

## **12.78 Conflicts of Interest**

Certain contacts between ISO Employees, or their immediate family members (*i.e.*, spouse or minor children), and Market Participants may constitute or appear to constitute a conflict of interest. Potential conflicts of interest and the ISO's ability to restrict actions and duties to avoid potential conflicts are discussed below.

### **12.78.1 Financial Interests and Associations:**

#### **12.78.1.1 Prohibited Securities**

“Prohibited Securities” shall mean the Securities<sup>1</sup> of a Market Participant that has been active in the ISO Administered Markets in the preceeding twelve months or the Securities of its Affiliates, in either case, if:

- (1) the primary business purpose of the Market Participant or its Affiliate is to buy, sell or schedule Energy, Capacity, Ancillary Services or Transmission Services as indicated by an industry code within the “Electric Power Generation, Transmission, and Distribution” industry group under the North American Industry Classification System (“NAICS”) or otherwise determined by the ISO;
- (2) the total activity in the ISO Administered Markets (purchases and sales) for all Market Participants affiliated with the publicly traded company during its most recently completed fiscal year is equal to or greater than 0.5% of its gross revenues for the same time period; or
- (3) the total activity in the ISO Administered Markets (purchases and sales) for all Market Participants affiliated with the publicly traded company during the prior

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<sup>1</sup> The term “Securities” refers to stocks, stock options, bonds and any other instruments of debt or equity.

calendar year is equal to or greater than 3% of the total ISO Administered Market activity (purchases and sales) for the same time period.

The ISO shall compile a list of the Prohibited Securities traded publicly and distribute this list to ISO Employees.

In order for the ISO to remain truly independent, free of any control, or appearance of control, of decision-making by any individual Market Participant, ISO Employees must strictly observe the following rules regarding financial interests in Prohibited Securities:

No ISO Employee or his/her immediate family member shall own, control, or hold with power to vote, Prohibited Securities; *provided, however,*

- (1) an ISO Employee or his/her immediate family member may transfer to a single blind trust Prohibited Securities that qualify under Section 12.78.2 to this Attachment F;
- (2) any matching contributions made in the Securities of a Market Participant in connection with any savings, pension, or 401(k) plans of a former employee of a Market Participant shall be permitted until the completion of the transfer, spin off and merger of assets and liabilities of such plans to new plans maintained by the ISO;
- (3) this provision shall not apply to any purchase of Prohibited Securities by a spouse of an ISO Employee who was, as of the effective date of the ISO OATT, employed by a Market Participant or any Affiliate of such Market Participant and is required to purchase Securities of such Market Participant or Affiliate as a part of his or her employment. Any such purchases by a spouse must be disclosed to the ISO Board which shall have the authority to consider appropriate limitations

on the duties of the ISO Employee, including changing his or her duties, to avoid an appearance of a conflict of interest; and

- (4) Ownership of mutual funds by ISO Employees that contain Prohibited Securities is permitted provided: (i) the fund is publicly traded; (ii) the fund's prospectus does not indicate the objective or practice of concentrating its investment in Market Participants or their Affiliates; and (iii) the ISO Employee does not exercise or have the ability to exercise control over the financial interests held by the fund.

An ISO director shall make an appropriate disclosure to the ISO Board if the director is aware that he or she, or an immediate family member, has a financial interest in a Market Participant or its Affiliate that is the subject of a matter before the ISO Board. The Chair of the ISO Board Governance Committee and ISO legal counsel shall consult with the director to determine whether the director should be recused from Board deliberations and decision making regarding the matter.

#### **12.78.1.2 Prohibited Associations**

No ISO Employee shall be Associated with any Market Participant. For the purposes of this paragraph, an ISO Employee shall be deemed "Associated" with a Market Participant or its Affiliate if: (1) the ISO Employee is an officer, director, partner, or employee of a Market Participant or any of its Affiliates; (2) the ISO Employee is a former executive officer of a Market Participant, which Market Participant together with its Affiliates has three (3) percent or more of the voting shares on the Management Committee, or of any Affiliate of the Market Participant, and the ISO Employee is receiving continuing benefits under an existing employee benefit plan (other than a defined benefit pension plan or other plan pursuant to which the

benefits are independent of the financial condition of the Market Participant and pension payments are distributed to the former employee by a trustee, not as compensation but in accordance with the rules of the pension plan), arrangement or policy of the Market Participant or any of its Affiliates; or (3) the ISO Employee has a material ongoing business or professional relationship with a Market Participant or any of its Affiliates; *provided, however*, that no ISO Employee shall be deemed to have a material ongoing business relationship with a Market Participant or any of its Affiliates solely as a result of being served as a retail customer by a Market Participant or its Affiliates.

### **12.78.1.3 Consultants**

The ISO Board will establish reasonable guidelines with respect to the financial interests of covered consultants or contracts, in accordance with Section 12.~~12~~13.

### **12.78.2 ISO Policy on Divestiture or Transfer to a Blind Trust of Financial Interests:**

Except as provided in Section 12.~~78~~78.1, if an ISO Employee or his/her immediate family member owns, controls or has the power to vote Prohibited Securities, the ISO Employee or his/her immediate family member must, within the timeframe set forth below, either (i) divest the Prohibited Securities or (ii) transfer the Prohibited Securities to a single blind trust if they qualify for this option unless material hardship would result. The ISO shall develop a procedure establishing the conditions under which the divestiture or transfer would result in material hardship.

For purposes of this Section 12.~~78~~78.2, a “blind trust” is a legally binding arrangement pursuant to which a third-party fiduciary, as the trustee, has full management discretion over the assets contained in the trust, and the ISO Employee or his/her immediate family, as the trust

beneficiary, has no visibility regarding the specific assets contained in the trust.

Prohibited Securities shall qualify for a blind trust if: (1) the publicly traded company's NAICS code is not within the "Electric Power Generation, Transmission, and Distribution" industry group, and (2) the total activity in the ISO Administered Markets (purchases and sales) for all Market Participants affiliated with the publicly traded company during its most recently completed fiscal year is less than 0.5% of its gross revenues for the same time period. The ISO shall review each year whether the Prohibited Securities that previously qualified for inclusion in a blind trust continue to be qualified under this two-part test.

The timeframe to divest or transfer Prohibited Securities is as follows: (1) new ISO Employees must divest or transfer to a blind trust Prohibited Securities within six months of commencement of employment; (2) if ownership, control or the power to vote such Prohibited Securities results from an entity becoming a Market Participant, divestiture or transfer to a blind trust must occur within six months of receipt of the ISO's list of prohibited Securities referencing such Prohibited Securities; (3) if ownership, control or the power to vote such Prohibited Securities is as a result of a gift, inheritance, distribution of marital property or other involuntary acquisition, divestiture or transfer to a blind trust must occur within six months of the acquisition; and (4) if the ISO determines that Prohibited Securities that were previously qualified for inclusion in a blind trust are no longer qualified, divestiture must occur within six months of the ISO's notice to ISO Employees of this change.

### **12.78.3 Political Activities:**

Restrictions on the political activities of ISO Employees are limited only to the extent that ISO Employees may not engage in lobbying activities on behalf of a Market Participant. Beyond this political activity, ISO Employees are not restricted from participating in any legal

political activity so long as they do not purport, directly or indirectly, to represent the ISO without authorization.

ISO Employees are not precluded from holding public office so long as upon accepting public office the ISO compliance officer or designee is notified in writing. The ISO Employee's work in the public office must not detract from the ISO Employee's performance in connection with the ISO, and the ISO Employee shall not represent the ISO in his/her capacity as a public official and shall not use ISO resources for work related to the public office.

Any ISO Employee holding a public office shall abstain from voting or participating in any debate or matters relating to the ISO as part of his/her duties in public office.

#### **12.78.4 Secondary Employment:<sup>2</sup>**

ISO Employees shall not take Secondary Employment with a Market Participant or its Affiliate nor transact business with a Market Participant or its Affiliate other than as a retail customer. ISO Employees may take Secondary Employment with a non-Market Participant if the employment: (1) will not embarrass or discredit the ISO; (2) will not interfere with the duties or involve the use of ISO resources, materials or assets; (3) will not create a conflict of interest for the ISO or the ISO Employee; (4) will not result in any Market Participant receiving an advantage, real or apparent, over other Market Participants with respect to the ISO; and (5) is fully disclosed to the ISO prior to commencement of employment with a Secondary Employer and the ISO compliance officer or designee determines whether the criteria of (1) through (4) are met and then authorizes the Secondary Employment in writing.

Where an ISO Employee takes Secondary Employment with a non-Market Participant,

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<sup>2</sup> Secondary Employment refers to participation in (1) a second job (part-time, full-time or project related), or (2) an organization including, without limitation, a corporation, association, partnership or sole proprietorship.

that ISO Employee may not transact business with the ISO on behalf of the Secondary Employer.

An ISO Employee shall not serve as a representative of a member of the Executive Committee of the NYSRC.

**12.78.5 Other Conflicts of Interest:**

ISO Employees must not directly or indirectly request or accept any service (other than as a retail customer of a Market Participant receiving electric, gas or steam service for heating, etc.), money, gift, loan or discount from any Market Participant or any of its Affiliates. Gifts should be returned or offers declined with an appropriate explanation. If a gift is not returnable (e.g., perishable), the gift should be given to the compliance officer for donation to a charity or destroyed. ISO Employees shall not accept meals or entertainment from actual or potential Market Participants, except when it would be socially humiliating to decline the meal or entertainment; if an ISO Employee accepts such a meal or entertainment, the ISO Employee shall promptly report such acceptance to the compliance officer.

Acceptance of an offer of anything of more than nominal value, including but not limited to vacations, property, loans, contributions or unpaid services by ISO Employees from a representative of a Market Participant or any of its Affiliates shall be considered a conflict of interest.

Engaging in outside non-business activity that materially decreases the impartiality, judgment, or effectiveness of ISO Employees shall also be considered a conflict of interest.