

**MEMO# 15407**

November 27, 2002

## **2003 ICI DIRECTOR PRACTICES STUDY**

ACTION REQUESTED [15407] November 27, 2002 TO: ACCOUNTING/TREASURERS MEMBERS No. 49-02 BOARD OF GOVERNORS No. 39-02 OPERATIONS MEMBERS No. 35-02 PRIMARY CONTACTS - MEMBER COMPLEX No. 96-02 SEC RULES MEMBERS No. 106-02 SMALL FUNDS MEMBERS No. 52-02 RE: 2003 ICI DIRECTOR PRACTICES STUDY The Investment Company Institute is committed to providing programs and services that help fund boards, especially independent directors, to fulfill their responsibilities to shareholders. To that end, the Institute has conducted studies of director policies and practices since 1996. These studies, which represent some of the most comprehensive surveys to date on investment company directors, returned data to participating fund complexes on a range of investment company board and independent director practices, including compensation. Two hundred and one mutual fund complexes took part in the 2001 survey, and their combined assets represented approximately 90% of total investment company assets under management. In an effort to keep its director database accurate and current, the Institute is preparing to undertake its fifth Director Practices Study early next year. The objective of this study will be to collect year-end 2002 data and to provide detailed reports to participating complexes in the third quarter of 2003. Mercer Human Resource Consulting ("Mercer"), a nationally recognized consulting firm with considerable experience in board practices and compensation issues, will assist the Institute staff in performing the survey. Accordingly, the Investment Company Institute is pleased to invite your organization to participate in the Institute's 2003 Director Practices Study.

**STUDY OBJECTIVES** The primary objectives of the survey are: (1) to provide participants with data necessary to make well-informed judgments about trustee practices, including compensation, and (2) to develop a resource that will permit the Institute to communicate authoritatively, on the industry's and directors' behalf, with media, government and others on these subjects, which are of considerable and continuing interest. Individual company responses to this survey will be held in strict confidence; however, aggregated survey data may be released to the media or public officials in order to support Institute policy initiatives.

2 At the conclusion of the data collection and analysis phases of the survey, a summary report of the aggregate survey results will be provided to each participant. The report will present detailed analyses of:

- board and committee meeting practices, including meeting frequency, number and types of committees, and relative time spent addressing specific areas of responsibility in board and committee meetings;
- trustee term practices, mandatory retirement practices and term limits;
- use of independent counsel, consultants and dedicated staff;
- demographic information about trustees, including age and professional background;
- types of benefits, perquisites and services provided to directors; and
- the structure, type, and amount of trustee compensation, including retainers, fees, and total compensation.

Compensation analysis is provided on an industry-wide basis and by complex size (both assets under management and number of funds). In addition, to provide maximum utility of the survey data to participants, the Institute will again provide interested survey

participants with a report comparing their practices with aggregate data reflecting the practices of a participant-specified industry peer group. Concurrent with the delivery of the summary report, participants will be invited to request one such peer group analysis without charge. Additional peer group reports may be requested for a fee of \$125 per request fulfilled. Each participant-specified peer group will be required to consist of at least seven participating fund groups. PARTICIPATION FEE As with other participant-funded ICI research, survey reports will be provided only to fund groups that choose to participate. Fund groups that do not participate will not have access to the survey or peer group reporting. The obligations of participants are to furnish a completed questionnaire to Mercer on a confidential basis and to share part of the costs of the survey with the Institute through advance payment of a participant fee in accordance with the following asset based schedule: Total Assets of Open-end and Closed-end Funds Participation Fee in Complex (as of 10/31/02)

ICI Member	Non-ICI Member	Over \$30 billion	\$20 - \$30 billion	\$10 - \$20 billion	\$5 - \$10 billion	\$3 - \$5 billion	Under \$1 billion
\$1,850	\$3,700	\$1,600	\$3,200	\$1,350	\$2,700	\$1,050	\$2,100
\$800	\$1,600	\$525	\$1,050	\$275	\$550		

DATA COLLECTION Fund groups that agree to participate in the survey will be provided with a questionnaire that solicits data at the fund complex level, the board level, and the individual 3 director level. As with other ICI surveys, the confidentiality of data submitted by individual fund groups will be strictly maintained. As noted above, aggregated data from groups of companies may be released in limited circumstances. We plan to make the survey questionnaire available on the internet to make it as convenient as possible for fund groups to participate in the survey. Participants will enter their questionnaire responses using a web-based application on a secure site. Participants will need access to a computer with internet access and a web browser. TIMETABLE Mutual fund complexes have until January 17, 2003 to signify their intention to participate by filling out the attached participant authorization form and returning it to the Institute. We expect to supply participants with the survey questionnaire in late January. The deadline for completion and return of all questionnaires will be Monday, March 3, 2003. To enable participants to monitor the progress of data receipt by the survey team, the Institute will issue a weekly tracking report to all participants showing each participant's questionnaire submission status beginning the week of Monday, March 3, 2003 and continuing until all questionnaires are received. Our target for completion of data entry, data validation and scrubbing, and stabilization of the survey database is June 2003. We expect to deliver summary reports to participants and begin accepting peer-group report requests during July 2003. ACTION REQUESTED In order that we may proceed with this project as soon as possible, it is important that we hear from you promptly as to your interest in participating. Please return the attached form to the Institute by fax (202/326-8314) as soon as possible, but not later than January 17, 2003, to indicate whether or not your organization will participate. Please do not send participation fee payments to the Institute at this time. An invoice will be mailed to participating complexes after January 17. Please do not hesitate to contact the undersigned (202/326-5851) or Marguerite Bateman (202/326-5813) if you have any questions regarding this project. Thank you in advance for your prompt response. We look forward to working with each of you on this important project. Gregory M. Smith Director - Operations/Compliance & Fund Accounting Attachment Attachment (in .pdf format)