

Citadel Securities (Europe) Limited

Section 172(1) Statement for the year ended 31 December 2019



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As set out in section 172 of the UK Companies Act 2006 (the “Act”), the Directors are required to act in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole. In performing their duty under the Act, the Board is required to have regard to, amongst other matters to the likely consequences of any decision in the long term: the interests of the Company’s employees; the need to foster the Company’s business relationships with suppliers, customers and others; the impact of the Company’s operations on the community and environment and the need to engage with key stakeholders in order to maintain a reputation for high standards of business conduct. The Directors give careful consideration to the factors set out above in discharging their duties.

BOARD ROLES AND RESPONSIBILITIES

The Company is a wholly owned subsidiary of the Citadel Securities Group (“CS Group”) which is privately owned and ultimately controlled by Kenneth Griffin, its Founder. Given its ownership structure and its role within the CS Group, the Board of Directors look to implement the CS Group Strategy through the Company whilst ensuring adherence with local requirements and considering the impact on key stakeholders. The Board has responsibility for decision-making with respect to matters deemed to be of significance or strategic importance for CSEL.

At 31 December 2019, the Board comprised two independent non-executive directors who provide oversight and constructive challenge to management and two executive directors. The Board in discharging its duties, delegates authority to management and sub-committees of the Board. The remit and responsibility of each committee is clearly defined and updated periodically as required. The principal sub-committee is the Executive and Operating Committee (the “EOC”) which consists of senior management of the Company and other group employees. Sub-committees present proposals on significant matters to the Board for review, challenge and approval, this includes allowing the Board to consider whether the proposal would promote the long-term success of the Company. The Board is responsible for review and approval of recommendations made by sub-committees, including but not limited to changes to CSEL’s risk appetite and tolerances.

STAKEHOLDER ENGAGEMENT

The Directors recognise the value of building strong and transparent relationships with stakeholders in promoting and achieving the long-term success of the business. In making decisions, the Directors take into account the views and interests of key stakeholders, including its shareholder, employees, regulators, trading counterparties, trading venues and suppliers. Considering the impact on a broad range of stakeholders is an important part of the decision-making process and the Board seeks to consider the interests and priorities of each stakeholder group. However, the Board acknowledges that in balancing different perspectives it is not always possible to deliver the desired outcome for all stakeholders.

Shareholder

The Company is a wholly owned subsidiary of a privately owned group. As a matter of course, a global business and strategy update is provided to the Board, and the Directors take due account of the interests of the ultimate owner and the strategy of the wider Group in decision making to ensure alignment.

The executive directors are in frequent dialogue with the CS Group senior management to ensure their feedback is sought with respect to significant decisions taken by the Board.

Employees

The Company operates as a meritocracy and in doing so recognises the importance of hiring, developing and retaining leading professionals across each function within the Company. Robust processes are in place to attract the best talent to work in highly effective teams. Further, a culture of continual learning and development for all employees is supported to ensure they continue to remain effective in their roles.

The Company has under 125 employees, with all teams being represented on the management committees attended by the executive directors. This helps to ensure active feedback and engagement between employees and the Board. Further, during the course of 2019 the internal auditors for the Company conducted a culture review, the results of which were presented to the Board for review and discussion. In addition the CS Group has regular Town Hall meetings to which all employees are invited to help ensure the Citadel Securities strategy and plans are understood by the Company’s employees.

Section 172(1) Statement (continued)

Regulators and Trading Venues

The Board recognises the importance of open and continuous dialogue with its regulators both from an ongoing supervisory perspective as well as from the policy and advocacy side. The CS Group is a firm supporter of the G-20 reforms to the over-the-counter derivatives markets, including the central clearing and trading requirements. These reforms have already begun and once fully adopted by the market are expected to reduce systemic risks, improve pre- and post-trade transparency, and foster an open, level, and competitive playing field. CSEL has been and remains committed to constructively engaging with policymakers and regulators to ensure the successful development and implementation of key financial services regulation including MiFID II, EMIR, the Prudential Framework for Investment Firms, and the Capital Markets Union.

Among others, in 2019, the CS Group responded to the European Securities and Markets Authority's consultations on (i) the provision of clearing services on fair, reasonable, non-discriminatory and transparent terms, (ii) the alignment of the clearing obligation and the trading obligation, and (iii) the development in prices for pre- and post-trade data and on the consolidated tape for equity instruments.

Trading Counterparties and Suppliers

The CS Group strives to provide the most efficient execution and the highest caliber of services to clients and in so doing making markets more fair, transparent and accessible for all participants.

The Company is committed to supporting and developing strong relationships with suppliers and understands the importance of meeting payment terms, particularly for smaller businesses. The Directors noted that the Company had met its key performance indicators in relation to payment periods.

DECISION MAKING

The example below demonstrates how Directors have considered the matters set out in section 172(1)(a)-(f) when discharging their duties under section 172 and the effect of that on certain of the decisions taken.

Brexit Planning

In anticipation of the UK exiting the EU and specifically to address the risk of the UK leaving the EU without securing an agreement to remain within the EU's Single Market (a "Hard Brexit"), the CS Group decided to establish a new entity in the Republic of Ireland. That new entity commenced trading in 2018 and prepared to increase its trading activity in the event of a Hard Brexit. Throughout 2019, the terms and timeline for the UK's in. In particular, the terms of Article 50 of the Lisbon Treaty increased the uncertainty for businesses as each extension was announced only a few days before the deadline. The Board of Directors of the Company were required to consider and make a decision on whether to reduce its trading activity in EU markets in order to ensure business continuity for the CS Group, a matter of strategic significance for the Company. The Board of Directors received regular updates from the Chief Executive Officer and Chief Compliance Officer on the Company's Brexit proposals. A Brexit working group was formed with representatives from all relevant departments across the Company with Group representation. A Brexit update was provided to the EOC on a monthly basis. All reports to the EOC were also distributed to the Directors in advance of each Board meeting. In making its decision, the Board took into account the following information:

- The Board of Directors considered the possible impact on its shareholder. The EU represents a large market and the CS Group has an interest in securing access to EU markets over the long term, with minimal disruption.
- The Board of Directors considered the impact of the uncertainty on its trading counterparties. Based on legal advice, a no-deal scenario could have restricted the Company's ability to service its EU counterparties and trade on EU venues. Providing an affiliated entity that could continue to facilitate their needs provided greater certainty to counterparties.
- The Board of Directors considered the impact of the uncertainty on employees and having a CS Group solution to ensure business continuity limited the disruption to employees and provided greater certainty to them with respect to future roles.
- Management engaged with regulators and trading venues throughout the process to inform them of the Company's plans and receive feedback on these plans. These updates were provided to the Board of Directors.

After careful consideration the Board of Directors concluded to reduce its trading activity in EU markets in advance of potential Hard Brexit dates and repay excess capital to the CS Group. This decision balanced the views of all stakeholders to promote the success of the Company for the benefit of its members as a whole over the long term.