Capital Research and Management[SM]

Capital Research and Management Company
333 South Hope Street
Los Angeles, California 90071-1406

Phone (213) 486-9200
Fax (213) 486-9455

VIA ELECTRONIC DELIVERY

September 30, 2011

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

RE: Request for Public Comment: Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards, PCAOB Rulemaking Docket Matter #34

Dear Office of the Secretary:

Capital Research and Management Company ("Capital") serves as investment adviser to the American Funds, one of the oldest and largest mutual fund families in the nation. We appreciate the opportunity to provide comments on the Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards ("Concept Release"). These comments are our own views and not necessarily those of Capital or other Capital associates; these comments are informed by our experiences as preparers of audited financial statements related to both the adviser (and related companies) of the American Funds and the mutual funds themselves.

Although there may be ways to improve the existing auditor's report, the Auditor's Discussion and Analysis ("AD&A") could negatively impact audit committees and, ultimately, audit quality for several reasons. Proponents of the AD&A may argue that the concept simply requires that existing communication between the auditors and audit committee be added to the auditor's report.

However, the written communication between the auditors and the audit committee is highly structured and much of the value comes from the contextual discussion that takes place in the audit committee meetings. Audit committee members have the opportunity to question and clarify their understanding in these discussions. Attempting to capture the entire discussion between the audit committee and auditors, without opportunity for the further clarification that occurs in the context of Board interactions with the auditors, reduces the value of the disclosure and may lead to erroneous conclusions on the part of the financial statement user. Additionally, audit committees would likely spend significant resources reviewing the AD&A and negotiating the exact language rather than discussing substantive oversight of controls and financial reporting. If apprehension over how audit committee discussions will ultimately be characterized in the public disclosure inhibits audit committee discussion in any way, audit quality will decline.

We don't believe that the benefits of the AD&A will outweigh the costs. We expect that the disclosure will evolve to "boiler plate" language due to the scrutiny that the text will receive from the audit firms, the audit committees, and management. In our opinion, this standardized language may not provide the benefits intended. Additionally, the concept of an auditor disclosing "close calls" could be interpreted very broadly, resulting in meaningless and overwhelming disclosure. For instance, Accounting Standards Codification 740-10-50-15 does not require disclosure of uncertain tax positions that are "more likely than not" (i.e., greater than 50% chance) to be upheld upon examination by a tax authority. However, an auditor could view any uncertain position at the more likely than not standard (but not at a higher level of assurance, such as "should") as relevant for disclosure in the AD&A; such a list could be extensive, and in our opinion, of little value to a financial statement user.

The proposals are not designed to have any impact on audit quality and the benefit is expected to be for the end users. Based on the above points, we don't expect users to experience this benefit, but we do anticipate higher audit costs as well as higher external legal review costs related to the disclosures. Additionally, as mentioned above, we also expect non-monetary costs such as audit committee time and focus, and the potential degradation of audit quality. For the reasons listed above, we do not support the AD&A alternative as discussed in the Concept Release.

We do support further PCAOB staff research into the expanded use of emphasis paragraphs, and encourage the staff to perform a full cost/benefit analysis of this alternative. As noted in the Concept Release, emphasis paragraphs, though currently not required, can be included at the auditor's discretion in certain circumstances. We support the idea to use emphasis paragraphs to highlight significant matters related to financial statement presentation and/or areas with significant management judgments and estimates. We believe including discussion of key audit procedures performed around the areas discussed, though including no additional information not already in the financial statements and related notes, will help focus investors on key sections of information and risk in the financial statements. In addition, we believe such discussion may result in improved audit quality as auditors may audit any emphasized areas with increased testing. However, we believe that there is a risk once again that such disclosure could become boiler plate for similar issuers in the same industry and thus be of limited value to users, and for this reason we encourage the Board and its staff to continue to study the recommendation of emphasis paragraphs and to do a more complete cost/benefit analysis.

Finally, we wish to respond to a specific question asked in the Concept Release concerning the application of any changes to the auditor's reporting model for all financial statements filed with the SEC, including those of investment companies. We believe that the unique characteristics of an investment company, and the specific requirements of the auditors of investment companies, would make the cost of complying with any changes to the auditor reporting model far larger than any potential benefits. Currently, an auditor is required to verify the existence and amount of shares/par for each investment, as well as to audit each investment's valuation. Management estimates, though required in certain cases related to valuation, typically are immaterial to the overall financial presentation of the investment company. As such, similar to the requirements of Section 404 of the Sarbanes-Oxley Act which registered investment companies were not required to comply with, we would suggest that investment companies be excluded from any changes to auditor reporting model.

*　*　*　*　*

Thank you for considering these comments. Please feel free to contact any of us should you have any questions or wish to discuss our thoughts on the Concept Release.

Sincerely,

James M. Brown
Senior Vice President & Principal Financial Officer –
The Capital Group Companies
(949) 975-6813

Brian D Bullard
Senior Vice President – Fund Business Management Group –
Capital Research and Management Company
(949) 975-3708

Jeffrey P. Regal
Vice President – Fund Business Management Group –
Capital Research and Management Company
(757) 670-4674

Brian C. Janssen
Vice President – Fund Business Management Group –
Capital Research and Management Company
(949) 975-6753