Rules announced for acquisitions by banks

China has circulated its first rules governing acquisitions by commercial banks of financial companies at home and abroad - a move that may make it easier for the nation's lenders to expand into industries such as insurance.

The China Banking Regulatory Commission (CBRC) has sent the draft rules to banks for consultation. The undated document didn't say when the new regulations are expected to take effect.

The new rules ban banks from acquisitions that would push their capital adequacy ratios to less than 10 percent, the document said. Deals must not create monopolies or undermine "effective competition", it said.

China's banks are barred from investing in non-bank financial institutions unless "stipulated otherwise by the State", according to 2003 revisions to the nation's Commercial Bank Law.

While domestic acquisitions of non-bank financial companies would be covered by the new rules, they'll need approval from the State Council, China's cabinet, according to the draft. Overseas purchases only need approval by CBRC, it said.

"Chinese commercial banks are very enthusiastic about making cross-sector acquisitions," said Zhang Xi, an analyst at China Galaxy Securities Co. "This will provide a good opportunity for bigger banks, especially as valuations of financial equities drop."

China Construction Bank Corp and Bank of China Ltd, the nation's second- and third-largest by market value, have applied for permission to set up their own insurance ventures. ICBC, the world's largest bank by market value, has said it wants to expand into insurance.

China's insurers collected $100 billion of premiums last year, up 25 percent from 2006. China Life Insurance Co is the world's third-largest insurer by market value, after Warren Buffett's Berkshire Hathaway Inc and American International Group Inc.

Collapsing profits and market values of banks and securities firms, such as Citigroup Inc, UBS AG and Merrill Lynch & Co, have prompted speculation that Chinese banks would start using the $63 billion they raised in stock sales over the past three years for acquisitions.

Even so, ICBC Chairman Jiang Jianqing this month said he's unwilling to use the bank's $162 billion of cash and near-cash securities for acquisitions in the US. ICBC has bought assets in emerging markets, including Indonesia and South Africa, in the past year and is in talks about buying a stake in a Thai lender.

"The US subprime risk isn't over," he said in an interview. "Even though asset prices are very low and many good assets can be bought, we just don't know where the bottom is."

The 10 percent capital adequacy rule may make it difficult for smaller lenders, such as Huaxia Bank and China Minsheng Banking Corp, to gain clearance for takeovers, China Galaxy's Zhang Xi said.

Huaxia Bank, partly owned by Deutsche Bank AG, had an 8.3 percent capital adequacy ratio at the end of 2007. China Minsheng, the nation's first privately owned bank, was at 10.7 percent.

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