



## Agenda Item 8b

June 19, 2013

**ITEM NAME:** Risk Exposure Reports

**PROGRAM:** Risk Management

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

The Enterprise Risk Management Dashboard and Top Residual Risk reports provide an overview of CalPERS risk environment. The Top Residual Risk report displays the most significant risks that may impact the organization and outlines management's response, 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 June reporting period, the risk landscape remained relatively stable. Although, for this reporting period, Management has modified the Enterprise Risk Management Dashboard and Top Residual Risk Report to better illustrate the current view of CalPERS risk environment. These changes are based upon the completion of an Enterprise-wide Risk Assessment and Executive Management workshop in May:

- Enterprise Risk Management Dashboard shows CalPERS current risk profile divided into strategic, operational, financial, and compliance/ethics categories. The Dashboard now represents 31 risk domains as previously compared to 38. Risk domains removed and consolidated with other domains include pension legislation, cash management, administrative accounting, investment accounting, liquidity, investment policy, leverage, and counter party exposure. Municipal bankruptcy domain was added.
- Enterprise Risk Management Dashboard risk domain definitions were revised from an objective statement to a risk statement to identify the type of risks within each domain.

- Legislative/Regulatory risk domain was moved from the compliance/ethics category to strategic recognizing changes from operational or tactical impact to strategic.
- Human Resources Management risk domain was moved from operational to strategic also recognizing changes from operational or tactical impact to strategic.
- Long Term Care changed from yellow to green representing changes in methods to help stabilize premiums and funding of program.
- Actuarial Policies/Practices trend is decreasing with recent Board approval of updated and revised actuarial policies.
- Human Resources Management trend is decreasing due to the initiation of an enterprise-wide, five-year strategic workforce development plan.
- Pension Reform Implementation changed from orange to yellow with the trend decreasing with the integration of new legislation requirements and changes within myCalPERS.
- Investment Controls and Systems changed from red to orange trending lower with the further integration of private equity IBOR and accounting, and the Investment Office Target Operating Model refresh.
- Laws, Rules, and Regulations are trending lower with the development of the undue influence policy and code of service.
- Ethical conduct changed from yellow to green with consensus from ERM and confirmation that there is greater personnel awareness with CalPERS Core Values & Guiding Principles.
- Current Top Risk Domains within the Enterprise Risk Management Dashboard are annotated in red. There are 9 Top Risk Domains for this reporting period as agreed upon by consensus of the Executive Risk Management Committee.
- Top Residual Risk Report has been reformatted to independently present each top risk identified and the pertinent mitigation strategies and metrics. This better serves the Executive team and Board to monitor top risks identified and progress in mitigation strategies.

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

## **ANALYSIS**

The Enterprise Risk Management Dashboard represents CalPERS current risk profile broken down into strategic, operational, financial, and compliance/ethics categories. Separate risk domains under each category represent sub-categories of underlying specific related risks. The aggregate ratings on the Enterprise Risk Management Dashboard are 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 review 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 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 31 risk domains.

Attachment 2 – Top Residual 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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