WALKING LIKE A DUCK TALKING LIKE A DUCK

BY U/ATOBITT

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TL;DR - **I have prepared a case which strongly indicates that Citadel Securities, along with it's "affiliates" are committing securities fraud. On March 26th 2021, FINRA released a new citation against Citadel Securities for nearly 2 years worth of securities violations. The only reason Citadel HASN'T been busted for fraud is because they hide behind the veil of 'unintentional' behavior. However, this post illustrates how Citadel's actions flag ALL 3 corners of the fraud triangle-** ***pressure, motivation, and opportunity.*** **It's time for these people to be held accountable.**

Trying something new this time.

I recorded a video walkthrough of this DD with u/isitabuy, prior to dropping the DD.

If you wanna watch that, **click here**

Prerequisite DD

1. Citadel Has No Clothes
2. BlackRock Bagholders, INC.

3. The EVERYTHING Short

My fellow apes,

Many of you are wondering how these posts about Citadel relate to GameStop. Perhaps I've lost sight on explaining this connection, so let me clear this up before diving into MORE sh*t on them.

As u/dontfightthevol pointed out: you just never know what a company's short position is because they aren't required to disclose it. And unfortunately, she's right.

What we can do, however, is expose the sh*t surrounding them. The fraud triangle WORKS because people act maliciously when they have the pressure, incentive, and opportunity to commit it. PERIOD. This means if it walks and talks like a duck, it's most likely a f*cking duck.

I hope I've done a good job revealing the evidence of their ever-tightening noose. To name a few big ones:

1. the FINRA violations for naked shorting, failing to post a short sale indicator on transactions, withholding large customer orders to lower the market price, FLASH crashes

2. the growth of rehypothecated assets for both treasury & equity securities (especially in 2020)

3. the growth in liabilities as their PROMISES to repay keeps getting bigger and bigger (especially in 2020)

4. FINRA's concern regarding the lack of preventative measures within their system to detect these issues

5. the number of times they've been documented for 'accidently' removing logic to detect these issues

Everything fits within ALL corners of the fraud triangle. Citadel commits violations just to make a few million, knowing their fines are essentially just a small tax. Now that their exposure to shorted stocks and bonds is increasing, the PRESSURE to commit these actions is even higher.

For far too long, people with money have been draining the wealth out of the global economy. Everything around us becomes more expensive and the power to do anything about it, decreases. We are forced to think about pinching-pennies just to make ends-meet, while there are people benefitting from ALL of this injustice- the ultra-wealthy.

This aggregation of wealth has been going on behind the scenes for centuries. Slowly and gradually like a frog sitting in a pot of boiling water. Debt has been designed to be carried for life.

Their confidence and greed reached a level SO HIGH that it should have been impossible for them to fail on their bet against GameStop. The ONLY thing that could blow their victory was if we all started listening to one another.. and most importantly- learning.

And learn, we did...

We sat down at the World Series of Poker, called their bluff, and won.

GameStop is the lynchpin; GameStop opens the flood gates; GameStop is our checkmate.

GameStop exposes them to a LIMITLESS and IMMEDIATE transfer of wealth back to the 99%. This situation is dangerous because those who put their vote into GameStop are finally able to take back control.

GameStop is our hedge against the funds.

Hopefully that's been cleared up and we can get back to the point of this post.

Now.... This sh*t just **KEEPS COMING!**

To me, this is further evidence of their desperate actions within a rigged market. After calling out Citadel for shorting US treasuries, I recently found out they've been slapped with ANOTHER FINRA violation on **3/25/2021** for US treasury securities..

yeah....seriously..

BTW, this wasn't even something I was searching for.. I literally walked Cory (the host) through my investigative process and uncovered it in our first live interview *(this link is for the short version; I uncovered it in the long version which wasn't posted).*

Anyway, these violations occurred between **July 2017** and **October 2019** while the Fed's tapering program was kicking off. It's extremely hard to be conclusive about the little details when you can only see a portion of the puzzle, so I usually start these DDs by finding WIDE holes that scream for attention- this violation is one of those holes. Citadel Securities has been slapped 58 times for regulatory violations and those are JUST within the stock market. To me, the reason why THIS violation is so monumental is because it represents their **FIRST treasuries violation** (first page under background). FINRA issued them a $275,000 fine along with a censure order, meaning they really disprove of Citadel's actions, here.

I'm going to show you pieces of the disclosure event and gently massage it into your smooth brains.

OVERVIEW

From July 2017 through October 2019, Citadel Securities had multiple issues with correctly reporting Treasury transactions to the Trade Reporting and Compliance Engine (TRACE) causing violations of FINRA Rules 6730 and 2010. These issues resulted in the following types of TRACE reporting violations: (i) incorrectly reporting internal transfers as Treasury transactions, when they were not reportable, (ii) failing to append the "No Remuneration" indicator to TRACE reports for certain Treasury transactions between affiliates, and (iii) failing to include the correct contra-party type in its TRACE reports for certain affiliate transactions. Citadel Securities also violated FINRA Rules 3110(a)

and (b) and 2010 because its supervisory system, including written supervisory procedures (WSPs), was not reasonably designed to achieve compliance with TRACE reporting rules because it could only detect violations that would generate automatic alerts. In all cases, the incorrect TRACE reports involved internal position transfers or transactions with affiliates, and did not involve transactions with clients.

1. Incorrectly reporting internal transfers as treasury transactions

2. Failing to append the "No Remuneration" indicator to TRACE reports for certain transactions between affiliates

3. Failing to include the correct contra-party type in its TRACE reports for certain affiliates

To me, the biggest red flag in this comes from the very last sentence: ***"IN ALL CASES, THE INCORRECT TRACE REPORTS INVOLVED***

INTERNAL POSITION TRANSFERS OR TRANSACTIONS WITH AFFILIATES AND DID NOT INVOLVE TRANSACTIONS WITH CLIENTS". I'll touch back on the rest of the violation, shortly.

Now, lemme take you to school.

I'll walk you through these indicators and then discuss how they relate to Citadel's situation.

What are **related party transactions** and why do they matter?

The codification (official accounting bible from FASB) explains related party disclosures under ASC 850. I'd love to have a subscription to this, but it's about $1,200 a year. So here's a link from Deloitte that gives a decent overview of ASC 850-10.

A typical related party transaction occurs just like a normal transaction, but the parties involved have a connection, somehow. They can be:

1. A parent entity and its subsidiaries

2. Subsidiaries of a common parent

3. An entity and trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of the entity's management

4. An entity and its principal owners, management, or members of their immediate families

5. Affiliates.

Transactions can be any of the following:

1. Sales, purchases, and transfers of real and personal property

2. Services received or furnished, such as accounting, management, engineering, and legal services

3. Use of property and equipment by lease or otherwise

4. Borrowings, lendings, and guarantees

5. Maintenance of compensating bank balances for the benefit of a related party

6. Intra-entity billings based on allocations of common costs

7. Filings of consolidated tax returns.

When you have related parties, or affiliated parties, the biggest concern is that a relationship materially affects the way that business is conducted. For example, you should disclose situations where subsidiaries are conducting transactions with the parent entity. Or if the subsidiary is wholly owned, which means you're doing business with yourself, at least in practice. The failure to disclose this information may materially mislead investors.

For example, party A (affiliate) may be selling products / services to party B (also an affiliate) at a rate that differs significantly from the open market. For example, Party A sells treasuries to Party B at an amount that's much lower ($990) than fair market ($1,000). This would allow Party B to sell those securities back into the market at the normal market rate ($1,000), and record a bigger profit ($10) because their cost is much lower ($990). Party A then offsets the expense ($10) back to yet ANOTHER company, and removes it from their books. Hedge funds and offshore funds are perfect for burying these transactions because they don't report financial statements like public companies.

Likewise, Party A may need to remove something from their balance sheet (bad loans, etc.) and simply use Party B as a dumpster. This is EXACTLY what Enron did with their **special purpose entities (REMEMBER THAT TERM), or SPEs**. When Enron had to incur huge losses, they simply shifted those losses to shell companies and left the "good" stuff on their books.

Queue violation # 1

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's Trading and Execution Group's 2019 exam of Citadel Securities.

Citadel Securities reported Treasury transactions to TRACE that it should not have reported.

FINRA Rule 6730(a)(5) provides that members have an obligation to report transaction information, promptly, accurately, and completely to TRACE. FINRA began requiring firms to report Treasury transactions to TRACE beginning on July 10, 2017, in response to a request from the Treasury Department and the Securities and Exchange Commission. At this time, the reported information is not publicly disseminated.[1] However, it is important that firms report accurate information to TRACE because inaccurate information, including reporting transactions that should not have been reported, affect the audit trail, and can result in either false alerts or the inability to detect problematic transactions.

From August 2, 2017, through December 8, 2018, Citadel Securities reported 452,451 Treasury transactions to TRACE that it was not required to report. These reports constituted over 14% of the total Treasury reports the firm made. The over-reporting occurred when the firm transferred Treasury securities within its internal accounts because the firm unintentionally removed the logic to prevent these internal transfers from being automatically reported. Therefore, Respondent violated FINRA Rule 6730(a)(5) and 2010.[2] The firm detected the issue prior to being contacted by FINRA and reinserted the logic on December 8, 2018.

Ok.... when you send transactions to the TRACE system, they ask you to prove they are legitimate. If they are legitimate, and occur with an affiliate, FINRA needs to know that.. This is to prevent frauds like Enron from happening again.

For sake of argument, let's just ignore the part where they "unintentionally" removed logic and then "intentionally" reinserted it..... because that would make this DD too damn easy.

Breaking this down:

1. Citadel OVER reported 452,451 securities transactions which represents only 14% of total REPORTED transactions to TRACE. This means that **Citadel reported 3,231,792 treasury transactions, and 1 transaction doesn't necessarily mean 1 treasury... could be thousands**

2. They were **not** required to report 14% of those because they SHOULD have been flagged as internal transfers and not treasury transactions

Now we begin to uncover the corners of the fraud triangle *(pressure, incentive, opportunity)*. Citadel was obviously compliant for 86% of their treasury reports, so WHY would they feel the need to "unintentionally" OVER-report 14%....

Hey Citadel... why you WALKIN' like a duck?

How did FINRA find out these were actually internal transfers? Probably the same way I did- by looking for clues. Check out Citadel Securities "Related Party Disclosures" from 2020 (same as in 2019, I checked).

NOTE 1

Organization

Citadel Securities LLC (the "Company"), a Delaware limited liability company, is registered with the U.S. Securities and Exchange Commission ("SEC") as a broker and dealer, and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and Securities Investor Protection Corporation. CSHC US LLC ("CSHC"), an affiliate, is the sole member of the Company.

CSHC..... Who are you, REALLY???

Ladies and Gentlemen,

Presenting **Citadel Securities Institutional, LLC!!!**

Think it's the same company?

Nope..

Citadel Securities **INSTITUTIONAL** is a completely different company in the books. These guys are **AFFILIATED** to one another, but exist separately as **SPECIAL PURPOSE ENTITIES, or SPEs**..

Let's walk through this again..

Citadel **SECURITIES** lists CSHC US LLC ("CSHC") as an affiliate (PG 2), and the **sole MEMBER** of the company....

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Citadel Securities **INSTITUTIONAL ("CSHC")** lists CSHC US LLC ("CSUH") as an affiliate (also PG 2), and ALSO as the sole MEMBER of the company....

NOTE 1

Organization

Citadel Securities Institutional LLC (the "Company"), a Delaware limited liability company, is registered with the U.S. Securities and Exchange Commission ("SEC") as a broker and dealer, and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and Securities Investor Protection Corporation. CSHC US LLC ("CSUH"), an affiliate, is the sole member of the Company.

CSHC US LLC **("CSUH")**???? Who the hell is this?

Had to go back to a financial disclosure in 2016 to dig up this lil' jewel....

CITADEL SECURITIES INSTITUTIONAL LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION
December 31, 2016
(Expressed in U.S. dollars in thousands)

(1) Organization:

Citadel Securities Institutional LLC (the "Company"), a Delaware limited liability company, which was formed on June 8, 2015, is registered with the U.S. Securities and Exchange Commission ("SEC") as a broker and dealer, and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and Securities Investor Protection Corporation. The Company was funded on September 11, 2015 and commenced operations on January 27, 2016. At the time of funding, CLP Holdings Three LLC ("CLP3") was the sole member of the Company. On January 1, 2016, CLP3 merged with and into CSHC US LLC ("CSUH"), an affiliate. As of January 1, 2016, CSUH is the sole member of the Company.

CLP Holdings Three LLC ("CLP3")........
WTF....
On January 1, 2016 "CLP3" merged into ("CSUH")....
So WHO is CLP Holdings Three LLC ?!?!?!?!?

Citadel Securities is a limited liability company organized under the laws of the State of Delaware. Citadel Securities is a wholly-owned subsidiary of CLP Holdings Three LLC, a limited liability company organized under the laws of the State of Delaware ("Citadel Parent" and, collectively with Citadel Securities and CSPI, "Citadel"). CSPI, like Citadel Securities, is also a wholly-owned subsidiary of Citadel Parent.

2

....found this from 2015 (bottom paragraph, PG 2)...

1. Citadel Parent Owns 100% of CLP Holdings Three LLC, which became "CSUH" in 2016

2. CSHC US LLC ("CSUH") is the ONLY member of CSHC US LLC ("CSHC")

3. CSHC US LLC ("CSHC") is ALSO managed by Citadel Parent.....

So basically......

...Citadel, is Citadel, is Citadel, is Citadel....

No wonder why FINRA was pissed. It *LOOKS LIKE* Citadel took treasuries from Citadel Securities and transferred them to Citadel Securities Institutional, but reported them as sales transactions to TRACE......

Queue violation # 2

Citadel Securities failed to include the "No Remuneration indicator" in certain TRACE reports.

FINRA Rule 6730(d)(4)(F) provides that when a trade report does not reflect either a commission, markup or markdown, the member should include the No Remuneration indicator. From July 10, 2017, through October 9, 2019, in 45,638 instances, Citadel Securities failed to append the No Remuneration indicator to TRACE reports for Treasury transactions with an affiliate that were at cost. The firm did not include the No

[1] Regulatory Notice 16-39 (Oct. 2016).
[2] FINRA Rule 2010 provides that a member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade. A violation of a FINRA rule constitutes a violation of Rule 2010.

2

[redacted]

Remuneration indicator because it did not have the necessary logic to automatically code these transactions to include it. Therefore, Respondent violated FINRA Rules 6730(d)(4)(F) and 2010. The firm discovered the issue in June 2019 prior to being contacted by FINRA and added the necessary logic to include the indicator in October 2019.

Again, let's ignore the part where they pretended to "discover" the issue in June 2019 prior to being contacted. Let's also ignore the lack of "necessary" logic to determine which transactions are which.

They do this in almost every f*cking violation they get...

Now what is remuneration?

Basically, it's a type of compensation. In the case of Citadel Securities, it's the price adjustment that is passed to Citadel Securities Institutional when a treasury is sold / lent.

A normal market transaction might sell a treasury security for $1,000. In this case, the $1,000 is entirely represented by the bond's value.

An affiliated market transaction might sell a treasury security for $990, with $10 in remuneration for a total of ($1,000). In this case, the bond is ONLY worth $990, but the $10 in remuneration makes it APPEAR like a $1,000 bond..

FINRA asks for companies to disclose this because it can be heavily abused, obviously...

This is what happened to Citadel Securities. There were 45,638 instances between July 2017 and October 2019 where Citadel Securities did NOT appropriately indicate this....

If you fail to indicate this, and ALSO report internal transfers as normal transactions, it REALLY starts to look like you're covering your tracks....

Citadel...... Why you TALKIN' like a duck?

Queue Violation #3.

Citadel Securities reported the incorrect contra-party type to TRACE for transactions with its affiliate.

FINRA Rule 6730(c)(6) provides that each TRACE report shall include a contra-party indicator. From July 10, 2017, through November 15, 2018, in 11,989 instances, Citadel Securities reported that the contra-party in a transaction was a customer when the transaction was with an affiliate. The inaccurate reporting occurred because the firm's logic automatically marked any contra-party that was not a broker-dealer as a customer. Therefore, Respondent violated FINRA Rules 6730(c)(6) and 2010. The firm discovered the issue in August 2018 prior to being contacted by FINRA and fixed the issue on November 15, 2018.

Call this the smoking gun.....

Really.... it doesn't get much more obvious than this....

Citadel Securities gets busted pushing transactions into the TRACE system when they were really just internal transfers between SPEs....

They're then cited for failing to indicate a No Remuneration transaction with affiliated parties....

And finally, they "misclassified" the nature of the contra party in 11,989 transactions, saying they were customers instead of their own... you guessed it.... SPEs..

Want more? Check out this disclosure from Citadel Securities....

NOTE 6

Transactions with Related Parties

Expenses
Pursuant to an administrative services agreement, the Company reimburses CEAMER, CSAMER and their affiliates for direct and allocable administrative, general and operating expenses, including employee compensation and benefits, paid by these entities, on behalf of the Company. As of December 31, 2020, the Company had a combined payable to CEAMER, CSAMER and their affiliates of $160 million, which is included in payable to affiliates on the statement of financial condition. As of December 31, 2020, the Company has paid compensation to CSAMER of $20 million, which has not yet been expensed due to service vesting requirements. Such amount is included in other assets on the statement of financial condition.

The Company has also entered into service agreements with other affiliates, where such affiliates provide the Company certain relationship management, marketing or risk monitoring services, and technical support. The Company incurs expenses from such affiliates providing these services.

Executing and Settlement Activities
During 2020, CSIN provided execution services to the Company under a cost-plus agreement. As a result of this activity, the Company incurred service fee expense and recorded commission revenue from CSIN for acting as a counterparty for trades with third parties. As of December 31, 2020, the Company had a payable to CSIN of $7 million, which is included in payable to affiliates on the statement of financial condition.

Citadel Securities Institutional (CSIN) provided execution services to Citadel Securities under a cost-plus agreement..

huh.... cost-plus..... sounds a lot like a remuneration agreement.... because it is.

Let's bring this all together, shall we?

1. Citadel Securities sells treasuries to "affiliate" parties, such as Citadel Securities Institutional

2. Citadel Securities marks (most) of their transactions with a 'No-Remuneration' indicator after selling the security to the "affiliate" party.

3. To FINRA, this complies with TRACE because it looks like a typical transaction without a markup / markdown on the price of the treasury

4. At the end of the month, Citadel Securities reimburses Citadel Securities Institutional for the cost of their treasury purchases, plus an little more in profit for their services

5. Citadel Securities records the commission revenue from Citadel Securities Institutional once the treasuries are finally sold to the outside party

Did you catch the loophole?

Citadel Securities is able to remain compliance with FINRA because they pay for the services (markup / markdown) provided by Citadel Securities Institutional AFTER the transactions are cleared through this system... they just disguise them as "service fees".

Instead of paying DURING the transaction, by remuneration, they simply leave it off the books and hide it on their financial statements....

If you're wondering where the SEC is in all of this mess, listen up.

THE SEC AND FINRA ARE BOTH REGULATORY AGENCIES FOR FINANCIAL INSTITUTIONS.

I am now 100% convinced that the SEC has given the responsibility of investigating fraud to FINRA, while the SEC 'works' on creating the legislation to stop these acts...

However, it appears the SEC and FINRA are working as totally separate agencies while the SEC is supposed to be overseeing FINRA.... I'm convinced the money flows directly to the SEC from FINRA fines and the SEC is at risk of losing that revenue if they actually start cracking down on these pigs.

I am presenting a genuine case, here.

If you're wondering where the auditor (PWC) is in all of this, they just have to verify the statements are FAIRLY PRESENTED. **THEY DON'T HAVE TO SAY ANYTHING ELSE! All audit firms are now in the business of consulting, like Arthur Andersen did with Enron. They all sit in a room and discuss the best way to present this sh*t without looking like a giant fraud.**

You want to see how bad the situation has become? Check out this 10K (PG 4) from one of Citadel's recent 13G/A filings on 2/16/2021. Keep in mind, this is an acquisition company that *specializes* in purchasing companies that are headed for bankruptcy...

We believe the following factors will lead to a significant number of post-reorganized companies with unnatural equity holders which could be attractive combination targets:

- According to S&P, their leveraged loan "Weakest Link" count, which reflects companies with a B- or lower credit rating and a negative outlook, has more than doubled since 2019, rising from 145 companies, or 11% of the S&P coverage universe, to 329 companies as of June 2020, or 25%
- US default rates have risen sharply this year and are projected to continue to rise over the next 12 months. According to S&P, the trailing 12 month default rate has doubled since the beginning of the year to 3.9% and is projected to reach over 10% within the next 12 months. Defaults have ranged across a large number of industries including Business Services, Consumer and Industrials, according to S&P;
- The US leveraged loan market today is approximately $1.2 trillion, which is approximately double the size of the market during the 2008-2009 credit cycle. This means that similar default rates in today's market would imply a significantly larger volume of restructured liabilities;
- Collateralized loan obligations, or CLOs, represent a much larger ownership of today's leveraged loan market compared to the leveraged loan market in 2008-2009. There has been almost 2.5x the CLO issuance from 2013-2019 ($743 billion) compared to 2001-2007 ($302 billion). The increased CLO market share of the leverage loan market may lead to a larger number of post-restructured companies with equity ownership being held by CLOs, which could lead to attractive investment opportunities at relatively more favorable terms.

MUDRICK CAPITAL ACQUISITION CORPORATION II

This is so much more than speculation..... Citadel is a *duck*.

DIAMOND.F*CKING.HANDS

This is not financial advice.

“Payment for order flow is one of our largest revenue sources.”

VLAD (THE STOCK IMPALER) TENEV