Citadel France SAS

Pillar 3 Disclosures

31 December 2021

Contents

1. Introduction

Company overview

Citadel France SAS ('HFFRA' or 'the Firm') is an investment service provider, regulated by the ACPR and supervised by AMF for the provision of the following activities:

- Portfolio management,
- Investment advice

HFFRA is a subsidiary of Citadel Americas LLC, a Delaware limited liability company, and part of the Citadel Group. The Company LEI is 549300PD3MYDT7QR0C92. HFFRA commenced operations as sub-manager to Citadel Advisors LLC ('CALC') in June 2021, following approval by the AMF and the ACPR as a regulated investment firm.

Disclosure overview

HFFRA is categorized as a Class 2 non-small and non-interconnected (non-SNI) investment firm under the Investment Firm Regulation ('IFR'). The Firm is required under IFR to maintain adequate financial resources to ensure there is no significant risk that liabilities cannot be met as they fall due. The IFR is based on the Basel Accord framework, which consists of three 'pillars' of prudential supervision:

- Pillar 1 sets out the minimum capital requirements firms are required to maintain as a percentage of its risk-weighted assets;
- Pillar 2 deals with the Internal Capital and Risk Assessment ('ICARA'), through which the firm and the regulator 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.

Information in this report is prepared in accordance with the Pillar 3 disclosure rules as required by the IFR.

The Pillar 3 disclosures have been prepared solely to comply with regulatory requirements to provide public information on the Firm's risk management objectives and policies, capital position, capital resources requirements under Pillar 1 and approach to assessing the adequacy of capital. The data presented in this report refers to HFFRA's regulatory position and operating and governance structures in place as at 31 December 2021 and should be read in conjunction with the Firm's annual report and financial statements.

The remuneration disclosures below are based on CRD IV requirements on the basis that the majority of relevant IFR remuneration rules will only apply to remuneration awarded in respect of performance years commencing after 31 December 2021.

Frequency and means of disclosure

In accordance with IFR Article 46, the disclosures are issued as a minimum on an annual basis at the same time as the annual financial statements are published .The disclosures are reviewed and approved by the Firm's senior management and Board of Directors. HFFRA is not part of a Group for the purposes of IFR disclosure requirements and is regulated by the ACPR on a 'solo' basis. The Company accounts are prepared under French GAAP.

2. Risk management objectives and policies (Art. 47)

Risk management framework

Risk management is the process of identifying the principal risks to the Company 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 Company.

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

The Company'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 Company to the Executive and Operating Committee ('EOC').

An additional line of defence is provided by the Company's internal audit function (outsourced to Grant Thornton France), which provides an independent review of the organisation and reports to the Board 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 Company 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 the level of exposure has been estimated using a matrix of parameters.

The high level summary of the key risk assessments for the Company is as follows. All risks are regularly monitored by the EOC 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 EOC 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 Company's operating, business and industry environment. HFFRA has a single client, CALC, and the existing fee structure ensures that fee income covers all costs. This structure provides HFFRA management with a level of comfort and the Company 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 HFFRA 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 Company 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 Company 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; HFFRA is not authorised to undertake proprietary trading and therefore Company market risk is limited to foreign exchange exposure on the balance sheet. The functional currency of the Company is Euros. Certain assets and liabilities are denominated in currencies other than EUR, and as a consequence the Company does have a potential exposure to exchange rate movements. The Company actively monitors non-EUR exposures and seeks to limit the potential adverse effects of foreign exchange transactions on the financial performance of the Company.

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 don't 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 covering which are tracked and presented to the monthly EOC where breaches of amber threshold are discussed together with any required remedial action. Any breaches of red thresholds are escalated for discussion at next the Board of Directors meeting.

3. Governance arrangements

Directors of HFFRA are selected and the appointments to management committees 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 Firm will also take into consideration the balance and interplay of knowledge, skills, diversity of viewpoints and experience 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.

We have set out below the members of the board of directors of HFFRA as of 31 December 2021:

- Steven Atkinson
- Mathias Féau
- John Niccolai

Board Declaration – Adequacy of Risk Management Arrangements

The Board of HFFRA is satisfied that Management has taken reasonable care to establish and maintain risk systems and controls as appropriate to the business.

Diversity and Inclusion

Citadel is an equal opportunity employer. The Firm aims to have a diverse workforce and for it to be representative of the make-up of society and Citadel's clients. All individuals are considered for employment and advancement opportunities without regard to race, creed, nationality, 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.

4. Capital resources

HFFRA 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. HFFRA 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.

As at 31 December 2021, HFFRA held CET1 capital of EUR 4,648,000. See templates CC1 CC2 and CCA below for details.

5. Pillar 1 Capital Requirement

In accordance with Article 11 of IFR, the own funds requirement for HFFRA is the higher of the:

(a) fixed overheads requirement

(b) permanent minimum capital requirement

(c) K-factor requirement

As at 31st December 2021, HFFRA's capital requirement was EUR 2,309,000 per below.

	EUR 000s
Permanent Minimum Requirement	**75**
Fixed Overhead Requirement	**1,739**
Risk to Client	2,238
Risk to Market	71
Risk to Firm	-
Total K-Factor Requirement	**2,309**

The fixed overhead requirement was calculated in accordance with Article 13 of IFR.

Risk-to-Client (RtC) K-factors are calculated in accordance with Chapter 2, Title 2 of IFR.

Risk-to-Market (RtM) K-factors calculated in accordance with Chapter 3, Title 2 of IFR.

Risk-to-Firm (RtF) K-factors calculated in accordance with Chapter 4, Title 2 of IFR.

6. Pillar 2

Under Pillar 2, firms are required to undertake a regular assessment of the amounts, types and distribution of capital that they consider adequate to cover the level and nature of risks to which they are, or might be, exposed. Firms identify risks which are inadequately covered under Pillar 1 and set aside additional Pillar 2 capital against these risks.

HFFRA has carried out its internal capital adequacy assessment and documented this through the Internal Control Report. It is updated at least annually, or when a material change in the business occurs, and is reviewed and approved by the Board of Directors.

HFFRA 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.

7. Investment Policy Disclosure

HFFRA 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.

8. Remuneration

The Board adopted the Citadel France Remuneration Policy on 19 April 2021, prior to commencing operations. The Remuneration Policy was developed in order to ensure the Firm's adherence to the relevant requirements of the EU Capital Requirements Directive 2013/36/EU and the EU Capital Requirements Regulation 575/2013 as implemented into French law and the European Banking Authority Guidelines on remuneration, and the remuneration rules under the Markets in Financial Instruments Directive 2014/65 EU, and EU Delegated Regulation 2017/565 as implemented into French law.

The Board adopted the revised Citadel EU and UK Remuneration Policy on 7 December 2021. The remuneration policy adopted in December replaced the prior remuneration policy approved by the Board on 19 April 2021 and included changes to ensure compliance with IFD from 2022 onwards.

The Policy reflects the following principles:

- Remuneration practices should be consistent with and promote sound and effective risk management and not encourage risk-taking that exceeds the level of tolerated risk of Citadel France nor create a conflict of interest that encourages identified staff to act against the interests of any of Citadel France's clients

- The Policy reflects the business strategy, objectives, values, and long-term interests of Citadel France

- The total variable remuneration of Citadel France should not limit Citadel France's ability to strengthen its capital base

- The structure of an employee's remuneration should be consistent with and promote effective risk management and should encourage employees to operate with integrity and in the best interests of clients

- Where the financial performance of Citadel France is subdued or negative, total variable remuneration should generally be considerably contracted, considering both current remuneration and reductions in payouts of amounts previously earned

- For the avoidance of doubt, Citadel France does not pay remuneration through vehicles or instruments that are, or could be interpreted as, designed to avoid the remuneration rules under CRD IV, as supplemented by the EBA Guidelines

In accordance with article 199 of the French decree dated November 3, 2014, all the while Citadel France was subject to CRD IV, given its size and business model, Citadel France applied the specific principles deriving from CRD IV and the European Banking Authority Guidelines on Sound Remuneration relating to deferral, form of delivery and performance adjustment in a proportionate way.

Citadel France's compensation plan is composed of base salary (fixed remuneration), discretionary bonus (variable remuneration) and benefits. Discretionary bonuses are issued as cash and Unvested Membership Interests ("UMI") (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 of the Citadel group).

The process in relation to the award of discretionary variable compensation in 2021 for Citadel France identified staff was as follows: (a) compensation is based on an economic model defined by the Citadel CEO and each business head at the beginning of each calendar year; (b) compensation pools represent a percentage of net profit, with such percentages determined by (i) quality of earnings / sharpe ratio (risk measure of trades); allocated capital; overall results of the Citadel group; non-financial metrics (attainment of business objectives that promote long-term growth, reputation, conduct, client outcomes, values and strategy) thus ensuring account is taken of all current and potential risks generally and of Citadel France specifically when setting variable compensation.

In addition, the Citadel Human Resources function is responsible for instructing managers and business heads to specifically consider each individual's performance, contributions and attainment of non-financial objectives and goals (measured using non-financial metrics (including adherence to effective risk management, compliance with the regulatory system and with relevant overseas regulatory requirements and metrics relating to conduct) in advance of setting and finalising compensation for employees (and, if relevant, any Citadel France corporate officers) specifically taking account of performance in a multi-year framework and any compliance or risk breaches.

Deferral: Under the Citadel group employee incentive program, a certain percentage of compensation (determined in accordance with a pre-agreed sliding scale set by reference to percentage of total compensation (as detailed below) is required to be deferred (invested on an after-tax basis in Citadel funds and delivered in the form of UMI). Deferred amounts are invested in multiple Citadel funds (employees are not allowed to elect which funds or weightings) for 3.5 years thus aligning individual compensation with returns of overall Citadel funds over a multi-year period. Citadel France operates a policy pursuant to which deferred amounts will be automatically cancelled in the event of violation or breach of non-compete, non-solicitation and non-disclosure obligations of the relevant employees and corporate officers. Equally, deferred amounts will be automatically forfeited in the event of termination for cause.

Guaranteed Variable Remuneration: Pursuant to the Citadel France Remuneration Policy, guaranteed bonuses are not awarded, paid or provided unless exceptional and in the context of hiring new staff and limited to the first year of service and only where Citadel France has a sound and strong capital base. Citadel France may replace unvested awards forfeited by new hires from their previous employer if such awards align with the long-term interests of the business.

Ratio of cash to other forms of remuneration: Pursuant to the Citadel France Remuneration Policy, fixed remuneration is paid in cash. Variable remuneration is paid in a mixture of cash and UMI (as defined above), which are subject to deferral. The percentage of variable remuneration being deferred and awarded is higher for more highly compensated employees, thus increasing the aggregate value of variable remuneration subject to the continued performance of Citadel. This typically ranges from 12.5% to 50% of total compensation.

Severance Pay: Pursuant to the Citadel France Remuneration Policy, severance pay is at Citadel France's absolute discretion (subject to any applicable statutory obligations); any payments related to early termination of contracts will reflect performance achieved over time and will be designed in a manner that does not reward failure; and was subject to approval of the relevant internal manager, HR and senior management. There were no severance payments in 2021.

Existing policy for preventing circumvention of regulation by the staff through personal hedging strategies: Citadel France's remuneration policy prohibits employees and corporate officers from using and has obtained undertakings from all relevant employees and corporate officers that they will not use, personal hedging strategies or remuneration and liability related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Pay Gaps: Citadel France and the Citadel Group acknowledge that it has statutory duties in relation to equal pay and non-discrimination and is committed to complying with those duties in relation to remuneration.

Quantitative disclosures for staff whose actions have a material impact on the risk profile of the institution

For the year ended 31 December 2021

	EUR 000s
Remuneration	
Fixed Remuneration	536
Variable Remuneration	1148
Number of beneficiaries	4
Split of Variable Remuneration	
Cash	765
Shares	0
Share-linked instruments and other types	383
Outstanding deferred remuneration	
of which is vested	0
of which is unvested	277
Deferred remuneration	
awarded during the year	383
paid out during the year	0
reduced through performance adjustments	0
Sign-on and severance payments	
Sign-on and severance payments made during the financial year	15
Number of beneficiaries	1
Severance payments awarded during the year	
Severance payments awarded during the financial year	0
Number of beneficiaries	0
Highest Severance award to a single person	0
Number of individuals being remunerated per financial year	
> EUR 1m < EUR 1.5m	1
> EUR 1.5m < EUR 2m	0
> EUR 2m < EUR 2.5m	0
> EUR 2.5m < EUR 3m	0

Template EU IF CC1.01 - Composition of regulatory own funds

		(a)	(b)
		Amounts EUR 000s	**Source based on balance sheet in the audited financial statements EUR 000s**
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	**OWN FUNDS**	4,648	4,648
2	**TIER 1 CAPITAL**	4,648	4,648
3	**COMMON EQUITY TIER 1 CAPITAL**	4,648	4,648
4	Fully paid up capital instruments	5,000	5,000
5	Share premium		
6	Retained earnings	(352)	(352)
7	Accumulated other comprehensive income		
8	Other reserves		
9	Minority interest given recognition in CET1 capital		
10	Adjustments to CET1 due to prudential filters	-	-
11	Other funds		
12	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	-
28	**ADDITIONAL TIER 1 CAPITAL**	-	-
40	**TIER 2 CAPITAL**	-	-

Template EU IFCC2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

		EUR 000s	EUR 000s	
		Balance sheet as in audited financial statements	**Under regulatory scope of consolidation**	**Cross reference to EU IF CC1**
		As at period end	**As at period end**	
Assets - *Breakdown by asset classes according to the balance sheet in the published/audited financial statements*				
1	Cash & cash equivalents	6,162		
2	Trade and other receivables	4,683		
	Total Assets	**10,845**		
Liabilities - *Breakdown by liability classes according to the balance sheet in the published/audited financial statements*				
1	Other payables	5,963		
2	Social debts	92		
3	Fiscal debts	142		
	Total Liabilities	**6,197**		
Shareholders' Equity				
1	Called Up Share Capital	5,000		Fully paid up capital instruments
2	Retained Earnings	(352)		Retained earnings
	Total Shareholders' equity	**4,648**		

Template EU IF CCA: Own funds: main features of own instruments issued by the firm

		a
		CET1
1	Issuer	Citadel France SAS
2	Unique identifier	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	France
5	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	5
7	Nominal amount of instrument	€1,000
8	Issue price	€1,000
9	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	12/11/20
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	
22	Existence of step up or other incentive to redeem	
23	Noncumulative or cumulative	
24	Convertible or non-convertible	N/A
31	Write-down features	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	
38	Link to the full term and conditions of the instrument (signposting)	N/A