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Study by IDC and ICI Shows Boards Exceed Regulatory Mandates

Washington, DC, October 27, 2015—Fund boards, as a group, follow strong governance practices to best serve the interests of fund shareholders, the Independent Directors Council (IDC) and Investment Company Institute (ICI) reported today in their biennial update. The series of studies of board practices indicates that over the past 20 years, fund boards have adopted such practices in advance of, or in the absence of, any regulatory mandate to do so.

“Based on our survey, the clear trend in fund governance has been for fund boards to implement practices that surpass existing legal requirements, which serves fund shareholders well,” said Amy Lancellotta, managing director of IDC.

The publication, *Overview of Fund Governance Practices, 1994-2014*, is based on data gathered from fund complexes and provides an overview of common fund governance practices. Key findings for the complexes surveyed include:

- As of year-end 2014, independent directors made up three-quarters of boards in 83 percent of fund complexes. Since 1996, the number of complexes where independent directors hold 75 percent or more of board seats has risen from 46 percent to 83 percent.
- Nearly two-thirds of fund complexes have an independent board chair. Sixty-five percent of fund complexes reported having boards with independent chairs at year-end 2014. When complexes that have boards with independent lead directors also are considered, 89 percent of participating complexes reported having an independent director in board leadership at year-end 2014.
- More than nine in 10 fund complexes report that legal counsel separate from the adviser 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 92 percent at year-end 2014. More than half of complexes say their independent directors retain their own counsel—separate from both fund counsel and the adviser’s counsel.
- Substantially all fund complexes have an audit committee financial expert. Though current rules require only that funds disclose whether the audit committee includes a financial expert, 97 percent of participating complexes report having a financial expert on the audit committee.

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.