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PRESENTATION

Operator

Welcome to State Street Corporation's fourth quarter of 2016 earnings conference call and webcast. Today's discussion is being broadcast live on State Street's website at investors. StateStreet.com. This conference call is also being recorded for replay. State Street's conference call is copyrighted and all rights are reserved. This call may not be recorded for rebroadcast or distribution in whole or in part without the express written authorization from State Street Corporation. The only authorized broadcast of this call will be housed on the State Street website.

Now, I would like to introduce Anthony Ostler, Senior Vice President of Investor Relations at State Street.

Anthony Ostler *State Street Corporation - SVP of IR*

Good morning. Thank you all for joining us. On our call today our Chairman and CEO, Jay Hooley, will speak first. Then Mike Bell, our CFO, will take you through our fourth-quarter and full-year 2016 earnings' slide presentation, which is available for download in the Investor Relations section of our website, investors. StateStreet.com. Afterwards, we'll be happy to take questions. During the Q&A, please limit your questions to two questions and then re-queue.

Before we get started, I would like to remind you that today's presentation will include operating-basis and other measures presented on a non-GAAP basis. Reconciliations of these non-GAAP measures to the most directly comparable GAAP or regulatory measure are available in the appendix to our 4Q 2016 slide presentation.

In addition, today's presentation will contain forward-looking statements. Actual results may differ materially from those statements due to a variety of important factors such as those factors referenced in our discussion today, in our 4Q 2016 slide presentation under the heading forward-looking statements, and in our SEC filings including the risk factors section of our 2015 Form 10-K. Our forward-looking statements speak only as of today. We disclaim any obligation to update them, even if our views change.

Now, let me turn it over to Jay.

Jay Hooley *State Street Corporation - Chairman & CEO*

Thanks, Anthony. Good morning, everyone.

In reviewing our fourth-quarter and full-year 2016 results, I want to reinforce that our performance reflects the strength of our business and our commitment to advancing key strategic priorities that support State Street's growth. I'm pleased with our 2016 performance, our major



accomplishments, and the substantial progress we made towards our strategic priorities. In a challenging year, we stayed focused on our client needs, invested in new products and solutions including the acquisition of GE Asset Management, accelerated the pace of State Street's Beacon digitization initiative, and achieved positive fee operating leverage for the full year, excluding the impact of the acceleration of deferred compensation expense in 4Q 2016.

As I just mentioned, we recorded a compensation expense in fourth quarter 2016 reflecting the elimination of the service requirement from the terms of our outstanding deferred cash awards. This accelerated expense will give us the flexibility to improve the mix of cash and equity in our incentive compensation in our organization in future years, which will improve recruitment and retention of talent. Mike will take you through the details of this in a few minutes.

Now, if I refer you to slide 5 on the slide deck, I'll walk you through some of our key achievements this past year. We made advances on our strategic priority to digitize the Company through State Street Beacon, delivering tangible service improvement benefits to clients. By making advances in our goal of digitizing end to end, we're leveraging our strength as a middle- and back-office provider to deliver integrated solutions that improve the data, speed, and overall service experience to our clients. We're investing in solutions to deliver client value across all of our businesses including the data and analytics to help clients comply with SEC modernization. We're also delivering DataGX's capabilities to support our Asset Owner clients as they insource asset management.

We also continue to drive growth from our core franchise. We recorded net asset servicing wins of approximately \$1.4 trillion for the year, including \$180 billion in the fourth quarter, reflecting strong growth with significant participation from Europe. Many of the large wins in 2016 that we highlighted through the year represent clients consolidating their relationship with State Street. For example, in the fourth quarter, we expanded our relationship with Allianz Global Investors that extends our existing service relationship into a strategic global partnership to deliver a broad spectrum of global investment servicing solutions including custody and accounting services.

As a result of our decision to diversify providers, Blackrock will move a portion of their assets, largely common trust funds currently with State Street, to another service provider. State Street remains a significant service provider to Blackrock and the transition will not be fully complete until 2018 and represents just over \$1 trillion in assets. Our total new business yet to be installed at quarter end was just over \$440 billion.

In our SSGA asset management business, overall we experienced net flows of \$16 billion during the fourth quarter. In our ETF business, we had \$36 billion in fourth-quarter 2016 net inflows, and \$52 billion full-year 2016 net inflows, which partially reflects traditional fourth-quarter seasonality into SPY, our S&P 500 ETF, but also reflects continuous investment in our ETF product portfolio and distribution. SSGA also finished 2016 with approximately \$46 billion in assets under management across our target date strategies, a nearly 50% increase in 2015.

We continue to invest in developing products and services that will enable us to meet client needs and drive differentiation. Recent examples include expansion of a suite of environmental, social, and governance, or ESG, investment products at SSGA. We recently launched Currenex X2, the next generation institutional foreign exchange trading platform, with enhanced capabilities to help our clients trade more rapidly and with greater functionality. Our investment in Blockchain distributed ledger application trials that seek to automate or improve the accuracy and processing speed of some of our more complex transactions such as syndicated loans, securities lending, and collateral management.

We remain committed to expense control as reflected by our full-year positive fee operating leverage of 51 basis points for 2016 versus 2015, excluding the effects of the fourth-quarter accelerated deferred compensation expense. Through State Street Beacon, we achieved approximately \$175 million in annual pretax expense savings. During 2016, through share repurchases and common share dividends, we returned just over \$1.9 billion of capital to common shareholders.

I want to go over our four strategic priorities for 2017 that we have laid out for you on slide 6. These are underway now, build upon our momentum coming out of 2016, and support our long-term growth and transformation process into a digital leader in financial services. The priorities include: advancing our digital leadership through State Street Beacon; continuing to drive growth from our core franchise;

continuing to invest in new products and solutions; and achieving our financial goals including generating positive fee operating leverage and continuing to return capital to shareholders.

Before I turn the call over to Mike, I want to welcome Eric Aboaf, who will be moving into the CFO role by early March. Eric joined us in December and is here with us today, but will not have a speaking role in today's call. Eric will be speaking in the first-quarter call on April 26. I'd also like to take a moment to thank Mike Bell for all his work supporting the Firm and our key initiatives.

Now, I'd like to turn the call over to Mike to review our financial performance for the fourth quarter as well as our outlook for 2017. Following that, Mike and I will be available to answer your questions. Mike?

Mike Bell *State Street Corporation - CFO*

Thank you, Jay. Good morning, everyone.

This morning, I'll start my review of our fourth-quarter 2016 and full-year 2016 results on slide 7. Slide 7 highlights two notable items that impacted 4Q 2016 and full-year 2016 GAAP and operating-basis results. First, we recorded tax benefits amounting to a total of \$0.54 of earnings per share. This includes \$145 million associated with the designation of certain of our foreign earnings as indefinitely invested overseas, based upon our review of our need for capital liquidity in future investment. The income tax benefits also included a \$66 million tax benefit attributable to incremental foreign tax credits and a foreign affiliate tax loss.

Second, as Jay mentioned, we accelerated the expense associated with outstanding deferred cash incentive compensation awards to our employees below the level of Executive Vice President by removing the continued service requirement associated with these existing deferred cash awards. The schedule of the payments of these existing awards has not changed. The impact of this acceleration increased 4Q 2016 expenses by approximately \$249 million. The expense that would otherwise have been associated with these cash-settled incentive compensation awards will no longer be reflected in future periods. The acceleration of the expense is expected to financially allow us to increase the immediate cash component of incentive compensation in future periods relative to the mix in our awards in recent years. Importantly, we expect the expense impact of increasing the mix of cash in 2017 incentive awards will approximately offset the going-forward effects of the 4Q 2016 acceleration in 2017.

Now turn to slide 8 in the slide presentation for a summary of our operating-basis results for full-year 2016 and 4Q 2016. 2016 results included a slow start to the year for US markets and lower average daily values for international equity markets throughout the year. We also saw client redemptions in the hedge fund business and other unfavorable asset mix changes. Despite these headwinds, full-year 2016 EPS increased approximately 8% and ROE increased to 11.1%. This includes the impact of the fourth-quarter notable items.

Excluding the 4Q 2016 expense associated with the acceleration of deferred cash incentive compensation and the 4Q 2016 tax benefits, 2016 full-year EPS increased 5% and ROE increased slightly. Our 2016 pre-tax margin of 27.1% decreased relative to 2015. Nevertheless, excluding the 4Q 2016 expense associated with the acceleration of deferred cash incentive compensation and the impact of the acquired GE Asset Management business, the 2016 pretax margin increased approximately 60 basis points to 29.7%.

Turning now to 4Q 2016, EPS of \$1.48 increased from \$1.21 in the year-ago quarter and increased from \$1.35 in 3Q 2016. As I mentioned earlier, 4Q 2016 EPS includes a net \$0.13 benefit associated with the notable items. On the capital front, in 4Q 2016, we declared a common stock dividend of \$0.38 a share and purchased \$325 million of our common stock.

Moving to slide 9, I'd like to highlight that, excluding the expense associated with the acceleration of deferred cash awards and the impact of the acquired GE business, we demonstrated continued progress in managing expenses for full-year 2016, resulting in 51 basis points of positive fee operating leverage.

Please turn to slides 10 and 11, and I'll briefly review 4Q 2016 operating-basis fee revenue. Compared to 4Q 2015, the stronger US dollar negatively impacted operating-basis fee revenue with a corresponding benefit to total expenses of \$27 million. On a constant currency basis and excluding the impact associated with the acquired GE business, 4Q 2016 fee revenues increased by approximately 4% relative to 4Q 2015. Specifically, servicing fees increased, reflecting new business across our servicing lines, partially offset by the impact of the stronger

US dollar, client redemptions in the hedge fund business, and an unfavorable asset mix change. Servicing fees decreased from 3Q 2016, primarily reflecting the impact of the stronger US dollar as new business was approximately offset by hedge fund out-loads and an unfavorable asset mix change.

Management fees increased from 4Q 2015. Excluding the impact of currency translation and the acquired GE business, management fees were up \$22 million or 8%, primarily driven by the elimination of money market fee waivers, higher equity markets, and strong ETF flows, partially offset by outflows in cash and sovereign funds. Foreign exchange trading revenue increased from 4Q 2015 and 3Q 2016, reflecting higher volatility and client related volumes. Securities finance revenue increased from 4Q 2015, primarily reflecting growth in enhanced custody, partially offset by lower agency revenue. Processing fees and other revenue decreased from 4Q 2015 and 3Q 2016, reflecting unfavorable valuation adjustments, which include the unfavorable impact of higher FX swap costs and lower revenue from joint ventures, partially offset by higher revenue associated with tax advantaged investments.

Moving to slide 12, net interest revenue increased from 4Q 2015, primarily reflecting higher market interest rates in the US, higher than normal discrete security prepayments of approximately \$8 million, and disciplined liability pricing.

Now turn to slide 13 to review 4Q 2016 operating-basis expenses. Notably, expense control continued in 4Q 2016. Excluding the expense associated with the acceleration of deferred cash incentive compensation, total expenses decreased from 3Q 2016. Compared to the year-ago quarter and excluding the expense associated with the acceleration of deferred cash incentive compensation and the GE acquisition, expenses increased less than 1%, primarily reflecting strong progress on State Street Beacon, effective management of our other operating expenses, and the benefit of the US dollar.

Let me now move to slide 15 to review our capital highlights. Our capital ratios remained strong, which has enabled us to deliver on a key priority of returning capital to shareholders through dividends and common stock repurchases. Compared to September 30, our Common Equity Tier 1 ratio decreased under the fully phased-in standardized and advanced approach, primarily driven by a decrease in the after-tax unrealized mark-to-market position within the AFS investment portfolio due to higher interest rates, as well as reductions in FX translation due to the stronger US dollar. The December 31 fully phased-in supplementary leverage ratio at the corporation and the bank also decreased, driven by a lower after-tax unrealized mark-to-market position within the AFS investment portfolio.

Now, I'll comment briefly on the final TLAC rule that was issued in December and becomes effective January 1, 2019. The final rule was largely in line with our prior expectations. Based on the external long-term debt requirements linked to our SLR, we currently estimate that we will need to issue incremental qualifying debt of approximately \$2 billion.

Moving on to the next slide, I'll briefly provide an update to our recently completed acquisition of GE Asset Management. The acquired GE Asset Management operations continue to support our plan to allocate capital to higher growth and return businesses. In 4Q 2016, these operations contributed \$64 million in estimated operating-basis revenue and \$58 million in estimated operating-basis expenses, excluding merger and integration expenses and financing costs. We continue to expect the acquisition to be accretive to operating-basis EPS and for revenue to exceed \$270 million for the 12-month period beginning July 1, 2016. Importantly, as the integration progresses, we expect further revenue growth and expense synergies in the first half of 2017.

Moving to slide 17, I'll update you on where we stand regarding our financial outlook. In 2017, we remain focused on key priorities of returning capital to shareholders, prudently managing expenses, and executing on State Street Beacon, as well as driving growth in our core franchise by delivering solutions to our clients. Importantly, in 2017, we are targeting positive fee operating leverage of 100 to 200 basis points. Supporting this target, we expect operating-basis fee revenue to grow by 4% to 6%. We've increased our expected 2017 net State Street Beacon operating-basis savings to \$140 million.

Turning to net interest revenue, we've developed two scenarios for 2017 operating-basis NIR. The first scenario assumes market interest rates remain at December 31 levels. Under this scenario, we expect operating-basis NIR to be in a range of approximately \$2.2 billion to \$2.23 billion. The second scenario assumes US central bank hikes of 25 basis points in both March and September. Under this scenario, we expect full-year 2017 operating-basis NIR to be in a range of \$2.27 billion and \$2.3 billion. Notably, 2017 NIR will also be impacted by the level of



deposits, the deposits swapped to US dollars, and the associated expense will depend on further potential interest rate diversions between the respective currencies that we swap. We currently expect our operating-basis tax rate to be 30% to 32%, which does not assume any potential tax law changes due to the high level of uncertainty.

Let me briefly touch on 1Q 2017 before turning to the last slide. While our first-quarter 2017 revenue will be impacted by market conditions, we expect to generate positive fee operating leverage relative to 1Q 2016 supported by our continued focus on expense management. Also, it's important to highlight, as in prior years, 1Q 2017 compensation and employee benefits expense will be seasonally higher due to the effect of the accounting treatment of equity compensation from retirement-eligible employees as well as for payroll taxes and associated benefits. We expect the incremental amount attributable to equity compensation for retirement-eligible employees and payroll taxes in 1Q 2017 to be in a range of \$150 million to \$160 million compared to \$122 million in 1Q 2016.

Moving to the last slide, let me briefly review our 2017 balance sheet and capital outlook. We expect the balance sheet to modestly decline in 2017, driven by lower client deposits, and lower wholesaled CD levels, with a corresponding decrease in the average earning assets of approximately zero to 5% compared to the 4Q 2016 average earning asset levels. On the capital front, we have approximately \$750 million remaining under our June 2016 common stock purchase program. And evolving regulatory and liquidity expectations may lead to issuances of both preferred shares and long-term debt in 2017.

In summary, despite the environmental headwinds that we've experienced, we are pleased with 4Q 2016 and full-year 2016 results and believe we are well-positioned to achieve our 2017 financial objectives. Now, let me turn the call back to Jay.

Jay Hooley State Street Corporation - Chairman & CEO

Thanks, Mike. Victoria, that ends our prepared remarks. We're now looking forward to have you opening the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Glenn Schorr, Evercore.

Glenn Schorr Evercore ISI - Analyst

Just a couple of clarification questions on the Blackrock piece of business. From what I understand, it was put up for RFP, which to me means that you had a battle in your mind with how do you think about defending pre-tax margins versus retaining the business. So I didn't know if there's something you could tell us about the average fee rate for this business? I'm assuming it's lower because it's \$1 trillion book. If there's anything unique about the common trust fund that, that would be the piece of business that would get moved?

Jay Hooley State Street Corporation - Chairman & CEO

Yes. Let me just give you a little additional color on that, Glenn. I'll just wind back a little bit, Blackrock has been a client of State Street's from the very beginning, 1988, their first funds. We've been fortunate to be joined at the hip with them through this successful journey of asset growth. We think we've contributed somewhat to their success, both ETFs and otherwise.

As they grew, got to \$5.5 trillion in assets, they came to us and said that they needed to consider some diversification, which while not our first choice, we appreciated where they were coming from. So, the common trust funds are like mutual funds under a bank structure, there's nothing terribly special about them.

We had a relationship that considered -- that had custody and fund accounting associated with us with it. They told us they were going to move it to another provider, which, I say, while disappointed we appreciated where they were coming from. It will probably take them 1.5 years to do that, so they'll do that over the course of the next 1.5 years.

Importantly, we continue to be Blackrock's service provider in their high growth ETF business. We have a significant global relationship



with Blackrock. So, I view it as kind of a one-off adjustment for Blackrock to get better diversified. We're pleased and thrilled with the Blackrock relationship, think it will continue to grow, and we'll grow with it.

The other point that I would make, which is, I think an important point is that, in no way do I think it represents anything close to a trend. In fact, the trend has actually been the other way, which is we actually announced this morning the expansion of the Allianz Global Investors relationship, which spans Europe, Asia-Pacific. In the past years, we've announced several deals, MetLife, Babson Capital, PIMCO, Russell.

So the overwhelming trend in the industry is to consolidate with fewer providers for reasons of cost. It's more expensive for an asset manager to deal with multiple counter-parties. Probably even more importantly, the need to extract data for investment management, compliance, and risk management. The more counter-parties you have, the more complicated that is.

So I would say in sum, we're thrilled to be associated with a firm as successful as Blackrock. One of the consequences of that is when they grow so rapidly over a long period of time, they've chosen to make an allocation adjustment of their service providers. We support that. We'll make sure that the transition goes well. We think Blackrock will continue to grow us. By no means do I view it as a trend, more as a one-off situation.

Glenn Schorr *Evercore ISI - Analyst*

I definitely appreciate all that. If we step outside the Blackrock piece and if we were just talking about the quarter. I think probably the next question I would probably ask would be some version of assets under custody up 6%, but core servicing fees up 2%. Is there anything unique in the quarter from market movement to show? Or is there just -- that's just natural fee compression that the business has been doing for the last 20 years?

Jay Hooley *State Street Corporation - Chairman & CEO*

Yes, I would say -- let me just explain it a little bit. Again, I'll broaden it out past the quarter. I think, if you look at the quarter, the things that were positives would be equity markets and new business. The things that flow the other way would be, Mike mentioned this, the strong US dollar, and the downward pressure on international markets, particularly emerging markets. So those are the market effects.

The other effects, Glenn, which we continue to bring up but are important is the way money flows within our clients and subsequently with us. You've seen flows out of the emerging markets, out of hedge funds. Now, I believe that both of those are cyclical trends and that we'll see some reversion in both of those.

Then the other flow trend, which is more secular in my mind is the flow to ETFs. You've seen in the US the stunning outflows, the funds inflows to ETFs. We service over 60% of the ETF market. So net-net that's a positive for us, but it's at a low fee rate. So when you put all those things together, in the quarter you saw the numbers that you had suggested. But I'd also ask you to widen the lens and look over the past two or three years. If you look at service fees as a percentage of AUCA, it's really pretty consistent at 1.8%, 1.83%, 1.84%.

So, I think the -- if you look at the consistency over time, all of the mix shifts and the effects of the environment, most of which I described, which leads me to the focus on profitability, both at a firm level and at a client level. So I think that is -- that's how we focus. We can't control the environment. Nor can we control the flows, but I think we've been smart about migrating our business to the alternatives and also the servicing of the ETFs, so we think we capture all the buckets, but they'll move around in time.

Glenn Schorr *Evercore ISI - Analyst*

Right. Okay. I appreciate that. Thank you.

Operator

Ken Usdin, Jefferies.

Ken Usdin *Jefferies LLC - Analyst*

I wanted to ask on the cost side, to your comments about you're leaving in fee operating leverage in 2017. Just wanted to try and understand, Mike, your opening comments about how this new change in the compensation plan works through that in terms of seemingly adding to the

underlying growth rate in 2017 because of that change?

So I guess if you can kind of try to help us understand just the moving parts underneath it? There's the FX translation. There's the adds from GE. There's the \$140 million. Then there's some level of underlying inflation. Any way of just understanding kind of what's happening underneath the surface would be really helpful. Thanks.

Mike Bell *State Street Corporation - CFO*

Okay. Ken, good morning. First, in terms of the compensation change, I think importantly, Ken, we don't expect there to be a net impact in 2017 from the compensation change that Jay and I talked about here this morning. So the reason for that is that we expect in 2017 to increase our cash mix of incentive comp that would then be payable in February 2018 but would be accrued as an expense throughout 2017.

We expect that increase in the cash incentive comp mix, which is really driven by this stiff competition that we're dealing with in terms of competing for talent. We would expect that to be approximately offset by the lower amortization expense in 2017 from accelerating the expense of these cash -- deferred cash incentive awards into 4Q 2016. So net-net we would expect that change to be approximately flat in terms of the full-year impact on 2017.

In terms of the -- your question on other adds and reductions to comp, I think you talked about the main ones that I would highlight. First of all, obviously we acquired the GE business July 1, so next year we've got a full year worth of expenses there. You can see from our disclosures, the expenses associated with the acquired operations.

In addition, we've been adding a significant amount of new business. Obviously that comes with revenue, but it also, there's a cost to service that new business. We would expect that to be an add in 2017. We do expect that the -- that there will be additional investments, not just in project Beacon but also investments to support the long-term growth of the business. We are focused on long-term shareholder value, not just the results for 2017.

As you correctly pointed out, we expect the net savings from Beacon to reduce that rather significantly. We expect \$140 million of net savings from Beacon in 2017. So the bottom line is, Ken, without trying to focus precisely on the exact expense growth for the full year, what we're really riveted on is that 100 to 200 basis points of positive fee operating leverage.

Because, again, we're going to have some wins. We expect that to add to revenue growth. We'll need to service that, but basically, what we're really riveted on is creating another year of positive fee operating leverage that's actually higher than what we did in 2016. That puts us on that trajectory to get to the 31% pretax profit margin for 2018.

Ken Usdin *Jefferies LLC - Analyst*

Okay. Got it. Thanks for all that color. Then, just as a second question, on capital, pretty big movement in the unrealized gains and losses from the movement in rates. You mentioned perhaps the need to issue preferreds. I just wanted to ask, where's your comfort zone and where you want to sit on your excess to capital ratios, whether it's CET1, Tier 1 leverage, SLR? Would any changes in rates potentially weigh on the amount of capital returns you would ask for as a result?

Mike Bell *State Street Corporation - CFO*

Okay, thanks, Ken. First, I would point out that our capital ratios remained quite strong as we wrapped up the year. First looking at CET1, you can see that we ended well above our 10% long-term target. For the bank SLR, on a fully phased-in basis, we remain above the 6% bank SLR. Now, candidly, one of the reasons that we've had cushion in our targets -- one of the reasons that we've had a target of 10% for CET1 is to deal with the kind of short-term volatility that we saw in Q4, both the mark-to-market hit from the higher interest rates but also the hit to the CET1 ratio from the stronger US dollar.

That's exactly the reason that we have cushion is to deal with that kind of short-term volatility. So, the bottom line is we're comfortable with our spot rate capital ratios here as we wrap up the year. I think that the big uncertainty is around the Fed stress test. We don't have the scenarios yet. We obviously don't know -- but I would expect that based on prior years that the Fed stress test will probably end up being our binding constraint.



Depending upon exactly what that stress test looks like, prefs would be part of the overall menu of options that we would look at for 2017. But I think it's way too early to speculate on what we might issue and also how that would come into play with the capital return to common shareholders that we would also look at as part of that capital plan submission.

Ken Usdin Jefferies LLC - Analyst

Thanks, Mike.

Mike Bell State Street Corporation - CFO

Thank you, Ken.

Operator

Brennan Hawken, UBS.

Brennan Hawken UBS - Analyst

I just wanted to follow-up on Ken's question on comp. So could you let us know -- my guess is that for the nearly \$250 million, the \$249 million deferral charge, that the majority just given the way usually those deferral profiles look, the majority would have been hitting in 201. So could you confirm that's right? If it's possible maybe quantify it for us? Also, are you removing all of the continued service requirements for the employee classes that you laid out? Does that raise any concerns? Then, I don't hear a lot about competition for talent increasing. So could you maybe square that with some of your comments and concerns about retention?

Mike Bell State Street Corporation - CFO

Sure. So good morning, Brennan, it's Mike. I'll start and see if Jay wants to add. First, on your numerical question, the \$249 million would have been amortized over three years. So it would have been amortized over 2017, 2018, and 2019. But you're absolutely right because these were awards that were originally granted 2014, 2015, and 2016, there's a disproportionate impact on 2017 of that \$249 million that gets accelerated. So I'd rather not give precise numbers.

But round numbers if you think about it as in the ballpark of 50% of that number, you wouldn't be far off. So basically think of it as those expense savings for 2017, by not having the amortization expense, we expect to be approximately offset by accruing throughout 2017 for a higher cash mix for the cash awards that will then be paid out in February 2018 based on our performance in 2017.

So that's why I say net-net, I don't expect there to be much of an impact in 2017 from the change. Obviously, when you get to the outer years ultimately there would be expense savings because the awards that we'll be issuing in February of 2018 in particular will have less deferred, more cash, so therefore less expense ultimately in the outer years, but probably no impact in 2017.

On your question on the continued service requirements, importantly Brennan, a couple things. First, this only applies to the deferred cash awards. It does not apply to the deferred equity awards that have been issued previously. In the deferred equity awards, it's obviously different for different people but tend to be higher, quite a bit higher, actually than the deferred cash.

So no, we're not concerned about that having a significant impact on employee turnover as a result of that as the equity awards that people would be walking away from remain quite significant. I also would add that this doesn't have any impact to our Executive Vice President population. So the top, I'll call it, 70 people are not impacted by any of this, that piece is carved out.

Then lastly in terms of your point on talent, I mean we continue to see stiff competition for top talent, which is really why we concluded we needed to make this change now. I mean, what's happened, Brennan, is we've become a competitive outlier here. As to the market, it has basically shifted to a higher percentage of cash over the last several years. So our mix became an outlier and basically we concluded that this is the time to make that change.



Brennan Hawken UBS - Analyst

Okay. That's all really helpful color, Mike. Hopefully, the trends in competition for talent in trust banks are going to bleed over to investment banks here soon. (laughter) We can -- the other question would be on your interest rate guidance. So very helpful that you laid that out for us. Thank you.

If we do end up getting maybe three hikes instead of the two in your upside scenario, how should we think about that impacting NII? My guess would be it would be a little bit less than additional -- from the midpoint -- using the midpoint as a guide just given beta and a shift higher to higher betas on your deposit base as we get higher in rates, is that right? Or should we think about it differently?

Mike Bell State Street Corporation - CFO

I think that's very fair, Brennan. The first rate increase a little over a year ago now, accrued very highly to our benefit. This last hike in December, as well as the first hike in -- actually, the first two hikes in 2017. We expect to be pretty significantly accretive to us, but we do expect as rates rise and ideally ultimately get back to more like long-term averages that more of that would be shared in terms of higher liability pricing, but that it would still be net-net accretive to us.

So your specific question on a third hike in 2017. Obviously, it would largely depend on the timing of that hike, but I think about it as round numbers that could be another 10 to 15 million per quarter depending upon exactly the timing of that third hike versus the other two.

Brennan Hawken UBS - Analyst

Yes, okay. That makes a lot of sense. Thanks for all the color, Mike. Best of luck in future endeavors.

Mike Bell State Street Corporation - CFO

Thank you, Brennan.

Operator

Jim Mitchell, Buckingham Research.

Jim Mitchell Buckingham Research Group - Analyst

Maybe we could talk a little bit about the tax rate going forward? There's been a lot of moving parts particularly with all the tax credits and with the contemplation of tax reform. How do we think of, I guess, first your GAAP tax rate including the credits on a go-forward basis? How you think about the risk of losing those credits versus where the tax rate goes? That would be helpful.

Mike Bell State Street Corporation - CFO

Okay. Good morning, Jim, it's Mike. First, there is tremendous, I mean really substantial uncertainty around where all these tax law changes are going. I think importantly, Jim, it's the details rather than the headlines that are going to be very important. So, just as a couple of examples: it's particularly unclear at this point how potential changes would apply to financial services companies.

Talking about a border tax or a lack of deduction for interest expense, I mean, those kinds of things, it's very unclear what that would mean in terms of a financial services firm in particular. At this point, I really wouldn't speculate on the broader picture. In terms of your specific question around tax advantaged investments, again, the devil will be in the details.

It is possible that the tax investments that we've had a lot of success with over the last several years become incrementally less valuable, in a lower tax rate environment or in an environment where there's less tax credits for the alternative energy in particular. I feel positive that the existing investments that we have do have contractual protections to protect us in terms of near-term cash flow. Again, I think this is an uncertain situation and that really there will be a lot of devil in the details as proposals really get fleshed out.

Jim Mitchell Buckingham Research Group - Analyst

How do we think about the GAAP tax rate on a go-forward basis?

Mike Bell State Street Corporation - CFO

Again, I just think it's completely speculative. It will depend upon --

Jim Mitchell Buckingham Research Group - Analyst

I meant excluding any tax changes, just you know --

Mike Bell State Street Corporation - CFO

Oh, I'm with you. Yes, I would expect that the, again, take away the one-time benefits that we saw in Q4, but barring any tax change I would model it similarly to what we saw in 2016, again, importantly exclude the Q4 tax benefits that we singled out in the release and in my prepared remarks.

Jim Mitchell Buckingham Research Group - Analyst

Okay. Thanks for that. Then maybe just one last other question on Blackrock follow-up. Is there a way to think about the fee rate of that? I understand obviously you guys announced this morning about \$450 billion, I think. Is that incremental wins? When we think about your guidance this year, is that inclusive of the Blackrock, and the new win this morning, just maybe some further clarification would be great.

Mike Bell State Street Corporation - CFO

Sure, Jim, I'll start and see if Jay wants to add or edit. But first, we really don't get into details about specific client arrangements. That would be a very bad practice, but it is fair to conclude that Blackrock as well as the recent wins are anticipated in the 4% to 6% and the fee operating leverage goals that we laid out for 2017. Importantly, as Jay indicated, we don't expect Blackrock to have a material effect until beginning in the second half of 2017. So as Jay said, this is going to spill into 2018 as well, so we expect that to take a while to get picked up in the run rate.

Jim Mitchell Buckingham Research Group - Analyst

Okay. Great, thanks.

Jay Hooley State Street Corporation - Chairman & CEO

Jim, the only thing I would add is, in the same way, we've talked about the stickiness of this business when somebody exits, it takes a fairly protracted period of time. So the effect on revenue will phase-in over, my guess, is 1.5 years or so.

Jim Mitchell Buckingham Research Group - Analyst

Great. Okay, great. Thanks, guys.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein Goldman Sachs - Analyst

Just picking up on the last question, sorry, just another clarification I guess around Blackrock. When you guys win a sizable mandate, obviously it often comes with a lot of expenses associated with it. So, we can take a guess on the revenue impact. But is there any expense relief that you could get on the back of that \$1 trillion leaving?

Jay Hooley State Street Corporation - Chairman & CEO

Sure, I mean I think the good news is that, as I mentioned, we booked \$1 trillion for this year. We've got \$440 billion that's still rolling in. These are resources that will redeploy. So, I don't see much in the way of stranded costs here given our expectation for continued growth. Is that what your question was Alex?

Alex Blostein Goldman Sachs - Analyst

Yes, just again, like at the end of the day, people are just trying to figure out the impact on earnings. It's probably not fair to assume 100% incremental margin on the loss revenue.

Jay Hooley State Street Corporation - Chairman & CEO

Correct, not at all.

Alex Blostein Goldman Sachs - Analyst

Right. Thanks. Then just shifting gears a bit back to the NIR discussion. I know you guys talked about the balance sheet would be down about zero to 5%. Is that again something that you're trying to do practically, meaning shrink the size of the balance sheet? Or is that just kind of what you generally expect with higher interest rates? A clarification on the TLAC, the \$2 billion, I'm assuming it's in the NIR guidance for 2017?

Mike Bell State Street Corporation - CFO

Let me answer the real easy one first, yes the TLAC is included in the NIR outlook, Alex, that we talked about. On your question on the reduction in the balance sheet. It's really a combination of the two factors that you described. First of all, we do expect to further reduce wholesale CD balances in 2017. That's been part of our plan all along, so I would -- I think that is on track, and I would expect that to take, round numbers, \$5 billion out of the balance sheet by the end of 2017.

In addition, we do expect up to, call it, \$10 billion of client deposits to come off. Some of that we expect to come off naturally as the Fed fund rate continues to increase and they find alternative homes for that -- for that investment balance. But some of it is proactively looking to further reduce excess deposits particularly in the locations outside the US and in particular EMEA would be an example of where we're looking to further reduce excess deposits.

Alex Blostein Goldman Sachs - Analyst

Okay. Thanks so much.

Operator

Mike Mayo, CLSA.

Mike Mayo CLSA Limited - Analyst

It's CLSA. (laughter) So assuming we're willing to accept your premise that the loss of the \$1 trillion does not reflect a trend, it happened from time to time. You mentioned the \$1.4 trillion of wins in 2016. You have a backlog. So let's just accept that for this discussion. But still it raises the question, are you guys just in some ferocious price competition? I mean did you lose this on price? I mean if this is the world's worst oligopoly, is this just additional evidence of that?

Jay Hooley State Street Corporation - Chairman & CEO

Yes. No, I don't believe -- you'd have to ask Blackrock I guess. It is merely a matter of us growing so big together and then having the need to introduce another supplier, pure and simple as that. I mean, I think that, good it was the common trust funds, not the EFTs. I think it was a rational move for them. But as I said, not something we'd choose but I understand their rationale when you get to be \$5.5 trillion. So I would say, it is more -- much more reflective of the diversification strategy of Blackrock.

Mike Mayo CLSA Limited - Analyst

I mean, did you try to keep the business? It's not new that Blackrock's big. I mean, why now?

Jay Hooley State Street Corporation - Chairman & CEO

I think there's been an ongoing discussion with Blackrock on this point. They chose this book of business to diversify. That's their call.

Mike Mayo CLSA Limited - Analyst

On slide 17, when you give fee guidance for 2017 of 4% to 6%, does that reflect the lost Blackrock business? Or would that be more of a 2018 impact?

Jay Hooley State Street Corporation - Chairman & CEO

I think it will phase-in, Mike. My guess is through the second half of 2017, we'll see a little bit. Then in 2018, it will continue to drift in. So, yes, it certainly reflects any impact of Blackrock.

Mike Mayo CLSA Limited - Analyst

Then last question, you continue to give targets for fee operating leverage but not for operating leverage for the T as a whole. Don't your clients pay you in compensating balances? With rates going up, would you think about changing that target?

Jay Hooley State Street Corporation - Chairman & CEO

Yes. No, we came to that target just to isolate the net interest revenue from the things that we control. We certainly get paid in balances, which create net interest revenue. I think this year depending on the scenario you pick, the net interest revenue might grow in line with core revenue and therefore, we would transition over to something that looks like operating leverage, generally. If NIR is growing more rapidly, we'd expect a wider operating leverage target.

Mike Bell State Street Corporation - CFO

Mike, just to add to that, the -- I mean, we continue to establish as an objective getting to a 31% pretax margin in 2018. Obviously, that's all in as well, so that has not changed from what targets we communicated 1.5 years ago.

Mike Mayo CLSA Limited - Analyst

Hey, I'll cheat. Mike Bell, just one last comment. This is your last call I guess. As you look back, what would you say, hey, this is a really good accomplishment that you achieved? What's one thing that you didn't quite get done that you hope the Firm gets done?

Mike Bell State Street Corporation - CFO

That's an interesting question. I would say that I feel best about the capital management discipline that we've had as an overall Firm but also applying it at the business and the client level, Mike, is what I feel best about I would say that in terms of work that still needs to get done that I'm sure Eric will have a thoroughly enjoyable time dealing with is the regulatory issues. I mean, we still have a lot of wood to chop in that area. While I would have loved to have gotten all of that done before I left, I think that wood is still remaining to chop

Mike Mayo CLSA Limited - Analyst

Thank you.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell Deutsche Bank - Analyst

Jay, maybe just not to beat the dead horse on Blackrock here, but can you talk about what you are still doing for Blackrock? (inaudible) back to the iShares franchise, whether that's intact. I think that was inherited from the [Ison] deal in 2007. If you can comment on any other types of business? Then clearly the mix shift with this would shift it more towards ETS. You mentioned obviously that's a secular trend. Can you talk a little bit about the profit dynamics of servicing ETFs versus mutual fund? I understand it's lower revenue but to what extent do you make the offset on expenses?

Jay Hooley State Street Corporation - Chairman & CEO

Sure. Happy to pick that up. The -- as I mentioned the Blackrock relationship is long standing and significant. It's global. It encompasses the ETFs, many of their mutual fund products and their institutional products all over the world. So, we cover most things, this common trust fund was, just one sleeve of that, but a very comprehensive, global, and also tightly integrated from a standpoint of back office and middle office integration with Aladdin, so it's an extensive and valued relationship.

With regard to the mix shift and as you rightly point out, from packaged product in the way of funds into ETFs, we do have a lower unit of revenue on an ETF, but profitability is quite similar to what you find in a traditional fund structure, which is why you see a little bit of -- from my earlier comment, which is why, you know, you see the service fee per AUCA having downward pressure but shouldn't affect



margin.

I guess the other point I would make as in most of our businesses, the more scale you have, the more margin you should create, and so with the ETF business growing as rapidly as it is and with us having invested in pretty significant, or I would say differentiated technology, we would expect, we have the ability to scale and prove that margin over time as ETFs grow, which we think they'll continue to.

Brian Bedell Deutsche Bank - Analyst

Great. Then maybe just on the guidance for the fees and expenses, the positive operating leverage. It sound like you're saying that January market conditions are the basis for the fee outlook for 2017. But can you comment on your view of hedge fund redemptions? I know you said that impacted the fee rates in 4Q so to the -- what extent are you baking that in for coming into 2017 around that 4% to 6% guidance?

Mike Bell State Street Corporation - CFO

So Brian, it's Mike. First there are any number of factors that are going to impact fee revenue growth in 2017. So, you're picking on a couple of them, but I mean, there are a whole host of other issues that we could talk about. Not the least of which is the mix shift that we saw in 2016 work against us in terms of emerging markets versus developed markets. That's another wild card for 2017.

To answer your questions directly, yes, we're assuming that in that 4% to 6% range, rare market conditions are here in January. Obviously that means upside, if there's a continued run-up in the equity markets, a downside of if it doesn't. In the hedge funds, it's difficult to project that beyond the near term. I mean in the near term, we've continued to see pressure. We've thought about that as we developed the 4% to 6%.

But as Jay indicated earlier, we expect that really to be more of a cyclical phenomenon rather than a secular trend. So over the long-term, we would expect the mix impact that we had in 2016 to longer term ultimately reverse and to see more growth in emerging markets versus developed markets and also additional growth in the hedge fund servicing business.

Brian Bedell Deutsche Bank - Analyst

Okay. Then just a mix of the 4% to 6% between the revenue lines, is that the 4% to 6% also a good assumption for the servicing fees and then obviously the other ancillary in that range? Or is there a big difference between those two?

Mike Bell State Street Corporation - CFO

I'd rather not go line by line, but I would point out that SSGA, we expect additional growth because you need to annualize the GE Asset Management revenues. So that provides a discreet boost of between 1.5% and 2% to total full-year fee revenue for 2017 versus 2016, just getting the additional six months of that.

So I would expect that the SSGA revenues would grow faster than the others, but I mean, the trading environment is unclear. On sec finance, I this we'll go see Continued Growth in enhanced custody, but the market conditions around the agency business are really a known area of uncertainty. It will be what it will be. In aggregate, we feel comfortable that 4% to 6% is the current outlook.

Brian Bedell Deutsche Bank - Analyst

Great, great, thanks for taking my questions.

Operator

Marty Mosby, Vining Sparks.

Marty Mosby Vining Sparks - Analyst

I wanted to ask a little about the NII. So when you're looking at the 6% increase from fourth quarter of 2015 to fourth quarter 2016, that only included really one rate hike. The static only has 1% to 3% growth over the next year, which would also include, an additional rate hike that we just got in last December. So it seems like we're assuming that the deposit beta is in run-off of deposits is accelerating pretty rapidly as you move just to the second rate hike versus what we have seen over the last year. So just was wondering if you could reconcile those two? Then looking at the 6%, it looks still on the next round of rising still a little conservative there.



Mike Bell State Street Corporation - CFO

Well, Marty, again, there are a lot of different factors that are going to come into play here. I did have a couple of specific data points that you might want to think about for your modeling. First of all, if you're going to use 4Q 2016 as your starting point, I would strongly suggest that you take the \$8 million of discreet prepayments out of there. We do not expect that to be the -- a run rate of steady securities prepayments over the course of 2017.

So I'd take the \$547 million in Q4 and back out the \$8 million, and you get to \$539 million. So if you then look at the \$539 million compared to our static scenario, there's an uplift of \$70 million there that basically reflects the Q4, the December rate hike that we all experienced. So I would characterize that \$70 million of accretion to be a significant benefit and something that we're very pleased with.

It's driven by not just market conditions but the fact that we feel good that we're focused on the liability pricing actions as well, which makes that as accretive as it is. The other factor that I'd urge you to think about here is that the situation in Europe remains unhelpful. In particular, the combination of the negative central bank rates coupled with the significant quantitative easing program, it means that we continue to see a grind in net interest revenue for the non-US dollar portfolios. So that's baked into the thinking for 2017 as well. Obviously, it would be a happier picture if all we were focused on was US.

Marty Mosby Vining Sparks - Analyst

Then Jay, second question was, I know we've hit this Blackrock thing a couple different ways, but the only thing that I was curious about was given you all's new initiative to be able to report on flows that you're seeing, obviously not by a customer but being able to look at aggregate types of statistics as Blackrock would be a large part of that aggregate. Is this diversification in the sense of foreseeing or fore-thinking about the new product that you have, and then not wanting to be too big of a reflection in that index.

Jay Hooley State Street Corporation - Chairman & CEO

Yes. Interesting question, Marty. No, I think that with \$28 trillion-ish, the need for data from a statistical reliability standpoint, \$1 trillion wouldn't affect that one way or the other. Nor was it in any way in my discussions with Blackrock in their calculation. I think everybody feels quite comfortable that when we aggregate information that it's all masked, that we have more than enough to create statistical valid samples. Blackrock wouldn't affect that.

Marty Mosby Vining Sparks - Analyst

Thanks.

Operator

Geoffrey Elliot, Autonomous Research.

Geoffrey Elliott Autonomous Research - Analyst

It sounded like the sort of diversification initiative that Blackrock is undertaking, that sounded quite unusual from what you were saying. Was that right? It's much more common for someone to focus on just a single provider?

Jay Hooley State Street Corporation - Chairman & CEO

Yes, very unusual, but there's also not a lot of \$5.5 trillion (laughter) management groups around either. Yes, unusual though, if you think about in my history here it's quite unusual.

Geoffrey Elliott Autonomous Research - Analyst

What gives you comfort that if this partnership between Blackrock and JPMorgan turns out to be successful, you don't end up losing more Blackrock assets down the line? What can you tell us to give us some comfort there?

Jay Hooley State Street Corporation - Chairman & CEO

Yes, you could say that about any relationship. I would say, we continue to invest in the business. We, as a specialty provider I would put us up against anybody anytime with regard to our back office, our middle office, our digitization, our global footprint, consistent systems but having said that we don't sit back. So I referenced earlier, Geoffrey, the work we've done in the ETF platform. Their first, continuing to invest

to create discernible differences in the eyes of the authorized participants and the clients.

So, we view it as our job to get better every day, whether it's the way we service the client, the way we create new products, the way we anticipate new demands from our clients, from regulations. So that's what we do. That's what we worry about and think about, and so I have all the confidence in the world that we'll continue to be a valued provider to Blackrock and all of our other clients.

Geoffrey Elliott *Autonomous Research - Analyst*

Are there any particular points in time we should focus on? Is there -- how long are those other Blackrock assets going to be tied up with you before they come up again and someone else can compete for them?

Jay Hooley *State Street Corporation - Chairman & CEO*

No, you shouldn't be thinking about any other point in time. It's just like any other relationship that we have. They have terms to them, but at the end of the day, if you're providing value, people have little reason not to continue to do business with you.

Geoffrey Elliott *Autonomous Research - Analyst*

Thanks. Thank you.

Operator

Gerard Cassidy, RBC.

Gerard Cassidy *RBC Capital Markets - Analyst*

Mike, you talked about in the processing fees and other revenue line that there was an unfavorable valuation adjustment that affected the number -- the number in the quarter looked like, it was negative \$65 million versus a positive \$111 million the year earlier. Can you share with us what was the valuation adjustment? How much was it?

Mike Bell *State Street Corporation - CFO*

Sure, Gerard. First of all, I would urge you to include the tax equivalent adjustment in there. So on an operating-basis, processing fees and other -- on an operating basis, \$121 million in the quarter. But what I was referencing, the most significant of the adjustments in the quarter was we had approximately \$20 million of unfavorable FX swap costs. So this is the cost as an example. This would be the cost of converting deposits that we get in Europe over to US dollars to be able to invest them here in the US.

Between the Fed funds hike and the continued negative conditions in Europe, not to mention the quantitative easing that the European central bank has been doing, we've seen FX swap costs get more and more expensive. We saw in particular a lot of volatility in December around -- in the FX swap markets that further increased the costs of those swaps.

Now normally, we do get hedge accounting for that, so normally that is a negative to commit interest revenue. What we saw in the quarter is that we had fewer of those trades that qualified for hedge accounting. There's some very technical rules around exactly what it takes to get hedge accounting. So as a result that ended up being other fee revenue.

As I said, that it was negative \$20 million in the quarter. We had a couple of other things as well. We had these investments in various joint ventures. That was a negative outlier in the quarter that was round numbers about negative \$9 million, and it's normally a small positive. So that was a headwind. Then we had some other smaller valuation issues. But so it was one of those that seemed like a little bit of a perfect storm, depressing the other fees for the quarter.

Gerard Cassidy *RBC Capital Markets - Analyst*

Thank you. Then as a follow-up, obviously you guys always give us the color on the first-quarter equity compensation expense that pops up as well as the payroll taxes. I understand that there's new accounting rules that are going to be put into place this year regarding the tax impact of share-based compensation. Should we expect that to impact your numbers in 2017 due to the change in the accounting?



Mike Bell State Street Corporation - CFO

We don't expect that to be material, Gerard. I mean obviously, it depends exactly on market conditions and what would happen to our stock, but we don't expect that to have a material impact. If it does, I'm sure Eric will talk about it in future quarters.

Gerard Cassidy RBC Capital Markets - Analyst

I appreciate it, thank you.

Operator

Brian Kleinhanzl, KBW.

Brian Kleinhanzl Keefe, Bruyette & Woods, Inc. - Analyst

I just have a couple quick questions on the NIR this quarter, maybe not so much on the quarter as well. But what did you see for deposit betas in the quarter with the most recent Fed funds move? Was there also any impact from the European debt securities that you had said were causing margin pressure before?

Mike Bell State Street Corporation - CFO

Sure, Brian, it's Mike. First, I'd rather not give out the specifics on the deposit beta, but suffice to say that the majority of that Fed funds hike accrued to our benefit. So it was accretive. Not a huge amount in the quarter because it was so late in the quarter, but in terms of the benefit in terms of full-year 2017, that benefit is significant. In terms of your question on Europe, the circumstances there have not changed.

The combination of the negative central bank balances at the -- negative central bank rates at the ECB coupled with the depressed credit spreads have continued to leave us in this position of this grind that's pushing down net interest revenue. Obviously that's all reflected in the expectations, the outlook that we gave for full year 2017. We're not expecting that situation to get better over the course of 2017. So it's really unchanged.

Brian Kleinhanzl Keefe, Bruyette & Woods, Inc. - Analyst

Then on your fee revenue growth assumptions, the 4% to 6% for 2017. When you think about it, I know you probably don't think about it as fee rates in the direction of fee rates, but I mean if we were to think about it, are you assuming fee rates continue to decline like you saw declines in asset management? Or just to say flat going forward?

Mike Bell State Street Corporation - CFO

As I said to one of the earlier questions, I mean there are any host of things that could impact fee revenue in 2017. I really think about it, Brian, more as a mix issue as opposed to a fee rate issue in particular. Again, we don't believe that the cyclical mix change out of emerging markets and hedge funds in 2016 is a long-term secular trend.

We think that will bounce back. Exactly when it does is unclear. But if that did improve, then I would expect that to actually be a positive in terms of mix change. So it's -- it was contemplated as part of the range that we gave you, the 4% to 6%. There's a whole set of different scenarios that could place those at different spots in the range.

Brian Kleinhanzl Keefe, Bruyette & Woods, Inc. - Analyst

Okay. Thanks.

Operator

Betsy Graseck, Morgan Stanley.

Betsy Graseck Morgan Stanley - Analyst

Just a question longer term on how you're thinking about pricing for potential deals. It has to do with the fact that rates are rising. So the value of the soft dollar is going up in the mix of revenues that you generate from your business activity. So I'm wondering if that factors into your thinking? How you're thinking about the fee growth as well?

Jay Hooley State Street Corporation - Chairman & CEO

Yes, I'll take that Betsy, this is Jay. You're right and we hope that continues, I think between rates. You're even seeing a little more action in the foreign exchange side. We have a lot of confidence in the growth of our enhanced custody. So those revenue streams I think are probably trending in a good way. We -- some of those are more explicit in the conversation with a client with regard to whether someone is lending securities with you or doing a certain amount of trading, some more subtle.

We try to consider all of it. Looking at relationships over time to make sure that they hurl certain profitability metrics for us. So it doesn't really change. As the mix gets more healthy, we would hope as we've pointed out in our guidance around margin that we were able to extract more margin in time. That's a factor of the fee rates and also the Beacon driven efficiency.

Betsy Graseck Morgan Stanley - Analyst

Okay. Then just separately, at your last Investor Day, you talked and showed quite a bit around the data analytics piece of the offering that you're investing in. Just wanted to get a sense of client response, take up rate, ability to charge for that? Or that's part of the reason to pick you? Maybe if you could just give us some color there?

Jay Hooley State Street Corporation - Chairman & CEO

Yes, no. It's -- I believe you've heard me say this probably too many times, that is the future of this place. Clients pay us to settle trades and to calculate net asset values. But increasingly the value is expressed in terms of how we can aggregate data, pull data together for insights to support any number of needs that they have. We have at last count just, I think it's eight clients have hired us to do kind of a comprehensive aggregation of their data information, a product we call DataGX.

That's kind of a foundational product for us to the extent that a big client hires us to be the overall integrator of that data. On the back of that, we think there will be enormous analytics opportunities and not only with us but with others. So I would say great progress on DataGX. The demand is increasing pretty rapidly as people come to grips with whether it's a compliance or a risk management need or the need to understand different aspects of their information from the standpoint of managing their portfolio for performance. So, I'd say off to a good start. Completely, we think we're out of the gates long before our competitors. We're quite optimistic about the trend.

Betsy Graseck Morgan Stanley - Analyst

Okay. Thanks.

Operator

Jeff Harte, Sandler O'Neill.

Jeff Harte Sandler O'Neill & Partners - Analyst

Just a couple for me. On the \$2 billion of incremental qualifying debt to issue for TLAC, I want to make sure I'm getting this right, should we be expecting an absolute increase in debt of \$2 billion? Or are there some currently outstanding issuances that could be replaced, less more favorable debt from TLAC?

Jay Hooley State Street Corporation - Chairman & CEO

I do expect this, Jeff, to be incremental.

Jeff Harte Sandler O'Neill & Partners - Analyst

Okay. Then always looking for a silver lining, with large transfers a way of custody assets, I mean does that typically include termination payments? Or would there possibly be some kind of a short-term revenue benefit from that large of outflow?

Jay Hooley State Street Corporation - Chairman & CEO

No, not really. I mean I appreciate the silver lining, (laughter) that's back there, but I think that the silver lining for me is that Blackrock is growing in the ways that we'll grow through this I suspect in a short period of time.



Jeff Harte Sandler O'Neill & Partners - Analyst

Okay. If I could just then kind of on a bigger picture in the importance of scale and servicing efficiency. I guess I might be getting at business mix as a service covers an awful lot of ground. But can you help differentiate for me State Street from kind of some of the other providers that also had significant scale? Why when we look at a profitability winner, we should think State Street's going to maybe come out ahead of some of those competitors?

Jay Hooley State Street Corporation - Chairman & CEO

Yes, let me take that one, Jeff. This is Jay. I think that if you look at the scale efficiencies in this business, they're generally anchored around your core settlement and accounting activities as well as some of the administration, tax support. The efficiency comes out of initially your technology, architecture and philosophy, one versus many systems. Then it grows out of, I would say, the next process layer, which is how thoughtful have you been about creating global processes?

How advanced are you with regard to creating global centers of excellence? Then ultimately which is what our pursuit is with Beacon is digitizing all that so you reduce the level of labor by applying technology. So if that's the mental model of how you optimize the efficiency out of a big scale processing business, I would say we're well ahead of most of, if not all of the competitors from the standpoint of our discipline of common systems.

Not only common systems, but systems that we own and operate so that we control. The first phase of our IT and Ops transformation was largely a process and center of excellence move. Then this digitization -- this last phase is all around optimizing the core and extracting the data for other revenue opportunities. My visibility, which is pretty good because this is the business we're in is that we're well ahead of our competitors.

I think that if we continue to invest at the right pace, I don't see anybody catching up with us. The sooner we get to that state of fully digital being able to provide information and data upstream for our clients, to me that's the real prize in this business. So I don't think it's -- I don't think there is a magic formula for what to do. But I would say we're much further ahead in the execution of getting it done.

Jeff Harte Sandler O'Neill & Partners - Analyst

Okay. Thanks, guys.

Operator

There are currently no further questions.

Jay Hooley State Street Corporation - Chairman & CEO

Victoria, thanks. For those of you still on the line, thanks for your attention today. We look forward to talking to you about our first-quarter results on April 26. Thank you.

Operator

Again, thank you for your participation. This concludes today's call. You may now disconnect.

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