

Advisory Group Recommends Best Practices to Strengthen Mutual Fund Governance, June 1999

Advisory Group Recommends Best Practices to Strengthen Mutual Fund Governance

Washington, DC, June 24, 1999 - A panel of mutual fund independent directors and industry leaders today announced a series of [recommendations](#) to enhance the system of governance that protects the nation's 77 million mutual fund shareholders. The [Advisory Group](#) on Best Practices for Fund Directors identified 15 practices to strengthen the role of independent investment company directors and enhance the effectiveness of mutual fund boards in general.

"The recommendations in our [report](#) go beyond what is required by law and regulation. They also seek to enhance the independence and effectiveness of all fund directors-both independent and affiliated-in fulfilling their responsibilities to shareholders," said John J. Brennan, chairman and CEO of The Vanguard Group, Inc., and chairman of the Advisory Group. Brennan also is chairman of the Investment Company Institute, the national association of the American investment company industry.

Advisory Group members John J. Brennan, Dawn-Marie Driscoll, and Paul G. Haaga, Jr. brief the media on the recommendations in the report.

Among the 15 practices cited in the 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 may never serve as independent directors of the fund; that fund independent directors have access to separate counsel; and that a fund's independent directors meet separately from management.

Brennan noted that the industry's effort was inspired by a challenge delivered earlier this year by SEC Chairman Arthur Levitt. "While we believe our system of governance has worked well for investment companies and their shareholders, we accepted the chairman's challenge to strengthen the way mutual funds are governed as part of our continuing efforts to earn and maintain the trust of millions of American families," he said.

Advisory Group members Dr. Manuel H. Johnson, William M. Lyons, and Gerald C. McDonough respond to questions from the press.

The Advisory Group's members, in addition to Brennan, include: Dawn-Marie Driscoll, independent director, the Scudder Funds; Paul G. Haaga, Jr., 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 Investments; and Gerald C. McDonough, independent director, The Fidelity Funds. The group's report will be submitted to the Institute's Board of Governors, which will consider the recommendations at a special meeting on July 7.

For more information on fund directors, please see [Understanding the Role of Mutual Fund Directors](#), one of the Institute's Investor Awareness Series of publications.

