Operator

Good morning. My name is Dennis, and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs Fourth Quarter 2012 Earnings Conference Call.

[Audio Gap]

Also, this call is being recorded today, January 16, 2013. 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 our fiscal year ended December 2011.

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

Harvey Schwartz will now review the firm's results and David Viniar, and he will take -- make a few closing remarks. Harvey?

Harvey M. Schwartz

Thanks, Dane. I would like to thank all of you for joining us today. I will give an overview of our fourth quarter and full year results, and then David and I will take your questions.

Full year net revenues for 2012 were $34.2 billion. Net earnings were $7.5 billion. Earnings per diluted share were $14.13, and our return on common equity was 10.7%. Fourth quarter net revenues were $9.2 billion. Net earnings were $2.9 billion, and earnings per diluted share were $5.60. The operating environment in 2012 was defined by a few significant trends: Substantial central bank activity, improved economic data in the United States and continued political uncertainty. For example, actions and commentary by the European Central Bank played a significant role in moderating concerns about a European linked tail event. At the end of 2011, the ECB announced that it would enhance its long-term refinancing operations to provide term liquidity.

The ECB further demonstrated its commitment during 2012 by affirming its support for the euro and its willingness to make outright purchases in the secondary bond market. In the United States, the Federal Reserve also took steps to support markets and economic growth, announcing further increases in monetary stimulus during the year. In 2012, the U.S. economy posted stable to improving economic data, particularly with developments in unemployment and housing. Over the course of the year, the U.S. economy added nearly 2 million jobs and the housing price index increased by 4% over the past 12 months.

Despite the systemic benefits of Central Bank activity and improved U.S. economic data, our clients continue to struggle with the complex set of issues facing the global economy and the political backdrop. The most obvious recent example was the debate in the United States surrounding the fiscal cliff. These factors translated into mixed activity levels for our corporate client base. For example, global debt issuance increased by 11% year-over-year, with high-yield issuance increasing 38%. In contrast, global equity underwriting volumes were only up 1% and completed global merger and acquisition volumes actually decreased 18% in 2012 and remain very low as a percentage of market capitalization.

We experienced lower activity levels in most of our businesses and general risk aversion by our investment clients. This was offset by improving asset prices and lower volatility, which created a more favorable market-making environment. Although equity and fixed-income asset prices trended up over the course of the year, volumes generally declined given the previously mentioned factors. For example, U.S.-listed equity volumes declined 18% in 2012. And as we all know, the S&P 500 declined by 13%.

While macroeconomic challenges persist, our leadership teams remain focused on enhancing our returns. Drivers of our long-term success include focusing on our clients, prudently managing our risk profile and being disciplined about capital and expenses. I'll now review each of our businesses.

Investment Banking produced fourth quarter net revenues of $1.4 billion, up 21% from the third quarter. The increase was due to higher equity underwriting revenues following a weak third quarter and continued strength in debt underwriting. For the full year, Investment Banking net revenues were $4.9 billion, up 13% from 2011 due to a robust environment for debt issuance. Within Investment Banking, fourth quarter Advisory revenues were $508 million, flat with the third quarter. Goldman Sachs ranked first in worldwide announced and completed M&A for 2012. We advised on a number of significant transactions that closed during the fourth quarter, including Kraft's $36.1 billion spinoff of its North American grocery business; Walt Disney's $4.1 billion acquisition of Lucasfilm; and Dollar Thrifty's $2.3 billion sale to Hertz. We also advised on a number of important transactions that were announced during the fourth quarter: Ralcorp Holdings' $6.8 billion sale to ConAgra; the $4.5 billion sale of eAccess to Softbank; and Gambro's $4 billion sale to Baxter International.

Fourth quarter underwriting net revenues were $897 million, up 37% sequentially as issuance improved relative to the third quarter. Equity underwriting revenues of $304 million increased 61% compared to the third quarter, reflecting increased fuel activity. Goldman Sachs was ranked first in worldwide equity and equity-related and common stock offerings for 2012. Debt underwriting revenues increased 27% to $593 million due to our involvement in several significant transactions and a favorable new issue environment.

During the fourth quarter, we participated in noteworthy underwriting transactions, including AIG's $6.4 billion sale of its remaining stake in AIA; AvalonBay Communities' $2.2 billion follow-on offering; and Clear Channel Outdoor's $2.7 billion high-yield offering. Our Investment banking backlog increased compared with the end of the third quarter. It was also higher than year end 2011.

Let me now turn to Institutional Client Services, which is comprised of FICC and equities client execution, commissions and fees, and securities services. Net revenues were $4.3 billion in the fourth quarter, up 4% from the third quarter. Net revenues within Institutional Client Services improved as the fourth quarter included an approximately $500 million gain from the sale of our hedge fund administration business. Full year net revenues of $18.1 billion for Institutional Client Services were up 5% relative to 2011 and included a $714 million DVA loss. Excluding the impact of DVA, revenues were up 13% year-over-year and benefited from an improving market environment with tighter credit spreads, higher equity prices and lower levels of volatility.

FICC Client Execution net revenues were $2 billion in the fourth quarter, including a DVA loss of $79 million, and were down 8% sequentially as certain businesses reflected seasonally low levels of activity. Credit revenues increased significantly as client activity was supported by a favorable market backdrop, which included a relatively benign macro environment. Robust primary issuance and tighter credit spreads also helped.

Currency revenues also increased. Commodities revenues were higher compared to weaker third quarter results, although absolute levels of client activity remained pretty low. While rates and mortgages were lower sequentially, both businesses were strong contributors to the franchise. For the full year, FICC Client Execution net revenues of $9.9 billion were up 10% relative to 2011. Excluding the impact of DVA, revenues were up 20% compared to 2011, as markets in 2012 were less turbulent and benefited from an improved backdrop in Europe, modest growth in the U.S. and strong central bank activity.

In equities, which includes equities client execution, commissions and fees and securities services, net revenues for the fourth quarter were $2.3 billion, up 18% sequentially and included $47 million in DVA losses. Excluding the impact of DVA, revenues were up 12% relative to the third quarter. Equities client execution revenues decreased 10% sequentially to $764 million, reflecting fewer client-driven opportunities in our cash market-making business. Commissions and fees were $722 million, roughly flat with third quarter levels. Securities services net revenues of $818 million reflected the $500 million gain on sale that was previously mentioned. For the full year, equities produced net revenues of $8.2 billion, consistent with 2011.

Turning to risk. Average daily VaR in the fourth quarter was $76 million, down from $81 million in the third quarter.

Now I'll review Investing & Lending, which includes both direct investing and investing through funds across various asset classes, as well as lending activities. Investing and lending produced net revenues of $2 billion in the fourth quarter. Our investment in ICBC produced a $334 million gain in the quarter. Other equity investments generated $789 million in gains, reflecting realized and unrealized gains on private equity investments and mark-ups related to public equity investments, as equity markets were stronger in Asia and Europe.

Net revenues from debt securities and loans were $485 million, largely driven by tightening credit spreads and net interest income. Other revenues of $365 million consists primarily of operating revenues from our consolidated investment entities and are largely offset by equivalent expenses. For the full year, Investing & Lending generated net revenues of

$5.9 billion, driven by a $408 million gain on our investment in ICBC, $2.4 billion in gains from other equity investments, $1.9 billion of net revenues from debt securities and loans, and $1.2 billion of other investments.

In Investment Management, we reported fourth quarter net revenues of $1.5 billion, up 26% from the third quarter, primarily as a result of $344 million in incentive fees generated from the firm's alternative asset products. Management and other fees were 5% higher at $1.1 billion. For the full year, Investment Management net revenues were $5.2 billion, up 4% from 2011 levels and stronger incentive fees.

During the fourth quarter, assets under supervision increased $14 billion to $965 billion, largely due to net inflows of $15 billion into other client assets, mainly as a result of Advisory mandates. Total assets under management were essentially unchanged. On a full year basis, assets under supervision increased 8% as other client assets received $39 billion of net inflows. We ended the year with $111 billion of other client assets. Assets under management increased 3%, reflecting net market appreciation and was partially offset by outflows.

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, increased 6% to $12.9 billion for 2012 and translated into a compensation-to-net-revenues ratio of 37.9%. It is important to note that our lower compensation ratio in 2012 is, in part, a byproduct of our efficiency efforts that began in early 2011.

Fourth quarter non-compensation expenses were $2.9 billion, 24% higher than the third quarter. Other expenses were significantly higher, reflecting net provisions for litigation and regulatory proceedings of $260 million, an increase of approximately $200 million over the third quarter. Based on the provision taken this quarter, combined with previous reserves, we have fully accounted for the independent foreclosure review settlement. The fourth quarter also included a $157 million donation to Goldman Sachs Gives, our donor advised charitable fund. Finally, depreciation and amortization increased by approximately $100 million, driven by impairments to certain investment entities and our New York Stock Exchange designated market maker rights. For the full year, non-compensation expenses were down 4%.

Total staff at year-end were approximately 32,400, down 3% from year-end 2011, and 9% from year-end 2010. Our effective tax rate was 33.3% for 2012. During the quarter, we repurchased 12.7 million shares of common stock for a total cost of $1.5 billion. For the full year, we repurchased 42 million shares for a total cost of $4.6 billion. Historically, our financial success has been a function of broad and deep client relationships, our best-in-class people, our disciplined approach to locating financial and human capital and a culture of collaboration and partnership. The value of this partnership is highlighted in challenging market environments and drove our results in 2012.

Looking forward, we believe that we are well positioned to expand our client franchise globally. For corporate clients, we will continue to leverage our strong M&A, equity and debt underwriting positions. For investing and other institutional clients, we will continue to rely on the quality of our content and execution. We will remain very disciplined in our approach to expenses, balancing near-term benefits to our margins against longer term revenue opportunities.

As we gain greater clarity on regulatory changes, particularly capital requirements, we will respond accordingly. For example, given the Basel III capital changes that we incur as an owner of our own reinsurance business, we are considering a potential sale of the majority stake in the business. We have strong risk-adjusted capitalization, which provides protection to shareholders against tail events. In addition, our capital levels also create opportunities. First, it positions the firm to help our clients navigate an uncertain economic event. It also allows us to provide capital where capacity is diminished. We are committed to effectively deploying our capital and maintaining dry powder to meet future client needs.

We will also return capital to shareholders when appropriate returns aren't available. And our capital trends in 2012 reflected our measured approach as our estimated Basel Tier 1 capital ratio increased from approximately 8% to nearly 9%, despite returning $5.5 billion to shareholders via share buybacks and dividends.

We are encouraged by the early signs of improvement in the markets and economy but remain cautious given the complexity of the risk and challenges. The quality of our advice and execution in today's challenging markets serves as a foundation for maintaining long-term client relationships and ultimately meeting the needs of all of our stakeholders.

Everyone at Goldman Sachs remains steadfast in their commitment to serving our client franchise. We have a deep appreciation for our responsibility to all of our constituents: clients, shareholders, regulators, our employees and, of course, the broader financial system. We believe that there's a shared interest among our constituents to manage the firm in a way that supports economic growth and sustainability. Our firm is fully committed to filling that responsibility.

With that, I'd like to take a moment to thank David on behalf of the firm for his significant contributions to Goldman Sachs over his 32-year career. There is no doubt that our clients, employees, regulators and shareholders have all benefited from his unwavering commitment, sound judgment and devotion to the firm's culture and principles. As a personal note, I really want to thank you. You've been a tremendous partner, David, and not only during this transition. I truly can't thank you enough. I look forward to working with you as a member of our Board of Directors. For those of you who aren't keeping track, this is David's 55th consecutive earnings call. It is only fitting that he provide some closing comments. David?

David A. Viniar

Thank you, Harvey. As many of you know, I spent my entire career at Goldman Sachs. So it's all I know. I always believed that it was a special place. That is a perception which has been validated over the last several years given my experiences during this period of stress. I witnessed the strength of our client franchise, the quality and dedication of our people and the commitment of our shareholders. It was an honor to be asked to join the Board of Directors. I look forward to continuing to serve as a steward for shareholders in that role. It is a responsibility that I take with full confidence in the strength of the client franchise, the financial health of the company, and the caliber and devotion of our people. I would also like to thank all of our shareholders, debt investors and research analysts for their support of the firm and me, personally. I leave knowing that I am turning the role over to Harvey, who has the skills and judgment to warrant that same level of support.

Thank you, again, for listening today, and now Harvey and I are happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instruction]

[Audio Gap]

Your first question is from the line of Howard Chen with Crédit Suisse.

Howard Chen - Crédit Suisse AG, Research Division

I think everyone would acknowledge 2012 was a pretty tough year for the industry, but yet when all is said and done, the firm posted nearly 11% return on equity. Just given where revenues and where you decided to accrue comps, can you just discuss the significance of that 11%? Is that in a threshold ROE that we should think about that you don't want to fall below in a challenging environment?

Harvey M. Schwartz

So what I would say about 2012, obviously, as you mentioned, certainly some elements of the marketplace were particularly challenging. What put us in a position to achieve the ROE, really, were the steps we took over the last 2 years in terms of managing expenses and being quite disciplined. But in terms of what we're able to achieve in the future, we're going to have to see what the market opportunity brings to us. But this was a year where, like all years, we took everything into account, performance, the competitive dynamic. And as I said, we benefited from the steps that we took over the past 2 years. But quite frankly, I don't think -- while we'll be pleased with the performance of the environment, it's not particularly aspirational. We'd like to do better.

Howard Chen - Crédit Suisse AG, Research Division

Okay. And then switching gears, Harvey, with respect to Investing & Lending, you noted the improved realization environment and mix, as many of your investments have been in the ground for a few years now, I was hoping you could provide us some thoughts on how you think about the realization pipeline, give us a little bit more detail on that appetite to sell today if markets were cooperative.

Harvey M. Schwartz

So the ability to monetize, as you know, is really driven by 2 factors. Obviously, it's market performance, but it's also the idiosyncratic nature of your own portfolio. So in the past year, obviously, there are opportunities. You could argue that our performance exceeded that of the marketplace in terms of what you might expected. But that was this past year, and our portfolio performed well. I think in some quarters, it will perform well; in some quarters, we won't perform as well relative to the marketplace, but the market will drive that. Certainly, over time, with events around the world, we feel like we'll see attractive investment opportunities. But in terms of the scheduled monetization, difficult to predict.

Howard Chen - Crédit Suisse AG, Research Division

Okay, great. And then just finally, for me, I realize we are now 10 trading days into the new year. But just given all that happened at the end of 2012 with the fiscal cliff and so forth, just curious how the year has begun.

Harvey M. Schwartz

Too early to tell with only 10 business days into the quarter. You could paint a picture of concern given events in Europe and certainly, events in Washington that could be disruptive. If you talk to our economist, our economist would say that we'll see pretty modest growth for the first half of the year in the developed economies and it'll exceed that in the growth economies in maybe the second half of the year. But it's difficult to anticipate that. We do feel pretty well positioned from a business point of view, whether in our Investment Banking franchise and certainly across the firm, to capitalize on opportunities. But too early to tell.

Operator

Your next question comes from the line of Glenn Schorr with Nomura.

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

I think risk-weighted assets were down 8% quarter-on-quarter, but GAAP was down only about 1%. I know those are different animals. Just curious what drove the RWA in the quarter and then if you had any thoughts on as we look forward, obviously, just on what's the path going forward for RWA.

Harvey M. Schwartz

So I wouldn't focus so much on the quarter-over-quarter move, more so, really, on the end of last year to the end of this year. So that's roughly 100 basis points, 8% to nearly 9%. And as we've said before, as we get visibility into the rules, we will deploy our teams with tools, and we'll be able to react. So what we're really seeing over the course of the year is the effort to be more efficient with capital and, of course, the earnings performance. And so we will continue to react as we get more visibility into all the rules.

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

So is that a way of saying that as the rules come out, I think this quarter, many companies have been pushing through getting other model approval. This was a little more driven by that versus actual assets going out the door?

Harvey M. Schwartz

Yes, we're not in a position to comment on any model approvals.

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

Okay. How about in a different way. And I understand the sensitivity. As the rules come out, I think Goldman's, historically, been very good at pushing out whatever the new rules are to the trading desks on the technology on the desktop and it makes the company more efficient in that manner. Can you just maybe comment where are we in that process? And am I correct to say that, that is how we can envision higher ROEs going forward?

Harvey M. Schwartz

Well, the way I would think about it is the performance is going to drive the ROEs, and that will be about our competitive position and ability to deliver our franchise to our clients relative to others in the context of what the market provides. With respect to managing our capital, I think you should expect us to continue to be disciplined. And when we get visibility around rules, we will look to be particularly responsive. But we want to be very careful not to overreact before we have a rule, and we don't want to underreact after we have a rule. So we hope to do more.

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

Excellent. On the positive side, the competitive landscape has definitely shifted a little bit. I think there's a lot of pressure under some of the European Investment Banks to do some form of shrinkage, small or large. Do you view that as big opportunity? I know that over the past year or so or 2 during the European crisis, you guys have commented that it might be your best near-term opportunity. Is that still in motion? And how are you going about positioning for it?

Harvey M. Schwartz

I wouldn't say that it's the best near-term opportunity. I think those things are always difficult to weigh. But I think if you -- if you're thinking about sort of longer-term strategy across multiple years, certainly, capacity leaving the industry broadly and specifically opportunities in Europe, we think we're well positioned, and they look attractive to us, but we'll have to see what materializes. I think the reason why I focus on near-term is it's very difficult to be too precise about how these things unfold and certainly when.

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

Got you. Last one's a quickie, and I -- if you're schooled in David Viniar answers, I know it's going to be a quick answer, too. But this year, revs were up 19%, comp dollars were up 6%, and non-comp was down 4%. That's a fantastic mix for shareholders. I know we can't predict the future, so let's just make believe for a second that revenues will be flat on the go-forward basis. In a flat revenue world, does comp ratio stay and non-comp expenses keep trending lower?

Harvey M. Schwartz

So I think you have to go back again to the -- to how we manage the company and how we think about compensation specifically. So there are a whole host there of factors that go into that. One is going to be how our performance is and certainly, that's going to be reflected in compensation. The competitive dynamic is certainly in there. And then, of course, this is a balance issue, obviously, in terms of providing returns to shareholders. And this year, we hope we got the balance right. As I said, we're not satisfied. We'd like to do better. But again, it will be determined by what the market opportunity provides us in the future.

Operator

Your next question is from the line of Michael Carrier with Bank of America Merrill Lynch.

Michael Carrier - BofA Merrill Lynch, Research Division

So we've seen 2 quarters where core revenues have probably come in a bit better than expected, not only for you, but the industry. It feels like activity may be stabilizing, hopefully improving. But when we look at the liquidity reserve, it still seems pretty high. I think in the past you said when the environment gets better, you could see that trend down. So I guess basically, does that relationship still stand? Do you sense any improvement? Or are there still enough regulatory uncertainties on liquidity and funding side to remain ultra conservative?

Harvey M. Schwartz

Well, I think what I'd say, just as a matter of principle, we're always going to be conservative with our liquidity. I'd like to say there's 2 core lifebloods to the firm: one is our clients, and the other is our liquidity. And so we're going to stay very focused on both. Look, there's a lot of uncertainty in the world, and I agree with you that when you look back over the past 6 months, certainly, the world feels a bit better. Clients, generally, although there was a fairly significant amount of risk aversion, got better towards the end of the year. And we'll see how this year goes. But there's still a lot of things in front of the world, so I wouldn't expect any significant shift.

Michael Carrier - BofA Merrill Lynch, Research Division

Okay. And then just a follow-up on Glenn's question on the RWAs. Maybe just -- like when you look at the rules and trying to manage the assets and the capital, what percent -- I know it's a easy question, probably tougher to answer, but what percent of the rules do you feel you have clarity on?

Meaning, like what inning are we in that process, fully getting clarity so you can manage your assets?

Harvey M. Schwartz

So, yes, that's a hard question. I would say that I'll try to be as narrow as possible. I would say that on capital, I don't know. Maybe we're in the sixth inning in terms of capital rule visibility. Maybe some people could argue the seventh. But that's kind of it using a baseball analogy. I think the broader issue is the collective visibility into all rules, whether it's Volcker, the impact of Dodd-Frank, things that impact globally. And so -- and there, I don't think we have a lot of collective visibility into the weight of that. And actually, I think it's difficult for the regulators to really assess all of that, which, quite frankly, is a concern for the industry and, obviously, it's a concern for the global economy.

Michael Carrier - BofA Merrill Lynch, Research Division

Right, okay. And then last one, you mentioned just the reinsurance business maybe putting that up for sale. Just wondering, I mean, it might be too early, but any size of that business? And maybe same thing on Investing & Lending, you guys have said in the past, there's areas of that business where it's on the lending side. So you'll continue to operate that business and then there's other areas that will wind down over time. So any update on the assets or the revenues related to those businesses and then capital that would be released and redeployed elsewhere?

Harvey M. Schwartz

So I'm not in a position to comment on the reinsurance business beyond what's in the release. What I would say with respect to Investing & Lending is those are core competencies of the firm. And so when we've -- for example, when we had visibility on part of the Volcker Rule, we took steps around certain businesses. But at this stage, this will be about how we adapt to rules as we get further visibility. And so I don't know necessarily that we would say we'd deemphasize anything in Investing & Lending at this stage. Now of course, over time, as businesses like the reinsurance business are maybe better held in other people's hands and we can be a minority owner because of capital reasons, then we'll make those decisions. But that'll be on a business-by-business basis.

Operator

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

Brennan Hawken - UBS Investment Bank, Research Division

One question to follow up on that. I'm just sort of assuming that if you guys hold the minority stakes then in the reinsurance business, it would probably be below the Basel III threshold to avoid a hickey.

Harvey M. Schwartz

[indiscernible]

Brennan Hawken - UBS Investment Bank, Research Division

Okay. And then also how should we think about [indiscernible] shot, how should we think about a comp ratio on [indiscernible] revenues [indiscernible] that would be at a lower rate than it would be for other businesses in the firm? But can you maybe provide some color to help us out on that front?

Harvey M. Schwartz

I think it's really important to emphasize the point that when we think about the comp ratio, we think about it in terms of the aggregate of the firm. And then within that, we compensate across the various business units, and we build it up individual by individual.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. So -- but you'll clearly take into account revenue mix when you start to think about those allocations, right? Because that's basically what is the sum of the parts.

Harvey M. Schwartz

Yes. I would say it more simply. We don't look to overpay anybody.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. So then with that in mind, then you could easily say that given the competitive environment right now for talent on the Street, that the improvement in the comp ratio should be at least somewhat sustainable for the benefit of shareholders here in the near-term, is that fair?

Harvey M. Schwartz

Well, I guess you could surmise that. As far as I can tell, even as capacity has been leaving the industry, there's been a huge demand for Goldman Sachs people. And so the competitive dynamic in aggregate may feel much better. But for very talented people at Goldman Sachs, they're very attractive.

David A. Viniar

Brennan, it's David. You've heard me say this many times before, so I'll just say it again. We don't set a comp ratio. We don't start the process and say here's the comp ratio. We compensate our people individually, and we take into account the performance of the firm, the competitive environment all the time. And we're always looking at those things. So it's hard for us to say what it's going to be going forward.

Brennan Hawken - UBS Investment Bank, Research Division

Yes, no, that's fair. Unfortunately, we have to set a comp ratio in our model, so I've got to give it a shot. And then I guess last one for me, any color on deferrals? I mean, it's been sort of my understanding that you guys have historically had less deferred comp than peers, which clearly gives you greater flexibility. We're hearing a lot of noise around deferrals here given the calendar and where we are. But do you intend to try to keep that flexibility? What's your view on that front?

Harvey M. Schwartz

So there are no deferrals. And I think you're right to say that you have to be very thoughtful when you do that because there's a bit of mortgaging the future. And so, no, there's been no deferrals. I'm sorry, no additional deferrals.

Brennan Hawken - UBS Investment Bank, Research Division

Okay, I was going to clarify that.

Harvey M. Schwartz

I'm getting my -- I got my last bit of mentoring from David there.

Operator

Your next question is from the line of Guy Moszkowski from Autonomous Research.

Guy Moszkowski - Autonomous Research LLP

The CFTC obviously pushed back timing of some of the OTC reforms with respect to central clearing, at least to -- pretty close to the middle of the year. And I know this is kind of a narrow question, but I'm just interested in how you think about it. All else equal, would you expect that revenues in FICC from or broadly from OTC Derivatives transactions would be higher in the first half as a result of just that change, or is not -- that not the right way to think about it?

Harvey M. Schwartz

I think it's a good question. I think that the only case study we have is really history. And when you look back over history, history is proving that -- a couple things: One, it's proven that rule changes, and the ultimate impact on market structure, incredibly difficult to predict. I would say -- and I didn't really feel this way about a year ago. I thought that the rule delays or uncertainty around rules, I didn't think was having an impact in terms of client activity. I do think as we get more clarity on rule certainty, it may ultimately impact client activity to the positive. Now having said that, I wouldn't trade off that delay for bad rule-making, and I think the CFTC and other regulators have been pretty thoughtful about taking the steps to delay rules because the single most important thing is that the market has an opportunity to adapt because we just -- we don't want to increase systemic risk while the regulators are trying to put the rules in place. So I think all these delays have been quite thoughtful.

Guy Moszkowski - Autonomous Research LLP

And from a competitive perspective, just to one of the points that you just alluded to, as the changes in the regulatory environment, for example, Basel III capital requirements get better understood and your competitors move closer to full adoption, do you feel like the pricing dynamic for transactions that have a big slug of capital that has to be priced into them has become more rational?

Harvey M. Schwartz

I'm not so sure it's necessarily capital rules. I think broadly speaking, it's a level-playing field and so we all have the same rule set. The way we have to differentiate ourselves is by leaning into our strengths. And we have a history of our clients wanting capital, and we want to differentiate ourselves by providing capital. And so I think it's really how you execute. Everybody's going to live with the same rule set.

Guy Moszkowski - Autonomous Research LLP

But do you feel like over the last couple of years, competitive pricing has really been rational with respect to what those medium- to longer-term capital requirements are? And if it hasn't been as much so as you would've liked, do you feel like it's gotten closer?

Harvey M. Schwartz

I think that -- and now we're getting into more art than science. I think that competitive response as it relates to things like capital changes, that's a very -- that's something that plays out over the intermediate to long term. In the short run, you can see a rational behavior by competitors, which can't be explained by any capital rule. I would say -- and I'm not sure this is related all to capital, but I do think that the crisis itself at the margin had made people much more disciplined about their capital deployment. And so, for example, I don't even know if this is an indicator that you could extrapolate into your question, but in the fourth quarter, there was an amazing amount of log activity. There were days where David and I were working with our teams in banking and the financing group on sometimes 4 or 5 inquiries. If you ask me on that particular day in December, did pricing feel a bit more rational? Yes. But I couldn't tell you if that same day occurred this January, whether or not it would be as rational. But over years, the market makes people more rational.

Guy Moszkowski - Autonomous Research LLP

Yes, it's helpful. And then one last question, which follows up a little bit on something that was being talked about before. In Investing & Lending, as you'd said, when it became very, very clear that proprietary activities were going to be precluded, you shot a bunch of that down. What other business adjustments, not necessarily shutdowns, but significant changes to parts of I&L, are you either doing or contemplating? For example, in the lending and distressed debt trading parts of the business?

Harvey M. Schwartz

Well, I would say there are obviously a number of rules that can have incremental impact there, Volcker being one of them. But we'll see Volcker when it comes out, and we'll respond accordingly. But also, those businesses obviously tended to have more capital. And so we have no immediate plans for any changes, but to the extent we need to respond again, we'll do it.

Guy Moszkowski - Autonomous Research LLP

David, farewell. Thanks again so much for all your help over the years.

David A. Viniar

Thanks, Guy, I appreciate it.

Operator

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

Roger A. Freeman - Barclays Capital, Research Division

Let me just pick up there on Guy's question. On I&L, I mean, you've kind of got, I think you said, a decent amount of clarity on the capital portion. There's still other pieces, including Volcker, outstanding. But -- and some more of this sort of traditional, sort of the equity investments area, I mean, is that -- that's an area that presumably you'd continue to invest in or maybe even pick up again because I think that's been somewhat of a lull, if the returns are there, right? I mean, you'd look at this just like any private equity investor, just with the return threshold based on the capital requirements, right?

Harvey M. Schwartz

Yes, it would be just like that.

Roger A. Freeman - Barclays Capital, Research Division

Okay. And then separately, in -- on comp, the -- so some of the reduced ratio sounds like it kind of came out of the restructuring efforts over the past 1.5 years or so. Like how much of that sort of decline in the ratio do you attribute to that versus sort of the market environment, competitive environment?

Harvey M. Schwartz

Yes, we don't -- we don't think about it that way in terms of parsing it. I understand why you'd ask the question. I think that what we would say is the following: obviously, there was a lot of operating leverage in the business this year, and you see the translation of that in terms of the increased revenues into all the metrics. But in terms of how we think about commenting, David discussed it earlier, it's going to be performance-driven and then we take all of those other factors into account, including the balance and what our shareholders need.

Roger A. Freeman - Barclays Capital, Research Division

Okay. And then -- and I guess you've kind of touched on this, but the liquidity levels remain still at the highs. With the environment more stable at this point, what do you kind of look for to bring that down, if you have any plans to?

Harvey M. Schwartz

I have no plans to bring it down, so I haven't looked at it.

Roger A. Freeman - Barclays Capital, Research Division

Okay. That's it for now. Okay, thanks and good luck to you, David.

David A. Viniar

Thank you.

Operator

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

Betsy Graseck - Morgan Stanley, Research Division

One kind of nitpicky question. But on the Investing & Lending in the debt side, can you give us a sense as to realized versus unrealized?

Harvey M. Schwartz

Yes. I think it's something like a little more than 1/2. Feels like it.

David A. Viniar

On the debt side, remember, there's interest...

Harvey M. Schwartz

I'm sorry, on the debt side.

David A. Viniar

There's interest in there as well. And I would think that it would be more unrealized on the debt side than realized. But we can come back to the breakdown. But remember, a big part of that is interest also.

Betsy Graseck - Morgan Stanley, Research Division

Right. No, I'm definitely taking the interest piece out. Just asking on the noninterest piece. Okay. And is that...

Harvey M. Schwartz

Yes, we can follow up with you. I don't think I'm far off, but we'll double check for you.

Betsy Graseck - Morgan Stanley, Research Division

Okay. All right, cool. And then on the equity side, we can follow up on that, too?

Harvey M. Schwartz

Sorry, can you repeat the question?

Betsy Graseck - Morgan Stanley, Research Division

On the equity side, the realized versus unrealized. Is that mostly unrealized? Is that fair?

Harvey M. Schwartz

Yes. It's a bit more than 1/2 on that also.

Betsy Graseck - Morgan Stanley, Research Division

Okay. All right. And then I know we discussed the clearing question. I just wanted to understand how you're thinking about managing the potential outcomes here. Because as initial margin does get charged to the buy side, whether or not it goes on schedule or is a little bit delayed, how are you thinking about setting yourselves up for what could be a changed behavior on the client side when initial margin comes through?

Harvey M. Schwartz

So this is an important question because you could extrapolate, in some respects, our strategy and philosophy around reg reform pretty broadly in this context. So it's incredibly important for us to serve our clients as best we can today. And so hard to truly anticipate what any will change, initial margin, for example, will have on their behavior, but we know we need to be there for them today. And so we'll adapt as they adapt. And again, this is a very careful balance because our view is you need to be incredibly focused as the rules come into frame, clearly. I think that's obvious. But there can be quite a penalty, I think, paid for overreacting. And so if you ask me -- if I answer the question very narrowly, we have no explicit plans to adjust around that. But when we see the rules and we work with our clients, we'll work with them as closely as possible to adapt and make sure that their needs are fulfilled.

Betsy Graseck - Morgan Stanley, Research Division

Right. So we have some examples of this in the energy market, right, because we've already seen some rule change and had some behavior move from swaps to futures. And so I'm just wondering if that has given you any sense of experience with regard to how you might behave as the other products come online.

Harvey M. Schwartz

I don't think it's as much, for example, swaps to futures, although it could be, and it could end up looking just like the energy market. But clients, of course, have been large users of futures for many, many years. And so they always could have used futures. So that was always a choice. I think a good example of regulatory reform impact would be the collection of rules, whether it was decimalization or Reg ATS, et cetera in the equity markets in 1999. I think it was in 2000 in the early part of the decade. And I think that had transformational effects, obviously, on the equity markets. We all know that now in retrospect, and that forced us to make significant changes in our business. We had to reduce staff significantly. Back in the day, a very small portion of what we did in the equity business was electronic. Now, on any given day, the vast majority of what we do will be done electronically. And so I think it's hard to predict, but the key issue is being very close to our clients during that period. But it's really about how we adapt. And so I'm not trying to evade your question. I'm just saying it's too early to speculate on how we'd adapt. But we just have to execute.

Betsy Graseck - Morgan Stanley, Research Division

Right. So be nimble and carry some capacity to manage through it?

Harvey M. Schwartz

Yes. I mean, I can't imagine reducing capacity and then trying to rebuild it. That would be really hard.

Operator

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

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

Just kind of always believing that people's actions speak louder than what they can say sometimes. Looking at your share buybacks and going back to 2010, every single quarter, the kind of the share buyback has been in the range of somewhere between $1 billion and $1.5 billion. And conversely, every single quarter since late 2010, your tangible common equity at the end of the period has been $63 billion or $64 billion. So I'm curious, which is the target and which is the plug? Is it that you've decided that at this kind of level of profitability, yes, $5 billion or $6 billion a year is the right amount of buyback? Or is it just that $63 billion, $64 billion is all you need to run a world-class investment bank and anything above that, you can return to shareholders?

Harvey M. Schwartz

Yes. So I wish the science was that precise. But unfortunately for you all, and for us, it's not that precise. It's much more dynamic. And the way I would frame it is we want to be very conservative about our capital. And that's the first priority. And so we will evaluate it on a quarter-by-quarter basis. And certainly now with CCAR, we work hand-in-hand with our regulators to make sure that we have a conservative capital plan.

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

Okay. But I don't know -- just as a follow-up to that, I guess. In the context of JPMorgan allocating about $40 billion to its investment bank; BofA, I think is in the same area code; and obviously all the other banks and European banks generally have less than that, what would be the argument that you need more than $63 billion; $64 billion of tangible common to run a world-class investment bank?

Harvey M. Schwartz

Well, as it relates to us, like I said, we want to be conservative about our capital, but we also want to be positioned because capital can make us -- can put us in a very competitive offensive position. I don't know how JPMorgan and BofA allocate their capital, but probably a better question for them.

Operator

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

Matthew D. O'Connor - Deutsche Bank AG, Research Division

If I could circle back to the OTC derivative topic here, just as we think about the FICC businesses specifically, have you talked about the mix of cash versus noncash?

Harvey M. Schwartz

I'm sorry, did you say can I talk about it? I couldn't hear the exact question. I apologize.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Sorry. The question is, within the FICC trading businesses, have you talked about what's driven by cash versus noncash?

Harvey M. Schwartz

No, we've not.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

I had one large investment bank, when I was talking to them about the whole potential revenue give-up from swaps, they had noted to me that probably only about 15% of FICC revenues were noncash. And obviously, within that, there would be some structural stuff that wouldn't be at risk.

Harvey M. Schwartz

Yes. So we haven't talked about it. I'll give you the following observation. Certainly, post 2008, there was a real desire, I think a very rational desire and a natural shift by the whole industry, driven by the clients to really focus on simplicity away from complexity. So you lost some of the most -- what I'll call the most complex aspects of derivatives, the correlation businesses and things like that. And I don't see those returning. So I don't see those as lost revenue opportunities although who knows, maybe someday, far away, they will. But I think that because of that, you've seen a mix shift that was to cash, but that feels to me like it's been in place for a while.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And just any comment on whether it's for you or you think for the fee pool overall that 15% is noncash?

Harvey M. Schwartz

No. No comment on that.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then just separately, as we think about kind of the FICC revenue drivers, whether it's this year or beyond, I get a lot of questions that debt issuance has been so strong the last couple years. How can that be repeated? Credit spreads have tightened so much, how can that be repeated? And then obviously, when you talk to people in the business, they remind you that secondary trading has been weak, and it's been very low-margin business or a lot of low-margin business. Can you just talk a little bit about the puts and takes and if there's any way to quantify the drag from weaker secondary trading or some of the opportunity as you move away from lower margin areas to higher margin areas?

Harvey M. Schwartz

Well, I think that in all these businesses, and let's just take the securities vision because you're talking about, for example, cash bond trading and secondary market activity, we benefit from basically the diversity and the collection of businesses. So yes, credit -- the credit business may be busier than the mortgage business in a particular day and a particular month. So that's how we think about it. In terms of secondary volumes, it's not really particularly surprising to me. Although maybe if you'd asked me this question a year ago, I would have gotten the answer wrong, that just given the incredible influx of capital into the bond space, that managers themselves are not rotating positions as much. It's been very directional. And so I don't know. I wouldn't be making any forecasts that secondary bond trading levels would be dramatically lower or dramatically higher the second half of this year, for example.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then just lastly, on the reinsurance business, and I apologize if you disclosed this in the Q, but within the equities business, you talk about -- in a footnote, there was $1 billion of reinsurance revenues for 2012. Is that all one -- driven all by one company or the one stake that you're talking about? Or would there be a couple other pieces in that as well?

Harvey M. Schwartz

At this stage, I really can't comment beyond what's in the footnote.

Operator

Your next question is from the line of Jim Mitchell with Buckingham Research.

James F. Mitchell - The Buckingham Research Group Incorporated

I just would like to get maybe your thoughts longer term. I think if we look at the return profile, certainly, double digits is positive. But I think a good contribution came from private equity, which, under the Volcker Rule, may shrink over time and the core business being dragged down by still pretty low returns in fixed income. So when we think -- not just the next year or so, but look further out, do you see whether it's long-dated derivatives, things like that? Is it -- are we just missing that there's significant amount of RWA mitigation over time rather than just looking out the next year or 2, but beyond that, that is significant enough to get returns up? Or do we have to see some material improvement in the business mix to get the returns up in FICC?

Harvey M. Schwartz

So again, I'm going to sound kind of redundant here. I think predicting multiple years in the future is really hard. I actually think predicting 6 months in the future is really difficult. And so again, what I would say is the following: we're going to focus on making sure that our institutional clients can deal with us in any business they want, and we want to be best in class. And we're far from perfect. So there's certainly businesses we need to work on, and we can be better and we can take advantage of our improvements relative to competitors. But...

James F. Mitchell - The Buckingham Research Group Incorporated

But you should have a view though. I'm sorry, you should have a view though, at least internally, of what your long-dated high RWA-type products that you expect to roll off, if there's a lot -- do you have any sense? Or can you give us any sense of is that a lot, a little or just -- that would be helpful.

Harvey M. Schwartz

Yes, I don't have that data with me. But if you're talking about sort of additions that are on the books with clients versus roll off, passive roll off, which we've disclosed previously, yet we obviously -- I think you should -- rest assured, we study all that.

James F. Mitchell - The Buckingham Research Group Incorporated

Okay. Maybe just on the liquidity, can you give us any thoughts on what the new LCR ratio language -- how you guys you feel you're positioned for the LCR?

Harvey M. Schwartz

So again, we finished with a strong liquidity position, with $175 billion in GCE. We have no immediate concerns regarding the LCR. We thought it was good. Actually, like a lot of these rules, that the regulators revise the rules in the process, and the final rule deemed more thoughtful and well considered than the proposed rule. But no immediate concern.

Operator

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

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Yes. I just wanted to come back to capital. And apologies if I missed it. But have you given the Basel III risk-weighted assets for the quarter, as well as the ratio? And if you have, could you please repeat it?

Harvey M. Schwartz

No, we haven't yet. But we did talk about the fact, obviously, that we finished near 9%, up 100 basis points over the year in Basel III.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Okay. And you have -- and in terms of -- you have given a risk-weighted asset guidance in the recent presentation, November, of $700 billion relative to about $725 billion in the third quarter, and it sounded to me like a very small number. I know you don't include proactive mitigation in your number. But I wonder, in the $700 billion, how much growth of risk-weighted assets have you included there between that number in the third quarter and the fourth -- in 2013 year end that you've given? Is there material growth in that number?

Harvey M. Schwartz

No. There's no material growth in that number.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And in terms of mitigation, can you give us any more details of how we should look at that, considering that you're talking about how your systems are built in order to allocate capital more efficiently? How should we think about the $700 billion versus what is really achievable, even if you talk more in terms of subjective measures?

David A. Viniar

Kian, I'm not quite sure what you're trying to get at. But if you really want details of all of this, we're happy to follow up with you later. You know we're very focused on this. And you can see, we increased where we are by about 100 basis points over the course of the year. But if you want more details on that, we're happy to follow up with you later.

Harvey M. Schwartz

Yes. I think the reason why we're struggling a bit with the question is because quite frankly, you'll see this as we do it. And so it's difficult for us to forecast in a way, obviously, that you'd like us to.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Yes. But you are constantly beating expectations, and you're kind of -- your mitigation seems to be much well ahead of the curve than I think what you're clearly alluding to in the $700 billion, which doesn't include any mitigation for your proactive measures. And I get the impression that the number that could be achieved is significantly lower, and that's kind of what

I'm trying to get to. But we can discuss it afterwards. On the -- just on the Investing & Lending expenses, to be honest, I don't understand that line. I mean, you have expense of about $2 billion to $3 billion. I always think about this business like a private equity business. And your cost-to-income ratio, however, is significantly higher, and your expense line is higher. What is in these expenses? I would have thought this should be more like a 25%, 30% cost-income-ratio business but obviously, I don't understand it. So can you explain to me what these expenses are? I mean, I assume there are only a few hundred people. I assume there are only a few hundred people in this division.

Dane Holmes

Are you referring to the segment?

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Yes. Yes. Sorry. The segment Investing & Lending where you give expenses on the filing -- in the filings.

Harvey M. Schwartz

I don't know that off the top of my head, so why don't we come back and follow up with you?

Kian Abouhossein - JP Morgan Chase & Co, Research Division

But I assume there are only a few hundred people running...

Harvey M. Schwartz

If David can do it off the top of his head, I'd have him answer it.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

I mean, there are only few hundred -- I assume there are only a few hundred people running in this division. I can't believe there's thousands of -- I would be even surprised if it's 1,000 people. So I'm just wondering why you're having $2 billion to $3 billion of expenses. Is it interest expenses or is it something else? I just don't understand why there's such a big expense level.

Harvey M. Schwartz

Yes, we'll come back to you on it.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Okay. And last question, staffing. Can you talk about -- and you've done a great job on reducing staffing this year. But can you talk a little bit about staffing trends that you would expect to see in your business this year? And maybe, business or geography, if there's maybe a mix change.

Harvey M. Schwartz

No. So there are no plans one way or another I think worth discussing. That'll all be driven bottoms up by the businesses, as it always is, in terms of the opportunities they see and how they're investing around the world in talent.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And should we -- does that mean -- staffing sounds like -- it's fair to say that staffing levels today are not -- shouldn't be too dissimilar to the end of this year.

Harvey M. Schwartz

That'll be very driven by the environment.

Operator

Your next question is from the line of Matt Burnell with Wells Fargo Securities.

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

Just a couple of, I guess, quick questions for you, Harvey. First of all, in terms of the net outflows in the non-money market side of things in the fourth quarter, they were negative net 18. That's down pretty visibly from the third quarter, but more in line with the fourth quarter. Is that just a seasonal trend? Or is there something else going on there?

David A. Viniar

Are you talking about in asset management? Asset management?

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

Yes, on Page 12 of the release.

David A. Viniar

Money markets had inflows in the fourth quarter.

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

Oh, I'm sorry. I meant non-money market flows.

David A. Viniar

Oh, I'm sorry. I'm sorry. Okay.

Harvey M. Schwartz

Yes. I don't think there was anything particular there. I think that's just related more to client and investor activity. There's nothing significant in there.

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

Okay. And then, I guess, in the bigger picture, Harvey, you mentioned that the backlog was up a bit versus third quarter and up a bit year-over-year. I guess I'm just curious in terms of your outlook, if you care to provide it, on M&A. There seems to be a lot of media attention and I think some client attention on the potential opportunities for M&A, given the potential slowdown in the U.S. and possibly in Europe, in those economies, and the cash balances. Is there any greater sense of M&A volumes coming in -- or announced M&A volumes coming in 2013 than you've seen in 2012?

Harvey M. Schwartz

Whether or not things are going to be announced, obviously, very difficult to predict. And I think it's most -- when you talk to our investment bankers and our clients, what they'll say is that the uncertainty in the economic environment globally and certainly the political backdrop in the large economies has left CEOs in a position where they've been quite conservative. And as you see, it translated into all the things you described: large cash holdings, lots of efficiencies. And so I think that will be -- my own opinion, that'll be a lagging outcome in terms of -- when people really feel there's confidence and certainty, then there'll be more motivation to consummate transactions. But very difficult to predict those, as you know.

Operator

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

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

What's the dollar amount of the backlog quarter-over-quarter?

Harvey M. Schwartz

Oh, we don't disclose that. Sorry.

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

Okay. What is Goldman's ROE target?

Harvey M. Schwartz

Is that a question for David or is that a question for me?

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

Well, we want to go with the guy who's going to be around to try to achieve it.

Harvey M. Schwartz

Sorry, I didn't mean to make light of that question.

David A. Viniar

You'd get the same answer.

Harvey M. Schwartz

I apologize. So look. With respect to the ROE target, or the absence of an ROE target, there, quite frankly, over the past several years, there just hasn't been enough information in the marketplace, whether it was capital rules, clarity on Volcker, Title VII, et cetera. And so at this stage, we just don't feel we have enough information to give you a target. Now having said that, what you should expect from us and you will continue to see from us is that we remain committed to superior returns over the long term, and we want to provide absolute superior terms and relative superior terms. So that's our focus. But we have no target.

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

When do you think you'll have enough information on the capital rules, Volcker and anything else that's holding you back from having a formal target?

Harvey M. Schwartz

I think if you had been sitting here a year ago, you probably would have felt like maybe there's more clarity. But as I said earlier, I think the regulators have done a very, very smart thing, locally and globally, by delaying the implementation, because it's so much simultaneous change. Even in Title VII for itself, which is one suite of rules, the regulators have an enormous task in front of them in terms of rolling out these rules. And so that's just one set. And so we'll have to see.

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

The assets are down 2% quarter-over-quarter. What's happening there? And should we extrapolate that downsizing the balance sheet?

Harvey M. Schwartz

Nothing -- there's nothing meaningful in that. I wouldn't read anything into that.

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

The buybacks. You certainly got some great prices during the year, but you wind up buying back 8% of your stock but shares only declined by 5%. Is there any way to narrow that gap?

Harvey M. Schwartz

No. But I think if you want to go through sort of the mechanics of share count, I'm happy to have Dan and the team follow up with you.

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

And then compensation. This is lower than last year, if you look at the entire year. How should we think about the comp ratio? I'm going to talk about the ratio, by the way. How should we think about the comp ratio going forward?

Harvey M. Schwartz

So as we said earlier, we're going to evaluate compensation on a year-by-year basis, and we're going to incorporate everything that you would expect us to, which is performance of the firm most importantly, and then the competitive dynamic and all the other factors that go in. And of course, we have to get the balance right with the shareholders. So we'll evaluate it as the year progresses.

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

And then last question. Well, David's line was, "Live to fight another day." So Harvey, we want to hear your line. But if you look at the VaR, it's down again. But you have the election over, and seems like sentiments improved in certain areas. I noticed the equity VaR is up, the other areas are down. So what's Goldman's thought process on taking risk as of today?

Harvey M. Schwartz

Right. So I wouldn't read too much into the decline in VaR because virtually all that's attributed to the decline in market volatilities and not actual positions on the desk. And in terms of deploying our capital, we feel quite confident in our ability to do that. And so -- but that VaR number is going to really be driven by client demand and activity, all else being equal. And so as we continue to see a pickup in client activity, positions may change now that may translate into lower things in the number, given offsets, et cetera. But the bulk of what you're seeing in the decline is market volatilities. It's not a reduction in risk or capital commitment.

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

Just a clarification on that last point. The VaR is what we have to go on, it's the best indicator in your release, and you're saying we shouldn't really rely on that. Then what else can we rely on? I guess do you have an apples-to-apples VaR number that adjusts for the decline in market volatility? Or if I simply ask you the question, did you guys position yourselves for more risk absent what VaR is telling us?

Harvey M. Schwartz

Yes -- no. First of all, I wasn't saying you can't rely on the disclosure. So I want to be really clear on that. I was actually trying to give you extra information by saying the following: There are factors that go into VaR, one being the positions that we have. And then obviously, a big contributor are volatilities in the marketplace themselves. And so all I'm saying is in this particular instance, the decline was mostly attributed to a decline in volatility. It was no top-down directive, for example, to take less risk. Our risk-taking, as I said, will be reflective of the client flows and demand for capital.

Operator

Your next question is from the line of Eric Wasserstrom with SunTrust Robinson Humphrey.

Eric Edmund Wasserstrom - SunTrust Robinson Humphrey, Inc., Research Division

Harvey, I hate to come back to the Basel I risk-weighted asset question that Glenn put out several minutes ago, but I'm afraid your answer was maybe too nuanced for me to understand. But it looks like over the past few quarters, your RWAs were in a fairly narrow range of between $430 billion, even $440 billion, and then have fallen quite significantly in this particular quarter. Can you just help me understand better why that occurred?

Harvey M. Schwartz

So the movement there is -- I think what you're going to see there -- and we'll double confirm -- but I think what you're seeing there is probably the knock-on effect of our Basel III mitigation efforts having an impact on the ratio. You asked about Basel I, correct?

Eric Edmund Wasserstrom - SunTrust Robinson Humphrey, Inc., Research Division

Correct. Correct.

Harvey M. Schwartz

Yes. So it's the It's the Basel III capital efficiency efforts that are having a knock-on effect on the Basel I ratio.

Operator

Your next question is from the line of Christopher Wheeler with Mediobanca.

Christopher Wheeler - Mediobanca Securities, Research Division

A few questions, if I may. The first one relates really perhaps not just to you but to your peer group in the United States, having seen Basel III in terms of capital pushed out really till next year. Obviously, if we look at Europe, that's not really the case. There's a much closer scrutiny by the regulators, particularly, say, in Switzerland, of the Basel III ratios as they stand. And obviously, a lot of European banks continue to deleverage. I mean, do you see the opportunity to actually carry out some slates, which look pretty unattractive under Basel III but would look attractive under Basel I, while we go through this kind of -- this period of transition? Or will your regulator actually find that's something they would rather you didn't participate in?

Harvey M. Schwartz

I don't think that the pace of development, for example, of rule making, whether it's the Basel capital rules or, for example, in the U.S., much farther ahead on, derivatives and et cetera, I don't think that'll drive -- I could be wrong, by the way. I don't think that'll drive material differences in how firms compete in opportunities. I think a lot more of that is going to be driven by relative competitive position in aggregate. And so if you're well positioned in a particular business, that's how margin capitals input. But it doesn't strike me that the gap is so wide. But in some cases, we are seeing competitors, for example, in Europe, exit businesses. And there, for sure, there'll be opportunities. But I think for people that are competing and electing to stay in businesses, you work within the rule set you have and you try and bring your competitive advantage to bear.

Christopher Wheeler - Mediobanca Securities, Research Division

I see that. I suppose what I'm really thinking is that, for example, if -- as they are, a number of European banks are trying to sell securitized assets, which have very high risk weightings because they are being scrutinized slightly more closely by the market. But as I said, also by their regulators. Surely, some -- in terms of the U.S. banks, there is this opportunity to say actually, in terms of reporting, we don't have to worry about that from a short-term perspective and the ability to buy some quite attractive assets and then obviously place them out to your clients. I'm just thinking that might be actually quite an interesting opportunity for you. Or do you think it's still something that might lead to sort of some unattractive commentary in the press?

Harvey M. Schwartz

No. I mean, look, we look at Basel III over the long term, too. And like I said, I think it's not the pace. Having said that, do I think some European banks and just many institutions around the globe have maybe been a little slower to sell assets than they might otherwise wanted to be in retrospect. And I think there's opportunities there, but those are opportunities that our clients are very focused on. And if we can be the firm that can bring the collective resources to bear to actually deliver those assets to our clients, then that's a good opportunity for us. But like I said, I'm not sure it's so much rule driven as it is situation specific.

Christopher Wheeler - Mediobanca Securities, Research Division

Okay. And then a second question. Really, it's related to what Kian asked you and, I guess, it's a rhetorical question for that reason. But can you give us any clue as to what your Basel III -- or what portion of your Basel III risk weighted assets at the moment are deployed in Investing & Lending?

Harvey M. Schwartz

No. I just can't [ph].

Christopher Wheeler - Mediobanca Securities, Research Division

I think that was a pretty much expected question.

Harvey M. Schwartz

Yes. But at least I paused.

Christopher Wheeler - Mediobanca Securities, Research Division

Yes, you did indeed. And just a final question really. Obviously, one of your closest competitors sheared a number of jobs in the last few days. And what was intriguing was, I think, something like a 6% reduction in their investment banking staff, but something like 15% in Asia. And I was just wondering, you obviously had another quarter where you were very tight on staff numbers. But is Asia the market you're still investing in? Or is it one where maybe you're also thinking, "Have we perhaps overlicked the pudding at this stage," and we need to also look at our staffing there, as you obviously are in the developed markets?

Harvey M. Schwartz

No. As we look at it today, we think the growth markets broadly, and Asia specifically, look quite attractive. And we're comfortable with our level of investment. Having said that, again -- I'll caveat that. And of course, if the world got much brighter or turned the other way, then we'd adjust. But we feel pretty comfortable.

Operator

And at this time, gentlemen, there are no further questions.

Dane Holmes

Great. I'd like to thank everybody for joining us for our fourth quarter 2012 conference call. If you have any questions, please feel free to contact us in the Investor Relations group. And otherwise, have a nice day.