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Sales Misconduct at Wells Fargo Community Bank

What Wells really excels at [. . .] is managing its employees well, providing the right incentives to enthuse them about pushing what the bank has to offer.

— *The Economist*, September 14, 2013[1]

Wells Fargo, America's third-biggest bank by assets, castigated John Stumpf, its former boss, for tolerating sales practices that led to the opening of 2m-odd ghost accounts.

— *The Economist*, April 12, 2017[2]

On September 8, 2016, Wells Fargo bank of San Francisco, California announced a $185 million settlement with three United States regulatory agencies over widespread misconduct in sales practices at its consumer retail banking arm, the Community Bank (see **Exhibit 1**). From 2011 to 2016, Community Bank employees had opened more than 2 million unauthorized customer accounts and credit cards and sold products and services to customers under false pretenses to boost sales figures.

The settlement sparked an uproar among the public and press. Wells Fargo's shares fell from $48.77 on September 7, 2016, to a low of $43.83 on October 3 (see **Exhibit 2**).[3] On September 27, Head of the Community Bank Carrie L. Tolstedt, who had previously announced she would retire at the end of the year, was dismissed for cause. By the end of September, Congressional hearings to investigate the bank were convened, and Wells Fargo Chairman and CEO John Stumpf testified before House of Representatives and Senate regulatory committees. On October 12, Stumpf resigned. The bank dismissed three other executives, and by April 2017 clawed back a total of $180 million, including $67 million from Tolstedt and $69 million from Stumpf in stock options, bonuses, and other compensation.[4] Throughout the episode, Wells Fargo remained one of the biggest retail banks in the U.S., ending 2016 with $1.9 trillion in assets and a market capitalization of $277 billion (see **Exhibit 3** for comparison to largest banks).[5]

On April 25, 2017, investors met for the bank's annual shareholder meeting to vote to reelect the Board of Directors. Leading proxy advisors Institutional Shareholder Services (ISS) and Glass Lewis had recommended a vote against several members of the Board, holding them accountable for the scandal. In response to the scandal, Wells Fargo had already made some changes to operations, governance, and risk management but not to the Board. It remained to be seen whether investors were satisfied by the Board's response thus far or whether Board changes were needed to regain trust.

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Wells Fargo History & Background

In 1852, Henry Wells and William Fargo formed Wells Fargo & Co., opening the bank's first branches in San Francisco and Sacramento, California.[6] Early on, the bank provided banking and express services—inspiring the company's stagecoach branding—in Texas and the Southwest. It built its reputation on protecting prospectors' and mining interests' during the California gold rush.

During the 20th century, Wells Fargo was among the earliest banks to adopt extended hours on weekdays and Saturdays, as well as branch and customer service innovations, such as "one-stop-shopping banking center[s] which included a full service branch, a Starbucks coffee outlet, a dry cleaner and a photocopying service all under one roof."[7] The bank took advantage of creative channels, such as placing automatic teller machines (ATMs) in grocery stores, saving costs on capital investment and operations while offering customers more convenient service.[8] Carl Reichardt, chairman from 1983 to 1994, cultivated a culture that promoted personal responsibility and ambition among employees, popularizing the slogan "Run it like you own it," by which employees were encouraged to "independently exercise staff and control functions."[9]

In 1998, following a consolidation trend among U.S. banks, Wells Fargo acquired Minneapolis, Minnesota-based retail bank Norwest Corporation for $31.4 billion in a "merger of equals."[10,11] In the early 2000s, Wells Fargo was focused on retail banking throughout the Western U.S., offering a wide variety of consumer products and generated significant revenue through cross-selling, i.e., selling multiple products—such as deposit accounts, credit cards, and loans—to the same customer.[12] In 2008, Wells Fargo acquired Wachovia for $15.1 billion, expanding its footprint from the West to the entire U.S. and doubling its number of branches.[13,14] It became the largest national player in auto and small business loans and boosted its insurance and stock brokerage segments to be among the top three in the country.[15] The bank had relatively small investment and capital markets operations.

Wells Fargo excelled at its mortgage business. Prior to the financial crisis of 2007-2008, Wells Fargo had opted not to purchase Countrywide, the biggest mortgage firm in the U.S., thus avoiding a balance sheet full of bad loans that were at the heart of the market crash.[16] By 2013, the bank owned almost one-fourth of the U.S. market in home loans and was issuing almost one-third of new residential mortgages.[17] It was a leader in auto lending and student loans. By 2017, Wells Fargo had 269,000 employees serving 40 million retail customers and 3 million small businesses (see **Exhibit 3**).[18] That year, Wells Fargo was fifth on the *Forbes* 2000 list of the world's biggest companies, with a market capitalization approaching $275 billion, and ranked number eight in profits at $21.9 billion.[19]

The Retail Banking Sector in 2017

Retail banking encompassed banking services and products for individual consumers and small businesses (non-retail banking referred to investment banking and commercial and wholesale banking offered to corporations, other banks, governments, and other larger institutions). Typical retail offerings included deposit accounts—checking accounts, market-rate savings accounts—debit cards, basic investment vehicles such as certificates of deposit (CDs), mortgages, auto loans, other types of personal loans, credit cards, and lines of credit.

Competitive pressures in the sector stemmed from several sources. Changing customer behaviors made physical networks outmoded and required investing in new technologies, such as mobile banking capabilities. Differences across geographies, e.g., different competitive landscapes and customer demographics required market-specific services. Economic and regulatory considerations influenced interest rates, economic cycles, and customers' income distribution. Competitors placed branches and ATMs and offered various digital options.[20]

Banking was among the most regulated industries. U.S. retail banks were licensed and regulated by a patchwork of different agencies and statutes. The Federal Reserve Board wrote and enforced banking regulations. The Federal Deposit Insurance Corporation (FDIC) insured deposits of at least $250,000 per depositor at commercial banks. The Office of the Comptroller of the Currency (OCC) was an independent bureau within the U.S. Department of the Treasury, whose purview included regulation, chartering, and supervision of all national banks.[21] More recently, as a consequence of the financial crisis of 2008-2009, the Dodd-Frank Wall Street Reform and Consumer Protection Act established, among many other changes, the Consumer Financial Protection Bureau (CFPB), charged with monitoring and enforcing against harmful lending practices and other activities on behalf of consumers.

Community Bank: Running a Retail Operation

In 2017, the Community Bank, Wells Fargo's retail arm, had 6,000 branches in 39 states and the District of Columbia; it had an ATM within two miles of 50% of U.S. households, a total of more than 13,000 ATMs.[22] The bank claimed that 33% of U.S. consumer households and 10% of small businesses in the U.S. had accounts with the Community Bank, with more than 1.6 billion customer interactions at banks or ATMs annually.[23] More than 21 million households[a] made use of at least one Community Bank offering, such as checking and savings accounts, debit and credit cards, savings certificates, individual retirement account (IRA), certificates of deposit or savings accounts, personal loans or lines of credit, and automobile, student, home, and small business lending.[24,25] By 2017, the Community Bank employed 80,000 people.[26]

In 2016, the Community Bank brought in $49 billion in revenues, 55% of total Wells Fargo revenues.[27] Net income was $12.4 billion, down 8% from the previous year.[28] It averaged $476 billion in loans, and $654 billion in deposits.[29] While 61% of Community Bank revenues derived from interest, most of the remainder came from fees, such as service charges on deposit accounts ($3.1 billion), trust and investment fees ($2.6 billion), card feeds ($3.6 billion). $5.6 billion in revenue came from mortgage banking.[30] (See **Exhibits 4** and **5** for Wells Fargo and Community Bank financials).

By 2017, Tolstedt had led the Community Bank for 10 years. Tolstedt's career began in Wells Fargo's Central California region. Having quickly advanced to head of the entire region,[31] in 2007, Tolstedt was promoted to executive vice president and head of the Community Bank. Tolstedt had a reputation for running an efficient organization and was praised for the Community Bank's strong financial performance under her leadership. She won praise from management and the Board. Stumpf often manifested his respect for Tolstedt's intellect, work ethic, acumen, and discipline, and regarded her as "the 'most brilliant' Community Banker he had ever met."[32] In 2015, *Fortune* put Tolstedt at number 27 on its annual list of Most Powerful Women list, calling her "the most powerful female banker in the U.S."[33]

Cross Selling

Community Bank sales strategy focused on cross selling. For example, if a customer opened a checking or savings account, employees were encouraged to propose additional products, such as a

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[a] A household meant the aggregate of all accounts at a single address.

credit card or loan, either at the time of the original purchase, or later. Successful cross selling served to tie the customer more deeply to the bank: it lowered barriers when customers were seeking new products or services, due to familiarity and ease of access, and it increased switching costs. Cross selling was facilitated by the bank offering discounts, fee waivers, and other perks to customers that would purchase more than one service.

Cross selling was a common tactic in retail banking and other sectors. Wells Fargo's 2015 annual report characterized cross selling as a way to provide customers with "the most relevant products, services, advice, and guidance" throughout the duration of their relationship with the bank.[34] The report also stated that Wells Fargo's cross selling was "needs based" and acknowledged that not all customers benefitted equally from each offering.[35] Branch and regional managers held Wells Fargo employees to strict quotas for opening new customer accounts and selling customers additional products and add-ons.[36] Employees quoted by the *Los Angeles Times* stated that the sales goals for employees included selling a minimum of four products to 80% of customers, including overdraft protection on checking accounts, credit cards, mortgages, advisory services, and wealth management.[37] In 2013, Wells Fargo reported that their retail customer households used an average of 6.15 financial products—nearly four times the industry average.[38] In 2015, retail customers had 6.11 products per household, down slightly from the previous two years.

Eight is Great

Community Bank performance assessment was heavily based on year-over-year increases in the volume of products sold. Corporate and Community Bank executives set sales goals for the entire Community Bank, which regional managers then cascaded down to the branch level and individual employees. At each tier, employees were then ranked within their branch and region against one another according to their relative performance.[39] Rankings and performance relative to goals correlated to incentive compensation and promotion opportunities.[40]

The Community Bank engaged in several sales campaigns each year. During these periods, management put special emphasis on sales through higher-than-normal quotas and goals and special rewards for exceeding sales goals.[41] The most prominent bank-wide campaign was "Jump Into January," motivating employees to start the new year by meeting and exceeding January goals.[42]

According to December 2013 *Los Angeles Times* article, top executives pressured employees to target the "Great 8"—i.e., selling an average of eight financial products per household. "Motivator" reports ranked Wells Fargo retail banking districts against one another's performance on monthly, quarterly, and year-to-date (YTD) goals. Daily retail scorecards ranked individual employees on their performances against their individual sales-plan goals.[43] Executives expected that branch managers would not only reach but pass the sales quotas that were assigned to them by regional managers. Results were reviewed in daily conference calls, and managers that had not met their goals were "chastised and embarrassed in front of 60-plus managers in your area by the Community Banking president."[44]

A branch manager described higher ups demanding hourly updates and regularly issuing threats and punishments—such as being required to work on weekends—if employees missed their assigned targets.[45] Some managers would require "[M]ultiple daily calls to discuss sales results and regular 'rally' days that extended the Jump into January campaign throughout the year."[46] In one case, a manager instituted the practice of "running the gauntlet" for Jump into January sales campaigns, "in which district managers dressed up in themed costumes, formed a gauntlet and had each manager run down the line to a whiteboard and report the number of sales they achieved."[47]

Behaviors that resulted in high sales volumes were often spread as best practices. As an example, Tosltedt held Pam Convoy, who had driven the Arizona Regional Banking operations from last place to first within two years of her appointment, as a model of successful behavior. In 2010, Convoy was asked to speak at a leadership conference and was involved in training other regional leaders. Her sales technique included "morning huddles," where district managers would review the previous day's results, as well as several calls to check on branch managers' progress toward their assigned goals. Convoy was known for encouraging subordinates to "operate at the minimum standards of quality required by the Bank in order not to miss productive sales opportunities."[48]

Employees accused district managers (one level above branch managers) of explicitly directing misconduct. In multiple cases, it was reported, district managers would suggest that employees encourage customers to "sign up for products regardless of need."[49] One district manager, according to an investigated employee, taught personal bankers to disguise unnecessary accounts for family members within the computerized system. In one instance, a district manager warned an employee during onboarding that Wells Fargo provided a challenging and intense sales environment and that he should be prepared to "[d]o whatever it took to meet numbers unless it was downright unethical."[50] The Board later wrote:

> Inappropriate coaching techniques spread between branches as employees relocated; for example, one East Coast branch manager described learning to improperly bundle products (for example, presenting debit cards as "coming with" personal accounts) while working on the West Coast. Within branches, employees learned to manipulate customer information from former or fellow managers.[51]

Community Bank hiring and promotion practices further contributed to deepening the sales-centered culture. Consistent with a view that the Community Bank was a retail operation, Tolstedt considered an employee turnover rate of 30% to be within normal ranges. It was her view that "there were always people willing to work for Wells Fargo," therefore she felt comfortable allowing the high pressure, sales-focused culture to operate as a selection mechanism.[52] Wells Fargo employees were generally inexperienced and held the widespread belief that success and promotions depended on selling more than their peers. Inexperienced bankers promoted based on their aggressive sales performance, would then become inexperienced managers that fostered the approach to sales that made them successful.

Successful managers were often moved to locations where sales performance needed improvement, further spreading the culture of aggressive sales tactics. For example, Shelly Freeman was asked to lead the Florida Region based on her performance results as Regional Manager in Los Angeles. During her time in Los Angeles, she crafted a personalized email motivator, in which she stated "This morning [. . .] we are at 99% of solutions, 93% of profit, and 105% of checking. I hate numbers that start with a 9. I like ones that have three digits and start with a 1, as in 105 or 110."[53] When she moved to Florida, she started emphasizing tradeoffs favorable to hitting sales goals at the expense of lower quality of sales.

Pressure to meet sales goals in the Community Bank became so pervasive that employees created jargon to refer to aggressive and illegal sales practices that were becoming common. "Sandbagging" meant an employee did not open a requested account and instead saved the customer's account application for a later time when the employee wished to boost sales metrics.[54] "Bundling" happened when an employee falsely informed a customer that certain products were only available when coupled with add-ons such as extra accounts, protection and insurance plans, or retirement plans.[55] Keeping customers in the dark, employees created phony contact information, such as phone numbers and email addresses.[56] "Staffers, fearing retribution from managers, begged friends and family members to open ghost accounts; opened accounts that they knew customers didn't want; forged signatures on account paperwork; and falsified phone numbers of angry customers so they couldn't be reached for customer satisfaction surveys." [57]

Investigations revealed that from 2011 to 2016, Wells Fargo employees opened over 2 million bank and credit card accounts in customers' names without the customers' knowledge or authorization—over 1.5 million deposit accounts and 565,443 credit card accounts, including 14,000 accounts that generated more than $400,000 in revenue through annual and overdraft protection fees and interest charges.[58]

Sales and Compensation

Sales employees earned base salaries of around $30,000 annually, with bonuses ranging from $500 to $2,000 each quarter for hitting sales targets.[59] To qualify for incentive pay, they had to clear minimum sales thresholds, which varied depending on their position.[60] "In the first quarter of 2012, for example, a banker who achieved approximately nine qualifying daily sales [over the course of a quarter] could receive a $250 quarterly payout; a banker who achieved approximately 11 qualifying daily sales could receive a quarterly payout twice that amount, and a banker who achieved 13 qualifying daily sales could receive an $800 quarterly payout."[61]

Sales performance was a large component of incentive compensation not only for employees at the branch level, but also for district and regional managers and higher executives. District manager incentive compensation included bonuses that reached $10,000 to $20,000.[62] Incentive compensation was based on sales volume, a profit proxy metric, customer experience measures, and, beginning in 2010, sales quality.[63] The main sales quality metric was the rolling funding rate—that is, the average percentage of customer accounts that were funded beyond their minimum balances, indicating that customers were using the product. "District managers were required to achieve a Rolling Funding Rate of 85%, or risk having their incentive compensation reduced," the Board reported.[64]

The Community Bank leadership, in particular Tolstedt and Head of Strategic Planning and Finance Matthew Raphaelson, commonly referred to the sales goals they stated for the regions as a "50/50 plan," suggesting that only half of the regions would be able to achieve them.[65] Many employees felt that the focus on sales performance was excessive. In several cases, bankers complained to the Community Bank leadership that targets were too high and too focused on sales volume and not enough on sales quality; bankers also manifested concerns about the incentive structure leading to bad behaviors. Regardless, the senior leaders were reluctant to extend more focus on quality for fear that it might adversely impact the Community Bank's financial performance.

Wells Fargo Risk Management and Internal Controls

In keeping with the "run it like you own it" culture, corporate functions such as risk management, law, human resources (HR), internal investigations, and audit all had equivalent and largely autonomous units within each reporting segment, including the Community Bank. These local functions often reported to the heads of their respective segments rather than to their equivalent superior in corporate. "Management believed that this decentralized approach was a superior method for managing risk and had helped make Wells Fargo successful, and in particular had helped Wells Fargo come through the 2008 financial crisis relatively unscathed," the Board wrote.[66]

Corporate Risk Management

In the 2000s, the bank began to strengthen corporate oversight of risk – an effort culminating in the creation of an enterprise-level operational risk management and compliance group focused on legal compliance related to consumer lending.[67] In 2010, Michael J. Loughlin became the bank's chief risk officer (CRO). However, the "CRO did not have any line authority or directive power to enforce changes on the lines of business," according to the Board.[68] Loughlin's role was to identify risk issues across the bank, and to escalate them to the enterprise risk management committee (ERMC), CEO, and Board, when necessary, in addition to urging lines of business to address risk issues and to air them more broadly within the bank.[69] A number of other executives, such as the bank's head of enterprise risk, controller, chief compliance officer, chief operational risk officer, and others also had responsibility for risk management. The ERMC, of which the CRO and chief auditor were members, reported to the CEO and to the Board. The Board Risk Committee, established in 2011, supported and assisted the other standing committees in addressing enterprise-wide risks.[70]

In 2013, the Board Risk Committee began a two-year process to centralize risk management and other control functions.[71] The Risk Committee "defined escalation and reporting paths from business groups to Corporate Risk and, ultimately, to the Board level as appropriate" (see **Exhibit 6** for governance committee structure).[72] The ERMC supported the Risk Committee by overseeing efforts to mitigate various risks across the organization and paid specific attention to conduct risk, reputation risk, and strategic risk. The ERMC monitored consistent metrics for each risk type across the bank and measured overall risk, meeting monthly and reporting quarterly to the Board Risk Committee.

"[S]tarting in February 2014 and continuing thereafter, the Board and Risk Committee received from management assurances that Corporate Risk, HR and the Community Bank were undertaking enhanced monitoring and otherwise were addressing sales practice abuses, which were said to be subsiding. Management's reports, however, generally lacked detail and were not accompanied by concrete action plans and metrics to track plan performance."[73]

Operational Risk

Wells Fargo defined operational risk as "the risk of loss resulting from inadequate or failed internal controls and processes, people and systems, or resulting from external events."[74] Specifically, operational risk included "fraud, breaches of customer privacy, business disruptions, inappropriate employee behavior, vendors that do not perform their responsibilities, and regulatory fines and penalties."[75] The 2015 annual report identified information security and the risk of cyber-attacks against the bank as prominent threats, but it did not mention risks relating to fraud or inappropriate employee behavior in connection with cross selling or other sales practices.

Standards of behaviors for employees were outlined in Wells Fargo's code of ethics and business conduct, "Living Our Vision & Values" (see **Exhibit 7**).[76] As of February 2016, the code included explicit language about appropriate and inappropriate sales tactics. Employees were instructed to contact the bank's EthicsLine whistleblower hotline"to report concerns regarding possible violations of the Code or applicable laws, rules, or regulations."[77] The EthicsLine, which was confidential and available over the phone or online, used third-party specialists to summarize complaints or reports, which were then assessed for further action and investigation by Wells Fargo employees. Other recourse included speaking to a manager or HR representative or going directly to the Audit & Examination Committee.[78]

Other Control Functions: Law, HR, Audit, and Investigations

Other board-level committees included the Audit & Examination Committee, responsible for "investigation of concerns raised about accounting, internal accounting controls, or auditing matters"[79]as well as regulatory and risk reporting oversight, tracking leading risk indicators, such as customer feedback and satisfaction.[80] The Human Resources Committee was charged with overseeing employee hiring, training, coaching, discipline, terminations, incentive compensation, performance management, turnover, morale, work environment, claims, and litigation.[81] Management level committees such as those for ethics and integrity oversight and incentive compensation reported to the Human Resources Committee. The Corporate Responsibility committee oversaw a functional framework and maintained corporate policy to manage reputation risk. The committee also had responsibility for "customer service and complaint matters, including related to the Company's culture and its members' focus on serving customers."[82] The chairs of each of the Board's standing committees (audit and examination, corporate responsibility, credit, finance, governance and nominating, and HR) served on the Risk Committee as a means of promoting coordination and in an attempt to achieve comprehensive risk coverage.

The Board of Directors

Ultimate responsibility for oversight and risk management rested with the Board of Directors. The Board identified risks to Wells Fargo's financial performance and "ability to meet the expectations of our customers, stockholders, regulators and other stakeholders."[83] The annual report stated: "Our risk culture begins with our Vision and Values and is demonstrated by setting the appropriate tone at the top, fostering credible challenge within and among each of our lines of defense, and developing and maintaining sound incentive compensation risk management practices."[84] (See **Exhibit 7** for vision and values.)

The Wells Fargo Board consisted of 15 independent directors, in addition to the current CEO, who until 2017 had also served as chair (see **Exhibit 8** for 2017 Board information). Board members served two-year terms and were elected by a majority of shareholders at the bank's annual meeting. The Board's independent directors served on the aforementioned standing committees, each of which reported to the full Board. SEC regulations required the Board to report on the effectiveness of risk management to shareholders and to show that the bank's mitigation controls worked. "Under this rule, 'not knowing' about an activity performed by employees is considered negligence," according to a risk management expert. "Risk assessments must cascade from senior management down to the front lines and across all business silos. This ensures that the personnel most familiar with operational risks (and how to mitigate them) can keep the Board informed."[85]

Widespread Fraud and Misconduct in Community Bank Sales

Within Wells Fargo, signs of unethical sales conduct in the Community Bank started increasing in early 2007 and continued to rise through 2013.[86] In December 2013, the *Los Angeles Times* reported on questionable sales practices at Wells Fargo offices in Southern California. "To meet quotas, employees have opened unneeded accounts for customers, ordered credit cards without customers' permission and forged client signatures on paperwork," stated the piece.[87]

If customers complained, managers gave excuses such as computer bugs or mix-ups between customers with similar names.[88] One customer, Frank Ahn, a convenience store owner, told the *Los Angeles Times* he had waged "a three year battle," over the opening of unauthorized and unwanted accounts.[89] When Ahn initially opened two Wells Fargo accounts in 2011, employees pressured him to open more accounts, on the assurance he would not be charged additional fees.[90] When fees did appear, he cancelled the account but later noticed that three new accounts and a credit card had been created without his authorization. "It got to where I had 10 accounts," Ahn told the *Los Angeles Times*.[91] Efforts to close the unwanted accounts and reverse most, but not all, of the fees required navigating a bureaucratic labyrinth from his local branch to a variety of customer support numbers.[92]

Former employee Siham El-Dahan, a 20-year financial services industry veteran, who spoke to the *Los Angeles Times*, complained to Wells Fargo HR.[93] She claimed that her bosses threatened her and her colleagues for failure to meet sales thresholds, were biased in their treatment of employees, and did not grant employees legally-required breaks.[94] A transfer request was returned by HR to the purview of her branch managers. Emails to bank directors and "a signed letter [from El-Dahan] to Wells Fargo's chief executive, John Stumpf," went unacknowledged.[95] Weeks later, El-Dahan was fired for having issued a loan to a customer who later defaulted.[96] El-Dahan claimed her firing was in fact retaliation for her objections to the bank's managerial practices and sales culture.[97]

"Community Bank-wide rolling 12-month average turnover was above 30% from January 2011 to December 2015, with a peak of 41% for the 12-month period ending in October 2012," wrote the Board.[98] "[T]he Community Bank's annual turnover rate for tellers was 33%, compared to 28% for other financial services companies; for personal bankers, 27% to 23%; for service managers, 10% to 8%; and for branch managers, 11% to 10%."[99]

The funding rate at the bank level dropped from 90% in 2005 to under 80% in 2012.[100] In 2012, the Community Bank's funding rate was as low as 77%, and some regions were at 71%.[101] A decline in the funding rate suggested that customers were not actually using recently-opened accounts and the possibility of increased numbers of unwanted accounts.[102] Allegations of misconduct in sales practices went from 288 in 2007 to 1,469 by 2013.[103] Terminations and resignations stemming from such allegations rose from 61 in 2007 to 447 in 2013—"on a 'per employee' basis, the rate quadrupled," the Board found.[104]

Gaming

An internal report prepared in 2004 was titled "Gaming" and included a large number of forewarning signs about what could happen at Wells Fargo if the bank did not reduce sales pressure. The report was sent to the chief auditor at Wells Fargo and to HR personnel, among others. It warned that employees felt pressure and fear of losing their jobs and, in response to the bank's unrealistic sales goals, felt that "gaming the system" – i.e., manipulating and/or misrepresenting sales performance - was their only option to survive in the organization.[105] The report identified a material reputational risk with customers.[106]

In 2007, a Wells Fargo employee addressed a letter directly to Stumpf, describing significant unethical activity within sales branches and "routine deception and exploitation" of clients, which was so widespread that it had become a normal sales practice.[107] Having received no acknowledgment of the letter, the employee wrote a second one, addressed, again, to Stumpf and also to the Audit and Examination Committee, repeating the descriptions of unethical behavior and reiterating concerns for future reputational damage, lawsuits, and regulatory sanctions.

Neither the "Gaming" report nor the letters were taken into serious consideration by Stumpf or by the Board, which was described as "reluctant to take steps that they believed might have a negative impact on financial performance."[108]

Attempts to Contain Improper Sales Practices

Wells Fargo took steps to limit sales practice violations as early as 2002, when a sales integrity training program and certification were introduced, incentive plans were revised to prevent encouraging improper behavior, and audit programs were implemented to identify suspicious activity.[109] In 2002, the bank also began tracking funding rates. The Board wrote:

> In 2011-2012 a sales quality team, later known as Sales & Service Conduct Oversight Team ("SSCOT"), started operating within the Community Bank, with responsibility to monitor and research allegations of inappropriate sales practices. In 2012, the Quality of Sale Report Card ("QSRC"), administered by SSCOT, was introduced to measure key quality-of-sale indicators, including signature rates, activation rates, procedural issues (such as closures and duplicate products) and the Rolling Funding Rate. By the end of 2013, the QSRC was incorporated into incentive compensation plans for district managers, and the Rolling Funding Rate metric was incorporated into incentive compensation plans for line-level bankers. The Community Bank modestly reduced sales goals for 2013. It also reduced average per-day product sales for branch banker incentive compensation eligibility. In 2013, the Community Bank also began to work on an "Evolving Model" for products and service delivery, which was intended to address sales conduct as well as other business objectives.[110]

In 2012, in response to complaints and trends in risk monitoring metrics such as the funding rate, a Community Bank task force began investigating suspicious patterns in sales practices, specifically looking into geographic regions where customer complaints were on the rise.[111] In early 2013, Wells Fargo fired about 200 employees in Southern California on account of aggressive and questionable sales tactics, rattling some directors and executives who worked in other parts of the country.[112] While some corporate and Community Bank executives questioned whether aggressive sales goals had contributed to the problems in Southern California, no substantial changes were made. "When we first started looking at it, we didn't think it was anything other than rogue junior players and a few rogue managers," said a bank employee.[113]

As the Board noted in a later independent report, there was insufficient appreciation for the gravity of the situation. The reliance on the control functions and on the decentralized approach championed by Stumpf caused management to take a transactional approach toward the analysis and resolution of emerging issues, by which each event was addressed in isolation.

The December 2013 *Los Angeles Times* article on the Community Bank's sales practices prompted the Los Angeles City Attorney to launch an investigation, while the OCC instructed Wells Fargo to hire third-party firms to investigate the matter more thoroughly. Wells Fargo commissioned consulting firm Accenture and law firm Skadden, Arps, Slate, Meagher & Flom LLP to regularly update the Board on risk from improper sales practices. By December 2013, a customer and an employee were suing separately in relation to the opening of unauthorized accounts, while other employees were in court bringing claims of forced, unpaid overtime requirements related to meeting sales goals.[114]

Following the *Los Angeles Times* report, Risk Committee Chair Enrique Hernandez met with CRO Loughlin about Community Bank sales practices.[115] Loughlin then elevated sales practices to "high risk" status, meaning that in 2014 they would be put on Board meeting agendas.[116] Neither Community Bank HR nor corporate HR tracked, analyzed, or reported on issues relating to sales practices.[117] Loughlin had already made attempts to improve corporate risk management's ability to monitor and oversee risk in the lines of business.[118] In October 2013, Loughlin wrote a memorandum stressing the need to improve risk management in customer-impact areas, such as sales. By July 2014, the Board approved a risk management framework that identified sales as a cross-functional risk, but no one from Loughlin's corporate risk group was specifically assigned to implementing the framework until 2015.[119]

In 2014, the bank stopped using motivator reports when regional managers recommended against their continuation at a series of leadership summits.[120] Wells Fargo reduced sales goals for 2014 and took a more active approach at the leadership level of the Community Bank "to set sales goals not only for the regions but also for individual branches to avoid unreasonable allocation of goals. [. . .] Additionally, in early 2014, product packages (i.e., a checking account sold as a unit with other products) were eliminated to prevent products being bundled and sold without customer need. New employees in 2015 were given a separate and substantially lower set of sales goals for their first three to six months of employment."[121] "Community Bank HR instructed that people should not be terminated for failure to meet sales goals, and Wells Fargo transitioned into a qualitative performance rating system. According to one of the witnesses, this transition was made in part because of concern that connecting sales goals to performance rating was driving unethical behavior."[122] By 2015, Wells Fargo hired consulting firm PricewaterhouseCoopers to perform an in-depth analysis that lasted about a year and surfaced fraudulent sales practices in Phoenix, Arizona, Miami, Florida, and Newark, New Jersey.[123]

Fallout

On May 4, 2015, the city of Los Angeles filed a civil complaint in state court, which claimed that Wells Fargo "encouraged its employees to engage 'in unfair, unlawful and fraudulent conduct.'"[124] Due to a statute against unfair business practices, large-city prosecutors could sue on behalf of the entire state, meaning the outcome in Los Angeles County Superior Court applied to residents statewide.[125] The suit sought up to $2,500 fine per violation per customer, as well as full restitution to customers inappropriately charged, and a halt to the illegal practices.[126] Los Angeles officials, including City Attorney Mike Feuer, credited *Los Angeles Times* reporting for catalyzing their suit.[127]

In September 2016, Wells Fargo confirmed its intention to repay customers the total amount charged inappropriately, approximately $5 million.[128] Additionally, the bank paid $100 million in fines to the CFPB Civil Penalty Fund (the largest such penalty the CFPB had issued at that time[129]), $35 million to the OCC, and $50 million to the City and County of Los Angeles, California.[130] Wells Fargo also claimed that it had fired 5,300 employees over several years in relation to the matter. In September 2016 the bank released statements admitting that they "regret and take responsibility for any instances where customers may have received a product that they did not request" and communicated that it was investing in training, monitoring, and controls, as well as customer service, loyalty, and ethics metrics.[131] (See **Exhibit 9** for press release.) On September 25, 2016, the Board's independent directors created a four-member oversight committee charged with conducting an internal investigation using an independent counsel, Shearman & Sterling LLP, as well as overseeing ongoing issues, such as deciding whether to accept demands on the Board issued by shareholders.[b,132]

Shearman & Sterling interviewed over 100 current and former Wells Fargo employees, primarily senior leaders in divisions that related to the sales practice problems; hundreds of lower-level employees were interviewed by or on behalf of Wells Fargo and their testimony passed on to Shearman & Sterling.[133] The findings were reported to the oversight committee on an ongoing basis but were not

[b] The committee, chaired by independent chair, Stephen W. Sanger, included independent directors Elizabeth Duke, vice chair; Hernandez; and Donald M. James and worked closely with the Board HR Committee and independent counsel.

shared with management until April 8, 2017.[134] During the investigation, Shearman & Sterling also analyzed customer behavior, such as how frequently customers deposited funds into new accounts, as an indicator of potentially unneeded or unwanted accounts opened in a customer's name.[135] The consulting review tallied 2.1 million potentially phony consumer and small business accounts, leading Wells Fargo to return $3.2 million to customers relating to 130,000 accounts by March 2017.[136] In addition, a third–party review of "small business retail banking deposit accounts and unsecured credit cards" opened since 2011 was commissioned.

The Board assigned blame to Stumpf and Tolstedt, calling Stumpf "too late and too slow" in focusing attention on selling practices at Community Bank and holding Tolstedt accountable.[137] The Board concluded that "[t]he root cause of sales practice failures was the distortion of the Community Bank's sales culture and performance management system, which, when combined with aggressive sales management, created pressure on employees to sell unwanted or unneeded products to customers and, in some cases, to open unauthorized accounts."[138] Shearman & Sterling discovered a correlation between increasingly ambitious sales goals and "the number of allegations and terminations" and increased numbers of low-quality accounts that customers did not use.[139] They further wrote:

> Stumpf's long-standing working relationship with Tolstedt influenced his judgment as well. Tolstedt reported to Stumpf until late 2015 and he admired her as a banker and for the contributions she made to the Community Bank over many years. At the same time, he was aware that many doubted that she remained the right person to lead the Community Bank in the face of sales practice revelations, including the Board's lead independent director and the head of its Risk Committee. Stumpf nonetheless moved too slowly to address the management issue.[140]

The report stated, "Tolstedt and certain of her inner circle were insular and defensive and did not like to be challenged or hear negative information. [. . .] Tolstedt effectively challenged and resisted scrutiny both from within and outside the Community Bank."[141] She reinforced a culture of tight control over information about the Community Bank, including sales practice issues, which hampered the ability of control functions outside the Community Bank and the Board to accurately assess the problem and work toward a solution. Numerous witnesses referred to, and documents confirmed, the difficulties in getting information from her senior leadership team. Tolstedt actively discouraged providing information to people outside the Community Bank. For example, after learning that a Community Bank executive had discussed sales goals and pressure with Loughlin, Tolstedt instructed her to stop speaking with him and others outside the Community Bank. In October 2012, when Loughlin invited the head of Community Bank HR to speak to the ERMC to discuss employee turnover, Tolstedt objected to the questions posed by Loughlin. She argued against providing detailed information to the ERMC, claiming, for example, that the committee was intended to address only "enterprise" risks. When, in October 2013, Tolstedt learned that Loughlin's group had contacted Community Bank employees regarding sales practices, she emailed Loughlin to complain that the communications had taken place without her involvement.[142]

The report blamed Tolstedt also for failing to provide the Board with accurate information; for example, Board members thought "they were misinformed by a presentation made to the Risk Committee in May 2015—which disclosed that 230 employees had been terminated in the Community Bank but did not provide aggregate Community Bank-wide termination figures that the Risk Committee had expressly requested and which were far higher."[143] After the Los Angeles City Attorney filed its lawsuit, a May 2015 Board presentation left the committee members "with the understanding that sales integrity terminations were in the range of 200-300 and were largely localized in Southern California."[144] However, the actual numbers for 2013 and 2014 were 1,229 and 1,293.[145]

Fall 2016 through Spring 2017: After the Scandal Broke

Wells Fargo undertook several remedial actions to repair the damage and prevent improper behavior from becoming widespread in the future. These included changes in the leadership and management structure of the Community Bank; eliminating sales goals; altering the incentive pay system; and centralizing control functions.[146] The Board also created an Office of Ethics, Oversight and Integrity to monitor and receive reports on internal controls throughout the organization.[147] Some of these actions were based, in part, on input received from investors and other shareholders. Wells Fargo had reached out to shareholders holding more than 30% of outstanding common shares to discuss the sales practices scandal, Board composition, director tenure, risk oversight, and executive compensation.[148]

The bank voluntarily reviewed retail and small business accounts dating back to 2009 to identify as many customers as possible that may have been mistreated.[149] It reached out to tens of millions of potentially affected customers through mailings, online communication, and public statements. A toll-free hotline was established for customers to report issues with sales practices. The bank began sending automated emails to customers when accounts were opened. For wronged customers, the bank set up a free mediation program to process claims and to help customers understand how unauthorized credit cards and other services might have affected their credit scores. A Wells Fargo spokesperson stated: "Our number one priority is rebuilding trust with customers and team members."[150] (See **Exhibit 10** for information on customer satisfaction before and after the settlement.)

On October 12, 2016, John Stumpf retired early, and Tim Sloan, previously president and chief operating officer, took over as CEO.[151] By the end of November, the Board separated the roles of chair and CEO, requiring that the chair position be held by an independent director and electing Stephen W. Sanger to fill the post.[152] On April 7, 2017, the Board's compensation committee announced that, based on the findings produced by the special investigation, Wells Fargo had been justified in terminating Tolstedt for cause; she was forced to forego stock options worth $47.3 million at the time. Stumpf was penalized with a $28 million clawback of incentive-based pay, which he had been paid in March 2016 under an equity grant dating from 2013. According to the Board report, more than $180 million in compensation to senior executives was adjusted or clawed back.[153]

Time to Vote

The Wells Fargo annual shareholder meeting was scheduled for April 25, 2017 in Ponte Vedra Beach, Florida. Heading into the meeting, investors had a lot to consider. On the one hand, by March 1, 2017, share prices had rebounded to peak at an all-time high of $59.73 (see **Exhibit 2**).[154] On the other hand, there were important reasons for concern. A report issued by proxy advisory firm Glass Lewis, noted: "The quarter following the announcement of the false accounts, the Company's new credit card applications and new checking account openings were down 43% and 40% percent from 2015 numbers, respectively; however, the Company stated that its reported loss for the quarter had little to do with the account scandal and was caused by an accounting quirk in the way that it hedges."[155]

Even after the settlement with the CFPB, OCC, and Los Angeles City Attorney, Wells Fargo was still dealing with a number of civil lawsuits filed by non-governmental parties seeking remediation for the improper sales practices. In April of 2017, attorney Micheal Kade, representing former Wells Fargo employees, when asked whether Wells Fargo had suffered enough in the aftermath of the scandal's emergence, stated in an interview: "Absolutely not. As soon as I see five or six people go to jail for a very long time—federal prison—I would say our system of government is doing something about it."[156]

Glass Lewis addressed the importance of the reputational damage in its proxy report for the 2017 annual shareholder meeting, describing the scandal as "a stark reminder for institutions presumably more focused on stress tests, living wills and Basel ratios that 'reputational risk' should be more than a tertiary consideration."[157] The report stated: "While the Company's traditionally conservative and prudent financial risk management practices helped it emerge from the 2008 financial crisis relatively unscathed and in far better standing than most of its peers, a cultural failure led to arguably the most negative media coverage of any company in the business world during 2016. The effects are likely to continue for the foreseeable future."[158] (See **Exhibit 11** for details on Glass Lewis' risk assessment.)

All 15 Board members were up for re-election, and Glass Lewis recommended against confirming four nominees who had served on the bank's Corporate Responsibility committee (**Exhibit 12**). In their proxy recommendation, they wrote:

> We are concerned that the report's timeline regarding Board intervention begins essentially in late 2013, when the egregious sales practices were the subject of a news article. The Risk Committee intermittently pressed for better information from management in the following years, but the Board meeting that appears to upset directors most occurred in May of 2015 after the filing of the Los Angeles City Attorney's lawsuit. While Board members may have a right to feel aggrieved that Ms. Tolstedt and other Community Bank employees failed to give them an accurate picture of the mass-firings occurring across the Company's retail operation for a number of years, we believe that at that point the damage had already been done: the report details questionable activities inside the Community Bank that went on for roughly a decade without proper escalation. In our view, shareholders can give credit to the Board for its actions since the scandal erupted, but should not avoid placing blame on the Board for its failings in implementing an oversight structure that could have identified or prevented these actions before they inflicted significant reputational harm on the Company. That the Board was not briefed on sales culture concerns until 2014 and wanted Ms. Tolstedt fired by the end of 2015 are not, in our opinion, the pillars of a particularly strong defense.[159]

Proxy advisory firm Institutional Shareholders Services (ISS) placed blame on the Board's Audit and Examination, Risk, and HR standing committees for failing in their risk oversight responsibilities over a number of years. ISS concluded that, had committees executed their duties, the harmful impact of the "unsound retail banking sales practices" could have been mitigated.[160] ISS advised shareholders to vote against 12 of the 15 Board members' reappointments (**Exhibit 12**):[161]

> A vote AGAINST Audit and Examination Committee members John Baker II, Federico Peña, James Quigley, Susan Swenson, and Suzanne Vautrinot is warranted given the Audit Committee's failure to provide sufficient timely risk oversight.
>
> A vote AGAINST Risk Committee members Lloyd Dean, Elizabeth Duke, Enrique Hernandez Jr., Cynthia Milligan, Federico F. Peña, James H. Quigley, and Stephen Sanger is warranted given the Risk Committee's failure to provide sufficient timely risk oversight.

> A vote AGAINST Human Resource Committee members John Chen, Lloyd Dean, Donald James, and Stephen Sanger is warranted given the Human Resources Committee's failure to provide sufficient timely risk oversight.[162]

The Board reacted to these adverse recommendations by stating that ISS had failed to take into account the actions already implemented to strengthen oversight and increase accountability at all levels of Wells Fargo's organization, including some important provisions to improve corporate governance.

The ball was now in the shareholders' court. Had the Board done enough to regain the trust of the shareholders? Was the lesson they had learned sufficient to prevent similar issues in the future?

Exhibit 1 Wells Fargo Statement on Agreements Related to Sales Practices, September 8, 2016

Wells Fargo Bank, N.A., a subsidiary of Wells Fargo & Company (NYSE:WFC), reached agreements with the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, and the Office of the Los Angeles City Attorney, regarding allegations that some of its retail customers received products and services they did not request.

The amount of the settlements, which Wells Fargo had fully accrued for at June 30, 2016, totaled $185 million, plus $5 million in customer remediation.

The company issued the following statement related to today's news:

"Wells Fargo reached these agreements consistent with our commitment to customers and in the interest of putting this matter behind us. Wells Fargo is committed to putting our customers' interests first 100 percent of the time, and we regret and take responsibility for any instances where customers may have received a product that they did not request.

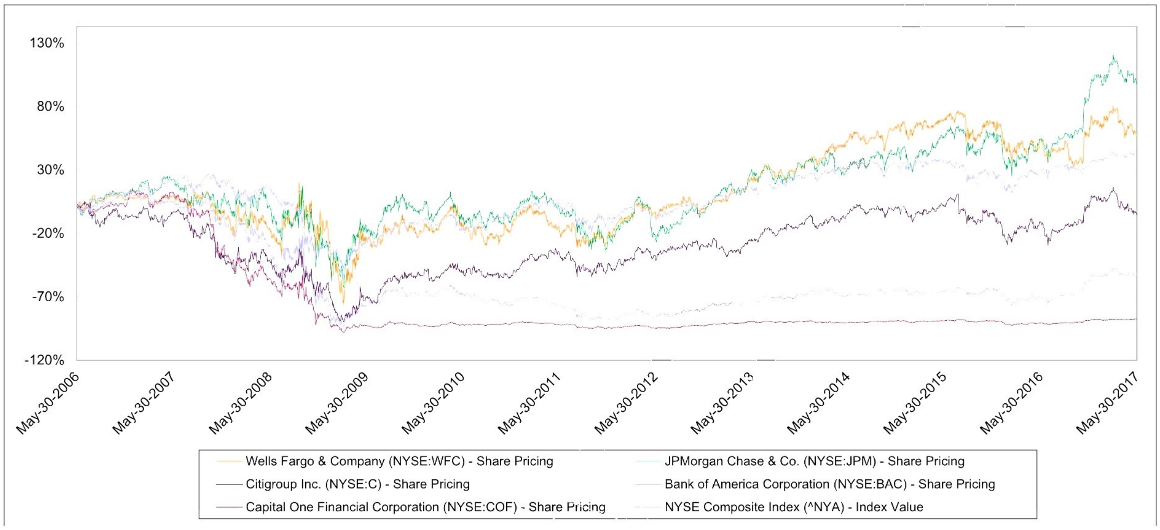
Our commitment to addressing the concerns covered by these agreements has included:

- An extensive review by a third-party consulting firm going back into 2011, which we completed prior to these settlements. The review included consumer and small business retail banking deposit accounts and unsecured credit cards opened during the period reviewed.
- As a result of this review, $2.6 million has been refunded to customers for any fees associated with products customers received that they may not have requested. Accounts refunded represented a fraction of one percent of the accounts reviewed, and refunds averaged $25.
- Disciplinary actions, including terminations of managers and team members who acted counter to our values.
- Investments in enhanced team-member training and monitoring and controls.
- Strengthened performance measures that are tied to customer satisfaction, loyalty and ethics.
- Sending customers a confirming email within one hour of opening any deposit account, and sending an application acknowledgement and decision status letter after submitting an application for a credit card."

In addition, as noted in a message emailed to all Wells Fargo team members today, the company said "Our entire culture is centered on doing what is right for our customers. However, at Wells Fargo, when we make mistakes, we are open about it, we take responsibility, and we take action. Today's agreements are consistent with these beliefs." Customers can visit wellsfargo.com/commitment to view their accounts, and for information about this announcement.

Source: Wells Fargo, "Wells Fargo Issues Statement on Agreements Related to Sales Practices," press release, September 8, 2016, https://www.wellsfargo.com/about/press/2016/sales-practices-agreements_0908/, accessed April 2017.

Exhibit 2 Stock Chart, Wells Fargo and competitors, May 30, 2006 to May 30, 2017



Source: Capital IQ, Inc., a division of Standard & Poor's, accessed May 2017.

Exhibit 3 Wells Fargo and Competitors, Comparative Statistics, December 31, 2016 unless otherwise indicated

	Wells Fargo	**Bank of America**	**Capital One**	**Citigroup**	**JPMorgan Chase**
Closing share price, April 24, 2017	$53.65	$23.63	$84.68	$59.44	$87.50
Market capitalization, April 24, 2017	$268 billion	$236 billion	$41 billion	$164 billion	$311 billion
Revenue	$84.5 billion	$80.1 billion	$19 billion	$63.1 billion	$90.3 billion
Earnings from Continuing Operations	$22 billion	$17.9 billion	$3.8 billion	$15 billion	$24.7 billion
Net Income Margin	25.9%	22.4%	19.7%	23.6%	27.4%
Total Assets	$1.9 trillion	$2.2 trillion	$357 billion	$1.8 trillion	$2.5 trillion
ROE	11.2%	6.8%	8.0%	6.7%	9.9%
ROA	1.2%	0.8%	1.1%	0.9%	1.0%
5-Year Revenue CAGR	3%	0.3%	6.5%	(0.9%)	0.1%
5-Year EPS CAGR	7.2%	182.4%	(0.3%)	5.6%	6.7%
Number of Employees	272,800	209,000	48,400	215,000	246,345

Source: Capital IQ, Inc., a division of Standard & Poor's, accessed June 2017.

Exhibit 4 Wells Fargo Operating Segment Results, Years Ended December 31, 2015 and 2016

	Community Banking	Wholesale Banking	Wealth and Investment Management	Other	Consolidated Company
(in millions, except average balances, which are in billions)					
2016					
Revenue	48,866	28,542	15,946	(5,087)	88,267
Provision (reversal of provision) for credit losses	2,691	1,073	(5)	11	3,770
Net income (loss)	12,435	8,235	2,426	(1,158)	21,938
Average loans	486.9	449.3	67.3	(53.5)	950.0
Average deposits	701.2	438.6	187.8	(77.0)	1,250.6
2015					
Revenue	49,341	25,904	15,777	(4,965)	86,057
Provision (reversal of provision) for credit losses	2,427	27	(25)	13	2,442
Net income (loss)	13,491	8,194	2,316	(1,107)	22,894
Average loans	475.9	397.3	60.1	(47.9)	885.4
Average deposits	654.4	438.9	172.3	(71.5)	1,194.1

Source: Wells Fargo, 2016 Annual Report (San Francisco: Wells Fargo, 2017), pp. 51, https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2016-annual-report.pdf, accessed May 2017.

Exhibit 5 Community Banking Financial Performance, 2014 to 2016

Year Ended December 31,	**2016**	2015	% Change	2014	% Change
(in millions, except average balances, which are in billions)					
Net interest income	**29,833**	29,242	2%	27,999	4%
Noninterest income					
Service charges on deposit accounts	**3,136**	3,014	4%	3,071	(2%)
Trust and investment fees:					
Brokerage advisory, commissions and other fees[1]	**1,854**	2,044	(9%)	1,796	14%
Trust and investment management[2]	**849**	855	(1%)	817	5%
Investment banking[2]	**(141)**	(123)	(15%)	(80)	(54%)
Total trust and investment fees	**2,562**	2,776	(8%)	2,533	10%
Card fees	**3,592**	3,381	6%	3,119	8%
Other fees	**1,494**	1,446	3%	1,545	(6%)
Mortgage banking	**5,624**	6,056	(7%)	6,011	1%
Insurance	**6**	96	(94%)	127	(24%)
Net gains (losses) from trading activities	**(17)**	(146)	88%	136	(207%)
Net gains (losses) on debt securities	**928**	556	67%	255	118%
Net gains from equity investment[3]	**673**	1,714	(61%)	1,731	(1%)
Other income of the segment	**1,035**	1,206	(14%)	1,631	(26%)
Total noninterest income	**19,033**	20,099	(5%)	20,159	0%
Total revenue	**48,866**	49,341	(1%)	48,158	2%

Year Ended December 31,	2016	2015	% Change	2014	% Change
Provision for credit losses	**2,691**	2,427	11%	1,796	35%
Noninterest expense:					
Personnel expense	**18,655**	17,574	6%	16,979	4%
Equipment	**2,035**	1,914	6%	1,809	6%
Net occupancy	**2,070**	2,104	(2%)	2,154	(2%)
Core deposit and other intangibles	**500**	573	(13%)	620	(8%)
FDIC and other deposit assessments	**649**	549	18%	526	4%
Outside professional services	**1,169**	1,012	16%	1,011	0%
Operating losses	**1,451**	1,503	(3%)	1,052	43%
Other expense of the segment	**893**	1,752	(49%)	2,139	(18%)
Total noninterest expense	**27,422**	26,981	2%	26,290	3%
Income before income tax expense and noncontrolling interests	**18,753**	19,933	(6%)	20,072	(1%)
Income tax expense	**6,182**	6,202	0%	6,049	3%
Net income from noncontrolling interests[4]	**136**	240	(43%)	337	(29%)
Net income	**12,435**	13,491	(8%)	13,686	(1%)
Average loans	**486.9**	475.9	2%	468.8	2%
Average deposits	**701.2**	654.4	7%	614.3	7%

Source: Wells Fargo, 2016 Annual Report (San Francisco: Wells Fargo, 2017), pp. 52, https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2016-annual-report.pdf, accessed May 2017.

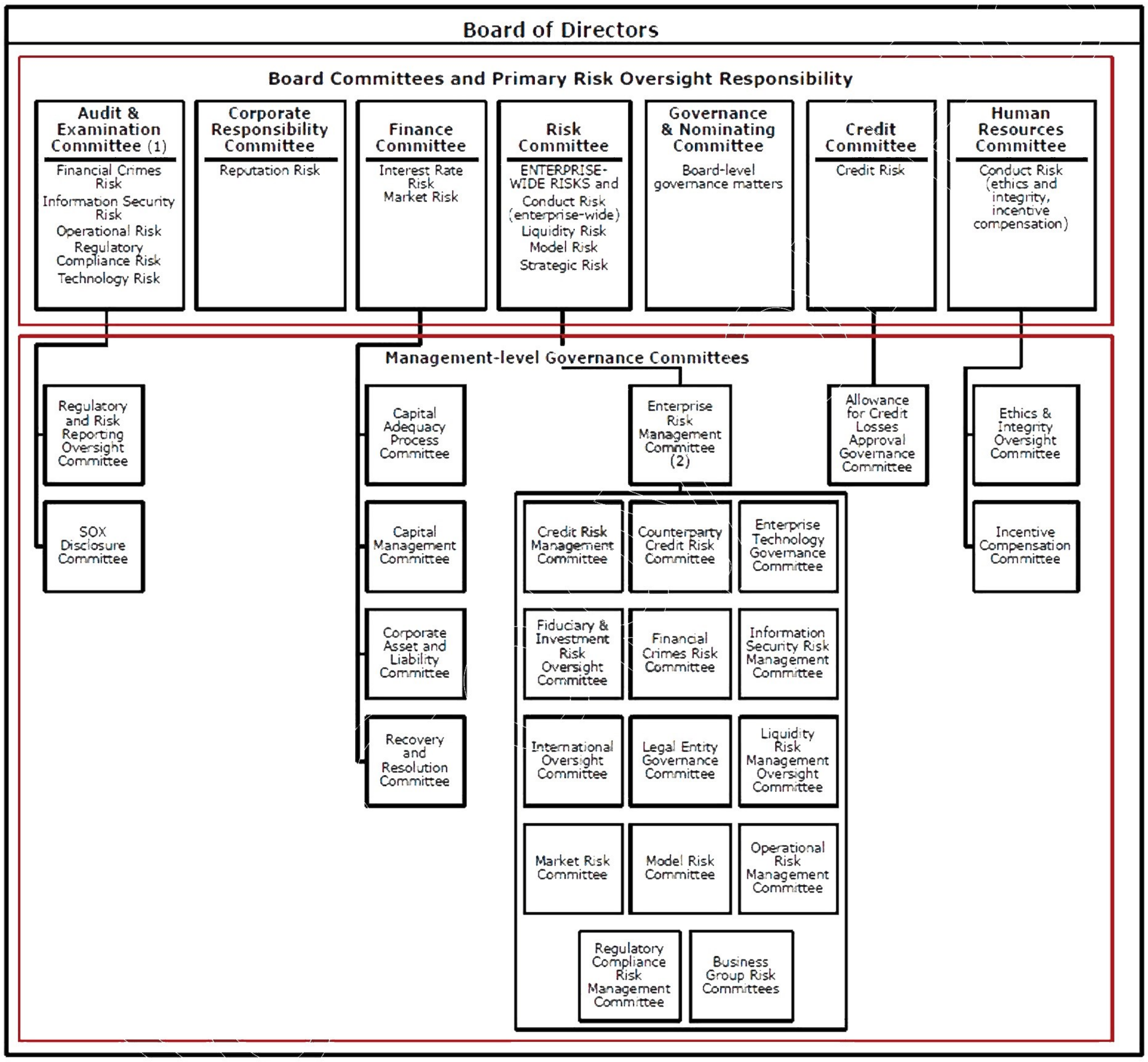
Note: (1) Represents income on products and services for Wealth and Investment Management customers served through Community Banking distribution channels and is eliminated in consolidation.

(2) Includes syndication and underwriting fees paid to Wells Fargo Securities which are offset in our Wholesale Banking segment.

(3) Predominantly represents gains resulting from venture capital investments.

(4) Reflects results attributable to noncontrolling interests primarily associated with the Company's consolidated venture capital investments.

Exhibit 6 Wells Fargo Board and Management-level Governance Committee Structure, 2017



Source: Wells Fargo, Annual Report 2016 (San Francisco: Wells Fargo, 2017), p. 64, https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2016-annual-report.pdf, accessed June 2017.

Note: (1) The Audit & Examination Committee additionally oversees the internal audit function, external auditor performance, and the disclosure framework for financial and risk reports prepared for the Board, management, and bank regulatory agencies. (2) Certain committees that report to the Enterprise Risk Management Committee have dual escalation and informational reporting paths to Board-level committees. SOX denoted the Sarbanes-Oxley regulatory framework.

Exhibit 7 Wells Fargo Vision and Values

Vision *"We want to satisfy our customers' financial needs and help them succeed financially."* Our vision of financially successful customers is based on a simple premise: We believe customers across all business segments can be better served, and save time and money, if they bring their financial services to one trusted provider that knows them well, provides reliable guidance, and can serve their full range of financial needs through a wide choice of products and services. Our journey toward this customer-centered vision has required hard work, persistence, and determination. We've made steady progress toward this goal. But we still have much to accomplish. Our job—central to our vision—is to make it easy for customers to work with us so we can satisfy their financial needs. It's about building lifelong relationships one customer at a time. Each of our customers defines "financial success" differently and very personally. Some want financial security and self-sufficiency. Others want to be disciplined about spending and saving so they can afford to buy a home, start or grow a business, save for education, or prepare for retirement. And some just want to be better informed about financial matters. Knowing what financial success means to each of our customers is the starting point for serving them well. The reason we wake up in the morning is to help our customers succeed financially and to satisfy their financial needs, and the result is that we make money. It's never the other way around. Our time-tested vision will forever be what matters to Wells Fargo.

Values Our values should guide every conversation, decision, and interaction. Our values should anchor every product and service we provide and every channel we operate. If we can't link what we do to one of our values, we should ask ourselves why we're doing it. It's that simple. We have five primary values that are based on our vision and provide the foundation for everything we do:

- People as a competitive advantage: We value and support our team members as a competitive advantage.
- Ethics: Honesty, trust, and integrity are essential for meeting the highest standards of corporate governance.
- What's right for customers: We value what's right for customers in everything we do.
- Diversity and inclusion: We want to build and sustain a diverse and inclusive culture for all Wells Fargo team members.
- Leadership: We define leadership as the act of establishing, sharing, and communicating our vision, and as the art of motivating others to understand and embrace our vision. Our leaders need to be accountable—to share the credit and shoulder the blame.

We bring the *Vision & Values* to life each day through delivering on our six priorities: putting customers first, growing revenue, managing expenses, living our vision and values, connecting with communities and stakeholders, and managing risk. These priorities also support our focus on the relationships with customers, team members, communities, and shareholders that are at the heart of our culture.

Source: Adapted by casewriter from Wells Fargo, "The Vision & Values of Wells Fargo," https://www08.wellsfargomedia.com/assets/pdf/about/corporate/vision-and-values.pdf and Wells Fargo, Annual Report 2015 (San Francisco: Wells Fargo, 2016), p. 4, https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2015-annual-report.pdf, accessed June 2017.

Exhibit 9 Wells Fargo Press Release Regarding Executive Compensation Actions, March 1, 2017

Wells Fargo Announces Executive Compensation Actions to Promote Accountability

Eight Senior Executives Will Receive No Cash Bonuses for 2016; Three-Year Equity Awards Made in 2014 Will Be Reduced By Up To 50%

SAN FRANCISCO, March 1, 2017

Wells Fargo & Company (NYSE: WFC) today announced executive compensation actions to reinforce accountability of the company's leadership for the issues arising from the Community Bank's sales practices.

The Board has taken actions affecting the Operating Committee, Wells Fargo's 11 highest-ranking executives, based on the accountability of all those in senior management for the overall operational and reputation risk of the company, and not on any findings of improper behavior in the Board's ongoing independent investigation. The compensation actions will affect the eight members of the Committee who were in place before it was reconstituted in November 2016.

These executives are:

- Tim Sloan, President and Chief Executive Officer
- John Shrewsberry, Chief Financial Officer
- David Carroll, Head of Wealth and Investment Management
- Avid Modjtabai, Head of Payments, Virtual Solutions and Innovation
- Hope Hardison, Chief Administrative Officer
- David Julian, Chief Auditor
- Michael Loughlin, Chief Risk Officer
- James Strother, General Counsel

These eight executives will not receive cash bonuses for 2016. In addition, the performance share equity awards they received in 2014 that vested following 2016 will be reduced by up to 50% from the amounts that would have been paid based on previously established financial performance targets. The result is an aggregate reduction in compensation totaling approximately $32 million, based on 2016 target bonuses and the current price of Wells Fargo shares.

These compensation actions are in addition to previously announced forfeitures of unvested equity awards totaling $41 million by retired Chairman and CEO John Stumpf and $19 million by departed head of Community Banking Carrie Tolstedt.

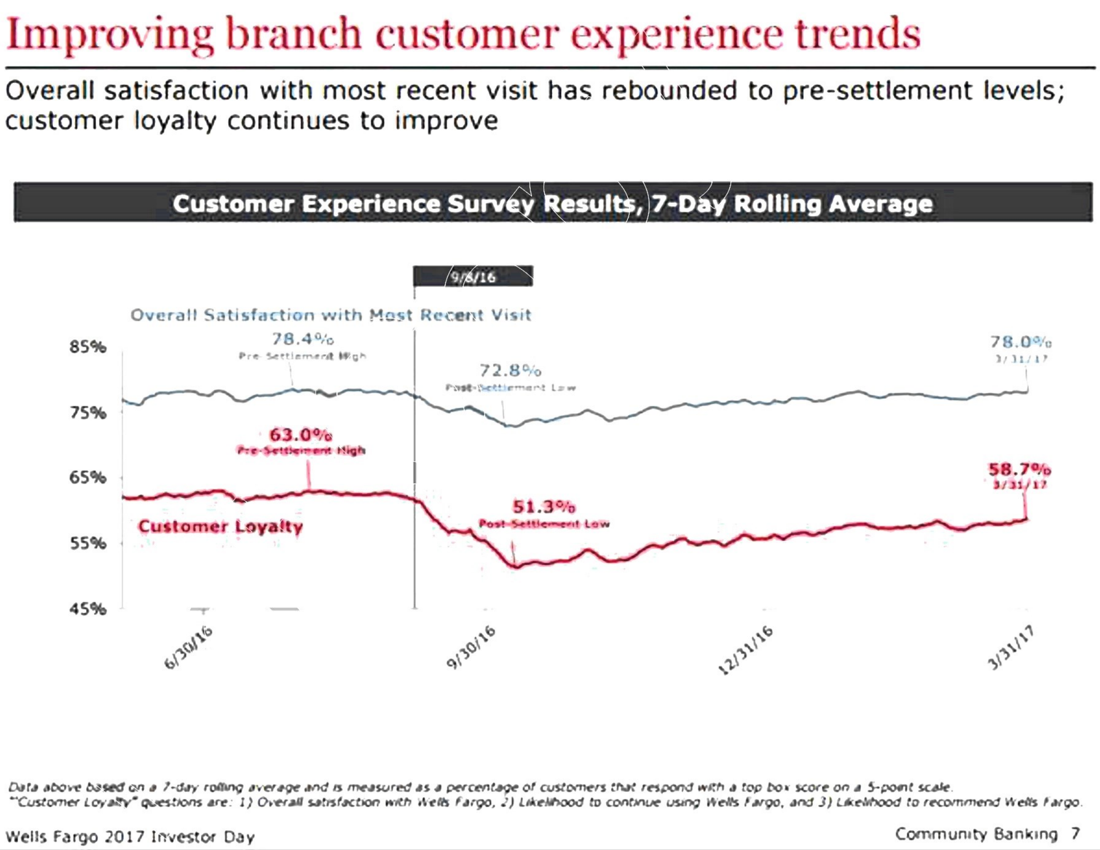
Chairman Stephen Sanger said, "These compensation actions for the Operating Committee, though not related to any findings of improper behavior, are part of the Board's ongoing efforts to promote accountability and ensure Wells Fargo puts customer interests first. As we seek to regain trust, the Board is taking decisive actions. We will continue to work to make right what went wrong and remain focused on providing the accountability and oversight that our customers, employees, and investors expect and deserve."

Tim Sloan said, “I fully support the Board’s actions and believe they are critical to Wells Fargo’s commitment to our customers. It is my personal mission to foster a culture of accountability at all levels of the company and to ensure we are second to none in customer service and advice, ethics, and integrity. Today’s action is another step in that direction.”

The Board’s independent investigation is ongoing. As previously announced, the investigation is expected to be completed before the company’s April 2017 annual meeting of stockholders and its findings and any additional actions will be made public by that time.

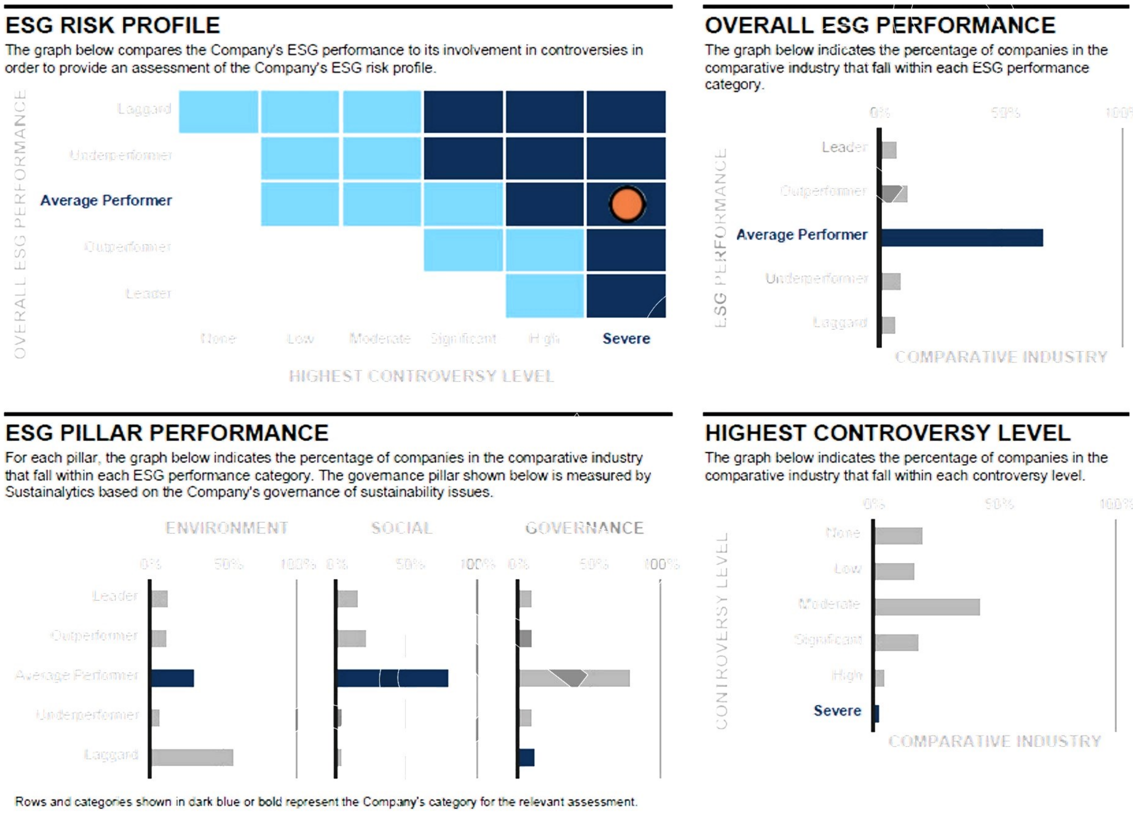
Source: Wells Fargo, “Wells Fargo Announces Executive Compensation Actions to Promote Accountability,” press release, March 1, 2017, available at https://www.wellsfargo.com/about/press/2017/compensation-actions_0301/, accessed June 2017.

Exhibit 10 Customer Experience Survey Results, March 31, 2017



Source: Mary Mack, “Wells Fargo Community Banking,” Wells Fargo & Co. Investor Day presentation, May 11, 2017, https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/community-banking-presentation.pdf, accessed May 2017.

Exhibit 11 Glass Lewis ESG Risk Profile, April 25, 2017



Source: Glass Lewis, "Proxy Paper: Wells Fargo & Company," for meeting date April 25, 2017, published April 3, 2017, pp. 5.

Exhibit 12 Voting Recommendations for Wells Fargo Annual Meeting Management and Shareholder Proposals, Proxy Advisors Glass Lewis and ISS, April 25, 2017

Issue	Board	Glass Lewis	ISS
Election of Directors	For	Split	
Elect John D. Baker II	For	Against	Against
Elect John S. Chen	For	Against	Against
Elect Lloyd H. Dean	For	Against	Against
Elect Elizabeth A. Duke	For	For	Against
Elect Enrique Hernandez, Jr.	For	Against	Against
Elect Donald M. James	For	For	Against
Elect Cynthia H. Milligan	For	Against	Against
Elect Karen B. Peetz	For	For	For
Elect Federico F. Peña	For	For	Against
Elect James H. Quigley	For	For	Against
Elect Stephen W. Sanger	For	For	Against
Elect Ronald L. Sargent	For	For	For
Elect Timothy J. Sloan	For	For	For
Elect Susan Swenson	For	Against	Against
Elect Suzanne M. Vautrinot	For	For	Against
Advisory Vote to Ratify Named Executive Officers' Compensation	For	For	For
Advisory Vote on Frequency of Advisory Voting on Executive Compensation ("Say On Pay")	1 Year	1 Year	1 Year
Ratification of Auditor (KPMG)	For	For	For
Shareholder Proposal Regarding Review and Report on Business Standards and Sales Practices in Retail Banking	Against	Against	For
Shareholder Proposal Regarding Providing for Cumulative Voting	Against	Against	Against
Shareholder Proposal Regarding Study Session to Address Divestiture of Non-Core Banking Assets	Against	Against	Against
Shareholder Proposal Regarding Report on Gender Pay Equity	Against	For	Against
Shareholder Proposal Regarding Report on Lobbying Payments and Policy	Against	Against	Against
Shareholder Proposal Regarding Adoption of Global Policy Regarding the Rights of Indigenous Peoples	Against	Against	For

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