August 11, 2014

Board of Governors of the Federal Reserve System
c/o Robert deV. Frierson
Secretary
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Notice of Proposed Rulemaking – Amendments to the Capital Plan and Stress Test Rules (the "Proposed Amendments")
Docket No. 1492
RIN 7100-AE 20

Ladies and Gentlemen:

Wells Fargo & Company ("Wells Fargo") appreciates the opportunity provided by the Board of Governors of the Federal Reserve System (the "Board") to comment on the Proposed Amendments, which, among other things, would limit a covered bank holding company's ("BHC") ability to make capital distributions in the event its actual capital issuances are less than amounts projected in its capital plan and would modify the starting and reporting cycles for the Board's capital plan and stress test rules. We support the Board's efforts to clarify expectations under the capital plan and stress test rules and are writing to highlight particular areas of the Proposed Amendments that we believe should be modified, clarified or merit further consideration.

Quarterly alignment of capital distributions and planned capital issuances

Under the Proposed Amendments, in the event a BHC raises capital during a quarter in an amount that is less than the quarterly amount projected in its capital plan, then the BHC would be required to either reduce the amount of its planned capital distributions or take other actions to ensure that the net dollar amount of actual capital issuances and distributions during the quarter is no less than the projected amount. The Board indicated that this amendment was necessary to address observed instances where a BHC included, but did not execute on, capital issuances in its Board-approved capital plan.

While we acknowledge the concerns the Board is attempting to address through the proposal, we believe the Board has existing supervisory powers that allow it to assess and address whether changes from planned capital actions represent potential gamesmanship in the planning exercise or demonstrate capital adequacy concerns, as opposed to instances where the change in timing of a BHC's issuances and distributions simply reflects a tactical response to market conditions. The proposal unnecessarily restricts a BHC's ability to manage its capital actions most effectively and requires a level of certainty in the forecasting process that is challenging to meet over projected quarterly-based periods. For instance, forecasting quarterly common stock issuances is particularly complicated by employee incentive compensation and deferral programs. For many BHCs, a substantial amount of common equity offerings relate to exercises of stock options and stock purchases in retirement plans. Execution is at employee discretion and often based on market price, which makes exact quarterly projections of common issuances challenging.

To allow BHCs the flexibility necessary to manage capital actions through changing market conditions and other unforeseen events, we recommend that the Board retain its current practice of evaluating a BHC's net repurchase activities over the annual capital plan period, rather than quarterly. If the Board continues to believe that additional restrictions are advisable, then we propose that the Board assess capital actions on a cumulative basis over the capital plan horizon with prior quarterly issuances in excess of, or repurchases less than, those reflected in the capital plan taken into consideration. We also recommend incorporation of a buffer for estimation deviations. Cumulative issuances could be evaluated alongside cumulative distributions at quarterly intervals where distributions would not exceed the total amount in the capital plan by more than 1 percent multiplied by the BHC's tier 1 capital. This approach would allow for minor differences in the estimation process but require that distributions decrease during subsequent quarters to bring net capital activity in line with the BHC's planned capital actions.

The proposal also covers the entire regulatory capital structure where any issuance shortfalls relative to planned issuances would reduce regulatory capital distributions beginning with securities of equal or greater capacity to sustain losses. For example, a non-issuance of preferred stock, in any given quarter, would result in a below planned issuance and trigger a reduction in common dividends given no other capital distributions take place. This reduction would occur even in circumstances where the marginal impact of the non- issuance would not change the BHC's quantitative CCAR test results (minimum risk-based and leverage capital ratios under the supervisory severely adverse scenario remain above CCAR's regulatory minimums). Non-common issuances that fall below planned issuances should not automatically restrict distributions on common equity. BHCs should be afforded maximum flexibility in responding to market conditions and determining the appropriate mix of capital instruments so long as the BHC continues to meet CCAR's minimum regulatory capital ratio requirements.

Scenario expectations

The release indicates the Board's expectation that an appropriately tailored BHC stress scenario should be expected to result in an impact to projected pre-tax net income that is at least as severe as those that result from the company-run stress test using the Board's severely adverse scenario. While we agree that the design of the BHC stress scenario should stress specific vulnerabilities of the BHC's risk profile and operations, we do not support the narrow focus on using pre-tax net income as the measure for determining whether the scenario has been appropriately designed.

There are other material potential demands on capital that should be considered when evaluating whether a scenario's severity appropriately stresses capital adequacy. For example, other comprehensive income (OCI) or the value of mortgage servicing rights (MSR) also impact capital and related ratios. A sharp and sudden spike in interest rates may place considerable stress on the investment portfolio and cause a rapid reduction in OCI, a material risk under the revised capital framework (Basel III), through increased unrealized losses on investment securities. These elevated interest rates could also slow prepayments and increase the value of MSRs and result in lower capital ratios. We also assume the pre-tax net income comparison envisioned by the Board is on a nine-quarter cumulative basis. A focus on pre-tax net income on a cumulative basis ignores the critical impact timing and "shocks" can have on capital adequacy. For instance, a rapid build-up of the loan loss allowance assumed early in the stress test timeframe may impose a greater stress on capital adequacy than the assumption of a gradual but overall greater increase in loan losses.

Adoption of a more holistic approach measuring the severity of scenarios by using minimum capital ratios that have been calculated using the same assumed capital actions across scenarios would provide a more comprehensive view of capital adequacy. Current disparities arise from CCAR instructions that both direct BHCs to assume planned capital actions under the supervisory severely adverse scenario and instruct BHCs to use capital conservation actions expected to be adopted based on each firm's unique internal policies. After accounting for these differences, more congruent comparisons of capital ratios can be made, which will provide an improved assessment of a BHC's specific vulnerabilities and capital adequacy.

The proposal also compels BHCs to wait for release of the Board's scenarios to ensure meeting the pre-tax net income requirement, which increases timing constraints on an already compressed timeline. Postponing finalization of BHC scenario design and stress testing execution will result in performing all scenario stress testing in the same limited timeframe, which places additional burden on staff and undermines governance processes. Any linkages between the BHC's and Board's stress scenarios would further tax personnel as differences in scenario assumptions and related stress test results would need to be addressed. Given these drawbacks, if the Board elects to retain a focus on the impact to pre-tax net income as the measure for determining the appropriateness of the stress scenario design, then the supervisory scenario release date should be set at least three months prior to the required filing date for stress results in order to alleviate these concerns.

Shift in Timing of Capital Plan and Stress Test Cycles

We appreciate the Board's consideration of the timing of the cycles for the capital plan and stress test exercises in light of existing financial reporting requirements and proposal to shift the cycles by one calendar quarter to January 1 beginning in 2016. As a result of this timing shift, BHCs would conduct annual company-run stress tests using data as of December 31 over a forecast horizon that includes two full annual calendar periods plus an additional quarter. The current nine quarter projection horizon is necessary to allow Board staff to assess a BHC's capital adequacy over a full two calendar year period. Under the proposed testing cycle, however, an eight quarter projection horizon provides Board staff the same two calendar year view. As a result, we believe retention of a ninth quarter in the planning horizon would no longer be necessary and recommend that the final rule provide for an eight quarter projection horizon to align the cycles to calendar years.

Timing of Disclosures

For the company-run mid-cycle stress test, the Proposed Amendments accelerate the public disclosure of the test results from the current more than seventy calendar day requirement to within fifteen calendar days of the filing of the BHC's results with the Board. Although we understand the Board's reasoning for accelerating these disclosures and also agree that the public disclosure date could be accomplished earlier than is presently required, we believe the proposed fifteen day disclosure period provides BHCs with insufficient time to prepare thorough and meaningful disclosures and may adversely impact the amount of time BHCs allocate for scenario design and testing. Rather than a fifteen day disclosure period, we propose that results be disclosed within forty-five days of the BHC's submission of its results to the Board. We believe this approach affords BHCs an appropriate amount of time to focus on the scenario design and testing while still meeting the Board's aims in accelerating the timeline for public disclosures. With respect to the BHC's disclosure of the results of its company-run annual stress test, we request that the Board clarify in the final rule that the timing for the BHC's disclosure is triggered by the Board's disclosure of the supervisory-run annual stress test results, rather than CCAR results.[1]

Notice or Approval Requirements for Certain Capital Issuances

The Proposed Amendments would remove prior notice and approval requirements in the capital plan rule for distributions involving incremental issuances of qualifying regulatory capital instruments. We support the removal of these requirements, which would allow for accelerated incremental issuances.

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Once again, we appreciate the opportunity to provide comments on the Proposed Amendments. If you have any questions, or if we may be of further assistance, please feel free to contact me directly.

Sincerely,

David T. Mason

David Mason
Head of Capital Management & Treasury Finance
Wells Fargo & Company

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[1] We note that the cross-reference to Section 252.46(c) in the proposed disclosure requirement in Section 252.58(a)(1) may be intended as a reference to Section 252.46(b).