

ICI Board Adopts Resolution Urging Fund Industry to Strengthen Governance

ICI Board Adopts Resolution Urging Fund Industry to Strengthen Governance

Washington, DC, July 7, 1999 - The Board of Governors of the Investment Company Institute today voted unanimously to approve a [resolution](#) strongly endorsing a series of recommended best practices to strengthen the system of governance that protects the nation's 77 million mutual fund shareholders.

The Institute's governing body urged all investment companies to take appropriate actions to implement the 15 recommended practices that were announced recently in the [report](#) of the [Advisory Group on Best Practices for Fund Directors](#). The Advisory Group consisted of mutual fund independent directors and industry leaders.

"The Advisory Group identified the best practices in fund governance. Our goal is for all funds to adopt all of the recommended practices," Institute President Matthew P. Fink said. "By endorsing the Advisory Group's recommendations, the Institute's board has taken a leadership role in strengthening the culture of independence and effectiveness that has made this unique system of corporate governance a success for mutual funds and their shareholders."

Among the 15 recommendations cited in the Advisory Group's report is a call for independent directors to represent a "super-majority" (or at least two-thirds on all fund boards) rather than the current 40 percent generally required by law. The report also recommends that former officers or directors of a fund's investment adviser, principal underwriter, or certain affiliates not serve as independent directors of the fund; that fund independent directors have legal counsel; and that a fund's independent directors meet separately from management.

The board urged all Institute management investment company members to implement the practices as soon as reasonably practicable, taking into account their own circumstances. Fink said the Institute will seek prompt implementation of the Advisory Group's recommendations by offering programs and materials based on the recommendations. The Institute plans to offer its first program to educate members about the recommendations this fall. Fink also said the board has directed the Institute to monitor the implementation of the recommendations by its members.

The Advisory Group on Best Practices for Fund Directors was appointed in March 1999 to identify the best practices used by investment company boards of directors to enhance independence and effectiveness and to recommend practices that should be considered for adoption by all investment company boards. The Advisory Group released its recommendations on June 24.

The Advisory Group's members include: John J. Brennan, Chairman and CEO, The Vanguard Group, Inc., Chairman of the Institute and Chairman of the Advisory Group; Dawn-Marie Driscoll, independent director, the Scudder Funds; Paul Haaga, Executive Vice President, Capital Research and Management Company; Dr. Manuel H. Johnson, independent director, the Morgan Stanley Dean Witter Family of Funds; William M. Lyons, President and COO, American Century Funds; and Gerald C. McDonough, independent director, The Fidelity Funds.

Listed below are the 15 practices that the Advisory Group on Best Practices for Fund Directors is recommending to all investment company boards of directors.

1. At least two-thirds of the directors of all investment companies be independent directors.
2. Former officers or directors of a fund's investment adviser, principal underwriter, or certain of their affiliates not serve as independent directors of the fund.
3. Independent directors be selected and nominated by the incumbent independent directors.

4. Independent directors establish the appropriate compensation for serving on fund boards.
5. Fund directors invest in funds on whose boards they serve.
6. Independent directors have qualified investment company counsel who is independent from the investment adviser and the fund's other service providers; and that independent directors have express authority to consult with the fund's independent auditors or other experts, as appropriate, when faced with issues that they believe require special expertise.
7. Independent directors complete on an annual basis a questionnaire on business, financial, and family relationships, if any, with the adviser, principal underwriter, other service providers and their affiliates.
8. Investment company boards establish Audit Committees composed entirely of independent directors; that the committee meet with the fund's independent auditors at least once a year outside the presence of management representatives; that the committee secure from the auditor an annual representation of its independence from management; and that the committee have a written charter spelling out its duties and powers.
9. Independent directors meet separately from management in connection with their consideration of the fund's advisory and underwriting contracts and otherwise as they deem appropriate.
10. Independent directors designate one or more "lead" independent directors.
11. Fund boards obtain directors' and officers' errors and omissions insurance coverage and/or indemnification from the fund that is adequate to ensure the independence and effectiveness of independent directors.
12. Investment company boards of directors generally be organized either as a unitary board for all the funds in a complex or as cluster boards for groups of funds within a complex, rather than as separate boards for each individual fund.
13. Fund boards adopt policies on retirement of directors.
14. Fund directors evaluate periodically the board's effectiveness.
15. New fund directors receive appropriate orientation and all fund directors keep abreast of industry and regulatory developments.