THE CAPITAL GROUP COMPANIES, INC.

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JAMES M. BROWN
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Letter of Comment No: 3
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January 5, 2005

Mr. Lawrence W. Smith
Director – TA&I – FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: Comments on Proposed FSP EITF 85-24-a

Dear Mr. Smith:

First on behalf of The Capital Group Companies, Inc. ("CGC") and Capital Research and Management Company ("CRMC"), the investment advisor to the American Funds group of mutual funds, let me applaud the continuing efforts of FASB in working with the industry to come up with the current FSP EITF 85-24-a. As a general matter, we believe the draft FSP is very close to meeting its objective of providing principle-based guidance for the specific industry issue dealing with the circumstances under which revenue recognition is appropriate for mutual fund distributors selling their rights to receive future 12b-1 and CDSC fees.

We believe that the Board's position in this FSP is based in large part on an understanding that:

1. The Rights being sold result from actions or services of the Distributor which have been rendered at the time of sale without a requirement or presumption for performance of ongoing distribution services.
2. Services that continue to be provided by the Distributor's affiliates (investment advisor and transfer agent) are of a distinct nature, are being provided on an on-going basis and are therefore separable from the services provided by the Distributor.

3. If the Distributor is terminated or replaced, the mutual fund remains obligated to pay the Purchaser the value of the Rights purchased from the Distributor ("Seller"). Furthermore, the legal rights to and amount of the Rights are not contingent on the Distributor or any member of the consolidated group providing additional services.

Notwithstanding the existence of the key requirements mentioned above, revenue recognition is not appropriate if the Distributor retains recourse or continuing involvement in the Rights sold.

In reviewing the FSP, and most critically the legal agreements surrounding these transactions, we believe it is important to expand and clarify "continuing involvement" and "recourse" as it relates to these transactions and the language used in the FSP.

The FSP currently outlines in various paragraphs (20, 24, 25) activities, actions and indemnifications commonly found in the purchase/sale agreements that, if performed by the Distributor or other members of the consolidated group or included in the legal agreements surrounding these transactions, would not constitute continuing involvement or recourse with respect to the Rights sold to the Purchaser.

With respect to these activities and actions, the basic theme, with which we would agree, is that ongoing and continuing activities performed by the Distributor or other members of the consolidated group that is not an incremental activity and, that is required irrespective of the transaction, is not considered recourse or a future performance obligation.

On the other hand, certain actions such as those outlined or described in paragraphs 9 (a) and (b), 18 and 23 would clearly constitute activity inconsistent with revenue recognition.

We believe that it would be useful to offer as an additional principle the concept of "protective" vs. "participative" when it comes to analyzing the various actions performed and indemnifications provided under the terms of these agreements.

Specifically, we believe paragraph 25 should be expanded along the following lines as the current language referring to "standard representations and warranties" does not, in our opinion, provide enough guidance or clarity of intent.

Provisions providing for payment to the purchaser, and covenants and representations and warranties to the purchaser, which are protective in nature as opposed to participative, are not considered recourse or continuing involvement and, therefore, would not preclude revenue recognition.

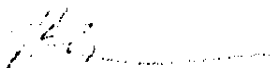
Covenants, reps and warranties which may result in the Seller reassuming *participation* in the risks and rewards associated with the Rights *as originally defined* (e.g., such as assumption of NAV risk or shareholder redemption fluctuations) would preclude revenue

recognition. These sorts of risks are not controllable by the Seller as they would arise due to circumstances external to the agreement between the Seller and Purchaser.
Protective covenants, reps and warranties that basically insure the original intent of the transaction from the perspective of both the Purchaser and Seller and protect the purchaser from the "voluntary" acts of the Seller would be consistent with and preserve revenue recognition accounting. Protective covenants are by their nature designed to inhibit the Seller from interfering with the cash flow streams and attendant risks and rewards that the Purchaser purchased. They are there to preserve the original definition of the Rights.

While it's beyond the scope of the FSP to issue an exhaustive list of covenants, reps and warranties that would qualify as *protective* as opposed to *participative,* we believe that this added principle offers needed clarification.

We would welcome an opportunity to provide additional information or meet with the Board again should you have further questions or require additional information.

Very truly yours,



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