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Via email

LETTER OF COMMENT NO.

76

Russ Golden - Technical Director Financial Accounting Standards Board File Reference: Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Invitation to Comment – FASB Staff Proposal FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments

Wells Fargo & Company is a diversified financial services company that provides banking, insurance, investments, mortgage banking, investment banking, retail banking and consumer finance services. We appreciate the opportunity to comment on the issues being considered by the Board to amend the other-than-temporary impairment guidance in U.S. GAAP.

We strongly agree with the immediate need for revisions to the current accounting guidance for other-than-temporary impairment (OTTI) in order to address significant shortcomings highlighted by the current highly illiquid market. The Board's proposed amendments to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115) and EITF Issue No. 99-20, Recognition of Interest Income Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets (EITF 99-20), will make OTTI accounting more operational. The proposed changes are good "quick hit" action steps that will immediately improve the quality of financial reporting for other-than-temporary impairment accounting. However, the proposed changes do not address the misleading and adverse consequences to capital balances caused by the continuing requirement to reflect investment securities at fair value. We believe that the FASB needs to supplement these proposed changes with a revised approach for measuring impairments on investment securities to be more closely aligned with the measurement of credit impairments for loans held for investment.

Financial services companies have the ability to securitize consumer and commercial loans and may choose to hold loans in the legal form of a loan or, at little additional cost, in the legal form of a security, at the option of the company. Therefore, we believe there should be a single impairment model for financial instruments held for investment. Loans held for investment are reflected on the balance sheet at historical cost and are subject to the guidance in FAS 5, Accounting for Contingencies, which requires that an impairment reserve be established for credit losses that have been incurred, but have not been confirmed as of the balance sheet date. Applying this methodology to a securities portfolio, a reserve would be established and maintained for the credit loss content in the portfolio that has suffered impairment, but for which the impairment has not yet been realized. An impairment reserve would be required when it is estimable that the company will not collect all amounts due according to the contractual terms of the securities (similar to the guidance in FAS 114, Accounting by Creditors for Impairment of a Loan). We believe this approach more closely aligns the accounting for securities with the accounting for loans, appropriately deals with the credit loss content contained in an investment security portfolio, provides similar accounting for similar assets and appropriately addresses the misleading and adverse consequences to capital balances that have resulted under existing accounting. We believe only the credit component of impairment should be recognized until the company intends to, or is required to, sell the security, at which time both the credit component and the non-credit component would be recognized in earnings.

We believe that securities are best presented on the face of the balance sheet not at fair value, but at original cost less any corresponding FAS 5/FAS 114 type reserve. We do not believe the noncredit component of the security valuation should be recorded in OCI as is currently proposed in the FSP. Recognition of the non-credit component in OCI, which in the current distressed markets consist largely of illiquidity discounts, destroys Tangible Common Equity (TCE), which has become a very important metric for financial institutions. These illiquidity discounts, which are only relevant if forced to sell, should not be included as a component of equity in a company's balance sheet and should only be recognized in income if a company declares its intent to or is required to sell. This change along with the adoption of the FAS 5/FAS 114 impairment approach discussed above would conform the accounting for securities and loans, leading to a more understandable balance sheet and income statement. We believe security fair values inclusive of both the credit and the non-credit component are best provided to investors as part of fair value disclosures included in quarterly financial statement footnotes.

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In addition to the proposal above, the following summarizes our thoughts and concerns on the proposed FSP:

The Proposed FSP is a significant improvement over the current impairment model for debt securities, which never contemplated the significant disparity between fair value losses and credit losses resulting from the current credit crisis. The Proposed FSP greatly improves the relevance of the financial statements by aligning the impairment recognized in carnings with the

impairment in expected cash flows. Although we believe footnote disclosure is a more appropriate approach, the Proposed FSP does provide transparency in the financial statements for noncredit-related impairments by requiring their recognition in other comprehensive income and by requiring separate presentation on the face of the income statement. Moreover the Proposed FSP will improve management's ability to make its quarterly assertions regarding available-forsale securities by making those assertions more operational and auditable.

Include both Debt and Equity Securities in the scope of the FSP

We concur with the Board that the guidance outlined in the FSP should apply to all securities that have debt characteristics regardless of whether or not the securities are classified as debt or equity securities. Specifically, equity instruments with debt characteristics, such as perpetual preferred equity securities, should be included within the scope of this project. Those securities have contractual payments, are traded like debt securities, are rated by rating agencies like debt securities and it is possible to segregate credit losses from other changes in fair value of this type of security. Also, as the Board continues its project to determine what constitutes a liability and what constitutes equity, we believe it is appropriate for the Board to include both debt and equity securities within the scope of this FSP.

Issues not Addressed

OTTI under FAS 115 is based on receipt of contractual principal and interest. OTTI under EITF 99-20 is based on comparing the present value of likely cash flows to the previously calculated present value. This inconsistency creates differing OTTI accounting outcomes depending on the type of investment security even when contractual receipt of all principal and interest is likely. We ask that OTTI under EITF 99-20 be based on the likelihood of the collection of contractual principal and interest to align it with the approach of FAS 115.

The Board chose not to apply de minimis wording from FAS 114 paragraph 8 to these proposed rules, which states "an insignificant delay or insignificant shortfall in the amount of payments does not require application of this statement." We believe this wording should be added to allow preparers and users of financial statements to focus on situations where impairment is a material issue.

Need for Immediate Action

Certain Board members have indicated that this proposed FSP be considered as part of a joint medium-term project with the International Accounting Standards Board (IASB) and that failure to do so creates the opportunity for "accounting arbitrage." While we are supportive of joint FASB/IASB efforts to improve financial accounting standards, a delay in the issuance of the proposed guidance would fail to address a significant shortcoming in existing OTTI accounting guidance that has already been adversely impacted by the current economic crisis. There is an urgent and immediate need to update and clarify the existing standards. The FASB needs to

quickly repair the broken parts of the current OTTI and Mark-to-Market models that have caused disruption in the financial markets and have forced banks to overstate their losses and diminish their capital.

Bifurcation of impairment between Credit and Non-Credit Components

The bifurcation of impairment into its two primary components reflects the underlying economics associated with a financial instrument when it is determined that impairment should be recognized. The non-credit or liquidity valuation component of the impairment should be considered as temporary as this amount will ultimately be received by the investor at the maturity of the instrument. It is only the credit component of the impairment that should be considered as other-than-temporary. To lump both temporary and other-than-temporary impairments together through earnings needlessly overstates losses in the period recognized, and overstates income when the fair value of the security recovers. This model fails to adequately match losses to the time period that the loss was incurred. This type of fair value accounting has destroyed bank capital and has lead to hedge funds shorting financial stocks in order to "play the market" during periods of market turmoil.

The proposed "incurred loss model" methodology more clearly reflects the earnings capability of the entity, is understandable, and has been operationalized by most banks. This is not a new methodology. Third party vendors and in-house software have been available for many years to project cash flows for securities subject to EITF 99-20 and/or FAS 115. We will be able to use our existing infrastructure to complete the analysis necessary under the proposed guidance (in contrast with loans, where there is generally not an existing infrastructure within many financial institutions to determine life-of-loan credit losses). The recently completed Federal Reserve Stress Tests have further enhanced financial institutions' ability to immediately perform the required detailed cash flows analyses of securities.

Impairment based on an Intent to Sell or Inability to Hold the Security to Recovery

The proposed guidance would modify management's current assertion that it will hold the security to recovery to the proposed assertion that it has no intent to sell the security prior to recovery and that it is not more-likely-than-not that it will need to sell prior to recovery. This change will not cause the "lost decade" experienced in Japan by delaying the recognition of impairment embedded in a securities portfolio as suggested by some Board members. Just the opposite, the proposed guidance does not accelerate impairment into a period when a loss has not been incurred, and therefore improves overall financial reporting. Rather than obfuscating both the credit and non-credit portions of the impairment, it highlights both portions on the face of the financials. This assertion is also more practicable than the current requirements. This change more closely aligns management's intended economic use of the asset with the accounting for that asset and results in improved transparency. It relieves management of the concern with tainting an entire available-for-sale portfolio because a single security was sold at a loss when management had previously asserted it would be held to recovery. This "tainting" concept has

been enforced by auditors and has resulted in companies making non-economic business decisions regarding their investment portfolios to avoid potential draconian accounting consequences.

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Conclusion

In summary, we commend the Board's for its pro-activity in proposing to amend the OTTI model to recognize only credit losses on certain debt and equity securities in earnings, but urge the FASB to consider our proposal that only credit losses be recognized and not to continue the misleading OCI adjustment to capital of non-credit related temporary impairments. We believe that FAS 5 and FAS 114 models are appropriate for measuring impairment for securities and that the Board should address the differences in accounting for economically similar assets. Lastly, given the proposed amendment represents a significant improvement to financial reporting, we agree with the Board that the FSP should be effective immediately (1st quarter for calendar-year companies) and not delayed.

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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: Mr. James Kroeker, Securities and Exchange Commission

Ms. Donna Fisher, American Bankers Association

Ms. Gail Haas, New York Clearinghouse Corporation