THE WALL STREET JOURNAL.

JPMorgan Chase Expands Sustainable-Growth Team

By Isaac Taylor
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JPMorgan Chase & Co. is expanding its private-equity investment team focused on sustainable-growth equity opportunities.

The New York bank recently appointed Alex Bell, who has nearly two decades of private-equity experience, as a partner on the sustainable-investment team within its J.P. Morgan Private Capital group. Mr. Bell joins from Tikehau Capital, where he spent about a year as head of the firm's North American private-equity climate practice.

Before Tikehau, Mr. Bell spent more than four years at Caisse de Depot et Placement du Quebec, where he helped start a 500 million Canadian dollar (roughly $366 million) platform. The strategy invests in late-stage venture and early growth private-equity opportunities in energy transition, sustainable food and agriculture and industrial decarbonization.

JPMorgan's hiring of Mr. Bell, who is Hispanic, adds to one of the more diverse leadership teams in the growth-equity industry. The two co-heads of the bank's sustainable growth equity team, Osei Van Horne and Tanya Barnes, are both Black.

The bank set up the sustainable-growth team in January 2022 and said it would anchor its first sustainability investment strategy with a capital commitment of as much as $150 million, describing it as one of its largest commitments to an alternative-investment strategy. JPMorgan's alternative-investment arm managed $211 billion as of December in strategies such as private equity and credit, hedge funds and real assets.

Jamie Dimon, the bank's chairman and chief executive, named climate change and inequality as two critical issues as the bank in 2021 announced plans to finance and facilitate $2.5 trillion of investments over 10 years to address climate change and sustainable-development needs.

"The first area that is of particular interest to us is around climate-**technology** investing, particularly around decarbonizing industrials and heavy industries," Mr. Van Horne said. "Just to decarbonize the real estate, industrials, transportation and agriculture industries, which are responsible for 80% of [greenhouse-gas] emissions, that is a $1.8 trillion market opportunity."

The sustainable-growth team has made two investments so far. It led a $200 million investment in Arcadia Power Inc., a **technology** company aimed at fighting climate change, and a $42 million investment in MineSense Technologies Ltd., a startup looking to improve carbon levels across the metals-mining industry.

Investments geared to improving the environment, social conditions or corporate governance, ESG for short, have broad support among institutional investors. One recent survey showed that 93% of such investors said they would walk away from an investment if it posed an ESG concern, and 50% cited better performance as a key reason to incorporate ESG elements in investing, according to the poll from consulting firm Bain & Co. and the Institutional Limited Partners Association.

Other big banks are also looking to expand their reach into sustainability. Goldman Sachs Group Inc.'s asset-management arm last year made a $100 million growth investment in Recover Textile Systems SL, a company focused on sustainable fashion.

Some investors and limited partners have expressed concerns regarding the difficulties of measuring outcomes and goals for sustainable investing. The search for more clarity has driven investments in companies like EcoVadis SAS, which provides ESG ratings and benchmarking for businesses.

"We've really invested a lot in measuring both the carbon profile as well as the ESG-related characteristics of our investments," Ms. Barnes said, to address apprehensions around quantifying environmental and social impacts.

"We've worked with our own internal experts as well as gotten third parties to help us verify all the data that we're sharing out with our partners," added Ms. Barnes, who joined JPMorgan last year from Blackstone Inc., where she led the private-equity firm's impact-investing platform.

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Rescue Bid Fails To Quell Worries On Bank --- First Republic shares fall by a third, broad indexes decline on fear that problems persist

By Gina Heeb
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First Republic Bank shares fell more than 30% Friday after a multibillion-dollar rescue deal orchestrated by the biggest U.S. banks failed to convince investors that the troubled lender is on solid footing.

The move erased gains from Thursday, when banks including JPMorgan Chase & Co., Citigroup Inc., Bank of America Corp. and Wells Fargo & Co. deposited $30 billion in First Republic to restore confidence in a banking system dented by a pair of bank failures.

Friday's plunge reflects concerns that the rescue deal didn't fully address problems at First Republic, which also suspended its dividend Thursday. The tumult has analysts asking if the company could be pressured to find a buyer.

"It's not clear whether it's viable as a stand-alone entity," said Julian Wellesley, global banks analyst at Boston-based Loomis Sayles & Co. "So it's likely, in my view, to be taken over."

First Republic declined to comment. In a regulatory filing Thursday, the San Francisco-based bank said deposit outflows had slowed significantly. The rescue deal, it said, was "a vote of confidence for First Republic and the entire U.S. banking system."

The sudden collapse recently of Silicon Valley Bank and Signature Bank -- the second- and third-largest bank failures in U.S. history, respectively -- have sparked concerns that anxious customers could drain deposits from other small and midsize banks.

The fears have rippled through global financial markets, weighing on stocks and drumming up demand for haven investments.

Friday, the Dow Jones Industrial Average fell 384.57 points, or 1.2%, to close at 31861.98. The broader S&P 500 dropped 1.1%, while the **technology**-heavy Nasdaq Composite declined 0.7%. Gold hit an 11-month high, while investors bought U.S. government bonds and bitcoin surged to its highest levels in months.

Even with Friday's drop, the S&P and Nasdaq notched weekly gains. The Dow industrials posted a small weekly loss.

The KBW Nasdaq index of commercial banks and the SPDR S&P Regional Banking ETF each fell more than 5%, closing at their lowest levels since 2020.

Anxiety surrounding the banking system isn't confined to the U.S. Credit Suisse Group AG shares fell by 8% Friday, reversing some of the surge the bank enjoyed the day after it said it would borrow from the Swiss National Bank. Large investors and other major banks that do business with Credit Suisse have either pulled back or declined to increase their exposures to the bank, according to people familiar with the matter.

For First Republic, which has seen its stock lose nearly 70% of its value over the past week, investors are especially concerned because the lender caters to wealthy customers with large account balances that aren't backed by the Federal Deposit Insurance Corp. More than two-thirds of deposits at First Republic exceeded the $250,000 FDIC insurance cap at the end of 2022, filings show.

Analysts at Jefferies estimated that as much as $89 billion in deposits has left the bank over the past week. The bank has borrowed tens of billions of dollars from the Federal Reserve and Federal Home Loan Bank to plug the hole.

The big-bank deal took some of the pressure off First Republic, but it still has to contend with flighty depositors' looking for higher rates elsewhere and suddenly aware of the pitfalls of large uninsured balances.

The rescue deal offered First Republic a temporary lifeline, KBW analyst Christopher McGratty wrote in a research note.

"The significance of these shifts in the balance sheet -- along with an announced dividend suspension -- paint a grim outlook for both the company and shareholders," Mr. McGratty wrote.

JPMorgan analysts sounded a more positive note, calling First Republic a "higher risk but potentially very high reward name."

It was a tough week for a swath of regional banks.

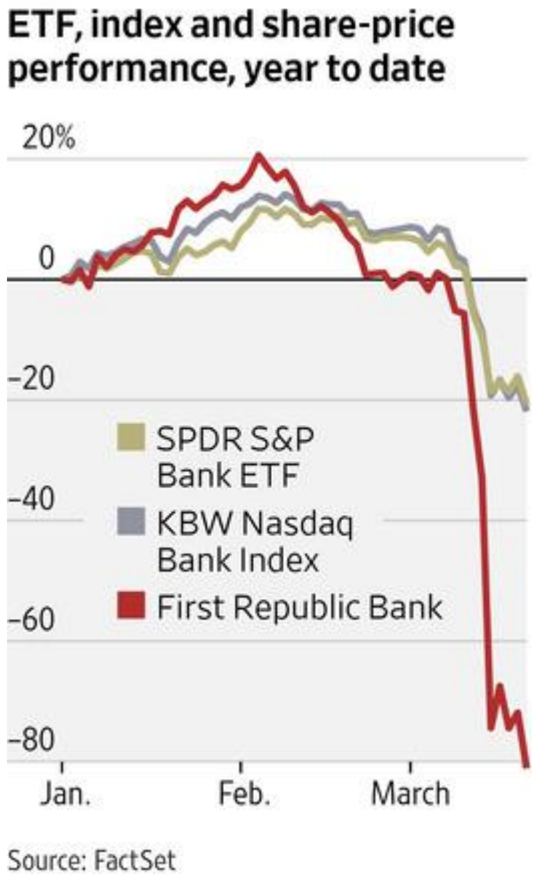
U.S. Bancorp had its worst week since 2009, with shares down about 19%. KeyCorp dropped by more than 25%, its largest weekly decline in about three years. Even the biggest banks shed billions of dollars in market value, with Citigroup down nearly 9% from a week ago.

Still, executives say they aren't seeing the level of depositor panic that claimed SVB and Signature.

At Huntington Bancshares, Inc., there have been "very modest" levels of deposit outflows this week, Chief Executive Stephen D. Steinour told The Wall Street Journal. The bank has sought to reassure its customers and, in some cases, offered them other types of deposit products.

"You go through a shock like this, and it's complicated, so for the average person just trying to understand what happened and why is important," Mr. Steinour said. "With any customer that is anxious, we proactively reach out."

David Benoit contributed to this article.



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U.S.'s Largest Banks Lose Billions in Value

By Jonathan Weil and Ben Eisen
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Investors dumped shares of SVB Financial Group and a wide swath of U.S. banks after the tech-focused lender said it lost nearly $2 billion selling assets following a larger-than-expected decline in deposits.

The four biggest U.S. banks lost $52 billion in market value Thursday. The KBW Nasdaq Bank Index notched its biggest decline since the pandemic roiled the markets nearly three years ago.

Shares of SVB, the parent of Silicon Valley Bank, fell more than 60% after it disclosed the loss and sought to raise $2.25 billion in fresh capital by selling new shares.

Banks big and small posted steep declines. PacWest Bancorp fell 25% and First Republic Bank lost 17%. Charles Schwab Corp. fell 13%, while U.S. Bancorp lost 7%. The U.S.'s biggest bank, JPMorgan Chase & Co., fell 5.4%.

Thursday's rout is another consequence of the Federal Reserve's aggressive campaign to control inflation. Rising interest rates have caused the value of existing bonds with lower payouts to fall in value. Banks own a lot of those bonds, including Treasurys, and are now sitting on giant unrealized losses.

Large declines in value aren't necessarily a problem for banks unless they are forced to sell the assets to cover deposit withdrawals. Most banks aren't doing so, even though their customers are starting to move their deposits into higher-yielding alternatives. Yet a few banks have run into trouble this week, sparking fears that other banks could be forced to take losses to raise cash.

SVB, the parent of Silicon Valley Bank, said late Wednesday it would book a $1.8 billion after-tax loss on sales of investments and seek to raise $2.25 billion by selling a mix of common and preferred stock.

The bank's assets and deposits almost doubled in 2021, large amounts of which SVB poured into U.S. Treasurys and other government-sponsored debt securities.

Soon after, the Federal Reserve began raising rates. That battered the tech startups and venture-capital firms Silicon Valley Bank serves, sparking a faster-than-expected decline in deposits that continues to gain steam.

Some venture-capital investors have advised startups to pull their money out of SVB, citing liquidity concerns, according to people familiar with the matter.

Garry Tan, the president of leading startup incubator Y Combinator, posted this internal message to founders in the program: "We have no specific knowledge of what's happening at SVB. But anytime you hear problems of solvency in any bank, and it can be deemed credible, you should take it seriously and prioritize the interests of your startup by not exposing yourself to more than $250K of exposure there. As always, your startup dies when you run out of money for whatever reason."

SVB Chief Executive Greg Becker held a call on Thursday trying to reassure customers about the bank's financial health, according to people familiar with the matter. Mr. Becker urged them not to pull their deposits from the bank and not to spread fear or panic about its situation, the people said.

"This is the first sign there might be some kind of crack in the financial system," said Bill Smead, chairman and chief investment officer of Smead Capital Management, a $5.5 billion firm that counts Bank of America Corp. and JPMorgan among its holdings. "People are waking up to the gravity that this was one of the biggest financial euphoria episodes."

Banks don't incur losses on their bond portfolios if they are able to hold on to them until maturity. But if they suddenly have to sell the bonds at a loss to raise cash, that is when accounting rules require them to show the realized losses in their earnings.

Those rules let companies exclude losses on their bonds from earnings if they classify the investments as "available for sale" or "held to maturity."

Sometimes the losses catch investors by surprise, even if the problem has been slowly building and fully disclosed for a long time. At SVB, unrealized losses had been piling up throughout last year and were visible to anyone reading its financial reports.

The Federal Deposit Insurance Corp. reported in February that U.S. banks' unrealized losses on available-for-sale and held-to-maturity securities totaled $620 billion as of Dec. 31, up from $8 billion a year earlier, before the Fed's rate push began.

In part, U.S. banks are suffering the aftereffects of a Covid-era deposit boom that left them awash in cash they needed to put to work. Domestic deposits at federally insured banks rose 38% from the end of 2019 to the end of 2021, FDIC data show. Over the same period, total loans climbed just 7%, leaving many institutions with large amounts of cash to deploy in securities as interest rates were near record lows.

U.S. commercial banks' holdings of U.S. government securities surged 53% over the same period, to $4.58 trillion, according to Federal Reserve data.

Most of the unrealized investment losses in the banking system are at the largest lenders. In its annual report, Bank of America said the fair-market value of its held-to-maturity debt securities was $524 billion as of Dec. 31, 2022, $109 billion less than the value it showed for them on its balance sheet. The lender didn't respond to a request to comment.

SVB, based in Santa Clara, Calif., caters heavily to tech, venture-capital and private-equity firms and grew rapidly along with those industries. Total deposits rose 86% in 2021 to $189 billion and peaked at $198 billion in 2022's first quarter.

They fell 13% during the final three quarters of 2022 and continued dropping in January and February of this year "in part because of [SVB's] concentration in investor-funded **technology** company deposits and the slowdown in public and private investments over the past year," Standard & Poor's credit analysts wrote in a note downgrading SVB to one notch above junk. They said they expect SVB's deposits may fall further.

SVB's debt securities declined in value substantially last year. As of Dec. 31, SVB's balance sheet showed securities labeled "available for sale" that had a fair-market value of $26.1 billion, $2.5 billion below their $28.6 billion cost. Under accounting rules, the available-for-sale label allowed SVB to exclude the paper losses on those holdings from its earnings, although the losses did count in equity.

In a news release Wednesday, SVB said it had sold substantially all of its available-for-sale securities. The company said it decided to sell the holdings and raise fresh capital "because we expect continued higher interest rates, pressured public and private markets, and elevated cash burn levels from our clients as they invest in their businesses."

SVB's year-end balance sheet also showed $91.3 billion of securities that it classified as "held to maturity." That label allows SVB to exclude paper losses on those holdings from both its earnings and equity.

In a footnote to its latest financial statements, SVB said the fair-market value of those held-to-maturity securities was $76.2 billion, or $15.1 billion below their balance-sheet value. The fair-value gap at year-end was almost as large as SVB's $16.3 billion of total equity.

Some investors got a nice payday in Thursday's plunge. Some 5.4% of SVB's available shares were sold short, according to FactSet data from last month.

Short sellers aim to profit by borrowing and selling shares of companies they believe are overvalued, then buying them back later at a lower price.

Far fewer investors were betting against the tech-focused lender's peers. Last month, short interest was 2% at Fifth Third Bancorp, 1.4% at State Street Corp. and 1% at American Express Co.

Peter Rudegeair, Eric Wallerstein and Berber Jin contributed to this article.

SVB Financial Group share price

Source: FactSet

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Business News: China Data Law Strains Multinationals

By Raffaele Huang
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English

SINGAPORE -- Multinational companies doing business in China raced to submit their data practices for Beijing's review ahead of a Wednesday deadline as the country seeks to identify national security and **cybersecurity** risks from the increasingly global flow of data.

In September, Beijing gave companies operating in China six months to seek approval before allowing some locally-generated data to be exported outside its borders, part of a broader tightening of data security as geopolitical tensions rise between China and the West.

That mandate set off a costly rush among companies to scrutinize their data-handling methods.

Beijing's internet regulator said last week that 48 foreign and domestic entities, including Amazon.com Inc., JPMorgan Chase & Co. and Volkswagen AG, have filed for government reviews. Some 140 companies including Apple Inc. and Siemens AG were preparing documents, the agency said.

JPMorgan declined to comment, while the others didn't respond to requests for comments.

Over the past six years, Beijing has built up a **data-governance** system to shore up controls over how it handles the increasing reams of information made available by **technology**, especially those that it considers critical to national security. The regulatory regime has increased compliance costs for businesses and is pushing more multinationals to store data locally and adjust business practices, legal experts say.

The country's main internet regulator, the Cyberspace Administration of China, didn't respond to a request to comment.

According to the September rule, "critical information infrastructure operators" -- companies processing data for industries such as telecom, defense, energy and finance -- must pass a security review by the internet regulator before they can transfer users' personal data abroad.

Entities that are required to go through such reviews also include those handling the data of one million people or more, as well as those that have been transferring personal data abroad of at least 100,000 people or sensitive personal information of 10,000 people or more.

The broad scope of the regulations means that whole industries, such as airlines and banks, both Chinese and foreign, are affected by the rules.

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THE WALL STREET JOURNAL.

Technology
JPMorgan Bans Usage of OpenAI Chatbot

By Alyssa Lukpat
311 words
23 February 2023
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B4
English

JPMorgan Chase & Co. is restricting employees from using ChatGPT, according to a person familiar with the matter.

The bank didn't curb usage of the popular artificial-intelligence chatbot because of any particular incident, the person said. It couldn't be determined how many employees were using the chatbot or for what functions they were using it.

ChatGPT has grown increasingly popular since the startup OpenAI released it in November, crossing a million users a few days after its launch. People have used the chatbot to automate tasks at work and school, raising questions about how **AI** could replace some white-collar jobs. However, ChatGPT isn't always reliable because it sometimes responds to prompts with misinformation or wrong answers.

OpenAI didn't return a request for comment Wednesday.

In addition to JPMorgan, other organizations have also blocked access to ChatGPT. Last week, Verizon Communications Inc. barred the chatbot from its corporate systems, saying it could lose ownership of customer information or source code that its employees typed into ChatGPT.

New York City public schools in January banned the chatbot from its internet networks and school devices.

Workers at some companies have been using ChatGPT to write emails and research topics. Some of the employees say the chatbot helps them work faster while others are trying to avoid being left behind as **technology** evolves.

Some tech companies have raced to launch similar products after OpenAI released ChatGPT. Earlier this month, Google rolled out a **conversational AI** service, Bard, to testers as the company tries to keep up with OpenAI.

Microsoft Corp., which has invested billions of dollars in OpenAI, unveiled an upgraded Bing search engine using ChatGPT's **technology**. Users reported the search engine, which also functions as a chatbot, responded to questions with sometimes disturbing answers.

Will Feuer contributed to this article.

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