WELLS FARGO

April 2, 2015

Robert deV. Frierson, Esq.
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies *(Docket No. R-1505; RIN 7100 AE-16)*

Mr. Frierson:

On behalf of Wells Fargo & Company ("Wells Fargo" or "we"), we appreciate the opportunity provided by the Board of Governors of the Federal Reserve System (the "Federal Reserve") to comment on the notice of proposed rulemaking (the "Proposal"), which would implement additional capital requirements for global systemically important banks ("GSIBs"). Wells Fargo is supportive of the Federal Reserve's goal of maintaining risk-based capital guidelines that enhance the stability of the global financial system.

We have worked closely with several trade organizations in reviewing the Proposal, including The Clearing House Association L.L.C., the Securities Industry and Financial Markets Association and The Financial Services Roundtable (collectively, the "Associations"). Although we are writing to highlight several areas of particular concern to us, Wells Fargo supports the comment letter filed by the Associations.

I. Proposal Lacks Transparency

We believe additional transparency should be provided and public comment sought around several assumptions and conclusions contained in the proposal including:

A. While the proposal is clear in its intent to measure the risk any single U.S. bank poses to the stability of the U.S. financial system, the proposal does not explain how calculating the percentage a U.S. bank represents of the aggregate global value of certain indicators accomplishes that intent and what other calculation approaches and indicators were considered to measure the systemic risk to the U.S. financial system. For instance, in an alternative measurement of systemic risk developed by a group of finance academics, including Nobel Laureate Rob Engle, several U.S. banks not designated as GSIBs under the proposed calculation method indicate a higher level of systemic risk than Wells Fargo[1].

[1] "Capital Shortfall: A New Approach to Ranking and Regulating Systemic Risks", Viral Archarya, Robert Engle, Matthew Richardson, American Economic Review Papers and Proceedings, January 2012. See http://vlab.stern.nyu.edu/analysis/RISK.USFIN-MR.MESSIM for Systemic Risk Rankings as of 12/31/2014

B. Similarly, the proposal provides little clarity on the methods and analysis used to calibrate the buffer requirements. For instance, the proposal references the use of studies performed by the Basel Committee on Banking Supervision (BCBS), but offers no guidance on how these studies were adjusted to measure the historical performance of only U.S. banks with more than $50 billion in assets instead of the performance of banks from multiple jurisdictions (both U.S. and non-U.S.). Additionally, the proposal does not explain how these studies were adjusted to reflect the reduced probability of default already achieved through the significant enhancements in prudential standards that have been introduced after the BCBS studies were completed, including the liquidity coverage ratio (LCR), the supplementary leverage ratio (SLR), the Volker Rule, enhanced liquidity monitoring (CLAR), the forthcoming net stable funding ratio (NSFR), total loss absorbing capital (TLAC), Counterparty Credit limits, as well as enhancements in capital stress testing (CCAR/ DFAST) and the implementation of certain enhanced prudential standards required to be established under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

C. The proposal does not discuss why or what analysis was performed to determine that the substitutability indicator specifically should be replaced with the short-term wholesale funding indicator as opposed to any of the other indicators, such as size.

II. <u>If BCBS Methodologies Remain, Modifications Should be Considered</u>

To the extent international studies and methodologies used by the BCBS remain the underlying foundation to determine the risk posed by U.S. banks to the U.S. financial system as suggested in the proposal, we recommend the following modifications be considered:

A. One of the key principles of an effective risk-based capital buffer calculation should be that the actions that individual GSIBs take in reaction to the factors that are part of the calculation should have an impact on that GSIB's score. Due to the relative nature of the proposal's methodology, particularly as it relates to its reliance on global market share, it does not provide GSIBs a meaningful ability to manage and mitigate the risks that drive the calculation of the surcharge. Therefore, the global relative-ranking of each indicator should be replaced with an empirically supported absolute dollar amount or fixed conversion factor, as is proposed for the short-term wholesale funding indicator.

B. We believe that the size indicator is effectively weighted by more than 20% in Method 1 and Method 2 of the GSIB calculation since many of the metrics used to measure the other indicators are also strongly correlated to or a function of a bank's size. To compensate for this undue influence of size on the overall calculation, the weighting applied to the size indicator should be reduced from 20% or, as is currently proposed for the substitutability indicator solely, capping the maximum score of the other non-size indicators.

C. The proposal suggests the exchange rate of U.S. dollars to Euros to be used within the calculation methods will be the same as that used by the BCBS in its GSIB buffer calculations. The exchange rate used by BCBS is a single day exchange rate (i.e., the exchange rate experienced on the last day of each year). To avoid the extreme volatility that could arise with such an approach, we recommend the exchange rate used in Method 1 and Method 2 instead be a rolling 5-year average of exchange rates.

III. Comments Concerning the Short-Term Wholesale Funding Factor

To recognize their high degree of liquidity stability, we believe the calculation of the short-term wholesale funding amount should be revised to exclude affiliate brokered sweep deposits that are fully insured by the FDIC. Similarly, we believe affiliate brokered sweep deposits that are partially insured and non-affiliate brokered deposits that are fully insured should receive a lower weighting applied against them than uninsured brokered deposits.

IV. Comments Concerning the Relationship with CCAR/DFAST

Though not specifically part of the proposal, we would like to express our opinion that the GSIB surcharge should not be treated as an add-on minimum requirement to be maintained in order to "pass" stress tests done for DFAST and CCAR purposes. To do so would convey to market participants that the buffer is not available to absorb losses and, therefore, diminish the effectiveness of the buffer's intent – to reduce a GSIB's probability of default. Rather, such DFAST and CCAR stress tests should recognize the existence of the GSIB buffer (and the entirety of the capital conservation buffer) by incorporating into the stress test pro formas the tiered distribution limitations required upon reaching different capital ratios.

We appreciate your consideration of our comments. We will gladly make ourselves available for any further consultations and/or questions you may have.

Sincerely Yours,

Paul R. Ackerman
Executive Vice President and Treasurer
Wells Fargo & Company