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## Citadel Europe LLP

**Pillar 3 Disclosures**

31 December 2017

# Contents

1. Introduction: Pillar 3.....	2
2. BIPRU 11.5.1 - Risk management objectives and policies.....	3
3. BIPRU 11.5.3 - Capital resources .....	5
4. BIPRU 11.5.4 - Compliance with the overall Pillar 2 rule.....	6
5. BIPRU 11.5.8 - Credit risk.....	7
6. BIPRU 11.5.12 – Market risk.....	8
7. BIPRU 11.5.14 – Operational risk.....	9
8. BIPRU 11.5.18 - Remuneration .....	10

## 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 managers Citadel Advisors LLC (“CALC”) and Citadel Advisors II LLC (“CAL2”) pursuant to Sub-Advisory and Management Agreements. CALC and CAL2 are Delaware registered entities appointed to manage the assets of a number of investor-facing funds.

The managing member of CELP is Citadel Investment Group (Europe) Limited (“CIGE”), which provides services to CELP as corporate partner, notably the provision of staff, premises, and local infrastructure. For the purposes of these disclosures, CIGE and CELP shall hereafter be referred to as the UK group, and the data presented will refer to the consolidated UK group results and regulatory position as at 31 December 2017.

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 UK group’s risk management objectives and policies, the capital position of the UK group, 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](http://www.citadel.com) at the same time as the filing of the 2017 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 UK group 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 UK group.

The UK group's operations expose it to certain financial risks such as credit risk, liquidity risk and market risk. The UK group considers financial risks regularly and seeks to limit the adverse effects on the financial performance of the UK group.

The UK group 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 Operating Committee ("OC") meets monthly and considers risk management on an ongoing basis. The OC consists of the local business heads across front and back office.

The members of CELP review and approve the risk appetite for the UK group.

The high level summary of the key risk assessments for the UK group is as follows. All risks are regularly monitored by the OC 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, reputational 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 OC 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 UK groups operating, business and industry environment. CELP has only two clients, CALC and CAL2, and the existing fee structure ensures that fee income covers all costs. This structure provides CELP management with a level of comfort and the UK group 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 UK group 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 UK group operates in accordance with CELP's Liquidity Risk Assessment Policy which sets out the process of liquidity risk management. The UK group 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 UK group market risk is limited to foreign exchange exposure on the balance sheet. The functional currency of the UK group is sterling. Certain assets and liabilities are denominated in USD, including fees receivable from CALC and CAL2, and as a consequence the UK group does have a potential exposure to exchange rate movements. The UK group actively monitors foreign currency balances and exchange rates and seeks to limit the potential adverse effects of foreign exchange transactions on the financial performance of the UK group.

### 3. BIPRU 11.5.3 - Capital resources

#### *Pillar 1 capital resources*

The UK group's policy is to remain well capitalised and soundly financed. CELP and CIGE 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 UK group as at 31 December 2017:

	<b>31 December 2017</b> <b>GBP 000s</b>
Issued share capital	300
Reserves – profit and loss account	26,821
Core Tier 1 Capital	27,121
<b>Total Capital Resources</b>	<b>27,121</b>

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 UK group’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 2017 is as follows:

<b>Asset class</b>	<b>Risk Weight (‘RW’)</b>	<b>Exposure GBP 000s</b>
Claims on institutions	20%	60,305
Claims on corporates	100%	138,136
Other items	0%	2,302
Other items	100%	4,884
<b>Total exposures</b>		<b>205,627</b>
<b>Total RW exposures</b>		<b>155,081</b>
<b>Credit risk capital requirement</b>	<b>8%</b>	<b>12,407</b>

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:

<b>Asset class</b>	<b>UK GBP 000s</b>	<b>USA GBP 000s</b>	<b>Cayman Islands GBP 000s</b>
Claims on institutions	60,305	-	-
Claims on corporates	10,642	95,809	31,685
Other items	7,186	-	-
<b>Total exposures</b>	<b>78,133</b>	<b>95,809</b>	<b>31,685</b>

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 UK group 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 UK group's market risk capital requirement at 31 December 2017 is equal to the foreign exchange position risk requirement, and is calculated in accordance with BIPRU 7.5 as follows:

	<b>31 December 2017</b>
	<b>GBP 000s</b>
<b>Material exposures</b>	
USD exposures	5,697
EUR exposures	177
<b>Total exposures</b>	<b>5,874</b>
<b>Total market risk capital requirement</b>	<b>8%      470</b>

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

## **7. BIPRU 11.5.14 – Operational risk**

### ***Fixed Overhead Requirement***

The UK group Fixed Overhead Requirement (“FOR”) is the Pillar 1 operational risk capital requirement. The Pillar 1 variable capital requirement is calculated as the higher of the FOR, and the sum of market and credit risk capital requirements. As at 31 December 2017 the UK group’s variable capital requirement was GBP 12,292,000, being the FOR. The FOR is calculated as 25% of the UK group’s audited annual fixed expenses.

## 8. BIPRU 11.5.18 - Remuneration

The remuneration policy has been adopted by the members of CELP and by the board of directors of CIGE who have the ultimate responsibility for the implementation of the remuneration policy. CELP and CIGE 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 CIGE is composed of fixed drawings or base salary (fixed remuneration), participation points (variable remuneration) and benefits. Participation points are issued as a combination of short-term points (cash), profit allocation, and long-term points (unvested equity 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.

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

Total remuneration awarded to code staff by the UK group in 2017 was GBP 91,853,000.