

Fund Boards' Strong Governance Practices Provide Safeguards for Shareholders

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Washington, DC, October 11, 2017—Fund boards, as a group, continue to safeguard the interests of fund shareholders by maintaining strong governance practices, the Independent Directors Council (IDC) and Investment Company Institute (ICI) found in a biennial report on fund governance practices.

The publication, *Overview of Fund Governance Practices, 1994–2016*, is an update to the overview published two years ago. The update is based on a survey of fund complexes sponsoring more than 9,000 funds.

“Our survey data demonstrate that boards are serious and proactive in adopting good governance practices to meet their fiduciary obligation to protect shareholders,” said Amy Lancellotta, managing director of IDC.

“Indeed, fund boards frequently go beyond legal requirements in their governance practices or, where there are no legal requirements, set a high standard for fund oversight nonetheless.”

Fund directors have a fiduciary duty to represent the interests of shareholders. The 1940 Investment Company Act (1940 Act) and its related rules impose significant responsibilities on fund boards, and dictate elements of board structures and practices. These practices have evolved over time, as boards fulfill their oversight responsibilities.

Here are some key findings from the complexes surveyed:

- **Independent directors made up three-quarters of boards in 84 percent of fund complexes—a large increase from 46 percent of fund complexes in 1996.** Under the 1940 Act, independent directors must constitute at least 40 percent of each board. (See page 6 of the report.)
- **Sixty-five percent of fund complexes have an independent board chair, though there is no legal requirement to do so** When lead independent directors also are considered, 90 percent of participating complexes reported having an independent director in board leadership. (See page 11 of the report.)
- **Ninety-one percent of fund complexes surveyed reported that independent directors are represented either by dedicated legal counsel (55 percent) or by legal counsel separate from the adviser (36 percent).** This level is substantially more than the 64 percent of complexes in 1998. There is no legal requirement for independent directors to retain legal counsel, but those who do must be represented by “independent legal counsel.” (See pages 17–18 of the report.)
- **Ninety-six percent of fund complexes reported having a financial expert serve on the board’s audit committee** Currently, there is no regulatory requirement for fund board audit committees to have such an expert. (See page 19 of the report.)

Survey History

In 1995, ICI began to document fund governance practices by collecting data from fund complexes biennially. IDC was formed in 2004 and, since then, the studies have been conducted jointly by IDC and ICI.