CAPITALIZATION CONSIDERATIONS
The package stakeholders just voted for included the status quo for the minimum capitalization standard.
**REDUCE DEFAULT RISK WITHOUT SACRIFICING COMPETITION**

- Participants can be grouped or ranked by their capitalization and risk—a dollar amount that could be defaulted upon.

<table>
<thead>
<tr>
<th>Capitalization</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Capitalization</td>
<td>Low Risk</td>
</tr>
<tr>
<td>High Capitalization</td>
<td>High Risk</td>
</tr>
<tr>
<td>Low Capitalization</td>
<td>Low Risk</td>
</tr>
<tr>
<td>Low Capitalization</td>
<td>High Risk (e.g., GreenHat)</td>
</tr>
</tbody>
</table>

New collateral and risk evaluation enhancements eliminate this square.
**REDUCE DEFAULT RISK WITHOUT SACRIFICING COMPETITION**

- Now raising the minimum capitalization to $10M places additional requirements, costs, and scrutiny on the wrong square.

<table>
<thead>
<tr>
<th>Capitalization</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High Capitalization High Risk</td>
</tr>
<tr>
<td>Low</td>
<td>Low Capitalization Low Risk</td>
</tr>
</tbody>
</table>

This is where the next material default will come from.

Add’l Costs

With new collateral rules, this square is incapable of obtaining positions that could cause a material default.
CAPITALIZATION IS ONLY PART OF THE PICTURE

• The point of recent risk evaluation enhancements is to ensure collateral/capitalization is *commensurate with risk*. Every participant should be equally evaluated by considering *both* capitalization and risk.

```
High Capitalization
Low Risk

High Capitalization
High Risk

Low Capitalization
Low Risk

Low Capitalization
High Risk
```

If any square deserves extra scrutiny, it is this one: Capitalization

Therefore, we should keep capitalization at $1M like every other ISO and address the real issues elsewhere as we have been doing.

(e.g., GreenHat)
DON’T EXCLUDE THE SAFEST ASSETS

• According to updated Attachment Q (p24): “Tangible Net Worth shall exclude assets ... which PJM reasonably believes to be restricted, highly risky, or potentially unavailable to settle a claim in the Event of Default.”

• This is absolutely necessary for questionable assets on a balance sheet.

• However, collateral held by PJM is excluded from Tangible Net Worth – why?

| Collateral held by PJM | Readily available assets held elsewhere | Restricted, highly risky, or unavailable assets |

• Collateral held by PJM is unquestionably available to settle a claim in the Event of Default, so it should be included in Tangible Net Worth (or tangible assets).