

Title: Casino Royale: Credit Insurance

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TLDR:

Have you ever seen the movie Casino Royale? If not, it's decent - go check it out [https://en.m.wikipedia.org/wiki/Casino\\_Royale\\_\(2006\\_film\)](https://en.m.wikipedia.org/wiki/Casino_Royale_(2006_film)). In the movie a villain, Le Chiffre, takes short positions in companies based on criminal insider information. I bring this up because it provides an interesting backdrop to a story that involves Kevin Ulrich, the now former owner of the James Bond franchise (by virtue of having owned MGM Studios, Inc. <https://www.bloomberg.com/news/articles/2021-05-27/kevin-ulrich-scored-a-2-billion-mgm-win-it-only-took-a-decade>). What if I told you, Kevin Ulrich, CEO of Anchorage Capital, was among a group of investors who (potentially) set the stage for an epic Europcar Mobility Group short squeeze that occurred on January 13th, 2021, effectively precipitating the rise of "meme stocks," and downfall of the Le Chiffre's of the world? Maybe you would tell me real life is, at times, stranger than fiction ■

Background:

In a previous post I hypothesized that "Archegos lost a lot of money during the CreditEx auction for Europcar Mobility Group and was subsequently margin called by Credit Suisse and the other Prime Brokers who leant them capital." New information has become publicly available since I proposed that hypothesis allowing me to confirm some observations, debunk others, and learn a few new interesting things along the way.

Confirmed:

- Archegos does in fact appear to have held a short position in GME based on the popularly-shared exposure chart included in the Credit Suisse report (Page 79 <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/results/csg-special-committee-bod-report-archegos.pdf>). I had previously speculated an Archegos-GME relationship based on the January 13th, 2021 price increase (Failed CreditEx auction) and the February 23rd-24th, 2021 increase (following a DOJ-related SEC Whistleblower tweet) but now believe it to be confirmed (for different reasons) made public in Credit Suisse report linked above that I will elaborate on below.

Debunked:

- Archegos does not appear to be the financial entity that potentially lost money during the failed Europcar Mobility Group auction on January 13th. After reading here <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/results/csg-special-committee-bod-report-archegos.pdf> that Archegos had a \$20m Potential Exposure (PE) limit until March of 2021 (when Credit Suisse increased the Archegos PE limit to \$50m), I realized that I had misinterpreted Credit Suisse's role in the \$50m loan (mentioned in a key article about Europcar Mobility Group here <https://www.bloomberg.com/news/articles/2020-10-29/quirk-in-europcar-credit-insurance-offers-lucrative-trade>).

New, Interesting Learnings:

1. Greensill Capital's demise could be tied back to the failed CreditEx auction on January 13th, 2021
2. Archegos' demise could be tied to Greensill Capital-related Credit Event auction (possibly occurring around February 23rd-24th, 2021)
3. Jefferies was a Prime Broker working with Archegos per the Credit Suisse report. I believe they are good actors in this saga.
  1. A number of senior Credit Suisse employees have left for Jefferies <https://www.bloomberg.com/news/articles/2021-07-15/credit-suisse-may-disappoint-after-talent-drain-jefferies-says>
  2. Jefferies was never mentioned alongside other Archegos-involved Prime Brokers in the context of money being lost.
  3. Jefferies has publicly disclosed price targets for two "meme stocks," both of which have:
    1. Been multiples higher than all other Analysts
    2. Undergone Board of Director transformations in the past 7 months

3. Experienced parabolic after-hours trading in 2021

4. One of these securities is GME, the other was given a \$0 end-of-year price target by GLJ Research in February, 2021 <https://markets.businessinsider.com/news/stocks/tilray-s-reddit-rally-is-over-analyst-says-large-downside-risk-ahead-1030074468>.

Context:

In realizing that I originally misunderstood the CDS-related events of October 2020 (as referenced in the above “Debunked” section), I stumbled across an even more cohesive, fact-driven understanding of what actually happened in October 2020.

Hypothesis:

On October 29th, 2020 Bloomberg published this piece <https://www.bloomberg.com/news/articles/2020-10-29/quirk-in-europcar-credit-insurance-offers-lucrative-trade> referencing a \$50m loan from Credit Suisse that was “designed to be a deliverable into credit default swaps and traders are betting that will have a lower recovery value.” While re-researching the event I came across this article, <https://www.ft.com/content/69accf15-1ab7-426b-aadc-6f594d24dd65>, which describes King Street Capital and Kevin Ulrich’s Anchorage Capital purchasing the \$50m loan (which I believe was a Loan-based Credit Default Swap) from Credit Suisse in October 2020. It seems purchasing this loan in October 2020 allowed King Street and Anchorage to hold onto the underlying bonds that other investors were expecting to purchase back during the January 13th CreditEx auction; thereby, causing the auction to “fail.” This could have triggered a subsequent Credit Event <https://www.cdsdeterminationscommittees.org/cds/europcar-mobility-group-s-a/>, which, based on the Investopedia article here <https://www.investopedia.com/articles/bonds/09/what-happens-to-single-name-cds.asp>, would have triggered another auction if the Europcar Mobility Group auction was, in fact, confirmed by the CDS Determinations Committee to be a Credit Event.

My guess is that this auction likely consisted of Greensill Capital assets and could have occurred around February 23rd - 24th, 2021.

Why Greensill?

1. Credit Suisse froze \$10b in funds associated with Greensill earlier in the year (<https://www.ft.com/content/ea3e45f8-2e58-4122-b3d7-265ab938b0d7>)

2. The Lucrative Trade article cites a Markit Index called LCDX having to be stopped due to liquidity issues (<https://www.bloomberg.com/news/articles/2020-10-29/quirk-in-europcar-credit-insurance-offers-lucrative-trade>)

3. Alexander “Lex” Greensill cites liquidity issues and his business’ reliance on Credit Insurance in his testimony released by the British Government here

<https://committees.parliament.uk/oralevidence/2149/pdf/> (interesting read):

1. Q85 - “That was in response to questions that he [Lord Myners] had raised in the House of Lords concerning the way in which certain open-ended investment vehicles operated, the liquidity that they provided and the mismatch between those and the underlying assets.” Check out this Bloomberg article that uses very similar language to describe the “mismatch” Greensill mentions <https://www.bloomberg.com/news/articles/2021-01-16/europcar-credit-insurance-debacle-sends-warning-to-speculators>

2. Q97 - “I would say that for our business, we require that liquidity. The liquidity that I am speaking of—and the conditions of the capital markets—affects our customers, and not Greensill but the company itself.”

3. Q104 - “It is important also, if I can remind the Committee, that for the credit insurance market ... when the market turns down and the probability of defaults of businesses increases, in order for the solvency requirements of the insurer to be met, they must provide more capital, because the probability of default of the businesses they have insured goes up in a crisis. And that is what happened during Covid...”

4. For the UK Parliament’s findings on this subject search for “Trade credit insurance” on this page to learn more [https://publications.parliament.uk/pa/cm5802/cmselect/cmtreasy/151/15105.htm#\\_idTextAnchor014](https://publications.parliament.uk/pa/cm5802/cmselect/cmtreasy/151/15105.htm#_idTextAnchor014)

Thanks to the Credit Suisse report we also now know the exact dates for the Archegos liquidation - March 12 through March 26, 2021

(<https://www.credit-suisse.com/about-us/en/reports-research/archegos-info-kit.html>). This is interesting because Greensill filed for insolvency on March 8th, 2021 - roughly two weeks after GameStop's significant gains between February 23rd and 24th. Perhaps this was the auction triggered by the Europcar Mobility Group Credit Event in January? You know what else is green? Frogs. Feb. 24th <https://twitter.com/ryancohen/status/1364650709669601289?s=20>.

Greensill, and the importance of its implication here, could be mind-blowing if proven true.

Do you know who one of Greensill's major clients was? Bluestone Resources <https://www.wdtv.com/content/news/Gov-Jim-Justice-meeting-with-President-Trump-about-coal-plan-486592601.html>. But things didn't end so well <https://www.wsj.com/articles/west-virginia-gov-jim-justice-is-personally-liable-for-700-million-in-greensill-loans-11622462401>. Now that's what I call justice.

In all seriousness - if these connections become substantiated by the DOJ or any other regulatory body - it would be a major deal. Anything said or done by the Oval Office during the COVID-19 Pandemic during the year of 2020 would need to be re-scrutinized in a new light. Greensill employed over 1,000 people and GFG Alliance (one of Greensill's other major clients) more than 35,000 employees around the world <https://www.nytimes.com/2021/03/28/business/greensill-capital-collapse.html>. I'm not sure how many SoftBank and Bluestone Resources employees were impacted, but I am sure many. Credit Suisse is now trying to recoup Greensill losses via an insurance claim (<https://www.ft.com/content/0cb03387-9b16-4fd7-a997-6f34d4c4658a>) and is also preparing to sue Archegos (<https://www.ft.com/content/ef996142-e5dd-45ae-9008-fc4cbd8c291d>). Similarly, West Virginia Gov. Jim Justice (owner of Bluestone Resources) is attempting to sue Greensill for fraud <https://www.wsj.com/articles/bluestone-resources-sues-greensill-capital-for-fraud-11615907626>.

#### Supporting News:

1. Gary Gensler recently cited renewed interest in the regulation of security-based swap execution on July 21st, 2021 <https://www.reuters.com/business/finance/us-sec-chair-says-agency-write-new-rules-swaps-regulation-2021-07-21/>
2. House Rep. Maxine Waters introduced H.R. 4618: Short Sale Transparency and Market Fairness Act on July 22nd, 2021 <https://www.govtrack.us/congress/bills/117/hr4618/text/ih>
3. The DOJ has advised the Treasury to release Trump's Tax Returns to a House of Representatives panel on July 30th, 2021 <https://www.wsj.com/articles/justice-department-says-treasury-must-release-trump-tax-returns-11627667462>

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This is not investment advice, I am not a financial advisor! I am simply a Retail Investor who, like CDS traders (as referenced on Page 49 #127 of <https://wallstreetonparade.com/wp-content/uploads/2021/07/New-Mexico-State-Investment-Council-v-Bank-of-America-et-al.pdf>), values information and feels the Retail Investment community has a right to it.