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April 29, 2013

Via email

Leslie F. Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. EITF-13A: Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815), Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*

Dear Ms. Seidman:

Wells Fargo & Company (Wells Fargo) is a diversified financial services company with over \$1.4 trillion in assets providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, and consumer finance services. We appreciate the opportunity to comment on the Board's exposure draft on the expansion of the benchmark interest rate, Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815), Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*.

Executive Summary

Wells Fargo supports the proposed expansion of permissible benchmark rates to include the Fed Funds Effective Swap Rate ("Fed Funds"). However, we recommend that the Board permit the simultaneous use of multiple benchmark rates for similar hedge relationships and provide principles for identification of new benchmark rates rather than specifying specific indices. This will provide a practical application of the proposal, facilitate convergence of the hedge accounting model and prevent the need to revisit and adapt outstanding guidance in response to changes in market and risk management practices. Additionally, we encourage the Board to address other hedge accounting enhancements, such as the expansion of eligible risk components and re-evaluating hedge effectiveness criteria in advance of a longer term hedge project. These enhancements have received significant support from stakeholders through previous outreach efforts of the Board and we believe they can be implemented relatively quickly and easily. Our specific comments on the proposed guidance are expressed more fully below.

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Specific Comments on the Proposed Guidance

We have the following comments on the proposed guidance:

- **The definition of the benchmark interest rate should be more flexible:** Existing guidance allows only the designation of LIBOR or U.S. Treasury rates as the benchmark interest rate in an interest rate risk hedge. While the inclusion of Fed Funds as an acceptable benchmark rate is permitted within this proposal, we encourage the Board to develop a principles based approach to more easily identify additional indices that may be designated as a benchmark interest rate. Market participants manage interest rate exposures that are based on interest rate indices other than LIBOR, Fed Funds, or U.S. Treasury rates. For example, financial institutions commonly have significant exposure to interest rates based on the prime rate index or the SIFMA Municipal Swap Index¹. For strategies designed to hedge other common interest rate indices, companies either do not qualify for hedge accounting or are forced to recognize ineffectiveness in earnings that is not consistent with the economics or risk management objective. In most instruments, the contractual interest rate can be transparently decomposed into an underlying benchmark rate and a credit spread component, which allows for a clearly identifiable and measurable hedged interest rate risk. A more principles based approach for identifying a benchmark interest rate will better reflect the economics of these hedging strategies and achieve a greater degree of convergence with the international accounting model².
- **The use of multiple benchmark interest rates for similar hedging strategies should be permitted:** While the proposed guidance permits the incremental use of Fed Funds as an acceptable benchmark interest rate for new hedge relationships, existing guidance³ permits the use of only one benchmark rate for similar hedging relationships across an organization. As a result, the use of both Fed Funds and LIBOR as benchmark interest rates for similar hedge relationships may not be permitted. We are troubled by this potential outcome as organizations typically manage multiple interest rate exposures simultaneously for similar financial instruments. For example, a banking organization may issue two separate fixed rate debt instruments and use the proceeds from each issuance to fund LIBOR based assets and Fed Funds based assets, respectively. To properly hedge the resulting interest rate risk, the bank may enter into two separate fixed-for-floating (LIBOR and Fed Funds) rate interest rate swaps. If the banking organization designates the fixed rate debt instruments as hedged items in respective hedging relationships, it would be necessary to designate LIBOR as the benchmark interest rate for the debt issuance funding LIBOR based assets and Fed Funds as the benchmark interest rate for the debt issuance funding Fed Funds based assets. Therefore, it is imperative that organizations have the ability to designate multiple benchmark interest rates for similar hedging relationships and we strongly encourage the Board amend the existing guidance to expressly permit the use of multiple benchmark interest rates for similar hedging strategies.

Other Enhancements for Consideration in Advance of a Long-Term Hedge Project

We believe the following enhancements are also worthy of accelerated consideration by the Board in advance of a longer term hedge project:

- **The population of eligible risk components should be expanded:** Existing guidance limits eligible risk components of a financial instrument to include only foreign currency risk, credit risk, and the benchmark interest rate risk. Additionally, current guidance only permits the designation of the entire change in fair value of nonfinancial assets designated as the hedged risk⁴. The limited population of eligible risk

¹ Formerly The Bond Market Association/PSA Municipal Swap Index

² IAS 39, Financial Instruments: Recognition and measurement, paragraph 81

³ ASC 815-20-25-6 states that “ordinarily, an entity shall designate the same benchmark interest rate as the risk being hedged for similar hedges” and “the use of difference benchmark interest rates for similar hedges shall be rare and shall be justified”.

⁴ ASC 815-20-25-12e states that if the hedged item is a nonfinancial asset or liability, the only eligible designated risk being hedged is the risk of changes in fair value of the entire hedged assets or liability.

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components may create accounting mismatches that undermine risk management strategies. The measurement of hedge ineffectiveness for fixed rate foreign denominated debt instruments designated in a fair value hedge of both interest rate and foreign currency risk is a common hedging strategy that is adversely impacted by this limitation. Under existing guidance, the change in fair value of the hedging instrument, for example a cross-currency interest rate swap, is measured inclusive of forward interest rates and any foreign exchange rate basis differences. However, the change in fair value of the hedged item due to changes in the benchmark interest rate and foreign currency exchange rate is measured at the spot exchange rate and excludes foreign exchange basis differences. As a result, this measurement mismatch creates artificial ineffectiveness even though the hedge relationship is economically perfectly hedged. In contrast, we do not believe this issue is as prevalent under IFRS. Both current international accounting guidance⁵ and the recently proposed IASB hedge accounting model⁶ are more flexible than U.S. GAAP as a hedging relationship may reference any eligible risk component that is separately identifiable and reliably measurable. As a result, we believe a broader range of eligible risk components will be permissible under IFRS compared to U.S. GAAP. We encourage the Board to expand the definition of eligible risk components to more closely align with the IASB definition. Such a change will better align hedge accounting with risk management objectives, and eliminate artificial accounting mismatches.

- Certain recommendations in the May 2010 proposal⁷ should be implemented immediately: We support the prior recommendations of the Board to apply a qualitative approach to the assessment of hedge effectiveness and reduce the hedge effectiveness threshold from “highly effective” to “reasonably effective”. These proposed improvements were favorably received by respondents and market participants, can be implemented quickly with minimal disruption, will reduce complexity and enable organizations to more consistently apply hedge accounting from period to period. While we acknowledge the desire of the Board to defer any improvements to the existing hedge accounting framework until the completion of the current credit impairment and classification and measurement projects, these improvements should not require significant deliberation and would likely comprise the foundational principles of any future replacement of the hedge accounting framework. We strongly encourage the Board to pursue these improvements now rather than as part of a longer term project.

Conclusion

While we support the expansion of the definition of the benchmark interest rates to include Fed Funds, we encourage the Board to consider our recommendations to improve the proposed guidance as well as our suggested enhancements to the overall hedge accounting framework.

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We appreciate the opportunity to comment on the proposed guidance. If you have any questions, please contact me at 415-222-3119.

Sincerely,

/s/ Richard D. Levy

⁵IAS 39, Financial Instruments: Recognition and measurement, paragraph 81

⁶ Draft of general hedge accounting requirements issued September 12, 2012, IFRS 9, Chapter 6 Hedge Accounting

⁷ May 2010 proposed FASB accounting standards update, “Accounting for Financial Instruments and Revisions to the Accounting for Instruments and Hedging Activities”

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cc: Kathy Murphy – Office of the Comptroller of the Currency
Stephen Merriett – Federal Reserve Board
Robert Storch – Federal Deposit Insurance Corporation
Donna Fisher – American Bankers Association
David Wagner – The Clearing House