CITADEL | Securities

Citadel Securities Swap Dealer LLC

2021 Financial Statement

CITADEL | Securities

Citadel Securities Swap Dealer LLC

(A Delaware Limited Liability Company)

Statement of Financial Condition as of December 31, 2021, and Report of Independent Auditors

Published pursuant to rule 17 CFR 23.105(i) under the Commodity Exchange Act (“CEA”)

CITADEL SECURITIES SWAP DEALER LLC

Affirmation

I, Michael Henry, affirm that, to the best of my knowledge and belief, the financial report pertaining to the firm of Citadel Securities Swap Dealer LLC (the "Company"), as of December 31, 2021, is true and correct.

By: ______________________________

Michael Henry, Chief Accounting Officer

February 25, 2022

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Report of Independent Auditors

To Management of Citadel Securities Swap Dealer LLC

Opinion

We have audited the accompanying statement of financial condition of Citadel Securities Swap Dealer LLC (the "Company") as of December 31, 2021, including the related notes (referred to as the "financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statement is available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

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In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

February 25, 2022

Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

ASSETS

		As of December 31, 2021
Assets:		
Cash and cash equivalents	$	225,967
Restricted cash		1,028
Securities owned, at fair value		1,030,763
Receivable from clearing organization and custodian		550,846
Receivable from brokers and dealers		76,058
Other assets		1,083
Securities purchased under agreements to resell, at fair value		677
Total assets	$	1,886,422

LIABILITIES AND MEMBER'S CAPITAL

Liabilities:		
Securities sold, not yet purchased, at fair value	$	1,430,084
Securities sold under agreements to repurchase, at fair value		124,628
Payable to affiliates		3,596
Commissions and exchange fees payable		1,856
Other liabilities		317
Total liabilities		1,560,481
Member's capital		325,941
Total liabilities and member's capital	$	1,886,422

See notes to statement of financial condition.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

NOTE 1

Organization

Citadel Securities Swap Dealer LLC (the "Company"), a Delaware limited liability company, is a swap dealer and primarily engages in market making in centrally cleared fixed income related derivatives executed on swap execution facilities. The Company is registered with the U.S. Commodity Futures Trading Commission ("CFTC") as a swap dealer and beginning in October 2021 became subject to regulatory capital requirements based on the CFTC rules that were finalized in July 2020. The Company is also a member of the National Futures Association ("NFA") and a clearing member of LCH SwapClear Global ("LCH").

Citadel Securities Group LP (formerly known as CALC IV LP) ("CSG"), an affiliate, is the manager of the Company. CSHC US LLC ("CSUH"), an affiliate, is the sole member of the Company.

Citadel Enterprise Americas LLC ("CEAMER") and Citadel Securities Americas LLC ("CSAMER"), both affiliates, provide administrative and investment-related services to the Company.

Northern Trust Hedge Fund Services LLC ("NTHFS") is responsible for providing certain middle and back office administrative and operational services to the Company. The services contract between the Company and NTHFS is currently effective through May 31, 2023.

NOTE 2

Summary of Significant Accounting Policies

The accompanying financial statement has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates
The preparation of the financial statement in accordance with GAAP requires CSG to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents
The Company defines cash and cash equivalents on the statement of financial condition as cash and funds held in liquid investments with original maturities of 90 days or less as well as investments in money market funds. Cash and cash equivalents are held at various global financial institutions.

Restricted Cash
Restricted cash represents cash that is segregated at The Bank of New York Mellon ("BONY") to facilitate the transfer of funds with LCH on its direct debit system.

Securities Owned and Securities Sold, Not Yet Purchased
The Company's securities owned and securities sold, not yet purchased are recorded at fair value. Securities transactions are recorded on a trade date basis. Substantially all securities owned are held at various global financial institutions where contract terms permit the applicable counterparty to sell or repledge these securities to others.

Receivable from Brokers, Dealers, Clearing Organization, and Custodian
The receivables from brokers, dealers, clearing organization, and custodian may include cash balances and open trade equity related to derivative financial instruments and receivables or payables related to purchases and sales of securities which have not yet settled.

Derivative Contracts
The fair value of a derivative financial instrument is recorded as a derivative asset or derivative liability, respectively, prior to the exchange of related cash flows at contractually specified intervals. Derivative assets and derivative liabilities also include cash and cash collateral transferred to or from such counterparties. Derivative assets and derivative liabilities are included in receivable from brokers and dealers on the statement of financial condition.

Offsetting Financial Instruments
Financial assets and liabilities, as well as cash collateral received and posted, are offset by counterparty when there exists a legally enforceable right to offset the recognized amounts and when certain other criteria are met in accordance with applicable accounting guidance on offsetting. As a result, the net exposure to each counterparty is reported as either an asset or liability on the statement of financial condition, where applicable.

Foreign Currency Translation
The functional currency of the Company is the U.S. dollar. The Company may hold assets and liabilities denominated in foreign currencies. The fair value of assets and liabilities is translated into U.S. dollars using spot currency rates on the date of valuation.

Transfers of Financial Assets
In general, transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. For transfers of financial assets that are not accounted for as sales, in which the transferor retains control of the financial assets, the financial assets remain on the statement of financial condition and the transfer is accounted for as a collateralized financing. Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralized financings (see Note 3).

Reverse repurchase and repurchase agreements are recorded at their fair value pursuant to the fair value option, plus accrued interest, on the statement of financial condition. Reverse repurchase agreements and repurchase agreements with the same counterparty are reported on a net basis when there exists a legally enforceable right to offset the recognized amounts and when certain other criteria are met in accordance with applicable accounting guidance on offsetting.

Valuation of Financial Instruments
The fair value of a Financial Instrument (as defined below) is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is determined by CSG and represents CSG's best estimate of fair value. In all instances, any Financial Instrument may either be valued by CSG or CSG may determine (but is under no obligation to do so) to engage a third party it believes to be qualified to value any Financial Instrument.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

Fair value is generally based on or derived from (i) closing prices of an exchange market, (ii) prices or inputs disseminated by third parties, including membership organizations, or market participants (e.g., mean of the bid and offer price) or (iii) valuation models using such prices or inputs (e.g., inputs to valuation models for derivative financial instruments). In the absence of market prices or inputs that are observable, other valuation techniques are applied. Financial Instruments are generally valued as of market close (as determined by CSG). CSG may determine to use a different value than would be assigned pursuant to the foregoing if CSG determines that doing so would better reflect fair value (e.g., CSG may determine that market quotations do not represent fair value if trading is halted before market close or a significant event occurs subsequent to market close). These valuation techniques involve some level of estimation and judgment by CSG, the degree of which is dependent on, among other factors, the price observability and complexity of the Financial Instrument, and the liquidity of the market. The fair value determined may not necessarily reflect the amount which might ultimately be realized in an arm's length sale or liquidation of Financial Instruments and such differences may be material.

CSG manages portfolios which may have positions in Financial Instruments that trade in different markets with different closing times. Any discrepancy in value resulting from asynchronous closing times may result in the recognition of a gain or loss in one period which may be offset by a corresponding loss or gain, in whole or in part, in the subsequent period.

The Company measures and reports securities owned; securities sold, not yet purchased; derivative financial instruments; reverse repurchase agreements, and repurchase agreements ("Financial Instruments") at fair value.

The accounting guidance for fair value measurements and disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A Financial Instrument's level within the fair value hierarchy is based on the lowest level of any input, individually or in the aggregate, that is significant to the fair value measurement. CSG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the Financial Instrument. The three levels of the fair value hierarchy are described below.

Basis of Fair Value Measurement

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following describes the valuation techniques applied to the Company's Financial Instruments to measure fair value, including an indication of the level within the fair value hierarchy in which each Financial Instrument is generally classified. Where appropriate, the description includes details of the valuation models and the significant inputs to those models.

U.S. GOVERNMENT SECURITIES

U.S. government securities are valued using quoted market prices and are categorized within Level 1 of the fair value hierarchy.

DERIVATIVE ASSETS AND DERIVATIVE LIABILITIES

Exchange-traded derivative financial instruments

Exchange-traded derivative financial instruments represent futures contracts, which are valued using prices disseminated by the relevant exchange market, such as the closing price, settlement price, last available sales price, or the mean of the bid and offer price (a mid-market price) and are classified within Level 1 of the fair value hierarchy.

Over-the-counter ("OTC") derivative financial instruments

OTC derivative financial instruments represent swap contracts related to interest rates. OTC derivative financial instruments are valued using prices or inputs disseminated by third parties or market participants (e.g., mean of the bid and offer from a broker), or derived from such prices or inputs (e.g., inputs to valuation models). Depending on the terms of the OTC derivative instrument, the fair value can be either observed directly or modeled.

For OTC derivative financial instruments that trade in liquid markets such as generic swaps, model inputs can generally be verified and model selection does not involve significant management judgment. Similar models are generally used to value similar instruments and require a variety of inputs.

OTC derivative financial instruments are generally classified within Level 2 of the fair value hierarchy as all of the significant observable inputs can generally be corroborated to market evidence.

REVERSE REPURCHASE AGREEMENTS AND REPURCHASE AGREEMENTS

Reverse repurchase agreements and repurchase agreements are valued by discounting the expected future cash flows using inputs including interest rates and funding spreads, which are determined based on the specific characteristics of the agreements. Reverse repurchase agreements and repurchase agreements are classified within Level 2 of the fair value hierarchy.

Fair Value Option

CSG manages reverse repurchase and repurchase agreements on a fair value basis. The fair value option provides the Company the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings in each period. The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The primary reason for electing the fair value option is to reflect current market conditions related to reverse repurchase and repurchase agreements in earnings on a timely basis. CSG has elected to apply the fair value option to the Company's reverse repurchase agreements and repurchase agreements.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

New Accounting Pronouncement
In March 2020, the Financial Accounting Standards Board issued updated accounting guidance which provides optional, temporary relief with respect to the financial reporting of contracts subject to certain types of modifications due to the planned discontinuation of the London Interbank Offered Rate ("LIBOR") and other interbank-offered based reference rates. This guidance is effective for certain reference rate-related contract modifications that occur during the period March 12, 2020 through December 31, 2022. The Company adopted the accounting update in 2020 and adoption did not affect the Company's financial condition. For the year ended December 31, 2021, the Company applied the practical expedients, where appropriate, as relevant contract modifications were made and expects to do so during the reference rate reform transition period through December 31, 2022.

NOTE 3

Collateralized Transactions

The Company manages credit exposure arising from reverse repurchase agreements and repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties. In the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), these agreements provide the Company the right to terminate such agreements, net the Company's rights and obligations under such agreements, buy-in undelivered securities and liquidate and offset collateral against any net obligation remaining by the counterparty.

During the year ended December 31, 2021, the Company had reverse repurchase and repurchase agreements with Citadel Securities LLC ("CS-US"), an affiliated broker and dealer, (see Note 5) and non-affiliates.

Reverse repurchase agreements and repurchase agreements are collateralized primarily by receiving or pledging securities, respectively. Typically, the Company has rights of rehypothecation with respect to the securities collateral received under reverse repurchase agreements. The Company enters into reverse repurchase agreements in order to, among other things, acquire securities to cover short positions and/or finance certain of the Company's activities. As of December 31, 2021, substantially all securities collateral received under reverse repurchase agreements has been delivered or repledged. The counterparty generally has rights of rehypothecation with respect to the securities collateral received from the Company under repurchase agreements. The Company monitors the fair value of underlying securities in comparison to the related receivable or payable, including accrued interest, and as necessary, transfers or requests additional collateral as provided under the applicable agreement to ensure transactions are adequately collateralized.

The following table presents information about reverse repurchase agreements and repurchase agreements.

AS OF DECEMBER 31, 2021

Fair value of securities collateral received for reverse repurchase agreements	$	119,068
Fair value of securities collateral pledged for repurchase agreements		243,027

In the table above, the fair value of securities collateral received and pledged includes accrued coupon interest.

The sale and purchase obligations under reverse repurchase agreements and repurchase agreements are collateralized by U.S. government securities, to the extent offsetting agreements with the same counterparty have not otherwise reduced the Company's or counterparties' gross exposure.

Offsetting of Certain Collateralized Transactions
The following table presents information about the offsetting of these instruments. Refer to Note 8 for information relating to offsetting of derivatives.

ASSETS AS OF DECEMBER 31, 2021

		Reverse Repurchase Agreements
Included in the statement of financial condition		
Gross amounts	$	118,960
Amounts offset		(118,283)
Net amounts		677
Amounts not offset		
Counterparty netting		—
Financial instruments, at fair value		(677)
Total	$	—

LIABILITIES AS OF DECEMBER 31, 2021

		Repurchase Agreements
Included in the statement of financial condition		
Gross amounts	$	242,911
Amounts offset		(118,283)
Net amounts		124,628
Amounts not offset		
Counterparty netting		—
Financial instruments, at fair value		(124,628)
Total	$	—

In the tables above:

- Gross amounts include all instruments, irrespective of whether there is a legally enforceable master netting agreement or similar arrangement in place. These amounts also include financing interest receivables and payables related to these transactions.
- Amounts offset, counterparty netting and financial instruments, at fair value, relate to legally enforceable master netting agreements or similar arrangements.
- Amounts are reported on a net basis in the statement of financial condition when subject to a legally enforceable master netting agreement or similar arrangement and when certain other criteria are met in accordance with applicable accounting guidance on offsetting.
- Financial instruments not offset in the statement of financial condition include the fair value of securities purchased or sold under the agreements to resell or repurchase, respectively, accrued coupon interest and cash collateral, where applicable. These amounts are limited to the net amount by counterparty reported on the statement of financial condition and therefore any over-collateralization of these positions is not included.
- Financial instruments representing securities sold or otherwise pledged as collateral for repurchase agreements include securities owned recorded on the statement of financial condition.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

Collateralized Transactions–Maturities and Collateral Pledged

The following table presents the gross carrying value of repurchase agreements by remaining contractual maturity and class of collateral pledged as of December 31, 2021.

	Repurchase Agreements
U.S. government securities	
Overnight	$ 242,911
Gross amounts	$ 242,911

NOTE 4

Fair Value Disclosures

The following fair value hierarchy tables present information about the Company's securities owned, securities sold, not yet purchased and derivative financial instruments measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations (see Note 2 for the Company's policies regarding the hierarchy):

ASSETS AT FAIR VALUE AS OF DECEMBER 31, 2021

	Level 1	Level 2	Netting and Collateral	Total
Securities owned				
U.S. government securities	$ 1,030,763	$ —	$ —	$ 1,030,763
Securities purchased under agreements to resell	—	677	—	677
Derivative assets				
Swaps	—	2,307,987	—	2,307,987
Futures	5,102	—	—	5,102
Gross derivative assets	5,102	2,307,987	—	2,313,089
Netting	(5,102)	(2,302,582)	69,573	(2,238,111)
Total derivative assets	—	5,405	69,573	74,978
Total	$ 1,030,763	$ 6,082	$ 69,573	$ 1,106,418

LIABILITIES AT FAIR VALUE AS OF DECEMBER 31, 2021

	Level 1	Level 2	Netting and Collateral	Total
Securities sold, not yet purchased				
U.S. government securities	$ 1,430,084	$ —	$ —	$ 1,430,084
Securities sold under agreements to repurchase	—	124,628	—	124,628
Derivative liabilities				
Swaps	—	2,302,582	—	2,302,582
Futures	17,511	—	—	17,511
Gross derivative liabilities	17,511	2,302,582	—	2,320,093
Netting	(5,102)	(2,302,582)	(12,409)	(2,320,093)
Total derivative liabilities	12,409	—	(12,409)	—
Total	$ 1,442,493	$ 124,628	$ (12,409)	$ 1,554,712

In the tables above:

- Derivative assets, derivative liabilities, and related collateral are included in receivable from brokers and dealers on the statement of financial condition, as discussed in Note 2.
- Both counterparty netting for positions with the same counterparty that cross over the levels of the fair value hierarchy and cash collateral (including initial margin) are included in the column titled "Netting and Collateral." Counterparty netting among derivative financial instruments classified within the same level is included within that level.
- For further information on derivative financial instruments and hedging activities, see Note 8.
- Securities purchased under agreements to resell and securities sold under agreements to repurchase include financing interest receivables and payables, include the effect of netting and agree to the statement of financial condition.

There were no Level 3 assets or liabilities measured at fair value on recurring basis as of December 31, 2021.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

NOTE 5

Transactions with Related Parties

Expenses
Pursuant to an administrative services agreement, the Company reimburses CEAMER, CSAMER and their affiliates for direct and reimbursable administrative, general and operating expenses paid by these entities, on behalf of the Company. As of December 31, 2021, the Company had a combined payable to CEAMER, CSAMER and their affiliates of $3,590, which is included in payable to affiliates on the statement of financial condition.

Loans
The Company has an unsecured cash advance agreement with Citadel Securities LP ("CSLP"), an affiliate, in which the Company is the lender and CSLP is the borrower. The cash advance agreement does not represent a committed loan facility. The cash advances are payable on demand with a maturity which was extended to December 31, 2022. The cash advances bear interest at a rate of LIBOR plus 2.85% per annum.

Reverse Repurchase and Repurchase Agreements
During 2021, the Company entered into reverse repurchase agreements and repurchase agreements with CS-US. The following table presents information about repurchase agreements with CS-US as of December 31, 2021:

	Reverse Repurchase Agreements	Repurchase Agreements
Gross carrying value	$ 118,283	$ 242,911
Fair value of securities collateral received/pledged	118,391	243,027

In the table above, the fair value of securities collateral includes accrued coupon interest.

Executing Activities
Pursuant to a trading agency services agreement with Citadel Securities (Europe) Limited ("CS-UK"), an affiliated broker and dealer, CS-UK and the Company provide execution and trade oversight services to each other in exchange for a service fee. The Company has an introducing broker agreement with Citadel Securities (Hong Kong) Limited ("CS-HK"), an affiliate, for CS-HK to introduce clients to the Company (including providing marketing, administrative, and technical support services to the Company). The Company earns service fee income from CS-UK and incurs service fee expense from CS-UK and CS-HK equal to the total costs incurred in providing these services plus an arm's length mark-up. As of December 31, 2021, service fees receivable of $810 is included in other assets on the statement of financial condition.

During 2021, Citadel Securities Institutional LLC ("CSIN"), an affiliated broker and dealer, also provided execution services to the Company. The Company earned and incurred charges related to failed delivery or receipt of securities with CS-US and CSIN.

Miscellaneous Related Party Transactions
Certain of the Company's transactions with various counterparties have been guaranteed by CSUH. These guarantees may be unconditional guarantees without a specific term. In certain instances, the guarantees may be terminated by CSUH with respect to prospective obligations upon prior notice to the counterparty.

The Company participates in a variety of operating and administrative transactions with related parties and affiliates. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties and such differences could be material.

NOTE 6

Receivable from Brokers, Dealers, Clearing Organization, and Custodian

Amounts receivable from brokers, dealers, clearing organization, and custodian at December 31, 2021, consist of the following:

Receivable from brokers and dealers	$ 76,058
Receivable from brokers and dealers	**$ 76,058**
Receivable from custodian	$ 524,728
Receivable from clearing organization	26,118
Receivable from clearing organization and custodian	**$ 550,846**

The receivable from brokers, dealers, clearing organization, and custodian may include cash balances, open trade equity related to derivative financial instruments (see Note 2), and amounts receivable for unsettled trades.

NOTE 7

Risk Management

The Company is subject to various risks, including, but not limited to, market risk, off-balance sheet risk, credit risk, currency risk and liquidity and leverage risk. CSG attempts to monitor and manage these risks on an ongoing basis. While CSG often hedges certain portfolio risks, CSG is not required to do so and will not, in general, attempt to hedge all market or other risks in the portfolio, and it will hedge certain risks only partially, if at all.

Market Risk
Market risk is the potential for changes in the value of Financial Instruments and the securities collateral received and/or pledged under reverse repurchase and repurchase agreements. Categories of market risk include, but are not limited to, exposures to equity prices, interest rates, commodity prices, credit prices, and currency prices.

Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying financial instruments are traded. CSG attempts to manage market risk in various ways, including through diversifying exposures, guidelines on position sizes and hedging in related securities or derivative financial instruments. The ability to manage market risk may be constrained by changes in liquidity conditions and fast changes in the relative prices, volatilities and correlations between Financial Instruments and their corresponding hedges.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

The Company sells various financial instruments which it does not yet own or which are consummated by the delivery of borrowed financial instruments (“short sales”). The Company is exposed to market risk for short sales. A short sale involves the risk of an unlimited increase in the market price of the particular investment sold short, which could result in an inability to cover the short position and unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase. To attempt to manage this market risk, the Company may hold Financial Instruments which can be used to hedge or settle these obligations and monitors its market exposure daily, adjusting Financial Instruments as deemed necessary.

Off-Balance Sheet Risk

The Company enters into investment transactions which may represent off-balance sheet risk. Off-balance sheet risk exists when the maximum potential loss on a particular investment is greater than the value of such investment, as reflected on the statement of financial condition. Off-balance sheet risk generally arises from the use of derivative financial instruments or short sales.

Credit Risk

Credit risk is the risk of losses due to the failure of a counterparty to perform according to the terms of a contract. The Company has established accounts with other financial institutions to clear its securities transactions. This can, and often does, result in a concentration of credit risk with one or more of these institutions. Such risk, however, is partially mitigated by the obligation of certain of these financial institutions to maintain minimum net capital and to segregate customers’ funds and financial instruments from the financial institution’s own holdings. The Company actively reviews and attempts to manage exposures to various financial institutions in an attempt to mitigate these risks.

The Company has concentration risk with respect to its derivative financial instruments. At December 31, 2021, Merrill Lynch, Pierce, Fenner and Smith Inc. serves as clearing broker for all of the Company’s net derivative assets. The Company also actively reviews, monitors, and seeks to reduce its net and gross notional exposures to various financial institutions through a variety of measures in an attempt to mitigate this risk.

A majority of the Company’s interest rate swaps are cleared through central clearinghouses. The credit risk of exchange-traded and/or certain OTC derivatives that are centrally cleared (“cleared derivatives”), such as exchange-traded futures and centrally cleared OTC derivative financial instruments, is reduced by the rules or regulatory requirements, such as daily margining, applicable to the individual exchanges, clearinghouses and clearing members through which these instruments are traded and cleared.

The cash and security account balances held at various global financial institutions, which typically exceed government sponsored insurance coverages, subject the Company to a concentration of credit risk. Where possible, CSG attempts to mitigate the credit risk that exists with these account balances by, among other factors, maintaining these account balances pursuant to segregated custodial arrangements.

Currency Risk

The Company may have exposure to non-U.S. currencies directly or indirectly through its Financial Instruments, and as such is subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by government entities, central banks or supranational entities, or by the imposition of currency controls or other geopolitical developments.

Liquidity and Leverage Risk

CSG maintains a pool of excess liquidity at the Company for various planned and contingent needs including, among others, mark-to-market losses on investments, changes in margin requirements as term financing facilities mature, increases in initial margin requirements by clearinghouses, and member’s capital activity, as applicable.

The Company generally invests on a leveraged basis, both through its financing arrangements, including repurchase agreements, and through the degree of leverage typically embedded in the derivative financial instruments in which it invests. The use of leverage can significantly magnify both gains and losses, increasing the possibility of the Company incurring a substantial loss. Leverage through margin borrowings generally requires collateral to be posted with prime brokers, custodians and counterparties. Market value movements could result in a prime broker, custodian or counterparty, under their respective agreements with the Company, having the right to reduce the value of such collateral or to require the posting of additional collateral, potentially resulting in the issuance of a margin call. This could also result in the Company having to sell assets at a time when the Company would not otherwise choose to do so. The Company seeks to mitigate this risk by utilizing term financing arrangements as well as negotiating trading and financing agreements that include objective valuation methodologies and dispute rights for valuation differences between the Company and its prime brokers, custodians and counterparties.

Other Risks

The Company is subject to risks associated with unforeseen or catastrophic events, including, but not limited to, terrorist attacks, natural disasters, and the emergence of a pandemic, which could create economic, financial, and business disruptions. These events could lead to operational difficulties that could impair CSG’s ability to manage the Company’s activities. CSG seeks to manage this risk through continuity and resiliency planning.

Legal, tax and regulatory changes could occur during the term of the Company. Certain of such changes could have a material adverse effect on the Company.

Contingencies

In the normal course of business, the Company enters into contracts that contain provisions related to general indemnifications. The Company’s maximum exposure under these arrangements is unknown, as any such exposure involves possible future claims that may be, but have not yet been, made against the Company, based on events which have not yet occurred. However, based on experience, CSG believes the risk of material loss from these arrangements to be remote.

The Company provides guarantees to the securities clearinghouse, LCH. Under the standard membership agreement, members are required to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet the resulting shortfalls. The Company’s liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, CSG believes the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried on the statement of financial condition for these arrangements.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

NOTE 8

Derivative Financial Instruments

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates, and other inputs, or a combination of these factors and generally represent commitments to exchange cash flows, or to purchase or sell other financial instruments at specified future dates. Derivatives generally reference notional amounts which are utilized solely as a basis for determining cash flows to be exchanged. Notional amounts provide a measure of the Company's portfolio commitment to such derivative financial instruments and are not necessarily indicative of economic exposure or potential risk. Derivatives may be traded on an exchange ("Exchange-traded") or they may be privately negotiated contracts, which are usually referred to as "OTC derivatives". OTC derivatives can be cleared and settled through central clearing counterparties ("OTC-cleared"), while others, such as bilateral contracts between two counterparties, will maintain the direct contractual relationship between executing counterparties.

The Company may enter into derivative financial instruments in the normal course of its market making business or to manage various underlying exposures for risk management purposes. Examples of the use of derivative financial instruments for risk management purposes include, but are not limited to, the following: interest rate derivatives to manage potential exposures to interest rate fluctuations and currency derivatives to manage potential foreign currency exchange rate risks on Financial Instruments and/or other assets and liabilities. The Company's derivative financial instrument risks should not be viewed in isolation, but rather CSG believes they should be considered on an aggregate basis along with the Company's other market making activities.

Futures and forwards are contracts that commit counterparties to purchase or sell financial instruments, commodities, or currencies for an agreed-upon price on an agreed future date. These instruments can involve market risk and/or credit risk in excess of the amount recognized on the statement of financial condition.

Interest rate derivative financial instruments are contractual agreements to exchange periodic interest payment streams calculated on a predetermined notional principal amount. Interest rate derivative financial instruments generally involve one party paying a fixed interest rate and the other party paying a variable interest rate. These instruments can involve market risk and/or credit risk in excess of the amount recognized on the statement of financial condition.

The following table presents the fair value of the Company's derivative contracts by underlying risk exposure, as well as information about the offsetting of derivative financial instruments and related collateral amounts (see information related to offsetting of certain collateralized transactions in Note 3). Gross derivative contracts in the table below exclude the effect of netting. Net derivative contracts agree to the total derivative assets and total derivative liabilities included in the fair value hierarchy tables in Note 4:

FAIR VALUE AS OF DECEMBER 31, 2021

	Derivative Assets	Derivative Liabilities
Gross derivative contracts		
Interest rate contracts		
Exchange-traded	$ 5,102	$ 17,511
OTC-cleared	2,307,987	2,302,582
Total gross derivative contracts	2,313,089	2,320,093
Amounts offset in the statement of financial condition		
OTC-cleared	(19,807)	—
Total payables for unsettled transactions	(19,807)	—
OTC-cleared	101,789	—
Total cash collateral	101,789	—
Exchange-traded	(17,511)	(17,511)
OTC-cleared	(2,302,582)	(2,302,582)
Total counterparty netting	(2,320,093)	(2,320,093)
Total Exchange-traded	(12,409)	—
Total OTC-cleared	87,387	—
Net derivative contracts	74,978	—
Amounts not offset	—	—
Total	$ 74,978	$ —

In the table above:

- OTC-cleared derivatives represent derivatives that are centrally cleared in accordance with certain regulatory requirements.
- Total gross derivative contracts include all derivative financial instruments, irrespective of whether there is a legally enforceable master netting agreement or similar arrangement in place.
- Amounts offset and amounts not offset relate to legally enforceable master netting agreements and collateral arrangements.
- Amounts are reported on a net basis in the statement of financial condition when subject to a legally enforceable master netting agreement or similar arrangement and when certain other criteria are met in accordance with applicable accounting guidance on offsetting.

The following table presents the average quarterly notional amount of the Company's derivative contracts by underlying risk exposure for the year ended December 31, 2021. The average quarterly notional amount provides an indication of the volume of the Company's derivative activity.

AVERAGE QUARTERLY NOTIONAL

	Derivative Assets	Derivative Liabilities
Gross derivative contracts		
Exchange-traded	$ 12,215,753	$ 15,443,366
OTC-cleared	214,970,841	221,697,438
Total interest rate contracts	227,186,594	237,140,804
Total Exchange-traded	12,215,753	15,443,366
Total OTC-cleared	214,970,841	221,697,438
Total gross derivative contracts	$227,186,594	$237,140,804

The Company attempts to manage the risks associated with its derivative financial instruments along with its cash instruments as part of its overall risk management process (discussed in Note 7).

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

NOTE 9

Income Taxes

The Company is disregarded for U.S. federal income tax purposes and is not subject to U.S. federal or state income tax directly; rather these are borne by CSUH's members or the partners of CSUH's members, where applicable.

In accordance with GAAP, CSG has reviewed the Company's tax positions for all open tax years. As of December 31, 2021, CSG has determined that the Company was not required to establish a liability for uncertain tax positions.

NOTE 10

Regulatory Requirements

The Company is registered as a swap dealer with the CFTC subject to CFTC Rule 23.101, effective October 6, 2021, which specifies the minimum capital requirements for its registrants. The Company has elected the net liquid assets approach for filing financial information with the CFTC and NFA via form FR-CSE-NLA. At December 31, 2021, net capital was $147,099 in excess of the Company's required minimum net capital of $20,000.

NOTE 11

Subsequent Events

The Company has performed an evaluation of subsequent events through February 24, 2022, which is the date the financial statement was available to be issued.

Effective January 1, 2022, the Company's cash advance agreement with CSLP was terminated and replaced with a revolving loan agreement. The revolving loan agreement matures on December 31, 2022 and has a commitment of $500,000. The loan bears interest at SOFR plus a spread

Effective January 1, 2022, CEAMER will continue to provide and Citadel Enterprise Americas Services LLC ("CEASC") and Citadel Securities Americas Services LLC ("CSASC"), both affiliates, will begin to provide administrative and investment-related services to the Company. The Company will reimburse CEAMER, CEASC, CSASC and their affiliates for direct and reimbursable administrative, general and operating expenses incurred by these entities on behalf of the Company.