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Filed Electronically

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Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Regulation Best Interest (File No. S7-07-18) ("Best Interest Proposal")

Form CRS Relationship Summary; Amendments to Form ADV; Required Disclosures in Retail Communications and Restrictions on the use of Certain Names or Titles (File No. S7-08-18); ("Disclosure Proposal") and

Proposed Commission Interpretation Regarding Standard of Conduct for Investment Advisers; Request for Comment on Enhancing Investment Adviser Regulation (File No. S7-09-18) ("Adviser Interpretation Proposal")

Dear Mr. Fields:

We appreciate the opportunity to comment on the Securities and Exchange Commission's proposals regarding the standards of conduct for investment advisers and broker-dealers. The Capital Group is one of the oldest and largest asset managers in the United States. Through our investment management subsidiaries, we actively manage assets in various collective investment vehicles and institutional client separate accounts globally. The vast majority of these assets consist of the American Funds family of mutual funds, which are U.S. regulated investment companies distributed through investment advisers and broker-dealers.

We commend the Commission for issuing guidance on this important topic. We believe the Commission, as the primary regulator of broker-dealers and investment advisers, is the appropriate regulator to take the lead on the standards of care for retail investment advice. We are hopeful that the Commission will move expeditiously to finalize its proposals. Without a final rule, we are concerned that other federal and

state regulators will enact standards that may be inconsistent with the regulatory scheme outlined by the Commission.

We are encouraged that the proposals strive to create harmonized regulatory regimes governing both the investment adviser and broker-dealer business models. While fee-based programs are appropriate for many investors, commissionable investment advice can make more sense for some investors, for example, small balance and buy-and-hold investors, and it is critical that the regulatory regimes governing both business models preserve investor choice.

Below we offer specific suggestions for refining the proposals, including recommended clarifications to, among others, the duty to mitigate financial conflicts of interest, the treatment of recommendations between brokerage and advisory accounts, the status of wholesaling and the application of the best interest standard to mutual fund share classes.

A. Load Mutual Funds

The Commission should clarify that level compensation is not required to satisfy the duty to mitigate financial conflicts of interest.

Proposed Regulation Best Interest would require that broker-dealers establish, maintain and enforce written policies and procedures reasonably designed to identify, disclose and mitigate material conflicts of interests related to financial incentives. The proposal explicitly states that broker-dealers would have flexibility to develop and tailor reasonably designed policies and procedures that include mitigation measures, based on each firm's circumstances. However, the proposal includes a number of examples of particular mitigation measures that are apparently derived from the Department of Labor's invalidated Best Interest Contract Exemption, most notably its "level" compensation requirement. That requirement stipulated that financial professional compensation for advice could not vary based on the security recommended unless neutral factors, such as the time and effort associated with the recommendation, warranted differential compensation.

As a threshold matter, we are not convinced there is a pressing need for broad new conflict of interest mitigation requirements. In our experience, brokers overwhelmingly act in the best interests of their clients. We do not see evidence of brokers putting their financial interests ahead of their investors in connection with commissionable mutual funds. If anything, by choosing to work with their clients in a brokerage capacity, financial professionals are often foregoing significant revenue they could earn if they did business in an advisory capacity.

If, however, the Commission decides that a broadly applicable duty to mitigate is warranted, we greatly appreciate the Commission's emphasis on flexibility and its refusal to prescribe a one-size-fits-all approach to mitigation but we urge the Commission to clarify that level compensation is not required under Regulation Best Interest. We are concerned that some broker-dealer firms will perceive the duty to mitigate as articulated by the Commission as too challenging and fraught with regulatory risk, particularly its allusions to level compensation. It is common practice to include a percentage of commissions and 12b-1 fees received in connection with fund sales in the compensation paid by the broker-dealer firm to its registered representatives and any suggestion that financial professional compensation practices need to be re-worked could have unintended consequences.

Our experience with the fiduciary rule's level compensation requirement is telling. In response to the level compensation requirement, many broker-dealers asked mutual fund families to launch T shares, which eliminated traditional A share features such as rights of exchange and rights of accumulation, and increased commissions on fixed income funds to harmonize with existing commission schedules on equity funds. Thus, T shares would have reduced potential differential compensation payable to financial professionals by harmonizing the commissions paid to the broker-dealer firms but at the cost of eliminating significant investor benefits, such as reduced commissions attributable to rights of accumulation and exchange and lower commissions on fixed income funds.

A number of broker-dealers even seriously discussed no longer offering load mutual funds because of the inflexible level compensation requirements of the BIC Exemption and a few restricted load mutual funds in IRAs. If restrictions on commissionable mutual funds had been more widely implemented, the net effect would have been a dramatic shift of investors from brokerage accounts into fee-based advisory accounts.

The DOL came to appreciate these unintended outcomes and delayed implementation of the level compensation requirements. Instead, the DOL issued transition rules which provided broker-dealer firms with greater flexibility around conflicts of interest mitigation policies and explicitly did not require level compensation. Ultimately, T shares were not offered to investors and most broker-dealer firms continued to make A share mutual funds available to investors.

We urge the Commission to learn from the DOL's actions and ensure broker-dealer firms under the Proposed Regulation Best Interest have sufficient flexibility in mitigating conflicts of interest. In hindsight, the more-flexible transition rules that were

actually implemented by the DOL appear to have fended off the worst case scenarios while still creating an effective, yet still manageable, approach for broker-dealer firms. Some broker-dealer firms instituted policies to meet the DOL transition rules by isolating conflicts at the firm level. Others adopted oversight policies rather than changing compensation practices. Still others made some changes to compensation policies without going so far as to implement level compensation.

Without passing judgment on the merits of the various approaches, we believe it is not practical to entirely disconnect financial professional compensation from broker-dealer revenue—it is essential to creating an alignment of interest between a broker-dealer firm and a broker. This alignment between broker-dealers and their registered representatives is central to the broker-dealer business model and it should be clearly permissible to continue this business model.

Thus, while we are encouraged by the Commission’s emphasis on a broker-dealer’s ability to exercise judgment in managing conflicts of interest and acknowledgment that “broker-dealers should have flexibility to tailor” their policies and procedures to their unique circumstance, we strongly recommend that the Commission go further and clarify that level compensation is not required under Regulation Best Interest.

B. Recommendations Between Brokerage and Advisory

The Commission should clarify the treatment of a recommendation between a brokerage and advisory account.

The proposals, specifically the Best Interest Proposal and the Adviser Interpretation Proposal, provide that a recommendation between brokerage and advisory accounts will be considered a covered recommendation if the recommendation is tied to a securities transaction. While not explicit, the suggestion is that in such circumstances, the financial professional’s best interest or fiduciary obligation will extend beyond the securities transaction to recommending the appropriate account type.

We support the approach taken by the Commission but think the requirement that an account type recommendation must be tied to a securities transaction in order to be covered is needlessly confusing and unclear. Choosing between a brokerage and an advisory account is an incredibly impactful decision for investors. It is very important that these recommendations be made in the best interest of the retail investor. Accordingly, we suggest that the Commission treat the recommendation of an account type as a recommendation of an “investment strategy involving securities”

and therefore a covered transaction, regardless of whether the recommendation is tied to a securities transaction. We note that this approach is similar to the one taken in the Department of Labor's fiduciary rule, which treated the recommendation of an account type as "a recommendation as to the management of securities" and therefore a covered recommendation regardless of whether there is an implicit buy or sell recommendation.

It is also important that the standards governing such recommendations be harmonized. The Best Interest Proposal and the Adviser Interpretation Proposal both indicate that if the recommendation of an account type is a covered recommendation because it involves a securities transaction, the applicable standard would depend upon the capacity in which the adviser is acting (either best interest when the recommendation is made in the capacity of a broker-dealer or fiduciary duty when the recommendation is made in the capacity of an investment adviser). However, it is not clear whether substantively the standards (best interest and fiduciary duty, respectively) governing the account type recommendation differ in any material respects.

One potential difference between the standards in this context might be the explicit duty to mitigate conflicts of interest under the Best Interest Proposal. Yet, it makes little sense for different standards to apply to the recommendation between brokerage and advisory accounts depending on whether a financial professional is acting as a broker or investment adviser. Moreover, while an account type recommendation invariably involves conflicts related to financial incentives, it is not practical to mitigate these conflicts through changes to compensation. The structural differences between advisory and brokerage compensation are simply too disparate to practically mitigate through compensation practices. As a point of comparison, even the DOL fiduciary rule recognized that a level compensation concept does not work in the context of an account type recommendation. Through the so-called level fee exception in the Best Interest Contract Exemption, the DOL required contemporaneous documentation of reasons for the recommendation, rather than requiring application of the BIC Exemption's more stringent level compensation requirement.

We believe flexibility consistent with the DOL's approach is advisable in this context and recommend the Commission clarify that it would be appropriate for a broker-dealer firm to manage conflicts inherent in account type recommendations through policies and procedures, such as contemporaneous documentation and surveillance. Such an approach would simultaneously have the virtue of creating a harmonized standard between Regulation Best Interest and the Advisers Act and

aligning the current practices broker-dealers and advisers implemented in connection with the DOL fiduciary rule.

C. Wholesaling

The Commission should clarify that wholesaling activity is not covered by Regulation Best Interest.

We make our investment options, including the American Funds, available to retail investors through financial professionals; either a registered investment adviser representative or a registered representative of a broker-dealer. For that reason, our distribution and sales efforts are targeted to investment professionals. Our sales representatives are often referred to as “wholesalers” because they only sell to professional financial intermediaries. We are concerned that under a literal reading of the Best Interest Proposal, wholesalers could be considered to be providing advice to “legal representatives” of a “retail customer.” We urge the Commission to clarify that wholesalers are not covered by Regulation Best Interest.

Having wholesalers’ interactions with advisers and brokers subject to Regulation Best Interest is inconsistent with the Commission’s objective of protecting retail customers. First, professional investment advisers are sophisticated parties that do not need the protection of Regulation Best Interest. Second, professional investment advisers are already responsible for acting in their client’s best interest. Finally, wholesalers do not have visibility into the end investor. It is untenable to treat individuals far removed from a retail customer as providing retail investment advice. Wholesalers are not representing a retail customer who is, “using the recommendation primarily for personal, family or household purposes.” The DOL fiduciary rule provided for a carve-out clarifying that wholesaling activity was not included in the DOL fiduciary rule. We do not believe the proposal meant to include wholesalers in the ambit of the best interest standard, but we believe there is sufficient ambiguity in the proposal that this should be explicitly clarified.

D. Share Class Selection

The Commission should clarify how Regulation Best Interest applies to various mutual fund share classes.

The release states that a broker-dealer would fail to meet its Care Obligation under Regulation Best Interest by recommending a security that is “more costly than a reasonably available alternative” if the “characteristics of the securities are otherwise identical.” The release specifically calls out share classes as one example of where the

Care Obligation could be violated and where the Commission has historically brought charges against broker-dealers.

Though the Commission appears to focus its concern on certain sales practices motivated by a broker-dealer's self-interest being prioritized over a customer's best interest, we think it is important for the Commission to recognize certain relevant features that should be considered in recommending share classes.

We, like many other mutual fund complexes, offer a variety of share classes to investors. We believe that offering various share classes is consistent with the Commission's stated desire to preserve access and choice for investors. In the brokerage context, we offer both A and C shares. The A share generally includes an upfront commission and a 25 basis point 12b-1 fee payable to the broker-dealer; the C share has no upfront commission but a 100 basis point 12b-1 fee. The C share converts to a share class with a 25 basis point 12b-1 fee after a stated number of years (which may vary by broker-dealer).

Broker-dealer firms have well-established policies and procedures for recommending between A and C shares, focused in large part on the investor's expected holding period and the extent to which the investor is eligible for reduced upfront commissions based on rights of accumulation. We believe that these procedures have worked well and suggest that the Commission confirm that its statements about recommending the lowest cost share class should not be understood to undermine the existing framework around recommendations between A and C shares.

We also note that these differences in compensation are not unique to A and C shares. For example, there are variations in compensation in our F share classes, which are used in fee-based advisory programs. The differences between F share classes are largely about support for clearing, platform and sub-transfer agency services. It should be obvious that an adviser can offer only an F share with revenue to support such services even if a share class without such support is available. We believe offering a variety of share classes along these lines is consistent with the proposals' focus on flexibility and preserving access and choice for investors, and that this choice is critical to align investors with the best possible recommendations tailored to their unique investment profiles.

Presuming Regulation Best Interest applies to recommendations to retirement plans, we strongly urge the Commission to provide additional clarity on how Regulation Best Interest applies to the various mutual fund share classes that are widely made available to retirement plans. We currently offer a number of classes of R shares

which are shares for use in retirement plans. R share classes were designed for retirement plans of all sizes with different levels of 12b-1 fees and recordkeeping support, in part so that a retirement plan could choose the share class with a mix of fees and expense most aligned with the plan's desired investment-related services and participant-level recordkeeping. For example, a large plan could use the lowest cost R share class if it planned to pay recordkeeping and adviser expenses directly. However, in contrast, smaller plans typically want a greater portion of plan expenses to be paid through fund assets because the employer is unwilling to pay all recordkeeping and other expenses directly or deduct them from participant accounts. Without clarification from the Commission on how it can be appropriate to recommend R shares with different fee levels, we fear that many small plan sponsors will have to limit the benefits paid to participants or cease offering plans altogether. Such an outcome would be at odds with the Commission's stated goal of preserving investor choice as well as the public policy of encouraging retirement savings.

We recognize that the difference between various R share classes also includes differences in financial professional compensation. For example, some share classes pay a higher rate of 12b-1 fees than other share classes. However, the share classes are generally intended to be used by plans of certain sizes. And the difference in compensation is often intended to reflect differences in the services the broker provides, for example, conducting enrollment meetings at a variety of separate locations or providing investor education meetings. Thus, the mere difference in compensation should not cause a recommendation to run afoul of Regulation Best Interest. Such an approach would fail to recognize that there are differences in services and that these differences may be more or less valuable to a retirement plan.

E. Disclosure

We believe customized mutual fund fee and expense disclosures for investors at the time of recommendation would be impractical.

Proposed Regulation Best Interest could be read to require some level of customized disclosure of fees, expenses and conflicts of interest in connection with an investment recommendation. Though we support the Commission's objective of ensuring investors make informed investment decisions we do not believe customized disclosures are the best method of accomplishing this objective to the extent these fees and expenses are associated with mutual funds.

In the context of mutual funds, individualized disclosures raise significant operational burdens and compliance issues in exchange for, at best, inconsistent utility. Even with due inquiry, any such disclosure has a high likelihood of being flawed. Even

for established relationships it would be extremely difficult to calibrate a precise and reliable disclosure without deferring to a number of assumptions, including ones relating to expected holding period, returns and purchase amounts. Further, in order to establish a reasonably reliable system to create any customized disclosure would require a significant upfront cost and require substantial ongoing costs to maintain. This burden is not justified to create a system that by its nature will be flawed.

Rather than creating customized disclosure of fees and expenses in connection with an investment recommendation we suggest that in the context of mutual funds a broker continue to be able to rely on publically available registration statements. Prospectuses for registered mutual fund currently contain fee and expense disclosures. These examples provide a solid basis of information for any investor. They are also static and publically available, which ensures the comparison is disconnected from the transactional nature of any recommendation.

F. Account Statements

We believe requiring investment advisers to provide periodic account statements is likely to be more harmful than helpful.

Investors in registered funds that acquire shares through investment advisory accounts receive at least quarterly account statements from either the broker-dealer, bank (typically the client's custodian) or transfer agent holding such interests. In addition, investment advisers to separately managed account programs relying on the 1940 Act safe harbor from investment company registration, must ensure each investor is provided with a quarterly account statement containing a description of all activity in the client's account, as a condition of reliance on the safe harbor. Further, as the Commission acknowledges, investment advisers with custody of client assets are required to have a reasonable basis to believe the "qualified custodian" that holds the assets sends an account statement to the investor at least quarterly. Indeed, under the Advisers Act "custody rule" the Commission requires that if an investment adviser separately sends statements to its clients, it must urge clients to compare the statements distributed by the adviser to the statements the client receives from its qualified custodian. Thus, at least in this instance, the Commission has implied that the client's custodial statements are the truest statement of a client's account. Finally, registered funds are required to file semi-annual and annual reports with the Commission which include information regarding fees and expenses borne by the funds' shareholders during the applicable reporting period.

We believe that mandating investment advisers to provide account statements is likely to create confusion as to which statement is the true record of his or her

registered fund holdings. Additionally, we would advocate that the party best equipped to provide account statements is either the broker-dealer, bank (typically the client's custodian), or transfer agent holding such interests. Finally, requiring investment advisers to create customized periodic reports for each client would unnecessarily create logistical and costly burdens for advisers without a justifiable benefit to investors.

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We appreciate the opportunity to comment on the Proposals and once again commend the Commission for issuing guidance at this time. We reiterate our belief that the Commission is the appropriate regulator to take the lead to ensure retail investors are afforded strong protections whether they receive advice from a broker-dealer or an investment adviser. We applaud the Commission's decision to build on the existing regulatory regime and enforcement framework and once again urge the Commission to move expeditiously to finalize the rules for the Proposals.

If you have any questions regarding our comments, please feel free to contact undersigned at (██████████).

Sincerely,



Jason Bortz
Senior Counsel

cc: The Honorable Jay Clayton
The Honorable Kara M. Stein
The Honorable Robert J. Jackson, Jr.
The Honorable Hester M. Peirce

Dalia Blass, Director, Division of Investment Management
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