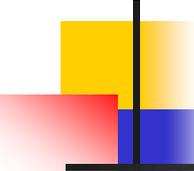


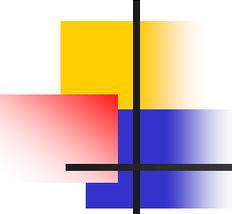
Best Banks to Buy in China

- China's first privately owned bank, China Minsheng Banking Corp, is likely to be the top choice for foreign banks, given its nationwide networks and good financial health. The International Finance Corporation (IFC) took a 1.8% stake in 2004 and Asia Financial Holdings took a 4.55% stake in January.
- Huaxia with a nationwide branch network, is a favoured target of foreign investors including HSBC, Hang Seng Bank and Standard Chartered. However, its single biggest weakness is that its largest shareholder is the Beijing-based steel maker Shougan Group, which owns 14.3%.
- Suzhou City Commercial Bank has a lot going for it and plenty of foreign suitors are lined up hoping for a stake. One factor may be the charm of its location – just an hour away from Shanghai in the country's fastest growing industrial region. But a bigger factor is probably its clean balance sheet. Eight foreign investment banks, including Morgan Stanley and BNP Paribas, have shown interest in investing the bank.



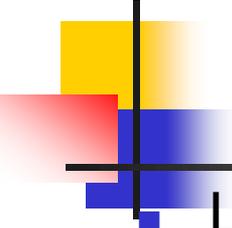
Bank of America Buys Challenges Along with Stake in China Lender

- Bank of America agreed to buy a 9% stake in China Construction with an option to increase it during the next 5.5 years to as much as 19.9%.
- The deal will give BoA, which has had little presence of any kind internationally and practically none in China for more than half a century, a key foothold in the world's fastest-growing major economy.
- “BoA is buying an opportunity. But really to be able to make a lot of money it's going to be a long-term process. Chinese banks have the lowest profitability in the world” said May Yan, a banking analyst at Moody's Investor Service.
- BoA will provide about 50 experts and advisers to its Chinese partner, with the key focus on risk control. Helping CCB reduce its NPL rate is important, but to prevent future NPLs is more important.



USB Is in Talks to Buy Banks of China Stake

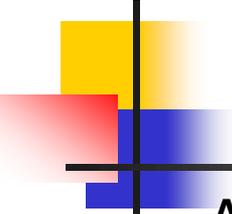
- Swiss Bank UBS AG is in talks to buy a stake valued at between US\$500 million and US\$1 billion in Bank of China ahead of the Chinese bank's listing in Hong Kong next year.
- Bank of China is the country's third-largest bank in terms of deposits. Measured by assets, it is China's second-largest bank, after Industrial & Commercial Bank of China and ahead of China Construction Bank.
- "This is definitely a growing trend.... It is more about strategic positioning than anything else," said Ryan Fong, director at Swiss investment fund HSZ Group.
- UBS has been steadily investing in the Asian-Pacific region, which accounted for 40% of the bank's new hires in the fourth quarter and generates around 8% of the bank's revenue.



America's Banking Patchwork Holds Together, Not Only Just

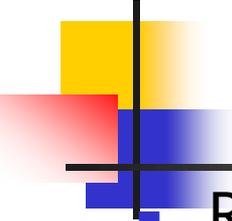
■ Last October the Government Accountability Office (GAO) delivered a detailed report that suggested some sensible ways to consolidate American financial regulation. It offered four choices:

- To consolidate the regulatory structure into “functional” areas – banking, securities, insurance and futures – to create a first point of contact at the federal level.
- To move to a “twin peaks” model, with one regulator responsible for the safety and soundness of the system and another for consumer protection and the conduct of business.
- To combine all financial regulation into a single entity, as some other countries – notably Britain, Germany and Japan – have attempted.
- To create a single entity to oversee complex global groups, but leave the rest of the structure untouched.



Opposition from Regulators

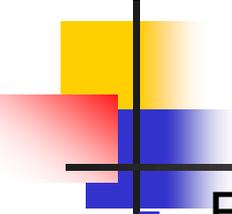
- Alan Greenspan wrote to the GAO to say that Congress “should be careful to preserve the ‘dual’ system, which has contributed greatly to competition and innovation in banking markets”.
- Donald Powell, chairman of the FDIC, said that the risk under a single regulator was the “loss of effective independent voices in the regulatory process”.
- James Gilleran, director of the OTS, defended the “healthy tension” between the federal banking regulators which made the American banking system the “healthiest, most innovative and robust in the world”.



Is the Current System Really So Sound?

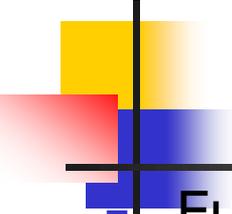
- Really? As it happened, the predecessor of the OTS, the Federal Home Loan Bank Board (FHLBB), had presided over one of the world's most expensive banking failures ever. In 1989 the American government was faced with having to guarantee the dubious assets of practically the entire sector of savings-and-loans institutions. The fiasco cost the government – ie, the taxpayer – US\$124 billion.
- Another notable failure of American regulation was the collapse of Long-Term Capital Management (LTCM) which had around 20,000 derivatives contracts with 75 different counterparties outstanding.
- One of the problems, identified by the GAO in a report after the crisis, was that “regulators continued to focus on individual firms and markets but failed to address interrelationships across industries”.

Source: Economist (May 21)



View of the International Community

- From a global perspective, a diverse and largely laissez-faire system in America may not seem such a good idea. It makes it harder to harmonise global banking regulation as demonstrated by Basel 2.
- The Basel Committee of rich-country supervisors, which is responsible for Basel 2 rule-making, found itself having to negotiate with a plethora of American financial regulators, though there were some co-ordination between the Federal Reserve, the OCC, the FDIC, the OTS and the various state banking departments.
- The end result was that most American banks will not have to implement Basel 2. In American, the new rules will have to be applied by only about 20 internationally important banks, whereas in the EU they will be observed not only by all banks but by all investment firms too.



Positive Currents

- Europeans admire America's ability to deal with its scandals swiftly. America responded to the Enron debacle much more decisively, putting in place the Sarbanes-Oxley act, which requires top executives to take personal responsibility and disclose far more information than previously.
- The effect of Sarbanes-Oxley has also been felt by European companies that are listed on the New York Stock Exchange.
- Conversely, the European Union's efforts to develop a single market for financial services are producing some fall-out in America too. The EU Financial Conglomerates Directive of 2002 has forced American regulators to supervise groups on a consolidated basis, so that American financial groups which want to operate in Europe need to be monitored by their home supervisor sufficiently strictly to qualify for mutual recognition.