

Fund Boards' Strong Governance Practices Serve and Protect Investors

Study by IDC and ICI Shows Boards Exceed Regulatory Mandates

Washington, DC; October 15, 2019—Fund boards continue to safeguard the interests of shareholders by engaging in and maintaining strong governance practices, the Independent Directors Council (IDC) and Investment Company Institute (ICI) report in *Overview of Fund Governance Practices, 1994–2018*.

The [publication](#) updates research on fund boards and their practices, based on a survey conducted every two years of fund complexes sponsoring nearly 9,000 funds.

"Boards set a high standard for fund oversight by continuing to adopt strong governance practices even when they aren't required by regulation," said Amy Lancellotta, managing director of IDC. "Our [report](#) details these practices and how they have evolved to continue to serve investors' best interests."

Fund directors have a fiduciary duty to protect funds and their shareholders. The Investment Company Act of 1940 (the 1940 Act) and its related rules impose significant responsibilities on fund boards, and dictate elements of board structures and practices. ICI and IDC's survey finds that fund board practices often go beyond those requirements.

Current and Evolving Trends in Governance Practices

Some of the [report's](#) key findings include:

Independent directors make up three-quarters of boards in 84 percent of fund complexes—a significant increase from 46 percent in 1996. Under the 1940 Act, independent directors must constitute at least 40 percent of each board (page 6).

Sixty-six percent of fund complexes have an independent board chair, though there is no legal requirement to have one. When lead independent directors also are considered, 91 percent of participating complexes have an independent director in board leadership (page 10).

Most complexes have mandatory retirement policies. The vast majority of these complexes have an age-based mandatory retirement policy; the average mandatory retirement age is 75. For complexes that limit the amount of time a director serves, the average limit is 16 years (page 14).

Almost all complexes reported that independent directors are served by separate legal counsel. For example, 54 percent of independent directors are represented by dedicated legal counsel, while 41 percent are represented by legal counsel that is different from the adviser's counsel (pages 16–17).

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, IDC and ICI have jointly conducted the studies.