

# Case 4: Archegos Capital Management

## Module 4: How Do We Measure and Manage Risk?

### Background

A family office is a private investment firm that manages the wealth of a single wealthy family. Unlike hedge funds, which raise capital from outside investors and must register with financial regulators, family offices in the United States are exempt from reporting requirements under the Dodd-Frank Act (2010). They do not file positions with the SEC, do not disclose their holdings publicly, and face no leverage limits. The rationale for this exemption is that family offices invest only their own money and therefore do not pose risks to outside investors.

Archegos Capital Management was the family office of Bill Hwang, a former hedge fund manager. Hwang had previously run Tiger Asia Management, a hedge fund that pleaded guilty to wire fraud and insider trading charges in 2012, paying USD 44 million in penalties. After Tiger Asia's closure, Hwang converted his remaining capital – estimated at approximately USD 200 million – into a family office. Despite his fraud conviction, multiple prime brokers (the divisions of investment banks that provide trading services to large clients) accepted Archegos as a client.

By early 2021, Archegos had built a portfolio with a notional exposure of approximately USD 36 billion from an estimated capital base of USD 10 billion. This was achieved through two mechanisms: extreme leverage and a specific type of derivative called a total return swap (TRS). A TRS allows an investor to gain the economic exposure of owning a stock (receiving all gains and losses) without actually purchasing the shares. The prime broker buys the shares and the swap client pays a fee for the exposure. Critically, because the client never owns the shares, their position does not appear in any public filing. This made Archegos's enormous concentrated bets invisible to regulators and to the other banks serving the same client.

### What Happened

Archegos concentrated its leveraged positions in a small number of stocks, including ViacomCBS, Discovery Inc., Baidu, and several other media and technology companies. Hwang's strategy was essentially a massive directional bet: if these stocks rose, the leveraged gains would be enormous. If they fell, the losses would be equally extreme.

On March 22, 2021, ViacomCBS announced a new stock offering to raise capital. Stock offerings dilute existing shareholders and typically push prices down. ViacomCBS shares dropped approximately 9% that day. For Archegos, which held billions in leveraged ViacomCBS exposure, this triggered margin calls – demands from its prime brokers to deposit additional cash to cover the declining value of the positions.

Archegos could not meet the margin calls. On March 26, 2021, Goldman Sachs and Morgan Stanley began liquidating their Archegos-related positions in large pre-market block trades, selling approximately USD 19 billion in shares over two days. The selling itself drove prices down further, creating a cascading effect.

Banks that moved quickly limited their losses. Goldman Sachs lost approximately USD 300 million. Banks that hesitated were devastated. Credit Suisse, which had the largest Archegos exposure, lost approximately USD 5.5 billion. Nomura lost approximately USD 2.9 billion. In total, prime brokers lost more than USD 10 billion. Several of the affected stocks lost 50% or more of their value in days, harming other shareholders who had no connection to Archegos.

No single bank knew Archegos's total exposure because each bank only saw its own swap positions with the client. Archegos maintained relationships with at least six prime brokers simultaneously, and the total return swap structure meant no public filings were required. The risk was invisible and unmeasured – the exact failure described in M4L1 (Measuring Market Risk).

### The Analysis

Archegos is a textbook case of concentrated risk amplified by leverage and obscured by derivative structures. Each element – concentration, leverage, opacity – is dangerous on its own. Combined, they produced systemic consequences from a single family office that most people had never heard of.

The risk management failures occurred at multiple levels. At the firm level, Archegos violated basic diversification principles by concentrating in a handful of correlated positions. At the prime broker level, Credit Suisse's internal risk alerts flagged Archegos as a concern multiple times in the months before the collapse, but the warnings were overridden because the trading relationship was profitable. At the regulatory level, the family office exemption created a blind spot: no regulator had visibility into Archegos's total exposure across all its bank relationships.

The total return swap structure deserves particular attention from a risk measurement perspective (M4L1, M4L2). Because Archegos never owned the underlying shares, standard disclosure rules did not apply. A hedge fund with the same positions would have been required to file 13F reports with the SEC, making the concentration visible. The swap structure achieved economic equivalence with share ownership while evading the disclosure regime designed to make such positions transparent.

After Archegos, the SEC proposed new rules requiring large swap holders to report their positions, effectively closing the disclosure gap. Credit Suisse commissioned an independent investigation (the Paul Weiss report) that documented a pattern of risk management failures including ignored alerts, inadequate stress testing, and a culture that prioritised revenue over risk controls. Credit Suisse's Archegos losses contributed to the bank's broader decline and its eventual forced acquisition by UBS in March 2023.

### Discussion Questions

1. Using M4L1 (Measuring Market Risk), explain how Value-at-Risk (VaR) models might have underestimated Archegos's risk due to the concentrated, illiquid nature of its positions.
2. Credit Suisse's internal risk systems flagged Archegos multiple times before the collapse, but the warnings were overridden. What does this reveal about the gap between risk measurement and risk governance, as discussed in M4L3 (Institutional Risk)?
3. Total return swaps allowed Archegos to build USD 36 billion in exposure without public disclosure. Connect this to the derivatives concepts in M4L2 (Derivatives and Options) and discuss whether regulators should require swap positions to be reported like stock holdings.
4. If you were the chief risk officer at one of Archegos's prime brokers in February 2021, what specific actions would you have taken upon learning that a client with a fraud conviction held highly concentrated, leveraged positions?
5. Could a similar blowup happen today with a different type of derivative or in a different asset class (e.g., cryptocurrency perpetual futures)?

### Further Reading

- Paul, Weiss, Rifkind, Wharton & Garrison LLP (2021). *Archegos Capital Management: Report to the Board of Directors of Credit Suisse Group AG*. July 29, 2021.
- US Senate Committee on Banking (2022). *Hearing on the Archegos Capital Management Collapse*. Testimony and staff report.
- Michaels, D. and Baer, J. (2021). "The Archegos Blowup: How Bill Hwang's Giant Bets Shook Wall Street." *The Wall Street Journal*, April 2, 2021.