys mentioned that you didn't expect any significant impact on revenue or expense meaning like the margin, so I just wanted to confirm that as we get more information and you guys continue to work on strategy.

James Gorman

Mike as I said, I think the team is going to be saying some here the next couple of weeks, so really to be fit, I don't want to get ahead of it, I will give you a lot of details. I don't think that giving clients choice heightens one legal exposure in fact it's -- that just seems a lower counterintuitive. So I'm not -- we run a large complicated business and we do it in full compliance with the regulatory rules and we try and optimize what's always in the best interest of the clients. So that's the basic principle.

Jonathan Pruzan

And Mike on the second half of your question obviously there were drafts to the DOL rule out last year so we were informed when we gave you the 23% to 25% margin target. What we said about this is that, we think this is going to be manageable both from our clients perspective and from a results perspective and we're going to work with our clients to make sure that we were providing compliant solutions.

Michael Carrier

Okay, got it and then just as a follow-up Jon, on the buyback, it looks like the pace is just ahead off, I guess what you did in the last CCAR universes, what you can do in this cycle. And so just wanted to get a sense on you have more flexibility in terms of frontloading it and then when I think about I think Glenn had the question on just where the capital ratios and the ROE, you James, having too much capital definitely in this environment is a good spot to be, when you look at the global firms. But on the other hand it does weigh on the ROE and on the multiple. So when you look at what you guys are doing strategically in terms of focusing on wealth management, you're taking down some of the risk on the balance sheet is that starting to resonate with the regulators and so did you have the potential to get that CET1 ratio back I guess around the industry average -- versus at these elevated levels?

Jonathan Pruzan

I think as it resonate as regulators, I mean you'll look at the track record. We've increased the dividend four years in a row; we've increased the buyback four or five years in a row. It's we operate in a world which has been an evolving world from a regulatory front and we try to stay ahead of it and I think we frankly have done that in terms of where our capital is and I'm not going to repeat what I said I think was related to Glenn or somebody on what our plans are but we try and optimize within the rules of what we've said at the same time be appropriately conservative until we see where are the rules flush out. We'll get a much better sense when the GSIB stuff is finally written down and then we will know pretty much where we stand.

James Gorman

And then on the first part of your question as you highlighted we did buyback a $1 billion in the quarter this in the third quarter we have a $3.5

billion authorization that we do have $2.25 billion less to do over the next three quarters.

Operator

Thank you. Our next question comes from Andrew Lim with Societe Generale. Your line is open.

Andrew Lim

Hi, thanks good morning. Just a follow-up question on capital. Following Dan Tarullo's remarks on the distressed capital buffer, mostly you've got a very strong CET1 ratio but presumably you've also got a very high distressed capital buffer but your minimum requirements will be quite high. And I'm just making that implication there from the impact on your CET1 ratio under the 2016 CCAR process. So I'm just wondering what your thoughts are there as to what you think your SAP should be what your minimum capital requirements could be, I know the rules on classified yet and how you expect how close you'll get?

Jonathan Pruzan

Let me try to take a crack out at this. So I would say a couple of things one I think it's a little too early to start estimating at STVs and sort of impact. This is obviously going into effect in the 2018 CCAR. So for 2017 what James has said and what we said at the beginning of the year is that we were capital sufficient and we would like to try to return capital above the current levels that we have and we're going to continue to do that follow that strategy in '17. And then in '18 as the NPR becomes rule and we have a better sense of what the ins and outs and the takes are will be in a better position to tell you what we think the capital outlook looks like then.

The one point which is reasonably clear from Governor Tarullo speech is the integration of sort of stress testing into the baseline capital ratios in business as usual and that's a trend that we've seen for a while, so I think broadly speaking although there were some lack of some of the details the speech was sort of broadly in line with our expectations.

Andrew Lim

Right. Thanks for that. And then just a follow-up question just with 2016 CCAR and the comments people have been making about the FIG business possibly you've got quite a big impact there on the 2016 CCAR versus the severity [indiscernible]. And I was just wondering, how you're trying to up with the bank over your business, why would that be the case especially given that you're relatively light on FIG versus some of the peers, is it the case that maybe that's a reflection of maybe higher risk that you might be having in FIG and the way you got them done?

Jonathan Pruzan

I'm not sure, I fully understand the question. I will say that I think of the large banks we were the only bank that had their stress losses go down year-over-year. I think that is reflection of the actions that we've been taking around the risk of the overall risk in our balance sheet. We continue to look at inventories and manage those businesses and try to shrink where we can I mentioned that in my comments. So again I'm not sure, I understand what you're driving at but I think we are and I think our absolute stress loss is relative to the other big banks were also below those levels. So I think we are starting to see the benefit of the risk reduction that we have taken and I think that will continue to persist.

Andrew Lim

Right but the absolute delta in your starting CET1 ratio and then where it alludes to under the severity adverse scenario and that's relatively quite large versus all the U.S. banks and I was just wondering well why you think that would be the case?

Jonathan Pruzan

No again I think the way I would look at it is, we have been able to increase our capital return quite dramatically over the last several years and our ratios in CCAR last year ended up higher than the year before. So I think there is recognition of the risk reduction and the transformation that we've taken both on the revenue and the risk side.

Operator

Thank you. Our next question comes from Eric Wasserstrom with Guggenheim. Your line is open.

Eric Wasserstrom

Thanks very much. Jon I'm sorry if I missed this but in the institutional securities, what drove the non-comp component up sequentially? It was up about 5% quarter-on-quarter.

Jonathan Pruzan

Yes I mean on a quarter-over-quarter basis it's going to bump around as I highlighted year-to-date for the firm non-comps are down dramatically. So to be honest if these things are not straight lines but we feel confident that we've got -- we've got good expense management in place.

Eric Wasserstrom

Got it. I mean I guess I was wondering if it was just a function of the business mix given that some of the market revenues have more volume related components.

Jonathan Pruzan

No I mean I think that was not really a driving force you do know we have a retail CCAR resubmission in 2000 excuse me in December of this year, so there was some incremental expenses that we didn't expect to have from that perspective. But again these things are going to bounce around quarter-over-quarter and we feel very good about the $1 billion target we set for next year.

Eric Wasserstrom

Great. And if I can just maybe follow-up on the capital question, as we think about the longer-term targets, can you just help us frame whether that target contemplates or what it contemplates, I guess is really the question in terms of capital levels like in other words like to getting to the high-end assume stable or lower levels or does it continue to reflect an expected amount of capital accretion?

Jonathan Pruzan

I'm sorry the high-end.

Eric Wasserstrom

So if you look at the 9% to 11% target, all right, what is the equity assumption underlying that relative to where we are today, is it continue to capital accretion and net income is just expanding ahead of that accretion or is it some expectation of reduction?

Jonathan Pruzan

Well again I think when we laid out the 9% to 11% for 2017 in the beginning of the year, we said we had sufficient capital and therefore we wanted to try to maintain that capital level. You've seen that we've accreted a bit because obviously the payout ratio is based off of net income and we do issue equity to our employees as part of compensation, so we are accruing a little bit of equity. It was predicated on that sort of general math that it would creep up but nothing dramatic. And what we said in January, which I think is actually even more consistent now with some of the comments around Governor Tarullo speech about actually implementing those changes in 2018 is that -- that's our current thinking for '16 and '17. And then we'll obviously analyze the new rules as far as '18 CCAR, see where the progress that we have made on the balance sheet in the fixed income restructuring and then make another assessment at that point.

Operator

Thank you. And our last question comes from the line of Jim Mitchell with Buckingham Research. Your line is open.

Jim Mitchell

Hey, good morning. May be quick follow-up in the ROE targets the 9% to 11% next year you are sticking with this but as we look at the presentation from January you were sort of under the expectation that revenue growth would be 3% to 5% annually obviously year-to-date that -- we haven't hit those numbers. So what gives you the confidence or what's changed in terms of your ability to still hit the 9% to 11% is it just greater expense confidence how do we think about that in the context of clearly consensus with employing an ROE below 8% doesn't clearly believe you can get there?

Jonathan Pruzan

Listen, I think we've shown some really good progress against the goals as you do mention the revenues are down '16 versus '15 year-to-date. But the target was for 2017. We think we can continue to make more progress on the margin and wealth. As I mentioned some of the flows and where we are in terms of our assets under management and our lending progress helps position our business for '17 continued leadership in equities and IBD where we like our positions in our global footprint. So we'd like to continue to press our advantage there. And we have more streamline to go.

So first quarter very challenging but we put up 8.3% in the second, 8.7% in the third and we're a lot closer to that 9% to 11% we clearly need constructive markets but I think that's what our confidence is being driven by we're closer to that number and we still have some of the initiatives and slightly we expect to realize them in '17.

Jim Mitchell

Okay, that's fair and then may be on the capital size. I think CET1 clearly very strong but the SLR I guess is where if you look at your progress to-date, it's been not as rapid on the RWA side in fixed income is that what's driving the slower progress on the SLR and you still feel confident you can get to the targets?

Jonathan Pruzan

Yes, to the last question obviously the SLR is the just a bigger denominator and therefore the changes that we have been making accrue more slowly to that number. But at 6.2% relative to what the minimums are and what our expectation is on CCAR is a strong number as well.