



VIA ELECTRONIC MAIL

The Honorable Elizabeth Warren  
United States Senate  
309 Hart Senate Office Building  
Washington, D.C. 20510

RE: February 16, 2021 Letter

Dear Senator Warren:

We write in response to your letter dated February 16, 2021. We appreciate the opportunity to explain Citadel Securities' business relationships and to respond to the requests in your letter, broken out by question number.

**1.** Citadel Securities executes trades on behalf of institutions and every major retail broker dealer in the U.S., including Fidelity, Morgan Stanley/ E\*Trade, Robinhood, Schwab/ TD Ameritrade, Vanguard, and many others. Robinhood is one of many retail broker dealers that directs a portion of its clients' orders to Citadel Securities, and Citadel Securities is one of a number of market makers receiving client orders from Robinhood. Neither Citadel Securities nor any affiliated entity own any stake in Robinhood.

By way of background, retail broker dealers are legally obligated to route their clients' orders to the source of best execution, which is determined, among other things, by price improvement, speed of completion, and platform resiliency.<sup>1</sup> While many retail broker dealers charge market makers a fee to execute those trades—a practice known as payment for order flow or PFOF—some do not, and we execute trades for both. PFOF is a long-standing and transparent practice that is accepted and regulated by the SEC.<sup>2</sup>

As disclosed quarterly under SEC Rule 606, certain retail broker dealers charge Citadel Securities a fee, or PFOF. Such arrangements are publicly reported and disclosed in retail broker dealers' 606 reports, which provide information on any PFOF arrangements with market makers, including Citadel Securities. As necessitated by its role as a market maker, Citadel Securities receives order information, generally by the receipt of FIX protocol messages. The FIX message protocol – which is used across the industry – provides the terms of that order (e.g., security name, price, size, order type). Citadel Securities does not receive any personally identifiable information from Robinhood or any other retail broker dealer.

**2.** In its role as a market marker, Citadel Securities handles approximately 40 percent of all retail orders in the U.S. on a typical day. Because retail order execution is a very competitive business, the magnitude of the orders routed to Citadel Securities reflects our firm's consistent provision of price

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<sup>1</sup> See FINRA Rule 5310.

<sup>2</sup> See 17 C.F.R. § 242.606.

improvement, our ability to deliver best execution in all market conditions, and the resilience of our systems. It also reflects the corresponding confidence the retail brokerage community has in our firm and our track record of success, which benefits retail investors.

Citadel Securities' computation based on publicly available data provides that the average daily bid-ask spread in GameStop from December 1, 2020, through February 11, 2021, was approximately \$0.024.<sup>3</sup> Bid-ask spreads reflect the consideration of the risk that market makers take on in making two-way markets and, as Citadel Securities has done, in keeping those markets available at all times. During the last week in January, for example, Citadel Securities was the only major market maker to provide continuous liquidity every minute of every day. Citadel Securities continued handling all of the retail volume that it received even as others were unable or unwilling to handle the heavy volumes.

3. On January 25, 2021, it was announced that Citadel, the separate hedge fund business, and its partners had made a strategic investment in Melvin Capital's largest fund. As of January 31, 2021, Citadel's investment in Melvin Capital was not profitable. Citadel Securities, the market making business, had no role in the investment in Melvin Capital.

Consistent with its regulatory obligations under Section 13(f) of the Securities Exchange Act of 1934, Citadel discloses its securities holdings (as defined under SEC rules) quarterly in its Form 13F, the latest of which was made publicly available on February 16, 2021.

4. As has now been widely acknowledged, neither Citadel nor Citadel Securities played a role in Robinhood's decision to impose trading restrictions on January 28, 2021. Allegations to the contrary are completely false. The internet-generated conspiracy theories on which they are based have long since been debunked, including by the sworn testimony of both Robinhood and Citadel executives, and in detailed explanations by the clearing agency whose margin calls are what in fact triggered the trading restrictions.

Citadel Securities has publicly confirmed it had "not instructed or otherwise caused any brokerage firm to stop, suspend, or limit trading or otherwise refuse to do business," and Citadel has likewise confirmed that it was "not involved in, or responsible for, any retail brokers' decision to stop trading in any way."<sup>4</sup> Citadel and Citadel Securities had absolutely no involvement in—or advance knowledge of—Robinhood's decision to restrict trading of GameStop or any other "meme" stock. In his sworn testimony before the U.S. House Committee on Financial Services ("HCFS"), Mr. Kenneth C. Griffin was unequivocal: "I want to be perfectly clear: we had no role in Robinhood's decision to limit trading in GameStop or any other of the 'meme' stocks."<sup>5</sup> Mr. Griffin testified that he first learned of Robinhood's trading restrictions only after they were publicly announced,<sup>6</sup> and that no one

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<sup>3</sup> This has been calculated, based on publicly available data, as the time-weighted median of the bid-ask spread during each day from 12/1/2020 through 2/11/2021, using 1-minute samples of the National Best Bid and Offer each day from 9:35 AM to 3:55 PM ET.

<sup>4</sup> See Michael Mackenzie et al., *Robinhood Raises \$1bn from Investors and Taps Banks at End Of Wild Week*, FIN. TIMES (Jan. 29, 2021), <https://www.ft.com/content/9a1b24e6-0433-462a-a860-c2504ea565e4>.

<sup>5</sup> *Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide: Hearing Before the H. Comm on Fin. Services*, 117th Cong. 1 (2021) (written testimony of Kenneth C. Griffin), <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba00-wstate-griffink-20210218.pdf>.

<sup>6</sup> *Id.*

at Citadel or Citadel Securities had discussed with Robinhood restricting or otherwise doing anything to prevent trading in GameStop.<sup>7</sup>

As Robinhood has confirmed publicly, including in a February 12, 2021 letter responding to your request for information from the company (which has been publicly released),<sup>8</sup> Robinhood imposed trading restrictions on GameStop stock due to depository requirements from its clearinghouse, the National Securities Clearing Corporation (“NSCC”), and not as a result of direction from any market maker or other market participants. Robinhood has been crystal clear on this important point since such unfounded rumors surfaced. On January 31, 2021, Vlad Tenev, the Founder and CEO of Robinhood, was asked about the trading restrictions and responded: “[t]here was a rumor that Citadel or other market makers kind of pressured us into doing this and that’s just false . . . from our perspective, you know, Citadel and other market makers weren’t involved in that.”<sup>9</sup> The following week, in a sworn declaration submitted in federal court, Jim Swartwout, Robinhood’s President & COO, stated that the “speculation” that Citadel or Citadel Securities played a role in Robinhood’s decision to restrict trading was “completely false.”<sup>10</sup> He added that “[t]his was a decision [he] made on behalf of RHS and in consultation with [his] operations team at RHS and others at Robinhood.”<sup>11</sup> On February 18, 2021, when asked during a hearing before the HCFS whether the decision to restrict trading was based on pressure from anyone on the witness panel—which included Mr. Griffin—Mr. Tenev responded, “Not at all. Zero pressure from anyone.”<sup>12</sup>

The capital-based drivers of Robinhood’s trading restrictions have likewise been confirmed by the Depository Trust & Clearing Corp. (“DTTC”) (the parent company of the NSCC), the primary registered clearing agency for equities transactions in the U.S., which has publicly stated that it increased margin requirements for Robinhood (and other brokers) spurred by extraordinary volatility in share prices, including GameStop.<sup>13</sup> Robinhood has similarly made clear that its decision to restrict

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<sup>7</sup> *Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide: Hearing Before the H. Comm on Fin. Services*, 117th Cong. at 3:11:25-3:11:51 (2021) (oral testimony of Kenneth C. Griffin).

<sup>8</sup> Letter from Robinhood to the Honorable Elizabeth Warren (Feb. 12, 2021), <https://www.warren.senate.gov/imo/media/doc/Robinhood%20Response%20to%20Feb%20%20Letter.pdf>.

<sup>9</sup> See Siladitya Ray, *Robinhood CEO Dismisses Elon Musk’s ‘Conspiracy Theories’ About GameStop Trade Limits*, FORBES (Feb. 1, 2021), <https://www.forbes.com/sites/siladityaray/2021/02/01/robinhood-ceo-dismisses-elon-musks-conspiracy-theories-about-gamestop-trade-limits>.

<sup>10</sup> *Cobos v. Robinhood Financial LLC*, 21-cv-843, Declaration of Jim Swartwout, Dkt. No. 27-3 ¶ 33 (C.D. Cal. Feb. 8, 2021).

<sup>11</sup> *Id.* ¶ 34.

<sup>12</sup> *Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide: Hearing Before the H. Comm on Fin. Services*, 117th Cong. at 00:52:45 (2021) (oral testimony of Vlad Tenev, CEO, Robinhood Markets, Inc.).

<sup>13</sup> See Wayne Duggan, *How And Why Did The Stock Market Crack This Week?* BUSINESS INSIDER (Jan. 29, 2021) (“In light of the controversial decisions made on Thursday, the Depository Trust & Clearing Corporation (DTCC) issued the following statement explaining the measures taken by its clearing house, National Securities Clearing Corporation (NSCC): ‘In recent days, certain securities, including GME, AMC and others, have experienced extreme volatility that have generated substantial risk exposures at firms that clear these trades at NSCC, particularly if the clearing member or its clients are predominantly on one side of the market. Because NSCC guarantees settlement of trades among its clearing members, NSCC collects margin according to calculations that are set forth in its rules. When volatility increases, portfolio margin requirements increase too, and NSCC clearing members may pass on these costs to their clients, including brokerages that clear through them. Margin requirements protect the entire industry against defaults and systemic risk in volatile markets.’”), <https://markets.businessinsider.com/news/stocks/how-and-why-did-the-stock-market-crack-this-week-1030021400>; see also Letter from DTCC to The Hon. Patrick McHenry, Ranking Member, House Committee on Financial Services at 4 (Feb. 18,

trading resulted from depository requirements from its clearinghouse, the NSCC. Mr. Tenev testified to the HCFS that, at approximately 5:11 a.m. on January 28, 2021, Robinhood received an email from the NSCC that Robinhood had a deposit deficit of around \$3 billion due to volatility in the “meme” stocks, and that as a result of this “unprecedented” depository requirement, Robinhood restricted trading of certain stocks.<sup>14</sup> This timeline is corroborated by a written statement submitted to the HCFS by the DTCC that details the reasons behind NSCC’s decision to increase daily margin requirements for Robinhood and others as noted in the 5:11 a.m. January 28 email referenced above.<sup>15</sup> Robinhood’s explanation is further supported by its decision to raise approximately \$3.4 billion in new capital in the days after January 28, 2021 to—in the words of Mr. Tenev—“ensure that we could meet future potential deposit requirements.”<sup>16</sup>

Citadel Securities is committed to the healthy functioning of the U.S. equities markets, and we appreciate the opportunity to provide information on the recent market events. Please do not hesitate to contact us if you have further questions.

Sincerely,



Shawn F. Fagan  
Managing Director and Chief Legal Officer

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2021) (“Many clearing members whose unsettled portfolios were exposed to volatile meme stocks saw significant increases in the VaR charges that derived from the risk posed by increased volume and price volatility in these securities. Substantial VaR charge increases also generated capital premium charges for clearing members whose core requirements exceeded their capital cushions. Several clearing members were subject to capital premium charges, which were automatically generated by NSCC’s systems based on the formula in NSCC’s rules.”).

<sup>14</sup> *Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide: Hearing Before the H. Comm on Fin. Services*, 117th Cong. at 9 (2021) (written testimony of Vlad Tenev, CEO, Robinhood Markets, Inc.), <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba00-wstate-tenevv-20210218.pdf>.

<sup>15</sup> Letter from DTCC to Hon. Patrick McHenry at 4 (Feb. 18, 2021), <https://www.dtcc.com/-/media/Files/PDFs/DTCC-Statement-February-2021-Mike-Bodson.pdf>.

<sup>16</sup> *Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide: Hearing Before the H. Comm on Fin. Services*, 117th Cong. at 10 (2021) (written testimony of Vlad Tenev, CEO, Robinhood Markets, Inc.), <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba00-wstate-tenevv-20210218.pdf>.