



Exchange of views

Bernie Mensah - President of International, Bank of America

David Wright - President, Eurofi

David Wright (Chair)

The Chair welcomed everyone to the session and introduced Bernie Mensah, the President of International for Bank of America, a member of Bank of America's executive management team and CEO of Merrill Lynch International in London, to give us a broad account of how banking is evolving and what important issues are. The Chair began by asking how Bank of America as a major global institution sees the global situation and the basic trends for where banking will be in five or 10-years' time.

Bernie Mensah

Bernie Mensah said that he sees the present trends as similar to others. Fragmentation is one. Sustainable finance, environmental, social and governance (ESG) and green financing concerns is another, where there is a need to get a grip on the topic, and make sure that it is set up in the right way as it evolves and become more important. The management and handling of data and its impact on financial services and clients is something that everyone is having to 'get their arms around,' if possible. Perhaps one further area is Asia, with China having driven growth in many other sectors over recent years. Asia has always been a large exporter of savings and perhaps putting to use those savings within Asia itself, with initial public offerings (IPOs) etc, is something to come.

David Wright

The Chair agreed it is interesting and asked whether there is a level playing field with the new digital competitors that are entering, such as new fintechs, or whether that is a worry. He asked if regulation is sufficiently evenly balanced across the globe.

Bernie Mensah

Bernie Mensah said that it does not always feel like a level playing field, and in some areas regulation may be a little behind and in some areas ahead - although this is perhaps not intentional. In a way, it is right to let 1,000 flowers bloom and see what innovation comes.

However digital competitors are playing in a space that is traditionally very highly regulated, and big banks might say that, as they are regulated, so everybody else should be. It is about getting that balance right. It is interesting that China recently released a set of regulations, driven by a large IPO there, which seemed intended to regulate some fintechs in the context of these financial institutions. That is not necessarily what would happen, but regulators are looking at that example, as they probably should.

David Wright

The Chair noted that Bank of America implements over time all the Basel standards. He asked whether the Basel process works well and if the standards are implemented in a consistent way across the globe.

Bernie Mensah

Bernie Mensah observed that looking back over 10 or 12 years they have been good on the whole. The standards certainly played a part in the response to the pandemic crisis of 2020. For the industry it was not a financial crisis; there were no systemic issues concerning banking and that is great. There are always unintended consequences and some adjustment is needed around that, mainly regarding the extension of deadlines and timing, etc. As a banker, one likes a little more flexibility, while expecting regulators to want to insist on making sure some of these things do come through. Interestingly, one of the things on the horizon is the Fundamental Review of the Trading Book (FRTB), which has been quite rightly kept back a couple of times. That highlights some of the flexibility that has been needed. What it is trying to achieve cannot be faulted, but some elements of cost benefits have been necessary when postponing the deadlines around that.

David Wright

The Chair asked Bernie Mensah for his views on Brexit, as an institution with large interests in the UK and across many European member states. He asked whether things are unfolding as expected or if there are surprises, and what he would like to see in the future.

Bernie Mensah

Bernie Mensah observed that Brexit has dominated attention for a while. The bank's reaction was set early on to deal with it as positively as possible and to take advantage as much as possible of the new dispensation. Like others, entities have been established on the continent, in Ireland and in France. This allows for as much full-service support of clients as possible, and we have senior people in place making that happen. The upside with that and the upside with Brexit, insofar as anyone is looking for one, is that it has brought the bank closer to clients on the continent, which has been positive in terms of the level of dialogue with clients in France, Germany and across the EU.

It allows for closer working with regulators across the region to understand the direction of travel on topics. Liquidity, however, remains a concern. There is a great deal of liquidity in London and a great deal of liquidity on the continent, and one concern would be where that liquidity would shift to, because that drives capital flows, capital allocation, profitability and it also drives finding the right solutions to existing market issues. As expected, it is a little bifurcated at the moment, so that will have to be kept under review.

Finally, on the horizon are discussions about clearing and where that ends up. There are probably not too many surprises in terms of the opportunities and challenges that are expected to emerge.

David Wright

The Chair asked if these are early days and whether the business that has moved is the beginning of major changes in structure between the EU and the UK, or if a steady state is being moved towards quite quickly.

Bernie Mensah

Bernie Mensah stated that there are different angles to that, and investments have been made. It is not necessarily a steady state, because things always evolve. Even in London and New York they are evolving.

Likewise, the relationship between the EU and the UK is clearly evolving. The recently-agreed memorandum of understanding (MOU) is part of that evolution. It is important for both centres to figure out what the new dispensation means, and that is just as applicable to the UK as it is to the EU. The EU would probably agree that their financial centre was in London and so the EU is in the process of building, investing in, coalescing – whatever word might be used – a financial centre within the EU. There are many thoughtful, smart people who are figuring out what that should look like. The UK, having dissolved its relationship with the EU, will also have to figure out the direction of travel for the City of London.

David Wright

The Chair asked whether Bernie Mensah would agree that if Europe can deliver a Banking Union and drive forward on a Capital Markets Union, sustainability and digital, the potential for growth for financial institutions, including large ones such as Bank of America, is quite important.

Bernie Mensah

Bernie Mensah agreed absolutely. It has often been quoted that if the EU is compared to the US, for example, a large amount of corporate funding in the US is done through the capital markets, more than 50% or 60%. In the EU, that similar percentage is on bank balance sheets. Senior EU policymakers have said that the balance is not right. It might not be desirable to get to 60% or 70%, but capital markets are an incredibly powerful and useful tool for driving economies, funding high yield investments, and providing an alternative source of capital. A thriving high-yield capital market can fund growth companies in an efficient way, with the losses borne by those prepared to take the risk, in a way that allows capital to be driven to where it needs to be. Perhaps with negative rates in the EU, a little more of that would be useful. That is perhaps the angle bankers would be expected to take, but it might be a benefit for institutions that were always in the EU, but who now have more people on the ground and are spending more time there, to add to that dialogue.

David Wright

The Chair thanked Bernie Mensah very much for his thoughts and much-needed optimism.