Operator

Good morning. My name is Dennis and I'll be your conference facilitator today. I'd like to welcome everyone to the Goldman Sachs Fourth Quarter 2014 Earnings Conference Call. This call is being recorded today, January 16, 2015. Thank you. Mr. Holmes, you may begin your conference.

Dane Holmes

Good morning. This is Dane Holmes, Head of Investor Relations at Goldman Sachs. Welcome to our fourth quarter earnings conference call. Today's call may include forward-looking statements. These statements represent the Firm's belief regarding future events that, by their nature, are uncertain and outside of the Firm's control. The Firm's actual results and financial condition may differ, possibly materially, from what is indicated in those forward-looking statements.

For a discussion of some of the risks and factors that could affect the Firm's future results, please see the description of risk factors in our current annual report on Form 10-K for the year ended December 2013. I'd also direct you to read the forward-looking disclaimers in our quarterly earnings release, particularly as it relates to our Investment Banking transaction backlog, capital ratios, risk-weighted assets and Global Core Excess. And you should also read the information on the calculation of non-GAAP financial measures that is posted on the Investor Relations portion of our Web site at www.gs.com.

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Our Chief Financial Officer, Harvey Schwartz, will now review the Firm's results. Harvey?

Harvey Schwartz

Thanks, Dane, and thanks to everyone for dialing in. I'll walk you through the fourth quarter and full-year results. Then I'm obviously happy to answer any questions.

Briefly on the fourth quarter, net revenues were $7.7 billion. Net earnings were $2.2 billion and earnings per diluted share were $4.38. With respect to our annual results, we had firm-wide net revenues of $34.5 billion, net earnings of $8.5 billion, earnings per diluted share of $17.07 and a return on common equity of 11.2%.

Revenues were roughly consistent with last year. We grew net earnings by 5%, book value per share by 7%, and earnings per diluted share by 10%. If we take a step back and assess 2014, there have been challenges to the global economy and therefore the operating environment for our clients.

We have seen a global economy that has been grinding itself towards growth. Different countries are naturally at different stages of the economic cycle and the interconnectedness of these different economies has made the transition to growth somewhat extended, choppy, and oftentimes unpredictable.

Having a global client footprint means that we're impacted by both global and regional fluctuations. Most importantly, it also means that we're a diversified enterprise. The consistency of our annual revenues is a testament to both the products and geographic diversity of our operations, and the stability they collectively provide.

Weakness in Asia or Europe can be offset by strength in the U.S. Headwinds in institutional client services can be offset by strength in investment banking or investment management. Ultimately, our shareholders own a combination of industry-leading global businesses that have collectively generated superior returns.

We've also achieved our results in the face of significant regulatory change. The financial services industry and our Firm specifically, have been responding to unprecedented levels of new regulation. The regulators and the industry have done a tremendous amount of work here and as a result have made the system stronger, and significantly safer.

Since 2012, we undertook several strategic initiatives to respond to new regulations and at the same time derisk the firm. This included a $55 billion balance sheet reduction over the past year. In addition, we sold our Americas reinsurance business, we sold our European insurance business and we liquidated our investment in ICBC. Along with those actions, we also sold our hedge fund administration business and our ready platform.

In 2012, the businesses and investments that I just listed produced $2.3 billion in revenue. As a result, since then we had to replace in excess of $2 billion of revenues in 2014 just to match 2012 levels.

As I said, the last three years have required us to adapt and source new revenue opportunities at attractive returns. Between 2012 and 2014, investment banking and investment management generated $2.4 billion of incremental revenues. This achievement demonstrates the strength of our client franchise, the diversity of our operations, the commitment and quality of our people and our culture of adaptability.

Now I'll discuss each of our businesses starting with Investment Banking. Before digging into the details here, it's worth noting a few achievements from 2014. We were number one in M&A, advising on more than $1 trillion in announced transactions. We also ranked first in global equity and equity-related and common stock offerings.

As it relates to the quarter, Investment Banking produced net revenues of $1.4 billion, slightly lower than the third quarter. A decline in underwriting activity offset a pick up in completed M&A. For the full-year, Investment Banking net revenues were $6.5 billion, up 8% from 2013 on the back of a significant improvement in advisory revenues and modestly higher equity underwriting revenues. This was slightly offset by lower debt underwriting revenues following record results in 2013.

Breaking down the components of Investment Banking in the fourth quarter, advisory revenues were $692 million; the 16% increase relative of the third quarter reflects the increase in industry-wide completed M&A. We advised on a number of significant transactions that closed during the fourth quarter, including Walgreen's $15.3 billion acquisition of the remaining 55% interest in Alliance Boots, Royal KPN's 8.4 billion euro of E-plus to Telefonica, Deutschland and Athlon Energy's $7.1 billion sale to Encana.

We also advised on a number of important transactions that were announced during the fourth quarter, including Allergan's $66 billion sale to Actavis, Baker Hughes $38 billion sale to Halliburton and Talisman Energy's $13 billion sale to Repsol.

Moving to underwriting, net revenues were $748 million in the fourth quarter, down 14% sequentially with both equity and debt issuance slowed. Equity underwriting revenues of $342 million, were down 20% compared to third quarter results largely due to a decrease in secondary offerings and private placements. Debt underwriting revenues decreased 9% to $406 million due to a significant decline in leverage finance activity.

During the fourth quarter, we actively supported our clients' financing needs, participating in Becton Dickinson's $7.2 billion financing to support their purchase of CareFusion, ICBC's $5.6 billion debt offering and Fiat Chrysler's $4 billion common stock and convertible offering. Our Investment Banking backlog improved from third quarter levels and finished at its highest level since 2007.

Turning to Institutional Client Services, which comprises both our FICC and equities businesses. Net revenues were $3.1 billion in the fourth quarter, down 17% compared to the third quarter. For the full-year, $15.2 million of net revenues were down 3% relative to 2013. FICC Client Execution net revenues were $1.2 billion in the fourth quarter and include a $55 million of DVA gains. Excluding DVA, and last quarter's gain related to our trust preferred tender, revenues were down 41% sequentially as certain businesses were impacted by either lower client activity or more difficult market making conditions.

Interest rates were lower sequentially as client activity declined amid a challenging environment. Credit decreased as the market was characterized by widening high-yield spreads and low levels of liquidity.

Mortgages declined versus the third quarter, as volatility and client activity were generally low. While currencies was lower than a very robust third quarter, volatility remain high and client activity were still solid. Even higher volatility and energy markets, commodities improved sequentially and were supported by stronger client activity levels. For the full-year, FICC client execution net revenues were $0.5 billion, down 2% year-over-year. Excluding DVA, the gain related to our trust preferred tender, and the impact of the 2013 European Insurance sale, revenues were down 5% relative to 2013.

In equities, which includes equities client execution, commissions and fees and security services, net revenues for the fourth quarter were $1.9 billion, up 21% sequentially and included $27 million in DVA gains. Equities Client Execution revenues increased 75% sequentially to $751 million due to a more favorable backdrop with higher equity prices and increased client activity.

Commissions and Fees were $829 million, up 11% relative to the third quarter supported by an increase in client volumes. Security Services generated net revenues of $351 million, up 2% sequentially adjusting for last quarter's gain related to our trust preferred tender.

For the full-year, equities produced net revenues of $6.7 billion, down 5% year-over-year. Excluding DVA, the gain related to our trust preferred tender and the 2013 sale of our reinsurance business, results were down 4% relative to 2013.

Turning to risk. Average daily VaR in the fourth quarter was $63 million, down from $66 million in the third quarter with the largest decrease coming from interest rates.

Moving on to our Investing & Lending activities. Collectively these businesses produced net revenues of $1.5 billion in the fourth quarter. Equity securities generated net revenues of $982 million, primarily reflecting company specific events including initial public offerings and gains in public equity investments. Net revenues from debt securities and loans were $358 million, which was relatively balanced between net interest income and net gains on certain investments. Other revenues of $192 million include the Firm’s consolidated investments.

In the fourth quarter, we sold our investment in Metro International. For the fourth quarter and full-year, Metro contributed $70 million and $325 million respectively to other revenues. For the full-year, Investing and Lending generated net revenues of $6.8 billion, driven by $3.8 billion in gains from equity securities, $2.2 billion of net revenues from debt securities and loans and $847 million of other revenues.

In Investment Management, we reported fourth quarter net revenues of $1.6 billion, up 7% from the third quarter primarily as a result of $200 million in incentive fees largely from alternative asset products. Management and other fees were up 1% sequentially to a record $1.23 billion. For the full-year, Investment Management net revenues were a record $6 billion, up 11% from 2013 on record management and other fees which benefited from growth in our assets under supervision. During the fourth quarter assets under supervision increased $28 billion to a record $1.18 trillion, due to net inflows into liquidity products.

On a full-year basis, we have long-term fixed income inflows of $58 billion and equity inflows of $15 billion. Alternative inflows were $1 billion and included $6 billion from fund of funds offset by net outflows from other private equity and credit funds.

Moving to our performance, across the globe, 83% of our client mutual fund assets ranked in the top two quartiles on a three-year basis. And 75% ranked in the top two quartiles on a five-year basis.

Now let me turn to expenses. Compensation and benefits expense, which includes salaries, bonuses, amortization of prior year equity awards and other items such as benefits, remain roughly flat at $12.7 billion for 2014 and translated into a compensation-to-net revenues ratio of 36.8%.

Fourth quarter non-compensation expenses were $2.5 billion, 11% higher than the third quarter, reflecting $137 million donation to Goldman Sachs Gives, our donor advised charitable fund. For the full-year, non-compensation expenses were down 4%, primarily due to lower provisions for litigation and regulatory expenses.

Total staff at year-end was approximately 34,000, up 3% from year-end 2013. Our effective tax rate was 31.4% for 2014. Our global core excess liquidity end of the quarter at $183 billion. Our Basel III Common Equity Tier 1 ratio was 12.2% using the advanced approach. It was 11.3% under the standardized approach.

Our supplementary leverage ratio finished the quarter at 5%. The Firm is now compliant with the 2018 minimum.

We repurchased 6.6 million shares of common stock for $1.25 billion during the quarter. For the full-year, we repurchased $5.5 billion helping to reduce our average fully delivered share count by 26 million shares year-over-year. In addition, we increased our quarterly dividend to $0.60 per share in the fourth quarter and paid out approximately $1 billion of common dividends during the year. In total, we return $6.5 billion of capital to shareholders while at the same time continuing to grow our regulatory capital ratios.

Now before I take your questions, let me offer some closing thoughts. Looking back on our performance in 2014, the Firm continued to execute on its operating strategy. We remain committed to our clients, providing superior service and execution which is central to building any long-term relationship. The strength of our client franchise is reflected in our returns and our leading market position. For example, we ended the year as the global leader M&A with more than $1 trillion in announced transactions. This is nearly $250 billion greater than our next closest competitor.

We were ranked first in global equity, and equity related and common stock offerings for 2014. We helped deliver nearly $300 billion in equity capital from our investing clients to our corporate clients. We executed more than 2 billion transactions for our institutional investing clients across equities, fixed income, currencies, and commodities. And we're the trusted investment manager for in excess of $1 trillion in assets. Our track record of performing for our clients has translated into a leading market position within each of our businesses.

Another area of focus has been on our efficiency, well operating efficiency and capital. We announced an expense initiative from a position of strength in 2011. We believe this was an important step, which positioned us to remain externally focused over the past three years. Continued discipline on compensation levels and focus on non-compensation expenses has contributed to 300 basis points of pre-tax margin expansion since 2012.

Our capital philosophy is also clear. Having a strong capital base, not only allows our firm to be front footed in helping our clients capturing opportunities, but also provides protection in more difficult operating environments. The existence of multiple capital regulations has materially increased the need for robust capital planning tools. To try better capital efficiency and comply with new regulatory requirements, we've developed critical technology and operating infrastructure to inform our allocation decisions. While they can never replace good judgment, these tools certainly help to inform it.

In closing, Goldman Sachs is essentially made up of our clients, your capital, and our people. Our Firm stands ready to use its financial and intellectual capital to serve our clients through this evolving period in the global economy. We are committed to consistently delivering the Firm and its entirety to our clients and maximizing our impact. And we're equally committed to generating superior returns for our shareholders through the cycle.

Thank you again for dialing in. And now I'm happy to answer any questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Glenn Schorr with Evercore ISI. Please go ahead.

Glenn Schorr

Hi. Thanks very much.

Harvey Schwartz

Hey, good morning, Glenn.

Glenn Schorr

Good morning. First one on Investing and Lending. You had mentioned that there are a bunch of sales inside the equity piece. Would you mind just updating us on what's left in the book equity wise that eventually has to be liquidated for Goldman? And in conjunction with that, have you been replacing on balance sheet to backfill?

Harvey Schwartz

So we will just take a step back. You remember from the third quarter, the Investing and Lending balance sheet was roughly $76 billion, which broke down roughly 14 -- $4 billion of public equity, $18 billion of private equity and the balance really -- the vast majority of the balance sheet in that north of $50 billion. And so in terms of the -- in the equity line, I think what you're continuing to see is just really the idiosyncratic performance of the portfolio. We've guided you over time that over long periods the portfolio will correlate with the MSEI [ph] or other public indices and -- but there will still be times where we will outperform that or under-perform that. And in this particular quarter, there were -- really the vast majority of the gains in the portfolio were driven by things that we refer to as event driven. So it was either the potential for very near-term IPO we took something public where there was a refinancing event. We don't look at this of course on a quarterly basis, but you will remember I highlighted to you in the last quarter that when we've taken Mobileye public it had contributed $285 million in revenues and that would be an example of something that it was down during the course of the quarter, that was down a bit more than $70 million. In terms of reinvesting and the portfolio, our strategy here is unchanged in terms of our philosophy, in terms of how we think about the capital. Where we can deploy capital to our clients and where we can find attractive returns, then we will pursue them, but we're going to be very disciplined about the kind of returns that we can gain out of the marketplace. And so you will continue to see us do this one good thing in the quarter that you saw was that the regulators finalized the extension of the Volcker Rule and so there will be two one year extension there. So that was good to see as -- I think it was thoughtful by the regulators, because it will -- would have otherwise we might have seen fire sales across the marketplace.

Glenn Schorr

And equity left, Goldman's equity piece left? I think it went from 9 to 8 to 6, if my memory serves me correctly. Where are we at now?

Harvey Schwartz

So are you talking about sort of -- there is two things that sometimes I didn't get [indiscernible]. I think if you're firmly [indiscernible] where the -- our investment is in terms of the private equity portfolio that was -- we were discussing under Volcker before the extensions, that's roughly around $8 billion. There was some harvesting, but that was offset by some gains. Again, now that's an extended two years. If you're talking about the significant financial institution reduction which is a separate number that relates to our Basel III capital ratios, that's now roughly about $5 billion.

Glenn Schorr

Okay, perfect. That's what I was looking for.

Harvey Schwartz

Sorry, I wasn't sure exactly. I probably should have gotten there faster.

Glenn Schorr

No, I probably should have worded it better. So then a big picture question, a couple of quarters ago, we are all bumming out that every volatility chart points down. Now rates, volatility, oil volatility, FX volatility, credit volatility all thumbs up, and all the banks get beaten up on inventories that we thought were a lot less. So could we talk about good vol versus bad vol and what we are supposed to root for?

Harvey Schwartz

Yes, it's I don't know it's a little -- I guess it's -- what is it? Is it a Goldilocks? Its too cold, its too hot? We can't find the right temperature. I think when you look -- I find it very interesting to sort of juxtapose the third quarter and the fourth quarter, because I think it really highlights what you're saying. We came into the third quarter and as you said everybody bemoaning knew the fact that there was nothing happening in the world in July and then we got into the summer doldrums of August. And then we came back and foreign exchange was very active. There was a lot of momentum and you saw big uptick in client activity in certain parts of the business. Now we come into the fourth quarter and I don't know if you want to call it unhealthy volatility, but in October we had our -- whatever you want to refer to in markets, now referred to as the Treasury Flash Crash. And then, Greece, the continuation of Russia, a huge decline in the oil price, which of course it started in June, but nearly came into frame in the fourth quarter which weighed heavily on credit markets. And so, I don't think when you look back in the fourth quarter, any of this should be particularly surprising. When you see that much pressure on credit markets, in terms of the ability as a market maker on the course of the quarter, to manage liquidity, I don't think its particularly surprising, particularly the stress that came under high-yield as a result of the energy decline. Now for us, there were some real bright spots in the quarter in fixed income, which is why we think about it long-term, we will tell you that the energy price has been declining, our ability to be an active and valuable provider of hedging solutions that a market maker do are energy sensitive and commodity sensitive clients. Was it's a kind of thing you really see. But it's not always going to be case that in a given quarter, I need to pretty unique events we're talking about. But again, in the end it's all going to be driven by the client activity, client uncertain types of volatility will drive more client activity. And certain will make people want a recede and be a little more protective. I know we're all focused on it, but quarter over quarter when you think of the events; I don't think it's a surprising actually.

Glenn Schorr

Then the follow-on on that is just, in credit specifically, which is probably the most liquidity-dependent. Do the desks themselves, or do your risk management practices, do you tend to exit positions during times of stress like that or should we be thinking about you are sitting on the same kind of book right now, just at lower prices?

Harvey Schwartz

So we’re always managing the risk components of many of our books, regardless of the environment. And the kind of market that we’re talking about, it’s really very natural on what they’re doing at the desk level. So they’re obviously fulfilling their client responsibilities in terms of making market, but it can be particularly challenging from time to time. But again, this is a long-term commitment. I wouldn’t say that there were any significant support, exposures, in terms of that we are really focused on. But obviously things that have been in frame for a while Russia, Greece, energy whatever the case might be. Obviously we pay a lot of attention to those things. Again, as we’ve said in the past Glenn, it's a moving business not a storage business. And just sometimes moving is harder.

Glenn Schorr

I appreciate that. My times up, thank you very much.

Harvey Schwartz

Hey, Glenn. Thanks so much.

Operator

Your next question is from the line of Michael Carrier with Bank of America. Please go ahead.

Michael Carrier

Thanks, Harvey.

Harvey Schwartz

Good morning, Mike.

Michael Carrier

Hi. Harvey, just upfront you mentioned a lot of the businesses that have been repositioned. I think you mentioned the $2.3 billion on the revenue side. I guess when we look at 2015, near now that most of the rules are finalized; I guess is the vast majority of the repositioning out of the way? I guess because when I look at the ratios, you're basically where you need to be. So should we see ongoing like revenue headwinds, or is the repositioning mostly through?

Michael Carrier

So look we will have to see as all the rules ultimately get finalized. There is still a number of rules out there, but so I'd say things that we very deliberately did in terms of derisking the firm or responding to regulatory requirements like the sales of the insurance business, the other things I listed, there is nothing right now that we're looking at you should expect to see in the near-term. Having said that, these businesses have always been dynamic, they will remain dynamic and over the next many years things will continually evolve and we look to be very dynamic in all of those businesses, whether they're market structure changes, whether they're things like we've seen in terms of regulatory driven. I mean it just -- I think this is what you need to do to manage the business as well. So we will continue to focus on capital and make sure we're using the capital as efficiently and effectively as possible, all these things are just part of daily life.

Michael Carrier

Okay, got it. And then just maybe on the same topic, or somewhat related to it, just in terms of your Tier 1 ratio going up to 12.2, if you can give us the components. It looks like RWA shrunk in the quarter, but just want to know what drove that, and then going forward is there anything else in the pipeline?

Harvey Schwartz

So in the third quarter [indiscernible] it went up to 12/2 as I referenced. So on the -- if you really want to break that down into the molecules, give or take roughly 10 basis points came from just growth in capital. Another 10 basis points came from various steps we're taking in terms of managing the capital better and then the balance -- really it was about risk reduction and it was much driven by the drop off in client activity towards the end of the quarter than anything else. So you could see this bounce back. In terms of staff again, we're going to continue to adjust all the capital rules, and as I said we've invested heavily in getting the tools out and as we discussed at your conference, we now have a uniform framework that we're deploying across the Firm in terms of that how we think about best utilizing their capital ensuring that we position it most effectively for all of our clients and so, again that's going to be, I don't know if you want to call part of the new world, but that's part of the world that we live in now.

Michael Carrier

Got it. And then, last one, just given the volatility that we're seeing both in the oil markets, more recently in the FX market. Just want to get, your guys perspective of obviously you mentioned on the commodity side that can present same opportunities in terms of more activity. On the flipside is lot of risk associated with that, depending on what happens, just want to see how you guys are managing that risk. In the quarter, was there anything significant particularly in the FICC, just because it was a little lighter than expected. That weight on any of the segments.

Harvey Schwartz

So as I said in the quarter, it really was a tough quarter in the credit business, also when mortgages on a relative basis, but more pronounced in the credit business areas. In terms of the commodity businesses, I think it's almost worth taking a step back. If you think about over the last couple of years, we've often been asked a question hey, it seems like everybody else is getting out of the commodity business. How come you're not getting out of the commodity business? And for sure commodities have been quite for a little while and we've got -- you remember we got that question pretty frequently and the answer give us a pretty straightforward which is when we dealt with our clients we knew the business of hedging, managing their risks, investing in clients. We knew that was an important part of what they did and it ties very nicely into our investment banking franchise where we provided advice and capital to all those clients.

And so, I know it's a bit of a reminder when you see the fourth quarter where you see a pick up in performance that reinforces that you which really need to listen to your clients when you're thinking about your strategy in terms of the businesses that you invest in and those businesses you protect across the cycle. And so, part of the consistency that you've seen from us is the investment in these various businesses across a long cycle. It might be commodities. A couple of years ago, people were talking about the fact that merger were never coming back. And so from a commodity perspective, in terms of risk, our risks are quite manageable to the sector. You would asked that also, so I just want to finish with that.

Michael Carrier

Okay. Sounds good. Thanks a lot.

Harvey Schwartz

Thank you.

Operator

Your next question comes from the line of Christian Bolu with Credit Suisse. Please go ahead.

Christian Bolu

Good morning, Harvey.

Harvey Schwartz

Hey, good morning. Thanks for dialing in.

Christian Bolu

Thank you. Just on the Outlook for 2015, in your press release earlier this morning, Lloyd struck an optimistic tone speaking to seeing evidence of a pick up in a global economy that will improve the opportunity set for 2015? Could you be a bit more specific and speak to how you see that improved opportunity set a evolving on a business by business basis.

So I will give you my perspective on that. When you talk to the economists inside Goldman Sachs, the general view whether you're talking about the U.S which clearly have a more optimistic view in terms of growth. Europe, Asian, is generally positive and as I said its more of a continue grinding forward. And so, if we see continued stability in terms of market, normalization of interest rates and really fundamentally steady growing GDP. Those are the things that are historically over cycles. Have translated well for us, because it contributes to global confidence and global confidence contributes to activity. And so, it kind of gets back to the theme I started with earlier which is -- in over the last couple of years, we're ourselves have made adjustment in an environment which has been choppy as I said and also a bit on event and what we needed to do is, we needed replace significant revenues and so you see what we're doing to the extent which we hopefully will have fewer revenues replaced in the future. Hopefully this will translate into growth. But, again it's all going to be driven by the environment. That's the one thing we can't control. We can just respond it.

Christian Bolu

Okay. On the equities business, I apologize if I missed this in your prepared remarks. But just curious as to what drove the strength in the equity kind of execution line?

Harvey Schwartz

So for a couple of quarters, I know you were focused on, it looks a little lower. In this particular quarter, there were some very solid opportunities to provide capital declines and volumes but again when you look across the equity business, when we see uptick in client activity and when you see trending prices, the strength of a franchise really comes to the front whether its in prime brokerage client execution or commissions and fees.

Christian Bolu

Okay. Sounds like its a little more lumpy than you would normally expect for the quarter.

Harvey Schwartz

There is some seasonality in there, there is some rebalances that we participated in some other things, but again these are one time event. They're just annual event. They haven't drilled the course of the year.

Christian Bolu

Okay. And then just lastly for me a quick clean up question. Under sale of Metro, you noted $325 million in revenues last year. What kind of costs came with those revenues?

Harvey Schwartz

It's a very small contributor to pre-tax.

Christian Bolu

Perfect.

Harvey Schwartz

You shouldn't think of it as meaningful at all in pretext terms.

Christian Bolu

Perfect. Thank you, Harvey.

Harvey Schwartz

Okay. Thank you.

Operator

Your next question comes from the line of Mike Mayo with COSA. Please go ahead.

Michael Mayo

Hi.

Harvey Schwartz

Good morning, Mike.

Michael Mayo

Given the big movement, the Swiss franc there is some reports that banks lost some big money, specifically what happened this week. Can you comment and then more generally, how would this impact to your move towards electronic trading of FX?

Harvey Schwartz

So well, first of all, in terms of Goldman Sachs, immaterial from an economic perspective. So you're only worried about that, there is noting there. I will say what we all witnessed yesterday is pretty extraordinary. I haven't confirmed any stats , but just going to with some of the folks, the single largest move in a day of any developed country, I think it was something like a 20 plus standard deviation move. I think it was like after three plus years of 2% volatility. So you're right to call it extraordinary, but again no issues here. For us it really is an opportunity, really for very high-level engagement with clients who both need liquidity and then the longer term questions about working with local corporates who had an immediate shift in competitiveness and what does that mean? So there'll be obviously a long-term focus. In terms of each rating, there's only things you take away from these or I'm sure there'll potentially be some lessons learned, but I don't necessarily have any major takeaways. It certainly doesn't change our investments largely in terms if you think about each rating.

Michael Mayo

And then one other question, you mentioned the 300 basis point pre tax margin improvement since 2012. I have to imagine it might get tougher if revenues don't grow more. What are some additional levers you have for pre tax margin? You've got a lot on non-comp and you certainly have done a lot on comp. Is there any more to go?

Harvey Schwartz

So, well first of all Mike I appreciate acknowledging our effort on expansion because it has been really a multi-year effort in terms of being disciplined. Again it's going to be environment driven. Right now when we look at the global footprint, we feel really, really well positioned in terms of our geographic footprint and our product footprint. But we're committed to staying very focused on expenses. You're not going to see us take the foot off here, and so, we'll see. The big thing that we've been trying to achieve in the last couple of years as we've talked about a lot is putting an operating leverage. And while we've replaced the two plus billion dollars in revenues over the last couple of years, it would be great we'd all like to see the environment being one that provided another couple of billion dollars in revenues, and we think we have that operating leverage. So we feel well positioned.

Michael Mayo

All right. Thank you.

Harvey Schwartz

Thanks Mike.

Operator

Your next question comes from the line of Matt O'Connor with Deutsche Bank. Please go ahead.

Matt O'Connor

Good morning.

Harvey Schwartz

Hi, Matt.

Matt O'Connor

If I can first follow up on the expense question, maybe just trying to get a little more detail in terms of the opportunity from here. I think you and a lot of other firms have a relocation strategy trying to bring down some of the especially back office and non-sales facing costs. Maybe if you could just kind of frame it the opportunity there; I think a lot of people also look at the state of raw and think those opportunities to become less top heavy and then obviously there's the new structural reduction in comp that does contribute it. So, maybe just pushing a little bit on where you can go from here on expenses?

Harvey Schwartz

So as part of the expense probably from the last couple of years, and it's a great question. As you know, we have been diversifying ourselves geographically in places like Salt Lake City, Bangalore and others and it represent about 25% of the firm's headcount at this stage give or take. I think there is continued opportunity. One thing I'll say which is, something at this stage which is hard to quantify, but we're looking to take a leadership role in which is, over the next several years as you really get all these rules in place around all the various training venues around the world. There certainly will be a need for scale consistency across the various market participants and the way things are processed, the way information is managed, the way transactions are confirmed and things are reported, and so the short note of that is, internally we're going to continue to lever technology anywhere we can and that's been a big part of what we've done. But we're also going to try and do that as much as we can working with other folks in the industry and our clients to make sure all being is efficient as we possibly can as we all work in the same rule set. Now, you didn't specifically ask about it, but obviously we're going to stay relentlessly focused on the balance sheet and how we deploy our capital.

Matt O'Connor

Okay. Actually that kind of brings me to the next question. Earlier it was asked about looking at maybe businesses or areas to get out of a swap, but as we just think about your current business mix and the opportunity to adopt to the new capital rules, how much opportunity is there to refine the balance sheet and have those ratios increase more than you would think just based on say the net income less capital deployment?

Harvey Schwartz

Well, I think when you look at our ratios now, but we think they're in quite a good place. We'll see what happens with the, when the final rules are done. I guess, I would say, we start again with the client businesses and given the strength of all of our businesses at this stage, equities, fixed income, investment banking, asset management, our investing and lending business. We look at the strength of those business leads and our competitive position, it really feels at this stage it's very, very tactical and it's about fine point execution. Now of course that could all change and again we'll stay nimble, but that's where we would stand today.

Matt O'Connor

Okay. And I guess, just to push on that like, it was just a year and half ago that the supplemental leverage ratio was even proposed, so I would assume it's hard to be completely efficient in adopting that throughout the businesses.

Harvey Schwartz

Yes, sorry. I think you'll continue to see improvement in things like that. That's not what I was saying. What I was saying is, its going to be tactical and we'll continue to work at it because you're right, we're new and we're just living with it. But I don't see it at this stage given the adjustments the business we've sold, the things we've done, the balance sheet. I don't see us making bigger decision in terms around our business commitment and our commitment to our clients. That's what I meant. So you're not going to see the sales and other reinsurance business soon.

Matt O'Connor

Okay. But just the, adopting these -- on the day sale question is, how much optimizing is there out there further due maintaining your current strategy and the strengths that you have?

Harvey Schwartz

We can always do more and you'll see us do more. But I'm not in a position to quantify for you today.

Matt O'Connor

Okay. All right. Thank you.

Harvey Schwartz

Thanks.

Operator

Your next question comes from the line of Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck

Hi, good morning.

Harvey Schwartz

Good morning, Betsy.

Betsy Graseck

I just wanted to ask a couple of questions on VaR. I was intrigued by the straightforward which came down queue-on-queue and obviously we had the flash crash in October. So does this represent maybe a VaR that went up early in the quarter? And then as folks move to the sidelines that came back down or am I thinking about that wrong?

Harvey Schwartz

So, if you look at the in the VaR quarter-over-quarter it went from 66% down to 63% and you see the rate category move down current changes are but it sort of followed more the flows and levels of activity. In some businesses it was the result of position changes, but I don't think there is any major takeaways market volatility was a bigger driver and position changes was really a net reduction.

Betsy Graseck

[Indiscernible] volatility, you had essentially bad volatility in rates, so I suppose that's why it came down a bit, but should we expect that is, if you get some slightly higher volatility or I would expect it would move higher. Is that accurate or no?

Harvey Schwartz

Yes, so I think maybe the best way to answer this question is to think about it in terms of average volatility across the quarter, and so the way we look at it because as we've discussed before from a risk perspective VaR is an important risk measure, but obviously it can be influenced by market volatilities. So, if you actually, if you look at the change in terms of how it moved the market volatility was an increase it was more or less offset by position reductions during the course of the quarter and that's what drove the change. In rate specifically volatility was up and our positions were down. And that probably gives you a really good roadmap in terms of how the risk moved during the quarter.

Betsy Graseck

Yes. Got it. Okay. And then separately just could you give us a sense as to how you're thinking about the asset management business and opportunities to expand that inorganically if there is any sense of …?

Harvey Schwartz

So you've seen us do small bolt-on acquisitions over time. We're constantly looking at things. Obviously asset management has been a very important driver of growth over the last several years and this is, we're really -- I think in the early stages of where you're seeing a strategic initiative to grow asset management, the team has done a great job and I highlighted the three and the five year returns. So, we're open to really looking at anything, and so it's really all -- we'll all be driven by whether or not we think we can improve our performance and deliver better results for our clients. So, I would say we're very open-minded. But again, these things have to be accretive and we look through them at a very careful lens.

Betsy Graseck

And distribution, is that something that you could potentially add to?

Harvey Schwartz

We feel quite good about the -- we really do feel like we have a significantly differentiated private wealth franchise and our institutional team is great and we get a lot of value out of our third party distributors and so, again Betsy, look we're the leading M&A firm in the world. So I think it was good idea walking the door and one of our bankers had it, we'd be the first firm to talk about it. It will be a little inconsistent with our whole philosophy not to talk about it, but it's not a priority right now for us. It's really about performance and delivering for the clients.

Betsy Graseck

Okay. Thanks.

Harvey Schwartz

Thanks.

Operator

Your next question is from the line of Jeff Harte with Sandler O'Neill. Please go ahead.

Harvey Schwartz

Good morning, Jeff.

Jeffery Harte

Good morning, Harvey. A couple of things. One, we've seen the volatility kind of spike on and off for a number of months now. Do you have a sense for how this is impacting kind of client risk appetites and their willingness to transact? And I'm kind of thinking corporate investment and investing clients in investment banking as I suppose it is while in trading.

Harvey Schwartz

So, look I think, when you think about investment banking clients and CEOs and Boards and CFOs in terms of how they're making long-term strategic decisions, that's really -- that will be influenced by day-to-day volatility and obviously every informational fact is digested. But those long-term strategic decisions are really based more on long-term competitive drive and global growth and that kind of stability. And so, it's a factor, but as I said when we went to the call we comment with our backlog at the highest point it's been since 2007 and that should give you some indications of what we think the momentum is in the advisory business. It could always change but that's where the momentum stands today. In terms of the investing clients and those involved in the capital markets more directly, it's an interesting question. In periods where there is less friction and ease of volatility -- ease of liquidity, liquidity begets activity, and maybe the language we should we be using is less about volatility and more about volatility and liquidity. Volatility when absence of liquidity is maybe that on friendly version that people are looking to try and find language to describe, and when you have volatility but you have liquidity you can then react and you can execute on the new information you receive. So I'm not sure I got to your questions, but I tried.

Jeffery Harte

Okay. You talked kind of on the M&A, so I mean is it similar for some of the underwriting businesses that it means you're not seeing the volatility kind of cause corporate clients to maybe pull back on plans there?

Harvey Schwartz

So, I don't know if I necessarily say its pointing back on plans in terms of the -- its really more whether the market is more receptive or not. If you really just wanted to contrast underwriting activity in the fourth quarter of 2013 with the fourth quarter of 2014, you just saw capital markets that kind of thundered through the end of the year last year, and this year the capital market just had a lot more to digest. I would say that was more driven by the investing side, basically saying, hey look lets take a pause and lets reassess versus issuers desire to issue at low yield and obviously there was spread pressure on a high yield as people digested the low energy prices, but we'll see how the year goes. I mean I think at these rate levels and these equity market levels their activity levels could be robust during the course of the year, but again we'll have to see what the market delivers.

Jeffery Harte

Okay. And expenses have been here in a couple of times, but I think kind of maybe more directly my question would be, have we hit a point where we need to see revenue growth to see further profit margin expansion?

Harvey Schwartz

Well, it will depend on what happens in the environment. I mean, again we're going to stay very focused on both lines. And so again, I guess, I could add to that question, and the risk is sounding a little bit cute, and we would have actually grown it and revenues have been flat, and it haven't really been flat because we've been growing other businesses. So, we've displayed the ability to do it for the last couple of years. Look, we're going to be very,

very thoughtful as we have been about the balance of investing in the businesses where we see long-term growth. But again that won't -- we're not going to stop our relentless focus on efficiency.

Jeffery Harte

Okay. And finally we're starting to hear again some talk of some competitors at least exiting some of the trading businesses and do you see that as a kind of competitive opportunity, I mean does it help you to maybe expand wallet share, improved pricing or is it just some of the businesses aren't as profitable and we hope eye is going to shrink. Are you seeing some of that?

Harvey Schwartz

So we're certainly seeing in various businesses we feel it at least. Again we don't have full transparency, but in our dialogue with our clients we felt that in commodities this year. We've seen it in other parts of the business. I guess, what I would say is in an environment like this, in terms of the competitive dynamic, I think if you want to be in these businesses through the whole cycle, I think some of the takeaway's are you have to have scale. It's very hard just to be in cash equities or to be in a very small component of the foreign exchange market. And you have to be able to leverage that scale really across the full franchise. It's not really just about the equity business, the prime brokerage business or the commodity business. You need technology scale to really be effective through the whole cycle and then you need the diversity because as we've seen some pistons will fire sometime and sometimes they won't at other points as we go through this. And so, I know that's why we feel good about our competitive position because we know our clients still want to trade bonds, and we know they still want to hedge FX and we know they still want to manage their commodity risk. As we work through this part of the cycle it's just about us being well positioned and having that scale, and we feel like we have it.

Jeffery Harte

Okay. Thank you.

Harvey Schwartz

Thanks.

Operator

Your next question is from the line of Guy Moszkowski with Autonomous Research. Please go ahead.

Harvey Schwartz

Hi, Guy.

Guy Moszkowski

Good morning. Just to follow-up on the VaR question but to ask it in terms of the change for the full year. Can you give us a sense just as you walk through the different asset classes of how much of the change over the course of the year was position reduction versus volatility change?

Harvey Schwartz

So you're saying last year versus this year?

Guy Moszkowski

Yes. So for example, if we look at rates, over the course of the year it fell from 62% to 41%. And I'm just curious how much of that change was reduction in positions versus change in volatility sort of what are the components?

Harvey Schwartz

Hey, I apologize. Dane can get it to you. I don't have the line-by-line in my head in terms of that. But I can tell you on the year-over-year in aggregate, but I'd say what I mean line-by-line I don't have the specific categories in my head. But year-over-year the -- basically position changes were a reduction that was about three times the increase in terms of the volatility levels. So its real risk reduction.

Guy Moszkowski

Got it. Okay. That's exactly what I was trying to get to and maybe I'll follow up on the others, but that's real helpful. On the -- just a housekeeping question, on the core Tier 1, the 12.2% is advanced approach is transitional right. Can you update us on the fully phased?

Harvey Schwartz

Sure. So, it's 11.1% under the fully phased. You want me to give you the standardized that's what we're talking about.

Guy Moszkowski

Yes, exactly.

Harvey Schwartz

Okay, fine. Okay, so 11.3% as I said under the transitional for standardized and then 10.2% under fully phased. Now just a reminder on this, fully phased for us is really a conservative expectation, all other factors being equal in other words, we just stood here today with exactly the same balance sheet and nothing changed except for the retirement of funds as we comply with Volcker doing other things. You should probably add back to call it 40 basis points, 50 basis points to those fully funded number -- those fully phased numbers. Okay?

Guy Moszkowski

Okay. That's also really helpful. And the question has kind of been asked a couple of times, but maybe I'll take a slightly different crack at it. In terms of the volatility that we've seen, since the first of the year not just in terms of what happened yesterday in the currency market but more broadly with rates, long rates. I know we're only couple of weeks into the year, but do you expect a significant rethink in terms of the amount of risk that you and peers will be putting on the desks between now and the end of the quarter, the middle of the year?

Harvey Schwartz

So, it's a great question because it allows me just to underscore a very important point. We scale our risk deployment to our client demand not the other way, and so it will really depend on what happens in terms of clients and their perceptions in the marketplace. And again I think it goes back to -- if you compare the third quarter to the fourth quarter. If we see more Septembers, than I think you will see increasing amount of client activity and opportunities for us to provide liquidity to our clients and deploy capital. I think if you see more Octobers and more Decembers, I think you might see less. Again, that's why we run these businesses for the long-term. I think importantly, one of the takeaways around these businesses is that there are times when things do change structurally. One of the structural changes its been on a decade plus shift to electronics rating and the need for technology. The people still wake up every morning and they want to trade bonds and they want to hedge foreign exchange. Nothing about that is changed. Its just where we're in the cycle.

Guy Moszkowski

Got it. One final question and this isn't something that you frequently disclose, but there was a disclosure a number of years ago, that sort of in the period between 2006 and 2009, about half of your FICC revenues had been in some derivatives and now that we've been through a significant period of regulatory change in terms of derivatives and cost of carry and everything. I was wondering if you could comment for 2014 roughly what percentage of thick revenues would have come from derivative transactions.

Harvey Schwartz

Yes, I don’t have that data handy, but we can dig into it. And if its meaningful we can certainly share it with folks.

Guy Moszkowski

I mean, I guess, the only follow up would be -- I get that, but is it meaningfully less than it used to be?

Harvey Schwartz

Well the one thing I would say that, and maybe these are good things, but host the crises, lots of things they build up in 2006 and 2007 like clients trading correlation and other things which during the crises proved to be less liquid than other things, that certainly looked like businesses that maybe gone forever. You always has been set up but it feels that way for now and maybe they should be. So, there’s certainly elements in the derivative market that appears structurally changed since the crises. But we don’t track that specifically from an auditor perspective, so I don’t have that data.

Guy Moszkowski

Okay. Well, thanks for the color though. I appreciate it.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Fiona Swaffield with RBC. Please go ahead.

Harvey Schwartz

Hi, Fiona.

Fiona Swaffield

Hi.

Harvey Schwartz

Hi.

Fiona Swaffield

Sorry, can you hear me?

Harvey Schwartz

Yes, no worry.

Fiona Swaffield

Sorry, some problems with the phone. Can you talk a bit about, I think you said this in the fourth quarter the de-risking helped the RWAs. But I mean, historically you've talked about mitigation going forward. So can you talk about your plans kind of Basel III RWAs, and also I know its early days but there's some new proposals after Basel before Christmas. Do you have any kind of thoughts on those or how they would, could affect you the U.S. bank?

Harvey Schwartz

So, on the new proposals obviously we'll do what we've done in the past. We want to be an active and constructive participant in the dialogue with the regulators, but its pretty early days on lots of those discussions. But again, we'll just participate in that dialogue and you'll see our comments and things like that. In terms of, I think there's an important thing to highlight here; there were no businesses here that we're looking to shutdown in terms of driving improving capital ratios. We feel quite good with the significant progress our teams have made over the last couple of years. Now having said that again this is something that I just think that there is standard operating procedure for any regulated financial institution in terms of having technology, tool, education and a process towards making sure you deploy your capital in a way that's most impactful for your clients and provide your shareholders with the best return. And so, I think that's just standard operating procedure for us. So you'll continue to see us mitigate, but at this stage we made a huge amount of progress, I mean, there's a whole lots of things I can highlight. I think the balance sheet reduction exercise in the second quarter was a real demonstration of response to nimbleness.

Fiona Swaffield

Okay. Thank you.

Harvey Schwartz

Thank you.

Operator

Your next question comes from the line of Jim Mitchell with Buckingham Research. Please go ahead.

Jim Mitchell

Hi, good morning.

Harvey Schwartz

Good morning, Jim.

Jim Mitchell

Just quickly maybe if you can talk about some of the other, the more liquidity ratios. Do you have any kind of update on where you guys stand on the LCR and NSFR, have you kind of done any kind of backed envelop stuff with respect to those?

Harvey Schwartz

So, in relationship to the LCR which is, we're in excess of the requirement.

Jim Mitchell

Okay.

Harvey Schwartz

In terms of the NSFR that's an interesting one because, obviously if you take a step back in NSFR, obviously any rule that's supportive of good proper industry wide asset liability management, we're supportive of, it will be very interesting to see how the rule evolves in discussions with the local regulators because as you know in the proposed rule they came out. There really are, there's some interesting things in there, one being obviously this notion of how transactions get linked. So we'll have to see what the final determination on that is when we get that from all the regulators, and also obviously the treatment of deposits where different geographies have different legal and regulatory regimes, and in the U.S. obviously we have a restrictive regime in terms of how deposits can be utilized. So, I'd say on the NSFR it's a bit of a wait and see.

Jim Mitchell

Okay. I would imagine with you guys given your structure that the TLAC is probably not a problem. Is that a fair statement or?

Harvey Schwartz

Yes, again where we stand today, again at preliminary rule. Right, so I caveat that with all the facts that we'll have to see where it goes, but that would be our takeaway and our early read.

Jim Mitchell

Okay. And then maybe just broadly on the pipeline record levels, it sounds like one area advisory is clearly strong. Can you comment on the other areas where you're seeing, is it -- is debt still holding in there given the financing needs for the M&A environment or how is equities doing? How do we think about the pipeline in the different components?

Harvey Schwartz

So, as I said the advisory side of the line was really the biggest driver that's probably not a surprise for you given all the announced transaction to the marketplace. If you sort of look at it year-over-year, equity was down, debt was up a little bit. But it does feel like at least if the marketplace and asset prices can stay here, it feels like a reasonable environment to me for the coming year. But again these things can change on a dime.

Jim Mitchell

Right. Okay. That's all I got. Thanks.

Harvey Schwartz

Thanks so much.

Operator

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

Chris Kotowski

Yes, good morning. Every quarter we go through this and looking at the capital markets business and rates and credit Zigs [ph] and currencies and equity Zags [ph] and you talked about the environment on October versus November and so on. But when I look at the -- kind of the industry revenue totals on an annual basis, they're incredibly stable and my peer group is probably the same as yours, but its been somewhere between $110 billion and $120 billion of revenues on an annual basis ever since 2011 and we're probably like 7% or 8% below 11% now. And it just seems to me like the explanation must be that the buy side is becoming increasingly concentrated, larger entities, more resource, and just like you're able to measure client profitability, they're able to measure what they pay all the brokers and isn't the issue more that there is kind of a fixed wallet that the buy side has on an annual basis and that there is not going to be an environment in the future where they pay a whole lot more than they are now?

Harvey Schwartz

Well, I guess the -- we should probably have a long philosophical conversation; it probably requires having a glass of wine or beer or something. But I think that the -- I think that you have to really look at these businesses over very, very long periods of time. And so for example when there was growth, lets just say from the period of like 2002 to 2007, I don't think clients were looking to pay more, I think they were always very, very obsessed around transaction costs. As a matter of fact, the vast reduction in transaction cost for example the equity business actually occurred during that period of growth. And so, we assume that our clients as fiduciaries are always going to focus on transaction cost. I think that less the issue, I think its much more environment driven. We've been in a period of near zero global interest rates for an extended period of time, post the financial crises, and so I think our clients are in some respects as a result struggling for their own after production in some cases which translates again into reduced activity, but our clients have always been focused on minimizing transaction cost as they should be [indiscernible] philosophical conversation.

Chris Kotowski

Okay. Fair enough. I mean, if I was right, would you manage your business differently than you are?

Harvey Schwartz

Its hard for me to imagine any of our businesses and say, look they're going to stay exactly the same for the next 10 years. So slightly that will be a nice way to live, but our businesses are just more dynamic than that. We think its part of the competitive advantage of Goldman Sachs just responding to the changes. So, I think its going to be dynamic.

Chris Kotowski

All right. Fair enough.

Harvey Schwartz

It is very difficult sitting here today to predict, like it was a couple of years ago, no one would have predicted the way the M&A that we're experiencing.

But not of course it feels very natural, and now people feel like it will extend. I do think this is a case of all of us, this is a natural inclination to extend the most recent set of data that we have. Now, it was going to stay like this for the next 10 years, can you promise me that? Yes, there maybe, we would even push harder of efficiencies. But again we're positioning for operating leverage and growth.

Chris Kotowski

Okay. All right. Thank you.

Harvey Schwartz

Thank you.

Operator

Your next question comes from the line of Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

Good morning, Harvey.

Harvey Schwartz

Hi, Brennan.

Brennan Hawken

So, first a quick one on Banco Espírito Santo, lots of increase given what happened this quarter and your involvement in the initial deal. Did that have any impact on the results this quarter at all?

Harvey Schwartz

So, in terms of [indiscernible] my result this quarter its immaterial. For us, -- and I guess, I would add in terms of the -- on the fixed side of the business not the primary driver. But for us obviously as you have seen in our public commentary we're very surprised by the Bank of Portugal's unexpected and very surprising reversal of its prior written decision on this matter. And so, for us really this is really, it's the matter of our client, it is not about Goldman Sachs, and so we have clients that relied on those representations and so, we remain in active dialogue with the Bank of Portugal and obviously it's a very fluid situation.

Brennan Hawken

Okay. But is it fair to characterize it as maybe small but in your view immaterial impact?

Harvey Schwartz

I would say not a primary driver of FICC, but obviously in FICC.

Brennan Hawken

Okay.

Harvey Schwartz

It is obviously part of the revenue decline.

Brennan Hawken

Got it. And then thinking about your physical business on the commodity side, you guys are one of the few left. We're seeing given some of the dynamics there in that market but improving -- and improving bed for storage, how are you seeing that play out in your physical business as we move forward from here?

Harvey Schwartz

So, we always think of the -- that our focus in commodities is really and we used to think about is divide into two things, investments that we make in terms of things like metro which we sold during the course of the quarter. When we purchased metro, it was always purchased with the notion that we would add value to the enterprise and then ultimately sell metro. That was always part of the strategic design. In terms of our commodity franchise, which we're as you know very committed to. The focus there is on the hedging of commodity price exposures and working with all those clients globally whether they be corporates or investors. And so that's really how we think about the strategy. Obviously ownership of physical commodities is getting -- we think is actually a good review by the Federal Reserve. We are very focused on safety and soundness. We think its perfectly understandable that they're doing the same. But that's our strategy in commodities.

Brennan Hawken

Okay. And then last one also just on sort of oil. Thinking about the drop here in oil and your M&A franchise, energy has been a pretty meaningful part of the M&A market last few years. What sort of near-term and then maybe a bit longer term impact you anticipate the drop in oil would have to M&A activity from here?

Harvey Schwartz

Well I think big picture, the drop in oil which really started in June but obviously it started getting a lot of attention in the fourth quarter. I think at the highest level a lot has been written about the tradeoffs between near-term impact on markets, but obviously a big tailwind in terms of expense reduction and a benefit for the consumer. And so, we talk to our economist net-net, as you've seen from us, we think the price decline if it stays here is a tailwind for global economic growth. As it relates specifically to the industry, if we go through a period of sustained declined prices around this level, then clearly its going to put certain parts of the industry under stress. There will be opportunities to help those clients, work through those stresses. There will be opportunities to deploy new hedging strategies, there will be potentially merger opportunities as the organization works through what is really a case of excess supply. So again, its very early days and these things tend to play out over months and years when you get these kind of price declines. But clearly clients will be looking for advice from Goldman Sachs.

Brennan Hawken

Okay, but no specific commentary as far as the M&A outlook is concerned and the impact there?

Harvey Schwartz

No, I think it's a bit early. And I think it will be very specific to certain situations in terms of how we work through the cycle.

Brennan Hawken

Okay. Thanks for the color, Harvey

Harvey Schwartz

Thank you.

Operator

Your next question comes from the line of Steven Chubak with Nomura. Please go ahead.

Steven Chubak

Hi, Harvey. Good morning.

Harvey Schwartz

Hi. How are you?

Steven Chubak

Doing well. Thanks. So, I just had one follow-up question on the capital discussion. Maybe looking at it from a different angle, the presentation you guys had given a couple of months ago is extraordinarily informative. Certainly help us think about all the different constraints that you're managing to. But from your perspective given that your business adjustments that you plan on making are merely going to be tactical at this juncture, and given our understanding of the constraints and the final rules and where they sit today, what do you believe your spot or required capital levels are at the moment to support your business?

Harvey Schwartz

So, I don't think we should underemphasize the word tactical. I think tactical really means; there are no big strategic challenges over here in terms of businesses that we need to dispose of at this stage. Really we're quite pleased with the strength of our franchise businesses, and so I wouldn't underestimate, I wouldn't mistake tactical for a lack of focus or a lack of opportunity. As I said I think its really a prerequisite to running the businesses now in terms of having a very focused tactical strategy and I appreciate your comments about the presentation we gave. In terms of how we think about long **gone [ph] 15th (0:18)** capital levels, obviously the capital levels aren't finalized. So maybe we should just talk about today's context. In today's context and we'll see what happens with the finalization of the G-SIB buffers. But in today's context we would be at a minimum of 8.5% and we had a stated buffer of 9.5%. We have been spending time looking at the buffer. I think the 1% buffer probably seems on the high end to us. We're not going to spend a lot of time on it until we see the final rules. Did that get to your question?

Steven Chubak

It does. But presumably given what we know today whether its about CCAR being binding or the Feds latest proposal recognizing that there could be additional changes going forward that 8.5% plus whatever buffer you didn't appropriate is probably not where your required capital or target is ultimately going to shake out. Presumably it will be higher than that, and not just for you but for industry peers as well.

Harvey Schwartz

Yes, I would agree with that. You didn't ask the question but again this is a very early read of the proposal that's out, and so subject to change. So caveat it accordingly. But our early read and interpretation of the documents out there that it would add 1% for us. And so what you said earlier I think is the more important thing which is in terms of a binding constraints, the binding constraint for us is CCAR. And so, we'll continue to focus very much on all aspects of the capital ratios. But for us the binding constraint has proven to be CCAR.

Steven Chubak

Okay. Maybe just one quick follow-up. Is it CCAR risk based or leverage based ratios. It felt as though in the last exam it was leveraged. I didn't know if you felt that, that would potentially evolve as CCAR changes over the next couple of years.

Harvey Schwartz

Yes, so -- look I think the Federal Reserve has said CCAR was going to be dynamic and so we'll see how they made changes and their test has proven to be dynamic. We can only tell you it was constraining last year as you saw publicly because of the leverage test and then you saw subsequently take certain actions and that obviously influenced our activity around the balance sheet and how we had to think about re-pricing that capital.

Steven Chubak

All right. Harvey that's really helpful. Thank you for taking my questions.

Harvey Schwartz

Good to hear from you.

Operator

Your next question comes from the line of Matt Burnell with Wells Fargo Securities. Please go ahead.

Matthew Burnell

Good morning, Harvey. Thanks for taking my questions. Just a couple of quick administrative follow-ups. Just following up on the prior discussion, have you provided or given any thought just sort of the short-term wholesale funding buffer and how that might effect your future ratios and if there is any meaningful consideration being given within that calculation for the maturity even within the short-term bucket?

Harvey Schwartz

So, as I said before just so we're clear to everybody, so our preliminary expectation and again I caveat that because this rule is very fluid and its in formation only would add an incremental 100 basis points to our G-SIB buffer.

Matthew Burnell

Okay.

Harvey Schwartz

In terms of how we're going -- again I think its really most important for takeaway for everyone to understand the framework for how we think about managing the capital against multiple constraints. So, any time in a new regulatory regime any time we're deploying our balance sheets you have to be able to think through multiple lenses and view things through multiple lenses, that's why we created the framework that we discussed at the conference in November which basically ascribes a waiting system to that and that gives us a consistent lens to look at things like the use of balance sheet and the supplementary leverage ratio, stresses from CCAR, Basel III standardized, Basel III advanced. And you have to look at all those things individually at the same time. So, capital management, but the regulators have done an immense amount of work to increase capital levels and make the system safer and as a market participant we need to develop technologies and our philosophy and approach to basically work within that framework and that's what we've done.

Matthew Burnell

That's helpful. And then a question in terms of operating or operational RWA, a number of your peers mentioned that they had increased operating or operational RWA this quarter. Was that true for Goldman as well?

Harvey Schwartz

No, during the course of the quarter -- from the third quarter to the fourth quarter they were basically essentially flat down a little bit.

Matthew Burnell

Okay. Thank you very much.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Devin Ryan with JMP Securities. Please go ahead.

Harvey Schwartz

Good morning.

Devin Ryan

Hi. Good morning, Harvey.

Devin Ryan

Just a couple of quick follow-ups from me as well here, so just on the investment banking backlog comments I'm glad to hear that the backlog is where it is. But debt underwriting specifically can you speak to maybe some of the puts and takes of the high bar in recent years and corporate issuance that, that maybe tough to match versus the opportunity that you're speaking about with M&A related financings and how much of an offset that could represent?

Harvey Schwartz

So of all the things that I've been I think really that I'm predicting over the last couple of years, its been the annual question about what we think debt underwriting is going to do in the next year. I think you could easily take a position over the last two years that maybe debt underwriting will be lower than the previous year. But the markets have remained robust. M&A activity can be a significant driver of financing activity. I think if rates stay low and the markets are stable and spreads are tight, I think you could see a very reasonable environment. I think if you see the contrary then obviously it will have an impact on activity, and very difficult to predict from here. I mean rates are very low. So for many issuance its going to look quite attractive over the course of the year.

Devin Ryan

Okay. Thanks for the color. And then just on comp, some of your peers are talking about changing their methodology around different comp, and I know you don't specifically disclose level of differed comp, but in a roughly flat year for reported comp, is it reasonable to assume that differed comp is also roughly flat or is there any additional qualitative detail you can provide around how you guys are thinking about the mix there?

Harvey Schwartz

So, I think the better way to think about that is, we've been consistent in our compensation philosophy for a number of years in terms of really ensuring that our employees and it goes up as you go up through the seniority of the firm through to the partners that you hold a significant amount of equity and there's been no change of philosophy over the last several years.

Devin Ryan

That's fair enough. Thank you.

Operator

Your next question is from the line of Douglas Sipkin with Susquehanna. Please go ahead.

Douglas Sipkin

Yes, thank you. Good morning. Two questions, first on fake and I'm just curious for your guys perspective and opinion Harvey. I mean, given the sort of change in liquidity that's come to these markets in the last, lets call it five or six years since the credit crises. I mean, is your guys position that credit is maybe a little bit more vulnerable to smaller shocks given the lack of liquidity, i.e. I guess energy feels like it was the catalyst really for credit to weaken, but its still only, I mean, its bigger but its only like 14%, 15% of high yield. So, is it more pronounced now credit events given the lack of liquidities at your guy's perspective or it was just kind of a tough quarter?

Harvey Schwartz

It will be very difficult to anticipate whether or not this is kind of a new credit regime in terms of liquidity trading or it is -- these are sort of one off factors. Its always hard to assess that when you've had multiple years of timing credit spreads, very low default rates. I will say when you look to the data I don't have it on top of my head particularly in Europe where liquidity was little challenged in the third quarter and then it got worse in the fourth quarter. I think because if market moves in terms of price movements they were pretty significant. More significant than you would have thought in terms of the underlying credit itself. And so clearly liquidity played a role in terms of the degree of price movement. But I wouldn't say at this stage you could draw any firm conclusions from that in terms of any long-term structural changes.

Douglas Sipkin

Okay, great. And then shifting to asset management, obviously a great year for you guys. I was little surprised to see sort of the fixed income bucket on the flow side a little flattish for the fourth quarter and I was wondering, did you guys close some strategies or did something change just given how strong you guys have done obviously with performance and some of your competitors struggling throughout the year, and it still looked like fourth quarter industry wide that phenomena still played out. So I was just curious as to why you guys didn't sort of have the same flow dynamic you had throughout the first three quarters?

Harvey Schwartz

Yes, I even had a chance to dig through sort of competitor results and maybe get more transparency over time than we do, but when we look at it over the course of the year which is really how we think about it. We took in $74 billion of long-term flows of which you highlighted $58 billion came in at fixed income. This could just be the timing of how various mandates that are rewarded arrive. We feel quite good about our performance and our ability to continue to gather assets on the back of that performance.

Douglas Sipkin

Okay, great. Thanks for taking my questions.

Harvey Schwartz

Thanks.

Operator

Your next question comes from the line of Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

Okay. Thanks. Yes, I just want to call out that you had mentioned that you had 754 million of litigation and regulatory expense in the period. Just want to make sure that, that's all related to investigations and not compliance costs in there.

Harvey Schwartz

So that's all -all-- those are litigation related reserves that we access every quarter and we take a quarterly based on information we have on individual and specific cases. That's not a compensation build or an expense related to additional compliance people or something. I'm not sure, I understood the question. So I'm just trying to clarify it.

Brian Kleinhanzl

Yes, that's the question. So I mean if those investigations go away is that kind of with the expense savings or be it was kind of more of a normalized level of litigation [ph]?

Harvey Schwartz

As we work through legacy costs, ultimately that is the case.

Brian Kleinhanzl

Okay. And will you be able to put most of the major investigation behind you in 2015?

Harvey Schwartz

So in terms of litigation, you have seen us obviously make progress in the third quarter, we settled with the FHFA. I would encourage you to really dig through our disclosure where we give very vast disclosure around all facets of litigation and status.

Brian Kleinhanzl

Okay, thanks.

Harvey Schwartz

Thanks.

Operator

Your next question comes from the line of your next question comes from the line of Eric Wasserstrom with Guggenheim Securities. Please go ahead.

Harvey Schwartz

Good morning. Please check your line to see if you're on mute.

Eric Wasserstrom

Thanks.

Harvey Schwartz

Hey, Eric.

Eric Wasserstrom

Hi, how are you? That's only like the fifth time I've done that in this earning cycle. So you -- I just wanted to follow-up on the RWA discussion and see Harvey, if you could just help me kind of understand what the puts and takes of it might be over the course of this year?

Harvey Schwartz

Are you saying on a going forward basis?

Eric Wasserstrom

Correct.

Harvey Schwartz

Yes, on a going forward basis, again I would say there is two things that underscore. The first is we're going to continue to be very focused on further rule compliance and being efficient about the capital. But a lot of it will be driven by client activity. Obviously, we are well positioned from a capital perspective. And so, we really want to stay front footed at as we to the extent to which clients demand are capital. And so we feel well positioned. Hard for me to tell you what those demands are going to be as we sit here in January, but we feel very well positioned,

Eric Wasserstrom

And in terms of the very broad based reduction in assets that you undertook over the course of this year. Is that -- should we view that as being largely completed or is that something that is still under consideration for you over the course of this coming year.

Harvey Schwartz

So immediately\ we have no media plans to reduce the balance sheet from here, but again that's going to be subject to review continuously. And so again, it will be dynamic. If we feel like we are not getting the proper returns, then we will look to reduce. Its really just about discipline, at the same time making sure that we invest strategically for the long run.

Eric Wasserstrom

Correct. And then, if I guess get a transition for a moment and in terms of the M&A pipeline, could you give us any sense of the complexion of it is that primarily in country as it more across board. Are we seeing any changes, I guess, the real question is are we singing any changes in terms of the complexion of M&A activity, relative to what we've seen over the -- this past year?

Harvey Schwartz

I mean, look in terms of year-over-year as you would expect the growth specifically in terms of the backlog, it really came work from Americas and Europe and it was really down in terms of Asia. That's how I describe a geographic measure, which is probably doesn't surprising.

Eric Wasserstrom

And I mean what is the -- I guess I'm trying to understand is the strategic rational changing at all among corporate Boards and terms of growth orientation versus cost savings orientation or any kind of that kind of strategic level discussion.

Harvey Schwartz

I think that its, when we talked to our M&A team, what they will tell you is very industry specific. It can be geographic, but the moment level is quite high and so I guess when you look back at it, I said earlier there were a number of folks who would say look we never see M&A again a couple of years ago and that was just where we want in a cycle, but I think that in a world which generally increasingly stable, low growth, but stable CEO's and boards will look to grow revenues and a strategic opportunity. The one thing that we've seen as part of this past cycle, driven by strategics is large transactions tend to spin-off lots of activity in particular sectors. So I don't know when you talked to our M&A team. I don't know they would say, look this is all cost driven or this is all top line driven. It's a mix of factors that will drive action. The momentum feels quite good.

Eric Wasserstrom

Thanks very much.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Richard Bove with Rafferty Capital Markets. Please go ahead.

Harvey Schwartz

Good morning.

Richard Bove

Good morning. This is kind of a broad question. So I apologize, after a very long call, but over the past couple of days having getting questions on both sides of Goldman Sachs, if you will. While in terms of structure, one is given everything hat you've mentioned about capital and constraints on the business placed by the regulators. Should in fact Goldman Sachs be broken up? And if not, why should it be kept together? The other side being asked, given the high level of cyclicality in the two main businesses of the company, should Goldman Sachs make a major acquisition either an asset management company, or a wealth management company, which we give the company a recurring stream of revenue to eliminate some of the [indiscernible] volatility and its revenues and earnings. I don't know is it the same question basically which is what should the structure, Goldman Sachs be over the next 4 to 5 years?

Harvey Schwartz

Yes, so it's a good question and obviously there has been a lot of focus on there. So, I guess, we first have to say -- so, if anything what's changed today because I think prior to the crisis there was a belief that obviously it benefits to scale and you can get scale and you can have synergies. I think the change that people are focused on now is obviously there is a cost, a capital cost that the regulators are putting on side and so its very natural that the question that you're asking. Now, for GS, I would highlight a couple of things. First of all, we're just significantly smaller than many of the other firms and our balance sheet at $850 plus billion. Many of our competitors are more than twice our size and we've 34,000 employees and they may have hundreds of thousands of employees, and so we are smaller and we are less complex. And as a result, we're somewhat simpler. So what I would say is when we look at the collection of businesses that we have, the way we answer the synergy question is first and foremost through the eyes of the clients. Do we think we provide more value to our clients by having a collection of businesses together or not? It doesn't matter to us when in any given quarter the stock markets may be not valuing one of our businesses as perfectly as we would like it to be. It's really a question of over the long run can we drive shareholder value by having that benefit to our clients. So let's take fixed income and equity as one example. In an environment where its technology driven and the clients increasingly get larger, you need to scale across those businesses. We started running those businesses as a collective shortly after 2000 I think. And so the ability to deliver one technology platform across those businesses have one risk management system, all those things provide us with scale and we think we're able to execute better. It then feeds into our ability to adapt and develop technology tools around capital, and hopefully we are able to perform well in terms of deploying the firms' capital. When you think about investment banking, you bundle in. Think about the merger business today. And what we're able to do for our clients by having the ability to commit the capital and actually deliver to the capital markets and connect investors with issuers. Well, all of these things are very synergistic. Our private wealth business, with our banking business, with our asset management business, these are all things that we think we have synergies in. Now, in terms of smaller or bigger, I think it's going to be environment driven for us. You saw us, you have seen us shrink the balance sheet pretty dramatically thinking you have known us for long time, we used to run at 1.1, 1.2 trillion. We've been around 900 and now well below that for quite a while and so you're going to see us be dynamic about this. If we thought, we could drive more value for our clients and get more scale then we would consider things. I will say now it's harder obviously because there is the explicit pricing end, if you want to call it tax of incremental capital. You have to be very confident that you can get those synergies in that scale. That answer okay, given the breadth of your question.

Richard Bove

Yes, I think it makes a great deal of sense. What about the other foot side of the question, which is where can you come up with a recurring revenue stream that would lower the volatility in your current business mix.

Harvey Schwartz

It's funny. I can't help myself big. I know you say there a lot of volatility in our current revenue mix, but we have actually produced $34 billion in revenues for three years running. And we've grown the ROE and we shrunk the balance sheet and we've increased the pre-tax and we replaced $2.5 billion of revenues that didn't disappear because of volatility, it disappeared because we sold them. So I'm not telling you its going to always be this stable, but touch wood it feels pretty stable last couple of years.

Richard Bove

Okay. Thank you very much.

Harvey Schwartz

Thanks.

Operator

Your next question is from the line of Andrew Limb with Societe Generale. Please go ahead.

Andrew Limb

Hi. Good morning, Harvey.

Harvey Schwartz

Hi. Good morning.

Andrew Limb

I've just got a -- good morning. I've got a question on the trading book review that mostly the Basel committee is undertaking and whether you could give anymore color on what kind of impacts it might have on the industry on an absolute basis, and also how you stack up relative to your peers?

Harvey Schwartz

So on the trading book review we think it's very important obviously and we're in active dialogue. There's been the QIS and -- so again its very early on that. So I don't have any specific comments on the trading book review. I think what I would say is that, and again I think you have to give credit and kudos to the regulators. They have been incredibly productive over the last several years. If we paused a list out for all the regulatory changes, its incredible in terms of the impact on capital, liquidity, trading, top execution facilities and so, one of the things I think we all need to consider is market participants, and when I say that I mean clients, folks like ourselves and regulators is we need to maybe at least think about pausing a bit and digesting the impact of these rules. There's no doubt that these rules make the system stronger and safer as I said before. I do think there's a benefit to absorbing how they interact over the long periods of time, because you can't get all those benefits without some cost. We can't necessarily always identify those costs immediately. And so that would be my very high level comment on that. But I don't have any specific comments on any proposed revisions for the rules.

Andrew Limb

And is it something that you're running internally just to see what the impact is at the moment or is that too early to do that?

Harvey Schwartz

So, we're very consistent on our philosophy and yes in terms of proposed rules. It follows a very normal course protocol for us. We work as constructively as we can with the regulators in terms of trying to provide them with data and dialogue on the impact of overrule. So we're always active participants and we dedicate a lot of time and people and system and math to the QIS as they come out whether with any rule and we always try and be an active participant in terms of giving good balanced feedback to the regulators in terms of the benefits and cause of any proposed rule, which is very early in this potential rewrite. It's just too early to comment on it.

Andrew Limb

Okay. And then just carrying on to another regulation the NSFR. I know you said that was early as well, but any thoughts about how that might impinge on your prime brokerage business and in terms of like incumberment to your balance sheet assets?

Harvey Schwartz

Now again too early to tell. We'll see how it ultimately evolves when we get a local regulation. As I said, a big part of the discussion will be around the treatment of deposits. But look, I think what you're going to see the world do as they adjust is all firms, not just Goldman Sachs. All firms will look for what we'll call net stable funding ratio funding, whatever that ends up being defined as. And so, we'll see how the rule evolves. But look, we'll adapt. You've seen us do it whether it's the Basel III ratio, the supplementary leverage ratio, all these things. We'll just -- we still need to see a rule.

Andrew Limb

Okay. And then just one final question. Is that target SLR that you're aiming for heading into the CCAR at all?

Harvey Schwartz

No. At this stage not. As you saw into the SLR right at this stage, as you saw we're at 5%. That's up about 80 basis points in the course of the year, so now we're complying with 2018. One of the things is we'll continue to review this. There are whole lots of factors that could improve that ratio from here, but again we'll be assessing all of our buffers as we get the final capital rules. Again we all interact, right? So, you really want to get to a point of stability of rule making and then you can really set the parameters and dial them in more tightly.

Andrew Limb

Great. Thanks a lot.

Harvey Schwartz

Thank you. I appreciate you dialing in.

Operator

At this time there are no further questions. Please continue with any closing remarks.

Harvey Schwartz

So, hey everyone. Since there are no more questions, I just want to take a moment to thank all you for joining the call. Hopefully myself and other members of senior management will see many of you in the coming months. If there is any additional questions arise, please don't hesitate to give Dane a call, otherwise enjoy the rest of your day and a long weekend and look forward to speaking with you our first quarter earnings call coming up in April. Take care everyone. Thank you.