Navigating the Post-GameStop Regulatory Environment

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No one is above the fray: navigating the post-GameStop regulatory environment

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Whether you look as far back as the stock market crash of 1929 or the global financial crisis of the late 2000s, there is a continuum of market regulators playing catch-up after the fact. That process is manifesting itself again, one year after the GameStop stock trading drama.

The recent meme-stock phenomenon is a direct consequence of cost-free trading connected with social media-driven interactions around trading activities. Retail trading apps have made it effortless for retail investors to trade stocks. Simultaneously, social media networks have become an accelerator where anyone can propose and back investment ideas, creating the perfect storm for a GameStop-like stock trading frenzy.

The meme-stock phenomenon laid bare the imbalance between institutional and inexperienced investors. Institutional investors were able to exploit the meme-stock phenomenon for short-term ROI. And while some smaller retail investors were able to walk away with profits or minor losses, others suffered deeply—some losing all their savings.

How do these challenges present regulatory opportunities? While GameStop—and the retail trading phenomenon generally—operate outside the same market sphere as professional traders, it affects the entire economic spectrum. It has raised clearing issues and has led to a more stringent regulatory environment. While retail investors may exist in their own trading universe, regulators are moving to institute market-wide changes.

Last November, the U.S. Securities and Exchange Commission (SEC) proposed Exchange Act Rule 10c-1, expanding investment position reporting requirements. The Rule compels lenders of securities to provide details within 15 minutes of a transaction to a regulatory body, which would make some of the transaction details public. The SEC will likely also proceed with a rule change in the coming months that limits gamification and digital engagement prompts on investing apps.

Given that the markets are supported by outdated regulatory infrastructure, FinTechs—which allow open access to this kind of trading ecosystem—need to take the initiative and institute tech-savvy practices and systems to get ahead of the curve.

The kind of tech-driven automation and ease-of-use that has made trading easy for retail traders has been missing from important areas of financial services. What the post-GameStop regulatory environment has done is present an urgency for those underserved areas of the markets to take advantage of this technology.

In contrast, private markets operate in a different regulatory environment. The barrier has been

What financial institutions need to do now is thoroughly examine how their compliance infrastructure works—and how it will do so for a more stringent regulatory environment in the years to come.

Even as technology has propelled us to this point, it will also serve as a key tool for private market participants to navigate a more stringent regulatory environment. Tech-enabled compliance solutions can enhance risk management, boost time and cost efficiencies, improve accountability and accuracy, and reduce human error.

Today's technology advances, when coupled with the right compliance approach, allow us to challenge the conventional wisdom that more regulation needs to come at the expense of market innovation.

It's long past time to bring the financial technology revolution to the compliance space. An innovative and pro-compliance technology focus allows the financial services industry to strike a balance between providing adequate protection and stimulating business, proving that it doesn't have to be an either-or decision.

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