

MEMO# 23794

September 16, 2009

ICI Submits Comment Letter on SEC Proposal to Enhance Compensation and Governance Disclosure in Proxy and Registration Statements

[23794]

September 16, 2009

TO: ACCOUNTING/TREASURERS MEMBERS No. 38-09
CLOSED-END INVESTMENT COMPANY MEMBERS No. 39-09
RISK MANAGEMENT ADVISORY COMMITTEE No. 10-09
SEC RULES MEMBERS No. 98-09 RE: ICI SUBMITS COMMENT LETTER ON SEC PROPOSAL
TO ENHANCE COMPENSATION AND GOVERNANCE DISCLOSURE IN PROXY AND
REGISTRATION STATEMENTS

As you know, the Securities and Exchange Commission has proposed amendments to a number of rules and registration forms (including some that are specifically applicable to registered investment companies) to enhance the compensation and corporate governance disclosures registrants are required to make about various elements of executive compensation and corporate leadership. [\[1\]](#)

Yesterday, the Institute filed the attached comment letter on the proposal. The letter focuses on the element of the proposal that would require funds to “disclose the extent of the board’s role in the fund’s risk management and the effect that this has on the fund’s leadership structure.” The new disclosure would be required in proxy statements and statements of additional information (SAIs).

While noting that the Institute is firmly committed to supporting strong risk management practices and supporting improvements in fund disclosure, the letter questions the value of the proposed disclosure on the board's role in risk management. It argues that investors are likely to be far more interested in the risk disclosure that is already contained in fund prospectuses, and that even if the proposed disclosure were the type of information an investor might find useful, the generic requirement to "disclose the extent of the board's role" is vague and likely to generate disclosure that will be of little practical value.

The letter also points out that the proposal seems to assume that funds engage in certain risk management practices, and could imply a certain value judgment that the board ought to have a direct role in day-to-day risk management. The letter takes issue with this result, noting that the board's role is one of oversight, not day-to-day management, and in any event may vary significantly depending on the context.

The letter concludes by suggesting that if it is the Commission's intent to impose requirements in this area, it should do so directly through specific rulemaking or guidance on risk management practices and controls. The letter expresses our view that such an approach would be preferable to the current proposal, which focuses on board oversight and mandates disclosure that would be of questionable value to investors.

Robert C. Grohowski
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Securities Regulation - Investment Companies

[Attachment](#)

endnotes

[\[1\]](#) See [Memorandum](#) No. 23653, dated July 23, 2009.