I AIN'T HEAR NO BELL

BY U/ATOBITT

I Ain't Hear No Bell

`DD`

TL;DR - Hedgies are up to the same ol' same ol' bullsh*t. Here's some FINRA literature to keep you entertained while waiting for lift off.

_____

WHAT THE F*CK IS UP, APES!?

Once again, I've been dabblin' in the data. Even after months of this sh*t, I'm still pleasantly surprised when I find more fecal matter which further confirms my rock-hard bias. In fact, there's only one thing that jacks-my-atobitts even more than being right...

...and that's jacking-the-atobitts of all the apes within this **community.**

What can I say? I'm a selfless dude.

sets chip on shoulder

_____

Now then, I want you to toss those double **FUD**ge brownies you've been snacking on and start power-chugging this DD smoothie. I know there are only about 17 of you out there that will actually read this thing word-for-word so I won't even bother asking you to read the 40 page prequel of HOC I , II , III.

For those of you that *DID* read the HOC series, you may remember I talked about the delayed reporting that FINRA has when it comes to reporting misconduct among the hedgef*cks. Here's a wee quote from the HOC II:

> As we go through these FINRA reports, there are a few things to keep in mind:
>
> 1. **FINRA is not a part of the government.** FINRA is a non-profit entity with regulatory powers set by congress. This makes FINRA the largest self-regulatory organization (SRO) in the United States. The SEC is responsible for setting rules which protect individual investors; FINRA is responsible for overseeing most of the brokers (collectively referred to as members) in the US. As an SRO, FINRA sets the rules by which their members must comply- **they are not directly regulated by the SEC**
>
> 2. FINRA investigates cases at their own pace. When looking at the *"Date Initiated"* on their reports, it is not synonymous with *"date of occurrence".* Many times, FINRA will not say when a problem occurred, just resolved. It can be YEARS after the initial occurrence. The DTC participant report is littered with cases that were initiated in 2019 but occurred in 2015, etc. Many of the violations occurring today will take years to discover
>
> 3. FINRA can issue a violation for each occurrence using a 1:1 format. When it comes to violations like short selling, however, these "occurrences" can last months or even years. When this happens, FINRA issues a violation for multiple occurrences using a 1:MANY format. I discussed this event in Citadel Has No Clothes where one violation represented FOUR YEARS of market f*ckery. What's sh*tty is that FINRA doesn't tell you which violations are which. You have to read each line and see if they mention a date range of occurrence within each record. If they don't, you must assume it was for one event... BRUTAL
>
> 4. FINRA's investment portfolio is held by the same entities they are issuing violations to... Let that sink in for a minute

Now, I'm pretty damn sure I beat this horse into the ground, but just to make sure, I'll say it once again....

FINRA is very inconsistent when it comes to timely filings. Issues can be brought to their attention YEARS before they issue fines, or they can be fined within the same month & year in which the violation occurred. But hey, that's FINRA...

Long story short, I still use https://brokercheck.finra.org/ to check the records on most of the DTC's participants. I literally do this for a few minutes each day to see if Citadel & friends have any more violations for misquoting the bid/ask prices on their exchange, or if Goldman Sachs is still smashing that F3 key to activate their auto-locate feature (where my HOC III fans at?).

Needless to say, I found more fecal matter.

I ain't hear no bell

_____
_____

CHAPTER 1: CAPITAL REQUIREMENTS

Let's start off with a lil' finger bang..

We've all read the recent rule changes from the DTC regarding daily monitoring of participant activity. This was detailed extensively in SR-DTC-2021-003. Keep in mind, Dr. T stated this was just a formality because the DTC has been monitoring participant activity daily for quite some time. However, I'm now seeing more frequent violations for failing to properly maintain sufficient capital within customer accounts. Historically, these are pretty infrequent citations so I can't help but think some of the new rule changes may be having an effect.

You've gotta look closely to see what's happening...

Take a look at Wells Fargo...

Disclosure 1 of 142	
Reporting Source:	Firm
Current Status:	Final

©2021 FINRA. All rights reserved.   Report about WELLS FARGO SECURITIES, LLC   26

www.finra.org/brokercheck   User Guidance

FINRA

Allegations:	WITHOUT ADMITTING OR DENYING LIABILITY, WELLS FARGO SECURITIES, LLC ("WFSLLC") ENTERED INTO A SETTLEMENT IN WHICH THE CME FOUND WFSLLC VIOLATED CME RULE 971.A.1., AND FINED WFSLLC $50,000.
Initiated By:	CHICAGO MERCANTILE EXCHANGE (CME GROUP)
Date Initiated:	05/03/2021
Docket/Case Number:	CME 21-CH-2105
Principal Product Type:	Futures - Commodity
Other Product Type(s):	
Principal Sanction(s)/Relief Sought:	Civil and Administrative Penalt(ies) /Fine(s)
Other Sanction(s)/Relief Sought:	
Resolution:	Settled
Resolution Date:	06/11/2021
Sanctions Ordered:	Monetary/Fine $50,000.00
Other Sanctions Ordered:	
Sanction Details:	$50,000.00 FINE

https://files.brokercheck.finra.org/firm/firm_126292.pdf

On **6/11/2021**, FINRA resolved Wells Fargo's fine for violating CME Rule 971 A.1 which relates to the funds set aside within a customer's account (particularly with swaps/futures).

971. **SEGREGATION, SECURED AND CLEARED SWAPS CUSTOMER ACCOUNT REQUIREMENTS**

A. All clearing members must comply with the requirements set forth in CFTC Regulations 1.20 through 1.30, 1.32, 1.49 and 30.7, and Part 22 of the CFTC Regulations. This includes, but is not limited to, the following:

1. Maintaining sufficient funds at all times in segregation, secured 30.7 and Cleared Swaps Customer accounts;

2. Computing, recording and reporting completely and accurately the balances in the:

    a. Statement of Segregation Requirements and Funds in Segregation;

    b. Statement of Secured Amounts and Funds Held in Separate Accounts; and

    c. Statement of Segregation Requirements and Cleared Swaps Customer Collateral Held in Cleared Swaps Customer Accounts.

https://www.cmegroup.com/content/dam/cmegroup/rulebook/NYMEX/1/9.pdf

---
_____

I probably wouldn't think anything about this if it were the only violation I stumbled upon.... but what's interesting is that Bank of America got slapped with the same f*cking violation on the same f*cking date... **6/11/2021...**

Disclosure 1 of 7	
Reporting Source:	Firm
Current Status:	Final

©2021 FINRA. All rights reserved. Report about BOFA SECURITIES, INC.   37

www.finra.org/brokercheck   User Guidance

FINRA

Allegations:	WITHOUT ADMITTING OR DENYING THE RULE VIOLATION UPON WHICH THE PENALTY IS BASED, THE CHICAGO BOARD OF TRADE CLEARING HOUSE RISK COMMITTEE ("COMMITTEE") FOUND THAT BOFA SECURITIES, INC. VIOLATED CBOT RULES 930.E.1., 930.E.2., 930.E.3., 930.F., AND 971.A.
Initiated By:	CHICAGO BOARD OF TRADE
Date Initiated:	06/11/2021
Docket/Case Number:	CBOT 21-CH-2102
Principal Product Type:	Other
Other Product Type(s):	PERFORMANCE BONDS
Principal Sanction(s)/Relief Sought:	Civil and Administrative Penalt(ies) /Fine(s)
Other Sanction(s)/Relief Sought:	
Resolution:	Other
Resolution Date:	06/11/2021
Sanctions Ordered:	Monetary/Fine $75,000.00
Other Sanctions Ordered:	N/A
Sanction Details:	WITHOUT ADMITTING OR DENYING THE RULE VIOLATION UPON WHICH THE PENALTY IS BASED, THE COMMITTEE ORDERED THE FIRM TO PAY A $75,000 FINE.
Firm Statement	WITHOUT ADMITTING OR DENYING THE RULE VIOLATION UPON WHICH THE PENALTY IS BASED, THE COMMITTEE ORDERED THE FIRM TO PAY A $75,000 FINE.

https://files.brokercheck.finra.org/firm/firm_283942.pdf

I started looking into the docket number for this case and noticed it was within the same sequence as the citation for Wells Fargo..

Bank of America docket # CBOT 21-CH-21**02....**

Wells Fargo docket # CBOT 21-CH-21**05....**

So... why not? I pulled a quick google search for CBOT 21-CH-21**01**...

~~B~~**OM.** Citigroup.

Notice of Disciplinary Action

#	<mark>21-CH-2101</mark>
Notice Date	<mark>19 March 2021</mark>
Effective Date	<mark>19 March 2021</mark>

FILE NO.:   21-CH-2101

MEMBER FIRM: Citigroup Global Markets Inc.

CBOT Rules: 930.E. Calls for Performance Bond

*****

2.   Clearing members shall only reduce a call for performance bond through the receipt of performance bond deposits permitted under subsection C. of this rule. Clearing members may cancel a call for performance bond through: a) the receipt of performance bond deposits permitted under subsection C. of this rule only if such deposits equal or exceed the amount of the total performance bond call; or b) inter-day favorable market movements and/or the liquidation of positions only if performance bond equity in the account is equal to or greater than the initial performance bond requirement. Clearing members shall reduce an account holder's oldest outstanding performance bond call first.

<mark>970. FINANCIAL REQUIREMENTS</mark>

A.   Subject to exemptions granted by Exchange staff, all clearing members, including non-FCMs, must comply with the requirements set forth in CFTC Regulations 1.10, 1.12, 1.17 and 1.18. This includes, but is not limited to, the following:

https://www.cmegroup.com/notices/clearing/2021/03/21-CH-2101.html

CME 970A is another requirement for minimum capital:

<mark>970.</mark>   FINANCIAL REQUIREMENTS

<mark>A.</mark> Subject to exemptions granted by Exchange staff, all clearing members, including non-FCMs, must comply with the requirements set forth in CFTC Regulations 1.10, 1.12, 1.17 and 1.18. This includes, but is not limited to, the following:

<mark>1. Maintenance of minimum capital requirements of at least $5 million except that a clearing member that is a bank must maintain minimum Tier I Capital</mark> (as defined in accordance with regulation applicable to the relevant bank) <mark>of at least $5 billion;</mark>

https://www.cmegroup.com/content/dam/cmegroup/rulebook/NYMEX/1/9.pdf

How deep does this rabbit hole go?

Citigroup | docket # CBOT 21-CH-21**01**.... **3/19/2021**

Bank of America | docket # CBOT 21-CH-21**02**.... **6/11/2021**

ADM Investor Services, INC | docket # CBOT 21-CH-21**03**.... **6/11/2021**

Mizuho Securities | docket # CBOT 21-CH-21**04**.... **6/11/2021**

Wells Fargo | docket # CBOT 21-CH-21**05**.... **6/11/2021**

ABN Amro Clearing | docket # CBOT 21-CH-21**06**.... **6/11/2021**

Phillip Capital, INC | docket # CBOT 21-CH-21**07**.... **6/11/2021**

Santander Investment Securities, INC | docket # CBOT 21-CH-21**08**.... **6/11/2021**

8 citations issued in 2021 and 7 of them occurred during June. By changing **21-CH** to **20-CH** and then following the same pattern, I was able to look backwards through 2017 (filing gets weird w/ dates prior to that). Here's what I found:

Citations for Underfunded Capital by year:

2017: 7 citations (full year)
2018: 8 citations (full year)

2019: 7 citations (full year)

2020: 13 citations (full year)

2021: **8 citations (half year)**

Sometimes there will be a citation that's listed as 19-CH-1908, but actually filed in January 2020. Most of them are split randomly throughout the year, but some are done in chunks (typically June / August). This leads me to believe the actual *date of occurrence* happens within 4 - 6 weeks of the citation being filed. I could be wrong, but the filings appear to be done this way.

Therefore, we can start to deduce what the actual f*ck is happening here. From 2017 through 2019, the average annual citation is between 7 and 8. Suddenly, we've jumped almost 100% during 2020 and 2021 is currently on track to surpass it. Either FINRA is getting much better at identifying underfunded capital accounts, or the number of underfunded capital accounts is increasing. Obviously, we need to rule out that a bunch of new entities haven't been added to FINRA's "audit list", but the citations seem to generally reference the same folks.

All aboard the struggle bus.

_____
_____

CHAPTER 2: SHORT SALES

I had the pleasure of reading one of the most f*cked up short sale violations this past week. Typically, FINRA will break short sale violations into different buckets. If you mark a sale as long when it was short, that's a specific violation.

Likewise, if you fail to locate a borrow, that's another violation. However, FINRA issued a citation on **5/24/2021** to Wolverine Execution Services for one of the most blatantly obvious f*ck-ups I've ever read. This actually *occurred* for 3 F*CKING YEARS between May 2016 and March 2019.... Once again, good job FINRA on the timely filings. Check it out:

WITHOUT ADMITTING OR DENYING THE FINDINGS, THE FIRM CONSENTED TO THE SANCTIONS AND TO THE ENTRY OF FINDINGS THAT IT INACCURATELY MARKED SELL ORDERS AS LONG RATHER THAN SHORT IN 18,756 INSTANCES. THE FINDINGS STATED THAT WOLVERINE ENGAGED IN RISKLESS PRINCIPAL TRANSACTIONS FOR TWO OF ITS CUSTOMERS. WOLVERINE INCORRECTLY ENTERED THOSE ORDERS IN THE SAME MANNER IN WHICH IT HAD RECEIVED THEM, SUCH THAT IF IT RECEIVED AN ORDER TO SELL LONG, IT WOULD ENTER A SELL LONG ORDER INTO AN EXCHANGE, EVEN IF WOLVERINE WAS NOT ACTUALLY LONG. THE FINDINGS ALSO STATED THAT WOLVERINE'S SUPERVISORY SYSTEM, INCLUDING ITS WSPS, WAS NOT REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH REG SHO RULE 200(G). WOLVERINE'S SUPERVISORY SYSTEM, INCLUDING ITS WSPS, FAILED TO ADDRESS HOW IT WOULD SUPERVISE FOR COMPLIANCE WITH REG SHO RULE 200(G) MARKING REQUIREMENTS FOR ORDERS THAT IT EXECUTED IN A RISKLESS PRINCIPAL CAPACITY.
THE FINDINGS ALSO INCLUDED THAT WOLVERINE FAILED TO DOCUMENT COMPLIANCE WITH THE LOCATE REQUIREMENT IN 556,388 INSTANCES. FINRA FOUND THAT THE FIRM FAILED TO ESTABLISH AND MAINTAIN A SUPERVISORY SYSTEM, INCLUDING WSPS, REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH LOCATE REQUIREMENTS. WOLVERINE FAILED TO ADDRESS THE REQUIREMENT THAT THE FIRM DOCUMENT COMPLIANCE WITH THE LOCATE REQUIREMENT AND MAINTAIN THOSE DOCUMENTS. FINRA ALSO FOUND THAT THE FIRM FAILED TO REPORT OR SUBMITTED INCORRECT REPORTS TO THE FINRA TRADE REPORTING FACILITY (TRF) IN AT LEAST 706 INSTANCES. IN ADDITION, FINRA DETERMINED THAT WOLVERINE'S SUPERVISORY SYSTEM, INCLUDING ITS WSPS, FAILED TO REVIEW FOR COMPLIANCE WITH ITS TRF REPORTING OBLIGATIONS. ALTHOUGH THE FIRM HAD WSPS REGARDING RISKLESS PRINCIPAL TRANSACTIONS, THESE WSPS CENTERED ON DETERMINING WHETHER THE FEES AND MARKUPS/MARKDOWNS CHARGED TO CLIENTS WERE APPROPRIATE, AND NOT REVIEWING WHETHER THE RISKLESS PRINCIPAL TRANSACTIONS WERE BEING ACCURATELY REPORTED TO THE TRF. MOREOVER, FINRA FOUND THAT WOLVERINE FAILED TO MEET ITS ORDER AUDIT TRAIL SYSTEM (OATS) REPORTING OBLIGATIONS PERTAINING TO ORDER DATA TRANSMISSION REQUIREMENTS IN 31 OF 77 TRADES REVIEWED, CONSTITUTING AN ERROR RATE OF 40 PERCENT. FURTHERMORE, FINRA FOUND THAT WOLVERINE FAILED TO MEET ITS OBLIGATIONS PERTAINING TO RECORDING AND PRESERVING ORDER EVENT INFORMATION IN 15 OF 77 TRADES REVIEWED, CONSTITUTING AN ERROR RATE OF 19. THE FINDINGS ALSO STATED THAT THE FIRM FAILED TO ESTABLISH AND MAINTAIN A SUPERVISORY SYSTEM, INCLUDING WSPS, REASONABLY DESIGNED TO ACHIEVE COMPLIANCE WITH OATS REPORTING REQUIREMENTS. IN PARTICULAR, THE DAILY REVIEWS FOCUS ONLY ON ENSURING THAT REPORTING IS COMPLETE WITH NO

ort about WOLVERINE EXECUTION SERVICES, LLC

https://files.brokercheck.finra.org/firm/firm_120719.pdf

LOL

No sh*t... you can't make this up....

So let me get this straight..... for 3 years, Wolverine:

1. "inaccurately" marked nearly 19,000 transactions as long instead of short.. not *accidentally*- INACCURATELY...
2. sold shares they didn't have...
3. didn't have the paperwork for almost 560,000 locate requirements...
4. failed to meet the reporting obligations for order data within the audit trail system on 40% of sampled trades....
5. AND failed to provide proper order event information in 19% of their sampled trades...

Did I already say LOL ?

But wait... it gets better.... The VERY NEXT violation is literally the same as this one, but with new numbers and new bed-time stories:

WITHOUT ADMITTING OR DENYING THE FINDINGS, THE FIRM CONSENTED TO THE SANCTIONS AND TO THE ENTRY OF FINDINGS THAT IT MISMARKED A TOTAL OF 1,956 SHORT SALE ORDERS AS LONG RATHER THAN AS SHORT, IN VIOLATION OF NYSE ARCA RULE 7.16-E(C). THE FINDINGS STATED THAT THE FIRM CONDUCTED RISKLESS PRINCIPAL TRANSACTIONS FOR TWO OF ITS CUSTOMERS. THE FIRM INCORRECTLY ENTERED THOSE ORDERS IN THE SAME MANNER IN WHICH IT HAD RECEIVED THEM, SUCH THAT IF IT RECEIVED AN ORDER TO SELL LONG, IT WOULD ENTER A SELL LONG ORDER, EVEN IF THE FIRM WAS NOT ACTUALLY LONG. THE FINDINGS ALSO STATED THAT THE FIRM FAILED TO PROPERLY DOCUMENT LOCATE INFORMATION IN 408,126 INSTANCES FOR ORDERS ENTERED AS SHORT SALES, IN VIOLATION OF NYSE ARCA RULE 7.16-E(E) AND REGULATION SHO (REG. SHO) RULE 203(B). THE FIRM RELIED ON ITS CLIENTS TO ATTEST THAT THEY HAD A LOCATE FOR SHORT SALES, AND CONFIGURED ITS ORDER MANAGEMENT SYSTEM SO THAT WHEN A CLIENT ENTERED A SHORT SALE ORDER, AN ELECTRONIC WINDOW PROMPT REQUESTED THAT THE CLIENT ATTEST THAT IT MET THE LOCATE REQUIREMENT AND ALLOWED THE CUSTOMER TO PROVIDE RELATED INFORMATION. IF A CLIENT DID NOT AFFIRM THAT IT HAD A LOCATE, THE TRADE WOULD NOT BE ROUTED. THE FIRM FAILED TO RETAIN RECORDS REFLECTING THE CLIENT ATTESTATIONS OR OTHER DOCUMENTATION REFLECTING THE REASONABLE GROUNDS FOR THE CLIENT'S ATTESTATION. THE FINDINGS ALSO INCLUDED THAT FAILED TO ESTABLISH, MAINTAIN, AND ENFORCE A SUPERVISORY SYSTEM, INCLUDING WRITTEN SUPERVISORY PROCEDURES (WSPS), REASONABLY DESIGNED TO ENSURE COMPLIANCE WITH ORDER MARKING RULES AND LOCATE REQUIREMENTS APPLICABLE TO ITS BUSINESS ACTIVITY UNDER NYSE ARCA RULE 7.16-E(C) AND (E), AND REG. SHO RULE 203(B), THEREBY VIOLATING NYSE ARCA RULE 11.18. THE FIRM'S WSPS RELATING TO SHORT SALE ORDER MARKING STATED THAT BECAUSE THE FIRM DOES NOT HAVE ACCESS TO ITS CLIENTS' POSITIONS, THE FIRM GENERALLY MUST RELY ON CLIENTS TO ACCURATELY REPRESENT THEIR POSITIONS

LOLLOLLOLLOL

Yeah, you read that right.... Wolverine relied on their clients to provide proof of borrowing before letting them perform a short sale. If they didn't upload the proper documentation, the sale wouldn't occur.

"No one ever said we had to KEEP that paperwork, though...."

...f*cking dipsh*ts....

DIAMOND.F*CKING.HANDS