Press Release

SEC Charges Archegos and its Founder with Massive Market Manipulation Scheme

Multiple Archegos Executives Charged with Misleading Counterparties

FOR IMMEDIATE RELEASE
2022-70

Washington D.C., April 27, 2022 — The Securities and Exchange Commission today charged Sung Kook (Bill) Hwang, the owner of family office Archegos Capital Management, LP (Archegos), with orchestrating a fraudulent scheme that resulted in billions of dollars in losses. The SEC also charged Archegos's Chief Financial Officer, Patrick Halligan; head trader, William Tomita; and Chief Risk Officer, Scott Becker for their roles in the fraudulent scheme.

The SEC's complaint alleges that, from at least March 2020 to March 2021, Hwang purchased on margin billions of dollars of total return swaps. These security-based swaps allow investors to take on huge positions in equity securities of companies by posting limited funds up front. As alleged, Hwang frequently entered into certain of these swaps without any economic purpose other than to artificially and dramatically drive up the prices of the various companies' securities, which induced other investors to purchase those securities at inflated prices. As a result of Hwang's trading, Archegos allegedly underwent a period of rapid growth, increasing in value from approximately $1.5 billion with $10 billion in exposure in March 2020 to a value of more than $36 billion with $160 billion in exposure at its peak in March 2021.

The complaint also alleges that, as part of the scheme, Archegos repeatedly and deliberately misled many of Archegos's counterparties about Archegos's exposure, concentration and liquidity, in order to get increased trading capacity so that Archegos could continue buying swaps in its most concentrated positions, thereby driving up the price of those stocks. Ultimately in March 2021, price declines in Archegos's most concentrated positions allegedly triggered significant margin calls that Archegos was unable to meet, and Archegos's subsequent default and collapse resulted in billions of dollars in credit losses among Archegos's counterparties.

"Today, we charged Archegos Capital Management and affiliated individuals with committing fraud and manipulating stock prices using total return swaps. The collapse of Archegos last spring demonstrated how activities by one firm can have far-reaching implications for investors and market participants. I thank the SEC staff for taking swift action to hold these actors responsible for their alleged misconduct, which hurt investors across our capital markets," said SEC Chair Gary Gensler. "The failure of Archegos underscores the importance of our ongoing work to update the security-based swaps market to enhance the investor protections, integrity, and transparency of this market. Further, I encourage prime brokers and other market participants to remain vigilant to the risks presented by counterparty relationships."

"We allege that Hwang and Archegos propped up a $36 billion house of cards by engaging in a constant cycle of manipulative trading, lying to banks to obtain additional capacity, and then using that capacity to engage in still more manipulative trading," said Gurbir S. Grewal, Director of the SEC's Division of Enforcement. "But the house of

cards could only be sustained if that cycle of deceptive trading, lies and buying power continued uninterrupted, and once Archegos's buying power was exhausted and stock prices fell, the entire structure collapsed, allegedly leaving Archegos's counterparties billions in trading losses."

The SEC's complaint, filed in federal district court in Manhattan, charges Hwang and the other defendants with violating antifraud and other provisions of the federal securities laws. The complaint seeks permanent injunctive relief, return of allegedly ill-gotten gains, and civil penalties. The SEC also seeks to bar individual defendants from serving as a public company officer and director.

In parallel actions, the U.S. Attorney's Office for the Southern District of New York today announced criminal charges for similar conduct, and the Commodity Futures Trading Commission (CFTC) announced civil charges.

The SEC's ongoing investigation is being conducted by David Zetlin-Jones and Brian Fitzpatrick of the Asset Management Unit and Joshua Brodsky of the Complex Financial Instruments Unit, with assistance from Stephen Johnson of the New York Regional Office. It is being supervised by Andrew Dean and Dabney O'Riordan of the Asset Management Unit and Osman Nawaz of the Complex Financial Instruments Unit. The litigation will be led by Mr. Zetlin-Jones and Jack Kaufman. Additional assistance to the investigation was provided by Dennis Hamilton and Adam Yonce of the SEC's Division of Economic and Risk Analysis. The SEC acknowledges the assistance and cooperation of the U.S. Attorney's Office for the Southern District of New York, the FBI, and the CFTC.

###

Related Materials

- SEC Complaint