

# Risk Awards 2018

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**Equities flow market-  
maker of the year**

 CITADEL | Securities



# Equities flow market-maker of the year

## Citadel Securities

**I**t's no secret that the low-volatility environment has made it tough for equities market-makers to maintain profitability, with some firms such as Goldman Sachs and Timber Hill deciding to exit from parts of the US equity options market.

Citadel Securities instead decided to use the trading downturn to its advantage, launching a round of hires designed to bolster its compliance abilities and expand into new products, such as exotic options.

"Volumes haven't been strong and market conditions have not been favourable towards natural market-making growth, so we've focused more on servicing clients and delivering products to address some of the needs they have," says Joe Mecane, head of execution services at Citadel Securities.

Former Securities and Exchange Commission senior staffers Steve Luparello and Gregg Berman, as well as former market regulation expert at the Financial Industry Regulatory Authority, John Malitzis, joined the firm this year. The idea was to bring in people that know how the regulators might react to certain decisions they may make on their business, and to boost their firm's internal surveillance capabilities.

"The organisation prides itself on hiring people at top of their game and continuously challenging them to increase what we can deliver. Some of the people that get brought in are to fill certain roles and others are opportunistic hires we think they might have a skill set we can utilise. We try to maintain the best talent in the industry," says Mecane.

Citadel Securities also hired JP Morgan's head of Europe, Middle East and Africa equities trading, Laurent Marquis, in June to build the business further, branching into exotic options, over-the-counter options and structured derivatives for the first time. This could lead to a build out of a more client-facing business in the EU, especially with the review of the Markets in financial instruments directive (Mifid II) coming into force in January, says Mecane.

"The difference between the US and EU is that the US business has a big portion that is focused on servicing clients, as opposed to just trading for our own account as a market-maker. Mifid II is coming, so that might start us down the path of a more customer-facing business in that region, but we want to see what things look like first," he says.

The firm's size in the US equities business is still its strength, though. Citadel Securities has a market share in US options of about 20%, and has increased its share across US equities to more than 20% as of October, compared to 17% 12 months prior. In its purely retail execution business, the firm has a 37% market share, and in Europe it is a top-five player on many of the continent's largest exchanges.

"This shows how much our business is dependent on scale. As with any industry, to be a scale player, you need to have a certain amount of efficiency that you're able to achieve," says Mecane.

In its second year as a designated market-maker at the NYSE, which gives



the firm certain trading responsibilities for more than 1,000 stocks, Citadel Securities still remains a dominant liquidity provider. It has the official best bid and offer for 58% of the time, a percentage quoted size of 29% – which signifies the percentage of available liquidity a DMM represents – and a participation rate of 19%, which represents the percentage of intraday volume executed by a DMM. However, the firm may face stiffer

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competition next year following the merger of KCG and Virtu in July 2017.

"The DMM business is a way to deliver value and service to a completely different client base. We're serving the corporate issuers directly, and there's a close relationship between those companies and the DMM. It's a scale business and it seems the industry is still evolving to create more efficiency in market-making, with two similar firms getting together to create a more efficient operating structure being an example of that. It's probably not the last we will see, either," says Mecane.

Citadel Securities' size has also led it to move into another new area – blind bid auctions, where participants bid on large baskets of securities with only limited information on their contents. This approach can help market participants execute in large size with limited market impact.

The firm also started looking at block trades this year by building out risk management and technology for these products, since many of these trades are conducted via request-for-quote rather than via an order book. It is also an area that has been more of a mainstay of the banks traditionally, but Mecane feels the firm's large market share will help it be a major participant moving forward.

"The idea is that we are a big portion of the market in single stocks and exchange-traded funds and should be able to leverage that into other products such as block trades. Because block trading is a new business for us, we are looking at the product and infrastructure requirement around this offering," says Mecane. ■