Gamestop Saga Dissected At Congress Hearing Where Blockchain Emerged As Possible Solution

Vipin Bharathan

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The house committee on financial services hearing called "Game Stopped? Who Wins When Short Sellers, Social Media, and Retail Investors Collide" explored the events of January in sharply divided exchanges today. These events were in the news and it was caused by the spike in the price of GME and the subsequent throttling of the short squeeze ostensibly by a capital call in the wee hours of the morning of January 28. The dissection and forensic evidence from the hearing was used to further multiple conflicting narratives. Both sides of the debate found evidence in the same events to bolster their claims. The people summoned to give their testimony included Vlad Tenev the CEO of Robinhood, Gabe Plotkin of Melvin Capital Markets, Jennifer Schulp of the Cato Institute, Keith Gill aka roaringkitty aka deepfuckingvalue newly independently wealthy redditor extra-ordinaire, Kenneth Griffin CEO of Citadel Securities and the CEO of Reddit Steve Huffman.

As is usual in hearings like this, the committee members amplify their political message by grandstanding and posturing. The testators hew to their roles and parrot the platitudes that are expected from them. However, listening closely to the human exchanges even on a remote hearing throws up some unexpected nuggets. From the Republicans on the committee, an overall celebration of the capitalist system and what is so great about the system today, why it does not need any more regulations as well as how the system functioned properly during the GME crisis. From the Democrats a sense that the system was rigged in favor of the fat cats and that the little guys need protection.

The dominant themes were the democratization of the investment landscape by the popularization of no commission trades and the ease of use of the Robinhood app, the financing of this model with order flow, clearing capital requirements amplified by the T+2 settlement delay as well as the use of the order flow information by the parties testifying under oath. All members served to extol the individuality and actions of the parties involved. Obviously, this hearing and the news demonstrate that all was not well with the system; the system itself with settlement delays and decisions and choices made by dominant and controlling actors came in the way of free market action. It was an exhausting session for the panelists as each of the fifty-five plus members of the committee got five minutes each to question them. The hearing took five hours and thirty four minutes.

Tenev bore the brunt of the questioning, as the decision taken on January 28th to stop the buying but not the selling of the meme stocks like GME created unfairness. Robinhood did it out of self-preservation according to Tenet, raising $3.4 Billion overnight; however it was by throwing the smaller buyers to the wolves that the National Securities Clearing Corporation backed off demands for an excess capital premium charge. Since Robinhood had raised a larger amount of $3.4 Billion they now had $3 Billion in capital to improve matters. This fact was picked up by Michael San Nicolas from Guam who tore into Tenev and accused him of materially benefiting from the day of infamy. Robinhood raised capital and left the small investors holding the bag on the meme stocks as the wind was taken out of sails of the unfolding short squeeze.

Tenev had fingered the T+2 delay as introducing systemic risk, his main recommendation was Real-Time Settlement. Real-Time Settlement has myriad challenges, one of the main ones is the presence of the Central Counter Party itself, another is liquidity demands. In this context Warren Davidson a committee member, a backer of blockchain technology offered that up as a solution; countering even the objections by Kenneth Griffin to Real-Time Settlement. Warren Davidson did not go into the details of how the blockchain would aid Real-Time Settlement, but he quoted DTCC's Project Ion which aims to shorten settlement. Whereas, the DTCC itself backpedaled on Ion following the events of the week of January 25th.

Two more hearings are set for analyzing the events of that last week of January 2021, when the behemoths of Wall Street were half humbled by the profane band of reddit dwelling traders. Citadel and Robinhood came out on top, Gabe Plotkin and Melvin capital had to eat some crow; but they will rise again. What of the long term effects, will this cause real re-examination of the clearing infrastructure? Will a .1% tax be imposed on all transactions blunting the growth of program trading? Only time will tell, but the dialog is sure to go on. There will also be more exposure of the true cost of trading on Robinhood, which is routing trades to the citadel of the Sheriff of Nottingham.