



# MUTUAL FUND DIRECTORS FORUM

*The FORUM for FUND INDEPENDENT DIRECTORS*

July 27, 2006

To the Editor:

In "*Over-Lawyered at the SEC*" (July 26, 2006), former SEC chairman Harvey Pitt asserts that the Commission's approach to mutual fund regulation is inconsistent with economic reality, because responsibility for fund governance "resides with the investment managers, not with passive boards." In Mr. Pitt's view, the law erroneously applies corporate governance concepts to mutual funds, instead of treating funds as products.

In fact, the regulatory scheme reflects the economic reality that investors need effective representation in how their funds are collectively managed. Fund directors represent the combined buying power of the shareholders in overseeing the adviser and monitoring performance. Although fund advisers perform a critically important role in the management of funds, they are not the owners – rather, they are hired by the funds and their shareholders. As the law recognizes, shareholders are best served when the board can engage in a meaningful dialog with the adviser and is not subject to undue influence by the adviser.

This economic reality may be why Mr. Pitt told fund independent directors in January 2003 that they are needed to help "fashion new and creative solutions to enhancing oversight of the mutual fund industry," and then joined with all other former SEC chairmen to tell the SEC in June 2004 that "an independent board chairman would be better able to create conditions favoring the long-term interests of fund shareholders than would a chairman who is an executive of the adviser."

Mr. Pitt had it right the first time. The prudent ongoing and long-term stewardship provided by director oversight is the best way that has yet been found to meet the long-term interests of mutual fund investors.

Yours truly,

A handwritten signature in black ink, reading "Susan Ferris Wyderko", is written over a horizontal line.

Susan Ferris Wyderko  
Executive Director, Mutual Fund Directors Forum

*The Mutual Fund Directors Forum is a membership organization composed of independent directors of mutual funds. Ms. Wyderko was until recently the Director of the Office of Investor Education at the SEC, and earlier this year also served as Acting Director of the Division of Investment Management.*