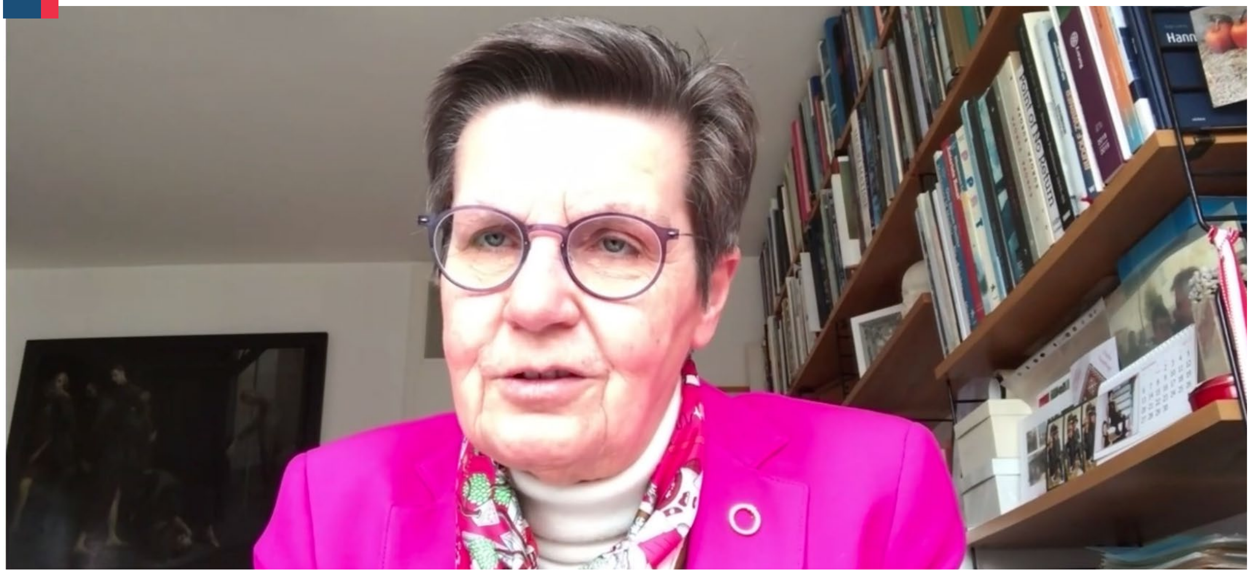
SwissFinanceCouncil
Fostering International Dialogue

MEMORANDUM

Post-Pandemic Recovery and New Growth Models

16 & 18 March 2021 | Online Event

Keynote remarks



Elke König
Chair of the Single Resolution Board

The regulatory measures put in place since the financial crisis of 2007/8 have worked well. They have ensured that the banks have weathered the storm, and have been sufficiently flexible to adapt to the challenging economic situation. The Banking Union is a strong, well-crafted financial stability framework, although there is room for improvement. Work continues on the international level, including on Unallocated TLAC, where Mark Branson as Chair of the Resolution Steering Group of the FSB has been particularly active. This work has explored the possible use of unallocated resources at the parent level to recapitalise subsidiaries experiencing difficulties. Here, we are aware that the high levels of MREL and TLAC pre-positioning required under EU law may suggest that there will only be limited levels of unallocated resources at the parent level. And this clearly can be a concern. As a resolution authority the SRB is focused on ensuring that resolution strategies work effectively and that more resources are retained and are readily available when a subsidiary is in need; the buzzword is "Home – Host – tensions". Other areas at the FSB level, such as bail-in execution, should be expanded in order to continue to improve and fine-tune the global framework.

Within the EU, work has to be done to complete the Banking Union. Here, the major priority is the development of a common deposit protection scheme at EU level. Another area for progress is the development of a meaningful Capital Market Union to allow capital to flow easily across the Banking Union and beyond. Progress also needs to be made on a harmonised EU liquidation regime for banks, and harmonised insolvency procedures at national level. The SRB is preparing a response to the EU's Commission's crisis management framework.

The future is very difficult to predict, especially with current uncertainty around vaccination. As we exit lockdowns so too must we exit from government support for the economy. The overriding principles are safeguarding financial stability while limiting recourse to public funds when banks are ailing. A major concern will be the rise of non-performing loans; banks must put in place measures to identify and deal with them sooner rather than later. The focus of the SRB in coming months will be on making all banks under our remit resolvable.

Exchange of views

Post-Pandemic Recovery: Economic Stocktaking, Outlook and Projection

Roberto Gualtieri
Former Italian Minister of Economy and Finance

Axel A. Weber
Chairman of the Board of UBS Group

David Wright
Chairman of EUROFI *(moderator)*

David Wright: How do you see the economic situation in Europe at the moment, and the growing gap between the US and Europe?

Roberto Gualtieri: We have made an unprecedented and coordinated response to the pandemic based on regulatory changes, monetary policy decisions, and the fiscal response at national levels. They have all worked pretty well. Banks have been part of the solution, which is extremely important for recovery, alongside the right mix of regulatory decisions and clever fine-tuning of national measures. We need to be strong even if we may not reach the fiscal levels of the US and we need to qualify the quality of the interventions and strive to really optimise our growth potential and overcome the existing structural problems. We also have to prepare the financial system for all scenarios. I think Europe will have very good performance in the next two years.

David Wright: What are the main risks you see in terms of damaging economic growth?

Axel A. Weber: I see two risk areas. One is the financial state of the SME sector in Europe including Switzerland, which represents nearly 60% of Eurozone GDP and 70% of Eurozone employment. This sector is particularly weak. Should a large number of SMEs face bankruptcy issues, then the fallout and impact on the economic recovery will be quite substantial. Getting new money from the capital market may be a way to mitigate this. The second risk area is unemployment. It's important that the short-term work programmes are phased out in an orderly fashion and that the corporate sector participates in some of these programmes.

David Wright: Are we adequately prepared for a potential problem with non-performing loans?

Axel A. Weber: I think so. I am expecting a significant growth momentum. Europe will benefit from the massive fiscal stimulus in the US. I wouldn't rule out the US seeing 8-9% growth this year. The Chinese economy is already back on its pre-crisis path. Europe will benefit from both these regions, if we keep the borders open. Industrial production hasn't really suffered; it's services. There are some bottlenecks in the global economy around shipping and freight costs, which need to be dealt with.

David Wright: Are you worried about levels of public debt? And will the EU recovery plan be deployed on time and rapidly enough?

Roberto Gualtieri: I don't think public debt is a central concern in Europe at the moment. The right policy mix can limit this distress on public finance. What's key is the quality of any new investments and resources that will lead to higher employment, more growth, and less public debt – but only if we use this "top-up" of our national resources in the most efficient way. The EU recovery plan is not yet in force but many countries are already anticipating these resources and have put in place programmes to promote innovation, and energy efficiency of private buildings, for example. I hope when it comes to actual implementation there will not be any delays.

David Wright: Should Europe be accelerating its Banking Union, CMU, and recovery programme?

Axel A. Weber: With the European recovery fund it's important to invest in areas like IT infrastructure and greening the economy, where Europe is lagging behind the US. Reforms need to kick in now in areas like sustainability. The Banking Union and CMU need to be implemented now. We need to start removing the unnecessary 27 market barriers to create a European league of banks.

Panel I | Post-Pandemic Recovery:
Lessons Learned and Adjustments in the Banking Sector

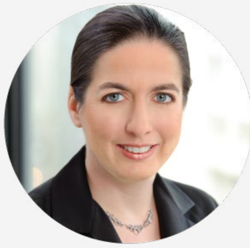
Mark Branson
CEO of the Swiss Financial Market Supervisory Authority (FINMA)

Paulina Dejmek Hack
Director for General Affairs, DG FISMA at the European Commission

Kerstin af Jochnick
Member of the Supervisory Board of the Single Supervisory Mechanism

Carolyn Rogers
Secretary General of the Basel Committee on Banking Supervision

Axel A. Weber
Chairman of the Board of UBS Group



Rebecca Christie
Non-resident Fellow, Bruegel
(moderator)

Rebecca Christie: How would you assess the current situation with the pandemic from the perspective of the European and global banking sector?

Mark Branson: The future path of the financial sector through the pandemic is uncertain and some problems are stored up in the pipeline. The robustness of the banking sector is key. Their risk management practices have to stay sound and not be undermined or overruled. Another concern is the frothy state of the market environment and the consequent risks for banks and shadow banks. Investors have to think very carefully about where they are placing their money. The unprecedented stimulus programmes and liquidity injections have created side effects, risks and exaggerations in various markets.

Carolyn Rogers: Resilience was vitally important going into the crisis, giving banks room to be flexible and respond to the extraordinary circumstances. Resilience also matters now in the crisis, but will be particularly crucial coming out of the crisis, which will be the most challenging time. There is a lot of liquidity in the system that can create valuation problems and asset bubbles; banks are not immune to them. Bank supervisors will need to continue to be vigilant.

Paulina Dejmek Hack: The crisis has had a fragmenting effect far beyond the financial sector. Banks have kept up corporate lending but need to continue to be part of the solution. International cooperation and coordination are important – and in this respect it's good that the US is back at the table. Exit strategies need to be coordinated globally, to the extent possible. In terms of priorities going forward, key areas for the Commission are Basel III, anti-money-laundering, sustainable finance, the digital challenges including cryptocurrency challenges, the Banking Union and the CMU.

Kerstin af Jochnick: Thanks to the reforms implemented after the last crisis, banks are in a good position to absorb significant amount of losses and can continue to support the real economy of households and corporates. The sharp decline in economic activity caused by the pandemic is not yet fully reflected in balance sheets but we are likely to see an increase in corporate defaults. It's therefore crucial that banks proactively manage their credit risk, reclassify loans on a case-by-case basis, and ensure adequate provisioning.

Rebecca Christie: What about the global outlook and the risk of fragmentation pushing back against that?

Axel A. Weber: With the rollout of vaccination we are on a trajectory to regain pre-crisis levels of GDP. China has arrived there already; the US will get there before us. Central banks have augmented their balance sheets by 13% of global GDP, which has facilitated aggregate government deficits amounting to 11% of global GDP in 2020. Going forward, banks need to continue with prudent risk management. Diversification helps in banking, too. This will be a long crisis, with long-term impacts on government budgets, monetary policy, the corporate and the banking sectors.

Rebecca Christie: What's the momentum of the Basel III process and the risk that deviations we have seen around the world might not be rolled back?

Carolyn Rogers: The Basel Committee has stepped up over the last year. We met 24 times in 2020 compared to three to four times in a typical year. We made key decisions early in the crisis to give operating flexibility to supervisors and to banks. The Committee has demonstrated agility and momentum. The interim measures put in place by jurisdictions are temporary, to be rolled back when conditions allow. The focus now must be on finishing the job. The final set of Basel III reforms need to be implemented to build on resilience and ensure a level playing field.

Paulina Dejmek Hack: From the Commission side we remain very committed to the Basel process. In the light of COVID we postponed the implementation of the last elements, following the global consensus to do so. And we are putting forward a legislative proposal in the months to come. We believe that other jurisdictions remain committed to Basel as well.

Rebecca Christie: Do you have any concerns about the level playing field globally and the different specificities, measures and deviations that have come into play?

Kerstin af Jochnick: We have done a lot since the last financial crisis but could probably do more. It is all about making sure that we have legislation in place that is more or less implemented in the same way in the different regions and that there is close cooperation between the authorities to make sure that supervision works well for the cross-border banks.

Rebecca Christie: How are the Basel regulations working with the financial system?

Mark Branson: They have helped, but the Basel reforms and the too-big-to-fail reforms aren't all done. So we have slipped into the pandemic crisis without having finished our work from the last financial crisis. Reforms have to be completed to remove unnecessary model complexity and exaggerated model optimisation from the system.

Rebecca Christie: Are any prudential measures needed at the moment? And is there a single specific legislative action at the EU level that could make a difference?

Mark Branson: We need prudent risk management in the industry and strong supervision from the public sector. My greatest concerns are excessive risk-taking in the current market environment on the prudential side, and financial crime on the conduct side.

Kerstin af Jochnick: I would like to see the third pillar of the Banking Union come into place: the European deposit insurance scheme. It would be a very important step for the euro area. It would deepen integration of the European banking market, reduce fragmentation, and enable greater cooperation.

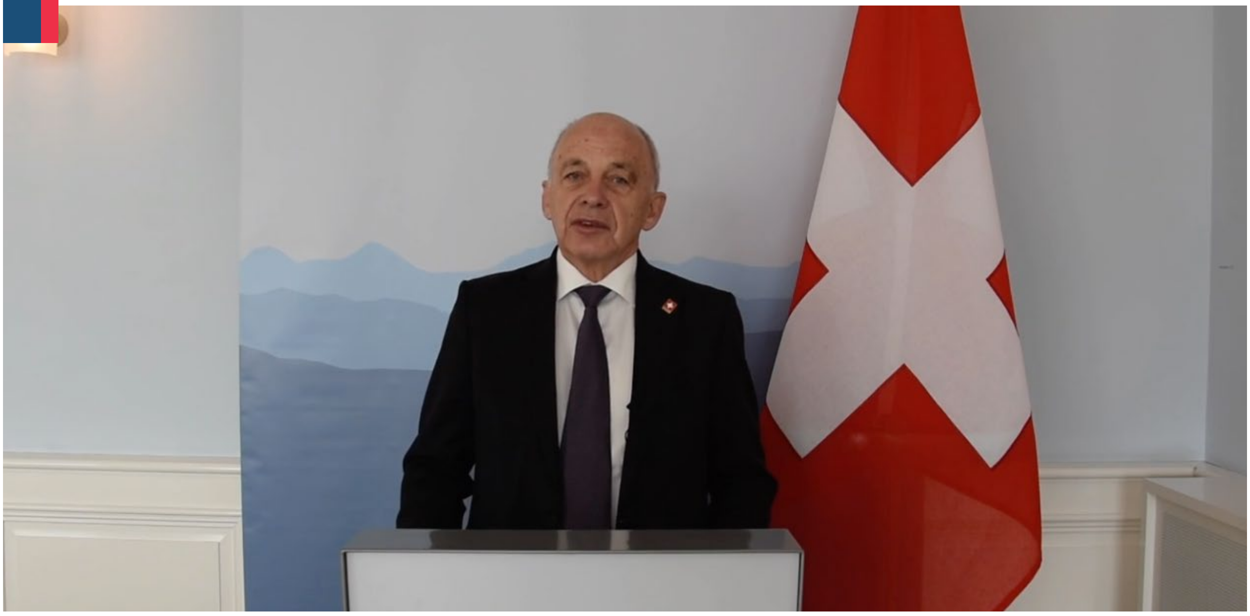
Paulina Dejmek Hack: Difficult to single out one single measure. I have mentioned Basel already. Later this year we will be looking at and revising our macro-prudential framework. We also need to continue to work on Banking Union and Capital Markets Union, including the supervisory dimension and more complex areas such as insolvency laws. And of course, at the very macro level, the speed of the recovery of our economies will depend on the speed of the rollout of vaccinations

Axel A. Weber: Europe has a fragmented financial market consisting of 27 fragmented economies with a 28th regulator on top. If you were designing an efficient system from scratch, you wouldn't design it this way. You would draw up a system that opens the internal markets with a single regulator and a single rule set. We are coming to that via evolution of national systems from the bottom-up. We need to start rebuilding at the European level and begin with a single layer at the top. Also, if Europe is not fully on board for Basel III implementation it will be globally seen as a weakness and as a net negative for the banks. Let's not delay the regulation that should have been done 12 years ago.

New Growth Models

18 March 2021 | 14:30 - 16:30 CET

Keynote remarks



Ueli Maurer

Swiss Federal Councillor and Head of the Federal Department of Finance

Europe is part of the global economy, and we in Switzerland welcome the removal of barriers for cross-border financial services, and deeper cooperation among stakeholders for the benefit of the European economy. Switzerland can and will make a significant contribution in three areas.

The first is our strong network. We are a small, neutral nation with relationships across the globe in the financial and the economic sector. Many big multinationals have set up their headquarters here. This network is one of our big strengths, and it will become even more important in the future, not only for us but for all stakeholders. We'd like to expand this interconnection, especially with our European partners. It will be an asset for a strong Europe, for strong financial centres, and for growth after the crisis.

The second is in new technology such as fintech and blockchain, which will radically transform the financial industry over the coming years. Finance is getting a new face, and the winner will be the one who reacts quickly and who can adapt to these challenges. A certain regulation is needed in this new field, but, we also need to provide the freedom for innovation. We want to set boundaries, but leave room to explore. In Switzerland, we aim at giving the best framework for innovative solutions. With new technologies, workers and management will need to update their skills, and legislation will need to be updated. All that represents a formidable challenge.

The third area is sustainability and green finance. Investments have to become more sustainable. Sustainability must bring economic growth; not merely green lip-service. Being green and sustainable is a major challenge for investments, for our world, for our future, and our youth. It demands our full commitment. It requires experience, networking, and new technologies. Here too we have gained valuable experience and are well connected. Cooperation in these areas is much needed, especially in Europe. Sustainability that creates growth and prosperity is the key.

Exchange of views

Post-Pandemic Economy: Towards Green and Digital Transitions

José Manuel Campa
Chair of the European Banking Authority

Urs Rohner
Chairman of the Board of Credit Suisse Group

David Wright
Chairman of EUROFI *(moderator)*

David Wright: How do you see this pandemic affecting digital and green sustainability issues?

José Manuel Campa: Both trends have been accelerated. The digital trend was already very active across the world and has been accelerated due to teleworking, virtual conferences, etc. Sustainability is about other aspects than green, it's about social sustainability too so the agenda is getting broader all the time. I think Europe has a leadership role in terms of ESG and we need to keep the momentum. But we need to work towards a common taxonomy and reporting requirements.

Urs Rohner: Climate change and sustainability have been on the global policy agenda for quite some time. However, the pandemic has accelerated these trends and highlighted the urgency to act and strengthen resilience of our economy as well as society as such. When we look at the market disruption caused by the pandemic, sustainable funds have generally done well. What we need when it comes to the green transition, are effective instruments and processes to address the actions needed, including global standard setting. Further, the pandemic has also crystallised the importance of data and data sharing.

David Wright: How is the EBA going to measure and monitor the transition to a sustainable economy?

José Manuel Campa: This is a multi-year agenda with a 5-year horizon. It started with ESG governance and oversight, which involves an ESG strategy and disclosures focusing on taxonomic development in the EU and green asset ratios. A second stage is enhancements and risk measurement, involving appropriate tools and mechanisms. This presents challenges, as it's not easy to work with historical data. The third aspect is how to push forward and make sure banks have the right means and capital to address those risks over the coming decade. We are also working with banks on what we call the climate risk stress test.

David Wright: Do you see a debate opening on green capital?

José Manuel Campa: It's important but we need to move onto other issues first: how to better measure the risks arising from climate change, report them, and assess them; those are probably more important going forward than prudential aspects.

David Wright: From a Swiss perspective what would you be saying to your government and regulators? Are you broadly satisfied with the developments within the EU?

Urs Rohner: We fully support the Federal Council's aim to make Switzerland one of the leaders in sustainable finance. The financial sector has an important role in mobilising capital for the green transition. We rely on an efficient regulatory framework for incentivising innovation and transformation in the real economy. At the same time, we are pursuing a dialogue with regulators which have taken concrete steps to enhance transparency in the financial sector concerning climate-related financial disclosures. ESG data disclosure is a key ingredient for the acceleration of sustainable finance. Financial institutions rely heavily on obtaining high quality ESG data therefore, disclosure obligations have to apply for a broader range of institutions, and also for non-financial corporates. Regarding the EU approach to sustainable finance and its action plan, it appears to be more regulatory driven than the Swiss approach, but we clearly share the same policy objectives and climate goals. It's vital that we have a consistent, coordinated approach to sustainability at international level.

David Wright: Regarding the digital transition and the Commission's work on crypto, stable coins and operational resilience of data, do you see a coherent picture emerging?

José Manuel Campa: I welcome the Commission's initiatives in this area and look forward to seeing the gaps filled in the regulatory framework.

Urs Rohner: One of the impediments is cross-border payments, which have to be made faster and cheaper. However, the questions is what do we want to resolve? Do we want the remittance area to be more resilient and better? Do we want to use digital assets for custody purposes? What happens once we have digital central bank issued currencies? Are they used for just inter-bank transfers or will they ultimately replace a significant part of banking activities? We have to be very clear about the objectives to be pursued. Digital ledger technology and digital assets are realities and will continue to be monitored within the overall setup of the financial sector.

Panel II | Post-Pandemic Economy:
Towards Green and Digital Transitions

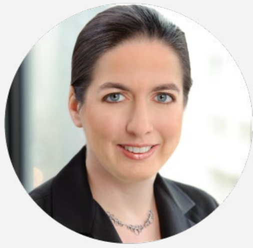
Isabel Benjumea
Member of the European Parliament

Steven Maijoor
Chair of the European Securities and Markets Authority (ESMA)

Sabine Mauderer
Chair of NGFS' "Scaling-up green finance" workstream, Executive Board Member of Deutsche Bundesbank

Urs Rohner
Chairman of the Board of Credit Suisse Group

Daniela Stoffel
State Secretary for International Finance at the Swiss Federal Department of Finance



Rebecca Christie
Non-resident Fellow, Bruegel
(moderator)

Rebecca Christie: How is the pandemic affecting our pre-crisis goals of achieving green and digital transitions?

Sabine Mauderer: The pandemic is a wake-up call. The way we interact with the environment matters a great deal to our health and our economies. We can no longer ignore the impact we have on the climate. Here, I see much room for improvement. Our economies will have to undergo fundamental changes to achieve net zero emissions by 2050. The public sector has a crucial role to play. Governments must send price signals to companies and citizens that prompt them to reduce their carbon footprint. The most important tool is adequate carbon pricing. Rules on transparency and disclosure of climate risks are another powerful instrument.

Rebecca Christie: What are the European Parliament's priorities?

Isabel Benjumea: We had a very ambitious agenda for this period, but the pandemic has changed our priorities. In the light of the difficulties that Europe's SMEs are experiencing, an overriding priority is to focus on being competitive. I don't think we in Brussels fully grasp the real impact of the pandemic on the economies of Europe. A huge recovery package has been approved, but it needs to be carefully used and invested to help Europe become more competitive.

Rebecca Christie: How is the role of regulators likely to change as the CMU progresses?

Steven Maijoor: On digitalisation, the silver lining of the pandemic has been how quickly financial markets have been able to function on a remote basis. This, of course, emphasises how important it is that we improve the resilience of IT, which for regulators means having the appropriate requirements around digitalisation and ensuring that it is a supervisory priority. Another silver lining is the surprising increase in involvement by households/retail in capital markets. On the sustainability side, it's important that the public sector steps up and gives more credibility to sustainability reporting. ESMA has delivered on sustainability standards and is making progress on the taxonomy, and we are continuing to work on the regulatory framework for the transition to a more sustainable economy.

Rebecca Christie: How is fragmentation likely to evolve as we come out of the pandemic?

Daniela Stoffel: The pandemic has shed light on a number of contradictions.

1. In innovation and technology, for example, science did a splendid job in preparing a vaccine. On the other hand, Switzerland held a referendum recently and voted against an Electronic ID over fears of privacy. So this dichotomy between the use of technology and what it means for the individual has clearly not been solved.
2. Everyone is calling for sustainability. But sustainability was not addressed when public money was poured into the economy. It was a panic reaction to hold on to the structure of our economy, freezing the pre-pandemic status. There is a forecast of over 6% growth in the US economy this year: how much of this growth is sustainable? Shouldn't we be thinking what we want international travel to look like after the crisis?
3. In regard to market fragmentation, we have global problems and we need global solutions. Unfortunately, as soon as nations act as individual states, there is little appetite to seek international cooperation. The pandemic has emphasised the role of borders.

Urs Rohner: Fragmentation will continue to be a part of any global banking business and we would obviously like to see global standards. The finalisation and implementation of Basel III is very important and has to be done in a way that ensures a level playing field. Another major recent achievement is the state of digitalisation in banks, including rapid acceleration of remote working infrastructure. However, this also implies that we have to pay extra attention to a well-coordinated cybersecurity approach.

Rebecca Christie: How do we follow through on commitments to prevent greenwashing?

Daniela Stoffel: We want to strive for a forward-looking, readily understandable, fact-based and unbureaucratic standard, and disclosure rules that really go for the facts.

Isabel Benjumea: The quality of data is key, and then the framework to use that data. We should not create a legal framework without having a global perspective.

Steven Maijoor: It's important to underline that once information is used for capital allocation, there is the risk of bias, distortion, or even fraud. So we need to take the quality of data and the risk of greenwashing very seriously. This is not just a disclosure issue; it refers to the system of data collection, which must be reliable. On the non-financial reporting of corporates, the IFRS Foundation has made progress in recent months towards the establishment of an dedicated sustainability board and there is international momentum to support this. Hopefully this will reduce the demand for, and development of, different reporting standards.

Rebecca Christie: Please share your concluding remarks, and is there one piece of the European legislative agenda that you would like to see prioritised?

Sabine Mauderer: Recently, the US has woken up and is pushing ahead with fostering a sustainable transformation of the economy. It will overtake Europe in this field because it can rely on a deep and mature capital market that understands the signals the administration is sending. In Europe, too, capital markets will play a vital role in supporting the green and digital transition. Therefore, we need to think how to create deeper and more mature European capital markets.

Steven Maijoor: Firstly, we need to continue with prioritising legislation regarding sustainability, also as the US may now go fast in the sustainability area. Am important issue here is whether to look only at the impact of the environment on companies, or also the impact of the company on the environment: the so-called double materiality issue. The EU is in favour of double-materiality and it is important that we get international support for that. Secondly, on cyber risks we are looking forward to working on DORA where we will start to supervise, or at least have oversight of third-party service providers such as cloud service providers.

Isabel Benjumea: I hope the CMU becomes a reality as we need to get liquidity into the system, to offer SMEs and entrepreneurs larger investment options. We also need to deal with insolvency laws and be able to create a single framework for the single supervisory system for capital markets. And we need to deal with taxation regarding capital markets. Finally, the CMU won't be a reality unless we tackle digital finance.

Daniela Stoffel: There is no distinction between growth and sustainability; there is only sustainable growth. We will put our efforts into the international framework and we are very active in various international fora to give input into the different workstreams to achieve a global standard. Data, transparency, and standards are the drivers for sustainable growth. CO_2 doesn't stop at the border, so neither should sustainable finance.

Urs Rohner: Credibility and trust are key factors in the Green Transition. To achieve this, we first of all need reliable ESG data to develop a robust transition language and framework to avoid greenwashing. Second, we need common standards, as the current corporate ESG disclosures landscape is characterized by a multitude of voluntary reporting standards, which remains fragmented and inconsistent and therefore, raises serious data comparability challenges. Thereby, the Capital Market Union is the priority legislation, as it is essential for delivering on the EU's key economic policy objectives including the transition towards a digital and sustainable economy. It will play a decisive role for the financial centers in Europe and determine growth opportunities.

Swiss Finance Council

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