

# FEDERAL RESERVE BANK *of* CLEVELAND

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VIA FRSECURE EMAIL ONLY

January 22, 2021

Ms. Patricia A. Robinson  
Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, New York 10019-6150

Dear Ms. Robinson:

This letter refers to the applications filed by The PNC Financial Services Group, Inc., Pittsburgh, Pennsylvania, and its mid-tier bank holding company PNC Bancorp, Inc., Wilmington, Delaware (together, “PNC” or “applicants”), to acquire BBVA USA Bancshares, Inc., Houston, Texas, and its subsidiary bank, BBVA USA, Birmingham, Alabama (together, “BBVA”), pursuant to sections 3(a)(3) and (3)(a)(5) of the Bank Holding Company Act of 1956 (“BHC Act”). Please provide a complete, detailed response to each of the following additional information (“AI”) items, including those in the confidential section. Supporting documentation should be provided, as appropriate.

To the extent the information requested below is not yet available, provide a date by which the requested information is expected to be made available to the Board of Governors of the Federal Reserve System (“Board”).<sup>1</sup>

1. Identify PNC’s and BBVA’s products or services and lines of business. For each product/service and line of business:
  - a. Provide a measure of PNC’s and BBVA’s (a) volume and (b) market share.
  - b. Identify major competitors and provide these competitors’ volume and market share.
2. List any significant anticipated changes in services or products offered by the depository subsidiary(ies) of PNC or BBVA following consummation of the transaction (including whether any services or products will be discontinued). Please indicate whether there will be any changes in the terms or provision of the products and services currently provided, including fees. To the extent that any products or services of the depository subsidiary(ies) of PNC or BBVA would be offered in replacement of any products or services to be discontinued, indicate what these replacement products are and how they

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<sup>1</sup> This is Board staff’s first additional information request for the applications. Board staff anticipates the need for additional information requests as it continues to review the applications.

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would assist in meeting the convenience and needs of the communities affected by the transaction.

3. Public Exhibits 10 and 11 to the BHC Act application includes a brief overview of PNC's and BBVA's compliance risk management programs. Provide a more detailed overview of the anticipated compliance risk management program at the combined bank holding company reflecting key integration decisions. Include details regarding:
  - a. the structure of the compliance function, including key positions, committees, and reporting lines;
  - b. the responsibilities of the first and second lines of defense with respect to compliance; and
  - c. other significant aspects of the compliance risk management framework, including compliance monitoring, compliance testing, training, risk assessments, regulatory change processes, reporting compliance results, and staffing.
4. Indicate to what extent PNC's or BBVA's Community Reinvestment Act ("CRA") and consumer compliance (including fair lending and unfair or deceptive acts or practices) programs would be implemented at the combined bank. In addition, indicate the key individuals who would be responsible for these programs, as well as their qualifications and experience.
5. Provide an overview of the anticipated approach of the combined bank to consumer complaint management, including with respect to its policy framework, staffing, and oversight.
6. Describe PNC's plans with respect to policies, procedures, staffing and oversight of the combined organization's technology, and efforts underway to ensure a smooth technological transition for existing customers.
7. The applications note that PNC expects to honor the community pledges previously made by both PNC and BBVA USA, and to engage with community partners in PNC's and BBVA's markets to determine how the combined organization can best meet community needs. Provide a description of the community pledges referenced, as well as applicants' efforts to engage with community partners in connection with the proposed transactions.
8. Describe what, if any, financial stability risks and vulnerabilities would increase as a result of the proposed transaction, and steps that PNC is planning to take to mitigate these risks and vulnerabilities.
9. Identify whether PNC or BBVA are involved in each of the following activities, discuss the nature of this involvement, and provide a brief listing of other firms that engage in the same activity in the United States. For both PNC and BBVA, provide measures of the scale of each activity specified, for both the most recent quarter and the most recently

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completed year. Measures should be stated both in U.S. dollars and as a share of overall U.S. activity; derivatives should be stated as notional dollar amounts. Responses may be confined to information maintained in the regular course of business.

- a. Short-term lending
    - i. Reverse bilateral repurchase agreements (volume)
    - ii. Reverse tri-party repurchase agreements (volume)
    - iii. Fed funds (volume)
    - iv. Tri-party repo dealing (volume)
  - b. Commercial lending
    - i. Syndicated lending (volume)
    - ii. Syndicated pipeline commitments (volume)
    - iii. Lending to small and medium-sized enterprises (volume)
    - iv. Unfunded commitments (volume)
  - c. Underwriting services
    - i. Issuance of new equities (volume)
    - ii. Corporate bonds (volume)
    - iii. Commercial paper (volume)
    - iv. Asset backed securities (volume)
    - v. Other debt securities (volume)
  - d. Total provisions of services in the following sectors:
    - i. Prime brokerage (number of funds and fund sponsors, and total assets under management)
    - ii. Securities lending (report value of securities lent as a custodian and securities lent from trading book)
    - iii. Corporate trust
    - iv. Correspondent banking
    - v. Wealth management (total assets under management)
    - vi. Insurance (by segment, including reinsurance)
10. Provide the dollar amounts for the ten largest types of Trading Securities and AFS Securities, for both PNC and BBVA.
11. Provide the dollar amounts for the five largest categories of held-to-maturity securities for both PNC and BBVA.
12. Provide the five largest counterparties, rolled up to the parent company, and the corresponding amount of the following indicators:

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- a. Total exposure (as defined by Schedules A and H Line item 5 in FR Y-15)
- b. Total intra-financial system assets (as defined by Schedules B and I Line item 6 in FR Y-15)
- c. Total intra-financial system liabilities (as defined by Schedules B and I Line item 12 in FR Y-15)
- d. Total securities outstanding (as defined by Schedules B and I Line item 20 in FR Y-15)
- e. Payments activity (as defined by Schedules C and J Line item 2 in FR Y-15)
- f. Assets held as a custodian on behalf of customers (as defined by Schedules C and J Line item 3 in FR Y-15)
- g. Total underwriting activity (as defined by Schedules C and J Line item 6 in FR Y-15)
- h. Total notional amount of OTC derivatives (as defined by Schedules D and K Line item 3 in FR Y-15)
- i. Total adjusted trading and AFS securities (as defined by Schedules D and K Line item 10 in FR Y-15)
- j. Assets valued using Level 3 measurement inputs (as defined by Schedules D and K Line item 11 in FR Y-15)
- k. Foreign claims on an ultimate-risk basis (as defined by Schedules E and L Line item 1 in FR Y-15)
- l. Adjusted foreign claims on an ultimate-risk basis (as defined by Schedule L Line item 1.a in FR Y-15)
- m. Total cross-jurisdictional liabilities (as defined by Schedules E and L Line item 4 in FR Y-15)
- n. Total short-term wholesale funding (as defined by Schedules G and N Line item 6 in FR Y-15)
- o. Average risk-weighted assets (as defined by Schedule G and N Line item 7 in FR Y-15)

Provide separate information for:

- a. PNC
- b. BBVA's U.S. intermediate holding company including BBVA Securities and Propel Venture Partners US Fund I
- c. BBVA's combined U.S. operations including BBVA Securities and Propel Venture Partners US Fund I
- d. BBVA's U.S. intermediate holding company excluding BBVA Securities and Propel Venture Partners US Fund I
- e. BBVA's combined U.S. operations excluding BBVA Securities and Propel Venture Partners US Fund I.

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13. Provide the five largest counterparties, rolled up to the parent company, and the corresponding amounts of each component of intra-financial system assets and liabilities for PNC and BBVA, reported in the most recent FR Y-15. For BBVA, provide information for both the U.S. intermediate holding company and the combined U.S. operations, separately.
  - a. For intra-financial system assets:
    - i. Funds deposited with or lent to other financial institution (M351)
    - ii. Unused portion of committed lines extended to other financial institution (J458)
    - iii. Holdings of securities issued by other financial institution (M352 + M353 + M354 + M345 + M356 – M357)
    - iv. Net positive current exposure of securities financing transactions (SFTs) with other financial institution (M358)
    - v. Over-the-counter (OTC) derivative contracts with other financial institutions that have a net positive fair value (M359 + M360)
  - b. For intra-financial system liabilities:
    - i. Deposits due to other financial institutions (M363 + M364)
    - ii. Borrowings obtained from other financial institutions (Y833)
    - iii. Unused portion of committed lines obtained from other financial institutions (M365)
    - iv. Net negative current exposure of SFTs with other financial institution (M366)
    - v. OTC derivative contracts with other financial institutions that have a net negative fair value (M367 + M368)
14. Provide the current market exposure – gross, and net of collateral and other risk mitigants – for the five largest counterparties, rolled up to the parent company, of OTC derivatives of both PNC’s and BBVA’s U.S. operations, as measured by:
  - a. Positive current exposure after netting arrangements.
  - b. Negative current exposure after netting arrangements.
15. Provide a list of activities and products in which PNC plans to initiate new operations, or expand existing operations, subsequent to the closing of the proposed transaction.
16. Provide updated versions of the Transitional Services Agreement and Reverse Transitional Services Agreement (“Transitional Services Agreements”), including a list of specific services to be performed by PNC and BBVA. To the extent an updated version is not yet available, provide a detailed summary of the anticipated services that will be provided pursuant to the Transitional Services Agreements.
17. Section 5.12 of the Share Purchase Agreement between Banco Bilbao Vizcaya Argentaria, S.A., and The PNC Financial Services Group, Inc., dated November 15, 2020

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("Share Purchase Agreement"), states that "Seller shall cause Grupo Financiero BBVA Bancomer, S.A. de C.V., as well as Seller's other non-U.S. banks that act as receiving banks and paying agents for money transmissions with BBVA Transfer Services, Inc., to enter into amendments to the current agreements or arrangements in respect of the distribution agreements between BBVA Transfer Services, Inc. and such Persons . . ." Provide a detailed summary of the content of the agreements and arrangements referenced in this section.

18. Provide a written commitment that PNC will not use or attempt to use its rights under the restrictive covenants in sections 5.2(b)(vi), (viii), (ix), and (xix) of the Share Purchase Agreement to exercise control (as defined in section 2(a)(2) of the BHC Act, 12 U.S.C. § 1841(a)(2)) over the management or policies of BBVA prior to consummation of the transaction.
19. Provide the Seller's Disclosure Schedule and Purchaser's Disclosure Schedule to the Share Purchase Agreement (as defined in Articles III and IV of the Share Purchase Agreement, respectively).

Provide your response within eight business days to Todd Hershberger, Senior Examiner/Applications Analyst at the Federal Reserve Bank of Cleveland. Any information for which confidential treatment is desired should be so labeled and separately bound in accordance with the Board's rules regarding confidential treatment of information at 12 CFR 261.15. Please also send a copy of your response to the Office of the Comptroller of the Currency, the Texas Department of Banking, and State of Alabama State Banking Department. If you have any questions, please contact Fran Pailen-Watkins (202-452-5271) of the Board's Division of Supervision and Regulation or Evan Hechtman (202-263-4810) of the Board's Legal Division.

Sincerely,



R. Ryan Schilling  
Banking Supervisor

cc: Board of Governors

Enclosure