



Alternative Proposal for PJM Market Participant Risk Evaluation

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Citadel Supports an Enhanced Market Participant Risk Evaluation Model

- Citadel supports PJM's concept of a market participant risk evaluation model based on risk tiers and applicable limits
- Citadel also supports setting those tiers and limits based on key risk ratings considerations, including, but not limited to:
 - External credit ratings and internal risk scores
 - Default history and know-your-customer reviews
 - Audited financial statements
 - Increased cash/letter of credit in escrow to account for tail events not protected by variation margining
- However, Citadel believes an alternative approach for determining a firm's risk tier and applicable limits should be based on either (1) tangible net worth or (2) cash/letter of credit posted with PJM
 - Access to readily available assets is an objective measure of a firm's ability to meet its obligations in the event of a default event
 - Under this model, a firm would be assigned a tier using either PJM's risk ratings considerations (Criteria Set 1) or the alternative considerations (Criteria Set 2)

Citadel's Proposal

Tier	Risk Ratings Consideration		Limits	Threshold for Collateral Action
	Criteria Set 1	Criteria Set 2		
1	<ul style="list-style-type: none"> • Credit Rating of AA- or Higher • Clean Default History and KYC • Credit Risk Score Below 3.0 • Audited Financial Statements • Cash/LC Lockbox Payment = Up to \$5MM at PJM's Discretion 	<ul style="list-style-type: none"> • Either (1) Tangible Net Worth \geq \$200MM or (2) Cash/LC Lockbox Payment = \$50MM • Clean Default History and KYC • Audited Financial Statements 	<ul style="list-style-type: none"> ▪ MtM Limit ▪ Concentration Limit 	Higher
2	<ul style="list-style-type: none"> • Credit Rating of BBB+ to A+ • Clean Default History and KYC • Credit Risk Score Between 3.0 and 3.5 • Audited Financial Statements • Cash/LC Lockbox Payment = Up to \$5MM at PJM's Discretion 	<ul style="list-style-type: none"> • Either (1) Tangible Net Worth \geq \$150MM or (2) Cash/LC Lockbox Payment = \$37.5MM • Clean Default History and KYC • Audited Financial Statements 	<ul style="list-style-type: none"> ▪ MtM Limit ▪ Concentration Limit 	Lower than Tier 1
3	<ul style="list-style-type: none"> • Credit Rating of BBB- or Higher • Clean Default History and KYC • Credit Risk Score Between 3.5 and 4.5 • Audited Financial Statements • Cash/LC Lockbox Payment = Up to \$5MM at PJM's Discretion 	<ul style="list-style-type: none"> • Either (1) Tangible Net Worth \geq \$100MM or (2) Cash/LC Lockbox Payment = \$25MM • Clean Default History and KYC • Audited Financial Statements 	<ul style="list-style-type: none"> ▪ MtM Limit ▪ Concentration Limit ▪ Position Limit 	Lower than Tier 2
4	<ul style="list-style-type: none"> • Clean Default History and KYC • Audited Financial Statements • Cash/LC Lockbox Payment = Up to \$10MM at PJM's Discretion 		<ul style="list-style-type: none"> ▪ MtM Limit ▪ Concentration Limit ▪ Position Limit 	Lower than Tier 3

End Notes

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