

ICI Board Recommends Two New Governance Standards; Urges Universal Adoption of 17 Best Practices for Mutual Fund Directors, October 2003

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Washington, DC, October 7, 2003 - The Investment Company Institute's Board of Governors last week acted to enhance and strengthen the independence and effectiveness of mutual fund boards, as promised by the Institute in congressional testimony in June. Following a September report from the Institute's Executive Committee, the Board of Governors unanimously recommended that mutual funds adopt [two additional governance best practices](#). The Board also renewed its call for all mutual funds to adopt and implement the 15 best practices recommended for mutual fund directors by the Institute's 1999 Advisory Group.

The two additional best practice recommendations consist of

- prohibiting "close family members" of employees of the fund, its adviser or principal underwriter from serving as independent directors; and
- implementing audit committee requirements similar to those applicable to operating companies under Section 301 of the [Sarbanes-Oxley Act](#).

Institute Chairman Paul Haaga [testified in June](#) that many of the policy changes outlined in proposed mutual fund legislation were useful ideas that could benefit fund shareholders. He indicated that virtually all of these changes could be swiftly implemented without enacting legislation, either by SEC regulatory action or industry best practices. Mr. Haaga promised to move aggressively on issues that could be addressed by the industry, and the resolution enacted by the ICI Board on Friday follows through on that promise.

In addition, the [best practices](#) recommended by the Institute's 1999 Advisory Group previously addressed two other matters included in the proposed legislation: (1) requiring a two-thirds supermajority of independent directors on fund boards; and (2) prohibiting former employees of certain fund affiliates from ever serving as independent directors. The ICI Board's resolution also included a call to its mutual fund members to adopt all 17 recommended best practices for fund directors.

The Board found that while "many fund boards have adopted these best practices ... universal adoption would further promote investor confidence." To help facilitate universal adoption of these 17 best practices, the Board directed the Institute's Chairman and President to write directly to each Institute member to urge "prompt implementation" of these recommendations.

ICI Chairman Haaga commented that "the ICI Board has followed through as promised by embracing these significant additions to existing best practices for fund directors." He pointed to other [actions](#) taken by the ICI Board at the same meeting to emphasize the Institute's commitment to addressing the critical issues that had arisen since [allegations](#) about late trading and abusive short-term trading surfaced in September. Mr. Haaga said that "the Board is committed to taking whatever actions are needed to forcefully and effectively address these concerns. As I said on Friday, everything is on the table to protect mutual fund shareholders."