



Specific legal claims against Virtu

As the most publicly clear company detrimentally impacted by SEC-proposed legislative change, Virtu (mainly via CEO Douglas Cifu) commenced a campaign to see the proposals watered down. The campaign – commencing in June 2022 – became increasingly vitriolic and personal as a result of Virtu’s views not just about potential legislative change but the manner in which SEC was promulgating the proposals – in Virtu’s view, with inadequate public discussion. Virtu sued SEC to gain further details and around its Q3 2022 results was particularly scathing over SEC’s behaviour, specifically that of SEC Chair Gensler who it accused of being political rather than regulatory.

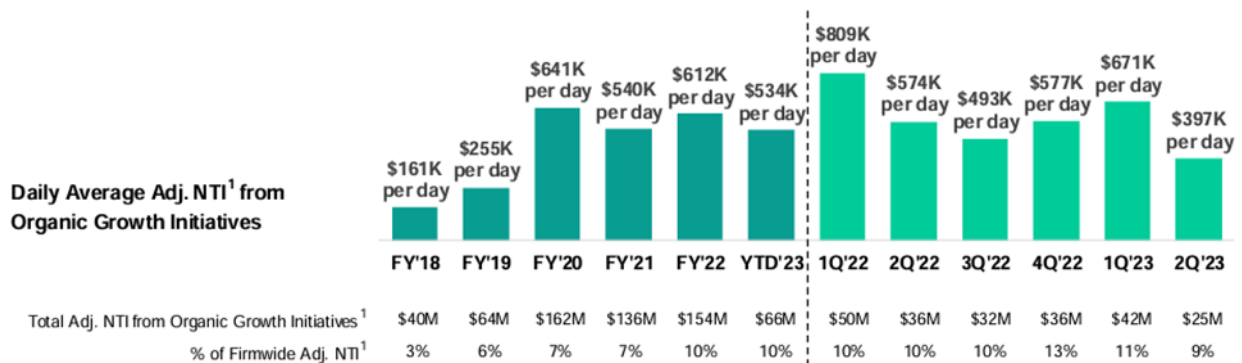
There is little doubt that SEC has concerns over PfoF and the dominance of a small number of firms in the off-exchange business (read Citadel and Virtu), SEC have now brought forth various charges against Virtu – made public in September 2023 regarding potential breaches of Virtu “internal information barriers” between January 2018 and April 2019. Virtu’s attempts to settle with SEC have been unsuccessful and the case will proceed to court. In a statement on 12 September 2023, Virtu explicitly linked the case with their prior criticism and legal action regarding the Equity Market Structure proposals.

In our view, investors have been put off Virtu by its aggressive stance, even though on cold evaluation, the chances of a materially financially damaging impost against the company appear remote.

Competitive environment

Aside from the cyclically depressed trading conditions over twelve months, with slowing volumes - year to date (end August statistics) show traded value **down** 17% over 2022 (although the off-exchange values in the same period have fallen by only 8.6%), there is an increasing perception that in some areas Virtu is not innovating quickly enough against strong competition.

At each quarterly earnings briefing, Virtu disclose daily adjusted net trading income from “new initiatives” which are currently defined as options market making, ETF¹⁹ block trading and crypto. Clearly the results will fluctuate with overall market environments, but the type of strong growth expected from a low/zero base hasn’t really materialised, and the initiatives have (currently) petered out at around 10% of overall NTI/day:



¹⁹ Exchange traded funds

