



JOHN CHIANG
California State Controller

March 9, 2011

Independent Citizens' Oversight Committee
210 King Street
San Francisco, CA 94107

Dear Chairman Klein and Members of the ICOC:

I am writing to strongly urge the Independent Citizens' Oversight Committee (ICOC) to take the opportunity, as it determines the appropriate qualifications of the new Chair, to redefine the role of Chair from a co-executive model to an oversight model. The ICOC's most important role – to provide independent oversight of the California Institute for Regenerative Medicine (CIRM) management – is severely compromised when that management includes the ICOC Chair.

While the co-executive model may have been appropriate during CIRM's initial startup period, as it enters the next phase of its organizational development, it is time to let the management manage. As the National Association of Corporate Directors states in its *Key Agreed Principles to Strengthen Corporate Governance for U.S. Publically Traded Companies*: "Governance structures and practices should be designed to ensure the accountability of the board to shareholders and the objectivity of board decisions. Accountability in the oversight of an organization is premised on the ability of the board to be objective and distinct from management." This criterion is particularly critical for the Chair. It is difficult to uphold the appearance of accountability and objectivity when the Board Chair is involved in both management and oversight of CIRM's operations. In essence, under the current co-executive model, the Chair is responsible for evaluating and approving much of the work of the Chair.

CalPERS and CalSTRS both have a policy of voting in support of resolutions that separate the chair and the CEO of corporate boards because board independence is at the heart of effective governance and accountability. The public deserves no less from publicly-funded agencies and undoubtedly thought that independent oversight is what they would be getting from a body named the Independent Citizens' Oversight Committee.

Independent Citizens' Oversight Committee

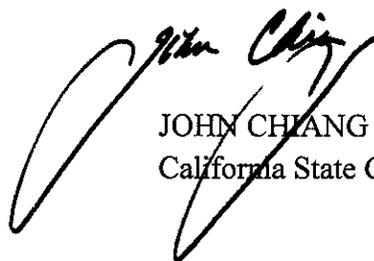
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I understand that part of the concern in moving to an oversight function from the co-executive model is the need for the Chair to have expertise in certain areas such as bond financing or the process of moving research to commercialization. Corporations and public agencies throughout the nation hire that expertise rather than rely on the Chair. With the 50-person cap lifted, if the ICOC does not believe CIRM has the necessary expertise to do its job, then it has the authority to hire that expertise, just as your recent hire of Dr. Feigal demonstrates. Relying on the Chair for that expertise makes it very difficult for the Board, let alone the Chair, to objectively assess management's decisions in those areas where they are dependent on the Chair's expertise.

Again, I urge the ICOC to take advantage of this opportunity to reform CIRM's governance structure and adopt the best practices of board governance, including a Board Chair that has a solely oversight function, not a co-executive function.

Sincerely,

A handwritten signature in black ink, appearing to read "John Chiang", is written over a large, stylized, handwritten flourish that extends across the signature area.

JOHN CHIANG
California State Controller