

**STATEMENT OF VANESSA C.L. CHANG**

**INDEPENDENT DIRECTOR**

**NEW PERSPECTIVE FUND  
(MEMBER OF THE AMERICAN FUNDS FAMILY)**

**BEFORE THE**

**COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS**

**UNITED STATES SENATE**

**ON**

**REVIEW OF CURRENT INVESTIGATIONS AND REGULATORY ACTIONS  
REGARDING THE MUTUAL FUND INDUSTRY:**

**FUND OPERATIONS AND GOVERNANCE**

**MARCH 2, 2004**

## EXECUTIVE SUMMARY

- I am Vanessa Chee Ling Chang, an independent director and chair of the Audit Committee and member of the Contracts Committee for the New Perspective Fund, a member of the American Funds family, advised by Capital Research and Management Company. New Perspective Fund has assets in excess of \$30 billion and is sold through third parties.
  
- I will discuss:
  - the organization of our boards and how we work;
  - service on a single versus multiple boards;
  - the independent chair proposal; and
  - the independent director certification proposals.
  
- I believe we are organized effectively where we each take our responsibilities seriously by doing our homework and asking challenging and tough questions. The adviser encourages an open and transparent dialogue. They are responsive to the board's requests for education and presentations on matters that are not part of the board's routine. Importantly, the collegiality and mutual respect that the independent directors have for each other creates an atmosphere where no question is ridiculed and where we each learn and benefit from the different perspectives.
  
- I can appreciate the economies of scale from serving on multiple boards but I do not believe there is a "magic" maximum number – each complex varies and each director has varying time commitments. The SEC's proposal requiring annual self-assessments is a practical solution to the issue.
  
- For much the same reason, not all fund boards are alike. I do not support the mandatory independent chair proposal. I believe that a board dominated by independent directors is in the best position to select the chair for a fund, whether that person is interested or independent.
  
- The role of an independent director is oversight. Proposed certifications cross the line to day-to-day management. An independent director would have to have day-to-day knowledge and be fully immersed in the fund's operations in order to be able to certify to the various requirements. I am deeply troubled that the certifications could cause a problem for funds attracting and retaining qualified persons as fund directors.

## I. INTRODUCTION

My name is Vanessa Chee Ling Chang. I serve as an independent director and chair of the Audit Committee and member of the Contracts Committee for the New Perspective Fund, a member of the American Funds family. The fund, whose board I joined in March 2000, is advised by Capital Research and Management Company, has assets in excess of \$30 billion and is sold through third parties. I also serve as an independent director, Audit Committee and Governance and Nominating Committee member for Inveresk Research Group, Inc., a NASDAQ-listed company providing contract research services for drug development to biotechnology and pharmaceutical companies. I am a Certified Public Accountant and worked for Peat Marwick, now KPMG, in the Audit Department and later in Corporate Finance. I was a partner from 1986 to 1997.

I appreciate the opportunity to appear before the Committee today to discuss mutual fund operations and governance from my perspective as an independent director.

I am greatly dismayed by the abuses that have come to light in the mutual fund industry over the past few months. In particular, I am distressed that some industry participants apparently chose to benefit themselves at the expense of fund investors, resulting in the current crisis of confidence. Their behavior is so contrary to my experience with my fellow directors at the American Funds family, the associates at Capital Research and Management Company and independent directors of other funds whom I have had the opportunity to know and with whom I have discussed industry issues. I have found these individuals to be smart, responsible, conscientious, inquisitive and outspoken.

I commend Congress' and the regulators' interest, especially the Securities and Exchange Commission, in restoring investor confidence and faith in our capital markets. Clearly, some regulatory response to the recent events is necessary but it must be well considered and practical. I thank this Committee for its thoughtful consideration to determine what legislative response may be necessary.

I will discuss:

- the organization of our boards and how we work;
- service on a single versus multiple boards;
- the independent chair proposal; and
- the independent director certification proposals.

## **II. Duties and Responsibilities of Fund Boards of Directors**

In evaluating proposals that would reform fund governance, it is important to understand how investment companies operate and, in particular, the role of independent directors. Today I will share with you how I go about discharging my duties and responsibilities in the shareholders' best interests.

Before I joined the board of New Perspective Fund, my experience had been with traditional public corporations. Therefore, I had to learn very quickly the distinctions between my role as an independent director of a mutual fund versus that of a corporate director. A shareholder invests in a mutual fund because the investment strategy and process of the investment adviser is attractive. In fact, the investment adviser created the mutual fund to offer its services on a pooled basis to the investing public who could not otherwise afford the services of a professional money manager.

A fund has no employees – the adviser and service providers manage its operations and provide staff. As fund directors, we are *not* charged with managing any of the fund operations. We serve the interests of fund shareholders through our oversight of the fund’s operations and of the fund’s service providers such as the adviser, auditors and the like.

Under the Investment Company Act and SEC rules, independent directors have particular responsibilities to protect fund shareholders against conflicts of interest between the fund and its adviser and other service providers. One prominent example of the independent directors’ role in protecting against conflicts of interest is the renewal of a fund’s advisory contracts. At New Perspective Fund, we receive substantial education from the adviser throughout the year, especially in connection with the annual contract renewal. In advance of the first of two board meetings during which we will be discussing the contracts, we receive extensive information from the adviser that we review carefully and compare some of the information with that of the prior year. The first meeting is devoted to asking questions of the adviser and/or requesting additional information. I have never felt inhibited in asking questions or raising issues that may not be on the agenda or in the book. After questioning management, the independent directors and our independent counsel meet in executive session to discuss the information in connection with the renewal of the contract. At the second board meeting we receive the additional information and discuss any further issues. Only after we are all satisfied do we vote on the advisory contracts. All independent directors sit on the Contracts Committees and they vote separately on contract matters.

My duty as a director is to feel comfortable not just at one point in time. As a result, throughout the year I look for or request information that satisfies me that the controls, systems and procedures continue to be in place. Our board regularly takes the initiative to identify matters for the adviser to report on at board meetings or in special sessions. Management is always responsive to our requests.

We meet in clusters. American Funds have nine clusters ranging from one to twelve funds per cluster. For example, the Fixed Income funds may meet in a cluster that consists of 12 funds, while my cluster has only one fund. Although I only serve on New Perspective Fund's board, our meetings coincide with board meetings of two other global equity funds, EuroPacific Growth Fund and New World Fund. We meet quarterly over consecutive days. We often have joint board or audit committee meetings to discuss issues common to us all, such as discussion of a particular industry or country or the internal control review (SAS 70) performed by an independent audit firm. After the joint meetings, each board then meets separately, including our executive sessions.

Independent directors are nominated by the Nominating Committees that consist solely of independent directors. We have a separate committee consisting of one independent director from each of the nine clusters to oversee the shareholder operations performed by a subsidiary of Capital Research and Management Company. This Committee meets bi-annually with at least one meeting taking place at one of the four service centers.

Finally, we are encouraged to attend independent educational seminars and hold biennial two-day seminars for all American Fund directors at which we discuss various topics outside the context of regular board and committee meetings.

### **Service on Multiple Fund Boards**

The proposed reforms for fund governance include questions concerning service by independent directors on multiple boards. Although I serve on a single board, I believe there are efficiencies and economies of scale to be achieved from service on multiple boards. I have experienced these efficiencies as a result of the joint board and/or audit committee meetings in which I have participated.

While our “cluster” arrangement works for us, I can appreciate that different complexes may find other structures preferable. I do not believe that Congress or the SEC should dictate the number of boards on which an independent director can sit. The factors affecting a director’s ability to serve on multiple boards are quite varied and subjective. I think that the SEC’s proposal to require directors to evaluate, annually, their ability to serve the shareholders of the funds they oversee is an effective way to address this issue.

### **III. Fund Governance Reforms**

As an American by choice and not by birth, I have great faith in this Committee and the legislative process that any actions will be for the benefit of the individual investor/shareholder. Some of the reforms suggested will, in my opinion, improve the

governance system, yet others threaten to add more cost and burdens on boards and fund shareholders without any benefit.

As I mentioned, I believe certain of the proposed reforms would be beneficial and most likely to have an impact on how I discharge my duties as an independent director. For example, I support:

- broadening the definition of “interested person” to draw a clearer line between independent directors and persons with ties to the fund’s adviser or other service providers;
- requiring 75% of the board to be independent;
- self-assessing annually the board’s performance;
- meeting separately with only independent directors at least four times a year;
- implementing nominating committees consisting only of independent directors; and
- requiring a fund’s Chief Compliance Officer to report directly to the independent directors.

### **Independent Chair**

I do not support the proposal that every mutual fund board must have an independent chair. Although our board does not have an independent chair, we have never been prevented from adding items to the agenda or discussing issues that are not on the agenda. I also believe that the quality of our board meeting agendas is a function of the input from the independent directors, as well as the interested chair, the officers of the adviser, independent legal counsel, and the fund’s auditors. They reflect an open and challenging dialogue between the adviser and the independent directors. While some funds may benefit from an independent chair, I do not agree that the chair should be an independent director in every case because:

- An independent chair would not have the day-to-day exposure to the fund’s operations to understand and raise current issues or anticipate potential problems before they become “problems.” In order to gain that kind of knowledge, the

independent chair may find himself/herself with a full time job, thereby negating his/her independence from the fund's adviser. This also would increase the cost to shareholders.

- No two fund families and advisers have the same culture; accordingly, one size does not fit all.

My recommendation would be to allow boards to decide whether to have an independent chair or lead director. Independent boards should vote and appoint either an independent chair or lead director, whichever they believe would best benefit shareholders of their funds.

### **Certification Requirements**

Pending legislative proposals would require that independent directors or an independent chair certify to a number of matters. These include whether there are certain policies and procedures in place, as well as whether those policies and procedures have been followed. I strongly believe that an independent director should not be required to certify to matters about which directors could have no direct knowledge. I am particularly troubled by proposals that would require independent directors to certify that a fund is in compliance with its policies and procedures to calculate daily net asset values and oversee the flow of funds into and out of the fund. I inquire and am satisfied that there are controls, procedures and policies in place to calculate net asset values and oversee fund flows. While we receive reports on these issues at board meetings, directors do not and should not have the obligation to monitor compliance on a day-to-day basis. Some of these certifications also appear to confuse the role of an independent director of a mutual fund with the role of the distributor/financial adviser in serving the ultimate investor/shareholder. For example, while I can be satisfied that all the fund's share classes bear appropriate fees and expenses, I have no way to determine whether a

given share class is appropriate for a **particular investor** without knowing that investor's investment objectives, holding period, etc. That is not my role as an independent director of a mutual fund.

I also am concerned about the implications of independent director certifications. Do these certifications expose us to additional liability or remove our business judgment? As an independent director, do I add value if I must rely on sub-certifications from the people who really are in a position to monitor day-to-day compliance with these operations? Am I suggesting to fund shareholders that additional protections are in place, protections that I could offer only if I were to immerse myself in the day-to-day operations of the fund? If I did take it upon myself to become so immersed, am I now performing the role of management and am I still independent? The whole area of certifications, as proposed, crosses the line from oversight to day-to-day management and sometimes may cross the line from investment adviser to distributor. I also believe that the certification could cause a problem for funds attracting and retaining qualified persons as fund directors, which certainly would not be in the best interest of shareholders.

It is my view that these kinds of certifications, if required, should be redirected to those persons who are responsible for managing the operations of a fund or its distribution, as appropriate. This would place the responsibility directly on the persons who are capable of conducting the types of review necessary to verify compliance. To place this responsibility on directors would badly confuse our oversight responsibilities with the operating responsibilities of management.

#### **IV. CONCLUSION**

I appreciate the opportunity to address the Committee and to share my perspective as an independent director with you. I trust that I have given you a better understanding of independent directors' roles in the fund industry. I also hope that you take into consideration that the vast majority of independent directors take their responsibilities seriously as you evaluate the numerous proposals relating to fund governance.