XIV VIX rampant manipulation EXPOSED using offshore shell entities in Bahamas

Global Intel Hub 4/27/2019 New York, NY – It's a common plot but with different actors and a foreign stage. And it's proof of the thesis of our book Splitting Pennies – the world is not as it seems. For those who don't know the VIX is an artificial derivative that tracks the 'volatility' of the market. It's cash settled which means there is no 'liquidity' for the contract, there is a buyer for every seller. From the CBOE:

> ***Description:***
> *The Cboe Volatility Index – more commonly referred to as the "VIX Index" – is an up-to-the-minute market estimate of expected volatility that is **calculated by using real-time prices of options on the S&P 500® Index** listed on Cboe Exchange, Inc. ("Cboe Options") (Symbol: SPX). Only SPX options with Friday expirations are used to calculate the VIX Index. The VIX Index is calculated between 2:15 a.m. CT and 8:15 a.m. CT and between 8:30 a.m. CT and 3:15 p.m. CT. Only SPX options with more than 23 days and less than 37 days to the Friday SPX expiration are used to calculate the VIX Index. These SPX options are then weighted to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index.*

Futures markets have experience making derivatives, in fact even the 'real' based futures like Corn, Wheat, Soybeans and other contracts are really derivatives because you're not buying corn you are buying future delivery of corn which is a 'contract.' So the idea of the VIX is that you can 'buy' or 'sell' volatility to hedge your portfolio, which is especially important if you utilize options which are all volatility priced.

What's amazing about such contracts is that they are complete manifestations of mathematics and are not based in any kind of real economy. But that's what Wall St. is good at, and this isn't where the rabbit hole ends.

Based on the VIX derivatives of the VIX were created, such as the inverse VIX or the XIV and SVXY, [as explained here by Bloomberg:]

> *..XIV (the VelocityShares Daily Inverse VIX Short-Term ETN, an exchange-traded note issued by Credit Suisse) and SVXY (the ProShares Short VIX Short-Term Futures ETF, an exchange-traded fund). These products were bets that volatility would go down. On Monday volatility went up. Specifically the VIX (the CBOE Volatility Index) went up by 116 percent in one day. The people who had bet that volatility would go down lost almost all of their money. That is altogether fitting and proper. When you bet that a thing will happen, and the incredibly extreme opposite of that thing happens, then you should lose your money. You can complain, but we don't have to listen to you…SVXY is an exchange-traded fund: It's a pot of money, and its managers manage the pot of money by selling VIX futures to try to obtain -1 times the daily return of an index of short-term VIX futures, minus some fees. If the futures go up, the pot loses some money, and shares of the fund are worth less; if the futures go down then the shares are worth more. The pot of money owns the short futures positions, and the shareholders of the fund participate in their performance. XIV, on the other hand, is an exchange-traded note. It is just an obligation of Credit Suisse: Credit Suisse promises to give investors a daily return equal to -1 times the daily return on that index of short-term VIX futures. The ETN doesn't hold any futures; it's not a pot of money that Credit Suisse manages on behalf of its investors. It is just a debt of Credit Suisse; if the VIX futures go*

> *down then Credit Suisse owes investors more money, and if they go up it owes them less.*

Long story short, a trader sued for manipulation, [from Reuters:]

> *April 27 (Reuters) – A trader has filed an antitrust lawsuit accusing seven market makers, including Citigroup Inc and Citadel Securities LLC, of conspiring to manipulate Wall Street's main gauge of future stock market volatility, the VIX, at investors' expense. The complaint filed on Friday also accused Cboe Exchange Inc , which administers the VIX, of taking a "laissez faire" approach that allowed the manipulation to flourish, out of "greed" for higher transaction fees and revenue. William Siegel, a trader in VIX futures and options, filed his proposed class-action lawsuit in Chicago on behalf of investors in VIX derivatives since Jan. 1, 2008.*

So what, another market another manipulation. But it doesn't end there, the trail leads to Nassau, Bahamas. A big question remains, why Credit Suisse, one of the largest investment banks in the world, steeped in Swiss banking culture – would register a complex derivative in an island like Bahamas that doesn't have the financial prowess such as places like London or New York. The implication based on deductive logic is a reasonable conclusion: Credit Suisse attempted to take advantage (abuse) the jurisdiction based on their lack of knowledge on such products, in an attempt to obfuscate the backdoors built into the product which allowed manipulation to occur. Let's be clear about this – when you have any OTC product especially a derivative and especially one so complex few on Wall St. even understand it – there is an unusually large conflict for those who do understand the product and not only that – for those who create it. [In February of 2018 a manipulation of XIV was exposed right here on Zero Hedge:]

***Update**: In a quite shockingly fast reaction, [WSJ reports](#) that **a U.S. regulator is looking into whether prices linked to the widely watched Cboe Volatility Index have been manipulated**, according to people with knowledge of the matter.*

*The Financial Industry Regulatory Authority is **scrutinizing whether traders placed bets on S&P 500 options in order to influence prices for VIX futures,** the people said.*

***Proving manipulation is difficult, lawyers and academics say.** The regulator must prove that a person or firm had the ability to move prices and did so intentionally. In addition, the regulator must show that the person intended to create artificial prices, said Craig Pirrong, a professor of finance at The University of Houston who has written about futures manipulation.*

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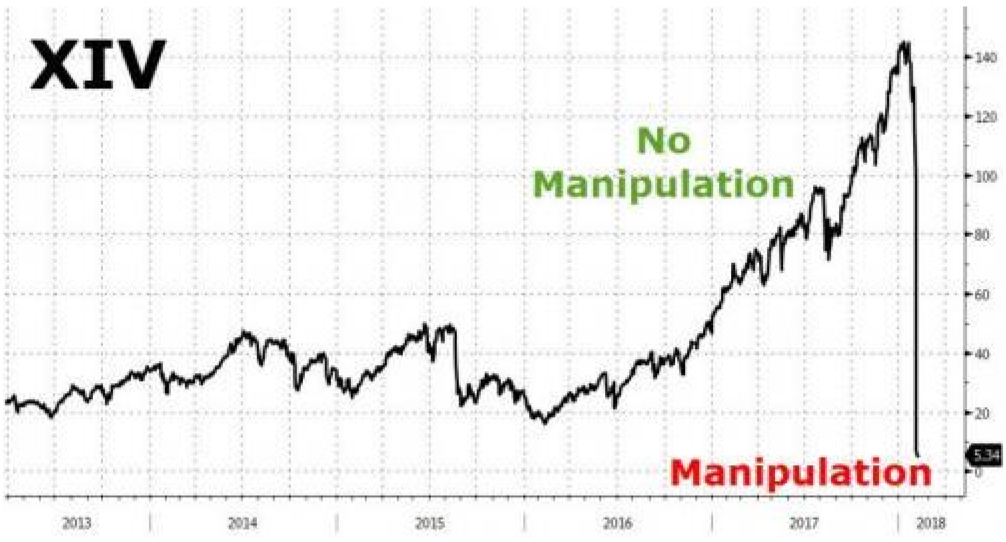
*As we detailed earlier, **[we first exposed the "conspiracy fact" that VIX manipulation runs the entire market back in 2015](#)** as the ubiquitous VIX-crushing algo-runs coincided with a non-stop shorting of VIX futures by a seemingly bottomless-pocketed player in the market… which happened to coincide with the arrival of Simon Potter as the head of The New York Fed's trading desk…*

> *Probably just a coincidence, right?*
>
> *Then, in May of last year we academic confirmation of the rigged nature the US equity market's volatility complex, when **a scientific study found "systemic VIX auction settlement manipulation."***
>
> *Two University of Texas at Austin finance professors found **"large transient deviations in VIX prices"** around the morning auction, **"consistent with market manipulation."***

But the release of this news must have spooked the manipulators, because 10 days later there was utter chaos in the XIV contract, also reported here on Zero Hedge:

> *Ten days after the reality of **"rampant manipulation" in VIX** was exposed yet again, perhaps because this time the market went down, **US regulators are reportedly escalating their investigations into whether any wrongdoing occurred within VIX ETPs**.*



*Following previous reports that The Financial Industry Regulatory Authority (FINRA) was **scrutinizing whether traders placed bets on S&P 500 options in order to influence prices for VIX futures**, and a **whistleblower's detailed explanation** of how easy it is to spoof VIX's tail to wag the market's dog; Bloomberg reports that The **Securities and Exchange Commission and the Commodity Futures Trading Commission have been conducting a broad review of trading since Feb. 5**, when volatility spiked and investors lost billions of dollars, several people familiar with the matter said. As a reminder, according to his letter, the whistleblower blames this VIX manipulation as the driver of last week's volatility complex collapse: **"We contend that the liquidation of the VIX ETPs last week was not due solely to flaws in the design of these products, but instead was driven largely by a rampant manipulation of the VIX index,"** And, Bloomberg notes that after the losses, SEC officials reached out to Credit Suisse, a person with direct knowledge of the conversations said. Neither Credit Suisse nor ProShares have been accused of any wrongdoing. **The regulators' examinations are at an early stage and won't necessarily lead to sanctions or new rules**. As another reminder, in May of last year we academic confirmation of the rigged nature the US equity market's volatility complex, when **a scientific study found "systemic VIX auction settlement manipulation."***

So where are we at now? The lawsuits are piling, but through the investigations of these lawsuits – some of which are linked here on the bottom of this article, a more sinister picture is emerging. It seems as though Credit Suisse created this ‘loophole’ by design, in other words, it was a setup. As they say in sports betting “The FIX is in” and sure it was with XIV and related derivatives contracts. Courts will ask did Credit Suisse know what they are doing? This is a standard question prosecutors must ask but in the case of CS there are only a handful of global banks which are at the same level of sophistication (UBS, JP Morgan, et al). To see a list of suspects sometimes referred to as the ‘usual’ suspects just take a look at any major FX Manipulation case and you’ll see the names.

Remember that these banks have the ability to create as much money as they want, so long as they are responsible and don’t blow themselves up like Lehman did (actually Bear Stears did) they can do whatever they want. To give you an idea of how artificial these contracts were you can try the following experiment. Draw a picture of your desk. Then ask a friend to draw a picture of your picture. Repeat this several times and see what the end result is (probably, a bunch of scribbles).

Well, one thing is clear. Regulators will enjoy trips to the Bahamas while they are litigating this.

But the Bahamas should be warned. With the fall of places like Switzerland and other non-US jurisdictions, there is a global reshuffling of the cards. Malta has been eliminated as a criminal nest and soon will face major problems.

The Bahamas has a real opportunity to emerge as a renewed financial center, especially as they display their ability to deal with real global sharks.

Research Articles

https://www.reuters.com/article/cboe-lawsuit-volatility-idUSL1N1S42H3

https://quant.stackexchange.com/questions/594/how-does-ubs-hedge-its-exposure-to-xvix-etn

https://www.bloomberg.com/opinion/articles/2018-02-09/inverse-volatility-products-almost-worked

Reference Documents

prospectus-velocityshares-us-volatility

enfdrwcomplaint110613

ilnd-1_2018-cv-05093-00001

It seems that documents are vanishing from online repositories so we're keeping here what we have.

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