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October 12, 2009

Via email

Russell G. Golden, Technical Director File Reference No. 1710-100 Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116

Re: File Reference No. 1710-100– Exposure Draft of a

Proposed Accounting Standards Update (PASU) of Topic 820, Improving Disclosures about Fair Value Measurements

Dear Mr. Golden:

Wells Fargo & Company (Wells Fargo) is a \$1.3 trillion diversified financial services company providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage and consumer finance. We appreciate the opportunity to comment on the exposure draft: Topic 820, *Improving Disclosures about Fair Value Measurements*.

General Comments

We believe that high-quality disclosures about the fair value of financial statement instruments are critically important for investors and we agree with the objective of the exposure draft, which is to allow financial statement users to obtain greater transparency and understanding about recurring and nonrecurring fair value measurements. However, we do not believe that the proposed approach accomplishes this objective. Specifically:

- 1. The proposed disclosures are not useful— We do not believe the proposed disclosures, particularly the sensitivity analysis, will be useful at any level of disaggregation, nor do we believe that they will provide greater transparency into management decision making as this information is not used by management. The lack of usefulness is why the proposed information is not currently generated or used in managing portfolios of financial instruments
- 2. <u>Disclosure of this information is not immediately operational</u> It would be operationally difficult, costly and time consuming to develop or adapt existing core systems to collect, process and report this information
- 3. Proposal does not align with disclosure requirements in other FASB projects The proposed disclosures are not aligned with either the FASB's Disclosure Framework Project or the joint IASB/FASB Accounting for Financial Instruments Project. Both projects are designed to improve financial statement disclosures for the benefit of analysts and investors

by reducing the redundancy and complexity of current US GAAP disclosure requirements. We do not believe the proposed disclosures accomplish these objectives.

4. The timing just does not work -The proposed_timing of the effective date for the adoption of the Exposure Draft seriously overestimates existing systems capabilities and underestimates the project management time needed to create data collection, aggregation and reporting processes in a well controlled Sarbanes-Oxley compliant environment.

We believe the Board should address these concerns, which are discussed in further detail below, prior to finalizing the Exposure Draft.

1. <u>USEFULNESS</u>

The overriding objective of financial reporting is to provide useful information. To assist in choosing between financial accounting and reporting alternatives, FASB Concept Statement No. 2 identifies the qualitative characteristics of useful accounting information. The most important of these characteristics are:

- Relevance
- Benefits greater than cost
- Comparability

A. Relevance

We believe that investors and potential investors are best served when they have access to the information that management considers to be the most useful for their decision making. This is the essence of transparency. We believe that providing the best estimate of fair value based on management's experience and knowledge provides a clear communication to investors of what their investment is worth. By providing a range of valuations, users of financial statements would no longer have a clear communication, but a more ambiguous range of values that introduces an unnecessary level of uncertainty into the valuation process. We believe that management is in the best position and has the most knowledge to determine an instrument's fair value and that providing a range of values to users would permit them to come to potentially misleading conclusions.

There is a misguided belief that an increase in the quantitative amount of disclosures (whether it be sensitivity analysis, transfers between level 1 and level 2, or greater disaggregation of fair value measurements by "class") will result in a qualitative improvement in the transparency of the disclosures. More is not always better; overly detailed disclosures obscure their usefulness. Instead of focusing on the data that management believes is most relevant, the Exposure Draft would provide users with information that would be a source of confusion, uncertainty and a distraction to their analysis.

B. Benefits greater than cost

Adoption of the Exposure Draft is cost prohibitive given its pervasive impact on all recurring and nonrecurring fair value disclosures. Compliance would require a significant amount of time and resources to be devoted to make changes to existing financial reporting systems and the underlying feeder systems containing the detailed information in order to prepare the required disclosures. Furthermore, the majority of this information either does not currently exist or is not considered relevant by management in its day-to-day operations. We believe that the cost of developing information not utilized by management is disproportionate to the benefit provided. From our perspective, this is especially

egregious given our view that the benefits are not relevant to financial statement users. The production of information that is not relevant, even if it was possible to produce at little or no cost, cannot be justified.

Additionally, the Exposure Draft will require companies to maintain different sets of books and records to track information not considered useful or optimal by management. This will require companies to incur significant additional cost for which no apparent benefits will be derived other than complying with a burdensome disclosure requirement. The extent and complexity of implementing the required changes to our core systems is discussed in further detail below in the section on Operationality.

C. Comparability

The essence of comparability is that information becomes more useful to investors when it can be related to a benchmark or to peers. Comparability requires that similar events and/or instruments be accounted for and/or disclosed in the same manner on the financial statements of different companies and for a particular company for different periods. Unfortunately, the disclosures required in the Exposure Draft do not provide for either comparability between companies or within the same company for different periods. This is because different companies will have different determinations of not only the range of inputs that are reasonably possible, but also which specific inputs should be included based on their relative significance in the valuation of the same security. Similarly, a company's management will have different views as to the relative significance of reasonably possible individual inputs over time for the same security. Further, companies will disaggregate the same "major categories" by "class" differently, adding to the lack of comparability between companies.

2. OPERATIONALITY

It is <u>not</u> possible to implement the provisions of the Exposure Draft in its current form without incurring a significant amount of cost, resources and time to modify our existing valuation and financial reporting systems (including the underlying feeder systems containing the detailed information). The disclosure requirements would require enhancements to these core systems, which are not currently designed to provide the proposed new disclosures. We have specific concerns regarding the information required under the Exposure Draft dealing with the following: 1) sensitivity analysis, 2) additional levels of disaggregation, and 3) the information regarding transfers between level 1 and level 2. Even if the required data exists in some form within a company, processes to capture and present the data for disclosure purposes must be developed. The only feasible way to attempt to capture this information before systems modifications have been completed is to utilize a manual process. Utilizing a manually intensive data gathering process for a number of years (as core system enhancement projects are almost always multi-year projects) is very problematic and creates the exact opposite of a well controlled Sarbanes-Oxley compliant environment.

3. ALIGNMENT WITH DISCLOSURE REQUIREMENTS IN OTHER FASB PROJECTS

On July 8, 2009, the FASB announced the addition of a new agenda project, the Disclosure Framework, aimed at establishing an overarching framework intended to make financial statement disclosures more effective, coordinated, and less redundant. In announcing the disclosure framework project, the FASB stated that it intends to address "disclosure overload," to enable all entities to focus on making more coherent disclosures in their annual reporting package, and to move away from what some assert has become a compliance exercise. We believe that the voluminous nature of the disclosures in the Exposure Draft contradict the stated intentions of the Disclosure Framework project. If the FASB is truly

committed to reducing the current disclosure overload, than a reexamination of the disclosures required by the Exposure Draft would be in order.

On December 15, 2008, the FASB announced the addition of another FASB agenda project, *The Accounting for Financial Instruments*. This project has as its objective the improvement of the decision usefulness of financial instrument reporting for users of financial statements. The project will replace the FASB's and the IASB's respective financial instruments standards with a common standard. One of the stated goals of this project is to improve the accounting and disclosures associated with derivatives and other financial instruments. We recommend that the FASB postpone the PASU effective date until it can be analyzed in light of the disclosure requirements proposed in the *Accounting for Financial Instruments* project.

4. TIMING OF ADOPTION

October 12, 2009 is the end of the comment period for the proposed Exposure Draft. In order for the Board and the Staff to adequately review and consider the comments received, we would not anticipate that a final standard would be issued before the end of November, 2009. While it is difficult to estimate the implementation time for this project, it would not be unusual for projects of this magnitude to require a twelve to twenty-four month period to modify and test all affected financial reporting systems. Accordingly, we do not believe that the task of 1) collecting data, 2) designing system changes and 3) testing these changes in a Sarbanes Oxley compliant controlled environment, would permit an effective date before December 31, 2010 at the very earliest and December 31, 2011 at the latest. It is both unrealistic and irresponsible to issue a new disclosure standard with the requirements contained in the Exposure Draft with the currently proposed effective date.

As a reminder, the resources of financial institutions are preoccupied with the implementation of new accounting standards that are effective in the first quarter of 2010, including FAS 166, *Accounting for Transfers of Financial Assets*, FAS 167, *Amendments to FASB Interpretation No. 46R, and the* additional guidance which may be issued during the fourth quarter which would be effective for December 31, 2009, such as the Proposed Statement of Financial Accounting Standards *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. Resources at large financial institutions are also focused on the development of entirely new processes and systems for their compliance with Basel II Reporting System guidelines and from SOP 03-3 loan portfolios that resulted from recent significant acquisitions. An effective date prior to December 31, 2011 is not realistic. Separately, the Exposure Draft as currently written must be subject to a rigorous cost benefit analysis to demonstrate that the usefulness of the required disclosures overcomes the costs and operational difficulties associated with its implementation.

5. SPECIFC COMMENTS ON THE PROPOSED SENSITIVITY ANALYSIS FOR LEVEL 3 MEASURMENTS

- We question the relevance of providing sensitivity data for level 3 financial statement instruments when there is generally a corresponding inverse impact on other financial instruments. For example, changes in the value of our mortgage servicing rights asset are generally offset by changes in loan values and in servicing income. To focus only on the changes in value for the level 3 servicing asset would give investors an incomplete picture of the company's financial position and risk profile.
- Level 3 measurements are not inherently less credible than level 2 measurements. A robust discounted cash flow model that has been back tested and periodically updated that is used for the valuation of a mortgage servicing asset or security is often as reliable and relevant as broker

quotes or comparative trade data that would be used for a level 2 measurement. Requiring companies to provide a sensitivity analysis implies the valuations of these securities are less credible than those securities in other levels and is misleading to financial statement users.

- The guidance is not clear as to how to conduct this analysis when there is more than one significant input used in the valuation process, which is the case for most level 3 securities. Should a sensitivity analysis be performed for each significant input separately, or should reasonably possible assumptions be made simultaneously for multiple inputs? How then would a company determine the appropriate number of scenarios or range of reasonably possible scenarios to present?
- The sensitivity and inputs disclosures by class will not be useful at any level of aggregation because the range will be too wide. Additionally, within any given class of assets the relative significance of an individual input will vary, which will further reduce the usefulness of the disclosures.
- There are limited instances in current GAAP where management is required to disclose a range of potential values for financial statement instruments. The disclosure requirement in FAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and the Critical Accounting Policies section in Management's Disclosure and Analysis are two such instances. In discussions with our Investor Relations Department, they indicate that we rarely if ever receive inquiries regarding these two disclosures, which leads us to observe that these disclosures are not particularly relevant to financial statement users.

Conclusion

We believe that the information requested in the Exposure Draft is of little benefit to financial statement users and may be potentially misleading. We strongly recommend that the FASB reconsider whether the information requested is: 1) relevant, 2) operational and can be obtained at a reasonable cost, and, 3) is aligned with other FASB disclosure projects. We urge the FASB to consider requiring disclosures of data that management considers, in its best judgment, to be useful to investors. Finally, because of the difficulties in operationalizing the proposed guidance, we strongly urge the effective date of the standard be delayed by one to two years to permit the application of the appropriate level of management resources.

We appreciate the opportunity to comment on the issues contained in the FASB's invitation. If you have any questions, please contact me at (415) 222-3119.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy
Executive Vice President & Controller

cc: Financial Accounting Standards Board Members
Kathy Murphy – Office of the Comptroller of the Currency
Art Lindo – Federal Reserve Board
Robert Storch – Federal Deposit Insurance Corporation
Donna Fisher – American Bankers Association
Gail Haas – New York Clearing House Association