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Study from IDC and ICI Examines Trends in Fund Governance Practices Since 1994

Washington, DC, September 30, 2013 -Fund governance practices over the past 18 years have evolved in response to emerging industry standards, often well in advance of, or in the absence of, explicit regulatory requirements, the Independent Directors Council (IDC) and Investment Company Institute (ICI) reported today in their update of a biennial study. Funds and their shareholders reap the benefits of this evolution of fund boards' independence and operational practices, the paper notes.

The study, [Overview of Fund Governance Practices, 1994-2012](#), is based on updated data, gathered from fund complexes, that provides an overview of common fund governance practices. Key findings for the complexes surveyed include:

- As of year-end 2012, independent directors made up three-quarters of boards in 85 percent of fund complexes. Between 1996 and 2012, the number of complexes where independent directors hold 75 percent or more of board seats rose from 46 percent to 85 percent. As a practical matter, current SEC rules require that funds have boards with a majority of independent directors.
- Nearly two-thirds of fund complexes report having an independent board chair. Sixty-two percent of fund complexes reported having boards with independent chairs at year-end 2012.
- More than nine in 10 fund complexes report that separate legal counsel serve their independent directors. The total percentage of complexes reporting that independent directors are represented either by dedicated counsel or counsel separate from the adviser has increased steadily, from 64 percent in 1998 to 93 percent at year-end 2012. 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. While current rules require only that funds disclose whether the audit committee includes a financial expert, 95 percent of participating complexes report having a financial expert on the audit committee.

"Based on our survey, the clear trend in fund governance is for funds to implement practices that surpass any legal requirements, which serves fund shareholders well," said Amy Lancellotta, Managing Director of IDC.

The Investment Company Act of 1940 imposes significant responsibilities on fund boards and dictates elements of board structures and practices. In 1995, ICI began to document fund governance practices by collecting data from fund complexes biennially. IDC was formed in 2004, and the studies have since been conducted jointly by IDC and ICI.

