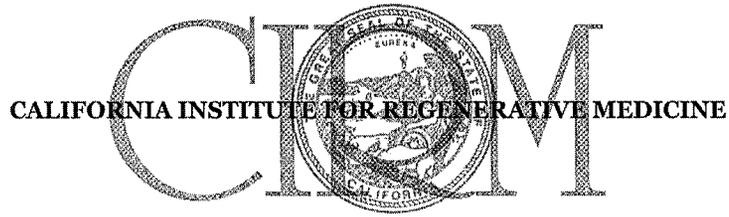
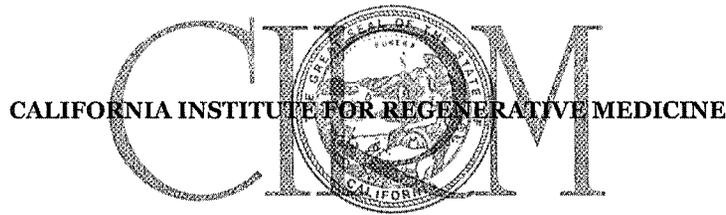


As Approved by CIRM's Governing Board on 6/23/11



INTERNAL GOVERNANCE POLICY



**INTERNAL GOVERNANCE POLICY
THE CALIFORNIA INSTITUTE FOR REGENERATIVE MEDICINE**

The California Institute for Regenerative Medicine (CIRM) was established by the California Constitution (California Constitution, article XXXV, Section 1).

The purposes of CIRM are as follows:

- (a) To make grants and loans for stem cell research, for research facilities, and for other vital research opportunities to realize therapies, protocols, and/or medical procedures that will result in, as speedily as possible, the cure for, and/or substantial mitigation of, major diseases, injuries, and orphan diseases.
- (b) To support all stages of the process of developing cures, from laboratory research through successful clinical trials.
- (c) To establish the appropriate regulatory standards and oversight bodies for research and facilities development.

(Cal. Const., art. XXXV, § 2.)

Organization of CIRM:

Section 1. (The Independent Citizens' Oversight Committee) CIRM shall be governed by its board, the Independent Citizens' Oversight Committee (the "Governing Board"). (Health & Safety Code, §§ 125290.15 & 125290.40.)

- (a) The Chair of the Governing Board's primary responsibilities are:
 - (i) To manage the Governing Board's agenda and work flow, including all evaluations and approvals of scientific and medical Working Group grants, loans, facilities, and standards evaluations;

- (ii) To supervise the annual report and the annual financial plan¹ of CIRM, the public accountability requirements for the Governing Board and its subcommittees, including compliance with public meeting and conflict of interest requirements, and the legal and financial accountability of the the Governing Board;
 - (iii) To provide oversight for the annual audit of CIRM and for the legal and financial accountability of CIRM;
 - (iv) To manage and optimize CIRM's bond financing plans and funding cash flow plans;
 - (v) To optimize all financial leverage opportunities for CIRM;
 - (vi) To provide oversight of, and establish the policies for, CIRM with respect to legislation through the Governing Board and the Legislative Subcommittee;
 - (vii) To interface with the California healthcare system and the California public;
 - (viii) To lead negotiations for intellectual property agreements, policies and contract terms; and
 - (ix) To serve as an ex officio member of the Grants Working Group and to serve, along with the Vice Chairs of the Grants Working Group, as the Board's bridge to peer review.
- (b) The Vice-Chair of the Governing Board's primary responsibilities are:
- (i) To assist the Chair in carrying out his or her duties; and
 - (ii) To interface with the California Legislature and Executive Branch and the United States Congress and Executive Branch, consistent with the policies established by the Governing Board and the Legislative Subcommittee.

Section 2. (President) The President shall serve as Chief Executive of CIRM and shall perform the duties of his or her office as set forth in the Act and such other duties as may be approved by the Governing Board. The President's primary responsibilities are:

- (a) To recruit the highest scientific and medical talent in the United States to serve CIRM on its Working Groups;

¹ The "annual financial plan" is not the annual budget or the scientific strategic plan. Rather, the annual financial plan involves the Institute's bond financing and funding cash flow plans and financial leverage opportunities. (Health & Saf. Code, § 125290.45(b)(1)(A).)

- (b) To direct the staff of the CIRM's Working Groups ;
- (c) To direct CIRM staff and participate in the process of supporting all working group requirements to develop recommendations on grants, loans, facilities, and standards as well as to direct and support the Governing Board's process of evaluating and acting on those recommendations, the implementation of all decisions on these and general matters of the Governing Board;
- (d) To hire, direct and manage the staff of CIRM;
- (e) To develop the budgets and cost control programs of CIRM;
- (f) To manage compliance with all rules and regulations of the Governing Board, including the performance of all grant recipients;
- (g) To manage and execute all intellectual property agreements and any other contracts pertaining to CIRM or research it funds;
- (h) To ~~and~~ implement the policies established by the Governing Board and the Legislative Subcommittee with respect to legislation.

Section 3. (Organization and Administrative Structure)

- (a) The President and the Chair shall recommend to the Governance Subcommittee for its consideration an organizational chart reflecting direct reports to the Chair and the President. The Governance Subcommittee shall recommend the organizational chart to the Governing Board for its consideration.
- (b) The staff of CIRM shall be organized into the following offices as depicted in CIRM's organizational chart, which is attached hereto and which is incorporated by this reference as Exhibit A:²

Office of the President, which is responsible for support of the President in the performance of his or her duties, including special projects and international alliances.

Office of the Chair, which is responsible for support of the Chair and Vice-Chair of the Governing Board in the performance of their respective duties and for support of the Governing Board and its subcommittees.

² A functions chart is attached as Exhibit B for illustrative purposes only; the President retains discretion to modify the chart without Board approval.

Office of Scientific Activities, which is responsible for scientific programs, scientific review (including support for the Grants Working Group) and for grants administration and grants management systems.

Office of the General Counsel, which is responsible for legal, human resources, facilities and other functions specified in Exhibit B.

Office of the Vice President for Research and Development, which is responsible for industry relations, academic relations, clinical research, ethics and compliance, and science reporting, education the web, and other functions specified in Exhibit B.

Office of the Chief Financial Officer, which is responsible for strategic financial plans and programs, budgeting, cash flow planning and management to support all funding programs, and the implementation of programs.

The Senior Officers of CIRM who report to the Chair and the Vice Chair are the Executive Director of the Board and the Public Communications Director. Board Counsel, in coordination with the Chair's counsel for state regulations and Board governance, shall also report to the Chair and Vice Chair.

The Senior Officers of CIRM who report to the President are the Vice President of Research and Development, the General Counsel, the Executive Director for Scientific Activities and other staff designated by the President.

The Chief Financial Officer shall report jointly to the Chair and the President, who will be jointly responsible for hiring the Chief Financial Officer and making compensation and evaluation decisions. The allocation of financial responsibilities between the Chair and the President and the reporting relationship of the Chief Financial Officer to the Chair and the President are described in greater detail in Exhibit C which is attached hereto and which is incorporated by this reference.

The Chair and the President shall also carry out separate elements of CIRM's communications program, as specified in Exhibit C.

- (c) The Office of the Chair shall be limited to no more than seven (7) employees whose primary duties are to support the Chair and two (2) employees whose primary duties are to support the Vice-Chair. The President may assign additional CIRM staff to assist the Chair or Vice-Chair as necessary, consistent with the priorities of CIRM. The Governance Subcommittee may review these staff allocations on a

periodic basis and recommend any adjustments to the Governing Board. The Chair shall be responsible for managing the personnel in the Office of the Chair, including hiring, firing and personnel management. The Chair shall also be responsible for setting the salary for all employees within the Office of the Chair as specified in Paragraph (f).

- (d) All employees shall report to the President, either directly or indirectly, except for the Chair, the Vice-Chair, and employees of the Office of the Chair, who shall report to the Chair and Vice-Chair. Each Senior Officer who reports to the President shall be responsible to the President for management of those personnel who report to them and shall be responsible for managing the internal affairs of his or her office, including its organization, reporting relationships within the office, assignment of duties, allocation of time, employee evaluations, and recommendations for hiring, firing, salary, promotion and merit increases. The President shall have final responsibility for hiring, firing, and personnel management of CIRM employees, except the Chair and Vice-Chair of the Governing Board and staff of the Office of the Chair.
- (e) All employees of CIRM, except the Chair and Vice-Chair of the the Governing Board, are subject to human resource policies of CIRM whose execution for employees of the Office of the Chair is the responsibility of the Chair and for all other employees is the President. These policies include, but are not limited to, compensation policy as established by the Governing Board, merit increases, office assignment, approval for travel, parking privileges and policies in the Employee Handbook.
- (f) The President shall be responsible for setting the salary for all employees, except the Chair and Vice-Chair of the Governing Board and employees of the Office of the Chair, and the Chair shall be responsible for setting the salary for employees of the Office of the Chair, except for the Chair and the Vice-Chair, within the range for each salary level established and approved by the Governing Board pursuant to section 125290.45(b)(4) of the Health and Safety Code, with two exceptions: (1) for new employees hired into levels 6 through 10 and for current employees in positions newly reclassified into levels 6 through 10, the Chair and the President, respectively, shall obtain the approval of the Governance Subcommittee in order to set the salary for their employees in an amount that is 80 percent or higher than the salary range for that level;³ and (2) for employees in all levels, the Chair and President, respectively, will obtain the approval of

³ The following example illustrates how this amount is determined. If the salary range is \$100,000-\$150,000, 80 percent of the salary range for that level is calculated by multiplying 80 percent by the difference between the upper limit of the range and the lowest limit of the range (\$150,000 - \$100,000 = \$50,000), or $.80 \times \$50,000 = \$40,000$, and adding that amount (\$40,000) to the lowest limit of the range (\$100,000), or $\$40,000 + \$100,000 = \$140,000$.

the Governing Board in order to set the salary for their employees in an amount that would exceed the maximum salary for that level.

The President shall have the discretion to make job classification changes for all employees, including (to the extent not determined by the Board) upon the request of the Chair, employees within the Office of the Chair. This may include:

- Reclassifying positions between salary levels (either higher or lower) based on significant job responsibility changes.
 - Once reclassified the salary shall be set based on available salary survey data.
- (g) Each office of CIRM is responsible for supporting the President and the Chair and the Vice-Chair of the Governing Board in the performance of their duties as described herein.

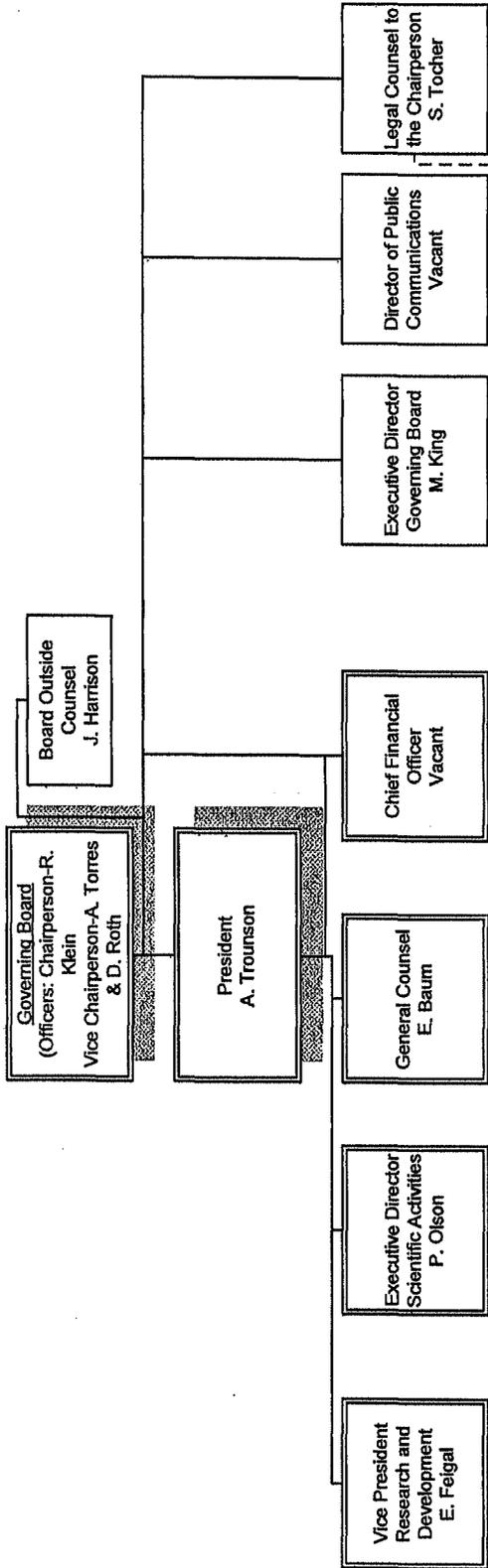
Section 4. (Leadership and Management Committees)

- (a) The President and any Senior Officers he or she wishes to attend will be available on a regular basis for an executive committee meeting of the Governing Board. The Governing Board Executive Committee will meet on all board matters. The Chair of the Governing Board shall set the agenda, chair the meeting, invite members of the Office of the Chair and others, and prepare the minutes for the meeting.

Section 5. (Budget)

- (a) The President, with the assistance of the Chief Financial Officer, shall develop the budgets and cost controls of CIRM, with the exception of the budget for the Office of the Chair and the Board, and shall present the budget to the Governing Board for approval. The President has the responsibility to implement the approved budget and to report on any significant changes in a timely manner to the Governing Board for approval.
- (b) The Chair, with the assistance of the Chief Financial Officer, shall develop the budget for the Office of the Chair and the Board and shall present it for approval of the Governing Board. The Governing Board shall establish the travel budget for the Office of the Chair, and the Chair shall be responsible for approving travel within the budget for employees of the Office of the Chair, with the exception of the Chair, whose travel expense claims shall be subject to the approval of the Chief Financial Officer or the President.

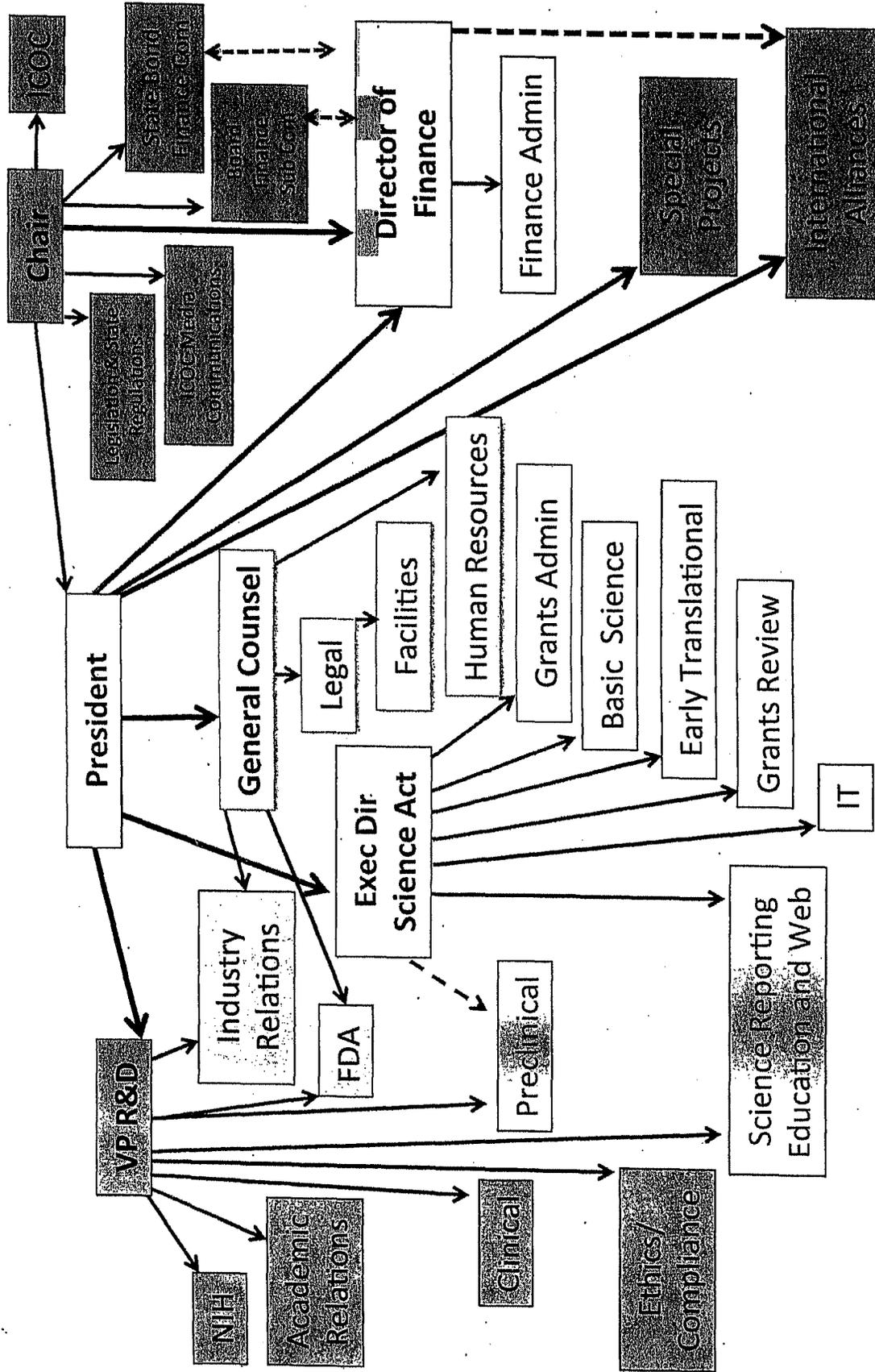
Exhibit A



Direct Reporting Structure

June 2011

A double box signifies that the position is responsible for one of the offices specified in the Internal Governance Policy



2011 Operational Relationships

EXHIBIT C (Approved by the Board on May 4, 2011)

REORGANIZATION PROPOSAL

INTRODUCTION

Attached for the Governance Subcommittee and the Governing Board's consideration is a draft reorganization plan. The President has communicated to the Chairman that this organizational structure will only work if the partnership approach to a common mission continues with the new Chair. The President has stated that the new Chair may have different interests and expertise than the current Chairman and that the new Chair and the President should develop a structure that best leverages the talent and expertise of each individual. This organizational structure therefore represents the current operational relationships. The Chairman would like to emphasize that this operational relationship works within the job classification and salary structure which the Chairman, the President and the Board have approved. Under these policies, any job reclassification requires the President's approval. The budgets developed through this structure will, of course, have to reflect a partnership commitment to operating within the six percent administrative cap. Therefore, the budgets will need to be developed through a collaborative process, as has historically been the case.

Allocation of Responsibilities Regarding Finance

Under Proposition 71, the Chair and the President each have responsibilities relating to CIRM's finances. In general, the Chair is responsible for external finances and the President is responsible for internal finances. Specifically, the Chair is responsible for managing and optimizing "CIRM's bond financing and cash flow plans," optimizing "all financial leverage opportunities" for CIRM, and leading negotiations for intellectual property agreements, policies and contract terms; the President is responsible for serving as the Chief Executive Officer of CIRM, developing CIRM's budget and cost control programs, and managing and executing intellectual property agreements and other contracts.

The purpose of this memorandum is to clarify how these statutory responsibilities apply to CIRM on an operational level.

1. The Chair's Office is responsible for:
 - a. External financial resource management and support (e.g., bond financing, cash flow plans, donor funds, matching funds, and State financial submissions supporting the bond program);
 - b. Optimizing leverage opportunities by providing financial analysis and support, in collaboration with the

President, for CIRM's collaborations with other countries and states and by working with institutional and private donors who support medical research and medical research facilities;¹

c. Coordinating with the Department of Finance, the State Treasurer's Office and the California Stem Cell Research and Cures Finance Committee regarding CIRM's bond funding;

d. Managing public communications on financial issues;

e. Developing the financial structure of the loan program and analyzing the financial implications of CIRM's IP policies and programs;

f. Establishing linkages, in collaboration with the President, with the financial and legal advisors to the biomedical sector in support of CIRM's scientific/medical mission;² and

g. Developing the budget for the Office of the Chair and presenting it to the Board.

2. The President's Office is responsible for:

a. Internal financial resource management and support (e.g., budgeting and cost control programs);

¹ The President is the scientific leader for international and state collaborations and is responsible for developing and directing such collaborations, while the Chair is responsible for providing financial analysis and international financial support for such collaborations.

² Whenever possible, the President's Office and the Chair's Office will establish teams to advance CIRM's mission objectives.

- b. Developing CIRM's internal budget and resource allocations (with the exception of the Office of the Chair)³;
- c. Developing CIRM's research budget and resource allocation strategy;
- d. Presenting CIRM's budget (excluding the Office of the Chair's budget) to the Board;
- e. Establishing and coordinating the funding of collaborations with other countries and states, in collaboration with the Chair on the financial matters set forth in footnote 1; and
- f. Developing linkages and partnerships with the biomedical sector to cosponsor and support CIRM projects/programs for delivery of research and clinical opportunities.

The Chief Financial Officer will be jointly appointed by the President and the Chair and will support, and report jointly to, the President and the Chair. The President and the Chair will be jointly responsible for employment and compensation decisions relating to the Chief Financial Officer.

1. The responsibilities of the Chief Financial Officer will include: (a) strategic financial plans and programs; (b) budgeting; (c) cash flow planning and management to support all funding programs, and the implementation of programs.
2. The President and the Chair will jointly establish objectives for the Chief Financial Officer in each of these areas and will meet at least once a quarter to provide direction and feedback to the Chief Financial Officer.
3. The Chief Financial Officer will support the President and the Chair in performing the financial functions assigned to each of them

Allocation of Responsibilities Regarding Communications

The Chair and the President should each have a role in CIRM's communications, with the Chair's focus on public communications and the President's

³ As part of the budget process and to ensure parity among the President and the Chair's staff, the Chair and the President will consult with one another on an annual basis before taking action to change salaries for employees for whom they are responsible. If the Chair and the President disagree, they will consult with the Chair of the Governance Subcommittee.

focus on scientific communications. The structure outlined below is intended to implement this division of responsibilities. As with finance, the Chair and the President will collaborate with one another in areas within their jurisdiction to ensure that CIRM speaks with one voice.

Public Communications

1. The Director of Public Communications will report to the Office of the Chair, jointly supervised by the Chair and the statutory Vice Chair.
2. The Director of Public Communications will provide support for the Communications Subcommittee.
3. The Chair and the President will meet at least monthly to coordinate regarding public communications and scientific and educational communications. The Chair and the President shall, at least semi-annually or more frequently as requested, jointly report to, and discuss communications strategies with, the Communications Subcommittee.

Science Reporting and Education

Science reporting related to reaching academic and scientific audiences, including scientific education (e.g., management of scientific curriculum for high schools pursuant to legislation and responding to the educational initiatives of the Superintendent of Public Instruction and others), and scientific content for the web will be handled through staff reporting to the President.

Office of the Chair Staff

The Chair is responsible for employment (hiring) and compensation decisions for staff in the Office of the Chair, within the parameters of CIRM's existing employment and compensation policies (see Appendix A) and subject to footnote 3. With the exception of the President's authority to reclassify a position, the Chair shall exercise the discretion accorded to the President in Appendix A solely for the purpose of making compensation decisions for employees in the Office of the Chair. The reclassification of a position within the Office of the Chair is subject to the approval of the President.

APPENDIX A

Compensation Program for CIRM Staff

Existing compensation and employment policies approved by the ICOC January 17, 2008 and amended June 23, 2010 provide:

Merit Pay Plan

- A merit funding pool of 0-5% annually for salary levels 1-9 only effective July 1 of each year.
- No employee shall receive more than a 5% merit increase in any one fiscal year.
- A merit increase will be determined through a documented Performance Review by the individual's supervisor.
- An individual whose performance is judged less than satisfactory would not be recommended for a merit increase.
- A merit non-base building lump sum increase may be implemented in lieu of a merit base building increase.
- A completed Performance Review must be on file within the last twelve months to receive a merit increase.
- An employee must be on CIRM payroll at least six months prior to the date of the merit increase or by December 31 of each year unless an exception is made by the President or Chief Operating Officer.
- A merit increase shall not put an employee above the salary range without prior approval by the ICOC.

Cost of Living Adjustment

- A COLA (Cost of Living Adjustment) based on the Consumer Price Index-California (San Francisco Oakland San Jose) annually for salary levels 1-9 may be offered annually and will be effective as of July 1 of each fiscal year.
- A COLA should be linked to a salary range adjustment but circumstances may exist to do one without the other.

Promotion, Merit, Equity and COLA Adjustments

- An employee's total salary increase(s) in any fiscal year shall not exceed 15% of base pay unless approved by the President.
- Increases include all base building monetary increases such as merit, COLA, promotional, and equity increases.
- The President may approve compensation changes for employees within the salary ranges for all levels.

range

- For reclassified employees who are moved from one salary range to another by the President, approval by the Governance Subcommittee is required if their new salary is above 80% of the ~~minimum~~ salary for the new salary range.
- **An employee shall not be paid outside the salary range unless approved by the ICOC.**
- All increases must be approved in writing by the President or Chief Operating/Scientific Officer.