Financial Risk Mitigation Senior Task Force
Monthly Progress Report

MC Webinar
October 30, 2019

The Markets and Reliability Committee (MRC) approved the creation of the Financial Risk Mitigation Senior Task Force (FRMSTF) to evaluate the recommendations in the Report of the Independent Consultants on the GreenHat Default (https://www.pjm.com/-/media/library/reports-notices/special-reports/2019/report-of-the-independent-consultants-on-the-greenhat-default.ashx?la=en) (the Report) related to:

- Market rules updates
- Credit and risk management rules updates
- Membership qualifications and processes updates
- Stakeholder process changes

Progress Update

5/13/19 Meeting Update

The first meeting of FRMSTF took place on May 13, 2019. PJM staff provided a review of their observations of the Report of the Independent Consultants on the GreenHat Default in relation to the recommendations within the report. In addition, PJM staff also introduced various framing questions focused on each of the four work streams to provide a baseline for stakeholder discussion and feedback. Education was also provided during this meeting including an overview of current OA language for the responsibilities of the PJM Board, Officers and Office of the Interconnection in relation to the stakeholder process.

Stakeholders were asked to continue their review of the observations document and framing questions and provide additional written feedback via a follow-up survey which was distributed as a follow-up to the meeting.

6/6/19 Meeting Update

The second meeting of the FRMSTF took place on June 6, 2019. During this meeting, a timeline was shared with the Stakeholders on the sequencing of various work products associated with each work stream that would be presented at future meetings. Education was also provided by PJM staff during this meeting including an overview of the OATT Schedule 9, an overview of the FRT and Bilateral Markets and a comparison of the credit rules across various ISOs/RTOs. In addition, the IMM also presented on their perspectives of ARR/FTR Market Design. The meeting continued with discussion on the framing questions survey feedback where a summary was provided of the results within each work stream. Stakeholders also had the opportunity to offer additional feedback on PJM's observations of the Report of the Independent Consultants on the GreenHat Default.

6/25/19 Meeting Update

The third meeting of the FRMSTF took place on June 25, 2019. During this meeting, Ms. Anita Patel provided a demo of the newly developed FRMSTF dashboard which allows stakeholders to track the status of work related to each of the recommendations included in the Report of the Independent Consultants on the GreenHat Default. Education was also provided by both PJM staff and stakeholders. Education from PJM included a review of FTR performance improvement analysis and stakeholders presented on load serving entities' perspectives on the ARR/FTR market design and ARR/FTR market design risk factors and reduction. The meeting continued with a review of discussion papers on Enduring Governance of PJM's Financial Markets and FTR Default Allocation and Central Counterparty. The meeting concluded with a review and comparison of ISO/RTO requirements for long-term FTR products.

7/17/19 Meeting Update

The fourth meeting of the FRMSTF took place on July 17, 2019. During this time, it was announced that the FRMSTF Dashboard was live and would be updated following each meeting as applicable. This meeting included an education session from Nodal Exchange titled Futures Clearing 101 and provided background and education on an external clearing house. The meeting continued with discussion on topics within the Credit and Risk Management work stream including a report on a Desktop Review for Methodologies for Initial Margin Calculation, a discussion paper on Position Limits and Liquidity Risk and Variation and Post-Auction Settlement was also presented. The meeting also included discussion on two initial proposals including Enduring Governance (Stakeholder Process) and the recommended changes of the FTR Product Range and Auction process. The meeting concluded with some education from stakeholders on the topic of FTR Market Rules and Market Design.

Stakeholders were encouraged to provide feedback and consider alternative proposals leading up to the next FRMSTF meeting for the two proposals presented at the meeting.

8/14/19 Meeting Update

The fifth meeting of the FRMSTF took place on August 14, 2019. During this meeting, Ms. Susan Riley introduced Ms. Nigeria Bloczynski, the new Chief Risk Officer for PJM. Ms. Nigeria Bloczynski provided her vision for the credit work stream of the FRMSTF and her participation in the senior task force moving forward. The meeting discussion focused on the initial proposal for PJM's recommended changes with respect to due diligence criteria and an assessment process and PJM's recommended changes with respect to authorities and discretion to deny or revoke trading rights. Stakeholders provided feedback for review by PJM. In addition, two solution matrices were presented including an update to the proposal for Enduring Governance (Stakeholder Process) to include subcomponents as well as PJM's initial proposal on the FTR Product Range.

Stakeholders were encouraged to provide feedback and consider alternatives for the proposals presented at the meeting.

9/5/19 Meeting Update

The sixth meeting of the FRMSTF took place on September 5, 2019. During this meeting, a voting schedule and timeline was presented to the FRMSTF participants to allow stakeholders to follow the progress and expected dates for voting for each work stream. In addition, the discussion focused on the Credit and Risk Management work stream and an overview of a paper addressing default and termination events and financial criteria for market participation were presented at this meeting. PJM also reviewed their proposal for the FTR Product Range and stakeholders reviewed alternatives for discussion during the meeting.

Stakeholders were encouraged to review the all the FTR Product Range packages and were informed that voting for this item would open the following week. Voting results will be announced at the September 24-25 meeting.

10/30/19 Meeting Update

Two meetings of the FRMSTF took place on September 24-25 and October 18, 2019. During the September meeting, the discussion focused on the Credit and Risk Management and Markets work streams. Nodal Exchange presented a proposed solution for an FTR Clearing Proposal and PJM discussed a paper addressing External Clearing for the PJM FTR Market. The results of the FTR Product Range and Auction Process vote was also presented at this meeting. The PJM/Vitol package received the highest level of support with 75% voting in favor of this package.

During the October 18th meeting of the FRMSTF, discussion continued on the Market Participant Qualification work stream. A follow-up to the discussion that started at the August 14th meeting of the FRMSTF was presented at this meeting which focused on best practices associated with credit policy, collateral management and know your customer. Draft language associated with the endorsed package for the FTR Product Range and Auction Process was also presented to stakeholders at this meeting prior to review at the MRC at the end of October. Lastly, education was also presented on FTR underfunding which was requested by stakeholders at the September FRMSTF meeting.

Following this meeting, a poll was distributed to allow stakeholders to provide feedback on the key areas of the Credit Industry Standards and Best Practices presentation that was discussed at this meeting. Poll results will be posted prior to the next FRMSTF scheduled for November 7, 2019.

12/2/19 Meeting Update

Two meetings of the FRMSTF took place on November 11th and 21st, 2019. During the November 11 meeting, the discussion focused on the Credit and Risk Management and Markets work streams. Poll results from the previous meeting associated with Credit Best Practices and FTR Underfunding and Risk Mitigation were reviewed with stakeholders. In addition, the solutions matrix for the Market Participant Qualification/Credit Best Practices work stream was presented to stakeholders for discussion. This meeting also included a review of the results of a Risk Model Quantitative Analysis pertaining to Monte Carlo simulations. Lastly, PJM presented and discussed an initial proposal on addressing PJM Initial Margin.

During the November 21st meeting of the FRMSTF, discussion continued on the Market Participant Qualification work stream. This included a follow-up to the solutions matrix that was presented at the November 11th meeting in preparation for vote in December. In addition, as a follow-up to the discussion that started at the July 17th FRMSTF meeting, an updated proposal was presented on the Stakeholder Governance/Process changes. Two alternate proposals were also discussed on behalf of stakeholders including one focusing on Exchange Based Clearing of FTRs and a second alternate proposal on FTR Minimum Collateral Requirements.

Based on the above discussion and what was presented during the November 11th meeting of the FRMSTF, stakeholders were also presented with an updated voting timeline to allow time for the appropriate discussion to take place leading up the voting on the packages. The updated voting timeline can be found with the November 21st meeting materials on the FRMSTF page on pjm.com. This discussion included delaying the Credit and Risk Management work stream out to 2020 to while continuing forward with the Market Participant Qualification/Best Practices work stream through the end of this year.

Following this meeting, a poll was distributed to allow stakeholders to provide feedback on the key areas of the Credit Industry Standards and Best Practices presentation that was discussed at this meeting. Poll results will be posted prior to the next FRMSTF scheduled for November 7, 2019. An additional meeting was also added on December 9th to accommodate the timeline changes.

Next meeting: December 9, 2019
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