

Citadel Securities in Automated Trading Desk deal

Purchase from Citi comes as banks pull out of retail wholesaling



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16 MAY 2016 by **Nicole BULLOCK** and **Joe RENNISON**



Citadel Securities, one of the largest market makers in US stocks and options, has bought assets of Automated Trading Desk, an automated market making pioneer owned by Citigroup, as it continues to expand its trading business.

Terms were not disclosed. Citigroup acquired ATD for \$680m in 2007.

The purchase by Citadel Securities, which was set up in 2002, comes as banks are pulling out of retail wholesaling where companies act as agents for trades from retail brokerages such as Charles Schwab and TD Ameritrade.

“It’s a very competitive business that requires continual investment and focus,” said Larry Tabb, founder of Tabb Group. “It’s increasingly hard in this post-crisis environment for the banks to provide that level of investment and focus.”

Citadel Securities has also taken advantage of new rules affecting derivatives to trade interest rate swaps, credit default swaps and cash US Treasuries.

Banks have complained that more stringent regulatory capital rules have forced them to refocus on a limited set of core business lines. In their place, non-bank market makers have emerged, using computers to automatically price trades at lightning speed.

“Greater competition on equity trades over the last decade has made retail market making less attractive for banks,” Jamil Nazarali, head of execution services at Citadel Securities, said.

Citadel Securities is the market making business of Citadel, which runs a separate hedge fund business.

A spokesman for Citigroup said the deal was “consistent with our institutional client-focused strategy and in line with equity market structure and regulatory changes”, and means an exit from the retail equity market making business.

Last year Citi posted equity markets revenues of \$3.1bn, up 13 per cent from the previous year.

The ATD deal follows Citadel Securities’ purchase of the designated market maker business of KCG Holdings, the high-frequency trader, at the New York Stock Exchange this year.

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Jamil Nazarali, Citadel Securities

For 2015, Citadel Securities executed about 14 per cent of US consolidated volume in listed equities, making it larger than some equity exchanges. It also has about a third of US retail equities volume.

UBS, with a 17 per cent share, is the only large bank to remain a retail wholesaler after peers such as Credit Suisse and Wells Fargo pulled out in 2015, according to Tabb.

Citadel Securities and KCG Holdings have been the subject of regulatory scrutiny over aspects of their market making business, according to people familiar with the matter. An investigation by the Department of Justice required them to hand over details about their trading activity.

“As one of the largest market makers and providers of liquidity in the US, we regularly receive inquiries from and work closely with a number of regulators and others regarding

our business and market practices,” Citadel said. “We co-operate fully with such requests, but . . . don’t confirm any particular inquiry.”

KCG declined to comment.