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August 11, 2021

VIA ELECTRONIC SUBMISSION (via email to reg.comments@pbgc.gov)

Pension Benefit Guaranty Corporation
Regulatory Affairs Division, Office of the General Counsel
1200 K Street NW
Washington, DC 20005-4026

RE: 29 CFR Parts 4000 and 4262, RIN 1212 - AB53, Special Financial Assistance by PBGC (Interim final rule, July 12, 2021)

Dear Officials and Staff of the Pension Benefit Guaranty Corporation ("PBGC"):

We are writing on behalf of The Capital Group Companies, one of the oldest asset managers in the U.S. Through our investment management subsidiaries, we manage over \$2 trillion of assets in various collective investment vehicles and institutional client separate accounts globally. Most of these assets consist of the American Funds family of mutual funds, which are investment companies regulated by the U.S. Securities and Exchange Commission (the "SEC") and distributed through financial intermediaries and held by individuals and institutions across different types of accounts.

We appreciate PBGC's efforts in regulating the distribution and management of Special Financial Assistance ("SFA") funds, as enabled by the American Rescue Plan Act of 2021. Our comments and questions for PBGC's further consideration are respectfully submitted with the goal of assisting PBGC in best applying the legislation for the benefit of impacted participants and beneficiaries. Our comments are largely in response to questions directly posed by PBGC, but also include several additional observations.

Under *Permissible Investments*, PBGC requested responses on several specific questions:

- (1) PBGC is interested in understanding the potential benefits and risks of investing SFA assets in other vehicles that are or have the nature of fixed income. These might include synthetic replications of fixed income securities, insurance contracts, hybrid securities, preferred stock or other vehicles. In this regard, the following questions are of interest:
 - What are the advantages of investing in such vehicles, relative to a portfolio of investment grade fixed income, in terms of expected returns, reduced risk or other improved outcomes?
 - Generally, a broader opportunity set should allow for greater diversification benefits.

- What are the disadvantages of investing in such vehicles relative to a portfolio of investment grade fixed income, including lower returns, higher risk, inequitable outcomes amongst participants or other issues?
 - Synthetic replication of fixed income securities: The interim final rule already establishes limits on the use of derivatives, which we would agree should be allowable to the extent permitted by the interim final rule. With respect to synthetic replication, we would observe that this can be done more precisely in the interest rate space (e.g., US Treasury futures and interest rate swaps) than in the credit space (e.g., CDX and potentially CDS). However, from a yield standpoint, given the yield/return requirements implied by the discount rate methodology, we would anticipate investment grade credit to be a more appropriate investment centerpiece in most instances, thereby limiting the practical viability of synthetic replication. Furthermore, if, as is written in the interim final rule, all SFA assets must be invested in fixed income, one common rationale for synthetic replication of fixed income (i.e., free up capital to allow for greater investment in equities or other return-seeking assets) seems to be of little value.
 - Insurance contracts: Insurance contracts, unless they cover all participants, have the potential to create inequity with respect to those participants whose benefits are insured versus those whose benefits are not. Allowance of such contracts may be most appropriate in instances where the insurance contract covers all benefits through 2051, which may be problematic due to requirements for SFA assets to be segregated, among other potential reasons.
 - Hybrid securities: Convertible bonds, for instance, typically allow holders the right but not the obligation to convert to stock at certain times. If equities are not allowed within SFA assets, then holding convertible bonds may be problematic, as the holder would not actually be able to exercise the right from which a portion of the security's value may be derived.
 - Preferred stock or other vehicles: We encourage PBGC to be diligent in exploring any unintended consequences of allowing such "other vehicles". For instance, a meaningful allocation to preferred stock may inadvertently skew the overall portfolio toward financial issuers. Sizing such positions will be critical for plan and participant outcomes, and therefore regulating such sizing will be critical for PBGC's final rule.
- What are the implementation and management costs of investing in such vehicles?
 - Implementation and management costs range widely.
- Which organizations are qualified to manage and advise on these vehicles?

- The due diligence process used by plan sponsors to evaluate an investment manager and/or the opinions of a number of reputable investment consultants in this space should be used with regard to assessment of manager qualifications.
 - Can the vehicles, as they might be used in multiemployer plan portfolios or in the pool of SFA assets, be clearly defined and easily used?
 - We would reiterate/add a focus on ensuring that the vehicles be appropriately sized within the context of the SFA assets. Market values of existing such assets in aggregate relative to that of more traditional fixed income (or some multiple thereof) may serve as a useful starting point for considering reasonable regulatory guidelines around such assets.
- (2) Should permissible investments of SFA assets be limited to fixed income securities? For instance, should the rule permit investment of a percentage of SFA assets in certain stock ETFs or mutual funds that have investment profiles that are not materially riskier than fixed income-based investment grade securities?
- We observe that the draft opportunity set may make it challenging for many plans to achieve all payments through 2051. That said, how would PBGC define “investment profiles that are not materially riskier than fixed income-based investment grade securities?”
- (3) What is the appropriate amount of SFA assets that may be permitted to be invested in non-investment grade securities?
- We would encourage PBGC to consider this question as three distinct, though related, sub-questions. Firstly, what is the appropriate cap on allowable holdings of fallen angels that were investment grade at purchase? Secondly, what, if any, is the appropriate cap on overall high yield within the SFA assets (or on high yield that was rated as such at purchase)? Thirdly, what, if any, is the appropriate cap on non-fixed income securities? The answers to these questions depend on PBGC’s relative prioritization of safety vs prospects for paying benefits through 2051, and implicitly PBGC’s relative prioritization of the security of payments to older vs younger participants and beneficiaries.
- (4) What is the proper relationship to restrictions on SFA asset investments to other plan asset allocations?
- As PBGC has observed, “imposing conditions that severely restrict the level of return-seeking assets may impair a plan’s ability to achieve greater investment returns and forestall insolvency.” We tend to agree with the approach of allowing significant autonomy with

respect to non-SFA assets. However, in combination with narrower limitations on the SFA assets, it creates a situation where SFA-eligible plans will be faced with substantially different investment problems to solve, depending on the relative size of their non-SFA assets. We do question whether those differences in plan approaches are to the benefit of plan participants (and to which participants of which plans), given that all eligible plans are receiving aid to theoretically allow for benefit payments until approximately the same future date.

Alternatively, PBGC could explore governing exclusively the entirety of the asset portfolio, but with a lighter touch than was taken with the SFA-focused guidance of the interim final rule. For instance, at least X% of overall assets must be in investment grade fixed income. In the absence of such a considerable shift, we again tend to favor the current flexibility afforded to plans within their non-SFA assets.

- As another related consideration for PBGC, we observe that funds must be held separately from other plan assets. However, to the extent that existing other plan assets meet the SFA investment criteria, would PBGC look favorably upon reclassifying existing assets as SFA assets, in order to allow rebalancing plan sponsors to avoid selling non-SFA fixed income just to repurchase it at a higher price in an SFA account?

Under *Conditions for Special Financial Assistance*, PBGC requested responses on several specific questions related to the subtopic of *Allocation of Plan Assets*:

- Will the requirement to maintain 1 year (or until the date the plan is projected to become insolvent, if earlier) of benefit payments and administrative expenses in investment grade fixed income assets result in an allocation that is significantly different from the allocation that the plan's investment policy (after receiving SFA) would otherwise attain?
 - There is a period of time during which this would likely impact allocations in a way that is significant, but that period of time is brief and the dollar value of the assets at that point in time make the rule less significant when viewed in the context of the plan's full life cycle (as opposed to a snapshot at a particular point in time near its conclusion).
- What are the advantages and disadvantages of PBGC not imposing any conditions under section 4262(m) of ERISA on asset allocation compared to the proposed condition requiring 1 year (or until the date the plan is projected to become insolvent, if earlier) of benefit payments and administrative expenses in investment grade fixed income?
 - By not imposing the rule, PBGC could reduce complexity, potentially reduce transaction and other fees for plans looking to (barely) comply with this rule, immaterially impact the security of the broader pension system, and potentially favorably impact participant

outcomes in the instance of expected-to-favorable market outcomes during a brief period of time.

- By imposing this rule, PBGC could improve participant outcomes in the instance of unfavorable market outcomes during a brief period. This assumes plans invest in cash / money market / commercial paper, as instruments abound within investment grade fixed income (and therefore in compliance with this rule) that may not be materially safer over short periods of time than more traditional return-seeking assets.
- Could an alternative condition, or modification of the condition under § 4262.16(c), better achieve the objective of preventing excessive risk-taking by plans while allowing plans to meet their investment objectives?
 - Again, PBGC could consider governing the entirety of the asset portfolio, as opposed to primarily the SFA assets. In this instance, we would propose that those rules should be considerably more flexible than those governing the SFA assets in the interim financial rule. PBGC could also consider restricting leverage within the non-SFA assets similarly to how derivatives are allowed but restricted within the SFA assets, though with incrementally greater freedom as compared to SFA assets.

Other comments:

- Further guidance would be appreciated with respect to what happens if, hypothetically, an SFA-recipient plan rights its financial standing, e.g., through successful active management, etc. If SFA funds still existed within the plan at 2051, would those become regular, unrestricted plan assets when the SFA coverage period ends? Would mass withdrawal assumptions no longer be required after 2051 even if SFA assets were still held by the plan (e.g., via reclassification as unrestricted assets)?
- It may be outside the scope of how PBGC can interpret the legislation, and PBGC has certainly already considered this topic, but it is somewhat disconcerting that two otherwise identical plans could receive substantially different levels of aid due solely to the level of conservatism inherent in previously selected assumptions. For the benefit of any adversely impacted participants, has PBGC considered all options for how to remedy such an outcome?



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Capital Group sincerely thanks you for the opportunity to comment on PBGC's Interim final rule. We stand ready to provide any additional information or assistance that PBGC may find useful. Please do not hesitate to contact Colyar Pridgen at colyar.pridgen@capgroup.com or Chris Anast at chris.anast@capgroup.com with any questions.

Sincerely,

Colyar Pridgen
Capital Group

Chris Anast
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