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"That would not be acceptable"

Eric Knight, major investor at UBS, on the suspected cross-subsidization of investment banking

UBS now enjoys a much better image amongst investors than Credit Suisse. This is the opposite of the situation from five years ago. Nevertheless, you are questioning the strategy of the bank. Why are you still not satisfied?

The image of UBS was very badly damaged by the losses of its investment bank in 2008, which amounted to more than 10 per cent of Switzerland's gross domestic product. Since then, its image has improved, but the recovery has nothing to do with the investment bank and its profits. More than 90 percent of the Group's value lies in wealth management. As the world's largest wealth manager UBS has the opportunity of leaving its competitors far behind, just as BlackRock has done in asset management. But to achieve this, UBS must focus and stop investing its capital in investment banking.

You suspect that UBS private banking subsidizes investment banking. Why?

The Board of Directors has responded evasively and in ways that are contradictory to our questions. On the one hand it was argued that a spin-off of the investment bank would not be feasible because, as an independent company, the investment bank might not even have an "Investment grade" credit rating. Funding would therefore be very expensive. On the other hand, UBS has been saying for years that the investment bank is internally financed at market prices. But if it is true that the investment bank does not pay as much for internal funding as it would have to pay as an independent company this is a form of cross-subsidy.

Do you think that UBS and CS should merge their Investment Banking?

Such a merger could be an interesting way of achieving critical mass and the shareholders of both groups would benefit from large synergies. The merger would create a top player. But there are also other potential partners, such as Deutsche Bank.

Does UBS have the right CEO and the right President?

The answer will depend on the answers we receive at the AGM concerning the funding of the investment bank. Should it be true that it is subsidized with cheap funding from wealth management, it would imply that the segmental data published in the annual financial statements is misleading and that the remuneration of senior staff in investment banking is based on artificially inflated profits. That would not be acceptable.

Arthur Rutishauser