July 6, 2015

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Subject: File Number S7-07-15
Pay Versus Performance Proposed Rule

Dear Mr. Fields:

The PNC Financial Services Group, Inc. (PNC) appreciates the opportunity to provide the Securities and Exchange Commission (SEC) with comments on the SEC's proposed "pay versus performance" disclosure rules. These rules, when finalized, will implement the requirements of Section 953(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).

PNC is a diversified financial services company headquartered in Pittsburgh, Pennsylvania, with approximately $351 billion in assets as of March 31, 2015. PNC's principal lines of business are retail banking, corporate and institutional banking, asset management and residential mortgage banking. PNC provides many of its products and services nationally and others in PNC's primary geographic markets in the Mid-Atlantic, Midwest and Southeast United States. PNC also provides certain products and services internationally.

PNC generally supports the comment letters submitted by The Financial Services Roundtable and the Center on Executive Compensation in response to this proposed rule. The comments included below highlight some specific areas of the rule that are of particular importance to PNC.

1. The pay versus performance disclosure should be principles-based rather than prescriptive.

While we recognize the merits of comparability as a disclosure philosophy, and the value in standardizing disclosure to facilitate comparisons within and across industries, we do not believe that this rule lends itself to such a prescriptive approach. The SEC notes in its proposing release that the Dodd-Frank Section 953(a) rules "were not intended to be overly-prescriptive and that Congress recognized that there could be many ways to disclose the relationship between executive compensation and the financial performance of the registrant."[1]

The statutory language of Section 953(a) itself seems to favor a principles-based disclosure approach, making it clear that the disclosure should compare pay to overall financial performance. The statute requires the SEC to establish disclosure rules for issuers that will provide a "clear description" of compensation required to be disclosed under Item 402 of Regulation S-K, "including information that shows the relationship between executive compensation actually paid and the financial performance of the issuer, taking into account any change in the value of the shares of stock and dividends of the issuer and any distributions."[2]

In addition, the Compensation Discussion and Analysis (CD&A) section of the proxy statement, which is arguably the most-read section of that document, is principles-based, with the SEC adopting a dynamic disclosure approach that supports flexibility. The pay versus performance disclosure fits well as a natural extension of the CD&A, and would benefit from similar flexibility in disclosure.

Compensation programs are not – and should not be – "one size fits all," and are impacted by many factors, including the size of the company, industry dynamics, the scope of competition, talent needs, business philosophies and regulatory guidance, among other things. Large public companies often use multiple performance metrics, both short- and long-term, to evaluate the effectiveness of pay programs. An artificial comparison against just one of those metrics – total shareholder return (TSR) – may be misleading and will often require additional explanations. A five-year comparison may not be the right amount of time, based on the economic cycle for a particular industry or business.

We believe that the SEC should adopt a principles-based approach to the pay versus performance disclosure. Such an approach would allow issuers to tailor disclosures to their particular situations and compare pay to actual performance based upon the performance metrics that the company uses in its pay decisions. This disclosure approach would be consistent with the approach that has worked successfully with the CD&A. It could also help avoid additional explanatory disclosures that would not be particularly relevant to investors.

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[1] SEC Proposed Rule, 80 FR 26330.
[2] Id.

2. The proposed rule will lengthen disclosure without providing enhanced information for investors.

In general, we believe that the prescriptive approach proposed by the SEC will result in longer disclosures that will not necessarily enhance an investor's understanding of the company's pay program.

- Providing compensation information for executive officers other than the CEO will add unnecessary and potentially misleading disclosures.
- Using TSR as the sole performance metric will place undue focus on that variable while ignoring other performance metrics that may be more important to investor understanding of pay and performance.
- Mandating peer group comparisons is not required by the statute and may lead to incomplete or misleading disclosures.

a. Providing compensation information for executive officers other than the CEO will add unnecessary and potentially misleading disclosures.

The CEO has responsibility for the overall performance of the business and the position itself is generally comparable across all companies and industries. Investors, proxy advisory firms and the media focus on CEO pay for these and other reasons.

By contrast, the positions held by named executive officers (NEOs) other than the CEO (and CFO) differ from company to company, and even within a company from year to year. They may properly be paid for reasons unrelated to overall company performance. In some cases, NEOs will be paid for how well they manage a discrete line of business. Other NEOs may instead be paid for how well they manage risk – and that NEO may have an excellent performance year (e.g., a General Counsel who negotiates a favorable settlement for the company on a crucial litigation matter) in a year when the overall company does not perform as well.

In addition to the variation in compensation programs and philosophies for NEOs, the turnover of NEOs over time may impact the average pay calculation in ways that are unrelated to company performance. For example, if we assume a three-year performance period, where the company performs well in year 2, and not as well in year 3, we would expect to see a strong correlation between pay and performance if the company increases NEO pay by 10% in year 2 and decreases NEO pay by 10% in year 3.

However, if we also assume that the company changes CFOs four months into year 2, without any change in the rate of compensation for that position (which would add one more NEO that year), and then hires a new executive (NEO 4) at the end of year 2 at a much higher rate of compensation than the prior lowest-paid NEO (NEO 3), the average NEO pay can actually go in the opposite direction of the underlying performance and compensation trends, as this table shows:

NEO	Year 1 Pay	Year 2 Pay (+10%)	Year 3 Pay (-10%)
CFO 1	$300,000	$110,000	
CFO 2		$220,000	$297,000
Total CFO	*$300,000*	*$330,000*	*$297,000*
NEO 1	$200,000	$220,000	$198,000
NEO 2	$150,000	$165,000	$148,500
NEO 3	$140,000	$154,000	
NEO 4			$175,000
NEO Average[3]	*$197,500*	*$173,800*	*$204,625*
Change in Pay (%)		*- 12%*	*+18%*

Paying NEO 4 more than NEO 3 – even if NEO 3 remains employed at the company at a 10% lower pay ($138,600) – does not indicate a lack of correlation between pay and performance, but the average NEO pay amount will make it appear that they are not aligned. Similarly, replacing the CFO in the middle of the year – with no overall change in the rate of compensation – will have a dramatic effect on the average pay for all NEOs, simply because there will be another NEO to include in the average.

A similar distortive result would occur if the highest-paid NEO (for example, the President) was promoted to CEO at any point during the relevant multi-year period, without anyone else being promoted or hired into the vacated President position. The addition of a lower-compensated NEO to round out the list of required NEOs would likely lower the average NEO pay, regardless of actual pay trends.

Additionally, if the company hires an executive from the outside to replace a highly compensated NEO, and the new executive receives an equity grant upon hire, the impact of that grant could distort the average NEO pay for several years. Many companies use equity as a significant component of compensation to align the interests of executives with long-term shareholders and to help retain key executives over multi-year periods. Equity often vests over 3-5 years, and in this example, the equity granted to the new executive would not show up in the pay versus performance table for several years. At the same time, the table would not

[3] NEO Average pay includes the average pay for CFO 1, CFO 2, NEO 1, NEO 2, NEO 3 and NEO 4, as applicable.

show the vested equity that the departing executive had been receiving for several years. The net effect of this would be to understate average NEO pay for multiple years.

In some cases, issuers may voluntarily disclose compensation information for additional NEOs beyond those who are required. An issuer may choose to do this because a long-standing NEO would be displaced from the Summary Compensation Table in the proxy statement due to an unusual compensation situation in one year, and the issuer otherwise prefers to have consistent compensation disclosure for its NEOs year over year. Under the rule as proposed, an issuer that would otherwise make this disclosure for the benefit of investors may decide that it is not worth risking criticism that the issuer disclosed the additional NEO primarily to lower the average NEO pay amount for one year.

These represent only a few examples of how the average NEO pay could be distorted and appear to show that pay and performance are not connected when, in reality, they are well connected. Clearly, there can be similar distortions in reviewing CEO compensation trends over time, resulting from changes in CEOs, the timing of equity grant vesting and the like. These types of circumstances will, however, occur more frequently among the other NEOs – primarily because there are more of them and the positions represented by this group can change year over year. In addition, it will be easier to explain any potential variances or distortions in the CEO compensation, particularly where the compensation for that position receives most of the focus of investors and others and tends to be reasonably well understood. Including average pay for other NEOs in the pay versus performance disclosure will result regularly in confusing – and perhaps even misleading – statistical disclosures accompanied by potentially complicated explanatory disclosures, without any real benefit to an investor's understanding of the alignment of pay and performance.

b. Using total shareholder return (TSR) as the sole performance metric will place undue focus on that variable while ignoring other performance metrics that may be more important to investor understanding of pay and performance.

Larger public companies typically evaluate pay using multiple performance metrics. While many companies use total shareholder return (TSR) to gauge performance under their pay plans, requiring a company to focus on TSR as the sole measure of financial performance will place undue emphasis on one variable, drawing the focus away from other metrics that may be more important to understanding the company's financial performance.

Moreover, a metric such as TSR reflects changes in a company's stock price that may be more affected by events in the general economy or the timing of the calculation period, rather than strategic decisions made by the company's executives. TSR has value to both issuers and investors, but a singular focus on it may not be the best approach to explain the connection between pay and performance.

The exclusive reliance on TSR may also cause issuers to change the design of their compensation programs. In order to strengthen the correlation between TSR and pay, an issuer may rely more heavily on TSR rather than other corporate performance metrics. Using multiple performance metrics in a compensation program helps tailor the program to the strategic objectives of the business and also avoids overreliance on any single metric. This rule should not have the unintended result of changing an issuer's compensation program design and overweighting any one metric. This issue would be made worse if the rule requires disclosure for NEOs other than the CEO. As noted above, it may be appropriate to focus incentives for the NEOs other than the CEO on metrics other than general corporate performance metrics such as TSR, making the encouragement of the use of TSR as the primary metric for comparing their pay and performance particularly problematic.

A principles-based approach to pay versus performance disclosure will allow issuers to focus on the performance metrics that are relevant to the company and its shareholders, consistent with the structure of its compensation program and the disclosures provided in the CD&A.

c. Mandating peer group comparisons is not required by the statute and may lead to incomplete or misleading disclosures.

Section 953(a) does not require the pay versus performance disclosure to include a peer group, or to compare the company's performance to peer group performance. Item 201 of Regulation S-K already requires companies to disclose a peer group performance graph, and companies that use relative performance metrics in their compensation programs are required to explain how they are measuring against peers.

Including a TSR comparison for peers will not necessarily provide investors with a better understanding of how pay and performance correlate because, like the issuer, peers will likely use many other performance metrics to evaluate their pay programs and often not the same metrics as the issuer uses. Moreover, the TSR will be highly reliant on how well the company was performing at the beginning of the measurement period, which is necessarily arbitrary.

As an example, after the financial crisis in 2008-09, many financial institutions experienced significant stock price drops. As would be expected, the stock prices for the higher-performing institutions in many cases dropped less and bounced back sooner than the prices for the lower-performing ones. Depending on the start of the measurement period, a relatively weaker issuer may show a much higher TSR over a five-year period because the stock price was depressed relative to peers at the beginning of the period. In that scenario, a higher TSR would indicate weaker long-term performance, not stronger.

A principles-based approach to pay versus performance disclosure will allow issuers to choose whether peer group comparisons make sense in the context of the compensation program and if comparisons are included, to determine how best to present them.

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Thank you for the opportunity to comment on these proposed rules. We would be pleased to discuss our comments with representatives of the SEC at their convenience.

Sincerely,

Vicki C. Henn
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Vicki C. Henn
Executive Vice President and
Chief Human Resources Officer