



**Richard D. Levy**  
Executive Vice President & Controller

MAC A0163-039  
343 Sansome Street, 3rd Floor  
San Francisco, CA 94104  
415 222-3119  
415 975-6871 Fax  
richard.d.levy@wellsfargo.com

November 18, 2010

Via email

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

**Re: FASB Roundtable Meeting on International Accounting Standards Board Staff Draft “IFRS X Consolidated Financial Statements”**

Dear Sir:

Wells Fargo & Company (Wells Fargo) is a \$1.2 trillion diversified financial services company providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage and consumer finance. We appreciate the opportunity to comment on the International Accounting Standards Board Staff Draft “IFRS X *Consolidated Financial Statements*” (the “Staff Draft”).

Wells Fargo supports the efforts of the FASB and IASB to develop a single comprehensive consolidation framework. We also support a consolidation framework with a single concept of control and believe such a framework will provide more relevant information to financial statement users. Our conceptual and operational concerns with the Staff Draft are expressed in our responses to the questionnaire in the attached Appendix.

\*\*\*\*\*

We appreciate the opportunity to comment on the issues contained in the FASB’s invitation. If you have any questions, please contact me at (415) 222-3119.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy  
Executive Vice President & Controller

cc: Trevor Farber – Financial Accounting Standards Board

## APPENDIX

- 1. The Staff Draft provides a single concept of control that is used to evaluate control on a consistent basis for all types of entities (both voting interest entities and variable interest entities). Do you agree that a single-model approach to assess control will provide more consistent financial reporting for all types of entities rather than providing separate models for voting interest entities and variable interest entities? If not, why not?**

### Wells Fargo Response:

Yes, we support a single concept of control that is used on a consistent basis for all types of entities. The multiple models that currently exist under U.S. GAAP complicate preparers' consolidation analysis and are operationally burdensome due to the continuous assessment requirements. A single concept of control coupled with a clear framework and appropriate interpretive guidance should allow for consistent interpretations while also resulting in more consistent and transparent financial reporting for all entities. We believe that applying a single model and disclosure framework to all entities should result in more meaningful disclosure and more relevant reporting for financial statement users.

- 2. The Staff Draft does not incorporate the U.S. GAAP concept of a variable interest entity or a structured entity. Rather, the Staff Draft provides that the way in which control is assessed will vary depending on how the activities that significantly affect the entities' returns are directed. For example, how control is assessed will depend on whether the decisions that significantly affect the returns of an entity are made through voting rights. Without an explicit definition of a variable interest entity, do you believe that (ignoring the differences when analyzing decision making relationships and the effect related party arrangements have on the analysis) the Staff Draft will produce the same consolidation conclusions as the recently issued U.S. GAAP guidance for consolidating variable interest entities (FASB Accounting Standards Codification™ Subtopic 810-10, Consolidation)? If not, what are the situations that produce a different conclusion and why? Do you think it is sufficiently clear how to assess power and control for all types of entities in the Staff Draft?**

### Wells Fargo Response:

We believe the conclusions may differ when applying the guidance within the Staff Draft versus the U.S. GAAP guidance in ASC 810-10. Although the Boards have stated they would expect similar conclusions and the concepts in the Staff Draft and ASC 810-10 appear consistent, the guidance within the Staff Draft is ambiguous, both in terms of the specific language and application of the framework. For example, based upon the guidance in paragraph B68, it is unclear whether a reporting entity is required to consider its exposure to the variability of the entity or maximum absolute exposure to the entity. Additionally, the Staff Draft introduces a weighting concept, but guidance on how and when certain factors included should be weighted more heavily than others is not provided. The model therefore requires significant judgment and increases the risk of inconsistent interpretations and restatement for preparers.

Technical Director  
November 18, 2010  
Page 3

We believe there may be differences in interpretation between the Staff Draft and ASC 810-10 for entities without any or significant on-going activities (e.g. re-securitizations). In paragraph B48, the Staff Draft is consistent with ASC 810-10-25-38F in stating involvement in the design may indicate an entity had the ability and incentive to establish arrangements providing it with power, but is not determinative of power. However, the language in paragraph B59 appears inconsistent as it suggests that involvement in the design may be determinative of control. Also, depending upon how entities apply the weighting guidance within the Staff Draft, conclusions may differ from those under ASC 810-10. Furthermore, we believe there are entities for which no power exists. If an entity has no significant on-going decisions and the decisions made in the formation of the entity are not significant to the entity's performance or multiple parties participated in the formation of the entity, no reporting entity may have power. We also fail to understand how requiring a reporting entity to consolidate such an entity provides better financial reporting.

The principal/agent analysis in the Staff Draft differs from ASC 810 and was interpreted to be a significant component of the consolidation analysis under current U.S. GAAP. Because the analysis of decision maker fees is integral to the analysis of the power and benefits criteria within ASC 810 for many types of entities, we would expect differences may exist for entities whose current consolidation conclusion is primarily based on the analysis of decision maker fees, including most securitization entities.

- 3. The Staff Draft proposes that in order to control an entity, the reporting entity must have the power to direct the activities of that entity. Power is defined as having existing rights that give the reporting entity the current ability to direct the activities that significantly affect the entity's returns. Do you agree with the control principle as articulated in the Staff Draft? Do you agree that there are situations when a reporting entity can have control of an entity controlled through voting rights with less than a majority of voting rights? Why or why not?**

Wells Fargo Response:

We agree with the control principle, the definition of power and the requirement for an entity to have the current ability to direct the activities of the entity in order to have control. Absent a contractual or non-contractual arrangement that provides a reporting entity holding less than a majority of voting rights with control, we do not believe it is consistent with the principle to require that reporting entity to consolidate the investee entity. While a reporting entity holding voting interests representing less than a majority clearly has significant influence over the entity, we do not believe this level of interest represents effective control because it requires the reporting entity holding less than a majority of voting rights to rely on the expected behavior of independent third parties. The dominant shareholders actions, in isolation, cannot control the entity; thus hinging the consolidation conclusion on the action or inaction of others, which we believe is inappropriate. Furthermore, past voting behavior may not be indicative of future behavior due to changes in economic or industry conditions and therefore should not be the basis for consolidation. We question how the guidance would be applied if a reporting entity's assumptions about third party behavior were later determined to be incorrect. We also question why the equity method of accounting is not a more appropriate accounting model as it is a better reflection of the reporting entity's economic interest in the entity.

Beyond our conceptual disagreement, we also believe this requirement would introduce a significant amount of operational complexity into the assessment of control. A reporting entity may not have access to the information necessary to complete the assessment required by the Staff Draft or it may be unduly burdensome to gather such information on a recurring and timely basis, particularly for entity's whose equity holders are widely dispersed. Disparity in practice would likely emerge due to the operational complexity, level of judgment required and inconsistency with the overall principle. As such, absent other indications of control, we do not support a consolidation model that requires consolidation for reporting entities with less than a majority of the voting rights.

- 4. The Staff Draft states that if the activities that significantly affect an entity's returns are directed through voting rights, a reporting entity holding less than a majority of the voting rights (assuming no potential voting rights or other contractual rights exists) has power when it can unilaterally direct the activities of the entity that significantly affect the entity's returns. This assessment requires judgment. The Staff Draft provides application guidance to determine when a reporting entity holding less than a majority of the voting rights in an entity controlled through voting rights has power. Specifically, the Staff Draft provides that, in some cases, a determination can be made about whether a reporting entity has power by just considering the absolute size of the reporting entity's holding of voting rights, the size of its voting rights relative to the size and dispersion of holdings of the other vote holders, the voting patterns at previous shareholders' meetings, and other arrangements. Do you believe that there are circumstances when, considering only these factors, an assessment could be made about whether a reporting entity has power? Why or why not?**

Wells Fargo Response:

No, we do not believe the guidance provided is operational. The ability to assess power under the proposal is predicated on the reporting entity's ability to accurately predict the outcome of voting decisions and in many cases it will not be possible or practical to gather, assess and monitor the information required to make such an assessment. In certain cases voting statistics or other information regarding the shareholder composition of an investee either will not be readily accessible by the reporting entity or may not even exist. When an investee is closely held, the reporting entity may have access to investor information, but this may not be the case in all circumstances or in entities with a wide group of investors. Even in a closely held entity, we believe contractual arrangements must exist that provide the dominant shareholder with effective control over the entity in order for the dominant shareholder to have control. In addition to the operational burden of gathering the necessary information, past voting patterns may not be predictive of future outcomes, and should not form the basis for conclusions regarding control. The Staff Draft does not set a clear threshold for applying the framework and because the concept contradicts the principle, we expect reporting entities will have difficulty applying the guidance consistently.

- 5. In other circumstances the Staff Draft provides that additional evidence may be needed in order to conclude that a reporting entity holding less than a majority of the voting rights in an entity controlled through voting rights has power. The Staff Draft includes indicators that may provide additional evidence in these circumstances to assist in determining whether the reporting entity has power. Do you believe that these indicators provide sufficient guidance to conclude that a reporting entity has power in situations where it is unclear as to whether a reporting entity has power solely based on the absolute size of the reporting entity's holding of voting rights, the size of its voting rights relative to the size and dispersion of holdings of the other vote holders, the voting patterns at previous shareholders' meetings, and other arrangements? If not, what additional indicators should be included or which of these indicators should be removed?**

Wells Fargo Response:

No, we do not believe additional indicators will provide the necessary information to determine whether an entity has power. In principle, we do not agree that it is possible for an entity holding less than a majority of voting rights to have control, absent another contractual or non-contractual arrangement giving the reporting entity control. See responses to questions 3 and 4 above.

- 6. The Staff Draft requires a reporting entity to consider its rights to obtain additional voting rights of another entity, as well as such potential voting rights (options or convertibles, for example) held by other parties, to determine whether the reporting entity has power. Do you believe the guidance in the Staff Draft is appropriate and operational? Specifically, do you believe that the guidance for determining when potential voting rights are considered substantive is operational? If not, what additional guidance would you suggest?**

Wells Fargo Response:

We believe including potential voting rights for entities controlled through voting rights is theoretically consistent with the control principle included in the Staff Draft. However we question whether this guidance will be operational for all types of entities. For closely held entities, instruments that provide potential power are more easily assessed than for widely held entities. Requiring the reporting entity to consider the design and purpose of the entity when considering potential voting rights may alleviate the operational burden associated with considering potential power. If potential voting rights were a critical component of the design and purpose of the entity, it is more likely those rights are indicative of control. In contrast, if an entity's interests are widely held and financial instruments containing potential voting rights are commonly transferred; potential rights are less likely to be indicative of control.

In order to accurately consider potential voting rights, a reporting entity would be required to consider both the potential voting rights it holds as well as the potential voting rights held by third parties. We do not believe it will be practical for us to determine the shareholder composition of an investee entity at each reporting period including all potential voting interests held by third parties. The reporting entity may not have access to the information necessary to complete an assessment of this nature. If potential power is coupled with the requirement to assess consolidation when holding less than a majority of voting interests, this assessment may become nearly impossible and could

Technical Director  
November 18, 2010  
Page 6

result in a change in the consolidation conclusion without the reporting entity having changed its interests.

- 7. When determining whether a reporting entity acts as an agent, the reporting entity must consider the overall relationship between it and other parties involved with the entity, considering the following factors:**
- a. The scope of its decision-making authority over the entity;**
  - b. The rights held by other parties**
  - c. The remuneration the reporting entity is entitled to in the arrangement**
  - d. The reporting entity's exposure to variability in returns as a result of other interests that it holds in the entity.**

**Do you believe the guidance related to assessing decision-making arrangements in the Staff Draft is appropriate and operational? Do you believe the Staff Draft would lead to appropriate consolidation conclusions?**

Wells Fargo Response:

Yes, we believe the guidance provides a more appropriate framework for assessing principal/agent relationships than current GAAP. The framework provides a broad set of factors to consider regarding the overall relationship between the reporting entity and the investee with the fee or remuneration analysis representing a sub-component of the overall analysis. This is more consistent with how we believe transactions should be assessed as it is more holistic and logical than the current requirements under ASC 810. The most significant differences we noted in assessing principal /agent relationships between the Staff Draft and ASC 810 are whether the consideration of kick-out rights, seniority of decision maker fees and whether the fee arrangement aligns the interests of the decision maker and other investors. When considered in the aggregate, we believe these differences may result in different conclusions than were produced under ASC 810 and believe the guidance included in the Staff Draft is more appropriate. Compensation arrangements can be configured in many different ways and are often subject to investor influence. The requirement for fees to be senior in priority may not be indicative of whether a decision-maker is acting as an agent; however, whether the overall fee relationship aligns the incentives of a decision-maker with those of investors leads to more logical principal/agent conclusions. As a result, we believe the alignment of interests should be a primary factor in the principal/agent assessment.

The Staff Draft does not clearly articulate how a reporting entity should consider its exposure to the entity; specifically, whether the reporting entity is required to consider its exposure to variability, absolute exposure or both. If the reporting entity is required to consider both variability and absolute exposure, the Staff Draft should further clarify how the characteristics should be weighted relative to one another.

While we are supportive of the principles included within the Staff Draft, we do not believe the guidance is sufficiently clear to result in consistent application in practice. The principal/agent analysis requires significant management judgment and due to the lack of clarity, reasonable assessments by different parties may yield different conclusions. We believe clarification of how a

reporting entity should apply the weighting concept and specifically how an entity should weight the importance of its economics, considering both magnitude and variability, should be provided through additional application examples.

- 8. When evaluating a decision-maker's role, rights held by other parties are considered when determining whether a decision-maker is an agent. Specifically, situations in which a single party holds substantive removal rights and can remove the decision-maker without cause, in isolation, would be sufficient to conclude that the decision-maker is an agent. However, if numerous parties hold such rights, those rights would not, in isolation, be conclusive in determining whether a decision-maker is an agent. In such a situation, those rights would be considered together with the other factors included in question 7 above, to determine whether the decision-maker is an agent. Do you believe that removal rights held by numerous parties should be a factor when evaluating whether a decision-maker is an agent? If so, do you agree that it should be one factor but not in and of itself determinative, when evaluating whether a decision-maker is an agent?**

Wells Fargo Response:

Yes, we believe a substantive right to remove a decision-maker without cause held by a single party, in isolation, results in that party having control. If a single party holds such rights, the decision maker is clearly acting as an agent on behalf of the party holding the removal rights regardless of the level of interest the decision maker holds in the entity. If multiple parties hold substantive removal rights, but those parties must agree either unanimously or by a percentage vote to remove the decision maker, those removal rights should be considered and may be determinative in the assessment of control. Whether these rights are determinative should be based upon on the entity's design, voting mechanics and dispersion of equity interests. Also, removal rights held by multiple parties should be considered in the evaluation of whether a decision-maker is an agent, particularly when the decision-maker does not have economic interests in the entity outside of its decision-maker remuneration. Lastly, proposed guidance should address the role of Boards, who are responsible for acting on the behalf of a group of equity holders. Further guidance on weighting these considerations is necessary.

- 9. The Staff Draft requires a reporting entity to reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Do you believe this principle, and the related guidance in the Staff Draft, is sufficiently clear and operational?**

Wells Fargo Response:

Yes, we agree with the principle and believe it is sufficiently clear and believe the reassessment should only be triggered by a change in one of the three control principles. As noted earlier, we do not believe this requirement will be operational if the requirements regarding the assessment for entities holding less than a majority of voting rights and potential voting rights are retained as currently drafted. We do not believe a specific list of items is necessary for a reporting entity to determine when changes in facts and circumstances warrant a reconsideration of control.