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MARKETSFINANCE

SVB's Collapse Hits the Chinese Startups It Once Wooed

Many Chinese tech companies and venture firms are still trying to get their money out after an interruption in international transfers from the bank



Silicon Valley Bank has a significant international presence.

PHOTO: BRYAN BANDUCCI FOR THE WALL STREET JOURNAL

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The sudden collapse of Silicon Valley Bank sparked acute anxiety among startups around the world. It was particularly problematic for firms in China that had put all their eggs in one basket after being courted by the California-based lender earlier on.

Even after the Federal Deposit Insurance Corp. stepped in to backstop all of Silicon Valley Bank's deposits, some Chinese startups, venture-capital and private-equity firms ran into hurdles trying to move their money out of the failed lender. Many had multiple accounts with SVB SIVB -60.41% ▼, which was the only U.S. bank some Chinese customers used for their dollar deposits and transactions.

SVB earlier this week notified clients that it had suspended international wire transfers, leaving firms without alternative U.S. bank accounts scrambling to

find ways to withdraw their funds. SVB's clients in China that were used to dealing with its Beijing-based representatives were also told that all customer-service issues would be handled by its California headquarters. Carolyn Chen, the head of SVB's China business, was let go last Friday when SVB fell into U.S. government receivership, according to people familiar with the matter. She couldn't be reached for comment.

Some international customers are just now starting to be able to move their money out. When the bank run unfolded during U.S. hours on March 9, Chinese clients were asleep. By the time many of them woke up, it was too late. Withdrawals had been shut down.

SVB routinely gets characterized as a regional bank. But it has a significant international presence that it nurtured from its early days as it sought growth.

A fifth of the bank's more than 8,500-plus employees as at the end of 2022 were outside the U.S., according to its annual report. It had \$13.9 billion in foreign deposits, which it said weren't subject to any federal or state insurance regime.

China was a special focus. The lender saw a big opportunity in China's startup and venture-funding boom. It first established a presence in the country in 1999, and subsequently added an office in Beijing to provide local technology firms and venture-capital investors with client support and advisory services, according to its website.



A 2009 opening ceremony for an SVB representative office in Shanghai.

PHOTO: ZHU LAN/IMAGINECHINA/ZUMA PRESS

In 2012, SVB formed a 50:50 joint venture with state-owned Shanghai Pudong Development Bank to provide banking services within the country. The venture, SPD Silicon Valley Bank, has three branches and is run as a separate entity with its own balance sheet and customers. It said over the weekend that it was operating normally and in accordance with Chinese regulations.

Startups in China found it a lot easier to get their money into SVB in the U.S. compared with recent attempts to get it out. Many of them needed U.S. bank accounts for transactions that included fundraising from international investors and capital deployment.

One of SVB's top selling points in China was its ability to open U.S. checking accounts for customers in just one to two weeks, said people familiar with the process. For some big banks, account openings for foreign companies take much longer. SVB also won customers over with its responsive client-service representatives that included people on the ground in China.

“The reason why Chinese startups use Silicon Valley Bank is the same reason why U.S. startups use them,” said Linghao Bao, a China tech analyst at Trivium China, a consulting firm. SVB was known to provide good service for firms in the venture-capital industry, and was the biggest player in this space, he added. It catered to many fledgling businesses that were shunned by bigger banks.

Shanghai Pudong Development Bank formed a joint venture with SVB to provide banking services within China.

PHOTO: QILAI SHEN/BLOOMBERG NEWS

SVB, which doesn't have its own banking license in China, serviced clients in the country via U.S. toll-free hotlines and web mails. All its transactions were processed online. For large transactions or funding projects, client-relations managers would pay in-person visits to businesses in the country.

"We have been clients of SVB for a long time and feel sorry because they were really good to small businesses," said Cathy Zhang, the Beijing-based chief operating officer of Simo Holdings Inc., a mobile internet network provider.

Ms. Zhang said SVB was "very flexible" and "very generous." She said that in her previous job at a Chinese travel website, representatives of the U.S. bank and SPD Silicon Valley Bank would visit her company together to pitch their services. "They would come to you and chat about your business model, your profitability analysis, and your market potential," she added.

Her current employer, Simo, once obtained venture debt from SVB that wasn't backed by hard assets, she said. It was a departure from the typical requirements of other commercial banks.

Simo has accounts at other U.S. banks, as well as in other countries. By Thursday morning Hong Kong time, Ms. Zhang said SVB had processed a few transactions for the company from its U.S. account to a Canadian bank account. Other international transfers were still on hold.

Some Chinese investment firms are trying to set up international accounts at other banks while waiting for SVB to free up their funds. "We don't really know what a U.S. receivership is going to look like for a firm like ours, and we are still trying to transfer our money out," said a partner at a medium-size Chinese private-equity firm.

—*Elaine Yu and Raffaele Huang contributed to this article.*

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