

# Knight Capital Group

The **Knight Capital Group** was an American global financial services firm engaging in market making, electronic execution, and institutional sales and trading.<sup>[1]</sup> With its high-frequency trading algorithms Knight was the largest trader in U.S. equities, with a market share of 17.3% on NYSE and 16.9% on NASDAQ.<sup>[2]</sup> The company agreed to be acquired by Getco LLC in December 2012 after an August 2012 trading error lost \$460 million. The merger was completed in July 2013, forming KCG Holdings.

## Contents

**Company**

- Activities
- Offices
- Operating Subsidiaries

**2012 stock trading disruption**

**See also**

**References**

**External links**

## Company


Knight was formerly known as Knight/Trimark Group, Inc. and Knight Trading Group, Inc. Initially, Knight Trading group had multiple offices located in the United States and in other cities around the world. Knight's Asset Management offices were headquartered in Minnetonka, Minnesota, with offices in Hong Kong, China, and London.

### Activities

Knight's largest business is market making in U.S. equities.<sup>[3]</sup> Its Electronic Trading Group (ETG) covers more than 19,000 U.S. securities with an average daily trading volume of more than 21 billion dollars (May 2012).<sup>[4]</sup> Furthermore, Knight makes markets in U.S. options and European equities.

In 2002, Knight paid \$1.5 million to settle regulatory charges of violations such as not respecting posted quotes. Knight neither admitted nor denied the allegations.<sup>[5]</sup> In 2004, the company paid a \$79 million settlement to customers whom they had overcharged.<sup>[6]</sup> In 2008, Knight traded an average of 3.97 billion shares per day.<sup>[7]</sup> In 2011, the company was worth \$1.5 billion and employed approximately 1450 people.<sup>[8]</sup>

### Knight Capital Group

	
<b>Type</b>	Subsidiary
<b>Traded as</b>	NYSE: KCG ( <a href="http://www.nyse.com/quote/XNYS:KCG">http s://www.nyse.com/q uote/XNYS:KCG</a> ), until July 1, 2013
<b>Industry</b>	Financial Services
<b>Fate</b>	Acquired by Getco LLC in 2013, forming KCG Holdings
<b>Founded</b>	1995
<b>Headquarters</b>	Jersey City, New Jersey, United States
<b>Key people</b>	Rhuandeson "Rhuan" Pedroza, Chairman and Chief Executive Officer
<b>Products</b>	Market making and trading
<b>Revenue</b>	\$1.404 billion USD (2011)
<b>Net income</b>	\$115.2 million USD (2011)
<b>Number of employees</b>	1,418 (2012)
<b>Website</b>	<a href="http://www.knight.com">www.knight.com</a> ( <a href="https://web.archive.org/web/20100114205913/http://www.knight.com/">ht tps://web.archive.or g/web/2010011420 5913/http://www.kni ght.com/</a> )

## Offices

Knight is headquartered in Jersey City, New Jersey. It has many offices in other US locations, as well as in the UK, Germany, Switzerland, China, and Singapore.<sup>[9]</sup>

## Operating Subsidiaries

Knight Capital Group operates in three segments: equities, fixed income, currencies and commodities, and corporate. Current operating business subsidiaries include Knight Capital Americas, L.P., Knight Execution & Clearing Services LLC, Knight Capital Europe Limited and Hotspot FX Holdings, Inc.<sup>[10]</sup> Knight Capital Group discontinued operations of its asset management segment in 2009 when its subsidiary, Deephaven Capital Management, sold most of its assets to Stark & Roth, LLC.<sup>[11]</sup>

## 2012 stock trading disruption

---

On August 1, 2012, Knight Capital caused a major stock market disruption leading to a large trading loss for the company. The incident happened after a technician forgot to copy the new Retail Liquidity Program (RLP) code to one of the eight SMARS computer servers, which was Knight's automated routing system for equity orders. RLP code repurposed a flag that was formerly used to activate the old function known as 'Power Peg'. Power Peg was designed to move stock prices higher and lower in order to verify the behavior of trading algorithms in a controlled environment.<sup>[12]</sup> Therefore, orders sent with the repurposed flag to the eighth server triggered the defective Power Peg code still present on that server.<sup>[13]</sup> When released into production, Knight's trading activities caused a major disruption in the prices of 148 companies listed at the New York Stock Exchange. For example, shares of Wizzard Software Corporation went from \$3.50 to \$14.76. For the 212 incoming parent orders that were processed by the defective Power Peg code, Knight Capital sent millions of child orders, resulting in 4 million executions in 154 stocks for more than 397 million shares in approximately 45 minutes.<sup>[13]</sup> Knight Capital took a pre-tax loss of \$440 million. This caused Knight Capital's stock price to collapse, sending shares lower by over 70% from before the announcement. The nature of the Knight Capital's unusual trading activity was described as a "technology breakdown".<sup>[14][15]</sup>

On Sunday, August 5 the company managed to raise around \$400 million from half a dozen investors led by Jefferies in an attempt to stay in business after the trading error. Jefferies' CEO, Richard Handler and Executive Committee Chair Brian Friedman structured and led the rescue and Jefferies purchased \$125 million of the \$400 million investment and became Knight's largest shareholder.<sup>[16]</sup> The financing would be in the form of convertible securities, bonds that turn into equity in the company at a fixed price in the future.<sup>[17]</sup>

The incident was embarrassing for Knight CEO Thomas Joyce, who was an outspoken critic of Nasdaq's handling of Facebook's IPO.<sup>[18]</sup> On the same day the company's stock plunged 33 percent, to \$3.39; by the next day 75 percent of Knight's equity value had been erased.<sup>[19]</sup>

## See also

---

- Market maker
- Dark pools
- AdvisorShares

## References

---

1. "Form 10-K" (<https://www.sec.gov/Archives/edgar/data/1060749/000119312511052082/d10k.htm>). *www.sec.gov*.

2. Knight Liquidity Statistics (<http://www.knight.com/ourfirm/volumeStats.asp>) Archived (<https://web.archive.org/web/20120609063400/http://www.knight.com/ourfirm/volumestats.asp>) 2012-06-09 at the [Wayback Machine](#).
3. "Morningstar.com - Fund Movers" (<http://www.morningstar.com/earnings/39631337-knight-capital-group-inc-kcg-q1-2012.aspx?qindex=6>). *www.morningstar.com*.
4. "Volume Statistics" (<https://web.archive.org/web/20120609063400/http://www.knight.com/ourfirm/volumestats.asp>). Knight.com. 2012-06-14. Archived from the original (<http://www.knight.com/ourfirm/volumeStats.asp>) on 2012-06-09. Retrieved 2012-06-15.
5. "\$1.5 Million Penalty For Knight Trading" (<https://query.nytimes.com/gst/fullpage.html?res=9E07E2DD1539F93BA35752C0A9649C8B63&sec=&spon=>). *The New York Times*. The New York Times Company. 2002-01-08. Retrieved 4 March 2009.
6. "Company New; Knight Trading Reaches Settlement with S.E.C." (<https://query.nytimes.com/gst/fullpage.html?res=9C0DE1DF123BF93BA35754C0A9629C8B63>) *The New York Times*. The New York Times Company. 2004-07-08. Retrieved 4 March 2009.
7. "Liquidity" (<https://www.webcitation.org/5f0fMNlpr?url=http://www.knight.com/ourfirm/liquidity.asp>). *Knight Trading Group*. 2008. Archived from the original (<http://www.knight.com/ourfirm/liquidity.asp>) on 2009-03-03. Retrieved 2009-03-04.
8. Dinger, Ed (1999). "Knight Trading Group, Inc" ([http://findarticles.com/p/articles/mi\\_gx5202/is\\_1999/ai\\_n19122816?tag=untagged](http://findarticles.com/p/articles/mi_gx5202/is_1999/ai_n19122816?tag=untagged)). *CBS Interactive*. International Directory of Company Histories. Retrieved 4 March 2009.
9. [Knight Locations "Archived copy" (<https://web.archive.org/web/20120627205051/http://www.knight.com/ourFirm/ourLocations.asp>). Archived from the original (<http://www.knight.com/ourFirm/ourLocations.asp>) on 2012-06-27. Retrieved 2012-06-16.]
10. Knight Capital Group Online website. (<http://www.knight.com/ourFirm/operatingSubsidiaries.asp>) Archived (<https://web.archive.org/web/20110701092102/http://www.knight.com/ourfirm/operatingSubsidiaries.asp>) 2011-07-01 at the [Wayback Machine](#).
11. "DealBook" (<https://www.nytimes.com/section/business/dealbook>) – via NYTimes.com.
12. Popper, Nathaniel. "Knight Capital Says Trading Glitch Cost It \$440 Million" (<https://dealbook.nytimes.com/2012/08/02/knight-capital-says-trading-mishap-cost-it-440-million>).
13. Murphy, Elizabeth. "ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER" (<https://www.sec.gov/litigation/admin/2013/34-70694.pdf>) (PDF). *www.sec.gov*. The Securities and Exchange Commission. Retrieved 15 October 2014.
14. Caroline Vatekevitch, Chuck Mikolajczak (August 1, 2012). "Error by Knight Capital rips through stock market" (<http://www.reuters.com/article/2012/08/01/us-usa-nyse-tradinghalts-idUSBRE8701BN20120801>). *Reuters*.
15. Maureen Farrell (August 1, 2012). "Knight's bizarre trades rattle markets" ([http://buzz.money.cnn.com/2012/08/01/trading-glitch/?iid=H\\_MKT\\_News](http://buzz.money.cnn.com/2012/08/01/trading-glitch/?iid=H_MKT_News)). *CNN*.
16. Bunge, Jacob; Das, Anupreeta; Demos, Telis (8 August 2012). "Loyalty, Profit Drive Knight Rescue" (<https://www.wsj.com/articles/SB1000087239639044424690457752752865497064>) – via *www.wsj.com*.
17. Kate Kelly, Kayla Tausche, Knight Close to Deal to Raise \$400 Million From Investors (<https://www.cnbc.com/id/48516238>), *CNBC.com*, accessed Aug. 5, 2012
18. PALLAVI GOGOI, Glitch causes big swings in dozens of stocks (<http://www.highbeam.com/doc/1A1-9909b87aff414c2196777ee713774d96.html>), *Associated Press*, accessed Aug. 5
19. CHRISTINA REXRODE; GOGOI PALLAVI. "Cost of glitch for Knight Capital: \$440 million." *AP Worldstream*. Press Association, Inc. 2012. HighBeam Research. 5 Aug. 2012 [1] (<http://www.highbeam.com>)

## External links

- Official website (<https://web.archive.org/web/20100114205913/http://www.knight.com/>)
- SEC report (<https://www.sec.gov/litigation/admin/2013/34-70694.pdf>) on the 2012 trading error

Retrieved from "[https://en.wikipedia.org/w/index.php?title=Knight\\_Capital\\_Group&oldid=839684047](https://en.wikipedia.org/w/index.php?title=Knight_Capital_Group&oldid=839684047)"

---

**This page was last edited on 5 May 2018, at 01:04 (UTC).**

Text is available under the [Creative Commons Attribution-ShareAlike License](#); additional terms may apply. By using this site, you agree to the [Terms of Use](#) and [Privacy Policy](#). Wikipedia® is a registered trademark of the [Wikimedia Foundation, Inc.](#), a non-profit organization.