

Title: How SHFs can circumvent Continuous Net Settlement through the Obligation Warehouse

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Yesterday I wanted to do some research. A lot of DDs on reddit revolve around the Continuous Net Settlement system, but on many predicted dates upswing dates, these turned out to be wrong. A lot of people were looking forward to Quadruple Witching's T+2, but no price spike happened and it price action just went back to crabbing. So I started to think why this could be. How could SHFs get around the CNS, it seemed pretty straight forward. Then I remembered a quote from Wes Christian a few months ago talking about the Obligation Warehouse. He referred to it as the place where FTDs die (sitting for years in some cases, and never to be covered in others). Then, I remembered a video I watched back in January.

[Dark Side of the Looking Glass](<https://www.youtube.com/watch?v=qtkAMx12otQ&t=801s>)

A very good video if you have the time to watch the whole thing. Basically, a few years ago, the SEC was subject to a FOIA request where they had to provide FTD data on the NYSE and these numbers went up to ****229,880,467 FTDs on ONE DAY.**** This is not even including FTDs in OTC/ATS systems, which are often magnitudes more due to lack of regulation. So I tried to find out more about the OW so I did some digging last night. Was looking through a reddit thread when I came across the last few pictures, which included an option to take shares out of the CNS system. At this point I was interested where the user sourced these screenshots so I did some searching and stumbled across the [Obligation Warehouse Manual](https://pdfhost.io/v/~UD3CiGM2_Obligation_Warehouse_User_Guide.pdf). In here, there is a lot to break down so lets get into it.

The Obligation Warehouse

[<https://www.dtcc.com/clearing-services/equities-clearing-services/Vow>](<https://preview.redd.it/h8lor4qm2mp71.png?width=1232&format=png&auto=webp&s=9a7989615f2fac736122b6d1da74653def2231d4>)

So all the NSCC members can use the OW. The second part seems interesting to me. It specifically mentions what FINRA rules require Broker Dealers to use RECAPS, but does not say anything about the NSCC members. We will return to this later.

[<https://www.dtcc.com/client-center/nscc-directories>](<https://preview.redd.it/w824v86c3mp71.png?width=1398&format=png&auto=webp&s=fa670c89edc3139b72cbe1d34fa7b05e379ed547>)

As we can see here, Citadel is part of the NSCC members, so they have access to this system.

So what does the OW do?

[<https://www.dtcc.com/clearing-services/equities-clearing-services/Vow>](<https://preview.redd.it/y6biihfo4mp71.png?width=830&format=png&auto=webp&s=8137cc24b06fdcf308c8835ea0786c99acd0f0f1>)

So FTDs are sent to the Obligation Warehouse and are subject to its system. The second part is interesting, and applies to the RECAPS from earlier. *****Additionally, the non-CNS obligations being stored in OW are re-priced to the current market value and re-netted during the periodic RECAPS cycle.****

What is RECAPS?

<https://preview.redd.it/rou1tsei6mp71.png?width=636&format;=png&auto;=webp&s;=3daf213ddea8b9bf0d4416c19d405bdb39e761be>

So the RECAPS cycle reprises the FTDs on a periodic basis, which is what Broker Dealers are subject to under FINRA rules.

Ok, so the OW is used to send FTDs to sit until they are dealt with. What are the pros of doing this for a SHF?

Looking through the User Manual for the Obligation Warehouse, we can find a few clues.

[Pg. 97](<https://preview.redd.it/cmweutl27mp71.png?width=650&format;=png&auto;=webp&s;=359793b4a72edac134e0988057e343ee8f4d502f>)

This shows us the entry page for the OW. On the right side there is an option for X-CNS, X-RECAPS, and X-Corporate Action. So what does these mean?

[Pg.99](<https://preview.redd.it/vk4l5jui7mp71.png?width=627&format;=png&auto;=webp&s;=39e9e6d20ae636bfbbeb367f945958119a1bce166>)

Are you kidding me? These options allow NSCC members to opt out of CNS and RECAPS cycles? **So FTDs can possibly not have to be rolled over or be subject to reprice.**

What does X-REOP/X-Corporation Action mean?

According to [Investopedia](<https://www.investopedia.com/terms/c/corporateaction.asp>), examples of a Corporate Action include a cash dividend, stock split, reverse split, mergers and acquisitions, a spin off, and a rights issue. During these events, there will be mandatory reorganization adjustments that NSCC members can opt out of. This could be why RC hasn't tried any of these tactics before.

How many FTDs are in there?

Who knows? The average lifespan of an FTD is months, some going for years as stated in Dark Side of the Looking Glass.

[How many shares are there really, and where are they all hiding? DD](<https://preview.redd.it/d1aarfnbcm71.png?width=1920&format;=png&auto;=webp&s;=685c5dbeac8caf28879954f45556addb011be2af>)

This seems to be the system shares have to go through and their reporting numbers. If in the OW, these shares do not need to be reported and are not going to be included in any SEC numbers shown to us.

[<https://Vchartexchange.com/Vsymbol/Vnyse-gme/VstatsV>](<https://preview.redd.it/62ytso9ycmp71.png?width=1509&format;=png&auto;=webp&s;=99a2c147c73979d086a633c4ff1f32f8f1b3f287>)

Heavy dark pool usage points to the possibility of this being a widely used tactic for SHFs to not have to report, settle, or adjust the price of their old FTDs from months, or possibly years ago.

FOIA

I am in no means good with legal language or filing FOIA requests. I think it would be interesting to see if

we could get someone to file a FOIA request for the quantity of FTDs in GME that are currently in the Obligation Warehouse. I think it would give us a much better idea to the degree to which GME has been naked shorted and how many FTDs are sitting in places where we can't see them.

****TLDR: NSCC members can send FTDs to the Obligation Warehouse, where they can ignore CNS and RECAPS requirements and not have to publicly report them.****

P.S. Page 168-177 show how current obligations can be excluded from CNS, RECAPS, and REORG.

Edit: crossposted to r/GME

[https://www.reddit.com/r/GME/comments/pve4hk/how_shfs_can_circumvent_continuous_net_settlement/](https://www.reddit.com/r/GME/comments/pve4hk/how_shfs_can_circumvent_continuous_net_settlement/)