VIA ELECTRONIC DELIVERY

July 21, 2020

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Good Faith Determinations of Fair Value (File No. S7-07-20)

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the "Commission's") above-referenced proposal to address valuation practices and the role of the board of directors with respect to the fair value of the investments of registered investment companies (the "Proposal"). The comments made below are based upon our collective experiences as senior leaders in various organizations, and most importantly, as audit committee chairpersons whose boards are actively engaged in overseeing the fair valuation process for the American Funds (the "Funds") and continuously seek to keep their oversight role strong, independent, robust and fully engaged on behalf of our shareholders. The American Funds are one of the oldest and largest mutual fund families in the nation and are advised by Capital Research and Management Company. The views expressed here are our own and do not necessarily reflect those of Capital Research and Management Company or other Capital Group companies.

We commend the Commission for taking this significant step forward to recognize the developments in fund valuation, including the oversight role of fund boards, since last addressing valuation in 1970. We also commend the staff of the Division of Investment Management for their engagement with fund boards through their Board Outreach Initiative. We are pleased to see the Commission recognize that the board's role in valuation generally should be that of oversight, not day-to-day management, and propose a rule that incorporates the general industry practice of allocating day-to-day valuation responsibilities to the fund's adviser.

We are concerned, however, that certain prescriptive features of the Proposal would require fund boards to remain involved in managing various aspects of the fair valuation process rather than focusing on oversight. We urge the Commission to reconsider these prescriptive features, which we believe are not necessary for fund boards to properly oversee the fair valuation process, and, in practice, are more likely to reduce the fund board's effectiveness. We also believe that the Proposal should be revised to clarify that when a fund board assigns valuation responsibilities to the adviser, and appropriately oversees the fair valuation process, the board should not be liable for any failure by the fund adviser to properly manage the fair valuation process.

Nature of Board Oversight and Related Liabilities

Valuation is of fundamental importance to our fund shareholders. Proper valuation of fund assets and calculation of a fund's net asset value per share allows all transacting fund shareholders to pay or receive a price that is reflective of their proportionate share of the fund's portfolio and prevents, for example, arbitrage opportunities and dilution. As a result, over the past several decades, our fund boards and audit committees have been actively engaged in overseeing fair valuation determinations and in identifying potential issues and opportunities to enhance our fair value processes in service to fund shareholders. In close collaboration with the adviser, we have developed and refined processes and reporting appropriate to the portfolios we oversee and to the evolving aspects of the fair valuation determination process that would reasonably be likely to have material and/or adverse impacts to fund shareholders. We bring a wide array and depth of experience to our oversight role, and we believe that our boards have successfully demonstrated our ability to oversee and resolve fair valuation matters over the years.

The Proposal's prescriptive framework would require us to change many aspects of our existing processes without demonstrable benefit and, as noted below, in ways that we believe would be detrimental to our effectiveness. We believe this prescriptive approach, which essentially would mandate a "one-size-fits-all" framework for board oversight, is inconsistent with the deference to board judgment recognized by the Investment Company Act of 1940, as amended (the "1940 Act") and past Commission approaches to board oversight.

Specifically, we believe that the Proposal's prescribed requirements for board valuation activities, including those concerning fair value methodologies, pricing services, and reporting, undercut the board's oversight role, and would cause the board to "get in the weeds" of daily functions more appropriate for the adviser. In so doing, the Proposal would undermine a fundamental goal of the Commission – to modernize the 1940 Act's approach to valuation and permit fund boards to act as an oversight mechanism. For example, we do not believe that focusing board attention on potentially hundreds of pricing service methodologies, and on potentially voluminous reports detailing price challenges, adds value. Rather, we believe that we most effectively oversee these matters through our monitoring and assessment of the adviser's valuation practices, including our review of the adviser's due diligence on pricing vendors, quarterly reports and annual in-depth reviews among others, and inquiries when material events occur with respect to those services. We believe that the Proposal should afford fund boards the flexibility to focus on the specific valuation risks pertaining to an individual fund and to tailor the information that we receive accordingly. We also believe that the Proposal fails to recognize the effective compliance processes put in place as required by the Compliance Rules, specifically Rule 38a-1. Our existing valuation oversight practices make use of the Funds' Chief Compliance Officer to report on the Fund's compliance with its policies and procedures, including valuation as applicable.

We also are concerned that the prescriptive approach of the Proposal, and the confusion it creates about the division of responsibility between the fund board and the fund adviser, may, as a practical matter, serve to increase the potential liability of fund boards. We do not believe that is the Commission's intent, but it may be the practical impact of the Proposal as currently constructed. We therefore urge the Commission to reconsider the prescriptive approach. If the Commission decides to retain the prescriptive approach, then we believe it

would be imperative for the new rule to operate as a safe harbor, making clear that there are other reasonable methods outside of the rule for boards to satisfy the statutory requirement to determine fair value in good faith.

However the rule is ultimately constructed, we believe that it is important for the Commission to clarify that (1) a fund board's role in fair valuation is limited to satisfaction of its oversight responsibilities and (2) the board will not be held liable for issues arising from adviser fair valuation determinations so long as the board has reasonably and in good faith undertaken its oversight responsibilities. Otherwise, every breach of the rule's requirements would expose the board to liability for failing to fair value in good faith, as required by the 1940 Act.

Scope of Fair Valued Securities

We understand that the Proposal would incorporate Level 2 securities into the prescribed fair valuation process. We recommend that the Commission carve out Level 2 securities, which are often traditional fixed income securities, from the fair valuation requirements. In our experience, these Level 2 securities are priced with values provided by objective third-party pricing services that do not pose the same risks and conflicts of interest questions that currently-recognized Level 3 fair valued securities may pose. Furthermore, if Level 2 securities are included, the universe of fair valued securities requiring our boards' attention would increase by literally hundreds of times over with little benefit, taking away valuable board time from overseeing fair valued pricing that may raise questions of adviser discretion and potential conflicts. We are concerned that the costs to boards in time and focus associated with this aspect of the Proposal would outweigh its benefits.

Tailored Board Reporting Framework

We believe that the Proposal's mandatory reporting requirements and the increased amount of reporting will lead to voluminous and unfocused disclosure to boards and that would obscure rather than illuminate material and/or pressing issues. We believe that this volume of reporting also would undermine the valuable conversations that our boards have that challenge and hold fund management accountable. Large amounts of data in reports compel conscientious boards to spend scarce time and effort scrutinizing the data in detail, particularly where a board may be held liable for the mistakes of the adviser. Thus, the practical effect of the Proposal will be a more "checklist" style of engagement that would distract from our ability to undertake more focused discussions. If the details are too tedious and overwhelming, issues in the valuation of certain securities could be "hiding in plain sight." In short, boards could experience less, not more, precision in their oversight engagements.

Fund boards will conduct more effective oversight if they are allowed the flexibility to determine the appropriate reporting that will assist them in carrying out their oversight responsibilities consistent with their fiduciary duties and the unique facts and circumstances at hand. To illustrate this point, our Fund boards and audit committees currently receive quarterly reports that cover a broad range of topics such as Level 3 fair value methodologies, back-testing results, and pricing vendor performance and coverage. We anticipate continuing to receive this valuable information, as well as any additional information we may determine would be appropriate to assist us in carrying out our oversight responsibilities.

To that end, we support recommendations made by the Independent Directors Council, Investment Company Institute, and others in the asset management industry that the Proposal be revised to contemplate annual reporting on most of the specified items, with required quarterly reports limited to (1) material changes to valuation risks or adviser-applied fair value methodologies (or material deviations therefrom); and (2) significant deficiencies or material weaknesses in the fair value determination process. We also would anticipate receiving such additional information as the board and the adviser may determine is appropriate under the specific circumstances. For purposes of prompt reporting, in our experience, serious lapses in an adviser's fair valuation processes should be promptly reported, once discovered and verified. We believe that fund boards will conduct more effective oversight if they are free to determine the form of this reporting and to determine the frequencies at their discretion. The Proposal's three-day prompt reporting requirement is generally not necessary given current practices and may provide little benefit from an oversight perspective where information helpful to the board's review would likely be incomplete within such a short time frame.

Rescission of Prior Commission and Staff Guidance and Economic Impact

We support the Commission's efforts to modernize the investment company rulebook through the rescission of prior guidance incorporated in and superseded by Commission final rules and releases. To that end, we recommend that the Commission make clear that the guidance on board oversight of pricing vendors included in the 2014 adopting release for Money Market Reform[1] is withdrawn and/or is superseded by the Proposal's final rule requirements and related guidance.

We believe that the Proposal's prescribed oversight and reporting requirements could have significant economic impacts, with increased operating burdens and costs and little benefit from an oversight perspective. This is particularly but not exclusively the case if Level 2 securities are required to be considered fair valued. To the extent increased costs are passed on to shareholders, we see little commensurate benefit.

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[1] Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 31166 (July 23, 2014).

Thank you for considering these comments, and please feel free to contact any of us should you have questions or wish to discuss our thoughts on the Proposal.

Sincerely,

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Washington Mutual Investors Fund Board Member and Advisor, MorganFranklin Consulting

James G. Ellis
Audit Committee Chair –
American Funds Insurance Series, American Funds Target Date Retirement Series, American Funds Portfolio Series, American Funds College Target Date Series, American Funds Retirement Income Portfolio Series, The Fixed Income Funds of the American Funds, AMCAP Fund, American Mutual Fund, The Investment Company of America, and American Funds Global Balanced Fund
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