

# COUNCIL OF INSTITUTIONAL INVESTORS

August 18, 2006



Nancy M. Morris  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington DC, 20549

Re: File No S7-03-04

The Council of Institutional Investors, an association of more than 130 corporate, public and union pension funds responsible for more than \$3 trillion in pension assets, is pleased to comment on the Securities and Exchange Commission's proposed rule amendments to enhance the corporate governance standards for investment companies.

As the Council noted in its March 17, 2004, comment letter on the initial proposal, the Commission's proposed standards are tougher than those endorsed by the Council for publicly traded companies and those required by the stock exchanges. Council policies call for boards to consist of at least two thirds independent directors and, except in very limited circumstances, for boards to be chaired by independent directors. The Council believes these policies are the minimum requirements that should be adopted by all publicly traded companies, including investment companies.

The Council believes the Commission's proposed standards strengthen corporate governance practices and offer protections to investors by enhancing and clarifying the accountability of fund directors to the investors in those funds. Unfortunately, many experts agree that accurately quantifying the costs and, even more so, the benefits of these and other corporate governance reforms is currently very difficult, if not impossible. However, the Council believes actual corporate governance practices at publicly traded companies, including investment companies, provide powerful evidence that the costs to comply with both elements of the proposed standards are not onerous or burdensome.

For example, earlier this year a Business Roundtable survey of its members—CEOs of 160 leading U.S. companies—found that “America’s top companies continue progress toward greater independence in boards and board leadership.” Specifically, the survey, released in March 2006, found that:

- 91 percent have an independent chair, lead director or presiding director—an increase from 83 percent in 2005 and 71 percent in 2004;
- 11 percent have an independent chair, up from 9 percent in 2005 and 4 percent in 2004;
- 85 percent expect their board in 2006 will consist of at least 80 percent independent directors.

Similarly the Overview of Fund Governance Practices, 1994-2004, issued January 2006 by the Investment Company Institute, the national association of U.S. investment companies, found that the boards of the 7,549 represented funds consisted on average of 78 percent independent directors, up from 71 percent in 1994. The statistics prove that not only are investment companies complying with the 1999 ICI Best Practices Report recommendation that each board have a two-thirds majority of independent directors but also that a majority of investment companies currently are in compliance with the SEC's proposed standard.

This level of fund board independence also indicates that mutual fund boards should have no difficulty identifying an independent director to serve as board chair. Moreover, statistics from the ICI support this contention.

The ICI's Overview of Fund Governance Practices, 1994-2004, report found that 43 percent of the surveyed funds had an independent chair, and another 18 percent had an independent lead director. Year-to-year comparisons of each category are not possible, but 2004's 61 percent with either an independent chair or independent lead director is a sharp increase from 2002's 42 percent with either an independent chair or lead director.

The fact that many public companies, including investment companies, are already complying with the Commission's proposed standards is proof the standards are not burdensome or onerous. Directors of mutual funds agree.

Based on a survey of its members, the Mutual Fund Directors Forum stated that "compliance with the 75 percent independent director and independent chair rule requirements is likely to have a negligible impact on a fund's operation costs. Costs per fund will be even less significant for those funds which are part of a fund family where the costs can be allocated across all of the funds in the complex."

The Council urges the Commission to re-affirm the proposed rule amendments. Two years ago the Commission concluded that the costs of compliance with the proposed standards were "likely to have a negligible impact on a fund's operating costs," and trends suggest these costs have only declined over the past two years. The Council believes the proposed standards represent best practices, and they reflect accepted current-day practices.

The Council also believes that any reversal would ultimately harm investors and undermine the important work and mission of the SEC by encouraging legal challenges to any and all Commission-approved standards by self-interested special interest groups hoping to at least delay implementation of important reforms that benefit investors and enhance the efficiency and liquidity of our capital market system.

Of note the Council, as stated in its March 17, 2004, comment letter on the proposal, believes the following changes would further strengthen the proposed reforms:

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- A stricter definition of "independence" should be applied to directors serving on mutual fund boards.
- All mutual fund directors should stand for annual election by mutual fund investors. Annual meetings are the most direct way to enhance mutual fund director accountability to mutual fund holders.
- Mutual funds should be held to the same disclosure standards as listed companies.

We would be happy to respond if you have any questions or need additional information.

Sincerely,



Ann Yerger  
Executive Director