Title: Unpacking the SEC's GameStop Report and How It Provides More Confirmation the SHORTS HAVE NOT CLOSED
Author: disoriented_llama
Created 2021-10-19 19:21:16 UTC
Permalink: /r/TheGloryHodl/comments/qbiqky/unpacking_the_secs_gamestop_report_and_how_it/
Url: /r/Superstonk/comments/qb423e/unpacking_the_secs_gamestop_report_and_how_it/

Linked Post Content:
Gary Gensler has settled his FTD on the GameStop report before the T+35 deadline. Direct Link - https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf. While there are no immediate calls to action, there are hints at what GG is working on, and I was pleasantly surprised at the level of detail and actual substance the report contained. I don't want to jack my tits too hard over it, but I am more hopeful after reading the report that the regulators may actually do something. I recommend reading the report when you can, but want to highlight some of the best things I found.

TA/DR - The "Gamestop" report provides data and insight into GME's Jan trading, and while the report does not outright state this, looking at the information it is clear the shorts did not close in Jan, and a large short position likely is still held by Citadel.

I am not a financial advisor, this post is not financial advice. I will rely primarily on the SEC report to share what I deem as important information, and will specify what is my personal opinion/speculation where applicable. I'm not going to summarize the entire report, just things that stuck out to me. Again, I recommend reading the report first before reading this post so my opinions/speculation don't cause bias before you read things directly from the source - https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf. Buckle up, it's time for the tea...

The SEC is well aware GameStop was heavily shorted. A quick Ctrl+F on "short sell" shows 38 hits. Ctrl+F on "short" has 158 hits. Ctrl+F on "short interest" has 48 hits. While to me the congressional hearings on GME seemed more like political theater than anything material, this report does have substance. There are mentions of short interest in terms of float, and shares outstanding. Do not confuse these terms, and I have a suspicious feeling the shills will be out in full force in an attempt to sway the narrative here. Because the report uses both terms, it is not always easy to trace back what SI they are referring to, so I want to start there. Starting on p. 22 -

>Some institutional accounts had significant short interest in GME prior to January 2021. GME short interest (as a percent of float) in January 2021 reached 122.97%, far exceeding other meme stocks. Through most of 2020, GME’s short interested hovered around 100% as a percentage of public float.

While almost 123% of the float being reported short in Jan 2021 is high, the report notes that short interest of total shares outstanding on Dec 31 2020 hit a high of 109.26% (p. 24). For reference, GME shares outstanding on 12/31/2021 was 65.147 million, meaning on 12/31/21 there was a *reported* short position of 71.2 million shares. To further highlight point, the report states on p. 25 -

>Until recently, short interest of more than 90% was observed only a few times—in 2007 and 2008. When

examining short interest as a percent of shares outstanding, GME is the only stock that staff observed as having short interest of more than shares outstanding in January 2021.

IMHO, this is where the report really starts to get interesting, as on p. 26 the SEC notes there was some short covering, but it was only a small fraction of the buying -

>Figure 6 shows that the run-up in GME stock price coincided with buying by those with short positions. However, it also shows that such buying was a small fraction of overall buy volume, and that GME share prices continued to be high after the direct effects of covering short positions would have waned. The underlying motivation of such buy volume cannot be determined;

[Figure 6, p. 28 of SEC GME Report](https://preview.redd.it/urt9yxh3yau71.png?width=1602&format;=png&auto;=webp&s;=3bfc6ca244ea30c7170fbd85015823b4afe46a17)

Now, I could not find the actual data the SEC used to make this chart, but giving my best estimation through just looking at this graph, it seems like only 1-2% of the buying volume in late Jan was part of short covering, and when the buy button was turned off, there was very little short covering. I speculate instead of closing shorts, Citadel and others added shorts prior to and during the "PCO" buy button removal, as highlighted by the recent lawsuits filed in the southern district of Florida. For more on the lawsuit, see this post -

https://www.reddit.com/r/Superstonk/comments/ptvuq5/citadel_never_closed_highlight_from_class_action/ \- credit to u/bosshax

Since I can only eyeball this, I will try and be conservative, but to my eye it looks like 20-25 million shorts closed based on this graph. Considering the 71.2 million shares sold short going into Jan, I'm going to say 26.2 million shares were covered to be safe. This means, after the unprecedented removal of the buy button, 45 million shares were still shorted. This does not include any new short positions that were opened prior to or during GME being "position close only" by many brokers. I think this clearly shows, without a doubt, the shorts have not closed! More on this later.

The next section of the report highlights how ETF's were also likely used to short GME, with a dedicated section specifically referencing the XRT, with a shoutout to Reddit, starting on p 29 -

>Finally, as discussed above, the volatility in GME impacted some ETFs due to their holdings in GME, and potential short interest in the ETFs themselves. The most notable of these was XRT, an ETF of retail companies. XRT garnered attention in the press and on Reddit due to a combination of its GME exposure and its pre-existing short interest, which was several multiples of XRT’s shares outstanding.82 As GME increased in value, price changes in XRT became increasingly driven by those of GME. Shorting XRT could have served as an indirect, though imperfect, way of shorting GME. In fact, staff observed a large spike in net redemptions of nearly 6 million shares in XRT on January 27, which may be consistent with short selling activity. 83 This redemption activity was generated nearly entirely by ETF market making firms. It therefore was likely the result of net selling of XRT by market participants against market makers (e.g., market makers buying from investors selling short) where the market makers, rather than offsetting those purchases, subsequently redeemed the XRT shares from the ETF sponsor for shares of the underlying stocks.

This leads into the role of dark pool and off-exchange trading. I had to read this part several times to wrap my head around what to infer from the report and understand the graphs provided. The SEC states on p 35 -

>GME trading in January 2021 shifted the prevailing distribution of GME equity executions across venues. Specifically, the proportion of off-exchange activity initially rose as individual investor activity increased, then fell as volatility increased... An increasing percentage of volume executed on exchange when volatility spikes may indicate that market participants, including wholesalers, are seeking to avoid internalizing customer orders to reduce potential losses when hedging becomes more difficult.

[“TRF” refers to the Trade Reporting Facility for the reporting of transactions effected otherwise than on an exchange. i.e. Dark Pool %](https://preview.redd.it/1pb9vja03bu71.png?width=1625&format;=png&auto;=webp&s;=2ca659baa383389c45e8a6d2c6c40af918fd4fb7)

Now, while the SEC states volatility lead to an increase in on exchange volume, that increase is largely referring to exchange volume NOT on the NYSE where GME is listed. The SEC also believes this was the result of hedging activity. I respectfully disagree, as I believe during the last week of Jan, Citadel was using other exchanges to further short GME, and since retail for the most part was kept out of the market, there was no need to "hedge". As highlighted by u/Bladeace, there is evidence Citadel used multiple market centers such as CBOE (Edgx) and NASDAQ combined with their market making privilege to [make a market for itself and shuffle FTD's](https://www.reddit.com/r/Superstonk/comments/nc1h4o/findings_from_my_analysis_of_605_data_huge_short/) while further shorting GME. Moreover, u/Wallstreet_Owes_Me has highlighted [Citadel's connection to the CBOE](https://www.reddit.com/r/Superstonk/comments/ox93kt/citadels_connection_with_cboe_global_markets_and/) that raises further suspicion CBOE could help facilitate further manipulation through the EDGX and BATS exchanges. Like Citadel, the CBOE also has a history of wrongdoings, highlighted by u/Lunarnautics post on the [CME Group and Citadel](https://www.reddit.com/r/Autisticats/comments/ojrh8x/chicago_mercantile_exchange_cme_group_and_citadel/). Below is a chart highlighting the changes in exchange volume from 2020. Note MEMX and EDGX are both CBOE owned -

[Credit to u\/jsmar18's post - https:\/\/www.reddit.com\/r\/Superstonk\/comments\/p661bf\/exchange_volume_analysis_over_the_past_6_months\/](https://preview.redd.it/6g8cotz1tbu71.png?width=1218&format;=png&auto;=webp&s;=7974b5182c4051ea936374a41ecfa50213c6089c)

The last section of interest in the report dives into the options trading in late Jan. The report does not touch on potential abusive or manipulative option trades, rather, it makes the point the SEC does not believe the Jan "sneeze" was driven by a "gamma squeeze" as shown on p 42 -

>Theoretically, a large number of call options written could have contributed to further increases in the price of GME. If market makers purchased GME stock to hedge the risk associated with writing call options on GME, it would put further upward pressure on GME’s stock price. However, as discussed above, staff did not find evidence of a gamma squeeze for GME during January 2021 in the available data. See supra Section 3.4.

[SEC report highlighting how options volume was skewed towards puts, not calls in JAN](https://preview.redd.it/e2d2uidovbu71.png?width=1485&format;=png&auto;=webp&s;=be71bb32abe05806af9a7b8aa9b7324025c4d114)

I believe GG and the SEC intentionally tried to avoid diving into too many details regarding options and the known manipulative strategies associated with nefarious option trades. Calling back to the earlier point that at the end of Jan, it appears at a minimum 45 million shares remained short, yet reported short interest dropped well below that threshold, as shown in Fig 5 -

[I cannot reconcile this drop with data provided in Fig 6 - Buying Activity](https://preview.redd.it/p85w0ek5ybu71.png?width=1575&format;=png&auto;=webp&s;=bf6718da9ee074fe9fc3016fb707158e9eff0ae5)

Perhaps this means there will be a follow up report with actual actions against bad players? I have a feeling some of the incredible work [u/broccaaa](https://www.reddit.com/user/broccaaa/) has done, such as [highlighting married puts and FTD's](https://www.reddit.com/r/Superstonk/comments/mvdgf5/the_naked_shorting_scam_in_numbers_ai_detection/), might be used as evidence, but this is speculation, I digress...

Which leads me to my favorite line in the entire report, buried in the middle starting on p 30 -

While a short squeeze did not appear to be the main driver of events, and a gamma squeeze less likely, the episode highlights the role and potential impact of short selling and short covering.

I MIGHT NOT BE THE WRINKLIEST OF BRAINS, BUT THAT SURE SOUNDS LIKE THE SEC IS SAYING THE SQUEEZE HAS NOT SQUOOZE!

But wait, the good news doesn't end there! If there was ever any doubt as to how many apes are in the wild, the SEC report shows at a minimum about 900,000 unique users purchased GME in Jan on a single day! Now, not all of those users were ■■ (sorry Portney), but just looking at the shear number of individuals trading GME in Jan I think it is safe to assume well over 1 million apes are lurking in the wild, and given this saga is turning 1 year old soon, it's logical to think many more apes exist now than there were in Jan.

[January 27, the number of unique accounts trading GME on a given day increased from less than 10,000 at the beginning of the month to nearly 900,000](https://preview.redd.it/x2fivwm30cu71.png?width=1589&format;=png&auto;=webp&s;=5164be7f2aae8794f9ae1804ea6c64a911159e92)

To further validate the number of apes is now in the millions, I want to highlight p 43 again -

>In mid-January, individual customer accounts reached a peak of 91% of the non-market maker volume in options.

Assuming "Mid Jan" is referring to Jan 11- Jan 22, it appears from Fig 12 (from above) around 6 million contracts traded during that time. At 91% of the volume, that means retail traded around 5.5 million contracts, again supporting the thesis more than one million apes jumped into GME at the start of the year.

One final point I want to highlight before wrapping up was the report specifically calling out certain brokers on p 43 -

>Individual customer accounts made up a high percentage of options trading in GME during this time. A small number of retail brokers facilitated this activity, with three brokers (Robinhood, TD Ameritrade, and E*Trade Securities) representing over 66% of individual customer accounts trading GME options.120 A small number of retail-focused online brokerages had the majority of volume from individual customer accounts, with Robinhood and TD Ameritrade alone accounting for over half of this volume.

Now, this could just be a coincidence, but I find it interesting that the brokers listed here are the same brokers that are struggling to perform DRS transfers, or outright denying the requests (Robinhood). Pure speculation here, but perhaps these brokers really took a hit in Jan and left themselves with open short exposure after the Jan sneeze, partially due to options being exercised. They were able to carry that exposure all the way until the great Ape DRS migration to computershare, but now find themselves in an even more difficult situation. I've stated this before - I believe there will be broker failures during MOASS, and now believe Robinhood, Etrade, and TDA will be the first ones to fall. I recommend taking some time to understand how SIPC insurance works if you haven't yet, and I wrote a post recently [as an overview of SIPC](https://www.reddit.com/r/Superstonk/comments/q3hjjs/hope_for_the_best_prepare_for_the_worst_an/?utm_source=share&utm;_medium=web2x&context;=3) that might help.

I don't want to overshadow what the SEC has done, so I will simply add their conclusion to close things out. I was pleasantly surprised by this report, and have a newfound hope the regulators may actually be looking out for retail this time. Time will tell...

>The extreme volatility in meme stocks in January 2021 tested the capacity and resiliency of our securities markets in a way that few could have anticipated. At the same time, the trading in meme stocks during this time highlighted an important feature of United States securities markets in the 21st century: broad participation. There are many different types of investors, and they buy and sell stocks for many different reasons. However, when share prices change rapidly and brokerage firms suddenly suspend trading, investors may lose money. Underneath the memes are actual companies, with employees, customers, and plans to invest in the future. Those who bought GameStop became co-owners of a company through a system of mutual trust and participation that sustains our economy. People may disagree about the prospects of GameStop and the other meme stocks, but those disagreements are what should lead to price discovery rather than disruptions. These events present an opportunity to reflect on the market structure and regulatory framework and identify additional areas for potential study and further consideration in the interests of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.
>
>These areas include:

1. Forces that may cause a brokerage to restrict trading. A number of clearing brokers experienced intraday margin calls from a clearinghouse. In reaction, some broker-dealers decided to restrict trading in a limited number of individual stocks in a way that some investors may not have anticipated. This episode highlights the integral role clearing plays in risk management for equity trading, but raises questions about the possible effects of acute margin calls on more thinly-capitalized broker-dealers and other means of reducing their risks. One method to mitigate the systemic risk posed by such entities to the clearinghouse and other participants is to shorten the settlement cycle.
2. Digital engagement practices and payment for order flow. Consideration should be given to whether game-like features and celebratory animations that are likely intended to create positive feedback from trading lead investors to trade more than they would otherwise. In addition, payment for order flow and the incentives it creates may cause broker-dealers to find novel ways to increase customer trading, including through the use of digital engagement practices.

3. Trading in dark pools and through wholesalers. Much of the retail order flow in GME was purchased by wholesalers and executed off exchange. Such trading interest is less visible to the wider market—and payments to broker-dealers may raise questions about the execution quality investors receive. Further, though wholesalers increasingly handle individual investor order flow, they face fewer requirements concerning their operational transparency and resiliency as compared to exchanges or ATSs.
4. Shortselling and market dynamics. While short selling and calls on social media for short squeezes received a great deal of media attention, the interplay between shorting and price dynamics is more complex than these narratives would suggest. Improved reporting of short sales would allow regulators to better track these dynamics.

Buy. HODL. DRS is Best. NFA. See you beautiful apes on the moon soon.

■■■■