Speech

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These transactions were highly leveraged via TRS margining, and gross exposures were in the tens of billions of US dollars.

So when Archegos failed to meet margin calls, this triggered a multi-billion dollar sell-off and extremely large losses at prime brokers. This episode raised a large number of issues, but today I want to mention just two areas of regulatory interest.

Now to be clear, we do not have a direct regulatory handle on Archegos itself, which is a single family office. But we—and our international counterparts—do regulate the prime brokers which had Archegos as a client. So an obvious place for us to begin is with the role of prime services and equity derivatives.

The starting point is that in Hong Kong we had already made clear our expectation that our licensed firms to properly manage their risks[2]. The firms involved were all global and have global frameworks in place to monitor margin financing activities.

A key aspect of internal risk management is to ensure that appropriate margin is obtained at the outset, and clients' financial positions and margin profiles are monitored throughout the life of a TRS.

Proper attention must also be given to the need to collect additional margin based on changes to the counterparty's credit quality and underlying exposures. We have also communicated our expectation that firms have established procedures for stress testing and conduct tests regularly.

Concentration risk also seems to have been a major factor. Archegos built up huge positions