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THE WALL STREET JOURNAL.

Banking & Finance: Wall Street Firms Turn to Blockchain --- Goldman, JPMorgan are processing some trades using the crypto technology

By Paul Vigna
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Wall Street's biggest banks have largely avoided investing directly in cryptocurrencies. But many are quietly working to integrate **blockchain**, the **technology** behind crypto, into trading and other businesses.

Goldman Sachs Group Inc. is trading some bonds and other debt securities for clients on **blockchain**-based networks such as Ethereum, and the bank is building its own **blockchain**-based trading platform. JPMorgan Chase & Co. has a platform in place, called Onyx.

Big Wall Street firms help make the economy run, connecting buyers and sellers of securities and lending money to businesses. But their sophisticated trades are often run on creaky old systems. Goldman and others hope they will be able to run faster, less-costly and ultimately more-profitable systems based on blockchains.

The **blockchain**, sometimes called distributed ledger **technology**, is the plumbing that keeps crypto markets running. It is basically a software program that uses an open record-keeping system -- a central ledger -- to track assets and record transactions and information about ownership of those assets. Every participant operates off the same central ledger.

Blockchain-driven systems on Wall Street would be different in some respects from the systems behind bitcoin and other cryptocurrencies. They would be permissioned networks, meaning a central party -- such as a bank or a consortium of banks -- would decide who is allowed on.

Outside of banking, Walmart Inc. used **blockchain** for tracking its supply chains. In real estate, some title companies used it for recording homeownership.

Goldman and others say that using **blockchain** in trading platforms should lower the risk associated with trading partners. Backers say it could make it easier for issuers to track who owns their shares or other assets.

"**Blockchain technology** is going to rewire all financial services," said Tom Farley, the former president of the New York Stock Exchange.

That said, Wall Street firms have been experimenting with **blockchain** projects for at least the past five years. Despite much hype, few have had a widespread impact on how financial transactions take place.

Others have thrown in the towel. A group of European insurance companies formed a consortium called B3i in 2016 to explore **blockchain** uses in their industry. In July, the consortium shut down after failing to raise new capital.

Regulatory issues could be a challenge, especially for multinational banks dealing with a host of overseers. Rules about risk management, custody and collateral are being developed in the U.S. and overseas. For instance, the international Basel Committee on Banking Supervision is developing a set of regulations that could require banks to set aside capital against what it called unforeseen risks arising from **blockchain** networks.

Challenges aside, few banks want to run the risk of being left out of a potential new **technology**. The biggest are engaged in an arms race to build competing platforms.

At Goldman, Mathew McDermott runs the digital-asset group, which has about 70 full-time staffers specializing in areas such as engineering, compliance and legal and government affairs. Mr. McDermott said he was a skeptic when he first heard of the **blockchain**, but no more. The same is true of many top Wall Street bankers, who initially scoffed at the idea that bitcoin or other cryptocurrencies were more than a fad.

"I'm not doing this just to satisfy my curiosity," said Mr. McDermott, who has worked at Goldman for 16 years and led the group since 2020. "Everything has a commercial driver."

Goldman declined to disclose financial information about the group, including how much the bank has invested in it or whether it has turned a profit. The firm expects the **blockchain**-based trading platform it is building to serve itself and its clients, but also possibly be used by other banks as well.

Some rivals are also planning for wider platforms. JPMorgan's Onyx platform, launched in 2020, can be used by other banks. Goldman, BNP Paribas and others have been using it to trade repos, or repurchase agreements. JPMorgan said Onyx has processed more than $350 billion of repo transactions.

"They're doing real trades," said Yuval Rooz, the chief executive of Digital Asset, which writes **blockchain** software and counts Goldman and the Australian Stock Exchange among its clients. Still, he said, competition is tight.

Last year, Goldman arranged a $100 million, two-year bond issue for the European Investment Bank that was registered in France and handled on the Ethereum network.

Normally, a bond sale like that would settle in five days. Mr. McDermott said it settled in just an hour.

What that means in practice is that money that might otherwise be tied up for days between counterparties will be freed up.

It means there is far less time to worry about counterparty risk, the odds that one party or the other to a trade won't hold up its end of the transaction.

The bank has more clients for such digital bonds, Mr. McDermott said, and expects to complete more sales.

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Banking & Finance: Goldman Keeps Chasing Main St. --- Bank invests in checking accounts, consumer offerings, but has a way to go

By Charley Grant and AnnaMaria Andriotis
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Goldman Sachs Group Inc. first started taking deposits from ordinary savers more than six years ago. It still has a way to go before it can call itself a full-service consumer bank.

The bank has invested billions of dollars in Marcus, the consumer arm named after the firm's founder. Its high-yield savings accounts have amassed more than $100 billion in deposits, but its long-delayed checking account remains in beta testing. Its credit-card business has struggled to grow much beyond the splashy offering it launched with Apple three years ago. Marcus offers installment loans for big-ticket purchases, but no auto loans or mortgages.

Goldman, the go-to financier for the rich and powerful, has a lot riding on its consumer project. Traditional investment banking and trading, Goldman's bread-and-butter businesses, are highly lucrative but can wilt in a market downturn. A strong consumer business could provide a stable revenue base that, in turn, could win Goldman a more generous stock valuation. Goldman shares are down 17% so far this year, slightly outperforming the S&P 500.

But the business hasn't yet turned a profit, and Goldman isn't saying when it thinks it will. Still, the bank expects the consumer business to top $4 billion in annual revenue by 2024, roughly double what it is on pace to bring in this year.

To get there, it must succeed in an unfamiliar role: underdog. And it needs to do it while staring down a possible recession that could damage household finances.

Building a bank from scratch "certainly takes investment, and we've been making investment," Chief Executive David Solomon said on a conference call with analysts last week.

Marcus opened in 2016 to make small personal loans of a few thousand dollars. It also offered online-only savings accounts that customers could start with as little as $1. Those deposits helped Goldman move away from more expensive wholesale credit facilities, which lowered its borrowing costs.

Even then, executives made it clear that the bank wasn't in a hurry to scale up Marcus. "We want to be very deliberate," Harit Talwar, who joined Goldman in 2015 from Discover Financial Services to run Marcus, said at an investor conference that fall.

Progress has come in fits and starts. Goldman launched its credit card with Apple in 2019, which brought the bank new customers. A mobile-banking app came in 2020, as did a deal to buy the General Motors Co. card business for about $2.5 billion, replacing Capital One Financial Corp.

In early 2021, the bank lost one of Marcus's key architects when Omer Ismail left Goldman to join Walmart Inc.'s nascent financial-**technology** offering. Mr. Talwar left later that year.

The bank, meanwhile, was struggling to bulk up its credit-card business.

Goldman in recent years has reached out to a number of U.S. airlines to see if they were interested in card partnerships, The Wall Street Journal previously reported. The bank was in talks with JetBlue Airways Corp. last year about taking over its credit-card program, the Journal reported, but the airline opted to stay with Barclays PLC. Macy's Inc., too, rebuffed Goldman's offer, according to people familiar with the matter, choosing to keep its partnership with Citigroup Inc.

The bank weighed launching a debit card with a rewards program last year in partnership with a smaller bank, but decided against doing so because executives worried the project would invite regulatory scrutiny, according to a person familiar with the matter. Federal law caps the interchange fees that many big banks can earn on debit transactions, but smaller banks are exempt.

Goldman ran into more hurdles when trying to launch the GM card. Technical glitches delayed the transfer of card balances from Capital One to Goldman, according to people familiar with the matter. Structuring the card's rewards program also took longer than expected, some of the people said. The card went live in January, several months past schedule.

A plan to offer checking accounts is also behind schedule. At the bank's 2020 investor day, executives said they would come in 2021, but the bank turned its focus to other priorities. Goldman now expects to start offering checking accounts later this year.

The consumer bank now has about 14 million customers, more than $100 billion in deposits, and $12 billion in credit card loans on its books. Marcus is now focused on launching its checking product and bringing GreenSky, the specialty lender it bought earlier this year, into the fold. It is also searching for new partnerships -- card and otherwise.

"There are lots of partnership opportunities and lots of people coming to us, given our relationships, our **technology**, et cetera, that are interested in doing things with us," Mr. Solomon told analysts last week.

The launch of checking is key to making Marcus a viable option as a primary bank. Checking also would unlock new business opportunities for Marcus by reaching its customers more often and selling them on other products, like credit cards, Stephanie Cohen, Goldman's global co-head of consumer and wealth management, said in an interview.

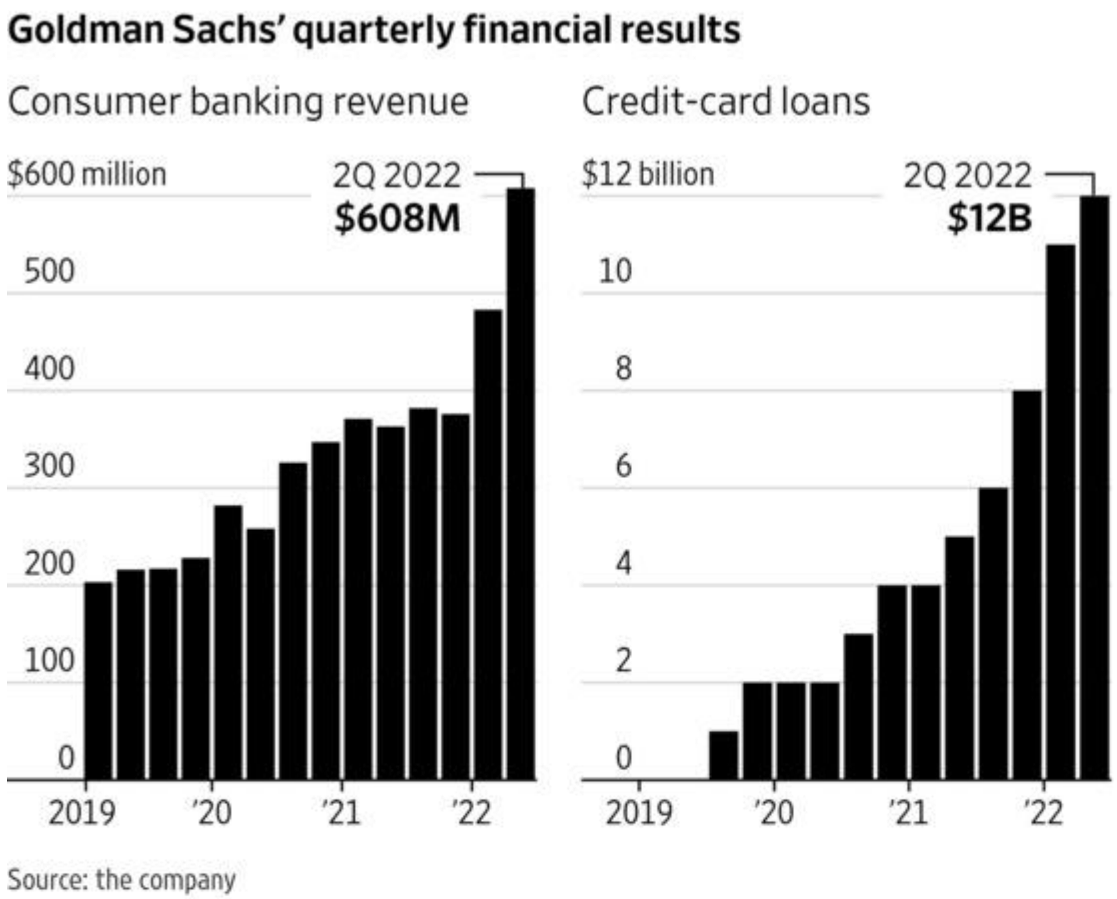
"The seeds needed to reach the $4 billion revenue goal are already planted in the ground," she said.

Revenue at Marcus grew 67% in the second quarter from a year earlier to $608 million. Goldman expects to have $30 billion in card and consumer loan balances and $150 billion in consumer deposits by 2024, up from $16 billion and more than $100 billion, respectively, at the end of June.

It is unclear when, or if, new business lines will be added after checking launches. The bank hasn't announced plans to expand into bigger-ticket consumer products such as mortgage lending or auto finance.

Other challenges loom: Goldman's contract with Apple allows the tech giant to add another issuer before the deal expires, according to a person familiar with the matter. Larger card issuers typically wouldn't agree to such an arrangement, according to people who negotiate co-branded card deals.

Apple recently announced a new **buy**-**now pay**-**later** offering. Goldman is involved in some of the product's back-end functions, but Apple will approve borrowers and fund the loans itself.



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Former Goldman Banker Charged

By James Fanelli and Corinne Ramey
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English

A former Goldman Sachs Group Inc. vice president was charged in an insider-trading scheme in which he allegedly profited by tipping off a close friend to confidential information about coming mergers and acquisitions connected to the bank.

Federal prosecutors accused Brijesh Goel of relaying information from internal Goldman communications about potential takeovers the firm was considering financing. Mr. Goel's friend traded on the tips, typically using a relative's brokerage account to buy call options that would become profitable if the stock price of a company targeted for acquisition rose, according to an indictment.

Mr. Goel was one of nine defendants charged in four unrelated insider-trading cases announced Monday by federal prosecutors in Manhattan. All of the cases involved the alleged use of nonpublic information about mergers and acquisitions. The other defendants included a former congressman, a former FBI trainee and **technology**-company executives.

"We are keenly interested in sending a message that insider trading is still around, we are still around, and we are going to enforce it when we find it," Damian Williams, the U.S. attorney for the Southern District of New York, said at a news conference Monday.

The four schemes collectively resulted in millions of dollars in illegal profits, prosecutors said. The Securities and Exchange Commission, which filed parallel civil charges, said three of the cases originated from an enforcement unit that uses electronic databases to detect suspicious trading patterns.

Prosecutors charged Mr. Goel with securities fraud. They also alleged that Mr. Goel, who left Goldman in 2021, sought to obstruct a grand jury investigation into the scheme by deleting electronic communications between him and the friend.

A lawyer for Mr. Goel didn't respond to a request for comment.

A Goldman spokeswoman said the bank is cooperating with the Justice Department and the SEC.

"The 2017 and 2018 insider trading alleged by the government is egregious and illegal conduct," the spokeswoman said. "The firm condemns such behavior, which violates our standards of conduct and business principles."

Mr. Goel most recently worked at Apollo Global Management Inc. An Apollo spokeswoman said the firm learned of the allegations against Mr. Goel on Monday and immediately placed him on indefinite leave.

Mr. Goel and the friend often discussed confidential information over games of squash, and made about $280,000 illegally, according to the indictment. Prosecutors said the information was used to make trades tied to at least seven deals involving companies including Thermo Fisher Scientific Inc., T-Mobile US Inc. and Walgreens Boots Alliance Inc.

In a separate case, prosecutors charged former Rep. Stephen Buyer, a Republican who represented districts in Indiana from 1993 through 2011, with four counts of securities fraud. While doing consulting work after he left Congress, Mr. Buyer engaged in insider trading in connection with two different mergers, prosecutors said.

In one, Mr. Buyer provided consulting services to T-Mobile, which in 2018 publicly announced it would merge with Sprint Corp. Mr. Buyer learned of confidential information about the merger from a T-Mobile government-affairs executive, according to the indictment. The indictment also said that the unnamed executive and Mr. Buyer spoke on the phone and played golf immediately before the former congressman purchased Sprint stock.

Andrew Goldstein, a lawyer for Mr. Buyer, said his client was innocent. "His stock trades were lawful," Mr. Goldstein said. "He looks forward to being quickly vindicated."

A T-Mobile spokeswoman said the company cooperated with the government's investigation.

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Banks' Buyout Losses Risk Deals

By Laura Cooper
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Investment banks are facing big losses on leveraged buyouts they agreed to finance before markets soured, further chilling the outlook for deal activity.

Bank of America Corp., Credit Suisse Group AG and Goldman Sachs Group Inc. are among the banks that could collectively lose billions of dollars on buyout loans they agreed to provide when demand for the debt was running high.

Lenders generally parcel out leveraged loans to institutional investors such as mutual funds and collateralized loan obligation managers, as well as to other banks. When markets go south before they can do so, lenders risk getting stuck with paper they must discount heavily to move.

Sellers of newly issued buyout debt were receiving an average of 94.8 cents on the dollar as of June 23, down from 99.2 cents at the end of January, according to Leveraged Commentary & Data.

That spells trouble for deals like the take-private of **cloud-computing** company Citrix Systems Inc., the largest private-equity-backed leveraged buyout in the U.S. so far this year. The deal, signed in January before the selloff in stocks and bonds accelerated, is to be funded with about $15 billion worth of debt, some of which is expected to be sold this summer.

Should markets not improve by then, the banks and other lenders in the deal collectively face as much as $1 billion in losses, according to people familiar with the matter.

"Lenders are finding they need to sell debt at a deeper discount than anticipated," said Byung Choi, a partner at Ropes & Gray LLP who helps private-equity firms arrange deal financing.

That is stemming banks' appetite to finance new deals. Leveraged loans have become more expensive and harder to come by for private-equity investors, which have traditionally used the debt as the source of most of the capital to fund their biggest takeovers.

As a result, LBO activity has fallen sharply. About $138 billion worth of the deals have been struck by private-equity firms in the U.S. so far this year, down nearly 20% compared with the same period in 2021, according to data provider Dealogic.

The funding situation has taken a turn from bad to worse in recent weeks.

On Friday, department-store chain Kohl's Corp., which had entered exclusive discussions for a sale to retail holding company Franchise Group Inc., said it had concluded a strategic-review process without a deal. It cited "the current financing and retail environment" as an obstacle to a deal.

Walgreens Boots Alliance Inc. said in late June it decided to keep its Boots and No7 Beauty businesses in the U.K. following a strategic review that failed to produce an adequate offer. The drugstore-chain owner noted "market instability severely impacting financing availability," as a hindrance to a deal.

Banks involved in the syndication of the roughly $2.5 billion take-private of packaging-products maker Intertape Polymer Group Inc. by Clearlake Capital Group LP last month collectively took $30 million or more in losses, according to people familiar with the matter, as some investors shied away from backing an industrial company amid recession fears.

Credit Suisse led the deal for the first-lien buyout loan and banks including Deutsche Bank AG, Goldman, Jefferies Financial Group Inc. and BMO Capital Markets were the joint lead arrangers, according to LCD.

To get deals done, buyout firms are increasingly turning to private-credit providers such as Blue Owl Capital Inc. and Golub Capital rather than banks. These firms don't have to syndicate debt and can provide capital from investment vehicles established to do so. Though usually more expensive than syndicated-leveraged-loan options, private credit generally offers more certainty and stability in pricing.

The roughly $10 billion deal by Permira and Hellman & Friedman LLC to take software company Zendesk Inc. private was buoyed by private-credit providers, according to people familiar with the situation.

The deal came together in June after an initial sale process ended unsuccessfully, with the company saying at the time that bidders were hampered by "adverse market conditions and financing difficulties at the end of the process."

Private credit also supported Thoma Bravo's roughly $10 billion recent purchase of software company Anaplan Inc.

Cara Lombardo contributed to this article.

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