

US market regulators to study recent trading frenzy

February 5 2021, by Heather Scott



Treasury Secretary Janet Yellen says regulators will have to understand recent trading volatility, including the GameStop episode, before taking action

US financial market regulators will study the trading frenzy last week that saw shares like GameStop soar, and ensure investors are protected,

the Treasury Department said Thursday.

Treasury Secretary Janet Yellen called the meeting with top [market](#) watchdogs to discuss the recent trading volatility created by a social media-fueled buying craze for stocks that were shorted by hedge funds, including of video game store GameStop, which surged over 400 percent in a week before falling sharply.

While it did not mention GameStop or retail trading platform Robinhood, Treasury said the Securities and Exchange Commission (SEC) will be "releasing a timely study of the events."

In addition, the SEC and the Commodities Futures Trading Commission (CFTC) "are reviewing whether trading practices are consistent with investor protection and fair and efficient markets," Treasury said in a statement late Thursday.

Prior to the meeting, Yellen stressed the need to "make sure that our [financial markets](#) are functioning properly, efficiently and that investors are protected," in her first television interview on ABC's "Good Morning America."

However, she made no commitment to taking action to curb any of the behaviors involved.

The events under review erupted when a group of small-time investors on online forum Reddit joined forces to try to thwart hedge funds that made massive bets that the shares would fall.

The wave of buying boosted the share prices of struggling companies, including GameStop and movie theater brand AMC Entertainment.

But the share prices fell sharply when the frenzy subsided.

"The regulators believe the core infrastructure was resilient during high volatility and heavy trading volume," Treasury said.



GameStop shares soared over 400% as small investors took on big hedge funds

Need for action?

The events led to some retail investor apps such as Robinhood—which says its goal is to "democratize finance for all"—to limit [trading](#) in some of the most volatile stocks last week, drawing the ire of critics.

Progressive US senators Bernie Sanders and Elizabeth Warren called for action against what they said were Wall Street abuses by [hedge funds](#).

"We need an SEC investigation," Warren told CNN Sunday. "It's a rigged game, and it's been a set of players who come in and manipulate the market."

But Yellen said "we need to understand deeply what happened before we go to action."

Yellen's role, however, is limited to convening and consulting, since Treasury does not have direct jurisdiction over stock market activity, which is the purview of the SEC and CFTC.

But she has long experience with the issues as a former chair of the Federal Reserve and member of the board for many years, as the central bank monitors all financial market activity for potential risks to the economy.

Treasury also chairs the Financial Stability Oversight Council (FSOC), which monitors financial risks to coordinate better policy action.

The FSOC brings together the SEC, CFTC and other banking and housing regulators, as well as the Consumer Financial Protection Bureau (CFPB).

The turmoil that prompted the review seemed to have subsided in recent days, with the S&P 500 and Nasdaq closing at records once again on Thursday.

Game Stop shares which started 2020 at \$5.88, and spiked to nearly \$483 on January 28, ended the day at \$53.50.

AMC Entertainment had a less wild ride, closing at \$7.09 after hitting a 52-week high of \$20.36 last week.

Yellen had to receive a waiver from ethics lawyers at Treasury to hold the discussion about market activity, as she had received at least \$700,000 in speaking fees from hedge fund Citadel, a key player in the GameStop saga, according to US media reports.

© 2021 AFP

Citation: US market regulators to study recent trading frenzy (2021, February 5) retrieved 19 April 2024 from <https://techxplore.com/news/2021-02-frenzy.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.