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

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

REPORT FOR THE PERIOD BEGINNING January 1, 2011 **AND ENDING** December 31, 2011
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, 10th Floor

(No. and Street)

Minneapolis
(City)

Minnesota
(State)

55479
(Zip Code)

SECURITIES AND EXCHANGE COMMISSION RECEIVED FEB 24 2012 REGISTRATIONS BRANCH 11	Official Use Only Firm ID No.
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FEB 24 2012
Washington, DC

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
(Address) City State

55402
(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)

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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, 2011, 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

Nancy J. Helkenn
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

Statement of Financial Condition

December 31, 2011

(With Report of Independent Registered Public Accounting Firm Thereon)

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

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KPMG LLP

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

Report of Independent Registered Public Accounting Firm

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 Gaming Capital, LLC whose ultimate parent is Wells Fargo & Company, as of December 31, 2011, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of financial condition, 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 of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Wells Fargo Institutional Securities, LLC as of December 31, 2011, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 22, 2012

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Statement of Financial Condition

December 31, 2011

(In thousands)

Assets

Cash and cash equivalents (note 2)	\$	10,039
Securities owned:		
Marketable, at fair value, including \$222,144 of securities pledged (notes 4 and 5)		313,833
Securities purchased under agreements to resell (note 5)		304,122
Accrued interest receivable		828
Fixed assets, net of accumulated depreciation of \$248		6
Total assets	\$	<u>628,828</u>

Liabilities and Member's Equity

Liabilities:		
Payable to brokers, dealers and clearing organizations (note 3)	\$	7,312
Securities sold, not yet purchased, at fair value (note 4)		308,883
Securities sold under agreements to repurchase (note 5)		221,915
Other liabilities and accrued expenses		<u>2,165</u>
Total liabilities		540,275
Commitments and contingencies (note 7)		—
Member's equity		<u>88,553</u>
Total liabilities and member's equity	\$	<u>628,828</u>

See accompanying notes to statement of financial condition.

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Notes to Statement of Financial Condition

December 31, 2011

(In thousands)

(1) Organization and Nature of Operations

Wells Fargo Institutional Securities, LLC (WFIS) is a wholly owned subsidiary of Wells Fargo Gaming Capital, LLC (WFGC) 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 Securities, LLC (WFS), an affiliated broker/dealer.

(2) Summary of Significant Accounting Policies

(a) *Cash and Cash Equivalents*

Cash and cash equivalents on the statement of financial condition include cash in banks and money market investments. Cash and cash equivalents exclude amounts segregated under federal or other regulations. Cash equivalents are part of the cash management activities of WFIS.

(b) *Fair Value of Financial Instruments*

WFIS' securities owned and securities sold, not yet purchased are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Under FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, WFIS categorizes its assets and liabilities that are accounted for at fair value in the statement of financial condition into a fair value hierarchy as defined by ASC 820. The fair value hierarchy is directly related to the amount of subjectivity associated with the inputs utilized to determine the fair value of these assets and liabilities. See note 10 for further information about the fair value hierarchy and WFIS' assets and liabilities that are accounted for at fair value.

(c) *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.

(d) *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.

(e) *Income Taxes*

WFIS and WFGC, 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

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Notes to Statement of Financial Condition

December 31, 2011

(In thousands)

income tax returns of Wells Fargo Credit, Inc. (WFCI), WFGC'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 financial statements. Due to the lack of a tax sharing agreement, provisions associated with uncertain tax positions as defined in FASB ASC 740, *Income Taxes*, are not applicable.

(f) *Use of Estimates*

The preparation of a statement of financial condition in conformity with U.S. generally accepted accounting principles 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) **Payable to Brokers, Dealers and Clearing Organizations**

Amounts payable to brokers, dealers and clearing organizations consist of approximately \$7.3 million payable to WFS related to unsettled trades.

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

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

	<u>Owned</u>	<u>Sold, not yet purchased</u>
U.S. Government and government agency obligations	\$ 313,829	308,883
Corporate bonds, debentures and notes	4	—
	<u>\$ 313,833</u>	<u>308,883</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/Purchased under Agreements to Repurchase/Resell**

Resale and repurchase agreements are collateralized primarily with U.S. Government or 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. WFS, as clearing agent for WFIS, generally uses Bank of New York to take 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

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Notes to Statement of Financial Condition

December 31, 2011

(In thousands)

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, 2011, WFIS has received collateral under resale agreements that it is permitted by contract or custom to sell or repledge of \$304.5 million. Of this amount, none were repledged. At December 31, 2011, WFIS has pledged collateral of \$222.1 million under repurchase agreements that counterparties are permitted by contract or custom to sell or repledge.

(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, 2011, WFIS has no debt outstanding with either the Bank or WFC.

(7) Commitments and Contingencies

In the normal course of business, there are various lawsuits, claims, and contingencies pending against WFIS.

Based on information currently available and advice of counsel, WFIS believes that the eventual outcome of actions against WFIS will not, individually or in aggregate, have a material adverse effect on WFIS' financial position. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such actions, if unfavorable, may be material to WFIS' statement of financial condition for any particular period.

(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 minimum net capital, as defined, of \$250 thousand. At December 31, 2011, WFIS' net capital was approximately \$87.2 million, which exceeded the minimum net capital requirement by approximately \$87 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 certain employee benefit plans sponsored by WFC. The costs associated with WFIS employees are allocated to WFIS.

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Notes to Statement of Financial Condition

December 31, 2011

(In thousands)

WFIS' employees are eligible for benefits under WFC's defined contribution 401(k) Plan. Under the 401(k) Plan, after one month of service, eligible employees may contribute up to 50% of their 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 dollar for dollar up to 6% of an employee's certified compensation. Effective January 1, 2010, previous and future matching contributions are 100% vested for active participants.

WFIS also participates in WFC's noncontributory qualified defined benefit retirement plan, the Wells Fargo & Company Cash Balance Plan (Cash Balance Plan), which covers eligible employees of Wells Fargo. Benefits accrued under the Cash Balance Plan were frozen effective July 1, 2009.

Certain WFIS employees participate in various WFC stock-based employee compensation plans, which provide for awards of incentive and nonqualified stock options, stock appreciation rights, restricted shares, restricted share rights, performance awards and stock awards without restrictions.

(10) Fair Value of Assets and Liabilities

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair value measurements.

Securities owned and securities sold, not yet purchased as well as money market fund investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value future of cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

In accordance with ASC 820, WFIS groups its financial assets and financial liabilities measured at fair value in three levels, based on markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect WFIS' own estimates of assumptions market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models, option pricing models, and similar techniques.

In the determination of the classification of financial instruments in Level 2 or Level 3 of the fair value hierarchy, WFIS considers all available information, including observable market data, indications of market liquidity and orderliness, and WFIS' understanding of the valuation techniques and significant

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Notes to Statement of Financial Condition

December 31, 2011

(In thousands)

inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3.

In accordance with the Fair Value Measurements and Disclosures topic of the Codification, WFIS bases their fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is WFIS' policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, as prescribed in the fair value hierarchy.

In instances where there is limited or no observable market data, fair value measurements for assets and liabilities are based primarily upon WFIS' own estimates or combination of WFIS' estimates and independent vendor or broker pricing, and the measurements are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future values.

Level 1 securities include U.S. Treasury securities. Level 2 securities include other government and agency securities that are traded by dealers or brokers in active over-the-counter markets and corporate debt securities. Securities classified within Level 3 at the beginning of the year were proprietary municipal leases not recently traded. There were no Level 3 securities held at December 31, 2011.

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Notes to Statement of Financial Condition

December 31, 2011

(In thousands)

The balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2011, are as follows (in thousands):

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Securities owned:				
U.S. treasury	\$ 826	826	—	—
U.S. agency	313,003	—	313,003	—
Corporate debt obligations	4	—	4	—
	<u>313,833</u>	<u>826</u>	<u>313,007</u>	<u>—</u>
Cash and cash equivalents*	<u>10,039</u>	<u>10,039</u>		
Total assets	<u>\$ 323,872</u>	<u>10,865</u>	<u>313,007</u>	<u>—</u>
Liabilities:				
Securities sold, not yet purchased:				
U.S. treasury	\$ 73,553	73,553	—	—
U.S. agency	235,330	—	235,330	—
Total liabilities	<u>\$ 308,883</u>	<u>73,553</u>	<u>235,330</u>	<u>—</u>

* Represents money market fund investments.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows (in thousands):

<u>Level 3 Assets</u>	<u>Securities owned</u>
Beginning balance at January 1, 2011	\$ 1,739
Total gains or losses (realized/unrealized) included in:	
Principal transactions gains (losses)	(291)
Sales	(1,448)
Transfer in and/or out of Level 3	—
Ending balance at December 31, 2011	<u>\$ —</u>
Net unrealized gains (losses) included in net income for the period relating to assets and liabilities held at December 31, 2011	\$ —

WELLS FARGO INSTITUTIONAL SECURITIES, LLC

Notes to Statement of Financial Condition

December 31, 2011

(In thousands)

(11) Financial Instruments with Off-Balance-Sheet Risk

WFIS clears all transactions for its customers on a fully disclosed basis through WFS. 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 WFS 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.

(12) Subsequent Events

We have evaluated the effects of subsequent events that have occurred subsequent to December 31, 2011, and through February 22, 2012, which is the date we issued our statement of financial condition. During this period, there have been no material events that would require recognition in the 2011 statement of financial condition or disclosure in the notes to statement of financial condition.