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Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Concept Release on the U.S. Proxy System (File No. S7-14-10)

Dear Ms. Murphy:

As an institutional investor with more than $900 billion in assets under management, Capital Research and Management Company ("CRMC")[1] appreciates the opportunity to provide our views on the U.S. Securities and Exchange Commission's ("Commission") Concept Release on the U.S. Proxy System. We thank the Commission for the extensive review of the processes, participants and components of the current proxy voting system. We view proxies of companies held in our mutual fund portfolios as significant assets and proxy voting as an integral part of the investment process. As such, we believe that confidence in the system is vital as investors seek to exercise their right and duty to vote at annual shareholder meetings.

The current system works to enable shareholders to provide input to corporate boards and management teams by voting on compensation, governance and related proposals. However, there are improvements and changes that could enhance accountability, transparency and integrity of the system. Our comments below, offered from the viewpoint of an institutional investor voting shares on behalf of our mutual fund shareholders, focus on areas of the release which impact us most directly.

Separately, from the perspective of an investment management organization whose mutual funds periodically call shareholder meetings triggering a need to distribute proxy statements to shareholders, we support the views detailed in the comment letter submitted by the Investment Company Institute. In particular, we strongly encourage the Commission to promote competition among the proxy servicing vendors that act on behalf of broker-dealer firms whose customers are mutual fund shareholders. We would support Commission actions that serve to reduce proxy distribution costs incurred by funds and their shareholders.

[1] CRMC serves as the investment adviser to the 30 American Funds, as well as American Funds Insurance Series, the underlying investment vehicle for certain variable insurance contracts; American Funds Target Date Retirement Series, which is available through tax-deferred retirement plans and IRAs; and Endowments, which is available to certain nonprofit organizations.

Voting Confirmation

As noted in the Concept Release, the current system lacks a mechanism to audit and confirm that votes were cast in accordance with each shareholder's instructions. The inability to confirm that a vote is transmitted correctly, or even if shares are voted at all, contributes to a lack of confidence in the system. At a minimum, minor modifications to the current processes that would require all participants to confirm the delivery and receipt of shares and voting instructions as they are passed through the system would significantly improve voting integrity.

Currently, it is nearly impossible for a shareholder to confirm that votes are cast according to their instructions. Even a shareholder with a significant ownership position may not be able to confirm with certainty that the disclosed meeting results correctly include their intended votes.[2] While the frequency of errors we have identified is low, since there is no way to reconcile votes for the majority of our positions, we are unable to determine the overall accuracy rate of our votes.[3]

Consistent with our views on the confidentiality of ownership positions (noted below), we recommend that vote confirmation only be provided to the requesting shareholder (or designated representative).

Additional Disclosure on Form N-PX

We do not support additional Form N-PX disclosure of the number of shares voted by registered investment companies. Current rules require investment advisers to report aggregate ownership positions at least annually, and registered investment companies to disclose a complete list of portfolio companies on a quarterly basis.[4]

Requiring additional disclosure also would add complexity to the filing and provide information without proper context. Currently, if an entire share position is unvoted, disclosure is required on Form N-PX. If the intent of the additional disclosure is to provide information on share lending and recalled shares, a footnote or other similar disclosure could accomplish the goal.

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[2] In certain circumstances it is possible to reconcile intended votes with meeting results disclosed by issuers or reported in the media – typically in cases of high-profile or non-routine proposals such as director elections or proxy fights.

[3] In 2009, the published results of withhold votes for certain directors at Yahoo! were significantly understated, based on our knowledge of how many shares were held and voted by CRMC-managed funds. We conducted an investigation, which revealed that the program used by a third-party voting platform only could facilitate share amounts up to six places to the left of the decimal. Therefore, our total voting position was truncated and the understated figure was provided to the vote tabulator. The correct number of shares ultimately was provided to the tabulator and the voting platform subsequently was modified to accommodate large share positions.

[4] Section 13(g) applies to beneficial owners of more than 5% of a class of equity securities registered under the Securities and Exchange Act of 1934 (the "1934 Act"). It can only be relied upon if the beneficial owner is also a qualified institutional investor and/or a passive investor. Registered investment companies are required to file with the Commission beneficial ownership of more than 5% on Form 13G, and a complete listing of portfolio holdings for their first and third fiscal quarters on Form N-Q and for their semi-annual periods on Form N-CSR.

Issuer Communications with Shareholders

Issuers seeking to communicate directly with us about their annual meeting agenda or other governance matters currently are able to do so, either by contacting an investment analyst, a member of our proxy and governance team, one of our custodian banks or a proxy solicitation firm. The frequency of such outreach has increased substantially in recent years and, based on our experience and discussions with other institutional investors, it appears that issuers generally have had success in communicating with their larger shareholders.

We generally receive proxy ballots through our custodian banks and third-party proxy voting platform in a timely manner. We have opted to receive all proxy material electronically, which has substantially reduced delays associated with the receipt of proxy statements and ballots through the mail. (Presumably this also has proportionally reduced costs associated with the delivery of hard-copy proxy material.) Electronic delivery allows us to receive notice of our right to vote at annual meetings almost immediately upon an issuer's filing of proxy material with the Commission.

As we noted earlier, and as highlighted in the Concept Release, there are concerns about disclosure of ownership by institutional investors. The ability to maintain the confidentiality of ownership positions can preclude other investors from tracking and front-running trades made on behalf of mutual fund shareholders. Front-running has the potential to move the market for portfolio securities and negatively impact the value of those securities. We believe the ability to purchase and sell securities without signaling a particular buy or sell program is critical to the success of our long-term investment approach.

Since disclosure of significant holdings already is required,[5] it is unclear that the abolishment of the current "objecting beneficial owner" and "non-objecting beneficial owner" ("OBO/NOBO") designations would provide a measureable improvement for issuers trying to communicate with their institutional investors. However, we believe that the elimination of the OBO status likely would facilitate enhanced issuer communication with retail investors. We also believe modifying or eliminating the OBO/NOBO standard would greatly benefit registered investment companies, since currently they are unable to identify and communicate with a large segment of their retail investor base, either because the shareholders' identities are unknown or due to contractual restrictions imposed by broker-dealers.[6]

Clearly the Commission must carefully weigh the merits of eliminating the OBO/NOBO rule, in pursuit of enhancing issuer-shareholder communication, against the potential loss of privacy and confidentiality currently afforded to those same shareholders.

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[5] See footnote 4 reference regarding Section 13(g) of the 1934 Act, Form N-Q and Form N-CSR.

[6] Mutual fund shares often are held in the name of a dealer firm, nominee, or dealer clearing firm on behalf of its clients (also known as "street name" accounts). As such, shareholder contact information is not available to mutual funds, which precludes direct solicitation of proxy material. In addition, a significant number of shares are held in "networked" accounts. (Networking is the industry standard for account reconciliation and dividend processing through which all customer account-level information can be exchanged and reconciled between fund companies, dealers, trust companies, and third-party administrators, allowing identical information to appear on all parties' records.) Generally, mutual funds also are precluded from directly soliciting shareholders whose accounts are networked or are required to pay a significant fee to obtain the records from a third-party.

Proxy Advisory Firms

Proxy advisory firms provide an important source of information about annual meetings and governance issues to their subscribers. For institutional investors without the resources to hire a dedicated proxy research staff, advisory firms can provide background on governance issues and expert analysis of voting items. However, it is difficult to determine with complete certainty how much influence proxy advisory firms have on the outcome of a shareholder vote; investors may independently reach the same voting conclusions on a particular proposal as an advisory firm, but for entirely different reasons.

Concerns about conflicts do occur when an advisory firm provides services both to an issuer and to shareholders, without sufficient disclosure related to the exact nature of the services provided. Whether through new or existing rules, we believe additional disclosure about potential conflicts is warranted. Additionally, more transparency surrounding the research and decision process at the various firms likely would mitigate existing concerns about the independence and thoroughness of the analysis.

We acknowledge issuers' concerns with respect to advisory firm accuracy because we occasionally have found errors in data included in their reports.[7] Any process that allows issuers to review an advisory firm's recommendations should be carefully considered, however, to avoid the appearance that negotiations are taking place which might create an additional conflict.

Dual Record Date

The Commission highlights some of the challenges of a dual record date system, where an effort to ensure votes by those with economic interest on or near the meeting date can conflict with the goal of allowing sufficient time for delivery of proxy material. We believe the current single date system provides adequate time to receive and review a proxy statement and related material, while providing a clear definition of ownership voting rights. We are concerned that a dual record date would create unnecessary confusion about whether a holder had voting rights or not, and likely would result in additional costs to an issuer seeking to mail proxy material to a second list of shareholders within a reduced time frame.

We have voting experience in certain markets outside the U.S. where there is no record date in advance of a shareholder meeting. This lack of record date has resulted in late or non-delivery of proxy materials, and in votes being cast for securities that were sold (or subject to trade settlement) just prior to the meeting date. Given the Commission's concerns related to over- and under-voting, as well as enhancing voting participation by retail and other shareholders, any mechanism that would add administrative and legal burdens to an already complex system should be carefully weighed again any potential incremental benefits.

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[7] In each case, we reported the errors to the respective firms. Where statistical errors were involved and they agreed with our methodology, a revised report generally was issued in a timely manner.

We appreciate the Commission's efforts in providing an opportunity to comment on this important overview of the proxy voting system. Please feel free to contact us if you have any questions regarding our comments.

Sincerely,

Anne T. Chapman
Vice President
Fund Business Management Group

Chad L. Norton
Vice President
Fund Business Management Group