UBS CEO speaks at the Bank of America Merrill Lynch 23rd Annual Financials CEO Conference

Q&A discussion
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Speakers: Sergio Ermotti, UBS Group AG CEO and Andrew Stimpson, Bank of America Merrill Lynch research analyst.

Andrew Stimpson:

Thank you very much, Allaister. Morning everyone!

Welcome to Day 3 of the conference. I'm very pleased to say that we've got UBS CEO Sergio Ermotti up on stage with me here this morning, especially as it's only a month before the UBS Investor Update day. As is the fashion, that once again we are doing this as a fire side chat, I will open up to questions to the audience – both live, but as always, you can type in questions on the handsets and I'll do my best to get through all of them on the iPad up here.

So I'll start this off then. Sergio, welcome. Thank you for joining us. So as I said there, next month you've got your Investor Update. Maybe you can give us a few glimpses of what we might be able to expect.

Sergio Ermotti:

Well, I see that for us it is a great opportunity to catch up with investors and de facto reiterate that our strategic story is intact, I mean we won't change really that narrative, but it's an opportunity for us to explain how we will achieve our targets.

And it's also finally an opportunity for us to explain and communicate better, you know, it's part of our targets and how we achieve those and how we interpret those targets as we create a better understanding, and so I think that's good, we're going to have all my colleagues and team from the executive board presenting, and we can go through business technology items, and things that we know are important for investors but are also important for us to present in order to make our equity case and story clear.

Andrew Stimpson:

Okay. In your conversations with investors, which bit of the story do you think the market misunderstands? You see it quite clearly that you feel you have to go over more time.

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Sergio Ermotti:

Right, I think that in my point of view, and of course when you have this kind of situation it is up to us to be clear, and if people don't understand, or we perceive that the message is not well-received, it is up to us to communicate better and then we will do that – it's the story about our targets.

You know, our targets in my point of view, there are nuances around how we define our targets, and in many cases I think that we need to understand, we need to communicate better the trade-off of communication to different stakeholders at the same time. In indicating our ambitions, which in my point of view are quite, I wouldn't say aggressive, but in any case credible and, you know, concentrated on growth versus also having to manage aspects of managing other stakeholders and making sure that we don't create a situation where we damage our shareholders by having too aggressive public goals.

Andrew Stimpson:

So is that more, the other stakeholders, is that more the regulators? Where you don't want to appear to be too far the other the other way? … Fair enough (unclear).

One of the other things you mentioned there was on technology and it's been a trend this year that more and more banks have come out and said 'Actually, we're going to have to invest more in technology.' Some of what you announced, you're probably one of the first banks this year to say 'We're going to be spending more on technology.'

Some of that is, appears to be some amortization of prior capex, but I suppose for many of us, I think it surprised people, because you usually seem to be further ahead of technology than many of your peers. And yet you're the ones, one of the first ones this year at least, to say 'We'll still spend more.'

Sergio Ermotti:

Yes, if you look at, we said we're going to spend more, and at the end of the day if you translate what this means, is a point. You know, we spend about 10% of our top line, and we said we're going to spend a billion more over the next three years, and the main factor was also driven by the effect of amortization of ongoing projects that we had.

I don't expect our overall technology spend to really increase in the future but rather to stay stable. The mix will change over the next few years. The absolute amount will stay around the 3 billion mark.

But the mix of how we are going to spend it is going to change. And I'm sure we're going to be able to explain this trend better. Because if I look at technology spend, it's high, but I see the rest of the cost – in the corporate center for example – has been coming down as a function of spending more in technology.

So it's very important to understand that it is absolutely not realistic to expect technology spend to come down if you want to be relevant – not only, you know you mentioned that we are really well advanced, we are well advanced in terms of B to C – client experience, product capabilities, what we do with client-facing activities – where the industry is still lagging is, you know, the ability to manage better the back-end of technology.

And so, if I look, at our spend, half has been still around maintenance around the bank. Also there, if you look at the mix, we have been taking down at least 100 million a year in terms of how we spend money on maintenance.

That's, in the last few years, we've been spending a lot of money on building the CCAR requirements, FRTB requirements, and look, now we're going to have BREXIT, Libor – all these projects that are coming in and I would call it business-regulatory investments, what we need to do to continue to stay in business.

Then there are elements of, call it, innovation, where innovation is also probably not necessarily always the right word, because it's not about innovating or coming out with something particularly new – it's just the way you execute businesses and you do business through technology that allows you to stay competitive and relevant in segments.

So, for example, when I think about our wealth management business, we deployed tools that allow the advisory model to be played out in a way that is more automated – and that is serving us in Switzerland and outside the U.S. around the 40,000 men hours in how we operate. So if you translate 40,000 men hours is around 20-25 people.

We need less to serve the same clients because of this technology. If I look at what we did in the U.S. with SigFig, we created de facto a technology tool that allows us to serve better the affluent part of the equation of our business model, interacting technology and human touch.

So it's not purely automation and robotics, but you know it's a combination of human and technology allowing us to go out and be profitable and expand a segment that wouldn't be an attractive segment for us in our business model.

If I look at the IB, what we did on research, on our evidence lab, the investments we did there to create a competitive advantage – the investment in execution, on the equity side, the [inaudible] execution, on the FX, you know, the FX market and the equity markets in terms of execution have changed dramatically over the last 20 years, and we are still relevant, we are still one of the few banks that was a leader 20 years ago, 10 years ago, 5 years ago, and it's only because of technology.

So, is that innovation?

Or is that investment that you need to make in order to stay relevant in the areas where you were?

So the true real innovation in the Swiss business – yes, of course, we are the leader in Switzerland – because we have by far the best technology platform.

But the real game changer is the back-end. Yes, that's where we are investing in robots. We're going to have 700-800 robots up and running by the end of the year. We already have 600-700 as we speak. So the journey is a journey of constant improvements.

And as I said before, we expect the rest of the cost of the bank in the corporate center particularly, but also on the front end, because you need less people – or the same amount of people can be much more productive – so the cost base is going to come down as a function of using technology.

Andrew Stimpson:

So the tech budget up, but maybe other costs…?

Sergio Ermotti:

Not up. I think it's stable and what we need to do is change the mix, hopefully and I think that many of the ongoing spends that we have for regulatory are going to fizz out or stay there only partially and how we spend that money is going to be different.

So we can be much more, you know, forward-looking in part of our investments.

Andrew Stimpson: Correct. And what if, just hypothetically, what would happen if you didn't spend that money on innovation. Would you just continue to ….?

Sergio Ermotti:

That's like, 'What would happen if you stop eating for three days?' You lose weight. Or you stop drinking, then eventually you will die. Yes, that's exactly what's going to happen.

So you are not nowadays, it is not possible, in some cases, in some cases if you don't invest in technology you are not going to get the license to operate.

Andrew Stimpson:

Got it.

Sergio Ermotti:

Number one. And if you think about investments we did in the last 4-5 years in building up the Swiss subsidiary, the intermediate holding company in the U.S., building up a legal entity, subsidiarization, also in the U.K., this is a huge amount of money that goes into those projects. Building up our wealth management capabilities in Asia and in Europe so that we have 80% of the non-U.S. assets on one platform.

But the regulatory part is there and then you know, as I mentioned before, if you don't invest constantly in technology, you are not going to keep it up in FX, in execution of equities, in the MIFID environment, you need to be strong in research, but if you do not have good execution, forget it. You are not going to capture any benefits.

Andrew Stimpson:

Do you see yourself taking market share, flipping that the other way round, from the less tech-savvy competitors – is it starting to be a real competitive advantage now?

Sergio Ermotti:

The reason is clear – if I look at the last three to four years – you could see how slowing down investments in technology has an effect on market share in certain businesses. Particularly in the FX business, if you look at what happened in the last 5-10 years, you look at the top ten FX, how many newcomers, very technology-oriented – if you don't keep it up, you lose market share very quickly, and then that's not something we can afford and want to see in something that we believe is a unique franchise for the bank.

Andrew Stimpson:

And then, cybersecurity is coming up as a bigger and bigger topic, and I guess that's probably why a lot of the additional spend is sometimes being put. Do you sometimes see that as effectively becoming a bit of a competitive advantage, or even a barrier to entry for non-banks who are trying to disrupt part of what banks do? Do you think actually cybersecurity… ?

Sergio Ermotti:

I don't think it is the cyber part of the equation, I think it is the regulatory part of the equation that is going to make it difficult for non-banks. One of the questions was: Are the FinTech going to come in and eat the lunch?

I think this hypothesis that was – and is still – a hypothesis that we should not underestimate, has lost momentum, I would say in the last 12 months, in my point of view, because of the realities that all over the world people are starting to understand the importance of confidentiality, data, and what it means, and from my standpoint of view it is one of these issues where, for once, you will be able to say that regulation is a barrier to enter that can protect the industry.

Now we have to pay attention that we use it carefully. Of course, cyber risk by the way is not something that you can address as a single bank. It's quite clear that you have to have an eco-system within the industry, together with governments, and what has to be also developed is the right culture on how we all speak about cyber risk and about being cyber-attacked.

Because if you put a stigma on any organization because it is cyber-attacked, then you won't create the transparency that is necessary and the communication channels that are necessary to reduce to the side-effects of one or the other organization being attacked. So it is very, very important that we look at – if a single bank has to look at what they need to do to protect yourself, like your house, but also what you need to do is to make sure your neighborhood is well protected.

And that's something that you need to work together with other banks and, as I mentioned, also the governments.

Andrew Stimpson:

Yes, I think there are certain things happening in Europe where you can start to see that happening, some of that coordination from the regulators and the governments, which is encouraging I think.

On all these innovations, is it, are they purely to cut costs? Are some of them needed to innovate in order just to maintain market share? Are there any innovations where can see where you can actually say you are going to generate more revenues? Because really what's happened in FX is more and more investments in technology and margins have come down, and really the investments have been there to take the variable cost down to, you know, the cost of the electricity to execute the trade.

Sergio Ermotti:

Well, in some cases you can protect and even increase your market share. So in that sense it is very clear that it is not only a protection game. You can improve your market share and in some others, I think I mentioned it already in the past – the great example for me to the needs of technology cannibalizing the business is proved to be wrong, at least for the time being, in our Swiss business where clients – basically you know, 50% of our clients are already using e-banking – 20% of our clients are already using smart phones to operate with us. Now, the interesting story is that those clients tend to be more profitable than the clients that use traditional channels, and the reason being that they tend over time to consume and take more products, to be much more horizontal in the way they interact with us. So it is not only cheaper in the way we serve them, but you can also see the effect of product fertilization going through the organization.

So I think in that sense it is very important to create that dynamic. I made a reference before on Evidence Lab and what we can do with this data, it's not just about giving it to our analysts, but also can we do something else across the board in the organization using this data – when we talk with corporates, try to advise them on their strategy using data, it is really a point that we believe is the next frontier of advising also in the investment bank corporates on what to do – it's not just going there and saying 'Ok, this is what we believe about the industry and then capital markets and so on' but also saying 'These are the data points we can use and show you about trends that go on your industry that you may or may not know.'

It's getting a lot traction with clients.

Andrew Stimpson:

Ok, maybe I'll switch on to wealth management. It's been 8 or 9 months now since the announcement of the combination of two former wealth management divisions. What do you think is the main difference this merger makes? It seems there's not really a cost motivation there. So is it market share winner? Or is it a revenue growth story?

Sergio Ermotti:

I would say that there is a little bit of everything. Of course, it is not a cost story per se but you know, the fact that within a few months we identified 100 million and I think there is scope for more, makes it already quite an interesting one, because you know 100 here, 250 there, and you add up and at the end of the day it becomes a relevant number.

So because we are down to this level, if you look at cost management, I would say at least for us, we are down to a level where we still have scope and then we are executing on that, but it's not going to be chunks of 100-

200 millions, it's 10, 20, 25 there, so we need to go down in a very, very granular way.

There is a cost element, an efficiency element in how we operate. We don't need to have – I always mention, why do we need to have two CFOs, two CROs, two Chief Operating Officers, I mean, two of everything – that's for me, the real question for me was, and two years ago I was already struggling, should we do it then or now? But then, for Automatic Exchange of Information, the FATCA closing, these things were still too much in the air, but now the growth story, the growth part of the equation is for me very clear – there is an opportunity, we see this, it is not large, but putting together the two businesses I can say, I can admit, that we really finally realized that we really have the 2nd largest Latin America franchise in wealth management – because we had part of it in Americas, part of it was outside, and now we start to see how two together cooperate and really created and are creating much different dynamics and momentum.

If I look at our Ultra business, in the U.S., you know, it is still totally underpenetrated compared to what we could do. Allowing the expertise of the GFO and Ultra that we had outside the U.S. to co-mingle with a financial advisor and try to create a formula that allows them to grow while also capturing the expertise is not possible if you have two different organizations. You work for a large organization. If you have two business divisions, no matter what you do, you are not going to capture that. We know over time this is also a story of growth and attack – because frequently, I get asked 'Are you guys under attack and now everybody wants to come' – no, I mean on the U.S. persons business we are on the attacking side because we have zero business right now. We have been out of the U.S. persons business outside the U.S., because of FATCA, because of everything that happened 10 years ago. Now that we have this FATCA and Automatic Exchange of Information, with the two divisions together we can attack the pool of U.S. persons, being in Asia or in Europe, that is now a business as is done de facto by U.S. banks. And so there are pockets of growth and business opportunities for us. It needs to be exploited, so it's a combination of cost, growth and market share.

Andrew Stimpson:

And some of those opportunities you identified of areas of growth, what's the kind of timing, they're not things you can do next quarter, given the business that it's in. What kind of time frame are you looking to execute those… ?

Sergio Ermotti:

Well, we are on execution right now, it's not going to go up and cover U.S. persons overnight – but you know, we are building up the capabilities and

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we have tactical booking capabilities that we can use and we are developing the more strategic one for the next 12-18 months, but in the meantime we are starting the execution. So it's a gradual pattern into that.

On the Ultra and GFO side, we are already in the advanced process of really making it more of a day-to-day operation in terms of how we work together.

Andrew Stimpson:

In the past few years, you've seen very good growth in the ultra end of the business, less so on the high-net-worth side, partly for other reasons. Is there – and you talk a lot on the ultra side – is there more you can do on the high net worth side?

Sergio Ermotti:

Yes, I think, probably we can do more there. That's where we have to recognize that is where the competition is much more fierce. Because if you look across the industry, of course we have a huge absolute amount of clients assets. But as you know it's still a very fragmented industry, very fragmented industry.

And there it's fragmented not necessarily in global dimensions, but when you go down to a country level, you always have players that aim to grow their wealth management business and be in that business, but their capabilities are always limited to high net worth, so they stick to that pool of clients, even when they are running businesses that are close to 100% cost/income ratio.

So you can see how the wealth management – people understand – and this is the real heart of the story of UBS, because regardless of what's going to happen in 2019 and 2020 or whatever, the secular trend about wealth management, businesses growing twice the GDP is there – and everybody knows, wealth creation and the need of people to save money and to manage money is there. It is a sustaining our…

So people understand that one and they speak to that opportunity to have a growing business with capital light. Where they start to face some issues, when they need to go into the ultra space, where the sophistication and the needs of the clients are more like institutional needs, that's the reason you see us growing faster in ultra, because we are able to serve the more complex clients – and competition is there, but it is much more contained in terms of we can really offer clients opportunities.

But we will look at, you know, I mentioned before in the U.S. we are trying to serve clients more on the affluent and low end of high net-worth through technology, and so we need to find the right balance on those aspects.

Andrew Stimpson:

Great, I'll combine one of my questions with someone from the audience through the iPad – you gave an interview out of Singapore, I think it was just a couple weeks ago.

Can you talk about what you're seeing from your clients there? Especially round the tariffs trade wars – how competitive pressures are playing out there as well.

Sergio Ermotti:

Well, actually if I think about what has been going on in Asia, you could already see some kind of adjustments going on in the system, whatever in China and the performance of the equity markets in the second quarter and even in the third quarter, you know we had a point in time where China and Hong Kong were down almost 20%.

And now they are recovering a little bit. So you know, it was already indicating that a little bit of adjustments are going through. Now I have to say the trade tensions have been putting a spin on sentiments, that is probably similar to what I experienced in 2015 or probably even worse.

Because in 2015 I remember, people went through these adjustments and crisis, but the forward-looking – you would talk to clients and entrepreneurs – you would get a positive view over the next few years. This time I really found clients much, much more insecure and actually I can tell you that I can see that also being reflected in the transaction line of our revenues, which you know is down around 10-11% as we speak. So the issue is that, you can see and you can also see – very interesting there – the rotation, you know, clients, Asian clients, going out of stocks, Asian stocks or Chinese stocks in certain sectors, technology sectors, and reinvesting in the same sector in the U.S., but they put less money at work – so the ratio of sell to reinvested is lower.

So it looks like there is a momentum that is clear.

Now if I look forward, I think this is just the pattern we're going to see in the next 5-10 years in Asia is this one. We're not going to see Asia and China going one straight line any longer, it's going to be much more bumpy. This is the reason why, like in 2015, like we did in the last 10-20 years, we're going to take these opportunities to always reinforce our position and invest for the future.

Because that's clearly the engine of growth for the next 3, 5, 10 years – this is the place to be and I'm glad last week, or two weeks ago, we got the license to distribute insurance products, the license to distribute fund products. So we are making, we are putting the application to own 51% of our joint venture – so we keep rolling down investments in Asia, but you know, at this stage you can see, look at the U.S. for example, it's interesting where you know the market goes up, investors don't really move their asset allocation.

When we ask investors, our clients, how they feel about change in their asset allocation, they will say if the market goes up or down 10-20%, we will not change our asset allocation. And lastly, it is interesting to see how this behavior changes between institutional investors and private investors.

I look at what's going on in our investment bank, you know, pretty solid momentum in Q3 – and if I look at the behavior of investors on the transaction line, it is completely the other way around.

Andrew Stimpson:

Interesting. A great segway into the investment bank questions right there, but I'll open it up to the floor, if you've got any live questions. Yes, at the front here?

Question from audience:

So yesterday we heard from Barclays that they changed management in the investment bank and they drew a few more risk-weighted assets at the investment bank, and hey presto they've become a lot more profitable. Does that profile not appeal to you?

Sergio Ermotti:

To be honest, we had our changes in the investment bank. I missed the one from Barclays. You mentioned Barclays? I haven't seen it, to be honest. No, but from the investment bank's point of view, our strategy for the investment bank has been defined almost 7 years ago, and even further clarified 6 years ago, and has been executed over time in a very disciplined manner. I think, we believe that the reason for our success is because we keep discipline in the way we manage the investment bank.

If you put too much resources in the investment bank, you are going to have a detraction in the returns. Because where do you put this money? In areas where you don't get the returns on capital.

You just consume capital. You get a better – if we would want to have a better cost/income ratio at group level, yes, we could deploy more capital in the investment bank but with lower returns.

And that would please the people who overly focus on cost/income ratio, but not the ones who are looking for capital returns from us.

As far as we are concerned, we look at the investment bank with a fairly defined maximum of user of resources that has to be driven by client activity, and is subject also to market movements – you saw our risk-weighted assets movements in the first quarter as a function of the spike in volatility in the first quarter and then normalizing in the second quarter. And this is the way we run in the investment bank.

That's the reason, the value added for the investment bank, for us is to our corporate business in Switzerland and to the wealth management, when it stays within its defined risk appetite. And that doesn't mean that we are not ambitious to be competitive in those areas where we choose to compete. In 75% – so the demonstration that capital is not, capital allocation is not relevant to be a winner in the investment bank, I think, is our case – in 75% of the businesses where we compete, or where we are operating, we are top 5. I am talking about segments of the business: I can talk about equity, I can talk about part of the DCM or ECM universe, in those areas where we made a strategic choice we are top 5.

In 25% we are not, because we may not deem those to be relevant for us and they may be necessary for us to make the investment bank diversification and offering compelling.

But there is no appetite for us to increase, and I don't believe it is accretive for our shareholders to do so.

Andrew Stimpson:

Maybe if I follow up on that, if I can, you are increasing the – so we agree on the returns being low in the IB compared to the rest of the business but you said you're going to grow the overall balance sheet at the start of the year, the growth mainly in wealth management, you've got a target of a third of, roughly a third of leverage and risk with assets being in the investment bank – that does imply there's room… the target allows room to grow. I understand that there's bits of the investment bank which needed to power wealth management. But the way the target's set at the moment allows you to deploy more capital, would allow you to, into the bits that aren't to do with wealth management. Is there are tightening up or …?

Sergio Ermotti:

I understand the question. I think that this one of the good examples I mentioned at the beginning where we need to spend more time to go through what we mean when we make our … I mean you look at that – I think you are referring to our trajectory towards 2021, and where we have to have assumptions on, like when we do planning we do beta and alpha, and then we say okay, how is our balance sheet going to grow as a function of GDP growth, assets growth, and so on and so forth – so if you try to, and in that scenario we basically say the vast majority of the growth, is not something I'm saying now, we said it back then early this year when we announced Q4 results, we said the vast majority will be driven by expansion of activities in our corporate business and in wealth management.

And what we defined is also the risk and capital allocation appetite for the investment bank as being around a third. And as you can see, in the last 5-6 years we haven't changed that language, and that definition – but it doesn't mean that we always use 33, you know people like to round up to 35 (Andrew 'or round it down to 30')… I never saw somebody rounding down to 30 – but that doesn't mean that we're going to use, this is not a target, this is the maximum utilization, okay, this is a big difference between saying that we will have a third as a predefined mission to invest, no matter what happens – versus having the necessity from time to time, because of market conditions, because of business demands by clients, to go to that level of spikes.

And so, look at the time series of our usage, they tell you the story. I am not making forward-looking statements. Just look at the past. It's a good indicator of the future.

Andrew Stimpson:

We're nearly out of time and I nearly got killed by everyone yesterday on the Deutsche Bank on stage – because I left a question on the third quarter right for the end, which I have done again, so apologies, if you would like to comment on the third quarter beyond what you have already done.

Sergio Ermotti:

I already made a comment on the third quarter, I think that's, we don't really comment on quarterly results other than telling you what I told you that there is an asymmetry for sure that we observe between the universe of institutional clients and wealth management clients on the transaction line, so I think the transaction line on wealth management is clearly under pressure – but you know, I see the rest of the businesses performing in line with our expectations.

Andrew Stimpson:

Great. And a couple of questions here on the buy-back which re-started this week.

Sergio Ermotti:

I'm glad you follow us.

Andrew Stimpson:

It's my job. It does look like you'll be able to progress towards higher total pay-out ratios over time. What are the constraints when you think about your buy-back? Is it still regulators? Is it still the leverage ratio? Are you much more trying to balance growth opportunities now?

Sergio Ermotti:

It's all of the above. So I think that it's common sense. It's looking at: Can we deploy the capital for business growth? Do we have any idiosyncratic situation developing that may necessitate us to keep a buffer? And from a regulatory constraint, we don't have any constraints – we are well above our minimum requirements, which is not minimum, the target requirements. Because in Switzerland the 3.5 is not a minimum, it's a target requirement.

And as I said in the past, in the absence of any needs, we're not going to keep capital that is not necessary. And the fact that we executed, you know, our share buy-back so far, considering also where the stock trades, is an indication that we're not going to buy back stocks at any price. The issue has to be: When you talk about capital return, first we want to have a steady growth of our base dividend, predictable and repeatable, so we always look at dividends and say, 'Okay, can we sustain that pattern in the next few years.' Secondly if we don't need capital, then how we return it is going to be based on different scenarios. In the past, we had special dividends. You know, I think we had two special dividends, one too much, and you know, I think then we have to look at market conditions and act in that sense.

Andrew Stimpson:

Perfect, excellent, thank you very much, we're out of time everyone, I am afraid, but thank you very much.

Sergio Ermotti:

Thank you.

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These factors include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA), including to counteract regulatory-driven increases, leverage ratio denominator, liquidity coverage ratio and other financial resources, and the degree to which UBS is successful in implementing changes to its businesses to meet changing market, regulatory and other conditions; (ii) continuing low or negative interest rate environment, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and geopolitical tensions on the financial position or creditworthiness of UBS's clients and counterparties as well as on client sentiment and levels of activity; (iii) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC); (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that have imposed, or resulted in, or may do so in the future, more stringent or entity-specific capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these will or would have on UBS's business activities; (v) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, to proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, and the extent to which such changes will have the intended effects; (vi) uncertainty as to the extent to which the Swiss Financial Market Supervisory Authority (FINMA) will confirm limited reductions of gone concern requirements due to measures to reduce resolvability risk; (vii) the uncertainty arising from the timing and nature of the UK exit from the EU and the potential need to make changes in UBS's legal structure and operations as a result of it; (viii) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including recently enacted and proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA; (xi) the effects on UBS's cross-border banking business of tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (xii) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters, including from changes to US taxation under the Tax Cuts and Jobs Act; (xiv) UBS's ability to implement new technologies and business methods, including digital services and technologies and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyberattacks, and systems failures; (xvii) restrictions on the ability of UBS Group AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA or the regulators of UBS's operations in other countries of their broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors may affect UBS's ability to maintain its stated capital return objective; and (xix) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2017. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.