

Fund Boards Follow Strong Governance Practices to Best Serve Shareholders

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Study from IDC and ICI Examines Trends in Fund Governance Practices Since 1994

Washington, DC, September 30, 2009 - Mutual fund governance practices continue to evolve to the benefit of funds and their shareholders, and fund boards' independence and operational practices often go beyond explicit regulatory requirements, the Independent Directors Council (IDC) and Investment Company Institute (ICI) report in an update to their biennial paper providing an overview of common fund governance practices.

Fund Governance Practices, 1994–2008 key findings, for the complexes surveyed, include:

- As of year-end 2008, independent directors made up three-quarters of boards in almost 90 percent of fund complexes. Between 2000 and 2008, the number of complexes where independent directors hold 75 percent or more of board seats rose from 52 percent to 88 percent. Current SEC rules, by contrast, generally require only that independent directors hold more than 50 percent of board seats.
- Nearly two-thirds of fund complexes report having an independent board chair. When complexes that have boards with independent lead directors are also considered, 84 percent of participating complexes reported having an independent director in board leadership at year-end 2008.
- More than nine in 10 fund complexes report that separate legal counsel serve their independent directors. The total percentage of complexes reporting that independent directors are represented either by dedicated fund counsel or counsel separate from the adviser's has increased steadily, from 68 percent in 2000 to 96 percent at year-end 2008. More than half of complexes say their independent directors are represented by counsel who is separate from both fund counsel and the adviser's counsel.

- A vast majority of fund complexes have an audit committee financial expert. While current rules require only that funds disclose whether or not the audit committee includes a financial expert, 97 percent of participating complexes report having a financial expert on the audit committee.

“Looking at this data from thousands of funds, the overall picture is clear: fund boards, in carrying out their essential oversight role, have gravitated toward strong governance practices to best serve fund shareholders,” said Amy Lancellotta, Managing Director of IDC. “As the U.S. Supreme Court stated in 1979, independent directors serve as the ‘independent watchdogs’ for fund shareholders’ interests. This study shows mutual fund boards are implementing governance standards to fulfill that vital role.”

The Investment Company Act of 1940 imposes significant responsibilities on fund boards and dictates elements of board structures and practices. In 1995, ICI began to document fund governance practices by collecting data from fund complexes biennially. IDC was formed in 2004, and the studies have since been conducted jointly by IDC and ICI.

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