# Twitter Thread by Comfortably ¯_(■)_/¯

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@Eyeroll_Shrugs

## I am shocked...SHOCKED...that nobody in the media or political sphere can understand what is going on behind the scenes that is causing clearing firms to block trading in certain ridiculously volatile securities.

Pretend Robin Hood is a casino (a stretch I know).

Casinos hold a certain amount of cash reserve on hand to cover all daily activities. Now imagine everyone playing starts winning big all at the same time. Slots, tables, etc and the House is losing huge. /2

The Casino's cash reserve is getting dangerously low, a few more big wins to pay out and they'll have no cash left. So they go out and close a few rows of tables, rope off some slot machines, forcing some players to be unable to play. /3

Then they call the bank and have them deliver a new boatload of cash, and reopen the Casino fully once they have enough to operate again.

That's kind of what is going on behind the scenes here, in the plumbing of the markets. /4

Most people have never heard of a "clearing firm", but without them the stock markets wouldn't function. Most of the largest brokerages are "self-clearing", meaning they also run their own clearing firm, but many use a third party.

See below: /5
https://t.co/a5Cyr4WOGZ

> wow, @apexclearing now blocking @public from allowing customers to trade specific stocks
>
> wall street norms imploding in real time, fallout is gonna be wild pic.twitter.com/gUyhufV32t
>
> — Mike Dudas (@mdudas) January 28, 2021

Clearing firms are the intermediary that guarantees the stock transactions in the marketplace, ensuring that any trades settle in a timely manner.

They can also provide financing to accounts through Margin or Risk-based leverage, on both long and short side of the

market. /6

To do all this they need to maintain a regulated level of capital requirements, kinda just like the Casino does. Except more complicated, because they need to account for all of the risk and loans on their books as well. If they can't meet these requirements it is a big deal. /7

Now there are a lot of enormous and unprecedented things going on in the stock market, especially with options on these very volatile stocks. The risk is off the charts, literally. And if trading on margin, the clearing firms bear an enormous part of the risk. /8

Especially with some of the insane options trading going on, but also with shorts, there is technically INFINITE RISK. We've all seen some huge Hedge Funds get rolled over by this, but it is likely that some of the smaller clearing firms are taking some hits as well. /9

Clearing firms always have the ability to force liquidation when margin or risk requirements are not met, and they also have the ability to tighten those requirements at will.

So while some of these WSB traders are ok risking insane amounts of money, these firms are not. /10

The reason why they have gone to 100% requirement, or simply blocked all new purchases in these WSB stocks is because their own financial situation is under enormous pressure. Likewise, the riskiest positions are being closed out in a completely legal manner. /11

That of course doesn't change the optics, and will not stop all sorts of people from coming up with their own theories, but it is likely the reality under the hood.

/end