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December 2, 2002

Ms. Suzanne Q. Bielstein, MP&T Director The Financial Accounting Standards Board 401 Merrit 7 - P.O. Box 5116 Norwalk, CT 06856-5116

RE: Principles-Based Approach to U.S. Standard Setting

File Reference 1125-001

Dear Ms. Bielstein:

Wells Fargo & Company is a diversified financial services company with over \$330 billion in assets providing banking, insurance, investments, mortgage and consumer finance. We appreciate the opportunity to comment on the Board's proposal on the adoption of a principles-based approach to U.S. standard setting (the Proposal).

We are very supportive of the Board's Proposal and strongly believe that accounting and reporting should be based on overriding principles which can be universally applied. Many recent standards have overwhelmed the accounting profession and users of financial statements with rules and exceptions to rules which do not correctly capture the fundamental economics of many transactions. We agree that providing principles-based accounting guidance will result in standards that are more responsive to emerging issues and the rapidly changing financial and economic environment. To facilitate this process, a mechanism should be established to permit a prompt response to resolve questions that will inevitably result from varying interpretations of principles-based guidance.

Before the Financial Accounting Standards Board can issue principles-based standards, it must first undertake a fundamental rethinking of its current conceptual framework. The conceptual framework is the foundation on which financial accounting and reporting standards are built. The current framework is eclectic, internally inconsistent, incomplete, and in need of repair. It is neither based on the historical cost or fair value. It is a mixed attribute system which embodies the complexities which result from the integration of two entirely distinct systems. We do not believe the mixed attribute system provides a supportable foundation for a principles-based approach to accounting standards; nor do we believe that a fair value accounting system provides meaningful information to financial statement users. Banking income is earned on an ongoing basis over time and not from taking advantage of short term price fluctuations. The cost method provides a faithful representation of both this earnings process and the manner in which a bank's management operates. It is a more relevant and reliable representation of the earnings process than fair value. Fair value accounting lacks income statement relevance for financial service companies. Fair value does not provide a sound basis for determining bank earnings and net cash flows, while it introduces significant subjectivity and judgment through the required use of models for financial instruments which have no established markets (such as attempting to treat insurance contracts as readily marketable financial instruments). Reliability and comparability would be difficult to achieve. Enron's accounting earnings, driven by its valuation of nonmarketable derivatives, is an example of the problems associated with an accounting model which relies too heavily on subjectivity and judgment.

The primary goal of a revised conceptual framework should be to permit financial statement preparers to properly reflect the underlying economic substance of transactions and events. Listed below are three brief examples where the current rules-based approach does not reflect the economic substance of transactions:

- A bank, through an investment company, purchases marketable equity securities in a technology company which it intends to hold for the foreseeable future. Current accounting would require it to have written up the security during the 1995-1999 tech rally and then to have written the asset down during the 2000-2002 tech slump. The financial statements have reflected significant volatility which would not have been recognized had the same investments been purchased directly by the bank.
- Pending guidance on Special Purpose Entities (SPE) will require that certain SPE assets
 and liabilities be consolidated. The nature of the assets will require them to generally
 be marked-to-market, while the liabilities will generally continue to be recorded at
 historical cost. This accounting introduces significant volatility to the financial
 statements while the consolidating company has not incurred any additional economic
 exposure.
- Pending guidance on purchased loans will mandate a different accounting for a loan that
 is purchased separate from an identical loan that was originated. Here is an example of
 two identical loans with the same economic characteristics that will be accounted for
 differently.

A true principles-based approach must be integrated into the fabric of all accounting standards. We therefore concur with the approach articulated by the International Accounting Standards Board in IAS 1, Presentation of Financial Statements. However, the IASB has not yet successfully implemented this approach. IAS 39, Financial Instruments, Recognition and Measurement is an example of a complex rules-based standard issued by the IASB under a presumed principles-based approach.

As requested by the Board, we have included our comments on specifically identified issues in the attached supplement to this letter. We are fully supportive of the Board's efforts and offer our assistance to the Board in working toward a successful transition.

We appreciate the opportunity to comment on the Board's Proposal. If you have any questions, please contact me at (415) 222-3119.

Sincerely,

Rich Levy Senior Vice President, Controller

Attachment

WELLS FARGO & COMPANY RESPONSES TO THE BOARD'S QUESTIONS ON A PRINCIPLES-BASED APPROACH TO US STANDARD SETTING

- Q1 Do you support the Board's proposal for a principles-based approach to U.S. standard setting? Will that approach improve the quality and transparency of U.S. financial accounting and reporting?
- A1 Wells Fargo supports the Board's proposal for a principles-based approach to U.S. standard setting. We believe that principles-based standard setting can result in improved quality and transparency in financial accounting and reporting and a more meaningful alignment of accounting that reflect the underlying economics of financial transactions.
- Q2 Should the Board develop an overall reporting framework as in IAS 1 and, if so, should that framework include a true and fair view override?
- A2 Yes, we believe the Board should develop an overall reporting framework. We are also very supportive of the inclusion of a true and fair view override provision and strongly believe that there are occasions where strict compliance with rules-based accounting standards can result in less than meaningful financial reporting.
- Q3 Under what circumstances should interpretive and implementation guidance be provided under a principles-based approach to U.S. standard setting? Should the Board be the primary standard setter responsible for providing that guidance?
- A3 We believe that under a principles-based accounting standards model, interpretive and implementation guidance should be limited to those standards with a complex subject matter. We strongly believe that the Board should be the only standard setter responsible for providing that guidance.
- Q4 Will preparers, auditors, the SEC, investors, creditors, and other users of financial information be able to adjust to a principles-based approach to U.S. standard setting? If not, what needs to be done and by whom?
- A4 As a preparer of financial statements, we feel that an adjustment to a principles-based approach to U.S. standard setting can be reasonably accomplished and will depend upon the clarity of the principles issued, the revised reporting framework and the supporting guidance on complex subject matters. However, we request that the Board provide clarification on 1) adoption logistics, 2) the extent to which existing standards would be revised and reissued, and 3) the proposed timeline for transition.
- Q5 What are the benefits and costs (including transition costs) of adopting a principles-based approach to U.S. standard setting? How might those benefits and costs be quantified?
- A5 Until we can clearly understand our responsibilities in the transition process, it is difficult to definitively speak to what adjustments will be required or our ability to make those adjustments.
- Q6 What other factors should the Board consider in assessing the extent to which it should adopt a principles-based approach to U.S. standard setting?
- A6 We believe the Board should consider issuing a detailed transition outline that includes a timeline and discussion of the role and responsibilities of the Board (and other standard setters) as well as preparers of financial statements in effecting adoption.