

**MEMO# 11066**

June 23, 1999

## **REPORT OF THE ADVISORY GROUP ON BEST PRACTICES FOR FUND DIRECTORS**

[11066] June 23, 1999 TO: BOARD OF GOVERNORS No. 43-99 DIRECTOR SERVICES  
COMMITTEE No. 17-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 64-99 RE: REPORT OF  
THE ADVISORY GROUP ON BEST PRACTICES FOR FUND DIRECTORS

I am pleased to forward the Report of the industry's Advisory Group on Best Practices for Fund Directors. This Report is being released on Thursday, June 24th at 2:00 p.m. (Please see enclosed press release.) As you know, mutual fund governance has been under increased scrutiny from the Securities and Exchange Commission, policy makers, the media and industry commentators. In February, SEC Chairman Arthur Levitt convened a special Roundtable on the Role of Independent Investment Company Directors, and in March, he announced specific regulatory proposals addressing mutual fund board governance that the SEC would consider. He also challenged the industry to enhance the effectiveness of fund directors. Additionally, several third party commentators have suggested reforms to the existing system of mutual fund governance or expressed an interest in developing industry best practices. In response to these developments, the Institute formed an Advisory Group, consisting of three industry senior executives and three independent directors. The Advisory Group was charged with reviewing current practices of investment company boards and its goal was to identify those practices that may be appropriately considered best practices for the entire industry. The Advisory Group's Report reflects the consideration of a number of practices relating to the structure of boards and the processes they follow. Its recommendations focus on those best practices that enhance the independence of independent directors and the effectiveness of fund boards as a whole. The Report does not seek to develop guidelines that would govern how fund boards should address specific issues (e.g., brokerage allocation or portfolio valuation) as such issues are apt to involve considerations specific to each fund board. The Advisory Group solicited the views of various Institute committees, as well as independent fund directors, academics, accountants, attorneys, consumer groups and other industry experts. In addition, several submissions were made for the Advisory Group's consideration. We appreciate the contributions of those of you who participated in this process. The Advisory Group is urging early action on its recommendations by the Institute's Board of Governors and the industry. The Board of Governors will convene on July 7th to consider the Advisory Group's recommendations. Matthew P. Fink President Attachments

should not be considered a substitute for, legal advice.