Operator

Good morning. My name is Dennis, and I'll be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs' Fourth Quarter 2015 Earnings Conference Call. This call is being recorded today, January 20, 2016.

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 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 2014. I would also direct you to read the forward-looking disclaimers in our quarterly earnings release particularly as it relates to our Investment Banking transaction backlog, capital ratios, risk-weighted assets, global core liquid assets, and supplementary leverage ratio. And you should also read the information on the calculation of non-GAAP financial measures that's posted on the Investor Relations portion of our website at www.gs.com.

This audiocast is copyrighted material of the Goldman Sachs Group, Inc. and may not be duplicated, reproduced or rebroadcast without our consent. Our Chief Financial Officer, 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 and I'm happy to answer any questions. Before outlining our results, I would like to discuss the previously announced settlement for legacy mortgage activities. As you know we took a total net provision for litigation and regulatory matters in the fourth quarter of $1.95 billion. The RMBS Working Group matter, was the most significant outstanding piece of litigation facing the firm. As you would expect, following a settlement, there has been a significant decline in our recently possible loss number. We are currently estimating a more than 60% decline compared to third quarter levels of $5.3 billion.

Now turning to the fourth quarter, net revenues were $7.3 billion. Net earnings were $765 million and earnings per diluted share were $1.27. With respect to our annual results, we had Firm wide net revenues of $33.8 billion, net earnings of $6.1 billion, earnings per diluted share of $12.14 and a return on common equity of 7.4%. Revenues were down slightly compared with last year and expenses were significantly higher due to approximately $4 billion of net provisions for litigation and regulatory matters. Despite these headwinds, we grew book value per share by 5%.

The growth combined with our risk reduction efforts, strengthened all of our regulatory capital ratios. Excluding the litigation charges related to the RMBS Working Group, our 2015 return on common equity would've been 380 basis points higher.

2015 presented both challenges and opportunities. The challenges were more acutely felt in the back half of the year, as concerns about global growth intensified, which is reflected in public equity markets, with the MSCI rolled down, 5.7% over the last six months of the year. Credit markets also reflected these concerns, particularly within the non-investment grade space and most acutely within the commodity sector. For example, U.S. high yield spreads were 157 basis points wider in the second half of 2015. And at the end of 2015, the trailing 12 month default rate for U.S. non-investment grade bonds more than doubled year-over-year climbing to 4.3%.

These factors negatively impacted the broader opportunity set for our clients and as a consequence for the Firm. To varying degrees, the firm faced headwinds within certain of our FICC businesses, underwriting within investment banking and our investing and lending activities. However, these significant headwinds were largely offset by client activity in other businesses. Many of our clients decided to pursue M&A as the best means for creating shareholder value. And now M&A volumes for the industry increased by 47% in 2015. The Firm's volumes increased by 81%, a significant expansion of our market share.

Our global equities franchise also posted strong results for the year. Clients continue to place significant value on the integration of our various services; electronic, cash, derivatives and prime brokerage as well as our global footprint. Our performance in 2015 highlighted these strengths. In addition, the combination of continued strong performance for our clients and the diversified set of offerings drove a record year for our Investment Management business. We ended the year with record assets under supervision of $1.25 trillion and robust net inflows, which totaled $94 billion.

Ultimately, 2015 reinforced a long standing operating principle, that there is tremendous value to having a diversified set of global businesses. More importantly, it is the value of being a leader in these businesses that really counts.

Now let's discuss the individual businesses in greater detail. As it relates to the quarter, Investment Banking produced net revenues of $1.5 billion, slightly lower than the third quarter. A pickup in M&A was offset by a decline in underwriting activity. For the full year, Investment Banking net revenues were $7 billion, up 9% from 2014 on the back of a 40% increase in financial advisory revenues. This was partially offset by lower equity and debt underwriting revenues.

Our franchise remains very strong. 2015 was our second highest annual revenues for Investment Banking. We ended the year ranked 1st in global and announced and completed M&A. Our completed M&A volumes were approximately $350 billion higher than our next closest competitor. A record gap, since we've been a public company. We were also ranked 1st in global equity and equity related and common stock offerings for 2015.

Breaking down the components of Investment Banking in the fourth quarter; advisory revenues were $879 million, a 9% improvement relative to the third quarter reflects an increase in a number of completed M&A transactions. We advised on a number of significant transactions that closed during the fourth quarter, including SunGard's $9.1 billion sale to Fidelity National Information Services. General Electric Capital Corporation's $9 billion sale of its Transportation Finance business to BMO Financial Group and HCC Insurance Holding's $7.5 billion sale to Tokio Marine Holdings.

We also advised on a number of important transactions that were announced during the fourth quarter, including DuPont's combination with Dow Chemical in a $130 billion merger of equals, Newell Rubbermaid's $20 billion acquisition of Jarden Corporation and SanDisk's approximately $19 billion sale to Western Digital.

Moving to underwriting, net revenues were $616 million in the fourth quarter down 11% sequentially as debt issuance slowed. Equity underwriting revenues of $228 million were up 20% compared to the third quarter as IPOs increased from very low levels last quarter. Debt underwriting revenues decreased 21% to $440 million due to a decline in leveraged finance activity. During the fourth quarter, we actively supported our clients' financing needs, participating in Visa's $16 billion investment grade offering to support its purchase of Visa Europe, McDonald's $6 billion investment grade offering and Worldpay Group's $3.8 billion IPO. Our Investment Banking backlog improved from third quarter levels and finished at its second highest level.

Turning to Institutional Client Services, which comprises both our fixed and equities businesses; net revenues were $2.9 billion in the fourth quarter, down 10% compared to the third quarter. For the full year, $15.2 billion of net revenues were roughly consistent with 2014. FICC Client Execution net revenues were $1.1 billion in the fourth quarter down 23% sequentially and included $54 million of DVA losses. Excluding DVA, revenues were down 10% quarter-over-quarter as many businesses were impacted by either lower client activity or more difficult market making conditions. Credit decreased significantly, as the market was characterized by widening high yields spread in the U.S. and low levels of liquidity.

Interest rate in currencies were lower sequentially as client activity declined. Mortgages continue to be challenged as spread widened and the prospect for higher rates and client activity remained generally low. Commodities was essentially unchanged as client activity was muted and energy prices remained under pressure. For the full year, FICC Client Execution net revenues were $7.3 billion down 13% year-over-year, where challenging market conditions and lower levels of client activity in our micro businesses, credit and mortgages, offset stronger client activity and a favorable backdrop for our macro businesses, particularly rates and currencies.

In equities, which includes equities client execution, commissions and fees and securities services, net revenues for the fourth quarter were $1.8 billion, flat sequentially and included $14 million in DVA losses. Equities client execution revenues were roughly consistent sequentially at $562 million. Commissions and fees were $763 million, down 7% relative to the third quarter as global client volumes declined. Securities services generated net revenues of $430 million up 13% sequentially.

For the full year, equities produced net revenues of $7.8 billion up 16% year-over-year. In 2015, we benefited from several factors, a better market backdrop and a more favorable environment from securities services. Turning to risk, average daily VaR in the fourth quarter was $71 million down from $74 million in the third quarter.

Moving on to our investing and lending activities, collectively these businesses produced net revenues of $1.3 billion in the fourth quarter. Equity securities generated net revenues of $1 billion, primarily reflecting the company's specific events, including financings, sales and gains in public equity investments. Net revenues from debt securities and loans were $299 million which was largely driven by net interest income. For the full year, Investing & Lending generated net revenues of $5.4 billion driven by $3.78 billion in gains from equity securities and $1.66 billion of net revenues from debt securities and loans.

In Investment Management, we reported fourth quarter net revenues of $1.6 billion. This was up 9% from the third quarter, primarily as a result of $190 million in incentive fees largely from alternative asset products. Management and other fees were up 2% sequentially to $1.24 billion. For the full year, Investment Management net revenues were a record $6.2 billion, up 3% from 2014, on record management and other fees and higher transaction revenues. During the fourth quarter, assets under supervision increased $64 billion to a record $1.25 trillion, primarily due to net inflows into liquidity products. On a full year basis, we had long term fixed income flows of $41 billion, equity inflows of $23 billion, and alternative inflows of $7 billion.

Moving to our performance, 73% of our client mutual fund assets ranked in the top two quartiles on a three year and 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, remained roughly flat at $12.7 billion for 2015 and translated into a compensation to net revenues ratio of 37.5%. Fourth quarter non-compensation expenses were $4.1 billion and incorporated $1.95 billion in litigation and regulatory expenses. The quarter also included a $123 million donation to Goldman Sachs Gives, our donor advised charitable fund.

For the full year, non-compensation expenses were up 30% due to $4 billion in provisions for litigation and regulatory matters. Excluding litigation provisions, non-compensation expenses would have been down 4% year-over-year.

Now I'd like to take you through a few key statistics for the end of the year. Total staff at year end was approximately 36,800, up 8% from year end 2014. This is a significant increase, so let's breakdown the drivers. Of the 2,800 of incremental staff, a little more than half was due to our continued investment in regulatory compliance and other federation initiatives, largely in technology and operations. The remainder was focused on business growth initiatives, particularly with Investment Management.

Our effective tax rate was 30.7% for 2015. Our global core liquid assets ended the year at $199 billion. While our balance sheet was roughly flat year-over-year, Level 3 assets declined by 33% to $24 billion. Our Common Equity Tier 1 ratio was 12.4% under the Basel III advanced approach. It was 13.6% using the standardized approach. Our supplementary leverage ratio finished at 5.9%. With respect to our method to G-SIB surcharge, we currently estimate that we are at or near the lower bucket, given a decline in Level 3 assets and derivative notionals over the course of the year.

And finally, we repurchased 8.9 million shares of common stock for $1.65 billion in the quarter. For the full year, we repurchased $4.2 billion. Year-over-year, our average fully diluted share count declined by approximately [15 million]. In addition, we increased our quarterly dividend to $0.65 per share in the second quarter and paid out approximately $1.2 billion of common dividends during the year. In total, we returned $5.4 billion of capital to shareholders in 2015.

Before taking questions, a few closing thoughts. Clearly, it has been a challenging environment for the entire industry. 2015 marks the fourth consecutive year that we have posted revenues of approximately $34 billion. Excluding litigation charges related to the RMBS Working Group, it is also the fourth consecutive year that we have produced strong relative results and returns that exceeded our cost of capital. We have been able to post consistent, strong relative results despite the difficult operating environment, which is a statement of the strength of our global client franchise, the caliber of our people and our culture of teamwork and adaptability.

Over the past four years, we've also grown book value per share by 7% per annum, returned nearly $25 billion in capital to our shareholders and reduced our basic share count by 75 million shares or 14%. And most importantly we've been able to accomplish these things while maintaining leading positions across all of our businesses, transforming our financial profile, prudently managing our risks, adapting to regulatory change, continuing to invest in our future and positioning the Firm to provide significant operating leverage when the environment improves.

There's no doubt that the second half of 2015 had its fair share of challenges, which significantly impacted market sentiment and client activity. It's quite natural for all of us to be influenced by recent events and we maintain a healthy respect to them. We certainly don’t control the opportunities set, however we do control several things; how we build our client relationships, how we invest in our people, how we adapt to change, how we allocate our capital, manage our risks and control our costs, and finally, how we invest in the future. We believe our Firm's commitment to excellence in these areas has been and will continue to be what drives our performance over the long term.

Thank you again for dialing in and I'm happy to answer your questions.

Question-and-Answer Session

Operator

Ladies and gentlemen we will now take a moment to compile the Q&A roster. [Operator Instructions]

Your first question is from the line of Glenn Schorr with Evercore ISI. Please go ahead.

Glenn Schorr

I guess you're in a better position than most to ask this impossible question, but from your vantage point everything you see, are we on the cusp of a tougher credit cycle, balance sheet recession? Are we looking at the wrong things meaning, I'm about to ask you your energy exposure and I should be asking you your sovereign exposure to Italian sovereigns or Italian banks like, I'm just curious to your thoughts on where we are besides the market going down?

Harvey Schwartz

So, look obviously the first couple of weeks of the year have been difficult from a market perspective and the last half of the year and continuing the dramatic decline in commodity prices broadly has been disruptive for the market. I think if you talk to our folks, obviously that sector of prices remain where they are, it's going to be under stress, that's an inevitability. But it does feel at this stage where perhaps the market is discounting some of the benefits of the declining commodity prices, we'll have to see how the market evolves. Look, these things are never going to be a straight line and so it's not surprising to some extent that the markets responding to China, reduced activity volatility in markets this way. In terms of our exposures to that sector, they haven't moved material since early [cost] across the entire oil and gas sector, Glenn. Funded and unfunded we had just more to $10 billion of exposure but to really dial it in for you, funded exposure to non-investment grade entities in that sector was a $1.5 billion as we finished the quarter. So, from our perspective we feel well positioned and in this kind of market environment, its type of market environment where your clients really want you to stay close to them and that's what we're doing.

Glenn Schorr

A glass half full question of this increased volatility across some of the asset classes, using [indiscernible] clients of losing money, but is there any case to be made that [FICC] revenue pie can bottom and actually grow a little bit over the next say two years given the changing monetary landscape things like that monetary policy of landscape?

Harvey Schwartz

We don't generally run the businesses as you know as pretty well. We don't run the businesses for the bull case, but I think that, and there certainly is a bull case in terms of fixed income activity. The stable to improving global growth and we're seeing that in the U.S., and we're seeing that across Europe certainly could be a tailwind diverging monetary policy, could be a tailwind. Look, as we go through parts of the credit cycle it's very natural for spreads to widen after having a period of such strength in the contraction. But even right now you're seeing the market, which has been under stress, be thoughtfully selective about those transactions and there's been a lot of appetite for certain parts of the market. So I think as we look forward over the next couple of years, when you start adding in things like the competitive environments. For all the potential activity around hedging and other activities, I think you could construct a pretty impressive bull case for fixed income and again it's not the way we generally run the businesses, we'll react to that as we see it. But there's a -- there certainly is an upside case.

Glenn Schorr

Okay, I appreciate that. Last one it takes two seconds is, did you say that you're at or near the 250 bucket, was that your comment about the G-SIB at or near the lower bucket, is that what you meant by that?

Harvey Schwartz

Yes, that's correct. I mean that's our estimation. That's obviously not confirmed by the regulators, but that's where we believe we stood at the end of the year.

Glenn Schorr

Got it, okay. Thank you very much.

Harvey Schwartz

Thank you, Glenn.

Operator

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

Christian Bolu

Good morning, Harvey.

Harvey Schwartz

Morning.

Christian Bolu

So on Investment & Lending, could you remind us how much of the equity portfolio you need to divest before the 2017 Volcker deadline? And just given the current choppy markets, what's your level of confidence that the Firm can divest those assets by 2017? And also remind us what the process for getting an extension from the Fed is if you can't meet the 2017 deadline? Thank you.

Harvey Schwartz

Thanks, so roughly now we're under $5 billion of capital that is sitting in funds alongside our clients, which are obviously legacy funds. The exact number's roughly right around $4.7 billion. And with our expectation given these are legacy funds is that we'll continue to monetize those assets and we'll see how that progresses. There's a lot of runway between here and the compliance date in 2017. We haven't at this stage contemplated seeking any additional extensions and I don't believe the industry has at this stage.

Christian Bolu

Okay thanks. And then maybe just some thoughts on the incremental operating leverage in the model, I mean the Firm has been very disciplined in expenses despite effectively four years of no top line growth. Just curious, how much more you can pull the expense lever to drive margin expansion or do you need some revenue growth there going forward?

Harvey Schwartz

So obviously we've done a lot of work on expenses, we were very early to expense reduction initiatives. As you know we started several years ago and those have continued, for those businesses that have faced headwinds and we've been investing in those businesses that we feel we've had tailwinds. At that point, headcount's up 8% this year and compensation benefits were flat, so we've done a pretty good job at this stage. We'll continue to monitor it, but at this particular -- given all the work we've done we will always look to be more efficient, but I think we chopped a lot of wood here. Now we have really, we believe well positioned the Firm for an uptick in revenues and even though it feels like a long time ago now, you saw that in the first quarter of last year where on a modest up in revenues year-over-year we produced nearly a 15% ROE. So we feel very comfortable about the upside leverage.

Christian Bolu

Okay, thank you.

Harvey Schwartz

Thank you.

Operator

Your next question's from the line of Michael Carrier with Bank of America Merrill Lynch, please go ahead.

Michael Carrier

Thanks, for taking the question. Just on the G-SIB surcharge I think you mentioned you know part of that was exiting from Level 3 assets, I don’t know if there's any granularity or clarity on what that was or what you got out of, but just curious on the any color around that?

Harvey Schwartz

So generally speaking, you remember during the course of the year that there was a change to the FASB accounting which was a driver in terms of the NAV and the look through the funds and the other driver obviously, to get back to Christian's question which is as we monetize things they become public equities. As you know the public equity has been hovering between $3.5 billion and $4 billion also and that's part of the monetization process and obviously once the public equity, you have complete transparency on pricing.

Michael Carrier

Okay, got it. And then just on the expenses, I think you guys you have mentioned, you have done a pretty good job of balancing the investing versus the environment, but just want to get your sense when you think about what you're focused on the regulatory, the IT side that you need to invest versus areas where if we are in weaker markets and activity starts to dry up, where can you pull back on the cost front? And so whether it's on the non-com side, although it seems like that's running pretty low ex the legal stuff, or on the comp side?

Harvey Schwartz

Yeah, so I think -- but from a compensation perspective, compensation is always going to be driven by performance, most importantly at the Firm wide level and then obviously bottoms up from individuals to businesses and through [indiscernible]. And so that's where I think you'll see as related to the specific performance. We will always continue to look to be efficient. At this stage, obviously we're making a very significant investment in regulatory compliance. We think it's critically important. We actually think it's a competitive advantage to be best in class and so you'll see us continually invest in tech and businesses and over the long-term, we think it's a contributor to our performance.

Michael Carrier

And last one, just on I&L, given that portfolio and just given maybe the market backdrop, if you can just remind us of what portion I guess mostly on the equity side, would be public that you're going to see more like mark-to-market versus the portion that might be on the private side that might be more driven by models or economic growth that's not going to swing around as much?

Harvey Schwartz

Yeah, so coming into the end of the year, the public portion or public equity portion of the I&L balance sheet was $4 billion of notional.

Michael Carrier

Okay. Thanks a lot.

Harvey Schwartz

Sure. Thank you.

Operator

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

Matt O'Connor

If you look at the size of the balance sheet, it came down by about $20 billion versus the end of the third quarter. Just thinking going forward how do you think the size of the balance sheet trends and then also with respect to SLR exposure?

Harvey Schwartz

Well, so obviously all of our capital ratios give us a great deal of flexibility to respond to client demand, so we feel like we're well positioned. Now, we talk about there's a lot in the past. We went through a pretty significant early shift in shrinking the balance sheet and that was really about a replacing effort. And so we're going to be very sensitive to marginal deployment of capital ensuring that it's accretive in the long run and so you're going to be as we pretty sensitive to balance sheet growth, but obviously given the strength of our capital ratios, we have a lot of capacity.

Matt O'Connor

And I guess following up on the SLR exposure specifically, you're obviously in excess of the 5% needed pre-CCAR, but for CCAR if you needed more, because do you have the ability to bring down some of the SLR exposure with only a modest impact to revenue?

Harvey Schwartz

So, it's interesting the way you ask the question. I think you're basically saying, listen can we re-price the balance sheet in an accretive way? If we could, we should, so we're doing that work today. I think if the world became more constrained then by definition re-pricing would be necessary. And so a lot of it'll be driven by constraints, but if we found ourselves constrained to any particular category, we will make a long-term decision about how we wanted to address that. Look for us as you know, CCAR stress has been a constraint and you saw us react to that a bit ago when we shrunk the balance sheet so dramatically.

Matt O'Connor

Okay. All right, thank you.

Harvey Schwartz

Thank you.

Operator

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

Betsy Graseck

Couple of questions, one on I&L again, in the past sometimes you've given us some color on how much has been either realized or mark-to-market and I get the $4 billion on equity component. Just wondering, if you can give us some color on how much of the split between second equity is on -- of realized base versus a marked base?

Harvey Schwartz

Yeah, so as you know Betsy we talk about in the context of event driven and non-event driven and that's what I talked about at the conference in the fourth quarter. So looking at I&L as I said during the quarter, net interest income was really the bulk a driver of the debt line and in terms of I&L relating to non-event driven most of the activity was really event driven or public marks. So things like refinancings, companies going public and then the subsequent public marks.

Betsy Graseck

Okay and then on a question regarding the stress test, a lot of people thinking out loud about what potential scenarios the Fed could throw at us and I'm just wondering on prior stress tests, are you given full credit for the hedges that you have on in the various asset classes that you're trading in?

Harvey Schwartz

We have no transparency in to that level of detail with respect to the Federal Reserve but they're pretty comprehensive in their analysis, so one would assume everyone gets credit for their hedges.

Betsy Graseck

Right. In your own analysis that you're running obviously, you give yourself credit for hedges?

Harvey Schwartz

Yes. In the stress scenario they would perform, so we give ourselves credit, I mean, yes.

Betsy Graseck

Right, of course. Just to make sure.

Harvey Schwartz

[indiscernible] company's scenario on our own submissions.

Betsy Graseck

Correct in both.

Harvey Schwartz

Yes, of course. Just like we'd model the Firm under any stress scenario.

Betsy Graseck

So, when we're thinking about the commodity business that you've got, maybe you can talk through a little bit on how your positioned for the trend that we've been seeing here year-to-date?

Harvey Schwartz

So, we've been very committed to the commodities franchise and obviously we have a very strong banking franchise and so this is a part of the cycle and I'd say, broadly across commodities where clients are going to be in need of advice, they are going to need capital market solutions, they're going to need potential hedging solutions depending on where they sit in the cost structure or scheme of things. And so I think a lot is expected when you marry those two strengths together with our research and analytic tools, I think we feel very well positioned to provide our clients with advice and value and solutions.

Betsy Graseck

Do you see yourself taking share in this environment?

Harvey Schwartz

In commodities -- well just talk commodities in a fixed income context, as I said in my prepared remarks, it's pretty obvious we took share in Investment Banking over the course of the year. I mean assuming you saw the big uptick in M&A, you saw a big outperformance by our team. In terms of the FICC activity, it's hard to see it when activity is low but certainly really not in comparison to commodities where activity has been high to us, we've picked up significant share but that's probably not surprising given how much people have pulled resources out of their commodity businesses or least they said, they have over the last couple of years globally.

Betsy Graseck

Okay. Thanks.

Harvey Schwartz

Thank you, Betsy.

Operator

Your next question is from the line of Mike Mayo with CLSA. Please go ahead.

Mike Mayo

Hi. I guess, I'll go to energy and how big a deal is this oil price decline to you guys? I mean you've mentioned you only have $1.5 billion in funded non-investment great exposure but your total exposures are over $10 billion. Where could you up potentially otherwise get hurt from the decline in oil prices other than that funded non-investment grade exposure? And where could be industry otherwise get hurt or you might have to pay attention to some of the counterparties that you have?

Harvey Schwartz

So, from a counterparty exposure, our counterparty risk we feel good about right now, I think, I mentioned on an earlier call, if you take the example that the commodity trade houses, our exposure to those is less than $200 million as we sit here today. And I talk about the $10.6 billion that I brought out earlier, $6.4 billion of that -- again this is funded and unfunded, this is not funded, $6.4 billion out of the investment grade, so the maximum potential exposure we can get in non-investment grade companies would be $4.2 billion and that's absolute exposure that does not -- that's not recoveries or anything like that Mike. So, in terms of our capital position, I think we are relatively well positioned. I haven't gone through all the peer banks like you have but look for us, while we're very focused about and we're certainly not being complacent about it, we feel pretty front footed even on a relative basis, we have smaller exposures.

Mike Mayo

What sort of reserves --

Harvey Schwartz

I think Mike for us, if this translates into somehow, which we don't see today but you never discount any possibility, if this somehow translates into a real drag on a long-term economic activity or economic growth, but as I said before when I was asked the question and it's just an opinion, lots of folks have been on this side of this discussion. When we talked to our people internally, it feels like the degree to which the market is focused on energy exposures has managed to discount the long term tailwind to the consumer and a reduction in cost across the globe. But that’s how the markets we act into are now. So there maybe information content in that too.

Mike Mayo

So what sort of reserves do you have against that $10 billion exposure? I guess some of its mark to market but some of it's not.

Harvey Schwartz

So of the $10 billion obviously we’re being thoughtful about our exposure. I can tell you for example the non-investment grade side, those reserves were in high single-digit percentages for that part of the portfolio.

Mike Mayo

So lastly just are you able to hedge some of that exposure, are you helping your clients to hedge? Are you getting additional business activity to do this, and if you could just elaborate on the benefit to consumers because certainly people aren’t paying much attention to that if that’s there?

Harvey Schwartz

I can’t quantify the benefit of consumers to you, but obviously over time, that translates into more purchasing power because obviously it's a good thing that people are paying less in the punt, the obvious offset to that and maybe more acute in the U.S. is obviously there is a lot of pain in this sector and that will lead to increased unemployment specifically in this sector and it has infrastructure spend impact. In terms of hedging, we can hedge on a case by case basis, it really depends specifically on the underlying and where we can and we think we should. Obviously, we do. As it relates to client activity, one of the things about this move because it came down so quickly, is it really did not give a lot of our clients the opportunity to hedge to the downside. Obviously, in these low price levels across commodities you would expect to see a pick up in the consumer side of hedging activity and we expect to start seeing that. But these moves have been pretty dramatic and usually what happens when they are this sudden is there is a bit of stepping back. But certainly we’re well positioned to provide hedges across the broad commodity space.

Mike Mayo

Thank you.

Harvey Schwartz

Thanks, Mike.

Operator

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

Guy Moszkowski

So I wanted to broaden out the market share of activity question that came up before with respect to commodities. More broadly, with respect to FICC globally we’ve seen so much retrenchment including a big domestic player recently. So, any signs yet that the retrenchment of competitors in the area is helping market share or helping pricing? And to what extent is what you’re seeing there or the expectation of what you’ll see there really driving some of that investing in the business that you’re talking about?

Harvey Schwartz

Well, we certainly have seen it across parts of the businesses, it’s been somewhat episodic. We talked it before we’ve seen it in securities services and prime brokerage, a bit of a retrenchment. I think that was more regulatory driven as people began to focus on balance sheet and capital related to that business. We’ve seen it in parts of equity derivatives during the course of really now last year, year and a half. And then in fixed income, one of the things that shouldn’t get lost about the fixed income discussion in 2015 for our Firm is that, while it was a difficult market for the micro products for credit and mortgages, it was actually an improved year for interest rates for currencies. And while commodity wasn’t improving, came up very strong year prior, I think that we’re seeing it when activity picks up. Now, in terms of the announcements and the retrenchment from competitors, one of these things is it's not surprising that you need to have a couple of or several tough years and that announcements will generally lag. And so, I think we may see this over the next couple of years now that we’ve been in this period of a tough couple of years in FICC and where the vast majority of the industry has had multiple years of performing below their cost of capital. So all these things -- all these constraints are now really starting to come into the fray, particularly as we get into the 2018, 2019 compliance periods. Sorry, that was a long answer but it was a big question, but it was a long answer.

Guy Moszkowski

No, it’s a helpful answer. So I mean it sounds like you’ve lost none of your confidence in the opportunity there, it just takes a while?

Harvey Schwartz

Well, in terms of the competitive set, I think that’s our read today. Look, in terms of monitoring the businesses, we’re always monitoring the businesses. I think one of the things that, one of the things that we haven't talked a lot about, we haven't talked directly about is our philosophy and how we manage cyclical businesses. Everyone has to acknowledge that financial services is a cyclical industry and one of the things that we've been very thoughtful about is not over investing at the top of the market. So, you didn't see us do that in 2009 when FICC had a record year and making sure that we don't overshoot in the bottom part of the cycle. Now we were early to the cost cutting because we felt the activity levels declining after 2009 and that's how we managed through the cycle and you've seen us do this in the equity businesses and sometimes these cycles are long. We cut 1,000's of people in our equity franchise in the early 2000s but right now given all the work we've done on the cost side, we don’t feel like we need to catch up. So, but we'll see how the year goes, if the trends in fixing can continue, we will continue to manage the business as efficiently as possible.

Guy Moszkowski

And then just a follow-up question, since no one's asked it, I'll ask, I know we're only a few weeks into the year and the market backdrop has been, God awful, but how would you characterize activity levels since the beginning of 2016?

Harvey Schwartz

It's only two weeks, so we're -- I'm not going to really extrapolate it. We generally don't root for the S&P 500 to be down 8% in the first two weeks of the year though.

Operator

And your next question is from the line of Jim Mitchell with Buckingham Research. Please go ahead.

Jim Mitchell

Maybe we should talk a little bit about M&A with the volatility that we've seen in the market I think some have been concerned I guess about the impact on M&A I guess both in the near term and what it means to for the cycle? Just maybe your just your broad thoughts on where we are in that cycle and what you're seeing in the conversation levels today?

Harvey Schwartz

So, again obviously we had a pretty significant pickup in activity over the last year and Goldman Sachs market share grew dramatically with that. I think you have to take a step back and you have to ask yourself what are the factors that drove the M&A environmental [chord] over the past 18 months and are they still in place? And those core factors, is really limited organic growth, companies were struggling to find top line growth. You had positive but modest economic growth in major economies and companies had done quite a bit of work both on cost and refinancing going into that cycle and there was high level CEO and Board confidence. Those were the factors that drove the big pickup in activity. As we sit here today after couple of weeks of volatile markets, we wouldn't say that those factors are significantly diminished. We saw a very volatile August and yet in the fourth quarter, M&A activity continued and we finished our backlog higher than last year. And so, I think that we'll have to see obviously if markets stand the stress and you get into questions about finance-ability and other headwinds and then if we saw a loss of confidence, but we wouldn't say that two weeks of volatile markets would stop a pretty powerful M&A trend. We will see how these markets keep going.

Jim Mitchell

And maybe just a follow-up on asset management. You had $48 billion of flows in liquidity products in the fourth quarter, what -- that seems pretty high. Can you -- what were the drivers there, is it, it's for the seasonal thing or are you seeing some market share gains there and as profitability improves with higher rates, do you see that as an opportunity?

Harvey Schwartz

When you look across multiple quarters in asset management for us and you look at the flows and you look at the investment of the competitors I think you'd say we're gaining share. Obviously it's been a strategic focus for us to grow that business. In that quarter in particular I think it was a combination of volatile market and increasing rates, which brought money and obviously we're a leader in the money market business and so it was a catalyst for inflows.

Operator

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

Brennan Hawken

Just a quick question on energy follow-up here I think you said $10 billion of total exposure, roughly two thirds in investment grade, is it right for us then to apply that sort of two-to-one investment grade, bull investment grade to your funded book as well and sort of back into about $3 billion funded IG exposure?

Harvey Schwartz

Yes, so why don't I just give you the -- I'll just give you the numbers so you will have all the detail. So $10.6 billion is what I would call total potential exposure. Funded is $1.8 billion, unfunded $8.8 billion. And of the funded non investment grade's $1.5 billion, and you could get an incremental $2.7 billion funded on that side. But that's the total exposure.

Brennan Hawken

Terrific.

Harvey Schwartz

And you can fill in the rest of the grid on the investment grade stuff.

Brennan Hawken

Yes, we can back in into the rest, thanks very much.

Harvey Schwartz

Thank you.

Operator

Your next question's from the line of Steven Chubak with Nomura, please go ahead.

Steven Chubak

So Basel published the updated guidance for the market risk calculations last week, I recognized the document and some of the calculations are pretty, the document says calculations are involved, I didn't know if you've done any preliminary analysis on the impact this might have on your pro forma market risk assets?

Harvey Schwartz

Yes, you're talking about the fundamental view of the trading book that came out last week. So as you said it is a pretty big document, I think it was over 90 pages. We had the team going through it, I don’t have any specific quantification for you. I think it'd be too early for me to put that out there and we still haven't even seen an NPR from the Federal Reserve. So we'll to see how this evolves. I would say the high level read is that from the early documents and the early discussion it seems like the regulators in the industry may continue to progress in terms of trying to find the right balance. But at this stage for us I don't see it being a significant impact but we'll give you more detail.

Steven Chubak

All right, I suppose over the last few quarters it does look like the market risk assets have been steadily declining. I didn't know if that reduction was in anticipation of what might be tougher rules or are there other factors that are really driving that decline?

Harvey Schwartz

No definitely certainly not in anticipation of this, I mean just to be clear, we'll approach this rule like we've approached all the other rules. We don't want to try to adjust our business potentially have a negative impact to your clients. The one good thing, regulators have been very thoughtful about the runway to rule adoption. And this is something that we have till 2019. So the industry is going to have time to make adjustments and I think that's in everyone's best interest because it actually will be less disruptive to market, the incentive of this rule is significant and we've seen that in all the rules and so you'll see us approach this rule the way we approached all the other rules. But we haven't even seen as I said a Fed NPR so we'll see how that goes. But any reduction in market risk assets is really a [complexion] of client activity.

Steven Chubak

Got it, okay, and just one quick follow up, I did see that the advance Core Tier 1 did in fact decline quarter-on-quarter. I assume it's a function of the increase in operational risk tied to the settlement but didn't know if it was attributable to something else?

Harvey Schwartz

No that's correct. So the settlement added $21 billion to operational risk assets and it had a corresponding decline in the ratio of roughly 40 basis points.

Steven Chubak

Great, I appreciate you taking my questions.

Operator

Your next question's from the line of Matt Burnell with Wells Fargo Securities, please go ahead.

Matt Burnell

Good morning, Harvey. Just a couple of questions, I guess starting on M&A. We've heard across both you and to a lesser extent some of your competitors about the potential for market share gains as some non-U.S.

participants back away. But I think that's mostly focused, that those comments are mostly focused on the trading side of things. Given your market share gains in M&A this year, do you get the sense that that's also true with Investment Banking in specifically M&A transactions?

Harvey Schwartz

No, I haven't had a chance to dig through all the lead tables and I may not have this perfectly accurate but the last time I spoke to our team about this, I think it was really that there's a segment of banks which lost share to some of the boutiques and there's firms like ourselves which obviously gained market share broadly across the board, and we took share from everyone else.

Matt Burnell

Okay and then just on FICC and trading, you've given us some helpful commentary and I realize it's early days in the year in the quarter, but I guess I'm curious, so what the level of rate positioning within your client base has been, did that change dramatically late in the fourth quarter with the Fed's action and has it changed much so far this year?

Harvey Schwartz

Not a significant factor, really nothing to comment on that. Obviously, the Fed reserve data, very good job of communicating to the marketplace the first rate increase in December and I think to a great extent that it being a non-event, which is a good thing. And so early in the quarter it was influencing client activity, but by the time the event occurred, obviously it wasn’t significant.

Matt Burnell

And just finally for me, I don’t think you've given these. Can you provide us the fully phased in capital ratios at the end of the year?

Harvey Schwartz

Sure, so under the advanced, we were 11.7 and under standardized 12.9. I remember that on a apples-to-apples basis, that's a little bit conservative just given away some of the items actually transitioned to fully phased in, but that's where we stood at.

Operator

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

Eric Wasserstrom

I've obviously heard everything that you have said this morning and I recognize of course that you don't run the business to any particular metric ratio, but to the extent that revenue conditions sort of stay as they've been over the past few years and call it around that $34 billion level. Is there a path to generate incremental positive operating leverage for you?

Harvey Schwartz

So it's an interesting question. I'm going to modify it a little bit because of the way I heard it, maybe I'm not modifying because it is the way I heard it. I think you're saying if I knew over the next couple of years, like let's just say we had a crystal ball and with certainty I knew that the Firm is going to [gross] $34 billion over the next couple of years. Now, I guess what you're saying is the thing that we've elected to invest in, we shouldn't be investing in and so I think we wouldn't invest for growth because you're telling me it wouldn't be there, but that's not our expectation. We see growth in parts of our businesses and so where we see growth and where we think we can take share, we're going to invest. And again, we run the Firm for multiple years and so -- but that's the way I would think about answering the question, but we see opportunities.

Eric Wasserstrom

And what conditions would arise or what would be the signals to you that in fact it is appropriate to retrench on some of the growth opportunities?

Harvey Schwartz

Well, we always evaluate -- and at the end of the day, it's really about the dialog with the client. The dialog with the client, so let's take M&A, we just talked about the things are interesting because now the current concern is that M&A may slow down. Five years ago, you'll remember the dialog was M&A is never coming back. And last year, we had dominant market share and tremendous activity levels across the industry. In 2009, our client dialog told us there were factors that were influencing decisions that were delaying decisions, but it certainly didn't tell us that no one would ever do mergers again. And so when we see, when we listen to the client and we know for example that our clients in fixed income still value the services, they just need to do more volumes, that's how we'll inform our strategy over the long run. But obviously we're not being complacent, you've seen all the things we've done. We've returned significant capital, we've cut costs and we're early to all those things, we have reduced risk, improved our ratio, so we're certainly not sitting still here. Revenues might be $34 billion for a couple of years because a lots going on.

Eric Wasserstrom

And so at times as if then the indication is at this stage there's no change in client dialog or demands or expectations.

Harvey Schwartz

No. Certainly not. After the first couple of weeks of the year, no.

Operator

Your next question is from the line of Marty Mosby with Vining Sparks. Please go ahead.

Marty Mosby

Building on what you were just talking about, what are the things as the pipeline keeps building quarter-to-quarter, year-to-year that the customers are saying are delaying, so what factors do you need to see some of that pent up demand begin to get released and accelerate some of the activities you have seen even at the levels last year?

Harvey Schwartz

So I think look again at its core, we're correlated to long-term economic growth and what we're really seeing in the markets in the second half of the year was really general concerns about economic growth that might be isolated to specific markets but really that's what was driving activity levels. I think more than anything else client conviction and I mean that in all spaces, whether we're managing a client's money, their conviction, their confidence, whether we're advising on a merger transaction, the CEO and the Board and the CFOs, their confidence levels. The same thing exists in the capital markets businesses and fixed income and equities. Now what leads to that, confidence in economic growth, reduced uncertainty. And so those are the factors that fuel activity.

Marty Mosby

I will ask you I think a more as a peer kind of question but I think it has some pertinence to what's going on. Given the rules that limited your ability and all the market makers ability to take on any risk, turning you basically into a conduit of transactions, when we see these types of disruptions in the marketplace, what are your traders saying in the sense of, how activities and clearing levels and new equilibriums get reached, when there isn't really any buffer still left in the market? So we're seeing some of the ramifications of Volcker now in distressed markets which can have I think some very unfavorable effects just on trading levels to get to a new clearing equilibrium?

Harvey Schwartz

Look, I don't know, if you and I are going to solve that, heated debate on a lot of different sides around the benefits of regulation, which are obviously numerous versus some of the unintended consequences potentially around liquidity. I would say, we feel like we had more than adequate capital and liquidity to be there for our clients and that's how we're positioning ourselves.

Marty Mosby

I guess, I just do you feel like the answers at certain times get to be over blown one way or another because of that unintended consequence?

Harvey Schwartz

I think that is a very complicated question which is very difficult for anyone to answer, which is, there's my own view there is not a rule that has had a big impact on market liquidity or lending across industries. I think something that's very difficult for anyone to quantify is, what is the economic impact of the collection of rules that have been put in place since the financial crises that impact capital liquidity, derivative, all sorts of things. I just think that, it's very hard to anticipate the combined effect of all that. But for us, we're just focused on the clients, Marty.

Marty Mosby

And then do you think the markets evolving to adapt to all that and how far along that process are we and that's last piece of that question. Thanks.

Harvey Schwartz

I think firms are in different places. We've obviously invested tremendously in risk reduction change, technology tools, educating our people. So I think we feel pretty far along the curve. You have seen in our capital ratios and in the Firm's balance sheet how much has changed over the last. But I think it varies across the industry and so I really can't speak to everybody else.

Marty Mosby

Right, thanks.

Operator

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

Brian Kleinhanzl

Thanks. Just a quick question on Investment Management, I mean, you've benefited from a couple of acquisitions there over the last year. Did you actually budget for growth from acquisitions as you look forward and what's the investment in that area expected to be?

Harvey Schwartz

So you've seen us do a number of bolt-on acquisitions, the one I think you are referring to this year was Pacific Global Advisors which was $18 billion in asset and they are focused on the pension and retirement space. We don't budget for acquisitions at all. We do it on a case by case basis and acquisitions that generally are a little bit simplified. They either give us a capability that we don't have today and we think it's better for us to have bolt-on versus build organically or they actually fit a current strength where we can add scale. That's like -- that's kind of the extreme end of the spectrum in terms of how we think about them, but it's a 100% case by case.

Brian Kleinhanzl

Okay and then just a follow up question on the Basel III and I'm sorry if I missed this, but did you give the RWA for the fully phased-in ratios?

Harvey Schwartz

No, I didn't for the four -- do you want the fully phased-in?

Brian Kleinhanzl

Correct, yes.

Harvey Schwartz

So for fully phased-in, we are at 430 of credit risk and 104 marked risk, sorry about that. I was looking -- that was at standardized, another advance 587 that’s 103 in operational, 353 in credit risk, 103 in market risk, sorry about that.

Operator

Your next question is a follow up from the line of Steven Chubak with Nomura. Please go ahead.

Steven Chubak

So Harvey just on that same topic, it looks like your standardized RWA sequentially came down 10%. And I just wanted to know, first, what's the driving force behind that and just given the magnitude of the decline? And also just to clarify, that's the number that matters for the CCAR submission, if I remember correctly. Is that right?

Harvey Schwartz

That's correct. So, the standardized is the ratio using CCAR and the driver, the bulk of the driver was really in derivative notionals.

Operator

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

Harvey Schwartz

Everyone, thanks for dialing in today. And, myself and the rest of the team, we look forward to seeing you during the course of the year. If you have any follow up questions, please reach out to Dane and the team. Take care and have a great day.