

APPENDIX D

**CONFLICT OF INTEREST (COI) CONSIDERATIONS
WHEN EQUITY IS ACCEPTED DIRECTLY BY AN INVENTOR**

The University of California has a number of conflict of interest policies, two of which are required by external statute or regulation and which may be triggered when equity is accepted directly by a University inventor as part of a technology licensing transaction. In considering whether to request direct receipt of an equity interest in a commercial licensee, you should consider the consequences of holding such interest in terms of requirements for disclosure of the financial interest as it relates to future research projects. Issues related to each of these University policies are summarized below.

State COI Statute

Under current requirements of the California Fair Political Practices Act, a Principal Investigator must disclose whether or not s(he) has a financial interest in any private sponsor of research. A financial interest includes any equity or ownership interest in the sponsor that exceeds \$2,000. When a Principal Investigator does have a financial interest in a research sponsor, the Principal Investigator's Statement of Economic Interests (730-U Form) must be reviewed by a campus or DOE Laboratory Independent Substantive Review Committee (ISRC) prior to acceptance of any contract, grant, or gift from the private sponsor. As such, if an inventor directly accepts an equity interest in a licensee and the licensee is required to support future work of the inventor as a condition of the license, then the ISRC must review and recommend whether the funding can be accepted and, if so, whether any modifications or conditions are needed, before the license can be issued. Further, in the event that the licensee wishes to support further research activities by the inventor, even though such support is not a requirement of the license, the inventor must file a 730-U Form for review and action by the ISRC prior to acceptance of such future research support. However, if the equity interest of the inventor in a licensee is not accepted directly by the inventor, but held by the Treasurer for future conversion to cash and distribution to the inventor in the form of cash, then the equity interest would not constitute a positive disclosure on the 730-U Form and no ISRC consideration would be required.

Federal COI Regulations

As a separate matter, any project supported by the National Science Foundation or the Public Health Service requires that all Investigators responsible for the design, conduct, or reporting of the project disclose any financial interests in entities that would reasonably appear to be affected by the work performed under the NSF or PHS project. In the event that the equity in a licensee directly held by the inventor exceeds \$10,000, disclosure and review by a campus or DOE Laboratory ISRC would be required in all cases where the inventor proposed projects for NSF or PHS support in research areas related to the licensed invention. As with the State statute discussed above, equity interests held by the Treasurer instead of the inventor do not constitute discloseable financial interests under the federal regulations. Royalty payment made in the form of cash by The Regents to the inventor also are not discloseable financial interests related to NSF or PHS-sponsored projects.

Questions about the disclosure requirements under either the State or Federal regulations can be answered by staff in sponsored projects offices. Inventors may want to consider the consequences of directly accepting equity versus allowing the Treasurer to hold the equity in cases where future sponsored projects, either funded by the licensee or by NSF or PHS requiring disclosure of financial interests are anticipated. Directly holding equity interests in a licensee does not necessarily preclude future projects from being supported, but does entail disclosure and review of the financial interest by an ISRC and, possibly, implementation of special conditions or restrictions to manage a real or perceived conflict of interest.