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Citadel Securities Hires Ex-SEC Director Luparello as General Counsel

By Dave Michaels
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WASHINGTON — One of the country's most prominent stock-market regulators has finally switched sides, opting to join Citadel Securities, one of the largest trading firms in the country. Stephen Luparello will join Citadel Securities as its general counsel in May, said company spokesman Zia Ahmed. Mr. Luparello's move to the private sector was anticipated after he left the Securities and Exchange Commission in early January as its director of trading and markets.

Mr. Luparello is considered one of the leading authorities on the complex plumbing of the U.S. stock market and the arcane rules that govern it. That could make him a good fit for Citadel Securities, a technology-driven firm that has grown by finding ways to take market share from incumbents such as exchanges and investment banks. Citadel Securities now accounts for 20% of all equity shares that trade hands in the U.S. and fills many of the trades that retail investors send to their brokers.

—Citadel Securities “has long been a leader in advocating for markets that are fair, open and transparent,” Mr. Luparello said. “I look forward to joining their incredible team as the firm continues to innovate.” Given its size, Citadel Securities also plays a major role in regulatory debates over trading rules that affect competition among exchanges, brokers and computer-driven trading firms. Mr. Luparello, 58 years old, is expected to participate in those discussions once he finishes a one-year “cooling off” period during which SEC ethics rules forbid him from communicating with former colleagues.

His move could further stoke concern about the “revolving door” between Wall Street and financial regulatory agencies. Gregg Berman, another former SEC official and expert in high-frequency trading, landed at Citadel Securities in September.

Senate Democrats, including those who on Tuesday opposed Jay Clayton's nomination to become SEC chairman, say the revolving door creates a perception that some regulators favor Wall Street. In addition, regulators who come from industry can't fully participate in their government roles because ethics rules prevent them from working on matters that directly affect their former employers or clients.

“It doesn't inspire trust that the SEC keeps getting hired away by the firms it regulates,” said **Sal Arnuik**, a partner and co-founder of **Themis Trading LLC**, a brokerage firm. “There is value in having private-industry experience informing the SEC on nuance and market structure. But on the other hand, you have to be wary of patterns of specific firms becoming too entrenched with the SEC and the regulators in general.”

However, advocates of the revolving door between the public and private sector say it allows the SEC to recruit experts who otherwise wouldn't take lower-paying jobs in government.

Mr. Luparello's hire adds another executive to the firm that has experienced turnover at the top. Peng Zhao recently took over as chief executive officer of Citadel Securities, replacing Kevin Turner, who stepped down in January.

Two years ago, Citadel led the fight against IEX Group Inc., an upstart stock exchange that needed the SEC's approval to launch. Mr. Luparello played a major role in reviewing IEX's application when he led the SEC's trading and markets division. The SEC gave the green light to IEX in June.

Citadel Securities has also battled the SEC, which probed how it handled retail orders that it executed on behalf of clients such as Charles Schwab , TD Ameritrade Holding Corp. , Scottrade Financial Services and E*Trade Financial Corp. Citadel Securities agreed in January to pay \$22.6 million to settle claims that it failed to fill customer orders at the best price available in the market. The settlement addressed two specific algorithms that Citadel used to execute about 2.6% of retail orders from 2008 to 2010.