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February 13, 2014

Mr. Robert DeV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
Attention: 1557-0081 and 1557-0239
Suite 3E-218, Mail Stop 9W-11
400 7th Street SW
Washington, DC 20219

Mr. Gary A. Kuiper, Counsel
Attn: Comments, Room NYA-5046
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: MSA netting with DTLs on Risk Weighted Assets in FFIEC 101 and Call Report FFIEC 031

Mr. Frierson, Mr. Kuiper and Legislative and Regulatory Activities Division:

Wells Fargo & Company ("Wells Fargo") is a diversified financial services company providing banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage and consumer finance services. At December 31, 2013, we were the nation's #1 originator[1] and #1 servicer[2] of mortgage loans. We are taking this opportunity to express our concern with guidance published recently relating to the netting of deferred tax liabilities ("DTLs") with mortgage servicing assets ("MSAs") for purposes of estimating risk weighted assets ("RWA").

Guidance outlined in the Federal Register on January 10, 2014 and January 14, 2014 with respect to schedules in the FRY-Y9C, FFIEC 013 and FFIEC 101 reports indicate that netting of DTLs associated with MSAs is not allowed when calculating RWA during the transition period or under fully

[1] Inside Mortgage Finance, January 31, 2014.
[2] Inside Mortgage Finance, February 7, 2014.

phased calculations. For the reasons discussed below, we request that the agencies reconsider this guidance.

The total amount of potential loss on MSAs is reduced by DTLs associated with the MSAs. This is because a reduction in the value of MSAs will also reduce the DTL associated with the MSAs. The removal of an MSA either through a sale or separation also relieves the BHC of the corresponding DTL since when a sale or separation occurs the GAAP treatment requires the associated DTL be removed from the general ledger as well. In the final Basel III rules published in July 2013, the agencies recognized that DTLs associated with MSAs serve to limit the total amount of MSA exposure by clearly articulating the ability of banking organizations to net DTLs from MSA exposure:

> *"…banking organizations may make all deductions from common equity tier 1 capital elements under section 22(c) and (d) of the final rule net of associated DTLs, in accordance with section 22(e) of the final rule."*

The agencies further noted that the election to net DTLs against other assets subject to deduction must be consistent and that deferred tax assets ("DTAs") must be adjusted accordingly so that a DTL is not double-counted.

With regard to calculating RWA for MSAs, while the final Basel III rules imply that MSAs may be netted by related DTLs (by virtue that netting by DTLs is permitted when calculating deductions), the language is not as definitive as the language contained for deductions:

> "*…the items in paragraph (d) of this section that is not deducted from common equity tier 1 capital pursuant to this section must be included in the risk-weighted assets of the [BANK] and assigned a 250 percent risk weight*". [Emphasis added]

The underlined phrase suggests that the value used to calculate the threshold deduction in the final rule, which is net of the DTL, also determines the amount that should be included in the calculation of the RWA (i.e. the "non-deducted" portion of threshold items). This statement as well as others throughout the final rule went without question during the proposal period because of this language.

Given that the agencies have acknowledged, through the recognition of netting MSAs with associated DTLs in the threshold calculation, that the risk exposure to the MSA is reduced by the corresponding DTL (as long as the DTL is not double counted), this same recognition should carry through when calculating RWA for MSAs since the starting point in calculating RWA is fundamentally the total amount of loss the bank could incur as a result of exposure to an asset.

Further, the new guidance outlined in the recent Federal Register indicates the agencies contemplate differences in the netting treatment of DTAs with DTLs and the netting of MSAs with DTLs for RWA purposes even though they are treated the same as part of the threshold deductions:

"*…for institutions subject to the revised regulatory capital rules on January , 2014, the appropriate line item for reporting the risk-weighted portion of the mortgage servicing assets (MSAs) that are not deducted from common equity Tier 1 capital, for report dates in 2014, is Schedule RC-R, Part II, item 42, "All Other Assets." The risk-weighted asset portion of MSAs may not be reduced by any associated DTLs*".

GAAP reporting requires netting of DTLs with DTAs, and the final Basel III rules would apply a 250% risk weighting to the net balance pending any threshold deduction. Given that the net DTA prior to any adjustments by the BHC is subject to 250% risk weighting, we do not understand how moving DTLs from one asset class and applying it towards another asset class, when both asset classes are subject to 250% risk weighting, should create an increase in the overall risk weighting of the balance sheet. By not allowing netting on MSAs, exposure of the MSA for purposes of calculating RWA is artificially inflated. A BHC's total RWA more accurately reflects its risk exposure using an RWA calculation that permits netting DTLs against either DTAs or MSAs in a manner that is comparable to the netting treatment for calculating threshold deductions.

We believe the final Basel III rule recognizes DTLs associated with MSAs limit risk exposure to MSAs. This recognition needs to be carried through to all parts of the capital calculation process for MSAs in order to ensure the capital treatment aligns to the risks presented. For the reasons stated above, we urge the agencies to reconsider their recent guidance and issue new instructions outlining the MSA RWA calculation in a manner that is consistent with the guidance for calculating the threshold deductions. We look forward to the opportunity to further discuss the proposals expressed in this letter and would make ourselves available to meet with interested parties at their convenience.

Sincerely,

Paul R. Ackerman
Executive Vice President and Treasurer

cc: Anna Lee Hewko, Deputy Associate Director, Board of Governors of the Federal Reserve System
Amrit Sekhon, Director of Capital Policy, Office of the Comptroller of the Currency
Robert Bean, Chief, Policy Section, Federal Deposit Insurance Corporation
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