

Title: Total Return Swaps or a Type of Swap that Allows Short Selling u/Criand 'The Theory of Everything'. Archegos blew up February some say the Feb 21 run was part of Archegos TRS
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1. EQUITY TOTAL RETURN SWAPS

Hidden Short Interest

The thing with Equity Total Return Swaps is that it's a type of derivative that, essentially, allows naked shorting. It's not an uncommon derivative either - it's a very popular instrument used by Hedge Funds which has blown up in popularity over the past decade.

There's actually a term for this type of exposure. And it'll probably piss you off. It's called a "synthetic prime brokerage" because of how you're borrowing the prime broker's benefits.

Sometimes, trading through equity swaps is referred to as "synthetic prime brokerage" - with the swap contract deployed as a substitute for borrowing stock to achieve a short position, or equity finance to achieve leverage on the long side.

Many hedge funds use this synthetic prime brokerage service as part of a full service prime brokerage agreement - with equity swaps used side by side with stock loan and other services for particular parts of their portfolios.

<https://www.hedgeweek.com/2005/09/08/equity-swaps-alternative-trading-equities>

The way that it allows naked shorting is because the Hedge Fund "borrows" prime brokerage privileges through the swap. **The Hedge Fund is not short on its balance sheet but they are effectively short through the exposure of the derivative.** The counterparty of the swap is the one who is short the underlying. But, because the broker dealer can short for the sake of liquidity, **they do not need to report short interest on the stock by internalizing the orders and selling against their own "inventory".**

Reg Sho must have pissed them off how they couldn't "legally" naked short - so they went off and created a new derivative so the game could continue on.

The Hedge Funds can enter into many of these swaps and get short exposure to the stock without directly shorting it. They can enter into tons of these swaps and create tons of synthetic shares without ever worrying about the short interest being reported.

Sneak attack! Any stock could have an actual SI% which is well over 100% and it isn't even reported!

This doesn't come without risk however. The liability of locating the share for the short position is now on the counterparty rather than the Hedge Fund.

But if you know of a few stocks which retail doesn't care about and are bankruptcy jackpots, you can abuse the hell out of the Equity Total Return Swaps. Churning away that synthetic share machine.