

Testimony of Kenneth C. Griffin

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United States House of Representatives**

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INTRODUCTION

Chairwoman Waters, Ranking Member McHenry and distinguished members of the Committee, thank you for the opportunity to testify today on the recent market events.

The U.S. capital markets are the envy of the world. Our nation's ability to allocate capital to its best and highest use creates jobs, drives innovation and fuels our economy. America's retail investors play an important role in our capital markets. According to Gallup, about 55% of Americans own stock right now. Citadel Securities – as the largest market maker in the U.S. equities market – executes more trades on behalf of retail investors than any other firm.

As I will discuss later, Citadel Securities played an important role in meeting the needs of retail investors during the week of January 24th. 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. I first learned of Robinhood's trading restrictions only after they were publicly announced.

All of us at Citadel Securities are committed to the healthy functioning of the U.S. equities markets.

BACKGROUND

I first participated in the financial markets as a retail investor. In the late 1980s, while attending college, I traded stocks and options.

My passion for investing led to my founding of Citadel in 1990. Today, Citadel is one of the world's leading alternative investment managers. Our capital partners include pension plans, university endowments, hospital systems, foundations and research institutions.

In 2002, my partners and I founded Citadel Securities. Today, Citadel Securities is one of the world's preeminent market makers. We have been a leader in using technology to transform our market infrastructure, particularly for retail investors.

With the balance of my time, I'd like to address three important matters – (1) the retail investing landscape; (2) Citadel Securities' important role within our markets; and (3) opportunities for further market improvement.

THE RETAIL INVESTING LANDSCAPE

Technological innovation advanced by market makers has dramatically improved the efficiency with which buyers and sellers come together. In tandem, U.S. equity market structure enhancements have driven greater transparency and more competition among market participants. Today, retail brokers are legally obligated to route orders based on best execution, which is determined by a number of regulatory factors, including price improvement, customer experience and platform resiliency.

Many brokers charge market makers a set fee to execute retail trades – a longstanding, transparent and regulated practice known as payment for order flow or PFOF. Retail brokers have used PFOF to reduce the costs of trading and it is a key reason why retail investors are able to trade for free or low commissions today.

Altogether, faster execution, better pricing and reduced fees have made the cost to invest in America lower than ever.

CITADEL SECURITIES' IMPORTANT ROLE WITHIN OUR MARKETS

Citadel Securities has been deeply committed to our role in the retail markets. We invest hundreds of millions of dollars each year to serve our customers. In the last week of January, the importance of these investments was on full display.

During the period of frenzied retail equities trading, Citadel Securities was the only major market maker to provide continuous liquidity every minute of every trading day. When others were unable or unwilling to handle the heavy volumes, Citadel Securities stepped up. On Wednesday, January 27, we executed 7.4 billion shares on behalf of retail investors. To put this into perspective, on that day Citadel Securities executed more shares for retail investors than the average daily volume of the entire U.S. equities market in 2019.

The magnitude of the orders routed to Citadel Securities reflects the confidence of the retail brokerage community in our firm's ability to deliver in all market conditions and underscores the critical importance of our resilient systems.

OPPORTUNITIES FOR FURTHER MARKET IMPROVEMENT

Recent events have highlighted clear opportunities to improve our markets. One takeaway is the importance of modernizing the settlement process, including shortened settlement cycles and transparent capital models. As we have seen, longer settlement periods expose firms to more risk in the time between execution and settlement, requiring higher levels of capital. Settlement cycles should be shortened from T+2 to T+1. Transparent clearing house capital requirements will enable brokers and market makers to better prepare for potential capital demands and minimize the risk of associated market interruptions. Both of these enhancements are well within reach today.

CONCLUSION

As we move forward – and consider how to further improve our capital markets – it is important that we build on the tremendous progress of recent years. Individual investors are better served by America's markets than ever before, and it is critical that our markets continue to be a force for fairness and integrity worthy of investor confidence and participation.

I appreciate the opportunity to appear today and look forward to discussing the retail market structure with the Committee.