Where is SR-DTC-2021-005? THE UPDATE !!

By: u/Existing-Reference53

Archived on 20/05/2021 (Day, Month, Year)

Where is SR-DTC-2021-005? THE UPDATE !!

Possible DD 👨‍🔬

Hello Fellow Apes,
I am writing this post to let Apes know that I was able to follow-up through the SEC and the DTCC on **SR-DTC-2021-005** and to the follow-up on work in my initial post here, and providing you now with the status update I received.
I would also like to report that the SEC and the DTCC once again were very gracious and timely in their responses.
For those not familiar with **SR-DTC-2021-005 and what it does.**
In short, SR-DTC-2021-005 would limit the ability of market makers and hedge funds working together to reset FTD transactions and/or conceal short positions through nefarious options trading.
There are some great DD's on this rule by u/bigbrainbets ; u/lighthouse30130, and others, and good follow-up work by u/kamayatzee .
DD's:
THE MOASS WON'T HAPPEN UNTIL OPTIONS ARE NOT REGULATED: DTC-2021-005 JUST CHANGED THE GAME (See below)
Legal Interpretation of the Proposed SR-DTC-2021-005 (See below)
Now,
Below is the chain of communication between myself , the SEC, and the DTCC on the whereabouts of SR-DTC-2021-005.
TL:DR
SR-DTC-2021-005. was reviewed by the SEC. The filing is currently being finalized for filing at the DTCC. It will be filed shortly. And once it is filed, it becomes effective!!
When the rule is filed it will be posted here with any other DTC rules on the DTCC website https://www.dtcc.com/legal/sec-rule-filings.aspx
Again, This post is only about the status of SR-DTC-2021-005.

We are continuing to make progress Apes, Let's keep it going. **Only Diamond Hands need apply.** 💎🙌💎🚀🚀🚀🚀🚀🚀🚀🚀🚀🚀

THE MOASS WON'T HAPPEN UNTIL OPTIONS ARE NOT REGULATED: DTC-2021-005 JUST CHANGED THE GAME

By: u/lighthouse30130

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THE MOASS WON'T HAPPEN UNTIL OPTIONS ARE NOT REGULATED: DTC-2021-005 JUST CHANGED THE GAME

DD 📊

ERRATUM ON TITLE: THE MOASS WON'T HAPPEN UNTIL OPTIONS ARE REGULATED.

LET ME START WITH A QUICK INTRO: SO WE ALL KNOW HOW HF ARE HIDING THEIR SHORT POSITION.
Actually, even the SEC knows, since they wrote a "risk alert" on it in fuck** 2013.Strengthening Practices for Preventing and Detecting Illegal Options Trading Used to Reset Reg SHO Close-out Obligations.
https://www.sec.gov/about/offices/ocie/options-trading-risk-alert.pdf

LET ME SUMMARISE THIS RISK ALERT FOR YOU

How do HF manage to make it look like they covered? Easily, with 2 types of deceptive options trading.

1. A buy-write trade, i.e. selling deep ITM call + buying a synthetic long share from MM
2. Buying a married put: buying an option put with a synthetic share.

What's the difference between selling calls and buying puts?
Well, not much, it's a question of obligation vs possibility, but in our scenario, it does not matter much.

Why buy a synthetic long at the same time as the option?
They use the synthetic share to appear as if they "close" their short position. Pouf FINRA number goes down, Bloomberg writes an article " GameStop Short Interest Plunges in Sign Traders Are Covering" saying the HF have covered, end of the story.

How can they buy a synthetic long?

if a market maker buys options from an options writer, the market maker has legal privileges to do a version of "naked shorting" as part of their hedging function. This is necessary, under the current rules and the current system, for market makers to protect themselves when facilitating options trades.

Do buying synthetic long have an impact on the price of the stock?
Well, I do not think so, since they are not part of the float, they are not purchased on the market.

It it good news or bad news?
Well, we are not sure. There is a theory saying that the FTD cycles are getting bigger and it will only get worse for them, but I don't like the wait and pray tactic when we're dealing with HF. To me, it's rather a bad news to only rely on HODL and pray for the MOASS to start without the regulations in place to force short to close their positions.Their deceptive options duckery means they can reset their FTD indefinitely, the close-out requirement (which will trigger the MOASS) will never be enforced, and we are fucked.They are not bleeding as we thought they were. The SEC papers mention that with this tactic, they do not have to pay the borrowing fees for shorting, just a pre-arranged premium with the MM, which can be seen as a cost to leverage the MM hedging prerogatives of naked shorting.

Who is short then, the HF or the MM?
As long as the double trade is done (buy-write or married put), the HF are no longer short, fron a reporting standpoint, but the MM are, They usually don't want to stay short too long, so they most of the time exercise these options the same day. Which now makes the HF short on his turn, but with a reset for FTD.

Someone remember Melvin Capital revealing 6,000,000 Puts in the SEC filing from February? But no long position with their put, so naked puts. I'm willing to bet 1 trillion dollars these puts are leftovers of married puts he used as deceptive options to trade to look like he covered during the Jan squeeze.

https://preview.redd.it/9l3xg2226pq61.png?width=2836&format=png&auto=webp&s=14e2215d5bf26b53050ff56b22beaa8325819db1

The amount of such options that need to be traded is too big not to be noticed. They all know. The SECC, DTCC, any concurrent HF, and now even us.
This is why I'm convinced our best chance is a regulation of Options trading. But that would be too much to ask, right? Well, the DTCC just made the best "April fool" joke to Citadel with **DTC-2021-005,** submitted after market close on Thursday (Have a nice Easter weekend Ken!)

How DTC-2021-005 could be a GAME CHANGER

It seems 005 is both a change of wording in their settlement procedure guide as well as an update in their operational book-keeping procedure.
What they are introduced is an additional reporting field. A "Status" or "system notation" tracking on security. To track if this security is borrowed, used as collateral, or coupled with an option. This is brilliant. They may not need to involve the SEC at all because they are not regulating anything, they are just adding a level of reporting in the tradings they manage.
Page 42:
Collateral loans*:*
The collateral loan service allows a Participant (the pledgor) to pledge securities as collateral for a loan or for other purposes and also request the release of pledged securities. This service allows such pledges and pledge releases to be made free, meaning that the money component of the transaction is settled outside of the depository, or valued, meaning that the money component of the transaction is settled through DTC as a debit/credit to the pledgor's and pledgee's DTC money settlement account. When pledging securities to a pledgee, the pledgor's position ~~is moved from the pledgor's general free account to the pledgee's account~~ ***continues to be credited to the pledgor's account, however with a system notation showing the status of the position as pledged by the pledgor to the pledgee. This status systemically*** *~~which~~ prevents the pledged position from being used to complete other transactions. Likewise, the release of a pledged position ~~would move the pledged position back to~~ the* ***results in the removal of notation of the pledge status of the position and the position would become*** *~~pledgor's general free account where it would then be~~ available* ***to the pledgor*** *to complete other transactions.*

****** Collateral Loan Program***
About the Product The Collateral Loan Program allows you to pledge securities ~~from~~ ***held in*** *your general free account as collateral for a loan or for other purposes (such as Letters of Credit) to a pledgee participating in the program. You can also request the pledgee to release pledge securities ~~back to your general free account~~**.
These pledges and releases can be free (when money proceeds are handled outside DTC) or valued (when money Page 42 of 45 proceeds are applied as debits and credits to the pledgee's and pledgor's money settlement accounts). A Pledgee may, but need not be, a Participant. Only a Pledgee which is a Participant may receive valued pledges.*
Pledges to the Options Clearing Corporation*A Participant writing an option on any options exchange may fully collateralize that option by pledging the underlying securities by book-entry through DTC to the Options Clearing Corporation (OCC). If the option is called (exercised), the securities may be released and delivered to the holder of the call. If the option contract is not exercised, OCC validates a release of the pledged securities, ~~which are then returned to the Participant's general free account.~~*
****** Release of Deposits with Options Clearing Corporation on Expired Options****OCC automatically releases securities deposited with it to cover margin requirements on an option contract when the option contract expires. ~~The securities are then allocated to your general free account.~~ Notification of the released securities is received via the Collateral Loan Services functionality in the Settlement User Interface or automated output.*

Could this mean no more synthetic long, FTD, and other fuckery? This could force the Reg SHO Close-out Requirement which will trigger the MOASS into Uranus.

I WISH I WAS A COW TO BE JACKED TO ALL MY TITS !!

TOO APE ; DID NOT READ:

If short sellers are facing a squeeze because shares are hard to buy, or scrutiny for holding an illegal short position, they can create an appearance of having closed their short position through the use of deceptive options trades. (Selling ITM call or buying married put).
It does not make them cover, just reset the clock so FTD doesn't skyrocket.
DTCC is unhappy about this mess and could be trying to ensure Options can no longer be used like this.
When it gets enforced, it could force a close-out requirement (force HF to buy the stock in the actual market, launching our rocket to the sun)

EDITS 1:
So, guys, I see lots of questions around when this goes into effect.I believe it's effective immediately after the SEC approves it.
How long does the SEC usually take to approve these fillings? WELL, SURPRISINGLY, NOT SO LONG! Could be even just a week or two. Here a brief history:

- DTC-2021-003 (Force HF to reveal their position on a daily basis): submitted the 09/03, approved the 16/03
- SR-DTC-2021-004: Approved in a few days
- SR-DTC-2021-003 was approved quickly as well
- All the ones before are approved (before Jan 2021)

EDITS 2:
This is not financial advice, but I've been told by French Apes that DTCC stands for "Dans Ton Cul Citadel", is that right?

EDITS 3:
Please smart apes, come forward and help us make it stronger and more accurate versiom of this DD. I suspect the 005 will have MANY different interpretations, which would imply to re-work this DD.

EDITS 4:
I added another important missing paragraph from the filling that really explains why it will regulate options. This filling is not really a regulation (which would explain why SEC won't need to review it), it's a bookkeeping tracking update (almost a software update). They are going to be more precise in their reporting logic. **They will tag synthetic longs as "pledged" with an option. So they link the synthetic long and the option together.** This is what's new in their procedural book-keeping method.
Edit 5:I was invited to speak about this DD on a nice Ape YT channel today.Here's the video of him and me breaking down this DD if you're interested.
https://www.youtube.com/watch?v=UQrOk5Syzl4
EDITS 5:
An article from the TOKENIST just literally confirmed my DD. I suspect this guy literally copied-pasted it.
Is WSB Reddit Army About to Make a Comeback with Tweaked Trading Rules?
https://tokenist.com/is-wsb-reddit-army-about-to-make-a-comeback-with-tweaked-trading-rules/

Legal Interpretation of the Proposed SR-DTC-2021-005

By: u/BigBrainBets

Archived on 20/05/2021

Legal Interpretation of the Proposed SR-DTC-2021-005

DD 📊

Let me preface this post by saying there are a number of effects arising out of the proposed changes SR-DTC-2021-005, primarily because a Pledgor and Pledgee can be a mix-match of parties depending on the transaction being scrutinized. Think of it like playing Mariokart, sometimes Kenny G plays as Bowser, and sometimes he plays as Wario. To be blunt, the same party can be a Pledgor in some cases, and a Pledgee in others. Same goes for other market participants. Thus, there are are a variety of implications from these changes.
That being said, I will leave you with my main takeaway after a brief overview of the proposed language:
In my opinion, some of the [proposed] language in SR-DTC-2021-005 is designed to limit the ability of market makers and hedge funds working together to reset FTD transactions and/or conceal short positions through nefarious options trading.
In case you are not well versed on the nefarious options trading process by now, here is a quick breakdown. I will subsequently refer to this process as Steps A-F, respectively.
A. If short sellers [Pledgor] are facing a squeeze because shares are hard to buy, or scrutiny for holding an illegal short position, they can create an appearance of having closed their short position through the use of deceptive options trades, called a reset transaction.
B. A hedge fund [Pledgor] that is short a stock can write call options on a stock — meaning they are now “short” the call options, having sold the call options to someone else (typically a market maker) [Pledgee] — and simultaneously buy shares against the call options.
C. The shares bought against the call options could be “synthetic” longs — meaning they are not part of the original share float of the stock — as sold to the hedge fund [Pledgor] by the market maker [Pledgee] that takes the other side of the options trade.
D. This works because, if a market maker [Pledgee] buys options from an options writer, the market maker [Pledgee] has legal privileges to do a version of “naked shorting” as part of their hedging function. This is necessary, under the current rules and the current system, for market makers [Pledgee] to protect themselves when facilitating options trades. In theory, this privilege allows market makers [Pledgee] to provide liquidity in the options market when a trade order lacks a buyer/seller on the opposite side.
E. As a result of the above transaction, the hedge fund [Pledgor] that sold short calls was able to buy synthetic long shares against the calls. (A synthetic share is one that has a long on one side and a short on the other but wasn’t part of the original float.) The synthetic long shares are the other side of the naked shorts, legally initiated by the market maker [Pledgee], so the market maker [Pledgee] can hedge their position to remain a net-neutral party.
F. The hedge fund [Pledgor] that bought the shares can now report that they have “bought back” their short position via buying long shares—except they actually haven’t. The synthetic shares they bought are canceled out against the short call positions they initiated, a necessity of the maneuver by way of the market maker’s [Pledgee] hedging of the call position they bought from the hedge fund.
The Pledgor/Pledgee role could be reversed, depending on the circumstances. So just roll with me for now.
Lets get to it.
When reading the excerpts from the proposed rule, remember the following:
Bold text indicates additions;
~~Bold strike-through text~~ indicates deletions

Settlement Transactions (p.41)

There are three main types of transactions processed through the Settlement system.
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3. Collateral loans: The collateral loan service allows a Participant (the pledgor) to pledge securities as collateral for a loan or for other purposes and also request the release of pledged securities. This service allows such pledges and pledge releases to be made free, meaning that the money component of the transaction is settled outside of the depository, or valued, meaning that the money component of the transaction is settled through DTC as a debit/credit to the pledgor's and pledgee's DTC money settlement account. When pledging securities to a pledgee, the pledgor's position ~~is moved from the pledgor's general free account to the pledgee's account~~ **continues to be credited to the pledgor's account, however with a system notation showing the status of the position as pledged by the pledgor to the pledgee. This status systemically** ~~which~~ prevents the pledged position from being used to complete other transactions. Likewise, the release of a pledged position **would move the pledged position back to the results in the removal of notation of the pledge status of the position and the position would become pledgor's** ~~general free account where it would then be~~ available to **the pledgor to** complete other transactions.

Collateral Loan Program (p. 42)

The Collateral Loan Program allows you to pledge securities ~~from~~ **held in** your general free account as collateral for a loan or for other purposes (such as Letters of Credit) to a pledgee participating in the program. You can also request the pledgee to release pledge securities ~~back to your general free account.~~ These pledges and releases can be free (when money proceeds are handled outside DTC) or valued (when money proceeds are applied as debits and credits to the pledgee's and pledgor's money settlement accounts). A Pledgee may, but need not be, a Participant. Only a Pledgee which is a Participant may receive valued pledges.

My interpretation of the DTCC perspective:
(See Step B above).
"From" is way too ambiguous; any lawyer with half a brain can manipulate this in any which way (For example, I could argue that I have "credited GME shares in my account from an incomplete or pending transaction" therefore, I should be able to use those shares as collateral because they are "From" my account, even though I don't actually own them yet, OR never plan to….).
By changing this to "Held in" tells me that the DTCC wants to place more emphasis on the Pledgor [short seller] actually being obligated to hold the shares, or position, they are planning to trade (I.e., not being able to rely on pending transactions]. To be clear, the DTCC is only worried about their own liability and covering their own ass here, not necessarily punishing the wrongdoings of bad actors. This is explicitly confirmed in the section above titled "3. Collateral Loans" and becomes more clear when read in conjunction with the following language:
"These pledges and releases can be *free* (when money proceeds are handled outside DTC)"
(I.e. if Citadel and Melvin want to hold hands in the backyard that's fine, just not at the dinner table). BUT, if Citadel is transacting as a DTCC participant (I.e. at the dinner table) then the transaction must be *"valued"* as opposed to *free.*
"*valued* (meaning when money proceeds are applied as debits and credits to the pledgee's and pledgor's money settlement accounts)."
In other words, the DTCC is saying do as you wish as long as we are not involved, but if the DTCC is acting as an intermediary for the exchange of securities, then "SHOW ME THE MARGIN" *Jerry Maguire voice*. Someone mentioned in another post this morning that Citadel opened a new office location in Austin, Texas on the same street as several other financial institutions. I'm sure they have offices all over the world, but it goes without saying that conducting "offline" trades and option swaps with other institutions, or "*free*" collateral loan programming as the DTCC calls it, seems much easier if you are in close proximity to your trade partners. Regardless, this is pretty irrelevant for the purpose of this post, so I'll leave that for someone else to discuss; like the Citadel Has No Clothes stud, I forgot his username, but his posts are golden.
Moving on...

Settlement Transactions (p.41)

When pledging securities to a pledgee, the pledgor's position ~~is moved from the pledgor's general free account to the pledgee's account~~ **continues to be credited to the pledgor's account, however with a system notation showing the status of the position as pledged by the pledgor to the pledgee. This status systemically** ~~which~~ prevents the pledged position from being used to complete other transactions
My interpretation of the DTCC perspective:
If the market maker and hedge fund are transacting through the DTCC, the DTCC will now be monitoring the Pledgor's [hedge fund] position in order to ensure the validity of the pending transaction. This seems consistent with the previous rules we have seen come through the portal lately. The DTCC is ramping up their oversight and overhauling their rulebook to be consistent across the board.
(See Step F above).
To put it in simpler terms, let's look at it from the eyes of the DTCC:
Okay Melvin, I see you own enough shares to pledge that trade you submitted to Ken. However, now that you have pledged those shares to Ken, they are locked, and you are not allowed to use them to enter a new transaction with Jim. In addition, we also see you have a ginormous short position. We just want to make sure that you are not offering the same shares to multiple people at one time. That sounds pretty risky if they all come looking for those shares at the same time, dontcha think? Cool, this new account status provision will stop you from blowing your ass off by promising transactions to new Pledgees with shares that are already pledged to someone else in a pending transaction. We can call this the "no double dipping" provision.

Pledges to the Options Clearing Corporation (p. 42)

A Participant writing an option on any options exchange may fully collateralize that option by pledging the underlying securities by book-entry through DTC to the Options Clearing Corporation (OCC). If the option is called (exercised), the securities may be released and delivered to the holder of the call. If the option contract is not exercised, OCC validates a release of the pledged securities**~~, which are then returned to the Participant's general free account~~********~~.~~**

Release of Deposits with Options Clearing Corporation on Expired Options (p.42)

OCC automatically releases securities deposited with it to cover margin requirements on an option contract when the option contract expires. ~~The securities are then allocated to your general free account.~~ Notification of the released securities is received via the
Collateral Loan Services functionality in the Settlement User Interface or automated output.
My interpretation of the DTCC perspective:
(See Step D above).
Hedge those calls as you need to, Ken. We have no problem with that, and we appreciate you providing liquidity to the market. Although we enjoy you bringing the liquidity to the market, we aren't sure about what you're doing with all those [synthetic] shares you are buying when you hedge these call options. So we are making a change:

(See Step E above).
Instead of allowing you to hold on to these synthetic shares (and probably short the fuck outta GME with them at your own discretion, or give them to Melvin to conceal his shitty short position), they'll just be returned to the public float if the option contract is not exercised on your mischievous reset transaction. In other words, because the MM's have the ability to create synthetic shares they were previously allowed to hold onto those shares if the call options were never exercised.
To be clear, the new language does not explicitly state what procedure is going to happen if calls are not exercised. Thus, I am making a hypothesis that the shares will be returned to the float because it seems like the only logical explanation to me if they DTCC is no longer going to return t hem to the general participant account.

TLDR: Overall, the proposed changes seem to be consistent with the other rules we have seen submitted over the past few weeks. The DTCC is revamping their entire rulebook to make these changes consistent across the board.
In addition, the [proposed] language in SR-DTC-2021-005 is designed in a way that may hinder the ability of market makers and hedge funds who work together to reset FTD transactions and/or conceal short positions through nefarious options trading.
Edit: Apologies for the shitty quote formatting, I was copy and pasting from the PDF and I guess reddit's text box wasn't fucking with the pdf coding. Will try to fix when I get home.