



Exchange of views

Bernie Mensah - President of International, Bank of America

David Wright - President, EUROFI

David Wright

Ladies and gentlemen, I have the great pleasure of having with me Bernie Mensah, who is the President of International for the Bank of America, member of Bank of America's executive management team, and Chief Executive Officer of Merrill Lynch International. He has a major role at Bank of America. Bernie, welcome, and thank you for your support of Eurofi, which is greatly appreciated.

I apologise for the background noise here. There are demonstrators in the lobby, but they are not going to stop us having an interesting conversation.

Bernie, you are absolutely at the forefront, with your clients, of managing sustainable finance. How do you see things after COP26? Are we making progress? Do you sense a change of momentum or do you see more downside than upside?

Bernie Mensah

Thanks, David, and thanks for giving me this time. It is good to have some background noise. It reminds us that we are in person versus on the Zoom calls that we have had over the last couple of years, so I will speak a little more loudly and maybe it will drown them out.

All the work running up to COP26 was manifest in COP26 and it was a good convening point. Through that point and beyond, the whole agenda around climate has really accelerated. The EU has taken a lead. As we all know, the EU is in the middle of implementing a lot of the things that it had talked about, which is good. The UK is also very engaged. The US, which had been a little bit behind, is also really coming to the table. It is taking a bunch of cues from EU regulations as well as the UK. Finally, I would say that the corporate sector and all of our clients – and those of other financial institutions, I am sure – are very much engaged.

One thing that I would say is that we are spending a lot of time not with the biggest clients who have the resources to be engaged but with a lot of terrific but more medium-sized and smaller clients who need the resources to really implement these things.

David Wright

Do you worry about fragmenting standards? Is the world moving to enough convergence here that will avoid an awful lot of deadweight cost in different markets? Is that something that worries you?

Bernie Mensah

Yes, I do worry about the different approaches that might be taken, in both senses: lower standards and gold-plating. We need to be careful in terms of how we take these rules. Some of the arguments around taxonomy, etc, are very public. There will be costs. For banks like ours, which operate across the globe in over 100 countries and have a physical presence in quite a few, it is always in our interests to make sure that these things are harmonised.

I am not sure if this is a perfect analogy, but sometimes when I think about the Internet, I think that a bunch of people very quietly created the rules, and then we all turned up and started to interact with the Internet. We then found out later that the rules were not really fit for purpose, and now we are trying to figure out how to control it. Here, we are trying to set the rules right at the beginning, before we get going, so there are a lot more arguments to be had. Hopefully, we will get the right framework to start with and it will be harmonised.

David Wright

When you think about this massively important transitional set of issues, we have heard here that we

need a plan or some procedure. How do you see this? Who should take the lead here in terms of setting and delivering the framework?

Bernie Mensah

I would, of course, prefer all participants who are engaged to be iterating to what the best solution is. Of course, we need the regulators. We need things like COP26 to set the agenda. I would not advocate for one emperor, as it were, who lays out all the rules. That is a tough thing. It comes back to the analogy that I gave, which is that, as we are all around the table, making our cases for all the different aspects around disclosure of gas and nuclear, border-adjustment taxes and carbon offsets, etc, it is important that we have those arguments and that all stakeholders are heard.

The really big thing that we are all trying to grapple with at the end of the day is a just transition. Out of these rooms and beyond all of the demonstrations are people who are having to adjust their lifestyles or pay a cost for the fact that we are trying to get the temperature below a certain level. I am quite positive, because I think the right people are at the right table. It might be inconvenient, but the different voices are being heard.

David Wright

Today, if we just take the example of natural gas or nuclear, it must be very difficult to decide whether you can give credit or finance to that sector, because it is being evaluated in the context of the Commission's taxonomy. I hear that there is more political dispute in Europe about natural gas. If a project comes to you, how can you decide whether it can be financed without a definition of the taxonomy and the standards?

Bernie Mensah

That is a really good point. I may or may not speak for other institutions, but we do not want to be the instrument by which climate policy is set. Banks are, by definition, and quite rightly, incredibly highly regulated, and so it is an easy lever to reach to for public policy and for advocates to say, 'We are going to drive the strategy by asking the banks to apply capital to this type of lending versus another type of lending'. We do not want to be caught in that. When we talk through Scope 1s, 2s and 3s, etc, what we determine and how we lend can absolutely define the progress of this.

We set certain frameworks. We engage with a lot of different stakeholders and groupings that are out there. We subscribe to many forums, such as the International Business Council or the Glasgow Financial Alliance for Net Zero (GFANZ). As a bank, we have said we want to fund that transition. We are focused on it being a just transition. We have set our own net zero targets.

I am sensitive about a couple of things. To my mind, this does not result in huge additional capital requirements in aggregate for the banking sector, which I think is well-capitalised, even in anticipation of climate risks coming ahead. Secondly, we are hoping not to be the enforcers, as it were, through capital actions.

David Wright

Turning to another subject in order for us to benefit from your wide knowledge, there is a huge amount of change going on in the payments space. We have central bank digital currencies beginning to emerge and certainly being researched enormously. How do you see this evolving? What is the right approach here? We heard this morning that there are 250 different payment systems. I do not know if that was in Europe or around the world, but a huge number. How do you see this, sitting in your seat?

Bernie Mensah

Payments are super-important to us. As a bank, it is a sector that we focus on an enormous amount. We are one of the largest payments providers globally, not just in the US but outside. We interact outside the US largely in the corporate/institutional/sovereign space. Increasingly, a lot of our corporate interactions will be B2C. If we are banking, for payments purposes, some of the largest digital-payments entities globally, as we do, given the size and scope that we have, we increasingly need to provide services for them that allow them to reach their customers seamlessly.

It is terrific that there are fintechs in place. It is really, genuinely terrific – I am not just saying it – that it is being disrupted. It has been expensive to some extent, and it has been inefficient to some extent. Insofar as new technologies come into play to make payments faster, cheaper, more efficient and more convenient, insofar as we all carry computers around in our pockets, and phones that allow us to interact, it is not just me sending some money to my kids or buying a book on Amazon. We have large corporates that are executing \$100 million-type payment transactions on their phones, in a mobile fashion. That is all terrific.

It is a space where we in the commercial sector need to compete. The big banks need to provide the best service and be agile, and the fintechs are welcome to come into the space. Clearly, there is space for all of that, because they are out there, doing very well, and are very well-capitalised. We are a little envious of some of their valuations, but that is terrific.

Very different things are things like crypto. A very different animal are central bank digital currencies. With respect to that, there are some very thoughtful actors in the EU and the UK – you might have Sir Jon Cunliffe soon – who are really thinking through how that will interface with the traditional role of banks, which is to gather deposits, make credit decisions and allocate capital in the wider community. I would put central bank digital currencies in a different pocket, to be developed, but very thoughtfully.

David Wright

It is going to be a swirling space for some time, for sure. I always like talking to you, Bernie, particularly because I want to get your view about how you see capital markets developing in Europe in the post-COVID period. Are you beginning to get more optimistic

about what is happening? Do you see things that really make you think, 'This is interesting' from your bank's point of view, or are we still stuck in the refrigerator and making no progress?

Bernie Mensah

In Europe?

David Wright

In Europe.

Bernie Mensah

COVID has been difficult, but I am definitely seeing progress in the sense that there is a renewed energy around some of the issues that need to be dealt with. That may simply be from my perspective. One of the interesting things over the last four or five years is that a lot of the large global institutions have been a lot more integrated or engaged in a more detailed way in the development of the European financial markets. We have had to because of some of the settlements post-Brexit, etc. We have a significant office in France now, which we have been building out, and we have been investing in Frankfurt and Milan as well. It might be that actors like us are more engaged and seeing more, but my sense is definitely that Europe is having to take responsibility – and I do not mean this to sound wrong – for its capital markets in a way that it perhaps did not before. That is a good thing.

We have also seen, over the last six or seven years, a huge increase in capital in the global financial markets, if you take the US markets. It is something that cannot be ignored. I often use the example of the automobile sector, if you look at the market capitalisation of Volkswagen versus Tesla, for example. I do think that, at the macro level, from the regulatory point of view, there is great engagement. At the corporate level, the interaction with capital markets as a benchmark, a pricing mechanism, a solution and a capital-allocation mechanism is increasing in importance every day. All of our engagement is helping to drive capital markets in general and in specific areas such as securitisation.

The EU is an incredibly wealthy region, with a huge amount of savings that I would suggest are not as efficiently deployed as, perhaps, in the US. A lot of the savings get exported, by the way, and then get reimported back into the EU to be deployed. It is really important that those aggregate savings, which are huge, have a decent return for the demographics of the EU and for all of those requirements. When they are not, it is not easily visible, except in forums like this, with people who are following it closely. It is a huge cost and it can be a huge drag.

David Wright

Finally, would you put a lot of emphasis on building the securitisation markets in Europe? You mentioned that. Many people feel that here is one opportunity among many, where Europe really could build long-term liquidity in some markets. Would you agree with that?

Bernie Mensah

I would, and it is something that I am spending more and more time on. In fact, I was just catching up with some colleagues earlier today on it, and just rescoping the markets. It is interesting when you talk about securitisation here, because there are a lot of old hands who have been on the journey. A lot of eyes will roll and say, 'Gosh'. I am sure that there are a lot of barriers, and I suspect that a lot of them look at me a little naively and say, 'Welcome to the party'. I have been in the markets a long time and I do know quite a bit about them.

There was a large securitisation market before 2008. There is a large covered-bond market that exists today. There is the capital output floor of 72.5%, which is going to be phased in in and will impact banks in Europe that are relying on internal models. We need European banks to have not just the liquidity but the capital benefits, because, if you just take ESG, which we started the conversation on – full circle – the capital requirements that would be required to come in to drive the infrastructure investments that will lead us to a new place from a green point of view are huge. Whether you call it infrastructure financing, covered bonds or securitisations, it is the same mix. It is an incredibly important climate-transition tool, apart from everything else.

David Wright

Thank you very much, Bernie, for your thoughts, which are greatly welcome. I know many people here would agree very much with what you have said. Thank you again for being with us and for your support. It has been a pleasure.

Bernie Mensah

Thank you, David.

David Wright

You may even have silenced the crowd.