Title: A Sample Letter Regarding the Fraud Surrounding GameStop That You Can Send to Your Congressional Representatives
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As inspired by [this](https://www.reddit.com/r/Autisticats/comments/ry2i5a/comment/hrnfazi) comment, I formatted this [this](https://www.reddit.com/r/Autisticats/comments/ry2i5a/ken_griffins_conspiracy_naked_and_overexposed/) post by u/semicollider so that it can be easily sent to your congressional representative to raise awareness of the fraud surrounding GME. There is a link to find your representative [here](https://econiverse.github.io/how_to_lead_change/). Here it is:

This isn't really about a particular trade, rather the illegal manipulation that is weighting so heavily against retail investors.

1. The current price is wrong.

This is the only point that will be unsupported directly. There are others on online forums who have covered this way better than can be summarized here. In a free market, price is supposed to be a function of demand. When supply is low and demand is high, the price is supposed to go higher until an equilibrium is established and vice versa. This is not the case.

2. Citadel is naked shorting Gamestop and the clearing house (DTCC) is complicit.

When Kenneth Cordele Griffin (currently 85% owner of Citadel) was a young hedge fund manager he focused on convertible arbitrage. \[1\] One of his first successful investments was puts on Home Shopping Network, and his first fund launched in time to profit from short positions on Black Monday. \[1\]\[2\]

Convertible arbitrage is supposed to be a market neutral strategy where one buys the debt of a company in the form of bonds convertible to shares at a certain time and shorts their common shares of equity. \[3\] The idea being to profit based on inefficiency in the way the two instruments are priced, and to manage your risk. The bonds function as a long hedge to your short position in shares. However, this can still be risky and is typically a highly leveraged strategy. It can produce a high rate of absolute return, while mitigating some of the market risk of the leverage. If the stock price increases your convertible bonds can mitigate your losses by paying a fixed rate and converting to equity. In the case of the company going bankrupt you don't have to buy in your shorts, and your bonds could give you a high priority pick of the bones while paying the fixed rate until default. \[4\]\[5\] This strategy is essentially a short sale with tightly managed risk and some long exposure.

Strategies like this and his usual shorting with risk management antics made Ken fabulously wealthy and put him in charge of a market making hedge fund. After being highly involved in the financial crisis of 2008, he became even more fixated on risk. He has 36 monitors at Citadel's risk management center that display over 50,000 instruments in their portfolios that they run 500 stress tests a day to simulate a variety of doomsday scenarios. He uses this to sell his hedge fund to wealthy investors as a fund with innovative risk management solutions. Ken Griffin undoubtedly realized at some point that the best way to manage risk is to pass that it on to someone else. With his firms capacity to naked short, and avoid delivery if the trade moves against him (until, perhaps, the price moves back down), he could successfully pass on the majority of his own risk as the short seller to the buyer, the long investor.

When a market maker fails to close a fail to deliver, the clearing house (DTCC) keeps the funds from the stock purchase and credits the long investor's account with an FTR (Failure to Receive). Most who have an FTR have no idea it is only an IOU, as it functions to them exactly the same as any other long equity position. The clearing house marks the cash held as collateral to market, with the price changing daily with the value of the stock, and the difference added from the market makers account or margin until the market maker buys in and purchases the actual stock or the FTD is resolved. While this arrangement is ostensibly to protect the buyer from the security never being delivered, until a buy in takes place an FTR is essentially a zero rebate equity loan from the buyer to the seller. Anyone who receives a long position in stock from the market maker could receive the FTR, and existing FTRs can pass to participants with more recent long positions, **so who has an FTR can change as shares are traded. If the FTR passes to someone enrolled in the Stock Borrow Program the FTD is resolved** and it becomes an actual zero rebate equity loan from that buyer to the original seller. But buy ins are extremely rare, from 1998-1999 there were 69,063 failed transactions, only 86 were ever bought in. Until some extraordinary event the clearing firms and market firms are customarily lenient with one another. Even if there is eventually a buy in, there is no guarantee that the security is the same that was originally "purchased" by the buyer. \[24\]

In my opinion this arrangement is criminal, and essentially forces buyers to short their own securities. It is my belief that once Ken Griffin had access to this system, he incorporated it in to his strategy and uses it to pass the majority of risk on to individual buyers of securities. Knowing he could use the clearing house and his market maker status (and by extension the long investors themselves) as his major hedge, and still be almost entirely assured of gains, he targeted individual stocks, including GME.

3. The SEC is aware of and even encourages it.

The crux of this section centers around Citadel's status as "market maker" for GME and "internalizer" for retail orders. There's been quite a bit of online discussion about the privileged position Citadel is in that gives them access to tools that can be misused for their own gain. The SEC says this about naked shorting and it's legality when practiced by the designated market maker of a particular security. \[6\]

>II. “Naked” Short Sales In a “naked” short sale, the seller does not borrow or arrange to borrow the securities in time to make delivery to the buyer within the standard three-day settlement period. As a result, the seller fails to deliver securities to the buyer when delivery is due (known as a “failure to deliver” or “fail”). Failures to deliver may result from either a short or a long sale. There may be legitimate reasons for a failure to deliver. For example, human or mechanical errors or processing delays can result from transferring securities in physical certificate rather than book-entry form, thus causing a failure to deliver on a long sale within the normal three-day settlement period. A fail may also result from “naked” short selling. For example, market makers who sell short thinly traded, illiquid stock in response to customer demand may encounter difficulty in obtaining securities when the time for delivery arrives. “Naked” short selling is not necessarily a violation of the federal securities laws or the Commission’s rules. Indeed, in certain circumstances, “naked” short selling contributes to market liquidity. For example, broker-dealers that make a market in a security generally stand ready to buy and sell the security on a regular and continuous basis at a publicly quoted price, even when there are no other buyers or sellers. Thus, market makers must sell a security to a buyer even when there are temporary shortages of that security available in the market. This may occur, for example, if there is a sudden surge in buying interest in that security, or if few investors are selling the security at that time. Because it may take a market maker considerable time to purchase or arrange to borrow the security, a market maker engaged in bona fide market making, particularly in a fast-moving market, may need to sell the security short without having arranged to borrow shares. This is especially true for market makers in thinly traded, illiquid stocks as there may be few shares available to purchase or borrow at a given time.

Ken Griffin's Citadel is the DMM (Designated Market Maker) for GME on the NYSE. Not only does this give them a massive advantage when trading this security for their own account, but when there aren't enough sellers the SEC EXPECTS Citadel to naked short GME. On top of their status as market maker they also function as an "internalizer". They have been known to abuse this function to take advantage of investors by misleading them about how their trades are priced and delaying orders to trade ahead of them. \[7\]\[8\]\[9\] Now the problems with this are obvious and it is clear the SEC is openly complicit in exempting Citadel (and specifically Citadel) from rules almost everyone else is expected to follow, in the name of "providing liquidity".

The rationale being if somebody wants to buy and no one wants to sell, Citadel as market maker should sell to the highest bid, and if someone wants to sell but there's no one to buy, Citadel should buy the lowest asking price to keep the market moving in the way the market wants to move.

January 2021 is an example of what happens if Citadel doesn't want to keep selling to the highest bid \[10\], but what happens if Citadel decides they don't want to buy at near the lowest asking price? The opportunity for price manipulation is immense. What if instead they choose to short sell below the best available ask price in a bear raid style attack with the infinite ammo cheat turned on? \[24\] The price likely moves down and you enter a situation of price manipulation and idiosyncratic risk. This is mostly held to be illegal, according to the SEC:

>Although the vast majority of short sales are legal, abusive short sale practices are illegal. For example, it is prohibited for any person to engage in a series of transactions in order to create actual or apparent active trading in a security or to depress the price of a security for the purpose of inducing the purchase or sale of the security by others. Thus, short sales effected to manipulate the price of a stock are prohibited.

But Citadel has never let this stop them before, and are happy to abuse their market maker status. What is "making a market by providing liquidity" if not "engaging in a series of transactions in order to create actual or apparent active trading"? So as a market maker and internalizer, especially in these types of low liquidity situations, **they largely determine the price.** Although they are obligated in most cases to provide the best price for their orders to their knowledge, in the past not only have they fallen short in their obligation to obtain the best price for retail orders, they've obstructed investor's orders to trade the same securities in their own accounts, at the expense of retail investors. \[11a\]\[11b\]

Furthermore, if the price has already dropped 10% or more in a day, a circuit breaker is triggered and anyone continuing to sell short or display a short order below the best available price at that point are in violation of Reg SHO 201:

>Rule 201 – Short Sale Price Test Circuit Breaker. Rule 201 generally requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent the execution or display of a short sale at an impermissible price when a stock has triggered a circuit breaker by experiencing a price decline of at least 10 percent in one day. Once the circuit breaker in Rule 201 has been triggered, the price test restriction will apply to short sale orders in that security for the remainder of the day and the following day, unless an exception applies.

Citadel has previously been found in violation of this rule. \[11c\] Therefor, while this rule could have temporarily prevented their attempts at manipulation, it has merely slowed them down, at best.

Their opportunities to cover, or close, are manifold with their position as a market maker and with the volume they handle as an internalizer. For them, it is easier to continue the manipulation rather than lose profit. Typically, they are assured they can drop the price and cover at their leisure. However, if there is too much buying from retail their exposure could increase through naked selling. When this grows to beyond a point they can control, they use illegal tactics as witnessed in January 2021.

As long as more people sell than buy, this manipulation can continue mostly unnoticed. However, if more people buy than sell (i.e. Citadel isn't able to inspire sufficient organic sell pressure with the firm's illegal manipulation), and Citadel keeps "making a market" by shorting naked in to the new buys, pretty quickly you end up in a situation where individuals hold significantly more shares than should exist.\[16\]\[19\]\[20\]

They have many techniques they can use to avoid closing their short positions, however, simply failing to deliver is often used. In this case, if the seller does not locate shares, the clearing corporation intermediating the trade would take margin and mark it to market to "defend" the buyer from the seller failing to close and delivering a share. Effectively this becomes an equity loan from the buyer to the seller at zero rebate. \[12\] \[24\] The various firms involved do this with full knowledge of the implications. Along with a variety of other techniques all designed with the idea of passing risk from short selling hedgefunds and brokers to everyday retail investors. \[22\] \[24\] It's a big club, and your average retail investor is not in it. \[21\]

Another example of Citadel being exempt from the rules would be the SEC's 2014 Regulation Systems Compliance and Integrity regime, a group of rules Citadel were specifically found be to be non-compliant with \[11g\]\[13\] yet nonetheless is granted a special exemption to. The ostensible purpose of this regime is the safety of US investors. Both the SEC and Citadel have declined to comment on Citadel's exemption. \[14\]

4. Citadel is continuing to break every understanding of the rules as they have done before.

When they are caught violating these loopholes, often the fines amount to only pennies per trade, and less than the profits of those trades. The sheer amount of fraudulence is staggering and a lot of it is very relevant to the situation we find ourselves in. \[7\]\[11\]

In 2020 Citadel was censured by FINRA a total of 19 times, for crimes including failing to close failure-to-deliver positions, naked short selling, inaccurate reporting of short sale indicators, executing trades during circuit-breaker halts, failing to offer its clients best prices on the bid-ask spread, and abusively shorting at an impermissible price. \[11a,c,d,e,f,\] Though they neither admitted nor denied guilt, they accepted the facts of the matter uncontested.

Their use of ETFs to "provide liquidity" and "operational short" result in not just idiosyncratic but systemic risk. \[15\]\[16\]

What Ken Griffin and Citadel's twitter account would have you believe is a conspiracy theory extends \[21\] extends not just to his companies and those of his close allies, but the regulatory bodies in charge of regulating those companies, his political allies, and his connections in the various media companies responsible for disseminating news and stock advice to the public. \[21\] \[23\] A conspiracy the courts described as "conceivable", but not "plausible" when they dismissed a case brought against the brokers. \[17\] \[21\]

When Ken Griffin says "it must frustrate the conspiracy theorists to no end that I have never met or spoken with Vlad Tenev" it's because he believes he's the Teflon Don, and if he didn't personally text Vlad "Could you turn off the BUY button plz thx XD" on the record he's untouchable. He has people to do that for him. And when you supply almost half of someone's revenue for supplying your victims \[7\]\[18\], that someone listens with very little extra encouragement needed.

The real conspiracy is the ability to manipulate down and destroy the price of American companies (preferably to bankruptcy) for profit, all while fleecing the individual investor at every opportunity. The SEC isn't interested in talking about the very real manipulation at play here, so they offer Ken Griffin a fig leaf of market maker and other exemptions to cover his naked corruption at the cost of introducing extraordinary risk in to the market. More often than not, this falls on individual long investors. \[12\] Even as exemptions to Reg SHO have dwindled and dwindled, more awareness of the naked shorting problem has continued to cause pressure to be applied. \[6\]

Conclusion

Any action to increase integrity, fairness, or transparency can only benefit the individual investor. There's some very basic steps that could be taken like ending Payment For Order Flow, forcing the majority of retail orders to be executed on lit exchanges (ending dark pool abuse), or actually enforcing the rules as written. There are also maturing technologies such as blockchain that can updated an outdated system to provide features such as instant settlement.

Please, as my representative, take action to end fraud in investment markets. Currently saying that the regulatory bodies look after the best interest of individual investors is like saying Colonel Sanders represents the best interests of chickens.

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