

Title: Chicago Mercantile Exchange (CME Group) and Citadel

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[CME Group Chairman and CEO Terry Duffy interviews Citadel founder and CEO Ken Griffin at GFLC 2018 <https://www.smartbrief.com/original/2018/11/citadels-griffin-talks-trade-regulation-and-finance-talent/>](<https://preview.redd.it/47d3trjx92b71.png?width=880&format=png&auto=webp&s=20360457b38a5cc84e3f31b8b67459229ad69714>)

History With Citadel

So what is the connection between these two? Well, to start [Citadel owns 287,159 shares of CME as of May 21st, 2021.](<https://fintel.io/so/us/cme/citadel-advisors-llc>)

To really understand the relationship though, it's best to go back to 2008 and credit default swaps. "[Before the financial crisis of 2008, there was more money invested in credit default swaps than in other pools.](<https://corporatefinanceinstitute.com/resources/knowledge/finance/credit-default-swap-cds/>) The value of credit default swaps stood at \$45 trillion compared to \$22 trillion invested in the stock market, \$7.1 trillion in mortgages and \$4.4 trillion in U.S. Treasuries.

"The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2009 was introduced to regulate the credit default swap market... [It] required the setting up of a clearinghouse to trade and price swaps."

Before this act, banks basically set their own buy and sell price for swaps independent of what others were valuing them at. So, it would kinda be like if you went to sell a stock with your broker and they would just tell you the sell price. If it you wanted to buy, they tell you the buy price. The difference between the two is set by them and you have no idea what it is. No transparency, not based on a competitive market, and the bank gets to keep the difference between the buy and sell price.

So, [CME Group and Citadel set out to Launch the First Integrated Credit Default Swaps Trading Platform and Central Counterparty Facility, Linked to CME Clearing](https://www.cmegroup.com/media-room/press-releases/2008/10/07/cme_group_and_citadeltolaunchthefirstintegratedcreditdefaultswap.html). [It was approved by the SEC.](<https://www.wilmerhale.com/en/insights/publications/sec-approves-joint-venture-of-cme-and-citadel-to-act-as-a-central-counterparty-for-credit-default-swaps-march-19-2009>) [It was a joint venture called CMDX.](<https://www.risk.net/infrastructure/clearing/1520217/cme-and-citadel-roll-out-swaps-platform>) [Their request for exemption from the SEC as well as an overview of their plan can be found here.](<https://www.sec.gov/rules/exorders/2009/cme-citadel-exreq.pdf>)

Basically, it was a clearing house for Swaps that would be priced electronically, and competitively, by Citadels systems. Of course ["Big banks that handle most derivatives trades, including Citadel's, didn't like Citadel's idea. Electronic trading might connect customers directly with each other, cutting out the banks as middlemen."](https://archive.ph/k5TDi#selection-3061.0-3061.200)

"So the banks responded in the fall of 2008 by pairing with ICE, one of the Chicago Mercantile Exchange's rivals, which was setting up its own clearinghouse. The banks attached a number of conditions on that partnership, which came in the form of a merger between ICE's clearinghouse and a nascent clearinghouse that the banks were establishing. These conditions gave the banks significant power at ICE's clearinghouse"

Eventually CME, Citadel, and the banks agreed to work together, on the banks terms, but right after the deal was complete, "[the banks refused to get involved unless the exchange dropped Citadel and the

entire plan for electronic trading.](<https://archive.ph/k5TDi#selection-3139.157-3139.270>) Kim Taylor, the president of Chicago Mercantile Exchange's clearing division, said "the market" simply wasn't interested in Mr. Griffin's idea."

So what does Ken do? He turns around and sues them! He writes, "The disruptive innovation that has taken place within the equities market has created winners and losers,"...It shouldn't be a surprise that legacy participants ["publicly yearn for the old days when they extracted disproportionate rents from investors on the basis of anti-competitive business practices,"](<https://www.bloombergquint.com/markets/ken-griffin-has-another-money-machine-to-rival-his-hedge-fund>).

Who were the defendants? [Bank of America Corp, Barclays Plc, BNP Paribas SA, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc, HSBC Holdings Plc, JPMorgan Chase & Co, Morgan Stanley, Royal Bank of Scotland Group Plc, UBS AG, The International Swaps](<https://finadium.com/big-us-banks-agree-us1-865-billion-settlement-in-cds-case/>)

They eventually reach "a \$1.865 billion settlement to resolve investor claims that they conspired to fix prices and limit competition in the market for credit default swaps"

So, fast forward to September 2016, and "[Citadel] [traded more than \$116 billion of credit-default swaps tied to U.S. benchmark indexes since April](<https://archive.ph/jFEDI#selection-2747.131-2747.449>)...That's about 11.5 percent of total trading of those contracts when compared to reported data aggregated from the Depository Trust and Clearing Corp. and Bloomberg's swap data repository."

So Citadel is now in the swap game with CME. (I believe they are working with CME, but there was not a lot of information I could find on this. Citadel is listed on [CME Inc. Annual Financial Statements](<http://investor.cmegroup.com/sec-filings>) which references [Release No. 34-59578; File No. S7-06-09](<https://www.sec.gov/rules/exorders/2009/34-59578.pdf>)

And as of 2019, they are still rubbing shoulders:

[CME Group Hosts 11](<http://investor.cmegroup.com/index.php/static-files/def4768d-3ec2-474f-b384-0140e2e364e6>)[th](<http://investor.cmegroup.com/index.php/static-files/def4768d-3ec2-474f-b384-0140e2e364e6>)[Annual Global Financial Leadership Conference](<http://investor.cmegroup.com/index.php/static-files/def4768d-3ec2-474f-b384-0140e2e364e6>)[in 2018](<http://investor.cmegroup.com/index.php/static-files/def4768d-3ec2-474f-b384-0140e2e364e6>)[with keynote speakers George W. Bush, Bill Clinton, Kenneth C. Griffin, H.R. McMaster, and Janet Yellen](<http://investor.cmegroup.com/index.php/static-files/def4768d-3ec2-474f-b384-0140e2e364e6>)

[CME Group Announces Ken Griffin as the 2019 Melamed-Arditti Innovation Award Recipient](https://www.cmegroup.com/media-room/press-releases/2019/11/21/cme_group_announceskengriffinasthe2019melamed-ardittiinnovationa.html)

Futures – Including BTC and ETH

Take a side step for a minute and looks look at what CME's core competencies are. Apparently, "[the group was instrumental in the development of futures trading.](<https://www.thestreet.com/video/what-does-cme-group-do-other-than-trading-bitcoin-futures-14420948>) According to the group's website, it created the first futures trading exchange in Chicago way back in 1848."

[What is futures trading?](<https://money.usnews.com/investing/investing-101/articles/futures-trading-basic-s-everything-you-need-to-know-about-futures>) \- Basically, a buyer and seller agree to exchange a commodity (wood, steel, oil, etc.) for a set price at a set date in the future.

[In December 2017, they entered the unregulated crypto futures market](<https://www.coindesk.com/cme-groups-first-bitcoin-futures-open-above-20000>) by ["self-certify[ing]"] its plan with the CFTC.](<https://wallstreetonparade.com/2021/06/crypto-congress-dawd>)

les-as-1-7-trillion-con-game-goes-unregulated-threatening-reputation-of-u-s-markets/)" [In May of 2020, their Bitcoin futures experienced massive growth followed by a flatline.](<https://www.coindesk.com/cme-bitcoin-options-flatline-after-record-growth-in-june>) [And in February 2021 they began to offer ETH futures.](<https://www.coindesk.com/valid-points-cme-ether-futures-interact-ethereum-blockchain>)

Out of curiosity, what is happening with these futures? Oh, they are just being used by companies like [Morgan Stanley to stuff mutual funds and retiree annuities](<https://wallstreetonparade.com/2021/05/morgan-stanley-has-paid-fines-for-two-decades-for-abusing-customers-with-in-house-products-now-it-plans-to-stuff-bitcoin-futures-into-its-mutual-funds-and-retiree-annuities/>) (crypto in annuities..ha what an oxymoron)

The worst part of all this in my opinion? No crypto is exchanged. [It is all cash-settled as described here.](<https://www.cmegroup.com/confluence/display/EPICSANDBOX/Bitcoin>)

Okay, so they move around a lot of unregulated derivative contracts that are cash-settled...what does this allow them to do?

["CME is uniquely positioned, based on its size, to offer customers hefty margin offsets.](<https://www.bloombergquint.com/onweb/cme-joins-battle-for-retail-bond-traders-with-smaller-product>) For example, a trader with opposite positions in products that have highly correlated price moves can potentially offset 80% of the required margin for the combined positions." Interesting...they also mention an exchange called The Small Exchange that is doing the same thing. [Oh, look at that! It is backed by Citadel!](<https://archive.ph/6II14>) Maybe this is how Citadel has not been margin called yet?

Also, it appears that the price of futures on CME's exchanges are directly effected by payment for order flow.

"[One of the main complaints of PFOF concerns its structural impact on exchanges.](<https://bsic.it/how-payment-for-order-flow-is-impacting-markets-the-robinhood-and-citadel-case/>) As the neutral orderflow gets sucked away from organized public markets (lit) and sent to private markets, the adverse selection bias in the lit markets gets exacerbated. The result of PFOF is that market makers using the rebate system on exchanges get more often run over due to the concentration of toxic flow (orderflow by informed traders) in exchanges, which leads to the widening out of the lit quote. The increase in rebates over time, increasing the spread with which best execution can fall into, effectively making the argument for PFOF fall apart. Instead of tightening the exchange range and giving the customer the best possible execution, the exact opposite happens. This phenomenon is evident in certain exchanges, like the CME group, where rebates are constantly increasing with some at the max cap of taker fees."

Market Manipulation

Okay, so what I want to know...are they dirty? Do they manipulate the market? Short answer: looks like it, but with the help of big banks. "[The public is already well aware that some of the underlying products that trade on the exchanges of the CME Group are, or have been recently, rigged.](<https://wallstreetonparade.com/2014/05/internal-graph-at-cme-shows-how-the-futures-market-is-rigged/>) like [interest rates](<http://wallstreetonparade.com/2013/12/citigroup-and-jpmorgan-settle-with-eu-commission-for-rigging-libor-u-s-justice-department-stays-mum/>), and [foreign currency exchange](<http://wallstreetonparade.com/2014/02/top-uk-regulator-people-have-good-reason-not-to-trust-currency-rates-set-by-big-banks/>), and [potentially metals and oil](<http://wallstreetonparade.com/2014/01/wall-streets-oil-and-commodities-empire-under-investigation-by-u-s-senate/>). But that's not the exchanges' fault – that's a result of the serial collusion of too-big-to-jail global banks"

What else? A little more recently, "[In an attempt to quell the recent volatility experienced in the silver markets,](<https://thedeepdive.ca/cme-group-raises-silver-margin-requirements-17-8-following-volatility/>) the CME Group, whom operates the COMEX where silver futures trade, has raised margin requirements for futures contracts of the precious metal." With how much sway they have on the market, this caused the price of silver futures to decrease.

And even more recently, remember how the price of lumber, iron, steel, pretty much every commodity increased dramatically? Well, ["all of these commodities that have been setting historic record prices have one thing in common: they all trade on futures exchanges owned by the CME Group."](<https://wallstreetonparade.com/2021/05/are-record-setting-commodity-prices-a-result-of-demand-or-futures-manipulation/>)

What does their CEO have to say about market manipulation? [Market manipulation, when it comes to retail investors' online activity, has not been defined, which is "concerning," said CME Group CEO Terry Duffy.](<https://www.reuters.com/article/us-retail-trading-exchange-ceos-idUSKBN2B82TT>)

Ha, yeah, okay pal.

Although CME is not the clearing house for Robinhood (APEX is), [this article is a good overview of how much power clearing houses hold.](<https://www.nasdaq.com/articles/what-is-a-clearinghouse-a-simple-explanation-for-investors-2021-02-05>) "As a case study, the GameStop saga illustrates how a clearinghouse's margin requirements are tied up with market volatility and a brokerage's policies."

Also, some humor from the NASDAQ site...

[Ha, we all know how responsible the SEC is... Echoing the words of Elon, I do not respect the SEC.](<https://preview.redd.it/vh1rswtja2b71.png?width=1294&format=png&auto=webp&s=f7232feea55daf961a229fbc969c6b64061089e9>)

Connection To Dow Jones Index and Media

Another user on reddit, u/Ren3666 [made the connection between CME Group, News Corp, Dow Jones, and MarketWatch.](https://www.reddit.com/r/GME/comments/msuj3g/guess_who_is_also_with_citadel_marketwatch_do_i/) Basically, [CME Group bought a 90% stake in Dow Jones Index](<https://archive.ph/7eFmp>) and News Corp owns the other 10%. [News Corp, along with Fox, is controlled by the Murdoch family.](https://en.wikipedia.org/wiki/News_Corp)

Well, that's all for now! Feel free to cross post, reference, and copy and paste anything that I post. Credit is nice but not required!

Also, I back up all links that I post on [archive.today](<https://archive.today/>)! If they have been removed, check here!

Links to my other posts:

[The Rothschilds](https://www.reddit.com/r/Autisticats/comments/oek6sc/gamestop_and_the_rothschilds_connections_to_us/)

[How One Can Change The World](https://www.reddit.com/user/TheLunarnautics/comments/nxm7yo/how_one_can_change_the_world/)

[Cultural Change Led by Team Win](https://www.reddit.com/user/TheLunarnautics/comments/nmkv4o/cultural_change_led_by_team_win_twitter_paypal/)

[Koch Industries](https://www.reddit.com/user/TheLunarnautics/comments/nhbkur/koch_industries_and_their_involvement_in_gamestop/)

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[How Ken Griffin Shorted The 1%](https://www.reddit.com/user/TheLunarnautics/comments/nezjjf/how_ken_griffin_shorted_the_1_this_is_a_ken/)