



**Capital Research  
and Management Company**  
333 South Hope Street  
Los Angeles, California 90071-1406

Phone (213) 486 9200  
Fax (213) 486 9455

**VIA ELECTRONIC DELIVERY**

September 29, 2010

Mr. Russell G. Golden  
Director, TA&I  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 1810-100

Dear Mr. Golden:

Capital Research and Management Company serves as investment adviser to the American Funds, one of the oldest and largest mutual fund families in the nation. We appreciate the opportunity to provide comments on the Proposed Accounting Standards Update on Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (“Proposed Update”). These comments relate to mutual fund accounting and financial reporting.

We agree with the goal of providing financial statement users with a more timely and representative depiction of an entity’s involvement in financial instruments, while reducing the complexity in accounting for those instruments. However, we believe that the proposal to recognize portfolio transaction costs as an expense in the statement of operations will not improve disclosure and would likely confuse or mislead investors.

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Implicit transaction costs, such as spreads, opportunity costs and market impacts, represent a significant portion of overall portfolio transaction costs. Ignoring these implicit costs and quantifying solely explicit costs such as commissions has marginal value and could mislead investors by failing to present a full picture of portfolio transaction costs and thereby imply that explicit costs represent the entire costs of transacting. However, these implicit costs would be complex and subjective to quantify and difficult to compare across funds. As the Securities and Exchange Commission observed in a 2003 concept release, there are no agreed-upon methods to calculate these implicit costs (see *Concept Release: Request for Comments on Measures to Improve Disclosure of Mutual Fund Transaction Costs, Release No. IC-26313* and referred to as the “SEC Release”). Moreover, commentators to the SEC Release preferred different methods based in part on their respective investment approaches and holdings. Even if a single, unbiased and objective method could be developed to permit reasonable comparisons, it would, by definition, grossly oversimplify these costs and could, as an unintended consequence, alter actual trading behavior.

Quantifying implicit portfolio transaction costs would also impose significant costs on fund shareholders. For example, fixed-income securities generally trade on a bid-ask spread basis, with no explicit commission. Measuring and recording these implicit costs would be extremely difficult or impossible, since the spread information is not available for every trade. Significant and costly enhancements to accounting and trading platforms would be needed, even if a standard method could be developed to estimate these implicit costs using information which may or may not be available depending on prevailing market conditions. Even with such system enhancements, a fund’s independent auditors are not likely to be able to independently obtain and verify this data.

Currently, a fund’s expenses, including transaction costs, are immediately reflected in its net asset value and its total return. Fund expense ratios capture the expenses incurred from the day-to-day operation of the fund while transaction costs are capitalized. This approach serves fund shareholders well by facilitating comparisons among funds and by focusing on recurring expenses. If portfolio transaction costs were expensed, events unrelated to the investment process and fee structure such as shareholder inflows or changes in market conditions could also

reduce the comparability of expense ratio data both among funds and over time. For example, a fund with significant shareholder inflows could appear more expensive than funds with similar investment objectives as the fund incurs transaction costs to put shareholder investments to work.

In addition, net investment income ratios and SEC yields are presented after the deduction of expenses. Therefore, including fund transaction costs as expenses not only reduces the comparability of expenses but also understates a fund's income return relative to the taxable distributions the fund may actually pay. Investors also use this information to evaluate and compare mutual funds. Including transaction costs in these amounts would likely confuse investors and also reduce meaningful income comparisons among mutual funds. Furthermore, characterizing transaction costs as an expense would also lead to a divergence with U.S. tax accounting rules which treat transaction costs as a basis adjustment to the cost of the security. This divergence would complicate the calculation of taxable distributions and likely confuse investors.

If the Proposed Update could solve the challenges with calculating implicit portfolio transaction costs, such as fixed-income spreads, we would not object to displaying transactions costs as a percentage of average net assets in the Financial Highlights section of the report to shareholders, next to a fund's operating expense ratio, rather than as an expense in the Statement of Operations. We believe this would reduce the risk of inapt expense comparisons among funds. Nonetheless, we believe investors should be reminded of the limitations of any approach for estimating the costs incurred in trading a fund's portfolio securities.

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Thank you for considering these comments. Please feel free to contact any of us should you have any questions or wish to discuss our thoughts on the current proposal.

Sincerely,

Brian D. Bullard  
Senior Vice President  
(949) 975-3708

Donald H. Rolfe  
Vice President  
(213) 615-0457

Jeffrey P. Regal  
Vice President  
(757) 670-4674

Ari Vinocor  
Vice President  
(949) 975-6738

cc: The Hon. Mary L. Schapiro, Chairman of the SEC  
Andrew J. Donohue, Director, Division of Investment Management  
James L. Kroeker, Chief Accountant of the SEC  
Richard F. Sennett, Chief Accountant, Division of Investment Management