



Enhanced Know Your Customer (KYC)

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Anita – we made some adjustments to the text on this slide for easier on screen reading. Are the changes we made here ok? the original text is to the right

Enhanced KYC Solution Package

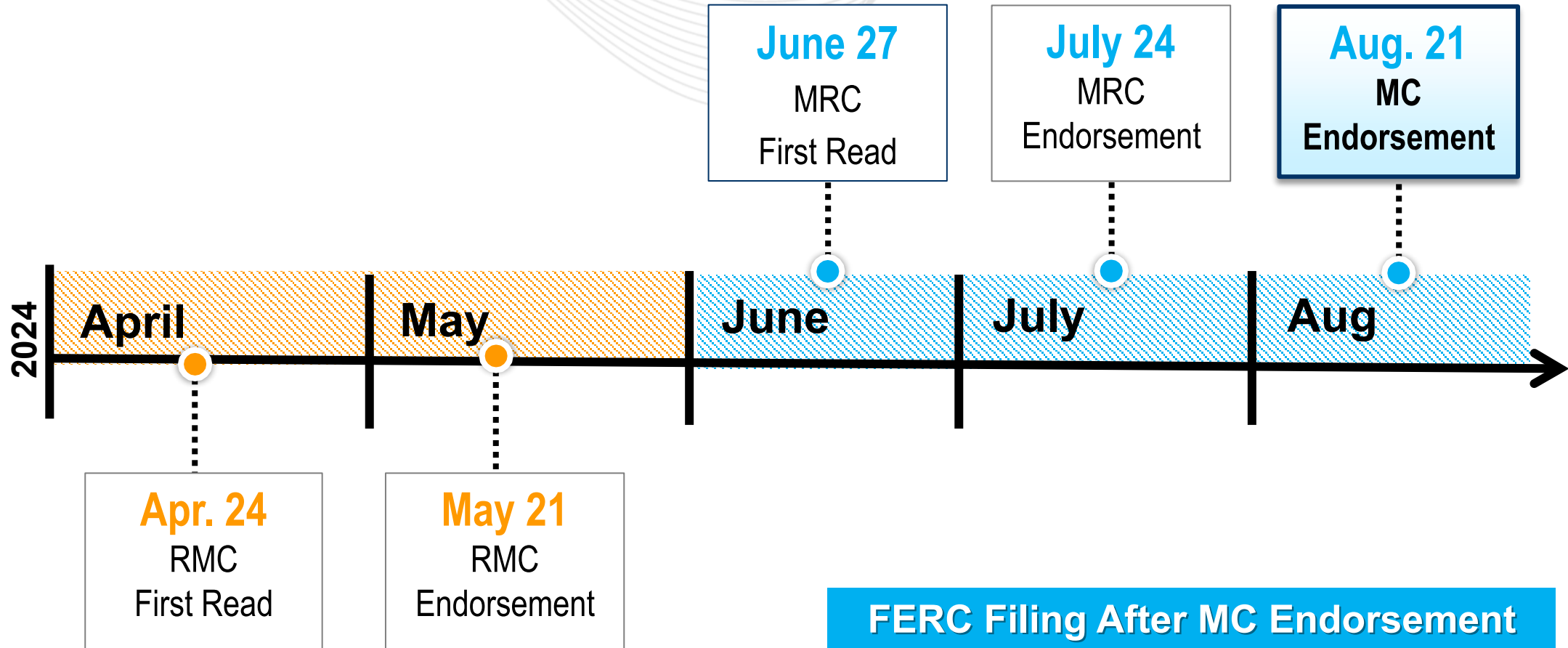
October 2023
[Problem Statement](#) and
[Issue Charge](#) introduced



May 2024
Endorsed by
acclimation

June 2020 – KYC First Implemented as a Result of the Financial Risk Mitigation Senior Task Force (FRMSTF)

- Scope focused on reevaluating and expanding the current definition of Principal.
- Discussion and inclusion of industry standards and best practices



PJM Proposes Revision of “Principal” Definition to:

1. Include beneficial owners; and
2. Modify existing “control person” categories within definition to enhance clarity and reflect desired scope.

“Principal” Should Provide an Answer to the Following Question:

Which natural persons have the most significant potential risk impact on PJM’s Market Participants, and by extension, on PJM?

Beneficial Owners Are Relevant When They:

1. Have a material economic interest in a Market Participant; and/or
2. Have the ability to materially affect the actions of a Market Participant through voting power.

Beneficial Owner Shall Mean:

Each natural person who, directly or indirectly, alone or together with such person's family members, owns, controls or holds with power to vote 10% or more of the outstanding securities in the Participant.

The 10% Threshold:

- i. Is a reasonable line between what should be considered material and what should be considered *de minimis*; and
- ii. Is found within comparable definitions used by PJM, FERC and other RTOs/ISOs (see Appendix)

Proposed Changes to Existing Language:

1. Clean up the “control person” categories set forth under the “Principal” definition; and
2. Put greater emphasis on **what these persons do in their roles** and less on what their roles are called.

1. Broader disclosure of litigation and contingencies pursuant to Attachment Q, Section II.A.5 and II.E.4

- litigation, arbitration, investigation (formal inquiry initiated by a governmental or regulatory entity), or proceeding, pending or, to the knowledge of the involving, Market Participant/Applicant or its Guarantor or any of their Principals that would likely have a material adverse impact on its financial condition and/or would likely materially affect the risk of nonpayment by the Market Participant/ Applicant or Guarantor
- any finding of material defalcation, market manipulation or fraud by or involving the Market Participant/Applicant, Guarantor, or any of their Principals, predecessors, subsidiaries, or Credit Affiliates that participate in any United States power markets based upon a final adjudication of regulatory and/or legal proceedings

2. Broader disclosure of Principals’ experience in managing risks in similar markets, including other organized RTO/ISO markets or on regulated commodity exchanges, pursuant to Attachment Q, Section II.A.2.

Appendix

"Principal" shall mean:

- i. the chief executive officer or senior manager that controls or directs strategy for the Participant,
- ii. the chief legal officer or general counsel,
- iii. the chief financial officer or senior manager that controls or directs the financial affairs and investments of the Participant,
- iv. the chief risk officer or senior manager responsible for managing commodity and derivatives market risks, and
- v. the officer or senior manager responsible for or to be responsible for transactions in the applicable PJM Markets.

If, due to the Participant's business enterprise, structure or otherwise, the functions attributed to any of such Principals are performed by an individual or entity separate from the Participant (such as a risk management department in an affiliate, or a director or manager at an entity that controls or invests in the Participant), then for that Participant the term Principal shall mean that individual, or the senior officer or manager of that entity, that performs such function.

Source	Definition
ISO-NE	<p>“Principal” is (i) the sole proprietor of a sole proprietorship; (ii) a general partner of a partnership; (iii) a president, chief executive officer, chief operating officer or chief financial officer (or equivalent position) of an organization; (iv) a manager, managing member or a member vested with the management authority for a limited liability company or limited liability partnership; (v) any person or entity that has the power to exercise a controlling influence over an organization’s activities that are subject to regulation by the Federal Energy Regulatory Commission, the Securities and Exchange Commission, the Commodity Futures Trading Commission, any exchange monitored by the National Futures Association, or any state entity responsible for regulating activity in energy markets; or (vi) any person or entity that: (a) is the direct owner of 10% or more of any class of an organization’s equity securities; or (b) has directly contributed 10% or more of an organization’s capital.</p>
NYISO	Same as ISO-NE
FERC (18 C.F.R. sec. 35.36(a) (9))	<p>“Affiliate” includes:</p> <p>Any person that directly or indirectly owns, controls, or holds with power to vote, 10% or more of the outstanding voting securities of the specified company. Owning, controlling or holding with power to vote, less than 10% of the outstanding voting securities of a specified company creates a rebuttable presumption of lack of control.</p> <p>Any person or class of persons that the Commission determines, after appropriate notice and opportunity for hearing, to stand in such relation to the specified company that there is liable to be an absence of arm’s-length bargaining in transactions between them as to make it necessary or appropriate in the public interest or for the protection of investors or consumers that the person be treated as an affiliate.</p>

Definition

PJM Operating Agreement (Section 1, Definitions)

“Affiliate” means any two or more entities, one of which Controls the other or that are under common Control.

“Control” mean the possession, directly or indirectly, of the power to direct the management or policies of an entity. Ownership of publicly-traded equity securities of another entity shall not result in Control or affiliation for purposes of the Tariff or Operating Agreement if the securities are held as an investment, the holder owns (in its name or via intermediaries) less than 10% of the outstanding securities of the entity, the holder does not have representation on the entity's board of directors (or equivalent managing entity) or vice versa, and the holder does not in fact exercise influence over day-to-day management decisions.

Unless the contrary is demonstrated to the satisfaction of the Members Committee, Control shall be presumed to arise from the ownership of or the power to vote, directly or indirectly, ten percent or more of the voting securities of such entity.

PJM Operating Agreement (Section 1, Definitions)

“Effective FTR Holder” means:

For an FTR Holder that is either a (a) privately held company, or (b) a municipality or electric cooperative, as defined in the Federal Power Act, such FTR Holder, together with any Affiliate, subsidiary or parent of the FTR Holder, any other entity that is under common ownership, wholly or partly, directly or indirectly, or has the ability to influence, directly or indirectly, the management or policies of the FTR Holder.

For an FTR Holder that is a publicly traded company including a wholly owned subsidiary of a publicly traded company, such FTR Holder, together with any Affiliate, subsidiary or parent of the FTR Holder, any other PJM Member that has over 10% common ownership with the FTR Holder, wholly or partly, directly or indirectly, or has the ability to influence, directly or indirectly, the management or policies of the FTR Holder.

Source

PJM Tariff, Definitions

Definition

“Credit Affiliate” means:

Principals, corporations, partnerships, firms, joint ventures, associations, joint stock companies, trusts, unincorporated organizations or entities, one of which directly or indirectly controls the other or that are both under common Control.

“Control,” as that term is used in this definition, shall mean the possession, directly or indirectly, of the power to direct the management or policies of a person or an entity.

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