

UBS \$100 Billion Wager Prompted \$24 Billion Loss in Nine Months

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May 19 (Bloomberg) -- The annual shareholders meeting of UBS AG used to be a time for Chairman Marcel Ospel to gloat over his accomplishments. Shareholders would praise Ospel for turning a slow-growing, insular Swiss bank into a global financial powerhouse, with a stock price that rose 115 percent from January 1999 to January 2007. Just last year, Ospel bragged to shareholders about how the bank's record profit was the result of its "smart expansion strategy."

At UBS's most recent annual meeting in April, shareholders cheered Ospel again. This time, though, it was when he announced his resignation. Ospel, 58, wearing a navy blue suit and bright yellow tie, didn't flinch. Glasses resting on the end of his nose, he made a lengthy speech comparing himself to the captain of a ship emerging from a storm.

Shareholders responded that it was the chairman himself who had steered the bank into choppy waters. "Ospel is responsible for this malaise," Gerhard Meier, a shareholder for 30 years, told investors at the meeting. In the nine months ended on March 31, UBS lost 25.4 billion Swiss francs (\$24.3 billion), more than any other bank caught in the worldwide credit crunch.

Shareholders say Ospel and his fellow managers took a profitable Swiss bank and wrecked it on the shoals of structured finance and subprime mortgages.

"He built up enormous risks, which were damaging the whole organization," says Herbert Braendli, president of Profond, a Swiss pension fund that has been selling down its holding of about 2.3 million UBS shares because it's unhappy with the bank's management. "He intentionally pushed it with his expansion goals."

A Dream Dies

As Ospel exited, he took with him his ambition, which he articulated in 2004, to make UBS the No. 1 investment bank in the world -- a ranking it already held in wealth management. Under Ospel's watch, the bank sank more than \$100 billion into U.S. asset-backed securities.

As of the end of March, those investments had resulted in \$38 billion in writedowns of UBS assets. The bank agreed to sell \$15 billion of its distressed securities to a newly created fund managed by BlackRock Inc., the U.S. money manager founded by Laurence Fink.

"We were shocked when all this stuff came to light," says Henry Herrmann, CEO of Overland Park, Kansas-based Waddell & Reed Financial Inc., which manages \$66 billion. "UBS was the one we perceived in a better light than the others. Like others, it didn't fully appreciate the magnitude of the debt buildup."

The bad news didn't end there.

Also in May, UBS said it would slash 5,500 jobs by the middle of next year, including 2,600 immediately at the investment bank. UBS will sell or close its New York-based

municipal bond department, which employs about 300 people.

Retreating

"They're retreating from certain areas of investment banking," says Simon Adamson, a credit analyst at bond research firm CreditSights Inc. in London.

On May 13, a former UBS banker, Bradley Birkenfeld, was charged in Florida with helping UBS clients evade taxes on money deposited in accounts in Switzerland and Liechtenstein. Liechtenstein-based financial adviser Mario Staggi was also charged.

The case is part of a larger probe by the U.S. Justice Department and the Securities and Exchange Commission. UBS says it's cooperating with the investigation.

Clients pulled a net 12.8 billion francs from UBS's asset and wealth management units in the quarter ended on March 31. Chief Financial Officer Marco Suter says the bank isn't sure when it will be able to get that money back.

"Reputation is easier lost than restored," he says.

Down 56 Percent

The cascade of catastrophes drove UBS shares down 56 percent during the 12 months ended on May 16, making it the fifth-worst performer among the 59 companies in the Bloomberg Europe Banks and Financial Services Index.

Ospel was just the latest UBS executive to take the fall for this mess. Chief Executive Officer Peter Wuffli was forced out by the bank's board of directors in July 2007, two months after the bank closed a hedge fund firm that lost money on subprime-infected holdings. Investment banking chief Huw Jenkins and Chief Financial Officer Clive Standish followed him out the door in October.

The task of cleaning up UBS and assuaging shareholders now falls to the new team of Chairman Peter Kurer and CEO Marcel Rohner. Investors at the April meeting attacked the board's decision to name Kurer, the bank's general counsel, chairman. He got only 87 percent of the votes, with an unusual number of abstentions and "no" votes cast.

Heckled

Dozens of shareholders heckled him and, after the vote, walked out of St. Jakob's Hall in Basel as he sat calmly below a giant green screen displaying the results of the election.

"They picked an insider," says David Herro, chief investment officer of Chicago-based Harris Associates LP, which owns more than 0.8 percent of UBS. "There should be a strong independent person with good banking experience at the helm."

Kurer, 58, doesn't start with a clean slate. The bank still has \$45 billion of exposure to risky mortgage-related securities on its books, more than UBS's total equity at the end of March. From mid-2005 to mid-2007, UBS's balance sheet ballooned 21 percent to 2.54 trillion francs. At the end of last year, UBS

was the most-leveraged major bank in the world, with assets amounting to 53 times its total equity.

"This is like a nuclear bomb," says Konrad Hummler, a managing partner of St. Gallen, Switzerland-based private bank Wegelin & Co., which has client assets of 20 billion francs, including UBS shares.

Meltdown Report

One thing Kurer does bring to his new position is a detailed knowledge of all the mistakes UBS made. Kurer, who declined to comment for this story, led a team that drafted a 400-page report on the UBS meltdown for the Swiss Federal Banking Commission, or EBK, its initials in German. A 50-page summary was released to the public in April.

Before his departure, Ospel took steps to shore up the bank's balance sheet by persuading the Government of Singapore Investment Corp. to make a capital infusion. GIC agreed to invest 11 billion francs in bonds that will convert to shares, making it UBS's biggest shareholder. An unidentified Middle Eastern investor kicked in 2 billion francs. On April 1, UBS outlined plans to raise another 15 billion francs from shareholders through a rights offering in June.

One of UBS's investor antagonists is intimately familiar with its operations. Luqman Arnold, co-founder of London-based Olivant Advisers Ltd., was president of UBS's executive board in 2000 and 2001. He stepped down after a dispute with Ospel over power sharing at the bank. His firm has amassed 1.25 percent of the bank's shares, worth 834 million francs on May 16.

'Hard to Believe'

Arnold, 58, says the fiasco makes clear that new management and more potent risk controls need to be put in place.

"It's hard to believe," Arnold says. "They were using their very low borrowing costs because they were seen as a safe private bank -- and then buying AAA-rated assets without understanding the credit underlying those assets."

Arnold has also joined the chorus of criticism of Kurer's selection as chairman.

"We're left with a lawyer in charge of the biggest risk positions in the world, with no strategic background," says Arnold, sitting at a modern white conference table at his offices near Harrods in London. "He's been part of this group for seven years. How can he be the person that comes in and says, 'I'm the solution?'"

As the battle rages on, UBS board member Sergio Marchionne, CEO of Turin, Italy-based automaker Fiat SpA, has emerged as a mediator, respected both by the bank's new executives and dissident shareholders.

Arnold, Marchionne Alliance

Before the annual meeting in April, Arnold met in Zurich with Marchionne and fellow director Peter Voser, CFO of Royal Dutch Shell Plc, to press his case for radical change.

"He's an outstanding corporate leader," Arnold says of Marchionne. "I have high hopes for Marchionne delivering on a whole lot."

Arnold, who served as CEO of the U.K.'s No. 2 mortgage lender, Abbey National Plc, from 2002 to '04, wanted UBS to conduct a far-reaching search for a new chairman. At the top of his list were well-known Swiss bankers: Josef Ackermann, CEO of Deutsche Bank AG; Hans-Joerg Rudloff, chairman of Barclays Capital; and Markus Granziol, former UBS investment banking chief.

Marchionne, 55, defends the bank's decision to pick Kurer. "When Ospel came to the conclusion that he wanted to step down, we looked at a relatively short list of candidates to fill the role, and Kurer was the best guy for the job," Marchionne says. "This board is damn serious about fixing this bank. It needs to be given the time to do it."

M&A Master

As a lawyer specializing in mergers and acquisitions, Kurer helped engineer some of Switzerland's biggest deals, including Philip Morris Cos.' purchase of Jacob Suchard AG for \$3.8 billion in 1990.

One of Kurer's first tasks is to address a crush of UBS legal issues. HSH Nordbank AG, the German state bank partially owned by an investor group led by J.C. Flowers & Co., sued UBS in New York state court in February seeking to recover losses on \$500 million in collateralized debt obligations it bought in 2002. CDOs are bundles of debt securities that include subprime mortgages, bonds and other loans. UBS says it isn't liable for the loss and has filed a countersuit in London.

Meanwhile, the EBK, the Swiss banking regulator, is conducting a probe of UBS's losses to determine what went wrong. EBK Chairman Eugen Haltiner told Bloomberg News in April that the commission had urged Ospel to resign.

Shareholder Lawsuits

Kurer also may be bracing for a spate of shareholder lawsuits. At the April meeting, Erik Bomans, a partner at Deminor, a Brussels-based shareholder defense firm, called on investors in Europe to band together to sue UBS for failure to disclose that it was anticipating big losses on its mortgage portfolio.

"Your claim that shareholders were not informed is polemic and not in accordance with the facts," Kurer shot back in the style of a defense attorney. "We issued five profit warnings, which is more than any other bank."

UBS's first warning came on Aug. 14, 2007, when it said profit for the second half of the year would fall compared with a year earlier.

Kurer has moved to placate investors like Arnold by curtailing his own powers as chairman. He abolished the chairman's office, a coterie of three executives: Ospel; Stephan Haeringer, a vice chairman; and Suter, who was an executive vice chairman before he was appointed CFO last year.

Risk Committee Fails

The three executives, who held ultimate responsibility for risk, sat on UBS's supervisory board and rose up from the

group executive board, the 11-member internal management committee that runs the bank day to day. Arnold has criticized the chairman's office for wielding too much power and compromising the independence of the supervisory board.

With the chairman's authority clipped, CEO Rohner, 43, may take a more prominent role. Previously the head of UBS's wealth management unit, Rohner says UBS has already taken measures to rein in its investment bank, which under Jenkins drove the push into what turned out to be high-risk asset-backed securities and CDOs.

Rohner says the days of easy money for the investment bank are over. Traders will no longer be able to rely on capital and cash flows from the private banking unit to invest in proprietary trading. "Cash flow for the investment bank has to come from organic growth," Rohner told reporters in April. "It can't be a cross-subsidy from wealth management businesses."

Wealth Management

Arnold and other major shareholders think UBS should concentrate on what it does best: wealth management. That unit contributed 24.9 billion francs, or 78 percent, of the bank's total operating revenue in 2007. Arnold wants Kurer and Rohner to sell the asset management unit, which offers investment funds to institutional and retail clients, and the bank's Brazilian unit, Banco UBS Pactual SA.

Asked about Arnold's suggestion, Rohner rejected the idea. "We don't see any need to sell assets," he says. "The real issue is how we work together collectively under the one-firm model."

Rolf Meyer, head of UBS's compensation committee, told investors at the April shareholders meeting that Rohner had relinquished his bonus for 2007 even though he could have been rewarded for the time he was head of wealth management. That prompted cheers.

UBS is paying Jenkins, Standish and Wuffli a combined 93.6 million francs in salary, deferred compensation and consulting fees from 2007 to 2009.

No Ospel Bonus

The UBS board also denied Ospel a bonus for 2007, a year in which he was paid 2.57 million francs. In 2006, his salary and bonus added up to 26.6 million francs. Ospel refused repeated requests from shareholders at the meeting to disclose how much he would be paid after his departure.

Rudolf Weber, a gray-haired shareholder dressed in a bright pink shirt, hobbled up to the microphone on crutches to joke that he cried after hearing Ospel had lost his bonus.

"My wife had to give me a larger handkerchief," he said to howls of laughter from shareholders.

Weber went on to say that he worried Ospel might not be able to afford to dine at Stucki, his favorite Michelin-starred restaurant in Basel, or Kronenhalle, the Zurich restaurant famed for its art collection. Weber pulled out a ring of sausages to present to the outgoing chairman.

Ospel, who'd been tipped off about the stunt, looked grim for a moment, smirked and extracted a tube of mustard from his pocket, thanking Weber for his generosity.

Tabloid Antihero

One reason for Ospel's hostile reception at the shareholder meeting was heavy coverage of his extracurricular activities in the Swiss tabloid press. On Jan. 31, the day after UBS wrote down \$14 billion in mortgage holdings and reported the biggest quarterly loss ever by a bank, Ospel went waltzing with his third wife at the Vienna State Opera Ball.

Two weeks later, as UBS prepared to explain the losses to investors at its earnings presentation on Feb. 14, Ospel attended a Carnival march in Basel, where he paraded masked through the city center playing a drum.

On Feb. 27, UBS held an emergency shareholders meeting to consider a capital increase. More than 6,000 investors attended, with many rising to call for Ospel's resignation.

"You are the problem," said Christian Strenger, a UBS shareholder and supervisory board member of German investment firm DWS Investment GmbH. "The top person has to take responsibility."

Ospel SBC Veteran

Without Ospel, UBS might still be a provincial Swiss bank of little distinction. The son of a baker-turned-engineer, Ospel graduated from Basel's School of Economics and Business Administration and started work in the planning division of Swiss Bank Corp. in 1977.

Ospel became a fan of American-style investment banking when he did a three-year stint in the capital markets division of Merrill Lynch & Co. starting in 1984.

Just before he left SBC, Hans-Konrad Kessler, the bank's general manager, wrote an evaluation for Ospel's personnel file that hinted at Ospel's grand aspirations.

"A capable person, bends over backwards to prove his worth," Kessler wrote, according to a 2007 Ospel biography, *The Master of UBS*, by Dirk Schuetz. "Very ambitious, thinks materialistically, could make mistakes because of big ambition. Therefore needs control."

Ospel returned to SBC in 1987 and rose up the ranks, helping turn the bank into a global power in investment banking and wealth management.

U.S. Acquisitions

His first step was the acquisition in 1992 of Chicago-based derivatives trader O'Connor & Associates -- a firm packed with Massachusetts Institute of Technology Ph.D.'s exploring what was then a new field of investment.

In 1994, SBC paid \$750 million for Brinson Partners Inc., a Chicago-based money management firm. The following year, it snapped up London-based investment bank S.G. Warburg & Co. for 860 million pounds (\$1.67 billion). In 1997, after Ospel rose to CEO at SBC, the bank bit off another piece of the U.S. market when it paid \$600 million for Dillon, Read & Co., a small Wall Street investment bank.

“Our aspirations in North America required significant capital and talent,” Ospel said in 2004.

By 1997, SBC had widened its global footprint, yet all of the acquisitions had left it short of capital.

In the 1990s, activist investor and billionaire Martin Ebner built up a stake in Union Bank of Switzerland and began agitating for management changes that would give a spark to its languishing share price. He also owned shares in SBC. Ebner began pushing for a merger of the two banks and finally got his way.

One Big Bank

The \$19.7 billion combination of SBC and Union Bank in 1998 created the world's biggest wealth manager, with 1.3 trillion francs under management at that time. The new UBS AG adopted SBC's logo of three crossed keys representing confidence, security and discretion.

The merger created a big headache when Ospel learned that the old UBS had made a \$1 billion investment in Greenwich, Connecticut-based hedge fund firm Long-Term Capital Management LP, which was rescued by a consortium of banks soon after the SBC-UBS merger closed.

The scandal resulted in a shake-up in the new UBS. The top executives resigned, and Ospel and his SBC colleagues took their places. In the aftermath, Wuffli told Bloomberg News that the LTCM affair “reinforced our emphasis on controlling risk. That's still an essential part of our DNA.”

American Dealmaker

With new resources at his disposal, Ospel set about making his mark in investment banking and wealth management in the U.S. UBS first talked to Merrill Lynch about a merger, according to a person familiar with the matter.

When that fell through, Ospel targeted Paine Webber Group Inc., then the fourth-biggest U.S. retail brokerage, with \$452 billion in assets. In 2000, UBS paid \$11.5 billion to buy the New York-based firm. Even Ospel acknowledged four years ago that the acquisition, for which he paid 3.6 times book value, was no bargain.

UBS Paine Webber became a force in American investment banking. Its share of fees for merger advice and stock and bond underwriting in the U.S. surged to 5 percent in 2003 from 2.3 percent in 1999, according to Bloomberg data. In 2005, it rose to 6th place as an adviser on U.S. mergers, up from 10th in 2001. In 2003, the investment bank dropped the Paine Webber from its name and became simply UBS.

UBS's plunge into the U.S. housing market started in the firm's treasury office, according to the UBS report.

Asset-Backed Binge

In late 2002, Andreas Amschwand, in charge of the bank's foreign exchange and cash collateral trading division, which handles the bank's everyday cash transactions around the world, began investing the money in U.S. asset-backed securities, consisting of AAA- and AA-rated holdings backed by car leasing loans, credit cards and commercial and residential mortgages.

U.S. asset-backed securities had advantages. They were dollar denominated, easily bought and sold and could be pledged to central banks as collateral for some of the bank's borrowings.

Zurich-based Amschwand, 47, held as much as \$30 billion in U.S. asset-backed securities at any one time. After the market for such instruments froze in mid-2007, the losses accounted for 10 percent of UBS's writedowns that year, or almost \$2 billion, the bank report says. Amschwand declined to comment for this story.

“We lost money on our liquidity, which one shouldn't do -- which is not, in a way, forgivable,” CFO Suter says.

Costas Role

At the same time, UBS's investment bank was expanding rapidly under the leadership of John Costas, a New Jersey native who had been a senior bond trader for Credit Suisse Group and a fixed-income executive at the old Union Bank.

After taking over the investment bank in 2001, Costas, now 51, spent \$600 million to hire more than 50 senior bankers and opened a new trading floor the size of two American football fields in Stamford, Connecticut.

Revenue in the fixed-income unit, run by another American, Michael Hutchins, grew to \$7.3 billion in 2004 from \$2.8 billion in 2000.

By 2005, the fixed-income proprietary trading desk had become so profitable -- earning about \$700 million in pretax profit on about \$1.2 billion in revenue -- that Ospel and Wuffli decided to spin it off into a hedge fund to attract outside capital and allow wealth management clients to share in the gains.

Costas resigned as investment banking chief to run the internal hedge fund firm, called Dillon Read Capital Management LLC. UBS made \$3.5 billion of capital available to Dillon Read and also contributed 80 top traders and 40 support staff.

\$70 Billion Leverage

The hedge fund, called DRCM, was wholly owned by UBS and used \$70 billion of the bank's balance sheet assets to leverage its trades. In exchange, the securities unit booked DRCM's trading profits as its own and paid fees to Costas's group, treating it like an outside hedge fund. The fees were high: 3 percent of assets and 35 percent of trading gains.

So were the profits. In 2006, the fund, which invested in U.S. Treasuries, currencies, investment-grade corporate debt and mortgage securities, earned \$720 million in pretax profit, after fees, on revenue of \$1.2 billion, according to a person familiar with the figures.

Even as he started up the first hedge fund, Costas started raising money from outside investors for a second, to be called Dillon Read Financial Products. Costas began an ambitious expansion, hiring another 130 staff and renting offices around the world.

Hedge Fund Complications

Bringing in outside investors proved tricky. Regulators in Switzerland, New York and London required that Dillon Read

wall off the outside fund from the UBS investment bank by maintaining discrete back office functions for each.

Dillon Read Financial Products was finally launched in November 2006. It raised \$1.3 billion, including money from UBS clients. UBS invested about \$40 million of the bank's capital in the second fund.

The shift of staff and cash to Dillon Read didn't mean that UBS's investment bank got out of the mortgage business. Jenkins, British-born head of equities, replaced Costas as investment banking chief. Simon Bunce, another Englishman, replaced Hutchins as fixed-income head. Neither had significant risk management expertise, the UBS report says.

Jenkins, now 50, hired New York-based consulting firm Mercer Oliver Wyman, a subsidiary of Marsh & McLennan Cos., to carry out a strategic review of UBS's investment banking arm.

Me-Too Strategy

The report concluded that the fixed-income unit had the most catching up to do compared with the equities and merger advisory departments, according to a presentation that Bunce, 45, gave to investors in March 2007.

To increase revenues, and profits, to the level of the competition, the consultants recommended UBS invest in, among other things, U.S. mortgage securities and CDOs. The fixed-income unit began replicating the proprietary trading strategies of Dillon Read and investment banks such as Citigroup Inc.

The investment bank's biggest bets came from the CDO desk, run by James Stehli, who was based at UBS's New York offices, around the corner from Radio City Music Hall. Under the direction of David Martin, his boss in the fixed-income unit, Stehli's group parked residential-mortgage-backed securities for one to four months in what the bank called a "warehouse" before securitizing them into CDOs and selling them to investors.

By early 2006, Martin and Stehli, who both left UBS last year, had gone a step further, according to the UBS report.

Gorging on CDOs

Instead of just securitizing and selling the CDOs, Stehli's unit began retaining the highest-rated tranches, known as "super seniors," on UBS's books and buying more on the open market so that the bank could profit from their relatively high yields.

To buy the CDOs, the bank borrowed tens of billions of dollars at low rates, taking advantage of UBS's AA+ credit rating from Standard & Poor's. From February 2006 to September 2007, the CDO desk amassed a \$50 billion inventory of super senior CDO tranches.

"People should have respect for big numbers," says CFO Suter, discussing what the bank got wrong. "Sometimes people start to fall in love with models, and they forget to look at notional values."

UBS's risk management team never capped the size of the CDO positions, partly because most of them were rated AAA and didn't throw up any red flags, according to the UBS re-

port. Stehli's CDO desk recorded two-thirds of UBS's losses in 2007, or \$12.5 billion, the bank says.

'Too Much Leverage'

"There was too much leverage, too much warehousing," says Wegelin's Hummler, who sits on the 10-member council overseeing the Swiss National Bank -- the central bank -- and has been warning of problems at UBS since July 2007. "Why was there no one to say 'no' in terms of allocating capital to this warehouse?"

In February, speaking to reporters and analysts, Rohner chalked up the losses to three factors: "A me-too strategy in fixed-income predicated on closing gaps with our competitors, a significant availability of cheap short-term liquidity, and the creation of Dillon Read."

Shareholders say Ospel was blinded by his ambition. "As chairman, he was responsible for the company's strategy and also for its risk management," says Hans-Christoph Hirt, a director at London-based Hermes Equity Ownership Services Ltd., which advises pension funds and demanded Ospel's resignation. "It became clear from the summer of last year that there were problems with both."

The First Markdown

UBS's big bet on asset-backed securities began falling apart in mid-March 2007, when Dillon Read's traders called Walter Stuerzinger, UBS's chief risk officer, and John Fraser, UBS's asset management chief, in Zurich to tell them that Dillon Read had to mark down by \$50 million its book of securities backed by U.S. subprime mortgages, or loans by borrowers with weak credit histories.

The losses grew to 150 million francs in the first quarter, as DRCM traders sold down their positions. That prompted Stuerzinger to order an internal audit of Dillon Read.

UBS announced on May 3 it would shut Dillon Read down, according to the UBS report. That was about six weeks before the meltdown of a similar Bear Stearns hedge fund started a panic in the market.

UBS had given Costas two options. Either Costas could continue to manage the fund for outside investors without UBS capital or UBS would take over the internal fund's positions and cash out the second fund's third-party investors. To protect the outside investors, Costas chose the second option.

Closing DRCM

Outside investors, who had invested in Dillon Read Financial Products for only six months, got out with a return of about 16 percent. UBS spent \$314 million to shut down Dillon Read, two-thirds of it on severance, guarantees and deferred compensation for the fund's employees.

After UBS took over DRCM's positions, the losses mounted. The bank says Dillon Read accounted for \$3 billion of the \$19 billion in losses UBS recorded in 2007.

Ospel became aware of the full extent of UBS's subprime exposure only on Aug. 6, 2007, according to the bank's report. Even at that late date, the investment bank's controllers viewed the CDO desk's positions as low risk because of the AAA

ratings. "We could not see the forest for the trees," Rohner told shareholders in April.

Rohner has experience managing risk. After getting a Ph.D. in economics from the University of Zurich, he rose to prominence at UBS when he served as its chief risk officer from 1999 to 2001.

'Under Pressure'

The bank's decision to scale back capital to the investment bank could make it hard to restore profits, says Granzio, who served as CEO and then chairman of UBS's securities unit until 2002.

"They are under such pressure to avoid losses at any cost," Granzio says. "They have to turn around the investment bank quickly. If they fail, Rohner and Kurer will be held responsible."

Rohner says UBS is targeting pretax profit at the investment bank to reach 4 billion francs after it reorganizes and cuts jobs, compared with 5.6 billion francs in 2006. Meeting that target is the job of new investment bank chief Jerker Johansson, former head of institutional equities at Morgan Stanley, who joined UBS in March.

As of May, Johansson himself was running the investment bank's fixed-income business, replacing Andre Esteves, the 39-year-old Brazilian who held the job for less than a year. Esteves will now run UBS's Latin American businesses from Brazil.

New Risk Officer

Johansson chose John Wall, former co-head of global equities, to run fixed-income and equities proprietary trading, and tapped Morgan Stanley colleague Thomas Daula as the investment bank's chief risk officer.

After his election, Kurer created a new risk committee on the supervisory board to be chaired by former Morgan Stanley CFO David Sidwell, who joined the UBS board in April.

Meanwhile, UBS's losses have prompted the EBK to rethink its capital requirements for all banks. It may demand higher capital ratios for banks that have securities trading operations.

"We need to have a big cushion, a lot of space between the airplane and the mountain, so that banks in the future can weather turbulence," says Alain Bichsel, a spokesman for the EBK.

Questioning the Model

UBS is also taking a hard look at the universal banking model. At the April shareholder meeting, Kurer said he would create a new task force to look at the benefits and risks of running a bank that combines investment banking, wealth management and asset management. Bernt Sagard, a fund manager at Oslo-based Storebrand Investments, which manages \$50 billion of assets, including UBS shares, thinks UBS should ditch the universal banking model.

"It would be good to sell the investment bank," Sagard says. Hummler agrees. He says UBS's private bank alone could be worth 100 billion-150 billion francs, as much as twice the

current market value of the whole company. "The UBS stock price is too low, and it would be higher with a split solution," Hummler says.

If the investment bank is sold, that would tear down much of the financial edifice Ospel spent 15 years building. After his official duties came to a halt in April, the former chairman began jetting around the world with Kurer, bidding a final farewell to clients of the bank that rose so high, and fell so far, on his watch.

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With reporting by Jacqueline Simmons in Paris.

To contact the reporters on this story:

Stephanie Baker-Said in London at +44-20-7330-7558 or ssaid@bloomberg.net.

Elena Logutenkova in Zurich at +41-44-224-4101 or elogutenkova@bloomberg.net

To contact the editors responsible for this story:

Mike Anderson at +44-20-7673-2718 or manderson34@bloomberg.net.

Laura Colby in New York at +1-212-617-1167 or lcolby@bloomberg.net