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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. 2018-260: Proposed Accounting Standards Update, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*

Dear Mr. Golden:

Wells Fargo & Company ("Wells Fargo") is a diversified, community-based financial services company with almost $1.9 trillion in assets providing banking, investment and mortgage products and services, as well as consumer and commercial finance. We are actively engaged in the implementation of Topic 842, which we plan to adopt on January 1, 2019. As a lessor, we have equipment leases with commercial customers, generally through direct financing and operating leases ($19.6 and $9.4 billion at June 30, 2018, respectively). We appreciate the opportunity to comment on the Proposed Accounting Standards Update, Leases (Topic 842): Narrow-Scope Improvements for Lessors (the "Proposal").

The Proposal includes three specific provisions related to:

1. Sales taxes and other similar taxes collected from lessees;
2. Certain lessor costs paid directly by lessees; and
3. Recognition of variable payments for contracts with lease and non-lease components.

For our railcar assets subject to operating leases, Wells Fargo will elect the practical expedient in ASC 842-10-15-42A to combine lease and non-lease components. Our other remaining lease arrangements do not typically have variable payments that relate partially to lease components and partially to non-lease components. Accordingly, our comments are limited to the first two provisions.

We appreciate the Board's efforts to provide relief for the operational challenges and burdens of accounting for taxes and insurance as a lessor under Topic 842. Moreover, we are encouraged by the Board's acknowledgement that investors would prefer reduced costs in the accounting for executory costs on leases[1]. We support the policy option for sales and similar taxes and the requirement to exclude costs paid directly by the lessee that are not readily determinable by the lessor. However, even with this relief,

[1] Basis for conclusions paragraph 6 of the Proposal states "Overall, the Board concluded that the amendments in this proposed Update would simplify the implementation and continued application of Topic 842 by lessors and that the expected cost reduction to present investors would justify the reduction in expected benefits that would accrue to present and potential investors, creditors, donors, and other users."

companies will need to invest significant time and resources to properly identify and account for property taxes and associated revenues from reimbursements. Such property taxes ultimately represent an insignificant portion of total lease payments.

The determination of whether property tax amounts require presentation on a gross or net basis in the earnings statement, involves determining whether:

- The lessor or lessee is the primary obligor (i.e.: the "owner" for property tax purposes);
- Amounts paid directly by the lessee to the taxing authority are readily determinable.

The information necessary to perform this assessment may not be readily available and must be evaluated on a lease-by-lease basis by tax jurisdiction. Moreover, given the volume of information and associated complexity, it will be challenging to perform this analysis on a timely basis each quarter. The costly and extensive effort to perform this assessment, as well as the operational burden to estimate lessee direct paid taxes that are deemed readily determinable, is disproportionate to the perceived benefit that a gross presentation would provide to users.

To illustrate the difficulty of the assessment, please consider the following:

- We typically do not have direct knowledge of amounts billed to the lessee. Property taxes may be independently assessed on the same piece of equipment by multiple jurisdictions, such as counties, towns and school districts. The tax imposed may vary based on the location of the equipment at the assessment date, equipment type, initial estimate of cost, depreciation tables and tax rate (which may include any lessee exemptions in that jurisdiction) and apportionment where applicable.
- Lessors are expected to include property tax costs and associated revenues only when they are the primary obligor; however, tax rules sometimes identify the lessee as the primary obligor. Tax rules may vary based on jurisdictions, asset class, and lease type and is further complicated because equipment may be relocated from one jurisdiction to another. The determination of whether the lessor or lessee is the deemed owner for property tax purposes would require extensive and periodic research because that determination is based on a combination of rules, regulations, interpretations, case law and other sources. These complexities are consistent with the difficulties acknowledged by the Board in determining whether sales taxes are a lessor cost[2].

In light of the above, we strongly encourage the Board to allow the treatment of property taxes on assets under lease as an "other tax" in ASC 842-10-15-39A, which allows an option to exclude these costs from consideration in the lease contract.

The Board asked whether lessors should be required to apply the policy election for sales and similar taxes to all existing lease contracts as well as to new lease contracts. Similarly, the Board asked whether the requirement to exclude from contract consideration certain variable lessor costs paid directly by lessees on behalf of a lessor should be applied to all existing lease contracts as well as to new lease contracts. We strongly encourage the Board to permit but not require lessors to apply the Proposal to existing leases. Although application of the Proposal to existing leases would not result in a change from historical practices for many lessors, the potential for differing historical practices and the varied options for transition make flexibility important.

Many public companies have implemented and are testing software changes necessary for adoption. We believe many lessors incorporated the feedback from the March and July Board meetings for new leases.

[2] Basis for conclusions paragraphs 7 and 8 of the Proposal

These lessors, including Wells Fargo, may be electing the package of practical expedients and plan to continue accounting for executory costs on existing leases consistent with their practices under Topic 840[3]. Any new requirements provided by the Board regarding accounting for executory costs on existing leases might necessitate additional changes in systems or processes. We use third party software and additional system changes could not be implemented for our Q1 2019 adoption. We would not object to disclosing our accounting methods for executory costs on leases that exist at transition if the Board believes this provides decision useful information.

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
Executive Vice President & Controller

[3] In basis for conclusions paragraph 390 in ASU 2016-02, Leases (Topic 842), the Board indicated that adopting certain transition options would result in a lessor effectively "running off" the existing leases in accordance with previous GAAP unless the lease is modified.