

New York delays prohibition on employees serving as not-for-profits' board chairpersons

The Nonprofit Revitalization Act of 2013 made significant changes to long-standing laws that have governed not-for-profit organizations operating in the state. Governance reforms to the New York Not-For-Profit Corporation Law included a prohibition on employees of not-for-profit corporations holding the position of chairman of the not-for-profit's board of directors. The prohibition, slated to take effect on January 1, 2015, has now been delayed for one year. Not-for-profit organizations will want to make all changes necessary to ensure compliance when the restriction takes effect on January 1, 2016.

Background

The Nonprofit Revitalization Act of 2013 ([Act](#)) made the first significant changes to the state's Not-for-Profit Corporation Law (N-PCL) in decades. It reduced administrative burdens on not-for-profits while enhancing their governance and oversight. In addition to other reforms, the Act imposed new measures to ensure board independence and restrict self-dealing. Although most of the new law's provisions took effect on July 1, 2014, other reforms were not scheduled until 2015. (See our [June 25, 2014](#) *For Your Information*.)

Restrictions on board chairpersons

Section 713(f) of the N-PCL, which was added by the Act, bars an employee of a not-for-profit corporation from holding the position of chairman of the not-for-profit's board of directors. This new prohibition, slated to take effect on January 1, 2015, was intended to ensure board independence.

Last month, the New York Legislature decided that it needed more time to study the impact of this change on not-for-profit corporations, and proposed a one-year delay in the effective date. On June 30, Governor Andrew Cuomo signed the [bill](#) into law, changing the effective date of Section 713(f) of the N-PCL from January 1, 2015 to January 1, 2016.



In closing

Employees of not-for-profit corporations who currently serve as chairpersons of the not-for-profits' boards of directors may continue to fill those slots for another 18 months. Since the legislature intends to look more closely at how barring employees from serving in that capacity may affect not-for-profits, not-for-profit corporations will have until 2016 to incorporate a prohibition into their by-laws, and further delay is possible. In the meantime, not-for-profits should ensure that they have updated other policies and corporate documents to comply with changes to the N-PCL that took effect on July 1 or that will take effect in 2015.

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