Alexandria Ocasio-Cortez wants new rules for family offices. Here's how the secretive $6 trillion industry is trying to counter.

Hayley Cuccinello, Premium

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Rep. Alexandria Ocasio-Cortez is coming for America's rich.

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- **Rep. Alexandria Ocasio-Cortez of New York wants to require family offices to register with the SEC.**
- **Her bill is inspired by the Archegos blowup, which led to billions of dollars in losses for banks.**
- **Industry insiders argue the bill would not prevent**

another Archegos and unfairly targets the rich.

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The implosion of Archegos in March brought unwelcome scrutiny to the secretive world of family offices. For months, the industry, which oversees nearly **$6 trillion** in assets globally, has been concerned that the blowup would lead to government regulation, and now it may happen.

Rep. Alexandria Ocasio-Cortez of New York has set her sights on making the opaque and private but quickly professionalizing industry more transparent.

In late July, the Democrat introduced **HR 4620,** the Family Office Regulation Act of 2021, which would require any family office with more than $750 million in assets to register with the Securities and Exchange Commission. Family offices that are under that threshold but are highly leveraged or engage in "high-risk activities" could be required to register with the SEC as well.

Family-office insiders and lawyers told Insider that Ocasio-Cortez's bill unfairly targeted family offices, arguing that Archegos acted like a hedge fund more than a family office. More important, they believe this bill would not prevent another Archegos situation from happening.

Archegos was founded by the former hedge-fund manager Bill Hwang. He amassed large amounts of leverage by using total return swaps, which give investors economic exposure to stocks without directly owning them. When the bets went sideways, they led to **$10 billion in losses for several banks, hitting Credit Suisse the hardest**.

"Family offices have now grown to the point that they are deeply interconnected with the rest of the financial system, and their actions could affect the stability of our financial markets," Ocasio-Cortez **said** when introducing the bill to the House Financial Services Committee. "If we want to prevent systemic risk, I believe it is eminently reasonable that family offices that hold almost $1 billion in assets simply register with the SEC."

A **2020 survey** by Silicon Valley Bank and Campden Wealth found that single-family offices managed an average of $797 million in assets, though benchmark studies vary widely.

A staffer for Ocasio-Cortez did not respond to Insider in time for publication.

Family-office insiders argue the bill misses the mark

Archegos was able to amass tremendous amounts of leverage and avoid most disclosure requirements not by virtue of its position as a family office but because it did not directly own the stock. All market participants, including family offices, with investment portfolios of more than $100 million in listed securities are required to file quarterly 13F forms that disclose their positions.

"To regulate that behavior, perhaps an appropriate change would be broadening the requirements of 13F filings to include derivatives, structured products, and other off-the-balance-sheet-type transactions," the lawyer Tom Handler told Insider. "Instead this committee is using a howitzer to kill a mosquito."

Handler concedes the bill could alert the SEC to Archegos-esque trading for larger family offices. That said, smaller family offices could slip under the radar, and it would require active and sophisticated monitoring by the SEC.

Another lawyer, Elise McGee, is most concerned about the provision that the SEC can require family offices under the asset threshold to register if they are highly leveraged or engage in "high-risk activities," neither of which are defined.

"Is there a scenario where an office could fit within the 'bad actor' category based on someone unilaterally deciding that I do and that would suck me into regulation?" McGee, a partner at McDermott Will & Emery, told Insider.

The family-office community is prepared to fight back

Since the Archegos disaster, the Private Investor Coalition, 60-member community of ultrawealthy families, has been talking to Congress and regulators, arguing that it was an aberration that didn't warrant further regulation. The coalition was formed in 2009 to lobby Congress on the sweeping Dodd-Frank Wall Street Reform and Consumer Protection Act in the wake of the financial crisis.

The group contends that the bill unfairly targets family offices, according to the general counsel of a New York family office familiar with the coalition, who requested anonymity to discuss industry regulation.

"It's all political theater," the lawyer said. "When you start talking about systemic risk and the loss of billions of dollars, the future of Credit Suisse was never in question. Archegos presented zero systemic risks to anyone."

The bill is unnecessary, the lawyer argued, because starting later this year total return swaps are set to be disclosed to the SEC as part of amendments to the Dodd-Frank Act. He also argued that the bill singled out family offices by, for instance, preventing them from hiring people who are subject to final orders for fraud, manipulation, or deceit. The requirement would not apply to other market participants, the source said.

"If there's a desire to get financial bad actors out of the securities marketplace, make it apply to everybody," he said.

The coalition has proposed compromises including a notice filing for the family-office exemption, which would give the SEC a list of family offices, as well as allowing the SEC to ask family offices for additional information on trading activities. The lawyer said neither had been well-received.

The Private Investor Coalition is open to more transparency with regulators, but not the public. "There's a prurient interest in what rich people do and have and what they invest in," he said. "It's really nobody's business."

The bill shows the Archegos fallout is far from over

The bill has been adopted by the House Financial Services Committee, which includes Ocasio-Cortez. Handler and McGee agreed it was likely to pass in the House but not in the Senate given the narrow Democratic majority.

But even if this bill does not pass in the Senate, troubles aren't over for family offices. After Archegos, the SEC identified family offices as a key regulatory priority for the year, but it has yet to do anything. If this bill passes with widespread support in the House, however, the SEC is likely to take notice and could respond, the New York general counsel said.

Banks survived the fallout from Archegos, but the damage has already been done to the family-office industry's reputation with the public and politicians.

"I suspect that this is going to be a recurring topic," she said. "So even if it doesn't pass, there will be some version of this bill that gets reintroduced going forward."