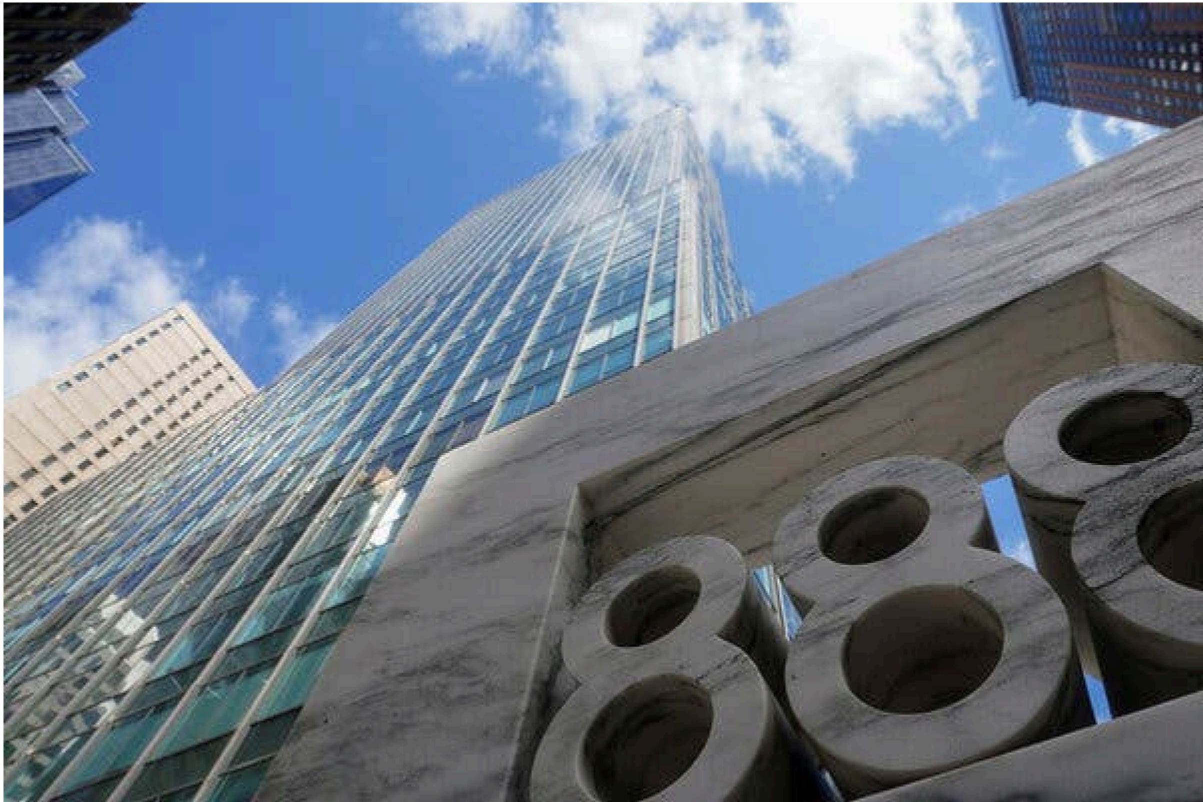
The New York Times

Archegos Left a Sparse Paper Trail for a $10 Billion Firm

In its eight-year history, the family office that managed the fortune of Bill Hwang never publicly disclosed any stock ownership. Securities lawyers said that was highly unusual.



Archegos Capital Management had offices on the same floor as its owner's charitable foundation.Credit...Carlo Allegri/Reuters

By **Matthew Goldstein**
April 12, 2021

Archegos Capital Management, the $10 billion firm that collapsed spectacularly last month, never publicly disclosed any stock investments. Even for a firm whose structure and strategy came with fewer regulatory requirements, that was a remarkable achievement.

Money managers with $100 million or more in stocks are generally required to declare what securities they are invested in every quarter. But Archegos, a so-called family office that managed the fortune of the former hedge fund manager Bill Hwang, did not publicly file such a document — called a 13F — in its eight-year history.

The lack of a paper trail is uncommon for a firm with so much money, according to securities experts. **Thomas Handler**, a lawyer in Chicago whose firm does work for more than 300 family offices, said it was highly unusual for such a large firm to have never filed a 13F. Much smaller family offices routinely make such reports, he said.

“It is time consuming, but they do it because no one wants to run afoul of the S.E.C.,” **Mr. Handler** said.

A representative for Mr. Hwang declined to comment.

Archegos stayed largely under the radar until it fell apart last month. As a family office — a firm generally created to handle the investments of a single wealthy person and a small circle around them — it did not have to register as an investment adviser with the S.E.C., because it did not manage money for outsiders. Also, the firm frequently employed a kind of derivative — called a swap — that allowed it to invest heavily in the stocks of certain companies, including ViacomCBS, without owning the shares itself.

But Archegos invested substantial sums in plain vanilla stocks, according to a person briefed on Mr. Hwang’s portfolio and tax filings made by the Grace and Mercy Foundation, the charity Mr. Hwang founded and supported with some of his vast wealth.

When it came apart last month, Archegos had more than $100 million in stock holdings, said the person, who spoke on the condition of anonymity because they were not authorized to speak publicly.

Archegos managed the fortune of the former hedge fund manager Bill Hwang.Credit...Emile Wamsteker/Bloomberg

Mr. Hwang also owned substantial amounts of stock — in companies including Netflix, Amazon, Facebook and Expedia — in prior years, according to tax documents filed by the Grace and Mercy Foundation. In 2017, for example, Mr. Hwang donated nearly a million shares of Netflix, valued at $173 million, to the foundation, which is focused on giving to Christian charities. The same year, he donated 101,000 shares of Amazon with a market value of $119 million. In 2016, Mr. Hwang donated shares of four companies worth $155 million.

Lawyers and securities experts said a multibillion-dollar family office like Archegos could avoid making 13F disclosures, but it would require threading a needle: The firm could have managed money for only Mr. Hwang and his spouse — not other family members, fund employees or his charity, which operated on the same floor of a Midtown Manhattan office building. The firm could also have been able to skip filing a 13F if it sold off enough stocks to fall below the $100 million threshold before the end of each quarter. It also could have requested confidential treatment from the S.E.C. to keep such disclosures private, lawyers and experts said.

Archegos was set up to make filings to the S.E.C. — it had its own Central Index Key number — but a search for documents returns no results.

The S.E.C. has opened an informal inquiry into Archegos and the spillover effects of its collapse, which caused billions of dollars in losses at banks around the globe. Regulators have declined to comment on the investigation.

Senator Sherrod Brown, chairman of the Senate Banking Committee, sent letters to the half-dozen banks that did business with Archegos — including Credit Suisse, Goldman Sachs and Morgan Stanley — seeking information about their dealings with Mr. Hwang's firm. That includes information about any transactions that "would be subject to regulatory reporting with the S.E.C."

The rules for 13F filings apply to "registered investment advisers and exempt reporting advisers that manage accounts on behalf of others, including advisers to separately managed accounts, private funds, mutual funds, and pension plans." They must file if they have "discretion" over $100 million or more in securities at the end of a quarter.

Nicolas Morgan, a former S.E.C. lawyer, said a family office could get around the stock reporting requirement in only rare circumstances. It "would be outside the norm" to not file a 13F, said Mr. Morgan, a partner in the white-collar defense practice at Paul Hastings.

After the failure of Archegos, Americans for Financial Reform, an advocacy group, sent a letter to the S.E.C. calling for a review of 13F filings and whether gaps in the disclosure process created the registration exemption for family offices, which control roughly $6 trillion in assets, according to Campden Wealth, which provides research and networking opportunities to wealthy families.

Dennis M. Kelleher, chief executive of Better Markets, a Wall Street watchdog, said it should be a relatively simple matter for the S.E.C. to determine if Archegos had significant stock positions but failed to file 13Fs.

But the S.E.C. has never been especially aggressive in going after money managers for failing to file 13Fs. In 2010, the inspector general for the S.E.C. issued a report faulting the securities regulator for lax oversight of the filing requirement. And last year the S.E.C. proposed raising the filing requirement to firms that manage more than $3.5 billion in securities.

The S.E.C. might have been in a better position to discover the big derivatives trades put on by Archegos if it had moved faster in enacting a swaps disclosure requirement that was part of the Dodd-Frank financial reform law of a decade ago. That rule is supposed to go into effect this fall.

Matthew Goldstein covers Wall Street and white collar crime and housing issues. @mattgoldstein26