

February 16, 2021

Kenneth C. Griffin
Founder and Chief Executive Officer
Citadel
131 South Dearborn St.
Chicago, IL. 60603

Dear Mr. Griffin:

I am writing to understand the “quiet but critical” role that Citadel LLC (Citadel) and its affiliated entities have played in “the recent wild swings in the price of GameStop Inc. and other heavily shorted stocks” driven largely by trades on Robinhood.¹ In particular, I am seeking to understand in detail the relationships between Citadel and Robinhood, to understand how Citadel profits from these arrangements, and to understand if these relationships help create an uneven playing field that harms individual investors.

My concern in this instance are reports that “[a]ll roads in [the GameStop] saga seemed to go through Citadel.”² Citadel Securities, which is affiliated with Citadel,³ handled “29% of GameStop trading volume” in the last week of January 2021, and processes “about 41% of U.S. retail stock-trading volume” overall.⁴ It is also one of the biggest sources of Robinhood’s revenue⁵ via contracts that “charge[] large investment firms called ‘market makers’ fees to access real-time information about which stocks its users are buying and selling, a practice some regulators and industry watchers have seen as a potential conflict of interest.”⁶

¹ Wall Street Journal, “GameStop Frenzy Puts Spotlight on Trading Giant Citadel Securities,” January 31, 2021, <https://www.wsj.com/articles/gamestop-frenzy-puts-spotlight-on-trading-giant-citadel-securities-11612089000>; MarketWatch, “Robinhood ramps up its lobbying effort as Washington scrutinizes the trading app,” Victor Reklaitis, February 10, 2021, <https://www.marketwatch.com/story/robinhood-ramps-up-its-lobbying-effort-as-washington-scrutinizes-the-trading-app-11612977918>.

² Bloomberg, “The Citadel Link: What Ken Griffin Has to Do With GameStop,” Katherine Burton and Sridhar Natarajan, February 1, 2021, <https://www.bloomberg.com/news/articles/2021-01-31/the-citadel-link-what-ken-griffin-has-to-do-with-gamestop?sref=LEXGZBAf>.

³ Washington Post, “Robinhood and Citadel’s relationship comes into focus as Washington vows to examine stock-market moves,” Douglas MacMillan and Yeganeh Torbati, January 29, 2021, <https://www.washingtonpost.com/business/2021/01/29/robinhood-citadel-gamestop-reddit/>.

⁴ Wall Street Journal, “GameStop Frenzy Puts Spotlight on Trading Giant Citadel Securities,” January 31, 2021, <https://www.wsj.com/articles/gamestop-frenzy-puts-spotlight-on-trading-giant-citadel-securities-11612089000>.

⁵ Yahoo! Finance, “The Citadel Link: What Ken Griffin Has to Do With GameStop,” Katherine Burton and Sridhar Natarajan, January 31, 2021, <https://finance.yahoo.com/news/citadel-ken-griffin-gamestop-200000130.html>.

⁶ Washington Post, “Robinhood and Citadel’s relationship comes into focus as Washington vows to examine stock-market moves,” Douglas MacMillan and Yeganeh Torbati, January 29, 2021, <https://www.washingtonpost.com/business/2021/01/29/robinhood-citadel-gamestop-reddit/>.

Citadel Securities is one of largest – if not the single largest – practitioners of this “payment for order flow” business model in which “firms make money by selling shares for slightly more than they are willing to buy them, and pocketing the price difference. They are willing to pay for order flow from online brokerages because they are less likely to lose money trading against individual investors than on an exchange, where traders tend to be larger and more sophisticated.”⁷ These payments “helped set the stage for the manic trading in GameStop... because payment for order flow made it possible for the U.S. brokerage industry to shift to zero-commission trades in late 2019.”⁸

The payment for order flow model raises questions about inherent conflicts of interest and whether broker-dealers like Robinhood and market makers like Citadel Securities profit from rapid trading and market churn that has no relationship to the underlying values of the company stocks that are being traded or the profits of individual investors: it is instead a business practice in which “[t]he more shares they see, the more bread crumbs they take.”⁹

In addition, reports have raised concerns about the ability of market-making firms to use the information gained from trades to obtain a market advantage: when “Robinhood directs a transaction to one of these third parties, the market maker learns which security is being bought or sold before the trade happens,” which ultimately “gives the market-making firms information about retail trading patterns” and amounts “a hidden tax on unsuspecting” investors.¹⁰ The beneficiaries of additional information, like Citadel Securities, have “repeatedly drawn controversy” over their practices, and penalties paid to both the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) “have fueled suspicion about... hand[l]ing of individual investors’ orders.”¹¹

One advocate concluded that “Payment for order flow, at the end of the day, is legalized bribery that appears to incentivize brokers to violate rules;”¹² indeed, in December 2020, the Commonwealth of Massachusetts filed a legal complaint against Robinhood on grounds of

⁷ Wall Street Journal, “GameStop Mania Drives Scrutiny of Payments to Online Brokers,” Alexander Osipovich, February 4, 2021, <https://www.wsj.com/articles/gamestop-mania-drives-scrutiny-of-payments-to-online-brokers-11612434601>.

⁸ *Id.*

⁹ Yahoo! Finance, “The Citadel Link: What Ken Griffin Has to Do With GameStop,” Katherine Burton and Sridhar Natarajan, January 31, 2021, <https://finance.yahoo.com/news/citadel-ken-griffin-gamestop-200000130.html>.

¹⁰ Washington Post, “Robinhood and Citadel’s relationship comes into focus as Washington vows to examine stock-market moves,” Douglas MacMillan and Yeganeh Torbati, January 29, 2021, <https://www.washingtonpost.com/business/2021/01/29/robinhood-citadel-gamestop-reddit/>.

¹¹ Wall Street Journal, “GameStop Frenzy Puts Spotlight on Trading Giant Citadel Securities,” Alexander Osipovich, January 31, 2021, <https://www.wsj.com/articles/gamestop-frenzy-puts-spotlight-on-trading-giant-citadel-securities-11612089000>.

¹² Wall Street Journal, “GameStop Mania Drives Scrutiny of Payments to Online Brokers,” Alexander Osipovich, February 4, 2021, <https://www.wsj.com/articles/gamestop-mania-drives-scrutiny-of-payments-to-online-brokers-11612434601>.

failing to act “without regard for the best interest of its customers.”¹³ That same month, Robinhood paid \$65 million to settle charges brought by the SEC for “misleading customers about [payment for flow] revenue sources and failing to satisfy duty of best execution.”¹⁴ By “creat[ing] conflicts of interest and rais[ing] serious questions about whether such conflicts can be effectively managed,”¹⁵ the payment for order flow system appears to risk undermining best execution considerations — “regulations that essentially require brokerages to find the best price for their retail clients.”¹⁶

But the payment for order flow agreements between Citadel Securities and Robinhood are not the only area where Citadel has been involved in the GameStop-related controversy. The hedge fund side of the business, which is separately managed, but affiliated with Citadel Securities,¹⁷ invested \$2 billion in Melvin Capital, an investment fund that lost more than half its value in January after it lost billions in bets on GameStop:¹⁸ this “deal meant Citadel, the hedge-fund firm, was propping up a fund that had bet against GameStop stock, while Citadel Securities had been profiting from the order flow of small investors placing bullish bets on GameStop.”¹⁹

Concerns about this conflict of interest became even more salient when, in late January, with no warning or recourse, Robinhood and several other brokerages abruptly changed the rules on its customers, “restrict[ing] trading [...] in GameStop and other stocks caught in a frenzy” and raising requirements for “how much money an investor using leverage and derivatives must have in their brokerage account after a stock purchase.”²⁰ Both Robinhood and Citadel have denied that Citadel had any role in this decision²¹ – but Congress and the public deserve clarity on the process of and reasons for these decisions by Robinhood, which had a significant impact on many individual investors.

¹³ Washington Post, “Robinhood agrees to \$65 million civil penalty to resolve SEC charges,” Hannah Denham, December 17, 2020, <https://www.washingtonpost.com/business/2020/12/17/robinhood-sec-investigation/>.

¹⁴ Securities and Exchange Commission, “SEC Charges Robinhood Financial With Misleading Customers About Revenue Sources and Failing to Satisfy Duty of Best Execution,” press release, December 17, 2020, <https://www.sec.gov/news/press-release/2020-321>.

¹⁵ Quartz, “How Robinhood became a target of the retail-trading hype it helped create,” John Detrixhe, February 4, 2021, <https://qz.com/1967574/robinhood-is-a-target-of-its-own-financial-democratization-story/>.

¹⁶ MarketWatch, “The SEC could cripple Robinhood’s business model by enforcing existing rules, experts say,” Chris Matthews, February 6, 2021, <https://www.marketwatch.com/story/the-sec-could-cripple-robinhoods-business-model-by-enforcing-existing-rules-experts-say-11612377651>.

¹⁷ NPR, “Ken Griffin: The Hedge Fund Titan In The Middle Of The Reddit Investing Revolt,” Ryan Kailath, February 4, 2021, <https://www.npr.org/2021/02/04/963995484/ken-griffin-the-hedge-fund-titan-in-the-middle-of-the-reddit-investing-revolt>.

¹⁸ Yahoo! Finance, “The Citadel Link: What Ken Griffin Has to Do With GameStop,” Katherine Burton and Sridhar Natarajan, January 31, 2021, <https://finance.yahoo.com/news/citadel-ken-griffin-gamestop-200000130.html>.

¹⁹ Wall Street Journal, “GameStop Frenzy Puts Spotlight on Trading Giant Citadel Securities,” Alexander Osipovich, January 31, 2021, <https://www.wsj.com/articles/gamestop-frenzy-puts-spotlight-on-trading-giant-citadel-securities-11612089000>.

²⁰ CNBC, “Robinhood restricts trading in GameStop, other names involved in frenzy,” Maggie Fitzgerald, January 28, 2021, <https://www.cnbc.com/2021/01/28/robinhood-interactive-brokers-restrict-trading-in-gamestop-s.html>.

²¹ Washington Post, “Robinhood and Citadel’s relationship comes into focus as Washington vows to examine stock-market moves,” Douglas MacMillan and Yeganeh Torbati, January 29, 2021, <https://www.washingtonpost.com/business/2021/01/29/robinhood-citadel-gamestop-reddit/>.

To address my concerns about this matter, I ask that you provide answers to the following questions no later than Monday, February 22, 2021.

1. Please describe in detail the financial relationship between Robinhood and Citadel Securities.
 - a. What payments do Citadel Securities or affiliated entities make to Robinhood and for what services or transactions? Please provide a complete list of all payments made by Citadel Securities or affiliated entities to Robinhood for each of the last five years, including the reasons for these payments.
 - b. What specific user data does Robinhood share with Citadel Securities or its affiliated entities and on what terms?
 - i. Does Citadel Securities or any affiliated entity use this data for any purpose besides pay for flow trades? E.g., does Citadel use the data for any market analysis?
 - ii. Does Citadel Securities or any affiliated entity receive personally identifiable information on any individual making trades via Robinhood?
 - c. Does Citadel Securities or any affiliated entity have similar pay for flow or other contracts with other broker dealers like Robinhood? If so, please provide a full description of these relationships.
2. Please describe in detail the mechanism by which Citadel Securities or any affiliated entity profited from GameStop trades on Robinhood.
 - a. How many total shares of GameStop were executed by Citadel Securities or any affiliated entity from December 1, 2020, through February 11, 2021?
 - b. On average, what was the spread between the selling and buying price for these shares in this time period?
 - c. Did Citadel Securities or any affiliated entity derive any profit from any other aspect of GameStop trading aside from these trades? If so, please describe the profits and how they were derived.
3. To date, what has been the outcome of Citadel's investment in Melvin Capital? Has Citadel or any affiliated entity profited from this investment, and if so, what were the magnitude of these profits?

- a. What, if any, stake does Citadel or its affiliated entities currently hold in GameStop? When did Citadel or its affiliated entities acquire these stakes?
4. Did personnel working for or representing Citadel, Citadel Securities, or any affiliated entity have any role in the January 28 decision by Robinhood to restrict trading and impose new restrictions on its users' ability to trade?²² If so, please describe this role.
- a. When did Citadel or Citadel Securities personnel learn that Robinhood was considering these restrictions? What actions did they take upon learning of these restrictions?
 - i. Were any Citadel or Citadel Securities personnel aware of any noncompliance with laws or regulations regarding Robinhood's obligations during or preceding their decision to restrict trading?
 - b. Did personnel or representatives of Citadel, Citadel Securities, or any affiliated entity have any communications with Robinhood personnel or representatives related to this decision? If so, please provide detailed copies of these communications.
 - c. Did personnel or representatives of Citadel, Citadel Securities, or any affiliated entity have any communications between each other related to this decision? If so, please provide detailed copies of these communications.
 - d. Did personnel or representatives of Citadel, Citadel Securities, or any affiliated entity have any communications with staff or senior leadership of federal market regulators, such as the SEC or FINRA, related to this decision? If so, please provide detailed copies of these communications.

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

Sincerely,



Elizabeth Warren
United States Senator

²² CNBC, "Robinhood restricts trading in GameStop, other names involved in frenzy," Maggie Fitzgerald, January 28, 2021, <https://www.cnbc.com/2021/01/28/robinhood-interactive-brokers-restrict-trading-in-gamestop-s.html>.

CC:

Allison Herren Lee, Acting Chair, Securities and Exchange Commission

Robert Cook, President and Chief Executive Officer, Financial Industry Regulatory Authority

Vladimir Tenev, Chief Executive Officer, Robinhood