Title: Justice Department's Investigation of Archegos Leaves Out Three Bank Names: JPMorgan, Citigroup and Bank of America
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Long before the blowup of Archegos, one of the stocks it was actively manipulating according to the Justice Department was GSX Techedu, a Chinese online tutoring company. The problem with sophisticated Wall Street banks owning this stock after May 18, 2020 is that on that date short seller Muddy Waters released a 25-page detailed report on GSX Techedu that made the following allegations:

> "We are short GSX because we conclude that it is a near-total fraud.
>
> "We conclude that at least ~70% of its users are fake, and we think it's quite likely that at least ~80% of its users are fake."

GSX Techedu denied that it was operating a fraud but offered little in the way of compelling evidence to counter the allegations made in the Muddy Waters report.

Just three weeks before the collapse of Archegos hedge fund began in March of last year, the news outlet SupChina reported this assessment of GSX Techedu:

> "SupChina reviewed interviews with current GSX employees conducted by StrandPoint, a private investment firm. There was one consistent theme: the company was inflating its metrics across a variety of different business operations. One employee outlined a process by which tutors were made to concoct fake parents to present a livelier discussion on WeChat groups. Another employee admitted that online sales sagged last year relative to their competitors, despite the record-breaking top-line numbers presented in their financial reports. One top tutor was especially curt: '99% of tutor resumes are fake,' he said."

The 59.6 million shares of GSX Techedu held by the most sophisticated global banks on the planet as of December 31, 2020, with legions of private investigators and former U.S. intelligence officials in their employ, represented 48 percent of the float (shares available for trading) in GSX Techedu – a company called out as a fraud by Muddy Waters on May 18, 2020.

GSX Techedu closed the trading year on December 31, 2020 with a share price of $51.71. The 59.6 million shares held by the savviest banks on Wall Street tallied up to just over $3 *billion* in market value. This morning, at 9:48 a.m. ET, those shares are trading at $1.64, giving 59.6 million shares a value of $97.7 *million*.

So what was *really* going on here that the Justice Department doesn't want to share with the American people?

For more problems at the Justice Department, see our report: The Justice Department [redacted] Its New Criminal Chief

Justice Department's Investigation of Archegos Leaves Out Three Bank Names: JPMorgan, Citigroup and Bank of America

By Pam Martens and Russ Martens: May 2, 2022 ~

Last Wednesday, the U.S. Department of Justice, the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) brought charges against executives at Archegos Capital Management, the family office hedge fund that was somehow able to trick the most sophisticated trading houses on Wall Street into giving it 85 to 90 percent margin debt on concentrated stock positions – one of which had been called a "fraud" in a detailed report. Archegos blew itself up with that margin debt in March 2021, leaving a handful of these sophisticated trading firms acknowledging losses of more than $10 billion dollars.

The complaint filed by the Justice Department is the only complaint from the three federal agencies that names the Wall Street banks involved – although it paints the banks as hapless victims of the fraud instead of co-conspirators. (The SEC complaint simply refers to the banks as CP1 through CP8, short for "Counterparty 1" through "Counterparty 8" while the CFTC's complaint simply refers to the Wall Street banks as counterparties.)

The Justice Department names nine Wall Street trading houses that had as much as $125 billion total in margin loans outstanding at their peak to Archegos. Those firms are:

Credit Suisse

Deutsche Bank

Goldman Sachs

Jefferies

Macquari

Mitsubishi UFJ Financial Group

Morgan Stanley

Nomura

UBS

But the Justice Department's complaint also notes that Archegos had a total of *12 counterparties, not 9.* Why didn't the Justice Department name the other three firms? One possibility is that these three firms rank among the five largest federally-insured, deposit-taking banks in the U.S. and their involvement with a dodgy hedge fund and shares of a company called a "fraud," might not be good for public confidence in the U.S. banking system. But if the Justice Department won't let the whole truth out, how can the American people know what financial reforms they need to demand from Congress?

High on the suspect list of the three unnamed firms are the trading units of JPMorgan Chase, Citigroup and Bank of America. All three firms reported large holdings in one of Archegos' dubious, highly-concentrated stock positions – GSX Techedu – just three months before both Archegos and GSX Techedu blew up.

According to filings made with the SEC for the period ending December 31, 2020, the following Wall Street banks held these positions in GSX Techedu: Goldman Sachs, over 20 million shares with a put option on just 3.45 million shares; Morgan Stanley, over 14 million shares; UBS, over 11 million shares; Bank of America, more than 5.8 million shares; Citigroup, over 4.8 million shares; and JPMorgan Chase, over 4 million shares.

The International Financing Review reported the following in May of last year regarding JPMorgan, Citigroup and Archegos:

> "JP Morgan and Citigroup started examining Archegos as a potential prime brokerage client last year – after lobbying by the two banks' investment bankers – but progress was held up by so-called know-your-client processes demanded by risk and compliance departments, sources said, and Archegos blew up before those processes were complete. Both banks declined to comment.
>
> "As a result, neither bank had any exposure to Archegos when some of the fund's highly-levered stock bets went wrong earlier this year, inflicting more than US $10bn of losses on a group of rival lenders."

If that narrative is accurate, then what was JPMorgan Chase and Citigroup doing owning large amounts of shares of one of Archegos' concentrated stock positions – GSX Techedu – on December 31, 2020? (According to the Justice Department, banks would buy up the stocks held by Archegos to hedge the total return swaps they had entered into with Archegos. Those swaps (derivatives) delivered the market return on those shares to Archegos for a fee, while allowing Archegos to escape making filings with the SEC that would publicly disclose the full scale of its holdings.)

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