June 28, 2004

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-0609

Re: Proposed Rule Regulation NMS: (File No. S7-10-04)

Dear Mr. Katz:

Capital Research and Management Company ("CRMC") appreciates the opportunity to comment on the Securities and Exchange Commission's recent proposal Regulation NMS. CRMC serves as investment adviser to The American Funds family of mutual funds with aggregate net assets in excess of $500 billion. We would first like to commend the Commission's efforts to create a market structure that promotes efficiency, competition, price transparency, best execution, and direct interaction with investor's orders. We believe that achieving these objectives are in the best interest of our fund shareholders.

We would like to focus our comments on the trade-through proposal and those areas of the market access proposal that affect the necessary linkages to ensure an efficient National Market System envisioned by Congress when it enacted the Securities Act Amendments of 1975 to the Securities Exchange Act of 1934. Recent changes in the market structure, such as the NASDAQ order handling rules and decimalization, coupled with advances in communication technology have converged to create a historic opportunity to make significant improvements in the structure of the U.S. equity markets.

Trade-Through Proposal

We agree with the Commission's conclusions that "…in a fully efficient market with frictionless access and instantaneous executions, trading through a better-displayed bid or offer should not occur." Achieving this fully efficient market is what we believe Congress had in mind when it passed into law section 11a of the securities and exchange act, Section (A)(1)(D) States:

> The linking of all markets for qualified securities through communication and data processing facilities will foster efficiency, enhance competition, increase the information available to brokers, dealers, and investors, facilitate the offsetting of investors' orders, and contribute to best execution of such orders.

It has been our experience that with the structural changes in the NASDAQ market over the past few years and the adoption of advanced communication technologies, the NASDAQ model has come close to evolving into the efficient market the Congress envisioned. It is important to note that this evolution has occurred without the benefit of the trade-through rule that is in place today in the market for listed securities operating under the ITS regime. However, we believe that the principle of time and price priority should be a basic protection that all investors should enjoy. It is essential that the rules are fair to all participants for a market to function properly. We believe providing price protection will create an incentive for buyers and sellers to display their intentions. This will generate a more accurate reflection of the true supply and demand, which will enhance price discovery. We also believe that this will lead to an increased use of limit orders outside the best bid or offer which will increase depth in the market and dampen volatility. For these reason we favor a trade-through rule.

We firmly believe that if the trade-through rule is imposed across all markets that there must be 'frictionless access and instantaneous executions.' The Commission has requested comment on whether there is a need for an opt-out exception if it imposes an automatic execution requirement. Market centers that participate in a National Market System that provides price protection must offer automatic execution on the orders that they are displaying. If this is the case, we see no need for any opt-out provisions.

The Commission has asked for comment on what standards should be used to determine if a market center provides "immediate" response in order to be considered an automated market or it's quotes to be considered automated. We do think that some standard is required. It is difficult to imagine that any standard that is set today given available technology would be static in nature. We suggest a periodic review of any standard to address the changing technological landscape. One possible source of empirical evidence to help establish the standard could be a review of 11Ac1-5 statistics to assess how quickly execution responses are being processed. This could form the baseline for determining whether a market center or quotes could be considered "fast". These statistics show that sub 1-second response times are achieveable given available technology.

We believe that to be considered an automated market, the entire limit order book of a participating market center must be available for instantaneous execution. The Commission has requested comment whether it should expand the scope of the proposed trade-through protection beyond the best-displayed bid and offer. We think that the scope should be expanded, as this will provide the most incentive to display limit orders in the market and increase efficiency.

In a supplemental request for comment the Commission has asked whether the exception from the proposed trade-through rule should apply to quotes that are not immediately accessible rather than providing an overall exception for a manual market. This designation does not materially change our opinion on the proposed rule. It is possible to limit the exception to the quote level instead of designating a market center as automatic or manual. As long as the displayed orders are accessible, they should be protected.

Opt-Out Provision

The Commission has stated that it is not their intent to specify what form a national market system should take and that competition among market centers would help foster efficiency. We concur. Competition among market centers is critical for efficiency and further market innovations. The Commission has proposed an opt-out provision of the trade-through proposal for investors who want to trade outside of the best-published bid or offer in two instances. The first is to allow markets offering automatic executions to opt-out of sending commitments to trade to manual or non-automatic markets. We think this provision is essential. The second exception: to allow large traders to execute blocks immediately outside the quote to avoid parceling the large order into the market and possibly affecting the prices negatively. This second exception is unnecessary if the first one is adopted.

The only way that a trade-through rule will allow fair competition among market centers is if executions are instantaneous and frictionless. If any market center is allowed to slow down the process at the point of execution, investors are at a disadvantage to react in a timely manner to other available quotes. Some might argue that by slowing the process down, an investor is given the opportunity for "price improvement"; we would argue that if true supply and demand were displayed and protected that there is no such thing as price improvement.

The Commission has asked for comment on establishing the allowable trade-through amount. The proposed amounts are between one and five cents depending on the price of the stock. We do not think it is necessary or appropriate to place a limitation on the exception for non-automated markets. We are concerned that any limitation forcing orders to non-automated markets may have the effect of slowing orders across the board, reducing the incentives to post limit orders in automated markets. If an execution facility believes that their manual market is a superior model they should be allowed to operate in that manner, but should not be afforded an exemption from an automated market opting out of routing orders to them under any circumstances. Of course, investors, brokers and other markets centers will be free to choose to access these manual markets, but they will not be required to do so by the trade-through rule.

The other opt-out provision to the trade-through proposal is to allow large investors the ability to trade pre-negotiated blocks of stock outside the current quotation. We agree with the Commission's premise that in a market structure where automatic execution is required, and the trade-through is enforced, a block trader could route orders to satisfy the displayed quote and simultaneously execute the block at the negotiated price. If instantaneous execution is not required at all times and prices, we believe the opt-out provision to allow large block transactions is needed.

Market Access

Most of the proposed changes regarding market access the Commission has addressed do not directly affect us. The marketplace should be allowed to determine the connections that will link all the various market centers. We believe that competition among the technologies for connecting all the market centers is good and will lead to innovation. As communication technology continues to develop, it would not be in anyone's interest to try and prescribe a specific protocol for these connections. Fair and equal access should be mandated, but not the specifics of how the access is achieved.

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Capital Research and Management Company appreciates the opportunity to comment on the Proposed Rule and are available to discuss our views with members of the staff if they wish to do so.

Sincerely,

Matt D. Lyons