CITADEL

Citadel Europe LLP

Pillar 3 Disclosures

31 December 2020

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1. Introduction: Pillar 3

The following disclosures are provided in accordance with the Pillar 3 disclosure rules as set out by the Financial Conduct Authority ("FCA") in section 11 of the Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

Pillar 3 overview and description of business

Citadel Europe LLP ("CELP") is a BIPRU €50,000 limited licence firm regulated by the FCA. CELP is retained as an independent sub-advisor to portfolio manager Citadel Advisors LLC ("CALC") pursuant to Sub-Advisory and Management Agreements. CALC is a Delaware registered entity appointed to manage the assets of a number of investor-facing funds.

The managing member of CELP is Citadel Management (Europe) Limited ("CMEL"), which provides services to CELP as corporate partner, notably the provision of staff. For the purposes of these disclosures, CMEL and CELP shall hereafter be referred to as the Partnership, and the data presented will refer to the consolidated results and regulatory position as at 31 December 2020.

The prudential framework for BIPRU firms consists of three "Pillars":

- Pillar 1 sets out the minimum capital requirements for regulated firms;
- Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP") and the Supervisory Review and Evaluation Process through which regulated firms and the FCA satisfy themselves regarding the adequacy of capital; and
- Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital resources, risk exposures and risk assessment process.

These Pillar 3 disclosures have been prepared solely to comply with regulatory requirements to provide public information on the Partnership's risk management objectives and policies, the capital position of the Partnership, the approach to assessing the adequacy of capital and the exposure to credit, market and operational risks.

The disclosures are not audited, and do not apply to funds managed by CELP, which are exposed to different risks. Pillar 3 disclosures will be issued as a minimum on an annual basis and will be published on the Citadel external website www.citadel.com at the same time as the filing of the 2020 annual report and financial statements with Companies House.

2. BIPRU 11.5.1 - Risk management objectives and policies

Risk management framework

Risk management is the process of identifying the principal risks to the Partnership achieving its strategic objectives, establishing appropriate controls to manage those risks and ensuring that appropriate monitoring and reporting systems are in place to ensure that controls remain robust and evolve with the changing risk profile of the Partnership.

The Members have overall responsibility for the establishment and oversight of the Partnership's risk management framework. This is documented by the Members in the Partnership's Risk Appetite Statement, which identifies the key risks faced by the Partnership, sets appropriate risk tolerance limits and key quantitative metrics to monitor and control each risk category. The risk appetite limits set out in the Risk Appetite Statement are reviewed at least annually to reflect changes in market conditions and the Partnership's activities. This is separate from the risk management framework in place for the funds for which the Partnership is a sub-advisor.

The Partnership's support functions including HR, Treasury, Operations, IT, Finance, Facilities, Risk management ("PCG"), Legal and Compliance help to assess and monitor significant categories of risk in their respective areas to ensure risk is managed appropriately. The organisational structure for risk management is designed to facilitate reporting and escalation of risks faced by the Partnership to the London Operating Committee ('LOC').

An additional line of defence is provided by the Partnership's internal audit function (outsourced to Grant Thornton UK LLP), which provides an independent review of the organisation and reports to the Members and Internal Audit Committee. The Internal Audit function provides an objective, independent assessment of the adequacy and effectiveness of internal controls across the business.

The Partnership has conducted a comprehensive risk identification exercise by risk category by function head across the business to ensure that all significant risks have been identified and captured by the risk management infrastructure. All significant risks have been documented, scored and level of exposure estimated using a matrix of parameters.

The high level summary of the key risk assessments for the Partnership is as follows. All risks are regularly monitored by the LOC using key risk indicators to ensure they are within agreed parameters:

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes legal, conduct, reputational, cyber security and outsourcing risks. The firm manages operational risks via its operational risk framework. KRIs associated with operational risk are tracked and presented to the monthly LOC where breaches of amber threshold are discussed together with any required remedial action. Any breaches of red thresholds are escalated for discussion at the CELP members meeting.

Business Risk

Business risk is the risk of loss inherent in the Partnerships operating, business and industry environment. CELP has a single client, CALC, and the existing fee structure ensures that fee income covers all costs. This structure provides CELP management with a level of comfort and the Partnership would be able to reduce its cost base in a controlled manner if necessary.

Credit Risk

Credit risk is the risk of loss if another party fails to perform its obligations, and arises in the normal course of business. The principal credit risk for CELP is the exposure to receivable balances from group undertakings. Fee income receivable from the US parent is calculated by reference to expenses and cash is called monthly to mitigate the credit risk. The Partnership bank balances are segregated from those of the group and placed with a highly rated counterparty. The bank accounts are managed and controlled locally, independent of the global cash management function.

Liquidity Risk

Liquidity risk is the risk of not being able to meet liabilities as they fall due. The Partnership operates in accordance with CELP's Liquidity Risk Assessment Policy which sets out the process of liquidity risk management. The Partnership has implemented an effective, ongoing process to identify liquidity risk, to measure its potential impact against appropriate assumptions and then to ensure that such risks are actively managed.

Market Risk

Market risk is the risk of loss that arises from adverse movements in financial markets; CELP is not authorised to undertake proprietary trading and therefore Partnership market risk is limited to foreign exchange exposure on the balance sheet. The functional currency of the Partnership is US dollars. Certain assets and liabilities are denominated in currencies other than USD, and as a consequence the Partnership does have a potential exposure to exchange rate movements. The Partnership actively monitors non-USD exposures and seeks to limit the potential adverse effects of foreign exchange transactions on the financial performance of the Partnership.

3. BIPRU 11.5.3 - Capital resources

Pillar 1 capital resources

The Partnership's policy is to remain well capitalised and soundly financed. CELP and CMEL will maintain a strong capital base to support the development of the business and to ensure regulatory capital requirements are met at all times.

The table below summarises the amount and type of capital resources for the Partnership as at 31 December 2020:

	31 December 2020 USD 000
Issued share capital	80,000
Reserves – profit and loss account	-
Core Tier 1 Capital	80,000
Total Capital Resources	**80,000**

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities.

4. BIPRU 11.5.4 - Compliance with the overall Pillar 2 rule

Pillar 2: Internal capital adequacy assessment process ("ICAAP")

CELP has carried out its internal capital adequacy assessment. The ICAAP forms an integral part of the Partnership's risk management processes. The ICAAP is updated at least annually, or when a material change in the business occurs, and is reviewed and approved by the members of CELP.

5. BIPRU 11.5.8 - Credit risk

Credit risk capital requirement

CELP adopts the simplified standardised approach to the credit risk capital requirement, and the calculation at 31 December 2020 is as follows:

ASSET CLASS	RISK WEIGHT ('RW')	RW EXPOSURE USD 000	CREDIT RISK REQUIREMENT
CLAIMS ON INSTITUTIONS	20%	27,218	**2,178**
CLAIMS ON CORPORATES	100%	659,606	**52,768**
OTHER ITEMS	100%	1,524	**122**
TOTAL		688,348	**55,068**

The above analysis gives the breakdown of credit risk by asset class; no further industry analysis of the credit risk capital requirement is considered necessary.

Geographical analysis of credit risk

The geographical analysis of exposures by asset class is as follows:

ASSET CLASS	UK USD 000	USA USD 000	CAYMAN ISLANDS USD 000
CLAIMS ON INSTITUTIONS	**2,177**	**-**	**-**
CLAIMS ON CORPORATES	**-**	**43,609**	**9,160**
OTHER ITEMS	**122**	**-**	**-**
TOTAL EXPOSURES	**2,299**	**43,609**	**9,160**

Claims on institutions and corporates have a residual maturity of less than 90 days, there being no material amounts falling due after 90 days.

Past due items and impairment

The Partnership does not have any material past due or impaired assets on its balance sheet.

6. BIPRU 11.5.12 – Market risk

Market risk capital requirement

The Partnership's market risk capital requirement at 31 December 2020 is equal to the foreign exchange position risk requirement, and is calculated in accordance with BIPRU 7.5 as follows:

		31 DECEMBER 2020 USD 000
MATERIAL EXPOSURES		
GBP EXPOSURES		60
SEK EXPOSURES		354
TOTAL EXPOSURES		**414**
TOTAL MARKET RISK CAPITAL REQUIREMENT	**8%**	**33**

In accordance with risk and liquidity policy, the Partnership actively monitors foreign currency exposure and seeks to limit the potential adverse effects of foreign exchange transactions on the financial performance of the Partnership.

7. BIPRU 11.5.18 - Remuneration

The remuneration policy has been adopted by the members of CELP and by the board of directors of CMEL who have the ultimate responsibility for the implementation of the remuneration policy. CELP and CMEL have established an independent compensation oversight body, made up of US based and UK based Citadel senior management who are tasked with overseeing the implementation of the remuneration policy and the remuneration of code staff in line with the principles set out in the policy.

The compensation plan for CELP and CMEL is composed of fixed drawings or base salary (fixed remuneration), bonus awards (variable remuneration) and benefits. Bonus awards are issued as a combination of cash awards, profit allocation, and UMI (unvested membership interests in the form of unvested shares in a company formed by the Citadel group for its employees that itself is invested in funds managed by the Citadel group) as appropriate.

Bonuses are awarded in respect of any calendar year during which employees are employed by the Partnership on a discretionary basis based on (i) personal performance and demonstration of Citadel values; and/or (ii) firm-wide or team performance results.

Total remuneration awarded to code staff by the Partnership in 2020 was USD 533m.