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Capital Research and Management℠

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Mr. Jonathan G. Katz
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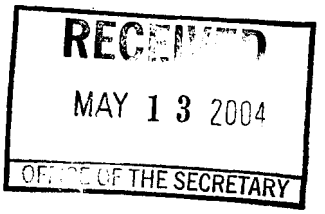

Re: Proposed Rule: Prohibition on the Use of Brokerage Commissions to Finance Distribution (File No. S7-09-04)

Dear Mr. Katz:

Capital Research and Management Company ("CRMC") appreciates the opportunity to comment on the Securities and Exchange Commission's recent proposal to amend Rule 12b-1 under the Investment Company Act of 1940 to prohibit mutual funds from paying for the distribution of their shares with brokerage commissions. CRMC serves as investment adviser to The American Funds family of mutual funds with aggregate net assets in excess of $500 billion.

We support the proposed prohibition against a fund's ability to direct portfolio securities transactions to a selling broker in consideration of the broker's distribution efforts. Although permitted under current law, we recognize that the practice of allocating brokerage based on sales considerations may give rise to the appearance of a conflict of interest, if not an actual conflict of interest, and should thus be discontinued. However, as the proposed rule recognizes, it would be extremely harmful to funds to adopt an outright ban on executing portfolio trades with brokers who also happen to sell fund shares. Consequently, we fully support the approach of continuing to permit a mutual fund to trade with selling brokers, conditioned upon the implementation of certain policies and procedures to ensure that distribution considerations do not affect execution decisions. This aspect of the Proposed Rule acknowledges that in the current environment of integrated financial services firms, many brokers that a fund may select on the basis of their execution services are also engaged in the promotion of fund sales.

As specified in the proposed rule, the policies and procedures must be reasonably designed to prevent: (1) the persons responsible for selecting broker-dealers to effect fund portfolio transactions from taking broker-dealers' promotional or sales efforts into account in making those decisions; and (2) the fund, its investment adviser, or its principal underwriter from entering into any arrangement or understanding under which the fund directs brokerage transactions, or revenue generated by those transactions, to a broker-dealer to pay for distribution of a fund's shares. We support this approach to prevent brokerage allocation decisions from being improperly influenced by marketing considerations. We also believe that it is appropriate to require that the fund's board of

directors, including a majority of the independent directors, approve all such policies and procedures. The process of fund board review should help ensure that any conflicts of interest are adequately addressed.

The Commission requests comment on whether the Proposed Rule should also require the fund board to monitor adherence to the fund's policies and procedures, or to approve brokerage allocations. We believe that adoption of the foregoing requirements are unnecessary and would be inconsistent with the fund boards' oversight function. These requirements would involve fund directors in the day-to-day operational issues related to monitoring brokerage allocations. We think that once the policies and procedures are approved by the fund board, regular compliance monitoring should be the responsibility of fund management and the fund's chief compliance officer. Compliance updates can be communicated as necessary through the regular reports made to the fund boards.

The Commission also requests comment on whether a fund's chief trading officer, or another official of the fund or its adviser, should be required to provide periodic certifications that the selection of brokers to execute fund portfolio securities transactions was made without consideration of a broker's fund sales. Although periodic certifications may be an example of a procedure that a fund may adopt to comply with the Proposed Rule, we do not believe that it is necessary or desirable to make it a mandatory requirement. The general requirement that a fund implement policies and procedures approved by its board of directors should be sufficient to ensure that the fund or its adviser will be actively monitoring brokerage allocation decisions when executing brokers also distribute fund shares.

Even with strong policies and procedures in place, we are concerned that funds, their investment advisers and their principal underwriters may be exposed to liability or otherwise second-guessed regarding brokerage allocation decisions if they execute transactions with broker-dealers that also happen to sell fund shares. It may be difficult to demonstrate that a broker's sale of fund shares played no part in allocation decisions. Although the policies and procedures adopted by a fund may seek to prevent specific information concerning a broker's fund sales from reaching the fund's trading personnel, it is likely that the trading department will have a general idea of which brokers are part of the fund distribution network.

Consequently, we strongly support the adoption of a safe harbor for mutual funds that execute portfolio transactions with selling brokers. In our view, funds meeting the requirements of a well-defined safe harbor should not be exposed to potential liability or otherwise second-guessed. In the absence of a safe harbor, funds could be discouraged from directing portfolio securities transactions to a broker that could achieve best execution. This undesirable outcome would fall entirely on mutual funds that are broker-sold, placing these funds and their shareholders at a distinct disadvantage in executing trades.

Without a clear safe harbor affirmatively protecting a fund's ability to execute fund portfolio transactions through brokers that also sell fund shares, funds would constantly face the difficulties of having to prove a negative (i.e. that sales were not taken into consideration when selecting an executing broker). These difficulties would be further exacerbated by the improbability of being able to completely shield persons responsible for selecting executing brokers from basic knowledge of which executing brokers also distribute fund shares, despite any implementation of proper policies and procedures.

For these reasons, we believe the inclusion of a safe harbor in the Proposed Rule is critical. Any safe harbor would need to clearly outline the minimum requirements necessary for a fund to qualify for its protection. We welcome the opportunity to review and comment on any safe harbor rule that the Commission may propose.

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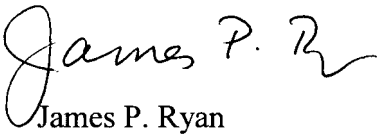
Capital Research and Management Company appreciates the opportunity to comment on the Proposed Rule and are available to discuss our views with members of the staff if they wish to do so.

Sincerely,



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