

Enhanced Know Your Customer (KYC)

Anita Patel
Sr. Manager – Risk Services

Eric Scherling
Assistant General Counsel

Risk Management Committee
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Scope focuses on reevaluating and expanding the current definition of Principal.

- Definition in PJM Tariff currently focuses on officers or senior managers of the company.
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- Expand definition to include others with ownership or substantial control of the company.

"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.

PJM's definition of Principal focuses on specific roles/titles and does not include other individuals that have ownership interest in or substantial control of the Participant.

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 percent or more of the outstanding securities in the Participant.

Three Design Components – *Two Separate Areas of Focus*

Principal Definition

Components 1 and 3 focus on **expanding the definition of Principal.**

- Principal definition roles – Inclusion of, and defining Beneficial Owner, clarifying current Principal roles as needed
- Beneficial Owner will be an additional Principal role.

Conducting KYC Procedures

Component 2 focuses on **identify verification and KYC process.**

- Who will PJM be conducting KYC background check procedures on?

Non-Publicly Traded Entities

Principal Type	Provide List of Names	Background Checks	Government-Issued ID
	Yes/No		
Beneficial Owner	Y	Y	Y
Member of Board of Directors	Y	Y	N**
Other Principal Roles*	Y	Y	Y

* Other Principal roles as set forth in the PJM Tariff

** PJM may require a copy of a government-issued ID if additional due diligence is deemed necessary

Publicly Traded Entities, Munis, Co-ops

Principal Type	Provide List of Names**	Background Checks***	Government-Issued ID
	Yes/No		
Beneficial Owner	Y	N	N
Member of Board of Directors	Y	N	N
Other Principal Roles*	Y	N	N

* Other Principal roles as set forth in the PJM Tariff

** PJM will discuss options to provide this data in an upcoming RMC meeting

*** PJM may require background checks if additional due diligence is deemed necessary

- Adopting best practices from FERC, FinCEN standards and the Corporate Transparency Act (CTA) and tailoring them to PJM's needs
- Consistency with FERC standards for determining affiliate status
- Consideration for FinCEN best practices already adopted by other ISOs/RTOs
 - Inclusion of Beneficial Owners
 - Individuals with 10% or greater ownership interest in the company
 - Identity Verification
 - Providing copies of government issued identification for certain types of Principals

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.

Identifying possible forms of control over regulated entities is a matter of priority for FERC.

- **In 2022**, FERC clarified its interpretation of “affiliate” such that two entities are affiliates where one entity has authority to appoint a board member of the other entity, even if the appointing entity’s ownership stake is less than 10%.

See Evergy Kansas Cent., Inc. 181 FERC ¶ 61,044 and Transalta Energy Mktg. (U.S.) Inc., 181 FERC ¶ 61,055.

- **In December 2023**, FERC issued a Notice of Inquiry (185 FERC ¶ 61,192) as to whether it should revise policy granting blanket authorizations to investment companies under FPA Section 203.

The inquiry includes factors to be considered when evaluating control over public utilities as part of a request for blanket authorization.

This NOI proceeding (AD 24-6-000) remains pending.

Appendix

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>

Source

Definition

Corporate Transparency Act

Beneficial owner is:

- Each individual who owns or controls at least 25% of the ownership interests of such reporting company
- Each individual who exercises substantial control over the reporting company
- An individual “exercises substantial control” if that individual:
 - A. Serves as a senior officer of the reporting company;
 - B. Has authority over the appointment or removal of any senior officer or a majority of the board of directors (or similar body);
 - C. Directs, determines or has substantial influence over important decisions made by the reporting company, including decisions regarding:
 1. The nature, scope and attributes of the business of the reporting company, including the sale, lease, mortgage or other transfer of any principal assets of the reporting company;
 2. The reorganization, dissolution or merger of the reporting company;
 3. Major expenditures or investments, issuances of any equity, incurrence of any significant debt, or approval of the operating budget of the reporting company;
 4. The selection or termination of business lines or ventures, or geographic focus, of the reporting company;
 5. Compensation schemes and incentive programs for senior officers;
 6. The entry into or termination, or the fulfillment or non-fulfillment, of significant contracts;
 7. Amendments of any substantial governance documents of the reporting company, including the articles of incorporation or similar formation documents, bylaws, and significant policies or procedures; or
 - D. Has any other form of substantial control over the reporting company.

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.

Facilitator:
Tom Zadlo, Thomas.Zadlo@pjm.com

Secretary:
Julia Spatafore,
Julia.Spatafore@pjm.com

SME/Presenter:
Anita Patel, Anita.Patel@pjm.com

Eric Scherling,
Eric.Scherling@pjm.com

Enhanced Know Your Customer (KYC)



Member Hotline

(610) 666-8980

(866) 400-8980

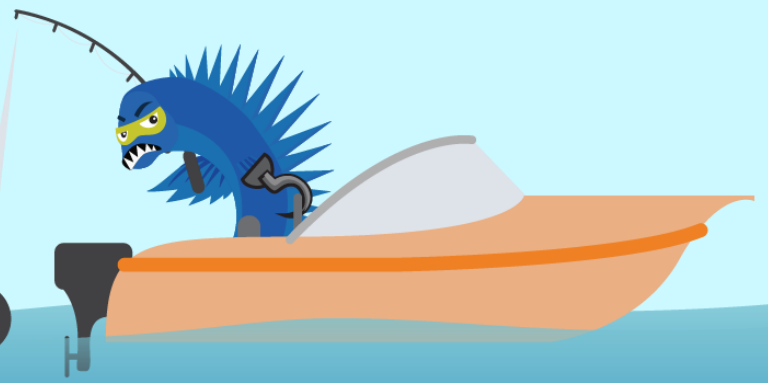
custsvc@pjm.com

**PROTECT THE
POWER GRID**

**THINK BEFORE
YOU CLICK!**



**BE ALERT TO
MALICIOUS PHISHING
EMAILS**



**Report suspicious email activity to PJM.
Call (610) 666-2244 or email it_ops_ctr_shift@pjm.com**