

Title: Has NSCC designated GME an "Illiquid Security"? If so, could the split dividend remove the "Illiquid" designation?

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[TLDR: Basically title]

>- Has the NSCC designated GME an "illiquid security"? (thereby making it procedurally acceptable for MMs to sell/short GME naked without reporting SI to FINRA)

>- If so might the dividend split make GME "liquid"? And perhaps trigger NSCC to: 1) force short MMs to deliver? and/or 2) report real SI?

General Background:

>NSCC (subsidiary of DTCC) is the *buyer* for all sales, and the *seller* for all buys between "members" (Prime Brokers/MMs). NSCC nets all trades and directs the DTC (another NSCC subsidiary) to adjust its ledger.

>MMs (when acting as selling members) have the privilege of selling illiquid shares prior to locating them, and delivery may be delayed. This may result in incomplete delivery if NSCC does not receive shares in time to deliver to the buyer (buying member).

Why making GME "liquid" might matter:

>NSCC reserves the right to deliver shares to the buying member, on behalf of the selling member (presumably a MM with the privilege of selling illiquid shares naked). The selling member then has a net short position owed to the NSCC; at the NSCC's discretion, short positions in illiquid securities need not be reported as unsettled activity (does not get reported to FINRA as SI).

Notable definition of "illiquid security" per [page 12 & 13 of NSCC Rules & Procedures](https://www.dtcc.com/~media/Files/Downloads/legal/rules/nscd_rules.pdf) follows:

>"(ii) it is an American depositary receipt and (b) the median of its calculated *illiquidity ratio* (defined below) of the prior six months exceeds a threshold that will be determined by the Corporation on a monthly basis that is based on the 99th percentile of the illiquidity ratio of all non-micro-capitalization common stocks over the prior six months"

>>"the "illiquidity ratio" of a security on any day is equal to (i) the price return of such security on such day (based on the natural logarithm of the ratio between the closing price of the security on such day to the closing price of the security on the prior trading day) divided by (ii) the average daily trading amount of such security over the prior 20 Business Days."

>>Daily Illiquidity Ratio = $\text{LN}(\text{close price}/\text{open price})/(\text{20-day average volume})$

>>*[important footnote:]** "Securities that are exchange-traded products or American depositary receipts are not included when calculating the illiquidity ratio threshold. **In addition, if the Corporation is unable to retrieve data to calculate the illiquidity ratio for the median illiquidity ratio for a security on any day, the Corporation will use a default value for that day for purposes of the calculation for the security (i.e., the security would essentially be treated as illiquid for that day). ***"

Theory:

>Assuming: 1) equal ratio of close/open prices, and 2) proportional volume change, the illiquidity ratio should be divided by the split ratio; if "illiquidity ratio" drops sufficiently, MMs may lose the privileges associated with selling "illiquid" securities naked.

Anecdote:

>Tesla hovered at ~\$400 for ~3months after its split on 31-August-2020, and then quickly jumped to \$600+ (and well beyond).