

June 27-29, 2008.

Deutsche Bank partners with Shanxi Securities

BY RICK CAREW

HONG KONG—Deutsche Bank AG signed an agreement with Shanxi Securities Co. to form a securities joint venture in China, according to people familiar with the move, which could allow the German bank to underwrite share offerings on China's domestic exchanges.

The agreement, if approved by government regulators, would make

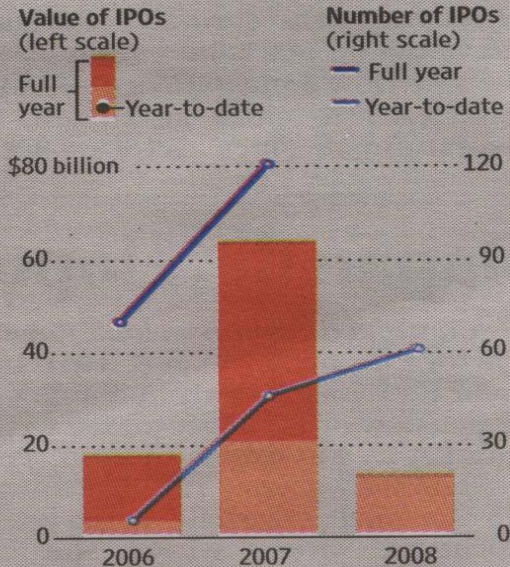
Deutsche Bank the latest Western firm to sign up a mainland partner under a new arrangement

reached with Beijing late last year.

Under pressure from U.S. Treasury Secretary Henry Paulson, the former head of Goldman Sachs Group Inc., the Chinese government agreed to again allow more Western banks access to domestic underwriting, but only through ventures that are two-thirds owned by Chinese firms. Goldman Sachs and UBS AG previously were the only two global investment banks with securities platforms on the mainland.

Credit Suisse Group recently won approval to set up a venture with Founder Securities Co., an arm of Founder Group in Beijing, under the new arrangement. Morgan Stanley and Citigroup Inc. have both

China's A-Share IPOs



Source: Dealogic

signed up partners but haven't yet received approval for their ventures.

Chinese shares have slumped after a dramatic run-up over the previous two years, slowing the pace of initial public offerings. Chinese firms have raised \$12.8 billion so far this year in IPOs on the Shanghai and Shenzhen exchanges, compared with \$20.1 billion over the same pe-

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Deutsche Bank sets China venture

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riod last year. But over the long haul, bankers expect Chinese companies to continue to turn to domestic exchanges to raise capital.

Deutsche Bank will own 33% of the new securities joint venture, with Shanxi Securities of the northwest China city of Taiyuan holding the rest, said the people familiar with the matter. The partners, who signed the agreement in recent days, are in the process of applying for approval of the venture by the China Securities Regulatory Commission, the nation's primary regulator of securities firms. The joint venture is likely to be based in Beijing, according to one person involved.

These joint ventures are able to sponsor and underwrite share and bond issues in China's domestic capital markets. Initially, they won't be allowed to do proprietary trading

and offer retail-brokerage services, the most profitable business lines for domestic securities firms. China's securities regulator has said it may allow the joint ventures to expand their scope of business depending on their performance.

For Deutsche Bank, the venture is the latest move to expand in China. At the start of the year, the bank opened a locally incorporated banking unit, allowing it to offer broader local-currency retail- and institutional-banking services to Chinese clients.

Deutsche Bank also has raised its stake in one of China's most successful fund managers, **Harvest Fund Management Co.**, to 30% from 19.5% and paid \$546 million in March to boost its stake in Beijing-based commercial lender **Hua Xia Bank Co.** to 13.7% from 9.9%. It also opened a new Beijing office tower, housing 500 staff.

Deutsche Bank gets China OK for share deals

BY NISHA GOPALAN

HONG KONG—Deutsche Bank AG has become the latest foreign bank to receive approval for its Chinese joint venture to underwrite and sponsor deals in China's securities market.

Under the terms of the agreement approved by the China Securities Regulatory Commission, Shanxi Securities Co. will hold 66.7% of the venture and Deutsche Bank will hold the rest. The venture, named Zhong De Securities Co., will underwrite and sponsor the listing of yuan-denominated A shares, foreign currency-denominated B shares, and bonds, Deutsche Bank said Tuesday.

In late December, Credit Suisse Group said its brokerage joint venture with Founder Securities Co., which was set up in early 2008, had received a similar approval.

Until Credit Suisse and Deutsche Bank got their go-ahead, Goldman Sachs Group Inc., UBS AG, CLSA Asia-Pacific Markets and Morgan Stanley were the only global investment banks with securities platforms in mainland China.

FINANCIAL TIMES

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GENERAL FINANCIAL

Deutsche and Credit Suisse allowed in

Venture approvals tied to bilateral talks

By Sundeep Tucker

European investment banks have established momentum over their US rivals in the race to develop Chinese securities joint ventures, amid signs that Beijing is delaying the entry of Wall Street firms to the coveted marketplace.

Chinese authorities are opening up the sector to greater foreign investment after a two-year ban and bankers familiar with the situation believe it is significant that Europeans have made the running in recent weeks.

In the latest development Deutsche Bank has agreed a tie-up with Shanxi Securities to establish a venture that will offer investment banking services to mainland clients. It is expected to receive approval this year.

This month Credit Suisse secured regulatory approval to set up a securities joint venture with Founder Securities, a subsidiary of a mainland conglomerate, becoming the first foreign bank to gain entry since the moratorium was lifted in December. A five-year-old

mainland securities joint venture part-owned by CLSA, the Asia-focused bank whose largest shareholder is France's *Crédit Agricole*, has also gained approval to expand its business.

By contrast, Morgan Stanley and Citigroup, which signed separate agreements with mainland part-

ners to set up securities joint ventures, have each been waiting months for regulatory clearance. Other US firms including Merrill Lynch, JP Morgan and Lehman Brothers remain in discussions with potential mainland partners.

Only Goldman Sachs and UBS won approvals for

mainland securities joint ventures before China stopped such deals, fearing that the more experienced overseas companies would dominate the industry.

People familiar with the matter believe the issue of approvals for ventures involving US firms has become tied to bilateral talks between China and the US over market access. Washington is lobbying Beijing to open its financial services sector to foreign groups while China wants its leading banks, after years of trying, to be allowed to set up and expand branch networks in the US.

One banking executive said: "By approving the Credit Suisse and CLSA applications, Beijing is sending a message to Washington: the Chinese securities market is opening, but Wall Street firms may have to wait until other issues are sorted out."

Ironically, the delays in securing approvals come at an opportune time for Wall Street. Senior bankers for US firms in Asia said the internal focus was to stabilise after the subprime crisis.

The collapse of the mainland stock market this year could also benefit Wall Street, with valuations of local securities firms likely to fall significantly. "No one would turn away a Chinese securities licence but I doubt any of us are in a panic to get one," said another banker.



Message from Beijing: Opening up eventually

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