



October 9, 2009

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference: 1710-100, Exposure Draft, *Improving Disclosures about Fair Value Measurements* (“proposed ASU”)

Dear Mr. Golden:

The PNC Financial Services Group, Inc. (PNC) appreciates the opportunity to comment on the above referenced proposed Accounting Standards Update. PNC is one of the nation’s largest financial services companies with nearly \$280 billion in assets as of June 30, 2009. PNC has a diversified business mix providing retail and business banking; residential mortgage banking; specialized services for corporations and government entities, including corporate banking, real estate finance and asset-based lending; wealth management; asset management and global fund services. PNC’s stock is traded on the New York Stock Exchange.

We believe that the focus of the proposed ASU is consistent with the letters issued by the staff of the Securities and Exchange Commission (SEC) in 2008 that encouraged public companies to provide additional management’s discussion and analysis (MD&A) disclosures related to fair value. The proposed ASU is also responsive to the December 2008 SEC report, *Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting*. Finally, the proposed ASU is also complementary to the IASB’s March 2009 standard, *Improving Disclosures about Financial Instruments*, which further converged International Financial Reporting Standards with US GAAP in this area.

PNC supports completeness and transparency related to fair value disclosures and strives to adhere to these principles in our public reporting. To that end, our Form 10-Q for the quarter ended June 30, 2009 included seven pages in the MD&A and eleven pages in the financial statements dedicated to fair value disclosures.

In summary, we support the Board’s overall objective of improving the transparency and granularity of fair value disclosures. We believe that sensitivity disclosures and additional information on transfers to and from the Level 3 classification are particularly relevant in light of the continuing global financial crisis. However, we are not convinced that the specific requirements included in the exposure draft will fully meet that objective. The following comments are offered to clarify our concerns and offer alternative views. Exhibit I summarizes our comments on the specific issues requested in the proposed ASU.

Sensitivity Disclosures

Before issuing the proposed ASU, the FASB sought input from preparers to assess the operability of the proposed disclosures including the level of disaggregation and the effects of reasonably possible alternative inputs or “sensitivity disclosures.” While we generally support the concept of sensitivity disclosures for Level 3 fair value measurements, we believe the introduction of the “reasonably possible” criteria and the correlation effects requirement will result in additional operational issues, increased complexity and may cause more confusion on the part of financial statement users rather than providing the increased transparency desired.

Broad Definition of “Reasonably Possible”

The proposal requires the sensitivity disclosures be determined based on what is “reasonably possible” regarding significant alternative inputs supporting Level 3 fair value measurements. Reasonably possible is defined in the Master Glossary of the Codification as “the chance of the future event or events occurring is more than remote, but less than likely”. While this provides preparers with much flexibility in developing the additional disclosures, we believe the concept is too broad and ambiguous to be operationally efficient or effective. We also doubt that the results would provide financial statement users with more relevant information.

For example, when the volume and level of activity for an asset has significantly decreased or market transactions are not orderly, the use of dealer quotes or pricing service information alone is no longer sufficient to determine an exit price. Therefore, a pricing model must be employed using significant observable and unobservable inputs. The model includes various inputs including dealer quotes or other available market pricing information with adjustments made for what are believed to be the primary sources of the pricing difficulty-- the spread component represented by illiquidity and the uncertainty regarding credit performance. Then, depending on the asset class, the fair value is determined based on a blend of “market” and model inputs with appropriate weighting of each factor. In determining the sensitivity disclosures proposed, what would constitute “reasonably possible” when evaluating these inputs? Although dealer quotes or pricing service data for the securities were available, there had been little or no recent trading at those levels. Does it follow that those prices are therefore not reasonably possible and therefore should be excluded from determining the sensitivity disclosures? Or since “reasonably possible” infers a range of likelihood between 1% and 70%, should these prices always be included with a higher weighting assuming we believe the market will rebound at some point in the future? What if all the changes to the significant inputs in the model fall within the “reasonably possible” range? Also, over what timeframe should “reasonably possible” be evaluated with regard to changes in significant inputs? While the “reasonably possible” concept provides preparers with much flexibility, we don’t believe it is truly operational to meet the Board’s objective.

The balance sheet reflects the best estimate of value of the asset at a particular date. The fair valuation of assets and liabilities inherently requires the preparer to apply a “best estimate approach”. Other relevant US GAAP covering the allowance for loan and lease losses, contingent liabilities, useful asset lives and residual values requires estimation processes similar to those utilized in the application of fair value measurements. Providing a range of values in the notes to the financial statements based on such broad criteria may adversely impact the integrity

of the measurement and valuation processes and reduce the overall representational faithfulness of the financial statements. It also puts both preparers and auditors at risk due to the significant judgment required in selecting and reviewing the significant inputs and deciding what constitutes a “reasonably possible” change and over what time frame.

The basis for conclusions section of the proposed ASU states that some SEC registrants may already be providing sensitivity information in their MD&A, albeit somewhat different from the disclosures included in the proposed ASU. We agree with this alternative and believe the MD&A section of the annual and quarterly reports is the more appropriate location for disclosing the possible impact of changes in significant assumptions and inputs underlying financial statement estimates. This approach is consistent with other risk management related sensitivity disclosures such as interest rate sensitivity, value-at-risk disclosures, changes in mortgage servicing rights assumptions and pension disclosures.

Given that most companies perform some form of “stress testing” or “shocking” the valuations of the assets and liabilities reported at fair value as part their overall enterprise risk management activities, including a more defined form of sensitivity disclosure in the MD&A should not result in an overriding operational burden. This approach would still involve judgment and provide some flexibility to the preparer but would eliminate the broad “reasonably possible” concept, limit complexity and eliminate the need to determine the correlation impact. The sensitivity disclosure would provide financial statement users with additional information and could be viewed as an extension of the fair value measurement disclosures that have evolved over time in the MD&A in response to SEC guidance and comments.

Calculation of Correlation Effects

The proposed ASU includes a requirement for calculating the impact of the effects of correlation if more than one significant input is changed. Given the broad range and ambiguity of the “reasonably possible” concept described above, we believe it would be highly likely that multiple significant inputs would be changed. Various inputs used in calculating the fair value of the mortgage-backed securities in the above example include interest rates, prepayment speed, credit risk and volatility, to name a few. Upon selecting the most significant “reasonably possible” inputs, we could then select a confidence level and calculate a range of fair values. However, the requirement to quantify the effects of correlation among changes in significant inputs would necessitate development of a separate correlation matrix or complex algorithm. This added disclosure and resulting operational burden does not provide additional transparency to the fair value disclosures but rather is a product of the broad and ambiguous “reasonably possible” concept.

Reporting Level 3 Rollforwards on a Gross vs. Net Basis

While PNC generally supports this requirement given the user focus on Level 3 fair value measurements, we believe that preparers should be permitted to set a materiality threshold relative to the amount of their total assets classified as Level 3 to mitigate the additional costs of expanding these disclosures. The majority of the information needed to prepare the fair value disclosures is not currently supported by a central system but instead is accumulated from many systems and sources and requires extensive management review. As proposed, the “gross

reporting” of Level 3 rollforwards would require preparers to track and analyze all individual purchase, sale and settlement transactions for each individual Level 3 asset or liability category regardless of the amounts involved. Without a materiality threshold or specific iteration from financial statement users as to the benefit such information would provide, the costs and effort to satisfy this proposed requirement would most likely far outweigh any perceived benefits.

Conclusion and Recommendation

FASB Chairman Bob Herz commented during deliberation of the proposed ASU that requests for sensitivity analysis of fair value measurements most often come from “sophisticated users” of financial statements. However, he acknowledged that these users have not provided the FASB with a specific explanation for why they believe sensitivity information is important or how it would be used. In our experience, PNC’s investor relations team has received very few requests from investors or others for additional information regarding our fair value disclosures.

While we generally support the concept of providing sensitivity disclosures related to fair value measurements, we do not believe the disclosures based on the “reasonably possible” concept as proposed will provide additional transparency. We also do not believe that consistency and comparability of fair value disclosures among peer companies will improve given the broad judgment and flexibility introduced by the proposed criteria. For these reasons, if the Board decides that sensitivity disclosures are required, we suggest that the FASB refine the disclosure guidelines and recommend that such disclosures be included in the MD&A.

Also, while we support the further disaggregation of certain Level 3 fair value information, we believe preparers should be permitted to establish materiality guidelines to justify the additional costs to gather, verify and disclose such information.

Again, PNC appreciates the opportunity to comment on the proposed ASU.

Sincerely,



Samuel R. Patterson
Senior Vice President and Controller
The PNC Financial Services Group, Inc.

cc Mr. Richard Johnson
Executive Vice President and Chief Financial Officer
The PNC Financial Services Group, Inc.

Exhibit I

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures), the Board is seeking input from financial statement preparers about their operationality and costs.

While PNC supports the overall concept of providing sensitivity disclosures related to fair value measurements, we do not believe that sensitivity disclosures based upon the broad “reasonably possible” concept, as proposed, will provide additional transparency or improve consistency and comparability of fair value disclosures among peer companies. For this reason, PNC recommends that the FASB reconsider the sensitivity guidelines and consider including such disclosures in the MD&A.

Issue 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

PNC generally supports this requirement, given the focus on Level 3 measurements, but recommends that the Board permit preparers to set a materiality threshold relative to the amount of their total assets classified as Level 3 to mitigate the additional costs of expanding the disclosures. The majority of the information needed to prepare the fair value disclosures is not currently supported by a central system but instead is accumulated from many systems and sources and requires extensive management review. Obtaining the necessary breakout of information for “gross reporting” would require manually intensive tracking at the individual transaction level. We believe the related costs and effort to satisfy this proposed requirement would most likely far outweigh any perceived benefits.

Issue 3: Is the effective date operational? In particular:

1. Will the entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for reporting periods ending after March 15, 2010.
2. Are there any reasons why the Board should provide a different effective date for nonpublic entities?

As regards Question 1 above, the proposed sensitivity disclosures in this ASU require the quantitative analysis of “reasonably possible” alternative inputs and any correlation effects. This in turn adds another layer of operational complexity given the number of Level 3 measurements and the timing of filing deadlines. While we believe these requirements should not be adopted, if the Board moves forward as proposed, PNC recommends the guidance be first field tested to allow implementation issues to be addressed and guidance refined with a final effective date set for December 31, 2010.