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September 30, 2003

Jennifer J. Johnson
Secretary
Board of Governors of the Federal
Reserve System
20th Street & Constitution Ave., N.W.
Washington, DC 20551
Regs.comments@federalreserve.gov

Re: Anti-Tying Restrictions of Section 106 of the
Bank Holding Company Act of 1970; Docket No. OP-1158

Dear Ms. Johnson:

The PNC Financial Services Group, Inc. ("PNC"), Pittsburgh, Pennsylvania, appreciates the opportunity to submit comments to the Board of Governors of the Federal Reserve System (the "Board") on its proposed interpretation of the anti-tying restrictions of section 106 of the Bank Holding Company Act of 1970 (68 Fed. Reg. 52024 (August 29, 2003)). The interpretation describes the scope and purposes of section 106, the elements of a tying arrangement prohibited by section 106, and the statutory and regulatory exceptions to the prohibitions of section 106. The supervisory guidance discusses the types of internal controls that banks should have in place to comply with section 106.

PNC is one of the largest diversified financial services companies in the United States, with \$67.3 billion in assets as of June 30, 2003. Its major businesses include community banking, corporate banking, real estate finance, asset-based lending, wealth management, asset management and global fund services. PNC's full-service subsidiary banks have branches in Delaware, Indiana, Kentucky, New Jersey, Ohio and Pennsylvania.

PNC has participated in the drafting of the comment letters submitted by the Financial Services Roundtable and the ABA Securities Association (collectively, the "Banking Associations"), and we are supportive of the recommendations set forth in those letters. The purpose of this letter is to provide further support to the Board's proposal and to highlight several comments that we believe are of particular importance.

General Comments

We are highly supportive of the Board's issuance of an interpretation that makes it clear that voluntary ties and relationship banking are not prohibited by section 106. We also think that it is very useful to include in the interpretation a non-exclusive list of traditional bank products, as questions are frequently raised as to whether particular products may be tied notwithstanding the prohibitions in section 106. As discussed below, we would recommend that certain products be added to the non-exclusive list of traditional bank products.

Also, while we fully recognize that the repeal of section 106 is a matter for Congress, and not the Board, we would like to take this opportunity to encourage the Board to urge Congress to revisit this issue. One could argue that the Gramm-Leach-Bliley Act, by increasing the scope of activities in which financial holding companies may engage, makes the restrictions of section 106 more important. We believe that the more persuasive argument is that section 106 has become an anachronism and an anomaly, as it applies only to those financial companies that are bank holding companies, despite the fact that significant extensions of credit, and substitutes for extensions of credit (e.g., commercial paper) are provided by financial companies that are not bank holding companies. The paper recently issued by the Office of the Comptroller of the Currency, entitled "Today's Credit Markets, Relationship Banking and Tying," summarizes the persuasive evidence that banks do not possess the market power to engage in anti-competitive tying and that specialized investment banking companies can compete with diversified banking holding companies ("OCC Tying White Paper"). Accordingly, it is our view that the predicates for section 106 no longer exist, and this provision should be repealed.

Specific Provisions

List of Traditional Bank Products

As noted above, we believe that it is very useful that the Board has included in the proposed interpretation a non-exclusive list of traditional bank products. As the Board is well aware, traditional banking practices have evolved significantly since 1970. The OCC Tying White Paper addressed this issue as follows:

"The Congressional recognition of the evolving nature of banking evinces Congress's intent that appropriate banking practices are not frozen in time and further supports the conclusion that relationship banking can be consistent with the legal framework. Similarly, this recognition and intent to permit evolution supports a flexible interpretation of the scope of traditional bank products encompassed by the statutory exemption. Modern versions of those "traditional" bank products also should be included in the exemption."

In finalizing the list of products in the interpretation, the Board should include foreign exchange, which is clearly an adjunct to bank deposit and cash management services, and all types of derivatives, not just credit derivatives. Interest rate and credit derivatives were developed as products integral to traditional lending transactions. Derivatives are widely perceived as being classic bank product offerings, and should be accorded the status of traditional bank products.

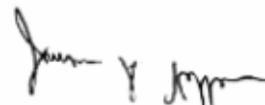
Relationship Banking: Supervisory Guidance

We believe that the proposed interpretation serves a very important function by explicitly recognizing that relationship banking and "mixed-product arrangements" are permissible under section 106. However, we wish to endorse strongly the view expressed in the Banking Associations' comments regarding the possibility that the relationship banking due diligence requirements require a customer-by-customer, transaction-by-transaction review. If this is not intended, we recommend that the Board clarify that it is sufficient for a bank holding company to test mixed-product arrangements at the program level before they are offered to a bank holding company's customer base. If it was intended to require a customer-by-customer review, we urge the Board to reconsider such a requirement for the reasons set forth in the Banking Associations' comments.

Conclusion

PNC expresses its appreciation for this opportunity to comment on the proposed interpretation. As noted above, we are also supportive of the comments submitted by the Banking Associations. We hope these comments will be helpful to the Board in finalizing its interpretation.

Sincerely,



James S. Keller