Title: The Melvin Capital Misdirection
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Body:
TLDR:

As you’re all familiar in late January 2021 the game was stopped and the message that a short seller by the name of Gabriel Plotkin made a “bad bet” on GameStop was [broadcast](https://www.wsj.com/articles/melvin-capital-lost-53-in-january-hurt-by-gamestop-and-other-bets-11612103117) far and wide - as if it were a one-off fluke. Recent disclosures have me thinking otherwise.

Background:

Here is a quote by Gabe at the February hearing stating Retail Investors exploited an opportunity prior to the buy button being turned off:

>“The financial markers are changing. There’s a lot of new players. Um I uh think they saw an opportunity to you know, drive the price of the stock higher uh and you know today with social media and other means there’s the ability to you know kinda collectively do so. Uh that was a risk factor that up until recently we had never seen before. And I think, with Retail Investors you think about, and they’ve become really adept at this, investing in the internet or software stocks, electric vehicles, You know, y’know ideas with big opportunities and and they chase them because they believe in the fundamentals - **I think this was very different in that a lot of the “Meme Stocks,” *you know these were businesses with real challenges***, um but **they exploited an opportunity, y’know, uh around short interest and and the way that was approached** and I think, you know, us and Melvin will adapt and I think the whole industry will have to adapt.” - [Gabriel Plotkin min. 1:18-2:12 - Feb. 18th, 2021](https://youtu.be/orMxmQyy_tA)

Kind of weird, right? Why did Gabe feel the need to point out the fact “Meme Stocks” were, you know, businesses with real challenges?

One clue might be a [Credit Event](https://www.cdsdeterminationscommittees.org/cds/europcar-mobility-group-s-a/) that occurred on January 13th, 2021. Why? Because the settlement auction for this credit event was held on January 19th, 2021 - six days prior to the Citadel and Point72 “[investment](https://www.wsj.com/articles/citadel-point72-to-invest-2-75-billion-into-melvin-capital-management-11611604340)” in Melvin Capital - for which I see no other explanation for beyond [Securities Lending](https://www.investopedia.com/terms/s/securitieslending.asp). This is not only evidenced by what I believe was the posting of collateral by Citadel and Point72 on [January 25th, 2021](https://www.wsj.com/articles/citadel-point72-to-invest-2-75-billion-into-melvin-capital-management-11611604340) but also the recent “redemption” by Citadel on [August 21, 2021](https://www.wsj.com/articles/citadel-to-redeem-about-500-million-from-melvin-capital-11629550410), one day after the T+35 date associated with July 16th, 2021.

It might also be worth noting that both Point72 and Melvin appear to deal in Securities Lending, as indicated by the social media profiles of their in-house counsels whose CVs mention MSLA, which stands for “Master Securities Loan Agreement.” You can even apply to be a Securities Lending Trader at Point72 [here](https://careers.point72.com/CSJobDetail?jobName=securities-lending-trader&jobCode;=IVS-0008260&retURL;=/CSCareerSearch?filters=_area=treasury).

Context:

So there was a credit event, some assets were auctioned off and then maybe lent to another financial institution to assume their risk. So what?

If the credit event from January ties the recent collapse of a supply chain finance company and family office together the way in the which I believe it does, then the assets on loan could've been extremely risky given they:

>"(ii) generated among the largest scenario exposures of all global hedge fund portfolios (with the largest limit breaches); and (iii) had a portfolio that was among the most concentrated, leveraged, and volatile of all CS hedge fund clients." - [Credit Suisse, Pg. 27 - July 19th, 2021](https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/results/csg-special-committee-bod-report-archegos.pdf)

And also:

>"This margin erosion was exacerbated by the specific form of swaps that Archegos favored, so-called "bullet" swaps, which did not periodically reset to the current market value (with a corresponding increase in margin) and had an average tenor of 24 months."
[Credit Suisse, Pg. 7 - July 19th, 2021](https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/results/csg-special-committee-bod-report-archegos.pdf)

Hypothesis:

Interestingly enough, while re-researching Melvin and Securities Lending, I came across a post on another GME forum talking about an email they received from Apex Clearing on March 27, 2021 (one day after the liquidation of a family office took place) talking about updates to their Securities Lending program and a link to their [new MSLA](https://www.apexclearing.com/wp-content/uploads/2021/03/Apex-FPSL-MSLA-2021.pdf). These agreements appear to specify all the rules associated with a securities lending agreement and in the Apex document there is a clause that specifies something neat called a "Cutoff Time":

>"if either party (a) shall fail to perform any material obligation under this Agreement not specifically set forth in clauses 12.1 through 12.7, above, including but not limited to the payment of fees as required by Section 5, **and the payment of transfer taxes as required by Section 13, (b) shall have been notified of such failure by the other party prior to the Close of Business on any day, and (c) shall not have cured such failure by the Cutoff Time on the next day after such Close of Business on which a transfer of cash may be effected**"

This struck me as particularly fascinating given the timing of the recent $500mil redemption by Citadel on August 21st, 2021 - one business day after the close of business on August 20th, 2021 - the T+35 for July 16th, 2021.

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Conclusion:

If Retail Investors were truly the culprit for the exploitation of an, uh, opportunity around short interest then why did Ryan Cohen begin investing in GameStop in [2019](https://www.wsj.com/articles/gamestop-ryan-cohen-chewy-meme-stock-11628776861) and why did Gabe desire to withhold disclosures of other companies that were facing some "[real challenges](https://www.wsj.com/articles/goldman-feasts-at-expense-of-food-company-client-suit-claims-11548884825)":

>"Plotkin obtained permission from the U.S. Securities and Exchange Commission to delay required disclosures starting in February, after Reddit traders used the fund's earlier filings to target stocks he had likely sold short. Yet by then, the damage was already done: The group banded together in January to trade in the opposite direction, an unprecedented move by retail investors that saddled one of Wall Street's most successful traders with a stunning monthly loss of 55%."
[Bloomberg - August 20th, 2021](https://www.bloomberg.com/news/articles/2021-08-20/melvin-ramped-up-new-bets-against-stocks-before-55-january-rout)

Maybe Gabe and Point72 have been intentionally using Reddit as a scapegoat to skirt disclosure rules that would otherwise apply to virtually anyone else in attempt to rein in volatile exposure related to illiquid, future-dated, unexercised bullet swaps tied to companies that Institutional Investors were expecting to be bankrupted by way of Manufactured Default. If the $500mil “redemption” were related to a breach in MSLA contract Reddit/Retail misdirection could have potentially been in vain and indicative of an inability to rein in exposure.

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Just a Retail Investor who reads the news, not a financial advisor.