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April 25, 2012

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies
Docket No. 1438
RIN 7100-AD-86

Dear Ms. Johnson:

This letter is submitted on behalf of Wells Fargo & Company ("**Wells Fargo**" or "**we**") in response to the Notice of Proposed Rule and Request for Public Comment issued by the Board of Governors of the Federal Reserve System (the "**Board**") on Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies (the "**Proposed Rule**"). The Proposed Rule implements provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("**Dodd-Frank**") that impose more stringent regulatory requirements for bank holding companies with total consolidated assets of $50 billion or more and nonbank financial companies designated by the Financial Stability Oversight Council (collectively, "**Covered Companies**").

The recent financial crisis revealed the need for enhancements to the regulation of the financial services industry and the mechanisms by which supervisory agencies could better guard against the risks that the failure of a large institution could pose to the financial stability of the United States. In response, Dodd-Frank requires federal banking agencies to take a number of actions to address identified weaknesses in the financial regulatory framework and to mitigate the threat of too-big-to-fail. Wells Fargo supports these policy objectives and appreciates the significant efforts the Board has undertaken to implement the requirements of Dodd-Frank, including the requirements addressed through the Proposed Rule.

Because of the breadth of regulatory changes and the creation of entirely new regulatory frameworks under Dodd-Frank, we believe that regulatory agencies must work carefully to ensure that individual rules are not crafted and implemented in isolation but instead are developed with an eye toward recognizing the interplay between various rules and how these rules *collectively* will impact financial markets, customers and financial institutions. This will help ensure that the implementation of new rules will not have unintended consequences and that the goals of Dodd-Frank are achieved without imposing unnecessary compliance burdens and costs on the industry. As one of the nation's largest providers of financial services, Wells Fargo is keenly interested in these issues. We have worked closely with The Clearing House Association L.L.C., The Financial Services Roundtable, the American Bankers Association and the Securities Industry and Financial Markets Association in reviewing the Proposed Rule and endorse the joint comment letter filed by these trade associations (the "**Joint Trade Letter**"). Wells Fargo is separately commenting to emphasize our concern with several specific components of the Proposed Rule.

Wells Fargo generally supports the overall objectives of rules requiring capital planning and stress testing exercises, requiring board-level risk committees and enhanced risk management practices, imposing single-counterparty credit limits, and implementing regimes to assist in the recovery of a significant bank or financial company in financial distress. In some aspects of the Proposed Rule, however, we believe the Board has sought to achieve these objectives through requirements that create unnecessary burdens on boards of directors, as well as compliance burdens and costs on Covered Companies without a corresponding meaningful reduction in systemic risk. For instance, the proposed rules governing risk management and liquidity risk management impose new operational responsibilities on boards of directors that are far better suited to management and will ultimately divert a board's attention from the crucial risk management oversight function it plays. The proposed counterparty credit limit rule will unnecessarily restrict the provision of credit to some counterparties and will require costly enhancements to existing systems used to calculate credit exposure for other reporting or risk management purposes. While we recognize that stress testing provides many benefits to supervisors and companies alike, the sheer number of testing requirements proposed, if not properly coordinated by regulatory agencies, will burden institutions while adding little meaningful value to regulatory agencies or the companies. Finally, with respect to the proposed early remediation requirements, we believe the rule at best lacks the flexibility necessary to address effectively the particular causes of a company's financial distress and at worst may contribute to a company's financial decline.

I. Proposed Risk Management and Risk Committee Requirements

Sections 165(b) and (h) of Dodd-Frank authorize the Board to implement enhanced risk management practices for Covered Companies and require that publicly traded bank holding companies with total consolidated assets of $10 billion or more establish a risk committee to be responsible for oversight of the company's enterprise-wide risk management practices. Section 165(h) also provides that the risk committee must be chaired by an independent director and have at least one member with risk management expertise, all as may be specified by the Board through its rulemaking authority. Subpart E of the Proposed Rule implements these provisions and sets out specific requirements for and responsibilities of the company's risk committee and chief risk officer (the "**Proposed Risk Management Rule**").

While Wells Fargo supports the general requirement for a board-level risk committee, we believe that many of the requirements the Proposed Risk Management Rule assigns to the risk committee are actually operational in nature and therefore should be the responsibility of management. In addition, we are concerned that the language used in the rule restricts the discretion of the board in structuring the oversight responsibilities of its various committees, and the qualifications of its members, in the manner the board deems most appropriate given the company's business lines, complexity and risk profile. Furthermore, we believe each company is better positioned to determine the necessary qualifications for its chief risk officer rather than having required qualifications set out by rule.

(a) Boards and risk committees should not be assigned responsibility for operational matters, and, as long as a company's risk committee provides enterprise-wide oversight of risk management, a company's board of directors should be allowed to assign direct oversight of certain types of risks to other board committees.

The Proposed Risk Management Rule provides that the risk committee must document, review and approve the company's enterprise-wide risk management practices and sets out the requirements for the company's risk management framework. Some of the responsibilities the rule assigns to the risk committee, however, are operational in nature and therefore not functions that we believe are properly the role of a board committee. The board of directors is responsible for overseeing that the institution operates in a safe and sound manner. The board fulfills this obligation by, among other things, hiring and providing strategic direction to management, which is then charged with carrying out day-to-day operations of the company. Provisions in the rule that require the risk committee to document risk management practices, such as risk limits for each business line and processes for identifying and reporting risks, are more appropriately assigned to management, which has the day-to-day operational knowledge of the company necessary to design and implement effective risk management practices. These practices should be based on policies that are designed by management and, in appropriate circumstances, approved by the board. The assignment of documentation responsibilities to the risk committee will distract its members from their primary and crucial oversight role. We therefore recommend that the Proposed Risk Management Rule be revised to clarify that the role of the risk committee is to review and approve an acceptable risk management framework designed and recommended by management, to review reports from management on compliance with the approved framework, and to review remediation efforts undertaken by management in response to identified deficiencies.

With respect to the oversight responsibilities of the risk committee, the rule specifies that the risk committee must oversee enterprise-wide risk management and that this function may not be housed in or shared with any other committee. This provision could be interpreted to mean that no committee other than the risk committee could have direct oversight of any type of risk. If this is the intention of the rule, the Board should reconsider this requirement, which we believe imposes too great a burden on any one committee and ignores the expertise certain committees may bring to bear in overseeing specific types of risks. At Wells Fargo, for instance, our board has determined that its credit committee is best positioned to provide oversight of the company's credit risk, including the company's credit quality plan and lending policies, and that the finance committee has the necessary expertise to provide oversight of market, interest rate and liquidity and funding risk. Our risk committee, however, remains responsible for oversight of enterprise-wide risk management. The risk committee meets its responsibilities not by duplicating the activities of committees with the expertise necessary for the oversight of specific types of risks but by ensuring an appropriate oversight structure exists for all risks. To facilitate the accomplishment of this objective, our risk committee includes the chair of each board committee, which has the benefit of facilitating discussion and communication on all types of risks. So long as the risk committee retains responsibility for enterprise-wide oversight of risk management, the rule should not prohibit other committees with specific areas of expertise from directly overseeing certain risks.

(b) The Board should not adopt overly restrictive standards for the membership qualifications of board committees or for qualifications of chief risk officers.

The Proposed Risk Management Rule stipulates that the risk committee must be chaired by an independent director and must have one member with "risk management expertise" commensurate with the company's capital structure, risk profile, complexity, activities, and size. "Risk management expertise" is defined to include, among other things, having experience developing and applying risk management practices and procedures, measuring and identifying risks, and monitoring and testing risk controls with respect to banking organizations.

Wells Fargo agrees that risk committees should be chaired by an independent director and should have at least one member with risk management expertise. We do not believe, however, that the final rule should contain overly restrictive criteria for "risk management expertise." We also note that although the rule provides that only one member of the committee must have risk management expertise the commentary to the rule suggests that *all* members of the risk committee should have such risk management backgrounds. We are concerned that the proposed narrow expertise definition and the statements in the commentary will present challenges to Covered Companies in identifying members eligible to serve on the committee and will also result in risk committees that lack broad and diverse membership, a committee trait that can be beneficial to the oversight process.

We believe the Board may have overestimated the size of the pool of available candidates who both are willing to serve on boards and have backgrounds that satisfy the proposed requirement that the director have experience developing and applying risk management practices and procedures ***and*** measuring risks ***and*** monitoring and testing risk controls, all with respect to a banking organization. Boards and risk committees benefit from having members who bring a variety of experiences and strengths in their service to the company. Having committee members with backgrounds in other industries or who have particular experiences with some, but not necessarily all, of the proposed expertise criteria allows for a diversity of input on the committee that provides for a dynamic oversight of risk management. A board of directors should retain the discretion to organize the membership of its committees in a manner that, in its judgment, is most appropriate given the company's business lines, risk profile, and complexity. Wells Fargo would, however, consider supporting a definition for "risk management expertise" that is similar to the Securities and Exchange Commission's definition of an "audit committee financial expert" by requiring that the director has an understanding of risk management and experience managing risk or overseeing those who do.

We similarly believe a company should be permitted to determine the background and qualifications needed by its chief risk officer given the nature of the company's risk profile rather than by reference to mandated criteria set out in a regulation. Wells Fargo also opposes the requirement that the chief risk officer must have a direct reporting line not only to the chief executive officer but also to the risk committee. Companies should be permitted to establish their own effective reporting structures and a dual reporting requirement to the risk committee unnecessarily complicates management organizational structures. Rather than directing specific reporting lines, the Board could consider other ways of ensuring the independence of chief risk officers, such as requiring that chief risk officers have unfettered access to risk committees or that the chair of the risk committee evaluate and approve the compensation of the chief risk officer.

II. Proposed Liquidity Requirements

Subpart C of the Proposed Rule implements the requirement of Section 165(b) of Dodd-Frank that the Board establish liquidity standards for Covered Companies. In response, the Board proposes that Covered Companies conduct monthly liquidity stress testing, implement specific corporate governance requirements for liquidity risk management, and prepare cash flow projections and contingency funding plans (the "**Proposed Liquidity Requirements**"). As noted above with respect to the Proposed Risk Management Rule, portions of the governance requirements for the management of liquidity risk unnecessarily restrain a board's discretion in determining how best to oversee liquidity risk and inappropriately impose operational responsibilities on the board that should be performed by management. In addition, we believe that the proposed frequency of liquidity stress testing is excessive, and that the Board should expand the definition of "highly liquid assets."

(a) A board should be permitted to determine which of its committees is best positioned to oversee liquidity risk, and neither the board nor risk committee should be assigned operational responsibilities.

The Proposed Liquidity Requirements impose specific corporate governance requirements on boards of directors and risk committees of Covered Companies. For instance, management must report to the risk committee on the company's liquidity profile, boards must "establish" the company's liquidity risk tolerance, and risk committees are charged with reviewing and approving the liquidity costs, benefits and risks of significant new business lines or products and periodically reviewing all previously approved business lines or products for the presence of unanticipated liquidity risk.

We again emphasize our strong belief that the board of directors is best positioned to determine which board committee can most effectively oversee specific types of risks. At Wells Fargo, our board has exercised its judgment and determined that our finance committee, rather than our risk committee, has the specific expertise necessary to oversee liquidity risk. The rule should be revised to provide that management should report to the board, or its designated committee, on the company's liquidity risk profile. In addition, we believe that the role of the board is to provide strategic direction for the company and to review and, if appropriate, approve recommendations from management on risk tolerances for all types of risks and to review and approve management developed policies for identifying, managing and reporting on risk. We do not believe that it is the role of the board, or its committees, to determine specific risk tolerances or to assume responsibility for periodically reviewing the liquidity risk of individual business lines or products. Management's operational responsibilities include recommending liquidity tolerances and risk management policies to the board for consideration and approval, ensuring liquidity risk management practices are implemented and followed by business lines, and reporting to the board on liquidity metrics and compliance with board-approved policies. Requiring board committees to undertake management operational responsibilities, such as conducting periodic reviews of individual business lines and products, would be extremely time consuming and divert the board's attention from providing enterprise-wide risk management oversight.

(b) Required liquidity stress testing should be performed on a semiannual, rather than monthly, basis.

Pursuant to the Proposed Liquidity Requirements, a Covered Company must conduct monthly testing to assess the effects of stress scenarios on its cash flow and liquidity. Although we recognize the importance of testing exercises to measure the impact of economic and financial instability on the company's cash flow needs, we believe that the requirement of monthly testing is excessive. Instead, multi-scenario liquidity stress testing should be conducted semiannually and should be supplemented by monitoring the liquidity position of the firm through management of established metrics, which should utilize consistently applied assumptions allowing for a prompt identification of negative trends.

(c) **The definition and means of identification of new classes of "highly liquid assets" should be modified, and borrowing capacity at Federal Home Loan Banks should be included in the liquidity buffer.**

Although we are generally supportive of some components of the Board's proposed definition of highly liquid assets ("**HLAs**"), we believe certain modifications to the definition are necessary. For instance, we are concerned with the limited nature of the provision allowing for individual companies to include other types of assets as HLAs. As proposed, a Covered Company must demonstrate to the Board's satisfaction that the asset (i) has low credit and market risk, (ii) is actively traded in the secondary market, and (iii) has historically been purchased by investors in periods of financial market distress where liquidity was impaired. Given that some assets, even if riskier than government securities, may still be actively traded even in times of financial distress, the requirement that the asset must have low credit and market risk inappropriately restricts the pool of assets that could be included in the liquidity buffer. Covered Companies should be able to include a diverse range of asset classes, subject to an appropriate haircut commensurate with the assets' underlying credit and market risk and provided Covered Companies can demonstrate, through the use of reliable historical trading data, that the assets could be monetized within a prescribed timeframe. The inclusion of a broader class of assets in the HLA definition will also better serve to facilitate a Covered Company's compliance with the requirement that the liquidity buffer be sufficiently diverse, a requirement that is in tension with an inappropriately restrictive definition of HLAs. We also note that language in this provision could be read to suggest that additional classes of assets may be included as HLAs only on a company-by-company basis. We do not understand the rationale for a determination that an asset class is sufficiently liquid only for specific companies. As a result, we request that the final rule provide a mechanism whereby the Board will regularly notify firms of other approved asset classes.

We also believe the final rule should provide that an appropriate portion of a Covered Company's borrowing capacity at Federal Home Loan Banks ("**FHLBs**") may be included in the liquidity buffer. As is more fully discussed in the Joint Trade Letter, borrowings from FHLBs serve as an important source of liquidity, and did so effectively during the recent financial crisis, and should be expressly recognized as a component of the liquidity buffer in the final rule.

III. Proposed Single Counterparty Credit Limits

Section 165(e) of Dodd-Frank seeks to reduce the risks associated with the failure of a large financial company to its counterparties and to the U.S. and global financial systems by directing the Board to establish single-counterparty credit limits.

Subpart E of the Proposed Rule (the "**Proposed SCCL Rule**") provides that no Covered Company may have aggregate net credit exposure to an unaffiliated counterparty that exceeds 25% of the Covered Company's capital stock and surplus. The Proposed SCCL Rule also provides that if the counterparty is another bank holding company or foreign banking organization with total consolidated assets of $500 billion or more or a nonbank covered company (a "**Major Counterparty**"), then the applicable limit is 10% of the Covered Company's capital stock and surplus.

Wells Fargo recognizes the danger excessive interconnectedness among large financial companies may pose to financial systems. Accordingly, we support reasonable efforts both to limit excessive concentration of exposures and to ensure that supervisory agencies have sufficient information to understand large exposures among institutions. We have serious reservations, however, about the Proposed SCCL Rule. As an initial matter, we believe the proposed 10% limit for credit exposure to Major Counterparties is not warranted at this time. We also believe that the "counterparty" definition is unnecessarily broad and in some cases inappropriately requires aggregation of exposures among entities, creating problems which are compounded by the use of a proposed exposure calculation methodology that significantly overstates credit risk. The result of these requirements will be increased costs of credit and reduced credit availability for some counterparties. In addition, companies will incur significant costs to develop systems to comply with the exposure methodology and to comply with the proposed daily monitoring and monthly reporting requirements for exposures to all counterparties. We do not believe that the Board conducted a sufficient analysis to consider whether the costs of implementing the rule's requirements are justified by the benefits of a meaningful reduction in systemic risk.

(a) The lower threshold for credit exposures to Major Counterparties is premature, and the Board should conduct additional reviews to determine whether lower limits are necessary to reduce systemic risk.

Although Dodd-Frank permits the Board to lower the credit exposure limit below 25% of capital stock and surplus, the Board is not required to do so. Section 165(e) allows the Board to lower the limit *if* the Board determines the lower limit is *necessary* to mitigate risks to the financial stability of the United States. Wells Fargo believes that the necessity of lower limits for Major Counterparties has not been established and that the imposition of the 10% limit is therefore premature. We also believe that the Board should take into account the impact of other provisions of Dodd-Frank designed to reduce systemic risk before lowering exposure limits for certain counterparties. Dodd-Frank requires the Board to implement heightened prudential standards for Covered Companies with respect to capital and leverage requirements, risk management and liquidity risk management requirements, stress testing requirements, and remediation and resolution planning regimes. All of these provisions were designed to reduce the likelihood that a Covered Company would fail or that, if the company were to fail, its failure would not threaten the financial stability of the United States. Rather than seeking to implement provisions of Dodd-Frank in isolation, the Board must consider the collective impact of all of these provisions. In addition, implementation of a 10% limit will have practical consequences. For instance, the Board should fully evaluate the implications of a likely scenario in which many Major Counterparties all rush simultaneously to reduce mutual exposures, which may place considerable funding stress on some counterparties.

(b) The definition of "counterparty" is overly broad and requires aggregation of exposures among certain types of entities that is unnecessary in some cases.

The Proposed SCCL Rule provides that a Covered Company, together with its subsidiaries, may not exceed the applicable exposure limit with respect to its aggregate net credit exposure to any unaffiliated counterparty. "Counterparty" is defined to include natural persons and their immediate family members (as defined by the Proposed SSCL Rule), a company and all of its subsidiaries, and a state or foreign sovereign entity and each of their respective agencies, instrumentalities and political subdivisions. As discussed in more detail below, we believe the Proposed SCCL Rule subjects credit exposure to some counterparties to the rule even in the absence of a statutory basis or reasonable systemic risk concerns and requires the aggregation of exposures among some entities that is not reflective of actual credit risk. The proposed daily monitoring and monthly reporting requirements on all exposures will also create unnecessary and costly compliance burdens and in many cases will be impractical to implement.

(1) Natural persons should not be included as "counterparties" subject to the Proposed SCCL Rule.

With respect to the inclusion of natural persons within the definition of "counterparty", the Proposed SCCL Rule also requires a Covered Company to include exposures to any such person's spouse, minor children and adult children residing in their home. As an initial matter, Wells Fargo notes that there is no statutory basis for the requirement that the Board subject credit exposure to individuals to Section 165(e)'s counterparty credit limit, which only addresses credit exposure to "any unaffiliated company." Furthermore, application of the proposed monitoring and reporting requirements to credit exposures to natural persons and their immediate families would impose a staggering compliance burden for Covered Companies. As drafted, the Proposed SCCL Rule would require Covered Companies to conduct *daily* monitoring of any changes to a borrower's marital status and household composition. Even assuming Covered Companies could realistically comply with such a requirement, the enormous compliance burden of doing so would not be justified by the extremely remote possibility that any Covered Company would have credit exposure to any individual in an amount approaching 25% of its capital stock and surplus and that the bankruptcy of such individual would threaten the financial stability of the United States. If the Board remains concerned with the systemic implications of the bankruptcy of any individual, then we propose that the Board conduct a review of each Covered Company's largest credit exposures during routine supervisory examinations. If such reviews reveal that any Covered Company does in fact have significant credit exposure to individuals, then firm specific monitoring and reporting requirements with respect to those individuals should be imposed.

(2) The proposed definition of "control" should reflect a risk component and advised and sponsored investment funds and special purposes vehicles should not be deemed controlled. Central counterparties should be exempt from the definition of "counterparty."

The second component of the "counterparty" definition includes a company and all of its subsidiaries, which is defined as including any company that is directly or indirectly "controlled" by the counterparty. The Proposed Rule provides that a company is "controlled" if the counterparty owns or controls 25% or more of a class of its voting securities or total equity or if the counterparty consolidates the company for financial reporting purposes. This standard, particularly in the context of minority investments, inappropriately requires aggregation of exposures even in the absence of evidence that one party is an expected source of repayment for the obligations of the other or that the companies are financially interdependent. We believe the final rule should more accurately reflect the nature of the relationship from a risk perspective, for example by basing the "control" definition on companies consolidated with the counterparty for financial reporting purposes but excluding consolidated entities that are not subject to legally required parent support. We also note again the impractical nature of the proposed compliance requirement that imposes an obligation on Covered Companies to monitor *daily* the acquisition and financial investment activities of their commercial customers.

The Board specifically requested comment on whether the definition of control should include sponsored or advised investment vehicles or funds. The Board inquired whether the exclusion, for instance, of money market mutual funds ("**MMMFs**") was appropriate since during the financial crisis many firms supported MMMFs that they sponsored or advised. Wells Fargo believes the exclusion of MMMFs that are only sponsored or advised from the "control" definition is appropriate, particularly in light of rule amendments with respect to MMMFs that were adopted by the Securities and Exchange Commission in 2010. Those amendments significantly strengthened MMMFs through establishing new credit quality, maturity, and minimum liquidity standards for these funds, among other enhancements. In this regard, we note that MMMFs advised by Wells Fargo affiliates successfully withstood the significant market distresses of the European sovereign debt crisis and the downgrade of the U.S. sovereign debt rating, without receiving any financial support. We are concerned that any requirement under the Proposed SCCL Rule to attribute the holdings of MMMFs to a Covered Company solely due to a sponsorship or an advisory relationship with MMMFs could reduce the pool of available high credit quality counterparties in which MMMFs could invest, which, in turn, could make the management of MMMFs significantly more difficult. Any such attribution requirement could also create potentially irreconcilable conflicts of interest for a Covered Company and its affiliates in allocating opportunities to invest in the highest credit quality counterparties.

The Board also requested comment on the treatment of credit exposure to special purpose vehicles ("**SPVs**") and indicated that it may require covered companies to look through an SPV either to the issuer of the underlying assets or to its sponsor. Alternatively, the Board proposed requiring a look through to the underlying assets only if the SPV failed concentration tests, such as having more than 20 underlying exposures. Aggregating credit exposure to an SPV with the credit exposure to the sponsor in the absence of a sponsor guarantee of the SPV is not appropriate. Looking through to the SPV's underlying assets is also impractical. Given variations in an SPV's noteholders' rights with respect to distribution and liquidation rights, there is no direct correlation in the exposure the noteholder has to the SPV and the exposure the SPV has with respect to any particular underlying asset. At a minimum, that Board should refrain from extending the Proposed SCCL Rule to SPVs without undertaking a further study of the impact of such an action on SPVs sponsored by Covered Companies.

We also note that at present central counterparties ("**CCPs**") would be "counterparties" subject to the credit exposure limits. Wells Fargo urges the Board to exempt CCPs from the counterparty definition. Dodd-Frank establishes a new, comprehensive framework for the regulation of over-the-counter derivatives. The Commodity Futures Trading Commission and the Securities and Exchange Commission have proposed numerous rules to implement derivatives regulation, including clearing and trading requirements, capital and margin requirements, and business conduct standards. CCPs will be subject to extensive regulation under these rules. As Dodd-Frank requires central clearing and execution of many OTC derivatives and subjects CCPs to extensive regulation, subjecting credit exposures with the limited number of CCPs to the same framework and rules as are applied to other counterparties could produce unintended consequences, particularly under the calculation methodologies laid out in the proposal. Moreover, such an action would undermine, if not directly contradict, the objectives of the new regulatory framework for derivatives.

(3) Credit exposure to political subdivisions of states and foreign sovereigns *should not automatically be aggregated with exposures to the state or* foreign sovereign.

The Proposed SCCL Rule requires that Covered Companies aggregate credit exposure to a U.S. State or foreign sovereign with credit exposure to its respective political subdivisions. There is no rational basis for this aggregation requirement. As a general matter, obligations under municipal bonds are not supported by the State but by the municipality's own taxing authority, guarantee, full faith and credit or the revenue streams from a referenced project or source. As a result, the proposed aggregation of exposures overstates the actual credit risk the company has to the State and therefore may restrict credit that would otherwise be made available to local governments. Similar concerns exist with aggregating exposures to a foreign sovereign with exposures to its political subdivisions. We believe governmental obligations should only be aggregated where there is a legal obligation to provide payment support.

(c) The proposed calculation methodology will require costly system enhancements but will not accurately measure credit risk.

The Proposed Rule requires a Covered Company to calculate its gross credit exposure to a counterparty based on the methodology provided for the specific type of credit transaction and to adjust such exposure in accordance with other provisions of the rule to arrive at its net credit exposure. Although we do not believe that certain regulatory approaches to the estimation of potential exposure, such as those applied in the regulatory capital framework, are particularly accurate, we appreciate the Board's desire to apply a consistent approach across organizations. Some of the methodologies proposed by the Board in the rule, however, are not consistent with existing methods banking organizations utilize to calculate credit exposure for other regulatory reporting requirements. This will result in expensive systems development for a methodology that we believe will overstate exposures and therefore will unnecessarily restrict the extension of credit to some counterparties.

Bank holding companies like Wells Fargo have expended, and continue to expend, significant resources to develop systems designed to calculate their credit exposures. Substantial time is also invested by multiple regulatory agencies in understanding these methodologies and ensuring their appropriateness for the purposes for which they are being used. Imposing new or revised methodologies to risks for which there is already an extensive framework that is consistent across institutions will require the development of new systems and reporting tools solely to meet the requirements of the Proposed SCCL Rule. As a result, we urge the Board to more closely align the approach for the Section 165 credit limits with those already used by firms for regulatory and/or internal risk management purposes, which will promote consistency, reduce implementation and compliance costs, and preserve the incentives for firms to continue to improve their calculation approaches.

There are other aspects of the calculation methodologies which cause concern for Wells Fargo. For instance, the valuation rules for equity and debt securities, in particular the use of purchase price, differ from banks' typical monitoring of market and book values. These rules do not appear to offer any appreciable risk management benefit and will be costly to implement. In addition, the definition of eligible collateral, and in particular the exclusion of asset backed and mortgage backed securities, seems overly conservative and should be broadened with appropriate haircuts.

We also urge the Board to reconsider the requirement that Covered Companies shift credit exposure to a counterparty that is supported by an eligible guarantee issued by an eligible protection provider to its gross credit exposure to the eligible protection provider. The rule requires similar treatment of eligible credit or equity derivatives obtained from an eligible protection provider referencing the counterparty. In contrast, Covered Companies are permitted, but are not required, to shift exposures to issuers of eligible collateral. The shifting of exposures to eligible protection providers should also be voluntary rather than mandatory. We also suggest that the Board provide more clarity around the process by which exposures may be shifted. For example, we would appreciate the Board's provision of examples demonstrating how Covered Companies would shift exposures in transactions involving credit protection provided by multiple eligible protection providers and in cases where protection has been purchased and sold on multiple reference credits with the same counterparty. We also encourage the Board to develop further the ideas behind Question 56 in which issuer risk in the trading book is viewed on a net default-to-zero basis across the book. This approach is much more closely aligned with the manner in which firms manage their issuer risk on a daily basis.

In light of the complex issues raised by the proposed calculation methodology, Wells Fargo strongly recommends that the Board hold direct meetings with Covered Companies to discuss appropriate methods of calculating exposures for a range of credit transactions which also properly account for the reduction of credit risk through the use of collateral, guarantees, hedges and other methods of credit protection and to conduct a quantitative impact study prior to implementing any final rule.

(d) The Board should reevaluate the proposed compliance and reporting requirements which are not risk-based and should provide for a broader and more automatic cure period for violations of the rule.

The Proposed SCCL Rule requires daily compliance with the credit exposure limits and monthly submission of reports demonstrating the company's compliance with the requirements. Although Covered Companies are prohibited from engaging in any credit transaction with a counterparty that would violate the limit, the Board retained the discretion to grant temporary compliance exemptions and has indicated that it may consider an exemption is appropriate if the violation results from a decrease in the company's capital stock and surplus, the merger of Covered Companies or the merger of unaffiliated counterparties, or other circumstances or conditions as determined by the Board.

The degree of concentration of counterparty credit exposure, and the mix of types of credit exposure, will vary significantly among Covered Companies. As a result, Wells Fargo recommends that the Board adopt a risk-based, supervisory approach in establishing monitoring and reporting requirements. Following a supervisory review of the nature and concentration of a Covered Company's credit exposures, the firm should be directed to comply with firm specific compliance monitoring and reporting requirements only with respect to exposures that reasonably approach the limits. These requirements would be subject to reasonable periodic review to determine whether changes to the frequency of monitoring and reporting are necessary. This risk-based, calibrated approach reduces compliance burdens on institutions whose credit exposures are not significantly concentrated and therefore do not pose a systemic risk.

With respect to temporary exemptions from the compliance requirements, each company should be afforded an automatic cure period in the event the exposure limits are violated by an immaterial amount. The rule should also provide that violations resulting from specific events are *automatically* subject to a 90-day cure period (or longer cure period if approved by the Board). These circumstances should include not only noncompliance resulting from a decrease in the Covered Company's capital stock and surplus or any merger or other acquisition transaction involving the Covered Company (rather than only a merger between Covered Companies as presently provided) but also any noncompliance resulting from the actions of a third party, including due to mergers, stock purchases or liability assumptions involving counterparties, a counterparty's failure to identify correctly its controlled subsidiaries, or changes to GAAP. In particular, firms should not be deemed to have violated the rule due to, and should not be required to seek Board approval for violations caused by, the actions of third parties.[1]

IV. Proposed Stress Test Requirements

In Subparts F and G of the Proposed Rule (the "**Proposed Stress Test Rules**"), the Board seeks to implement Section 165(i) of Dodd-Frank, which provides for supervisory-led stress tests and company-led stress tests of Covered Companies and "other financial companies" with more than $10 billion of consolidated assets ("**$10B Financial Companies**"). The stress tests are required to assist regulatory agencies and the company in evaluating whether the company has sufficient capital to absorb losses during periods of adverse economic and financial conditions.

Wells Fargo recognizes the benefits to agencies and to Covered Companies in conducting periodic stress testing exercises. We are concerned, however, that the Board and other financial regulatory agencies may interpret and apply Section 165(i) in a manner that imposes unnecessary, multiple testing requirements on organizations. We maintain that there is an important interpretive question as to whether Section 165(i)(2)(A) requires stress tests by $10B Financial Companies that are subsidiaries of Covered Companies. The first two sentences of that section read as follows:

> A nonbank financial company supervised by the Board of Governors and a bank holding company described in subsection (a) shall conduct semiannual stress tests. *All other* financial companies that have consolidated assets of more than

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[1] We also note that currently credit transactions that are direct claims on, and portions of claims that are directly and fully guaranteed as to principal and interest by, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation while operating under conservatorship or receivership of the Federal Housing Finance Agency are exempt from the limits. Covered Companies would need a substantial period of time to bring these credit transactions into compliance with the limits when and if these credit transactions are no longer exempt.

> $10,000,000,000 and are regulated by a primary Federal financial regulatory agency shall conduct annual stress tests. [Emphasis added]

We submit that it is not evident that Congress intended, in the case of a Covered Company that itself is subject to extensive stress testing, that all subsidiaries of the Covered Company that fit the definition of a $10B Financial Company would be subject to a separate stress testing requirement. Many such companies typically exist within a large Covered Company, and indeed there are several at Wells Fargo. An equally reasonable interpretation of the "all other financial companies" phrase is that subsidiaries of Covered Companies are not subject to the stress testing requirement since they are already part of a Covered Company. This interpretation is not at odds with the purpose of this section: the Board would have the ability through its supervision of the parent Covered Company to obtain adequate information about the company's subsidiaries. Indeed, as discussed in more detail below, applying the statutory requirement at multiple levels of a Covered Company creates significant burdens and potential confusion given the number of different regulatory agencies likely to be involved. While our comments below regarding the need for agency coordination assumes that the stress testing requirements may be applied at each level of the organization, the statute does not have to be interpreted that way.

In the event the Board, and other regulatory agencies, do not interpret the provision as uniformly excluding $10B Financial Company subsidiaries of Covered BHCs from separate testing requirements, the Board and these agencies should work together to identify specific cases where the separate testing of legal entities within an organization is not beneficial and to develop identical testing scenarios and interagency data collection and reporting forms.

With respect to the required testing of Covered Companies, because of the seriousness of the implications of test results, the Board should (i) provide more time for Covered Companies to conduct required testing; (ii) allow Covered Companies to provide input to the Board on proposed scenarios, (iii) incorporate into the final rule the right for Covered Companies to appeal supervisory conclusions; and (iv) revise the contents of the proposed summary disclosures.

(a) Close coordination among regulatory agencies is necessary to reduce the duplicative regulatory burden of conducting multiple stress tests at banking organizations.

Under Section 165(i) and the Proposed Stress Test Rules, Wells Fargo will be subject to multiple and overlapping stress testing exercises throughout the year. As a Covered Company, Wells Fargo will be subject to Board-led and company-led annual stress testing as well as an additional mid-year stress test. These tests are in addition to stress testing requirements under the Board's Capital Plan Rule and the monthly liquidity stress testing proposed by Subpart C of the Proposed Rule. In addition, Wells Fargo also has subsidiaries that are $10B Financial Companies and therefore may be subject to separate annual, company-led stress test requirements. How the Board and other financial regulatory agencies choose to interpret and apply the various requirements of Section 165(i) with respect to different entities within a banking organization will determine whether the benefits of stress testing quickly become outweighed by the substantial burden of multiple and overlapping stress tests with divergent testing requirements.

Wells Fargo has wholly owned, intermediate bank holding company subsidiaries. Although separate testing requirements for such companies will increase the regulatory burden on our company by requiring us to provide separate responses to information requests, to conduct separate testing, and to prepare separate summary results, the separate testing of intermediate holding companies will provide neither the company nor the Board with useful information that may not otherwise be discerned from the testing of Wells Fargo at the consolidated ultimate parent level. In addition, separate testing requirements for intermediate holding companies will not serve in any meaningful way to reduce systemic risk. As a result, even if the Board does not adopt the interpretation of the stress testing requirements that we discuss above, we request that the Board include a provision in the final rule allowing for exemptions from testing on a case-by-case basis if the Board determines testing is unnecessary, such as testing of wholly owned, intermediate bank holding company subsidiaries of Covered BHCs.

Section 165(i) also directs other Federal financial regulatory agencies to impose stress testing requirements on other $10B Financial Companies. As a result, the Office of the Comptroller of the Currency (the "**OCC**") has recently proposed rules governing stress testing of covered national banks. Wells Fargo currently has three national bank subsidiaries that have more than $10 billion in total consolidated assets. Wells Fargo Bank, National Association ("**Wells Fargo Bank**") represents over 80% of Wells Fargo's total consolidated assets. In such circumstances, there will be little meaningful difference in separately viewing the stress test results of consolidated Wells Fargo and those of Wells Fargo Bank or those of our other national bank subsidiaries. The OCC proposed rule does contain a provision allowing for the exemption of some institutions from stress testing requirements. We are separately requesting that the OCC's final rule provide that national bank subsidiaries of Covered Companies are not subject to separate testing. In the event the OCC does not agree that multiple and overlapping testing within banking organizations is unnecessary, then we urge the Board to coordinate closely with the OCC in the development of testing parameters to ensure proposed scenarios are identical. In addition, it is vital that the agencies work together to create inter-agency data request and result reporting forms. Although the agencies have each indicated that they will coordinate to the extent possible in implementing their respective stress testing requirements, Wells Fargo urges the Board and agencies to recognize that coordination of the scenarios, methodologies and assumptions, and information and reporting forms is not merely desirable but is absolutely necessary. If the agencies fail to coordinate, banking organizations will be subject to overlapping and unnecessary compliance requirements with no offsetting supervisory benefit.

(b) The Board's proposed timelines should be revised to provide additional time for Covered Companies to conduct required stress testing.

The Board has indicated that it plans to provide stress scenarios by mid-November and that companies would be required to submit their testing results to the Board by early January. Given existing year-end reporting requirements and the potential for multiple and overlapping stress testing discussed above, Covered Companies require additional time to conduct testing exercises. We accordingly urge that the Board provide the supervisory stress scenarios no later than mid-October.

(c) Covered Companies should be allowed to review and provide input on proposed stress scenarios prior to publication.

Section 252.133(b) of the Proposed Stress Test Rules provides that the Board will notify Covered Companies of a minimum of three sets of economic and financial conditions which the Board will apply in conducting its stress tests. The rule, however, currently provides no mechanism for Covered Companies to provide prior input to the Board on the proposed scenarios. Results of the stress tests have important capital requirement consequences for Covered Companies and could lead to remedial actions pursuant to other provisions of the Proposed Rule discussed below in Section V of this letter. As a result, Covered Companies should be allowed sufficient time to review the proposed scenarios and to discuss with the Board any concerns or recommendations a company may have with respect to each scenario and its underlying assumptions prior to publication.

(d) Prior to the Board making public its summary results or any requirement that a company take remedial action in light of communicated results, companies should be given a right to appeal the results.

Section 252.135 provides that the Board will convey the results of its analysis to each Covered Company and will publish a summary of the results. Sections 252.136 and 252.147 require Covered Companies and $10B Financial Companies supervised by the Board to take into account stress test results in making changes to their capital structures, exposures, concentrations, risk positions, recovery plans and risk management practices. If directed by the Board, Covered Companies must also make revisions to their resolution plans within 90-days of the Board's publication of the summary results. The rule, however, provides no process for a company to appeal the results of the tests either prior to the Board's public disclosure of the results or the requirement that the company begin taking remedial actions given the communicated results. The right to appeal the Board's conclusions is vital to the process. Companies should be afforded a minimum 10 business day period to review test results and communicate any concern to the Board prior to the Board's public disclosure of summary results. During this time, a Covered Company should not be expected to take action with respect to changes to its capital structure, exposures, etc.

(e) A disclosure regime for summary results should be crafted that avoids interpretation by the market as earnings guidance and is consistent with recent disclosures made by the Board under the 2012 Comprehensive Capital Analysis Review ("CCAR").

Dodd-Frank requires the Board to publish a summary of the results of its stress test analysis. In the commentary, the Board indicated that its summary of results will disclose company specific information for each quarter-end during the planning horizon under both the adverse and severely adverse scenarios, including (i) estimated losses on loans, securities, trading portfolios and counterparty exposures; (ii) estimated pre-provision net revenue; (iii) estimated allowance for loan losses; and (iv) estimated pro forma regulatory and capital ratios. We strongly believe that disclosure of company specific results for each quarter-end of the planning horizon will be received by the market as earnings guidance. Although the Board recognizes this concern and has already felt compelled to emphasize that summary results should not be interpreted as a forecast of expected outcomes, we believe such disclaimers are ultimately ineffective. Instead, we recommend that the Board model its summary disclosures on those utilized for CCAR, make disclosures solely with respect to severely adverse scenarios, and summarize the results over the entire planning horizon generally rather than quarter-by-quarter.

With respect to the results of company-led stress testing conducted by Covered Companies and $10B Financial Companies supervised by the Board, these companies are also required to disclose publicly a summary of the results of such tests. The Board has provided that the disclosure must include a description of the risks tested and scenarios and methodologies used and the company's aggregate losses, pre-provision net revenue, allowance for loan losses, net income and pro forma capital levels and capital ratios over the planning horizon. As with supervisory-led testing and disclosure, we believe disclosures for each quarter and for each stress scenario are inappropriate and may confuse investors. We believe the market is even more likely to view company-determined and company-disclosed stress test results as earnings guidance, particularly under the baseline scenario and possibly under the adverse scenario as well, which creates significant risk that, notwithstanding disclaimers, market participants will unduly rely on the results in making investment decisions or will misinterpret the results in attempting to reverse engineer the company's future earnings. We also believe that public disclosure by a company of stress test results may impose a duty on the company to update, or may create investor expectations that the company will update, the results prior to the next stress test to reflect material changes to company-specific estimates and other inputs. As a result, the required summary should include only a description of the severely adverse scenario and a summary of the results over the entire planning horizon generally rather than *quarter-by-quarter*.

V. Proposed Early Remediation Framework

In order to minimize the possibility that a Covered Company will become insolvent and harm the financial stability of the United States, Section 166 of Dodd-Frank requires the Board to establish remedial actions to be undertaken by a Covered Company experiencing signs of financial distress. Subpart I of the Proposed Rule establishes capital and leverage, stress testing, risk management, liquidity risk management and market-based triggering events that would subject a Covered Company to an escalating series of required remedial actions deemed necessary to halt the further financial decline of the company (the "**Proposed Remediation Rule**"). These remedial actions include: (i) heightened supervisory review ("**Level I Remediation**"); (ii) *restrictions* on growth, capital distributions, and business activities, and a non-public memorandum of understanding and additional restrictions on activities as determined by the Board ("**Level 2 Remediation**"); (iii) *prohibitions* on growth, capital distributions and new business activities, restrictions on the compensation of directors and senior executive officers, possible changes to the composition of directors and senior executive officers, a public memorandum of understanding and possible restrictions on transactions with its affiliates as determined by the Board ("**Level 3 Remediation**"); and (iv) a review of the Covered Company for a determination as to whether the Board should recommend that the company be resolved ("**Level 4 Remediation**").

Wells Fargo supports the overall objectives of Section 166, but we believe that the proposed rule lacks the flexibility necessary to assist a distressed Covered Company in recovering its financial health and may also inadvertently contribute to the further financial decline of the company. Because the root causes of a Covered Company's financial distress may be varied and complex, the tools necessary to remedy these weaknesses must necessarily be flexible and targeted. The Proposed Remediation Rule, however, contains triggers that impose automatic restrictions or prohibitions on growth, capital distributions and new business activities without any evaluation by the Board as to whether such requirements are appropriate to facilitate, or would in fact hinder, the company's recovery.

(a) The Board should be cautious in its application of proposed triggers that automatically impose restrictions or prohibitions on growth, capital distributions or business activities.

The rule establishes a number of quantitative capital and leverage ratios as triggers for *automatic* restrictions or prohibitions on growth, capital distributions and business activities. We believe the use of these triggers may have serious unintended consequences for Covered Companies and that the proposed use of projected ratios under stress testing exercises is inappropriate. Wells Fargo is also concerned with the proposed use of Level 2 and Level 3 risk management triggers that appear to focus on the number of noted compliance deficiencies at a Covered Company rather than an evaluation of whether such deficiencies have resulted in financial distress at the company.

(1) The Board should reevaluate the proposed use of quantitative capital and leverage thresholds as automatic triggers for Level 2 and Level 3 Remediation.

Wells Fargo recognizes that total risk-based capital, tier 1 capital and tier 1 leverage ratios serve as important indicators of the need for heightened supervisory review of a company, but we are concerned that the use of these ratios as *automatic* triggers for restrictions and prohibitions on growth, capital distributions and business activities will have unintended consequences. Specifically, investors and the market may begin to withdraw from a Covered Company whose capital and leverage ratios approach levels triggering restrictions (or prohibitions) on growth or capital distributions, which will only serve to stress further the company's operations and financial health. This abandonment of companies *perceived* by the market as vulnerable occurred during the recent financial crisis and will be exacerbated by the proposed rule.[2] If the Board continues to view capital and leverage standards as necessary automatic remedial triggers, then we urge the Board to consider making these thresholds as triggers for mandatory remedial action only for Level 3 Remediation and to extend the thresholds that are currently triggered by single quarter results to a multiple quarter requirement.

We are also concerned with the proposed use of a Covered Company's projected tier 1 common risk-based capital ratio under severely adverse stress scenarios as a remediation trigger. As proposed, if the tier 1 common ratio under a severely adverse scenario meets certain thresholds in any one quarter over the minimum nine quarter planning horizon, then the company is automatically subjected to Level 2 or Level 3 Remediation. Stress testing is designed to forecast a company's condition under a set of severely adverse scenarios, but the results do not reflect a company's current financial condition. It is therefore inappropriate to use stress tests results as a trigger for early remediation requirements. If the Board elects to continue to use stress tests as remediation triggers, then the results should only serve as a trigger for heightened supervisory review under Level 1 Remediation. A company's failure to maintain a tier 1 common ratio of 5% under planning exercises conducted pursuant to the Board's Capital Plan Rule already results in significant restrictions for the company. As a result, we believe it is inappropriate to subject a company to the broad restrictions of Level 2 or Level 3 Remediation based solely on the application of hypothetical conditions.

The Board also requested comment on the appropriate use of market-based indicators as remediation triggers. If market-based indicators are to be used at all, then Wells Fargo agrees with the Board that it is appropriate to utilize the proposed indicators only as triggers for heightened supervisory review rather than as triggers for Levels 2 through 4 Remediation. These triggers, which may be manipulated by the market or result from a temporary market-wide event, rather than company specific

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[2] We also ask that the Board carefully consider the ramifications of the public disclosure requirements addressed in the Joint Trade Letter.

factors, should not, by themselves, be used to restrict or otherwise inhibit the routine operations of a company.

(2) The nature of risk management deficiencies, rather than their number, should be considered in requiring remedial action.

The proposed rule includes triggers restricting or prohibiting growth upon a supervisory finding of "multiple deficiencies" or "substantial noncompliance" with the proposed risk management and liquidity risk management rules. We request that the Board provide greater clarity on the proposed use of these triggers. Specifically, we are concerned that use of the term "multiple deficiencies" implies that a certain number of matters identified as requiring a company's attention ("**MRAs**") during a supervisory examination will trigger a remediation requirement. In deciding whether remedial actions are necessary, we believe the Board must use its subjective judgment and consider the nature of the MRAs rather than just their number. In addition, given the consequences to companies upon the occurrence of triggers of this nature, we believe an appeals process should be incorporated into the rule.

(b) The Board should retain the discretion to apply remedial actions that are targeted to address a company's specific weaknesses.

We believe that the most effective remediation regime will be one that uses the least intrusive means necessary to facilitate a company's return to financial health and that the remedial actions it utilizes will bear a direct correlation to the weaknesses identified by the trigger. The Proposed Remediation Rule, however, lacks this tailored approach and automatically imposes a broad spectrum of remedial requirements without any analysis of whether such actions are necessary based on the facts and circumstances. For instance, restrictions on capital distributions may be appropriate in some circumstances while the imposition of growth restrictions may be counterproductive. Deficiencies in risk management or liquidity risk management requirements may have no impact on a company's actual financial health but yet could result in the company being subjected to restrictions on capital distributions or growth, which the market may interpret as a signal from the regulators that the company is in actual financial distress. It is essential that the Board retain the discretion to impose only those remedial actions that are appropriate given the company's financial condition.

We also urge the Board to re-evaluate the appropriateness of quarter-over-quarter growth restrictions, which may, in practice, be difficult for Covered Companies to manage over the required time frame due to the occurrence of unique events. For instance, a Covered Company in remediation, but that is nevertheless viewed as a source of strength to the market, may experience a surge in deposits at quarter-end that results in a violation of remediation requirements. It is not clear to us what the implications would be under the rule in the event the growth restrictions or prohibitions are violated.

(c) The rule must contain clear mechanisms governing a company's exit from the remediation regime.

The Proposed Remediation Rule should contain clear mechanisms and standards to facilitate a company's exit from remediation. With respect to quantitative triggers, standards should be established that automatically provide for a company's emergence from a remediation level after an appropriate period of time has passed during which the relevant trigger is not violated. With respect to risk management deficiencies as triggers, the rule should incorporate a requirement for prompt supervisory review upon a company's notification to its supervisors that it has addressed identified deficiencies. It will be crucial for a company that has resolved temporary weaknesses to emerge quickly from the early remediation regime and resume normal business activities and opportunities as soon as possible.

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Once again, we appreciate the opportunity to provide comments on the Proposed Rule. If you have any questions, please feel free to contact me.

Very truly yours,

Timothy J. Sloan
Senior Executive Vice President
Chief Finance Officer