



# WHO IS ABUSING XRT?

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# Who is Abusing XRT? - A "Short" Course Again

Due Diligence

**TLDR I posted this a few days ago, but have been receiving quite a few messages from folks asking me to repost it. If only the SEC would look at the forms that get filed with them to realize something is fishy.**

From N-CEN filings with the SEC, authorized participants are required to report their activity in ETF creation and redemption. You can find out who is creating and redeeming shares of the ETFs including GME, particularly XRT.

The firms doing the most creation/redemption of XRT are ABN AMRO Clearing Chicago LLC, BNP Paribas Prime Brokerage, Inc., Citadel Securities LLC, Goldman Sachs & Co. LLC, HRT Financial LP, J.P. Morgan Securities LLC/JPMC, Merrill Lynch Professional Clearing Corp, Morgan Stanley & Co. LLC, UBS Securities LLC, Virtu Financial BD LLC. This activity may be on behalf of hedge fund clients as well.

## TLDR DONE

It is well known amongst this community that abusive ETF shorting in XRT (and other ETF's) is happening and affecting the price of GME. For those who would like to examine the documents themselves, they can be found at <https://www.sec.gov/edgar/browse/?CIK=0001064642>, then searching for N-CEN. The *Annual Report for Registered Investment Companies* can then be examined. Unfortunately, it's last filing date was on September 10th AND this data was only from up to the end of June last year.

*There should be another report filed in early March for the end of this year and we should be able to grab a better picture of this then as well.*

## Important Data

The interesting part of this data is that all the authorized participants who create/redeem shares of XRT and the DOLLAR VALUE of both processes are recorded on this N-CEN form. Meaning not only can we examine who is purchasing/redeeming shares of XRT (to take advantage of ETF arbitrage and potentially other strategies), we can look at the dollar values this was done with. As a note, ETF arbitrage is a common strategy used by AP's to make money with ALL ETFs, not just XRT.

This implies that the numbers submitted are truthful, which we all know, may not be the case. However, it's the best we've got, so let's summarize. On the N-Cen form, you can find/examine this information by using Control+F to search for XRT.

## ETF Creation and Redemption

While I could write out this process, check out <https://www.ssga.com/library-content/pdfs/etf/au/spdr-au-etf-liquidity-master-the-mechanics-of-etf-trading.pdf> from State Street as it provides both good visuals and descriptions of the process in a relatively short read. It's a pdf so might download.

## Information about XRT

XRT's ETF sponsor is State Street and more information about XRT can be found <https://www.ssga.com/us/en/intermediary/etfs/funds/spdr-sp-retail-etf-xrt>. According to the prospectus for XRT the portfolio managers are Michael Feehily, Karl Schneider and Ted Janowsky. They all seem to have been associated with XRT for a long time. The prospectus also specifies that XRT will issue "Creation Units" (i.e. ETF shares) in exchange for their designated portfolio of in-kind securities and/or cash.

As of the last report, XRT has 46 authorized participants and is listed on the NYSE ARCA exchange. It is also noted in the N-CEN that XRT is an “In-Kind ETF”, which means that the shares involved in the redemption process for it are not sold/rebought but transferred between the AP and the Fund. This is confirmed from the N-CEN filings. The vast majority of the AP’s are paying for shares of the ETF (creation units) by using “non-cash assets and other positions exchanged on an in-kind basis” plus a fee. As well as the opposite, when they redeem their ETF shares, they are given securities back (not necessarily the same ones), but pay a fee as well. In-kind transfers exceed 99.99% for XRT and very little cash changes hands.

When these shares are exchanged it is not like posting collateral, where the exchanged shares are held in a different account on the AP’s behalf. It is a simple exchange of securities for ETF shares OR vice versa. Once the exchange happens, the transaction is over.

#### **All Authorized Participants Listed for XRT and Value Purchased/Redeemed for Jan-Jun 2021**

Firm	Value Purchased (millions)	Value Redeemed (millions)
ABN AMRO Clearing Chicago LLC	1392	746.9
Barclays Capital Inc.	96.5	95.7
BNP Paribas Prime Brokerage, Inc.	529.8	706
Citadel Securities LLC	381	387
Citigroup Global Markets Inc.	75.6	125.5
Credit Suisse Securities (USA) LLC	43.5	16
Goldman Sachs & Co. LLC	561.1	621.4
HRT Financial LP	774	516.1
IBKR Securities Services LLC	0	9
Interactive Brokers LLC	9	3.2
Jane Street Capital, LLC	0	4.4
J.P. Morgan Securities LLC/JPMC	254.1	211.7
Merrill Lynch Professional Clearing Corp	652.9	611.1
Morgan Stanley & Co. LLC	897.7	793.2
Natixis Securities Americas LLC	13.3	49.1
Nomura Securities International, Inc.	0	19
RBC Capital Markets, LLC	4	37.9
SG America Securities, LLC	140.9	132.9
UBS Securities LLC	352.7	219.8
Virtu Americas LLC	64	228
Virtu Financial BD LLC	773.3	1122
Wells Fargo Securities, LLC	38.8	116.8

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The following firms (listed below) are Authorized Participants for XRT, but had no Fund Shares Purchased OR Fund Shares Redeemed. **They did NOT participate in the ETF creation/redemption process for XRT for the first six months of 2021.**

- ABN AMRO Securities (USA) LLC
- BMO Capital Markets Corp.
- BNP Paribas Securities Corp
- BofA Securities, Inc.
- Cantor Fitzgerald & Co.
- CIBC World Markets Corp.
- Commerz Markets LLC
- Cowen Execution Services LLC
- Credit Suisse Securities (Europe) Limited
- Deutsche Bank Securities Inc.
- Electronic Transaction Clearing, Inc.
- HSBC Securities (USA) Inc.
- ING Financial Markets LLC
- Jefferies LLC
- J.P. Morgan Securities LLC
- Mizuho Securities USA LLC
- MUFG Securities Americas Inc.
- National Bank of Canada Financial Inc.
- National Financial Services LLC
- Natwest Markets Securities Inc.
- Pershing LLC
- Stifel, Nicolaus & Company, Incorporated
- TD Prime Services LLC
- U.S. Bancorp Investments, Inc.

The groups that had no funds purchased and no fund shares redeemed didn't participate in ETF Creation/Redemption for XRT. The groups that purchased specific dollar values of XRT brought the securities included in XRT and traded them for ETF shares worth that value. The groups that redeemed specific dollar values of XRT brought the ETF shares back to the fund and exchanged that value for the securities.

While large amounts of trading could have happened for legitimate reasons (skimming profit through ETF arbitrage – unpacking the ETF and selling the securities OR buying the securities and redeeming them for ETF shares to take advantage of discrepancies), I wanted to create a list of the “big boys” utilizing creation/redemption of the XRT ETF.

**Groups with over 250 million purchased OR redeemed in the first half of 2021.**

Firm	Value Purchased (millions)	Value Redeemed (millions)
ABN AMRO Clearing Chicago LLC	1392	746.9
BNP Paribas Prime Brokerage, Inc.	529.8	706
Citadel Securities LLC	381	387
Goldman Sachs & Co. LLC	561.1	621.4
HRT Financial LP	774	516.1
J.P. Morgan Securities LLC/JPMC	254.1	211.7
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For these big players, the total amount of XRT (securities for ETF shares) purchased here was 6568.6 million (6.5 billion dollars) and the total amount redeemed (ETF shares for securities) was 5935.2 (5.9 billion dollars).

### Trusting the Authorized Participants?

Guess how many violations these “big boy” authorized participants have.

- ABN AMRO Clearing Chicago LLC – 79 violations
- UBS Securities LLC – 294 violations
- HRT Financial LP – 6 violations
- J.P. Morgan Securities LLC/JPMC – 504 violations
- Morgan Stanley & Co. LLC – 507 violations
- Citadel Securities LLC – 74 violations
- Virtu Financial BD LLC – 17 violations
- Goldman Sachs & Co. LLC – 361 violations
- Merrill Lynch Professional Clearing Corp – 56 violations
- BNP Paribas Prime Brokerage, Inc. – 19 violations

**Clearly, these firms have very little respect for following the rules and are the firms heavily involved in using creation/redemption for ETF shares of XRT.** The most ridiculous part of this is that XRT has 7.2 million shares outstanding (as of today) but had 22.17 million shares sold short (over 300% short) as of December 15th, 2021. From looking at ORTEX data, XRT short interest has only gotten larger as the year has gone on.

*I wonder why.*

### GME Shares in XRT

XRT has a significant number of different securities and GME makes up <1% of the ETF. This would be a relatively small number of GME shares needed to participate in the ETF creation/redemption processes with the supposed amount of GME shares held in XRT at 6.23 million dollars worth (roughly 45-50k shares at current prices). Since XRT should only have around 50k GME shares in total normally (<https://www.etf.com/XRT#overview>). But it's been sold short at 100% so the XRT Fund should account for 100k GME shares in the original fund and its short interest. Well at 200% short, that's

only 150k GME shares needed. At 300%, it's up to 200k GME shares tied up within the fund and its short interest.

## **A Hypothetical Situation**

Since no one in the financial system seems to actually be checking where the shares are being obtained from, let's examine a situation here.

XRT has the base number of GME shares in it at the beginning. Firm A has all the individual securities needed to purchase 50000 shares of ETF, including GME (whether they borrowed these, bought them, or got some shiny new rehypothecated ones is unimportant). They trade in their securities to XRT and get ETF shares. They sell or borrow these ETF shares to Firm B, so now Firm B has 50000 shares of ETF.

Firm B redeems their ETF shares to get Firm A's recently deposited securities which includes GME. XRT still has the original amount of GME and no new shares of ETF have been created, except Firm B might owe Firm A some ETF shares if it was a short sale and Firm B has securities including GME.

Still with me? Firm C has all of the securities needed to purchase 50000 shares of ETF, except GME. Then Firm B proceeds to directly sell or borrow the GME shares (obtained from redemption) to Firm C who now has all of the securities needed to purchase 50000 shares of ETF. Since Firm C has got all of the necessary shares in what seems to be a legitimate transaction and can trade them in to get some more ETF shares, which they can then sell/short sell to Firm D.

Firm D then redeems them with the Fund to get the securities deposited by Firm C. And the cycle repeats with a small number of GME shares, creating short interest in XRT along the way assuming there was a short sale between Firm A and Firm B as well as Firm C and Firm D, with the EXACT SAME GME shares having passed through 4 different firms.

This process can continue to bounce the necessary GME shares to each company involved. A small fee is paid for the privilege of creating/redeeming shares. These XRT shares can be sold short or borrowed to other market members and eventually need to be delivered. If they aren't delivered, you end up with FTD's for the ETF shares. Eventually this leads to XRT being placed on the threshold list like it is now.

## **But surely, the ETF holds the exchanged securities as collateral?**

Lol. The trust you still have if you had that thought. NOPE, they aren't. Short interest for ETF's can be very high, and the securities exchanged for ETF shares are traded in kind but (according to the N-CEN form), the exchanged shares are NOT held as collateral. At the end of the authorized participant section, there is an interesting question – *“Did the Fund (implying XRT) require that an authorized participant post collateral to the Fund or any of its designated service providers in connection with the purchase or redemption of Fund shares during the reporting period?”* Which for XRT is answered NO on the N-CEN form. Maybe they should start...

The in-kind process exchanges ETF shares for shares of securities and vice versa. Those that do the creation/redemption are not guaranteed the exact same shares they deposited. The short interest in the ETF is not created at the fund level, but happens between the authorized participants. There is no incentive for the ETF Fund to care about short interest (other than it can look bad), since they still have their original shares and anything being purchased or redeemed is still balancing out according to their books.

The number of GME shares needed to participate in this process is TINY and obtaining further exemptions and extensions for delivering is the goal. Perfect way to juggle a few shares around between multiple firms and make it seem like you are meeting any FTD's your firm might have caused, while also obtaining shares for sell pressure that can be passed around. And once you've met the FTD's, you've bought yourself some more time until the trade fails later again.



One thing to note is that the prime brokers (and GSIB's - <https://www.fsb.org/2021/11/2021-list-of-global-systemically-important-banks-g-sibs/> ) included on this list often loan out their authorized participant privileges to their clients, many of which are hedge funds. So, while the prime brokers may be identified in this list, the numbers could be due to their clients. Not that it really matters, since they would be on the hook if they borrowed the money to their clients and their clients defaulted.

**As DRS continues and liquidity for even small numbers of GME shares becomes even more scarce, at some point it all goes ka-fuckin-boom.**

#### **Unrelated Final Note**

I also found that Virtu Financial BD LLC and BNP Paribas Prime Brokerage, Inc. are not even registered with the SEC according to FINRA (<https://brokercheck.finra.org/>). Both of them haven't been registered for over a year but yet together did around 1.25 billion dollars purchased and 1.8 billion dollars redeemed for XRT in the first half of 2021?

**What the hell SEC/Finra....**





