

Title: Doing DD on KCG - Excerpts from the Article "The Rise and Fall of Knight Capital" by Bishr Tabbaa, a short (ha!) collection on the founders, the guys that were addressed to the board after the bailout and some answer to the question: "Who is Jamil Nazarali?"

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This post is a first step to get people familiar with the topic of KCG. Not everyone mentioned in this post is related to Citadel - but f.e. Nazarali is still working there after leaving KCG.

If you got any questions, please reach out!

1. Introduction - Excerpt from the Article:

"The Rise and Fall of Knight Capital — Buy High, Sell Low. Rinse and Repeat." by [Bishr Tabbaa](https://medium.com/@bishr_tabbaa?source=post_page-----ae17fae780f6-----)

** - I HIGHLY recommend reading the whole article- **

"Founded in 1995 by Kenneth Pasternak and Walter Raquet, Knight Capital Group was a market maker and trade execution provider headquartered in Jersey City, New Jersey, across the Hudson river from Wall Street." (1)

"Knight needed to make changes and replaced Pasternak with Thomas Joyce, an industry veteran, in May 2002; Joyce soon shifted the firm's business to high volume market making in other asset classes through acquisitions and organic growth." (1)

"Knight now made markets in US options and European equities and it also traded currencies and fixed income for its proprietary accounts. It was still dominant in US equity markets and managed an average daily US equity volume of more than 3.3 billion trades worth around \$21 billion. As part of the business expansion and renewal strategy, Knight retired older IT systems and built new trading technology such as the **Smart Market Access Routing System (SMARS)**. SMARS was able to execute thousands of orders per second and could compare prices between dozens of different trading venues within fractions of a second. " (1)

" Some of Knight's biggest customers were the discount brokers and online brokerages such as TD Ameritrade, E*Trade, Scottrade, and Vanguard. Knight also competed for business with financial services giants like Citigroup, UBS, and Citadel. However, these larger competitors could internalize increasingly larger amounts of trading away from the public eye in their own exclusive markets or shared private markets, so-called dark pools. Since 2008, the portion of all stock trades in the US taking place away from public markets has risen from 15% to more than 40%. As of 2018, there are about 40 dark pools and as many as 200 internalizers competing with a dozen public exchanges in the US alone."(1)

[From: <https://medium.com/dataseries/the-rise-and-fall-of-knight-capital-buy-high-sell-low-rinse-and-repeat-ae17fae780f6>](<https://preview.redd.it/kweojhtg2rs81.png?width=800&format=png&auto=webp&s=91c6fca8def7b71d174cc4627e0fa7ecc2ea30d6>)

Introduction of the RLP

"In October 2011, the NYSE proposed a dark pool of its own, called the Retail Liquidity Program (RLP). The RLP would create a private market of traders within the NYSE that could anonymously transact shares for fractions of pennies more or less than the displayed bid and offer prices, respectively [...]. During the months of debate, Joyce had not given the RLP much chance for approval, saying in one interview, "Frankly, I don't see how the SEC can be possibly OK it". In early June 2012, the NYSE received SEC approval of its RLP, and it quickly announced the RLP would go live on August 1, 2012, *giving market makers just over 30 days to prepare*. Joyce insisted on participating in the RLP because giving up the order flow without a fight would have further dented profits in its best line of business." (1)

The Power Peg Issue:

"With only a month between the RLP's approval and its go-live, Knight's software development team worked feverishly to make the necessary changes to its trade execution systems including SMARS, its algorithmic, high speed order router. A core feature of SMARS receives orders from other upstream components in Knight's trading platform ("parent" orders) and then, as needed based on the available liquidity and price, sends one or more representative ("child") orders to downstream, external venues for execution. The new RLP code in SMARS replaced some unused code in the relevant portion of the order router; the old code previously had been used for an order algorithm called "***Power Peg***", which Knight had stopped using since 2003.

Power Peg was a test program that bought high and sold low; it was specifically designed to move stock prices higher and lower in order to verify behavior of its other proprietary trading algorithms in a controlled environment.

It was not to be used in the live, production environment. "

The KCG Error:

"On August 1, 8:01 AM EST, an internal system called BNET generated 97 email messages that referenced SMARS and identified an error described as "Power Peg disabled". These obscure, internal messages were sent to Knight personnel, but their channel was not designated for high priority alerts and the staff generally did not review them in real-time; however, they were the proverbial smoke of the smoldering code and deployment bits about to burn, and it was a missed opportunity to identify and fix the DevOps issue prior to market open. At 9:30 AM EST, Knight began receiving RLP orders from broker-dealers, and SMARS distributed the incoming work to its servers. The seven servers that had the new RLP code processed the orders correctly. However, orders sent to the eighth server with the defective Power Peg code activated by the repurposed flag soon triggered the fault line of a financial tectonic plate. This server began to continuously send child orders for each incoming parent order without regard to the number of confirmed executions Knight had already received from other trading venues. The results were immediately catastrophic. For the 212 incoming parent orders processed by the defective Power Peg code, *SMARS sent thousands of child orders per second that would buy high and sell low*, resulting in 4 million executions in 154 stocks for more than 397 million shares in approximately 45 minutes. For 75 of these stocks, Knight's executions jostled prices more than 5% and comprised more than 20% of trading volume; for 37 stocks, prices lurched more than 10% and Knight's executions constituted more than 50% of trading volume.." (1)

[<https://medium.com/dataseries/the-rise-and-fall-of-knight-capital-buy-high-sell-low-rinse-and-repeat-ae17fae780f6>](<https://preview.redd.it/thbwafet3rs81.png?width=672&format=png&auto=webp&s=982e27295128af5bb9219caf7a00c710dee92ff3>)

"It was not until 9:58 AM that Knight engineers identified the root cause and shut down SMARS on all the servers, however the damage had been done. Knight had executed over 4 million trades in 154 stocks totaling more than 397 million shares; it assumed a net long position in 80 stocks of approximately \$3.5 billion as well as a net short position in 74 stocks of approximately \$3.15 billion. Under the post-flash crash rules enforced by the NYSE, most of the trades were within the 10% price band, thus they would stand and could not be cancelled. Joyce called then SEC chairwoman, Mary Schapiro, for help reversing the trades, but to no avail; she demurred and deflected the matter back to the NYSE. Knight's stock plunged by 33% that day, and the mark to market loss for its trades amounted to more than \$460 million. News on Wall Street travels fast; other market participants could smell the blood in the water."

The Consequences

"Announcements from TD Ameritrade and other customers in the ensuing days that they would continue to do business with Knight did calm matters somewhat, but the company simply did not have enough cash to cover and settle its position liability. Over the weekend, on August 5, **Knight raised around \$400 million from several investors led by Jefferies investment bank.** The financing terms were 267 million convertible, preferred shares priced at \$1.50 with a 2% dividend yield**; if converted, these shares could give the new investors control of 70% of the company.** Knight also agreed to **three new board members, Martin Brand from Blackstone, Matthew Nimetz of General Atlantic, and Fred Tomczyk of TD Ameritrade.** The deal was a severe blow to Knight's shareholders, but better than the alternative of bankruptcy.

The board met during the winter months of 2012 to assess takeover offers and in December, **it agreed to be acquired by rival, Getco LLC**, for \$3.70 per share, a sizable premium to what the earlier investors had paid to keep the company float.

Once the merger with Getco LLC was completed in the summer of 2013, the merged company was renamed KCG Holdings, and Joyce resigned." (1)

"KCG Holdings was eventually acquired by another market making rival, Virtu LLC in July 2017 for \$1.4 billion. The silver lining to the story was that Knight was not too big to fail, and the market handled the

failure with a relatively organized rescue without the help of taxpayers. However, a dark cloud remains; market data suggests that 70% of US equity trading is now executed by high frequency trading firms, and one can only wonder when, not if, the next Flash Crash will occur." (1)

(1) <https://medium.com/dataseries/the-rise-and-fall-of-knight-capital-buy-high-sell-low-rinse-and-repeat-ae17fae780f6>

2. The Two Founders

Walter Raquet <https://www.advisorycloud.com/profile/Walter-Raquet>

<https://preview.redd.it/6ouieec27rs81.png?width=1042&format;=png&auto;=webp&s;=091aa8bc1c68cf5dcdf7fd5566d9cefc7e06f2ae>

Kenneth Pasternak <https://www.linkedin.com/in/ken-pasternak-0912676/>

<https://preview.redd.it/f2udtjgd7rs81.png?width=1245&format;=png&auto;=webp&s;=1de3d101c111851bf8572113e3e4414a1f2dfa5>

Kenneth Pasternak was followed by: Thomas Joyce

\[I know that the thrid article about him doesnt really fit into this - but interesting that a person with attitudes made it that far...\]

[<https://www.irishamerica.com/honoree/thomas-m-joyce-2/>](<https://preview.redd.it/079m6i108rs81.png?width=1299&format;=png&auto;=webp&s;=3845f94cf49d20dd01b0aa7b89b3481a5250fe9b>)

[<https://www.wsj.com/articles/BL-MBB-3989>](<https://preview.redd.it/y2fhjg1x7rs81.png?width=854&format;=png&auto;=webp&s;=f5441943b977ea996b0046667773eca92875a622>)

[<https://www.cnbc.com/2020/06/23/nanobeak-biotech-ceo-quits-police-board-over-muslim-profiling-tweets.html>](<https://preview.redd.it/9o8zz26p7rs81.png?width=1040&format;=png&auto;=webp&s;=0276a6666b85b9c2cfde4cec613d7ef89f7b5ff9>)

Added to Board after "Bailout":

****Martin Brand from Blackstone****

[<https://www.linkedin.com/in/vbrandmartin/>](<https://preview.redd.it/16fnaqvc8rs81.png?width=849&format;=png&auto;=webp&s;=24b11df0ae3d3d90ca57d069b411b182ac6d3930>)

****Matthew Nimetz of General Atlantic****

[<https://www.crunchbase.com/person/matthew-nimetz>](<https://preview.redd.it/a4eo8guw8rs81.png?width=877&format;=png&auto;=webp&s;=ce19b14b02525b05e046475cbe93c2b54289db63>)

****Fred Tomczyk of TD Ameritrade****

[<https://www.linkedin.com/in/fred-tomczyk-95a68176/>](<https://preview.redd.it/n6zjbja19rs81.png?width=808&format;=png&auto;=webp&s;=49a772f1d70abdde09757124df561d82cc3c91e2>)

3. Connecting the Dots

Many of you were waiting for this part I guess so I will give my best and try to connect some of the dots from KCG to companies involved in the Gamestop Saga based on personal overlaps.

Jamil Nazarali

<https://preview.redd.it/rd2p9x1zars81.png?width=832&format;=png&auto;=webp&s;=a87a3fda3687c3e6a7d9c797769f6feb7181e86d>

According to his linkedin profil, he is " Advisor and resource to the CEO of Citadel Securities." - Well. He made it.

[<https://www.citadelsecurities.com/leadership/jamil-nazarali/>](<https://preview.redd.it/29mvzgvwcrs81.png?width=1365&format;=png&auto;=webp&s;=7748e8c6203b00c4796be7548b24844357d11373>)

MEMX - the exchange that doesnt publish any daily short sale data at all - and btw never answered my mail regarding how I as a retail would be able to access the data - Angry seal noise.

While he was Senior Advisor for Mr. Peng Zhao - CEO at Citadel. While researching him, I cam across this article published by yahoo:

[<https://finance.yahoo.com/news/exclusive-citadel-securities-ups-etf-112300519.html>](<https://preview.redd.it/qq62wwpidrs81.png?width=784&format;=png&auto;=webp&s;=effa02a2c5094b8f8ac4b72d2711109b524729f7>)

So Virtu aquired KCG - After that, Citadel took over 21 Power Shares Funds from Virtu- looks like a fair deal between friends. - Never mind. Back to: Jamil Nazarali

Want to take a closer look at this guy?

Check: " Everybody meet Jamil Nazarali, Global Head of Business Development at Citadel: responsible for High Frequency Trading. He loves DARK POOLS and hates IEX #FlashBoys "[https://www.reddit.com/r/Superstonk/comments/o2fwhe/everybody_meet_jamil_nazarali_global_head_of/](https://www.reddit.com/r/Superstonk/comments/o2fwhe/everybody_meet_jamil_nazarali_global_head_of/)

On of the first comments contained this video link:

<https://www.cnn.com/video/2016/02/05/citadel-joins-nyse-floor.html> (Credits to u/tenghu for the video) - While looking for a conneciton between the other guy in the video, Thomas Farley, NYSE Group President (2016) and Citadel/KCG I came across this article - should be published 2018. -> Ms. King worked for KCG before^^

[<https://www.theocc.com/Newsroom/Press-Releases/2018/07-12-OCC-Appoints-General-Counsel-of-NYSE-Group-t/>](<https://preview.redd.it/pz1hjipjcrs81.png?width=1187&format;=png&auto;=webp&s;=c13f23e70652ff4584277101522f09bf92cd7982>)

[<https://www.theocc.com/Company-Information/Board-of-Directors/Elizabeth-K-King/>](<https://preview.redd.it/hbhu5n5ccrs81.png?width=1228&format;=png&auto;=webp&s;=543152633e7cd782a051d45427cf2f66207618e4>)

I always get distracted... Back to Jamil - because loyalty is always rewarded:

"Citadel Securities names Nazarali global head of business development"

"The market veteran joined Citadel in 2011 from Knight Capital Group, where he was global head of electronic trading. Knight later became KCG and then was taken over by Citadel Securities rival Virtu Financial. (Reporting by John McCrank Editing by Susan Thomas)" <https://www.reuters.com/article/citadelsecurities-moves-idUKL1N1S41L2>

The same guy, Mr Lauer called out for lying at a panel.

(Link to full Tweet: <https://twitter.com/BudgetHands/status/1425432575431036931?s=20&t=xZ2c0DiGBCMs24jo56CuWA>)

<https://preview.redd.it/s0txss52frs81.png?width=637&format=png&auto=webp&s=d5100c8aede090e7d148f7b48a63224f07cc0b80>

While looking further I had to find out that the same guy that got called out by Dave for lying was "formally representing retail interests" at the SEC - are you kidding me? The guy that thinks IEX is evil and Darkpools are a good thing? - Must be a joke - it is not.

[<https://www.reuters.com/article/us-sec-markets-retailinvestors-analysis-idUSKBN0NH0D820150426>](<https://preview.redd.it/os8mfn9agrs81.png?width=827&format=png&auto=webp&s=c53f3bbf5a02a7fdabf320e6931993757783a5de>)

Following this idea, that Mr Nazarali is representing Retail (and so does Citadel :D) and they just want the best for retail we can be HAPPY at that Virtu AND Citadale took care of all the GME Shares traded in January 2021. Looks like this two companies like to share the cake. Why fight if you can share? Right?

[<https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf>](<https://preview.redd.it/ch7sacrsgrs81.png?width=1377&format=png&auto=webp&s=c336ff0edf97d335a9093733e622913b230b724d>)

Jamil, the same guy that gets quoted in 2016: "High-Speed Traders Fear Regulator Spilling Their Biggest Secrets" that the companies will cheat on the test 'done by SEC. What a hero.

[<https://www.wealthmanagement.com/industry/high-speed-traders-fear-regulator-spilling-their-biggest-secrets>](<https://preview.redd.it/r6ovpc7ohrs81.png?width=863&format=png&auto=webp&s=4a62bc4ed86c70820c2302abb1eb3005e6593f24>)

4. Citadel and KCG - Relevant Article from Reuters

"Exclusive: U.S. investigates market-making operations of Citadel, KCG" Tue May 10, 2016 / 4:20 PM EDT <https://mobile.reuters.com/article/amp/idUSKCN0Y11CJ>

Quoted by [[@BudgetHands](https://twitter.com/BudgetHands)](<https://twitter.com/BudgetHands>) in his tweet:

<https://twitter.com/BudgetHands/status/1425432575431036931?s=20&t=xZ2c0DiGBCMs24jo56CuWA>

5. Links to tweets researching KCG (will be updated regularly)

Company structure and people connected to KCG[<https://twitter.com/Annihil4tionGod/status/15131907922>

85855744?s=20&t;=xZ2c0DiGBCMs24jo56CuWA](https://twitter.com/Annihil4tionGod/status/1513190792285855744?s=20&t;=xZ2c0DiGBCMs24jo56CuWA)

Connection KCG Citadel BCGhttps://twitter.com/Annihil4tionGod/status/1513125906201653258?s=20&t;=xZ2c0DiGBCMs24jo56CuWA

KCG DMM Team Joining Citadel (possible knowledge exchange/algo related?=-

https://twitter.com/Annihil4tionGod/status/1513120791600242688?s=20&t;=xZ2c0DiGBCMs24jo56CuWA

MEMX (Connection: Jamil) - Special Rules for this exchange f.e. to not report any short saleshttps://twitter.com/Annihil4tionGod/status/1512941961447100423?s=20&t;=xZ2c0DiGBCMs24jo56CuWA

Jamil:

https://onlinelibrary.wiley.com/doi/10.1111/jofi.13033?af=R

https://preview.redd.it/w6frlb0tlrs81.png?width=766&format;=png&auto;=webp&s;=491fa34baa4255be2dca387a8682aec2e3556a45

Seal you later! *Wave*