

STILL

**CITADEL
HAS NO
CLOTHES**

BY U/ATOBITT

Citadel Still Has No Clothes - Feb 28, 2022

Due Diligence

TL:DR

Citadel Securities upped their short position during 2021 and Citadel Advisors is even more fuller of hot air than in 2020. They also had a FINRA orgy with 14 different exchanges over erroneous pricing practices between 2014 and 2020.

It's FINALLY HERE..

At long last, Citadel Securities has published their financials for 2021 and I've done me a dabble or two. If you haven't read [Citadel Has No Clothes](#), please do so before reading on.

Before I go balls-deep into this b*tch, let me start off by updating our total [brokercheck.finra.org](#) report on Citadel Securities. At the time of writing my first piece back in March 2021, we were at 58 total violations. As of writing, Citadel Securities has achieved another **15 violations**, bringing Kenny's grand total to [73](#).

light applause

To be fair, 14 of these violations were for the same thing... they were just hit by 14 different exchanges at the same time... *Insert black guys & blonde girl meme*

NASDAQ MRX, LLC

CBOE EDGX Exchange, INC

CBOE BZX Exchange, INC

CBOE BYX Exchange, INC

CBOE EDGA Exchange, INC

NASDAQ ISE, LLC

NASDAQ Options Market, LLC

NASDAQ GEMX, LLC

NASDAQ Stock Market

NASDAQ PHLX, LLC

NASDAQ BX, INC

NYSE

NYSE ARCA, INC

NYSE National, INC

Their other violation from 3/2021 was covered in my post ['Walkin Like A Duck'](#).. Check it out.

...Anyway..


If my maff is correct, that means Kenny G did himself a heckin' naughty and racked up another **25.86% of his TOTAL violations in just one year.**

little bigger applause.

Now let's remember, although these violations were published in December 2021, they were an accumulation of issues from prior years. In fact, the earliest date I found was August 15th, 2014 and the most recent was in May or June 2020.. **So that's 1 issue, reported by 14 different exchanges, across 6 years, totaling... \$225,000** *little fart noise*

Before I make anyone think the sky is falling- this is NOT a monumental fine.. This is just what has been reported by FINRA during 2021. I'll explain why I find it interesting in a sec but I need to preface these things because I know someone out there will say *"tHaTs NoT tHaT blg Of A dEaL, RoBiNhOoD hAd A blgG...."*... I promise you, I know.

At any rate, here's the violation:

Disclosure 1 of 73	
Reporting Source:	Regulator
Current Status:	Final
©2022 FINRA. All rights reserved. Report about CITADEL SECURITIES LLC	
38	
www.finra.org/brokercheck	
User Guidance	
	
Allegations:	WITHOUT ADMITTING OR DENYING THE FINDINGS, THE FIRM CONSENTED TO THE SANCTIONS AND TO THE ENTRY OF FINDINGS THAT IT FAILED TO ESTABLISH AND MAINTAIN REASONABLE RISK MANAGEMENT CONTROLS AND SUPERVISORY PROCEDURES REASONABLY DESIGNED TO PREVENT THE ENTRY OF ERRONEOUS ORDERS, BY REJECTING ORDERS THAT EXCEED APPROPRIATE PRICE OR SIZE PARAMETERS. THE FINDINGS STATED THAT THE FIRM DID NOT APPLY CERTAIN PRE-TRADE ERRONEOUS ORDER CONTROLS TO CERTAIN OPTIONS LIMIT ORDERS. THE FIRM'S PRE-TRADE ERRONEOUS ORDER CONTROLS APPLICABLE TO OPTION LIMIT ORDERS INCLUDED A PRICE CONTROL THAT WOULD REJECT LIMIT ORDERS THAT WERE PRICED AT A CERTAIN PERCENTAGE AWAY FROM THE NATIONAL BEST BID OR OFFER ("NBBO"). HOWEVER, WHEN AN OPTION ORDER WAS CANCELED AND REPLACED, THE PRICE CONTROL WAS NOT APPLIED TO THE REPLACED OPTION ORDER. MOREOVER, THE PRICE CONTROL WAS NOT APPLIED TO CHILD OPTION ORDERS. FURTHER, OPTION LIMIT ORDERS RECEIVED PRIOR TO THE MARKET OPEN THAT WERE LATER RE-ROUTED TO VARIOUS MARKETS WERE NOT SUBJECTED TO REASONABLY DESIGNED PRE-TRADE ERRONEOUS ORDER CONTROLS. THE FINDINGS ALSO STATED THAT CERTAIN PRE-TRADE PRICE AND SIZE CONTROLS WERE NOT REASONABLY DESIGNED BECAUSE THE ACCOMPANYING PROCEDURES WERE NOT SUFFICIENTLY DETAILED. THE FIRM'S PROCEDURES FAILED TO PROVIDE SUFFICIENT DETAIL CONCERNING HOW FIRM PERSONNEL WERE TO REVIEW SOFT BLOCK ALERTS. THE FIRM'S PROCEDURES DID NOT SUFFICIENTLY DETAIL THE STEPS FIRM PERSONNEL WERE TO TAKE WHEN REVIEWING A SUBJECT ORDER OR THE CIRCUMSTANCES UNDER WHICH A SOFT BLOCK SHOULD BE OVERRIDDEN OR CONFIRMED. FURTHERMORE, FOR OPTIONS ORDERS, THE FIRM FAILED TO REQUIRE THAT THOSE PERSONS RESPONSIBLE FOR REVIEWING SOFT BLOCK ALERTS CONTEMPORANEOUSLY DOCUMENT THEIR REVIEW OF ORDERS THAT TRIGGERED A SOFT BLOCK, INCLUDING DOCUMENTING THE RATIONALE FOR RELEASING THE SUBJECT ORDERS INTO THE MARKET AFTER COMPLETING THE MANUAL REVIEW. IN ADDITION, THE FIRM APPLIED CERTAIN PRE-TRADE ERRONEOUS ORDER CONTROLS TO OPTIONS MARKET ORDERS. HOWEVER, DELAYS IN PROCESSING MARKET DATA UPDATES REDUCED THE EFFECTIVENESS OF THE FIRM'S CONTROLS IN TIMES OF VOLATILITY.
Initiated By:	NASDAQ MRX, LLC
Date Initiated:	12/27/2021
Docket/Case Number:	2015046278306

Right off the bat, we have Citadel's signature violation **"IT FAILED TO ESTABLISH AND MAINTAIN REASONABLE RISK MANAGEMENT CONTROLS AND SUPERVISORY PROCEDURES"** ... BLAH BLAH BLAH.

Long story short, here's why I think this matters:

When an option order is placed, Citadel has a price control mechanism that would reject orders priced at a "certain percentage" away from the NBBO. This makes sense.. no big deal.. You shouldn't execute on trades that are too far outside of the best bid. However, if that order is cancelled and replaced, you should repeat this process... which clearly didn't happen.

When an order is placed, it is often broken into several "child orders". This allows trade blocks to execute and complete the order at the best price for the customer. If too many of those child orders are outside of the NBBO, the blocks should stop executing until either the order is cancelled or the NBBO is back at the appropriate price.. If this system doesn't work appropriately, it will complete the order outside of the NBBO.. Hopefully you can see where this would be a major disadvantage to the customer.

What's interesting here is the language **"The firms erroneous order controls ... included a price control that would reject limit orders that were priced at a certain percentage away from the NBBO"..**

..then..

"However, when an option order was cancelled and replaced, the price control was NOT applied to the replaced option orders."

So... all 14 of these exchanges would receive limit option orders from Citadel before the market opened. If Citadel replaced the original order *after* the orders were sent to those exchanges, ALL of those orders would execute without appropriately reviewing the new parameters set by the replacement order....

That's NUTS!

Even more alarming is the lack of documentation that their personnel were supposed to follow in these situations. I know things get hectic for traders and it's hard to keep track of everything. We're all human and sh*t happens, but SURELY someone at Citadel noticed this occurring before the hammer had to come down, externally. Every past violation seems to highlight Citadel's lack of "give a f*ck" when it comes to these things. It just leaves a sour taste in the mouth..

I'm sure everyone knows about the DOJ investigations going on right now. These issues can have a direct impact on their ability to manipulate prices. Intentional or not, if you're aware of these issues and fail to fix them, you're guilty. **PERIOD.**

MEAT N' POTATOES, TIME

Recall from [Citadel Has No Clothes](#) that **Citadel ADVISORS** had roughly \$385,000,000,000 (that's billion) in assets under management in 2020... That consisted of roughly **76.7% derivatives and less than 25% of actual, physical assets....**

I was shocked to learn that initially, but after following their filings through 2021, I realized it was basically their bread n' butter. According to the most recent report on <https://whalewisdom.com/>, their AUM as of 12/31/2021 had increased by over \$100,000,000,000 (again, billion).

But that "increase" doesn't really represent true value... In fact, **it's the highest-risk profile** I've ever seen. Here's the market value of their equities & derivatives on 12/31/2020:

Year	Market Value of Equities \$\$\$	Market Value of Derivatives \$\$\$	Total AUM	Derivative % of Total AUM
2020	\$ 78,979,887,238	\$ 295,347,948,000	\$ 384,926,232,238	76.73%

AAAAAANNNNNNNNNNNNNNDDDDDDDD here's the AUM for year-end 2021....

Citadel Advisors

Year	Market Value of Equities \$\$\$	Market Value of Derivatives \$\$\$	Total AUM	Derivative % of Total AUM
2021	\$ 85,203,354,675	\$ 404,239,821,000	\$ 489,443,175,675	82.59%
2020	\$ 78,979,887,238	\$ 295,347,948,000	\$ 384,926,232,238	76.73%
YOY %	7.880%	36.869%		

36.869%

DA FUQ?!

Market value of physical equities is up 7.88%.... and their derivative values are up almost 37%?!?!?

37%?!?!?!?! IN ONE YEAR?!?!?! **THEIR ENTIRE PORTFOLIO IS NOW 82.59% DERIVATIVES...**

I've waited an entire year for someone to show me one other firm that has this type of portfolio.... or WHY it would be a smart idea..

If you're not sure what this means, I'm saying more than 80% of their portfolio is a STRAIGHT- UP gamble. Over 9% of their portfolio is a bet on Tesla... (they're bullish FYI).

Hell, almost 7% of their portfolio are SPY PUTS.

THIS NOW MAKES TWO YEARS IN A ROW THAT I'M AWARE OF.. NOT ONE, BUT TWO....

WANNA KNOW SOMETHING ELSE THAT'S INTERESTING ABOUT THE NUMBER TWO? IT'S ALMOST THE SAME NUMBER OF PHYSICAL SHARES THAT CITADEL **ACTUALLY** OWNS..

Moving on..

Citadel Securities upped their short position to \$65 billion this year. It's the highest since.....

2020....

which was the highest since.....

2019...

which was the highest since.... here, just take a look at this:

Citadel Securities

Year	Liabilities	Short Position	Short % of Total Liabilities
2005	\$ 5,195,563,754	\$ 5,180,010,550	99.701%
2006	\$ 5,027,462,000	\$ 4,707,712,000	93.640%
2007	\$ 5,902,899,000	\$ 5,864,432,000	99.348%
2008	\$ 11,840,965,000	\$ 5,849,511,000	49.401%
2009	\$ 22,812,848,000	\$ 5,542,263,000	24.294%
2010	\$ 27,724,401,000	\$ 5,532,722,000	19.956%
2011	\$ 32,267,391,000	\$ 4,345,136,000	13.466%
2012	\$ 33,694,043,000	\$ 4,980,047,000	14.780%
2013	\$ 39,283,787,000	\$ 4,749,801,000	12.091%
2014	\$ 44,438,640,000	\$ 6,003,822,000	13.510%
2015	\$ 7,882,705,000	\$ 1,236,536,000	15.687%
2016	\$ 11,138,486,000	\$ 7,298,121,000	65.522%
2017	\$ 31,716,440,000	\$ 17,245,913,000	54.375%
2018	\$ 33,366,000,000	\$ 22,357,000,000	67.005%
2019	\$ 32,690,000,000	\$ 25,270,000,000	77.302%
2020	\$ 67,855,000,000	\$ 57,506,000,000	84.748%
2021	\$ 74,909,000,000	\$ 65,703,000,000	87.710%

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Basically, Citadel Securities' holds over 87% of their liabilities as short obligations. This is split between options and equities, which is nothing new for them...

Interestingly, they haven't had this level of short liability since right before the financial crisis of 2008... If I were to make a guess, I'd say they are betting against.... well.... everything? I wish I had their whalewisdom.com reports so I could compare how Citadel Securities scales with their hedge fund's prior filings. Would be interesting to see if the shorts are outgrowing their physical assets...

well that's not a fair statement because anything can grow quicker than their physical asset portfolio.

But you know what DOESN'T have problems growing? Their **#SHORTS**

DIAMOND.F*CKING.HANDS

#GMEtotheMOON

#HODL

