Good morning. I will be reading a statement on behalf of Morgan Stanley.

Today's presentation will refer to Morgan Stanley's earnings release and financial supplement, copies of which are available at morganstanley.com.

Today's presentation may include forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially. Please refer to our notices regarding forward-looking statements and non-GAAP measures that appear in the earnings release. This presentation may not be duplicated or reproduced without our consent.

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

James Gorman

Good morning, everyone, and thank you for joining us.

As you all know, over the past decade, we've dramatically transformed our business model. We've grown the contribution of more durable balance sheet light sources of revenue, investing in Wealth Management and Investment Management, while maintaining our leadership position and taking share across our integrated investment bank.

The intention has been to provide stability to our firm in times of serious stress and to provide strength and value to our clients in times of volatile and active markets.

The environment for the second quarter provided exactly that test. The COVID health crisis, economic collapse, and a tremendous surge in unemployment, massive fiscal and monetary stimulus, operating with 90% of employees working from home, extraordinary client financing demand, an increase in corporate defaults and bankruptcies, and record market volumes.

Against this extremely challenging backdrop, I'm very proud of my colleagues, the way they manage to support our clients, and risk manage massive uncertainty, all while working from home.

The results we announced this morning build on a very strong relative performance of the first quarter with a record breaking second quarter. Revenues of $13.4 billion exceed our best quarter ever by 21%. We delivered record net income of $3.3 billion and an ROTCE of 18.6% excluding a discrete tax item with an expense efficiency ratio of 68%.

The stability of our platform in the face of record breaking volumes and a surging capital raising from clients was critical. Our revenues of course benefited from this record activity. But the ROTCE is the function of very strong operating leverage with a high degree of expense discipline in the face of significant macro headwinds. As importantly, our credit cards were relatively limited.

This is by design as we have virtually no unsecured consumer loans. We do not have significant emerging market exposure and we have modest exposure to the Small Business segment.

Each of our businesses contributed meaningfully to the results, but the standout was Institutional Securities. For the post-crisis period, ISG had record revenues of $8 billion and record equity underwriting, record debt underwriting, record equity sales and trading and record fixed income sales and trading. Fixed income in particular was the standout.

In Wealth Management, despite the impact of rates on net interest income and some integration costs relating to E*TRADE, our margin was over 24%. We saw clients continue to consolidate assets with our advisors, deposit growth and loan growth.

Investment Management also performed exceptionally well with record and industry-leading long-term flows as well as growth across all asset classes, geographies, and investor segments. Assets now are $665 billion, up from approximately $460 billion at the beginning of 2019.

So what does the future hold? Clearly, it will be challenging for the back half of 2020 to meet the record first half results and we expect advisory and macro trading to be significantly lower. That said, many parts of our business should continue to perform well.

Let me touch on the CCAR examine and SCB results. This year, the new SCB results confirmed what we had believed for many years that we carry significant excess capital. We still believe that our PPNR is understated and we will continue to work with the regulators to better calibrate the models to the realities of our business.

Our excess capital position allows us significant flexibility to continue to support our clients, invest in our business, grow our balance sheet, and continue to pursue inorganic opportunities in our target areas. In the near-term, we remain committed to our quarterly dividend of $0.35. Over time, we expect to reinstate our buyback and increase that dividend, subject of course to regulatory approvals.

Let's turn to E*TRADE. I remain as confident, if not more so about the strategic benefit to Morgan Stanley from this transaction. Among many positives, it delivers; it gives us strong digital capabilities, a platform for international expansion, a world-class workplace business, and will further enhance our CET1 ratio.

Before turning to Jon, let me touch on the recent events affecting the black community, particularly in this country, but also in many places around the world. It is clear that the racial injustice that exists in our society for a very long time has not been resolved. We at Morgan Stanley want to be part of the solution. As part of our continuing efforts in this area, we recently added a commitment to diversity and inclusion as our fifth core value and made a number of other structural and financial decisions to materially enhance the opportunities provided to our diverse employees. We will be doing more in the coming quarters to ensure that our employee population mirrors the broader society in which we operate and live in, and we will provide detail around our recently announced Institute of Inclusion.

So let me now turn the call over to Jon, who will discuss the results of the quarter in greater detail. Thank you.

Jon Pruzan

Thank you and good morning.

In the second quarter, firm net revenues were $13.4 billion, with net income applicable to Morgan Stanley of $3.2 billion. The quarter included an intermittent net discrete tax expense of $134 million, which impacted EPS by $0.08. Excluding this item, net income was $3.3 billion and EPS was $2.04. Also excluding this item, our ROE and ROTCE were 16.4% and 18.6% respectively, and our year-to-date basis ROTCE was 14.2%.

As part of our decade long business transformation, we have taken a highly integrated approach to client coverage. Our business segments and divisions work together to deliver a wide range of solutions and the firm's intellectual capital to our clients. This long-term coordinated approach has allowed us to provide a deeper level of service and stronger partnerships with our clients and has positioned us for our results this year.

Throughout we remain disciplined around our expenses working diligently, to manage down our efficiency ratio, and our fixed cost base. This quarter illustrates the significant operating leverage in the model especially in Institutional Securities. Quarter-over-quarter, ISG revenues was up over $3 billion, while non-compensation expenses were down over $100 million.

Our firm efficiency ratio was 68% in the quarter. High levels of client activity led to elevated transaction-related expenses, which were offset by a dramatic reduction in marketing and business development and continued discipline around professional services costs.

We continue to support our employees and communities through these challenging times through financial, equipment, medical, and other means of support. We remain focused on opportunities to work smarter and more efficiently. We have learned a lot about our organization and its cost structure through this period and we will leverage that learning to continue to optimize how and where we work and how we use our technology.

Now to the businesses. Institutional Securities reported revenues of $8 billion, a post financial crisis record and nearly $2 billion higher than the prior best quarter. Record results were realized across various businesses, products, and regions.

Our Integrated Investment Bank benefited from our coordinated and client-focused approach. We saw significant demand for our leading research and bankers to help clients navigate these uncertain markets. Corporate clients took the opportunity to raise capital and liquidity and sales and trading investors actively repositioned their portfolios given the rapidly changing environment. Robust underwriting volumes also contributed to increased levels of sales and trading activities.

Investment Banking generated revenues of $2.1 billion increasing 79% from the prior quarter. Underwriting drove the results delivering its strongest performance in over a decade.

From a geographical perspective, all regions saw sequential improvement with particular strong results in the Americas.

Advisory revenues increased 28% from last quarter to $462 million benefiting from higher completed M&A industry volumes driven by an increase in larger transactions. Year-to-date announced industry volumes are down over 40% and we expect M&A to remain muted until there is more clarity on the path of the recovery and stability in prices. However CEOs and boards are engaged in strategic dialogue is integrated into our clients' discussions.

Equity underwriting revenues more than doubled versus the prior quarter to $882 million, driven by increases across products, follow-ons, converts blocks and IPOs.

Issuance accelerated in the latter two months of the quarter. Global equity volumes were the highest in nearly a decade as clients bolstered their balance sheets and monetized equity stake. The quarter saw record convertible issuance as near zero interest rates and elevated volatility led issuers to favor equity linked instruments.

Fixed income underwriting revenues were $707 million, up 59% from the prior quarter driven by bond issuance. Global high yield new issue volumes in June represented the highest ever recorded. Investment grade market also saw record issuance volume.

Activity has been driven by a combination of companies looking to fortify their balance sheets and others taking advantage of the very constructive financing environment.

After unprecedented levels of capital raising, issuance levels are likely to slow from the current quarter pace as we enter the summer. Pipelines remain healthy, particularly IPOs, and if markets remain constructive, we would expect active issuance in the latter part of this year.

Equity sales and trading revenues increased 8% sequentially to $2.6 billion. Strong performance in cash and derivatives as well as a rebound in prime brokerage balances contributed to results.

Cash and derivative revenues were the highest in over a decade driven by strong trading results across regions as we continue to help our clients navigate through this period of unprecedented uncertainty. In cash in the face of historic volumes, we executed for clients and help keep markets open and functioning. And in derivatives results were strong across product types.

Prime brokerage results were resilient and in line with the prior quarter. Balances rose significantly from March lows as market levels trended up and certain clients re-levered. Although second quarter average balances were about 15% below the first quarter.

Fixed income sales and trading had its best quarter in over 10 years excluding the impact of DVA with robust performance across all major businesses and geographies. Revenues of $3 billion increased 38% from the strong first quarter. Results were particularly high in April as macro benefited from elevated volatility and wider bid offer spreads and credit markets retraced much of the first quarter movements. Clients were especially active in the beginning of the quarter and remained engaged throughout, the market spreads normalized and volatility evaded. We continue to see improvement in client penetration as we gain mindshare, especially amongst leading asset managers.

Micro revenues increased significantly driven by securitized products and credit corporates. Macro performance is strong across products, though declined versus the robust prior quarter.

Commodity results also remained strong, benefiting from continued elevated levels of market volatility in oil and metals.

Across other sales and trading and other revenues results improved dramatically from the first quarter. The three main drivers across these lines include investments associated with deferred cash-based compensation or DCP, performance of our $41 billion held-for-sale portfolio, and our provision for credit losses for our $43 billion held-for-investment loans. The sum of these components was approximately $200 million this quarter versus a negative $1.1 billion in the first quarter. Spreads tightened throughout the quarter leading to approximately a $250 million gain on mark-to-market of our held-for-sale portfolio, net of losses on our hedges. Our provision for loan losses was $223 million, down from $273 million in the first quarter and DCP swung positive this quarter as markets recovered.

Our ISG loans declined by approximately $11 billion from the prior quarter driven primarily by pay downs in our corporate and event book, as clients took advantage of open and active capital markets to replace short-term funding with longer-term capital.

Our funded ratio of corporate loans peaked at over 25% of commitments in 1Q and now stands at 18%.

Our allowance for credit losses on loans increased to $756 million which represents a 43% build in our allowance over the quarter.

Our loan book continues to perform well, and we had no charge-offs in the quarter. Currently, we've approved less than $1 billion of requests for principal and interest forbearance across ISG loans.

As you can see in our new disclosure on Page 11 of the financial supplement, our allowance for corporate loans increased to 3.8% and our allowance for commercial real estate increased to 3.1%. Across the entire held-for-investment portfolio, our total allowance rose to 1.8%.

Now turning to Wealth Management. Second quarter revenues were $4.7 billion, DCP losses of approximately $425 million from first quarter reversed almost entirely and prepayment amortization declined. These factors drove the sequential increase in revenues. Pretax profit was $1.1 billion and pretax profit margin was 24.4%. The underlying growth drivers remain strong. On the heels of the technology and risk management investments we have made, client asset consolidation continues. We increased retail asset capture and retention and lending penetration with our existing clients. Additionally, net recruiting has materially improved.

Transactional revenues were $1.1 billion. After excluding the impact of DCP, transactional revenue was down versus a prior period reflecting a decline in client activity from the extremely high levels of the first quarter.

Asset management revenues were $2.5 billion down 6% sequentially; lower starting asset levels drove this decline.

Lending growth in the first half of the year has been strong at over $5 billion, with balances of $85 billion, up 15% versus the prior year driven by securities based lending and mortgages. The loan portfolio continues to perform extremely well. We saw mortgage forbearance remain stable at approximately 2% of the portfolio and our 90-day delinquencies are at 24 basis points.

We've granted approximately $1 billion of forbearance on commercial real estate loans in our tailored lending book, each of which has personal guarantees from ultra-high net worth clients.

We had less than one basis point of net charge-offs in our wealth lending book year-to-date and provision for loan losses of $23 million was in line with last quarter.

Net interest income was $1 billion. Excluding the impact of prepayment amortization, NII was relatively flat compared to prior-quarter and exceeded our expectations. The impact of lower rates was offset by elevated LIBOR levels and spreads at the beginning of the quarter and higher lending and BDP balances. We expect to see NII drift lower for the remainder of the year as LIBOR and spreads have normalized.

Growth in our lending businesses and higher levels of stable bank deposits should continue to offset some of the pressure from lower interest rates.

Total U.S. bank deposits were $236 billion. The meaningful increase in bank deposits that we saw in the first quarter was sustained and we continue to see BDP balances grow. Clients remain cautious as cash and short-term securities levels remain over 20% of total assets. We expect to see an outflow for delayed tax payments.

Total expenses were $3.5 billion, up 19% sequentially. The increase was driven by higher comp expenses principally related to DCP.

The Solium integration and execution of our Morgan Stanley at Work strategy are on track and are important precursors to our integration of E*TRADE. We continue to add new corporate clients approximately 180 this year, and 525 since the announcement of the Solium acquisition. We continue to prepare for the expected closing of the E*TRADE deal in the fourth quarter and have started to incur expenses in advance of the closing. Excluding these integration and acquisition-related costs in the second quarter, the margin would have been over 25%. These integration and acquisition-related expenses will likely erode the margin by 50 to 100 basis points this quarter as well. After we close E*TRADE, these integration costs will be more substantial and we will provide further breakout at that time.

Investment Management revenues increased 28% to $886 million representing the second highest quarterly level in over a decade. Total AUM rose 14% to a record high $665 billion of which long-term AUM was $397 billion. Long-term net flows were also a record at $15.4 billion across strategies from a broad base set of global investors. This equates to an annualized rate of 18%. Total net flows were $36 billion. Strong fund performance, our deep global client partnerships and the power of our brand have driven this industry-leading flow growth. Our clients are entrusting us with their assets. We continue to deliver differentiated value to our clients across both public and private markets as well as through our global solutions capabilities.

Our global active equity strategies continue to deliver significant outperformance and are attracting robust flows from institutions and wealth management clients, both internationally and from the United States. Liquidity inflows remain strong with positive flows across strategies. Asset management fees of $684 million increased 3% sequentially driven by higher management fees on higher average AUM.

Investment revenues were $230 million in the quarter. The sequential increase was supported by the rebound in global markets. We continue to invest in the investment management business and to focus and execute on multiple organic and inorganic growth opportunities to meet client needs.

Turning to the balance sheet, total spot assets rose to $975 billion in line with their recovery in equity markets and high levels of client activity. Standardized RWAs were flat at $416 billion as an increase in market risk assets was offset by a decline in credit risk assets. Our standardized CET1 ratio rose 80 basis points to 16.5% compared to our recently announced SCB of 13.4%. Our board declared a $0.35 dividend per share.

Our tax rate was 22.6% for the quarter excluding $134 million of intermittent net discrete tax expense. We continue to expect our full-year 2020 core tax rate will be approximately 22% to 23%.

The second quarter illustrates that our strategy is working and highlights the power of our differentiated model. We were at the forefront of serving our clients when they needed us most.

As for the operating outlook, the dispersion of potential macro outcomes is high. The pass-forward will largely be determined by the course of the COVID pandemic, the shape of the economic recovery and potential additional fiscal stimulus.

We continue to see reasonable client activity in the first few weeks of the quarter, but would expect a reversion to more normalized levels as we head deeper into the summer. Aspects of the capital markets business will likely normalize and a rebound in M&A activity will take some time.

In Wealth, we would expect to see continued momentum around new assets, new clients, and lending growth as we become a destination of choice for financial advisors.

In Investment Management, our record flows will support fee growth and investment returns will depend on the macro environment. We will continue to focus on what we can control, serving our clients, managing risk, and controlling our expenses.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions].

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

Brennan Hawken

Good morning. Thanks for taking my question. Just a quick note like the DFAST results, recent results certainly reflect the improvements and resilience that you guys have made in the model and that must be a nice affirmation for all the hard work you've been putting in, so congrats on that. When we think about the wealth management business and the pretax margin, how should we think about, is it just backing out the 425 DCP from both revenue and comp and would that result then in the sort of core pretax margin being demonstrably higher and is it fair to say that just maybe the headwinds from the environment were not quite as profound as you anticipated, and profitability in this business is going to be better as far as the outlook? Or is it not that simple?

James Gorman

It's sort of that simple. Firstly, thank you for your kind comments. To address the broader with the DFAST, SCB numbers and these results and the upcoming closing on E*TRADE assuming the shareholder vote happens, which is imminent, which I expect it will. I clearly feel that we're at a different inflection point that we've been building towards for many years. So these results affirm that and I'm sure we'll talk more about it.

On wealth management I mean you can do Brennan obviously, you can do the math on the DCP, which basically nets revenue against comp expense. The wealth management margins, the material change in those margins was the net interest income change in rates and as we move to zero rates now you can have a view rates will be permanently zero in which case we'll have to do other things to enhance that business by the way E*TRADE operates with margins around 40%, 45% at the moment. So with some of the restructuring that we'll be doing putting those two businesses together, there clearly is margin enhancement opportunity just from that trade alone.

But in the last few months, we had low market prices at the points where we price the fee income, that's obviously improved. We had a little bit of a rush of activity, but we had not nearly as much because our clients are very stable and very fee-based.

So, in the wealth business, what I look at is the fundamentals, assets are growing, flows are growing, fee-based flows are growing, loan book is growing, deposits are growing, advisor attrition is basically zero. We're attracting net advisors, we're consolidating E*TRADE, we're opening up some international growth platforms. We've got a lot of opportunity to make the business more efficient and more technology driven. And interest rates will look after themselves at some point. So I remain extremely optimistic about the business.

Brennan Hawken

Okay, great. Thank you for that. I appreciate that James. And when following-up on that, when we think about NII, Jon, I think you said you expect it to drift lower by is it that the impact turned out to be a little bit more muted than you all expected and this is the right jumping off point with a more modest headwind from here or is there -- was there some one-time noise in the quarter around NII within the wealth business?

Jon Pruzan

I mean, I think it's, as I said in my prepared remarks, Brennan the performance is better than we expected. If you recall, in the first quarter, we thought that the impact of all the rate cuts, we sort of tried to size that for you. And it's performed better. The primary drivers are as I said the elevated LIBOR. Now that's normalized. And so that's why I'm suggesting that the NII is going to drift lower. I think the first two quarters if you eliminate the prepayments have been pretty, pretty neutral and stable in terms of NII and that normalization is going to cause the drifting down slightly of the NII going forward, and then it should be stabilized.

What we are seeing is that some of that loss that we expected, we picked up in terms of just the balances both the lending balances and the excess deposit balances have abated some of those headwinds. So it's better than we expected but still clearly impacted by the zero rate environment.

James Gorman

And just to build on that, I mean, we can't control the NII, obviously, very little given where rates are. But what we did see and what I saw in the last financial crisis, those institutions that have strong and stable attract flows disproportionally. In the last crisis, we were obviously not that institution. And we're in fact losing outflows not dramatically, but we certainly weren't adding and we were losing -- we were losing a little bit on the margin. This crisis, the reverse is happening. We're attracting positive flows and significant and positive FA talent. And that's just a function of strength and stability. So I think that does very well for the future of that particular business.

Operator

Thank you. Our next question comes from Glenn Schorr with Evercore. Your line is now open.

Glenn Schorr

Hi, thank you. So I heard you loud and clear on the first couple of week's leasable activity and expect the summers to settle in. I do think we're still at a volatility level that's almost double like last year, so it might settle in at a higher level. I'm not asking you to comment on that. But I do want you to comment on the FICC franchise. Obviously the world changed and lots of repositioning happened but you're way over where you used to think your expected quarterly levels will be. So what I do want to ask is what have you noticed on the client front in terms of the coverage taking on new clients, client wallet penetration because we haven't seen everybody's results but I think these results show you taking share in a great quarter, great quarter for everybody but taking share despite that.

Jon Pruzan

Yes, I think it's really a little of everything, every business contributed. We risk managed extremely well and recognized the team now has been working together for about three years. They're really working well. I've commented about some progress we continue to make in mindshare of our

FID clients, particularly around asset managers in penetrating those accounts, through the coordinated approach. So it's been a really strong set of sort of backdrop, but also playing to the sort of the work that we've been doing in that business and investing in. Clearly the market or the wallet is significantly up this quarter. And we participate in that growth and we believe we captured more share to the degrees that the wallet shrinks.

We feel very good about the positions that we've established and we expect to continue to maintain that share but it's really going to be the results being driven by what the wallet size looks like going forward.

James Gorman

I would add, I mean I'd take it back and Glenn, you've been covering us for a long time, so you know the history. But let's get back to 2015 and when Colm and Ted restructured the FICC business and I think it's the fourth quarter, November/December, we cut the RWAs; we cut the people and the expenses by 25%, which was seen as pretty brutal at the time. The RWAs came down from I forget the original numbers but somewhere around $300 billion to about 140 over a couple of year period. And we got out of the physical commodities business, we had a much smaller footprint in the structured trading business, the SPG business was run a lot more tightly. And I think the work the team put together to create an integrated investment bank leveraging the incredibly strong equities franchise with many of the same clients who are dealing with that fixed income franchise and at the same time building up DCM which created obviously further opportunity across all of fixed income. So it's a series of things.

Now we always said that the business was long-term if it couldn't do a billion in revenue in a quarter, it really wasn't a viable business, so it was never going to meet its cost of capital. And we sort of set that target that there was a minimum threshold against the backdrop of doing $500 million, $600 million for two quarters in 2015. So that was pretty modest backdrop, and obviously our competitors were doing multi-billions at that point. We then consistently delivered the last couple of years ran a $1.5 billion a quarter; we kind of normally raised our minimum target to $1 billion in a quarter acknowledging you might have a bad quarter occasionally. But we derisk that enormously. So the swings are much less volatile.

On the downside here, we benefited from the massive financing wave very active markets. I think a really good integrated investment bank led by Ted Pick, Sam Kellie-Smith running fixed income, who'd been previously number two guy in the equities franchise for a long time. Putting all of that the management together, the culture together, the risk management together and away from the big structure their liquid positions and away from physical commodities. And it's all started to come together.

So we're picking up share, and when you have a market explosion that everybody's numbers are up, I don't know 60%, 80% then off our base; you can stop posting really respectable numbers. And that that's sort of where we've got to, so it's really a multi-year story.

Now are we going to do $3 billion in fixed income revenues this quarter? No, we're not going to $3 billion revenues at least from what I see in the outlook, but that doesn't mean we're going to have a bad quarter by any stretch. So it's that kind of backdrop that I feel, I feel really good about our share position globally against the banks who never have some of the big macro businesses that the big universal banks have particularly in FX where we just have a much smaller footprint but nonetheless our macro business traded really well.

Glenn Schorr

Well, that brings us to the follow-up is now that the Fed has realized what you and many others thought about your capital -- excess capital position. You've mentioned in the past about using some of it to augment the franchise and asset management. But let's say the shackles come off sometime next year doesn't matter when, what's your thought process around deploying capital? Are there places to meaningfully deploy capital across the markets franchise or is the plan the same? Use it to augment Asset Management return the rest like how are you thinking about the excess capital now that the Fed suddenly agrees?

James Gorman

I don't think this is either this or that. We're in a great position now. We've got under the SCB about 200 basis points of excess capital will pick up. Jon is saying actually --

Jon Pruzan

300.

James Gorman

300 I'm sorry, short changes by 100 basis points who knew that could happen? We've got the CET1 will be enhanced further by the E*TRADE closure. And obviously, it's not at that level, but it's still additive to our capital base. If we come in with an SCB shortfall, we'd be looking at doing

things with the RWAs in the business, there'd be more pressure on that, we don't have that pressure.

So the share gains that we've picked up, we can maintain or even enhance and strategically we'll look across the trading franchise not to go gangbusters on that but are there opportunities where we can continue to pick up share possibly. We're certainly open to that.

In asset management, as you know, we've talked about this for a number of years because we're -- our asset management franchises, as I said our numbers have gone from beginning of 2019. I think there are $480 billion we're over $630 billion, $640 billion now attracting really good flows to platforms building out well. We'd love to augment that, so that's a clear intent.

Wealth management we did it with E*TRADE. So the opportunity to use capital at four. One, around further balance sheet expansion, if we want to do that, and advices to be conservative. To be fair, we don't but the good news is we're not going to have to restructure or shrink our business because of some capital shortfall. So number one that. Number two Asset Management transactions. Number three, just investment in our platform and our technology to continue to modernize Morgan Stanley. Number four, a dividend we're paying out about $0.35 a quarter, which is about $2 billion, bit over $2 billion annually. We made in the first half of this year about $5 billion. So we've covered almost two-and-a-half years of dividends in the first half of this year. So our dividend coverage is very comfortable. I would love to expand the dividend in time I've always said, I think we should pay out effectively what we make in wealth management as dividend and think of that as a yield stock and think of the institutional business as the growth stock. So that’s coming.

And then obviously getting back on the buyback train. We've still got, we've got a $1.5 billion and a change of shares outstanding. We started this at about 2 billion. We'd like to continue to drive that number down. We don't want to sit on this capital not put it to work for shareholders. We want to put it to work.

Operator

Thank you. Our next question comes from Christian Bolu with Autonomous. Your line is now open.

Christian Bolu

Good morning, James and Jon. Maybe Jon, to clarify -- ask again what Brennan asked, but just to clarify in the Wealth Management NII at the jump-off points for 3Q is $1 billion in 2Q and that will drift lower from $1 billion right just because there's confusion around -- you're talking about ex prepaid numbers et cetera. I just wanted to clarify that it's really the $1 billion in this quarter. And that's how to think about where the jump-off point is.

Jon Pruzan

Yes, the first two quarters again were approximately $1 billion.

Christian Bolu

Okay, perfect. Okay, thank you for that. And then just more broadly, I think you alluded to learn a lot about the expense structure of the business over the last few months. So maybe just provide a bit more detail on kind of how you're thinking about what you've learned. And then sort of like how you think that ultimately affects the long-term efficiency ratio potential of the firm?

Jon Pruzan

I would say, Christian that first of all, the crisis is clearly not over. We're still in the middle of this and we're continuing to learn about our infrastructure and our employees and what's the most efficient way to work. So those comments were really around first we have to get through this. And then longer-term, I think there's some interesting things that can come out of it. Clearly, the work-from-home as a backup -- as a backup or DCP planning measure is clearly an acceptable one. We've been now at 90% of the folks working from home for a while now. And the plan continues to hold up quite well. So I think there's some things that we can learn from that as well.

And so I think again, longer-term real estate decisions take a long time, given leases and ownership. But I think that we'll take a look at the footprint over time. But our first priority right now is to get through the health crisis and keep our employees safe.

James Gorman

Let me just say a couple of things about expenses. And about that real estate comment in particular because something I said, I think, on the last call, or on a TV interview was picked up and blown out of proportion.

First of all on the real estate footprint, I said we've learned to live with all of our people working from home or most of them and therefore that gave us an opportunity to rethink our real estate strategy. That was interpreted by some in the media, as we're going to radically shift our footprint in major locations, that's not going to happen. We committed to the major cities in this world where we have our headquarters here in New York where I am today with Jon although socially distance, London, Frankfurt, which we've moved in consolidators how European headquarters Tokyo and Hong Kong. That doesn't change; Morgan Stanley will remain a major player in the commercial real estate market globally.

However, when we think about at DCP backup centers, when we think about our consolidation in various offshore centers and identity management, when we think about some of our excess capacity across our branch network is this the time to start addressing those issues? Clearly, we have more flexibility to do it than we would have under normal circumstances. And that's what we're talking about. Are we going to be radically expanding real estate across the firm over the next five years? I doubt that very much, whether are we going to be radically shrinking it, I doubt that very much. So hopefully that that puts a more reasonable tone on what was picked up in those comments.

On the non-comp expenses, just to say we put on $3 billion of extra revenue this quarter. And we put on about $100 billion of extra non-comp expenses. This business has unbelievable operating leverage. Now, to be fair, it goes both ways, right? If you lose $3 billion in revenue, you can't bring down your non-comps that quickly, so it goes both directions. But if we're in a growth mode, and we can control the zone comps and obviously comp except in wealth management is simply a ratio that we can manage. You have embedded huge operating leverage in the business and that's why we saw the ROTCE numbers that we saw this quarter.

Operator

Thank you. And our next question comes from Mike Carrier with Bank of America. Your line is now open.

Mike Carrier

Good morning and thanks for taking the questions. First seems like forever ago but just how are you thinking about some of the strategic initiatives, that you highlighted at start of the year just given the current environment, obviously a lot of puts and takes and however it is still uncertain, just an update would be helpful.

James Gorman

Well, I'll touch on maybe Jon wants to also add a little bit. Just on the -- I think we went public with three metrics, pretax margin sort of medium-term, and then long-term aspiration, efficiency ratio the same and ROTCE the same. Now not to be crude about it. But in this quarter, we achieved the long-term aspiration of efficiency ratio on the ROTCE. I'm not pretending that that's a steady state right now, I'll be very happy if we go back to achieving what we said we do in the two-year period and we're only six months into that two-year period.

So -- but as I said, we have the non-comp operating leverage. So the efficiency ratio through revenue growth, I think is slam dunk. The ROTCE again with this kind of operating leverage and without the credit provisions, if you have revenue growth, I'm very comfortable with those.

The wealth management one that's more challenged because we did not expect to go to effectively zero interest rates at the beginning of the year. That said even with this environment and with the pretty lousy print at the start of the quarter, and with some of the integration costs that coming from E*TRADE build in, they still hit margins of over 24%. And I think they will grind their way back up into the zone that we talked about. How quickly that's going to happen, Mike, I'm not going to predict, but it's not going to be forever.

So overall, we stand by the strategy, but we can't nobody in this world can predict. Goodness, what the next month is going to be like, let alone the rest of this year and we've got a Presidential election coming. All sorts of massive uncertainty. Some of that uncertainty as we just demonstrated plays to our favor. So I don't, Jon, I'm sure will have a view on when these medium term goals, when it's realistic come and talk seriously about them again, but it's too early yet. But it is interesting that through the first half of this year, we're basically on track for two of the three of them.

Jon Pruzan

And the only other observation I would make is when we laid out those goals, we hadn't announced E*TRADE transaction yet either. So we're going to -- I think the course of the rest of the year and getting the deal closed and seeing where we end up and then when we come back in January, I'm sure we'll update you on what we're seeing and how we feel about those goals.

Mike Carrier

Okay, makes sense. And just a quick follow-up on E*TRADE, just given a lot of the industry changes in wealth and online banking. You guys mentioned in providing you with online brokerage in like the corporate platform, how are you thinking about like the online banking to kind of aspect and in addition to that RIA custody platforms?

James Gorman

The online banking is clearly additive building out digital banking across our millions of households and our wealth management using the E*TRADE platform so that's clearly additive.

The other question was, I think the RIA platform, early days, but I always -- that's a decent business model. It just isn't one that we've had. Now we've got an opportunity with it through E*TRADE and I like why not, right. That's an opportunity for us to pursue, but it's very early days, it's a tiny business for them. Our major obviously the elephant is that core advisory business, and that's not going to be disrupted. But we'll take a look at the RIA stuff as we get into it next year.

Jon Pruzan

Yes, and I would just add that, the E*TRADE, E*TRADE has performed exceptionally well, during this period sort of validated many of the reasons why we're so excited about during the transaction. Customer activity levels are at record highs, exceptional net new asset and account growth at this point through their public disclosures through May, they've sort of outperformed on new assets and clients sort of all of last year. The plant has held up very well. The technology is excellent. They've had no hard outages. And all the reasons why we bought the company, I think have been enhanced and validated through this period.

Operator

Thank you. Our next question comes from Andrew Lim with SocGen. Your line is now open.

Andrew Lim

Hi, thanks for taking my questions. Great results. I just thought that if you could talk a bit more about your both E*TRADE ambitions. I know obviously the numbers and your targets are going to be disclosed later. But strategically can you talk more specifically about what you currently achieved with the integration in terms of like maybe like ambitions on revenue synergy front? Or would it need like a scale gain obviously like the big UI in asset and wealth management, plus efficiencies you get. And then secondly, a few of your competitors have talked about the shape of fading for the second half. I was wondering what your expectations were for the second half versus the first half, but also versus the second half of 2019. Thank you.

James Gorman

Well, I will touch briefly on the strategic rationale for E*TRADE. We did that earlier this year. But I'll repeat that and Jon I'm sure will have a crystal ball on what the second half is going to look like versus the second half of last year. I'll be interested to hear his crystal ball because we're all kind of curious how it's going to unfold. But I will say I'm very comfortable with Morgan Stanley as an institution through the second half of this year. We have many, many businesses and much of our revenues that are not driven by the volatile trading activities. So anyway, I'll let Jon handle that one.

Just quickly on E*TRADE, Andrew as you know and I think as we said very clearly at the time, it makes us I think the largest player in the workplace sector in this country which is the third channel for client acquisition behind some sort of advisory personal interaction and digital. It makes us the second or third largest player in the digital space and we're the first largest player in the core advisory space. So we're on all three channels. It diversifies our revenues as an institution by adding $3 billion of revenue, it improves our CET1 ratio. It gives us a platform to stay digitally internationally; it creates an opportunity for us to build the digital bank across our wealth management business.

They have a small RIA platform which I mentioned, which is interesting. We have obviously some expense consolidation across the two platforms. They have a terrific brand for a younger generation of investors; they have a terrific brand for more active trader investors and options trading investors, which we're excited about. So there are a long line of things that make this attractive and the test was how did they hold up in this period of incredible volatility. And as Jon just said, they hold up extraordinarily well. They've attracted hundreds of thousands of new accounts.

But with that has come real money, not just kids playing. This is real stuff. They brought in billions of dollars of net new assets and deposits. And their platform has remained very stable. So that is the E*TRADE story. It's a continuing evolution of the Morgan Stanley strategy and a nod to the fact that having stronger digital capability across our wealth management business is critical and a nod to the fact that we're interested in expanding internationally.

Jon Pruzan

I will not attempt to make a crystal ball prediction. But given some of the comments that I made in my opening remarks, clearly, we have a differentiated model with wealth and IM which is sort of the stability of that model. And those businesses should continue to perform quite well.

And then the -- which we referred to historically as wallet, and then the ISG creates some of the alpha. As James said, it would be hard to see how we reproduce the first half results and the second half results. But we also think we'll continue to do quite well given the market share gains that we've made and the client penetration that we have and it's really just going to be a function of what the wallet size is in the second half. And I don't think anyone has the ability to predict what that will be.

Operator

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

Devin Ryan

Right, great. Good morning, I guess first question here with respect to DFAST and thanks for the color and obviously overall positive outcome. But James, you mentioned working with the regulators is stressed scenarios aren't I don't think necessarily reflecting how the business actually behaves. And we've seen that in trading over the past couple of quarters in what's I think a real world stress test. So I'm just curious if these are normal conversations just around future DFAST assumptions and modeling that you kind of always have, or is it related to the 2020 outcome? It sounds like some peers like Goldman are potentially petitioning for some relief so just kind of curious around that comment.

James Gorman

Yes, I think Devin, I don't want to get ahead of the regulators and we haven't obviously discussed anything relating to capital and capital requirements in the light of these earnings, but it's a more fundamental view. If you go back to 2008/2009 regulators would be entirely justified and being highly skeptical of Morgan Stanley's business model at that point, given the trajectory coming out of the financial crisis. And the early days when the integration of Smith Barney looked to be slower than what most people had hoped had never bothered me by the way, but most people were anxious about it.

So there was kind of a period of let's just wait and see. And I think some of the market models that they put in place that affect all of the banks disproportionately hurt Morgan Stanley. As the time has progressed and the business model has played out and the stability the franchise is now fully tested here and was producing ROE over 15% and most of the competitive set are 400 to 800 basis points below that. It certainly gives pause to reflect on the stability of the business model.

Now, let's play it out a couple more quarters. I've said for a long time that PPNR results do not reflect certainly what we think about the business. And for that we believe that there is a model issue relating to financial advisor compensation, how fixed that is believed to be when in fact, it's not fixed at all. It's a commission based structure. So there's potential further regulatory relief on that, which we've been arguing for many years. And I think it's well understood now by the regulators.

But listen, Morgan Stanley is not the Morgan Stanley it was 10 years ago, we're different, we're a different institution. We didn't have the credit provisions that everybody else had. That's not luck, that's by design. We don't have exposure on secured consumer credit, we have very little emerging market credit, we have very little small business, middle market lending. It's by design.

So at some point if your model is built, not to endure the credit kind of hits the other banks naturally have given their portfolio. And you don't have the illiquidity that you had in your trading businesses. And you have the balance of the wealth management and the repetitiveness of those revenues and earnings then you're a different kind of animal. And that's really what we've been arguing for a long time.

I'm not going to get ahead of the regulatory discussions, we've got another CCAR test, Jon coming, I think in the next couple of months. So clearly, that test will reflect the COVID type world more explicitly than the last one. And we'll play it out, we'll play it out. But Morgan Stanley currently has excess capital. And I believe -- we just accreted another $3 billion. I believe we're going to create excess capital through the rest of this year and be sitting with many billions of dollars of excess capital at year-end and we want to do something with that.

Jon Pruzan

Let me just add a couple of quick observations. One, there is a formal appeals process. We are not entertaining that. These are just natural and normal dialogues we have with our regulators and as James said, we've been talking about it with them for years; I do think that we saw some recognition of that in this year's results. Some of the PPNR modeling is more reflective of more recent results. And obviously, given the transformation that we've gone through, we started to see some of that in the results. But again, we think there's more there.

And then on the last point of a resubmission, as James said, the Fed did release sensitivity analysis, it was very geared towards lending and credit losses. As we mentioned, we do have a differentiated portfolio not only in terms of its makeup, but also in terms of its size. We've avoided unsecured consumer, very limited small business, middle market, small commercial banking. So it's just a much different model. And I think it will fare quite well in the resubmission. And obviously, we've all seen what the trading results have been through this mini stress test.

So we feel good about the capital position, we feel good about where we stand in CCAR and we continue to talk to our regulators about sort of the results and the transformation that this company has gone through.

Operator

Thank you. Our next question comes from Robert Rutschow with Wells Fargo. Your line is now open.

Robert Rutschow

Hi, good morning. Thanks for taking the question. First question is on deposits. How did the delay in the tax deadline impact deposits in the second quarter? Have you seen a run-off in the last couple of weeks as we approach the deadline? And is there still an opportunity to reinvest some of those deposits at higher rates to pick-up some yield?

Jon Pruzan

Sure. So it clearly has had an impact. The payment date was yesterday. Typically, we see the runoff sort of post the payment date. Historically, it's sort of been in and around $5 billion to $6 billion. So we would expect something comparable and similar there.

But I think the interesting dynamic around the deposits are, as you said, we have the excess position, we've seen sort of a rotation into the markets really flowing. So if you look at this period, we saw about $20 billion of cash come into the system from a combination of dividends and interest, but also new cash into the system. And only $15 billion of that went into the market so net up $5 billion in BDP.

As I just said, we would expect to see some of that flow out with tax payments. But what we've definitely seen is last year this period, that number would not have been positive at all, it was about a negative $10 billion. So the deposit levels have really stabilized and started to creep up. And I think what the opportunity for us is, as the durability of these deposits increase, and we've seen them pretty stable now. We'll probably just continue to pay down some of our higher costs, wholesale liabilities, we've got about $25 billion of CDs that are run-off over the next 18 months, we clearly don't need to replace those and some other third-party arrangements as well. So it's really going to be around reducing some of the wholesale liabilities and then continue to deploy that into the lending growth that we're seeing in that business.