

1_ *The Robinhood Non-Conspiracy*

A margin call is not a Wall Street plot to fleece Reddit traders.

By [The Editorial Board](#)

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So much for the "rigged" market, the supposed conspiracy to fleece Reddit traders, and other nonsense spouted about last week's stock market ructions involving [GameStop](#) and other companies. It turns out the controversy was essentially about a larger than normal clearinghouse call for capital.

As David Battan explains [nearby](#), that's almost certainly the story behind the decision by Robinhood, the internet trading app, to limit trades in certain stocks for a time late last week. Politicians like Sen. Ted Cruz and bar-stool financial analysts claimed to see a plot by the new Robber Barons.

The reality is more prosaic. Robinhood and other brokers were deluged by traders looking to invest in GameStop and other shares, often with options contracts that can increase leverage and trading risk. A clearinghouse that processes and settles trades watched the volatile trading and demanded more collateral to cope with potential losses.

Robinhood Chief Executive Vlad Tenev explained the demand Sunday night in an interview on a livestream on Clubhouse, a social-networking app. "The request was around \$3 billion, which is, you know, about an order of magnitude more than what it typically is," Mr. Tenev said.

A margin call is not a conspiracy. A clearinghouse is an intermediary between buyers and sellers in a financial market. It "clears," or finalizes, trades and makes sure the parties fulfill the contract and assets are delivered. It also mitigates risk by requiring that trades be backed by enough capital to reduce the chances that one of the trading parties goes bankrupt. This protects investors as well as brokers.

Robinhood clears its trades through the well-known Depository Trust & Clearing Corp., which is owned by a consortium of banks, broker-dealers and other financial firms. You can fantasize that the DTCC is part of the conspiracy and ganged up on Robinhood at the request of banks to help short-sellers who were being squeezed by the Reddit traders.

Perhaps you also still believe that [Vladimir Putin](#) stole the 2016 election for Donald Trump. The Securities and Exchange Commission and other regulators should be able to figure out this one sooner than the two years it took special counsel Robert Mueller.

By restricting trades in some stocks for a time, Robinhood has reduced the size of the DTCC's capital demand. The firm also promptly raised \$1 billion in new capital last week and has since raised \$2.4 billion more, the Journal reports. This should help the company serve customers while riding out the volatility in popular shares.

On Monday the Reddit crowds decided to bid up the price of silver, for whatever that exercise is worth. Such trading raves may continue for some time now that market players have found they can use social media to form an investing mob and catch hedge funds and others napping.

Short-sellers who were caught on the wrong side of the GameStop price movements have learned a hard lesson about risk in the current market. So much the better for price discovery and trading discipline. There are no sinners or saints on either side of these transactions. There are consenting adults trading with their own money.

In this era of limited social trust, financial markets are bound to become targets of populist conspiracy theorists on the right and left. In the past, conservatives at least tried to understand how financial trading works before joining left-wingers like Rep. Alexandria Ocasio-Cortez and Sen. Elizabeth Warren in forming a hang-'em-high posse against private markets. Alas, in this age of conspiracy, knowing less gets you more attention.