

OMB APPROVAL  
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U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

<b>FACING PAGE</b>		
<b>Annual Audited Report Form X-17A-5—Part III</b>	<b>Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder</b>	<b>SEC File No. 8-16600</b>

REPORT FOR THE PERIOD BEGINNING January 1, 2005 AND ENDING December 31, 2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

**Name of Broker-Dealer:** Wells Fargo Institutional Securities, LLC

**Address of Principal Place of Business:**  
(Do not use P.O. Box No.)  
608 Second Avenue South, 10<sup>th</sup> Floor

**PROCESSED**

Official Use Only

MAY 04 2006

THOMSON FINANCIAL

Firm ID No.

(No. and Street)

Minneapolis  
(City)

Minnesota  
(State)

55479  
(Zip Code)

**Name and Telephone Number of Person to Contact in Regard to This Report**

Joan C. Niedfeldt

612-667-5962

(Area Code—Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

**INDEPENDENT PUBLIC ACCOUNTANT** whose opinion is contained in this Report\*

KPMG

(Name—if individual, state last, first, middle name)

4200 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN

55402

(Address)

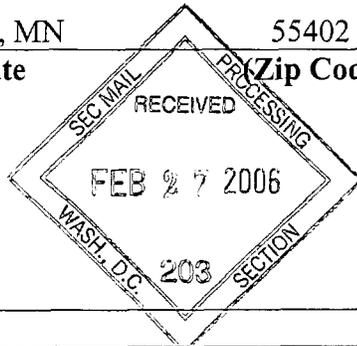
City

State

(Zip Code)

**Check One:**

- Certified Public Accountant
- Public Accountant
- Accountant not resident in U.S. or any of its possessions.



**For Official Use Only**

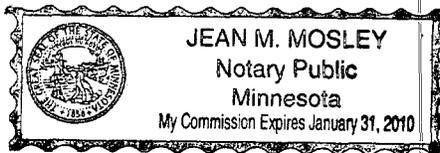
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

SEC 1410 (3.91)

## OATH OR AFFIRMATION

I, Joan C. Niedfeldt, swear (or affirm) that to the best of my knowledge and belief the accompanying financial statement pertaining to the firm of Wells Fargo Institutional Securities, LLC as of December 31, 2005 is true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None



*Joan C. Niedfeldt*

*Jean M. Mosley*  
Notary Public

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see Section 240.17a5(e)(3).

**WELLS FARGO INSTITUTIONAL SECURITIES, LLC**

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**KPMG LLP**  
4200 Wells Fargo Center  
90 South Seventh Street  
Minneapolis, MN 55402

## **Independent Auditors' Report**

The Board of Governors and Member  
Wells Fargo Institutional Securities, LLC:

We have audited the accompanying statement of financial condition of Wells Fargo Institutional Securities, LLC (the Company), a wholly owned subsidiary of Wells Fargo Institutional Funding, LLC whose ultimate parent is Wells Fargo & Company, as of December 31, 2005, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Wells Fargo Institutional Securities, LLC as of December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

*KPMG LLP*

February 10, 2006

**WELLS FARGO INSTITUTIONAL SECURITIES, LLC**

Statement of Financial Condition

December 31, 2005

(In thousands)

**Assets**

Cash	\$	26
Receivable from brokers, dealers and clearing organizations (note 3)		14,651
Securities owned:		
Marketable, at market value, including \$148,644 of securities pledged (notes 4 and 5)		257,509
Securities purchased under agreements to resell (note 5)		599,306
Due from affiliates (note 6)		459
Accrued interest receivable		1,743
Fixed assets, net of accumulated depreciation of \$238		5
Other assets		207
		<hr/>
Total assets	\$	<u>873,906</u>

**Liabilities and Member's Equity**

**Liabilities:**

Short-term borrowings from affiliates (note 6)	\$	63,413
Securities sold, not yet purchased, at market value (note 4)		156,112
Securities sold under agreements to repurchase (note 5)		607,658
Other liabilities and accrued expenses		1,834
		<hr/>
Total liabilities		829,017
Commitments and contingencies (note 7)		
Member's equity		44,889
		<hr/>
Total liabilities and member's equity	\$	<u>873,906</u>

See accompanying notes to statement of financial condition.

# WELLS FARGO INSTITUTIONAL SECURITIES, LLC

## Notes to Statement of Financial Condition

December 31, 2005

(In thousands)

### (1) Organization and Nature of Operations

Wells Fargo Institutional Securities, LLC (WFIS) is a wholly owned subsidiary of Wells Fargo Institutional Funding, LLC (WFIF) whose ultimate parent is Wells Fargo & Company (WFC). WFIS' primary activities are institutional securities brokerage, fixed income trading and underwriting. WFIS is registered with the Securities and Exchange Commission (the SEC) as a broker/dealer and has branch offices located in the western United States. WFIS clears all transactions on a fully disclosed basis through Wells Fargo Brokerage Services, LLC (WFBS), an affiliated broker/dealer.

### (2) Summary of Significant Accounting Policies

#### (a) *Securities Transactions*

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management. Market values are determined through a combination of pricing services and trader evaluation. Trader evaluation is based on market surveillance which includes monitoring prior trades and competing offers in similar products, as well as review of industry repositories of trading activity such as Trading Reporting and Compliance Engine (TRACE). The valuations are reviewed and tested by a senior management committee on a regular basis.

#### (b) *Fair Value of Financial Instruments*

Substantially all of WFIS' financial assets and liabilities are carried at market value or at amounts, which, because of their short-term nature, approximate current fair value.

#### (c) *Receivable From Brokers/Dealers*

Amounts receivable from brokers/dealers consist primarily of the contract value of securities which have not been delivered as of the date of the statement of financial condition. Receivables from brokers/dealers are recorded on a trade-date basis.

#### (d) *Securities Under Agreement to Resell and Repurchase*

Resale and repurchase agreements are carried at contract amounts reflective of the amounts at which the securities will be subsequently reacquired or resold, plus accrued interest. WFIS monitors the contract amounts of resale and repurchase agreements on a daily basis, with additional collateral obtained or refunded as necessary.

#### (e) *Fixed Assets*

Furniture and equipment are stated at cost less accumulated depreciation and amortization, and are depreciated using the straight-line method over the estimated useful life of the asset, generally three to five years. Leasehold improvements are amortized using the straight-line method over the lesser of the respective lease term or the estimated life of the improvement.

# WELLS FARGO INSTITUTIONAL SECURITIES, LLC

## Notes to Statement of Financial Condition

December 31, 2005

(In thousands)

**(f) Income Taxes**

WFIS and WFIF, the sole member of WFIS, are both wholly owned limited liability companies and do not file their own income tax returns. Instead, the results of WFIS' operations are included in the income tax returns of Wells Fargo Credit, Inc. (WFCI), WFIF's sole member. WFIS does not pay income taxes to WFCI, does not have a tax sharing agreement with WFCI, and management does not have the intention of changing these facts. Thus, WFIS has many attributes of a pass-through entity and income taxes are not presented in its statement of financial condition.

**(g) Stock-Based Compensation**

Selected WFIS employees participate in various WFC stock-based employee compensation plans (the Plans). The Plans provide for awards of incentive and nonqualified stock options, stock appreciation rights, restricted shares, restricted share rights, performance awards and stock awards without restrictions. Options must have an exercise price at or above fair market value (as defined in the plan) of the stock at the date of grant and a term of no more than 10 years. As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, WFC, and therefore WFIS, has elected to apply the intrinsic value method of Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees* (APB 25), to account for its participation in the Plans through December 31, 2005. WFIS did not record any compensation expense for the options granted under the Plans during 2005, as the exercise price was equal to the quoted market price of the stock at the date of grant.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which replaced SFAS No. 123 and superseded APB 25. WFC adopted SFAS 123R on January 1, 2006, which requires a company to measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or restricted stock, based on the fair value of the award on the grant date. This cost must be recognized in the income statement over the vesting period of the award. WFIS does not believe that the adoption of SFAS 123R will have a significant effect on its financial condition.

**(h) Use of Estimates**

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from such estimates.

**(3) Receivable from Brokers, Dealers and Clearing Organizations**

Amounts receivable from brokers, dealers and clearing organizations consist of approximately \$14.6 million due from WFBS, of which \$14.0 million was related to unsettled trades.

## WELLS FARGO INSTITUTIONAL SECURITIES, LLC

### Notes to Statement of Financial Condition

December 31, 2005

(In thousands)

#### (4) Securities Owned and Securities Sold, Not Yet Purchased

Marketable securities owned and securities sold, not yet purchased consist of trading securities at market values as follows (in thousands):

	<u>Owned</u>	<u>Sold, not yet purchased</u>
U.S. Government and government agency obligations	\$ 151,664	88,342
Commercial paper and certificates of deposit	419	49,831
State and municipal obligations	4,630	—
Corporate bonds, debentures and notes	100,796	17,939
	<u>\$ 257,509</u>	<u>156,112</u>

Securities sold, not yet purchased represent obligations of WFIS to deliver the specified security at the contracted price, and thereby create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk, as WFIS' ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount recognized in the statement of financial condition.

#### (5) Securities Sold Under Agreements to Resell and Repurchase

Resale and repurchase agreements are collateralized primarily with U.S. Government or U.S. Government agency securities. Such agreements provide WFIS with the right to maintain the relationship between the market value of the collateral and the receivable or payable. As clearing agent for WFIS, WFBS generally takes physical possession of the collateral underlying WFIS' resale agreements.

WFIS' risk with regard to resale agreements is the failure of the counterparty to the transaction to perform its obligation under the transaction and the balance of the receivable exceeds the market value of the underlying collateral. WFIS' risk with regard to repurchase agreements is the failure of the counterparty to the transaction to perform its obligation under the transaction and the market value of the underlying collateral exceeds the balance of the corresponding payable. WFIS monitors the contract amounts of resale and repurchase agreements on a daily basis, with additional collateral obtained or refunded as necessary.

At December 31, 2005, the market value of collateral held for resale agreements and the market value of securities pledged for repurchase agreements approximated the amounts due.

At December 31, 2005, WFIS has received collateral under resale agreements that it is permitted by contract or custom to sell or repledge of \$608.9 million. Of this amount, \$513.6 million has been repledged. At December 31, 2005, WFIS has pledged collateral of \$662.2 million under repurchase agreements that counterparties are permitted by contract or custom to sell or repledge. This amount, less that repledged under resale agreements, is included in securities owned on the statement of financial condition.

# WELLS FARGO INSTITUTIONAL SECURITIES, LLC

## Notes to Statement of Financial Condition

December 31, 2005

(In thousands)

### (6) Related Party Transactions

In the ordinary course of business, WFIS enters into material transactions with other affiliates of WFC.

Short-term borrowings from affiliates represent borrowings from Wells Fargo Bank, N.A. (the Bank) and WFC, which are primarily used to finance WFIS' trading activities. Short-term borrowings from the Bank are collateralized by trading securities and short-term borrowings from WFC are unsecured. WFIS pays interest on these borrowings at interest rates approximating commercial lending rates. At December 31, 2005, WFIS has pledged \$47.5 million in government securities collateral under a \$525 million short-term borrowing with the Bank. This pledged amount is included in securities owned on the statement of financial condition. At December 31, 2005, WFIS has debt outstanding with WFC and the Bank of \$16 million and \$47.5 million, respectively.

During 2005, WFIS made capital distributions totaling \$10 million to WFIF.

### (7) Commitments and Contingencies

In the normal course of business, there are various lawsuits, claims, and contingencies pending against WFIS which, in the opinion of management, will be resolved with no material impact on WFIS' financial position.

### (8) Net Capital Requirements

WFIS is subject to the Uniform Net Capital Rule 15c3-1 (the Rule) under the Securities Exchange Act of 1934. WFIS has elected to compute net capital under the alternative provisions of the Rule, which require WFIS to maintain net capital, as defined, of \$250 thousand. At December 31, 2005, WFIS' net capital was approximately \$30.8 million, which exceeded the minimum net capital requirement of \$250 thousand by \$30.5 million.

WFIS is exempt from provisions of SEC Rule 15c3-3, *Customer Protection: Reserves and Custody of Securities*. Accordingly, the Computation for Determination of Reserve Requirements and Information Relating to Possession and Control Requirements is not required.

### (9) Employee Benefits

WFIS participates in WFC's noncontributory qualified defined benefit retirement plans that cover substantially all employees. The projected benefit obligations and fair value of plan assets relating to only WFIS' employees are not available.

WFIS' employees are eligible for benefits under WFC's defined contribution 401(k) Plan. Under the 401(k) Plan, each eligible employee may contribute up to 25% of their pretax certified compensation, although there may be a lower limit for certain highly compensated employees in order to maintain the qualified status of the 401(k) Plan. Eligible employees who complete one year of service are eligible for matching company contributions, which are generally a dollar for dollar match up to 6% of an employee's certified compensation. The matching contributions generally vest over four years.

## WELLS FARGO INSTITUTIONAL SECURITIES, LLC

### Notes to Statement of Financial Condition

December 31, 2005

(In thousands)

#### **(10) Financial Instruments with Off-Balance-Sheet Risk**

WFIS clears all transactions for its customers on a fully disclosed basis through WFBS. Nonetheless, WFIS is liable to the clearing firm for its customers' and brokers' transactions.

Customers are required to complete their transactions on the settlement date, generally three business days after the trade date. WFIS is, therefore, exposed to risk of loss on these transactions in the event of the customers' or brokers' inability to meet the terms of their contracts, in which case WFIS may have to purchase or sell financial instruments at prevailing market prices. WFIS has established procedures to reduce this risk by requiring its customers to deposit funds with WFBS for certain types of trades.

WFIS seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. WFIS monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions when necessary. Market declines could, however, reduce the value of collateral below the amount loaned plus accrued interest, before the collateral could be sold. The impact of unsettled transactions is not expected to have a material effect upon WFIS' statement of financial condition.

As a broker/dealer in securities, substantial portions of WFIS' transactions are collateralized. WFIS' exposure to credit risk associated with the nonperformance in fulfilling contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets that may impair customers' or counterparties' ability to satisfy their obligations to WFIS. WFIS does not believe it has any significant concentrations of credit risk.

In the normal course of business, WFIS enters into underwriting commitments. Transactions relating to such underwriting commitments, that were open at December 31, 2005, have subsequently settled and had no material effect on WFIS' statement of financial condition for the year ended December 31, 2005. WFIS enters into various financial instruments, including delayed deliveries, mortgage-backed to-be-announced securities (TBAs), and securities purchased and sold on a when-issued basis (when-issued securities). These financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks.

TBAs and when-issued securities provide for the delayed delivery of the underlying instrument. The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.