



Richard D. Levy
Executive Vice President & Controller

2016-340
Comment Letter No. 28
MAC D1053-409
301 S. College St.
Charlotte, NC 28202
704 383-6557
415 975-6871 Fax
richard.d.levy@wellsfargo.com

November 30, 2016

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2016-340, Proposed Accounting Standards Update, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*

Dear Mr. Golden:

Wells Fargo & Company (Well Fargo) is a diversified financial services company with over \$1.9 billion 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 File Reference No. 2016-340, Proposed Accounting Standards Update, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*.

We support the proposal to amend the amortization period for callable debt securities purchased at a premium by shortening the amortization period to the earliest call date. This accounting change would more closely align the amortization period for premiums and discounts on purchased callable debt securities with market participants expectations incorporated into the pricing of such securities. However, certain aspects of the proposed guidance require clarification to ensure consistency in application and avoid future standard setting. Accordingly, we encourage the FASB to consider the following clarifications to the proposed guidance as well provide a sufficient transition period to implement any necessary system and process enhancements.

- Amortization of hedge accounting basis adjustments upon termination of a fair value hedging relationship: Typically, hedge accounting basis adjustments are not amortized until termination of the hedging relationship as current GAAP requires amortization *no later than* when the security ceases to be designated for the same hedged risk. For various reasons, investors in callable debt securities may terminate a hedging relationship yet continue to hold the security. Upon termination of the hedging relationship, the hedge accounting basis adjustments are combined with existing basis adjustments unrelated to hedge accounting (e.g., purchase premiums or discounts) into a net premium or discount, the accounting yield is recalculated and the net premium or discount is amortized or accreted into earnings over the remaining contractual maturity using the effective interest method. The proposed guidance does not address whether the amortization period for purchase premiums or discounts also applies to hedge accounting basis adjustments, and if so, how the guidance should be applied.

Should the Board decide the proposed guidance does not apply to hedge accounting basis adjustments, it is conceivable that there could be different amortization periods for different types of basis adjustments *related to the same security*. Such an outcome would increase the complexity of applying the effective interest method as preparers will need to separately track multiple basis adjustments on the same security.

Mr. Russell Golden, Chairman
November 30, 2016
Page 2

Should the Board decide the proposed guidance does apply to hedge accounting basis adjustments, we encourage the Board to clarify whether:

- a. The amortization period is determined based on the original purchase premium (earliest call date) or purchase discount (contractual maturity) or the net premium or discount at the date of termination (i.e., the sum of the cumulative hedge accounting basis adjustments and remaining purchase premium or discount);
 - b. The original amortization period would change if the original purchase premium or discount “flips” to a net discount or net premium, respectively; and
 - c. Cumulative hedge accounting basis adjustments related to a debt security acquired at a premium should be immediately written off to earnings or amortized to the earlier of the next call date or contractual maturity if the hedge termination date occurs after the instrument’s earliest call date (e.g., because issuer did not call the security).
- Securities that are partially callable: Certain debt securities are callable by the issuer at amounts less than the full outstanding obligation. For example, securities may be callable by the issuer at a fraction of the outstanding obligation in accordance with a series of staggered future call dates. It is not clear whether it is necessary to amortize a portion of the purchase premium to each of the future call dates or the entire purchase premium to the first or final call date.
 - Same security purchased at both a premium and discount: Investors may acquire the same security at different points in time resulting in certain “lots” purchased at a premium and others at a discount. It is unclear whether it is appropriate to amortize both lots over different amortization periods.
 - Transfers of securities from available-for-sale to held-to-maturity: At the time of transfer, the amortized cost of the security is reset to fair value with the offset recorded in other comprehensive income (OCI). The incremental basis adjustment and OCI amount recorded at transfer are subsequently amortized into earnings by offsetting amounts, the intention of which is maintain the original yield at acquisition. We do not believe the basis adjustments recorded at transfer should alter the amortization period determined at the original acquisition date.
 - Modification of securities: Such transactions are assessed to determine whether they are accounted for as either an extinguishment or a modification, i.e., carryover of the existing security. If the transaction is accounted for as a modification, it is unclear how incremental basis adjustments that may be recognized in connection with the modification affect the amortization period.
 - Securities purchased after earliest call date: Although it may not occur frequently, investors may purchase callable debt securities after the security’s earliest call date at a premium. It is not clear whether it is necessary to immediately write-off the premium, amortize to the next call date or amortize to contractual maturity.
 - Transition period: While we support the proposed guidance, our current operational infrastructure, which includes our investment securities systems, is currently not equipped to handle this accounting change without enhancement. Accordingly, we request an implementation period of at least one-year after issuance of the final standard, preferably as of the beginning of the subsequent calendar year. However, as not all companies may have the same considerations, we support the option for early adoption.

Mr. Russell Golden, Chairman
November 30, 2016
Page 3

We appreciate the opportunity to comment on the proposed guidance. If you have any questions, please contact me at 704-383-6557 or Mario Mastrantoni at 704-383-9678.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy
Executive Vice President & Controller