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Date: July 15, 2016

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 6ai – Governance, Compliance and Privacy Update
II. NAME AND PROGRAM:	Barbara Simmons, Governance & Public Records Program Manager
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

Second quarter compliance reporting includes the 2016 Corporate Governance Annual Disclosure, report of new federal law, Defend Trade Secrets Act, and its operational impact, and the 2016 Annual Whistleblower notice.

VI. ANALYSIS:

The following summarizes compliance related activity for the period and is in alignment with the Compliance Model¹:

Clear Written Standards of Conduct, Policies & Procedures

2016 Corporate Governance Annual Disclosure (CGAD)

State Fund submitted its first CGAD report, as attested by the CEO and General Counsel/Corporate Secretary, to the California Department of Insurance on May 31, 2015². Subsequent reports will be due annually on June 1.

New federal law – Defend Trade Secrets Act of 2016 (DTSA)³

DTSA, signed into law May 11, 2016 by President Obama, permits a corporate victim of trade secret theft on/after this date to bring a civil cause of action in federal court. A trade secret is information that an organization takes reasonable steps to protect from disclosure and has economic value from not being known to others.

¹ All Governance reports are grounded in State Fund’s Compliance Framework – resource USSG Ch. 8 Part B2.1(b)

² Corporate Governance Annual Disclosure pursuant to Cal. Insurance Code §§ 936.1 et seq.

³ U.S.C. Title 18, § 1836

In certain circumstances, DTSA permits *ex parte* seizure of property to prevent further dissemination of the trade secret. The Act provides specific immunity for whistleblowers. DTSA supplements the California Uniform Trade Secrets Act⁴.

Operational Impact –

- (1) Conduct and maintain an inventory of State Fund's trade secrets.
- (2) Revise corporate policies, employee handbooks, and third party contracts to include DTSA whistleblower immunity provisions.
- (3) Revise third party contracts effective on/after May 11, 2016 to include a DTSA whistleblower immunity clause.
- (4) Incorporate DTSA whistleblower immunity into ethics training and on-boarding/off-boarding processes for employees and consultants.

Consistent Monitoring, Evaluation & Reporting

California Whistleblower Protection Act Annual Notification

State Fund sent the annual Whistleblower communication and brochure about the State Auditor's Whistleblower Program by email to all employees on June 22, 2016⁵. 2016 whistleblower posters are displayed in State Fund locations where other legally required employee notices are maintained. Attestation of distribution was sent to the State Auditor on June 27, 2016. The State Auditor's confirmation of compliance was received on the same date.

The covering communication also included a statement about State Fund's continuing commitment to ethical standards and operational transparency by maintaining our own Ethics and Privacy Hotline operated by an independent third party. Anonymous reporting is available.

Whistleblower protection under California law⁶ extends to all persons, regardless of reporting venue.

⁴ Cal. Civil Code §§ 3426-3426.11

⁵ Cal. Gov't Code §§ 8548.2 and 8548.3

⁶ Cal. Labor Code §1102.5