February 5, 2019

Alternative Reference Rates Committee ("ARRC")

Via email submission to: arrc@ny.frb.org

Re: Consultation Response – Securitizations & CLOs

Wells Fargo & Company ("Wells Fargo") submits this response to the ARRC Consultation regarding more robust LIBOR fallback contract language for New Issuances of LIBOR Securitizations. Wells Fargo recognizes the critical work of the ARRC to identify best practices for effective contractual fallback language. We hope these efforts will reduce market disruption in the event that LIBOR is discontinued. In addition, Wells Fargo appreciates the tremendous work of the ARRC Securitizations Working Group in developing this consultation, taking into consideration a wide range of views from members regarding the complex issues related to the LIBOR transition.

Responses to Questions:

A. General Approach of the Securitization Fallback Provisions

Question 1: *Which securitization asset classes are you referring to in your response to this consultation if limited to only certain asset classes? If there are particular features of these asset classes that shape your responses to the questions in this survey, please describe them to the extent possible.*

Answer: Wells Fargo and its affiliates participate in the US securitization market in a number of roles including issuer, sponsor, underwriter/placement agent, seller, servicer, master servicer, trustee and calculation agent (and other administrator roles), and investor. Currently, Wells Fargo participates in the securitization of commercial mortgages, residential mortgages, CLOs, equipment loans and leases, auto loans, credit cards, student loans, container leases, aircraft leases and loans, timeshare loans and other esoteric assets. Wells Fargo serves as trustee and calculation agent on securitizations in all asset classes and our investment portfolio includes investments in a broad array of securitization asset classes, primarily CLOs, student loan ABS and CMBS. Our response to specific questions below will highlight any particular issues or features resulting from our various roles or asset classes that shaped our response.

B. <u>Triggers</u>

<u>ISDA Triggers</u>

Question 2: *The ISDA triggers contemplate a permanent cessation of LIBOR as of a date certain which may be announced in advance (the "Cessation Date"), at which point the transition from LIBOR to SOFR would occur. As there may be operational challenges for securitizations as both assets and liabilities will have to be transitioned, some have asked for the ability to transition in advance of the Cessation Date in order to address any operational issues that may arise. Specifically, the Designated Transaction Representative (as defined in Appendix I) will have the ability to pick one date within a 30-day period prior to the Cessation Date to facilitate an orderly transition. Do you feel the inclusion of this ability to transfer prior to the Cessation Date is needed? If so, please explain the specific, critical and tangible needs that support its inclusion?*

Answer: Wells Fargo supports giving a Designated Transaction Representative the ability to transition from LIBOR to a replacement rate prior to the Cessation Date. This flexibility would be especially helpful if a Designated Transaction Representative is involved in converting both the underlying assets (which may have different versions of LIBOR fallback language) and the liabilities to a new reference rate which is the case in many CMBS and CLO structures. This flexibility would allow the representative to mitigate basis risk and manage the operational complexities of updating systems and reporting and payment infrastructures to support new reference rates. This flexibility would also allow the conversion of hundreds or thousands of securitization and CLO transactions that may be triggered at the same time to be spread out over a period of time to alleviate stretched internal and external resources. We recommend that up to 90 days (or 2-3 interest accrual or payment periods) prior to Cessation be allowed. See also our response to Question 4.

<u>Pre-Cessation Triggers</u>

Question 3(a): *Should fallback language for Securitizations include any of the pre-cessation triggers (clauses (3), (4), (5) and (6) of the Benchmark Discontinuance Event definition)? If so, which ones? Also, please identify any pre-cessation triggers that you do not believe should be utilized for a particular securitization product and explain why.*

Answer: Despite reservations expressed in our response to question 3(b) below, we believe that triggers 3, 4, and 5 should be included. Trigger 3 provides a transition mechanism when regulators have not acted but market participants are left in limbo with no published benchmark for several days. Trigger 4 provides an avenue to transition should LIBOR no longer be appropriate, but a regulatory agency has not yet opined. Trigger 5 should be included to allow banks to respond to regulatory guidance. In the case that the regulator opines and triggers are not otherwise engaged elsewhere, nationally-chartered banks will need an opportunity to transition to respond to regulatory requirements or guidance. We note that the timing for transition after these triggers (especially Trigger 3) may be immediate with little or no lead time and this may cause challenges in converting so quickly depending on when the Benchmark Replacement Date occurs relative to the date of determination of a replacement benchmark. These challenges could include performing compounding calculations, giving notices or other communications and implementing necessary adjustments to systems and reporting and payment processes. While we hope that securitization participants are already working on transition plans, we recommend adding a mechanism to build in up to 90 days (or 2-3 interest accrual or payment periods) for transition when the trigger does not allow sufficient advance notice or lead time.

Trigger 6 is uniquely appropriate for a securitization where the underlying securitized assets are LIBOR-based and may be transitioned to a SOFR-based replacement benchmark before a permanent Cessation Date creating cash flow mismatches and basis risk not accounted for in the structural features of the securitization. As noted in the Consultation, this trigger is not appropriate for certain transactions and must be tailored for the specifics of a particular securitization.

Question 3(b): *Please indicate whether any concerns you have about these pre-cessation triggers relate to the differences between these securitization triggers and those for standard derivatives or whether your concerns relate specifically to the pre-cessation triggers themselves.*

Answer: Wells Fargo's primary concern around pre-cessation triggers relates to potential basis risk with derivatives. Otherwise, we would be fully supportive of these proposed pre-cessation triggers. We further note that many securitizations do not include a derivative in the structure itself but transaction parties may use derivatives to hedge their various securitization exposures or interests. We would be supportive of ISDA triggers that align with ARRC triggers.

Question 3(c)*: If you believe that the pre-cessation trigger in clause (6) (Asset Replacement Percentage) should not be retained, please note any specific concerns leading to this conclusion. If you believe that it should be retained, are there any changes you believe should be made to this trigger? Please explain.*

Answer: Wells Fargo supports the inclusion of the Asset Replacement Percentage trigger as an optional pre-cessation trigger. We believe this trigger will need to be retained in a way that allows flexibility to tailor it to the specifics to a particular securitization or CLO, including setting the trigger percentage higher or lower, the timing and format for servicer reporting of asset conversion, and the outcome of the consultation on bilateral business loans and consumer loans that may be securitized assets.

Question 3(d)*: If you believe the pre-cessation trigger in clause (6) (Asset Replacement Percentage) should be retained, how would you address concerns that it could result in a transfer of value in a transaction where the Designated Transaction Representative has the ability to change the benchmark used on the underlying assets and, as a result, determine the timing of this pre-cessation trigger? Are there other changes that should be made to the Asset Replacement Percentage trigger? Note that this trigger relates to a mismatch between the securities and the Securitization assets that results from changes in the assets. A mismatch may also arise from a change in the securities due to a trigger event under these fallback provisions. Any concerns with the latter scenario can be addressed in responses to Question 16.*

Answer: Wells Fargo believes that many securitizations of floating rate assets already allow a Designated Transaction Representative (typically the servicer who also originated the assets and sponsored the securitization) to change the benchmark or floating rate on those assets subject to certain restrictions that would protect securitization investors, including preserving excess spread or not allowing a change if it would cause a material adverse effect on securitization investors. Any ability to cause the conversion of underlying LIBOR-based assets would be subject to these protections and may be subject to other securitization transaction limits or procedural requirements. This trigger, if included in a securitization transaction, would not eliminate or replace these protections in the securitization documents. It is unlikely that all basis risk or cash flow mismatches can be eliminated completely and securitization deal structures should accommodate and mitigate basis risk and any impact of the ability of a Designated Transaction Representative to determine the timing of this trigger. A Designated Transaction Representative who relies on the securitization market or wishes to continue participating in the securitization market will be disinclined to manipulate the timing of this trigger to benefit from any transfer of value.

Question 3(e): *If pre-cessation triggers are not included, are there options available to market participants to manage the potential risks involved in continuing to reference a Benchmark in the circumstances contemplated by each of these pre-cessation triggers?*

Answer: If pre-cessation triggers are not included, the only way to transition floating rate securities to an alternative benchmark in a non-temporary LIBOR cessation scenario would be to amend the securitization or CLO documents which usually requires unanimous investor consent. Given the difficulty or impossibility of securing unanimous consent in most securitizations or CLOs, even this option is precluded. Not including pre-cessation triggers, given the inevitable cessation of LIBOR, would create market uncertainty, potential liability for transaction participants, especially issuers, servicers, trustees and calculation agents, and unintended consequences for investors.

C. <u>Benchmark Replacement Date</u>

Question 4: *Should the proposed securitization fallback language permit the Designated Transaction Representative to transition the securities after a trigger has occurred but before the Benchmark Replacement Date? Should any limitations be placed on its use? Should there be a limited date range (e.g., 60 days) prior to the Benchmark Replacement Date in which this could be used? Should the Designated Transaction Representative be limited in the circumstances under which it could elect to utilize the additional time? If so, what standard should be utilized to assess whether the additional time is necessary? In each case, please explain why.*

Answer: Wells Fargo supports allowing the transition of the securities to a new benchmark after a trigger has occurred but before the Benchmark Replacement Date. This is important given the number of transactions that will need to transition and the possibility that other administrative transaction amendments (with or without investor consent) and communications may need to be completed to support the transition. A Designated Transaction Representative may face constrained resources (internal and external) to implement LIBOR transition and may need to spread the work of transitioning multiple securitization transactions over the allowed transition period. Given that there could be substantial time between the trigger and the Benchmark Replacement Date, we believe that up to 90 days in advance (or 2-3 interest accrual or payment periods) would provide sufficient flexibility without compromising market certainty.

We do not believe that the circumstances permitting the use of the additional time should be limited. See also our response to Question 2.

D. <u>Replacement Benchmark</u>

<u>Step 1: Forward-Looking Term SOFR</u>

Question 5(a): *If the ARRC has recommended a forward-looking term rate, should that rate be the primary fallback for the securities referencing LIBOR even though derivatives are expected to reference overnight versions of SOFR? Please explain why.*

Answer: Wells Fargo supports a best-fit fallback from term LIBOR to a forward-looking term SOFR, should term SOFR be endorsed by the ARRC. This fallback would result in some basis risk with derivatives (if any) (which products will fall back to an overnight version of SOFR); however, we believe most securitization market participants would accept this risk and still prefer to have a forward-looking term rate if endorsed by the ARRC.

Question 5(b): *Is there a specific reason that the securitization market should first fall back to forward-looking term SOFR instead of another rate? Please explain why.*

Answer: Wells Fargo believes that U.S. securitizations (including CLOs) currently use exclusively term LIBOR-based rates for floating rate securities and forward-looking term SOFR would be the best-fit fallback from term LIBOR. Using this fallback would promote certainty and reduce disruption in the securitization market and allow for the smoothest transition from LIBOR to an alternative benchmark. Wells Fargo supports consistency across all cash products in this regard. Forward-looking term reference rates and related SOFR-linked swap curves would also be useful for modeling securitization transactions and pricing both fixed rate and floating rate securities consistent with current market practices. Term SOFR would also allow for interest rate determination in advance or at the beginning of interest accrual periods consistent with current practice for LIBOR-based securities which will eliminate operational complexities of converting floating rate securities in mid-deal in many securitization transactions. Using term SOFR will also facilitate efficient trading of these securities on the secondary market.

Question 5(c): *Is the use of an Interpolated Period appropriate in the securitization markets? Please explain any limitations that should be applied to the use of an Interpolated Period.*

Answer: Wells Fargo believes that the use of an Interpolated Period is entirely appropriate in the securitization market and is generally well understood and accepted and already used in other securitization market activities, such as pricing or valuing of securities. In addition, we do not believe that an Interpolated Period is likely to be necessary in typical securitization structures which use common and widely-used benchmark tenors. Interpolating between term rate tenors is preferred over Compounded SOFR.

Question 5(d): *In the event a Replacement Benchmark is determined other than under Step 1 of the waterfall, should the waterfall provide that the Replacement Benchmark be changed in the future as soon as a rate can be established under Step 1 of the waterfall?*

Answer: Wells Fargo believes that the Replacement Benchmark should be changed to term SOFR, the best-fit fallback rate, once term SOFR is available. This will provide certainty to the securitization market in that all transitioned LIBOR bonds would ultimately be based on term SOFR. It will also protect deals that transition earlier due to the Asset Replacement Trigger or that exercise flexibility to transition earlier than a Cessation Date when term SOFR may not yet be available. It is especially important that the fallback language require retesting so securitizations are not trapped at a lower level of the waterfall that presents ongoing operational or timing challenges. We believe that monitoring the availability of term SOFR is manageable for the appropriate Designated Transaction Representative. See our response to Question 10(b).

Step 2: Compounded SOFR

Question 6(a): *Should Compounded SOFR be the second step in the waterfall? Would this preference be influenced by whether ISDA implements fallbacks referencing Compounded SOFR or overnight SOFR?*

Answer: Wells Fargo supports Compounded SOFR as step 2. If term SOFR has not been endorsed by the ARRC, we believe that Compounded SOFR appropriately attempts to accommodate for the loss of term structure. Our answer was influenced by the results of the ISDA Consultation. Wells Fargo supports consistency across all cash products in this regard.

Question 6(b): *If you believe that Compounded SOFR should be included, which compounding period is preferable ("in arrears" or "in advance")? Please explain why. Would this preference be influenced by whether ISDA implements fallbacks referencing Compounded SOFR "in arrears" or "in advance?" Please explain whether your preference is based on operational concerns in implementing a particular approach or on economic concerns.*

Answer: In the absence of a term SOFR endorsed by the ARRC and with the caveat set forth below, Wells Fargo generally supports Compounded SOFR "in arrears" as the second step in the waterfall, primarily because it is reflective of the interest rate conditions during the relevant interest period. Compounding SOFR during the current interest period will create numerous operational challenges for market participants. Compounding "in arrears" will require changing securitization mechanics including the timing of (i) processing and completing servicer reports, (ii) calculation agent interest rate determinations, (iii) bondholder and other communications and (iv) remittance of funds for payments. These changes are likely to require system updates which can be time-consuming and expensive. We believe that in order to facilitate preparation for a fallback to compounded SOFR "in arrears" the market would benefit from further ARRC, the securitization trade groups and industry vendor engagement on this topic. Further, we believe the publication of a Compounded SOFR and endorsement of the ARRC of the methodology and conventions for referencing Compounding SOFR in securitizations would assist market adoption.

Until the ARRC or the securitization industry establishes conventions for compounding SOFR in consideration of established securitization deal mechanics of various asset classes and the potential for disruption of operational and timing processes, we suggest that the ARRC keep step 2 of the waterfall flexible enough to allow for either "in arrears" or "in advance" compounding. We also note that some transactions require pro-forma calculations to determine eligibility to buy additional assets or release reserves or trap cash flows for final payments. These calculations use projected payments to bondholders as a component and would be difficult to perform without knowing the interest rate on the bonds until late in the interest accrual period. Without flexibility built into the definition of Compounded SOFR, we believe issuers of LIBOR securitizations who would like to follow ARRC's best practices recommendations for fallback language may elect not to issue floating rate securities until new conventions, deal structures, operational and timing mechanics and market expectations have developed to support Compounded SOFR "in arrears".

Question 6(c): *If it was necessary to calculate Compounded SOFR and a third party was not available to perform those calculations, are there parties to the Securitization transactions with sufficient resources to perform those calculations accurately and efficiently? Are there other considerations relating to the calculation of Compound SOFR that would make it an undesirable Replacement Benchmark without the availability of a third party provider?*

Answer: If the methodology and conventions for Compounded SOFR are (i) clearly defined by an ARRC written recommendation or the transaction documents, (ii) free of discretion on the part of the calculating party, and (iii) allow sufficient time for the application of internal and external verification and control processes (including assessment and attestation requirements of Regulation AB Item 1122 for shelf-registered securitizations), we believe either a servicer or trustee/calculation agent could perform the calculations. However, current trustee/calculation agent systems may not be designed to calculate compounding interest calculations and would require major infrastructure changes that would require significant lead time. Interim workaround solutions would require additional staff and increase the potential risk of human error. As stated in the previous question, we believe that a third party provider and an ARRC recommendation would assist market adoption by making the rate more transparent and standardized. We note that the operational and timing concerns of compounding SOFR "in arrears" noted in the prior response will exist whether rates are calculated by a transaction party or a third party.

<u>*Step 3: ARRC Replacement Rate*</u>

Question 7: *As noted, this consultation does not include Spot SOFR as a third step in the waterfall. Do you believe that Spot SOFR is an appropriate fallback reference rate for Securitization contracts or should the second step in the replacement rate waterfall be Compounded SOFR , after which the replacement rate would be, first, recommended by the Relevant Governmental Body, second, default to then-current ISDA Definitions, and third, proposed by the Designated Transaction Representative?*

Answer: Wells Fargo does not believe that Spot SOFR is an appropriate third step in the waterfall since if Spot SOFR is available, then Compounded SOFR can be calculated and Compounded SOFR more appropriately attempts to accommodate for the loss of term structure.

Question 8: *In the future circumstance where there is no SOFR-based fallback rate, is the replacement rate determined by the Relevant Governmental Body the best alternative at this level of the waterfall? Please explain why.*

Answer: Yes, a replacement rate determined by the Relevant Governmental Body in this situation seems to us the inevitable best alternative.

Step 4: ISDA Fallback for SOFR

Question 9: *In the future circumstance where there is no SOFR-based fallback rate and the Relevant Governmental Body has not recommended a replacement rate for Securitizations, is the fallback for SOFR-linked derivatives set forth in the ISDA definitions at the time of cessation the best alternative at this level of the waterfall? Is this fallback appropriate if ISDA Definitions only include overnight fallback rates? Please explain why.*

Answer: Yes, Wells Fargo supports the fallback for SOFR-linked derivatives set forth in the ISDA definitions as the best alternative in this circumstance. Even though the ISDA fallbacks may not be determined with structured cash products in mind, we believe using the fallback from a huge body of transactions is beneficial. Given the size of the derivatives market, it is highly likely that ISDA will have determined a fallback and it would be appropriate to use it at this level of the waterfall.

Step 5: Proposed Replacement Benchmark

Question 10(a)*: Since it is unlikely that there will be no ISDA fallback (clause (a) above), this provision is more likely to occur (if at all) when the ISDA fallback is deemed not appropriate for securitization securities (clause (b) above). In that scenario, is this provision appropriate as the final step in the Replacement Benchmark waterfall? Please explain why.*

Answer: Wells Fargo has no objection to including this provision and supports the benefit of the flexibility it adds to the replacement benchmark mechanics. It is possible that the securitization markets will have settled on an alternative replacement benchmark or an individual Designated Transaction Representative will determine an alternative replacement benchmark that may be more appropriate than the ISDA fallback.

Question 10(b)*: Should the provision allow for "re-testing" the waterfall to determine whether another Replacement Benchmark has become available in the scenario where investors have rejected the Proposed Replacement Benchmark? Should the waterfall be re-tested in any other circumstances (e.g., any time the Replacement Benchmark has been determined under a "less-desirable" clause)? How often? Please explain why.*

Answer: Yes. Wells Fargo believes that the Replacement Benchmark should ultimately be term SOFR (if term SOFR becomes available) in any situation where the replacement benchmark is initially determined under a "less desirable" clause, including in the scenario where investors have rejected the Proposed Replacement Benchmark. This is especially true given the efforts of industry participants and regulators toward developing liquidity in SOFR markets and supporting forward looking term SOFR rates but the uncertainty of when such rates would become available. If a Replacement Benchmark is determined under a "less desirable" clause we believe that re-testing should only be required when (and if) term SOFR becomes available (or, in the future case where there is no SOFR rate and the Relevant Governmental Body has recommended a replacement rate). There is no sense in moving up the waterfall unless it is moving up all the way to term SOFR (or the post-SOFR recommended replacement rate). Requiring retesting underscores the importance of allowing flexibility in step 2 of the fallback waterfall to avoid the complexity of establishing different deal mechanics only to "undo" them after a short time when term SOFR becomes available. See our response to question 5(d).

E. Replacement Benchmark Spread

Question 11*: Are there any concerns if a spread adjustment was utilized with cash products that was calculated by a spot rate comparison of the difference between LIBOR and the Replacement Base Rate at the time of conversion? Should this option be included in the spread waterfall? If so, where?*

Answer: No, we do not believe the spot spread would be an economically appropriate spread adjustment. It could lead to an unacceptable level of value transfer as well as create basis risk with many other products that are not likely to use this spread adjustment methodology. It could also lead to disputes, since different parties could pull the data from diverse sources and result in different spread adjustments.

Step 1: ARRC Spread Adjustment

Question 12: *Do you believe that the ARRC should consider recommending a spread adjustment that could apply to cash products, including Securitizations?*

Answer: Yes, we believe it would provide the market greater certainty and reduce market disruption if the ARRC, when recommending a forward-looking term SOFR, also recommends a corresponding spread adjustment methodology.

Step 2: ISDA Spread Adjustment

Question 13(a): *Is a spread adjustment applicable to fallbacks for derivatives under the ISDA definitions appropriate as the second priority in the spread waterfall? Please explain why.*

Answer: Wells Fargo believes that if the ARRC does not recommend a spread adjustment, the ISDA spread methodology may be the best option to reduce value transfer and minimize basis risk. However, we believe that the Designated Transaction Representative should be able to propose an alternative spread adjustment, subject to the negative consent or veto of investors.

Question 13(b): *If the ARRC has recommended a forward-looking term SOFR but has not recommended a corresponding spread adjustment under Step 1 above, do you believe that the ISDA spread adjustment described in Step 2 (which may be intended to apply to a different Replacement Base Rate) should apply to Securitizations? Please explain why.*

Answer: Wells Fargo believes that if the ARRC does not recommend a spread adjustment, the ISDA spread methodology may be the best option to reduce value transfer and minimize basis risk. However, the Designated Transaction Representative should be able to propose an alternative spread adjustment, subject to the negative consent or veto of investors.

Question 13(c): *Given that ISDA has not yet decided upon the spread calculation methodology, should Step 2 be excluded from the waterfall? Please explain why.*

Answer: No, we have a reasonable expectation that ISDA will publish the spread adjustment by the end of 2019 and long before the discontinuation of LIBOR.

F. Responsibility for Calculations

Question 14(a): *What type of institution can and should take on the responsibility to (i) determine whether the proposed triggers have occurred, (ii) select screens where reference rates or spreads are to be found, (iii) make calculations of a rate or spread in the absence of published screen rates, (iv) interpolate term SOFR if there is a missing middle maturity and/or (v) elect to cause an early transition under the proviso to the definition of Benchmark Replacement Date?*

Answer: Wells Fargo recommends that a transaction party with a meaningful ongoing interest in the securitization can and should take responsibility for (i) monitoring triggers and notifying other appropriate parties of whether a trigger has occurred, (ii) selecting screens where rates and spreads are published, and (iii) electing an early transition of a Benchmark Replacement Date. We believe that in many securitizations this would be the sponsor or servicer/master servicer (which may be the same party). It is possible that a trustee may be willing to monitor triggers if they are certain to be based on a specified public announcement by a specified regulatory body.

Wells Fargo believes that a calculation agent can and should be responsible for interpolating term SOFR in the unlikely event of a missing middle maturity and compounding calculations in the absence of a third party and so long as these calculations are free of discretion and clearly defined in transaction documents. Calculation agents may require increased compensation and specific and full indemnity to perform these calculations. While a new third party could be engaged to perform all these functions on behalf of a securitization, it seems to us an unnecessary cost and introduces additional counterparty exposure.

Question 14(b): *Whether as issuer, sponsor, servicer or calculation agent, would your institution be willing to (i) determine whether the proposed triggers have occurred, (ii) select screens where reference rates or spreads are to be found, (iii) make calculations of a rate or spread in the absence of published screen rates, (iv) interpolate term SOFR if there is a missing middle maturity and/or (v) elect to cause an early transition under the proviso to the definition of Benchmark Replacement Date?*

Answer: Yes, see our response to Question 14(a).

G. <u>General feedback</u>

Question 15: *Is there any provision in the proposal that would significantly impede Securitization issuances? If so, please provide a specific and detailed explanation.*

Answer: We note that it will be important for credit rating agencies to update their rating methodologies for determining and sizing basis risk in rating LIBOR-based floating rate securities that are expect to transition before maturity.

Question 16: *Given the fallback language for the Securitization and the underlying assets may operate independently, please identify any sources of misalignment between those components that are not addressed in the consultation.*

Answer: The consultation does not address what would happen if underlying LIBOR-based assets transition to a replacement benchmark not contemplated by the proposed fallback waterfall for securitization liabilities (e.g. residential mortgages convert to Fed Funds or Treasury rate). This situation could magnify the basis risk and cash flow mismatches. We believe these critical issues should be addressed by the ARRC's Consumer Products Working Group and then the Securitizations Working Group should take up this issue again. In addition, due to the inclusion of pre-cessation triggers (including the Asset Replacement Trigger) within the securitization but possibly not in the underlying assets, there could be basis risk during LIBOR transition.

Question 17*: Are there specific operational challenges that implementing the proposed fallback language might create for securitizations? If so, what are those challenges and under what circumstances might they occur? How might they be mitigated?*

Answer: We note that it will be necessary for securitization market infrastructure, including models and analytics software, third party reporting systems and secondary trading processes, to be updated and adjusted to support conversion of LIBOR-based securities to the fallback rates and calculation options.

Question 18: *Please provide any additional feedback on any aspect of the proposal.*

Answer: Wells Fargo understands that the ARRC Accounting and Tax Subgroup and members of ARRC's Securitizations Working Group are planning to seek guidance or relief from Treasury/Internal Revenue Service on the tax treatment of the use of the fallback provisions in REMICs (including Wells Fargo CMBS) under the material modification provisions of Treasury

Reg 1.1001-3 and related tax considerations. We note that securitization issuers may find it necessary to make adjustments to certain parts of the fallback provisions until the views of the IRS are known and it may be necessary to adjust the final fallback language after any guidance or relief is received.

Wells Fargo wishes to thank the ARRC Securitizations Working Group for the opportunity to provide this feedback on the Securitization LIBOR Fallback Consultation. We are happy to discuss our responses further or provide any additional information that may be helpful.

Thank you,

Wells Fargo