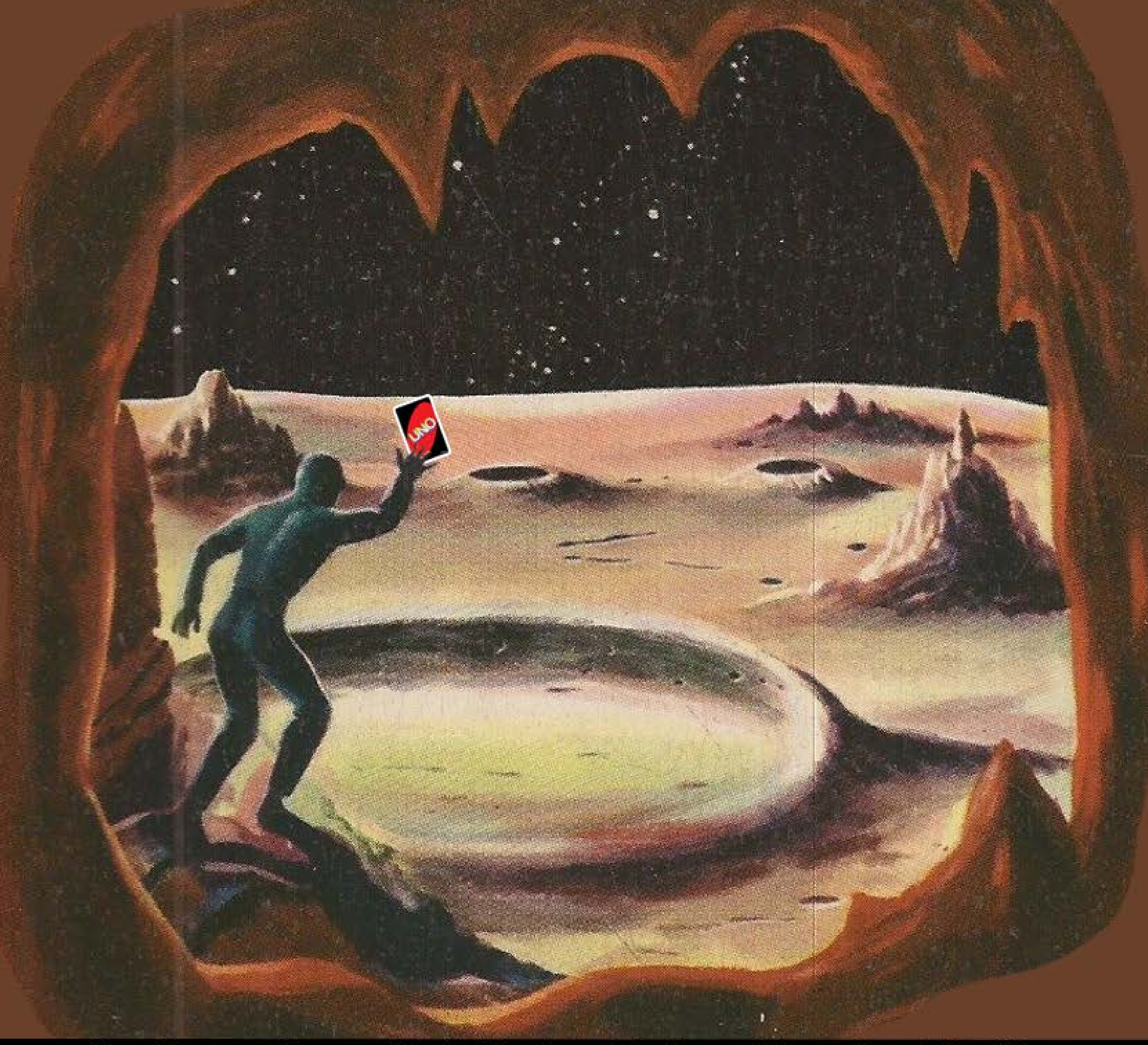
U/CHOOMPOP

MOONWALK

THE UNO REVERSE CARD



How Reverse Conversion & Married Puts Roll a Naked Short Position

+ How TSF Schemes the CSN System

CHOOMPOP MOONWALK - THE UNO REVERSE CARD: How Reverse Conversion & Married Puts Roll a Naked Short Position, + How TSF Schemes the CNS System

Due Diligence

· Introduction: In my previous DD, I outlined the history and motivations of Team Shit Face. This DD serves to highlight exactly how they use options to roll their naked short. It provides an outlook for the future and explains the only dates you'll ever need.

· Do you remember XRT becoming a threshold security in January and December? That was by design as a last-ditch effort to crash the price and roll as much liability forward as possible. The option technique is called reverse conversion. It's a rare options strategy that is only profitable when Put/Call parity equation is out of balance. I will explain how this strategy is a way to create a synthetic long while exercising a short, tricking the CNS system into thinking it's a neutral position.

· PART I. Failures to Deliver Drive Price Movement

· PART II. Team Shit Face Hides Short Interest through Options (& ETFs + Futures)

· PART III. The Continuous Netting Settlement System & Exemptions

· PART IV. The Case of Gary S. Bell & Where We Go Next

· PART I. Failures to Deliver Drive Price Movement

· There are many factors that play a role in the manipulation of price action but settling a failure to deliver is inevitable. When we hear about options settlement, common sentiment states that contracts need to be settled in T+2. However, Market Makers get around this by loopholes in the Continuous Net Settlement (CNS) system. Market Makers have 35 calendar days from the FTD to locate the shares and settle. They do not deliberately choose to wait until last minute to roll the FTD forward, but they largely don't have a choice because they have been continuously rolling forward a sea of FTD's for years.

> · Rule 204 provides an extended period of time to close out certain failures to deliver. Specifically, if a failure to deliver position results from the sale of a security that a person is deemed to own and that such person intends to deliver as soon as all restrictions on delivery have been removed, the firm has up to 35 calendar days following the trade date to close out the failure to deliver position by purchasing securities of like kind and quantity.

· This is crucial in understanding the last few runs. If you look at the Wayback Machine I highlighted in my last DD, you can see a few dates listed that Team Shit Face likely used to manipulate the stock. All these options would typically settle on the next Tuesday, (January is an anomaly because the Monday was closed for MLK Jr. Day). These options failed to deliver on the following Tuesday, so the MM FTD gets kicked down the road 35 Calendar days. *Notice anything interesting about the highlighted dates?*

· 01/15/2021 - Options settle the following Wednesday. MM FTD + C35 -> **Feb 24st.**

· 04/15/2021 - Options settle the following Tuesday. MM FTD + C35 -> **May 24rd.**

· 07/16/2021 - Options settle the following Tuesday. MM FTD + C35 -> **August 23st.**

· 01/21/2022 - Options settle the following Tuesday. MM FTD + C35 -> **March 1nd.**

· These fails from options settlement finally get netted 35 days later. I'll explain in Part II how these positions are exercised, then converted into synthetic longs and realized shorts. At each expiration for their position, they need to locate at t+2+35 then roll their dog shit position.

· In theory, we should be able to look at previous FTD data to decide when to trade. Finra released garbage FTD data for the second half of January that even used wrong dates. Also, a lot of these fails are spread across ETFs with different stock weighting, so they can hide their rolling strategy.

· The sneeze in January was caused by Ryan Cohen purchasing 20% of the free float in December which made shares very hard to find. These FTD's didn't come due until late January, and the added buy pressure from retail began GameStop's launch. **The way back machine dates are runs caused by Team Shit Face sham-closing their positions and rolling it to higher strikes.**

· GameStop had reported 140%-240% short interest. SEC report said that price movement was not due to short covering or gamma squeeze. After buy button was removed, some sketchy option play happened, and then short interest was magically gone. **It has been evident from the start that options have been used to hide short interest and roll forward their naked short positions.** ***How does it work?***

· **PART II. Team Shit Face Hides Short Interest through Options (& ETFs + Futures)**

· *WARNING:* I am going to be talking about technical terms such as a "buy-write", "married put", "FLEX option", and "Put/Call parity". Smooth brains, I know you won't read it so… **TA;DR: MM + Hedgie both on Team Shit Face. They sell options to each other that they know will fail to deliver. Called "sham close-out", which is a violation of Rule 204(f). They use a tactic called reverse conversion, which is a synthetic long position equal to 100 shares. This position is rare because it is only profitable when securities are hard to borrow and puts are overpriced, it also expires and must be rolled forward at a higher price.**

· *I will be referencing a lot of information outlined by [this SEC risk alert] by the Office of Compliance Inspections and Examinations. Go read it.*

· *Key Trading Terms and Concepts:*

· A "buy-write" trade is a simultaneous sale of calls and purchase of the equivalent amount of shares in the underlying stock. Buy-writes associated with the activity at issue typically employ deep in-the-money calls.

· A "married put" is the simultaneous purchase of a put and a purchase of the equivalent number of shares in the underlying stock. When associated with the activity at issue, the married puts typically employ deep in-the-money puts. It is theorized that they tie these together on their books then sell shares, making them divorced puts that they still count as shares.

· "FLEX" options are exchange-traded options that have non-standard, customizable contract terms. The main features of FLEX options compared to standard traded options are the abilities to specify the strike price and the expiration date.

· Options are priced in the marketplace so that the price of the underlying security is the same as the "synthetic" price of its options. This relationship between the price of a security and its options is known as "Put/Call Parity." For example, a "synthetic" long position, which consists of a long call and short put of the same strike and expiration date (also known as a “long combination” position), is typically the equivalent of a 100 share long position in an equity security. When the “synthetic” position is priced correctly with respect to the actual shares, no potential profit opportunities exist in the market. In other words, being long the “synthetic” position (e.g., the long combination) and being short the actual shares normally results in a riskless, fully hedged, and profitless position. This position is commonly known in the industry as a “Reversal.”

· Deep in-the-money calls are options with a strike price well below the underlying stock price. For an equity option with the standard delivery terms, a synthetic long position of 100 shares of the underlying. If the clearing firm or broker-dealer that was allocated the fail to deliver position enters into an arrangement with another person to purchase securities as required by Rule 204, and the clearing firm, or broker-dealer that was allocated a fail to deliver position, knows or has reason to know that the other person will not deliver securities in settlement of the purchase, then the transaction is a sham close-out, in violation of Rule 204(f).

- **· The Initial Transaction Example:**

  • Stock XYZ trading $51.00
  • May 50 Puts on XYZ trading $3.00
  • May 50 Calls on XYZ trading $3.00
  · Trader A: Sells 10,000 shares XYZ @ $51.00 Buys 100 May 50 Calls @ $3.00
  · Sells 100 May 50 Puts @ $3.00
  · In this example, the “synthetic” position is trading for $50, which is simply Call Price - Put Price + Strike Price. The actual shares are trading for $51, so that Trader A has effectively sold shares for $1 more than it paid for them, in a simultaneous transaction. Each time the trade is made, Trader A is earning a $100 profit, assuming that (a) Trader A is not being charged a fee to borrow shares to deliver on the short sale and (b) the clearing firm does not affect a buy-in against the trader to close-out a fail to deliver position. In this case, the trade was made 100 times, so that the profit would be $10,000. The sole reason for the disparity between the actual shares and the “synthetic” position is the fact that the shares of XYZ are hard to borrow.

- **· The Second Transaction to “Reset the Clock”**

  · Assuming that XYZ is a hard to borrow security, and that Trader A, or its broker-dealer, is unable (or unwilling) to borrow shares to make delivery on the short sale of actual shares, the short sale may result in a fail to deliver position at Trader A’s clearing firm. Rather than paying the borrowing fee on the shares to make delivery, or unwinding the position by purchasing the shares in the market, Trader A might next enter into a trade that gives the appearance of satisfying the broker-dealer’s close-out requirement, **but in reality allows Trader A to maintain its short position without ever delivering on the short sale.** Most often, this is done through the use of a buy-write trade, but may also be done as a married put and may incorporate the use of short term FLEX options. These trades are commonly referred to as “reset transactions,” in that they have the effect of resetting the time that the broker-dealer must purchase or borrow the stock to close-out a fail. The transactions could be designed solely to give the appearance of delivering the shares, when in reality the trader has no intention of meeting his delivery obligations. The buy-writes may be (but are not always) prearranged trades between market- makers or parties claiming to be market makers. The price in these transactions is determined so that the short seller pays a small price to the other market-maker for the trade, resulting in no economic benefit to the short seller for the reset transaction other than to give the appearance of meeting his delivery obligations. Such transactions were alleged by the Commission to be sham transactions in recent enforcement cases. Such transactions between traders or any market participants have also been found to constitute a violation of a clearing firm’s responsibility to close out a failure to deliver.
  · Trader A may enter a buy-write transaction, consisting of selling deep-in-the-money calls and buying shares of stock against the call sale. By doing so, Trader A appears to have purchased shares to meet the broker-dealer’s close-out obligation for the fail to deliver that resulted from the reverse conversion. In practice, however, the circumstances

suggest that Trader A has no intention of delivering shares, and is instead re-establishing or extending a fail position.
· To the broker-dealer or clearing firm, it may appear that Trader A's purchase, in the buy-write, has allowed the broker-dealer to satisfy its close-out requirement. Trader A continues to execute a buy-write reset transaction whenever necessary, and by the time of expiration of its original Reversal, it may have given up some of the profits in the form of premiums paid for the buy- writes, but it has maintained its short position without paying the higher cost to borrow or purchase shares to make delivery on the short sale. In each buy-write transaction, Trader A is aware that the deep in-the-money options are almost certain to be exercised (barring a sudden huge price drop), and it fully expects to be assigned on its short options, thus eliminating its long shares.

· These options strategies serve to hide naked short positions by rolling their FTDs forward at options settlement periods. It doesn't have massive impact on options chains because they deal in very low Open Interest options and use custom terms to trade amongst each other "FLEX Options". Manipulating their books this way allows them to not close their short position and take advantage of loopholes in the netting system.

· **PART III. The Continuous Netting Settlement System & Exemptions**

· The Continuous Netting Settlement System is a way that Team Shit Face manages their risk and helps to avoid circuit breaking buy pressure. In order to settle options, they cancel out buys and sells. If the options chain is very skewed, then they need to post much more SLD and it increases volatility. **This is why Team Shit Face uses these options to create synthetic longs and artificially balance their position. They come to a pain point when they need to exercise and roll their synthetic long.**

· Think back to the way back machine in Part I. Consider that every single long option purchased for January 2022 was ITM. Every single put was OTM. Remember that Team Shit Face used options to hide naked shorts (and even hedge variance swaps) and all those longs will be exercised at expiration.

· Over the past year new options were written to balance the order book in order to help netting process, but the calls will be skewed heavily regardless due to long term investment. You can look at the steep and deliberate drop for the 2 months leading up to January's expiration. They were obviously desperate and exercised as many puts as possible to drop the price for Jan's LEAPs expiration. Nevertheless, there will be a tidal wave of FTDs that will come due C+35.

· Here is the link to the NSCC Rulebook. I highlighted 3 subsections to Procedure VI & VII.

· Stock Record Update- Each day, Settling Trades shown on the Consolidated Trade Summary are netted with the Closing Positions which have been carried forward from the previous day. The resulting net positions represent the quantity of each security due for settlement by the Member on Settlement Date. A long position represents the quantity owed to the Member by the Corporation (the Member's fail-to-receive). A short position represents the quantity owed to the Corporation by the Member (the Member's fail-to-deliver). The Corporation is the contra side to all long and short positions.
· Exemptions- Except as described below, each Member has the ability to elect to deliver all or part of any short position. It controls this process by Exemptions. By indicating a particular quantity as an Exemption, the Member directs the Corporation not to settle certain short positions or portions thereof. Exemptions govern short positions in the CNS Stock Record and not Designated Depository positions. All short positions or positions thereof for which no Exemption is indicated are settled automatically to the extent that the Member has made such securities available in the Member's Designated Depository account or they become available in its Designated Depository account through other depository activity. Notwithstanding the above, a Member may not exempt delivery of any securities available in an agency account established at a Qualified Securities Depository for the processing of transactions through the ID

Net Service. (a) Types of Exemption- The CNS system provides for two levels of Exemption. By proper use of the Projection Report and Exemptions, Members can utilize current inventory as well as securities received from other sources on settlement day in order to satisfy delivery requirements.

· PART IV. The Case of Gary S. Bell & Where We Go Next

· I encourage you to read the case against Gary S. Bell, as it will provide insight as to how Market Makers rely on exemption to violate locate and close out requirements. Bell was charged with many violations of regulatory requirements, and he was charged ~~with life in prison and a~~ fine of 4 scooby snacks.

· The second type of transaction, referred to herein as a “reset,” is a transaction in which a market participant who has a “fail-to-deliver” position in a threshold security buys shares of that security while simultaneously selling short-term, deep in-the-money4 call options to, or buying short-term, deep in-the-money put options from, the counterparty to the share purchase. The purchase of shares creates the illusion that the market participant has satisfied the close out obligation of Reg. SHO. However, the shares that are apparently purchased in the reset transactions are never actually delivered to the purchaser because on the day after executing the reset, the option is either exercised (if a call) or assigned (if a put), transferring the shares back to the party that apparently sold them the previous day. This paired transaction allows the market participant with the fail-to-deliver position to effectively borrow the stock for a day, in order to appear to have satisfied the close out requirement of Rule 203(b)(3).

· By avoiding the cost of borrowing shares and engaging in this reverse conversion and reset transactions, Bell and GAS were able to earn profits while subject to minimal risk. Because Bell and GAS improperly failed to borrow or arrange to borrow securities to make delivery when delivery was due, the short sales were “naked” short sales. that violated Reg. SHO.

· By entering into these reset transactions, Bell and GAS created the false impression that they had satisfied their Reg. SHO close out obligation. Bell and GAS, however, knew that the following day, or shortly thereafter, Bell or GAS would exercise the right to sell the stock back to its counterparty. (In the case of a call option, the option would expire in-the-money, causing the market maker that had purchased that call option to assign an exercise notice to Bell or GAS for Bell or GAS to sell the stock).

· In my last DD, I highlight how Susquehanna just filed for 3,000,000+ shares after the LEAPs expiration. They are on Team Shit Face, so they are obviously engaging in these slimy tactics in order to roll forward a dog shit position. You can use this link to file complaints with the SEC and mention that they are using sham-close outs to improperly deliver their shares.

· The Uno Reverse Card- Buy and Hold.

· **CONCLUSION:** Look at next year’s options chain. For January 2023, there are 30,000,000+ shares accounted for in puts well below today’s price. Now look at 2024 puts. Notice that the cheapest strike is $10, which is 20x higher than last year’s. There is currently a low Open Interest for 2024, but they will probably use the strategies above at the last minute to save as much as they can on time decay. They will continue to roll their synthetic long in order to avoid a forced buy-in from the CNS system, but with each options expiration they will be forced to staircase up to Valhalla.

· ***How do I trade this? I buy and then I hold.*** DRS then go outside and enjoy nature. Embrace the zen, there’s no reason to look for hype dates because we already won. Drink water, I'll see you in Valhalla.

· TL;DR: Team Shit Face shorted millions of stock that didn’t exist. They got caught with their dick in the cookie jar and their only option was to roll it forward or they’d break the entire system. Their reverse conversion strategy will allow them to keep their naked short position, but the price will inevitably increase with each expiration.