Title: To confirm bias press 1
Author: disoriented_llama
Created 2021-08-19 04:00:56 UTC
Permalink: /r/TheGloryHodl/comments/p77frw/to_confirm_bias_press_1/
Url: /r/Superstonk/comments/p73nx2/they_see_me_accountin_they_hating_a_look_into/
Is_self: False

Wass'up?

So, recently there was a video shared in here in which our favorite rat was telling everyone how Citadel was doing... JUST.... FINE. This made me curious.. like, really curious and made me look up the financial statements of Citadel on Edgar. Who would believe that finally something this muppet was saying steered me in the right direction?

https://preview.redd.it/f9crjie227i71.jpg?width=1917&format;=pjpg&auto;=webp&s;=e2c7432e31c6af8152e85d40b428a0c18481c13a

So, here's my disclaimer first: All of this crap here is my personal opinion and it's not financial advice. Like: for real, DO NOT TRUST ME, I am fucking retarded. I counted my toes today three times and got four different results, like, WTF.

Also, English is not my mother tongue, if I'm off when it comes to language mastery, please be gentle.

Also: Please poke holes into this here. I will be happy to correct mistakes and point them out in edits. I honestly believe the more eyes look at that the better the result will be.

tl;dr at the end, you lazy bastard. Ok, let's go.

https://preview.redd.it/fyx9hcv927i71.jpg?width=1024&format;=pjpg&auto;=webp&s;=c0722650106d94a0aa552f415ee11be56e10ea4f

I'm a big financial statement aficionado, because it's much harder to just pull out some random numbers out your ass (but still, not completely impossible). The secret ingredient is double entry book-keeping. Also, I noticed that there is quite some misunderstanding in here when it comes to as how a balance sheet actually works. I pointed this out when some very wrong statements regarding bank balance sheets were made, but this did not get any traction at that time. If somebody is interested in an ELIA for how to fucking read a balance sheet and why it looks like it looks, leave a comment.

Also, financial statements are typically audited by a third party like Ernst Young, PriceWaterhouse, etc. (LOL). Well, let's just say that's not a safeguard against fuckery (looking at you, Wirecard), but at least somebody is kinda looking over it.

I really feel like a deep dive into the financial statements of those companies who we all believe are short GME has not gotten enough love. Here's a couple of things that I found.

Citadel Securities LLC is the broker dealer arm of Citadel (not the hedge fund). It is also the market maker for GameStop shares. If will refer to that company as CS from now on.

Here's the balance sheet of CS as of Dec 31 2020:

Source: https://sec.report/Document/0001616344-21-000004/

https://preview.redd.it/3rpks9c447i71.png?width=889&format;=png&auto;=webp&s;=2e28e618482b9a4b2 d623b2b77dda26480569813

Here's the balance sheet as per Dec 31 2019:

Source: https://sec.report/Document/0001146184-20-000006/

https://preview.redd.it/zirjovyp47i71.png?width=828&format;=png&auto;=webp&s;=2a90434c24c2b6548e3406c4be7078f2b8e9a02c

And 2018:

Source: https://sec.report/Document/0001146184-19-000002/

https://preview.redd.it/3ijg6hyz47i71.png?width=810&format;=png&auto;=webp&s;=64f7d83422d77c8bbac86dccf2136deb036a7e55

The years before 2018 always hover around the 30bn $ total asset mark.

So, CS increased the securities that they hold from 26bn $ to 66bn$. Those securities are accounted for at fair value, which means:

https://preview.redd.it/wrcvbly367i71.png?width=443&format;=png&auto;=webp&s;=c8343b604c60385be2e5e43e261765c383243720

So, it's based on market value. Ok, we had a huge fucking bull market in 2020, right, so if you hold shares in 2020 that value should have increase by what, 30-60%? However, this does not explain the increase in the position if we take a look at the liabilities and member's capital.

Member's capital increased by 1.5bn $ only. (Unfortunately those filings do not include a profit and loss statement that you could study to understand where this increase exactly came from.. it might be profits for the period of 2020, capital increase, etc).

The lion's share of their increase in assets was financed with debt, and in particular by an increase in the position of "securities sold, not yet purchased, at fair value" by 32bn$. So what the fuck is this position, do you ask? It's their fucking shorts. So, this increase might be explained by some losses they have incurred but not closed out in their short positions held before, but I would assume that the majority comes from increases in the volume of shorts.

They are using shorting to raise money to go out and acquire other securities.

Here's a couple of other interesting things that I found:

https://preview.redd.it/iiya3wpy97i71.png?width=437&format;=png&auto;=webp&s;=782b0db9b602e1b5314586cdfd0751fbb03b2c68

So they borrow securities to cover short positions and then - if applicable - net those liabilities out so that they will not show up in full amount on their balance sheet. Well, and they will do this business with associated broker dealers.

https://preview.redd.it/qmns4ylca7i71.png?width=462&format;=png&auto;=webp&s;=c8204a251a275f9f3d5328e499a4accc8e62fe9b

This one here caught my attention:

https://preview.redd.it/ajwszvb6b7i71.png?width=433&format;=png&auto;=webp&s;=54e5d3cf8b21b49df7a3596b1323790b4e1afb77

On page 14, under the headline "Reverse repurchase and repurchase agreements" it is mentioned that "it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties." (see screenshot above)

I find it remarkable that that statement is made under the "reverse repurchase and repurchase" paragraph and not under the "expenses" paragraph, where it would expect such statement to be made if it only would cover pricing of services. It seems to relate to the actual pricing of transactions. The involved parties are CSIN (Citadel Securities Institutional LLC -) and CSSF (Citadel Securities Swap Dealer LLC).

CSIN is an affiliated broker dealer, that engages in "options order routing as well as trades U.S. government securities and equities with institutional and broker and dealer clients."

CS engages in "market making and liquidity provision in U.S. options, equities, government securities, and foreign exchange products, as well as trade execution."

We know that market makers have some special exemptions when it comes to shorting as we have learned from RegSho:

Source: https://www.sec.gov/investor/pubs/regsho.htm

https://preview.redd.it/yx5vhsmye7i71.png?width=529&format;=png&auto;=webp&s;=9072cf040592f5d5051f17dd45f076e7f06cfbad

So... CS is GameStop's market maker. They can naked short in bona fide market making. The enter into reverse repurchase agreements and repurchase agreements with affiliated broker dealers whose terms "are not the same as those from transactions among unrelated parties and such difference could be material". And, those terms typically include the possibility for rehypothecation, for both reverse repurchase and repurchase transactions:

https://preview.redd.it/r7rdn2zpf7i71.png?width=425&format;=png&auto;=webp&s;=674ea64d87341a65f5c3320fae4aa097cc020103

They use securities received to cover short positions.

So CS can pledge securities to CSIN who then can pledge the same security to CSSF who can then pledge if back to CS? And those transaction could be not reflecting market pricing? And the positions can be netted out between the participants, even with a massive possibility of rehypothecation between three affiliated parties? (the merry-go-around)

What the actual fuck.

TL;DR: Citadel sets it own terms for transactions between different broker dealer businesses they operate. They use reverse repurchase and repurchase agreement and use securities received to cover short position. Terms of those agreements between the affiliated parties might be of material difference. I haven't seen much attention given to this topic but the financial statements seem to point in that direction.

■■■■HODL. To the moon.

Edit 1: Wow, this got some attention, I'm going through comments now (I'm in another time zone, so just woke up, lol). Will add edits.

Edit 2: Related parties by u/Intelligent-Rough-54 here: https://www.reddit.com/r/Superstonk/comments/p73nx2/they_see_me_accountin_they_hating_a_look_into/h9h98a9?utm_source=share&utm;_medium=web2x&context;=3

Hey. So, I just have some YouTube videos uploaded about playing Minecraft, so I think you are confusing me with somebody (not even joking).

I totally agree with you: Transactions with related parties are very common, but I believe very often this is where you can actually hide stuff best.

An example: Let's say you have an asset on your balance sheet that starts to stink. For the lulz: A banana. You bought the banana two years ago for 1m $. You auditor looked at, thinking: well, that's a hella expensive banana, but it's fresh, so let's not question it. Time passes and what a surprise: Nobody is buying the fucking banana from you for 1m$.. and, it really starts looking like shit, it's old and u/rick_of_spades was playing around with it. Yikes, what is the auditor going to say about the banana? He might wanna make me reasses the value of it. So let's sell the banana to a related party (my wife's boyfriend), he said that he will happily pay 1m$ for it. Time passes and the auditor shows up and he is really keen to know what happened to the 1m$ banana in my inventory. Good news, I no longer have it, but now I have a 1m$ receivables toward an affiliate party, but don't worry... it's really worth 1m$, you will see it by end of next year, when it's gone for something else lol.

Also, this item I personally find spicy in combination with two other statements: Namely the rehypothecation statement (everything I receive I will just use over and over again) and that transactions between parties might not be at market value (or arm's length as it is called). The latter might have a material impact. So, in my example above, we might agree that nobody in a market transaction would pay 1m$ for that stinky banana. So, the right thing to would be to throw the fucker away and write off 1m$ (leading to a loss of 1m$, eating up my equity, etc.). Since the transaction to my wife's boyfriend however is not at arm's length (I made him pay 1m$ because he loves my cute little butt), I avoided that.

Typically when doing transactions with related parties you will look to do them at arm's length. There are many implications when this is not done (moving profits between companies, not valuing things correctly on your balance sheet, etc.). The statement says that this might be the case, it's not saying that it is happening.

The combination of those three things just shows that this is a wonderful way to pass shares around between related parties basically indefinitely and due to netting agreements not let them show up in your balance sheet. If I needed a way to kick "the can down the road", that might be a neat place to start.

Edit 3: So, a couple of people are interested in a short ELIA regarding how a balance sheet works. Aight, imma draw one up, gimme a couple of days.

Edit 4:

https://preview.redd.it/80ozrl7cwai71.jpg?width=652&format;=pjpg&auto;=webp&s;=1cb444b603abf3ac5a779c2d117389ac4ba95111