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March 8, 2012

Ms. Leslie F. Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2011-230: Proposed Accounting Standards Update (*Revised*), *Revenue Recognition (Topic 605)*, *Revenue from Contracts with Customers*

Dear Ms Seidman:

Wells Fargo & Company (Wells Fargo) is a diversified financial services company with over \$1.3 trillion in assets providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage services and consumer and commercial financial services. We appreciate the opportunity to comment on the Proposed Accounting Standards Update (*Revised*), *Revenue Recognition (Topic 605)*, *Revenue from Contracts with Customers* (the "Proposed ASU").

Executive Summary

Wells Fargo supports the objectives of the joint revenue recognition project and we believe the FASB and IASB have made significant progress on this project. As a financial institution, the majority of our revenues are not included in the scope of the proposed ASU; however, we have identified the following concerns with the proposed guidance:

- The proposed guidance related to customer loyalty programs may inappropriately alter the timing of recognition and presentation of interchange revenue;
- The proposed guidance does not retain the existing guidance to present underwriting revenues net of underwriting expenses;
- Trailing insurance commissions should not be recognized until the performance obligations of all transaction parties have been satisfied;
- The scope exception for revenues related to financial instruments is not comprehensive;
- Onerous contracts should be assessed at the customer relationship level; and
- The proposed disclosure requirements must be simplified.

Our concerns are further described below.

Specific Comments on the Proposed ASU

A more comprehensive description of our concerns and our recommended improvements to the Proposed ASU are included below.

Ms. Leslie F. Seidman, Chairman
March 8, 2012
Page 2

- The proposed guidance related to customer loyalty programs may inappropriately alter the timing of recognition and presentation of interchange revenue. Credit card loyalty programs are designed to attract new credit cardholders and encourage increased card usage, which, in turn, is expected to generate increased interchange revenue. Because these loyalty rewards are earned based on historical cardholder purchase volume and do not require future purchases by the cardholder, financial institutions recognize interchange revenue immediately, net of the expected value of the performance obligation to deliver cash or non-cash loyalty program rewards. The proposed implementation guidance related to customer loyalty programs, Example 24¹, describes loyalty reward programs based on sales of future products or services. Consequently, the proposed guidance requires a partial deferral of current revenue to match the cost of the performance obligation to deliver a future product or service.

An important distinction between credit card loyalty programs and the programs described in Example 24 is the timing of the expense recognition of the performance obligation to deliver customer rewards. For credit card loyalty programs, the performance obligation is recognized at the award date and for the loyalty programs described in Example 24, the performance obligation is recognized at the redemption date. If it is the intention of the FASB to account for credit card loyalty programs in accordance with Example 24, loyalty program expenses will no longer properly match the recognition of interchange revenue. In other words, interchange revenue will be recognized in periods after the cost of the performance obligation is recognized. Accordingly, we do not believe the deferral of interchange revenue is appropriate. Instead, we believe credit card loyalty programs are analogous to volume discount incentive programs described in Example 10² because loyalty rewards are based on historical cardholder purchase volume. Moreover, the expected value of the loyalty rewards should be netted against interchange revenue based on the guidance in paragraph 65, which treats consideration payable to a customer as a reduction of revenue. As such, the recognition, measurement and presentation of interchange revenue would remain consistent with the economic substance of credit card loyalty programs and current industry practice.

- The proposed guidance should retain the existing guidance related to the presentation of securities underwriting expenses. We acknowledge that the current guidance for the recognition of broker-dealer underwriting revenue and expenses in ASC 940-605-25 is consistent with guidance in the Proposed ASU. That is, underwriting expenses are deferred until the underwriting revenue is recognized. However, we note that the current guidance that permits the presentation of underwriting revenues net of underwriting expenses in ASC 940-605-05-1a will be superseded by the Proposed ASU. We recommend that the proposed guidance retain the net presentation of underwriting revenues as preparers and investors evaluate underwriting revenues on a net basis.
- Trailing insurance commissions should be recognized when the performance obligations of all transaction parties are satisfied. We do not agree with the guidance in Example 14³ that there is a single performance obligation associated with brokering the sale of an insurance policy which is satisfied upon the completion of sale of the insurance policy. The proposed guidance justifies the acceleration of future contingent commission revenue if an entity has significant experience with similar types of contracts and customers and the entity is able to predict revenue to be received in future years. We are concerned that the proposed guidance will create an exception to the

¹ Paragraph IG 79.

² Paragraph IG 67.

³ Paragraph IG 71.

Ms. Leslie F. Seidman, Chairman
March 8, 2012
Page 3

longstanding guidance in ASC 450⁴ which does not permit the recognition of revenue until uncertainties regarding its realization are resolved. While we may be able to create estimates based on past experience, we do not believe that the recognition of revenue which is contingent on the future actions of customers or other third parties is appropriate.

- The scope exception for revenues related to financial instruments should be comprehensive. The scope of the Proposed ASU specifically excludes contractual rights or obligations related to certain Topics that address the accounting for financial instruments. However, it is not clear if the FASB intended to exclude from the scope of the Proposed ASU letters of credit⁵ and financial instruments accounted for in accordance with ASC 323⁶, ASC 325⁷ and ASC 942⁸. We recommend that the FASB clarify the scope of the Revised ASU by excluding all financial instruments, as that term is defined in the glossary of ASC 815-10-20⁹. We believe that this scope clarification would be more comprehensive, provide greater consistency, and would be more easily understood by preparers.
- Onerous contracts should be assessed at the customer relationship level. We agree with the proposed guidance that a liability should be recognized for an onerous contract, but disagree that this assessment should be conducted at the performance obligation level. Financial institutions offer an array of financial products. While the cost of providing a specific product may exceed the associated revenue for some customers, financial institutions manage profitability at the customer relationship level. For example, a financial institution may offer a free safety deposit box to trust customers with large account balances. We believe it would be inappropriate and misleading to trigger the recognition of a liability for the future costs to be incurred for a single performance obligation associated with one product, when those costs will be more than offset by revenues from additional products associated with the same customer relationship.

In addition, only incremental and direct costs should be used in the determination as to whether a performance obligation is onerous. Paragraph 92 of the proposed guidance lists expenses to be included in this determination and includes such items as insurance and depreciation expenses. We would agree with their inclusion only if they are incremental costs as a result of obtaining the contract. We believe paragraph 94 of the proposed guidance, which requires the capitalization of incremental costs associated with obtaining a customer contract, provides a good analogy for this issue. We believe that the same “incremental” language in paragraph 94 should be included in paragraph 92 to determine if a performance obligation is onerous.

- The disclosure requirements should be simplified. We are supportive of the disclosure of disaggregated revenue information when it supports the goal of providing more useful information to financial statement users. However, we believe that the disclosure requirements in ASC 280¹⁰ already accomplish this goal. ASC paragraphs 280-10-50-21 and 22 require entities to disclose disaggregated revenue information for each type of product and service from which each reportable segment derives its revenues. In addition, this revenue information is further disaggregated by geographic areas, regulatory environments, or other factors that management uses to identify/organize its reportable segments. Revenues are further disaggregated by external customers, transactions with other

⁴ ASC 450, *Contingencies*

⁵ We note that certain letters of credit are excluded by the separate scope exclusion for ASC 460, *Guarantees*.

⁶ ASC 323, *Equity method and Joint ventures*

⁷ ASC 325, *Cost method investments, Investments in insurance contracts, and Investments in beneficial interests*

⁸ ASC 942, *Deposits held in depository and lending institutions*

⁹ ASC 815, *Derivatives and Hedging*

¹⁰ ASC 280, *Segment Reporting*

Ms. Leslie F. Seidman, Chairman
March 8, 2012
Page 4

operating segments of the same public entity and interest revenue. In addition, ASC 275¹¹ requires the disclosure of any significant concentrations in revenue from particular products and services or with particular customers. We are concerned that any additional disaggregated revenue disclosure requirements will either be redundant or conflict with existing disclosure requirements. If the Board believes that the disclosures in the proposed ASU provide a significant improvement to the existing revenue disclosures, we recommend that they be added to the requirements of either ASC 280 or ASC 275.

As a diversified financial services company, the vast majority of our revenues are not included in the scope of the Proposed ASU as they are subject to scope exclusions related to financial instruments. In paragraph 11, the Board has provided guidance to evaluate contracts that may fall partially in the scope of the proposed guidance and partially out of the scope. Entities with diverse business models may have to apply the disclosures in the proposed ASU for limited portions of their revenues. We recommend that the Board consider the development of further disclosure guidance for a “diversified business model” where some revenues are included in the scope, while other revenues are not.

Finally, we are concerned with the volume of the proposed quarterly disclosure requirements and the continual increase in the overall level of quarterly disclosure requirements. Annual financial statements provide a comprehensive base line of information for investors and analysts. We believe that interim financial statements should only serve to provide users with information which has had a material impact on the financial statements that has not been previously disclosed. SEC guidance in Regulation S-X specifically permits the omission of disclosures where there has been no significant change in an item since the date of the latest annual financial statement. We therefore recommend that the Board include guidance similar to the guidance in Regulation S-X that permits the omission of disclosures if there has not been a material change since the latest annual financial statements.

Conclusion

We encourage the FASB to consider our recommendations described in this letter and in particular, urge the FASB to consider our concerns for the accounting for credit card loyalty programs and for the significant increase in the level of disclosures. We believe that our recommendations will accomplish the project goals, greater consistency among financial institutions and provide more meaningful information to financial statement users.

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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

¹¹ ASC 275, *Risks and Uncertainties*

Ms. Leslie F. Seidman, Chairman
March 8, 2012
Page 5

cc: Hans Hoogervorst – IASB
Kathy Murphy – Office of the Comptroller of the Currency
Stephen Merriett – Federal Reserve Board
Robert Storch – Federal Deposit Insurance Corporation
Donna Fisher – American Bankers Association
David Wagner – The Clearing House Association