



September 25, 2012

VIA ELECTRONIC DELIVERY

Technical Director,
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: File Ref. No. 2012-200: *Disclosures about Liquidity Risk and Interest Rate Risk*

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 Disclosures about Liquidity Risk and Interest Rate Risk (“Exposure Draft” or “Proposal”). These comments reflect our interest in this topic as preparers of audited financial statements related to the mutual funds we advise.

Based on our understanding of the Exposure Draft, the proposed rules would exempt investment companies from interest rate risk disclosures as they are not deemed to be “financial institutions”. The Proposal, however, would require all entities to provide liquidity risk disclosures intended to inform financial statement users about the risk that the reporting entity may encounter difficulty when meeting its financial obligations. In our opinion, the Proposal does not provide significant improvements to the current disclosures related to liquidity offered by investment companies. The conclusions to support our opinion are described in more detail below.

The Exposure Draft requires an issuer to provide a tabular disclosure of cash flow instruments by asset type. Investment companies generally hold securities for the long-term, while the majority of fund obligations, such as purchases of fund investments and repurchases of fund shares, are extremely short-term in nature. The proposed tabular disclosure would break-down an entity’s obligations by quarter for the next four quarters, and by yearly and multi-yearly periods after that. By examining the categories of obligations, it becomes clear the proposed tabular disclosure for investment companies would be heavily weighted towards the first quarter disclosure, and generally would not be helpful to investment company financial statement users. Furthermore, for the American Funds and the American Funds Insurance Series, total fund liabilities average approximately 3% of total net assets. For the above reasons, we would propose the Financial Accounting Standards Board (“FASB”) assess a materiality framework that is similar to the cash flows exemption for investment companies provided in ASC 230-10-15-4.

The Exposure Draft also requires an issuer to provide a tabular disclosure of available liquid funds and borrowing capacity. The U.S. Securities and Exchange Commission (“SEC”) requires an investment company to maintain at least 85% (95% for money-market funds) of its net assets in liquid securities. Securities must be redeemable within seven days to be considered liquid¹. Given this standard, investment companies generally stand ready to meet their future obligations, and the additional liquidity disclosures required by the Proposal would not bring any significant new information to shareholders.

¹ Ref: 17 CFR Parts 239 and 274 (Release No. 33-6927; IC-18612) March 20, 1992.

The Proposal defines available liquid securities as “unencumbered cash and high-quality liquid assets free from restrictions and readily convertible to cash, such as cash, cash equivalents and unpledged liquid assets”. This proposed definition of liquidity is different than the SEC’s long-established definition of liquidity applicable to investment companies as previously described. Including a tabular disclosure that attempts to provide a description of available liquid funds for an investment company would lead shareholders, or other financial statement users, to believe that the fund is less liquid than required by the Investment Company Act of 1940.

If, on the other hand, investment companies were to provide a tabular disclosure based on the SEC’s definition of liquidity, in that at least 85% of the fund must be held in securities redeemable within seven days (95% for money-market funds), the categories of liquid assets identified in the tabular disclosure would be virtually identical to the categories of securities shown in the fund’s statement of investments (SOI). We believe it would not benefit shareholders to provide an additional tabular disclosure to describe the same liquid assets that are already shown in the SOI.

Additionally, many investment companies pledge assets as collateral for derivatives with net unrealized loss positions. If, as described in ASU 825-10-50-23T of the Proposal, an investment company were required to exclude pledged assets from the available liquid assets tabular disclosure, while simultaneously being required to include the obligation for the unrealized loss positions in the tabular disclosure of cash flow instruments by asset type as proposed in ASU 825-10-50-23M, it would reflect an inaccurate picture of the investment company’s ability to meet its obligations. The fact that the investment company has pledged assets to satisfy its unrealized loss obligations on derivatives should not be used as a reason to portray a reduced ability to satisfy all of its cash flow obligations, including the unrealized loss obligations in question.

Finally, the Exposure Draft requires an issuer to provide a narrative disclosure about the entity’s liquidity risk. Most entities have some exposure to liquidity risk, and the exposure is generally much less significant to investment companies than it is to operating companies. A potential solution for investment companies could be to simply state that the fund is susceptible to liquidity risk because a portion of the portfolio (not exceeding 15% for most funds; 5% for money-market funds) may not be redeemable within seven days. However, we believe that emphasizing this point will not materially help shareholders to make an investment decision since all investment companies have the same liquidity requirements, and as such, the requirement for narrative disclosure does not significantly benefit financial statement users.

In summary, it is our opinion that the Proposal does not provide any significant improvement to the current disclosures offered by investment companies. We recommend the FASB develop a quantitative standard that would exclude from the disclosure requirements any entity that has a small percentage of obligations in relation to its assets and that provides an SOI, or allow a similar exemption for investment companies as provided by ASC 230-10-15-4 with respect to the statement of cash flows.

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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 Exposure Draft.

Sincerely,

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