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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 31, 2019

Kieran J. Fallon, Esq.
Senior Deputy General Counsel
Government, Regulatory Affairs & Enterprise Risk
The PNC Financial Services Group, Inc.
800 17th Street NW
PNC Place, 12th Floor
Washington, D.C. 20006

Dear Mr. Fallon:

This is in response to the request by The PNC Financial Services Group, Inc. (PNC), Pittsburgh, Pennsylvania, for a partial exemption from the definition of “credit exposure” for purposes of section 165(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and the Board’s single-counterparty credit limits (SCCL) rule with respect to PNC’s investment in BlackRock, Inc., New York, New York, a publicly traded investment management firm with \$5.98 trillion in assets under management as of December 31, 2018.¹

Pursuant to section 165(e) of the Dodd-Frank Act, the Board has established SCCL for domestic and foreign bank holding companies with total consolidated assets equal to or exceeding \$250 billion.² A U.S. bank holding

¹ 12 U.S.C. § 5365(e); 12 CFR part 252, subpart H; BlackRock, Inc., Annual Report (Form 10-K), at 1 (Feb. 28, 2019).

² 12 CFR part 252, subparts H and Q. The SCCL rule generally is consistent with the Basel Committee on Banking Supervision’s large exposures standard, which establishes an international standard for credit exposure limits applicable to internationally active banks. Basel Committee on Banking Supervision, *Supervisory Framework for Measuring and Controlling Large Exposures* (April 2014).

company (BHC) with total consolidated assets equal to or exceeding \$250 billion that is not a global systemically important bank holding company generally is limited in its aggregate net credit exposure to a single counterparty to 25 percent of the BHC's tier 1 capital.³ As of December 31, 2018, PNC's tier 1 capital was approximately \$34.7 billion. Therefore, its SCCL is approximately \$8.7 billion.

PNC owns common and preferred shares of BlackRock representing approximately 22 percent of BlackRock's outstanding voting securities and total equity. BlackRock is not consolidated with PNC for financial reporting purposes. Therefore, BlackRock is considered a counterparty of PNC for purposes of the Board's SCCL rule, and the exposures of PNC to BlackRock are subject to the limits in the SCCL rule.⁴

PNC accounts for its investment in the BlackRock equity securities under the equity method of accounting. Under the equity method of accounting, the book value of an investment is recorded initially at cost on the investor's balance sheet and then is adjusted at subsequent measurement dates for dividends received by the investor from the company and for the investor's pro rata share of the net income or losses of the company. Specifically, the investor would reduce the book value of its investment for any dividends received from the company and for its pro rata share of any losses incurred by the company and would increase the book value of its investment for its pro rata share of any earnings of the company. Under the equity method of accounting, the market value of an investment can have an impact on the investor's financial statements in only limited circumstances.⁵

Under the SCCL rule, a BHC would value credit exposure due to equity investments in the counterparty at the market value of the investment.⁶ The market value of the BlackRock shares that PNC controls is approximately

³ 12 CFR 252.72(a).

⁴ Id.

⁵ Although an investment accounted for under the equity method of accounting would not be adjusted for changes in market value, such an investment generally must be evaluated periodically for impairment. A decline in the investment's market value (e.g., to a value below its book value) may indicate a possible impairment and may require a write-down of the value of the investment.

⁶ 12 CFR 252.73(a)(3).

\$13.7 billion.⁷ This amount would exceed PNC's credit limit for a single counterparty.

Under U.S. generally accepted accounting standards, an investor must account for an investment in the common stock (or equivalent) of another company under the equity method of accounting if the investor has the ability to exercise "significant influence" over the other company but does not have a "controlling financial interest" in that company.⁸ As of December 31, 2018, the value of PNC's BlackRock investment under the equity method of accounting was \$8.2 billion.⁹

Section 165(e) of the Dodd-Frank Act authorizes the Board by order or regulation to exempt transactions, in whole or in part, from the definition of "credit exposure" for purposes of that section, if the Board finds that the exemption is in the public interest and is consistent with the purpose of that subsection.¹⁰

Under the SCCL rule, equity investments are valued at market value. Valuing such equity investments at market value requires the firm to revalue upwards or downwards the amount of an investment in such securities when the market value of the securities increases or decreases, respectively. When the Board adopted the SCCL rule, the Board explained that a market value valuation rule for equity investments generally is appropriate to reflect the firm's changing

⁷ The PNC Financial Services Group, Inc., Annual Report (Form 10-K), at 50 tbl. 12 (Mar. 1, 2019).

⁸ See Financial Accounting Standards Board Accounting Standards Codification 323, Investments – Equity Method and Joint Ventures. A "controlling financial interest" is generally determined based on whether the investor has the unilateral right to make significant financial and operating decisions about the company in which the investment is made. If it is determined that an investment represents a controlling financial interest, the investor must consolidate the entity. As noted, PNC does not consolidate BlackRock for accounting purposes.

⁹ The PNC Financial Services Group, Inc., Annual Report (Form 10-K), at 50 tbl. 12 (Mar. 1, 2019). PNC has recognized a deferred tax liability related to this investment of \$1.7 billion, as of December 31, 2018. *Id.* at tbl. 12 n.(c).

¹⁰ 12 U.S.C. § 5365(e)(6); see also 12 CFR 252.77(c), 252.177(b).

financial exposure to the counterparty.¹¹ The Board also explained that this valuation approach to equity investments is consistent with the general treatment under U.S. generally accepted accounting principles for available-for-sale or trading securities.

An exemption permitting PNC to value its equity investment in BlackRock at carrying value would be in the public interest because it would align PNC's credit exposure to BlackRock for purposes of the Board's SCCL rule with PNC's actual economic and financial exposure to BlackRock from this investment. Use of a more accurate measurement of the credit exposure of PNC resulting from its investment in BlackRock would allow PNC to manage its economic exposure more efficiently, which would be in the public interest and consistent with the purposes of section 165(e). Permitting PNC to value its equity investment in BlackRock at carrying value also would be consistent with other Board regulations, including the Board's risk-based capital rules,¹² as well as with PNC's public filings and reports, enhancing transparency to the public.¹³ Importantly, because PNC is required under the risk-based capital rules to value its investment in BlackRock at carrying value, any direct decline in PNC's regulatory capital that might occur as the result of a hypothetical collapse in the value of its BlackRock investment would be limited to carrying value.

In light of these considerations and all the facts presented, the requested exemption appears to be consistent with the purposes of section 165(e) and in the public interest. Accordingly, the Board hereby grants the requested exemption.

This action is based on the representations made in your request, related correspondence, and other supervisory information and on the commitments provided in connection with the proposal. The commitments

¹¹ Bd. of Governors of the Fed. Reserve Sys., Single-Counterparty Credit Limits for Bank Holding Companies and Foreign Banking Organizations, 83 Fed. Reg. 38460, 38473 (Aug. 6, 2018).

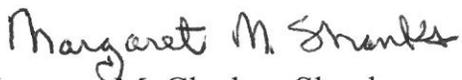
¹² See 12 CFR part 217; see also 12 CFR 223.23.

¹³ [REDACTED]

constitute conditions imposed in writing in connection with this action and, as such, may be enforced in proceedings under applicable law.

If you have any questions regarding this matter, please contact Pam Nardolilli at (202) 452-3289, Chris Callanan at (202) 452-3594, Lucy Chang at (202) 475-6331, or Jeffery Zhang at (202) 736-1968, all of the Board's Legal Division, or Page Conkling at (202) 912-4647 of the Board's Division of Supervision and Regulation.

Sincerely yours,


Margaret McCloskey Shanks
Deputy Secretary of the Board