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January 29, 2021

Allison Herren Lee
Acting Chair
U.S. Securities and Exchange Commission (SEC)
100 F Street NE
Washington, DC 20549

Dear Acting Chair Lee:

I am writing regarding the recent surge in share prices for the video game retailer GameStop, whose stocks are “up 1,700 percent this month, including Wednesday’s climb of 135 percent” – driven by what one expert called a “flash mob with money.”¹ These wild swings in value of GameStop and other companies that are subject to similar bets by traders are “detached from the factors that traditionally help establish a company’s value to investors,”² I am deeply concerned that these casino-like swings in the value of GameStop and other company shares are yet another example of the gamesmanship that interferes with the “fair, orderly, and efficient” function of the market,³ raising obvious questions about public confidence in the market and those trading in it. I am writing to seek information on how the SEC intends to address these concerns and prevent these and future incidents of potential market manipulation.

Hedge funds, such as Melvin Capital Management, have bet that GameStop’s shares would fall in the hopes of reaping substantial profits.⁴ In recent weeks, however, share prices for GameStop began to rise, with a dramatic surge in recent days fueled not by any changes in the company’s economic fundamentals but by anonymous traders on the Reddit forum r/WallStreetBets.⁵ News reports state that these traders moved quickly to buy options contracts in

¹ New York Times, “GameStop’s stock continues to soar, as small traders team up against big institutions.,” Michael de la Merced, January 27, 2021, <https://www.nytimes.com/2021/01/27/business/gamestop-stock.html>; Washington Post, “GameStop, AMC shares surge after Reddit users lead chaotic revolt against big Wall Street funds,” David Lynch, Hamza Shaban, Hannah Denham, and Tory Newmyer, January 27, 2021, <https://www.washingtonpost.com/business/2021/01/27/gamestop-amc-reddit-short-sellers-wallstreetbets/>.

² New York Times, “GameStop’s stock continues to soar, as small traders team up against big institutions.,” Michael de la Merced, January 27, 2021, <https://www.nytimes.com/2021/01/27/business/gamestop-stock.html>.

³ Washington Post, “The stock market is ending 2020 at record highs, even as the virus surges and millions go hungry,” Hamza Shaban and Heather Long, December 31, 2020, <https://www.washingtonpost.com/business/2020/12/31/stock-market-record-2020/>; Securities and Exchange Commission, “About the SEC,” November 22, 2016, <https://www.sec.gov/about.shtml>.

⁴ Vox, “The GameStop stock frenzy, explained,” Emily Stewart, January 27, 2021, <https://www.vox.com/the-goods/22249458/gamestop-stock-frenzy-wallstreetbets-reddit-citron>.

⁵ Wall Street Journal, “How GameStop’s Reddit- and Options-Fueled Stock Rally Happened,” Alexander Osipovich, January 27, 2021, <https://www.wsj.com/articles/how-gamestops-reddit-and-options-fueled-stock-rally-happened-11611743400>; Vox, “The GameStop stock frenzy, explained,” Emily Stewart, January 27, 2021, <https://www.vox.com/the-goods/22249458/gamestop-stock-wallstreetbets-reddit-citron>.

an apparent attempt to target large investors.⁶ This “epic contest between Wall Street traders who bet against stocks and legions of small-scale investors”⁷ has fueled a level of speculation “not seen since the tail-end of the dot-com boom two decades ago.”⁸ These shifts also raise questions about broader instabilities in the market and financial system, as “[n]o one knows how this ends” and “the intense activity could eventually prompt a wider sell-off in the market by forcing hedge funds on the losing side of these trades to sell parts of their portfolios to raise cash to cover their losses.”⁹

In addition to GameStop, several other publicly traded companies, including AMC; BlackBerry; Bed, Bath, and Beyond; Nokia; and Tootsie Roll Industries,¹⁰ have seen huge shifts in their share price driven by similar internet trading schemes. These wild fluctuations are just the latest indication that many private equity firms, hedge funds, and other investors, big and small, are treating the stock market like a casino, giving little consideration to the companies, communities, workers, and consumers that may be affected by these risky bets. The recent chaos reveals a clear distortion in securities markets, with benefits accruing to investors that do not clearly benefit the company’s workers, consumers, or the broader economy.

Although “[f]ederal securities law prohibits market participants from misrepresenting a company’s prospects to artificially affect its share price,” there is a troubling lack of clarity regarding who the major market participants are in this case and the degree to which their activities may be coordinated.¹¹ With many of these traders “cloaked in anonymity, there is no way of knowing whether messages touting GameStop come from average Joes – or scam artists executing a ‘pump-and-dump’ stock scheme.”¹²

⁶ Wall Street Journal, “GameStop Mania Reveals Power Shift on Wall Street—and the Pros Are Reeling,” Gunjan Banerji, Juliet Chung, and Caitlin McCabe, January 27, 2021, <https://www.wsj.com/articles/gamestop-mania-reveals-power-shift-on-wall-street-and-the-pros-are-reeling-11611774663>; Associated Press, “In battle over GameStop shares, two big players flinch,” Michelle Chapman and Stan Choe, January 27, 2021, <https://apnews.com/article/gamestop-stocks-reddit-updates-0bfe08b10002e7bb334983948f53b6e4>; Vox, “The GameStop stock frenzy, explained,” Emily Stewart, January 27, 2021, <https://www.vox.com/the-goods/22249458/gamestop-stock-wallstreetbets-reddit-citron>.

⁷ New York Times, “An explosive rally in GameStop shares highlights the small-trader frenzy in financial markets,” Matt Phillips, January 25, 2021, <https://www.nytimes.com/live/2021/01/25/business/us-economy-coronavirus/gamestop-rally-options>.

⁸ New York Times, “How Options Trading Could Be Fueling a Stock Market Bubble,” Matt Phillips, January 26, 2021, <https://www.nytimes.com/2021/01/25/business/stocks-options-bubble.html>.

⁹ New York Times, “‘Dumb Money’ Is on GameStop, and It’s Beating Wall Street at Its Own Game,” Matt Phillips and Taylor Lorenz, January 27, 2021, <https://www.nytimes.com/2021/01/27/business/gamestop-wall-street-bets.html>.

¹⁰ Wall Street Journal, “BlackBerry, AMC and Other Reddit YOLO Favorites That Aren’t GameStop,” Sebastian Pellejero and Marco Quiroz-Gutierrez, January 26, 2021, <https://www.wsj.com/articles/blackberry-amc-and-other-reddit-yolo-favorites-that-arent-gamestop-11611681716>; CNBC, “Bed Bath & Beyond, AMC rally with GameStop as little investors squeeze hedge funds in more stocks,” Maggie Fitzgerald, January 25, 2021, <https://www.cnbc.com/2021/01/25/bed-bath-beyond-amc-rally-wjoin-gamestop-in-rally-as-trend-of-retail-investors-squeezing-hedge-funds-spreads.html>.

¹¹ Washington Post, “Gamestop, AMC shares surge after Reddit users lead chaotic revolt against big Wall Street funds,” David J. Lynch, Hamza Shaban, Hannah Denham, and Tory Newmyer, January 27, 2021, <https://www.washingtonpost.com/business/2021/01/27/gamestop-amc-reddit-short-sellers-wallstreetbets/>.

¹² Washington Post, “Gamestop, AMC shares surge after Reddit users lead chaotic revolt against big Wall Street funds,” David J. Lynch, Hamza Shaban, Hannah Denham, and Tory Newmyer, January 27, 2021, <https://www.washingtonpost.com/business/2021/01/27/gamestop-amc-reddit-short-sellers-wallstreetbets/>.

The manipulation of share prices may exacerbate inequality and the impacts of the ongoing pandemic-related economic collapse. While investors work to outmaneuver each other in search of short-term profits, working families continue to suffer, underscoring the growing disconnect between the stock market and the real economy. For example, millions of workers have lost their jobs or left the workforce altogether amid the pandemic and economic collapse,¹³ but “America’s 614 billionaires grew their net worth by a collective \$931 billion” in the roughly seven months following the beginning of the pandemic.¹⁴ The rapid growth of economic inequality is, in large part, due to the disproportionate impacts of surges in the stock market,¹⁵ which has rebounded dramatically since the onset of the public health emergency.¹⁶ The stock market is not reflective of real economic conditions felt by communities across the country, and traders treating securities markets as casinos exploit these growing disparities and the companies and workers that underlie their gambles.

The SEC has a mandate to “protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation,” and “promote a market environment that is worthy of the public’s trust.”¹⁷ The Commission must review recent market activity affecting GameStop and other companies, and act to ensure that markets reflect real value, rather than the highly leveraged bets of wealthy traders or those who seek to inflict financial damage on those traders. To protect and restore public trust in sound securities regulation and enforcement, the Commission must identify gaps in existing securities laws and rules and ways in which the Commission can improve its enforcement capabilities.

While “U.S. law bars the dissemination of false or misleading information with the aim of manipulating investors into buying or selling securities,”¹⁸ SEC’s standards and enforcement of market manipulation, remain woefully unclear.¹⁹ The public deserves clear answers about how

¹³ New York Times, “How the Economy Is Actually Doing, in 9 Charts,” Ella Koeze, December 17, 2020, <https://www.nytimes.com/interactive/2020/12/17/business/economy/economic-indicator-charts-measures.html>.

¹⁴ USA Today, “Jeff Bezos, Elon Musk among US billionaires getting richer during coronavirus pandemic,” Samuel Stebbins and Grand Suneson, December 1, 2020, <https://www.usatoday.com/story/money/2020/12/01/american-billionaires-that-got-richer-during-covid/43205617/>.

¹⁵ MarketWatch, “As the U.S. stock market surges in 2020, inequality has soared to a record high,” Mark DeCambre, December 18, 2020, <https://www.marketwatch.com/story/as-the-u-s-stock-market-surges-in-2020-inequality-has-soared-to-a-record-high-11608315685>.

¹⁶ CNBC, “How the pandemic drove massive stock market gains, and what happens next,” Patti Domm, December 31, 2020, <https://www.cnbc.com/2020/12/30/how-the-pandemic-drove-massive-stock-market-gains-and-what-happens-next.html>.

¹⁷ Securities and Exchange Commission, “About the SEC,” November 22, 2016, <https://www.sec.gov/about.shtml>.

¹⁸ Reuters, “EXPLAINER-Why regulators may scrutinize GameStop’s Reddit-driven retail stock surge,” Chris Prentice and Pete Schroeder, January 27, 2021, <https://www.reuters.com/article/gamestop-regulator-idUSL4N2K246P>.

¹⁹ Wall Street Journal, “GameStop Stock Surge Tests Scope of SEC’s Manipulation Rules,” Dave Michaels and Alexander Osipovich, January 28, 2021, <https://www.wsj.com/articles/gamestop-surge-tests-scope-of-secs-manipulation-rules-11611838175>; ThinkAdvisor, “SEC Likely to Probe GameStop Trading Surge, but What Will It Find?,” Melanie Waddell, January 27, 2021, <https://www.thinkadvisor.com/2021/01/27/sec-likely-to-probe-gamestop-trading-surge-but-what-will-it-find/>; Barron’s, “GameStop Stock Drops After SEC Announcement. An Expert Says the Agency’s Statement Means Little for Now.,” Connor Smith and Avi Salzman, January 27, 2021,

federal regulators define market manipulation, how investors may have profited from potential manipulation, and what the SEC will do to mitigate these practices. This means that the Commission must work quickly to issue rules outlining what it means for traders to manipulate securities prices in violation of the law and to offer guidance for market participants.

While recent market volatility shows rapidly fluctuating prices for GameStop not tied to “any fundamental changes in the company’s finances or prospects,” these speculative practices are not new.²⁰ In fact, “[f]or almost a year now, investors have been bidding up shares in companies like Tesla, Shopify, and Snap to prices that bear little relation to the actual earnings prospects of the underlying companies”²¹ and the “frenzy also stirs memories of the 1990s dot-com boom, when a surge in day trading contributed to the inflation of an epic market bubble.”²² It is long beyond time for the SEC to act.

In order to better understand how the Commission plans to address the dramatic price fluctuations of certain shares in recent days and to ensure the integrity of our capital markets, I ask that you respond to the following questions by Friday, February 5, 2021.

1. What were the causes of the recent dramatic shifts in GameStop share prices? Did these shifts represent a “fair, orderly, and efficient” market function?
 - a. Did the sharp rise in GameStop’s share reflect changes in the company’s fundamental value? If not, what drove these changes of GameStop share prices?
 - i. To what extent did large investors, such as hedge funds like Melvin Capital Management, and their short positions impact the fluctuation of GameStop’s share prices? Did any of these practices violate existing securities laws?
 - ii. To what extent did online message boards, such those on Reddit, or broader social media amplification impact the fluctuation of GameStop’s prices? Did any of these practices violate existing securities laws?
2. Do the wild swings in value of GameStop and other companies affected by similar trading schemes present any systemic concerns for financial systems or the stock market?

<https://www.barrons.com/articles/sec-says-it-will-monitor-ongoing-market-volatility-an-expert-says-the-move-means-little-for-now-51611788662>.

²⁰ Reuters, “EXPLAINER-Why regulators may scrutinize GameStop’s Reddit-driven retail stock surge,” Chris Prentice and Pete Schroeder, January 27, 2021, <https://www.reuters.com/article/gamestop-regulator-idUSL4N2K246P>.

²¹ New Yorker, “The GameStop-stock Saga is Dangerous and All Too Familiar,” John Cassidy, January 28, 2021, <https://www.newyorker.com/news/our-columnists/the-gamestop-saga-is-dangerous-and-all-too-familiar>.

²² MarketWatch, “How an options-trading frenzy is lifting stocks and stirring fears of a market bubble,” William Watts, January 26, 2021, <https://www.marketwatch.com/story/a-surge-in-options-trading-is-pushing-around-the-stock-market-and-bringing-back-memories-of-the-dot-com-bubble-11611618636/>.

3. What steps will the SEC take to ensure that securities markets better reflect prices that are in line with the intrinsic and fundamental value of underlying companies?
 - a. Please describe the impacts of disorderly, inefficient, and unfair prices in securities markets on communities, consumers, workers, and investors.
4. What steps will the SEC take to update and implement rules defining market manipulation? Please provide a detailed timeline.
 - a. Please describe any gaps in the SEC's current regulatory regime in addressing market manipulation.
 - b. Please describe any gaps in the SEC's current enforcement practices or capabilities to address market manipulation.

Thank you for your consideration of this important matter, and I look forward to your response.

Sincerely,



Elizabeth Warren
United States Senator