

IDC and ICI Paper Examines Board Oversight of Risk Management

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Washington, DC, October 4, 2011 - Clear, ongoing communication between a fund's board and adviser is key to effective oversight of risk management, according to a paper recently published by the Independent Directors Council (IDC) and the Investment Company Institute (ICI).

The paper, *Fund Board Oversight of Risk Management*, provides insight on approaches to risk management in the fund industry and practical guidance for fund boards in fulfilling their oversight role.

"This paper explores an array of potential oversight issues and considerations of importance to directors responsible for overseeing risk management by the adviser," said Amy Lancellotta, Managing Director of IDC. "It is designed to assist fund boards as they carry out their oversight responsibilities in this important area."

"As there continues to be more focus on risk management in the fund industry, this paper will be a useful resource to fund boards in both understanding the nature of their oversight role and the variety of approaches boards take to fulfill their oversight responsibilities," according to Karrie McMillan, General Counsel, ICI.

Risk Oversight Practices Vary, but Fund Directors' Responsibilities Have Been Constant

The paper observes that although the practices of fund boards in overseeing risk management do vary and continue to evolve, the board's role and responsibilities generally have been constant. It notes that:

- directors' responsibilities are derived from their general fiduciary duties;

- a board's focus is on the fund's risks, which also entails understanding the adviser's risks that may impact the fund; and
- a board's role is to provide oversight, not to manage risks.

Paper Identifies Common Risk Management Themes

IDC and ICI identify more than half a dozen themes common to risk management that may serve as a backdrop to a fund board's consideration of risk management processes. The paper states, for example, that "tone at the top" is critical to promoting a risk-conscious culture and that risk management is a process, and not a one-time or periodic assessment of risks. The paper also observes that risk management is everyone's responsibility; that appropriate independence makes risk management more meaningful; and that risk management is forward-looking and proactive.

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