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Barclays Sees 'Very Real Competition' From Chinese Underwriters  
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By Cathy Chan

Aug. 18 (Bloomberg) -- Chinese securities firms are making inroads in international investment banking markets, driving up hiring costs and spurring tighter competition for deals, a senior Barclays Plc executive said.

"They're very real competition; they absolutely win deals and in many cases, they win deals that we would love to be in," said Matthew Ginsburg, Hong Kong-based head of investment banking at Barclays in Asia, in an Aug. 16 interview. "On the cost side, are they starting to be competitive for talent? In many cases, they are absolutely."

Ginsburg, 47, is leading the expansion of Barclays' investment bank in Asia, where fees from advising on stock sales and mergers have grown faster than in the U.S. and Europe, powered by China's and India's expanding economies. Chinese rivals like Citic Securities Co. and Haitong Securities Co. are planning share sales in Hong Kong to raise money for hiring bankers and expanding offices outside their home market.

Chinese securities companies are using Hong Kong as a stepping stone for expansion outside China, where the government requires foreign investment banks to team up with local partners for stock and bond underwriting. Share-sale fees in the city were 2.2 percent of the money raised last year, the lowest level since at least 1999, data compiled by Bloomberg show. The fee percentage has remained at that level in 2011, the data show.

Guosen Securities Co., this year's biggest stock underwriter in China, more than doubled the workforce at its Hong Kong unit in 2011 and plans to rent more office space in the city, the head of the unit, Lu Xiao Ning, said in July.

#### Equity Mandates

Goldman Sachs Group Inc., based in New York, is the top equity offering arranger in the Asia-Pacific region this year, followed by Morgan Stanley, according to Bloomberg data. The two firms dominate equity offerings in Hong Kong, working on a combined 41 percent of deals by value. Only one Chinese investment bank -- China International Capital Corp. -- is among the top 10 stock underwriters in the city, the data show.

Barclays is in 26th place in arranging Asia-Pacific equity offerings. The U.K. bank has a "strong pipeline" of equity fundraising deals, including convertible bonds, that have yet to be completed, Ginsburg said. Chinese firms' expansion in international investment banking isn't likely to drive fees lower, he said.

Beijing-based CICC, Morgan Stanley's former partner, ranks second this year in advising on mergers and acquisitions involving Chinese companies, Bloomberg data show. China Securities Co. and Citic

Securities are also among the top 10 banks in that league table, which is led by Goldman Sachs.

Barclays is in fifth place, after advising GDF Suez SA's \$3.2 billion sale of its oil gas production and exploration unit to China Investment Corp. this month, according to the data.

#### Venture Partner

London-based Barclays hired Ginsburg in 2009 from Morgan Stanley to run its investment banking operations in the Asia-Pacific region. Ginsburg, a 14-year Morgan Stanley veteran, subsequently hired former colleagues including Ed King, who now heads Barclays' mergers advisory in Asia-Pacific.

The bank is searching for a joint venture partner in China, Ginsburg said. Most of the biggest global investment banks -- including Goldman Sachs, Morgan Stanley, Citigroup Inc. and JPMorgan Chase & Co. -- either operate or are setting up local joint ventures, allowing them to underwrite stock and bond sales in the world's fastest-growing major economy.

#### 'Like Dating'

Ginsburg declined to say whether Barclays has narrowed talks to a single potential partner, or give a timeframe for reaching an agreement. Under Chinese rules, foreign firms can own up to a third of the joint venture, limiting the scope for achieving management control.

"The single most important thing you can do, given that you're a minority shareholder, is to find a really great partner," Ginsburg said. "And it's kind of like dating. If you spend more time really getting to know your partners, perhaps doing deals together, making sure there's been a lot of extensive dialogue between the firms, then both parties will feel a lot more comfortable about joining forces."

Barclays Chief Executive Officer Robert Diamond's push to take on JPMorgan, Goldman Sachs and Morgan Stanley in mergers advisory and IPO underwriting increasingly hinges on Asia, which accounted for a record 22 percent of global investment-banking fees last year, according to Freeman & Co.

The U.K. bank ranked eighth in worldwide in investment banking fees last year, up from ninth in 2009, according to data compiled by Bloomberg. JPMorgan and Morgan Stanley were the biggest fee earners in 2010, the data show.

#### Mandarin Speakers

Barclays started mergers advisory operations in Asia in 2008 and began offering equity underwriting the year after. The bank bought North American operations of bankrupt Lehman Brothers Holdings Inc. during the financial crisis in 2008, boosting its investment banking business in the world's biggest mergers advisory market.

The bank is "materially well down the path to where we want to be," in terms of expanding its investment-banking workforce in Asia, Ginsburg said. He declined to give a figure for how many employees he plans to add in the region.

"Every shop's major concern is people -- investment banks, at the end of the day, are people businesses," he said. "For example, given the expected continued growth in China-related business, there is probably a shortage of really well-trained, mandarin capable bankers."

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