May 24, 1999

Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
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Letter of Comment No: L7
File Reference: 1082-194R
Date Received: 5/26/99

RE: File Reference No. 194-B
"Consolidated Financial Statements: Purpose and Policy"
(Revision of Exposure Draft issued October 16, 1995)

Dear Sir:

Wells Fargo & Company is a bank holding company with banking, mortgage, consumer finance and other financial service subsidiaries. As an issuer of consolidated financial statements, we appreciated the opportunity to comment on the previous exposure draft issued October 16, 1995 and we appreciate this opportunity to comment upon the Board’s Exposure Draft (ED) of the revised proposed Statement of Financial Accounting Standards, Consolidated Financial Statements: Purpose and Policy. This cover letter provides comments on the three issues that are identified in the ED, followed by additional comments. The attachments elaborate on some of the general comments included in this cover letter. All references to paragraph numbers are to those in the ED, unless otherwise specified.

We support the Board’s effort to develop standards for the consolidation of unincorporated entities, such as partnerships and trusts. We believe that examples, such as those provided in Appendix A, are necessary to meaningfully communicate the interrelationship of the criteria in the ED with real business situations. We appreciate the extent to which the Board has gone in understanding the issues raised by these unincorporated forms of conducting business, as illustrated by the examples, and by the fact that the current ED contains ten examples, an increase from the seven included in the October, 1995 exposure draft. We urge the Board to continue to provide this level of detailed illustrations when developing standards on other topics.

We also support the Board’s decision to have test cases of actual situations assessed for “control” based on the guidance in the ED. This is an ideal way to determine whether the ED provides clear and workable guidance. We hope that the Board will take the time to resolve any problems or confusion that surface from the test cases. Resolution of any problems may justify another round of test cases and possibly deferring issuance of a final standard; this is clearly preferable to rushing to issue guidance that is confusing and might require substantial clarification subsequent to issuance. We encourage the Board to continue with this type of assessment, using actual situations as test cases, and suggest that the Board consider performing this type of assessment prior to the issuance of exposure drafts in the future.
Response to Issues Identified in the ED:

Issue 1: We have long believed that “control” is an appropriate criterion to consider in determining whether or not to consolidate an investment, rather than merely looking at levels of voting ownership. The definition of “control” under this ED is an improvement from the definition in the 1995 proposed statement because it acknowledges that in order for a Parent to “control” an entity, the Parent must be able to increase its benefits and limit its losses from that other entity’s activities.

Issue 2: In regards to ¶18 and ¶21, the ED asks whether the circumstances described in each of the situations provide a reasonable basis for “presuming” that one entity controls another entity, and whether the situations are sufficiently clear and operational. Unfortunately, this is the one area where the ED is conceptually flawed, as well as insensitive to operational needs. It is befuddling that there is a flawed approach in ¶18(b)(c), in contrast to the fundamentally sound and clear concept stated in ¶6, “…control involves decision-making ability that is not shared with others.” This concept is elaborated on in ¶11, which states, “The decision-making ability that enables a parent to control a subsidiary is an exclusionary power - if A controls B, no other entity can control B.” It goes on to state “…a parent-subsidiary relationship does not exist if, as a result of rights of others, an investor in a corporation, partnership, or other entity must obtain the consent of one or more other shareholders, partners, ...” These statements provide a clear demarcation; if Company A shares decision-making about Company B, it does not “control” Company B; thus, Company A would not consolidate Company B.

Despite the clarity in ¶6 and ¶11, ¶18(b) provides a situation where the decision-making ability is shared with “others,” and, nonetheless, the ED concludes that consolidation would be appropriate. The “others” represent a majority voting interest. The ED’s premise is that the determination as to whether a minority voting interest should consolidate an investment is dependent on the percentage of eligible votes that were cast in prior years. The fact that some of these “others” have not voted in past elections, presumably because they are content with the direction of its investment thus far, does not mean that the large minority voting interest has unilateral decision-making ability. It merely implies that the “other” voting interests felt no need to voice any disagreement; they are in essence demonstrating their decision-making by choosing to not oppose. Investors typically invest in a company for one reason, to make money. They are not going to remain silent if they become unhappy with the performance or direction of its investment. The ED proposes that consolidation is based on control. Control does not exist if its determination is dependent on the behavior of others (e.g., whether or not the other owners vote); this is fundamentally inconsistent with the notion of “control.” The guidance in ¶18(b) is not intuitive and seems to contradict the guidance in ¶6 and ¶11.

Furthermore, the situation in ¶18(b) could result in a company consolidating an investment in one year and not consolidating it in another year. This possibility should have indicated to the Board that the guidance on when the existence of control is “presumed” is conceptually flawed and an operational nightmare (especially if restatement would be required for this situation). It demonstrates that the actions of others are determining whether a large minority investor should consolidate an investment. If a large minority investor had to deconsolidate an investment,
solely due to the behavior of other owners, the large minority investor never "controlled" the investment, and should never have consolidated the investment.

¶18 states that the existence of control shall be presumed if an entity has one of the three conditions discussed. The paragraph also acknowledges that a situation may exist where two of the conditions may be met by two different entities. This would result in a situation where two different entities may conclude that they need to consolidate the same investment, based on the different conditions described in ¶18. The fact that the ED acknowledges this possibility should have indicated to the Board that there is a fundamental flaw with the proposed guidance. A conceptually sound application/interpretation of "control" should not result in the possibility that two different entities could determine that they should consolidate the same entity.

We agree with the “Alternative View” of the one Board member discussed in ¶248-256, including the discussion in ¶253, which addresses when consolidation by a minority voting interest may be appropriate. We strongly urge the rest of the Board to revisit this view. It was disappointing that the ED was not revised for these conceptual flaws, which existed in the proposed statement issued in October, 1995.

**Issue 3:** We agree with the standard being effective for all interim periods in the year of adoption to enable consolidated financial statements to report subsidiaries in a consistent manner for an entire year. However, we feel that the effective date is not reasonable and are concerned that it will result in poor implementation.

A final standard is not scheduled for release until the fourth quarter of 1999. Based on the proposed effective date and its impact on all interim periods in the year of adoption, calendar-year companies would need to implement a new standard in the first quarter of 2000. This provides less than six months between the issuance of a standard and its effective date, as well as coincides with year-end reporting, which includes the preparation of financial statement footnotes. The ED acknowledges that an assessment of the surrounding facts and circumstances and judgment about whether one entity controls another entity will be required. In light of year-end reporting, when is this assessment to occur? After the assessment occurs, when is there time to update systems to consolidate entities for the first time? Please refer to Appendix I, which contains numerous considerations supporting a later effective date.

We strongly suggest that the final standard include a later effective date. If a final standard is issued in the fourth quarter of 1999, as currently scheduled, the effective date should be one year later (annual periods beginning after December 15, 2000). If a final standard is delayed, there should be at least one year between the date of issuance and the effective date. This time period will enable companies to (1) adequately understand the new standard, (2) properly assess the complex and diverse business structures in determining whether "control" exists based on the new standard and (3) update systems to include any entities being consolidated for the first time. We believe that this time period will enable companies to properly implement the new standard, thereby achieving the goal of improving the relevance and comparability of consolidated financial statements.
Other Comments:

• It is unclear what effect the proposed standard would have on guidance contained in EITF issues. For example, the consensus that was reached in EITF Issue No. 96-20 recognized the new control/financial-components model introduced by FAS Statement No. 125. The Task Force reached a consensus that FAS 125's definition of control should be applied in assessing whether a qualifying special-purpose entity (QSPE) should be consolidated, provided certain criteria are met. The consensus was reached to prevent a situation where (1) a transferor had surrendered control, as defined in ¶9 of FAS 125, in a sale of financial assets to a QSPE, and (2) under existing consolidation literature, the transferor would have had to consolidate the QSPE, resulting in the consolidation of the assets that the transferor just sold (derecognized) under FAS 125.

We believe the consensus in EITF 96-20 should not be superceded by a new consolidations standard. To do otherwise would result in stepping backward into the situation that EITF 96-20 was issued to resolve. In order to avoid confusion, a final standard should clearly mention that the consensus in EITF 96-20 is not affected. If this position is not accurate, then this should be made clear before issuance of a final standard so that constituents may comment, if they desire. Appendix II provides our comments regarding the effect of all new standards on existing EITF issues.

• The temporary control criteria described in ¶24-25 must include clarification that all assets received in satisfaction of debt that are required to be disposed of (e.g., regulators require banks to dispose of assets received in satisfaction of debt) are considered "temporarily controlled." This is the only reasonable position when a requirement to dispose of assets exists. We believe this position is the intention of the Board based on the last two sentences in ¶222 which state, "The Board also decided to provide an exception to that one-year rule for extenuating circumstances beyond management’s control, such as dispositions required by regulatory agencies [emphasis added] that are likely to require more time to complete. Those provisions are carried forward in this Statement.” However, the language in the last sentence of ¶24 seems to focus on time ("impositions of law or regulation may cause dispositions to take longer than one year to complete"), and falls short of clearly stating the intent described in ¶222. To avoid any miscommunication, we strongly suggest the following sentence be added to ¶24: “The receipt of all assets that are required to be disposed of by regulatory agencies are considered temporarily controlled.”

• ¶26 requires restatement of prior periods included in comparative financial statements. We recently experienced the process of restating financial statements, as this was needed for our merger between Wells Fargo and Norwest. We do not think the Board is aware of the extensive resource and time burden associated with restating financial statements involving two separate entities. Please refer to Appendix III for a discussion of some of the time and effort needed to restate financial statements. We strongly urge that restatement of prior periods be encouraged, but not required. The benefits of comparative information do not justify the time and resources needed by financial statement issuers to restate prior periods. Key information about any entity being consolidated for the first time, due to this standard, where prior periods have not been restated, can be required footnote disclosure (e.g., the
subsidiary’s total assets, net income and income attributable to minority interests for prior periods). This approach would provide users of financial statements with relevant, prior period financial information about a newly consolidated subsidiary, without causing undue burden on the financial statement issuer. This approach would be similar to the pro formas required for acquisitions accounted for on the purchase method.

Notwithstanding the above comments, we would be remiss if we did not comment that we feel issuance of a consolidations standard at this time is premature. There is not a pressing need for guidance on consolidating corporate entities. There is a need for an overall framework that addresses other forms of ownership and the accounting by all of the parties involved in these types of ownership, e.g., guidance on how all of the parties involved in an SPE or limited partnership should account for their investment. Guidance has been issued on a piecemeal basis, with the EITF addressing some of the issues. We feel it would be helpful if FASB developed guidance for all of the different types of ownership rather than continuing the practice of issuing guidance on a piecemeal basis. This will ensure that all of the interrelationships are understood and will minimize the possibility of subsequently issuing guidance that may contradict guidance in a consolidations standard.

If you would like to discuss any of these issues or would like a response to questions you may have with respect to our comments, please call Jackie Chan, Vice President and Senior Accounting Policy Analyst, at (415) 396-4504.

Sincerely,

Larry Roles
Vice President and Manager of Accounting Policy

attachments
Attachment I
Comments on Why a Later Effective Date is Needed

A final standard is scheduled for issuance during the fourth quarter of 1999. Based on the effective date currently in the ED, calendar-year companies would have no more than six months to fully implement the final standard before it becomes effective. To implement a final standard during this short time frame is not reasonable; the following considerations support a later effective date:

- Time is needed to read and fully comprehend the final standard, which cannot be done until the final standard is issued. Although preliminary work may be performed prior to issuance of a final standard, it is not considered efficient to allow the implementation process to proceed too far prior to the issuance of the actual standard. A final standard will often contain substantive changes from its exposure draft, including changes in the effective date, which may significantly affect decisions regarding implementation.

- Once a final standard has been issued, information must then be disseminated to the business units, who are often responsible for the various business structures. The business units will have a strong interest in fully understanding a new standard that affects whether or not consolidation is needed for (1) their previously unconsolidated business structures and (2) any new business structures.

- The business units along with the accountants will need to assess which entities may be affected by the final standard. This assessment may involve reading agreements and contracts, assessing actual practices and discussing various hypothetical situations in order to determine whether “control” is present, as defined by the final standard.

- As acknowledged in ¶242, special-purpose entities (SPEs) are surrounded by varied and complex circumstances. The discussion of SPEs is continued in ¶243 which states, “… this Statement requires a careful assessment of the facts and circumstances surrounding the relationships of entities.” Any “careful” assessment requires time; this is especially true in order to dissect and fully understand the complexities of SPEs in relation to a final standard.

- Time is needed to properly update the necessary accounting systems in order for the consolidated financial statements to properly reflect any entity being consolidated for the first time as a result of a final standard.

- Year 2000 concerns have resulted in significant restrictions on changes to existing systems for the rest of 1999 (e.g., the Office of the Comptroller of the Currency has required all national banks to ensure compliance with all systems requirements associated with the Year 2000). These restrictions are scheduled to carry forward into March 2000, in order to ensure that systems continue to operate in a stable environment. These system restrictions could result in the inability to revise our financial reporting system to receive financial information transmitted from the general ledger of a newly consolidated subsidiary. Thus, information needed to implement a new consolidations standard may need to be maintained on separate spreadsheets or databases, resulting in inefficiency and a higher possibility of errors occurring.
• There is a possibility that a new subsidiary will not be able to close their general ledger and provide all of the financial information needed in time to be included in the Parent's consolidated financial statements (e.g., we strive to close our general ledger within six business days, in order to meet subsequent reporting deadlines). Time is needed to resolve this type of situation.

• All of the analysis and system changes described would coincide with year-end reporting. Year-end reporting, which includes the preparation of financial statement footnotes, involves a multitude of resources, both at a corporate level and out in the business groups. In addition, increasingly more time is being spent on accumulating information needed for reporting purposes due to various reasons, including the recent implementation of FAS Statement No. 131, which requires segment reporting. Placing overwhelming demands on limited resources during a critical time tends to increase the possibility of errors.

In addition to the above list, the ED currently requires restatement of prior period information. Attachment III discusses some of the effort needed to restate prior periods. Clearly, if the Board chooses to continue with a requirement to restate prior periods, this factor, by itself, would be adequate reason to provide a later effective date. When this restatement requirement is added to the above list, we believe it is more than clear that a later effective date is needed.

In summary, we strongly suggest that the final standard contain a later effective date, as proposed in our cover letter, based on the numerous considerations provided.
Attachment II

The Effect of New Standards on Existing EITF Issues

We believe that the current process of communicating and obtaining feedback from constituents regarding the potential impact that proposed new accounting standards would have on guidance contained in existing EITF Issues should be improved. We recommend that the FASB develop a new approach to evaluating and communicating the potential effects that proposed new accounting standards will have on existing guidance provided by the EITF.

Currently, the effect of new accounting standards on guidance contained in EITF Issues is not communicated until after those standards have been finalized. During the comment period and final deliberation process, constituents have no idea as to how the FASB or the FASB staff believes EITF Issues will be affected by those standards. With greater frequency, Statements issued by the FASB affect numerous EITF Issues but do not completely supersede all of the guidance contained in those Issues. As such, the FASB staff must interpret the manner in which a new Statement affects guidance contained in various EITF Issues. Those interpretations are not communicated to constituents until they appear in the EITF Abstracts as status updates, at which point they already are considered final. Constituents are given no formal opportunity to review and comment on those updates and no discussion of the updates is documented in the minutes of the EITF meetings. Consequently, there is no evidence that the updates have even been adequately reviewed and considered by EITF members.

Because most of the projects in the FASB's current technical agenda are complex and will have far reaching effects, we believe it is important to assess the effect of any new proposed Statement on EITF Issues as part of the standard setting process. Therefore, we believe that such an evaluation should be included in the Exposure Draft of every proposed Statement or provided on the FASB website before the Board completes its deliberations. In that way, constituents will be given an opportunity to evaluate the proposed changes to EITF issues and provide timely feedback to the FASB before any new Statement is finalized.

We believe that the process of updating EITF Issues for a newly issued Statement has become more than just an administrative task to be left for the last part of a project after the Statement already has been finalized. It requires forethought and adequate due process. An earlier evaluation also might improve the standards setting process by exposing new ideas and issues that otherwise might have been overlooked. As a result, the need for amending a Statement or adding related issues to the EITF agenda shortly after a Statement has been issued can be avoided.
Attachment III

Comments on Why Restatement Should Not be Required

We restated financial statements in 1998 as a result of the merger between Norwest and Wells Fargo. We want to share with the Board our understanding of some of the tasks that need to be performed in order to restate financial statements involving two separate entities, based on our recent restatement experience. We hope that this information demonstrates the extensive resource and time burden associated with restating financial statements involving two separate entities, and that the Board will reconsider the ED's restatement requirement.

- To consolidate a new subsidiary, all of the accounts of the new subsidiary need to be mapped to the Parent's accounts, in order to ensure that financial information is rolling into similar accounts and that similar accounts are rolling into similar financial statement reporting captions. This is a very detailed and labor intensive effort. The mapping effort for our merger took about four months and the mapping continues to be refined. Additional complexity is added to the mapping effort when account roll­ups for prior years have to also be validated (e.g., certain accounts may have been used two years ago that are no longer used and the proper roll up of these accounts would need to be determined if restatement is required).

- Historical data would need to be obtained. Four years of historical data would be needed for some financial tables (e.g., our "Average Balances, Yields and Rates Paid" table provides five years of financial information). The data would need to be loaded into our general ledger's historical data base. The input entries have to include account level information and are needed for every month of each year being restated. A labor-intensive manual effort is needed to prepare the input entries.

- A new subsidiary may not have all of the financial data needed by the Parent, possibly due to a subsidiary being in a different business, having different reporting requirements, or using a different general ledger or feeder systems (systems that feed data into the general ledger). If prior period financial information is not available, then some manual effort will be needed to estimate the information needed; a manual effort often requires more time and provides less precision than information that is captured by a system.

- Time has to be spent identifying, understanding and resolving accounting policy and reporting classification differences for each year restated, in order for the financial statements to reflect similar transactions/balances in a consistent manner.

- Once the information is obtained, time has to be spent preparing support to revise prior period amounts in (1) the tables and text of the Management's Discussion and Analysis, (2) the financial statements and (3) the footnote disclosures. The workpapers supporting the restatement would need to be thoroughly reviewed as part of the normal review process.

- It should be noted that all of the above would be required for every subsidiary that would be newly consolidated under the new standard. Thus, it is conceivable that an entity will need to restate for more than one newly consolidated subsidiary.

We hope the above points help the Board understand that restatement of prior period financial information involving two separate entities requires a great amount of time and
resources. We strongly suggest that restatement be encouraged, but not required. If
financial statement issuers do not choose to restate, then key prior period information
about a newly consolidated subsidiary can be required footnote disclosure, as proposed in
our cover letter. Footnote disclosure would provide users of financial statements with
relevant, prior period financial information about a newly consolidated subsidiary,
without requiring financial statement issuers to perform most of the time-consuming
tasks mentioned in this attachment (e.g., most of the tasks described in this attachment
would not be required to report a newly consolidated subsidiary’s “total assets” for prior
periods).