Capital Research and Management℠

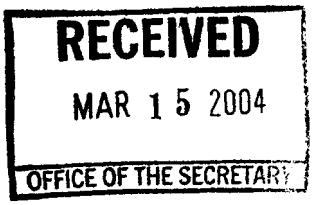
Capital Research
and Management Company
333 South Hope Street
Los Angeles, California 90071-1406

Phone (213) 486 9001
Fax (213) 615 0430
E-mail: myy@capgroup.com

Michele Y. Yang
Vice President and Senior Counsel
Fund Business and Management Group

19

March 15, 2004



Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

RE: Proposed Rule 204A-1
Investment Adviser Codes of Ethics
File No. S7-04-04

Dear Mr. Katz:

Capital Research and Management Company ("CRMC") appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposed Rule 204A-1 under the Investment Advisers Act of 1940 ("Advisers Act") and proposed amendments to Rule 204-2 under the Advisers Act and to Rule 17j-1 under the Investment Company Act of 1940 ("Investment Company Act").

CRMC is the investment adviser to the 29 mutual funds in The American Funds Group, with in excess of $500 billion in assets under management. CRMC has adopted a Code of Ethics that applies to its employees and the employees of affiliated companies, including the principal underwriter for the funds. In addition, each of the American Funds has adopted a code of ethics. Each fund's board of directors reviews the code of ethics on an annual basis. We have viewed our code of ethics as an important tool in not only communicating to our employees their specific obligations with respect to personal transactions, receipt of gifts and entertainment, serving on boards of directors and other important issues, but also in communicating the important part that ethical behavior must play in our corporate environment. Currently, CRMC and its affiliates have over 2000 employees covered under its personal investing policies and approximately eight legal/compliance associates who are charged with overseeing the day-to-day administration of the policy.

We generally support proposed Rule 204A-1 and amendments to Rule 204-2 and Rule 17j-1 and respectfully submit the following comments.

I. Rule 204A-1 – Code of Ethics

A. Adoption of code of ethics

The Commission proposes requiring advisers to adopt a code of ethics that sets forth standards of business conduct. We agree with this proposal and believe that this is an important way to communicate to employees their obligations to conduct business in an ethical manner.

B. Protection of material nonpublic information

The Commission proposes that each code of ethics include provisions reasonably designed to prevent access to material nonpublic information about the adviser's securities, recommendations, and client securities holdings and transactions, unless those individuals need the information to perform their duties. While we agree that it should be a goal for each adviser to safeguard sensitive information, it is important to recognize that for some advisory firms, limiting or segregating access to information may not be practical (for example, because the adviser has relatively few employees who all sit within proximity of each other). As such, we believe that rather than requiring specific procedures or safeguards for the protection of information, codes of ethics should make it clear that it is not acceptable for employees of advisers to take advantage of or use for personal gain material non-public information relating to client accounts.

Because of the need to adapt to business, regulatory or other types of changes, specific requirements such as segregation of computer files or restriction of access on a "need to know" basis may impede an adviser's ability to effectively provide service to its clients. For example, there are likely to be positions where information may be useful or helpful to an individual's job, but not "necessary" in order for the individual to perform his or her functions. As such, the interpretation and application of the "need to know" standard is extremely subjective and may cause disagreement between the legal/compliance departments (who will likely be charged with administering the policy) and other departments in the company as to who "needs to know" certain information. Therefore, we believe that the method used to ensure that sensitive client information is not misused should be left for the adviser to determine based on its own corporate environment. For example, for advisers where limiting or segregating access to information is not practical, the adviser may choose to cover all employees as "access persons" so that each employee's transactions would be subject to review. In addition, the adviser may hold educational training meetings or send regular reminders to all employees (not just access persons) to remind them of their obligations with respect to material non-public information.

C. **Personal Securities Trading**

The Commission is proposing a number of requirements relating to the reporting and review of personal securities transactions by advisory employees. Many of these requirements closely track the requirements of Rule 17j-1 under the Investment Company Act. As a general matter, to avoid confusion, we believe that the same standards and definitions should be used for both rules. Some differences in the Rules that we believe are important to resolve are set forth below:

a. Personal securities reports – The Proposed Rule would require that transactions and holdings reports be submitted to the adviser's chief compliance officer[1] (Proposed Rule 204A-1(b)(1)). Rule 17j-1 specifies that procedures must be implemented whereby appropriate management or compliance personnel review the reports (Rule 17j-1(d)(3)). We believe that the Rule should allow the flexibility for designated employees (other than the Chief Compliance Officer) to receive and review the reports. Many organizations do not currently involve (or are not contemplating involving) the Chief Compliance Officer in the day-to-day administration of monitoring personal transactions and reports -- especially with respect to large organizations where the Chief Compliance Officer may be involved in reviewing and/or testing procedures relating to trading, portfolio compliance, disclosure, pricing, accounting as well as having many other responsibilities. We believe that the Chief Compliance Officer's time is better used, for example, to evaluate *procedures* related to gathering and reviewing transactions and holdings reports or to review material violations of personal investing policies, rather than being involved in collecting reporting forms. Although we recognize that the Chief Compliance Officer could retain staff to gather and review reporting forms, it may not be feasible or practical for an organization to move current employees who are charged with this responsibility to the direct supervision of the Chief Compliance Officer.

b. Persons subject to reporting requirements – The Proposed Rule defines "access person" as a supervised person who has access to nonpublic information regarding clients' purchase or sale of securities, is involved in making securities recommendations to clients or who has access to such recommendations that are nonpublic. Rule 17j-1 defines an access person to include an employee who, *in connection with his or her regular functions or duties,* makes, participates in, or obtains information regarding the purchase or sale of Covered Securities by a Fund or whose functions relate to the making of any recommendations with respect to the purchases or sales (Rule 17j-1(2)). As such, it would appear that the scope of employees that would be deemed to be "access persons" under the Proposed Rule is much broader than Rule 17j-1 in that any employee with *potential access* (including accidental access) to certain information, even if not used in connection with his or her regular functions or duties, would be covered. For example, the definition under

[1] We understand this to be the Chief Compliance Officer appointed under recently adopted rule 206(4)-7 under the Advisers Act.

the Proposed Rule could be read to include mailroom employees who might be able to open an envelope containing a fund's portfolio holdings or employees of the transfer agent who share the same office space as employees in the fund accounting area. We believe that the definition under Rule 17j-1 currently offers appropriate protections and that expansion of the definition of access person would cause substantial administrative burdens with little added protection. In any case, to avoid having inconsistent standards, we would recommend that the definitions in the two rules be made consistent.

D. Reporting of Investment Company Shares

The Commission is proposing that access persons be required to report their holdings and transactions in shares of investment companies managed by the adviser or a control affiliate. We support this proposal.

The Commission also seeks comment on whether the Proposed Rule should require reporting of transactions and holdings in *all* mutual fund shares, rather than only affiliated funds. Although we believe that employees of advisers owe a special duty of care with respect to shareholders of clients advised by their employer, we feel that monitoring transactions and holdings of unaffiliated mutual funds places a large administrative burden on advisers with little added benefit.[2] We believe that each fund group is responsible for monitoring for harmful transaction activity by its fund shareholders as it deems appropriate, and holding an adviser's employees to a potentially different standard than other shareholders of unaffiliated funds could be difficult and confusing.

E. Initial and Annual Holdings Reports

The Commission proposes requiring initial and annual holdings reports, similar to Rule 17j-1. These reports are often helpful in confirming transactional information for the year. The Commission seeks comment on whether the holdings reports should be required more frequently. We believe that the current reporting period (annually) is adequate. It should be noted that for large complexes where there may be thousands of employees deemed to be "access persons" the collection and review of annual holdings reports is an extremely large administrative task. In light of the fact that transactional reports occur quarterly, we do not believe that increasing the frequency of the annual holdings reports provides any tangible benefit.

---

[2] Please consider the following as an illustration of the potential administrative burden of this requirement. Our organization currently has over 2000 associates covered under our personal investing policy. Assuming that 50% of these associates hold at least two unaffiliated mutual funds that are held directly with the transfer agent for the fund groups (as opposed to in existing brokerage accounts), the compliance area would have to receive at least 2000 additional duplicate statements (in addition to confirmation statements for transactions). This would be *in addition to* statements (for over 2000 associates *plus immediate family members*) relating to affiliated mutual funds.

F. **Periodic Transaction Reports/Duplicate Broker Confirms and Statements**

The Proposed Rule would require quarterly reports of all securities transactions by access persons to be due no later than 10 days after the close of each calendar quarter. The Commission seeks comment on the required timing of these reports. We believe that quarterly reports represent the appropriate frequency for reporting. Many brokerage firms provide quarterly statements summarizing activity, thereby making it easier for employees to complete their reporting forms. More frequent reporting (monthly) could cause an administrative "paper nightmare" for advisers with large numbers of access persons (including many working in offices outside the U.S.). For example, our compliance area sends quarterly transaction reporting forms two to three weeks in advance of the quarter-ended period (to ensure that the forms are received by associates who may be traveling during the week that the forms are due). A monthly reporting period would mean that over 2000 forms would be going out for the current month's reporting at around the same time as the previous month's forms where being received and reviewed.

With respect to the reporting deadline, although we recognize that the 10-day period has been a part of Rule 17j-1 for a long time, we strongly believe that this period is too short and that it should be extended. Because two of the four quarter ended periods coincide with national holidays (Christmas/New Year's; July 4th), many employees are out or the office on extended periods for vacation. As such, it is extremely difficult to track down employees during these time periods to remind them of due dates. In addition, both the Proposed Rule and Rule 17j-1 state that quarterly reports are not required to the extent that they would duplicate information contained in trade confirmations or account statements, to the extent that they have been received within 10 days after the end of the quarter. Due to delays in the mail (and the national holidays as described above), these statements often do not arrive until after the 10-day period. As such, we have not been able to exempt employees from the quarterly transactional reports and continue to require those reports to be manually submitted, despite, in many cases, receiving completely duplicative information in account statements.

G. **Initial Public Offerings and Private Placements**

Similar to Rule 17j-1, the Proposed Rule would require that access persons obtain the adviser's approval before investing in an initial public offering ("IPO") or private placements. We believe that enhanced review of these types of transactions is appropriate, however, we believe that the decision regarding whether or not to ban these types of transactions should be made by each advisory firm in light of appropriate facts and circumstances (for example, the ability of clients to engage in these types of transactions).

H. **Reporting of Violations**

Each code of ethics would have to require prompt internal reporting of any violations of the code. Reports of violations would have to be made to the adviser's chief compliance officer or to another person designated in the code of ethics. Although we support the concept of review of "violations" of the code, for many larger organizations, it may not be practical to have one individual review every single issue that arises under the code. Often, compliance teams are charged with the responsibility of administering the policy (including reviewing all holdings and transactions reports) and the organization sets "materiality" thresholds for reporting issues to senior management. For example, an organization may decide that an employee who turns in a quarterly transactions report several days late due to a family vacation does not need to be reported to more senior employees unless the employee has turned in more than one late form during a period of time, whereas the organization might determine that *any* failure to pre-clear a transaction should be reviewed by a more senior employee. As such, we are not certain that requiring that *all* violations of the code, regardless of materiality, be reported to a senior employee is necessarily helpful to the overall process.

I. **Acknowledged Receipt of Code of Ethics**

The Proposed Rule specifies that codes of ethics would have to require the adviser to provide each supervised person with a copy of the code of ethics and any amendments and require each supervised person to acknowledge, in writing, his receipt of those copies. We support this proposal and agree that it is extremely important for a firm's employees to be aware of ethics policies applicable to them. We believe that each firm should be given the flexibility to determine what type of certification would be appropriate. As such, we believe that a required certification with specific included elements is unnecessary.

J. **Other Code of Ethics Provisions**

Although our Code of Ethics currently contains virtually all the provisions the Commission listed in its discussion, we believe that some of these provisions (for example limitations on acceptance of gifts), may not be applicable to other smaller firms. As such, although we feel it may be appropriate for the Rule to *suggest* other types of provisions that may be appropriate to include in a Code, we do not believe that these items should be required. In addition, with respect to provisions relating to the detailed identification of who is considered an access person within the organization, we feel that it is often helpful for these descriptions to be left somewhat broad in order to allow flexibility for management or compliance personnel to cover additional associates (who might not squarely fall within the definition of "access person") with little argument.

K. **Adviser Review and Enforcement**

Proposed Rule 204A-1 would require that advisers maintain and enforce the provisions of their codes of ethics. Enforcement of the code would include reviewing the securities holdings and transaction reports of the adviser's access persons. We agree with this requirement. As stated above, however, we believe that organizations may have other appropriate individuals or groups, other than the chief compliance officer, who can be responsible for enforcing the code of ethics. For example, a team of legal and compliance associates is responsible for the day-to-day administration of CRMC's Code of Ethics. Issues arising from the code relating to personal securities transactions are raised with a Personal Investing Committee, which consists of five senior associates, including two lawyers (one from outside the U.S.) and three investment associates, some of whom are employed by an affiliated advisory firm. The Personal Investing Committee, in turn, may decide to raise certain issues with the Management Committees of the parent company (or any of the subsidiaries) or with the Audit Committee of the parent company. Because our Code of Ethics (and personal investing policy) covers a broad range of associates from different parts of the world and from different affiliates, we have found a Committee approach to be the most effective.

L. **Recordkeeping**

We agree with the Commission's proposals to require that certain records, including copies of the Code of Ethics, written acknowledgment of receipt of the code, records of violations of the code and action taken as a result of violations be kept by adviser. The Commission has also proposed to require that records of access persons' personal securities reports (and duplicate brokerage confirmations or account statements) be maintained electronically in a computer database. For larger fund organizations that do not have an electronic system already in place, such a requirement would be *extremely* costly and would require the adviser to hire many additional employees for data entry of transactional information.

The Commission suggests that for larger firms, "client accounts" may be opened up for each employee so that existing portfolio analysis programs can track employee trades. However, this option is not available to advisory firms that do not have an affiliated broker-dealer. In such cases, employees have often set up accounts with a number of different brokerage firms to suit their specific investment needs. It would be cost prohibitive for an advisor to develop electronic links with all these brokerage firms to meet the electronic database requirement. In addition, any requirement that would potentially require systems to be built would require a very long development period before compliance could be possible.

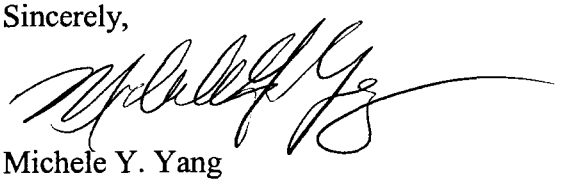
For example, several years ago, our organization purchased an "off-the-shelf" system that purported to automate pre-clearance and reporting functions. Because of a variety of factors (including incompatibility with our existing systems), the implementation of this system has not yet been completed and we are considering a number of other options

(including building a proprietary system) to automate our processes. The estimate for developing and implementing such a system is likely to well exceed $1 million and may take two years or more to complete.

* * * * *

We appreciate your consideration of our views. Any questions regarding our comment letter may be directed to the undersigned at the telephone number reflected below or to Michael Downer, Senior Vice President at (213) 486-9425.

Sincerely,



Michele Y. Yang
(213) 486-9001

cc: Michael Downer, Senior Vice President, Capital Research and Management Company