

JPMorgan Quietly Tests 'Blockchain' With 2,200 Clients

Bank is rejiggering its budget to allocate more money to application development, cybersecurity

J.P. Morgan is more broadly cutting costs, shedding staff and shrinking assets to adjust to an environment of leaner profit margins and tougher regulation. ENLARGE

J.P. Morgan is more broadly cutting costs, shedding staff and shrinking assets to adjust to an environment of leaner profit margins and tougher regulation. PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES

By EMILY GLAZER

Updated Feb. 22, 2016 7:04 p.m. ET

0 COMMENTS

J.P. Morgan Chase & Co. is quietly testing technology that underpins the digital currency bitcoin on U.S. dollar transfers between London and Tokyo, part of an effort to boost its spending to deal with emerging threats from Silicon Valley.

The nation's largest bank has been testing the program in recent months to move U.S. dollars for about 2,200 clients between the two financial centers using a version of the "blockchain" technology that underpins bitcoin, said Daniel Pinto, head of J.P. Morgan's corporate and investment bank. The bank wants to see whether the blockchain technology, known as the "distributed ledger," can be repurposed for currency clearing and settlement to give clients faster turnaround times and reduce the bank's risk.

It may start using blockchain for live transactions later this year.

The move is one of several the bank plans to detail Tuesday at its annual daylong presentation to investors. Chairman and Chief Executive James Dimon and his lieutenants will also outline plans to rejigger the bank's budget to allocate more money to application development and financial-technology partnerships, while boosting cybersecurity spending by 20%.

J.P. Morgan and other big banks are dealing with growing threats from online lenders and payment systems, including some that use blockchain or bitcoin. Technology represents a rare instance where the bank is increasing spending. J.P. Morgan is more broadly cutting costs, shedding staff and shrinking assets to adjust to an environment of leaner profit margins and tougher regulation.

[READ MORE](#)

Dimon Up \$2.3 Million on Purchase of J.P. Morgan Shares

Big Banks Start to Embrace Startups (Jan. 3)

Inside J.P. Morgan's Deal With On Deck Capital (Dec. 30)

J.P. Morgan Aims to Cut 5,000 Jobs (May 28)

J.P. Morgan Ramping Up Efforts to Cut Wasteful Expenses (July 8, 2014)

The technology update probably won't do much in the short term to allay concerns investors have about how banks are impacted by slowing global growth, energy-sector damage and persistently low interest rates. So far this year, J.P. Morgan shares are down 11%, compared with a 15% decline in the KBW Nasdaq Bank Index.

Advertisement

Mr. Dimon has been increasingly vocal on technology. Last year, he warned in his annual shareholder letter that "Silicon Valley is coming," with "hundreds of startups with a lot of brains and money working on various alternatives to traditional banking."

Later last year, he said at an investor conference that while bitcoin probably doesn't have much of a future, the blockchain technology that supports it "might very well be very useful" in tracking ownership of some securities and cutting down the time it takes to transfer a loan.

In its new blockchain plan, J.P. Morgan plans to expand its testing to real trades as soon as the third quarter for certain corporate and investment bank clients including some hedge funds, said Sanoke Viswanathan, chief administrative officer at J.P. Morgan's corporate and investment bank. That also requires regulatory approvals, which could take months.

J.P. Morgan is also participating in several industry groups that are focused on developing blockchain as a way to improve efficiency in lending and trading, among other things. Those groups include R3, the nonprofit Linux Foundation and Digital Asset Holdings, which is led by former J.P. Morgan executive Blythe Masters.

Meanwhile, J.P. Morgan plans to increase its overall technology spending to around \$9.4 billion in 2016 from roughly \$9.2 billion last year, while working to allocate about 40% of that budget to new

investments and technologies, up from 30% currently, said Matt Zames, the bank's chief operating officer.

That will include spending on partnerships with emerging companies. The bank did a tie-up last year with online small business lender On Deck Capital Inc. and will look for other such partnerships under a new program that launches in April.

The bank is cutting what it spends on existing technology, including slimming the number of real estate locations where its technology employees work, piloting less expensive server options, and reducing its legacy applications and the number of technology-services vendors, Mr. Zames said.

The bank's new technology spending also focuses on cybersecurity, where J.P. Morgan plans to spend more than \$600 million this year, up from \$500 million in 2015. The bank suffered a cyberattack in 2014 that involved the theft of contact information for about 76 million households. Account information wasn't stolen, the bank has said.

J.P. Morgan's 40,000 technology employees make up about 17% of the bank's head count, led by global chief information officer Dana Deasy. The ranks of developers have grown by about 10% to around 18,500, people familiar with the matter said.

Write to Emily Glazer at emily.glazer@wsj.com