



The State Bar *of California*

Proposed Changes to Conflict of Interest Code for the Board of Trustees of the State Bar of California: Request for Approval to Submit to Supreme Court

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Why Amend Code Now?

- In January 2023, plan presented to Board of Trustees to enhance Board's Conflict of Interest Code by September Board meeting
- Supreme Court directed State Bar to expedite this work, and to submit proposed amended Code to Chief Justice by August 1
- Current Code – which requires disclosure only *after* the Board makes a decision that affects a Trustee's financial interest – does not meet Political Reform Act's requirement of Form 700 disclosure of all financial interests that “may foreseeably be affected materially” by Trustees in their decision-making for the State Bar



Proposed Amended Code Adopts FPPC Model Code



Ensures compliance with all applicable law



Facilitates easy updating, through adoption
of regular FPPC regulatory updates



Creates consistency with treatment of
employees and subentity members in
Conflict of Interest Code of Designated
Employees of the State Bar of California



Allows easy use of FPPC resources, including
information materials, training, and advice



Several Types of Financial Interest May Be Reportable

Investments / Real Property

Investments valued at \$2,000 or more in business entities or trusts located in or doing business in California

Exceptions include many diversified mutual funds

Interests in real property valued at \$2,000 or more located in or within two miles of California

Exceptions include personal residences not used for business or rental income

Income

Generally includes sources of income of \$500 or more in a reporting period

Certain loans and travel payments are reportable

Exceptions include government income

Gifts

Generally includes sources of gifts totaling \$50 or more in a reporting period

Subject to exceptions including gifts from close family members and reciprocal exchanges of gifts of similar value on birthdays and holidays

Business Positions

Generally, disclosure is required if Trustee is a director, officer, partner, trustee or employee, or holds any position of management, in a business entity, even if uncompensated



Disclosure is required if the financial interest falls into one of the three designated categories in the amended Code

- **Category 1:** All reportable interests in real property located in or within two miles of California
- **Category 2:** Reportable investments, income, and business positions with, from, or in persons or entities subject to the regulatory, permit, or licensing authority of the State Bar, or that have an application pending before the State Bar
- **Category 3:** Reportable investments, income, and business positions with, from, or in persons or entities located in or doing business in California that manufacture, provide, or sell in California goods or services of the types purchased or leased by the State Bar

Note: Categories 2 and 3 each contain a non-exhaustive list of the types of persons and entities covered by the category. These are set forth in Appendix B of the proposed amended Code.



Prohibitions in Amended Code

Disqualification

Trustees generally must disqualify themselves from participation in decisions having a reasonably foreseeable material financial effect on:

- Trustee/spouse/RDP/dependent children
- Their financial interests as defined above (except disqualification only required for decisions affecting donors of gifts totaling \$590 or more)

Also generally required for decisions relating to contracts with parties that Trustee/spouse/dependent children have done business with in previous year on terms not available to public

Honoraria

Trustees may not accept honoraria for speeches, articles, or event attendance from a source reportable on Form 700

Exception for income earned in connection with customary services in bona fide business, trade, or profession

Gifts

Trustees may not accept gifts totaling more than \$590 in a calendar year from a source reportable on Form 700

Subject to exceptions including gifts from close family members and reciprocal exchanges of gifts of similar value on birthdays and holidays

Loans

Trustees may not receive personal loans from any officer, employee, Trustee, consultant, or contractor of the State Bar

Subject to exceptions including for commercial loans and credit card transactions, so long as made in the lender's regular course of business on terms available to public



Next Steps

- Proposed amended Code to be submitted to Chief Justice of California for approval by August 1
- Trustees will need to make disclosures under new Code in their annual Form 700s due April 1
- Trustees will be trained on Form 700 disclosures in late 2023 or early 2024; the proposed resolution also directs staff to develop a plan for future training
- Staff will update the Board of Trustees Policy Manual once an amended Code is adopted; the proposed resolution also formally directs staff to complete this update
- Board of Trustees Policy Manual will also include the requirement to review and update the Code, consistent with applicable FFPC regulations

