

# Alert

## Recent Short Squeezes

January 28, 2021

The short squeezes in GameStop Corp. and other issuers are having significant impacts on nearly every type of market participant, including private investment funds, broker-dealers, exchanges and individuals. As of this writing, the only regulator to address the situation publicly has been the SEC, which released a joint statement from its Acting Chair, the Director of the Division of Examinations and the Acting Director of the Division of Trading and Markets, indicating that it is “actively monitoring the on-going market volatility” and reviewing the conduct of “regulated entities, financial intermediaries and other market participants.”<sup>1</sup>

In the interim, multiple broker-dealers have reported platform outages due to heavy volume and implemented restrictions on trading in several securities being targeted by various investor groups. Several broker-dealers have blocked investors from opening new cash equity or option positions and/or increased margin requirements for trading in these issuers. Online messaging platforms have made certain discussion groups “private” in an effort to combat disruptive market activity only to then reverse course and allow the groups to continue unfettered.

We anticipate significant regulatory focus on the behavior of all market participants in the near future. Investors, particularly regulated entities, should be focused on their conduct and the host of legal issues that may be implicated by such behavior, including:

- Market manipulation by participants on message boards while trading in targeted securities;
- Dissemination of false information on social media in connection with the purchase or sale of securities;
- Trading in violation of investment mandates;
- Coordinated/group trading activity; and
- Trading while in possession of material non-public information.

We are in frequent contact with multiple regulators and self-regulatory organizations, as well as broker-dealers, exchanges and other industry participants, to discuss strategies for handling this unprecedented market activity.

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<sup>1</sup> U.S. Securities and Exchange Commission, Joint Statement Regarding Ongoing Market Volatility (Jan. 27, 2021), available [here](#).

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