

Wealthy with family offices ‘terrified’ by snare in financial reform bill

By Hilary Johnson

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Add single-family offices to the list of stakeholders concerned about the financial regulatory reform legislation being debated in Washington.

Wealthy families who have their own family offices are “terrified,” say some industry experts, that they’ll be snared by one section of the Senate bill that could force them to register as investment advisers.

Currently, the Investment Advisers Act of 1940 exempts such offices from registration because of their small size. But Section 409 of the Senate’s financial reform bill would give the Securities and Exchange Commission authority to decide what is — and what is not — a family.

The commission seems likely to follow guidelines related to direct lineage from a single individual, suggested Thomas Handler, a partner at Handler Thayer LLP. A strict interpretation of that test could mean that anyone who has a stepchild invested in the family office, or an adoptive child, would have to register.

“The definition is so broad it would literally cover almost every family office,” Mr. Handler said. “Families are absolutely terrified at these agencies having this much power, and too much discretion.”

He added that families believe “this is an entree into their structure, their finances, and ultimately their privacy,” he added. “It’s an opportunity to go on a fishing expedition. Very few believe that the SEC will exercise restraint.”

For one family office executive, who is also a member of the family, “the fear of the unknown” is the most upsetting part. “It just adds to the cost and complexity” of running a single-family office, the executive said, preferring to remain anonymous because of privacy concerns.