

Title: Penultimate Peril: The Mechanics of Failed Securitization

Author: funsnacks

Created 2022-01-14 16:47:09 UTC

Permalink: /r/Autisticats/comments/s3wt99/penultimate_peril_the_mechanics_of_failed/

Url: https://www.reddit.com/r/Superstonk/comments/s3wabh/penultimate_peril_the_mechanics_of_failed/

Linked Post Content:

> "Unless you were born yesterday, in which case, welcome to the world, little baby, you have probably observed that things aren't always what they seem. The surface of a pond might seem calm, when, in reality, any number of secrets might be hidden beneath it. The world is like a pond that way. When you perform even the tiniest of actions, like dropping a stone, it can ripple, until the entire world has been changed." - [Lemony Snicket, Penultimate Peril](https://snicket.fandom.com/wiki/The_Penultimate_Peril:_Part_One/Transcript)

Fluff

With Ryan Cohen's GameStop board membership having just eclipsed the one year mark it seemed as good of a time as ever to applaud The ■ man for helping turn \$GME around and bringing this kind attitude to the table:

> Empathy His father, Cohen said, never considered himself better than the employees who unloaded his trucks, or anyone who worked for him. When a truck would arrive at the warehouse, his father would take off his suit jacket and unload the pallets with the warehouse crew... "He put himself at the same level as people doing the hardest work," Cohen said. "That's where I learned empathy, that's where I learned humility," two important traits in a startup entrepreneur when they are trying to convince others to join them in a new company, he said. - [Forbes - January 26th, 2020](<https://www.forbes.com/sites/joanverdon/2020/01/26/ryan-cohen-started-a-company-that-took-on-amazon-and-sold-it-for-3-billion-now-hes-thinking-about-whats-next/>)

RC's setting a great example and inspiring many others persevere through an unusual time ■■■■

Preface

And while I'm sure the decision for board placement was decided well in advance, it's coincidental that a second noteworthy event occurred on January 11th, 2020 which seems to have been a quiet catalyst preceding the January price increase and subsequent trading halt - the CDS Determination Committee's publishing of the Europcar Mobility Group CDS [auction terms](<https://www.cdsdeterminationscommittees.org/documents/2021/01/emea-dc-issue-2020120201-europcar-mobility-group-s-a-a-st-11-january-2021.pdf> /). The auction, which occurred on January 13th, 2021, was ultimately characterized as a "[classic short squeeze](<https://ft.com/content/69accf15-1ab7-426b-aadc-6f594d24dd65>)" and had [butterfly effect](<https://twitter.com/theroaringkitty/status/1400474857733705728?s=21>)-type implications that've only been further corroborated by significant real-world events of the past few months.

These implications support claims Retail Investors were inaccurately portrayed as the antagonists responsible for stock market volatility throughout 2021 which this post will be addressing through a broad, wide-ranging explanation of fortunate/unfortunate events that help contextualize what's unfolded with GameStop to date and might be expected from a high level moving forward.

Key topics of discussion:

1. Archegos, Ark Invest, SoftBank and Greensill
2. Europcar Mobility Group, IHS Markit and Creditex
3. Caveat Emptor, Exchange Act Rule 15c2-11, Trade Credit and Trade Credit Insurance

Background

March 6th, 2020

Archegos reports "long-bias" of 72.35% - an increase of 21.67% since their previous report on February 7th, 2020

- The family office's *long* positions (expecting shares to rise) were disproportionate relative to their *short* positions (expecting shares to fall) which was, perhaps un-intuitively, very risky (given the portfolio's deviation from delta neutrality)
- Having a long bias of this nature increases risk exposure due to the simple fact that if you have fewer short positions the odds one of those positions might succeed rather than fail (as a business) increases
- Archegos' long bias fluctuated between 63% and 95% long for nearly every week until its default

Source: [Credit Suisse - 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>)

March 18th, 2020

ARKK closes at \$34.69, which would end up being it's 2020 low and \$89.80 less than their year-end close of \$124.49 - a 258.86% increase

- The timing of Ark Invest's ascent started around the same when Archegos began breaching their Potential Exposure (PE) limit
- It was later revealed that Archegos originally seeded Ark's first four ETFs in 2013

Sources: TD Ameritrade, [Reuters - May 7th, 2021](<https://mobile.reuters.com/article/amp/idUSKBN2CO21I>), [Credit Suisse - July 29th, 2021](<https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/result/csg-special-committee-bod-report-archegos.pdf>)

May 13th, 2020

"CLOs and the loans underpinning them are ground zero in terms of the vulnerability of this crisis," says Matthew Mish, a credit analyst at UBS.

- The loans underpinning CLOs are called Loan-only Credit Default Swaps (LCDS)
- An IHS Markit index called the LCDX, which was specifically created by banks in 2007 ahead of the financial crisis to profit from it, actually stopped trading during October 2020 due to low liquidity (which also happened during 2008)
- 2020 saw highest number of credit default events since 2009

Sources: [Risk.net - October 8th, 2008](<https://www.risk.net/derivatives/1503708/lcdx-index-roll-postponed-indefinitely>), [Forbes - August 8th, 2009](https://www.forbes.com/2007/08/06/croesus-chronicles-indexes-oped-cz_rl_0807croesus.html?sh=74dd6b095221), [Bloomberg - October 29th, 2020](<https://www.bloomberg.com/news/articles/2020-10-29/quirk-in-europcar-credit-insurance-offers-lucrative-trade>), [IHS Markit - January 12th, 2021](<https://ihsmarkit.com/research-analysis/2020--highest-credit-default-events-since-2009--what-about-202.html>),

August 20th, 2020

Greensill scrutiny ramps up and Credit Suisse begins removing once-public materials related to Greensill from their website

- SoftBank invested \$500 million in "technology bets" on June 24th, 2020 only to pull the investment roughly two months later after an internal review by Credit Suisse
- Credit Suisse was marketing the funds to institutional investors and corporations as a safe place to invest their cash in short-term debts they said were in "diversified companies"
- Clients withdrew \$1.5bn from Greensill's funds between January 1st and June 24th, 2020

Sources: [Financial Times - June 14th, 2020](<https://www.ft.com/content/6995af3b-5f66-4e1b-9143-1e9daccfc9b4>), [Financial Times - June 24th, 2020](<https://www.ft.com/content/ecf96c9f-c048-4349-b2b7-1aa2e47d51bf>), [Reuters - July 20th, 2020](<https://reuters.com/article/amp/idUSKCN24L26V>), [Financial Times - August 20th, 2021](<https://www.ft.com/content/dcc1807a-fb14-47db-b1b0-3337d905b298>)

September 1st, 2020

Tokio Marine notifies Greensill Capital they will not be renewing the \$10bil Credit Suisse policy taken out for the purpose of syndicating Greensill's loans

- The risk profile of Greensill's loans increased when they lost their syndication because financial instruments like CLOs rely on the loans being syndicated for investment suitability purposes
- This is the reason why I believe the Fed's ACH payment service Fedwire had an operational outage on February 24th, 2021 - when the underlying credit was formally frozen and Greensill was unable to transfer money to their debtors ■■

Sources: [Insurance News - March 4th, 2021](<https://www.insurancenews.com.au/daily/court-refuses-last-minute-trade-credit-extension>)

October 9th, 2020

Anchorage and King Street Capital groups are given the green light by regulators to move forward with the restructuring of a 50-million euro Europcar Mobility Group term loan underwritten by Credit Suisse

- The loan's restructuring was completed on November 27th, 2020
- Moody's places Europcar into limited default after they decide to discontinue interest payments on their restructured loans on December 2nd, 2020
- The DTCC initiates the ISDA Auction Protocol for Europcar on December 10th, 2020

Sources: [S+P - October 9th, 2020](<https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/europcar-receives-consent-from-rcf-lenders-to-appoint-restructuring-mediator-60678937>), [Reuters - November 27th, 2020](<https://www.businesswire.com/news/home/20201125005967/en/Europcar-Mobility-Group-Reaches-a-Major-Step-With-an-Agreement-in-Principle-on-Financial-Restructuring-With-Main-Creditors-Supporting-Its-Connect-Transformation-Program>), [Moody's - December 2nd, 2020](https://www.moodys.com/research/Moodys-appends-limited-default-LD-designation-to-Ca-PD-PDR--PR_437020), [DTCC - December 10th, 2020](<https://www.dtcc.com/-/media/Files/pdf/2020/12/10/TIW730.pdf>)

December 13th, 2020

After seven years with Melvin Capital Evan Cohen is replaced as CCO by a lawyer named Robert Rasamny

- While it has since been updated.. as of December 6th, 2021 Robert Rasamny was listed on Bloomberg and the website of Cohn Robbins LLC (SPAC of Gary Cohn, former National Economic Council Director) as their CCO (while working for Melvin as well)
- Robert Rasamny's first Quarterly Report filed on behalf of Melvin Capital was in February 2021
- Credit Suisse was the sole underwriter for Cohn Robbins' SPAC

Sources: [Financial Times - August 26th, 2020](<https://ft.com/content/721ad930-4171-45c2-9ecd-093369cfa5d6>), [SignalHire - December 13th, 2020](<https://www.signalhire.com/profiles/rob-rasamny%27s-email/51382983>), [Chief Investment Officer - March 24th, 2021](<https://www.ai-cio.com/news/gamestop-woes-keep-plaguing-melvin-capital/>)

December 17th, 2020

GameStop announces Ryan Cohen increased his position between December 15th and 18th to 9,001,000 total shares

- Jefferies Group LLC, the investment bank chosen by GameStop for their at-the-market offering during 2021, was involved in another M&A deal around the same time (Aphria + Tilray merger announced on December 16th, 2020)
- Jefferies Finance LLC (JFIN) is jointly owned by Jefferies Group LLC (JEF) and MassMutual (DFV's former employer) and was up 32% in 2021
- Jefferies was the bank chosen by GameStop to orchestrate their at-the-market offering during the spring of 2021

Sources: [GameStop - December 17th, 2020](<https://news.gamestop.com/static-files/89e3e0c1-e050-4511-887d-d1f9321703f8>), [Businesswire - December 16th, 2020](<https://www.businesswire.com/news/home/20201216005519/en/Aphria-and-Tilray->

Combine-to-Create-Largest-Global-Cannabis-Company-With-Pro-Forma-Revenue-of-C874-Million-US685-Million), [GameStop - April 5th, 2021](<https://news.gamestop.com/news-releases/news-release-details/gamestop-announces-market-equity-offering-program>), [Jefferies - January 12th, 2022]([https://s2.q4cdn.com/620781618/files/doc_downloads/2022/Jefferies_SH_2021_Letter\(1\).pdf](https://s2.q4cdn.com/620781618/files/doc_downloads/2022/Jefferies_SH_2021_Letter(1).pdf))

January 11th, 2021

Ryan Cohen announces he'll be joining GameStop's board of directors

- The CDS Determinations Committee announces the Auction Terms for the Europcar Mobility Group auction on the same day

Sources: [GameStop - January 11th, 2021](<https://news.gamestop.com/news-releases/news-release-details/gamestop-announces-additional-board-refreshment-accelerate>), [CDS Determinations Committee](<https://www.cdsdeterminationscommittees.org/documents/2021/01/emea-dc-issue-2020120201-europcar-mobility-group-s-a-a-st-11-january-2021.pdf/>)

January 13th, 2021

Buyers lost \$100 million-worth of CDS investments during a CreditEx auction for Europcar Mobility Group turned short squeeze

- It is explicitly stated on the CDS Determinations Committee website and IHS Markit and CreditEx facilitate the auction settlement process for LCDS, which is where the Europcar Mobility Group auction took place
- IHS Markit and CreditEx were named as the two non-dealer defendants in New Mexico's class action lawsuit that accuses financial institutions of a 15-year pattern of manipulating the CDS market
- Anchorage and King Street double their investment in Europcar by August 1st, 2021
- Volkswagen's bid for Europcar was recently approved by French regulators
- Anchorage Capital removed from the NSCC (The filing 15825-21 no longer visible via the DTCC website)

Sources: [Kramer Levin - April 14th,

2021](<https://www.kramerlevin.com/en/perspectives-search/decoding-derivatives-q1-2021.html>),

[Albuquerque Journal - July 1st,

2021](<https://www.abqjournal.com/2405681/nm-lawsuit-accuses-financial-firms-of-market-manipulation.html>), [Bloomberg - August 4th, 2021](<https://www.bloomberg.com/news/articles/2021-08-04/hedge-fund-owners-of-europcar-to-double-their-money-with-vw-deal>), [Fleet Europe - November

29th, 2021](<https://www.fleet europe.com/en/shared-mobility/smart-mobility/europe/article/regulators-approve-vw-acquisition-europcar?a=JMA06&t%5B0%5D=Europcar&t%5B1%5D=Volkswagen&t%5B2%5D=Acquisition&curl=1>)

January 21st-27th

"While staff did find GME options trading volume from individual

customers increased substantially, from only \$58.5 million on January 21 to \$563.4 million on January 22 until peaking at \$2.4 billion on January 27, this increase in options trading volume was mostly driven by an increase in the buying of put, rather than call, options. **Further, data show that market-makers were buying, rather than writing, call options. These observations by themselves are not consistent with a gamma squeeze.**"

- Robert Rasamny taking over as CCO of Melvin Capital ahead of the buy button being disabled is evidence that points to Gary Cohn's SPAC as having quietly acquired Melvin and their liabilities

February 23rd, 2021

The SEC announced a \$9.2mil whistleblower award for a DOJ-related tip involving either an NPA or DPA (non/deferred prosecution agreements)

- This took place a few days after Archegos and Ark holdings began to sell off
- And one day before Greensill being frozen
- GME begins rising on this day for 2nd time after "sneeze"
- Reports Credit Suisse could be impacted by DOJ scrutiny of DPA breaches (supposedly "common" in libor rigging)

Sources: [SEC](<https://www.sec.gov/news/press-release/2021-31>), [FinNews - December 28th, 2021](<https://www.finews.com/news/english-news/49397-credit-suisse-romeo-cerutti-litigation-legal-provisions>)

Hypothesis

This is getting long so let me cut to the chase - what we've been witnessing is the breakdown of a [securitization](<https://images.app.goo.gl/fUbNBn1PMWbG14Gg8>) process.

The breakdown began during the first quarter of 2020 when CLO managers pulled their money from Greensill after realizing the pandemic would bankrupt many companies. This created an arbitrage opportunity for Archegos who invested in the LCDX basket (through Greensill notes) hoping to *make* money off companies going bankrupt. Archegos extracted incredible leverage from these concentrated short positions and then re-invested the capital in Ark Invest's portfolio alongside SoftBank.

What these investment decisions ultimately resulted in was a historical setup to keen observers like Anchorage, King Street and Jefferies Group who knew if any one of the companies in the LCDX basket succeeded then whomever was being propped up by leverage from concentrated shorts would be negatively impacted (Ark Invest's portfolio).

When Europcar squeezed on January 13th, 2021 it not only demonstrated the vulnerability of Loan-only Credit Default Swaps (LCDS) to restructuring but also signaled to those naked shorting the LCDX basket that they would need to find creative ways to buy back shares they would most likely never receive during bankruptcy auctions - this is what leads me to believe the January "sneeze" was an event manufactured by SPAC bag holders like Gary Cohn, Securities Lenders like Steve Cohen, Market Makers like Ken Griffin and former Clearinghouse chairman Jeffrey Sprecher. ***Why else would they purchase short-dated call options ahead of the buy button being disabled?***. Even Elon Musk, who many thought was supporting GME while tweeting at the end of January, seems to have actually just been playing a role in the massive *Robinhood Rug Pull* knowing his company could be one of the most adversely impacted by the rise of GameStop.

The DTCC fallout from the Europcar auction (and "meme stock" margin calls) seems to have also enveloped Anchorage Capital whose Q2 filings showed surprise puts in GME ahead of their removal from the NSCC. Check out these rules straight from the NSCC handbook:

> "Each Member shall be obligated to the Corporation for the entire amount of any loss or liability incurred by the Corporation arising out of or relating to any Defaulting Member Event with respect to such Member. To the extent that such loss or liability is not satisfied pursuant to Section 3 of this Rule 4, the Corporation shall apply a Corporate Contribution thereto and charge the remaining amount of such loss or liability ratably to other Members, as further provided below." -
[DTCC](https://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf)

While essentially all facets of finance appear to have been involved in this breakdown there are two practices in particular that appear to have been at the very top of the funnel:

- Trade Credit (Hedge fund practice of firms like Eddie Lampert's ESL Investments who deal in Capital Structure Arbitrage)
- Trade Credit Insurance (This is the role that Greensill was purporting to play while issuing Credit-linked Notes through Special Purpose Vehicles (SPVs))

If you're dealing in *Trade Credit* (essentially white collar payday loans) it makes sense that you'd also purchase *Trade Credit Insurance*. And if you were a Trade Creditor and your Trade Credit Insurer collapsed it also makes sense that a trading pattern would arise following the typical 30, 60, 90 and 120 day repayment schedules associated with Trade Credit policies.

Go look at the GME chart and count out these (30, 60, 90, and 120 day) increments of time from January 21st, 2021 onward.

Further evidence of GME having been impacted by Trade Credit can be observed in one of Ryan Cohen's

[tweets](https://twitter.com/ryancohen/status/1400492465442811904?s=21). Remember the ■ next to the picture of Sears? Turns out the OTC Markets website uses a skull and crossbones icon to denote "Caveat Emptor" ("buyer beware") stocks like Sears (SHLDQ). These are the same stocks that recently became limited to liquidation trades only due to Exchange Act Rule 15c2-11 [amendments](https://www.sec.gov/news/press-release/2020-212). Remember the recently departed SEC commissioners? They were in opposition to these amendments [specifically](https://www.sec.gov/news/statement/peirce-roisman-falling-further-back-121321).

The SEC has now moved on new regulations for SPACs, Swaps, Securities Lending and the Fed is now administering the LIBOR-replacement benchmark interest rate SOFR instead of Jeffrey Sprecher's Intercontinental Exchange - the company he started started in 2000 and just [stepped down](https://www.bloomberg.com/news/articles/2021-12-06/nyse-shakes-up-leadership-as-president-cunningham-steps-down) as chair of on December 6th, 2021. Can't wait to hear what the DOJ has to say.

Conclusion

As of [April 23rd, 2021](https://www.wsj.com/amp/articles/ubs-takes-surprise-774-million-archegos-hit-11619501547) Credit Suisse and Nomura reported still having 3% exposure to Archegos. Given Archegos' usage of 2-year non-cancelable bullet swaps I have no reason to believe either bank has closed their short positions and am very interested in seeing what happens over the next four weeks.

The beauty of this thing is even if no MOASS, and the naked exposure cultivated by Archegos has been sufficiently hedged, GameStop is now debt free with best-in-class talent, leadership and undeniably massive market opportunities ahead of it.

—

Just a Retail Investor, not a financial advisor.