

# What Can We Learn From the Wells Fargo Fiasco?

## Recap of the Issues

- Between 2011 and 2016, Wells Fargo terminated the employment of 5,300 workers for creating as many as two million unauthorized bank and credit card accounts; around 10 percent of those worked at the branch manager level or above, according to the bank, but only one, an area president, had a high-level management role.
- Wells Fargo paid a fine of \$185 million to settle allegations its employees opened millions of accounts without customers' permission to reach aggressive sales targets.
- Wells Fargo CEO Stumpf was grilled by Elizabeth Warren [https://twitter.com/cspan/status/778266130909499392?ref\\_src=twsrc%5Etfw](https://twitter.com/cspan/status/778266130909499392?ref_src=twsrc%5Etfw)

## Clawback and Recoupment Policies and Provisions

Wells Fargo has strong recoupment and clawback policies in place designed so that incentive compensation awards to our named executives encourage the creation of long-term, sustainable performance, while at the same time discourage our executives from taking imprudent or excessive risks that would adversely impact the Company. The Company has multiple recoupment or clawback policies and provisions in place that are applicable to our executive officers.

Policy/Provision	Trigger for Clawback or Recoupment	Compensation Subject to Recovery	Impacted Population
<b>Unearned Compensation Recoupment Policy</b>	Misconduct by an executive that contributes to the Company having to restate all or a significant portion of its financial statements	Any bonus or incentive compensation that was based on achievement of financial results that were restated downward	Executive Officers
<b>Extended Clawback Policy</b>	Incentive compensation was based on materially inaccurate financial information, whether or not the executive was responsible	Incentive compensation that was based on materially inaccurate financial information	Executive Officers and certain other highly compensated employees
<b>Performance-Based Vesting Conditions</b>	<ul style="list-style-type: none"> <li>Misconduct which has or might reasonably be expected to have reputational or other harm to the Company or any conduct that constitutes "cause,"</li> <li>Misconduct or commission of a material error that causes or might be reasonably expected to cause significant financial or reputational harm to the Company or the executive's business group,</li> <li>Improper or grossly negligent failure, including in a supervisory capacity, to identify, escalate, monitor or manage, in a</li> </ul>	RSR awards and Performance Share awards granted to our named executives are subject to cancellation if the HRC determines that a trigger event has occurred	Executive Officers  Other team members in receipt of RSRs as part of annual incentive/bonus awards

Policy/Provision	Trigger for Clawback or Recoupment	Compensation Subject to Recovery	Impacted Population
	<p>timely manner and as reasonably expected, risks material to the Company or the executive's business group,</p> <ul style="list-style-type: none"> <li>• An award was based on materially inaccurate performance metrics, whether or not the executive was responsible for the inaccuracy, or</li> <li>• The Company or the executive's business group suffers a material downturn in financial performance or suffers a material failure of risk management</li> </ul>		
<p><b>Clawback Provisions Included In All Equity-Based Awards</b></p>	<p>In accordance with the terms of any recoupment or clawback policy or requirement from time to time maintained by Wells Fargo or required by law, as set forth in award agreements for equity-based compensation grants since 2009. The LTICP also provides that awards are subject to any Company recoupment policy or any recoupment requirement imposed under applicable laws</p>	<p>All equity awards granted under the LTICP, whether vested or unvested, for which the applicable Company clawback or recoupment policy or legal requirement is triggered</p>	<p>All team members who receive Wells Fargo equity awards under the LTICP</p>

If the Board or HRC determines to clawback or recoup compensation following a determination that a senior executive has engaged in misconduct, including in a supervisory capacity, that results in significant financial or reputational harm to the Company or in a material financial restatement, the Board or HRC will determine whether and to what extent public disclosure of information regarding such clawback or recoupment, including the amount of compensation and the executive(s) impacted, is appropriate, subject to applicable legal and contractual restrictions, including privacy laws.

## Wells Fargo's Board Takes Action

- John Stumpf will forfeit \$41 million for the bank's burgeoning sales scandal, marking one of the biggest rebukes to the head of a major U.S. financial institution.
- Wells Fargo's board said Ms. Tolstedt, who oversaw retail banking during bad behavior there, will forfeit unvested equity awards valued at \$19 million.
- John Stumpf, who led Wells Fargo & Co. through the financial crisis and built it into the world's most valuable bank, stepped down as chief executive officer and chairman, bowing to public outcry over legions of accounts opened by his employees for customers who didn't request them.

# What Lessons Can We Learn from the Wells Fargo

- What are the internal mechanisms that companies can use to monitor potential ethics violations or fraudulent behavior?
  - Omsbud office
  - Ethics hotline
  - Other mechanisms?
- When does an event warrant public disclosure?
  - What is the process for debate/decision re disclosure?
  - What should be the applicable standard?
    - SEC regs/Listing standards requirements?
    - Company image/reputational assessment?
    - Other criteria?

# What Lessons Can We Learn from the Wells Fargo

- What does this say about the Wells Fargo culture?
- What does this say about the Wells Fargo risk management processes?
- What should Wells Fargo have done differently once it learned of the fraudulent behavior of opening fake accounts?
- If you were the CHRO at Wells Fargo:
  - What would you have advised Wells Fargo's CEO to have done once the magnitude of the fraud was discovered?
  - What would you have advised the board to do?
  - What changes would you recommend in the incentive plans or training of managers and employees?
- **Based on the Wells Fargo lessons learned, what is one action you might take in your own organization to help prevent something like this from happening.**