Title: Gamestop Report Cliff Notes and Key Takeaways. Financial Media Is Lying As Usual.
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I read the "Staff Report on Equity and Options Market Structure Conditions in Early 2021," aka "Gamestop Report." Here are the most important takeaways, IMO. I wrote this on the super-fly so pardon me if I didn't address everything in the report.

Unless you want an overview of the equities market, skip to page 15 where it says, "GameStop: What Happened." Notably, it states, "The underlying causes of the meme stock phenomenon that are unrelated to market structure are a subject of speculation that is beyond the scope of this report."

Page 20: "January's GME increases (price movement, daily dollar volume and trade count) coincided with a sharp increase in the number of individual accounts actively trading GME." NOT shorts covering.

Page 22: "By the end of January 2021, some funds had closed out their short positions in meme stocks, realizing significant losses." The citation for this statement originated from mainstream media's Financial Times and CNBC articles, NOT SEC investigations. Same page states, "Staff believes that hedge funds broadly were not significantly affected by investments in GME and other meme stocks....Staff did not observe that any advisers to private funds and registered funds experienced liquidity issues or difficulties with counterparties." Keep in mind this is based on hedge funds' self-reporting, not any actual in-depth investigation into their finances.

Page 23: Some ETF bullshit mentions.

Page 25: Proof high short interest is not normal..."Short interest ratios tend to be quite low; for large non-financial stocks, they are often less than 2.5% whereas for small non-financial stocks they still tend to be less than 13%. Few stocks, if any, have short interest greater than 50% on a given date. Until recently, short interest of more than 90% was observed only a few times—in 2007 and 2008. When examining short interest as a percent of shares outstanding, GME is the only stock that staff observed as having short interest of more than shares outstanding in January."

Same page 25: Apes are rebellious. "Some of the meme stock trading was described in news coverage as an act of rebellion against short-selling professional investors who had targeted GameStop and other stocks."

Page 26: This is by far the most telling statement in this report: "The run-up in GME stock price coincided with buying by those with short positions. However, it also shows that such buying was a small fraction of overall buy volume, and that GME share prices continued to be high after the direct effects of covering short positions would have waned." A nice graph showed apes buying GME far exceeded shorts covering their positions. The SEC goes on to say, "It was the positive sentiment, not the buying-to-cover, that sustained the weeks-long price appreciation of GameStop stock." NOT the shorts covering.

Page 27: All short interest calculations fudged up by the SEC came from: "Compustat North America Supplemental Short Interest File (for NYSE- and Nasdaq-listed stocks), divided by shares outstanding obtained from the Center for Research in Security Prices, LLC (CRSP) daily stock files." This is reported shares sold short, and would not include naked shorts or some internalized trades.

Page 29: Here is a gem: "A gamma squeeze which occurs when market makers purchase a stock to hedge the risk associated with writing call options on that stock, in turn putting further upward pressure on the underlying stock price...staff did not find evidence of a gamma squeeze in GME during January 2021." Therefore, market makers did not buy GME to hedge all those call options. It goes on to discuss the increase in options trading volume, stating, "this increase in options trading volume was mostly driven by an increase in the buying of put, rather than call, options." PUTS and lots of them!

Same page: Discussion on failed to deliver shares. The SEC states specifically: "FTDs can occur either with short or long sales, *making them an imperfect measure of naked short selling*. Moreover, based on the staff’s review of the available data, GME did not experience persistent fails to deliver at the individual clearing member level. Specifically, staff observed that most clearing members were able to clear any fails relatively quickly, i.e., within a few days, and for the most part did not experience fails across multiple days."

Translation: SEC does not know if naked shorting occurred and cannot prove it. FTDs were erased almost instantaneously and magically. Additionally, SEC could not prove the difference between covering shorts and closing shorts. SEC staff conducted this analysis using data provided by the NSCC (who we all know is in cahoots with hedge funds).

Here is the Golden Egg and sorry it is long, but needs to be said, "The vast majority of GME stock trades executed off exchange in January 2021 were internalized (approximately 80%) as opposed to executed on ATSs. The market for internalization of GME was highly concentrated, with 88% of internalized dollar volume in January executed by just three wholesalers Citadel Securities accounted for nearly 50% of internalizer dollar volume during the month, rising to as high as 55% of daily internalized dollar volume twice Virtu Americas accounted for approximately 26% of the internalized volume during January While the percentage of GME trading internalized declined during the last week in January, the absolute volumes executed by internalizing firms during the days of the most intense trading in this period were, in some cases, an order of magnitude larger than what had previously been typical for these firms. For example, Citadel internalized an average of just under $37 million of GME per day in December 2020. On January 27, Citadel internalized nearly $4.2 billion of GME Similarly, Virtu internalized an average of $23.4 million of GME each day in December 2020 and $2.2 billion of GME on January 26. On January 29, Citadel internalized approximately $2.2 billion of GME stock, while Virtu internalized approximately $1.4 billion."

There are recommendations, including shortening the settlement cycle, addressing dark pool abuse, gamification prevention measures (PFOF) and improving short selling reporting. I didn't discuss the ETFs or Clearing Agency Margin and Capital Issues (suppression of buy button) as it sounded like fluff bullshit. You can read at your leisure.

Unless the SEC is conducting a thorough audit of everything Citadel and Virtu did through internalizing trades, the SEC only knows the surface shit. Enough said. Bullish. Let's fucking Gooooo!