



**AMERICAN
FUNDS®**

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VIA ELECTRONIC DELIVERY

December 11, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Request for Public Comment: Proposed Rule on the Auditor's Report and Responsibilities, PCAOB Rulemaking Docket Matter No. 034

Dear Office of the Secretary:

We are pleased to have the opportunity to provide comments on the Proposed Rule on the Auditor's Report and Responsibilities ("Proposed Rule"). The comments contained below are based upon our collective experiences as senior leaders in various business, governmental, legal, and academic organizations, including our roles as audit committee chairpersons for the indicated American Funds. The American Funds are one of the oldest and largest mutual fund families in the nation, whose investment adviser is Capital Research and Management Company. The views expressed here are our own and do not reflect those of Capital Research and Management Company.

Summary

As members of the audit committees, we are dedicated to our role of overseeing the Funds' financial statements. In carrying out this role, we exercise due care in engaging a qualified auditor to perform appropriate audit procedures in order to report to shareholders on the fairness of those financial statements. As such, we are supportive of the PCAOB's efforts to examine the rules surrounding the responsibilities of an auditor with respect to other

information contained in an audited report, as well as the auditor's report itself. However, we believe that the proposed modifications to the auditor's report, in particular the disclosure of critical audit matters, will ultimately result in boilerplate disclosure, adding little value, while not recognizing the careful, thorough review and discussion that audit committee members have with the auditors during committee meetings. Furthermore, we believe the substantial disclosures surrounding critical audit matters will distract financial statement users from the central purpose of the auditor's report, which is to provide an opinion on the financial statements. As discussed in more detail below, we do not support the changes proposed in the new auditing standard on the auditor's report.

Auditor's report and critical audit matters

Audit committees have oversight over (1) the investment company's accounting and financial reporting policies, (2) its internal controls over financial reporting, and (3) the financial statements themselves. In order to carry out these oversight responsibilities, committees appoint and review the work of the auditors, as well as engage in discussions with management and in certain cases, outside counsel and/or experts. During committee meetings, members receive detailed information via written and verbal presentations from management to gain an understanding of critical accounting policies. These presentations often lead to larger, more focused comprehensive discussions with management and other parties, such as the auditors or fund custodians. In addition, committee members also meet in executive session with the auditors in order to continue to discuss the relevant issues the auditors have encountered, as well as their assessment of management.

We believe that these discussions and presentations provide committee members with the critical understanding needed to assess the complicated and detailed issues that present themselves during an audit. The proposed requirement to describe these matters in a summary fashion in the auditor's report we believe does not recognize the level of complexity or detail needed to understand the full context and resolution of an audit issue. Furthermore, we believe it ignores the valuable work done by audit committee members on behalf of the shareholders of an issuer to oversee the financial statements and auditors. We do, however, support the PCAOB's stated goal to maintain the "pass/fail" model of the existing auditor's report without this additional disclosure in order to communicate on the fairness of the financial statements.

Moreover, we are concerned about the expectation, as stated in the Proposed Rule, that most auditors would determine that there are critical audit matters that require disclosure in the new auditor's report. This expectation may create what we believe would ultimately become boilerplate language in each issuer's audit opinion that would cover a number of generic audit concepts relating to the issuer's industry. These may not provide any additional context for the reader to better understand the financial statements or the business of the issuer, and may distract the user from determining that an auditor is providing an unqualified opinion on the fairness of the financial statements and related footnotes. This may be especially true in the case of an investment company, where detailed information regarding key accounting policies, such as fair valuation (as required by ASC 820) and taxes (required by ASC 740) is already disclosed in the footnotes to the financial statements, and where a detailed schedule of investments is provided. Moreover, a comprehensive set of risk factors for investing in a fund are contained both in the annual report and in the fund's prospectus (and summary prospectus), which are sent to each shareholder. Accordingly, we do not believe the proposed additional disclosures to the auditor's report are beneficial to shareholders, and indeed bring a risk of distracting or confusing readers and thus frustrating the original intent of the Proposed Rule.

Other disclosure proposals for the auditor's report

The Proposed Rule also includes new requirements for the auditor to provide statements in the auditor's report concerning its independence, tenure, and responsibilities concerning other information. With regard to independence and tenure, we understand how users may benefit from the proposed disclosures, but would suggest more study of the exact nature of information required to be shown. We believe that audit committees are best positioned to ensure the independence of its auditors, and that financial statement users rightly assume this standard is being met by the auditor issuing an opinion. Additionally, disclosure of the tenure of the independent auditor is an easily misunderstood data point, does not consider the mandatory rotation of an audit partner, and most importantly is not indicative of audit quality. Audit committees, with their continual discussions with and assessments of the auditor, are in the best position to assess the quality of the audit; proposing to distill that to brief statements on independence and tenure for financial statement users would risk misinterpretation of the auditor's work product. Pursuant to the comments above, we believe

that the PCAOB should continue to study the benefits of these proposed disclosures compared to the unintended consequences that these disclosures will be erroneously interpreted as a proxy for audit quality.

With respect to enhancing the responsibilities of auditors for other information included in documents that contain audited financial statements and an auditor's report, we recommend additional research into the cost and benefits of this approach. Under the current auditing standards, we understand that auditors currently review this "other information" (such as that contained in the adviser's letter to shareholders on fund results) to ensure consistency with audited information. In some cases, this review will include additional performed procedures to ensure consistency. We believe that creating additional responsibilities and disclosure over this information will result in significant added testing and costs to shareholders, while providing minimal additional value over the current standards. For example, investment companies annually provide information regarding the approval of its investment advisory and service agreement in the shareholder report. Review of the board proceedings and the related information, which consists of hundreds of pages of explanatory and analytical information, to approve this contract may require extensive procedures on the part of the auditor, with little relevance to the fairness of the financial statements. As such, we encourage the PCAOB to continue to study the costs and benefits of the proposed enhancements with regards to responsibilities of an auditor to review "other information."

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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 Proposed Rule.

Sincerely,

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