



## Agenda Item 7b

December 10, 2012

**ITEM NAME:** Risk Exposure Reports

**PROGRAM:** Enterprise

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

These reports provide an overview of CalPERS risk landscape and management's response to those significant risks that may impact the organization. The most significant risks are identified as Top Risk. Management's responses to these Top Risks are described within the report including mitigation strategies. These reports are designed to promote transparency, increase risk awareness, and improve risk management at CalPERS.

### **STRATEGIC PLAN**

Enterprise risk management reporting is established to "Cultivate a high-performing, risk intelligent and innovative organization." The Enterprise Risk Management Dashboard and Top Risk Report will assist the Board to more effectively oversee the enterprise risk management function at CalPERS.

### **BACKGROUND**

The Enterprise Risk Management Dashboard (Attachment 1) provides an overview of the risk CalPERS has identified and is managing to better serve our members, employers, and other stakeholders. The Enterprise Risk Management Dashboard is updated periodically and reviewed by Executive Staff.

In the November reporting period, the risk landscape remained relatively stable. However, Management has modified two of the risks domains within the Dashboard and has noted minor changes in the risk landscape and Dashboard reporting format for this period:

- Investment Risk Management risk has changed from moderate to elevated with the trend arrow remaining upward. This is due to significant vacancies in staffing in the Investment Office Risk Division resulting with the Senior Information Officer (SIO) of Global Equity serving as the interim SIO of Risk, and delays in the usage of and enhancements to Barra II. The SIO for Investment Office Risk position has been vacant since June 29, 2012.
- Pension Reform Implementation executive owner has changed from the Deputy Executive Officer, Benefit Programs and Policy and Planning to the Deputy Executive Officer, Operations and Technology. This is effective

November 2012. The Board Committee remains the same as Pension and Health Benefits.

- Current Top Risk Domains within the Enterprise Risk Management Dashboard will be highlighted in red going forward. This will better serve the need to recognize the noted Top Risk Domains in the Dashboard as reviewed by the Executive team and Audit and Risk Committee Board members. Currently there are 10 Top Risk Domains for this reporting period.

Executive staff has updated the mitigation strategies in the Top Residual Risk Report (Attachment 2) to reflect current response to risk exposures.

### **ANALYSIS**

The Enterprise Risk Management Dashboard shows CalPERS current risk profile broken down into strategic, operational, financial/reporting, investment, and ethics/legal/compliance categories. Separate risk domains under each category represent sub-categories of underlying specific related risks. The aggregate ratings on the Enterprise Risk Management Dashboard were derived from a risk assessment performed for each specific risk with the domain. Through continuous monitoring of the risks and performance of additional risk assessments, the Dashboard is updated periodically to display the current risk environment. The Executive Staff are assigned ownership of each domain and provide a response to manage the most significant risks. Management provides assurance as to whether the strategies are on track, within budget, and having the desired effect on treating the risk. Independent reassurance of the responses to the Top Risk is provided by the Office of Enterprise Risk Management or Office of Audit Services.

Management has indicated these mitigation strategies remain mostly on track, although, certain areas, such as employer pension contribution, pension reform implementation, and investment risk management, have experienced minor impediments in executing some planned strategies.

### **ATTACHMENTS**

Attachment 1 – Enterprise Risk Management Dashboard

- Displays the current risk environment and changes since the last reporting period as well as the expected future trend for 38 risk domains.

Attachment 2 – Top Risk Report

- Describes the most significant risk and provides an overview of the mitigation strategies and status of the measures taken to mitigate or manage the risk.

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