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16 July 2017

TO

Mr. Sergio P. Ermotti
Group Chief Executive
UBS Group AG
Zurich

c/o Group Company Secretary
sh-company-secretary@ubs.com

Dear Mr Ermotti:

I am writing to suggest to you a press release:

> "UBS is giving serious consideration of banking functions being separate, with deposits backed by 100 percent liquid money."

These are the exact words of Mervyn A. King of the Bank of England in a letter to me of 11th November 2010 and may serve as a guide for you. Professor King's remarks were made at the time of the hearings concerning the "ring-fencing" issue for larger banks which has meanwhile become law in the UK effective 1.1.2019.

I realize that UBS has already gone through a restructuring following the 2008 debacle, which was before your time, and not for the same reasons.

The occasion for you today is the Swiss "Vollgeld-Initiative" — L'iniziativa Moneta intera — which will be put to a vote in a referendum next year, 2018.

The Bundesrat has spoken against it. I have replied and published in Vollgeld's favour — "Schweizer Vollgeld-Initiative. Analyse der Botschaft des Bundesrates" ISBN 978-1548521455 available at Amazon.

The Ständerat will make a recommendation-decision after another hearing on 31st August 2017 with the initiators.

Allow me to argue the case:

- Swiss banks are already covering their sight deposits by more than 100% excess reserves at the Swiss National Bank (SNB). The Swiss full-money referendum would only cement this fact, so that opposition by the banks is viewed as dishonest.
- You would be the third highly visible personality among your peers:
  - Mervyn King — relying on Irving Fisher's (1935) theory, the Chicago Plan, and the IMF's model (Benes and Kumhof (2012), "The Chicago Plan Revisited").
  - Adair Lord Turner, former chief of the FSA, is an advocate of "monetary finance."
  - YOU would be the third. Professor Axel A. Weber, your Chair of the BoD, and in particular his doctoral student, Jens Weidmüller of the Deutsche Bundesbank, would be very surprised while you make your mark in Swiss banking history.
  - The 100%-money genie is out of the bottle. The creation of money is no longer a taboo subject. Financial crises every decade for 300 years since John Law and the Bank of Amsterdam… enough is enough.
- The banks are their own worst enemies, and I believe you know it, being a "Börsianer" who, I heard you say, "sometimes it is better to concede than insisting on one's point of view at all cost."

And there are the accounting principles and legal issues:

- The deposits on your books created in the so called "lending" process by way of double-entry bookkeeping are the recognition of an accounting entry only, without a cost basis, without a past transaction, etc., etc.
- only at UBS's internal financial records, and therefore not money (wherefore the need for these ridiculously low "minimum reserves")
- that [such deposits] are a violation of IFRS and Art. 959 of the Swiss Code of Obligations,
- and therefore a matter which could be heard by a court of law in a multitude of jurisdictions, including the United States District Courts under federal fraud legislation.
- You are against continuously increasing capital equity requirements and I fully agree, saying and writing for years that the economists in their ivory tower at the

BCBS in Basel are utterly misconceived — see Michael Schemmann (2010), “Misconceived Men of *Très Haute Banque*: Our Central Bankers. The Basel III Capital Accord: Another Misapplication of GAAP” and such other publications at IICPA.com “publications”.

- UBS like all the rest have an expensive Armada of men and women producing reports that nobody needs, because underlying complexity is simplicity, which the BCBS simply doesn’t see and never saw, hence the financial crises of the 1990s and the GFC since 2007 which has not been resolved.
- UBS has little expert fire-power to make its case, and chief economist Martin Hess at the Swiss Bankers Association (SBVg) doesn’t get it, either. The simplicity is 100% liquid demand deposits; let savings deposits accrue at a non-bank finance company, not a licensed and reporting bank; let saving deposits take risks in return for a participating higher premium.
- If I had your job — and in my younger years I, too, was a Swiss banker at Bahnhofstrasse in Zurich and under Paul Erdman in Basel, before moving on to Corporate Credit at King & Bay Streets in Toronto — my operating expenses would be less with no need to outsource by setting up banking centers in Poland and elsewhere. I am a Canadian and a German with roots in Basel. “My UBS” would remain proudly Swiss, completely ring-fenced with 100 percent liquidity at all times… for the small deposit business. Why not, if the people want it? And Mark Branson at FINMA…

I will continue to watch your appearances at Davos and your enlighting speeches at the Saïd School of Business at Oxford — my [still] most favourite SWISS BANKER, entertaining and at times… amusing.

With all best wishes,

[signed]

Michael Schemmann

International Institute of Certified Public Accountants

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26 October 2010

Professor Mervyn Allister King
Governor
Bank of England
Threadneedle Street
London EC2R 8AH

Dear Governor King:

Your Speech at the Buttonwood Gathering October 2010
"Misconceived Men of Très Haute Banque: Our Central Bankers" (2010)

There are two unforgivable flaws in your thinking:

(1) Bank capital is an abstract, the so called residual, the difference between assets and liabilities, and to have Basel III require this difference to be larger than today does not give the depositors any protection at all. Central bank funds are needed.

(2) As you correctly observed at the latest Buttonwood Gathering in New York, banks are mixing the public's deposits (liabilities) with their highly risky assets, and the taxpayer serves as the general insurer. You say, "no more."

In (1) above you are patently wrong because an abstract is just an idea that cannot redeem deposits, a liquid asset is needed such a deposits at your Bank of England (central bank money which is effectively legal tender).

In (2) above you are not addressing (not thinking of) the point that turns the issues of risky bank deposits. It is very simple: bank deposits are an accounting entry (quasi money), and each bank deposit is based at the bank that created it and cannot leave (transfer) to pay depositors except by offset in the daily clearing of payments.

In Canada, the Bank of Canada puts the adverse balance of one bank into the system. In America, banks have to borrow federal funds, and in a crisis cannot.

Irvin Fisher (whose name is on one of the halls of the BIS in Basel, to which he would most likely vehemently object), pointed out in his *100% Money* book (1935) that the banks' deposit and lending functions do not mix and must be separated. This point was even raised by one the BIS's very own: Stephen G Cecchetti in his Opening Remarks at the Eighth Annual Conference of the Bank for International Settlements, 25–26 June 2009.

I am enclosing my booklet for your further study, from a professor of accounting and finance (I am also a CPA and a former commercial credit banker) to the professor of economics, now the UK's top bank regulator.

> *There is no harm in being sometimes wrong —*
> *especially if one is promptly found out.*
>
> John Maynard Keynes. Essays in Biography (1933)

Sincerely,

Michael Schemmann PhD CPA CMA
Director of the IICPA
Box 9, Pak Thong Chai
Thailand 30150

<u>Enclosure</u>
"Misconceived Men of Très Haute Banque: Our Central Bankers" (2010)
(available at amazon.com — booklet and also as "Kindle" edition)

Bank of England

London EC2R 8AH

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The Governor

Mervyn King

11 November 2010

Mr Michael Schemmann PhD CPA CMA
Director
IICPA
Box 9
Pak Thong Chai
Thailand 30150

Dear Mr. Schemmann,

Thank you for your letter of 26 October. I am always very grateful to people for taking the time to share their views with me. I have much sympathy with some of the points you raise in your letter. I strongly support spending more time thinking about liquidity regulation in addition to capital regulation – the Bank of England has regularly supported and championed better liquidity standards. As I noted in my speech at the Buttonwood gathering, I feel that Basel III has not gone far enough in this area.

I also agree that there is no reason why there should not be serious consideration of banking functions being separated, with deposits being backed by 100% liquid money. As you may have noted, I referred to Irvine Fisher's (1953) thoughts on this issue in my speech at the Buttonwood gathering. I also stressed my confidence in the high-quality team at the Independent Commission on Banking, which I am sure will in time be able to draw the right conclusions. I would encourage you to share your views with the Commission if you have not done so already.

With all best wishes.

Yours sincerely

Mervyn King