Title: GameStop: Lay Back, Enjoy The Show
Author: funsnacks
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Is_self: True

Body:
I was listening to a song the other day that reminded me of GameStop and inspired me to write another post. I found one verse to be particularly wise and relatable because of how the surreal GameStop narrative has begun to unfold:

>I've been wondering if all the things I've seen
Were ever real, were ever really happening (Really happening)
-[Cheryl Crow](https://youtu.be/khrx-zrG460)

TLDR:

In January 2021 there was a [Credit Event](https://www.cdsdeterminationscommittees.org/cds/europcar-mobility-group-s-a/) related to loan-only credit default swaps that left a Clearinghouse holding a bag filled with illiquid, future-dated contracts that were targeting companies institutional investors were expecting to go bankrupt. Not only did this result in the liquidation of a “supply chain finance” company, but also a family office and introduction of related toxic collateral loan obligations, backed by securities such as GameStop, into the public exchanges as “short” positions.

Background:

185 days ago an American Hero named Keith “Roaring Kitty” Gill, D.F.V., testified in Congress. What a triumphant day that was! He said all the right things at exactly the right time. Remember when the share price actually shot up to it’s intraday high of $48.87 while he began his testimony? Incredible.

Maybe it was Keith’s testimony that inspired me to open my GameStop position that day, or maybe it was the ineptitude demonstrated by all other parties involved in the hearing that motivated me - I can’t remember. Either way, have only continued to purchase ever since. Yolo.

I’m here not only as an individual, independent, Retail Investor but also a Cheryl Crow fan to provide my own personal understanding of what has been occurring in the global [securities market](https://www.investopedia.com/articles/stocks/11/securities-market-introduction.asp) and how GameStop’s implication.

Context:

>“In times of crisis the credit default swap market springs to life. We saw this in the Great Financial Crisis of 2007-2009, the eurozone debt crisis of 2010-2012 and now the COVID-19 pandemic that started in 2020 and is still with us. Investors require a financial instrument that hedges credit risk and protects them against defaults - CDS is specifically designed for such a purpose.” [IHS Markit - January 12th, 2021](https://ihsmarkit.com/research-analysis/2020--highest-credit-default-events-since-2009--what-about-202.html)
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You might be thinking, “Makes sense, businesses *should* protect themselves against unexpected or unavoidable bankruptcy during times of uncertainty, right?” And you would be right, [trade credit insurance](https://www.investopedia.com/trade-credit-insurance-5190219) has been around for a long time and likely serves many legitimate and important purposes. So why am I bringing up this otherwise ordinary-sounding financial instrument?

Because unfortunately, and perhaps unsurprisingly, it seems there exists a dark side to trade credit insurance that was exposed by the January 2021 collapse of a so-called “[supply chain finance](https://www.investopedia.com/terms/s/supply-chain-finance.asp)" company that appears to have been abusing it. Bold claim, right? How can trade credit insurance be abused?

If you're a longtime follower of this subreddit I am sure you have come across the term "[bankruptcy jackpot](https://finance.zacks.com/happen-short-stocks-bankruptcy-8444.html)." While that explanation is not false, it is incomplete in that it does not fully describe all of the monetary incentives associated with bankruptcy. There is, however, another more sophisticated financial maneuver called a Manufactured Default that explains much more than the "bankruptcy jackpot" theory does on its own.

Manufactured Defaults involve the intentional bankruptcy of a company for the purpose of triggering payouts specified in credit default swap contracts purchased under the guise of trade credit insurance. Turns out there is a type of credit default swap preferred by those who organize Manufactured Defaults called a [Loan-only Credit Default Swap (LCDS)](https://www.investopedia.com/terms/l/loan-credit-default-swap.asp) for a few specific reasons:

1. They are tied to [Syndicated Secured Loans](https://www.investopedia.com/terms/l/loan-credit-default-swap.asp) and can be [tranched](https://www.investopedia.com/terms/t/tranches.asp)
2. Other investors can invest in the security-backed tranches using [Collateralized Loan Obligations](https://www.investopedia.com/terms/c/clo.asp)
3. There is an IHS Markit index specifically meant for loan-only credit default swaps called the [Markit LCDX](https://www.investopedia.com/terms/l/lcdx.asp)
4. And an auction service called [CreditEx](https://www.creditfixings.com/CreditEventAuctions/static/credit_event_auction/about/creditex.shtml) which the CDS Determinations Committee states is solely responsible for auctions related to LCDS on their website [here](https://www.cdsdeterminationscommittees.org/lcds-management/).

Hypothesis:

What the now-bankrupt "supply chain finance" company seems to have been doing was creating Loan-only Credit Default Swaps, "tranching" them, and then allowing 3rd parties to invest using collateral loan obligations in expectation of a bankruptcy and subsequently reliable payout:

>"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)

It seems probable the prime broker's other client purchasing these assets could have very well been a recently-bankrupt family office which just so happened to prefer a type of [Collateralized Loan Obligation](https://www.investopedia.com/terms/c/clo.asp) known as a "Bullet Swap." In the lead up to this family office's margin call:

>"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)

So what would you do if you were a Clearinghouse and you just assumed the risk associated with a bunch of [convertible bonds](https://www.investopedia.com/ask/answers/06/stockfromconvertiblebondorigin.asp) that were purchased with the expectation that the underlying companies would go bankrupt? One possibility could be spreading out the risk through [Securities Lending](https://www.investopedia.com/terms/s/securitieslending.asp); whereby a 3rd party with sufficient collateral is paid an amount of money, based on exposure, to *assume* the risk of an underlying asset.

Not only does securities lending provide one possible explanation for the multi-billion dollar hedge fund “investment” in January 2021, but it could also help contextualize recently disclosed news that sheds light on the “Meme Stock” phenomenon and why it was co-opted by financial institutions. It seems some have been using this platform and it’s content as a scapegoat and means to skirt disclosure rules:

>“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)

Wow, obtained permission to withhold disclosures? Why would someone want to do something like that? Interesting that the company this hedge fund decided to withhold the name of was the lead plaintiff in a [lawsuit](https://law.justia.com/cases/new-york/other-courts/2020/2020-ny-slip-op-31302-u.html) all about debt and credit default swap payouts. More [here](https://www.wsj.com/articles/goldman-feasts-at-expense-of-food-company-client-suit-claims-11548884825).

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Conclusion:

Trading is a tough game, so please allow me leave you with one final thought while *high on intellectualism*:

>“April 22, 2021, CS had liquidated 97% of its Archegos exposure.” [Credit Suisse, Pg. 128 - July 29th, 2021](https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/results/csg-special-committee-bod-report-archegos.pdf)

If you’ve heard anything about this remaining 3% of exposure being liquidated, let me know. Otherwise, hope you’re now *a little bit closer to feeling fine*.

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Remember, I am not a financial advisor, just a Retail Investor who reads the news and is interested in fact-based understandings of events.