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[redacted]

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January 4, 2021

VIA ELECTRONIC SUBMISSION

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements (File No. S7-09-20)

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's proposed rule and form amendments that would modernize the disclosure framework for open-end management investment companies (the "Proposal").

The Capital Group Companies is one of the oldest and largest privately held investment management organizations in the United States with nearly 90 years of investment experience. Through our investment management subsidiaries, we actively manage equity and fixed income investments 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 managed by Capital Research and Management Company. We are an active manager that uses rigorous fundamental research to find attractive investments and manage risks.

We commend the Commission for seeking feedback on retail investors' experience with fund disclosure and on ways to improve fund disclosure. We appreciate the Commission's efforts to (i) alleviate concerns that fund retail shareholders currently may receive disclosure materials that are not well-suited to their needs or contain information that may appear redundant or inconsistent with other information they receive and (ii) provide investors with simpler, easier-to-understand information about a fund's fees and expenses and principal risks. In addition, we generally support the comments submitted by the Investment Company Institute (the "ICI"), which we believe endorse an approach that balances flexibility for funds to create documents that can vary in length and manner of

delivery, while providing easy access to additional information for shareholders.[1]

We offer the following comments on specific aspects of the Proposal.

I. The Commission should permit funds to satisfy their transmission obligations for shareholder reports and annual prospectus updates by filing them with the Commission, posting them on the fund's website, and delivering them upon request to shareholders in a manner consistent with the shareholder's delivery preference.

Under the Proposal, open-end funds would be excluded from the scope of Rule 30e-3 and, accordingly, would be prohibited from satisfying shareholder report transmission obligations by making shareholder reports available online. As a result, open-end funds would continue to be required to mail shareholder reports to all shareholders, unless a shareholder affirmatively elects electronic delivery. We strongly urge the Commission to adopt an access equals delivery approach for the delivery of both shareholder reports and annual prospectus updates.

Under an access equals delivery approach, funds would be permitted to deliver shareholder reports and annual prospectus updates by filing them with the Commission and posting them on their websites. Shareholders that wish to receive paper copies of these documents could opt out of this delivery model. We believe shareholders would embrace this approach given the growing preference for electronic communications and the prevalence of current fund information available online. For example, the ICI found that in 2020, "internet access is nearly universal among mutual fund–owning households," with 96% of households owning mutual funds having internet access, up from 68% of these households in 2000.[2]

An access equals delivery approach would deliver significant savings to shareholders by reducing the costs associated with printing and mailing shareholder reports and annual prospectus updates. In 2020, we estimate that the total annual printing and mailing costs for all of our funds' shareholder reports and annual prospectus updates were in excess of $48 million. This is $48 million of shareholder money that could be put to better work towards shareholders' investment goals.

Many investors prefer to receive fund disclosure electronically, either through email, mobile application, or website availability. The Commission has long recognized the internet's important role in providing disclosure materials and other information to investors and maximizing investor access to information.[3] In adopting Rule 30e-3, the Commission

[1] In particular, we support the ICI's recommendation that the Commission should modify the liquidity risk management disclosure item to (i) require funds to provide this liquidity disclosure in the streamlined shareholder report only if they do not (a) meet the definition of "In-Kind ETF" or "primarily highly liquid fund" under the liquidity rule, or (b) consistently hold a majority of their assets in highly liquid investments; and (ii) simplify the instruction to produce more useful information about a fund's liquidity risk profile. *See* Letter to Vanessa Countryman, Secretary, Securities and Exchange Commission, from Susan Olson, General Counsel, and Dorothy Donohue, Deputy General Counsel, Securities Regulation, Investment Company Institute (December 21, 2020) ("ICI 2020 Disclosure Reform Proposal Letter"), available at https://www.ici.org/pdf/20_ltr_disclosure.pdf.

[2] *See* Holden, Sarah, Daniel Schrass, and Michael Bogdan. 2020. "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2020." ICI Research Perspective 26, no. 8 (November). Available at www.ici.org/pdf/per26-08.pdf.

[3] *See*, *e.g.*, Use of Electronic Media for Delivery Purposes, Investment Company Act Release No. 21399

acknowledged that "investor testing and internet usage trends have highlighted the evolution of investor preferences about electronic delivery of information, and shown that many investors would prefer enhanced availability of fund information on the internet." [4] As compared to receiving paper copies, investors receiving electronic copies have real-time access to documents when they are posted to a fund's website. Moreover, digital access allows investors to reference regulatory documents through multiple devices (e.g., desktop computers, laptops, tablets or smartphones) or while they are traveling or employed away from their home address (e.g., remote work). From our perspective, it is telling that following the adoption of Rule 30e-3, only 0.40% of all of our funds' shareholders opted in to receiving paper copies, signaling strong investor support for accessing information online.

The COVID-19 pandemic and recent issues with the U.S. Postal Service have highlighted the limitations of traditional postal delivery and demonstrated the effectiveness of new communications technology for functions vital to our economy and our financial markets – from virtual annual shareholder meetings and investor conferences to initial public offering roadshows and meetings between clients and financial professionals. In line with these developments, other governmental departments and agencies have recently modernized their disclosure policies. Earlier this year, for example, the Department of Labor (the "DOL") published final regulations that created a new safe harbor for the electronic delivery of retirement plan disclosures to participants and beneficiaries required under Title I of the Employee Retirement Income Security Act of 1974, as amended. [5] In connection with the new safe harbor, the DOL noted that "this rule will immediately assist employers and the retirement plan industry as they face a number of economic challenges due to the COVID–19 emergency, including logistical and other impediments to compliance with ERISA's disclosure requirements."[6] With these and similar developments, investors are reconsidering how best to receive information and conduct business at home given postal mail delays and concerns about safety. Our internal data indicates that, comparing November 2020 to January 2020, online financial transactions for our funds increased over 30%, as shareholders and advisors became comfortable with working from home and more savvy with our digital interface. We expect this upward trend to continue as the pandemic persists and even afterwards given the societal changes resulting from the substantial time spent working from home and the various and unpredictable shutdowns and other restrictions.

Adopting an access equals delivery approach eliminates the unnecessary production of paper documents and would aid efforts to improve our environment. We estimate we used

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(Oct. 6, 1995) [60 FR 53458 (Oct. 13, 1995)] ("1995 Release") (providing Commission views on the use of electronic media to deliver information to investors, with a focus on electronic delivery of prospectuses, annual reports, and proxy solicitation materials); Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information, Investment Company Act Release No. 21945 (May 9, 1996) [61 FR 24644 (May 15, 1996)] ("1996 Release") (providing Commission views on electronic delivery of required information by broker-dealers, transfer agents, and investment advisers); Use of Electronic Media, Investment Company Act Release No. 24426 (Apr. 28, 2000) [65 FR 25843 (May 4, 2000)] ("2000 Release") (providing updated interpretive guidance on the use of electronic media to deliver documents on matters such as telephonic and global consent, issuer liability for website content, and legal principles that should be considered in conducting online offerings).

[4] *See* Optional Internet Availability of Investment Company Shareholder Reports, Investment Company Act Release No. 33115 (June 5, 2018) [83 FR 29158 (June 22, 2018)] ("Rule 30e-3 Adopting Release").

[5] *See* Default Electronic Disclosure by Employee Pension Benefit Plans under ERISA, 85 Fed. Reg. 31,884–924 (May 27, 2020) (to be codified at 29 C.F.R. § 2520.104b-31).

[6] *See* id.

8.9 million pounds of paper to print shareholder reports and annual prospectus updates in 2020. Adopting an access equals delivery approach would reduce the environmental impact of our funds, while providing shareholders with access to current information.

While there are some costs savings associated with allowing electronic delivery as the default method of delivery, the full benefits will not be realized unless an access equals delivery approach is adopted. For accounts held by financial intermediaries, emails are delivered by third-party vendors. These vendors charge a suppression fee for emailing documents in lieu of paper, pursuant to the rules of the New York Stock Exchange (the "NYSE"). In our experience, the average suppression fee is $0.005 per record or fund/account and, in the aggregate, suppression fees result in funds bearing more expense than they would if they sent paper documents. The Commission should adopt an access equals delivery approach in order to reduce costs for fund shareholders or, alternatively, work with the NYSE to adopt a modernized fee schedule that more closely reflects the costs of sending emails in lieu of paper documents.

II. The Commission should eliminate the requirement to mail the semi-annual report.

At minimum, we believe the Commission should eliminate the requirement to mail the semi-annual report to reduce costs for fund shareholders and improve their information experience through access to the semi-annual report and other current information online.

If the Commission eliminated the mailing of the semi-annual report, we estimate that savings to our shareholders would be $24 million annually, again putting more shareholder money to better work towards shareholders' investment goals. Furthermore, we believe that shareholders would not suffer any loss of information because the semi-annual report would still be available online. In fact, their experience with fund information could improve since many funds, including ours, publish monthly or quarterly fact sheets online, which contain much of the information that would appear in the proposed requirements for semi-annual reports and are presented in a concise and interactive format that may be more useful to shareholders than a printed report.

III. The Commission should permit funds to incorporate information by reference into annual reports.

Under the Proposal, a fund would not be permitted to incorporate information by reference into annual reports. We support the Commission's approach to limit the number of proposed disclosure items in the annual report to provide a concise, more-engaging report that gives shareholders key information to assess and monitor their ongoing fund investments. However, eliminating a fund's ability to incorporate by reference does not consider the liability protections afforded by allowing information that is located in other disclosure documents to be incorporated by reference. We are concerned that reliance on the Proposal may increase litigation or enforcement risk for funds on the basis that they have not properly disclosed certain risks or other factors in the annual report. Funds may determine to include discussion about certain risks in a fund's prospectus or statement of additional information and not in the annual report, leaving them open to criticisms that they have somehow hidden information from investors. In short, if adopted as proposed, funds would unfortunately have to choose between supporting an effort to improve the shareholder disclosure experience and the cost to the fund for increased litigation and enforcement risk.

We believe eliminating a fund's ability to incorporate information by reference creates unnecessary risk for funds given that shareholders would be provided with current information throughout the year – through shareholder reports as well as the availability of the fund's prospectus and statement of additional information online.

For funds to be able to incorporate information by reference into annual reports, we propose that the Commission require a link to the prospectus and statement of additional information, which would also make it easy for investors to find the information they want. This approach is consistent with the layered approach to fund disclosure that was adopted by the Commission in 2009 when it adopted the summary prospectus.[7] If the Commission is not receptive to a wholesale incorporation by reference of information in the prospectus and statement of additional information, we propose allowing funds to incorporate by reference the risk factors and investment strategies sections, which, in our experience, are the sections most vulnerable to frivolous and costly lawsuits.

IV. The Commission should adopt the proposed rules and amendments for streamlined shareholder reports but should consider the following targeted changes to the proposed requirements.

We support the Commission proposing a rule that creates a new streamlined shareholder report with key information and provides funds with an alternative way to keep shareholders informed instead of delivering annual prospectus updates to existing shareholders. We believe this approach furthers the Commission's goal to address the concern that shareholder report and prospectus disclosures may appear redundant or inconsistent to shareholders, as well as the belief that prospectus disclosures in particular may often be less relevant to the informational needs of a shareholder who is simply monitoring his or her fund investments. However, we have a few comments on this approach to better satisfy investor preferences and reduce costs and complexity for fund shareholders.

A. The Commission should provide flexibility for multi-series presentations in the annual and semi-annual reports for certain funds, such as target date funds.

Under the Proposal, a fund's annual and semi-annual report would be restricted to include only one series of a fund. For target date funds, we believe that any additional length or complexity in the annual and semi-annual report resulting from multi-series presentations is outweighed by the benefit to shareholders to see and evaluate multiple fund options and how each fund's asset mix will shift over time as they approach the target date. Accordingly, the Commission should provide funds with the flexibility to determine the most appropriate presentations for shareholders in the best judgment of the fund.

[7] *See* Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Investment Company Act Release No. 28584 (Jan. 13, 2009) [74 FR 4546 (Jan. 26, 2009)] ("2009 Summary Prospectus Adopting Release") ("[B]y provid[ing] information in a layered format that permits users to move from key information to more detailed information, the new rule is intended to facilitate each investor's ability to effectively choose to review the particular information in which he or she is interested.").

B. The Commission should provide flexibility to present only the primary share class rather than all share classes in each of the expense example and the average annual total returns table in the management's discussion of financial performance (the "MDFP").

Under the Proposal, for disclosure that would differ among classes, such as expenses and performance data, funds would be required to provide certain class-specific information for all share classes. Instead, to reduce the length and complexity of the disclosure, we recommend that multi-class funds be permitted to present only the primary share class (consistent with current instructions on Form N-1A) in each of the expense example and the average annual total returns table in the MDFP. However, funds that choose to present only the primary share class in the annual report should be required to provide a link to a website where information about all share classes can be viewed. We believe this approach strikes the appropriate balance between reducing the length and complexity of the disclosure and facilitating shareholders' ability to compare share classes of a fund.

C. The Commission should change the proposed general instructions relating to the order of information in the annual report to require funds to present return information before the expense example.

Under the Proposal, the instructions require funds to present the expense example before return information. We believe these instructions are contrary to the goal of investors, which is to invest for the purpose of return. Accordingly, we propose to reorder the content of the annual report so that return information is presented before the expense example. We also believe our proposal results in less confusion for investors because the expense example includes total return information, so reordering the return information before the expense example would be more logical.

D. The Commission should not require quantitative disclosure of certain types of expenses (e.g., securities lending costs, fund investment transaction costs, etc.) in the expense example, but should require quantitative disclosure of acquired fund fees and expenses ("AFFE") in such example.

Under the Proposal, in the expense example, funds would be required to include a footnote to the "total return before costs paid" column that qualitatively describes, in plain English, other costs that are included in the fund's total return, if material to the fund. We support this aspect of the Proposal and agree with including qualitative disclosure, but not quantitative disclosure, of such costs to alert shareholders that there are indirect costs not reflected in the expense example that may materially affect the fund's performance. We also support the proposed requirement to disclose AFFE in the prospectus fee table. However, there is no proposed requirement to disclose AFFE in the expense example. Therefore, we propose to include AFFE in the expense example because we believe such inclusion is consistent with the inclusion of AFFE in the fee table in the prospectus and, accordingly, provides investors with a consistent picture of a fund's AFFE across disclosures. We believe this is particularly important if the streamlined shareholder report becomes the primary disclosure document for existing investors.

E. The Commission should provide flexibility to present more than 10 years of performance history in each of the performance line graph and the average annual total returns table.

Under the Proposal, funds are restricted from presenting more than 10 years of performance history in each of the performance line graph and the average annual total returns table. We believe such restriction does not benefit shareholders who want to understand and compare funds' performance over a longer period of time. For investors who are looking for sustained returns over the long-term, we believe providing flexibility to present more than 10 years of performance history is valuable information to assess the variability of fund returns and the potential risks of investing in the fund.

F. The Commission should clarify that, in selecting an appropriate broad-based securities index in performance disclosures, a fund is permitted to select a blended index that it believes best reflects the markets in which it invests.

Under the Proposal, the Commission defines "broad-based index" as one that represents the overall applicable domestic or international equity or debt markets, as appropriate. We believe such definition is unduly narrow and has the potential to create inapt comparisons. For certain types of funds that invest in multiple asset classes, a blend of indexes representing the typical asset allocation of the fund is more appropriate than a "broad-based index." For example, it may be more helpful for investors to compare the results of a balanced fund to an index of equity and fixed income securities. In any case, funds must continue to demonstrate an objective basis for the index selected, to ensure it provides investors with an appropriate comparison to the fund's investment objective and strategy.

G. The Commission should incorporate a principles-based approach to disclosing material changes in annual reports.

Under the Proposal, funds would be required to include a new section in annual reports describing material changes to the fund. Specifically, funds would be required to disclose any material change regarding: (i) the fund's name; (ii) the fund's investment objectives; (iii) with respect to material increases, the fund's ongoing annual fees, transaction fees, or maximum account fee; (iv) the fund's principal investment strategies; (v) principal risks of investing in the fund; (vi) the fund's investment adviser; or (vii) the fund's portfolio manager(s). While we appreciate the Commission's efforts to capture the types of material changes that are important to fund shareholders, we believe this approach is unduly prescriptive and not evergreen. We recommend that the Commission incorporate a principles-based approach, which would permit each fund to retain discretion to determine the types of changes to disclose consistent with current disclosure rules. Instead of an enumerated list of material changes, we recommend that the Commission require funds to include any change for which: (i) the fund filed a Rule 485(a) amendment; or (ii) mailed a sticker to shareholders consistent with Rule 497. We believe our recommendation more closely aligns the new section with an analytical framework with which funds are already familiar and provides funds with the flexibility to use appropriate judgment as to which changes are most relevant to fund shareholders and that may influence their investment decisions.

H. The Commission should require inclusion of the fund's investment objective on the cover page of the annual report.

In its request for comments, the Commission asks whether there is any additional information that it should permit or require funds to provide on the cover page or at the beginning of their annual reports. We propose to require funds to include the fund's investment objective on the cover page of the annual report because we believe the objective is important for investors to consider as they evaluate their investment.

V. The Commission should provide additional guidance concerning what constitutes "briefly" summarizing a fund's principal risks.

Under the Proposal, the term "briefly" is inserted before the current requirement that the fund summarize the principal risks in the summary prospectus. We agree with the Commission's observation that, for some funds, principal risk disclosure in the summary prospectus is overly lengthy and that tailored, brief information can help investors digest disclosures more easily. We have always sought to provide investors with clear, concise, user-friendly principal risk disclosure, but, on occasion, have received Commission staff comments to expand and/or provide lengthy details in our principal risk disclosures. In order to help prevent confusion or potential "disclosure creep," we recommend that the Commission provide additional guidance concerning what constitutes "briefly" summarizing a fund's principal risks, so funds are better able to comply with the new requirement.

VI. The Commission should retain the term "12b-1 fees" in the statutory prospectus because it is a well-understood term in the industry and introducing the term "selling fees" could lead to confusion.

Under the Proposal, in the statutory prospectus, distribution fees and service fees under a Rule 12b-1 plan would be renamed "selling fees." We recommend that the Commission retain the term "12b-1 fees" because it is a well-understood term in the industry and introducing the term "selling fees" could lead to confusion. This is because the term "selling fees" does not accurately reflect what the fees are for, since the fees include a component that may be used for shareholder services, which by their nature are not "selling fees." The Commission has long sought to provide investors with terminology that enhances their understanding of a fund's fees and, in the past, has recognized that 12b-1 fees comprise compensation for both distribution activities as well as servicing activities.[8] In the Proposal, the Commission notes that the proposed terminology changes, including introducing the term "selling fees," "are designed to be more consistent with everyday language and to effectively communicate the nature of the fees the fund charges." While the term "selling fees" may use language that investors are more familiar with, it does not advance the Commission's goal of effectively communicating the nature of the fees the fund charges for the reasons discussed above and, accordingly, we recommend that the Commission retain the term "12b-1 fees" or introduce a term that accurately reflects what the fees are for to reduce the possibility of confusion.

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[8] *See, e.g.,* NASD Rule § 2830(d)(2)(E) (superseded by FINRA Rule § 2341(d)(2)(E)); SEC No-Action Letter to ICI (pub. avail. October 30, 1998).

We applaud the Commission in its efforts to improve fund disclosure and appreciate the opportunity to comment on the Proposal. If you have any questions regarding our comments, please feel free to contact Walter R. Burkley at [redacted] or Timothy W. McHale at [redacted].

Sincerely,

Walter R. Burkley
Senior Vice President & Senior Counsel
Capital Research and Management Company

Timothy W. McHale
Senior Vice President & Senior Counsel
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cc: The Hon. Elad L. Roisman, Acting Chairman
The Hon. Hester M. Peirce, Commissioner
The Hon. Allison Herren Lee, Commissioner
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