

July 21, 2023

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20549
Attn: James P. Sheesley
Assistant Executive Secretary, Federal Deposit Insurance Corporation

Re: Notice of Proposed Rulemaking on Special Assessments Pursuant to Systemic Risk Determination. RIN 3064-AF93

Ladies and Gentlemen:

Wells Fargo & Company (“Wells Fargo,” “we,” “our,” or “us”)¹ appreciates the opportunity to comment on the Federal Deposit Insurance Corporation’s (“FDIC”) proposal to recover the losses arising from protection of uninsured depositors in connection with the Systemic Risk Exception (“SRE”) made on March 12, 2023 (the “Proposal”).² We support the actions taken by the FDIC and other regulators to maintain confidence in the nation’s banking system and acknowledge the FDIC’s need to recover the losses associated with the recent bank failures.

As an active participant in discussions at industry trade associations regarding the Proposal, we generally support the views expressed in the Financial Services Forum and Bank Policy Institute comment letters. In addition, we recommend the following changes that are consistent with the principles underlying the Proposal: First, we believe that the methodology used to allocate the costs of the Systemic Risk Exception (“SRE”) should be an accurate reflection of an insured depository institution’s (“IDI”) uninsured deposits as of December 31, 2022. Second, the FDIC should provide sufficient information to enable an IDI to make U.S. GAAP compliant probable and reasonably

¹ Wells Fargo & Company (NYSE: WFC) is a leading financial services company that has approximately \$1.9 trillion in assets, proudly serves one in three U.S. households and more than 10% of small businesses in the U.S., and is a leading middle market banking provider in the U.S. We provide a diversified set of banking, investment and mortgage products and services, as well as consumer and commercial finance, through our four reportable operating segments: Consumer Banking and Lending, Commercial Banking, Corporate and Investment Banking, and Wealth & Investment Management. Wells Fargo ranked No. 41 on Fortune’s 2022 rankings of America’s largest corporations. In the communities we serve, the company focuses its social impact on building a sustainable, inclusive future for all by supporting housing affordability, small business growth, financial health, and a low-carbon economy.

² FDIC, Special Assessments Pursuant to Systemic Risk Determination, 88 Fed. Reg. 32694 (May 22, 2023).

estimable measurements of its share of the losses throughout the payment period. These recommendations are discussed further below.

Measuring estimated uninsured deposits using gross reporting would penalize intercompany deposits placed with the IDI

We support the FDIC's objective to use a transparent and consistent approach³ to estimating uninsured deposits. And we understand the FDIC's decision to allocate the special assessment to IDIs with large amounts of uninsured deposits because those IDIs were "most exposed to and likely would have been the most affected by uninsured deposit runs."⁴ However, including deposits of consolidated subsidiaries overstates uninsured deposits used to determine the special assessment.

The Proposal uses Call Report data to calculate an IDI's share of the special assessment. Specifically, the assessment base is estimated uninsured deposits reported on Memoranda Item 2 on Schedule RC-O of the Call Report, adjusted to exclude \$5 billion of uninsured deposits. The instructions to the Call Report for this line item specifically instruct IDIs to include deposits of consolidated subsidiaries⁵.

By including consolidated subsidiary deposits in the assessment base, the Proposal overstates the deposits used to determine the special assessment. This results in a double counting of deposits. An IDI's investment in a subsidiary is generally funded using the IDI's overall mix of funding sources, including uninsured third-party deposits. These deposits count once when recognizing the external deposits and again when recording the intercompany cash that is reported as a deposit by the IDI from its subsidiary. U.S. GAAP and other deposit-reporting on the Call Report correct for this double counting under consolidation rules (i.e., a subsidiary's deposit asset and IDI's deposit liability are eliminated at the parent IDI level). After consolidation, the IDI balance sheet is left with the single external deposit amount.

Wells Fargo believes slight modifications should be made to the proposed special assessment base definition to avoid unintended consequences. In this regard, the legislative history of the SRE framework is instructive. Congress adopted the SRE framework in 1991 to address, among other concerns, the fact that the approach taken in some receiverships of protecting uninsured depositors would increase costs to the deposit insurance fund and, ultimately, taxpayers.⁶ Congress posited that uninsured depositors would be more likely to exercise market discipline (e.g., by evaluating and more closely monitoring the condition of their bank), given the likelihood that they could lose some or all of their funds in receivership. This is not the case for deposits placed with the IDI by its consolidated subsidiaries consistent with the IDI's liquidity and balance sheet management process. Deposits of consolidated subsidiaries are not likely to run as the IDI itself ultimately controls the deposits. Moreover, including such deposits in the assessment base may incentivize IDI's to place subsidiary-deposit funds with third-party institutions, which would create more systemic risk and be inconsistent with prudent liquidity and funding management. Given that the stability of subsidiary deposits did not

³ FDIC: Speeches, Statements & Testimonies - 05/11/2023 - Statement by Chairman Martin J. Gruenberg on the Notice of Proposed Rulemaking on Special Assessment Pursuant to Systemic Risk Determination. <https://www.fdic.gov/news/press-releases/2023/pr23037.html>.

⁴ 88 Fed. Reg. at 32697.

⁵ "Report on an unconsolidated single FDIC certificate number basis the estimated amount of the bank's deposits (in domestic offices and in insured branches in Puerto Rico and U.S. territories and possessions) that is not covered by federal deposit insurance...the estimate of uninsured deposits should take into account all other items included in Schedule RC-O, item 1 less item 2, including, but not limited to:...Deposits of consolidated subsidiaries in domestic offices and in insured branches in Puerto Rico and U.S. territories and possessions (including interest accrued and unpaid on these deposits)." FDIC, FFIEC 031-FFIEC 041 Consolidated Reports of Condition and Income Instruction Book (Most Recent Update March 31, 2023), Schedule RC-O – Other Data for Deposit Insurance Assessments (As of December 2021), Memoranda Item 2.

<https://www.fdic.gov/resources/bankers/call-reports/crinst-031-041/2021/2021-12-rc-o.pdf>.

⁶ S. Rep. 102-167 (1991) at 43-45.

benefit from the SRE, and including them may be counter-productive to systemic stability, it is appropriate to exclude them from the assessment base.

Consistent with its objectives for a transparent and consistent approach, the FDIC should use three lines from the Call Report to eliminate deposits of consolidated subsidiaries. Specifically, the FDIC could calculate deposits of consolidated subsidiaries by taking Deposit Liabilities before Exclusions (RC-O Line 1) less Total Allowable Exclusions (RC-O Line 3) for foreign deposits and less Deposits in Domestic Offices (RC Line 13a)⁷. IDIs would take gross estimated uninsured deposits as proposed and subtract estimated deposits of consolidated subsidiaries to arrive at uninsured deposits for the assessment base.

We believe this alternative approach would result in a more accurate calculation of uninsured deposits that benefited from the SRE. It would also be consistent with U.S. GAAP, Schedule RC of the Call Report, and the regular assessment process.

The FDIC should update loss information to enable accurate accounting

The FDIC interprets U.S. GAAP Accounting Standards Codification (ASC) Topic 450, Contingencies (Topic 450) to require full recognition of each bank's respective share of estimated losses as an expense in a single period, presumably upon finalization of the Proposal, when the impact is probable and reasonably estimable⁸. We would like to underscore the GAAP requirement that the measurement of expected losses is reasonably estimable at the time of finalization and note that the estimated losses associated with the recent bank failures have changed materially between March and May.⁹ The final loss amount will not be known until the FDIC terminates the receiverships, which may occur years after the assessment period¹⁰.

In order to enable banks to update accounting estimates consistent with U.S. GAAP, we request that the FDIC produce timely updates, even if on a lag basis, of estimated total losses and collections to-date.

Conclusion

Wells Fargo appreciates the Proposal's approach to recover the losses associated with the SRE in a clear and consistent manner. The Proposal should be refined to accurately reflect uninsured deposits and allow IDIs to periodically update loss information related to the special assessments. If you have any questions regarding the above, please contact Tim Becker, Wells Fargo Public Policy, at timothy.a.becker@wellsfargo.com.

Sincerely,



Muneera Carr
Chief Accounting Officer
Wells Fargo & Company

⁷ FDIC, FFIEC 031-FFIEC 041 Consolidated Reports of Condition and Income Instruction Book (Most Recent Update March 31, 2023), Schedule RC -Balance Sheet (As of December 2022). <https://www.fdic.gov/resources/bankers/call-reports/crinstr-031-041/2022/2022-12-rc.pdf>.

⁸ 88 Fed. Reg. at 32701 – (Item III.L. Accounting Treatment).

⁹ 88 Fed. Reg. at 32696 (Item B). The original cost estimate of \$20.0 billion was revised down to approximately \$16.1 billion at the time the Proposal was issued.

¹⁰ 88 Fed. Reg. at 32699-32700 (Item F, Extended Special Assessment Period).