

Testimony of Kenneth Griffin
to the House Committee on Oversight and Government Reform
November 13, 2008

Mr. Chairman and Distinguished Members of the Committee, my name is Kenneth Griffin, and I am the Founder and CEO of Citadel Investment Group.

Thank you for the opportunity to address this Committee.

Today, our nation is working through the worst financial crisis since the 1930s. It is imperative that we, as a society, continue to take actions to mitigate the impact of the credit crisis on our broader economy, in the hopes of keeping Americans employed and productive. I appreciate your leadership on this important undertaking.

I am proud that in the 18 years since I founded Citadel, it has grown into a financial institution of great strength and capability, with a team of over 1,400 talented individuals. Citadel manages approximately \$15 billion of investment capital for a broad array of institutional investors, endowments, high-net-worth individuals and Citadel's employees.

Citadel's Capital Markets division plays an important role in our nation's financial markets. Citadel is the largest market maker of options in the US, executing approximately 30% of all equity options trades daily. In addition, Citadel accounts for nearly 10% of the daily trading volume of US equities.

All businesses take risk. In some industries, we refer to risk taking as "research and development." At financial institutions, we often take risk by investing in securities. However, we have all seen the consequences of taking *imprudent* risk. Failures to

understand and manage risk can be severe, as we have seen far too often in recent weeks.

Although the financial crisis has affected virtually every participant in the financial markets, including Citadel, I believe that Citadel's consistent and constant focus on risk management has been a critical asset in successfully navigating this financial crisis and will continue to serve us well in the years to come.

In this crisis, the concept of "too interconnected to fail" has clearly replaced the concept of "too big to fail." The rapid growth in the use of derivatives has created an opaque market whose outstanding notional value is measured in the hundreds of trillions of dollars. As a result, there is great concern about the systemic effects of the failure of any one financial institution.

In the area of credit default swaps, for example, there is an estimated 55 trillion dollars of outstanding notional contracts between market participants. This number is almost four times the GDP of our country,

The creation of central clearing houses to act as intermediaries and guarantors of financial derivatives such as credit default swaps represents a straightforward solution to the issues inherent in today's opaque over-the-counter market. Of greatest importance, such a clearing house will dramatically reduce systematic risk -- allowing us to step away from the "too interconnected to fail" paradigm. Numerous other benefits will accrue to our economy. Regulators, for example, will have far greater transparency into this vast and important market.

In recent months, Citadel and the CME Group have partnered in building such a clearing house for credit default swaps. Our solution is an example of how industry in cooperation with regulators can solve complex market problems.

I believe, and have said before, that our financial markets work best when they are competitive, fair, transparent and stable. Proper regulation is critical. But the best regulation is created with an eye toward unleashing opportunities, not limiting possibilities. To achieve this, Congress, regulators and industry must all work together. Our markets are complex and they must be well understood if they are to be well regulated. We must solve the serious issues we face but in a way that does not stifle the best innovative qualities of our financial markets.

I thank the Committee for holding this hearing today and I look forward to answering your questions.