

# Mutual Fund Directors Must Be Vigilant in Addressing Risks

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In remarks to the Mutual Fund Directors Forum, SEC Chair Mary Jo White outlined some of the risks and challenges that mutual fund directors face, and she shared her view of the role of directors in assessing risks. Ms. White acknowledged the challenge of determining the appropriate dividing line between a director's oversight responsibility and day-to-day management. She also advised that the SEC is focused on that issue as it considers proposed reforms to address the increasingly complex portfolios and operations of mutual funds and exchange-traded funds. She indicated that the staff will carefully consider these matters as it prepares rule recommendations for the SEC's consideration.

## Key Takeaways

The following are key considerations for mutual fund directors:

- Directors must be vigilant in addressing potential risks and plan ahead, rather than react once an event has occurred
- Directors should ask management how the fund's compliance policies and procedures, business continuity plans, and back-up systems will work in volatile situations
- Directors should ask questions to ensure that they understand whether the fund's investments are properly aligned with its liquidity needs and redemption obligations
- Directors should assess the back-up systems and redundancies of service providers to the fund that value the fund and keep track of its holdings and transactions, and consider potential alternative systems in case of a business disruption
- Directors must ensure that fund payments to financial intermediaries that are used to finance distributions are paid pursuant to a Rule 12b-1 plan

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