

Title: CME Group's Shorts

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Created 2022-03-03 02:29:46 UTC

Permalink: /r/Autisticats/comments/t5gvpk/cme_groups_shorts/

Url: /r/Superstonk/comments/t5fwl5/cme_group_may_be_holding_half_a_billion_in/

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Hello you collection of independent investors,

I wanted to share a follow-up regarding my DD on the CME group from last summer ([Link](https://www.reddit.com/r/Superstonk/comments/pqqsz6/goldman_is_a_swapsfutures_counterparty_theory_why/)). As always nothing I say and/or post is financial advice, and I reserve the right to be wrong. I believe the greatest strength of this subreddit is its ability to share ideas collectively with the goal to find more pieces to this puzzle. If a flaw or counter is found please share it.

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*** **HYPOTHESIS:****

The Chicago Merchant Exchange group is a Memestock counterparty for Short Hedge funds and was forced to hold a ****\$500 Million Dollar bag**** of unrealized fair-value positions last August. Additionally, the CFTC granted the exception to transfer those unrealized positions as forced closing, could have catalyzed the squeeze and would have significantly hurt the systematically important derivative clearinghouse.

*** **CME'S RISK MANAGEMENT****

Last summer I stumbled upon some information regarding the Chicago Merchant Exchange Group (CME) that points to manipulation with Commodities Futures Trading Commission's (CFTC) stamp of approval. We will get to that. First, we need to investigate who the CME group is.... CME Group Inc. is an American global markets company. It is the world's largest financial derivatives exchange, and trades in asset classes that include agricultural products, currencies, energy, interest rates, metals, stock indexes, and cryptocurrencies futures. It has been designated as a Systemically Important Derivatives Clearing Organization (SIDCO).

CME Clearing serves as the counter-party to every cleared transaction, becoming the buyer to each seller and the seller to each buyer, maintaining a matched book, and limiting the credit risk by guaranteeing the financial performance of both parties. In a bilateral system, each participant faces the concentrated, individual credit risk of the other party to the transaction. Satisfactory fulfillment of the transacted contract or agreement depends primarily on the creditworthiness and proper behaviour of each individual party to each transaction. CME Clearing mitigates counter-party risk through becoming the counter-party to both sides of the transaction, while utilizing risk tools such as: the collection of a performance bond (also referred to as initial margin), daily mark-to-market cycles, and the collection of Guaranty Fund

contributions, among other tools. By this mechanism, the concentrated credit risk of each transaction is transformed into a well-diversified and regulated risk supported by the financial safeguards system. Link on risk Let's look at their performance bonds and Guaranty Funds for the past few years... [link to quarterly reports](<http://investor.cmegroup.com/quarterly-results>).

<https://preview.redd.it/fctblvd0o2l81.png?width=794&format=png&auto=webp&s=fc28fa9709d5e6cc3cc0a5cb6c62210d94b884f4>

****What are performance bonds?****

Performance bond requirements are good-faith deposits to mitigate non-financial performance on open positions, acting as an ex-ante risk-based tool to cover potential future exposures. Through CME CORE, a web-based tool, CME Clearing offers full transparency to market participants by giving them the ability to calculate and evaluate performance bond requirements for all products cleared by CME Clearing. CME Clearing permits Clearing Members to deposit performance bonds sufficient to cover their net exposures for their proprietary positions. CME Clearing calculates performance bond requirements for each customer, collecting gross performance bond for the aggregate cleared swap customer account and customer segregated account, for exchange-traded derivatives. What happens if a defaulting member's position is worse than the balance of performance bonds & guarantee funds?

<https://preview.redd.it/fepkbct2o2l81.png?width=899&format=png&auto=webp&s=1b710fc95c7078b226bc9bb4d50a3ec2c3233ca3>

*** **FUTURES CYCLE/ROLLOVER WINDOWS****

[Something happened that changed the quarterly waves in Q3 2021](<https://preview.redd.it/huri67o9o2l81.png?width=1642&format=png&auto=webp&s=1d002d418611694c9c96c66446dcf8f11de869ec>)

Above is a graphical representation of the first 3 future cycles of 2021. As you can see there is significant movement in the first 2 cycles, and we have only seen a fraction of upward momentum since those timeframes. I propose that during the third cycle there was less buying to cover the underlying position because a holder/holders of the position had defaulted.

*** **TRANSFER OF A DEFAULTING MEMBERS POSITION****

On August 11th the CFTC sent a letter to Mr Chris Kirkpatrick of the CME regarding the implementation of a proposed amendment on the ****Transfer of Trades and Customer Accounts rules****.

This amendment discusses a new provision for a clearing member who wishes to manage the liquidation and hedging of a defaulting customer. This clearing member has the contractual right to transfer the position. These amendments were effective at the beginning of the August rollover window (****August 26th 2021****) [LINK](<https://www.cftc.gov/sites/default/files/filings/orgrules/21/08/rule081121cmecm001.pdf>)

<https://preview.redd.it/t5q83vsbo2l81.png?width=1013&format=png&auto=webp&s=e1df05988094d805bdf23395c55582b6d7d3ae48>

What are the core principles of this amendment....

<https://preview.redd.it/2os3u4odo2l81.png?width=1009&format=png&auto=webp&s=47927d26e0989718b6c0b9a86fa830adb512ed71>

*** **WHAT ARE FORWARDS?****

A forward contract is a customized contract between two parties to buy or sell an asset at a specified price on a future date. A forward contract can be used for hedging or speculation, although its non-standardized nature makes it particularly apt for hedging.

<https://preview.redd.it/gcsmq9rjo2l81.png?width=1320&format;=png&auto;=webp&s;=8e2f687193d03d9e1877d4b7b675c40cbe1d07a7>

I propose that it is possible that a significant portion of Memestock positions were held in Forward Contracts. I believe as forwards are unregulated, and privately negotiated it would be a great way to keep your exposure hidden. We also saw that the exchange was at risk due to counter-party defaults, and the Exchange required permission from the Commodity Futures Trading Commission to move the position.

* **SUPPORTING EVIDENCE (NEW)**

If there was a risky position that was moved from a counter-party to the exchange we should see some evidence of this transfer....

****Earnings Reports for CME Group Q2-Q4**** [link](<http://investor.cmegroup.com/events-and-presentations>)

[Quarter 2-4 Earnings reports for CME Group](<https://preview.redd.it/f50mrn7qn2l81.png?width=1032&format;=png&auto;=webp&s;=b74ad6ea95086ab32891cdf8ff32e70cd819110a>)

<https://preview.redd.it/5otgdeisn2l81.png?width=1125&format;=png&auto;=webp&s;=44296e29c1046d66d31cdb2b181bb684742fdffa>

Based on the evidence provided the CFTC approved a position to be moved that could have threatened the exchange with significant losses. The transfer of the position occurred during Q3 of 2021. The rule to allow CME to move the position from a defaulting counter-party was passed the day prior to our expected August roll-over window. Additionally, you can see CME group opted to hold a significant unrealized loss than have the position close. This rule change is irregular, was not made without reason, and the timing of the change was of no coincidence.

****Selling of CME Stock****

I was also looking if there may have been any other smoking guns regarding the risky position that CME group may be holding. It would look like just after the rule was approved, there was a bunch of sell pressure on CME stock.

<https://preview.redd.it/e1f8o56xo2l81.png?width=1756&format;=png&auto;=webp&s;=accbe4590479d2848fa23fff23d5a4666e49e73c>

On August 18th 2021, there was a leak of a proposed takeover bid by CME to acquire CBOE (Chicago Board Options Exchange) for \$16 Billion Dollars. The take-over would have been bullish news for the company and should have seen the value of its stock rise. What we actually saw was the price dropped by \$7.2 Dollars per share or down 4.2%. We also saw a volume of 6,047,100 which was 7 Standard Deviations from the yearly volume mean ($\mu=1392478$, $\sigma=647070$). On that day CME also denied any such rumours.

>CME Group denies all rumours that it is in conversations to acquire Cboe Global Markets. The company has not had any discussions with Cboe whatsoever "While the company does not typically comment on rumours or speculation, today's inaccurate information required correction." - CME Group in a statement on 18 August.

I propose, that the rumour was released to help drive buy volume while investors sold off stock in the exchange.

* **CONCLUSION** *

- * We can confirm that in August of last year the CFTC granted CME group to move a position that put them at risk
- * After the position was moved we noticed a significant change in the Exchanges unrealized losses.
- * We noticed a fundamental change from the quarterly run-ups prior to August 26th and after August 26th 2021.

Critical thinking questions

\-What could have happened in Q3 that would warrant the CFTC allowing CME to move this position?

\-Why would the CME group rather hold a \$450 Million dollar position rather than close a position when they have a \$140 Billion safety net of Collateral?

EDIT . Including some of my past DDs

[Bank of America Quarterly Update. Morgan Stanley has entered the chat](https://www.reddit.com/r/Superstonk/comments/qm9tnr/bank_of_america_quarterly_update_morgan_stanley/)

[Bank of America Is Short GME And Is Positioned For A Potential Bankruptcy (semi debunked post from last night)](https://www.reddit.com/r/Superstonk/comments/oxz8kg/bank_of_america_is_short_gme_and_is_positioned/)

[The Complete Bank of America Gamestop DD](https://www.reddit.com/r/Superstonk/comments/nsioql/the_complete_bank_of_america_gamestop_dd/)

[Popcorn stock Delayed Memestock Endgame With Their June Share Offering.](https://www.reddit.com/user/gfountyyyc/comments/p3eo1f/popcorn_stock_delayed_memestock_endgame_with/)