
World Economic Forum Annual Meeting 2010

Global Industry Outlook: Finance, Services and Media

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Transcript

Kevin Steinberg, Chief Operating Officer, Head of Centre for Global Industries, World Economic Forum, USA:

Good afternoon and welcome. I'm Kevin Steinberg, Chief Operating Officer of the World Economic Forum, USA. I oversee a number of our industry efforts within the World Economic Forum, so it's a real pleasure for me to be here with all of you this afternoon, together with this distinguished panel.

The panel on my left represents the chair people of our Governors Meetings. Those are our private meetings that take place within the World Economic Forum by industry sector, which later feed into not only the annual meeting, but a set of working groups, discussions, projects and ongoing efforts for our foundation to ensure that we collectively are addressing many of the issues that concern us most.

This particular session, and this is the second year that we are holding these, is called our Global Industry Outlook, and the purpose is really twofold. The first is to take those meetings and go to the additional step of sharing the insights, the conclusions and the real opportunities that have come from them to the broader Davos audience and to those of you who may be watching this from elsewhere by webcast or through other means; but also to start the dialogue between industries and between different parts of society, so that we can collectively take those collective steps to improve the state of the world.

We have five industries here and the five chair people from each of those industries. What I thought I would do to get us started is introduce them one by one, and ask each of them to spend about three to five minutes highlighting some of the conclusions, some of the ideas, some of the insights and some of the opportunities that came from those discussions, as well as what we can do going forward.

I should mention, just as a little bit of an overall thematic observation, last year when we had this session, there was a lot of talk of gloom and doom. People were very much talking about whether we were heading off a cliff. I'm happy to note that, this year, there's a lot more productivity; there's a lot more intent in all of these conversations to be proactive going forward. So if last year we were talking about whether it was the end of the world, this year it sounds like we've all agreed it's not the end of the world, so we're going to get together and talk about what we should do about that.

So, I'll introduce first to my left Josef Ackermann from Deutsche Bank, who served as the Chair of our Financial Services Governors Group. Joe, we'd welcome your thoughts.

Josef Ackermann, Chairman of the Management Board and the Group Executive Committee, Deutsche Bank, Germany; Member of the Foundation Board of the World Economic Forum; Chair of the Governors Meeting for Financial Services 2010; Co-Chair of the World Economic Forum Annual Meeting 2010:

Thank you. Good afternoon, ladies and gentlemen. We had a very interesting Governors Meeting and we covered, more or less, the following topics: first, the economic outlook; secondly, the regulatory framework; third, the sustainability issues within the financial sector; and then we had the second part on risk management, which was actually very interesting, because we compared risk management lessons from other industries – aviation or food industry or insurance industry – and what we could learn in the financial sector or, above all, in the banking industry.

Let me just say a few words about what some of our discussions were. First of all, we feel a little bit that, especially in the political discussion, seldom so few have done damage to so many, and that the many are taken as the few, in the sense that, if you really boil it down to the nitty-gritty, only a few banks have actually

failed the test in this crisis. The bulk of banks have managed the crisis astonishingly well, and have increased their profitability and market share. So, in that sense, if we talk about lessons from the crisis, we should really single out those who have made major mistakes.

Secondly, we also felt that a more differentiated analysis about the causes of the crisis showed that this is not only the bankers who made mistakes. They are part of the blame but, of course, it's a pretty well-balanced situation between political failures, between market inefficiencies and banks' mistakes. And that's why we think we should now stop the blame game and we should start looking forward because, at the end, we need strong financial sectors to cover the real issues which are ahead of us – namely unemployment. Just to mention two numbers, Spain has an unemployment number among the young people of 42%; the Middle East, over 50%. These are the real issues. Secondly, poverty, global imbalances, many other things. I think, if you don't have a very strong financial sector to support this sort of recovery and to contribute to the prosperity and growth in the real economy on a global scale, you are making a huge mistake and we will regret that later on. So we are saying that this forward-looking statement should also mean that we now pull our forces together and say, 'What should be done in order to make the system more stable, more resilient, without jeopardizing the efficiency of the market and the financing of the real economy?' There are a few things we would like to highlight.

First of all, we very much support the reforms being taken on the regulatory side in terms of more capital, better liquidity management, also in terms of improving the market infrastructure, having a system in place which allows us to exit failed banks and not to have them jeopardize the stability of the system as a whole. But at the same time, we are saying we need consistent rules; we need global rules. And the fact how far we should go in the reforms should be based on a micro and macro impact study, which shows what the impact on the real economy will be and what the impact on efficient and liquid markets will be. We don't think it's very wise to come up with new ideas from wherever they are – new taxes, new proposals – because that is adding to the uncertainty and really slows down the process of making the financial sector more stable.

Having said that, we also know that the regulators have done a tremendous job in advancing the regulatory work, but it's also fair to say that banks in the last two years, actually starting very early at the beginning of the crisis, have done a lot in improving their capital management, their liquidity management, their risk management, and also improving the market infrastructure. So all in all, I think a lot has been done.

Now on the psychological side and the political side, we agreed that we should become proactive – proactive in helping to put in place, maybe, insurance funds on a national or a European level, or even on a larger level, to also do something on the compensation issue. This is, as we all know, a very emotional issue. We have changed the structure in compliance with the G20 recommendations, but the quantum of compensation of course is still open and we will work on that in the industry, and see what kind of proposal we can make.

Steinberg: Great, thank you, Joe. Next to his left, we have Hans-Paul Bürkner, who's from The Boston Consulting Group, and serves as the Chair of our Professional Services group. If you can share some of the thoughts from that group's discussions, we'd appreciate it.

Hans-Paul Bürkner, Global Chief Executive Officer and President, The Boston Consulting Group, Germany; Co-Chair of the Governors Meeting for Professional Services:

Yes, good afternoon, ladies and gentlemen. The professional service firms, just to remind you, comprise the audit firms, the consulting firms, lawyers, and we have, we are looking cautiously optimistic into 2010 and beyond. There is clear need to continue to help clients throughout the crisis, out of the crisis, and we see good signs going forward.

The bulk of our discussion centred around what we see as our responsibility also to help address the wider issue of a more responsible capitalism, because we clearly see the backlash against capitalism in this crisis. We see a backlash against globalization in this crisis, and we are very concerned that this backlash will ultimately hurt the global economy, the wellbeing of societies around the world, and so we were focusing on four elements of our action programme. One was of course to ensure that value management is also seen as values management, and that we really see that, if we take a long-term view in terms of creating value, we'll also create jobs; we'll also ensure that we deliver to the needs of our customers, customers of all companies, that we deliver to the needs of society. I think we need to want to reinforce this idea that value management is also values management. For us as professional services companies, that means to reinforce also our code of conduct, vis-à-vis of course our clients, our employees, the stakeholders in society and society at large.

Secondly, we feel it is important also to speak up, to speak up in the public with our employees, with students, with politicians, with customers and companies around the world, to reinforce the notion that the capitalist system has served us well. Despite all the exuberance, the exaggerations, the fraud, globalization is serving us well, and I think it's very important that we reinforce this message and that we speak up.

Thirdly, in the engagement, and professional service firms are engaged a lot with public entities – Joe talked about regulation – to ensure that when we work on new regulations that we're not going from maybe one extreme to another, but that we find a regulatory framework that is really beneficial, both addressing the risks that we have seen, addressing the exaggerations, exuberance, the fraud that we have seen, but not leading to a stifling of entrepreneurship, of business, that ultimately will mean lower growth or no growth, and therefore also continuous high unemployment or even increasing unemployment. So I think it's very important to make sure that we are not getting from one extreme to another, but find the right mechanism, in our interaction with governments, with parliaments, helping them to find the right frameworks and so help our customers and clients to find the right framework.

And lastly, we said we are working on what we call a 'risk cockpit'. The different professional service firms – tax, consulting, audit, lawyers and so forth – are dealing with risks and helping their clients deal with risks in a broad way, and so we will work on helping clients to really see the whole range of risk, different clusters, and helping them to ensure that they look at all those elements, and not just have, you know, risk in a specific sector very well covered and completely overlooking risks in other parts. So it's about people; of course it's about tax; it's about assets; it's about laws; it's about strategic risk and so forth. And we will, over the next few months, develop what we call 'a risk cockpit' to help clients and companies around the world to have at least greater transparency of what they need to deal with. Thank you very much.

Steinberg: Thank you. Next we have Colin Dyer, who joins us from Jones Lang LaSalle, who served as the Chair for our Real Estate Governors Group. Colin.

Colin Dyer, President and Chief Executive Officer, Jones Lang LaSalle, USA; Chair of the Governors Meeting for Real Estate 2010:

Thank you, Kevin. To give you a feel for our audience or our group, the Real Estate Group within the Forum is composed mostly of people involved in construction, ownership, development of real estate. What's absent from our dialogues but not from our thoughts are the users of real estate. It's the corporations who rent real estate for offices for logistics purposes, retailers and so on, so that's the community.

To give you some background to our discussions, this is an industry or this is an asset class, which suffered vertiginous declines in activity, in volumes of sales and in price levels, asset price levels, between the beginning of 2008 and the middle of 2009. Order of magnitude prices of assets fell between 40% and 50% worldwide and activity levels, in terms of investment sales, fell by 70%. Similar picture in the leasing market, where prices and activity levels fell by 40%, so a very cyclical industry.

The position that we found ourselves in, in Davos this time last year, was we were right in the middle of that fall. Our sense at the moment is that the fall in asset prices and activity levels in investment sales is stabilizing, and there is a gradual forming of a bottom and a recovery in both pricing and activity, starting in the east, very clearly driven by Chinese liquidity, but also more broadly based across Asian economies, and it's moving westwards to Europe, surprisingly, and last in line is the US and the North American continent in general. So that's the context in which we deal, we were looking at the world, where investment sales are clearly anticipating. As the stock market has anticipated recovery in the broader economy, investment sales activities are anticipating recovery in the broader demand for real estate.

Against that background looking forward and thinking about the things which were preoccupying us, several of these factors were sort of external to our industry. Obviously the primary factor is the trajectory of worldwide growth, because that drives the fundamental demand for space in real estate, but closely linked to that are some of the subjects which Ackermann has been referring to this afternoon – the financial sector. We rely heavily on the financial sector to structure the deals which provide the liquidity, which provide the velocity of transactions in the real estate area and, indeed, support valuers of holdings of real estate. Our sense is that, until the regulators have sorted out how the general financial industry is to be related – and our sense is it's not just the banking sector but it's broader than banks – but until that's sorted out, then we will continue to find bankers who are reluctant, hesitant, to lend into the real estate sector, indeed to any sectors, but particularly in real estate.

Those same banks have a portfolio of non-performing loans, some much worse than others. So far, because the government support for the banking system worldwide has been extremely robust, in general the banking

system has not in general had to do what it's done in previous cycles, which is push those non-performing loans or the underlying assets into the market but, at some point in the next year, 18 months, that trickle will become more of a stream, so that impacts our forward thinking as well. Central bank policy towards availability of credit and interest rates, it's all part of this external package which impacts our industry and provides a lot of the cyclicity to real estate.

The final point is about sustainability. Real estate in general is responsible for 40% of the world's carbon footprint. The real estate sector provides twice the carbon output of aeroplanes and automobiles put together and so, whether we like it or not, this is a big issue for the real estate sector. Gradually the users of real estate corporations and the constructors and builders and owners of real estate are understanding that there is value to be gained or destroyed by having buildings which are efficient or inefficient in an energy and sustainability sense, and so that's beginning to become a major agenda item for the sector as a whole, and indeed for the Forum, where we're putting work into the SlimCities Initiative of the Forum. But what's also clearly coming down the road towards us is government regulations, because governments at all levels and in most continents are now taking interest in regulating not only the construction standards but the standards of energy performance in existing real estate stock. So that summarizes the broad sweep of our discussions.

Steinberg: Great, thank you. Next we have Eric Mindich, who joins us from Eton Park Capital Management, representing our Investor sector. Eric.

Eric Mindich, Founder and Chief Executive Officer, Eton Park Capital Management, USA; Co-Chair of the Governors Meeting for Investors 2010:

Good afternoon. Thank you. So our group, which represented some leading private equity fund managers and hedge fund managers had a discussion that had as its backdrop an understanding that we were operating in a world where the relationship between our industry and various stakeholders was changing. The perception was changing, in some cases very rapidly. It's against a backdrop where financial markets themselves are coming under question as to whether they're the best allocator of resources and, therefore, participants within those financial markets are also facing a similar set of questions.

There was a recognition that perhaps our industry had not communicated as well as it could with its various stakeholders and with the public, in order to in some ways articulate better what it is we do, what our role is and kind of how we participated throughout the last several years. In the private equity world, I think there is a feeling that private equity firms had contributed significantly to growth capital and to efficiencies within corporations. Within the hedge fund world, there is a feeling that, generally speaking, in addition to hedge funds not having been central to the, you know, to the financial crisis, there was also the view that largely they had fulfilled their mission to investors in terms of delivering absolute returns, and that their investors themselves were pension funds, you know, foundations, endowments, all sorts of types of investors like that. And also that the role and functioning within the capital markets themselves and how important that is to the efficient allocation of resources was probably also not sufficiently explained, and so there was discussion about how we could articulate that better, and what kind of outreach we could have with various stakeholders.

There was discussion about the political environment surrounding all this and, again, the anxiety in the push to kind of have solutions, particularly broader financial services reform, to make sure that things were done in as thoughtful a way as could be done, and avoiding whatever unintended consequences there might be, which could have long-lasting impacts. There was also discussion about the nature of relationships with our limited partners, with our investors. There's been increasing push towards, I guess the phrase is 'alignment of interests', which relates to a whole series of factors, and that hedge funds and private equity fund groups themselves, individually, have been pushing, as have clients, in order to kind of harmonize that to a greater extent. There was also discussion about the availability of leverage and credit in the private equity world, because leverage is less available. That's pushing firms more towards growth equity types of investing and less leveraged deals. It also means significantly less purchasing power for private equity firms, going forward. And, for hedge funds, there was an understanding that, you know, the relationship between their credit providers, which were the banks, the hedge funds has in some way changed. Historically, it's been the banks that were fearful of credit issues from hedge funds, and then it became hedge funds being fearful of credit issues with banks, and that's an issue that's still being worked through. Kind of harmonizing all of the available credit were important things as well.

Steinberg: Great, thank you. Our final panellist is Jeff Zucker from NBC Universal, representing the Media, Entertainment and Information Sector. Jeff.

Jeff Zucker, President and Chief Executive Officer, NBC Universal, USA; Chair of the Governors Meeting for Media, Entertainment & Information 2010:

Thank you very much and good afternoon, everybody. I would say in our group if, a year ago, the feeling was that we were at the end of the world and on the precipice, I think the mood in our group was much better this year, with a belief that the economy will treat media better this year. The economy will rebound, advertising will rebound, and both old media and new media will benefit from that and have a much better year, this year.

Our group was comprised of, actually, probably more new media than it was old media, and I think that's a tribute to what's going on in media today, and what defines media. I think that also led to the biggest topic within our group, which was really how do you define new economic models within media, and how do you find economic models that will allow old media companies to survive and allow new media companies to thrive. I would say that there is still no answer to that question, and I think that's the thing that will roil the entire media industry, both old and new, in the next year or two or three ahead. So a lot of discussion around monetizing new media, how do old media companies change their models under the pressure of new media companies, and no clear answers on any of that.

I'd say we also spent a lot of time talking about personal and corporate reputations in this era of social networks and instant communication, and what the role of media is with regard to that, and the responsibility both on the media side and how individuals and corporations respond to those attacks, to the coverage, to that new world order. We had a fascinating discussion with the President of Iceland, who obviously went through a tremendous experience last year, a near-death experience, with the financial meltdown. He was fascinating on the fact that the media had declared his country financially bankrupt, and it had spread within a day and had done tremendous damage to both his country and to himself. And the question was: what responsibility did the media have and how did he personally respond? In the end, one of his answers was that he decided that he just wasn't going to respond, and whether or not that was the right way to deal with these issues. That was, I think, something that we all face both personally and on a corporate level.

Another area that we spent a lot of time on was privacy and the lawful exploitation of data that we all get, in this era, and whether or not privacy existed anymore or would exist or could exist, from the media and on a personal level, and what the responsibility there was. I think there's clearly no answer on this question. What the role of all of us is in deciding how much to reveal and how much to exploit is something that we're all grappling with, both old media, new media and governments alike, and so that's something that I think we'll also face in the years to come.

And then finally we spent time on an issue that has been very important to us and I think should be important to everybody here, and that was piracy and the role that protecting our intellectual property has. Whether you're new media, whether you're old media or whether you're anybody represented on this panel here that really is an issue of economics and jobs, and something that we think that everybody has a vested interest in, and that we all have to play a role in, and that governments have to play a role in, and something that probably has garnered more attention than it had, but still not enough.

Steinberg: Thank you. Well let me begin perhaps by weaving together two of the themes that I think have come up in almost all of your comments. One is almost all of you have touched on the role of government and reform, and much of the processes that are talking place. And several of you touched on communication, and the fact that perhaps the industry or many companies need to be more proactive. Let me pose to the group, in light of the experience we just heard with Iceland and how the media can have that affect of broadcasting messages so quickly, did any of you discuss in more detail what your industries could do to be more proactive on that front? How to better get that message out, how to communicate, given that the cycle has become so short that the questions about reform and government have now become more closely linked to questions about communication? Would anyone like to start with that question?

Bürkner: Well I think it is not an issue of, you know, having one key message or one key channel, but it is really talking through different channels, through different audiences, and to make your voice heard. It is certainly not sufficient to leave the forums to one group only, but to really have a multitude of voices and to make sure that you bring across key messages. At the moment, I mean we talk a lot about, you know, somebody has to pay a price or has to be penalized for what has happened, and it's very difficult to make people understand that we all are linked together. I think by going maybe from one extreme to another, in the end, everybody will be heard. I think making sure that these messages come across continuously is important, rather than saying, you know, 'Let's withdraw and let's not talk.' I think more communication is better than less communication.

Steinberg: Did anyone want to comment on some of the key messages that would be effective? I think there's been a lot of consensus that effective communication is helpful. I know some of the groups talked about some of the messages they would like to highlight. Would anyone like to address that, perhaps Joe?

Ackermann: Well, one way through with communication, I mean, first of all we discussed that we should be better aligned but, as a matter of fact, we are not a homogenous group. We are in a competitive environment, and that's probably not bad, with different interests, also in terms of regulation. What is important is that we are reaching out to politicians, to regulators, first. Maybe somewhat off the record, because very often, and I'm not critical of media at all, but half a sentence is then on screen within seconds and may provoke a reaction which may be not quite the right one because, if you take the whole message and statement, you will come to different conclusions. In that sense, I really have to say that in the last two days I was very much relieved about the constructive attitude of a lot of people, where we have communicated via the media in a somewhat – I wouldn't say hostile, but not very constructive way. If you sit together, you explain your points, your elements, and you listen to the other arguments. Then of course you find much better ways.

Someone said that we may have to create – and I'm just saying this one idea – from a G20 a B20, so Business 20, because it is not only to defend your own interests or to talk about your own industry. It's very important to demonstrate that there are negative or positive impacts on other industries. We just heard it: real estate is a question of also funding. For instance, in order to be constructive here, we cannot just do it via the lending market; we have to reactivate the securitization market, so there is a common interest. The same is true for all the other statements. In that sense, I think we have to join forces more often. In that sense, the interdisciplinary approach we are enjoying here and cultivating in Davos is probably the right approach.

Dyer: I think that's very nicely put because our concern is that, if politics is the driver of bad regulation and, in doing that, the emotive sector of the banks is the sector that's attacked, while the securitization or the hedge fund market – which is equally capable of causing a lot of damage in the future – if the potential issues in that market are not addressed at the same time, then we, as real estate professionals, are going to find ourselves not served by a financial services industry which allows huge booms in asset prices corrected by huge busts, because the regulatory environment is not satisfactory. I think that's our concern.

The communication issue, to go back to that, unfortunately the emotions are on the side of hitting the banking industry in a rather indiscriminate way. Whether it's natural to the banking industry or not, it feels like it's an occasion where there has to be some really strong and proactive communication to counter that. You know, if you don't fight blow with counter blow, then the first blow becomes the truth, unfortunately.

Steinberg: Jeff, perhaps if I could ask, in light of this stress on communication, you mentioned that perhaps for the first time the new media voices in this Governors Meeting were getting larger, perhaps even outweighing some of the older media. How does that change this equation? Any thoughts in terms of, given these new outlets, these new ways to communicate, how some of these other industries or how business in general should be mindful of how they could be affected in this way?

Zucker: Well, I don't want to necessarily give any advice that anybody should take to the bank, but I would say that I think we have to all be just conscious of the fact that we are in an entirely new world. You know, it used to be we would wait for the newspaper to come out tomorrow, and then we would wait for, you know, the news programmes tonight. Waiting five minutes today is not even possible. We live in a society where it's news and information – it's not even news often – is measured in seconds. And I think this is both an opportunity for everybody here and something that we can't ignore. It can be personally and corporately problematic and it can also be used to great effect, so I think that old ways of dealing with media are not sufficient anymore, but I think that embracing the new methods that can also help are important for each of us. I don't think you can ignore it. You ignore it at your own peril.

Steinberg: Great. Look, I'd like to turn to the audience to give an opportunity for questions. What I'll ask everybody is, we're going to pass around a microphone; if you could hold off until the microphone comes to you, please give your name and the name of your organization. If you have any one mind in particular who you'd like to direct the question, please feel free to say so, and we'll take questions from as many as we can fit in over the next 25 minutes or so. If anyone could, just raise your hand if you'd like to ask the first question. I know this isn't a shy group so I'll look to the audience to get us going. There's one right over here please.

Barry M. Gosin, Chief Executive Officer, Newmark Knight Frank, USA:

My name is Barry Gosin; I'm CEO of Newmark Knight Frank, a real estate firm. Josef, you talked about reactivating the securitization market. I mean, right now the balance sheets of many banks are clogged up with assets, and the continued deleveraging makes it hard to put more loans out to real estate. At the height of the market, 75% of the loans were securitization so, in order to have a healthy real estate market and to start moving it from the bottom, we are going to need a securitization market in order to get things going. What do you think it's going to look like? How do you think it's going to get done? And what's the likelihood of the securitization market getting reactivated?

Ackermann: Well, first of all I think it's an absolute crucial development. If people assume that we can move back from a market-based system to a bank-based system and taking all the exposures on the balance sheet, then they are absolutely mistaken. That's not going to happen. We will not be able to finance real estate. The securitization market has started, but we will need with simple products, more transparent products. We will have to give more information on the products in the course of the transaction and, of course, one of the big questions is we need the investors. We're always talking of banks; we also need the investors. And investors probably have one response: the price has to be right. Sometimes for more complex products, investors feel that the price level is not yet where they would like to see it, and I think we will have to find this equilibrium before we really move.

In addition, we have to do everything on the regulatory side that we are not making it more difficult, that banks are willing to play that role as a market-maker in the securitization market and, in that sense, capital requirements play an important role, will be part of the impact studies which we are doing right now in the industry under the leadership, of course, of the Basel Committee. But that is a very important element and we shall see what the outcome of this impact will be, in terms of securitization, but it is absolutely essential that, not only for real estate, for many other areas, that we reactivate the securitization market.

Steinberg: Eric, did you perhaps want to add from an investor perspective what some of your considerations are?

Mindich: Sure. Well, first I certainly agree that restarting the securitization market is essential. A significant part of bank lending was always meant to be originated and sold into the securitization market, and being unable to offload that into the securitization market has been one of the reasons why it's been more difficult for kind of new issue lending to happen. I think that there are a number of issues. I think one has to do with either, as was mentioned, providing a lot more information which, even having provided that, makes it difficult; there aren't that many investors who are well situated to analyse all that information.

Historically that had been intermediated by the rating agencies and, given the issues with rating agencies over this last period of time, there's either a higher discount rate that's going to be associated with that or, I think more likely in the short term, the types of pieces that we sold into the market will be the much more senior, much more secure pieces – stuff that looks more like the AAA. That's what we'll start out. Initially, we'll undoubtedly be at wider spreads than had been during the boom and, over time as people get comfortable, the AAA piece gets comfortable with doing underlying research on that. As rating agencies kind of continue to kind of rebuild their credibility or other models kind of develop, you'll be able to get lower into the stack. But I do think that the pricing is going to have to be right, and certainly the pricing that we saw during the boom was a result not just of the appetite from investors, but also the very high leverage that was available, you know, against those securitization assets themselves, as well as the regulatory framework that kind of allowed those AAA assets to have virtually no capital charge associated with them. With those factors having changed, even when the securitization market comes back, it'll undoubtedly be, I imagine it'll be, at wider spreads and lower loan-to-values.

Steinberg: Thank you. There was a question over here in the back, on my right.

Alfred R. Berkeley, Chairman, Pipeline Financial Group, USA:

Hi. Alfred Berkeley. I'm making this comment in my role as Chairman of XBRL US, which is the non-profit that's been setting data standards for the SEC. On the restarting of securitization, the pricing issue that you mention, Mr Zucker, is exactly the heart of it. At this very minute in Washington, there is an effort to bring substantially more transparency into these securitized packages using the technology that the SEC is installing in the EDGAR System. The technology is there; it works. The first 400 American companies are using it now; the next 1,000 start this June. All companies are required to use it next June. And the discussions going on this morning at the right agencies, who hold a lot of these securities, is all about how to bring the kind of transparency that the Securities Act, excuse me, Exchange Act of 1934 brought, and that whole composite of legislation that brought so much transparency to equities. Equities didn't fail in this last cycle; it was the unregulated or opaque securities that were hard to price. So, with that background, I'd like to

ask Mr Ackermann whether or not the banks in Europe are doing anything about bringing transparency as a logical way of giving healthier markets, rather than more micro-management.

Ackermann: Well, I think we forgot to mention one important element. That's the quality of the underlying assets. I mean, people have now burnt their fingers and they will watch the quality of the underlying assets much more carefully but, yes, European banks are working on transparency, on standardization and, if you have seen the more recent transactions, I think you have seen much more information. And people are certainly encouraged to rely less on ratings. But we need the right price level and the right quality of underlying assets, and we need the simplicity of products in order to regain trust into the securitization market. And it's, at the end, all a question of trust.

Steinberg: There's a question here in the front row, on my left.

Yasar Jarrar, Partner, PricewaterhouseCoopers, United Arab Emirates:

Hi. My name's Yasar Jarrar; I'm from the Young Global Leaders group. Just to take this discussion to a bit of a more organizational level, I think the idea of the – we've been discussing a lot about regulation, and what happened in the past is we had regulated products and we had some regulation. There was some over-innovation; some people talk about over-innovation from the extremely clever people that work with us for organizations that caused some of these issues. How much are we going to ... And the new regulation as well some people might find some clever ways as well of getting around some. How much are we going to see some internal risk management practices coming up in the organizations? Very solid risk management practices that will not be easy to do, that will be very expensive, where things would be, checks and balances internally, would actually allow us to make some of these decisions without the Big Brother sort of regulation. Is this something that organizations are looking at? From the professional services firm, you mentioned something on that. Because the concern is how much can we regulate from the umbrella, and is that going to stifle competition if we overdo it with the knee-jerk reactions? Should it become much more internal than actually external?

Bürkner: Certainly the implementation of risk management systems has to be reinforced, but I think the failure of the last several years has not necessarily been the lack of risk management systems. In many institutions there were well defined, very sophisticated systems. They were very often ignored. The decisions were made despite the systems saying, you know, 'This is too much of a risk.' You know, 'Do take it because it looks so profitable.' Of course, you know, Joe talked about understanding the underlying asset, and I think even in many institutions who were dealing with certain securities – very sophisticated constructions – they did not understand what they were dealing with. So I think one of the key elements is to make sure that it's not just that the systems are there, but the systems are being applied and adhered to. And you're right of course: no regulation will ever prevent people from doing stupid things. But it's the important thing to ensure that, within the banks, within companies in general, people do use their systems and make the right decisions based on also what the systems suggest to them. Ultimately, it's the risk-taking appetite that decides and whether people also understand what they're dealing with.

Steinberg: Eric, did you want to comment? I'll come to Joe next.

Mindich: I was just going to add that risk management systems are obviously incredibly important and I'm sure all over the financial sector those are being improved, but ultimately it's about judgment. You need to have people in place who are exercising really good judgment. I think essentially most of the folks that got in trouble didn't think they were taking a lot of risk. It was precisely because they were buying securities that were AAA, that the regulations said were safe and had very low capital charges associated with them, all throughout the system – people view those as very low risk – that's why they could take such disproportionately large positions that ultimately were in difficulty. So I think the systems are certainly important, but if we don't have people in there, you know, using and exercising that really good judgment, you can have all the systems you want; that's not going to solve the problem.

Dyer: Just to challenge that point, the performance of AAA-rated securities through all the crisis has remained pretty good. They were AAA for a reason: they were better than the AA and lower grades. So when people bought AAA, they were not seeking so much risk as those who were buying the lesser-graded securities. Were the people seeking risk those that went further up the risk curve and bought lower-quality securities?

Mindich: Well I'd say there's no doubt that AAAs performed better than the lower-rated instruments, but overwhelmingly the AAAs did not perform according to what AAAs were meant to. And so, you know, the folks that owned the equity part of the securitization knew they were taking equity risk, so they sized it,

hedged it, did whatever they were supposed to do in proportion to that. The folks that owned the AAA risk were able to do tens of billions of dollars of it, without thinking it needed either a hedge or a sufficient capital cushion to it. So I really think it was all throughout the system, but it was really the most highly rated things that really failed, and there were, like, lots of examples of AAA securities that have done really poorly.

Dyer: Across all asset classes?

Mindich: Across enough asset classes to call into question whether that AAA was really good.

Steinberg: A comment from Joe and then we'll turn over here in front of me, the gentleman.

Ackermann: Well, I think it's a very important question. If you analyse those banks who did badly during the crisis, it is actually not that much lack of the regulatory framework; it's much more bad management, bad risk management, lack of discipline, lack of acquisition discipline and, I would even add, lack of qualified supervision. And in that sense, risk management has become a very, very important element of an improved banking system. And the bankers association, the Institute of International Finance, has published a best practice recommendation on risk management already, two or three years ago. In that sense, we are fully aware of that.

We learned some lessons. One was what is price, market price and what is the intrinsic value. My favourite example is always the student loan portfolio, which was down to 35, although I don't think 65% of students are not going to pay back their loans. Now it's up to 75 or 80 again, so is the quality so different from the market price.

Secondly, what we have clearly underestimated in a globalized, securitized and – I always like to add – atomized, with millions of investors, world that we do see completely different risk developments. For instance, the sub-prime: many of us have recognized that sub-prime is a problem, but no one, or almost no one, has anticipated that this will lead to the same impact on all asset classes and correlation approach as one. That is something, a complete drying up of liquidity in a market, and of demand, for not only one product, sub-prime, but for leveraged loans, for commercial real estate, you name it. I think that is something we have to approach risk management in a much more holistic method than we did in the past. This has to be learned. Regulation will not replace good risk management.

Steinberg: Great. There was a question right over here, in front of me.

Participant: Good afternoon. I'm [Praveen Meyer?] from New York University. I have a question on a completely different topic and it's for Jeff in particular. You talked about changes in the channel of communication, and certainly there is a change in the amount of information coming everyone's way, but there's a lot of information coming into companies. And so we heard a lot about how companies should communicate back to their constituencies, but the constituencies are communicating back to companies. My experience has been that the companies are not very good at listening and then responding to their constituencies, so the flood of information that's coming to them via email, etc, and you were kind of in the middle of that not too long ago, so you're going to know how that went. And so, can the media companies perhaps help in dealing with this flood of information coming into companies and not just the other way round? Thank you.

Zucker: Well I think media companies can certainly play a role in that, but I think the big difference today is that media companies don't control all that information that's coming in, and that's where you have to make a decision on what's important and what's valuable. The fact is this is the age of information that is controlled by the individual, and so all of our companies are being flooded with feedback, information, instant communication, instant feedback on how we're all doing, how we're perceived, and I don't think it's just left to the media companies to make a determination as to what's important and what's valuable. I think that's the old way that it was always done.

I think certainly if I look at my company, what we bring to the equation is the credibility that each of our brands has in sifting through information and putting out or reporting what we think is correct, what is important, what companies, people, need to know. I think that's the value that we bring to it, but I think that that ignores an entire new world, where today everybody's a journalist because they have a blog. Today we write the story and maybe we'll ask the questions later. It used to be that we'd ask the questions and then write the story, so we can't pretend that that doesn't exist. I think all companies and all industries have to recognize that there's credibility that comes from brands that sift through and disseminate information, but there's feedback and instant feedback and instant communication that comes from every individual in the

world, and you have to make a determination as to, on your own level, what's important and what you're going to deal with.

Steinberg: Let me turn to the floor for another question. If there's anything else that you'd like to add, let me know. Perhaps I'll sort of add one question as well. We talked a little bit about information empowering the consumer. I know a number of your groups have touched on changing consumer behaviour and preferences, and how that may impact a lot of your industries. Perhaps I'll turn to Colin and ask, I know there was some question about new consumers demanding environmental aspects of building construction and real estate, and that's impacting how many of the people in the sector are thinking about construction and other factors, so I wondered if you can comment on some of those discussions, perhaps tied to the fact you mentioned earlier that 40% of emissions are tied to real estate and buildings.

Dyer: Yes, so this has come to the real estate industry in a similar way to the way you described. The employees of large companies have increasingly become aware en masse of the issues of the environment and climate change, and they look around them and every aspect of what they do – from their cars to the way they heat their homes or light their homes – are seen as potential areas where they can contribute. And when it comes to their working environment, what we're seeing more or more, particularly in progressive organizations, is that their employees, who've been through an education system where they've been taught by teachers who were very environmentally aware for the last 10-15 years, those kids are arriving at the workforce and they are demanding that their employers pay attention to the whole climate change issue.

Employers have started to listen and, as I described earlier on, the process started with the corporate users of real estate and, surprise, surprise, the owners of real estate are starting to listen to what they've worked out of their customers, which are the corporations. Some companies have taken a lead in reacting to this, and I have to say Deutsche Bank is one of them, and is very progressive in this area, I suspect partly because their customers find it attractive as well to work in branches or to visit branches which are environmentally responsible. So that's where the source of the push has come from.

Steinberg: Great. I see we have almost no time left. I thought perhaps I'd turn to the panel to give each of you perhaps 30 seconds or a minute for any final comments or highlights that haven't come up, and then I'm afraid we'll have to wrap up. So I'll move down the row if, Joe, you had anything to add first.

Ackermann: I sometimes ask whether we are more pessimistic than a year ago, and for our industry it's certainly not the case. We were close to meltdown last year, but we still see a lot of risk on the horizon – some of the risk asset inflation, commercial real estate – in some parts of the world increasing default rates in corporate sector and private sector. In that sense, there was a confidence that we are seeing having the worst behind us, but still somewhat fragile in terms of the economic environment.

Steinberg: Great.

Bürkner: I think the professional services firms are particularly keen in pushing the idea that globalization really benefits everybody. I think we need to be very careful that we're not just focusing on the needs of people in Europe, North America, maybe Japan, the developed world, but also really make sure that globalization continues because it has raised the standard of living across the world. I think the economic crisis has certainly exacerbated the discussion around globalization and, 'Is it good? Is it bad?' It is good. It has benefited all of us and I think we need to continue to push that and make sure that we continue on that path, rather than going back, because it will really hurt us all.

Dyer: I'd echo both of those sentiments. Everyone feels a whole lot better this year than they did last year, and the general sentiment is we'll feel even better in 2011. And despite the short-term challenges, which we've described around financing in the industry as a whole, the sense is that the longer-term trends in real estate – and in a cyclical industry you have to keep your eyes on those – those are intact, and they are very much coming back into people's thoughts. They are: the globalization of real estate, a complicated subject – you can ask me about it afterwards; the fact that sustainability is rising up everybody's agenda and staying there through good and bad parts of the crisis; and the increasing view of institutions of real estate as a long-term investable asset class. All of those long-term trends are intact and we're back on those courses.

Mindich: I think we covered. Rather than describing it as a sense of optimism, I would describe it as kind of a sense of back to being in business and doing the normal day-to-day business that you need to do, hoping about the economy but also having a very watchful eye on some of the risks out there.

Zucker: I'd say technology is changing the way we all communicate, the way that media collects and disseminates information, that we're all involved in that and this is both an incredibly exciting and dynamic

time for media throughout the world and an incredibly empowering time for individuals. And the key is to know how to deal with that and how to embrace it, and to know what's right, what's wrong, but it's never been more exciting and never been more empowering to the whole world than it is today.

Steinberg: Great, well since we're ending on an optimistic note, let me wish you my thanks for joining us here today, an invitation to join us once again next year, when I hope it will be even more optimistic, and please join me in thanking our panellists for their insightful comments. Thank you very much.