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Via email

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

Re: File Reference No. 2018-220: Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815)*, *Inclusion of the Overnight Index Swap (OIS) Rate Based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes*

Dear Mr. Golden:

Wells Fargo & Company (“Wells Fargo”) is a diversified, community-based financial services company with \$2.0 trillion in assets providing banking, insurance, investments, mortgage, and consumer and commercial finance services. We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815)*, *Inclusion of the Overnight Index Swap (OIS) Rate Based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes* (the “Proposal”).

We use derivatives as a significant component of our overall asset/liability management strategy to manage interest rate risk, in particular identifying LIBOR as the hedged risk in our fair value hedges or the contractually specified interest rate for forecasted payments in our cash flow hedges. Accordingly, we support the addition of SOFR as an eligible U.S. benchmark interest rate and the marketplace initiative to provide an alternative rate to the London Interbank Offered Rate (“LIBOR”). As such, please consider the following comments and suggestions to mitigate the accounting implications that may arise in connection with the transition to SOFR.

The Proposal defines the eligible benchmark rate as an overnight rate based on SOFR. While instruments indexed to an overnight rate are expected to begin trading in 2018, it is expected that there will be sufficient demand for instruments with longer term tenors shortly thereafter. We recommend that the Board define the SOFR benchmark interest rate more broadly to contemplate tenors greater than overnight similar to the current LIBOR benchmark rate. Moreover, we encourage the Board to reconsider whether it would be better to develop a principles based approach to define future benchmark interest rates once a rate becomes widely used and quoted in an active financial market. This would eliminate the need to maintain an ongoing list of eligible benchmark rates that would require standard setting each time a new rate becomes widely-used and quoted.

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Existing lending arrangements, debt securities and derivative arrangements contain a wide variety of provisions to address the replacement of LIBOR. Market participants are currently in the process of evaluating amendments that may be necessary to address the impending transition to SOFR. As the impacts to existing hedging relationships become clearer, specific transition guidance will be necessary to account for the potential transition of LIBOR-based hedging relationships into another benchmark interest rate or contractually specified rate. Although not exhaustive and preliminary, examples may include:

- For cash flow hedging relationships, the occurrence of forecasted LIBOR-based interest cash flows may extend beyond the LIBOR transition date and thus, the occurrence of such transactions may no longer be deemed probable. Given the current diversity in practice, we encourage the Board to permit changes to existing hedge documentation to address the transition from LIBOR to SOFR or another contractually specified interest rate without a corresponding dedesignation and redesignation of the hedging relationship. As the occurrence of interest rate cash flows will still continue to be probable, albeit based on a different index, gains and losses recorded in other comprehensive income related to the affected hedging relationships should not be immediately reclassified to earnings or taint a company's ability to use cash flow hedging in the future.
- In hedging relationships where the hedged risk is the change in fair value or cash flows attributable to changes in the LIBOR benchmark rate, we encourage the Board to permit changes in the designated hedged risk from LIBOR to the SOFR benchmark rate when the variable rate of the hedging instrument changes from LIBOR to SOFR or another index without requiring a dedesignation and redesignation of the hedging relationship and as such not requiring a redetermination of the benchmark rate component of contractual coupon as of the original hedge inception date.
- Upon transition to SOFR, the variable and fixed rate legs of LIBOR-based hedging instruments will likely be modified to ensure that no value is transferred between derivative counterparties. This change in terms may result in a measurement mismatch between the hedged item and hedging instrument. As a result, LIBOR-based hedging relationships may experience significant ineffectiveness or no longer be highly effective. We encourage the Board to permit these modifications without requiring dedesignation and redesignation of the hedging relationship when done "at-market" relative to then-current fair value of the LIBOR-based hedging instrument.
- It may no longer be possible to perform retrospective effectiveness assessments using regression analysis due to insufficient historical data related to SOFR, including retrospective assessments utilized for ongoing effectiveness assessment. Upon transition to SOFR, we encourage the Board to permit a change in the effectiveness assessment method until sufficient historical data is available without requiring a dedesignation and redesignation of the hedging relationship.
- Modifications to existing contractual arrangements will necessarily take place over an extended period of time due to the volume and complexity of affected LIBOR-based instruments. As such, the transition period should be commensurate with the period necessary to execute the modifications.

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We encourage the FASB to consider our recommendations as we believe they will further the Board's effort to simplify and reduce complexity in application of hedge accounting. We appreciate the opportunity to comment on the issues contained in the Board's invitation. If you have any questions, please contact me at 980-260-6434 or Mario Mastrantoni at 980-260-6399.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy
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