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Office of the President

TO THE MEMBERS OF THE SPECIAL COMMITTEE ON REGENTS' PROCEDURES:

ACTION ITEM

For the Meeting of May 17, 2006

AMENDMENT OF BYLAWS 12, 20, AND 21 AND STANDING ORDER 100.4 IN ORDER TO ESTABLISH REGENTS OFFICE OF COMPLIANCE

With the concurrence of the President, The Chairman of The Board recommends that the Special Committee on Regents' Procedures recommend to The Regents that:

1. Service of notice be waived.
2. Effective immediately upon approval, the Bylaws and Standing Orders be amended as shown below to add the position Chief Compliance Officer to the Officers of the Corporation:

Additions shown by underscore

BYLAW 12.

RESPONSIBILITIES OF STANDING COMMITTEES

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12.3 Committee on Finance.

The Committee on Finance shall:

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(m) Recommend to the Board:

- (1) All compensation of the following Officers of the Corporation and Officers of the University: Principal Officers of The Regents and their chief deputies, Chief

Compliance Officer, President of the University, Provost and Senior Vice President, Senior Vice Presidents, other Vice Presidents, University Auditor, Chancellors, and Laboratory Directors;

BYLAW 20.

OFFICERS OF THE CORPORATION

20.1 Designation and Qualifications.

The Officers of the Corporation shall be President, Chairman, Vice Chairman, Secretary, Treasurer and Vice President for Investments (who also serves as an Officer of the University), General Counsel and Vice President for Legal Affairs (who also serves as an Officer of the University), Chief Compliance Officer, and such associates and assistants of the foregoing Officers as the Board from time to time shall appoint. The President, Chairman, and Vice Chairman shall be members of the Board, but membership on the Board shall not be a necessary qualification for other Officers. Any Officer, other than the President, Chairman, and Vice Chairman, may hold as many offices as the Board shall determine.

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BYLAW 21.

DUTIES AND RESPONSIBILITIES OF OFFICERS
OF THE CORPORATION

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21.5 Chief Compliance Officer

The Chief Compliance Officer shall develop and maintain the University's Corporate Compliance Program, functioning as an independent and objective office that reviews and evaluates compliance issues and concerns within the University. This position will monitor and report as to the Board itself, the administration, faculty, and employees on compliance with rules and regulations of regulatory agencies, University policies and procedures, and the University's Statement of Ethical Values and Standards of Ethical Conduct. This position is authorized to implement all necessary actions to ensure achievement of the objectives of an effective, accountable compliance program.

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STANDING ORDER 100.4.

OFFICERS OF THE UNIVERSITY

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100.4 Duties of the President of the University

- (a) The President shall be the executive head of the University and shall have full authority and responsibility over the administration of all affairs and operations of the University, excluding only those activities which are the responsibility of the Secretary, Treasurer, ~~and General Counsel of The Regents,~~ and Chief Compliance Officer. The President may delegate any of the duties of the office except service as an ex officio Regent.

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BACKGROUND

The several recent reviews of the University's compensation practices have pointed to the need for a unit at the university dedicated to assuring compliance with Regental policies and other University policies, across all operations. In order to provide for the appropriate level of oversight and authority, as determined by The Regents, the Chairman and the President recommend establishment of an Office of Compliance that reports directly to the Board of Regents. This office shall be headed by the Chief Compliance Officer who shall be an officer of the corporation (The Regents of the University of California) and shall have sufficient staff and resources to carry out this compliance function and reporting. In proposing this additional, dedicated function, Chairman Parsky proposes that the appropriate Bylaw and Standing Order amendments be adopted immediately. To do so requires that the normal service of notice be waived.

The position of Chief Compliance Officer is a relatively new phenomenon, often considered a best practice for major corporations, especially those that are publicly traded, consistent with Sarbanes-Oxley legislation. It is also more and more frequently seen as an essential position for research universities due to the complexities of federal and state rules and regulations as well as contractual requirements governing the research enterprise. Princeton, CalTech, and the University of Southern California are examples of respected research universities that recently established this position.

See

<http://www.princeton.edu/pr/pwb/04/1018/2a.shtml>

<http://asic.caltech.edu/compofficer.htm>

<http://www.usc.edu/admin/compliance/whatsnew.html>

The University of Texas has had a position and program in place for some time, as have several other research institutions.

The Office of Compliance at the University of California will need to be able to exercise a coordinating role with the large number of existing compliance functions that are already in place: Office of the General Counsel, Audit, Risk Management, Controllers, Human Resources (and the HR training function), Research Compliance, Environmental Health and Safety, Academic Council, Privilege and Tenure Committees, and Hospital compliance, to name a few. Coordination among these and other areas will assure appropriate development and maintenance of training programs, risk assessment, management controls, and disclosure as well as appropriate Board oversight.

Among its other duties, as recommended by the Task Force on UC Compensation, Accountability, and Transparency, The Regents' Office of Compliance shall

- ensure that compensation decisions are audited regularly to ensure that they are being made and approved at the appropriate levels (Governance and Accountability recommendation 2)
- be informed of all exceptions to compensation policies (Governance and Accountability recommendation 3)

Further, the Office of Compliance would be expected to establish mechanisms to ensure that Regents' policies and principles survive leadership changes in both management and on the Board of Regents. The office would also be expected to oversee revisions to the University's Statement of Ethical Values and Standards of Ethical Conduct as necessary, and to establish relationships with Chief Compliance Officers in industry and in higher education in order to keep the University in the forefront of best practices. The precise duties and responsibilities for the office will develop over time as standards in this new field as well as the University's and the Board's needs for compliance oversight evolve.

Compensation for this Officer will be considered and approved by The Regents through the Committee on Compensation and in accord with all pertinent policies and guidelines for Officers of The Regents. The proposed amendment to Bylaw 12.3 – Committee on Finance is to implement this position, pending the amendment of Bylaws in July to establish the Committee on Compensation as a Standing Committee.