FRB Consent Order Implementation Report
12/23/11
Section 2 – Summary of Board Governance & Oversight Structure

The Board of Directors for Wells Fargo & Company ("Wells Fargo") directs and oversees risk management across the company. Board responsibilities with regard to operational risk are assigned to the Audit and Examination ("A&E") Committee of the Board. Among its other functions, the A&E Committee reviews the quality of Wells Fargo's operational risk management practices, examines trends affecting operational risk exposures, supervises the effectiveness and administration of operational risk policies, oversees the Wells Fargo audit function, and reports to the full Board on these matters. For highly material operational risks (as well as large credit and market risks), additional oversight is provided by the Risk Committee of the Board, which consists of the chairs of each of the Board committees.

The Board and A&E Committee's oversight of operational risk management (inclusive of compliance risk) is exercised through the Operational Risk group (OR), led by the Chief Operational Risk Officer (CORO) who reports to Wells Fargo's Chief Risk Officer. Reporting to the CORO is Wells Fargo's Chief Compliance Officer, who leads Wells Fargo's Compliance Risk Management ("CRM") group, as well as the managers of other corporate risk management programs, including Vendor Management. These oversight functions are entirely independent of Wells Fargo lines of business ("LOBs").

The CORO regularly provides reports to the A&E Committee regarding the state of operational risk, including the "state of compliance" by all Wells Fargo LOBs regarding applicable legal and regulatory requirements, including regulatory guidances. The CORO's reporting also includes the state of other corporate risk management programs, such as Vendor Management.

The reporting by the CORO to the A&E Committee consists primarily of content produced by Wells Fargo's risk management programs. These programs require regular formal reporting, as well as real-time communication and escalation of any emerging issues. The programs also require the use of systematic risk management tools that capture a wide variety of risk-related data from across the entire company.

Wells Fargo employs a risk management structure that corresponds closely to the "three lines of defense" articulated in the Basel "Principles for the Sound Management of Operational Risk," although for certain risk programs, Wells Fargo's implementation predates Basel guidelines by many years. In this model, business management is the "first line of defense" directly managing risk. Business managers are required to create business-level programs, which, as described above, require reporting and escalation to the central OR function up to the Board. The reporting is made by risk professionals embedded in the businesses, and directed simultaneously to business management and to OR (the "second line of defense"). OR "owns" the risk-related policies, oversees business implementation of risk programs, and aggregates enterprise-wide risk information for the CORO to present to the Board. Independent assessment by Wells Fargo Audit and Security is the third line of defense under the Basel guidelines.

Additionally, the CORO has dotted line oversight with respect to Group Risk Officers who represent each of the four overall business groups within Wells Fargo (Consumer Lending, Community Banking, Wholesale Banking, and Wealth, Brokerage and Retirement Services), and the corporate staff groups. Although part of the business, Group Risk Officers also exercise functionally independent oversight over operational and other risks of the business groups and the LOBs that are within them, and are a significant point of coordination and escalation.

Reporting to the A&E Committee for regulatory compliance follows this model. In the case of regulatory compliance, reporting includes a further step of formal independent assessments of business-level compliance programs by CRM oversight directors as to whether the compliance programs of each Wells Fargo LOB have followed the requirements of Wells Fargo's Corporate Regulatory Compliance Policy. Among the requirements of that Policy are that each LOB cover in its compliance program the requirements of laws, regulations and regulatory guidances that apply to the business. CRM independently assesses, with the assistance of the Wells Fargo Law Department, whether each LOB has properly included applicable requirements within its program. CRM also evaluates whether the LOB compliance function is adequately staffed. Similarly, for other operational risk programs (including Vendor Management), the CORO provides periodic reports to the A&E Committee about the state of the company's compliance with the corporate policies overseen by those programs. Thus, for example, the CORO would report significant deficiencies in a particular business' compliance with vendor management requirements which he or she would learn about from either the Group Risk Officer for that business, and/or the head of the corporate vendor management risk program.

Summaries of significant regulatory changes and information about Wells Fargo's response to them are also regularly reported by the CORO to the A&E Committee. This reporting is based on enterprise-wide process for monitoring changes in laws, regulations and regulatory guidances managed by the Wells Fargo Law Department, a process that is closely linked to the CRM regulatory compliance oversight function. Through this monitoring process, together with the CRM evaluation of LOB compliance programs and regular communication with the Group Risk Officers, the CORO and, thus, the A&E Committee exercise oversight over LOB compliance with legal requirements.

Wells Fargo believes that this existing structure for Board oversight of operational risk management is the right structure for Wells Fargo, and we are not proposing changes to the underlying structure as result of the Order. Rather, what we propose is essentially a strengthening of particular components of our current approach to operational risk management within the business group responsible for the activities covered by the Order. Specifically, residential mortgage servicing and default management activities will be treated as distinct lines of business within Wells Fargo Home Mortgage in all operational risk processes and reporting. [redacted]