CAPITAL GROUP℠

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Submitted Electronically
Office of Exemption Determinations
Employee Benefits Security Administration
U.S. Department of Labor

Re: **Proposed Class Exemption for Investment Advice; Application No. D-12011**

Dear Sir or Madam:

I am writing on behalf of Capital Group[1] to comment on the Department of Labor's proposed class exemption entitled "Improving Investment Advice for Workers & Retirees."

We appreciate the Department's efforts to enhance protections for retirement investors receiving investment recommendations from financial professionals while preserving access to commissionable investment advice. In general, we believe the proposed class exemption will encourage financial professionals to act as fiduciaries, promote access to professional investment advice, improve outcomes for savers and maintain investor choice between the brokerage and advisory business models. Both models serve important investor needs and have a place in the marketplace for advice.

We applaud the Department for including within the proposed exemption recommendations to retirement investors to move from a commissionable brokerage account to an advisory account. Like a rollover recommendation, such an account-type recommendation is "potentially a very consequential financial decision" and it is entirely appropriate to provide a pathway for financial professionals to take on fiduciary responsibility in making such recommendations.

The preamble to the proposed exemption is, however, light on the considerations that are relevant to a recommendation between account types, especially relative to the robust discussion of rollover recommendations. The preamble provides in relevant part as follows:

[1] Capital Group is one of the oldest and largest asset managers in the nation. Through our investment subsidiaries, we manage approximately $2 trillion in assets in separate accounts and various collective investment vehicles. Most of the assets we manage are in the American Funds family of mutual funds.

> For purposes of compliance with the exemption, a prudent recommendation to roll over from an ERISA-covered Plan to an IRA would necessarily include consideration and documentation of the following: The Retirement Investor's alternatives to a rollover, including leaving the money in his or her current employer's Plan, if permitted, and selecting different investment options; the fees and expenses associated with both the Plan and the IRA; whether the employer pays for some or all of the Plan's administrative expenses; and the different levels of services and investments available under the Plan and the IRA. *For rollovers from another IRA or changes from a commission-based account to a fee-based arrangement, a prudent recommendation would include consideration and documentation of the services that would be provided under the new arrangement.*

Preamble at page 40845 (highlight added).

In our experience, advisory accounts invariably offer greater services than brokerage accounts. Brokerage accounts provide transactional advice, and typically do not involve financial planning or automatic rebalancing. However, brokerage accounts are often less costly than fee-based advisory programs. The adopting release to the SEC's Regulation Best Interest addresses account-type recommendations and it contemplates consideration of, among others, (i) the services and products provided in the account; (ii) *projected costs*; and (iii) account types available.[2] We also believe that costs should be part of the considerations that are relevant to establishing why a recommendation to transition to a fee- based advisory account is in the best interests of the investor and we urge the Department to specifically identify the importance of cost in the preamble to the final class exemption.

We also believe that the Department should focus attention on projected costs. It is not enough to merely provide a retirement investor with commission schedules, inform them that brokerage costs depend on investments and holding periods, and state that the advisory program may be more expensive than the brokerage program. We realize that it can be challenging to project brokerage costs given that the costs depend on the varying commissions associated with particular investments, such as mutual funds versus ETFs and individual securities, the extent to which the investor makes investment changes and whether the investor utilizes the rights associated with different investment types, for example, mutual fund rights of commission-free exchange. However, like the SEC, we believe that it is critical for investors to receive an apples-to-apples comparison of projected costs.

There are reasonable approaches for projecting costs in a brokerage account. By way of example, the approach reflected in the Appendix to this letter holds the investments in the brokerage and advisory account constant and reflects the variation in costs based on a range of holding periods.

[2] Adopting Release at 292 (emphasis added).

We do not mean to suggest that this is the only approach. Our point is simply that it is practical to take into account projected costs in determining whether a transition to a fee-based advisory account is in the best interests of a retirement investor.

We appreciate your consideration and would be happy to answer any questions. Please call the undersigned if we can be helpful at 213-615-4007.

Sincerely,

Jason Bortz
Senior Counsel

Appendix A

	Brokerage Model (A shares)		Advisory Model (Varies - Eligible Fee Based Share Class)
	Existing Investor	**New Investor**	**New or Existing Investor (Same)**
Initial Investment	$ 50,000	$ 50,000	$ 50,000
Fees paid to Broker Dealer (Brokerage Model)			
Upfront Sales Charge (4.50%) [1]	Previously Paid	$ 2,250	
Typical Annual Sub-Transfer Agent Fee (0.12%)	$ 60	$ 60	
Typical Annual 12b-1 Distribution Fee (0.25%)	$ 125	$ 125	
Fees paid to Investment Advisor (Fee Based Model)			
Annual Advisory Fee (1.30%) [2]			$ 650
Typical Annual Sub-Transfer Agent Fee (0.12%)			$ 60
Manager Fee (Same Regardless of Share Class)			
Hypothetical Annual Management Fee (0.40%)	$ 200	$ 200	$ 200
Total Recurring Annual Client Fees & Expenses	$ 385	$ 385	$ 910
Cummulative Client Fees & Expenses Over …			
...3 years	**$ 1,205**	**$ 3,419**	**$ 2,818**
...5 years	**$ 2,095**	**$ 4,271**	**$ 4,849**
...7 years	**$ 3,062**	**$ 5,197**	**$ 7,011**
...10 years	**$ 4,672**	**$ 6,737**	**$ 10,519**
Client Account Value After [3] …			
...3 years	$ 56,617	$ 54,173	$ 54,923
...5 years	$ 61,508	$ 58,853	$ 58,472
...7 years	$ 66,822	$ 63,937	$ 62,250
...10 years	$ 75,665	$ 72,399	$ 68,379

[1] Based on the $50,000 American Funds sales charge breakpoint. Sales charges decline based on cumulative client investment.

[2] Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) and The Financial Planning Association® (FPA®), Avg. Fee for $100,000 client size.

[3] Assumes a 5% annualized account appreciation.