

PJM FTR Bilaterals

RMC

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IMM



Monitoring Analytics

PJM Bilateral Rules

- **Current process uses voluntary bulletin board for reporting bilaterals to PJM**
 - **PJM settlements process used to direct payments**
- **Bilaterals are not required to be reported/registered.**
- **Via bulletin board, participants provide limited data on bilateral arrangements that are registered/reported to PJM:**
 - **Start and end date, trade type, posting participant, accepting participant, quantity, market name, auction round, period type, source pnode, sink pnode, hedge type, class type, event time and price.**
 - **But price reporting is not required. Contracts not provided.**

PJM Bilateral Rules

- **As a result of the current bilateral FTR rules, PJM continues to require the indemnification rule.**
- **There is no requirement to report bilateral sales of FTRs to PJM.**
- **PJM has no information about the credit quality or default risk of the buyer if the bilateral sale of the FTR not reported to PJM.**
- **Bilateral sales may be reported to PJM.**
- **PJM does KYC for bilateral FTR buyers reported to PJM.**

PJM Bilateral Rules

- **The indemnification rule requires that the seller maintain collateral/credit against default risk from the buyer.**
 - **(see Operating Agreement Schedule 1, Section 5.2.2 (d)(iv))**



PJM Bilateral Rules

- **PJM is currently trying to address the lack of transparency in FTR bilateral arrangements that affect risk in FTR market:**
 - **Improving reporting requirements**
 - **Requiring price reporting. (if available)**
 - **Requiring the underlying contracts.**
- **But even with the proposed changes, PJM cannot eliminate the indemnification rule.**

IMM Recommendation

- **The IMM recommends that bilateral FTR transactions be eliminated and that all FTR transactions occur in the PJM market.**
 - **No FTR bilaterals recognized by PJM or PJM settlements.**
 - **All transfers of FTRs between participants must occur in the PJM FTR auctions.**
- **No effect on voluntary, non PJM, bilateral financial transactions between participants.**

IMM Recommendation

- **Improved transparency in the FTR market.**
- **All FTR holders required to go through PJM KYC process (know your customer), credit and membership requirements.**
- **FTR auction prices used for mark to market will be the result of all exchanges between participants in the FTR market.**
- **Eliminates need for PJM to collect, manage and interpret bilateral contracts for risk or price information.**

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