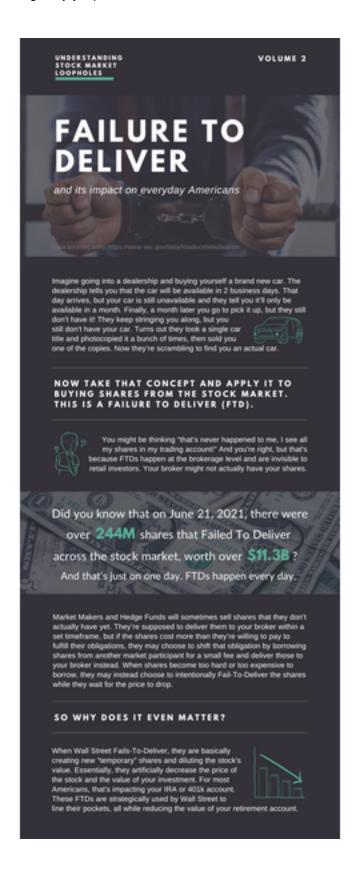
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## SO WHAT ARE NAKED SHORTS?

No, they aren't the next big fashion craze.



Usually, to "short" a stock you borrow shares that someone else owns, sell them, and wait for the price



to drop. You buy shares back at a lower price, return them to their owner, and POCKET THE PRICE DIFFERENCE. This is a way to earn profits on a stock you think will decrease in value.

But... What if you DIDN'T BOTHER to borrow shares first, and just sold them with the promise that you would deliver them soon?

Those shares you sold are NAKED SHORTS.

How can you sell something you don't have? Well, YOU can't.



The big boys of Wall Street don't have to play by the same rules that you do.



Wall Street traders have the ability to sell naked shorts repeatedly, effectively COUNTERFEITING SHARES to flood the market with excess supply. This allows them to MANIPULATE THE PRICE.

Eventually, short sellers are supposed to purchase shares to fulfill the sales they made. If the price is "too high", Wall Street traders can choose to FAIL TO DELIVER the shares and set a new delivery date using regulatory loopholes.

Sometimes, Wall Street traders will intentionally Fail To Deliver shares and continue to naked short sell a stock in an attempt to drive the price down lower and lower. This can go on for years at a time, with the end goal being to DRIVE

## THE BUSINESS INTO BANKRUPTCY



so that the trader never has to purchase the shares they've already sold and can keep all of the profits at no additional cost.

This is PREDATORY naked short selling, and it is currently RUNNING RAMPANT in our market.

## EVADING TRADING OBLIGATIONS BY HIDING FAILS-TO-DELIVER





Every day, billions of dollars of shares fall to be delivered to brokers. These are shares that have already been paid for often belonging in retrement 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 lilegal naked short.

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







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 Falls-To-Deliver.



Eight years later, in 2013, the SEC issued a risk cleen 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 mak 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 Falls-To-Deliver at all. This leaves retail brokers with the responsibility to report that they falled to receive shares, but doing so is rare since it. but doing so is rare since it can spook their users.









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. Dazens 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 Fall 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 FIDs 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.