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Sergio P. Ermotti
Group Chief Executive Officer
UBS

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Moderator: Sara Eisen
Co-Anchor, CNBC's Squawk on the Street

Introduction

President Barbara Van Allen

Ladies and gentlemen, we're going to go ahead and get started. If you could please take your seats. John Williams is delayed a little bit in his car. He'll be here shortly. So I'm going to be him here for the intro.

Good afternoon and welcome everyone to our 721st meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. I hope you all had a wonderful summer and are looking forward to an enjoyable and successful fall.

The Economic Club of New York is known as the nation's leading nonpartisan forum for discussions on social, economic, and political issues. And more than 1,000 prominent guest speakers have appeared before the Club over the last century and have established a strong tradition of excellence which continues up to this day. I'd like to extend a warm welcome to students from NYU Stern School of Business, my alma mater, and Mercy University, who are joining us virtually today as well as members of our largest-ever Class of Fellows – a select group of diverse, rising, next-gen business thought leaders. As a reminder, starting October 1st, we'll be taking applications for our 2024 Fellows Program, and you can find those applications on the Club's website. We encourage members to sponsor fellows in our annual program.

Today, I'm truly honored to welcome our special guest, Sergio Ermotti. Sergio has been the Group CEO of UBS Group AG and President of the Executive Board of UBS AG since April of 2023. He was already the Group CEO of the firm from 2011 to 2020. Sergio rejoined UBS from Swiss Re, where he was Chair of the Board of Directors until April of '23. Prior to joining UBS in 2011, he was at UniCredit Group where he was from 2007 to 2010, served as Group Deputy Chief Executive Officer and Head of Corporate & Investment Banking and Private Banking. Between 1987 and 2004, Sergio held various positions at Merrill Lynch & Co. in the areas of equity derivatives and capital markets. Sergio became Co-Head of Global Equity Markets and a member of the Executive Management Committee for Global Markets & Investment Banking in 2001.

The format today will be a conversation, and we're honored to have Club member and Co-Anchor of CNBC's Squawk on the Street, Sara Eisen, as our moderator. Time permitting, we'll take member questions from those in the room. And thank you to those that sent questions in, in advance. They've all been shared with Sara. As a reminder, this conversation is on the record. We do have media, both on the line and in the room. And without further ado, I'm happy to pass this time over to you, Sara and Sergio. Thank you.

Opening Remarks by Sergio P. Ermotti

Well, thank you, Barbara, for the introduction, and welcome everybody. It's great to be here. And I'd like also to thank many of my friends and colleagues and also the representatives of the Federal Bank of New York for being here. Actually a special thanks to the Fed and all the regulators around the globe that allowed a speedy, exceptionally speedy conclusion and closing of the acquisition of Credit Suisse at a very important time for our industry.

While it's great to be back, I think it's fair to say that I didn't really expect to be back as a CEO of UBS in New York. I've been here for many things. I was really heading to a different place. But New York is always quite exciting, quite noisy, it hasn't really changed a lot.

But back to the point, the U.S., it's like a second home market, not only for my career at Merrill Lynch for 17 years and also Swiss Re recently. We have more than 20,000 people here. We employ as many people in the U.S. as we employ in Switzerland so it's a true second home market. We are present in 250 cities in the country. We are managing $1.7 trillion of assets of private plans. So you can see why I call it a second home from my UBS standpoint of view.

Coming back maybe quickly to the events that led to the acquisition of CS, of course, it was less than ideal. There was a lot of malfunction during March in the financial system. And the contagion effects of what happened with SVB, Silicon Valley Bank, and First Republic touched the weak link in Europe, which was Credit Suisse. We were asked to step in at UBS. I wasn't there. Sorry to say it was almost like for myself, coming back to UBS, also for UBS it was a kind of call of duty to contribute to stabilizing the system and hopefully now moving into the next chapter and trying to make something positive out of a non-ideal situation. That's really our attitude.

It's clear that this is a transaction that some people, you see in the media and some investors as well, are calling it the deal of the century, a present. Well, let me assure you that it's not a present. And why? Because, first of all, anybody that understands a little bit about accounting understands that's badwill. It's not a profit. That profit is not something that we can use to pay dividends or buy back, but it's there to support half a trillion of assets or $240 billion of risk-weighted assets that are coming with it. And it's up to us to say that maybe this can be a prize if we work well over the next few years. We can extract value out of it. That is the prize. It's not a present.

And now it's great that we stabilized the situation at Credit Suisse. Credit Suisse had definitely – not any longer – over the years, it's not something that happened in the last few months or year – it's a matter that developed over years that translated into a bank that unfortunately had no longer a sustainable business model. The wrong capital allocation and the wrong focus. But has had, and it still has, a lot of talented people, a very strong client franchise, and a lot of capabilities in terms of services and products.

So what we now are focusing on is how to make them flourish again within UBS and making UBS stronger. And this is all about that and it's clear that I'm not trying to minimize the challenge and definitely I'm not. But I don't describe this transaction as a risky transaction. It's a complex transaction. And it's a big difference in my point of view. Of course, it's going to take time.

But it's also coming to maybe one of the topics that may also resonate with people in the room is what does it tell you about regulation? Is it something that we should do in terms of this issue? Well, first of all, of course, I have a pretty strong opinion on this matter. In my point of view, it's the other way around of what you hear. The fact that a bank of this size was allowed to fail over the weekend demonstrates that "too big to fail" functions. And the fact that another bank was able to step in and stabilize it confirms that we were talking de facto about an idiosyncratic situation. If it would have been a topic that would have contaminated the entire industry, it would have been very difficult for another bank to step in.

A second observation I can say is that the fact that we were able now to close the transaction, go through the books, review the accounting and the provisions that were there, and still keep part of the equity without touching the total loss-absorbing capital structure of the bank demonstrates that, you know, the taxpayer is now saved. Why? Because I think banks, over the last ten years, since the Financial Crisis, too big to fail banks under the FSB regime and under Basel III, have raised capital ten-fold. And if you look, during the last crisis, over the last few months, the big banks were a factor of stability in the system rather than being something that was creating more issues.

But, of course, every time you have a crisis like this one, you have to go back and look at what can be learned. And the lessons learned, internationally it is clear that in today's markets and in today's financial system, we need to redefine the structure of the balance sheet of the banks, how much is available for liquidity, access to central banks. It's much more developed in this country than it is in Switzerland, let me tell you that. And we need to learn about that. But also, for example, the disclosure, disclosing a stress test like you do in the U.S. is something that we have to also learn to do in Switzerland. And, on the other end, also allowing regulators to step in when signals – it goes beyond the pure capital or liquidity requirements – indicate an imminent crisis.

The way CBS spreads function, when the stock price of a large bank trades constantly below its tangible book, when you have outflows of clients following just social media speculation, you have clear indication of fragility. And I think that we should learn, not only in the banks, but also in the system, in the regulatory regime, and we should give regulators an ability to act also when they see things that are not prescriptive in a regulation book, but when they clearly indicate something is wrong.

Now, I don't want to go too long, otherwise, Sara, we have no time for other...so, thank you for having me. (Applause)

Conversation with Sergo P. Ermotti

SARA EISEN: Thank you, Sergio. I just want to be clear; we have a lot of media in the room, we need to make news. So are you saying you did not get the deal of the century?

SERGIO P. ERMOTTI: No, I think that we will, if we execute well, we will do a good deal that allowed us to speed up basically the execution of an existing strategy, growing in wealth management. So basically we took on assets that would have taken us seven years to build up organically. We are complementing our capabilities here in the U.S., for example, in investment banking, in asset management. In Asia, in Southeast Asia, CS has a great franchise. It's very complementary to ours. In the north part of Asia, it's the other way around and we are working well. CS has a fantastic Brazilian operation which fits very well into ours.

So it's a very good deal that is bringing, I'm pretty sure it's more than one and one. I mean it's really putting us in a new dimension in terms of capabilities. And as we execute on this integration, we will extract value. I'm totally convinced that it's going to be value accretive. But it's like a marathon. You know, you are invited to run it. It's not yet won.

SARA EISEN: Got it. So take us back. Let's rewind. The weekend of March 17th through 19th, I remember where I was. I'm sure a lot of people in the room remember where they were. This was the weekend where the Swiss government and the central bank and a lot of other players, including the U.S. Treasury, were involved in a basically weekend shotgun wedding between Credit Suisse and UBS, a takeover. Where were you?

SERGIO P. ERMOTTI: Well, I was watching a football game of my, I'm President of a village football team, and I was watching a game and the phone started to ring with some well-known numbers that were part of my contacts. So I felt, well, probably something is going on, right?

SARA EISEN: And is that when they brought you in?

SERGIO P. ERMOTTI: No, no, I think that I only got informed that things were developing and it was not, to be clear, well, it's probably, I don't really want to make headlines today. Let's put it that way.

SARA EISEN: But I do.

SERGIO P. ERMOTTI: But I felt something was going on, yes, during the weekend.

SARA EISEN: And you said you felt a call of duty when you were asked. How long after was that?

SERGIO P. ERMOTTI: It was happening on Monday morning. The Chairman of UBS called me and asked me, to see me. Well, I guess I started to suspect that probably it was not about having a beer. But you never knew what it was because I have a very good relationship with my colleagues, former colleagues, so you never knew. But when we met on Tuesday, it was very quickly clear what he wanted.

SARA EISEN: And what did you think when he made the ask?

SERGIO P. ERMOTTI: Of course, I mean I was prepared for all scenarios but, yes, I felt, immediately I understood that I had little choice because, number one, was the loyalties of UBS, the country, but also a true conviction that we could do something good out of it. And therefore, I had also my own motivation. So it was not just doing it for the right reasons, but also because I felt, I had my own motivation, and the two things were together. And then I felt, okay, if I say no, if I am sorry, or if I have an issue, I would not feel good about it.

SARA EISEN: So you're back in there, immediately. What was the first challenge?

SERGIO P. ERMOTTI: Well, the first challenge was to really assess, you know, put together the integration team. Because assessing the situation in terms of organizational structure and put in place a timetable that would allow us to close the transaction as quickly as we could, already knowing that we could count on regulatory help and support in speeding up to reduce the risk, the contagion risks. And the second one was we wanted to create clarity within the organizations because of the two combined organizations.

So my priority was, for sure, in the first 90 days, was all about putting together a target operating model for the future, announcing the responsibilities of the future of the combined organizations. And preparing for, you know, all the things that we just announced at the end of August in terms of strategic priorities going forward.

SARA EISEN: You also got a look under the hood at Credit Suisse. How big of a mess was it?

SERGIO P. ERMOTTI: No, look, I think it was not, of course, we had a chance to go through from an accounting standpoint of view but also from a valuation standpoint of view, redefine the value of certain assets, also including the fact that we now had a new strategy on how to deploy and what to do with those assets. But, you know, the truth of the matter is that, as I mentioned before, people, clients, and capabilities at Credit Suisse were good, but it's the business model and the capital allocation that was not good.

So trying to really differentiate the two issues was extremely important. But for us, the most important issue was to regain quickly the confidence of clients. And so for us, you know, going through, and it was very good to see that immediately, or two weeks before closing the transaction and afterwards, we saw client inflows back to, positive inflows into CS, and as we see now in the current quarter. So it was all about preparing, but also stabilizing the franchise and stabilizing the internal, the morale of the people by giving direction because, of course, it was a shock. Not only for the external world and particularly in Switzerland because CS has 170 years of history, but also internally a lot of people were shocked.

SARA EISEN: Yes, I would imagine also the culture was a bit different than UBS.

SERGIO P. ERMOTTI: Yes, but, we'll look at cultures, but if you look back into the two real distinctive traits of the banks, it's that, of course, Credit Suisse, it tells the name. It's not a coincidence. It's a credit bank. So they had an approach to business that was driven by using a balance sheet, staying very close to clients, which I personally believe was a positive culture, or trait, over the years. Unfortunately, I have to say, it developed into doing a little bit too much for clients. Not really looking at expected returns versus risks taken. And over time also doing too much for clients also meant maybe not doing business with the wrong clients or with the wrong products.

But fundamentally, you can see how a positive cultural trait of being close to clients can become not good and developing into a problem. That's my analysis of the situation. That's the reason why I'm not in the camp of saying, oh, the Credit Suisse people have a cultural issue. Maybe some people have cultural issues. But can we then use this client focus that they have at Credit Suisse and bringing into UBS and even further reinforcing what we stand for. It's also for clients. And making us a better bank.

SARA EISEN: Is the integration of those two cultures one of the top challenges?

SERGIO P. ERMOTTI: No. No, I don't think that it's a challenge in my point of view. In my point of view, when people will get direction on how we look at business, how we look at, I mean banks are there to take risks. But there has to be a risk-reward and a sustainability of what we do. And we have to price our capital correctly so that there is a win-win situation. Once people understand how we operate, I'm convinced they will be part of the journey.

SARA EISEN: So you mentioned that inflows came back after two weeks, that soon? They're stabilized.

SERGIO P. ERMOTTI: Yes, after the closing. Actually we had positive inflows.

SARA EISEN: So did the government do a good job on this deal?

SERGIO P. ERMOTTI: I think that considering what happened, the government and the institution in Switzerland acted promptly and decisively and that demonstrated that, you know, as I said before, one thing is to talk about the taxpayers having to chip(?) in and, you know, lose money, and one of the things is to have the state having to contribute to the stabilization of a situation. So I think they did a pretty good job for what happened.

SARA EISEN: So not only did it stabilize, but you just, I mean you just had a killer quarter. It was surprisingly good. And I know part of it was the $29 billion in goodwill from the deal, but the stock has had some pretty great performance as well. And I think a lot of people are wondering if this is a new baseline. Like what was that about?

SERGIO P. ERMOTTI: No, if that would be the new baseline, the stock would be at $120, not at $23.

SARA EISEN: It is repeatable?

SERGIO P. ERMOTTI: Well, actually the profit was all about the badwill, right? The rest of the business, I think that's the profit of UBS de facto paid for the losses of CS in the second quarter, the result of restructuring charges into it, and integration costs. The stock reacted positively and, by the way, we are trading today at the same price to tangible book we were the Friday before closing the transaction. So basically, we are now, from a basically negative price to tangible book, back into where we were. So that's the reason, you know, in other words, we went from hell to purgatory. Right? (Laughter) But we still need to demonstrate that we can extract value out of this.
So the market is convinced that we, the fact that we returned the government guarantee that was there to cover part of the assets that we took on, was a positive. And the fact that we also indicated our intentions on merging the Swiss operation of the two banks was seen as positive. And I guess, you know, we are now, it's up to us to demonstrate that we can do it.

SARA EISEN: Where are the areas for growth?

SERGIO P. ERMOTTI: Well, that's a very important point for us because the tendency right now internally and externally could lead into, not only managing day to day and managing the integration, but it's very important for us to think about growth and what to do next. And for us, growth is still this country, U.S., and Asia, A-Pac. Despite the geopolitical tensions, I think that it's clear that the trends are there. In this country, as I mentioned before, we have already a lot of exposure in terms of who we are. We are the fourth largest wirehouse. We employ 20,000 people.

But the integration of CS is going to allow us to bring our capabilities in banking, and particularly in TMT, healthcare, financial sponsor, to where we want it to be. In asset management, we are a leader in alternatives now. And, as I said, Brazil. So we need to really think about more than the sum of the parts and growing from there and look at new opportunities.

In Asia, I do think that despite the geopolitical tensions and the economic tensions in China, I think Asia is the place to be for the next 10, 20 years. India will also hopefully play its role in that because we have been seeing that promise of growth in India. But now I think we see a little bit of momentum developing. So there's plenty of opportunities for us.

SARA EISEN: Including China.

SERGIO P. ERMOTTI: Including China.

SARA EISEN: Do you think you have an edge over the U.S. banks, in Asia, and China specifically?

SERGIO P. ERMOTTI: Not an edge, but I think that we can compete. Look, we are a global specialized player, so we can compete across every dimension of banking. We don't want to compete across every dimension of banking. We want to stay very focused to our strategy where it's about managing people, for wealthy clients, for institutions, or serving them through the investment bank. I think that we have, in many cases, chances to compete head-to-head with any players. But, of course, it's a very focused strategy we have.

SARA EISEN: So you're not afraid to double or triple down in China right now, despite the, you mentioned the geopolitical tensions getting worse, the worries about the economy, the worries about what direction their leadership is taking the country.

SERGIO P. ERMOTTI: We have been doubling and tripling down on Asia and China over the last 70 years. I think the last five years it's fair to say that we have been adapting to the new dimensions. Of course, China cannot grow at 10% every year, so we are now...

SARA EISEN: Can it grow at 5% this year?

SERGIO P. ERMOTTI: I don't think so. I think we're going to be below 5. It's probably, you know, 4.8 and maybe next year even lower than that. But, of course, it's the quality of the growth that matters, and the stability. And if China can adapt its system to that kind of new growth, that's going to be still promising.

SARA EISEN: What are you focused on there, the debt problems? Property?

SERGIO P. ERMOTTI: I think that's part of the transition from, you know, where they're coming from to then, for the next 10, 20 years, I think, of course, we cannot avoid it. The biggest elephant, the elephant in the room here is the geopolitical issues, not if and how we can contribute to the China growth story. So I think that it's the geopolitical tradeoffs here and the uncertainty around how this can develop, how it's being developed.

SARA EISEN: How do you plan for that? How do you do scenario planning as a leader? It's such a big business there.

SERGIO P. ERMOTTI: We do scenario planning. (Laughter)

SARA EISEN: Take me inside that.

SERGIO P. ERMOTTI: Well, we have to pay attention that, by the way, it's something we do in every country. I mean we look at expected returns and risks and exposure and we try to stay focused on what we can control.

SARA EISEN: And you'll leave it at that.

SERGIO P. ERMOTTI: Yes.

SARA EISEN: So, the U.S. is also, you said, a big growth market for you, or one of the targets. Where are you hoping to compete there? Investment banking, wealth management? How are you going to get from number four, you said, to number two, or one?

SERGIO P. ERMOTTI: Well, look, for us it's not just about being number one or number two. I think we are the only truly global wealth manager in the world. I think, of course, in this country, we have very strong competitors. They have critical mass, but it's pretty much vertically U.S.-centric. Of course, the U.S. is the largest wealth management market in the world. Nobody has the franchise we have in Asia and Europe and Latin America.

So our way to compete in the U.S. is to, not only continue to focus on the wealthy people, the top end. If you think about in this country, four years ago there was 12,000 people with a net worth over $100 million. Today, it's four years afterwards, 36,000. And what we see, also because of the geopolitical tensions, more and more international investors want to invest in the U.S. And our role in this country is to help people to invest, not only abroad through our international network, but also how we help people to invest in this country.

So we are a specialized player. Size is important. Of course, critical mass is important in our industry. Still a very fragmented industry. The wealth management, you know, we are one of the leaders of the top four or five leaders in the world. Our market share, I would say, is probably no more than mid-high single digits, right? So it's still a very fragmented market.

SARA EISEN: Is it harder to do this integration and focus investors on the growth plan at a time where the capital markets have been pretty sluggish, right? IPOs, M&A. Some signs that it may be turning, but what do you see out there in banking?

SERGIO P. ERMOTTI: Yes, in addition to that, for our business, of course, we like to have, call it positive volatility. So I mean right now the fact is that you have low IPO, M&A activity, but also fairly low volatility with financial markets being pretty stable but with a geopolitical and microeconomic uncertainty, you know, creating doubts on how investors do. So this is clearly not ideal for our business mix.

So the good news is that we are starting to see a little bit of momentum in the pipeline. IPOs year to date are up 5% compared to last year. Today, we saw there is a big one. Let's see if this is a catalyst for a change.

SARA EISEN: Are you seeing that with deal activity too? Green shoots?

SERGIO P. ERMOTTI: There is good momentum in the pipeline, but the market has to be there and be stable. So we will see in the next one or two months. I think, of course, when I watch the latest development in energy prices and you saw the actions today of the ECB on rates and so on, that creates for sure some kind of pressure in the system. If inflation is not coming down, at the very least we're going to have rates high for longer. And the consequences of that is that over time this will then feed into the economy and potentially create a more challenging pattern.

So we are still, you know, for next year we see global economy still contracting from 2.8% probably to 2.5%. The U.S., best case scenario is a soft landing, but that's too much of a consensus, right? So basically, the risk is more on the downside. And Europe, it's definitely under a lot of pressure.

SARA EISEN: Is Europe close to a recession, in recession?

SERGIO P. ERMOTTI: Yes, de facto. Technically speaking, some countries are already in recessions.

SARA EISEN: So the ECB raised rates today. Do you think they're done?

SERGIO P. ERMOTTI: Well, it depends how inflation goes. I mean, in my point of view, the mandate of a central bank, I mean there's some central banks here, so it's not up to me, but at the end of the day, the primary mandate is to fight inflation. And I'm saying that not only out of purism, but inflation is eating into the purchasing power of the medium, the mid-class and the low-earning class in Europe in a way that could create social tensions. And so it has to be addressed seriously. Otherwise, the cost is going to be problematic.

SARA EISEN: So it sounds like you're not convinced that it's done being addressed, or done...

SERGIO P. ERMOTTI: As I mentioned before, I don't know if they need to hike more. But it's going to be hard to come down quick from these levels without inflation significantly coming in.

SARA EISEN: And that's what you think we need to see, interest rate stabilization, to see the capital markets open back up? Or what?

SERGIO P. ERMOTTI: Stabilization or potentially also the outlook that we are going through the end of the tunnel in terms of, or the curve in terms of recovery. So still to be seen. We are, as I mentioned recently, it sounds pessimistic but it's more realistic than pessimistic, I would say.

SARA EISEN: Your outlook on the global economy. You do speak, I mean you have a unique vantage point, you speak to the wealthiest investors and really a global one as you said, sovereign wealth funds, countries, billionaires. What sort of things are you hearing right now? What's the sentiment?

SERGIO P. ERMOTTI: I think that this desire to diversify their risks from a geopolitical standpoint of view, where they invest the money, is definitely there. And, last but not least, with 5 - 6% money market returns, a lot of people are saying, well, you know, this is a pretty good return, so why should I do anything else? So that's the theme from an investor's standpoint of view. You look at how you can lock in short-term and medium-term wealth into secure returns. It's a pretty good place to be. Almost unimaginable 18 months ago.

SARA EISEN: That you'd rather be in a money market fund than a bank.

SERGIO P. ERMOTTI: Yes. You know, I remember before leaving in 2020, and I guess my colleagues later on, we were asking clients not to give us deposits. Please go somewhere else.

SARA EISEN: Not anymore.

SERGIO P. ERMOTTI: No, no. The situation has changed completely. Definitely not anymore considering what we have to do.

SARA EISEN: It brings us to another sort of infamous weekend in March of 2023 when SVB failed and there was the intervention. How do you think the cleanup of that went? Do you think that the U.S. regulators did a good job?

SERGIO P. ERMOTTI: Well, I think they did a good job because they stabilized the situation. I think if what happened could have been avoided or managed better, it's up to them to assess in a post-mortem. I was surprised to see that happen, but I think it's clear again that, as I mentioned before, also for the Swiss regulators, that acting decisively was a major effort and a successful one. But still the post-mortem has to go through. And in my point of view, the post-mortem should not be a post-mortem that leads into a conclusion that one-size-fits-all remediation.

I mean, as I mentioned in my introduction, you know, I don't, I think larger banks – like it or not – were a safe haven, were providing stability to the system. And trying to drag large banks into resolving something that was fairly idiosyncratic, by a few banks, or for certain sectors, it's a mistake that has potential repercussions in the financial systems. And, therefore, I hope the post-mortem is done with a look-back and distance, without too many emotions or ideology matters playing a role in it.

SARA EISEN: But they de facto guarantee deposits of all banks in the process. It didn't explicitly say that. Is that a good idea?

SERGIO P. ERMOTTI: Look, maybe it's not a good idea from a purist standpoint of view. But it's fair to say that we all realized, probably what we should have known or suspected, that modern banking with a digital access was creating a speediness and dimension that we were not expecting. So now, in a sense, if we can develop an assessment in which a regulator has a high degree of confidence about the quality of the assets of a bank, if the regulators then say, okay, I'm willing to lend unlimited around this asset base to secure depositor stability, it may not be such a bad idea. That doesn't mean that you have to bail the shareholders or some of the bond holders, because that's a very important distinction of what I'm saying. An intervention to stabilize the financial system doesn't mean that you give a free check to shareholders or institutional debt holders.

SARA EISEN: And they didn't, and that was very important, right?

SERGIO P. ERMOTTI: It's very important. So in that sense, the answer is yes. But now we need to understand how to make it clear that a run on the bank is not as easy as it was because of a clear understanding of the players, of what's behind, you know, supporting the bank.

SARA EISEN: Speaking of, one of the members, ahead of the session, asked about AT1 bonds, CoCo bonds, and whether they were safe because this was a sort of side story of that weekend. They got wiped out. Can you explain what this is and whether people should invest in these things?

SERGIO P. ERMOTTI: When you get anything between 4 to 5% premium on risk-free, you can't call it a free instrument...(Laughter), a risk-free instrument. And particularly you can't call it in that way if you are a fairly sophisticated investor.

SARA EISEN: So they should have known the risk.

SERGIO P. ERMOTTI: No, I mean, look, you know, I'm just answering your question. I'm just telling you that it was definitely something that was a priced and sold as a risky, potentially risky part of the capital of a bank and with a fairly clear description on the contracts, on how and when a regulator may decide to use that capital to resolve a certain situation.

SARA EISEN: They did that. That's what happened.

SERGIO P. ERMOTTI: They did that. But from an asset class standpoint of view, first of all, it's a very important instrument for the capital structure of a bank. Number two, from an investor standpoint of view, if you go back, this is something that has been on the market for seven, eight years now, as an asset class. And if you were an investor that did it on a portfolio basis, you did pretty well in the last ten years, seven years, five years, three years. Of course, anybody who had a concentration risk and took a bet on that situation, they need to assess their own risk management and risk appetite going forward if they don't want to go into similar situations.

SARA EISEN: So you mentioned in your speech that there are regulatory lessons. We have some regulators in the room, so I think it would be helpful to know...

SERGIO P. ERMOTTI: My God, don't get me in trouble. (Laughter)

SARA EISEN: It's just a listening session. What are the regulatory implications of what happened? Because Credit Suisse failed and what, 15 years after the financial crisis with all the new regulatory agendas put in place. How did that happen? And what do we take from that?

SERGIO P. ERMOTTI: I think we take from that, that the bank was not too big to fail. The bank could fail. And again, all the work that has been done in the last 10 years to beef up capital for large, you know, for banks in general, but for, particularly for the more systemic banks, has worked, i.e. at the end of the day, the taxpayer got out of any kind of exposure very quickly, very quickly, and without having to suffer a loss.

But, as I mentioned, there are some aspects that need to be fine-tuned. And the most important issue that I think should be learned is that regulating the past is very difficult, right? So we always need to look forward, what can happen. And the most important issue is that you can't regulate trust and, well, you can regulate profitability, but although people don't like banks making profits, there is nothing worse than a bank not making profits. (Laughter). And for sure, there is nothing worse than a bank not making profits and adding a reputational problem. So that kind of information is as important as a capital ratio, liquidity ratio, and so on and so forth. So we need to watch the qualitative part of the equation more carefully.

SARA EISEN: Instead of looking at how big banks are.

SERGIO P. ERMOTTI: Big, or without looking through what makes them big. For example, in our case, we are big, but 15% of our assets are in liquidity, 20% are high-quality mortgages. So the risk density of our balance sheet is different than somebody maybe having a different capital balance sheet structure than ours.

SARA EISEN: You don't have to do stress tests in Switzerland?

SERGIO P. ERMOTTI: We do, but they are not published. And this is something that, in my point of view, should be published. So we are subject to the U.S. stress tests, ECB, our regulators are also running stress tests. But they are not published. And I do think that publishing stress tests is a good way to create more pressure to boards and management and shareholders to take actions, because you are really exposed.

SARA EISEN: Do you expect more, are you a monopoly in Switzerland?

SERGIO P. ERMOTTI: No. I mean we are the leading bank in Switzerland, but we are not the largest. Cantonal banks, so state-owned banks, local banks in aggregate are bigger than we are in Switzerland. We compete with those state-owned banks locally so they are bigger than we are in terms of branches. So we are the third largest in

Switzerland. But we are the one that can offer our clients, large multi-nationals, but also SMEs, access to global markets in a very compelling way. So at the end of the day, I'm totally convinced that we are strong because we are in Switzerland and because we benefit from a very strong economy. So what's good for Switzerland is good for UBS, and what's good for UBS is also good for Switzerland at the end of the day.

SARA EISEN: The American bankers are not happy with the new Basel III end game rules. A lot of sounding off on that lately. Jamie Dimon has basically questioned whether the regulators want to make banks uninvestable. Do you agree with the assessment of those rules?

SERGIO P. ERMOTTI: Well, I mean on Basel III I can only comment, welcome to the club. (Laughter) So on how exactly this is going to be implemented and differentiated in the competitive landscape, I don't have the data supporting that. So I can't really comment. But, of course, you know, as I mentioned before, it's probably not the mandate of regulators to make banks profitable per se. But it's clear that there has to be a consideration about making banks working and fulfilling their mandate in the economy – sustaining credit and sustaining, you know, giving safety to depositors but also being allowed to function properly.

And in order to do that, you have to attract capital. You have to get shareholders happy to support you in doing that. So there is a balancing act. It's not just about making banks profitable. Making them sustainably profitable is probably the most weight. And the threshold is very clear. You need to earn, at the very least, your cost of capital plus the premium. Right? So that's the reason why banks that are not earning their cost of capital should be also something that, from a regulatory standpoint of view, should be scrutinized because in order to get to the cost of capital returns, they may go into risky transactions that are not good for financial stability. And over time, you may develop something that is much worse for the economy.

SARA EISEN: I have many more questions for you, Sergio, but I do want to open it in these minutes to the room. There's a microphone coming.

QUESTION: Just on your point earlier about credit, Credit Suisse, the origin lending, etc. How are you going to retain, as you guys are the behemoth there now and you're taking on a lot of those clients that relied on their balance sheet. How do you keep the balance of keeping those clients as well as not jeopardizing your balance sheet now to satisfy what probably some of the bankers would use internally at UBS to bring in business?

SERGIO P. ERMOTTI: Well, we basically, first of all, we made a clear commitment in our domestic market that the combination of the two banks will result in our appetite or desire to keep one and one two. So we are not going to scale back any, we don't want to. Because we believe fundamentally are good businesses, but for sure we don't want to even get close to people thinking that we will create any credit crunch or any pressure. So our desire there is to maintain and to solidify even more our market share in Switzerland.

Outside, you know, but as we do that it's very important to price our capital correctly. So there has to be the right risk-adjusted return. So we are not risk-adverse. We are risk-aware. And it means that in order to be risk-aware, it also means that you need to know how much returns can you really expect from this transaction. So I don't think that we're going to change dramatically the balance sheet size, although we're going to scale back all the non-core assets. That's the reason why post-integration, we're going to go from being 50% larger than UBS stand-alone was to around 30, 35% larger. So we're going to scale back the non-core assets, the ones that don't fit into our business model. But for the rest, it's all about repricing the balance sheet.

SARA EISEN: We have one over here.

QUESTION: Thank you. I will not stress more on the stress testing, but stress on the scenario analysis. In the future, you said, ECB will not have a mandate for the stress scenarios published, but in the U.S. that ___ is mandated for all the G-SIBs to have, those stress scenarios to be published. In the future, whether it's the ESG or AI, will you be publishing those risk resistors or how ___? Just your thoughts.

SERGIO P. ERMOTTI: No, the ECB is publishing stress tests. The ECB is already publishing their stress tests. It's the Swiss regulator that is not publishing the stress tests. That's a unique situation because Switzerland is not part of the UN and, therefore, it has its own regime. The PRA is also publishing their stress test. So I think it was a unique situation that needs to be addressed, from my point of view. We are welcoming that, because it's only reinforcing our status as a strong capitalized bank. And so we see the results and so we have no issue. So I don't get the point about...

QUESTION: Will you be sharing those ESG and the future risk scenarios?

SERGIO P. ERMOTTI: We will show where we stand. We will show some of the exposure, but it's going to be part of the stress test most likely going forward. That we have to complement those kinds of topics into a stress test.

SARA EISEN: Okay, final question, Sergio, as John takes the stage. That's my wrap cue. So when you got that call, so you got the call at the soccer game on the weekend, and then you were called in on Monday. How long do you plan to stay? What did you commit to? (Laughter)

SERGIO P. ERMOTTI: Well, I think I definitely think that, you know, I need to finish the job. And my commitment is to finish the job and for sure that means staying until the end of 2026. But I can't think, like already thinking about when I go, just three months after starting, right?

SARA EISEN: I'm trying to know how long you thought the cleanup would be.

CHAIR JOHN C. WILLIAMS: Thank you, Sergio, thank you, Sara, for a really lively discussion. It's always that last question you have to watch out for. Really truly appreciate it. It was very informative.

Okay, so my job at the end of these lunches or at the end of the speaking part of the lunches is to highlight all the amazing and terrific speakers we've got coming up. So here we go. Monday, next week, we've got a webinar with Kent Smetters, Professor at the University of Pennsylvania's Wharton School of Business. Then on Thursday, we have the luncheon with the Prime Minister of Japan, the Honorable Fumio Kishida. Then on September 27th, another luncheon with Brian Moynihan, the CEO and Chair, of course, of Bank of America. And then on September 28th, we're going to have breakfast with Walter Isaacson, who has just released, of course, as everyone knows, a new biography of Elon Musk, and that's getting a lot of attention. I also want to highlight our One Member One Candidate Event which is scheduled for September 26th. It's at 6 pm.

It's a complementary reception. We invite all members to bring prospective members, candidates to learn about the Club.

October is shaping up to be another great month with lots of terrific speakers. We have Richard Haas, President Emeritus of the Council on Foreign Relations. We have my colleague and friend, Mary Daly, President and CEO of the San Francisco Fed. Pat Gelsinger, CEO of Intel, which I'm going to participate in that. And, of course, wait for it, on October 19th, Chair of the Board of Governors of the Federal Reserve System, Jay Powell, will be speaking to the Club.

In other news, we're delighted to announce the launch of the Club's first-ever podcast. We're calling this, The Forum. It features Club Trustee and CNBC Anchor, Becky Quick, as host. The podcast launched on Tuesday. You'll find it on Spotify, Apple. Google, Amazon Music, Pandora, and iHeart Radio. It features insights from a great list of speakers on a wide range of subjects – economics, monetary policy, AI, energy, DE&I, and so much more.

And before I close, I'd like to take a moment just to recognize members of the Club's Centennial Society who are joining us today. Their contributions continue to be the financial backbone of the Club. And thank you to all of you who are attending virtually and, of course, in person. For those in the room, please enjoy your lunch, and we hope to see you all again very soon. Thank you.