

Major Players in GameStop Saga Testify Before Congress

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Members of Congress probed for market manipulation during January's GameStop frenzy in a contentious committee hearing Thursday.

House lawmakers grilled a slew of major characters tangled up in last month's GameStop saga Thursday, including a retail trader who became the face of the rally and the leaders of Reddit, two hedge funds and brokerage app Robinhood.

House Financial Services Committee members probed for market manipulation — mainly focusing on the relationship between Citadel, one of the biggest hedge funds, and Robinhood — though questions and topics were wide-ranging over the course of the contentious five-and-a-half hour hearing.

In January, GameStop stocks climbed from \$18.84 to over \$480 as amateur traders on Reddit banded together to take on Wall Street hedge funds who had wagered that the brick-and-mortar video games retailer would fall.

The lay investors, on a subreddit page called r/WallStreetBets, collectively drove up share prices for GameStop, AMC Entertainment, Nokia, and others, inducing a short squeeze which initially caused powerful short sellers to take heavy losses. But as the stocks once again came crashing down, many little investors ended up taking the hit.

“WallStreetBets may look sophomoric or chaotic from the outside, but the fact that we are here today means they’ve managed to raise important issues about fairness and opportunity in our financial system,” said Representative Jared Huffman, a California Democrat.

Keith Gill, a 34-year-old Reddit trading star and YouTube personality who helped to start the wild surge, downplayed his role in the ordeal. Gill said that he wanted to educate other amateur investors about a stock that he believes is undervalued, and has been a vocal proponent of the struggling video game chain for a while.

Gill even snuck in, “I like the stock” in his testimony, a reference to one of the most popular GameStop memes.

“A few things I am not. I am not a cat,” said Gill, who is known as “Roaring Kitty” on YouTube. “I’m not an institutional investor, nor am I a hedge fund. I do not have clients and I do not provide personalized investment advice for fees or commissions. I’m just an individual.”

“The idea that I used social media to promote GameStop stock to unwitting investors is preposterous,” Gill testified.

While he was talking, GameStop shares briefly surged from \$44 to \$48. They have since fallen to \$40, the lowest close since Jan. 20. Gill told lawmakers that, for him, GME is still an attractive buy.

Keith Gill, a GameStop investor, testifies during a virtual hearing before the House Financial Services Committee on Thursday. (House Financial Services Committee via AP)

The trading frenzy has led to a slew of lawsuits, questions and a Justice Department investigation into possible market manipulation.

At the height of the trading, on Jan. 28, Robinhood temporarily blocked its users from buying shares of GameStop and a dozen other companies for several days, catching investors off guard and bringing up concerns as to whether the block was instituted at the behest of its trading partners on Wall Street who were suffering losses from the surges.

Robinhood CEO Vlad Tenev denied the allegations, saying that the company halted buying to meet capital requirements set by regulators and they faced “zero pressure from anyone.”

“Any allegation that Robinhood acted to help hedge funds or other special interests to the detriment of our customers is absolutely false and market-distorting rhetoric,” Tenev said at the hearing. “We don’t answer to hedge funds.”

Tenev apologized to Robinhood customers and said the company would ensure it didn’t happen again. Later in the hearing, he said that the market activity that caused the surge at the end of January had a roughly 1 in 3.5 million chance of occurring, and there’s no way Robinhood could have predicted or modeled it.

Citadel CEO Ken Griffin and Gabriel Plotkin, CIO of Melvin Capital, another major hedge fund, said they didn’t know that Robinhood banned orders of GameStop until the next day when they saw it in the news.

But lawmakers grilled Tenev on Robinhood’s ties to Wall Street, including its controversial payment for order flow — the system where Robinhood charges market-makers like Citadel to access real-time data about its customers’ trades. Tenev acknowledged that the system is the company’s largest source of revenue, and that Citadel is Robinhood’s “largest counterparty.”

Representative Brad Sherman, another California Democrat, pressed Griffin on whether institutional investors like Citadel have an unfair advantage over average investors through payment for order flow.

“I’m asking you a clear question...Who gets the better deal — one [trade] that comes from a broker who is being paid for order flow, and one not?” Sherman said after accusing Griffin of evading the question. “Can you testify that, on balance, there’s no difference, assuming the same size of the order?”

Cutting Griffin off mid-sentence, a visibly irritated Sherman said, “You are doing a great job of wasting my time. If you’re going to filibuster, you should run for the Senate.”

Proponents of payment for order flow say that it’s been innovative for the industry, as it allows brokerages like Robinhood to create zero-commission trading.

Jennifer Schulp, financial director for the libertarian think tank Cato Institute, testified that the process lacks transparency for the everyday investor, and these investors need to understand when the costs of these deals are being passed onto them.

Robinhood has been under additional scrutiny over transparency recently, after a wrongful death lawsuit was filed last week by the family members of a 20-year-old user of the app who committed suicide last year. Alex Kearns' brokerage account showed a negative balance of \$730,000, but Kearns didn't realize he had the ability to sell his various options and settle his various bets to cover the costs. Kearns' family believes that Robinhood's misleading communications led up to his death.

"The passing of Mr. Kearns was deeply troubling to me and to the entire company," Tenev said when Democratic Representative Emanuel Cleaver of Missouri asked about the tragic death during the hearing. "And we have vowed to take a series of steps — very aggressive steps — to make our options products safer for our customers."

It remains to be seen whether regulatory changes are on the horizon in response to the GameStop episode. Additional hearings are expected to follow.