



AMERICAN
FUNDS®

From Capital Group

September 22, 2015

VIA EMAIL

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

Re: Request for Comment: Staff Consultation Paper on Auditing Accounting Estimates and Fair Value Measurements

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB's") above-referenced Staff Consultation Paper (the "Paper") developed by the Office of the Chief Auditor (the "Staff"). We serve as audit committee chairpersons for the indicated American Funds ("Funds"). The Funds are one of the oldest and largest mutual fund families in the nation, whose investment adviser is Capital Research and Management Company. The comments contained below are our own, as senior leaders in various business, governmental, legal and academic organizations. Nevertheless, we feel our comments also reflect the views of many of our fellow audit committee members.

Summary

As members of the audit committees, we are dedicated to our role of overseeing the integrity of the Funds' financial statements, including their accounting policies regarding estimates and fair value measurement, and the audits of the Fund's 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, particularly in the area of fair value measurements given that in most cases substantially all of a mutual fund's assets are comprised of investment securities. Additionally, an integral part of the audit committee's, and indeed the full Board's, responsibilities are to review the valuation procedures of a fund at least annually. At each meeting the audit committee receives reports and reviews the various levels of inputs used to value a fund's investments, and obtains detail and discusses any investments that

may utilize unobservable inputs. The audit committee also reviews any errors that occur due to valuation, and ensures shareholders affected by such errors are reimbursed according to fund policy.

Given the above focus on valuation, we are supportive of the PCAOB's efforts to examine the rules surrounding the auditing standards through the lens of improving audit quality, addressing inconsistencies and integrating existing standards with risk assessment standards with respect to accounting estimates and fair value measurements. We are providing comments on two of the most significant areas of the Paper related to mutual funds, third-party pricing services and national-level pricing desks. We are concerned with the Paper's suggestion to change the requirements surrounding auditor's use of third-party pricing services. We believe these changes, particularly in light of mutual fund specific procedures surrounding valuation described below, would increase costs to shareholders while providing little-to-no benefit to shareholders and audit quality. As discussed in more detail below, we do not support the requirements surrounding auditor's use of third-parties as discussed, and would propose some alternatives. In addition, in our role as audit committee members, we believe that our auditors benefit from the use of centralized national-level pricing desks, and believe their continued use contributes to enhanced audit quality at a reduced cost to shareholders.

Third-Party Pricing Services

We are concerned that the language describing the auditor's evaluation of evidence provided from third-party pricing sources implies that the auditor would be required to evaluate the relevance of the evidence for *each* fair value measurement. In particular, one suggested approach the Paper mentions that the auditor should evaluate the relevance of the evidence provided by the third-party source to each fair value measurement, regardless of the relative level of observability of the inputs of each security. Such a requirement to do more substantive audit work to evaluate the relevance of the evidence for each fair value measurement obtained from the third-party pricing vendors would:

- significantly increase the audit procedures performed and related audit documentation on securities with low risk and measurement uncertainty; and
- inundate the pricing services providers with requests from auditors.

We believe the result of which would be a marginal increase in audit quality but a substantial increase in audit fees incurred by shareholders. Alternatively, we would recommend, as suggested on page 43 of the Paper, that the PCAOB continue to allow auditors to look to the requirements of existing PCAOB standards (e.g., AU sec. 328), as applicable.

Furthermore the Staff asks on Page 19, Question 9, "Are there considerations relevant to auditing accounting estimates and fair value measurements including other regulatory

requirements specific to certain industries that the Staff should take into account?" In response, we would note that it is common practice in the mutual fund industry for a valuation committee to approve back-testing procedures. As part of this back-testing, fund management personnel generally test each fair value decision made on a business day to the next opening or traded price in order to evaluate the reasonableness of that decision. Such testing analysis is typically evaluated contemporaneously by fund management, and regularly reported to a fund board and/or audit committee. Given this generally consistent industry approach, we do not believe the potential additional audit procedures described in the Paper are appropriate for a fund, particularly since an auditor's identification happens significantly after fund transactions have occurred.

Auditors review the fund's valuation policies and, under a risk-based approach, test the valuation procedures and transactions where uncertain measurement exists. AU 328 states the auditor "should obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements and disclosures are in conformity with GAAP." Auditors to registered investment companies typically obtain fair value measurements for the fund's securities from third-party pricing vendors different than the third-party pricing vendor used by the fund. Such fair value measurements represent independent estimates/valuations which are used by the auditor to corroborate the fair value measurements used by the fund. Our understanding is that these pricing services are increasingly having an SSAE 16 controls type II testing performed on their pricing processes, and we believe the presence of these types of control reports strengthens the audit evidence and should be embraced by all pricing vendors. Finally, for mutual funds the auditors are required to test every security in the investment portfolio in connection with their annual audit.

National-level Pricing Desks

The Staff asks on page 15, Question 2, "The staff understands differences may exist in the use of centralized or national-level pricing desks ("Pricing Desks") at audit firms. The staff is interested in current practice for interaction between Pricing Desks and engagement teams. For example, how (and by whom) are Pricing Desks supervised given the engagement partner's responsibility under the risk assessment standards? How should these considerations affect auditing standards?"

In our role as audit committee members, we are focused on ensuring that we have a high quality audit engagement team, starting with the audit partner but including the entire team responsible for providing an opinion on the financial statements of the funds. In addition, we also evaluate the strength of the entire audit practice of the audit firm including the audit firm's specialists such as the Pricing Desks. These Pricing Desks support engagement teams conducting the audits by corroborating fair value measurements and provide audit firms with a more consistent evaluation process than

would otherwise be provided if individual engagement teams were performing their own evaluations. The Pricing Desk assists audit engagement teams to determine that the valuations provided by the third-party pricing vendor are consistent with the required fair value measurement framework under GAAP (i.e., FASB ASC 820), and to evaluate the relevance and reliability of the price obtained by management and to evaluate the need to perform additional procedures to obtain sufficient appropriate audit evidence in accordance with Auditing Standard No. 15, Audit Evidence.

Pricing Desks can, among other activities

- liaise with the third-party pricing vendor in order to understand its controls and underlying pricing methodologies,
- perform analytics on prices obtained from third-party pricing vendors, and
- assist the audit engagement team's evaluation of audit differences related to fair value.

We believe the use of Pricing Desks enhances the audit firm's understanding of pricing vendors and, because the audit firms themselves are independent, their internal Pricing Desks should also be considered independent and best positioned to provide a determination of fair value estimate provided by a third-party pricing vendor.

* * * * *

We appreciate the opportunity to comment on the Paper. If you have any questions regarding our comments, please feel free to contact us.

Sincerely,

Elisabeth Allison

Audit Committee Chair -
New Perspective Fund, EuroPacific Growth Fund
New World Fund, Inc.
Director, The Stanton Foundation

Ronald P. Badie

Audit Committee Chairman -
American Funds Fundamental Investors,
The Growth Fund of America, SMALLCAP World
Fund, Inc.
Former Vice Chairman, Deutsche Bank
Alex. Brown

Joseph C. Berenato

Audit Committee Chairman -
Capital Income Builder, Capital World Growth
and Income Fund, The New Economy Fund
Former Chairman & CEO, Ducommun Inc.

Vanessa C. L. Chang

Audit Committee Chair -
American Balanced Fund, American Funds
Developing World Growth and Income Fund, The
Income Fund of America, International Growth
and Income Fund
Director, EL & EL Investments

William D. Jones

Audit Committee Chairman -
AMCAP Fund, American Mutual Fund, The Investment
Company of America, American Funds Global Balanced Fund
President & CEO, CityLink Investment Corp. &
City Scene Management Co.

James C. Miller III

Audit Committee Chairman -
Washington Mutual Investors Fund, The Tax-Exempt Fund of
Maryland, The Tax-Exempt Fund of Virginia
Senior Advisor, Husch Blackwell LLP

Laurel B. Mitchell

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
Distinguished Professor of Accounting, University of
Redlands