Title: So, you are saying that instead of buying shares directly, one could buy IN THE MONEY calls and exercise them right away which would actually force them to buy and deliver???
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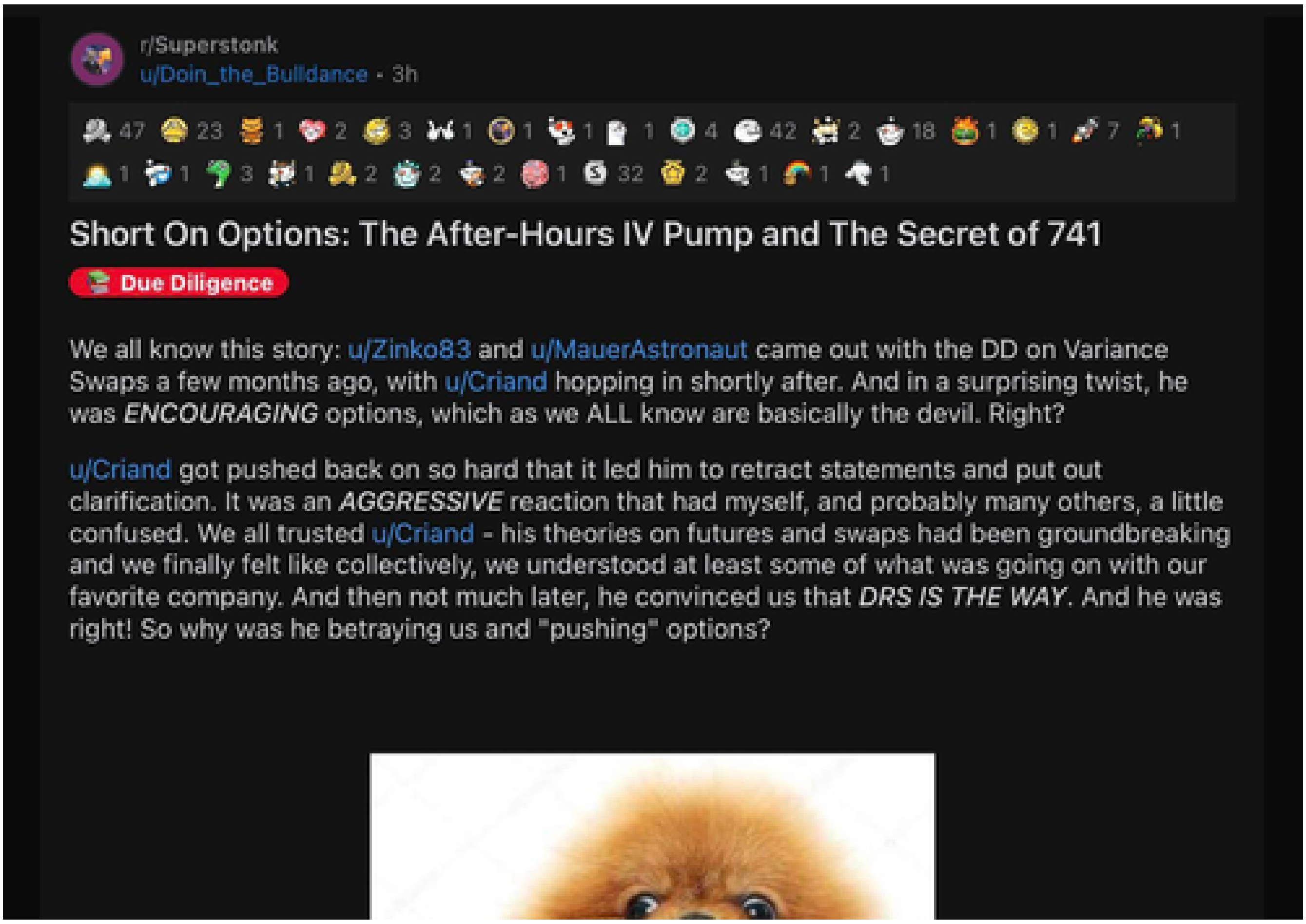
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Short On Options: The After-Hours IV Pump and The Secret of 741

Due Diligence

We all know this story: u/Zinko83 and u/MauerAstronaut came out with the DD on Variance Swaps a few months ago, with u/Criand hopping in shortly after. And in a surprising twist, he was *ENCOURAGING* options, which as we ALL know are basically the devil. Right?

u/Criand got pushed back on so hard that it led him to retract statements and put out clarification. It was an *AGGRESSIVE* reaction that had myself, and probably many others, a little confused. We all trusted u/Criand - his theories on futures and swaps had been groundbreaking and we finally felt like collectively, we understood at least some of what was going on with our favorite company. And then not much later, he convinced us that *DRS IS THE WAY*. And he was right! So why was he betraying us and "pushing" options?

I already know what a lot of the responses to all of this will be: *"How do we know that Market Makers are even delta-hedging?"* The fact is, they probably aren't. According to this guy Charles, that's what happened in January: MMs weren't hedging call options initially, but it got to a point where they couldn't keep ignoring it, and they *HAD* to start hedging, at least partially. Here is why.

The rules that govern call options are *DIFFERENT* than the rules governing regular shares at settlement. We all are keenly aware that when you buy shares, they can delay delivery by over a month before there are any real consequences, and even then there are a million ways for them to keep kicking that can. That's what we've been seeing and dealing with all year - it's plain as day that they can hide FTDs out of view, whether it's by rotating through ETFs or by creating more synthetics, or whatever other methods that we probably don't even know about.

Well, with call options, when you exercise, the seller must deliver the security by t+2. I'm not 100% sure on this area so I'd love some help here, but I would swear I've read some MM exemption that they get t+6, but I might be completely misremembering that. Either way, once an FTD happens at T+2, this is the giant kicker, as per the *OCC Clearing Rules, Rule 910 Part B:*

"If the Delivering Clearing Member has not completed a required delivery by the close of business on the delivery date, the Receiving Clearing Member shall issue a buy-in notice, in paper format or in automated format through the facilities of a self-regulatory organization that provides an automated communications system, with respect to the undelivered units of the underlying security, within 20 calendar days following the delivery date, and shall thereupon buy in the undelivered securities."

So with regular shares, you'd get T+2 before the FTD, but then Market Makers get T+35 before getting in trouble/being forced to buy in (assuming the underlying isn't on the threshold list). Like I said, in this case they have over a month to juggle things around. But with exercised call