



Revision to Collateral Investment Options

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Disclaimer

- **The purpose of the information contained in this presentation is to provide context for upcoming changes to the NYISO's collateral investment options. This information is not intended as, and Market Participants should not rely on this information as a substitute for, investment or legal advice.**

Background

In 2014, the Securities and Exchange Commission (SEC) adopted changes to the rules that govern money market mutual funds (MMMF's). The related SEC press release, issued July 23, 2014, stated that the changes “make structural and operational reforms to address risks of investor runs in money market funds.”

These new rules require institutional prime MMMFs (including municipal MMMFs) to value their portfolio securities using market-based factors and sell and redeem shares based on a floating net asset value (FNAV). These funds will no longer be allowed to use the special pricing and valuation conventions that currently permit them to maintain a constant share price of \$1.00, resulting in the daily share prices of these funds fluctuating along with changes in the market based value of the funds' investments.

In addition, non-governmental MMMF boards will have the ability to impose liquidity fees and suspend redemptions temporarily (redemption gates) during periods of stress to stem heavy redemptions.

Federal government money market funds will not be subject to these new rules (i.e., FNAV, liquidity fees, redemption gates).

The required compliance date for these rule changes is October 14, 2016.

Potential Impacts

The MuniFund is the only Market Participant collateral investment option currently impacted by the MMMF rule changes.

Once the new rules become effective, Market Participants invested in the MuniFund and the NYISO would need to evaluate the credit, liquidity, and interest rate risk of this FNAV fund. The value of cash collateral needed to meet a Market Participant's credit requirement would fluctuate along with changes in the market-based value of fund assets, rather than maintain a constant share price of \$1.00. If the share price fell below \$1.00, there would be the potential for the NYISO and Market Participants invested in this fund to be under collateralized, which could expose the NYISO-administered markets to bad debt losses.

Redemption gates could impact fund liquidity and result in the inability of Market Participants and/or the NYISO to access cash collateral in a timely manner and potentially impact tariff compliance.

Liquidity fees imposed on fund redemptions would be an additional cost to Market Participants for their market participation.

Revision to Investment Options

In response to the potential impacts identified, NYISO staff, in consultation with BlackRock, has determined that a governmental MMMF is an investment option that would provide appropriate liquidity and stability of principal required by the NYISO and would be exempt from the new MMMF rules.

Effective August 1, 2016, NYISO will be replacing BlackRock's MuniFund with BlackRock's FedFund Institutional as an investment option.

There will be no changes to the other investment options currently provided by NYISO.

Next Steps

May/June - Inform Market Participants via the Credit Policy Working Group and email of the collateral investment option change and inform them that all funds currently within the MuniFund will be transferred into the FedFund unless they formally elect one of the other available investment options in writing

Mid July - Provide Blackrock with NYISO instructions and Market Participant investment elections to execute transfer of collateral funds

August 1 - Effective date of investment transfers from MuniFund to FedFund in advance of October 14, 2016 compliance date

Market Participant Collateral Election Form



10 Krey Boulevard • Rensselaer, NY 12144

MARKET PARTICIPANT COLLATERAL INVESTMENT ELECTION FORM

Market Participants electing to post cash as a form of collateral are required to complete this form. Market Participants have four different options for investing their cash collateral deposits – two different taxable money markets fund, a short-term duration bond fund, and an intermediate-term duration bond fund. All of these options are investment funds offered by BlackRock. For complete information on these investment options, please visit www.blackrock.com. Market Participants that opt to invest some or all of their cash collateral in the short-term or intermediate-term bond funds must provide NYISO with an additional collateral premium of 5% or 10%, respectively (*Attachment K of the NYISO Services Tariff*).

Market Participants must complete and return this completed form to establish a BlackRock account or change investment elections. Send completed forms to the NYISO Finance Department via fax at 518-356-7583 or via U.S. mail to 10 Krey Boulevard, Rensselaer, NY 12144 (Attention: Finance). Upon receipt of this completed form, the NYISO's Credit Department will contact Market Participants to facilitate the receipt of any additional premium requirements.

Please be aware that additional collateral received will be invested according to the allocation indicated below. Market Participants may elect to change their allocation percentages up to twice per calendar year by submitting an updated version of this form to the NYISO.

Investments are not guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Market Participants will make investment elections based on the BlackRock Fund prospectuses, supplied directly by BlackRock. Market Participants should not make any investment decisions without first consulting their own financial advisors and conducting their own research and due diligence. NYISO makes no investment recommendations, and makes no representation or guarantee about the future performance of any investment. Depending on the investment elections Market Participants make, collateral may decline in value and Market Participants may be required to provide additional collateral.

Market Participant Name _____ Org ID _____ BlackRock ID _____
(To be completed by NYISO only)

BlackRock Fund Name	Investment Type	Ticker Symbol	Premium Requirement	% Allocation
T-Fund	Taxable Money Market Fund	TSTXX	None	
FedFund	Taxable Money Market Fund	TFDXX	None	
Low Duration Bond Fund	Short-Term Bond Fund	BFMSX	5%	
Core Bond Total Return Fund	Intermediate-Term Bond Fund	BFMCX	10%	
Total				100%

Is this an institutional account, as defined in FINRA Rule 4512 (c) (i.e. the account of: a bank, savings and loan association, insurance company or registered investment company; an investment adviser registered either with the Securities and Exchange Commission under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million), capable of evaluating investment risks independently with regard to particular transactions and investment strategies involving a security or securities? Yes _____ No _____

We certify that we are authorized to execute this form on behalf of our company (two signatures required).

Authorized Signature

Print Name

Title

Date

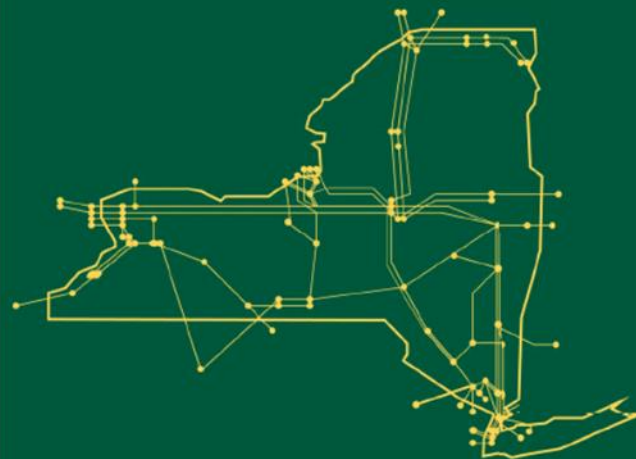
Authorized Signature

Print Name

Title

Date

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.



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