CITADEL HAS HOSTAGES

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Citadel has hostages: explaining why the MOASS is taking so long, how the January spike was stopped, Robinhood's motives for the trading halt, and the mysterious silence of the SEC

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TA;DR: The January MOASS is delayed because Citadel took hostages. They figured out how to ensure that others would be squeezed before they were. January 28th is the day Robinhood was required to deliver some of the GME shares Citadel owed to its customers, so they halted trading. They halted trading because their relationship with Citadel turned them into a hostage. The MOASS waits until new regulations ensure the hostages are safe...

TL;DR: Citadel wasn't going to be squeezed in January, Robinhood was. Citadel took hostages and figured out how to ensure that others were squeezed before they were. Robinhood halted trading after GME was on the threshold list for 35 days. After 35 days of failures to deliver, a broker becomes responsible for delivering the security to their customer. The MOASS is taking so long because Citadel managed to figure out how to make their short position other people's problem. This is why Citadel seems to have so many people protecting it and willing to lie for it: they've spent six months figuring out how to ensure it's actually Citadel that gets squeezed. This is why there is an unusual cooperation between parties we wouldn't expect to be able to keep this secret for this long. Not even the SEC can address this directly, Citadel figured out how to take everyone hostage. The past six months have been a negotiation to figure out how to deliver our tendies.

Theory: Robinhood halted trading the day they became liable for delivery of the GME shares Citadel sold to their customers

I think Robinhood halted trading because they were required to purchase GME shares to deliver their customers' past orders. Look at this requirement from SHO § 242.203 (b2):

> **(ii)** Any sale of a security that a person is deemed to own pursuant to § 242.200, provided that the broker or dealer has been reasonably informed that the person intends to deliver such security as soon as all restrictions on delivery have been removed. If the person has not delivered such security within 35 days after the trade date, the broker-dealer that effected the sale must borrow securities or close out the short position by purchasing securities of like kind and quantity;

If a Robinhood customer buys shares that are cleared by Citadel Securities, their delivery is not a problem for Robinhood *unless it takes longer than 35 days*. Once a security has taken longer than 35 days to be delivered, Robinhood is responsible for delivering it to their customer. Citadel still has to deliver the security too, but they deliver to Robinhood. So, the chain of obligation goes like this:

1. Your broker/dealer owes you the security they sold you
2. The market maker owes your broker the security they sold to the broker
3. The seller of the security owes the market maker the security they sold to the market maker

The key point is that *your broker is the one who owes you the shares you buy.* If someone else fails to deliver those shares, it's your broker's problem (although they have some ability to make this into your problem, there were too many

GME shares owed to avoid their SHO obligations).

(Expanded explanation, boring - you should skip)

So, if I want to sell a share on the market (strictly hypothetical, I've never actually tried selling), then I do not owe the sold share directly to the buyer of that share. I send my sell order into the market via my broker and they send that off to the market center where the order is executed by a market maker. I sell my share to the market maker executing the trade. The market maker then sells that share to the broker of whichever ape has brought it and the broker then sells that share to the buyer. Assuming this goes smoothly, my share ends up in the account of the buyer. However, technically speaking, I do not owe the security to the buyer. I owe the security to the market maker, who owes it to the broker, who owes it to the buyer. So, if something goes wrong, and I fail to deliver that share, I have not defaulted on my sale to the buyer, I have defaulted on my sale to the market maker executing the trade. That market maker still owes the share to the buyer's broker, regardless of my failure.

(End of skippable content)

I suspect that Citadel had been failing to deliver GME shares to Robinhood for an extended period, which is why Robinhood halted buying. Their primary motive was not to help Citadel, but to protect themselves *from* Citadel. After 35 days of failure, Robinhood has to buy the shares they expected Citadel to deliver for their customers. Effectively, due to Citadel's failures to deliver, Robinhood had inherited Citadel's short position. Citadel owed Robinhood and Robinhood owed their customers. I should clarify that, in this scenario, Citadel still owes Robinhood the shares at some point, but Robinhood has to deliver them to their customers *now*. At first, Robinhood didn't care that Citadel owed shares to their customers, until it went on for too long and Robinhood was on the hook to deliver.

Proof: the timing lines up

For this to be true, you would expect there to be a relationship between when Robinhood halted trading and the 35 day threshold. If you look at my recent post on the relationship between the threshold security list and the January price spike you'll see that GME was on the threshold list for 39 consecutive settlement days, from early December to early February. Robinhood halted trading on January 28, which is ***day 35*** of this 39 day streak. The trading halt aligns with when the obligation for Robinhood to deliver kicks in. As soon as the undelivered shares became Robinhood's problem, trading was halted. Frankly, I would have expected them to halt trading earlier than the final moment, day 35, but perhaps waiting until the last moment will allow them some legal defense in the court cases to come?

Proof: the weird cost basis after transfer

A number of users pointed out that their purchase prices and dates were incorrectly reported when transferring from Robinhood to other brokers. I suspect this is because Robinhood initially sold their users the shares based on delivery promises made by Citadel that Citadel then failed to fulfil. So, after 35 days, Robinhood had to fulfil them instead. My guess is that this process was an absolute mess because it required Robinhood to at least appear to be purchasing GME shares from someone *other* than Citadel, which is rather awkward when Citadel is a designated market maker for GME on all major exchanges. The transaction dates and prices are wrong because the trade that was eventually settled for your GME shares *was not the same trade you sent to your broker* - that trade failed and Robinhood had to redo it after 35+ days.

This might help explain why my analysis of the 605 data found that the proportion of GME order executions done through NASDAQ spikes in February, despite being almost non-existent prior to Feb 2021. If Robinhood needs to buy-up GME without going *directly* through Citadel, they'll need to get inventive and perhaps even use over the counter purchases. So, go to a market center that has very little history of executing GME orders - NASDAQ. It's possible that Robinhood borrowed/brought GME from a variety of places to cover for the clusterfuck Citadel dumped them with, and then allocated those GME shares that actually got delivered to customers that transferred. If you had a massive shambles of shares like this, it might manifest in an inaccurate and messy purchase history for your customers.

Proof: others halted trading too

Robinhood wasn't the only one that halted trading. It's difficult, but not impossible, for Citadel to have orchestrated this behind the scenes. It's much easier to explain this seemingly organized trading halt by pointing out that the brokers who halted trading *only halted trading when they themselves became obligated to deliver the shares in question.* This is why they halted trading *after* the price had already been spiking - my guess is that Citadel was putting on pressure behind the scenes too, but I don't think it's a coincidence that trading didn't actually halt until the time arrived that the brokers themselves were threatened with delivery obligations.

Context and discussion: saving Citadel

Notice that my theory does not do Robinhood any favors - this is not a defense of them or their actions. I suspect, as was claimed during the congressional hearings, the trading halt was the main reason the January spike ended. If my theory is correct, it's likely that the ending of the January spike saved Citadel. This claim is nothing new. What I think my theory adds to the discussion is a better explanation of why Robinhood and others did this. Remember, the buying halt was a disaster for Robinhood! They were dragged in front of congress, their reputation is in tatters, and they're bleeding customers. Halting buying was *not* a good play. My guess is that they knew it would be a disaster and did it anyway. I think that this is why they waited right up until day 35 of GME's run on the threshold list - they didn't help Citadel until the only other option was delivering the undeliverable. In January, those who halted trading were slated to be the first victims of the MOASS.

Further implications: MOASS is so slow because Citadel has hostages

I suspect that the implications of what almost happened to Robinhood in January are why we're seeing some of the recent regulation changes ('clarifications'). I think that it was *Robinhood and not Citadel that was squeezed in the January spike*. Citadel is a market maker with its own market center, it has privileges and exemptions that make it quite resilient (as we've found out over the past six months). Robinhood does not have the same level of protection from its exposures, once the 35 day settlement mark passed, they had to deliver shares. It was the brokers that needed to buy shares from the 28th onwards: Citadel's failures to deliver were, in the short term at least, the brokers' problem. For all we know, Citadel didn't cover any of the deliveries that finally got GME off the threshold list at the beginning of February and managed to force the brokers to do it for them. If they were willing to abuse the market enough, perhaps via abuse of NASDAQ in February as my previously linked post discusses, Citadel might have even used the brokers need to deliver as a way of *expanding* their short position substantially while 'technically' resolving the failures to deliver (kicking the can down the road to another day). I guess there is no better ally than one who has to pay your debt if you go under…

So, if my theory is correct, January almost saw Citadel's failures result in *someone else* getting squeezed! Perhaps this is why the trading halt became the focus of the congressional hearings. Maybe this is why the DTCC has focused so many of their new regulations on clarifying what happens if positions need to be forcibly closed. January might have demonstrated that a market center, such as Citadel Securities, could contrive a scenario where they force *someone else to be squeezed by their short position!*

In [my post examining the February gamma](), I argue that the bizarre market activity near the end of February was a failed attempt to begin the MOASS. If my theory that Robinhood, not Citadel, was being forced to deliver in January is correct, I don't think it's any surprise that attempts to begin the MOASS have been prevented since January. The regulations required updating to prevent Citadel from forcing others to be squeezed before they were. If I am correct, Citadel was holding everyone hostage. The embodiment of too big to fail: not just because of the havoc their sudden demise would cause, but because *they wouldn't be squeezed until after the squeezing of all the smaller parties caught in the impossibly convoluted web of failures to deliver and rehypothecation that Citadel shat into the market.* Lots of entities were exposed to the squeeze, and Citadel was setup to be hit last.

The MOASS can't launch until the hostages are safe. It needs to be Citadel that's squeezed. Otherwise, the squeeze might wreak havoc on the market with no guarantee that the one responsible dies too. There was no choice but to wait. Meanwhile, Citadel is a huge market center with substantial political clout and presence in the regulators themselves. So, setting up the regulations for the MOASS took time. It was urgent, but those involved were regulating against one of their own.

I think this offers a compelling explanation for what we've been living through over the last six months because it attributes a strong motive to the parties involved to remain silent. Explaining why this debacle has lasted six months is very difficult. It's an absolute disaster and we haven't even heard anything from the SEC. What could justify this level of cooperation to keep lips tight, just to delay the inevitable? Why such slow action as the problem gets bigger? My guess is that Citadel has hostages and it's taking a lot of careful work behind the scenes to figure out how to be sure that Citadel is the one that takes the fall. With everyone's hands tied and the need for secrecy so high, the job takes time.

As a disgusting parting thought, I should mention that, if I'm right, my theory predicts that those responsible will suffer only minimal punishment. I suspect it's taken six months because they've needed at least some cooperation from Citadel to sort this out. If this is true, my guess is that Citadel spent February trying to get out of their predicament and refused to cooperate with attempts to arrange the MOASS that will kill them. The February gamma might have been other parties preventing Citadel's efforts to make the situation worse and forcing Citadel to come to the negotiating table. During the early months we saw market activity that indicated whales were fighting each other. I think this was Citadel trying to escape their own trap and whales preventing them, knowing it was too dangerous to let Citadel make things worse while it held the system hostage. Notice that this explains why, relatively speaking, the GME activity calmed slightly as this dragged on: Citadel was forced to the negotiating table and has been helping plan and regulate its own destruction. I suspect the payment for this cooperation will be those involved getting off lightly, because the alternative would be to have the MOASS without them releasing the hostages. Unfortunately, if I'm right, we'll see those responsible living in Florida after this is over. Bankrupt and embarrassed, but more comfortable than the plebs.

Obvious but crucial disclaimer: I am a random on the internet spinning yarns about a conspiracy theory. As I was posting this thread, I decided to literally wear a tinfoil hat. Anyone reading this should understand my tinfoil attire to mean that I am not competent enough to be offering any advice or taken seriously. Readers must carefully examine any claims made here independently and not regard my words as authoritative.

Thank you to u/RoutineYesterday267 for a post that led to me writing this