INDEPENDENT

Robinhood CEO apologises to users over GameStop chaos at House hearing as lawmakers begin investigation

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Five of the key players in the GameStop stock trading saga appeared before a congressional committee on Thursday to answer questions about their role in January's market activity - including the boss of the trading app at the centre of the frenzy who issued an apology.

The House Committee on Financial Services is the first governmental body to call witnesses to testify after retail investors mobilised on Reddit and bought shares in retailer GameStop, sending its stock price soaring.

Their action pushed Wall Street firms with short positions to scramble to cover losses, and led the trading platform Robinhood to pull the plug on future trades of the stock by its users. The share price has since sunk back from a peak of $483 to $45.

At the hearing on Capitol Hill, lawmakers questioned Robinhood CEO Vlad Tenev, Reddit CEO Steve Huffman, Citadel CEO Ken Griffin, Melvin Capital founder Gabe Plotkin, trader Keith Gill, known "Roaring Kitty".

The five were joined in their testimony by Jennifer Schulp of the Cato Institute's Centre for Monetary and Financial Alternatives, who provided a perspective on possible regulatory action.

Early on in the proceedings, Mr Tenev apologised to customers for the chaos caused when restrictions on trading were imposed on 28 January that stopped retail investors from buying shares in GameStock and a number of other "meme stocks" — companies with low stock values suffering during the pandemic economic downturn.

"Despite the unprecedented market conditions in January, at the end of the day, what happened is unacceptable to us," said Mr Tenev.

He added that the company is "doing everything we can to make sure this won't happen again." Mr Tenev continued to insist that the goal of democratising finance was a worthy cause citing that customers' assets were now $35bn more than the deposits they had made on the platform.

He was challenged about this figure by Representative Jim Himes who said it was meaningless given we do not know percentage gains to compare to other possible investments users could have made.

Much of the questioning was focussed on Mr Tenev and the role of Robinhood, though the title of the hearing —*Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide* — made clear that the intention was for a wider remit.

Indeed this is the first of several hearings relating to the subject, with regulators expected to be questioned at a later date regarding their role.

In the intersection of social media and finance, Mr Gill — Roaring Kitty on YouTube — began his testimony by listing things that he is not (a professional investor, a hedge fund etc) and also clarifying to lawmakers: “I am not a cat.”

For his part, Mr Gill, who had first invested in GameStop in June 2019, claimed that he still saw it as a good investment and an attractive proposition, potentially with a future focussed on digital delivery of games over brick and mortar stores. The company’s share price jumped after these comments from $44 to $48.

Democratic chairperson Maxine Waters was intent on keeping lawmakers and those testifying to time, interrupting Mr Yenev’s opening statement and directing him to limit his time to the events of 28 January and his involvement.

Ms Waters also directed him to answer yes or no as to whether Robinhood had a liquidity problem. An attempt to provide a longer answer was shut down.

However, later in the hearing when pressed if the company had the liquidity it required on the morning of 28 January to cover $3bn in trading positions, Mr Tenev said that the security team had to work with clearinghouses to meet the collateral requirements.

Representative Anthony Gonzalez of Ohio said that the company was “unprepared to protect his constituents and customers from non-consensual liquidation”, was “unprepared to sort out the $3bn deposit requirement” and “barely avoided disaster”. Pushed further, Mr Tenev said the funds had come from venture capitalists he had relied on previously.

On the role of social media in the events surrounding GameStop, Mr Plotkin of Melvin Capital spoke about how Reddit users began to look specifically at the firm’s investments and short positions — the firm held a short position in GameStop from 2014 onwards.

When users organised to trade in the other direction, Mr Plotkin says he was abused online and became the target of antisemitic slurs and hate speech, including profane and racists text messages and a call for a second holocaust.

Reddit co-founder Mr Huffman said they could not find the comments referred to and that such speech is not tolerated on the platform.

In a wider discussion on the role of social media in finance, Mr Huffman was asked how Reddit knows if its users are real people. He said that users “should be masters of their own identity” and subreddit communities such as WallStreetBets wouldn’t work if people were forced to use their real full identities.

He added that WallStreetBets is “an eccentric community, but they’re well within the bounds of our content policy.”

At another point, he said there was no evidence of bots or foreign actors found in the group that may have influenced the actions of other users.

Mr Plotkin conceded that going forward there would be much closer monitoring of message boards and social media by Wall Street firms and that his firm had a data science team looking at the issue.

Both Mr Plotkin and Citadel's Mr Griffin said they had no role in Robinhood's decision to limit trading in GameStop.

Mr Griffin said he had first heard about it when the news was made public and said the events demonstrated there was an opportunity to improve how markets function and trades are settled.

Similarly, Mr Plotkin said that Melvin Capital had already closed out its position in GameStop days before Robinhood imposed the limits.

The pair also denied any bailout of Melvin Capital by Citadel as had been implied in reports, stating that Citadel saw the opportunity to buy into the fund as an investor and earn returns when the firm recovers.

Both Mr Gill and Mr Huffman defended the role of social media in opening up a world of investment discussion to a new audience with Mr Huffman saying that the events in January had raised: "important issues about fairness and opportunity in our financial system".

Mr Gill went further sayings that while Wall Street firms have teams of analysts working on strategies, social media platforms can level the playing field for individual investors.