u/Prof_ Dankmemes

Frog In The Ice Cream Machine

Frog In The Ice Cream Machine

Due Diligence

So many awesome, wonderful humans from the community made this possible.

The MVP of this is ⭑ u/TiberiusWoodwind ⭑ for putting together most of these pieces and diving deep into the "It's Not A Cycle" Cycle. You're a legend and a rockstar.

Special *Contributions by* u/WhatCanIMakeToday, u/loggic, u/Livid_Peach4593. You all are brilliant wrinkle brains.

Special thanks to u/wakeuparleen, u/PastorStonks, u/jaykles, u/No1Important_4real, u/CruxHub, u/GMEJesus and everyone in the DD chats.

E*ach of you was so patient and helpful, we are grateful to have you here in this community. Maxing out the 40k limit on this one, LFG.*

0. SUMMARY

On February 24th, a system-wide crash at the Fed disabled the movement and reporting of electronic cash flow for approximately 3.5 hours. During this time, financial institutions were unable to move money around and make payments using the National Settlement Service which clears settlements for the DTC. Suddenly, when the system came back online, "meme stocks" began going bonkers with massive volume spikes followed by swells of gains into after hours. We believe that due to systemwide delays to intraday settlement reporting, when the system came back online, it attempted to start settling naked shorts.

Even Ryan Cohen himself attempted to point out the problem with his legendary McDonald's Ice Cream cone tweet. Ken Griffin was quick to publicly blame RC's tweet for the sudden surge and provided a convenient red herring to distract from possible evidence of naked shorts, that if revealed to be true, would open up many more questions into his positions and the continued naked short selling of GameStop.

We've come to two distinct conclusions about what happened on February 24th:

- **This was in fact an unexpected computer crash due to an "operational error". Maybe the reason Feb 24 was so *batshit crazy* at the end of the day was due to the computer coming back online, seeing naked short positions and starting going haywire on DTC Participants. This should provide enough evidence to warrant an audit of short sellers and market makers during the events of February 24th.**
- **The computer suddenly recognized there was an irrational amount of DOOMPS that needed to be settled than physically possible on that date, and shut down due to computational error. Now short hedge funds are stuck kicking the can every 90 days. If this is the case, the DTC/Fed should be held responsible for market manipulation charges.**

1. THE ICE CREAM MACHINE

To begin to understand the situation that happened that day, it's important to understand the FED system that broke. These systems are so vital to our economy that without them we are unable to process things like direct deposits of payroll, Social Security, and income tax refunds as well as auto payments for mortgages and utility bills. For Financial Institutions, this system handles trillions of dollars a day in electronic money transfers, credit, and debt payments.

One of the big ones that went down was **FedWire**: which is a real-time gross settlement funds transfer system. This system moves trillions of dollars a day electronically for most financial institutions.

The most important service to note for this story is the Fed's **National Settlement Service (NSS)**. The NSS provides (but is not limited to) the following functions:

- *Allows for settlement of interbank obligations in central bank money.*
- *Reduces the duration of settlement risk for participants in private-sector clearing arrangements by providing same-day finality.*

The operative words here are that it's **used to settle intrabank obligations** and offers **same-day settlement finality.** One of the biggest power users of the NSS is a name you might remember quite well, the DTCC.

According to the DTCC website, this is how they describe the NSS for their organization and respective participants:

> Throughout the settlement processing day, as transactions are processed against a participant's account, settlement debits and credits are updated in the settlement system on a real-time basis.

Although the actual settlement process requires final settlement figures at approximately 3:45 p.m. eastern time each day, the DTC operates a settlement system that provides Participants and Settling Banks with online reports throughout the processing day. These reports reflect intraday gross debits, gross credits, and the net debit or credit for each Participant, as well as a net-net figure for each Settling Bank. This is also how participants are evaluated on whether or not they should receive insane levels of leverage from the DTC. These intraday reports and settlements give the DTC insight into how much risk their participants are eating up.

> Each participant must choose a settling bank that is also a DTC participant with access to the Fedwire system and NSS to act on its behalf when settling with DTC.Settling banks, acting on behalf of participants, acknowledge or refuse to settle participant balances. Upon acknowledgement from all settling banks, DTC collects and disburses settling bank balances through the Federal Reserve's NSS, which directly posts debits and credits to settling bank accounts.

According to the DTC, a Settling Bank may refuse to settle on behalf of another Participant for which it is the designated Settling Bank. It is the primary obligation of each Participant to ensure that its net settlement balance, if any, is settled timely.

If a Settling Bank does not settle on behalf of a Participant, or a Participant that acts as its own Settling Bank does not fund its settlement obligation, it will be in default under the DTC Rules and Procedures.

3. THE DAY OF FEBRUARY 24th, 2021

9:30 AM (ET) — Market open

That morning, GME opened at $44.70, showing few signs of life in terms of volume or price action. Our favorite stock had been trading sideways for most of the month and if you were around in those days, there was a lot of chaos on Reddit at the time.

There was no real news to note that day. Jim Bell had announced his exit a few days prior and we'd just come off a week of our first Congressional Hearings. Things were trading sideways.

11:15 AM (ET) — The Ice Cream Machine Breaks

The Fed computer system crashes in the early morning. The “operational error” impacted multiple services and systems that were mentioned previously. The system connects depository and related institutions sending electronic credit and debit transfers. Almost all forms of electronic money movement were disabled for hours that day.

Within minutes, the word is out on the street, and most companies and institutions are painfully aware that a problem exists, but all you can do is wait.

1:57 PM (ET) — RC Tweets

During the standstill, Ryan Cohen *breaks 38 days of Twitter silence* to share this masterpiece that stole our hearts.

What does it mean? Let's find out.

While the tweet opens itself up to interpretation, it's usually best to take an Occam's Razor approach when looking for answers. The simplest answer is usually the right one.

Let's start with the ice cream cone. Did you know that [Ryan Cohen took the Chewy board out for McDonald's soft serve] after their first board meeting? While we could only imagine being a fly on the wall in those days, it is safe to assume that McDonald's Ice Cream holds some sort of symbolic meaning to Ryan. And for anyone that frequents McDonald's Soft Serve, IYKYK. That shit is ALWAYS broken.

If you reverse image search the ice cream cone pic he chose, you get this result.

'McBroken' aims to fix a common problem for McDonald's customers: arriving to find the ice-cream machine is broken.

While there is probably some symbolic meaning behind the McD's Soft Serve, Ryan Cohen would never expect the general public to know what that is exactly. It would be safe to assume, Ryan is implying that something is broken. At the time, many Redditors even said "Oh, maybe the dip machine is broken".

What NOBODY has any decent theory on is what the frog emoji means, it sure is provocative. Well, let's see what Google has to say about that.

"I am so happy this happened!"

Quite clearly, the first reference for the frog emoji's symbolic meaning is "I am so happy that happened". If you look around you might find some different connotations that imply a mischievous manner, sarcasm, or the Kermit sipping tea meme ("But that's none of my business").

If you look back on RC's tweets at the time (Jan 6, Jan 17, Mar 4) he was quite clearly speaking in a code that featured a single emoji and a picture.

When you combine the emoji with the picture, it is quite clear that RC is saying:

"The machine is broken and I am so happy to hear about this."

After almost 2 hours since the outage began with no word from the Fed, for any savvy investor, it is quite clear that this wasn't just a glitch or a hiccup. Something was wrong. After the January fuckery, Ryan was probably well aware that the price was being suppressed and an inability to move money would affect that. He may have been calling his shot or was laughing at the broken system that attempts to suppress and bankrupt GME.

2:30-3:00 PM (ET) — The Ice Cream Machine is "Fixed"

Reports are mixed as to when exactly when the Fed system came back online. Some say2:30 PM, others say 2:45, while others claim outages and warnings were still apparent after 3 PM.

From the sound of it, problems and outages were gradually resolved and it's impossible to tell what services were accessible and when. That said, it gives us a time frame. Let's look at what happened to GME at 2:30 PM (ET):

GME with Volume bars from Feb 19 to March 3

WOAH! For a company with no news and little to no daily volume, things got spicy right at 2:30 PM. See those massive green bars? Right at the time the Fed system is first reported to be back online, the trade volume begins going bananas!

Look at the relative daily volume for that week.

Date	Open	High	Low	Close*	Adj Close**	Volume
Feb 26, 2021	117.46	142.90	86.00	101.74	101.74	92,194,200
Feb 25, 2021	169.56	184.68	101.00	108.73	108.73	150,308,800
Feb 24, 2021	44.70	91.71	44.70	91.71	91.71	83,111,700
Feb 23, 2021	44.97	46.23	40.00	44.97	44.97	7,565,200
Feb 22, 2021	46.69	48.51	42.40	46.00	46.00	19,476,000

*Close price adjusted for splits. **Adjusted close price adjusted for splits and dividend and/or capital gain distributions.

https://finance.yahoo.com/quote/GME/history?period1=1613865600&period2=1614384000&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true

That's an 11x daily volume increase!

So now can see quite clearly that the massive surge in GME tracks with the exact time frame that the Fed system came back online. So the question is, ***why would the Fed outage cause such a huge surge in the volume and price of GME?***

If you remember back to *Section 1*, the restoration of the Fed system means that National Settlement Service (NSS) is was back online. As a reminder, the NSS is part of the Fed's Automatic Clearing House system that generates intraday reports on participants and settles funds for the DTC.

If you remember, there was no access to systems like FedCash or Check21 during the outage. It is extremely likely that institutions would have been left vulnerable during this time, unable to move money around and cover up risky assets or outstanding FTDs.

In theory, when the NSS came back online, short hedge funds would have been unable to make their usual settlement deposits to maintain risky assets and keep their leverage at unprecedented rates. The NSS thusly started to settle positions intraday in order to meet the credit/debt ratio needed for settlement at 3:45 PM (ET) end-of-day.

In order to support this theory, it would be smart to look elsewhere in the market that day. If the NSS started to liquidate risky short positions, we should see the same movement across the other "meme stocks".

Let's look at

3:30pm for The Sticky Floor Stock

What about

3:00pm for Jeans Stock

I need some

3:30pm for the Nudity Stock

Volume on blast for

3:00pm for the Not-Bose Stock

What are the *fucking* chances? Each of these heavily shorted "meme stocks" saw MASSIVE volume increase at the same exact time, out of seemingly nowhere. To further support the theory, each instance of the surge happened during the exact times when the NSS supposedly came back online.

While we aren't privy to the logic or reasoning why the NSS would begin to force liquidations in these stocks, this correlation between heavily shorted "meme stocks" and GME makes a compelling case that the NSS was eliminating (possibly naked) short positions.

We can further confirm that the movement is related to naked shorting when we look into how XRT responded in the following days.

5. The ETF Release Valve

Credit to [u/Livid_Peach4593]

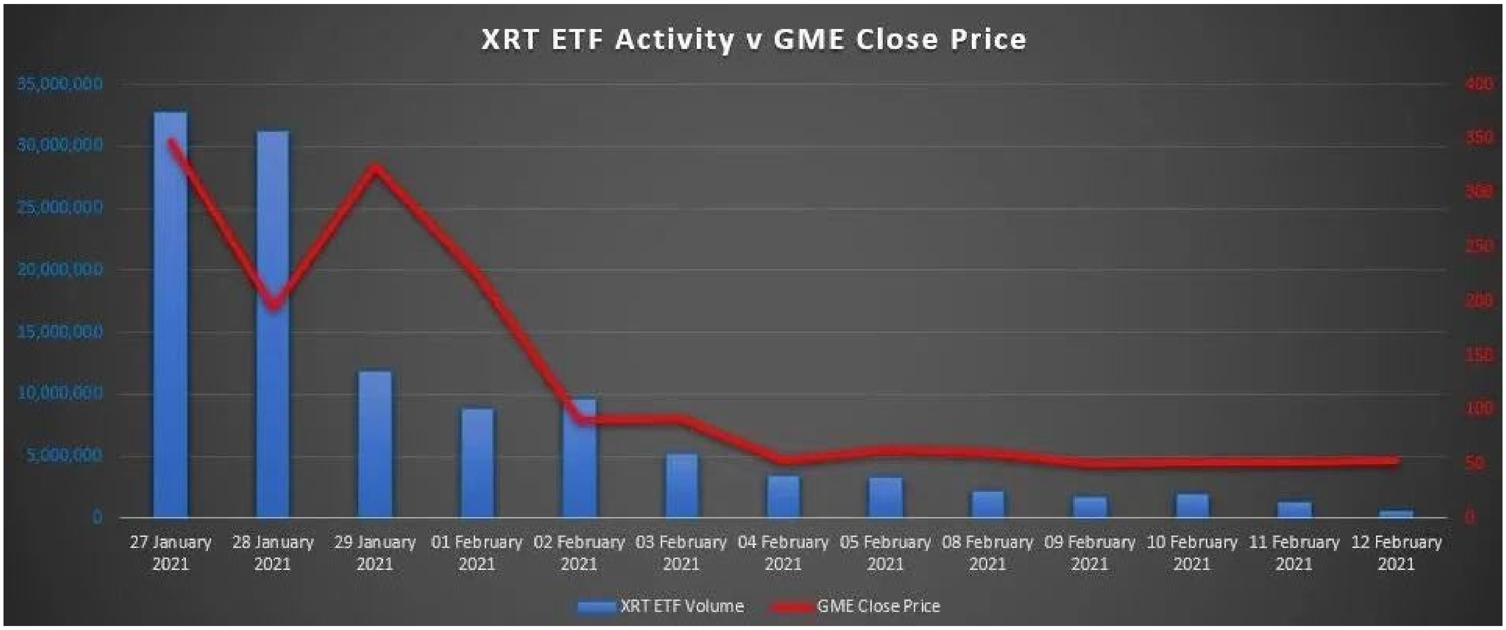
Let's talk about **SPDR S&P Retail ETF (XRT)**, one of the most heavily shorted ETFs on the market. XRT is the S&P Retail ETF which included $GME as one of its securities from January to March this year. In fact, as of February 24th, GME was the highest weighted security in the fund (2.77%).

In order to explain how GME and XRT relate, let's look at the "Gamestop Report" as written by Gary Gensler's team at the SEC:

> *"As GME increased in value, price changes in XRT became increasingly driven by those of GME. Shorting XRT could have served as an indirect, though the imperfect, way of shorting GME. In fact, staff observed a large spike in net redemptions of nearly 6 million shares in XRT on January 27, which may be consistent with short selling activity".*

HOW IT WORKS: Let's say a hedgie wanted to secretly short X, Y, and Z. That hedgie would short the whole ETF and buy long on every other share in the ETF except for X, Y, and Z. That way their short exposure is only X, Y, and Z but their short positions are listed under the ETF. A Hedgie would need to use this method if stocks X/Y/Z are illiquid or are known to be.

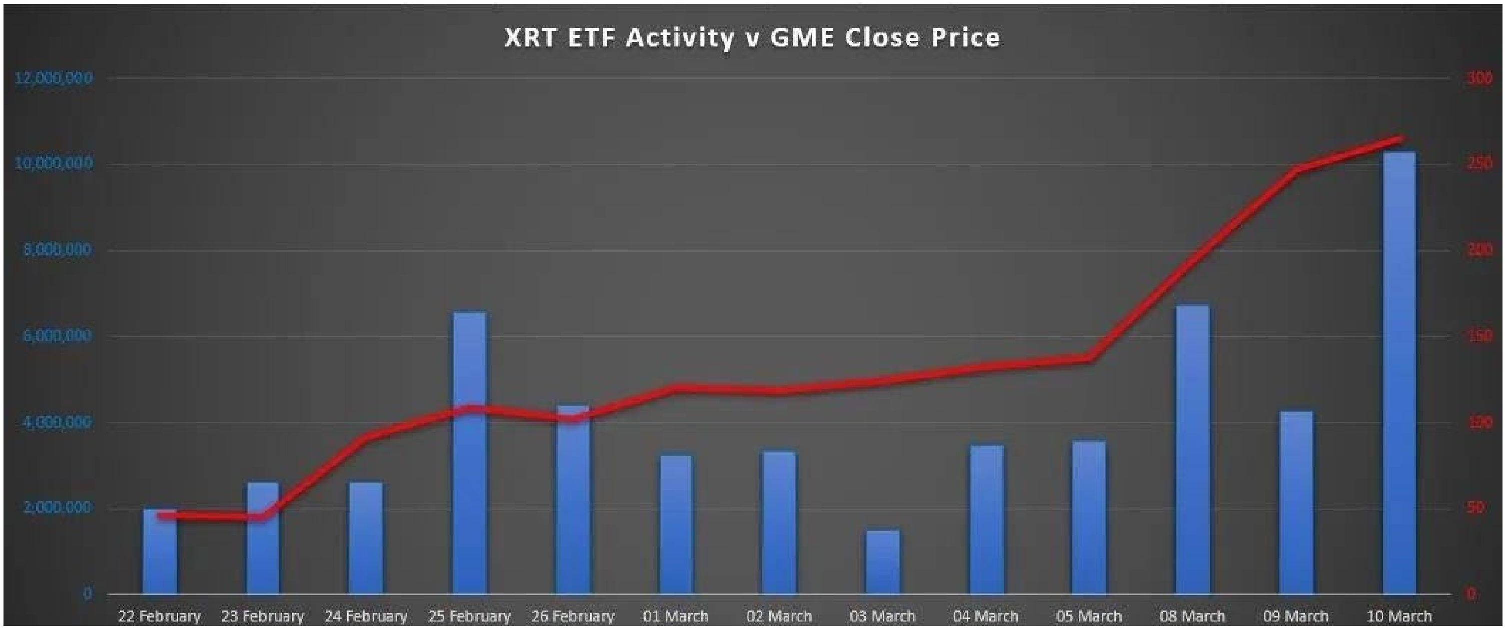
To support the conclusion drawn by the SEC, let's break out the crayons. Let's look at the following chart of XRT ETF Activity versus the GME closing price that day.



XRT ETF Activity vs. GME Close Price (1/27-2/12)

You can see quite clearly that XRT activity (daily volume) died off with the decline in GameStop's stock price. Once GME hit the $50 mark, XRT's activity quickly tapered off as low as a sub-600k volume.

Let's fast-forward to the day in question. Here's a look at XRT around the date of February 24th.



XRT ETF Activity vs. GME Close Price (2/22-3/10)

Since GME rallied late in the day on February 24th, there was very little time to suppress the price using XRT shorts. They ultimately waited until the next trading day where XRT volume skyrocketed.

At a glance, the chart might not seem to indicate that GME's price was affected, but let's take a close look at how the stock did that day:

Stock	Date	Open	*High*	*Low*	Close
GME	Feb 25th	$169.56	**$184.68**	**$101.00**	$108.73

Holy shit! Yes, you read that right. The stock price dropped a whopping **83 points that day.** That's a massive, nearly 50% drop!

Some of the *pygmy marmosets* in the back might be asking themselves: *'Okay, but wut all mean?'*

Let's summarize :

1. The SEC has confirmed that short sellers used XRT to indirectly short GME in January.
2. The SEC has also confirmed that there is a causal relationship between XRT volume and GME close price.
3. XRT, heavily shorted in its own right, indicated large volume spikes after 2:30 PM (ET) on February 24th alongside GME and other meme stocks.
4. An increase in XRT Activity on the following day (February 25th) indicates that short sellers retaliated by using ETF's like XRT to deaden any chance of FOMO buy-in, and forced a massive drop from $184.68 to $101.00

These conclusions beg the question — If GME short sellers did in fact cover in January [lmayo], why would they need to peel back the price again in February?

HOT TAKE: They needed GME price action to look like a dead cat bounce. You can find articles like this one (Published 2/26/2021) that propagate that narrative. Unfortunately for them, the illiquidity was much more prevalent and paper hands had already jumped ship. They could have worked to bring down the price in AH or pre-market but the buying pressure was seemingly out of their control and/or inevitable.

BONUS: When XRT rebalanced in late March, they dropped GME from its fund. For any GME short seller, this rendered XRT useless. You'll never guess who decided to pack their bags...

Fund or Company Name	Shares Held	Valued At	Change in Shares	As Of
Morgan Stanley	4.5M	$441M	100%	Jun 2021
Bnp Paribas Arbitrage, Snc	4.4M	$394M	126%	Sep 2021
Barclays	2.4M	$234M	143%	Jun 2021
UBS Group	2.2M	$215M	837%	Jun 2021
Healthcare Of Ontario Pension Plan Trust Fund	2.2M	$214M	7%	Jun 2021
Susquehanna International	2.1M	$208M	-10%	Jun 2021
Jane Street	1.7M	$170M	19%	Jun 2021
Bank of America Corporation	1.3M	$129M	51%	Jun 2021
Citadel Advisors	974k	$95M	-71%	Jun 2021
Moore Capital Management	750k	$73M	50%	Jun 2021
Candlestick Capital Management	700k	$68M	100%	Jun 2021

WHERE ARE YOU GOING, KEN?

6. The Cover-Up

They made two distinct plays to try and cover their asses on this.

1. (As mentioned previously,) There were quite a few articles published that quickly framed the narrative around the February 24th spike being chalked up to a dead cat bounce. You can see articles like this, this, and this. The "technical analysis" gives validation to the sudden/random rise in price without much thought. It's 'just a silly meme stock after all'.
2. The most popular scapegoat for the incident was the Ryan Cohen tweet. Most of the articles that day, like this one, made him out to be some sort of *meme messiah* that discovered the power to move markets. About a month later, in classic Ken Griffin fashion, to cocksucker made sure to drive the narrative again in his interview with the Financial Times.

Neither explanation for that day is backed by any information other than emotional fodder for those who think "*Meme Stocks R 4 Dum Dums*".

And to be honest, the communities on Reddit ate up those explanations without even a second thought. At a glance, the tweet technically preceded the sudden rise on Feb 24th, but there were about 30 minutes to an hour of time before we rocketed. Ryan Cohen isn't Elon Musk as much as the media likes to say he is. He just likes the stock.

If that's the best explanation anyone has, we think it's time to start re-opening that data and see

what *actually* happened on February 24th.

"This is Not a Cycle"

Every quarter is 90 days. When we look at GME's put option activity, we can see massive collections of **Deep Out Of The Money Puts** (DOOTMPs) that expire on the first monthly expiry date of each quarter. *This date is always on the 3rd Friday of the 1st month of every quarter.*

Unfortunately, that doesn't mean that they have to settle those trades on those dates. Instead, they are given **C+35 and T+2 days** after the first monthly expiry date of the quarter to settle those massive bombs of Deep Out Of The Money Puts.

Let's look ahead and see this in action:

1. Massive Put Volume on April 16 (C+35 and T+2 to May 25)
2. Citadel, Susquehanna, Melvin puts expiring July 16. (C+35 and T+2 to Aug 24)
3. Brazilian puts expiring on Oct 15. (C+35 to Nov 19)

When we look at example #3 (above), we can tell that it started early. That or the peak would've lasted over the Thanksgiving holiday. If they had waited for T+2, it would've given them only half a day on Black Friday to short it back down before weekly close.

I know you haven't seen pretty crayons in a while, so let's see how the "This Is Not A Cycle" Cycle looks on a chart.

Yellow boxes = put expirations // Pink boxes = GME spikes.

In the chart above, you'll see yellow boxes that denote the first monthly expiry date of each quarter (the *3rd Friday of the 1st month of every quarter)*. In the right light, they really do seem to look like 90 day cycles.

What is actually happening is C35 + T2 occurring in the same position in each quarter.

Okay, now listen up you degenerate chimpanzees.

This doesn't mean go YOLO on options for March 1st because there's been a pattern. Just like with this most recent C35, covering could start early or they could try some method of kicking the can entirely. Playing options is inherently more risky than buy/hodl/drs and is likely best left to apes with ample experience with them and an abundance of cash. More knowledge should go into an options play than 2 boxes and an arrow.

Okay, so now with all that being said, let's jack your tits with a new date.

If we take the "It's Not a Cycle Theory" forward, we should see another put bomb setting up on January 21, 2022. (C+35 and T+2 to March 1). Take a look for yourself!

If you made it this far and you're thinking to yourself, " I don't know shit about fuck when it comes to **DOOMPs** and why the hell is it **C+35 and T+2**? I'm lost."

Hold on a moment, let's dive into that real quick.

DOOMPs

Credit to u/WhatCanIMakeToday

Deep Out of The Money Puts (DOOMPs) are a key loophole that short sellers use to create greater naked short positions. They will use married puts from a market maker to synthetically create naked shares to short. Major shoutout to u/broccaaa for his work on this subject.

When those puts expire, the marriage is over and the short positions are revealed. So, the short positions would get re-married. One of the legends that uncovered this, WhatCanIMakeToday, made a great post about this, Peek-a-boo! I see 103M hidden shorts! (Part Deux).

When we look at the "It's Not a Cycle" Theory, we need to take close look at what happened in January. Let's see how many marriages of short positions got divorced on expiration:

Jan 15, 2021: **About 339k OTM Puts expired** (the equivalent of up to~ 33.9M shares)

Jan 22, 2021: **About 121k OTM Puts expired** (the equivalent of up to ~12.1M shares)

Jan 29, 2021: **About 329k OTM Puts expired** (the equivalent of up to ~32.9M shares)

That sure is a hell of a lot of divorces and exposed short positions! We've yet to find evidence that OTM Puts were ever this extreme before January. It's obvious that a lot of money was thrown at these OTM Puts during the runup, expecting the price to fall,

This OTM Puts in January serve as the primary catalyst for the chain of events we see today. Since then, the can have been kicked over and over again with DOOMPs that pop up consistently on the first monthly option expiration of each quarter. This happens every **C35 + T2** from that date.

C+35 and T+2

Credit to [u/loggic]

The **C+35 and T+2 Settlement Period** means participants are given *35 Calendar Days plus 2 Trading Days* to settle the trade of DOOMPs.

[Reg SHO] provides a number of different circumstances under which C+35 applies. This language repeats in those circumstances:

> ...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...

So that's where C+35 comes from. The DOOMPs are on the books, likely being used as a part of some nonsense Delta hedging scheme and/or just as a "leftover" from some options exploitation scheme. When those options expire, there's a new need to purchase shares to make the books balance.

Okay, then why T+2?

T+2 is the typical settlement time for transactions being settled by the NSCC. You receive the shares before the market opens 2 days after the transaction. In other words, if you buy shares Monday, you should actually receive those shares on Wednesday morning.

Why does the NSCC do it that way?

Their Continuous Net Settlement (CNS) system batches *all* of the trades going through the NSCC into one giant pile, then cancels out as many as possible.

So if I buy 10 shares in the morning then sell 10 shares in the evening, CNS just cancels out those two trades and adjusts my money account accordingly. It then continues that process such that it settles as many trades as possible by T+2.

In other words, if you sell 10 shares to me on Wednesday, CNS will probably deliver those shares to someone else who bought on Tuesday (yes, before you even sold) & then try to deliver shares to me from sellers on Thursday.

But what happens if CNS doesn't actually have enough shares to deliver? What happens when someone FTDs?

CNS will try and find shares to deliver anyway. Typically this means CNS will borrow those securities from a willing lender, deliver them to the buyer, and charge the person who FTDs until they can actually deliver.

In any case, the shares don't need to *actually move* until T+2 after someone hits the "buy button". Since market participants have various ways to effect a near-instant settlement, they can delay the buying pressure until nearly the last moment.

So, yeah. The Market Maker can push their nonsense out to as far as C+35, which lobs a grenade onto someone else's lap (like the CNS system itself) which goes off by T+2.

The Smoking Gun

Let's put this all together...

We have **GIANT** piles of puts that expired OTM in the last few weeks of January. And we know that those OTM Puts must be settled in C35 + T2. If we plot that out on our handy dandy chart...

Oh shit, is that February 24th?

Quite possibly, When February 24th rolls around, the computer says, *"Oh shit, oh fuck, we have to settle those 33.9M shares from OTM puts that expired January 15th."*

If it's a half-decent system at assessing risk, it would also start to think, *"Oh shit, oh fuck, I also have to settle 45M more shares by March 10th?"*

Computer does math

"***This number is a total of 78.9M shares of GME which is 2x larger than the available free float at the time. JPOW, how the fuck do you expect me to handle this?"***

CONCLUSION

We've come to two distinct conclusions about what happened on February 24th:

- **This was in fact an unexpected computer crash due to an "operational error". Maybe the reason Feb 24 was so *batshit crazy* at the end of the day was due to the computer coming back online, seeing naked short positions and starting going haywire on DTC Participants. This should provide enough evidence to warrant an audit of short sellers and market makers during the events of February 24th.**
- **The computer suddenly recognized there was an irrational amount of DOOMPS that needed to be settled than physically possible, and shut down due to computational error. Now short hedge funds are stuck kicking the can every 90 days. If this is the case, the DTC should be held responsible for market manipulation charges.**

HOWEVER...

There are also a TON of unanswered questions that we still don't know the answer to:

- *If the outage was a protocol to buy more time for the DTC and NSCC to assess the situation? What could they have done during the outage to mitigate risk?*
- *Why does the Founder of Citadel, GME's designated market maker, act like a frog & ice cream tweet is what caused retail FOMO buying? He should very well know that the price began increasing at the same time a computer system came online that handles end-of-day settlement.*
- *Oh yeah, and why did IV drop to ZERO on February 24th?*