



# Financial Risk Mitigation Senior Task Force Update

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# Financial Statements and Related Information (Section II. A.2., B.2.)

(b) If privately held, for the fiscal year most recently ended:

- i. Managements Discussion & Analysis, or equivalent disclosure, including but not limited to executive overview and outlook, operating results, and off balance sheet arrangements.
- ii. Report of Independent Accountants Auditors Report or written letter from auditor containing opinion whether the financial statements comply with US GAAP or IFRS
- ix. Auditor's opinion



## Litigation, Commitments, Contingencies (Section II.A.5.)

Each Applicant, Guarantor and Guaranteed Affiliate is also required to disclose and provide information as to any pending threatened litigation, arbitrations, investigations (formal inquiry initiated by a governmental or regulatory entity) and proceedings concerning or involving the Applicant, Guarantor, Guaranteed Affiliate, its predecessors, subsidiaries, Affiliates that participate in any United States power markets and/or top five (5) Principals concerning any violations of any federal or state regulations or laws regarding energy commodities or the U.S. Securities and Exchange Commission ("SEC"), U.S. Commodity Futures Trading Commission ("CFTC"), FERC or Office of the Comptroller of the Currency ("OCC") requirements by the SEC, CFTC, FERC, any exchange monitored by the National Futures Association, any entity responsible for regulating activity in energy markets, or any other governing, regulatory, or standards body which could ~~would likely~~ have a Material adverse impact on its financial condition and would likely materially affect the risk of non-payment by the Applicant, Guarantor or Guaranteed Affiliate, unless prohibited by law.



## Default History (Section II.A.6)

Each Applicant, Guarantor, Guaranteed Affiliate, and each of the top five (5) Principals of an Applicant that is not publicly traded, shall disclose their current default status and default history for any energy related generation or transmission project (e.g. generation, solar, development), and within any wholesale or retail energy market, including but not limited to within PJM, any Independent System Operator or Regional Transmission Organization, and exchange that has not been cured within the past five (5) years. Defaults of a non-recourse project financed entity do not need to be included in the default history.



# Definitions for Affiliate & Principal

**"Affiliate,"** as that term is used in Tariff, Attachment Q, shall mean any two or more 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" shall mean the possession, directly or indirectly, of the power to direct the management or policies of a person or 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 percent (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.

**"Principal"** shall mean an **any one or more** individuals that have the ability to Control or direct the strategy for the disposition of assets and/or cash flow. **"Control,"** as that term is used in this definition, shall mean the possession, directly or indirectly of the power to direct management or policies of an entity, with the following roles and responsibilities: (i) sole proprietor of a sole proprietorship; (ii) general partner of a partnership; (iii) manager, managing member of a member vested with the management authority for a limited liability company or limited liability partnership; (iv) any person or entity that (1) is the direct owner of 10% or more of any class of an organization's equity securities or (2) has directly contributed 10% or more of an organization's capital; (v) a director, president, chief executive officer, vice president, secretary, treasurer, operating officer, risk officer, general counsel, compliance officer, financial officer, general manager, comptroller or senior officer (or equivalent positions) of a corporation or other organization, or individuals to whom they have delegated authority to perform executive duties functions; and (vi) any person or entity that has the power to exercise supervisory authority or influence over an organization's trading activities in PJM.



## Unreasonable Credit Risk (Section II.A.8)

If PJM determines that an Applicant poses an unreasonable credit risk to the PJM Markets, FTR markets or any other markets operated by PJM, PJM may require Collateral, additional Collateral, or Restricted Collateral commensurate with the Applicant's risk of financial default. PJM may reject an application, and/or limit or deny Applicant's participation in the PJM Markets, FTR markets or any other markets operated by PJM, to the extent and or the time period it determines is necessary to mitigate the unreasonable credit risk to the PJM Markets, FTR markets or any other markets operated by PJM. Rejecting an application will only occur if Collateral, additional Collateral or Restricted Collateral cannot address the unreasonable credit risk.



## Minimum Capitalization (Section III.D.1)

Minimum capitalization may be met by demonstrating minimum levels of Tangible Net Worth or total assets. FTR Participants must demonstrate a Tangible Net Worth in excess of \$4 **10** million or tangible assets in excess of \$**20** million. Other Market Participants must demonstrate a tangible net worth in excess of \$500,000 **1** million or tangible assets in excess of \$**10** **5** million.

## Position Limits Limits on Market Participation

If a Market Participant presents an unreasonable credit risk, PJM will take steps to mitigate the financial exposure to the PJM Markets, FTR Markets and any other market operated by PJM , which may include requiring Collateral, additional Collateral or Restricted Collateral commensurate to the risk to the PJM Markets...any other market operated by PJM.

When a Market Participant is unable to reduce or eliminate any unreasonable credit risks to PJM's satisfaction through the posting of Collateral...PJM may apply limitations to apply Position Limits to (a) avoid allowing anyone to exert undue control over a market or auction, (b) prevent Market Participants from manipulating prices to their benefit and to the detriment of others, (c) reduce the financial loss that could arise if a Market Participant were to default on its obligations, (d) reduce risk exposure to counterparties to transactions in the PJM Markets, FTR markets and any other markets operated by PJM and the PJM Members, and (e) reduce the financial loss that could arise based on the actions/activity of a particular Market Participant.