

Independent Directors Protect Shareholders

In "Mutual Madness" (editorial page, July 6), Peter Wallison asserts that mutual fund independent directors engage in a form of "cost-plus" regulation that imposes significant unnecessary costs on the shareholders of U.S. mutual funds. His argument hinges on the erroneous view that, in negotiating fees, directors do little more than determine whether, based on an adviser's costs of managing a particular fund, a proposed fee will result in a "reasonable" profit for the adviser, giving advisers little or no incentive to lower their costs.

However, his assertions are rooted in a misunderstanding of the process. Independent directors' primary focus is not on allowing fund advisers a "reasonable" profit. Instead, they seek to understand the cost structure of the funds they oversee, the fees charged by competitor funds, and the performance of both their funds and those of their competitors. Based on this analysis, they seek to negotiate an appropriate and

competitive fee on behalf of their shareholders. This regulatory structure appears remarkably effective—research by Peter Tufano of Harvard Business School and others shows that U.S. fund shareholders pay the lowest fees in the world.

Reducing the fees and expenses paid by investors is important, and requires critical re-examination of existing regulations. Yet with fees paid by U.S. investors the lowest in the world, and negotiation of fees by independent directors unique to the U.S., it may well be that directors are much more effective at protecting investors than Mr. Wallison thinks. Indeed, independent directors, by focusing the buying power of individual investors so that they can jointly negotiate fees and monitor the performance of their chosen adviser, provide a highly effective free-market bulwark against the alternative of intrusive government regulation of fund fees and expenses.

SUSAN FERRIS WYDERKO

*Executive Director
Mutual Fund Directors Forum
Washington*

(The Mutual Fund Directors Forum is a membership organization composed of independent directors of mutual funds. Ms. Wyderko was formerly the Director of the Office of Investor Education at the SEC, and also served as Acting Director of the Division of Investment Management.)

LETTER TO THE EDITOR SUBMISSIONS

email wsj.letters@wsj.com or fax 212-416-2255

OP-ED SUBMISSIONS

email edit.features@wsj.com or fax 212-416-2255

PRESS RELEASE SUBMISSIONS

email nywireroom@dowjones.com

REPRINTS

email customreprints@dowjones.com or call 800-843-0008

WSJ.COM

Visit wsj.com/myaccount or call 800-568-7625