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Preface

Over the past year I've spent countless hours outside my career and familial responsibilities independently researching and writing as part of ongoing effort to debunk the portrayal of Retail Investors by news outlets as bad-faith, reckless market participants through a fact-based understanding of how the collapse of Greensill and then Archegos Capital groups were related events triggered by a short squeeze in the bond market that left Credit Suisse holding a [€1.5 billion bag](https://www.cdsdeterminationscommittees.org/documents/2021/01/emea-dc-issue-2020120201-europcar-mobility-group-s-a-final-list-11-january-2021.pdf/) - a narrative that remains unreported by financial reporters to this day.

Until recently part of my [overarching theory](https://www.reddit.com/r/Superstonk/comments/qib1my/gamestop_and_hr_4618_short_sale_transparency_and) involved Archegos utilizing a Convertible Bond Arbitrage strategy referred to as Chinese Hedging by investing in tranches of Greensill-issued, Credit Suisse-syndicated loans with the goal of profiting off the demise of companies during bankruptcy auctions. The financial instruments employed by Archegos allowed them to avoid cross-broker margining, obtain obscene leverage and led me to believe Credit Suisse silently cultivated a [Credit Insurance Bubble](https://www.reddit.com/r/Superstonk/comments/pk08rq/clos_reverse_repos_and_gamestop) through the operation of a "[shadow CLO market](https://www.reddit.com/r/Superstonk/comments/q12t4g/credit_suisse_greensill_archegos_evergrande_and)" that only became visible once the Archegos assets were liquidated and publicly repriced via SOFR.

Then I decided to read *[Structured Credit Products: Credit Derivatives and Synthetic Securitisation, 2nd Edition | Wiley](https://www.wiley.com/en-us/Structured+Credit+Products%3A+Credit+Derivatives+and+Synthetic+Securitisation%2C+2nd+Edition-p-9781118177136)* during a few vacation days last week and some important realizations dawned on me:
1. It was *Capital Structure Arbitrage*, not Convertible Bond Arbitrage, that Bill Hwang practiced through the use of Total Return Swaps (as suggested by earlier [reports](https://www.wsj.com/articles/what-is-a-total-return-swap-and-how-did-archegos-capital-use-it-11617125839) and the Credit Suisse [legal review](https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/results/csg-special-committee-bod-report-archegos.pdf) of Archegos)
2. A financial derivative exists called a **Credit Linked Note (CLN)** that is similar but different from a Collateralized Loan Obligation in that it is more open-ended and specifically known to be used by those seeking to profit from the bankruptcy of companies

Once these key learnings began falling into place I started recognizing some overlaps between my research and that of another author whose findings I felt were correct but parallel to my own until now - u/Criand.

The Criand Connection

Criand has not only written about a derivative-driven [Speculative Bubble](https://www.reddit.com/r/Superstonk/comments/o0scoy/the_bigger_short_how_2008_is_repeating_at_a_much) reminiscent of 2008 but also on the topic of "Meme Stock" baskets following [Futures Roll Periods](https://www.reddit.com/r/Superstonk/comments/pb22oj/the_puzzle_pieces_of_quarterly_movements_equity). Which is why, when I came across the following excerpt from a chapter on Capital Structure Arbitrage in the structured finance book, I was pretty "excited":

> "An example of such a trade opportunity arose in the last quarter of 2009. Equity levels worldwide had risen since their lows of March that year, and as expected credit spreads had also tightened during this period... We observe that the CDS price has fallen back down to its level at the time just before the

Lehman collapse in September 2008, whereas the equity index had still to recover to that level. This suggested that equities still had further upside, relative to credit spreads. **A potential trade would therefore be to acquire an exposure to the equity index, perhaps via an exchange-traded future, and buy protection on this same basket via a CDS basket trade**." - [Structured Credit Products: Credit Derivatives and Synthetic Securitisation, 2nd Edition | Wiley - Chapter 5](https://www.wiley.com/en-us/Structured+Credit+Products%3A+Credit+Derivatives+and+Synthetic+Securitisation%2C+2nd+Edition-p-9781118177136)

Wow, amazing, I thought. Here is a hypothetical trade related to Total Return Swaps involving a time period overlapping with the last financial crisis and the trading of both futures and CDS baskets ■

The second part of *The Criand Connection* involves the author's recent discussion around [Variance Swaps](https://www.reddit.com/r/Superstonk/comments/qvtmxm/clearing_up_some_things_about_options_and_how_it) and the purpose they've been serving. Until now my writing merely brushed up against Variance Swap theory through reference of [OTC Options](https://www.investopedia.com/terms/o/otcoptions.asp) in a pre Superstonk-approved post titled "Shake Your Market Maker" that was my best attempt at:
1. Explaining the OTM put options from July 16th, 2021
2. Making sense of u/nayboyer's OTC research and
3. Robinhood's weird July 28th, 2021 [announcement](https://www.foxbusiness.com/markets/robinhood-ipo-twist-business-model) that they were considering becoming a "standalone market maker."

Then I stumbled across this explanation of Variance Swaps and voila, another a-ha moment:

> "**Variance swaps have become popular risk recycling tools among dealers whose large structured products businesses leave them short correlation.** Dealers can buy back correlation from hedge funds via dispersion trades, in which **hedge funds take a short variance swap on an index, while buying variance swaps on the constituent single stocks.**"
[Risk.net](https://www.risk.net/definition/variance-swap)

This is also ■ to me because not only have GameStop and other "Meme Stocks" certainly left dealers of structured products short correlation throughout 2021 but ETFs like XRT have been heavily [shorted](https://www.reddit.com/r/Superstonk/comments/q3858o/spdr_sp_retail_etf_ticker_xrt_gamestop_gme/) throughout the year as well.

Which is a natural segue to the second major part of this post: the root cause of this whole mess.

Credit Linked Notes

These notes represent a critical puzzle piece missing from my research - a "smoking gun" of sorts - and have been right under my nose the whole time.

I was totally unfamiliar with the complexities and uses associated with structured notes prior to reading a subsection from the Capital Structure Arbitrage chapter of the structured finance book on ***Enhancing Portfolio Returns*** that says:

> "Asset managers can derive premium income by trading credit exposures in the form of derivatives issued with synthetic structured notes. The multi-tranching aspect of structured products enables specific credit exposures (credit spreads and outright default), and their expectations, to be sold to specific areas of demand. By using structured notes such as credit-linked notes (CLNs), tied to the assets in the reference pool of the portfolio manager, the trading of credit exposures is crystallised as added yield on the asset manager's fixed income portfolio. In this way, the portfolio manager has enabled other market participants to gain an exposure to the credit risk of a pool of assets, but not to any other aspects of the portfolio, and without the need to hold the physical assets themselves." - [Structured Credit Products: Credit Derivatives and Synthetic Securitisation, 2nd Edition | Wiley - Chapter 5](https://www.wiley.com/en-us/Structured+Credit+Products%3A+Credit+Derivatives+and+Synthetic+Securitisation%2C+2nd+Edition-p-9781118177136)

That resonated with me because I had semi-recently read about Credit Suisse investing heavily in

Greensill notes:

> “…the insurer providing protection against defaults on loans Greensill Capital arranged decided not to renew its coverage, effectively yanking away an important safety net for investors in its notes. And **Credit Suisse Group AG, which ran funds full of those Greensill notes**, decided it was so uncertain of their value that it had to freeze all four of the portfolios, making it impossible for clients to immediately get their money out.” - [Bloomberg - September 8th, 2021](https://www.bloomberg.com/news/features/2021-09-08/why-did-greensill-collapse-the-simple-problem-behind-the-financial-empire)

And unwittingly referenced the notes in a post of my own [here](https://www.reddit.com/r/Superstonk/comments/p9rlwv/gamestop_lay_back_enjoy_the_show) while quoting an excerpt from the British Parliament hearing on Greensill that I suspected tied Archegos to Greensill that stated:

> ”**Greensill issued secured commercial paper via a Special Purpose Vehicle (SPV) registered in Luxembourg**. The FCA provides a definition of an SPV as a legal entity explicitly established for the purpose of securitising assets. **Greensill packaged up individual invoices into notes that were purchased by Greensill’s investor base. Some of these assets were purchased by outside investors, for example a fund managed by Credit Suisse**. Others were bought by Greensill Bank, a bank owned by the Greensill Group which was domiciled in Germany. Greensill’s reliance on investor funding made it vulnerable to a contraction in the supply of such funding.”
[U.K. Parliament, #17 - July 20, 2021](https://publications.parliament.uk/pa/cm5802/cmselect/cmtreasy/151/15105.htm#_idTextAnchor011)

Which, again, resulted in another ■ moment when I came across a [legal brief](https://www.mayerbrown.com/-/media/files/perspectives-events/events/2020/10/reverse-inquiries-workshop--issuing-credit-linked-notes.pdf) published on October 13th, 2020 by the law firm *Mayer | Brown* that:
1. Specifies Credit Linked Notes are issued by Special Purpose Vehicles
2. Makes reference to Hertz, the Vatican and “Gambling on the failure of others” - a sad but truthful tale regarding the usage of donation money by a Cardinal investing in notes covered by the FT [here](https://www.ft.com/content/f966e8b4-945a-45d0-8391-a305b3d8f7f5)

Reminding me of the fact Apollo Global Management just made a whopping $1.5bil [windfall](https://www.wsj.com/articles/apollo-poised-for-big-returns-on-1-5-billion-hertz-stock-buyback-11637172249) on Hertz and were also publicly [interested](https://mobile.reuters.com/article/amp/idUSKBN2B4233) in Greensill’s assets earlier in the year. Also seems worth noting that many banks had SPV programs with ties to Greensill… which might help explain the generally negative sentiment by many on Wall Street towards former “Meme Stocks” like GameStop.

For these reasons, I’m surprised more people aren’t eagerly awaiting the report on Greensill by Credit Suisse that was supposed to be published in early October but was unfortunately [delayed](https://www.bloomberg.com/news/articles/2021-10-11/credit-suisse-to-delay-publishing-findings-from-greensill-report) considering:

> “CLNs are a form of credit derivative. They are also, in all their forms, bond instruments for which **an investor pays cash** upfront, in order to receive a periodic coupon and, **on maturity or termination**, all or part of its initial purchase price back. That makes CLNs virtually identical to cash bonds. The key difference is that the return on the CLN is explicitly linked to the credit performance of the reference security or reference entity.” - [Structured Credit Products: Credit Derivatives and Synthetic Securitisation, 2nd Edition | Wiley - Chapter 3](https://www.wiley.com/en-us/Structured+Credit+Products%3A+Credit+Derivatives+and+Synthetic+Securitisation%2C+2nd+Edition-p-9781118177136)

Perhaps there will be notes maturing in January 2022 that will need to be paid for in cash given the fact Archegos preferred non-cancellable bullet swaps with a 24mo tenor? Why else would the Variance Swaps be needed?

Conclusion

After many months of research I’ve come to the independent conclusions that:

1. Criand has been correct with regard to a significant number of topics
2. Archegos seems to have been gambling on the failure of others by investing in Greensill-issued CLNs arranged by Credit Suisse
3. Structured Finance explains a lot and needs to come first - ahead of Retail Investors - in the “Meme Stock Blame Game”

■ ■

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Shoutouts to u/No-Intention1744 for broaching the topic of structured notes on April 23rd, 2021 in their post [here](https://www.reddit.com/r/Superstonk/comments/mwl3ru/the_shit_tickets_in_your_portfolio/) and all the incredible DD authors involved in the Variance Swap conversations: u/zinko83, u/gherkinit, u/Leenixus, u/Turdfurg3 and u/MauerAstronaut

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Just a Retail Investor, not a financial advisor