

Supplemental Procedure to Bylaw 1.14 for Handling
Potential Conflicts of Interest Involving the President

One of the fundamental fiduciary duties of the president is the “duty of loyalty,” which is defined as having a mandate to be faithful to an organization’s best interest, and not to use the position or knowledge gained as a president for personal advantage at the organization’s expense. Obligations under the duty of loyalty include disclosure of real and potential conflicts of interest. State law defines what constitutes a real conflict of interest for a president and prohibits the University of Michigan from entering into any transaction where such a conflict exists. Under the applicable statute (MCL 15.301 et seq.) the University may not contract with a vendor with which the president has a pecuniary interest of such substance that it would induce the president to promote the contract for the president’s own personal benefit.

Regents’ Bylaw Section 1.14 further requires management of those situations where there exists even the appearance of a potential conflict that might affect the independence of the president’s judgment. The Regents also require that the president makes the University his or her primary professional commitment.

To ensure that the high standards expected of the president are met, the president must disclose to the vice president and secretary of the University, with updates as needed, those activities and financial interests that are or could potentially constitute situations where the independence of the president’s judgment or professional commitment to the University could be affected. The chair of the Board of Regents and the chair of the Personnel, Compensation and Governance Committee of the Board of Regents may request the vice president and secretary to obtain from the president regular disclosures on forms developed for this purpose. The president may consult with the vice president and general counsel as to which matters should be submitted to the vice president and secretary for analysis and management.

The vice president and secretary will review these disclosures and, with advice and consultation from the chair of the Board of Regents and the chair of the Personnel, Compensation and Governance Committee of the Board of Regents, will consult with the vice president and general counsel and the executive vice president and chief financial officer as to which matters may require special University actions to avoid the appearance that a conflict of interest may affect the University’s actions on a matter. The president may request an opinion on the matter from the vice president and general counsel. After consultation and advice, a committee consisting of the vice president and secretary, the vice president and general counsel and the executive

vice president and chief financial officer shall determine if the University administration should treat the situation as one that requires special University actions to avoid the appearance that a conflict of interest may affect the University's actions on a matter. If the president does not concur, the matter shall be referred to the full Board for action.

In situations where a conflict of interest as defined by the applicable statute is identified that can not be appropriately managed to eliminate the conflict, the vice president and secretary will notify the executive vice president and chief financial officer. The executive vice president and chief financial officer will take all necessary steps, including issuing instructions as may be appropriate under the circumstances to other executive officers or persons directly reporting to the president, to ensure that the University of Michigan does not enter into any transaction prohibited by statute with the organization from which the conflict arises.

In other situations, where a potential effect on the independence of the judgment of or potential conflict of commitment involving the president is identified, the vice president and secretary will consult with the chair of the Board of Regents and the chair of the Personnel, Compensation and Governance Committee of the Board of Regents and with the vice president and general counsel. The vice president and general counsel will also provide advice, on request, as to options available to manage situations to avoid even the appearance of a potential conflict. The vice president and general counsel will inform the chair of the Board of Regents, the chair of the Personnel, Compensation and Governance Committee of the Board of Regents, the president and the vice president and secretary of his or her recommendations.

Options that the vice president and general counsel will consider include requiring the executive vice president and chief financial officer and/or other appropriate executive officers to manage such items so that the president is not involved and requesting the president to refrain from any participation or discussion of the matter. At any meeting of the Regents where the president intends to abstain, the president will announce that there is a potential for the appearance of a conflict and therefore he or she will not be participating in either the discussion or a recommendation on the matter.