Bank of New York Mellon Corp
Form 10-Q
August 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant To Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2015

or

[ ] Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Commission File No. 001-35651

THE BANK OF NEW YORK MELLON CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-2614959 (I.R.S. Employer Identification No.)

One Wall Street
New York, New York 10286
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code -- (212) 495-1784

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of June 30, 2015
Common Stock, $0.01 par value	1,106,517,658

THE BANK OF NEW YORK MELLON CORPORATION

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The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Financial Highlights (unaudited)

	Quarter ended			Year-to-date	
(dollar amounts in millions, except per common share amounts and unless otherwise noted)	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Results applicable to common shareholders of The Bank of New York Mellon Corporation:					
Net income	$830	$766	$554	$1,596	$1,215
Basic earnings per share	0.74	0.67	0.48	1.41	1.05
Diluted earnings per share	0.73	0.67	0.48	1.40	1.04
Fee and other revenue (a)	$3,067	$3,012	$2,980	$6,079	$5,863
Income from consolidated investment management funds (a)	40	52	46	92	82
Net interest revenue	779	728	719	1,507	1,447
Total revenue (a)	$3,886	$3,792	$3,745	$7,678	$7,392
Return on common equity (annualized) (b)	9.4 %	8.8 %	6.1 %	9.1 %	6.7 %
Non-GAAP (b)(c)	10.3 %	9.2 %	8.4 %	9.8 %	8.1 %
Return on tangible common equity (annualized) – Non-GAAP (b)	21.5 %	20.3 %	14.5 %	20.9 %	16.0 %
Non-GAAP adjusted (b)(c)	22.5 %	20.2 %	18.4 %	21.4 %	17.9 %
Return on average assets (annualized) (a)	0.88 %	0.84 %	0.60 %	0.86 %	0.68 %
Fee revenue as a percentage of total revenue excluding net securities gains (a)	79 %	79 %	79 %	79 %	79 %
Percentage of non-U.S. total revenue (d)	36 %	36 %	38 %	36 %	37 %
Pre-tax operating margin (a)(b)	30 %	29 %	22 %	29 %	24 %
Non-GAAP (b)(c)	33 %	30 %	30 %	31 %	28 %
Net interest margin (FTE)	1.00 %	0.97 %	0.98 %	0.98 %	1.02 %
Assets under management at period end (in billions) (e)	$1,724	$1,741	$1,636	$1,724	$1,636
Assets under custody and/or administration ("AUC/A") at period end (in trillions) (f)	$28.6	$28.5	$28.5	$28.6	$28.5
Market value of securities on loan at period end (in billions) (g)	$283	$291	$280	$283	$280
Average common shares and equivalents outstanding (in thousands):					
Basic	1,113,790	1,118,602	1,133,556	1,116,183	1,136,086
Diluted	1,122,135	1,126,306	1,139,800	1,124,154	1,141,948

Capital ratios

	June 30, 2015		March 31, 2015		Dec. 31, 2014	
Consolidated regulatory capital ratios: (a)(h)						
Common equity Tier 1 (“CET1”) ratio	10.9	%	10.8	%	11.2	%
Tier 1 capital ratio	12.5	%	11.7	%	12.2	%
Total (Tier 1 plus Tier 2) capital ratio	12.8	%	12.0	%	12.5	%
Leverage capital ratio	5.8	%	5.7	%	5.6	%
BNY Mellon shareholders’ equity to total assets ratio – GAAP (a)(b)	9.7	%	9.5	%	9.7	%
BNY Mellon common shareholders’ equity to total assets ratio – GAAP (a)(b)	9.0	%	9.1	%	9.3	%
BNY Mellon tangible common shareholders’ equity to tangible assets of operations ratio – Non-GAAP (b)	6.2	%	6.0	%	6.5	%
Selected regulatory capital ratios – fully phased-in – Non-GAAP: (a)						
Estimated CET1 ratio: (i)						
Standardized Approach	10.0	%	10.0	%	10.6	%
Advanced Approach	9.9	%	9.9	%	9.8	%
Estimated supplementary leverage ratio (“SLR”) (j)	4.6	%	4.6	%	4.4	%

Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	Quarter ended June 30, 2015	March 31, 2015	June 30, 2014	Year-to-date June 30, 2015	June 30, 2014
Selected average balances					
Interest-earning assets	$318,596	$308,104	$300,758	$313,379	$292,691
Assets of operations (a)	$375,999	$366,083	$357,807	$371,068	$350,760
Total assets (a)	$378,279	$368,411	$369,212	$373,372	$362,140
Interest-bearing deposits	$170,716	$159,520	$162,674	$165,149	$157,856
Noninterest-bearing deposits	$84,890	$89,592	$77,820	$87,228	$79,615
Preferred stock	$2,313	$1,562	$1,562	$1,940	$1,562
Total The Bank of New York Mellon Corporation common shareholders' equity	$35,516	$35,486	$36,565	$35,501	$36,428
Other information at period end					
Cash dividends per common share	$0.17	$0.17	$0.17	$0.34	$0.32
Common dividend payout ratio	23 %	25 %	35 %	24 %	31 %
Common dividend yield (annualized)	1.6 %	1.7 %	1.8 %	1.6 %	1.7 %
Closing stock price per common share	$41.97	$40.24	$37.48	$41.97	$37.48
Market capitalization	$46,441	$45,130	$42,412	$46,441	$42,412
Book value per common share – GAAP (b)	$32.28	$31.89	$32.49	$32.28	$32.49
Tangible book value per common share – Non-GAAP (b)	$14.86	$14.82	$14.88	$14.86	$14.88
Full-time employees	50,700	50,500	51,100	50,700	51,100
Common shares outstanding (in thousands)	1,106,518	1,121,512	1,131,596	1,106,518	1,131,596

(a) The financial statements and ratios for the three months ended March 31, 2015 were restated to reflect the retrospective application of adopting new accounting guidance in the second quarter of 2015 related to Consolidations (ASU 2015-02). See Note 2 of the Notes to Consolidated Financial Statements and "Capital" for additional information of the new accounting guidance.

(b) See "Supplemental information – Explanation of GAAP and Non-GAAP financial measures" beginning on page 52 for a reconciliation of Non-GAAP measures.

(c) Non-GAAP excludes net income attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets, M&I, litigation and restructuring charges and the charge related to investment management funds, net of incentives, if applicable.

(d) Includes fee revenue, net interest revenue and income of consolidated investment management funds, net of net income attributable to noncontrolling interests.

(e) Excludes securities lending cash management assets and assets managed in the Investment Services business.

(f) Includes the AUC/A of CIBC Mellon Global Securities Services Company ("CIBC Mellon"), a joint venture with the Canadian Imperial Bank of Commerce, of $1.1 trillion at June 30, 2015 and March 31, 2015 and $1.2 trillion at June 30, 2014.

(g) Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities for which BNY Mellon acts as an agent on behalf of CIBC Mellon clients, which totaled $68 billion at June 30, 2015, $69 billion at March 31, 2015 and $64 billion at June 30, 2014.

(h) The CET1, Tier 1 and Total risk-based consolidated regulatory capital ratios are based on Basel III components of capital, as phased-in, and credit risk asset risk-weightings using the U.S. capital rules' advanced approaches framework (the "Advanced Approach"). The leverage capital ratios are based on Basel III's definition of Tier 1 capital, as phased-in, and quarterly average total assets. For additional information on these ratios, see "Capital" beginning on page 41.

(i) The estimated fully phased-in CET1 ratios (Non-GAAP) are based on our interpretation of U.S. capital rules, which are being gradually phased-in over a multi-year period. For additional information on these Non-GAAP ratios, see "Capital" beginning on page 41.

(j) The estimated fully phased-in SLR (Non-GAAP) is based on our interpretation of the U.S. capital rules. When the SLR is fully phased-in, we expect to maintain an SLR of over 5%. The minimum required SLR is 3% and there is a 2% buffer, in addition to the minimum, that is applicable to U.S. global systemically important banks (“G-SIBs”). For additional information on these Non-GAAP ratios, see “Capital” beginning on page 41.

Part I - Financial Information

Items 2. and 3. Management's Discussion and Analysis of Financial Condition and Results of Operations; Quantitative and Qualitative Disclosures about Market Risk

General

In this Quarterly Report on Form 10-Q, references to "our," "we," "us," "BNY Mellon," the "Company" and similar terms refe to The Bank of New York Mellon Corporation and its consolidated subsidiaries. The term "Parent" refers to The Bank of New York Mellon Corporation but not its subsidiaries.

Certain business terms used in this report are defined in the Glossary included in our Annual Report on Form 10-K for the year ended Dec. 31, 2014 ("2014 Annual Report").

The following should be read in conjunction with the Consolidated Financial Statements included in this report. Investors should also read the section titled "Forward-looking Statements."

How we reported results

Throughout this Form 10-Q, certain measures, which are noted as "Non-GAAP financial measures," exclude certain items or otherwise include components that differ from U.S. generally accepted accounting principles ("GAAP"). BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons using measures that relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present the net interest margin on a fully taxable equivalent ("FTE") basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See "Supplemental information - Explanation of GAAP and Non-GAAP financial measures" beginning on page 52 for a reconciliation of financial measures presented in accordance with GAAP to adjusted Non-GAAP financial measures.

In the second quarter of 2015, BNY Mellon elected to early adopt the new accounting guidance included in Accounting Standards Update ("ASU") 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" retrospectively to Jan. 1,

2015. As a result, we restated the first quarter 2015 financial statements. See Note 2 of the Notes to Consolidated Financial Statements for additional information.

When in this Form 10-Q we refer to BNY Mellon's or our bank subsidiary's "Basel I" capital measures, we mean those capital measures, as calculated under the Board of Governors of the Federal Reserve System's (the "Federal Reserve") risk-based capital rules that are based on the 1988 Basel Accord, which is often referred to as "Basel I." When we refer to BNY Mellon's "Basel III" capital measures (e.g., Basel III CET1), we mean those capital measures as calculated under the U.S. capital rules.

Overview

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of June 30, 2015, BNY Mellon had $28.6 trillion in assets under custody and/or administration, and $1.7 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

Key second quarter 2015 and subsequent events

Sale of Meriten Investment Management

On July 31, 2015, BNY Mellon completed the sale of Meriten Investment Management GmbH, a German-based investment management boutique with approximately $23 billion in assets under management.

Outsourcing agreement

As announced on June 2, 2015, BNY Mellon was selected to provide portfolio and fund accounting services to support T. Rowe Price's investment operation, which had assets valued in excess of $770 billion as of March 31, 2015. In addition to supporting T. Rowe Price's portfolio accounting services through its Eagle/OnCore platform, BNY Mellon will provide a range of fund accounting and administration services.

Under the terms of the agreement, approximately 220 T. Rowe Price associates – the majority based in the Baltimore area – became BNY Mellon employees.

Foreign exchange litigation settlement

On May 21, 2015, BNY Mellon reached a settlement in principle on a previously disclosed pending foreign exchange-related putative class action lawsuit asserting securities law violations. Under the terms of the settlement, BNY Mellon will make a payment of $180 million, which resulted in a pre-tax charge of $50 million in the second quarter of 2015. This settlement effectively resolves virtually all of the currently pending foreign exchange-related actions, with the exception of several lawsuits brought by individual customers. The settlement is subject to court approval.

Capital plan and issuance of preferred stock

In conjunction with our 2015 comprehensive capital plan, on April 28, 2015, we completed a $1 billion offering of preferred stock. Dividends on the Series E noncumulative perpetual preferred stock will be paid, if declared by our board of directors, at an annual rate equal to 4.950% on each June 20 and December 20, commencing Dec. 20, 2015, to and including June 20, 2020; and a floating rate equal to three-month LIBOR plus 342 basis points on each March 20, June 20, September 20 and December 20, commencing Sept. 20, 2020. See Note 13 for additional information.

Settlement agreement with the UK Financial Conduct Authority

The UK Financial Conduct Authority (the "FCA") has been conducting an investigation into compliance by subsidiaries of the Company, The Bank of New York Mellon, London Branch and The Bank of New

York Mellon (International) Limited (the "firms"), with the FCA's Client Assets Sourcebook ("CASS Rules"), which sets out the regime in the UK for the protection of client interests. On April 15, 2015, the FCA and the firms entered into a settlement agreement in which the firms agreed to pay a fine in the amount of £126 million (or approximately $190 million), after reduction for an early stage settlement, and to the issuance of a Final Notice by the FCA for failing to comply with the FCA's CASS Rules. This amount was fully covered by pre-existing Company legal reserves.

The firms engaged in a remediation process and have put in place a framework of new and improved policies and operational procedures as well as enhanced their specialist resources across many functions to reinforce their compliance with CASS Rules. The firms' clients suffered no loss as a result of the identified areas of CASS non-compliance.

Highlights of second quarter 2015 results

We reported net income applicable to common shareholders of $830 million, or $0.73 per diluted common share, in the second quarter of 2015. Excluding the after tax impact of litigation and restructuring of $38 million, net income applicable to common shareholders, on a Non-GAAP basis, was $868 million or $0.77 per diluted common share, in the second quarter of 2015. In the second quarter of 2014, net income applicable to common shareholders was $554 million, or $0.48 per diluted common share. Excluding the after-tax impact of charges related to investment management funds, net of incentives, and severance of $161 million, on a Non-GAAP basis, net income applicable to common shareholders was $715 million, or $0.62 per diluted common share, in the second quarter of 2014. In the first quarter of 2015, net income applicable to common shareholders totaled $766 million, or $0.67 per diluted common share. See “Supplemental information - Explanation of GAAP and Non-GAAP financial measures” beginning on page 52 for the reconciliation of Non-GAAP measures.

Highlights of the second quarter of 2015 include:

- AUC/A totaled $28.6 trillion compared with $28.5 trillion at June 30, 2014. The slight increase primarily reflects higher market values and organic growth, partially offset by the unfavorable impact of a stronger U.S. dollar.

(See “Investment Services business” beginning on page 21).

- AUM, excluding securities lending cash management assets and assets managed in the Investment Services business, totaled $1.72 trillion compared with $1.64 trillion at June 30, 2014. The 5% increase resulted from higher market values, net new business and the acquisition of Cutwater Asset Management (“Cutwater”) in the first quarter of 2015, partially offset by the unfavorable impact of a stronger U.S. dollar. (See “Investment Management business” beginning on page 18).
- Investment services fees totaled $1.79 billion in the second quarter of 2015, an increase of 4% compared with $1.72 billion in the second quarter of 2014. The increase reflects organic growth, due in part to Global Collateral Services, higher clearing services revenue, net new business and higher market values, partially offset by the unfavorable impact of a stronger U.S. dollar. (See “Investment Services business” beginning on page 21).
- Investment management and performance fees totaled $878 million compared with $883 million in the second quarter of 2014, a decrease of 1%, or an increase of 5% on a constant currency basis (Non-GAAP). The increase was primarily driven by higher equity market values, the impact of the Cutwater acquisition in the first quarter of 2015, and strategic initiatives, partially offset by lower performance fees. (See “Investment Management business” beginning on page 18).
- Foreign exchange and other trading revenue totaled $187 million compared with $130 million in the second quarter of 2014. Foreign exchange revenue totaled $181 million, an increase of 40% compared with $129 million in the second quarter of 2014. The increase was driven by higher volatility and volumes, as well as higher Depositary Receipts-related activity. (See “Fee and other revenue” beginning on page 7).
- Financing-related fees totaled $58 million compared with $44 million in the second quarter of 2014. The increase was primarily driven by higher fees related to secured intraday credit provided to dealers in connection with their tri-party repo activity. (See “Fee and other revenue” beginning on page 7).
- Investment and other income totaled $104 million compared with $142 million in the second quarter

of 2014. The decrease primarily reflects lower other revenue, equity investment revenue and asset-related gains, partially offset by higher leasing gains. (See “Fee and other revenue” beginning on page 7).

- Net interest revenue totaled $779 million compared with $719 million in the second quarter of 2014. The increase primarily reflects higher securities and loans, lower interest expense incurred on deposits and the impact of interest rate hedging activities, partially offset by lower yields on interest-earning assets. (See “Net interest revenue” beginning on page 10).
- The provision for credit losses was a credit of $6 million in the second quarter of 2015 and a credit of $12 million in the second quarter of 2014. (See “Asset quality and allowance for credit losses” beginning on page 34).
- Noninterest expense totaled $2.73 billion compared with $2.95 billion in the second quarter of 2014. The decrease reflects lower expenses in all categories, except incentives, software and business development expenses, primarily reflecting the favorable impact of a stronger U.S. dollar and the benefit of the business improvement process. (See “Noninterest expense” beginning on page 13).
- The provision for income taxes was $276 million (23.7% effective tax rate). The effective tax rate was reduced by 1.4% due to the income statement presentation of consolidated investment management funds and the benefit related to litigation expense. (See “Income taxes” on page 14).
- The net unrealized pre-tax gain on the investment securities portfolio was $752 million compared with $1.7 billion at March 31, 2015. The decrease was primarily driven by higher market interest rates. (See “Investment securities” beginning on page 29).
- Our estimated CET1 ratio (Non-GAAP) calculated under the Advanced Approach on a fully phased-in basis was 9.9% at both June 30, 2015 and March 31, 2015. Our estimated CET1 ratio (Non-GAAP) calculated under the Standardized Approach on a fully phased-in basis was 10.0% at both June 30, 2015 and March 31, 2015. (See “Capital” beginning on page 41).

Fee and other revenue

Fee and other revenue				2Q15 vs.		Year-to-date		YTD15 vs.
(dollars in millions, unless otherwise noted)	2Q15	1Q15	2Q14	2Q14	1Q15	2015	2014	YTD14
Investment services fees:								
Asset servicing (a)	$1,060	$1,038	$1,022	4 %	2 %	$2,098	$2,031	3 %
Clearing services	347	344	326	6	1	691	651	6
Issuer services	234	232	231	1	1	466	460	1
Treasury services	144	137	141	2	5	281	277	1
Total investment services fees	1,785	1,751	1,720	4	2	3,536	3,419	3
Investment management and performance fees (b)	878	867	883	(1)	1	1,745	1,726	1
Foreign exchange and other trading revenue	187	229	130	44	(18)	416	266	56
Financing-related fees	58	40	44	32	45	98	82	20
Distribution and servicing	39	41	43	(9)	(5)	80	86	(7)
Investment and other income (b)	104	60	142	N/M	N/M	164	244	N/M
Total fee revenue (b)	3,051	2,988	2,962	3	2	6,039	5,823	4
Net securities gains	16	24	18	N/M	N/M	40	40	N/M
Total fee and other revenue (b)	$3,067	$3,012	$2,980	3 %	2 %	$6,079	$5,863	4 %
AUM at period end (in billions) (c)	$1,724	$1,741	$1,636	5 %	(1)%	$1,724	$1,636	5 %
AUC/A at period end (in trillions) (d)	$							