CAPITAL GROUP℠

The Capital Group Companies, Inc.
333 South Hope Street
Los Angeles, California 90071-1406

November 1, 2013

Ms. Elizabeth Murphy
Secretary
United States Securities Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Office of Financial Research – Report on Asset Management and Financial Stability

Dear Ms. Murphy:

The Capital Group Companies is one of the oldest and largest asset managers in the nation. We, through our investment adviser subsidiaries, manage over $1 trillion in assets in various collective investment vehicles and separate accounts. A large majority of these assets consist of the American Funds family of mutual funds, which are held by individuals and institutions. We welcome the opportunity to comment on the recent report by the Office of Financial Research (the "OFR") on Asset Management and Financial Stability (the "Report") and appreciate the Securities and Exchange Commission's effort to seek the public's perspective on this important topic. As a global asset manager we have a significant interest in policies that promote a well-functioning financial system; one that can withstand the periodic shocks that are an inevitable part of our complex, global market place.

We understand that the OFR was commissioned by the Financial Stability Oversight Committee (the "FSOC") to provide data and analysis to better inform the FSOC's decision making around whether, and how, to consider asset management firms for enhanced prudential standards and supervision as systemically important financial institutions by the Board of Governors of the Federal Reserve System. While we recognize the need for the FSOC to be fully informed as it makes decisions in this regard, we believe that the Report is more likely to confuse, rather than clarify, the public dialogue regarding the systemic risks posed by the asset management business.

FSOC and Systemically Important Financial Institutions

The FSOC was created by the Dodd-Frank Act and charged with, among other things, determining which institutions and firms could pose a threat to the financial stability of the United States. In creating a framework for designating firms as systemically important financial institutions and subjecting them to heightened prudential standards imposed by the Federal Reserve Board, the FSOC is charged with determining whether material financial distress at a firm, or the firm's mix of activities, could pose a threat to the financial stability of the United States. In making such a determination, the FSOC will consider a firm's size, interconnectedness, substitutability, leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny. The FSOC released specific guidelines it would follow in designating non-bank systemically important financial institutions and in its final release recognized that the asset management industry might not fit neatly into the criteria it had defined and that it would need to analyze the industry further. The OFR was charged with performing this analysis.

The Report

We believe that the Report is flawed and too often relies on unsupported claims regarding hypothetical vulnerabilities posed by asset managers. We think there is a simple reason for this; history itself does not provide any concrete examples of the types of risks identified by the Report. Thus, while we appreciate the FSOC's desire for data regarding the asset management industry, we also believe that no amount of data gathering and analysis will result in a finding that asset managers as a broad category are an inherent threat to the financial stability of the United States.

When we refer to the asset management industry in this letter we are referring to firms similarly situated to us in their approach to investment management and their business model. We do not speak to concerns that other firms might have due to different investment management techniques they employ or other lines of business they may run. We also note that the Report purports to specifically exclude money market funds. We agree that the money market segment of the industry is different from the rest of the industry and is currently the subject of proposed rulemaking by the Securities and Exchange Commission. For these reasons we do not address the money market fund segment in this letter.

While we have not set out to give an exhaustive critique of the Report, we touch upon a few of what we consider the more important considerations below.

Asset Managers as Agents

Early in the Report the OFR acknowledges that the activities of asset management firms and funds "differ in important ways from commercial banking and insurance activities. Asset managers act primarily as agents: managing assets on behalf of clients as opposed to investing on the manager's behalf." This distinction is a very important one and one that the Report seems to lose sight of throughout.

We actively invest for fund shareholders and separate account clients in an agency capacity. In performing this function we employ active management to invest shareholder and client money in stocks, bonds and other securities of companies around the world in compliance with the objectives and strategies of the applicable fund or account. We do not guarantee any type of return for shareholders or clients. In this regard, there is no explicit or implicit promise to shareholders or clients that our balance sheet is available to support the funds or accounts we manage. We also do not share in the gains as the funds and accounts increase in value due to the increase in the value of the underlying investments. Shareholders and clients understand that their account may increase or decrease in value, and therefore they enjoy the gains and bear the risk of loss. We are paid a contractual fee by the fund or client, normally based on the amount and type of assets managed.

Fund and account assets are held by the fund or account on behalf of shareholders and clients and are not owned by us. The funds are separate legal entities owned by the fund's shareholders and are overseen by a board of directors made up predominately of people who are independent from us as the asset manager. These independent directors have a fiduciary duty to protect the best interests of the fund's shareholders. We cannot use fund or client assets for any purpose outside of investing them for the benefit of the shareholders and clients. Further, if we, as the asset manager, were in financial distress, we could not look to the assets of the funds or client accounts to support our business.

The agency relationship maintained by asset managers is vastly different than the principal relationship maintained by banks and insurance companies. Banks and insurance companies carry a very different risk profile than that of asset managers. In such capacity, a bank or insurance company client may look to the balance sheet of the banking or insurance institution to satisfy its investment. In times of perceived financial distress for an insurance company or bank it is foreseeable that clients would want to withdraw their investments before the entity's assets are depleted – a 'run on the bank.' It is obvious in a situation where an entity is acting in a principal capacity that the implementation of capital requirements, and other prudential standards, designed to ensure that a banking or insurance firm has adequate cash to protect its obligations to clients can be effective.

In contrast, by the nature of the agency relationship, when an asset manager is experiencing financial distress, fund and client assets would be easily portable to another asset manager without any harm to the shareholder or client. In addition, shareholders have the option to redeem shares and clients to move their assets at any time. In the situation where the fund or client account is losing value, the asset manager is not expected to backstop the fund or account. Even during the extreme stress of the recession beginning in 2008, the asset management industry operated smoothly. Many funds' net asset values declined significantly, yet there was no evidence of structural deficiencies. The industry did not require bailouts from the federal government and did not face failures similar to those seen in the banking and insurance industries. In either situation, either a fund or client or an asset manager may lose assets or even fail, but the impact of such a loss or failure would not have systemic repercussions. Further, the OFR does not explain how prudential standards would translate meaningfully to asset managers and enhance the protection of shareholders and clients.

Regulatory Regime

The FSOC determined that in considering its designation of an entity as a systemically important financial institution it would look at the existing regulatory scrutiny of such entity. We, as an asset manager, are currently subject to regulation and oversight by multiple regulators, including the Securities and Exchange Commission ("SEC") and, more recently, by the Commodity Futures Trading Commission ("CFTC"). The mutual funds we manage are also subject to all four of the major federal securities laws and the rules and regulations of the SEC and, for those that invest more than a de minimis amount in commodity interests, the CFTC. Our mutual funds are among the most highly regulated and transparent financial companies in the United States. This regulatory framework protects shareholders and clients through a system of compliance and disclosure requirements. It creates a system whereby we, as the adviser, must act in a fiduciary capacity to protect the best interests of our funds' shareholders and our clients. The Investment Company Act of 1940 sets out stringent requirements that registered funds must adhere to, including requirements related to liquidity, leverage, capital structure, diversification and concentration of investments. We are also subject to a framework that regulates, among other things, how the funds are valued on a daily basis, custody of fund and client assets, and transactions between our affiliated entities. All of these rules and regulations provide strong systemic risk-limiting provisions and are in place to provide protection for shareholders and clients.

The disclosure component of the regulatory framework also provides protection for shareholders. The funds we advise must clearly disclose their objectives and strategies and the risks of its investments and of investing in the fund, including the fact that a shareholder can lose money by investing in the fund. Funds must also clearly disclose the expenses associated with investing in the fund and historical results. Additionally, we, as the adviser, are required to disclose the risks related to the securities and other investments we invest in on behalf of the funds and clients we advise. All such disclosure requirements are designed to fully inform a shareholder or client about the investment they hold. Shareholders and clients are fully informed of the potential risk that they may lose some or all of their invested assets. Additionally, these investors have complete control over which vehicles they use for their investments.

We believe that the regulatory framework we are subject to adequately protects shareholders and clients. History has borne this out and the OFR does not offer any evidence as to the deficiency of the existing regulatory framework governing the asset management industry. The existing regulatory framework governing asset managers and funds has worked well during times of stress such as the stock market crash in 1987, the bond market distress in 1994, problems in emerging markets in 1997 and 1998, the bursting of the dot.com bubble in 2000, the 9/11 attacks and, most recently, the worst financial market crisis since the Great Depression.

We further believe that the designation of individual companies for heightened supervision should be reserved for those circumstances, presumably quite limited, when the FSOC has determined that a specific company poses significant risks to the financial system that clearly cannot be adequately addressed through enhancements to the existing regulatory framework.

Other Considerations

The asset management industry is very large and diverse. The Report acknowledges that "asset management firms have a diverse mix of business and business models, offer a broad variety of funds, and engage in many activities;" however, throughout the Report the OFR paints broad strokes across the industry without differentiation. The Report addresses practices and risks perceived by the OFR to apply to the asset management industry, but never differentiates how any such practices and perceived risks might affect one part of the industry or another.

The Report also makes certain blanket assertions on the 'potential' behaviors of asset managers and shareholders or clients that it says could lead to systemic risk. However, the OFR never makes a coherent connection between these behaviors and how they would lead to a threat to the financial stability of the United States. In addition, the Report purports to exclude money market funds; however, at times the OFR's supporting arguments for why certain of these potential behaviors might create risk seem to center around behaviors that might apply in relation to a money market fund structure.

Lastly, the OFR acknowledges gaps in the data it had access to in preparing the Report and notes that it would be well served to have additional data on hand. Under the current regulatory framework, we prepare and file an enormous amount of information with the SEC and other regulators. If the OFR decides to continue its pursuit of data, we suggest that the OFR work with the SEC and other regulators to determine what data they can access prior to putting the burden on investment management firms.

Conclusion

We urge the OFR and FSOC to appreciate that all financial market activity involves some degree of risk and that the ability of market participants to spread, share or take on risk through the financial markets is a prime characteristic of robust and innovative economies. Accordingly, the goal of systemic risk regulation should be to balance the need to eliminate abuses and excessive risk that can endanger the financial system, while at the same time, encouraging acceptable levels of risk taking that is necessary for innovation and economic growth.

In striking this balance, we strongly assert that the asset management industry does not pose a threat to the financial stability of the United States due largely to the agency nature of the relationship between asset managers and the funds and accounts they advise. The Report tries to make this connection by making broad assertions about the risks of the asset management industry and drawing conclusions without support or empirical data. We believe that the Report is flawed because the data that leads to the conclusion that asset management firms pose a systemic threat just does not exist.

We also firmly believe that the regulatory framework governing asset managers and the funds or accounts they manage adequately protects the interests of investors and is updated regularly to take into account new issues that arise. Further, it is not clear to us how applying heightened prudential standards to the asset management industry would enhance investor protection or guard against any perceived systemic threat. Given the way in which asset managers operate in relation to the funds and accounts they manage, coupled with the comprehensive regulatory framework, large investment advisers should not be deemed systemically important financial institutions by the FSOC.

Thank you for considering these comments. Please contact Mike Downer (213-486-9425) or Paul Roye (213-615-0418) if you have questions or would like additional information.

Sincerely,

James F. Rothenberg

James F. Rothenberg
Chairman

cc: The Hon. Mary Jo White, Chairman
The Hon. Luis A. Aguilar, Commissioner
The Hon. Daniel M. Gallagher, Commissioner
The Hon. Kara M. Stein, Commissioner
The Hon. Michael S. Piwowar, Commissioner
Norm Champ, Director, Division of Investment Management
Jacob J. Lew, Secretary of the Treasury, U.S. Department of the Treasury
Richard Berner, Director, Office of Financial Research, U.S. Department of the Treasury