



**AMERICAN
FUNDS®**

From Capital Group

American Funds Service Company

6455 Irvine Center Drive

Irvine, CA 92618-4518

www.americanfunds.com

VIA EMAIL

April 15, 2016

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

Re: File No. S7-27-15: Advance Notice of Proposed Rule Making and Concept Release on Transfer Agent Regulations

Dear Mr. Fields:

We appreciate the opportunity to comment on the Securities and Exchange Commission's above-referenced release on transfer agent regulations. With over 21 million accounts, American Funds Service Company ("AFS") is one of the largest affiliated mutual fund transfer agents in the industry. AFS serves as transfer agent for the American Funds family of mutual funds, which are U.S. regulated investment companies managed by Capital Research and Management Company, distributed through financial intermediaries and held by individuals and institutions across different types of accounts.

We support the Commission's effort to review and modernize the rules governing transfer agents. We generally support the comments provided by the Investment Company Institute and offer our views on certain aspects of the proposal in this letter.

1. In developing new rules the Commission should focus on outdated rules and areas where specific problems have been identified

In crafting a rule proposal the Commission should focus on amending rules that are out of date and that are unnecessarily complicating the business operations of registered transfer agents. For example, as the Commission noted, there are a number of rules that relate to risks associated with processing certificated shares which have become obsolete with the mutual fund industry's movement to holding shares in book entry form. Because these obsolete rules remain in effect, transfer agents continue to expend resources in maintaining processes and procedures to adhere to

them. The Commission should also consider amending the recordkeeping rules to better reflect the predominance of electronic record retention practices.

Rules that function well in today's business environment should not be revised. For example, the reporting provided on Forms TA-1 and TA-2 provides the Commission with broad visibility into the operations of registered transfer agents. We are not aware of any instance where the reporting was inadequate to identify a potential risk posed by a transfer agent. Any rule proposal should focus only on updating problematic or outdated rules.

2. Proposed rules should appropriately balance the costs and benefits to transfer agents and investors

Because increased costs related to transfer agent activities often result in increased costs to shareholders, it is critical that any proposed rule be subject to a rigorous cost benefit analysis. We believe several of the concepts discussed in the Release need further economic analysis before they are proposed as rules. For example, and as further discussed below, the Commission should consider the impact of adopting rules for mutual fund transfer agents where other investor protections exist in the federal securities laws.

3. The Commission should adopt flexible rules that allow transfer agents to implement effective practices as businesses and technologies evolve

The Commission should avoid implementing rules that are overly prescriptive and adopt rules that can evolve to meet changing technologies, business practices, compliance risks and industry best practices. For example, the Release states that the Commission plans to propose rule amendments related to the cybersecurity programs of transfer agents. While we support a rule requiring transfer agents to adopt cybersecurity programs, we believe that registrants should have the ability to tailor their programs to address the specific risks contemplated by their business activities. Rule 38a-1 under the Investment Company Act of 1940 is a good illustration of a rule that allows funds and their service providers to have latitude to address compliance risks in a manner tailored to their business models.

4. Proposed transfer agent rules should be consistent with similar rules applicable to other SEC regulated entities

To the extent practical, any proposed rules that are similar to rules applicable to other SEC regulated entities should mirror those rules. Within our organization for example, we have a registered Investment Adviser (Capital Research and Management Company), a registered Broker Dealer (American Funds Distributors), and a registered Transfer Agent (AFS). To help facilitate effective compliance, leverage best practices, and maintain low shareholder expenses by managing costs, we look to implement consistent technologies and processes across the organization where feasible. Flexible rules with the same general standards will allow organizations such as AFS to more efficiently develop a program to comply with the amended rules.

5. The Commission should consider adopting a separate set of rules for mutual fund transfer agents

Mutual fund transfer agents operate much differently than traditional stock transfer agents. In particular, fund transfer agents are typically responsible not only for processing transactions, but also for providing ongoing services to investors. These services include providing account statements, tax reporting and responding to account related inquiries. Accordingly, it would be more efficient to have a set of rules for fund transfer agents that contemplate this broader set of servicing activities.

It is also important for the Commission to consider that mutual fund shareholders are subject to a number of protections provided by the Investment Company Act. Most importantly, funds are governed by a majority of independent directors. Fund directors are responsible for ensuring that fund service providers, including transfer agents, act in the best interest of fund shareholders. The board's responsibility includes monitoring fees paid for transfer agency services and the corresponding services. Oversight by an independent board provides a strong incentive for transfer agents to act in the best interest of the fund and its shareholders, and thus provides a level of protection not present for other types of transfer agents.

In addition, Rule 38a-1 requires funds to adopt compliance programs reasonably designed to prevent violations of the federal securities laws, including procedures to oversee the compliance activities of fund transfer agents. It also requires that funds appoint a chief compliance officer to manage the program and report to the board. Again, this added level of oversight is not present for other types of transfer agents. As the Commission proposes amendments to the transfer agent rules, it should avoid adopting rules that would otherwise be included as part of fund compliance programs established under Rule 38a-1 in order to promote efficiencies and reduce compliance costs.

6. The current reporting process for lost shareholders should be maintained

The Commission is well aware that some states require assets to be escheated based on loss of contact in lieu of the federal standard of returned mail. Ideally, there would be federal preemption in this area to help protect mutual fund investors who typically hold their investments for long-term periods without contact. However, we recognize this requires congressional action and is unlikely in the short-term. We do not believe additional reporting of lost shareholders to the Commission would be necessary or beneficial.

7. We do not believe there is a need for a self-regulatory organization for transfer agents

In our view, the SEC staff is in the best position to regulate transfer agents. In our experience staff examiners have been knowledgeable and experienced which has significantly benefitted the examination process. We fear that third party examiners (whether through a self-regulatory organization or otherwise) could reduce the effectiveness of the exam process while increasing costs for transfer agents, and ultimately investors. As discussed above, for mutual fund transfer agents,

the protections afforded by the Investment Company Act include oversight of fund transfer agents by a fund's independent directors and its chief compliance officer, which we believe further reduces the need for a third party examiner.

8. Transfer agency fees charged as a percentage of net assets are appropriate

We understand that most fund transfer agents are compensated for their services through account fees or as a percentage of fund assets. The benefit of charging fixed dollar fees based on accounts is that the fee can be set at a level designed to cover the expenses of servicing the account. Charging fees as a percentage of fund assets results in a fee that varies based on the fund's net asset value. While this structure can result in higher revenue to the transfer agent based on higher net asset values of the funds, the structure is also subject to the risk of lower revenues if net asset values decline. We believe that both structures are appropriate and choosing one or the other (or a combination of the two) should be determined by the transfer agent together with the fund board.

9. There is not an unmanageable conflict when mutual fund transfer agents provide transfer agency and fund administration services

The Release asks whether fund transfer agents providing both transfer agency and administration services creates conflicts of interest for the fund or the transfer agent. We believe that transfer agents can perform both sets of services without a conflict because the services are generally separate and distinct. Furthermore, the independent directors of the fund oversee all fund service providers and monitor them for potential conflicts with the fund and its shareholders. The board's responsibility includes assessing the fees paid to fund service providers to ensure that they are reasonable in relation to the services provided to the fund's shareholders. While, AFS provides transfer agency services at cost, regardless of a transfer agent's business model, we do not believe there is an unmanageable conflict in this area given the board's responsibility to monitor the fees and the value of the services provided to shareholders.

10. The Commission should clarify the responsibilities of transfer agents to oversee third parties providing sub-transfer agency services and the obligations of sub-transfer agents providing the services

As noted in the Release, mutual fund transfer agents often hire third parties to perform transfer agency and shareholder services. We encourage the Commission to clarify the obligations of transfer agents to monitor the services provided by third parties. While, we believe AFS has a strong oversight process in place today, more specific information on the expectations of the Commission in this area will be helpful in refining consistent industry practices in this area. The Commission should also consider clarifying the obligations of sub-transfer agents that provide services to mutual fund shareholders. Guidance in this area would further assist transfer agents in structuring their agreements with sub-transfer agents and refining their procedures to oversee third parties providing shareholder services.

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We truly appreciate the opportunity to comment on the Release. If you have any questions regarding our comments, please feel free to contact Tim McHale at [REDACTED] or Tony Seiffert at [REDACTED].

Sincerely,

J. Steven Duncan
President
American Funds Service Company

Anthony M. Seiffert
Vice President and Chief Compliance Officer
American Funds Service Company

Timothy W. McHale
Vice President and Associate Counsel, Fund Business Management Group
Capital Research and Management Company

cc: The Hon. Mary Jo White, Chair
The Hon. Kara M. Stein, Commissioner
The Hon. Michael S. Piwowar, Commissioner

Stephen Luparello, Director
Christian Sabella, Associate Director
SEC Division of Trading and Markets

David Grim, Director
Diane Blizzard, Associate Director, Rulemaking
SEC Division of Investment Management