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2 March 2007

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Investment Company Governance (File No. S7-03-04)

Dear Ms. Morris:

The CFA Institute Centre for Financial Market Integrity (Centre)[1] appreciates the opportunity to comment on proposed amendments to investment company governance provisions during this reopened comment period.

The CFA Centre develops, promulgates, and maintains the highest ethical standards for the investment community, including the CFA Institute *Code of Ethics* and *Standards of Professional Conduct*. The CFA Centre represents the views of investment professionals to standard setters, regulatory authorities, and legislative bodies worldwide to promote investor protection and efficient global capital markets.

Comments

We support strong corporate governance measures that provide meaningful investor protections, increased opportunities for reasonable shareholder participation in corporate matters, and transparent and understandable information that allows investors to make informed investment decisions. We believe that investor interests must come first. We also recognize the complexities of the business environment that often require a fine weighing of factors that preserve investor interests by reducing conflicts of interest while supporting corporate structures that ultimately work to the benefit of investors through higher returns on investments.

Thus, the debate on board independence requirements continues, particularly focusing on the independence of the chair of a board. On the one hand, an independent chair would appear to better serve shareholder interests by reducing real or perceived conflicts of interest. A counter argument focuses on the valued expertise that an insider may bring to board deliberations, relying on the existence of a majority of independent board members to steer decision-making clear of conflicts.

[1] The CFA Centre for Financial Market Integrity is part of CFA Institute. With headquarters in Charlottesville, VA and regional offices in New York, Hong Kong and London, CFA Institute, formerly the Association for Investment Management and Research®, is a global, non-profit professional association of more than 88,900 financial analysts, portfolio managers, and other investment professionals in more than 130 countries of which more than 76,800 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 134 Member Societies and Chapters in 55 countries and territories.

Charlottesville Hong Kong London
560 Ray C. Hunt Drive
PO Box 3668
Charlottesville, VA
22903-0668 USA
434 951 5499 tel
434 951 5262 fax
info@cfainstitute.org
www.cfainstitute.org

The two economic studies performed by the SEC's Office of Economic Analysis[2], unfortunately, shed little additional light on this debate. We understand that the lack of empirical data precludes the Office from definitive conclusions on the benefits of independent board members and chair, leaving the Commission to create a most reasonable approach. We believe that this approach must aim to minimize conflicts that threaten investor protections and shore up confidence in the integrity of the system.

We find one inference in The Literature Review on Independent Mutual Fund Chairs and Directors particularly noteworthy. While unable to establish a positive correlation between board independence and fund performance, the study does posit that independent board members translate into lower fees, the merging of poorly performing funds, and better protection for market timing and late-trading practices. This, alone, indicates a positive aspect of maintaining an independent board. Regardless of whether shareholders actually receive better returns in a fund, this finding suggests they can feel more confidence in the system that supports independence.

We have previously supported a supermajority independence requirement for the composition of a mutual fund board.[3] As we have noted, given that the board serves as a watchdog for investor interests, it needs to be structured in a way that best fosters independent decision-making and mitigates potential conflicts of interest. To this end, we believe that a supermajority requirement helps establish an environment most conducive to independent decision-making. Regardless of positive proof of benefits to fund returns, a commitment to act without self-interest ultimately inures to the best interests of investors.

While we strongly support a fund board primarily composed of independent directors, we also recognize the need for directors that bring with them exceptional expertise or business knowledge that provides a fund with an advantage in acting on behalf of its investors. We thus urge the SEC to consider the benefits of requiring only a "lead" director in certain situations. In a supermajority situation, for example, a lead director should not hold the same degree of power or the ability to influence as in a simple majority structure. When used in conjunction with an independent board, a lead director can be an efficient and effective balance that allows funds optimal expertise and flexibility without sacrificing investor interests.[4]

The lack of definitive conclusions through these two studies raises questions about how to obtain certain information about the mutual fund area for purposes of new regulations. Perhaps more important, however, is whether the proliferation of regulations in recent years has produced duplicative or disparate regulations and other inefficiencies in the mutual fund industry that need to be addressed. For instance, would certain aspects of the regulatory structure for exchange traded funds be appropriate for streamlining rules currently governing mutual funds? The CFA Centre would gladly work with the mutual fund industry and others to address this with the goal of identifying areas for achieving added efficiencies and consistencies.

[2] The two studies are entitled "Literature Review on Independent Mutual Fund Chairs" and "Directors and Power Study as Related to Independent Mutual Fund Chairs".
[3] See 19 March 2004 letter from James W. Vitalone and Linda L. Rittenhouse to Jonathan G. Katz re Proposed Rule: Investment Company Governance (File No. S7-03-04).
[4] This approach is in keeping with the CFA Centre's governance recommendations in *The Corporate Governance of Listed Companies: A Manual for Investors.* In the public company context, the Manual urges investors to consider whether independent board members have a lead member if the chair is not independent.

Conclusion

We support the SEC's efforts to strengthen mutual fund governance through its focus on independence requirements. A supermajority independence standard achieves the goal of fostering the appropriate environment for decision-making apart from self-interest. We recommend that the SEC consider allowing the use of a lead director where fund boards adopt a supermajority standard as a reasonable approach in balancing various aspects of investor interests.

If we can provide additional information, please do not hesitate to contact Kurt N. Schacht at 212.756.7728 (kurt.schacht@cfainstitute.org) or Linda L. Rittenhouse at 434.951.5333 (linda.rittenhouse@cfainstitute.org).

Sincerely,

/s/ Kurt N. Schacht	*/s/ Linda L. Rittenhouse*
Kurt N. Schacht Managing Director CFA Centre for Financial Market Integrity	Linda L. Rittenhouse Senior Policy Analyst CFA Centre for Financial Market Integrity