December 19, 2017

Mr. Stephen W. Sanger
Chairman
Mr. Timothy Sloan
Chief Executive Officer
Wells Fargo & Company
420 Montgomery Street, 12th Floor
San Francisco, California 94104

Dear Mr. Sanger and Mr. Sloan:

On July 1, 2017, the Board of Governors of the Federal Reserve System (Board) and the Federal Deposit Insurance Corporation (FDIC) (together, the Agencies) received the annual resolution plan submission (2017 Plan) of Wells Fargo & Company (WFC) required by section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), 12 U.S.C. § 5365(d), and the jointly issued implementing regulation, 12 CFR Part 243 and 12 CFR Part 381 (the Resolution Plan Rule). The Agencies have reviewed the 2017 Plan taking into consideration section 165(d) of the Dodd-Frank Act, the Resolution Plan Rule, the letter that the Agencies provided to WFC on April 12, 2016 (the 2016 Letter) regarding WFC's 2015 resolution plan submission (2015 Plan), the joint "*Guidance for 2017 Resolution Plan Submissions By Domestic Covered Companies that Submitted Resolution Plans in July 2015*" (the 2017 Plan Guidance), other guidance provided by the Agencies and supervisory information available to the Agencies.

In reviewing the 2017 Plan, the Agencies noted meaningful improvements over prior resolution plan submissions of WFC. Nonetheless, the Agencies have identified one shortcoming in the 2017 Plan, as discussed in section II, below. The Agencies will review the plan due on July 1, 2019 (2019 Plan) to determine if WFC has satisfactorily addressed the shortcoming. If the Agencies jointly decide that this matter is not satisfactorily addressed in the 2019 Plan, the Agencies may determine jointly that the 2019 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

## I. Background and Progress

Section 165(d) of the Dodd-Frank Act requires that each bank holding company with $50 billion or more in total consolidated assets and each designated nonbank financial company report to the Agencies the plan of such company for its rapid and orderly resolution in the event of material financial distress or failure. Under the statute, the Agencies may jointly determine, based on their review, that the plan is "not credible or would not facilitate an orderly resolution of the company under Title 11, United States Code."[1] The statute and the Resolution Plan Rule provide a process by which the deficiencies jointly identified by the Agencies in such a plan may be remedied.

In addition to the Resolution Plan Rule, the Agencies have provided supplemental written guidance to assist WFC's development of a resolution plan that satisfies the requirements of section 165(d) of the Dodd-Frank Act.[2] The Agencies have also provided ongoing engagement

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[1] 12 U.S.C. § 5365(d)(4).

[2] Most recently, this guidance has included:

- The 2016 Letter, which detailed three jointly identified deficiencies in the 2015 Plan and the actions required to address them. One of these deficiencies was addressed in October 2016; the remaining deficiencies were addressed earlier this year.

with WFC to facilitate the development of its 2017 Plan. The Agencies' staffs have met with WFC frequently since April 2016 to answer questions related to the 2017 Plan.

In July 2017, the Agencies received the 2017 Plan and began their review to determine whether the 2017 Plan satisfies the requirements of section 165(d) of the Dodd-Frank Act and the Resolution Plan Rule. The Agencies also assessed whether the 2017 Plan satisfactorily addressed each of the key vulnerabilities in resolution identified in the 2017 Plan Guidance. As noted in previous communications, actions to enhance resolvability generally were expected to be fully implemented no later than the date of the 2017 Plan.[3]

*<u>Progress Made by WFC</u>*

Following receipt of the 2016 Letter, WFC has taken important steps to enhance the firm's resolvability and facilitate its orderly resolution in bankruptcy. These steps include those taken to address the requirements of the Board's resolution-related rules regarding total loss-absorbing capacity, clean holding companies,[4] and stays of qualified financial contracts.[5]

WFC has taken other significant steps. These include (i) improving its capital and liquidity capabilities by developing approaches to estimate stand-alone financial resource needs for each material entity; (ii) linking measures of estimated financial resource needs to available

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- The 2017 Plan Guidance, which described the Agencies' expectations regarding the 2017 Plan and highlighted specific areas where additional detail should be provided and where certain capabilities or optionality should be developed to demonstrate that the firm has considered fully, and is able to mitigate, obstacles to implementation of the preferred strategy.
- Answers to common and firm-specific questions regarding the 2017 Plan Guidance.

[3] <u>See</u> the 2016 Letter.

[4] <u>See</u> 12 CFR 252.60-.65. This rule generally requires WFC to maintain capital and long-term debt outstanding to absorb potential losses following entry into bankruptcy and to not enter into certain financial arrangements that would create obstacles to an orderly resolution.

[5] <u>See</u> 12 CFR 252.81-.88. This rule generally requires WFC and certain of its subsidiaries to amend their qualified financial contracts to stay the exercise of default rights that could undermine the firm's resolution strategy.

resources to inform the timely final downstreaming of funds; (iii) developing a framework for the pre-positioning of capital and liquidity at material entities; (iv) funding a subsidiary that would allocate resources to material entities during resolution; (v) entering into a contractually binding mechanism designed to provide capital and liquidity support to material entities; (vi) creating a framework to govern escalation of information in support of timely decision-making; (vii) modifying its service contracts with key vendors to include provisions intended to ensure the continuation of services; (viii) pre-positioning working capital in service-providing entities; (ix) developing playbooks to support continued access to payment, clearing, and settlement activities; (x) revising its legal entity rationalization criteria (LER Criteria), evaluating its legal entity and ownership structure against the LER Criteria, and identifying actions necessary to align its legal entities, business lines, and critical services with the LER Criteria; (xi) merging two material entities that provide retail broker-dealer services into one material entity; (xii) enhancing its employee retention playbook by detailing its strategy for identifying and retaining key employees needed to facilitate operational continuity; (xiii) developing a new technology solution to enable multiple concurrent divestitures and associated transitional service agreements, which are intended to facilitate the divestiture of regional banking operations; and (xiv) implementing an enhanced material entity designation process.

## II. Shortcoming Regarding Separability Analysis

The Agencies identified a shortcoming regarding WFC's separability analysis related to the actionability of divestiture options. The 2017 Plan did not include sufficient documentation and analysis relating to impediment identification and mitigation, which raises questions regarding the degree to which identified divestiture options are actionable.

The 2017 Plan included high-level summaries of assumptions and key considerations for each divestiture option, which highlighted some possible divestiture-related impediments.

However, the resolution plan lacked a comprehensive analysis and detailed discussion of potential significant impediments and possible or planned mitigating actions. For example, each divestiture option playbook contained a section stating that an impact assessment and key interconnectedness and dependencies analysis were conducted as part of the firm's reverse due diligence exercise, across five common categories for potential impact on the remaining bridge bank. The firm provided a high-level summary of impacts the firm considers normal and common to a typical transaction, and stated that they would be resolved through purchase price negotiations or treated as disposition costs related to the transaction. The firm did not provide detailed analyses of these impacts in an object-specific context and likewise did not identify detailed object-specific mitigants. The few object-specific impacts that the firm identified were generally summarized at a very high level and were not tied to specific mitigants.

Additionally, WFC's legal risk assessments were high-level in nature and not supported within the 2017 Plan. The firm did not address object-specific legal issues and instead provided the same legal risk assessment summary comment for each divestiture option. The summary comment generally stated that a legal review by the firm did not identify any material issues that would prevent the transaction from proceeding. Although the firm provided additional information at the request of the Agencies, even as supplemented the totality of the legal risk assessment submission did not provide adequate detail and analysis to demonstrate that possible significant resolution divestiture-related legal impediments were identified and mitigated.

To address this shortcoming, the firm's 2019 Plan should provide a comprehensive analysis of potential significant impediments to execution for each divestiture option and clear mitigating strategies that could be taken, if needed, to address those impediments.

If the Agencies jointly decide that this shortcoming is not satisfactorily addressed in the 2019 Plan, the Agencies may determine jointly that the 2019 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

## III. Conclusion

In their review of the July 2017 resolution plans, the Agencies also identified four common areas where more work may need to be done to improve the resolvability of the firms: intra-group liquidity; internal loss absorbing capacity; derivatives; and payment, clearing, and settlement activities. Next year the Agencies intend to clarify improvements that should be reflected in the firms' next resolution plans, which are due on July 1, 2019. The Agencies are also considering ways to streamline the resolution plan submission process to allow more time for firms to make progress on resolvability before submitting plans to the Agencies.

The resolvability of firms will change as markets change and as firms' activities, structures, and risk profiles change. The Agencies expect firms to continue to address the resolution consequences of their day-to-day management decisions.

If you have any questions about the information communicated in this letter, please contact the Agencies.

Sincerely,

*Ann E. Misback (Signed)*

Ann E. Misback
Secretary of the Board
Board of Governors of the Federal
Reserve System

Sincerely,

*Robert E. Feldman (Signed)*

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation