

ES 106639

4660 LA JOLLA VILLAGE DR

SUITE 725

SAN DIEGO

CALIFORNIA 92122

TEL 858 552 6776

FAX 858 552 0535

Senior Resource Group 

57-03-04

61

4 March 2004

The Honorable William H. Donaldson
Chairman
U. S. Securities and Exchange Commission
450 Fifth Street, N. W.
Washington, D. C. 20549

Dear Chairman Donaldson:



Overview:

The mutual fund industry has been beset with problems created primarily by the greed and opportunism of a few at the expense of the many. Its success may have caused some fund companies to become careless and lax in their operations and to lose focus of the fact that their primary responsibilities and fiduciary duty were always to their shareholders. Aggregation of assets and the granting of special privileges to a few are sins of commission; the inability for a fund to track all the activity of its shareholders may be an omission that is difficult to correct in these days of omnibus accounts.

We are among the fifty two individuals who comprise the independent directors for all of the American Funds. We serve on boards that represent 13 of the 27 funds in that group: American Mutual, AMCAP, Investment Company of America and the Fixed Income Funds, (the latter includes 12 bond funds, each with a different focus, both taxable and tax-exempt). Each of us has a term of service in excess of 10 years; one of us first became a director in 1981.

The Honorable William H. Donaldson
4 March 2004

The SEC, Congress and States Attorney Generals are all seeking to understand the industry's transgressions and to identify those who sought to capitalize on weaknesses in the system.

We, as independent directors, are equally concerned. We are ultimately responsible to our shareholders and wish to do whatever we can to insure that the industry and its reputation are rehabilitated.

Governance:

Although there are many areas that need to be addressed, this letter will focus on the question of governance and alternatives that are pragmatic and effective rather than totemic and political.

The directors of a mutual fund are charged with the oversight of the fund for the benefit of its shareholders. The management company that has been hired is the operating entity. Although the investment adviser can earn substantial fees from the mutual fund, their primary responsibility is also to the shareholders. An interdependent relationship ensues in which the independent directors have the ability to monitor the activities of the investment manager and to insure that the shareholders' interests are served. Over the years the SEC and the funds have crafted some clear guidelines and "best practices" as to what the responsibilities and duties of each party at interest are.

At the American Funds the fund boards are clustered and the boards are comprised primarily of independent directors with some representation from the investment manager. The principal executive officer of each fund is an officer of Capital Research and Management Company. The PEO and the Treasurer, as officers of CR&MC, are charged with the responsibility of certifying the financial statements as required by the Sarbanes-Oxley bill.

The Honorable William H. Donaldson

4 March 2004

The independent directors provide a broad oversight of fund operations and also chair, and serve on, the Audit / Contracts / Nominating Committees. These committees meet regularly and focus exclusively on what might be in the best interests of the shareholders. For instance the independent directors insist on “breakpoints” in the advisory fee that reduce shareholder costs as the fund assets grow. These fees are also measured against fees charged by others so the ultimate judgment by the independent directors as to the appropriateness of the fees is both on a relative and an absolute basis.

Recommendation:

Given these facts, a new “best practice” would be to allow each fund group to decide whether an independent or an “interested” director should best serve as chairman. In the event an independent director was chosen, the chairman’s duties would be those of a non-executive chairman and an “interested director” would continue as the chief executive. The practical result would be to retain the requisite balance of powers and to maintain the sharp focus on shareholders’ interests.

The business of the fund is properly conducted by the investment manager and the responsible officers.

To require an independent director to be the chairman of a fund and thereby to assume some of the obligations of the chief executive is to risk upsetting the balance that exists without providing any discernible benefit to the shareholders. Quite to the contrary, the costs incurred, especially for smaller funds, could be significant.

The Honorable William H. Donaldson

4 March 2004

For example, in fund audit practices there is a requirement that an auditor not attest to the effectiveness of systems that the auditor has installed.

By the same token if an independent director were to become the chairman and take on chief executive-type duties and thus would be required to certify the results of the fund's operations, a case could be made that his independence was questionable and that he, in fact, was now an "interested" director.

Alternatives:

There are other alternatives that might also be considered. These would be in keeping with past SEC practices to suggest "best practices" rather than regulating by fiat. Each fund would have the flexibility to choose the form of governance that was best suited for the specific fund and the people charged with its governance:

- The New York Stock Exchange, recently racked with scandals, has instituted the concept of a "presiding director", one who would set the agenda and then would preside over the meetings of independent directors;
- The SEC could require that the agenda for all in-person meetings be considered and approved by the independent directors;
- The SEC could limit the requirement for independent chairs to funds with advisers who have been found to have violated securities laws in the last ten years.

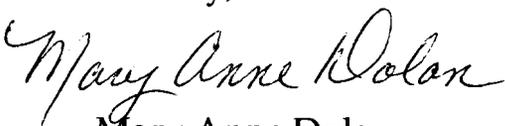
The Honorable William H. Donaldson
4 March 2004

And finally, as noted by our outside counsel, "Should the proposal to require an independent director to become the chairperson of the fund become law, it should be made clear that the purpose of the rule is to assure control of the meeting agenda and the conduct of the meeting by the independent directors. The function of the independent chair would be to serve as a liaison between independent directors and management, similar to the "lead director" role, and not to exercise operational responsibility. Moreover, if adopted, the rule should make clear that the extent and the scope of the duties of the chair shall be determined by the board and that the chair does not take on increased liabilities over those he or she has as a director".

The mutual fund industry has become a massive presence in the American investment business. Its success has been an enormous benefit to the investing public. The recent incidences of "market timing" and "late trading" have besmirched its reputation and have weakened investor confidence. Corrections and reforms are in order and prosecutions of the wrongdoers should be swift. Care should be exercised, however, to recognize the industry's essential differences from operating companies and to maintain the balance in governance between the independent and the "interested" directors. Only then will the investors' interests continue to be served both efficiently and effectively.

We look to your leadership and will continue to work to insure that our shareholders are well and truly served.

Sincerely,

15/ 

Mary Anne Dolan
AMCAP / AMF / ICA



Martin Fenton
AMCAP / AMF / ICA / FIXED INCOME