



Citadel Advisors Europe Limited

MIFIDPRU 8 Disclosures

31 December 2022

Introduction

Firm overview

Citadel Advisors Europe Limited ('CAEU' or the 'firm') is a MIFIDPRU GBP 75k investment firm regulated by the FCA. The firm is 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.

Disclosure overview

The Investment Firm Prudential Regime ('IFPR') came into effect 1st January 2022. Under IFPR, firms are required to maintain adequate financial resources to ensure there is no significant risk that liabilities cannot be met as they fall due. The requirements of IFPR are set out in the MIFIDPRU rulebook, under which:

- MIFIDPRU 4 sets out the minimum capital requirements firms are required to maintain;
- MIFIDRU 7 deals with the Internal Capital And Risk Assessment ('ICARA') process and the Supervisory Review and Evaluation Process through which the firm and the regulator satisfy themselves regarding the adequacy of capital relative to the risks the firm faces and controls it has in place; and
- MIFIDPRU 8 aims to encourage market discipline by setting out 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.

The MIFIDPRU 8 disclosures have been prepared solely to comply with regulatory requirements to provide public information on CAEU's risk management objectives and policies; capital position; capital requirements; and approach to assessing the adequacy of capital. The data presented in this report refers to the CAEU regulatory position and the operating and governance structures as at 31 December 2022 and should be read in conjunction with CAEU's annual report and financial statements. The disclosures are not audited, and do not apply to the funds managed by CAEU, which are exposed to different risks.

Frequency and means of disclosure

In accordance with MIFIDPRU 8.1.10 and 8.1.13, the disclosures are issued at a minimum on an annual basis at the same time as the annual financial statements are published. The disclosures are reviewed and approved by CAEU's senior management and Board of Directors. CAEU is not part of a UK regulated Group and is regulated by the FCA on a 'solo' basis.

Risk management objectives and policies

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

The Board of Directors has overall responsibility for the establishment and oversight of the firm's risk management framework. This is documented by the Board of Directors in the firm's Risk Appetite Statement, which identifies the key risks faced by the firm, 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 firm's activities. This is separate from the risk management framework in place for the funds for which the firm acts as a sub-advisor.

The firm'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 firm to the Operating Committee ("LOC").

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

Governance arrangements

Members of the Board of Directors of CAEU are selected, and the appointments to management committees for CAEU are made, on the basis of merit, experience and, where applicable, actual responsibilities within the firm, taking into account judgement, character, expertise, skills and knowledge useful to the oversight of the firm's businesses.

The Board of Directors will also take into consideration the balance and interplay of knowledge, skills, diversity of viewpoints and experience of members of the Board of Directors and management committees as a whole when looking to make appointments to build effective, collegial and functioning governance arrangements which can be responsive to the needs of the firm.

Set out below are the members of the Board of Directors of CAEU as of 31 December 2022:

	Number of directorships
S. Atkinson	1
D. Rix	1
G. Beeson	1

Board Declaration – Adequacy of Risk Management Arrangements

The Board of Directors of CAEU is satisfied that CAEU management has taken reasonable care to establish and maintain risk systems and controls as appropriate to the business. The Board of Directors of CAEU does not have a risk committee and is not required to establish one under MFIDPRU 7.3.1.

Diversity and Inclusion

CAEU is an equal opportunity employer, whose aim is to have a diverse workforce and for it to be representative of the make-up of society. All individuals are considered for employment and advancement opportunities without regard to race, creed, colour, religion or belief, political opinion, gender, sex, sexual orientation, gender re-assignment, pregnancy or maternity, marital status, civil partnership ethnic or national origin, age or disability. The same objectives apply to the Board of Directors. Whilst appointments to the Board of Directors are made on the basis of merit, experience and actual responsibilities, when considering appointments to the Board, the Board also takes into consideration the balance of its knowledge, skills, diversity and experience collectively as a whole and aims, if possible, for a gender balanced board composition. The CAEU Board of Directors currently has a gender balanced composition.

Risk exposure overview

The firm 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 firm is as follows. All risks are regularly monitored by the LOC using key risk indicators to ensure they are within agreed parameters:

Market Risk

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

Credit Risk

Credit risk is the risk of loss if another party fails to perform its obligations arising in the normal course of business. The principal credit risk for CAEU 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 firm's bank balances are segregated from those of the group and placed with highly rated banks. 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 firm 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.

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. CAEU manages operational risks via its operational risk framework. KRIs associated with operational risk are tracked monthly and presented to the 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 Board meeting.

Business Risk

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

Compliance, Legal and Regulatory Risk

Compliance, Legal and Regulatory Risk is the risk that the firm fails to adhere to its compliance, legal or regulatory requirements. Conduct Risk is a sub-type of Legal, Compliance and Regulatory Risk; it is the risk that all employees, directors and officers do not adhere to the core values of the firm, leading to improper business practices which have the potential to cause detriment to customers, the firm, other market participants and / or negatively impact on the fair, orderly and effective functioning of the financial markets.

Compliance, Legal and Regulatory Risk is measured via qualitative metrics which are tracked monthly and presented to the 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 Board of Directors meeting.

Concentration Risk

Concentration risk is the risk arising from the strength or extent of a firm's relationships with, or direct exposure to, a single client or group of connected clients. CAEU does not deem intragroup exposures to result in concentration risk as the receivables and payables to/from CAEU is vertical in the organizational structure. The affiliated entities share the same control framework as CAEU, so the firm is immediately aware of the financial condition of the affiliates (unlike with external counterparties), which minimises intragroup risk.

Environmental, Social and Governance Risk (ESG)

ESG risks are environmental, social and governance risks that could negatively impact the business strategy, financial performance or solvency of the firm. CAEU considers the following ESG risks to its business:

- Physical risks, which relate to the impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as environmental degradation such as air, water and land pollution. This can lead to events that directly impact the firm through disruption in business activity or indirectly through the disruption of its supply chains
- Transition risk, which refers to the direct or indirect impact of the process of adjustment to a lower carbon and more environmentally sustainable economy. For example, this could be triggered by a relatively abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences

Capital resources

CAEU maintains a capital base that is appropriate to support the development of the business and ensures regulatory capital requirements are met at all times.

The firm's capital resources are entirely made up of Common Equity Tier 1 permanent capital. CAEU has no long-term debt and no intangible assets to deduct. There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities.

The table below summarises the amount and type of capital resources for the firm as at 31 December 2022. A reconciliation to the balance sheet shareholder's equity is provided in Appendix 1.

	31 December 2022
	USD 000
Share capital	80,000
Retained profits	15,000
Tier 1 capital	95,000
Total Capital Resources	95,000

Own funds requirements

In accordance with MIFIDPRU 4.3, the own funds requirement for CAEU is the higher of the:

- (a) fixed overheads requirement
- (b) permanent minimum capital requirement
- (c) K-factor requirement

As at 31st December 2022, CAEU's capital requirement was USD 62.0m, as detailed below:

Permanent Minimum Requirement	USD 000
	903
Fixed Overhead Requirement	62,026
Risk to Client	3,344
Risk to Market	5,806
Risk to Firm	-
Total K-Factor Requirement	9,150

Overall Financial Adequacy Rule

Per MIFIDPRU 7.4.7, the Overall Financial Adequacy Rule requires that a firm must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

- (a) the firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- (b) the firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants

This is addressed through the CAEU's Internal Capital And Risk Assessment ('ICARA'). This documents the firm's internal systems and controls that identify and manage potential material harms that may arise from the operation of its business, and ensure that its operations can be wound down in an orderly manner. The ICARA forms an integral part of CAEU's risk management processes and capital management strategy. It is updated at least annually and is reviewed and approved by the Board of Directors.

CAEU has conducted a comprehensive risk identification exercise by risk category across the business to ensure that all significant risks have been identified and captured by the risk management framework. All significant risks are assessed and documented along with any risk mitigants and associated controls. The resulting risk exposure level is estimated using a matrix of parameters.

Each risk is assigned an owner who is responsible for assessing that risk with respect to risk score (High/Medium/Low) and risk mitigant strength (Vulnerable/Moderate/Strong) to determine the risk exposure level (Critical/Material/Moderate/Low). Risk owners together with the Risk and Finance team assess each identified risk to determine if it is inadequately covered (or not covered at all) under the own funds requirement, and if any additional own funds requirement should be held. Where applicable, risk owners will make reference to internal and external loss data when assessing risks which also informs the additional own funds required.

CAEU's ICARA includes stress testing and reverse stress testing to supplement its risk management framework and assess the capital adequacy of the business. These stress tests play an important role in providing a forward-looking assessment of risk and factoring this into capital and liquidity planning procedures.

Investment Policy Disclosure

CAEU does not hold any positions in any company that is admitted to trading on a regulated market that accounts for 5% or more of the total voting rights of that company.

Remuneration

The Board of Directors has adopted a remuneration policy (the “Remuneration Policy”), which has been developed in order to ensure CAEU’s adherence to the relevant requirements of IFPR. This section provides an overview of the CAEU’s remuneration practices in accordance with the Remuneration Policy.

The Remuneration Policy reflects the Citadel Group’s compensation philosophy, which provides guiding principles that drive compensation-related decisions for all employees. Citadel Group’s compensation philosophy has been designed to:

- (i) support achievement of Citadel Group’s strategy;
- (ii) uphold Citadel Group’s values by encouraging responsible business conduct;
- (iii) promote sound and effective risk management by aligning risk and reward;
- (iv) avoid conflicts of interest; and,
- (v) achieve the above while also attracting and retaining the top performing and high potential talent necessary to deliver results to all stakeholders.

Governance

The Citadel Group (“Citadel”) has established a global, firmwide remuneration approach to foster sound governance, sound and effective risk management and alignment with the strategy, objectives, values, and long-term interests of Citadel. That approach and its implementation is subject to oversight and control by Citadel’s Chief Executive Officer and its Chief Operating Officer. Annually, Citadel reviews and approves its:

- Remuneration philosophy, which guides how its remuneration plans and programs are designed
- Pay practices and any necessary formulas, performance metrics or pool calculations in compliance with applicable regulatory, statutory or governance requirements, both in the U.S. and worldwide;
- Overall incentive remuneration pools (including variable instruments /cash mix);
- Remuneration for all employees; and
- Terms of remuneration awards, including clawback provisions.

The Board of Directors reviews and approves the Remuneration Policy annually and oversees the implementation of Citadel’s remuneration policies and practices as well as the processes for identifying material risk takers of CAEU.

External consultants were not used in the development of the CAEU’s remuneration policies and practices.

Compensation Structure

CAEU’s compensation structure is composed of base salary (fixed pay), incentive awards which determine the amount of discretionary bonus (variable remuneration) and benefits.

Fixed pay may include salary, role-based allowances, cash in lieu of pension and other cash allowances. Elements of fixed pay reflect an individual's position, role, skills, competencies, capabilities, and experience. Levels of fixed pay are determined at a level that ensures the CAEU can operate a fully flexible approach to variable remuneration. Variable remuneration is paid in cash and unvested instruments linked to the performance of the funds managed by the Citadel Group. Further information is included in Appendix A to this report.

Individual incentive awards are determined based on a combination of:

- Overall Citadel performance;
- Firm and Business unit performance;
- Individual performance, including where relevant individual financial metrics; and
- Adherence to applicable policies, including the Code of Ethics, attainment of business objectives that promote long-term growth, reputation, conduct, client outcomes, values and strategy.

Staff within control functions are remunerated according to objectives linked to their functions and are determined independently from the business unit those members of staff oversee.

Variable remuneration awards are fully flexible such that awards could be nil in a given year. Individual compensation decisions are informed by managers' written performance evaluations which are based on the manager's view of the employees' overall performance in relation to their job responsibilities, achievement of goals, and alignment with Citadel values. For certain staff, variable remuneration is determined based on quality of earnings (based on a risk measure of trades) and allocated capital and can be adjusted based on the impact of concentrated or illiquid positions, ensuring that discretionary variable compensation awards can be determined or adjusted as necessary to take into account capital requirements and all types of current and potential risks, including adherence to risk limits, and consideration of operational risks and conduct risks. The global compensation process provides additional oversight and guidance based on external market data and internal equity / consistency.

A portion of variable remuneration may be deferred in line with the deferral approach detailed in the Remuneration Policy. Deferred awards vest over a multi-year period thus aligning individual compensation with long-term considerations. Citadel operates a policy pursuant to which deferred amounts will be automatically forfeited in the event of termination for cause.

Material Risk Taker Identification

CAEU has classified certain staff members as material risk takers ("MRTs"), of which there were 31, to the extent they have a material impact on the risk profile of the firm or of the assets that it manages or otherwise meet the criteria set out in IFPR. An assessment of MRTs is carried out at least annually. Citadel's Human Resources function, with input from Compliance and other control functions as necessary, is responsible for the process by which CAEU identifies MRTs and notifies them of their status as such.

Staff identified as MRTs includes the management body of CAEU, staff identified as senior management or having managerial responsibility for certain functions or responsible for managing a material risk within the firm, and staff responsible for certain control functions.

Malus and Clawback

Malus and clawback may be applied at CAEU's discretion to any variable remuneration paid to an MRT in a number of circumstances related to the relevant MRT's conduct and its detrimental impact on the firm. These circumstances could, at CAEU's discretion, include cases where the MRT participated in conduct which resulted in significant losses or failed to meet appropriate standards of fitness and propriety. If applied, malus could result in the reduction or cancellation of unvested components of deferred remuneration, and clawback could lead to an obligation to reimburse elements of compensation received.

Guaranteed Variable Remuneration

Guaranteed bonuses are not awarded, paid or provided to MRTs unless exceptional and in the context of hiring new staff and limited to the first year of service and only where CAEU has a sound and strong capital base. Guaranteed bonuses awarded to an MRT are subject to malus and clawback applicable generally to MRTs of the firm.

Severance Pay

All payments made on termination of employment align with local legal and regulatory requirements, reflect performance achieved over time and are designed in a manner that does not reward failure or misconduct.

Appendix 1 – MIFIDPRU 8 Annex 1R

Composition of regulatory own funds				
		Amount (GBP thousands)	Amounts (USD thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	78,910	95,000	
2	TIER 1 CAPITAL	78,910	95,000	
3	COMMON EQUITY TIER 1 CAPITAL	78,910	95,000	
4	Fully paid up capital instruments	66,451	80,000	CET1 share capital
5	Share premium			
6	Retained earnings	12,460	15,000	CET1 retained earnings
7	Accumulated other comprehensive income			
8	Other reserves			
9	Adjustments to CET1 due to prudential filters			
10	Other funds			
19	CET1: Other capital elements, deductions and adjustments			
20	ADDITIONAL TIER 1 CAPITAL	-	-	-
21	Fully paid up, directly issued capital instruments			
22	Share premium			
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1			
24	Additional Tier 1: Other capital elements, deductions and adjustments			
25	TIER 2 CAPITAL	-	-	-
26	Fully paid up, directly issued capital instruments			
27	Share premium			
28	(-) TOTAL DEDUCTIONS FROM TIER 2			
29	Tier 2: Other capital elements, deductions and adjustments			

		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end (USD thousands)	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the published/audited financial statements				
1	Cash and cash equivalents	84,079		
2	Trade and other receivables	266,853		
	Total Assets	350,932		
Liabilities - Breakdown by liability classes according to the balance sheet in the published/audited financial statements				
1	Trade and other payables	38,410		
	Total Liabilities	38,410		
Shareholders' Equity				
1	Called Up Share Capital	80,000		CET1 share capital
2	Retained Earnings	232,522		CET1 retained earnings
	Total Shareholders' equity	312,522		

Main features of CET1 instruments issued by the firm:

Issuer	Citadel Advisors Europe Limited
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
Public or private placement	Private
Governing law(s) of the instrument	United Kingdom
Instrument type (types to be specified by each jurisdiction)	Ordinary shares
Amount recognised in regulatory capital (GBP 000s)	66,451
Nominal amount of instrument	80,000
Issue price	\$1
Redemption price	N/A
Accounting classification	Shareholders' equity
Original date of issuance	January 2018
Perpetual or dated	Perpetual
Original maturity date	N/A
Issuer call subject to prior supervisory approval	N/A
Optional call date, contingent call dates and redemption amount	N/A
Subsequent call dates, if applicable	N/A
Fixed or floating dividend/coupon	N/A
Coupon rate and any related index	N/A
Existence of a dividend stopper	N/A
Convertible or non-convertible	N/A
Write-down features	N/A
Non-compliant transitioned features	N/A