



Meme Stock MMTLP and FINRA Trading Halt

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During the fourth quarter of 2022, abnormal trading in MMTLP attracted the attention of capital markets observers and regulators. MMTLP was the [over-the-counter](#) (OTC) stock trading symbol for [non-voting series A preferred shares](#) of [Meta Materials](#) (MMAT), a small nanotechnology and materials company. Since MMTLP's trading halt in December 2022, investors who suffered financial losses have [sent more than 40,000 letters](#) (some generated through [automatic letter wizards](#)) to Congress to voice concerns. This Insight explains MMTLP's lifecycle and trading halt for policymakers.

Social Media and Meme Stock Trading

[Meme stocks](#) gain popularity through social media. Their share prices often decouple from their perceived fundamental financial performance and income capabilities. The [market volatility related to GameStop](#) is one example of meme stock trading that heightened policy debates. MMTLP's trading prices rose rapidly from less than \$2 per share to around \$12 per share from October to November 2022 (**Figure 1**). Like the GameStop event, the price appreciation was fueled by [social media valuation discussions](#) despite some research analysts' belief that MMTLP shares were "[worthless](#)."

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Figure 1. MMTLP Share Prices Leading up to the FINRA Trading Halt

Source: FactSet and [Wall Street Journal](#).

FINRA's Trading Halt

The [Financial Industry Regulatory Authority](#) (FINRA), a self-regulatory organization that oversees the OTC markets, [halted MMTLP trading](#) on December 9, 2022. FINRA placed a trading halt on MMTLP under [Rule 6440\(a\)\(3\)](#), an action taken during an “extraordinary event.” FINRA believes the trading halt before the cancellation and new share distribution dates may have provided a [more orderly transaction settlement](#). However, the timing of FINRA's trading halt, which happened a few days before the scheduled cancellation and conversion of MMTLP shares (more details below), prevented some investors from exiting their positions as planned.

MMTLP's Creation, Listing, Deletion, and Conversion

MMTLP was [created during a merger](#) between MMAT and Torchlight Energy Resources (TRCH) to provide preferred stock dividends to TRCH shareholders. “MMTLP was never designed to trade,” said John Brda, former CEO of TRCH. FINRA issued the ticker symbol MMTLP for OTC trading in 2021 following a broker-dealer request. MMAT spun off a subsidiary called [Next Bridge Hydrocarbons](#) (Next Bridge) in November 2022 and planned to convert MMTLP shares into Next Bridge shares at a one-to-one ratio. MMTLP shareholders *on record as of Monday, December 12*, would have received the distribution of Next Bridge shares on December 14, when MMAT [canceled MMTLP](#). Because transaction settlements [normally take two business days](#), FINRA believes that December 8 was the last transaction date for new MMTLP shareholders to [settle](#) in order to meet the December 12 record date for Next Bridge share distribution. Any MMTLP shares settled after the record day would not receive Next Bridge shares and thus would have zero value. FINRA halted MMTLP trading on Friday, December 9. **Figure 2** details this timeline. After the conversion, because Next Bridge's [registration statement](#) became effective, FINRA has expressed that Next Bridge shares (although unlisted) could become listed and tradable upon receiving a new trading symbol.

Figure 2. MMTLP Deletion and Conversion Key Dates

Source: CRS using information from FINRA and MMAT publications.

Short Selling and “Short Squeeze”

Short sellers are investors who profit when the price of a stock *falls* by borrowing the stock, selling it, and then later buying it back at a lower price in order to return the stock to the lender. If the price *rises* between the time it is borrowed and sold and the time it is bought back and returned, short sellers lose money. A “short squeeze” happens when the shorted stock’s price goes up substantially, but short sellers still need to purchase shares at a higher price to close their positions. These purchases put further upward pressure on a stock’s price because of the increased demand, potentially further escalating losses for short sellers and generating larger gains for the investors holding the now rapidly appreciating stock.

Many retail traders reportedly targeted MMTLP because it was perceived to be **heavily shorted**, and they hoped to profit from a last-minute short squeeze, during which short sellers would have to purchase MMTLP shares at a (potentially high) prevailing market price to settle their borrowed shares.

However, an MMTLP short squeeze did not happen. Some observers attribute this to the **unexpected timing** of the FINRA trading halt affecting the possibility of a last-minute gain for MMTLP investors. **Others see** the potential of illegal **naked shorts**, which would not involve corresponding borrowed shares. FINRA states that broker-dealers have **adjusted their operational conversions** to accept Next Bridge shares to close out the MMTLP short positions. As such, the MMTLP trading halt and deletion may not have affected short sellers’ capabilities to close their MMTLP positions so long as they had access to Next Bridge shares.

Policy Discussions

The MMTLP event illustrates the existence of significant investment risks during meme stock trading of complex and speculative instruments. Many investors suffered financial losses. Policymakers’ initial responses could include examining retail investors’ access to these high-risk investment opportunities and investigating potential illegal, fraudulent, and manipulative activities. Some Members of Congress sent letters to the primary capital markets regulator, the **Securities and Exchange Commission** (SEC), to voice concerns about investor **retirement savings losses**. They also requested further investigations into the MMTLP transactions to identify any **regulatory or legislative gaps** that could be addressed in order to enhance investor protection and market integrity. Potential policy concerns include

- Whether investors knowingly entered into risk-taking with a full understanding of material information and without misleading guidance from social media or elsewhere. For example, the SEC has **charged social media influencers** with manipulation schemes in the past.
- Whether there are better ways to provide transparency and clarity regarding risk disclosures that could enhance market integrity and reduce market disruptions. For example, retail investors and experts (e.g., OTC Markets Group’s vice president) were **reportedly confused** about MMTLP’s final trading date. As such, investors may not have been able to optimize their investment decisions.
- Whether there is the existence of fraud and manipulation, such as illegal forms of **naked shorts and counterfeit shares**, that could distort markets.

- Whether there are signs of [insider trading](#) and [pump and dump](#). For example, Brda's MMTLP transactions have drawn [related suspicions](#).

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