

MEMO# 22729

July 24, 2008

IDC Issues Task Force Report on Board Oversight of Derivatives

[22729]

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TO: BOARD OF GOVERNORS No. 6-08
CLOSED-END INVESTMENT COMPANY MEMBERS No. 27-08
COMPLIANCE MEMBERS No. 32-08
INVESTMENT COMPANY DIRECTORS No. 11-08
OPERATIONS COMMITTEE No. 11-08
SEC RULES MEMBERS No. 67-08
SMALL FUNDS MEMBERS No. 45-08 RE: IDC ISSUES TASK FORCE REPORT ON BOARD
OVERSIGHT OF DERIVATIVES

The Independent Directors Council is pleased to provide you its report entitled “Board Oversight of Derivatives.” The report provides an overview of derivatives, with practical guidance for fund directors. The report covers the following areas:

- board oversight responsibilities;
- definitions and primary categories of derivatives;
- portfolio management applications, risks and controls;
- operational and regulatory considerations; and
- board practices and resources.

An IDC task force, comprised of independent directors as well as representatives of advisory firms with expertise in derivatives, was established to draft the report. The task force received substantial input and assistance from outside counsel, Dechert LLP. In addition, Willkie Farr & Gallagher LLP and members of various IDC and ICI committees reviewed drafts of the report.

IDC thanks the task force for their time and significant contributions to this report and, in particular, Susan Kerley, independent director of the MainStay Funds and Legg Mason Partners Funds, who chaired the task force and provided invaluable insights and substantial time in guiding the preparation of this report.

The policies, procedures, and practices discussed in the report are not intended to be a model or a set of “best practices,” but are intended to assist directors in considering issues pertinent to the funds they oversee. The report is not intended, nor should it be relied upon, as a substitute for appropriate professional advice with respect to the applicability of laws and regulations in particular circumstances, nor is it intended to express any legal opinions or conclusions concerning any particular investment or specific action, policy or procedure.

Amy B.R. Lancellotta
Managing Director

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