ThinkAdvisor

Lawmakers Scrutinize Social Media's Role in GameStop Squeeze

Melanie Waddell

February 19, 2021

The role of social media during the Reddit GameStop squeeze came under the microscope Thursday during the House Financial Services Committee's hearing titled, "Game Stopped? Who Wins and Loses When Short Sellers, Social Media and Retail Investors Collide."

Rep. David Scott, D-Ga., stated during the hearing that "this [GameStop trading] episode exposes a serious threat to our financial system when tweets, social media posts do more to move the market than material, legitimate information. The risk is enormous."

Questioning Robinhood Markets CEO Vlad Tenev, Scott stated: "Don't you see, something has gone terribly wrong here? What do you do to monitor the trade in individual stocks, particularly when the case of GameStop they're singled out and moved on social media?"

Tenev responded: "Our priority throughout the exceptional market conditions in January and early February was to maintain the uptime and performance of our platform…"

Scott interrupted: "Do you, Robinhood, have any policies in place to ensure that investors are making trades based on legitimate, material, financial information and not the influence of social media and the design of trading platforms or any other superfluous information?"

Tenev replied: "Absolutely. We provide educational resources to our customers, including the redesigned Robinhood Learn portal," which is also available to the general public.

"You're at the center of this," Scott said. "Don't you see and agree that something very wrong happened here? And that you're at the center of it?"

"We spend a lot of time at Reddit ensuring the authenticity of our platform," Huffman responded. "… All of the content [on Reddit] is created by users, voted on by users and ranked by users and we make sure that that is authentic and as unmanipulated as possible. In this specific case, we did not see any signs of manipulation."

Rep. French Hill, R-Ariz., questioned Jennifer Schulp, director of financial regulation studies at the Cato Institute, on whether the Securities and Exchange Commission should "look at" WallStreetBets under Section 9A2 of the Securities Exchange Act of 1934 for "potentially inducing trading in a certain direction."

Schulp, a former director in the Financial Industry Regulatory Authority's Department of Enforcement, responded that she believes "there's been little evidence that there's been any false or deceptive conduct taking place on the WallStreetBets forum. That does not mean, though, that I think the SEC should not take a deeper look."

Because of the anonymity in the forum, she continued, some members could have been "engaging in deceptive behavior that's not readily apparent to outside, to the public. So I do think the SEC should look; but to this point I've seen very little that would meet a test for manipulation, which generally involves false or deceptive behavior."

Payment for Order Flow

Todd Cipperman of Cipperman Compliance Services told ThinkAdvisor Friday in an email that "trying to regulate social media to stop trading is like putting towels on the floor if you have a broken pipe. The social media communities are a symptom of the 'no commission'/payment-for-order-flow problem."

The SEC, Cipperman opined, should "outlaw payment for order flow. This 'no commission' trading is a marketing tactic. Nothing happens without compensation. It is expensive to service retail clients, so hiding the commissions within market maker's prices is just hiding the ball."

The SEC needs "to intervene," Cipperman said. "There are many unanswered questions and concerns [related to the Reddit GameStop incident]."

Congress, he added, "does not have the expertise to find answers and recommend solutions. The SEC has the financial regulatory expertise to address what happened and what could happen in the future. The industry would rather have the SEC regulate than Congress legislate."