

Title: Reposting until change happens

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UNDERSTANDING
STOCK MARKET
LOOPHOLES

VOLUME 3

EVADING TRADING OBLIGATIONS BY HIDING FAILS-TO-DELIVER

and why the current SEC and DOJ investigation is so important

Daily Value of FTDs in the Stock Market



Every day, **billions of dollars of shares** fail to be delivered to brokers. These are shares that have already been paid for, often belonging in retirement accounts, and **that's just the ones we know about.**

In 2005, the SEC introduced Regulation SHO in an effort to make sure brokers actually **receive the shares owed to their clients** and to try to curb illegal naked short.

Reg SHO requires Wall Street firms who are short selling to have a "reasonable belief" that they can locate shares to borrow before they can start shorting. **They don't actually need to borrow them first though.**

They can either buy some from the stock market, or just borrow shares that they had located earlier.

Reg SHO also added deadlines by which short sellers needed to get their hands on shares to cover what they had already sold. The intent being that short sellers would deliver these shares to the purchaser - if those shares are not sent to the purchaser, **they become Fails-To-Deliver.**

Eight years later, in 2013, **the SEC issued a risk alert** about short sellers using certain trading strategies to **avoid their obligations.**

These strategies make it seem like short sellers get the shares they owe. This triggers the system to mark their deadline as met, even if they don't actually deliver the shares.

The SEC refers to these transactions as **sham close-outs** and they are more common in stocks that are hard to borrow.

Wall Street firms use these loopholes to avoid delivering the shares they owe to retail brokers without being noticed by making it difficult to identify Fails-To-Deliver at all. This leaves retail brokers with the responsibility to report that they failed to receive shares, but doing so is rare since it can spook their users.

A short seller has sold shares to a retail buyer, but hasn't delivered the shares to the retail buyer's broker yet.

The deadline to deliver the shares is set to expire right now.

I don't get an exception. It's get happen or failing to deliver.

I can't afford to buy in because shares right now. If they come from you, can you get them back from the other the system, making my deadline a ticking clock?

Yes, but for a stock less than you could expect benefit too.

I'm not ready to deliver those shares to you. How can I meet my deadline?

If the system sees that you bought shares, it'll show you've met the deadline, even if you don't deliver them.

That transaction cost me way less than actually delivering the shares, so I'll just sell and now I've met the clock.

Maybe I'll just do that again and again when my next deadline comes up.

If you want to get behind every number of reset transactions, are they really transactions & warrant get transactions. They basically do nothing what's shown in this graphic.

These collaborative trading strategies are commonly referred to as **reset transactions** since they reset the clock for share delivery, and the SEC has declared them a violation of Reg SHO.

On February 8th 2022, the SEC and Justice Department announced a joint investigation focused on illegal short selling practices. Dozens of prominent short sellers are being scrutinized for possible **collusion and racketeering** with the beginning of the investigation dating back to early 2021.

Remember those billions of dollars worth of shares that Fail To Deliver every day? Those are the ones where the clock ran out because there was no reset transaction. Suspected evidence of reset transactions suggests that **the daily dollar value of FTDs could easily be 10 to 100 times greater than what is reported by the SEC.**

So why should you care? Well, those billions, or maybe trillions, of dollars worth of hidden FTDs means that your broker isn't receiving all of the shares you paid for. Your account may be full of IOUs.