April 16, 2010

PNC

Secretariat
Basel Committee on Banking Supervision
CH-4002
Basel, Switzerland
baselcommittee@bis.org

Re: Consultative Document: *International framework for liquidity risk measurement, standards and monitoring*

Dear Sir or Madam:

The PNC Financial Services Group, Inc. ("PNC"), Pittsburgh, Pennsylvania, appreciates the Basel Committee's invitation to comment on *Basel Committee on Banking Supervision, Consultative Document: International framework for liquidity risk measurement, standards and monitoring* ("BIS Liquidity"). PNC is one of the largest diversified financial services companies in the United States. It has businesses engaged in retail banking, corporate and institutional banking, asset management, residential mortgage banking and global investment servicing, providing many of its products and services nationally and others in its primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Maryland, Illinois, Indiana, Kentucky, Florida, Missouri, Virginia, Delaware, Washington, D.C., and Wisconsin. PNC also provide certain investment servicing internationally. At December 31, 2009, PNC's consolidated total assets, deposits and shareholders' equity were $269.9 billion, $186.9 billion and $29.9 billion, respectively.

As an organization committed to effective risk management, PNC agrees that the recent disruptions in the financial markets demonstrate the need for improvements in liquidity management and related regulatory standards. PNC is generally supportive of quantitative standards to assess liquidity consistently across the banking industry. However, in attempting to attain a consistent standard, the BIS Liquidity proposal has incorporated extremely conservative assumptions that do not reflect the behavior of bank customers in the United States during the recent stress period. Furthermore, the "one size fits all" approach of BIS Liquidity risk measurement does not provide for local calibration processes that should adjust key liquidity inputs, such as the definition of liquid assets and deposit run-off assumptions, to be consistent with local jurisdiction practices and historical experience.

PNC believes that, if implemented, BIS Liquidity will have significant unintended consequences. BIS Liquidity will reduce the availability, and increase the cost, of liquidity by assuming usage rates for credit commitments that are inconsistent with actual stress period experience in the United States. Similar results would be expected for mortgage credit in the United States – higher cost and less availability – as securities traditionally purchased by U.S. banks (agency debt and mortgage-backed securities) would be limited in terms of qualifying as liquid assets within the BIS framework.

Additionally, the deposit run-off assumptions in BIS Liquidity are significantly higher than the actual behavior of U.S. banking depositors during the recent stress period. Without an adjustment process for the actual and expected behavior of deposit customers in a specific jurisdiction, BIS Liquidity would require all banks to employ worst-case run-off assumptions regardless of the effectiveness of their local deposit insurance program or their ability to actually attract and retain deposits.

PNC believes it is currently maintaining a relatively low liquidity risk profile. This view is reinforced by the Federal Reserve's liquidity metrics, as PNC ranks favorably in key liquidity metrics as detailed in the following table:[1]

12/31/09 FR BHCPR Excerpt			
PNC Financial Services Group			
RSSD	1069778		
FR District	4		
Peer Group	1		
Liquidity and Funding (page 8)	PNC	Peer Group	Percentile Ranking
Core deposits	61.65%	48.54%	67%
Noncore funding	17.99%	33.58%	16%
Net noncore funding dependence	16.88%	32.63%	29%
Net short term noncore funding dependence	5.21%	9.76%	30%
Net loans and leases / Core deposits	93.19%	146.72%	21%

Despite internal and regulatory assessments that indicate a relatively low risk liquidity position, PNC's Liquidity Coverage Ratio ("LCR") as defined in BIS Liquidity is estimated to be approximately 40% versus a proposed minimum of 100%.

For PNC to become compliant with the proposed LCR standard, our most likely reactions would be to reduce holdings of agency debt and MBS in favor of U.S. Treasury securities. Given that U.S. bank holdings of such securities are significant, we would expect the cost of mortgage credit to U.S. homeowners to increase and the availability of such credit to decline. Additionally, PNC would likely reduce the availability, or increase the cost, of off-balance sheet credit commitments to our customers, given the high usage rates assumed within BIS Liquidity.

[1] Table is derived from page 8 of the Bank Holding Company Performance Report for PNC as of December 31, 2009; http://www.ffiec.gov/nicpubweb/NICDataCache/BHCPR/BHCPR_1069778_20091231.PDF

In order to minimize unintended consequences, yet provide for the development of consistent liquidity standards, PNC recommends that the Committee expand the definition of liquid assets to be consistent with local standards, such as employing central bank collateral requirements. Additionally, PNC recommends that deposit run-off assumptions be adjusted by jurisdiction to reflect historical experience and the effectiveness of the local deposit insurance program. Finally, PNC recommends that the universal treatment of off-balance sheet credit commitments within BIS Liquidity should be adjusted to be consistent with historical and expected usage rates during a crisis period.

Attached are more detailed comments on various aspects of PNC Liquidity. If you have any questions about the contents of this letter, please do not hesitate to contact me (412-762-2594 or randall.king@pnc.com). Thank you very much for the opportunity to comment on this proposal.

Sincerely,

Randall C. King

Randall C. King
Executive Vice President
Head of Liability and Capital Management
PNC Bank, National Association

Attachment

cc: Michael D. Coldwell
Federal Reserve Bank of Cleveland

Morris Morgan
Office of the Comptroller of the Currency

William S. Demchak, Senior Vice Chairman
Richard J. Johnson, Executive Vice President and Chief Financial Officer
The PNC Financial Services Group, Inc.

Attachment

PNC Comments on Consultative Document: *International framework for liquidity risk measurement, standards and monitoring*

PNC Comment 1

The definition of liquid assets in BIS Liquidity paragraph 34 should be generalized to accommodate better the variety of financial instruments across participating countries by following collateral eligibility standards established by each domestic central bank. Indeed, central bank eligibility is already a critical criteria for the reasons articulated in paragraph 31 (*"High quality liquid assets should also ideally be eligible at central banks. Central banks provide a further backstop to the supply of banking system liquidity under conditions of severe stress. Central bank eligibility should thus provide additional confidence that banks hold a reserve of high quality liquid assets that could be used in events of severe stress without damaging the broader financial system. That in turn would raise confidence in the safety and soundness of liquidity risk management in the banking system."*)

PNC proposes using central bank eligibility in defining high quality liquid assets since each domestic central bank has its own definition of, and margin schedule for, assets against which it will provide backstop liquidity. High quality liquid assets could be defined as those securities with a collateral margin equal to or greater than 95%. Relying upon domestic central bank collateral eligibility standards will appropriately tailor BIS Liquidity rules to the proper local instruments, rather than relying on an explicit list of assets, many of which will not apply to all countries.

In the United States, for example, this more general approach would expand the BIS definition of liquid assets to include agency securities and agency mortgage-backed securities ("MBS"), based upon the Federal Reserve Bank's current collateral margins (Details are provided in **Appendix, page 1**). The BIS Liquidity proposal omits agency MBS, the main vehicle of housing finance in the United States, yet includes covered bonds, common primarily in Europe.

The inclusion of agency securities and MBS is justified by the BIS criteria for high quality liquid assets outlined in paragraphs 29-30. Secondary markets for these securities were very liquid during the stress period, and deep repo markets exist for the underlying securities.

The price performance of agency debentures and MBS during the stress period reinforces these securities being classified as liquid assets. The following table compares the unrealized appreciation/depreciation of large U.S. bank securities holdings on 12-31-08 and 12-31-09.[1] Generally, 12-31-08 represented the lowest quarter-end valuations for

[1] The source for this data is SNL Financial, which aggregates publicly available information filed with the Federal bank regulators.

credit sensitive securities during the recent stress period. Market prices for non-agency securities declined more severely than for Treasury and agency securities. Unrealized losses on non-agency RMBS were 23% on 12-31-08 and 11% for Asset Backed Securities ("ABS"). Comparatively, the price performance of agency debentures and agency MBS more closely tracked that of U.S. Treasury securities. These securities had unrealized gains of approximately 1% to 2% on 12-31-08, consistent with the performance of U.S. Treasury holdings.

(in millions)

2009Q4				
Aggregate Large Bank Holdings [1]	Book	Market	Unrealized P/L	% P/L
US Treasury Securities	$83,486	$83,262	-$224	-0.3%
US Govt Guaranteed Agency Securities	$3,853	$4,012	$159	4.1%
US Govt Sponsored Agency Securities	$76,018	$75,841	-$177	-0.2%
Pass-Through RMBS (US Govt Guaranteed)	$111,285	$111,732	$447	0.4%
Pass-Through RMBS (US Govt Sponsored Agency)	$443,726	$452,475	$8,749	2.0%
Municipal (Total State & Pol)	$71,046	$71,047	$1	0.0%
Other RMBS (non-US Govt Agency)	$128,928	$120,103	-$8,825	-6.8%
Total Asset Backed Securities	$119,012	$117,199	-$1,813	-1.5%

2008Q4				
Aggregate Large Bank Holdings	Book	Market	Unrealized P/L	% P/L
US Treasury Securities	$23,673	$24,153	$480	2.0%
US Govt Guaranteed Agency Securities	$4,878	$4,968	$90	1.9%
US Govt Sponsored Agency Securities	$41,533	$42,102	$569	1.4%
Pass-Through RMBS (US Govt Guaranteed)	$67,429	$68,820	$1,391	2.1%
Pass-Through RMBS (US Govt Sponsored Agency)	$448,306	$456,281	$7,975	1.8%
Other RMBS (non-US Govt Agency)	$174,026	$133,664	-$40,362	-23.2%
Total Asset Backed Securities	$129,429	$115,295	-$14,135	-10.9%

[1] Large Banks includes BAC, JPM, C, WFC, HSBC, BARCLAYS, PNC, USB, BNY, STI, COF, BBT, STT, CITIZENS, RF, TD USA, FITB, KEY

Finally, an unintended consequence of agency MBS not qualifying as liquid securities could be an increase in the cost of credit for U.S. mortgage borrowers. Large U.S. banks held 50% of their available-for-sale securities in 20% risk weighted assets as of year-end 2009 – primarily agency debentures and MBS. U.S. banks may reduce their holdings of agency MBS if they do not qualify as liquid assets, which could result in higher primary mortgage rates and less consumer credit access, given loan eligibility requirements are driven by loan payment to income limits.

PNC Comment 2

BIS Liquidity (paragraph 41) establishes minimum deposit run-off assumptions in the Liquidity Coverage Ratio ("LCR") that are significantly higher than both (a) the assumptions used by PNC in its liquidity stress testing process and (b) the actual experience of troubled/acquired large U.S. banks during the stress period. Furthermore, the deposit run-off proposals do not appear to differentiate among the effectiveness of deposit insurance programs in different jurisdictions. PNC believes the FDIC insurance program in the United States has provided, and will continue to provide, a very effective protection mechanism for bank depositors. Empirical data through the stress period supports PNC's view of the effectiveness of FDIC insurance, given the behavior of insured U.S. depositors.

BIS Liquidity (paragraph 41) proposes minimum deposit run-off assumptions in the LCR of 7.5% for stable deposits and 15% for less stable deposits. Using these and other assumptions prescribed in BIS Liquidity, PNC's projected deposit run-off in the Quantitative Impact Study for the 30-day stress period would have been $31 billion, or 17%, as of December 31, 2009. In comparison, if PNC used the highest quarterly run-off rate for three troubled U.S. banks (Washington Mutual, National City, and Wachovia), total deposit run-off would have been $20 billion or 11%. This evidence supports the need for a qualitative adjustment process by regulatory jurisdiction that reflects the effectiveness of local deposit insurance programs. PNC believes the experience of these three troubled banks is consistent with the stress parameters provided in paragraph 22 of BIS Liquidity. Although these banks did not all experience three notch-rating downgrades, they did on average lose over 50% of their market capitalization in the 90-day period when deposit outflows occurred. (Details are provided in the **Appendix, page 2.**)

PNC Comment 3

BIS Liquidity (paragraph 43) establishes time deposit run-off assumptions in the LCR that are significantly higher than the actual experience of troubled/acquired large U.S. banks during the stress period. Specifically, paragraph 43 states "*fixed or time deposits, regardless of maturity, that have a withdrawal penalty not materially greater than the loss of interest, should be treated no differently from other types of deposits and be subject to the same run-off factor as other deposits in the same bucket.*"

Implementation of this standard would require a bank to assume that consumer time deposits decline by at least 7.5% in a 30-day stress period if the depositor incurs a penalty no greater than foregone interest – an early withdrawal penalty that is the standard for U.S. consumer depositors. The behavior of U.S. consumer depositors during the stress period does not support this high attrition minimum. As detailed in **Appendix, page 3**, troubled U.S. banks during the recent stress period were able to their increase time deposits. Consistent with PNC's Comment 2, we believe this assumption for time deposit attrition should be adjusted based upon the effectiveness of the local deposit insurance program.

PNC Comment 4

BIS Liquidity establishes assumptions for draws on committed credit and liquidity facilities in the LCR that are significantly higher than the actual experience of troubled/acquired large U.S. banks during the stress period. Specifically, paragraph 66 assumes the following draws within a 30-day stress period:

(a) Draw downs on committed credit and liquidity facilities to retail clients: 10%.

(b) Draw downs on committed credit facilities to non-financial corporate customers: 10%.

(c) Draw downs on committed liquidity facilities to non-financial corporate customers: 100%.

(d) Draw downs on committed credit and liquidity facilities to other legal entity customers: 100%.

These assumptions do not reflect the actual experience of troubled U.S. banks during the recent stress period. Provided below is a summary of the commitment and loan exposures for four large troubled U.S. banks (IndyMac, National City, Wachovia, and Washington Mutual) during their final five quarters of existence.

1. Total unfunded commitments declined 36% or $175 billion in aggregate.
2. Total loans and leases increased 2% or $18 billion.
3. Therefore, the aggregate amount of on- and off-balance sheet exposure declined 12% or $157 billion during their final five quarters of existence.

In the United States, empirical evidence during the recent stress period does not support the BIS Liquidity proposal assumption that credit customers of troubled financial institutions significantly increase the use of their unfunded credit facilities during a stress period. Supporting data are provided in the **Appendix, page 4**.

PNC Comment 5

The components of available stable funding in the BIS Liquidity Net Stable Funding Ratio ("NSFR") should be expanded to include secured borrowings that mature in less than one year for those borrowings where an institution can show access has been available during a stress period. Additionally, unused capacity in such secured borrowings (where the supporting collateral is not counted as a liquid security in the FCR) should also be considered available stable funding.

Expanding this definition of available stable funding would allow U.S. banks that are Federal Home Loan Bank ("FHLB") members to assume existing FHLB borrowings maturing within one year could be rolled-over and thereby qualify as available stable funding. Additionally, unused borrowing capacity with the FHLB would also qualify as available stable funding.

Actual experience of U.S. banks reinforces access to this funding source during the recent stress period. The aggregate advances for all FHLBs increased from $624 billion to $1,012 billion (62%) during the five-quarter period ending September 30, 2008. The availability and expansion of credit during the period was consistent throughout the FHLB system, as every bank increased outstanding advances by at least 30% during this stress period. Supporting financial data are provided in the **Appendix, page 5**.

Attachment

PNC Comment 1: Central Bank Collateral Margins

Federal Reserve Discount Window & Payment System Risk Collateral Margins Table[1]
Effective Date: October 19, 2009 (updated on December 7, 2009)

Collateral Category[2]	Margins for Securities (as percentage of estimated fair market value)[3]			Margins for Loans (as percentage of estimated fair market value)	
	Duration Buckets			Individually Deposited Loans[4,5]	Group Deposited Loans[4]
	0-5	>5-10	>10		
U.S. Treasuries & Fully Guaranteed Agencies					
Bill/Notes/Bonds/Inflation Indexed	99%	97%	96%		
Zero Coupon, STRIPs	98%	96%	92%		
FDIC Temporary Liquidity Guarantee Program & NCUA Temporary Corporate Credit Union Liquidity Guarantee Program					
Bills/Notes/Bonds - U.S. Dollar Denominated	98%	96%	95%		
Bills/Notes/Bonds - Foreign Denominated[6]	92%	90%	89%		
Zero Coupon - U.S. Dollar Denominated	97%	95%	91%		
Government Sponsored Enterprises					
Bills/Notes/Bonds	98%	96%	95%		
Zero Coupon	97%	95%	91%		
Foreign Government Agencies					
U.S. Dollar Denominated	98%	96%	93%		
AAA rated - Foreign Denominated[6]	92%	90%	87%		
Foreign Government, Foreign Government Guaranteed, and Brady Bonds					
AAA rated - U.S. Dollar Denominated	98%	96%	95%		
BBB-AA rated - U.S. Dollar Denominated	97%	95%	94%		
Foreign Denominated[6]	92%	90%	89%		
Supranationals					
Bills/Notes/Bonds - U.S. Dollar Denominated	98%	96%	95%		
Bills/Notes/Bonds - AAA rated - Foreign Denominated[6]	92%	90%	89%		
Zero Coupon	97%	95%	91%		
Corporate Bonds					
AAA rated - U.S. Dollar Denominated	97%	95%	94%		
BBB-AA rated - U.S. Dollar Denominated	95%	93%	92%		
AAA rated - Foreign Denominated[6]	91%	89%	88%		
Covered Bonds					
AAA rated - U.S. Issued	97%	95%	94%		
BBB-AA rated - U.S. Issued	95%	93%	92%		
German Jumbo Pfandbriefe					
AAA rated - U.S. Dollar Denominated	98%	96%	95%		
AAA rated - Foreign Denominated[6]	92%	90%	89%		
Municipal Bonds					
U.S. Dollar Denominated	98%	96%	95%		
AAA rated - Foreign Denominated[6]	92%	90%	89%		
Asset Backed Securities					
AAA rated	98%	95%	83%		
BBB-AA rated	89%	86%	82%		
Collateralized Debt Obligations - AAA rated	92%	91%	90%		
Commercial Mortgage Backed Securities - AAA rated	97%	93%	92%		
Agency Backed Mortgages					
Pass Throughs	98%	96%	95%		
CMOs	98%	96%	90%		
Private Label CMOs - AAA rated	90%	84%	83%		
Trust Preferred Securities	93%	92%	91%		
Certificates of Deposit, Bankers' Acceptances, Commercial Paper, Asset Backed Commercial Paper	97%				
GSE Stock	65%				

PNC Comment 2: Deposit Attrition[1]

This analysis captures the worst one-quarter run-off of individual deposit categories at three troubled institutions (National City Corporation, Wachovia and Washington Mutual) and applies this run-off rate to PNC's 12/31/09 balances. The time series analyzed is from 3Q07 until the last quarter of stand-alone existence.

The run-off rate assigned is determined by weighting the three institution's deposits during the final five quarters of stand-alone existence (generally corresponding to the crisis period) and pulling the highest quarter-over-quarter decrease by deposit category.

The run-off percentage calculated using this methodology is 11%. This methodology is similar to what PNC utilizes for internal bank-level stress testing purposes.

Deposit Category	PNC (12/31/09)	Run-Off Rate	Pro-Forma 3/31/10
	$ Value	Percentage Change	
Demand Deposits	$14,989	-10%	$13,544
NOW & Other Trans Accts	$3,438	-12%	$3,033
Total Transaction Accts	$18,427		$16,577
MMDA & Savings	$114,382	-12%	$100,622
Time Deposits >=$100K	$14,670	-10%	$13,187
Time Deposits < $100K	$34,533	-5%	$32,937
Total Non-Trans Accts	$163,585		$146,747
Total Domestic Deposits	$182,012		$163,324
Total Foreign Deposits	$5,018	-32%	$3,423
Total Deposits (incl Escrows)	$187,030	-11%	$166,746
Total Deposit Change	-$20,283	-11%	

[1] Source for all data in Appendix pages 2-5 is SNL Financial, which aggregates publicly available bank regulatory filings.

PNC Comment 3: Growth of Retail Time Deposits

Non-brokered, insured time deposits were utilized as a source of liquidity during the crisis period. The following analysis compares four troubled institutions (National City Corporation, Wachovia, Washington Mutual and IndyMac) and their use of time deposits in a stress scenario, defined as the last five quarters of stand-alone existence.

The data is per regulatory filings: Time Deposits < $100K less Brokered Deposits

Insured time deposits were heavily utilized at Wachovia and National City to supplement lost forms of wholesale funding. Time deposits grew $37 billion during this period for these two institutions ($30 billion across the group).

Time Deposits Less Brokered Dep	Q Last	Q2	Q3	Q4	Q5	Q6
IndyMac	$2,741	$786	$685	$533	$2,757	$3,560
WAMU	$10,925	$12,861	$11,873	$22,918	$18,356	$15,325
Wachovia	$53,867	$41,674	$51,629	$54,374	$23,527	$24,103
National City	$25,157	$21,903	$18,856	$17,387	$17,856	$17,605
Total	$92,689	$77,224	$83,044	$95,212	$62,496	$60,592
Q over Q Change	20.03%	-7.01%	-12.78%	52.35%	3.14%	
% Change Final 5 Qtrs	48%	27%				

Time Deposits Less Brokered Dep	2008Q3	2008Q2	2008Q1	2007Q4	2007Q3	2007Q2
IndyMac		$2,741	$786	$685	$533	$2,757
WAMU		$10,925	$12,861	$11,873	$22,918	$18,356
Wachovia	$53,867	$41,674	$51,629	$54,374	$23,527	$24,103
National City	$25,157	$21,903	$18,856	$17,387	$17,856	$17,605
Total	$79,024	$77,242	$84,132	$84,320	$64,834	$62,820
Q over Q Change	2.31%	-8.19%	-0.22%	30.05%	3.21%	

PNC Comment 4: Off-Balance Sheet Commitment Use

Off-balance sheet commitments decreased at troubled firms during the crisis period. A portion of this decrease is attributable to draws on committed lines, however to a much lesser extent than the amounts proposed by the Basel Committee.

In aggregate, the below four firms decreased unused commitments by $175 billion during the final five quarters of stand-alone existence. The tables below display loan & commitment detail for the four firms.

Final 5 Quarters	Change in Unused Commitments	% Change (Unused Commitments)	Change in Loans & Leases	% Change (Loans & Leases)	Aggregate Change (On & Off B/S Exposure)
National City	-$15	-20%	-$10	-8%	-13%
Wachovia	-$52	-18%	$22	5%	-4%
IndyMac	-$15	-100%	-$1	-6%	-46%
WAMU	-$93	-88%	$7	3%	-25%
Total	-$175	-36%	$18	2%	-12%

Off B/S:Total Unused Commitments	Q Last	Q2	Q3	Q4	Q5
National City	$59	$64	$69	$73	$74
Wachovia	$244	$268	$273	$296	$296
IndyMac	$	$6	$10	$9	$15
WAMU	$13	$50	$29	$80	$107
Total	$316	$388	$380	$457	$492
% Change Final 5 Qtrs	-36%				

Total Loans & Leases	Q Last	Q2	Q3	Q4	Q5
National City	$114	$118	$120	$120	$124
Wachovia	$497	$500	$495	$486	$476
IndyMac	$19	$20	$20	$23	$20
WAMU	$241	$248	$251	$245	$234
Total	$872	$886	$887	$874	$854
% Change Final 5 Qtrs	2%				

PNC Comment 5: Growth of FHLB Advances

The data below displays the total advances for each individual FHLB from 2007Q1 to 2009Q4. Total FHLB advances at year-end 2009 are comparable to the pre-credit-crisis advance level of $640 billion at the end of the second quarter in 2007.

(Dollar Amounts In Billions)

Total Advances	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4
FHLB of Atlanta	101	104	139	143	152	145	164	166	148	135	126	115
FHLB of Boston	38	39	56	56	59	63	64	57	49	42	38	38
FHLB of Chicago	24	24	25	30	33	35	35	38	31	27	25	24
FHLB of Cincinnati	46	47	54	53	62	58	63	54	47	45	38	36
FHLB of Dallas	37	36	44	47	54	60	68	61	56	53	50	47
FHLB of Des Moines	21	23	32	40	47	46	64	42	38	37	36	36
FHLB of Indianapolis	22	22	24	27	31	30	31	31	28	26	24	22
FHLB of New York	59	61	75	82	86	91	103	109	104	100	96	94
FHLB of Pittsburgh	46	56	64	69	73	66	72	62	52	46	41	41
FHLB of San Francisco	177	171	236	251	248	246	263	236	204	175	155	134
FHLB of Seattle	26	28	41	46	38	37	46	37	32	28	25	22
FHLB of Topeka	27	29	33	32	31	38	37	36	27	25	23	22
Total	$ 624	$ 640	$ 824	$ 876	$ 913	$ 914	$ 1,012	$ 929	$ 817	$ 739	$ 678	$ 631