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Independent Directors Dominate Most Fund Boards ICI and IDC Overview Tracks Evolution of Board Practices

Washington, DC, November 8, 2007 - Over the last decade, fund boards have increasingly and steadily strengthened their oversight role on behalf of shareholders, according to a recent survey published by the Investment Company Institute and the Independent Directors Council.

The joint survey, "[Overview of Fund Governance Practices, 1994-2006](#)," demonstrates that fund boards have increasingly adopted practices that benefit shareholders. Further, they have often adopted these practices in advance, or in absence, of any regulatory mandate to do so.

The survey shows that fund boards have steadily gravitated toward greater independence since the mid-1990s and are now comprised predominantly of independent directors. As of the end of 2006, independent directors comprised three-quarters of boards in almost 90 percent of fund complexes. In addition, three-quarters of fund complexes reported having at least one board led by an independent chairman or an independent lead director, up from 22 percent of fund complexes in the mid-1990s.

“Fund boards have always taken their duties to shareholders very seriously,” said Robert W. Uek, IDC Chairman. “Clearly, fund boards have increased the depth of their oversight as the industry has grown and the issues affecting funds have continued to become more complex. This report indicates that shareholders should be confident that directors are keeping a close watch on their funds.”

Amy Lancellotta, IDC Managing Director, added, “In recent years, we have seen intense scrutiny of fund governance practices. We undertook this survey to examine these practices across the industry. And it has shown that fund boards are continually seeking to improve their effectiveness, clearly to the benefit of millions of fund shareholders.”

Among other things, the report shows that:

- Fund boards, as a group, have gravitated toward practices that best serve the interests of shareholders. Studies of board practices indicate that, over the past 12 years, fund boards have adopted such practices apart from any associated regulatory mandates.
- As of year-end 2006, independent directors comprised three-quarters of boards in almost 90 percent of fund complexes. Between 2000 and 2006, the number of complexes reporting that independent directors hold 75 percent or more of board seats rose from 52 percent to 88 percent.
- More than three-quarters of fund complexes report that independent directors lead their boards. Fifty-six percent of complexes reported having boards with independent chairs at year-end 2006. When complexes that have boards with independent lead directors are also considered, 78 percent of participating complexes reported having an independent director in board leadership at year-end 2006, up from 22 percent in 1996.
- More than nine in 10 fund complexes report that separate legal counsel serves their independent directors. The total percentage of complexes reporting that independent directors are represented either by dedicated counsel or counsel separate from the adviser’s has increased steadily, from 68 percent in 2000 to 92 percent at year-end 2006. More than half of complexes say their independent directors retain their own counsel -- separate from both fund counsel and the adviser’s counsel.
- A vast majority of fund complexes have an audit committee financial expert. Current rules require only that funds disclose whether or not the audit committee includes a financial expert.

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