Views of a global bank CEO

Bruce R. Thompson - Vice Chairman and President, EU and Switzerland, Bank of America - **David Wright** - President, EUROFI

David Wright

I have the pleasure, again, of having an exchange of views with Bruce Thompson, the Vice-Chair and President, European Union and Switzerland, of Bank of America. Welcome, Bruce. Thank you for being with us. Thank you for your support of Eurofi. The first subject we are going to talk about is Brexit. How do you see things? You have made regulatory changes to the way that you organise your business in Europe. Is that working out?

Bruce R. Thompson

Thank you again for having me, David. I realised we first spoke about Brexit in Sofia in April of 2018, and we were worried if we would have our bank set up in time for Brexit to happen. I guess we can say we are ahead of the schedule, with where we are today. Clearly, not unlike other financial institutions, the impact of Brexit and how we operate has been significant. I will just give a few quick facts.

The first is we took our UK bank and merged it into a bank in Ireland to create our European bank, so all of our traditional banking services are run out of that European bank in Dublin. The merger happened in December of 2018, so we have been almost a year running.

During the second quarter our European bank had one of the best months in its history, so the progress for the bank has been good. The people who needed to move have moved, and exercises are taking place such as the supervisory review and evaluation (SREP) and comprehensive assessments. Our bankers are able to go to clients and say that, regardless of what happens from a Brexit perspective, we will be able to serve your needs. Similarly, there have been many uncertainties with individuals – their jobs, their residences, and so on. As the merger is done and cannot be reversed, our colleagues are in place and know where they are going to be going forward.

The investment firm started a little bit later, with the licence attained in Q4 of 2018. The entity started trading in February 2019. There is around $6 billion of capital committed to that area, and we started with roughly 100 people in France, and ramped up to just under 400 people at present. In a post-Brexit environment, it will be at about 450 people. That process has gone very well. Roughly 90% of clients have been onboarded into that entity and are ready to go in a Brexit environment. The one thing that everyone, from a financial institution perspective, is working through is that despite having all of the clients onboarded, clients are splitting their trading activity between the legacy entities in the UK and all of the European entities. However, on balance we feel very good about where they are. Like everyone else, they have done everything possible to be ready from a preparation perspective. With the 31 October date coming up, playbooks are being dusted off again from the end of March and early April, and the outcome awaited.

David Wright

Looking at it from a slightly broader perspective, do you see this uncertainty in the market? Nobody knows where we are going to be in one week's time, let alone three weeks' time. This uncertainty must be worrying for global financial institutions such as yours.

Bruce R. Thompson

Yes. What is interesting, David, is you would think there would be more concern out there, but if you look at absolute valuation levels in the markets, if you look at where credit spreads are, by almost any metric the financial markets, knock on wood, feel very good at this point.

Factoring in Brexit and slowing economic growth into different issues such as threats of tariffs and trade wars, there is a worry that the cumulative effect can seep into the real economies. As a financial institution with a significant credit book, we are trying to make sure that we appropriately understand the impact, as these factors lead to changes in real economies and we are looking at how they manage associated risks.

David Wright

Looking at Europe, and I will use my usual trick here and make you the temporary commissioner of financial services for the next five years, what is your advice to the incoming commissioner, Vice-President Dombrovskis, who is going to continue with his role here? What is the real thing that would ramp up the growth rate in Europe?

Bruce R. Thompson

I am not going to get into the social issues, but I will say a couple of points.

The one topic that does need much focus is the Capital Markets Union (CMU) project. Much work has been done on the project. We believe that it is very important in a post-Brexit world. Looking at the European markets, roughly a third of the activity will come out of the EU when the UK exits, which is significant. Considering policies spilling into economies, post-Brexit the companies that borrow capital will be relying on roughly 75% of that capital from financial institutions, relative to 25% from the capital markets. In the US, that relationship basically flips to where around 75% is from the capital markets, which gives the banks the ability to recycle capital and to do things to support the economies at a much quicker rate.

In the US, investment grade borrowers raised just under $80 billion in four days which was the most capital that has ever been raised in a week, let alone four days (last week was the first week back post-Labor Day). In the context of a 12% capital ratio, that in effect is $10 billion of capital that has been recycled in the banking system that can then be reinvested to do things to help the economy. Particularly in a post-Brexit environment, the development and certainty of CMU are particularly important.

The other subject we all speak about is the need to make sure that there is harmonisation in the overall regulation that we go through. Historically, everything that we did across Europe tended to be hubbed in London, and in our case, we have two new legal entities in addition to what is in London: one in Dublin, which is the European bank, one in Paris, which is the European investment firm. The complexity that goes along with that has obviously gone up I would argue more than threefold as we do that. We want to make sure we are doing all the things that the regulatory community wants us to do. To the extent that there can be more harmonisation and more consistency about that, that should bode well for everybody.

David Wright

Press on, Commission. Press on, Europe, with Capital Markets Union. I could not agree more with you. When you look in your seat of great importance at risk across the world, what worries you the most? Is it the trade risk, the low-interest rate environment in certain major jurisdictions? Is it cyber-security? Is it the slowing of the US economy? What keeps you up at night?

Bruce R. Thompson

If you go back to anything that ultimately flows into how the companies and the individuals we bank are affected in terms of their credit profile, we are clearly focused on understanding the slowing economies, and understanding the impact that tariffs and the like can have. There is a broader issue with tariffs and the like, and there has been an increase in populism that goes along with that and understanding how that can flow into the core economies.

The other item you touched on, that it would be naïve not to highlight, is cyber-security. It is one of the issues we across our company spend a great deal of time on, and just to give context to the importance, we will spend somewhere between $700 and $800 million in 2019 purely on cyber-security and making sure that our systems are protected. From a cliff-edge or an event perspective, cyber is very important. We have seen the negative impact it can have on a financial institution when they do not get it right.

David Wright

Just a final word, because you obviously are a major bank from the Unites States with interests all over the world. Some people are saying the US economy is slowing, and some people are more optimistic. Where are you on the balance sheet?

Bruce R. Thompson

Our CEO, a week or so ago, said that the only thing we have to fear of a recession is the talk of a recession. This is reflective of what is being seen in the US economy at this point. There is no question that the growth rate has slowed down a bit, but in the second quarter it was still 2.1%. Looking at the recent data that came out in July, 130,000 jobs have been added. Year-over-year personal income in the US is up over 3% and unemployment remains below 4%. Looking at the strength of the core consumer in the US, on average they have more in their checking account this year than they had the previous year. Their credit card debt is lower this year than it was last year. With the appreciation of home prices, for those who own property they have more equity in their house this year than they did last year.

At this point, there is a good feeling about the US economy and where the consumer is. At the same time vigilance must be maintained, because clearly the activity and the noise on the global stage is real, and it is something we spend a lot of time with, but so far so good.

David Wright

Thank you so much, Bruce. We had better check in in Zagreb next year and Berlin. I am looking forward to that, I hope you are too.

Bruce R. Thompson

Thank you very much. ■