

Analysis of JPMorgan Chase Racial Equity Audit Report

About the Author

The SOC Investment Group holds corporations and their leadership accountable for irresponsible and unethical corporate behavior and excessive executive pay, reflecting the long-term interests of workers and their families invested in union pension funds. The SOC Investment Group supports regulatory and shareholder initiatives to ensure independent and accountable directors, reasonable executive compensation practices, and sound environmental, human capital and other business policies.

Executive Summary

This analysis reviews the racial equity audit report stemming from a shareholder proposal submitted to JPMorgan Chase (JPM) by the SOC Investment Group in 2021. JPM selected PriceWaterhouseCoopers (PWC) as its independent racial equity auditor. We believe that JPM and PWC approached this process with the narrow perspective of a financial audit, governed by the standards set forth by the American Institute of Certified Public Accountants. Based on the report, JPM and PWC appear to have a basic misunderstanding of what a racial equity audit is and should be, despite being provided highly instructive samples from other prior civil rights audits conducted by Starbucks, Airbnb, and Facebook. The specific concerns outlined below underscore the problem of relying on a financial auditor with no obvious experience or expertise in the areas of civil rights and racial equity.

Background

In November 2020, the SOC Investment Group filed a “racial equity audit” shareholder proposal at JPMorgan Chase (JPM) requesting that the board oversee a racial equity audit analyzing the impact of the company’s policies, practices, and products on communities of color.¹ The proposal received 40.5% support from JPM’s shareholders in May 2021,² and we refiled our proposal for an equity audit for the 2022 proxy season. In March 2022, JPM approached us with a request to settle the refiling and we agreed to withdraw the proposal based on a private withdrawal agreement.³ JPM selected PricewaterhouseCoopers (PWC) as the auditor. PWC completed the audit of JPM’s \$30 billion Racial Equity Commitment (REC), and a public report was released on November 22, 2022.⁴ While we value JPM’s decision to agree to conduct a third-party racial equity audit, upon review of the report, we believe that there are several deficiencies and concerns associated with the audit process and the related disclosures. Our concerns are discussed below.

Report Author

- JPM authored the report on the REC itself, rather than publication by the third-party auditor. In other instances of a civil rights or racial equity audit report, like Facebook,⁵ Airbnb and its related updates,⁶ and all three Starbucks reports,⁷ the report was authored by the auditor itself, reflecting a degree of independence from the company. The civil rights auditor typically also provided a forward or introduction to the reader which contained valuable information regarding the methodology of the audit and experience working with company on the audit.

Auditor Selection and Experience

- The auditor is listed as PWC, according to the “Third Party Attestation,”⁸ but the report does not disclose who the lead audit partner is, nor the relevant experience of the auditors in civil rights and racial equity issues. Based on a review of PWC’s staff, it is unclear to us whether any of PWC’s staff has core competency in civil rights or racial equity related issues.

- PWC performed an attestation examination in accordance with the standards set forth by the American Institute of Certified Public Accountants.⁹ These standards do not take into account racial equity related impacts that JPM’s practices may have, which was a central request in the proposal.
 - In fact, the Third-Party Attestation confirms this deficiency, stating that PWC’s opinion does not “cover or provide assurance on whether or not JPMorgan Chase is achieving its commitment to advance economic growth and opportunity for Black, Hispanic, and Latino communities.”¹⁰ The auditor appears to be unable to certify that JPM’s commitment is being effectuated.
- It should also be noted that PWC has been JPM’s independent auditor since 1965 (57 years),¹¹ making it questionable that PWC is in fact truly independent and objective. In 2021, JPM paid PWC \$94,500,000 in total fees (including financial audit and non-financial audit related).¹²

Auditor Recommendations

- The auditor’s recommendations, if any, are not provided in the report, nor does it say if JPM adopted any recommendations. Instead, the report focuses on a “What We’ve Learned” section that does not identify what *changes*, if any, were made because of the auditor’s suggestions. The report states that “*in preparation* for the third-party attestation examination, [JPM] made several enhancements to the REC” (emphasis added), suggesting changes were made prior to PWC’s evaluation. This is an illustration of why the report should be published directly by the auditor, along with any response by the company.¹³

Transparency

- Management asserts that progress was tracked in new dollars and units,¹⁴ which suggests that some portion of the \$30 billion commitment was existing loans, programs, etc. that were assigned into the \$30 billion commitment. JPM’s original REC announcement and the subsequent updates do not appear to clarify that any portion of the commitment was related to existing programs and funding.

- Based on further calculations discussed in “White Wall,” by *New York Times* reporter Emily Flitter, \$28 billion of the \$30 billion commitment “was made up of activities that were part of the bank’s normal business and were now being counted as specifically good for closing the racial wealth gap. \$750 million of it went to straightforward business expenses.”¹⁵
- By way of example, under its “Increasing Home Ownership (Home Lending)” section, management asserts that most of the loans that make up JPM’s plan to increase homeownership in Black, Hispanic, and/or Latino communities are refinancings. No clarification is given as to whether these refinancings related to loans originated by JPM or if these loans are considered “new” to JPM’s books.¹⁶
- JPM claims to have a commitment to transparency,¹⁷ yet the audit report does not list which stakeholders were spoken to and if they were spoken to by the auditor or by JPM directly. Nor does it discuss which, if any, civil rights experts were consulted given PWC’s apparent lack of civil rights experience, what level of access to information these experts may have had, or if these experts had a preexisting relationship with JPM.
- While the report notes that the process was overseen by the Public Responsibility Committee, it does not articulate how frequently the Committee received updates and whether the auditor itself presented its findings to the Committee.

Scope

- Per JPM’s announcement, the audit was intended to cover JPM “\$30 billion, 5-year Racial Equity Commitment.”¹⁸ No explanation is given as to how PWC determined which topics it would evaluate within the \$30 billion commitment.
- The report fails to look at any internal diversity, equity, and inclusions issues, which clearly falls in scope of the \$30 billion dollars. No explanation is given as to why it was excluded, other than the fact the company publishes certain statistics,¹⁹ the disclosure of which does not address the effectiveness of the REC’s DEI component.

Endnotes

- 1 JPMorgan Chase, 2021 Proxy Statement, *available at* <https://www.sec.gov/Archives/edgar/data/19617/000001961721000275/a2021proxystatement.htm>, p. 101.
- 2 Proxy Insight Vote Results Database.
- 3 JPMorgan Chase, Press Release, March 24, 2022, *available at* <https://www.jpmorganchase.com/ir/news/2022/jpmc-engages-third-party-for-racial-equity-audit>.
- 4 JPMorgan Chase, *2022 Racial Equity Commitment Audit Report*, November 22, 2022, *available at* <https://www.jpmorganchase.com/content/dam/jpmc/jpmorganchase-and-co/documents/2022-Racial-Equity-Commitment-Audit-Report.pdf>.
- 5 Laura W. Murphy and Megan Cacace, Civil Rights Audit Report, July 8, 2020, *available at* <https://about.fb.com/wp-content/uploads/2020/07/Civil-Rights-Audit-Final-Report.pdf>.
- 6 Laura W. Murphy, *Airbnb’s Work to Fight Discrimination and Build Inclusion*, September 8, 2016, *available at* https://blog.airbnb.com/wp-content/uploads/2016/09/REPORT_Airbnbs-Work-to-Fight-Discrimination-and-Build-Inclusion.pdf.
Laura W. Murphy, *Three Year Review – Airbnb’s Work to Fight Discrimination and Build Inclusion*, September 10, 2019, *available at* https://news.airbnb.com/wp-content/uploads/sites/4/2020/07/Airbnb_Work-to-Fight-Discrimination_0331.pdf.
Laura W. Murphy, *A Six Year Update on Airbnb’s Work to Fight Discrimination and Build Inclusion*, December 13, 2022, *available at* <https://news.airbnb.com/wp-content/uploads/sites/4/2022/12/A-Six-Year-Update-on-Airbnbs-Work-to-Fight-Discrimination-and-Build-Inclusion-12122022.pdf>.
- 7 Covington & Burling LLP, *A Report to Starbucks: An Examination of Starbucks Commitment to Civil Rights, Equity, Diversity and Inclusion*, January 23, 2019, *available at* <https://stories.starbucks.com/uploads/2019/01/Covington-Report-to-Starbucks-Jan-23-2019.pdf>.
Covington & Burling LLP, *A Report to Starbucks: On the Progress of Its Efforts to Promote Civil Rights, Equity and Diversity*, February 24, 2020, *available at* <https://stories.starbucks.com/uploads/2020/02/Starbucks-Civil-Rights-Assessment-2020-Update.pdf>.

Endnotes (continued)

Covington & Burling LLP, *A Report to Starbucks: On the Progress of Its Efforts to Promote Civil Rights, Equity and Diversity*, March 31, 2021, available at <https://stories.starbucks.com/uploads/2021/03/Starbucks-2021-Civil-Rights-Assessment.pdf>.

8 *JPM 2022 Racial Equity Commitment Audit Report*, p. 21.

9 *Id.*, p. 3.

10 *Id.*, p. 21.

11 JPMorgan Chase, ISS Report, 2022.

12 JPMorgan Chase, 2022 Proxy Statement, <https://www.sec.gov/Archives/edgar/data/19617/000001961722000303/a2022proxystatement.htm>, p. 98.

13 *JPM 2022 Racial Equity Commitment Audit Report*, p. 4.

14 *Id.*, p. 8.

15 Emily Flitter, *White Wall* (2022), p. 261.

16 *JPM 2022 Racial Equity Commitment Audit Report*, p. 11.

17 *Id.*, p. 6.

18 JPMorgan Chase March 24, 2022 Press Release.

19 *JPM 2022 Racial Equity Commitment Audit Report*, p. 4.