

MarketWatch

Capitol Report

Robinhood back in Capitol Hill spotlight amid surge in GameStop shares

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By Chris Matthews

GameStop shares have risen more than 300% since the last House Financial Services Committee hearing

The House Financial Services Committee will continue its investigation into the short squeeze of shares of GameStop Inc. and other meme stocks on Wednesday.

The panel will convene seven expert witnesses to weigh in with proposals to reform U.S. market structure that could help investors avoid a repeat of the events of Jan. 28, when Robinhood and other retail brokers restricted purchases of popular stocks to manage a surge in clearinghouse demands for collateral.

Witnesses will include Michael Blaugrund, chief operating officer of the New York Stock Exchange, Michael Piwowar, executive director at the Milken Institute and former acting chair of the Securities and Exchange Commission, **Sal Arnuk**, partner at **Themis Trading LLC** and Alan Grujic, founder and CEO of All of Us Financial, among others.

Several witnesses plan to take aim at the practice of payment for order flow, whereby brokers like Robinhood are paid by market makers like Citadel Securities for the privilege of executing their customer orders. **Arnuk** plans to tell the committee that “while PFOF is legal, we have long wondered how it possibly could be,” as it “presents an undeniable conflict of interest” between brokers who are charged with getting clients the best prices and market makers that make money by trading against these orders, according to prepared testimony.

“The meme stock phenomenon in the markets today results from the dangerous intersection of poor investor education by some brokers, and the PFOF practices that exist on and off stock exchanges,” **Arnuk** plans to say. “These practices create a massive incentive for such brokers to sell their clients orders to sophisticated trading firms uniquely tooled to profit off of them.”

Grujic, whose company All of Us Financial competes with Robinhood, will argue instead that payment for order flow has enabled companies like his to offer zero-commission trades, and that banning the practice will cause commissions to increase. “Other innovations, such as fractional shares, may become uneconomical,” he will argue, referring to products that enable investors to buy fractions of a share, which helps those with limited funds to diversify their portfolios.

Shares of GameStop Inc. GME, -2.63% have fared well since the committee grilled Robinhood co-CEO Vlad Tenev; Ken Griffin, founder of the hedge fund Citadel and market maker Citadel Securities; and GameStop booster Keith Gill on Feb. 18. The game retailer's stock has risen from an intraday low of \$38.50 on the day of the hearing to more than \$200 as of Tuesday's close, though Tuesday also marked the first string of back-to-back losses for the stock since that time and it is down more than 21% to start the week, according to FactSet.

Other so-called meme stocks, which gained popularity on social media largely in relation to the degree to which they had been sold short by professional investors, have also fared well of late. Shares of AMC Entertainment Holdings Inc. AMC, -11.67% are up more than 130% over the past month and shares of Express Inc. EXPR, -6.90% have gained nearly 75% over that time.

The NYSE's Blaugrund plans to advocate for harmonizing regulations between public exchanges, like his firm, and market makers, to enable public exchanges to better compete for order flow. For instance, he believes regulators should allow public exchanges to sell stocks in increments of less than 1 cent, a move that he said could create more competition for retail order flow and improve prices for retail traders.

The committee will also address the issue of gamification, or the use of game-like features in trading apps that critics say encourage users to trade more frequently than is in their best interest.

"The gamification of investing, which has been pioneered by Robinhood, is not responsible because it has the demonstrated ability to harm the lives of people by creating financial fragility through wealth erosion," Vicki Borgan, an economist at Cornell University, will testify. She plans to point to trading-app features like push notifications as among those that regulators should consider banning. During last month's testimony, Robinhood's Tenev said that these features are simply aimed at making investing more "accessible" for younger customers accustomed to entertaining smartphone apps.

All of Us Financial's Grucic, however, will point out that gamification "can be used for both good and bad purposes." According to his planned testimony, his firm has used gamification techniques to reward customers who reduce their portfolio risk.