Independent Directors Council

Promoting Excellence in Fund Governance

ICI Endorses Proxy Voting Standards, Proposes Independent Director Oversight, December 2002

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Washington, DC, December 6, 2002 - In a letter to the Securities and Exchange Commission commenting on its proxy voting initiative, the Investment Company Institute endorsed a series of regulatory proposals to ensure that the mutual fund industry's proxy voting practices continue to serve and protect its 95 million shareholders. The proposals endorsed by the Institute include requiring mutual funds to: 1) Adopt proxy voting policies; 2) Adopt procedures that guide their proxy voting policies in potential conflict situations; 3) Disclose their policies and procedures to the SEC and fund shareholders; and 4) Retain records of proxy voting decisions and related information for SEC examiners. 5) In addition, the Institute recommended that the SEC adopt as part of its initiative a new proposal that would assign special proxy voting oversight responsibilities to a fund's independent directors. Institute President Matthew P. Fink issued the following statement regarding the Institute's position:

"If the series of SEC proxy voting proposals we support become law, mutual fund shareholders will benefit from the highest, most rigorous proxy voting standards in the country. The Institute also proposed a new standard that would assign special proxy voting oversight responsibilities to independent fund directors, adding another important protection. Together, these measures would reinforce an already effective system in which mutual funds have consistently fulfilled their responsibilities to shareholders. These new standards should also raise the bar for all other public and private institutional investors who may not be subject to this regulation but who vote millions of proxies on behalf of individuals.

"We support all of the above proposals, but we object to two elements of the SEC's initiative that would harm rather than help mutual fund shareholders. The SEC wants reports filed twice each year detailing hundreds of thousands of individual proxy votes, in some cases accompanied by lengthy explanations.

This will be counterproductive for many reasons described in our comment letter to the SEC, but I will highlight just two.

“First, this part of the SEC’s initiative would needlessly politicize mutual fund portfolio management. The information is being sought mostly by special interest groups. They want proxy votes disclosed to further their social and political agendas, regardless of how much it hurts mutual fund shareholders. Special interest groups appear to view mutual funds as a prize to be captured as they single-mindedly pursue their narrow objectives. Second, this part of the SEC’s initiative will weaken rather than strengthen mutual funds’ ability to promote strong corporate governance. It would do so by essentially repealing confidential voting, a fundamental shareholder right. Confidential voting has been championed for more than a decade as a critical way to improve corporate governance and promote accountability, and has been adopted at a significant number of companies. The SEC should strengthen confidential voting by expanding its reach instead of undermining it. This would be a singularly effective way to empower institutional investors and achieve the governance improvements the Commission is seeking. We pledge our strong support should the SEC choose to do so.”