

NEWS RELEASE



FOUNDATION FOR FIDUCIARY STUDIES

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FOR IMMEDIATE RELEASE

Press Guide: SEC's New Requirements for Mutual Fund Boards

It's a great first step, but ...

Pittsburgh, PA, June 23, 2004—The **Foundation for Fiduciary Studies** has prepared the following guide to assist members of the press and other interested parties in understanding the issues associated with the SEC's new requirements for mutual fund board of directors.

The SEC has approved new regulations which will require that:

1. The board chairperson be independent of the mutual fund company
2. 75% (up from 50%) of the board members be independent of the fund company
3. Independent directors meet at least quarterly without fund executives
4. The board will have to justify portfolio managers that it retains.

These are all great steps in the right direction, but still more needs to be done to protect mutual fund shareholders.

—more—

First, fund directors are fiduciaries, but the fiduciary standard of care associated with fund management actually is a lesser standard than that imposed on fiduciaries regulated by other federal and state agencies. For example, the fiduciary standard of care required of an investment committee for a 401k retirement plan is higher than the standard defined for mutual fund directors. Given the importance of mutual funds, fund directors should be held to the highest fiduciary standards of care defined by law. Simply put, fund directors are required to justify price, not value. Anyone who has bought a new car knows the critical distinction between value and price. There are numerous mutual funds that continually underperform their peers and benchmarks. Even if these same funds have lower expenses, they are of little-to-no value to shareholders.

Second, independence and competency do not always equate. Sarbanes-Oxley requires a company to "... disclose whether it has at least one 'audit committee financial expert' serving on its audit committee and, if so, the name of the expert and whether the expert is independent of management. A company that does not have an audit committee financial expert must disclose this fact, and explain why it has no such expert." A similar requirement should be imposed on the mutual fund boards. At least one independent director should be required to be an expert on portfolio management, and at least one independent director should be an expert on investment fiduciary responsibility.

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*About the **Foundation for Fiduciary Studies**: The Foundation was established in 2000 for the purpose of defining the practices that detail a prudent process for investment fiduciaries. It is part of the trilogy of organizations focused solely on the subject of investment fiduciary responsibility that make up **Fiduciary 360** (www.fi360.com). The other associated organizations include the **Center for Fiduciary Studies**, which is associated with the **University of Pittsburgh's Center for Executive Education at the Joseph M. Katz Graduate School of Business**; and **Fiduciary Analytics**, which develops Web-based tools incorporating fiduciary practices for investment decision-makers.*

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