

**ALERTS**

## 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.

*Authored by Craig S. Warkol, Owen Schmidt, Marc E. Elovitz, Jason S. Kaplan and Tarik M. Shah.*

If you have any questions concerning this *Alert*, please contact your attorney at Schulte Roth & Zabel or one of the authors.

---

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

---

*This communication is issued by Schulte Roth & Zabel LLP for informational purposes only and does not constitute legal advice or establish an attorney-client relationship. In some jurisdictions, this publication may be considered attorney advertising. ©2021 Schulte Roth & Zabel LLP.*

*All rights reserved. SCHULTE ROTH & ZABEL is the registered trademark of Schulte Roth & Zabel LLP.*

---

## Related People



**Craig  
Warkol**

Partner  
New York



**Marc  
Elovitz**

Partner  
New York



**Jason  
Kaplan**

Partner  
New York



**Tarik  
Shah**

Special Counsel  
New York

---

## Practices

**BROKER-DEALER REGULATORY AND ENFORCEMENT**

**INVESTMENT MANAGEMENT**

**REGULATORY AND COMPLIANCE**

---

## Attachments

↓ Download Alert