

Richard D. Levy Executive Vice President & Controller

MAC A0163-039 343 Sansome Street, 3rd Floor San Francisco, CA 94104 415 222-3119 415 975-6871 Fax richard.d.levy@wellsfargo.com

January 16, 2009

Via email

Russell G. Golden - Technical Director Financial Accounting Standards Board File Reference Proposed FSP FAS 107-a 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116



Re: Invitation to Comment – FASB Staff Proposal FASB Statement No. 107-a, Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107

Wells Fargo & Company ("Wells Fargo") is a diversified financial services company that provides banking, insurance, investments, mortgages and consumer finance services. We appreciate the opportunity to comment on the issues being considered by the Board to increase the comparability of information about certain financial assets that have related economic characteristics but have different measurement attributes.

We strongly disagree with the Board's decision to amend FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments ("FAS 107") at this time. We believe issues contained in the FASB Staff Proposal FASB Statement No. 107-a, Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107 ("Proposed FSP") are so significant that the FASB should rescind the Proposed FSP. In summary, we oppose the Proposed FSP for the following reasons:

- We believe that the Proposed FSP contains significant conceptual flaws, as described further herein. The Proposed FSP indicates the Board's objective is to "increase the comparability of information about certain financial assets that have related economic characteristics but different reporting measurement attributes." We question whether that objective has been achieved.
- It is not possible to provide the disclosures in their current form by the proposed effective date of December 31, 2008 (for calendar year-end companies). We believe no major U.S. commercial bank will be able to make the disclosures operational by the March 2, 2009, SEC 2008 Form 10-K filing deadline for large accelerated filers. The incremental effort required by the proposed FSP would be overly burdensome and we believe it is

unreasonable for the Board to release a final FSP of this complexity nearly one month into the annual reporting period.

- The disclosures are complex and incrementally significant relative to current FAS 107 requirements. The accelerated timing of both the exposure and comment period do not provide preparers sufficient time to properly evaluate the nature, scope and method of the measurements proposed.
- The scope of the Proposed FSP should be limited to investment securities with other-than-temporarily-impairment ("OTTI"). We believe the Proposed FSP has been unnecessarily expanded to include other financial assets (loans, mortgages held-for-sale, investment securities with no OTTI) and inclusion of such does not represent a meaningful and relevant addition to Company's financial statement disclosures. We believe it will only add confusion and misunderstanding to the disclosures.

We understand the Board's desire to re-evaluate disclosures for investment securities due to recent market and economic conditions and in light of changes to the impairment model in FSP EITF 99-20-1; however, we do not understand why the scope of the Proposed FSP is far broader than that of FSP EITF 99-20-1. We noted in our letter to the Board dated December 24, 2008, regarding proposed FSP EITF 99-20-a, Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue 99-20 ("December 24th Letter"), that we strongly supported the FASB's efforts to develop a single accounting model for determining whether OTTI exists for investments in debt securities. We applaud the Board in taking this important first step to improve the OTTI accounting model by issuing the FSP on EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 ("FSP EITF 99-20-1"). Additionally, as stated in our December 24th Letter, we believe OTTI measurement based on a model that represents expected credit losses is more appropriate than the current fair value model. We understand the OTTI measurement model will be addressed on an expedited basis in a joint project with the IASB regarding recognition and measurement of financial instruments ("IASB joint project"). However, on an interim basis while fair value remains the OTTI measurement model, we would support additional disclosure of the expected credit losses component of OTTI charges for investment securities. Limiting the scope of additional disclosure requirements in this manner is conceptually justified because if a security has not suffered an OTTI, we do not believe a loss has been incurred. Therefore, to calculate a different "incurred loss amount" separate from the carrying amount for investment securities with no OTTI seems to add little or no value.

Because FASB and IASB have not yet decided upon a revised impairment model for financial assets, we do not believe it would be appropriate for the Board to significantly and pervasively amend the FAS 107 disclosure requirements at this time, only to amend or supersede those requirements when the joint project is completed. Rather, we believe a limited-scope disclosure FSP is more appropriate in the short-term. Accordingly, if the Board decides to proceed with the Proposed FSP, we strongly urge the scope be limited to balance sheet disclosures of investment securities with OTTI. The need for any additional disclosures related to financial

assets that are economically similar but have different measurement attributes should be reconsidered in conjunction with the IASB joint project.

The remainder of this letter discusses our most significant concerns in more detail.

Operational Concerns

- The implementation of a disclosure requirement as significant as the proposed FSP will take financial statement preparers a significant amount of time and it is unreasonable for the FASB to make the proposed FSP effective for the 2008 annual reporting period.
- Calculations of the balance sheet incurred loss amount <u>for all securities</u> cannot be completed by the proposed effective date. The amount of effort required to implement a process to calculate the incurred loss amount for certain instruments (for example, those with prepayment risk) is significant due to the complexity of the calculation, availability of pertinent data, scope of securities included in the proposed FSP and the accelerated implementation time frame, and we do not believe we would be able to prepare the requisite disclosures as intended by the proposed FSP in time to file our annual report according to SEC reporting requirements.
- For investment securities, the requirement to disclose pro forma income from continuing operations and related reconciliations using the incurred loss measurement would require companies to maintain at least two sets of books and records (incurred loss amounts and the existing set which is fair value) throughout the year. Currently, companies do not calculate incurred loss amounts in accordance with the FAS 114 impairment measurement calculation for all securities. Calculating incurred loss amounts for all investment securities would require a major process and system modification as the accounting for investment securities not within the scope of EITF 99-20 and SOP 03-3 do not currently require forecasting expected future cash flows. Therefore, detailed expected cash flow information is not always readily available. Additionally, a FAS 114 impairment measurement calculation would require obtaining the contractual effective yield for each security. Because the effective yield is not required for financial reporting disclosures, obtaining that information may not be readily available. Even presuming this data was readily available, the systems are not currently in place to perform FAS 114 impairment measurement calculations on a massive scale. Considering the proposed timing of this issuance, it is simply not possible for companies to prepare the proposed pro forma income disclosures for investment securities. Any attempt to short-cut the process creates a significant risk of material misstatement...

> For loans held for investment, the requirement to disclose pro forma income from continuing operations and related reconciliations using the fair value measurement would require companies to maintain two sets of books and records (fair value amounts and the existing set) throughout the year. Because loan portfolios are not static during the year, the pro forma income on a fair value measurement basis would require nothing short of keeping a second set of books to perform the necessary calculation and tracking. In fact, even if a company never purchases/originates or sells a loan during the year, for any loan that matures or is pre-paid (in full or in part), there would be no corresponding fair value at the end of year to calculate a change in fair value. Given that most banks do not elect fair value accounting for loans held for investment, this requirement would represent a significant system and process modification that would be costly and time consuming. Considering the proposed timing of the Proposed FSP, it is simply not possible for companies to prepare the pro forma income disclosures for loans held for investment by the proposed effective date. Calendar-year companies would be required to re-create the year-to-date 2008 pro forma income on a fair value measurement basis. Attempts to short-cut the process would create a significant risk of material misstatement.

Lack of due process

- The accelerated timing of both the exposure and comment period does not provide financial statement preparers sufficient time to assess the impacts and feasibility of the proposed FSP. The accounting and operational issues associated with this FSP are complex and should be afforded sufficient time to evaluate the nature of the scope, disclosures and method of measurement.
- Although we were supportive of ETIF 99-20-1, which was issued in an equally
 expeditious manner, it did not represent as significant and pervasive of a change
 to existing practice as the Proposed FSP does. We consider the Proposed FSP to
 be much more operationally difficult, both in nature and scope, and therefore do
 not support its issuance at this time.

Scope of the proposed FSP

• Loans held for investment should be excluded from the scope of the proposed FSP. With respect to the first table in the Appendix to the proposed FSP (i.e., the example "Disclosures about Different Measurement Attributes Relating to Certain Financial Assets), the "Reported Carrying Amount" and the "Incurred Loss Amount" conceptually represent the same data element and will always be reported as the same amount. We believe that it is unnecessary and confusing to present the same data element twice with two different labels. Additionally, we fail to understand why the scope of the Proposed FSP was expanded beyond

investment securities with OTTI, particularly in such an accelerated manner. Lastly, we have significant concerns regarding the operational feasibility of calculating the fair value measurement for the pro forma income requirement and question whether this is a meaningful addition to financial statement disclosure.

- Financial assets held at the lower of cost or fair value (mortgage loans held-for-sale) should also be excluded from the scope of this proposal. Loans held-for-sale held at the lower of cost or fair value typically have not incurred any losses as they are recently originated loans. Given management's intended use of these assets (management intends to sell the assets in the near future), disclosure of an incurred loss amount for loans held-for-sale would be misleading and confusing to users of the financial statements because this value would not represent an amount management expects to realize related to these assets. Under current market conditions, the incurred loss valuation for loans held-for-sale would likely be greater than the fair value or carrying value because, under the proposed FSP, it is based on contractual interest rates, which excludes any liquidity premium. This would result a disclosure which overstates management's expected value of these assets.
- Debt securities whose fair value is greater than the carrying value and debt securities whose fair value is less than the carrying value but such impairment is not other-than-temporary should be excluded from the scope of the proposed FSP as losses have not been incurred on such securities and disclosure of an incurred loss amount would not be relevant to a user of the financial statements. Therefore, to calculate a different "incurred loss amount" separate from the carrying amount for investment securities with no OTTI seems unnecessary and adds little to no value.

Conceptual Inconsistencies

- The term "incurred loss" is misleading as it suggests only credit losses that have been incurred as of the reporting date. The purpose of the new proposed disclosures is to depict an alternative to a full fair value approach yet still encapsulate an asset's expected cash flows over the life of the instrument.
- The calculation of the incurred loss measurement is explicitly different for different types of financial assets within the scope of the proposed FSP. Loans and receivables are calculated using both the FAS 5 and FAS 114 models, whereas securities are calculated using only the FAS 114 model. Therefore, credit losses for FAS 5 loans would be calculated under an incurred loss concept at the balance sheet date using a loss emergence period, while the calculation for FAS 114 loans and securities would include a lifetime credit loss expectation (regardless if the event giving rise to the loss occurs by the balance sheet date or

is expected to occur in the future). This creates a significant inconsistency in the Proposed FSP's incurred loss measurement for assets that are economically similar, such as an investment in loans in whole loan form versus those same loans in held in security form.

- Companies may have elected the fair value option under FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), for assets they intend to hold beyond the foreseeable future. If a company elected FAS 159 for certain loans held for investment and carried other loans held for investment at amortized cost, collectively the Company's loan portfolio would be treated differently under the Proposed FSP. The exclusion of the loans carried at fair value under FAS 159 under this scenario would result in lack of comparability in the Company's own financial statements of financial assets that are economically similar but have different measurement attributes as an incurred loss measurement would not be generated for the FAS 159 FVO loans.
- Financial liabilities, which are often used to finance the purchase or origination of financial assets, are excluded from the scope of the proposed calculation of pro forma income. Due to the exclusion of financial liabilities, the presentation of pro forma income from continuing operations using fair value measurement, as proposed, would not represent a meaningful measurement of pro forma income as it would only capture the impact of fair value measurement of financial assets. For example, changes in market interest rates would impact the fair value of financial assets and the pro forma income would be adjusted to reflect such measurements but because the financial liabilities, which are generally carried at amortized cost, are excluded from the scope of the Proposed FSP, the pro forma income using fair value measurement becomes meaningless because it does not capture the full pro forma earnings of the company on a comparable measurement basis.
- The proposed guidance regarding the calculation of the incurred loss measurement for investment securities, particularly those with prepayment risk, as written, is unclear and requires further implementation guidance. The absence of further guidance will lead to lack of comparability in practice. Lack of comparability in practice will diminish the value of the disclosure, leading users to not place any substantial reliance on the incurred loss measurement due to their lack of an adequate understanding of how the incurred loss measurement is calculated.

Conclusion

In summary, we strongly disagree with the Board's proposed amendments to the disclosure requirements of FAS 107 and therefore recommend the Proposed FSP be rescinded. We do not support issuance of the Proposed FSP at this time for the reasons stated herein, including the fact we do not believe it is operational for us to implement in conjunction with our 2008 annual report. We believe the Board should defer addressing disclosures of economically similar financial assets that have different measurement attributes until full consideration and due process can be provided by the FASB and IASB in their upcoming joint project on improving financial reporting for financial assets and financial liabilities. However, if the Board chooses to proceed with the proposed FSP for the 2008 annual reporting period, we strongly recommend the following changes in order to make the Proposed FSP operational:

- 1. Limit the scope of financial assets subject to the Proposed FSP to investments in debt securities that have suffered OTTI at December 31, 2008 and delink the proposed FSP disclosures with FAS 107 and instead link the disclosures to FAS 115 and
- 2. Remove the requirement to disclose pro forma income from continuing operations and related reconciliations.

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We appreciate the opportunity to comment on the issues contained in the Board'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: Ms. Donna Fisher, American Bankers Association
Ms. Gail Haas, New York Clearinghouse Corporation