

October 7, 2003

The Capital Group Companies, Inc. 135 South State College Boulevard Brea, California 92821-5804

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Ms. Suzanne Bielstein Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merrit 7 P.O. Box 5116 Norwalk, CT 06851-5116

Dear Ms. Bielstein:

Re: FASB File Reference No. 1082-200

No. FIN 46-c, Impact of Kick-out Rights Associated with the Decision Maker on the Computation of Expected Residual Returns under Paragraph 8c of FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities

The Capital Group Companies, Inc. ("CGC") is a privately owned company based in Los Angeles. Our subsidiaries serve as investment advisors that manage assets held in various forms – mutual funds, institutional clients such as pension funds, separate and pooled accounts, as well as CDO collateral asset pools.

Capital Guardian Trust Company ("CGTC"), a second tier subsidiary of CGC, is the investment advisor for asset pools that are collateral for two CDOs totaling \$700 million. CGTC has no equity interest in either the asset pools or in the equity of the CDO issuer and thus has no potential for economic loss except for the non-payment of it's management fee. Additionally, obligations of the CDO are non-recourse to CGTC.

We appreciate the opportunity to comment on FIN 46-c because we believe the application of FIN 46 will have the unintended consequences of requiring consolidation of a variable interest entity's operations which are not supportable from an economic or tax perspective. In an effort to curb specific accounting abuses, we believe the broad application of FIN 46 will result in the gross distortion of CGTC's financial statements.

As an example, CGTC would be required to "gross-up" it's balance sheet by \$700 million, which at June 30, 2003, consists of \$300 million in assets and \$43 million in liabilities. Additionally, CGTC would report realized and unrealized losses that the Company will never economically incur, and report subsequent gains that represent the mechanical reversal of previous fictitious losses. We believe CGTC's financial statements would be misleading given CGTC's lack of economic or legal ownership in the assets or exposures to the liabilities or losses. We question whether any creditor or shareholder of the company will find our financial reporting to have been enhanced as a result of this consolidation. To the contrary, we believe that it will now be necessary to provide comparative financial statements on a "with" and "without" basis or include extensive and complex disclosures to reflect the company's true financial condition.

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Under FIN 46-c, the ability to remove the decision maker (i.e., kick-out rights) does not change the requirement to include the decision maker's fees in the calculation of expected residual returns. However, we believe that if the investment advisor can be terminated without cause, and that termination is reasonably possible, the investment advisor is not a decision maker for purposes of paragraph 8(c). When the investors in a CDO can remove the investment advisor at any time without cause, the investment advisor's fees are effectively up for renegotiation continually. If the investors believe the investment advisor's fees are no longer consistent with current market practice, the investors may replace the investment advisor by a majority vote of both equity and debt holders of the CDO. Therefore, the investment advisor's fees are always subject to the control of the independent investors and the investment advisor is merely an agent of the investors. This is especially true when the investment advisor does not invest in the CDO itself, or when the investment advisor is barred by the terms of the agreements from voting with regard to removal without cause. We believe the kick-out provision is substantial and should be considered in evaluating the role of the decision maker under paragraph 8(c).

CGTC manages the collateral asset pools for a fee under a market-based investment advisory agreement negotiated at arms-length. Conceptually, the CDO investment advisory fee is similar in nature and scope to the investment advisory fees that another CGC subsidiary receives for managing over \$400 billion of assets in U.S. mutual funds. Clearly, we would not advocate that investment advisors consolidate the mutual fund assets. We believe that the investment advisory fee should be excluded from the calculation of expected residual returns if the fees are market-based. Including the fair value of market-based investment advisory fees artificially predicates the investment advisor as the primary beneficiary when there is not a party that absorbs the majority of the expected losses.

For the reasons noted, we would respectfully request the Board to reconsider the applicability of kick-out rights in the determination of the decision maker as well as the inclusion of market-based investment advisory fees in the calculation of expected residual returns. We welcome an opportunity to discuss our comments with the Board or its staff. Please feel free to call the undersigned at (714) 257-5185

Sincerely,

Chervl Ennis

Central Services Controller

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