



Agenda Item 6a

November 18, 2014

ITEM NAME: Semi-Annual Enterprise Risk Reports

PROGRAM: Risk Management

ITEM TYPE: Information

EXECUTIVE SUMMARY

The Enterprise Risk Management Dashboard (Dashboard) and the Top Risk Report provides an overview of CalPERS risk environment. The Dashboard represents CalPERS current risk profile broken down into strategic, operational, financial, and compliance/ethics categories. Each risk domain has been aligned to a board committee in support of the changes to the delegation resolutions for risk management oversight. The Top Risk Report displays the most significant risks which may impact the achievement of goals and objectives and outlines management's response, including accomplished, ongoing and planned mitigation strategies. These reports are designed to promote governance and transparency, increase risk awareness, and improve risk management at CalPERS.

STRATEGIC PLAN

Enterprise risk management reporting supports CalPERS 2012-2017 Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. The Dashboard and Top Risk Report provides a regular reporting mechanism to the Board to review the risk landscape and support a risk-adjusted decision making process.

BACKGROUND

The Enterprise Risk Management Division periodically performs a risk dashboard recalibration to update the enterprise risk reports. A risk dashboard recalibration is intended to provide management with a current view of risks which could impact the achievement of goals and objectives.

The Dashboard provides an overview of the CalPERS risk landscape which CalPERS is managing to better serve our members, employers, and other stakeholders. The results of the risk dashboard recalibration are reflected in the domain risk ratings on the Dashboard. To ensure an appropriate level of risk governance, the overall results are reviewed by the Enterprise Risk Management Committee (ERMC) and then reported to the Risk and Audit Committee.

ERMC identifies the most significant risk domains which may impact achievement of CalPERS goals and objectives. The Top Risk Report outlines the key sub-risks

within a domain and a summary of the accomplished, ongoing and planned mitigation strategies designed to reduce the level of impact and likelihood of the identified risks over time.

ANALYSIS

The Enterprise Risk Management Division facilitates the risk identification and risk monitoring activity and collaborates with the assigned program divisions to complete the recalibration. In this reporting period, each risk register was reassessed and updated to appropriately define the risks and both the inherent and residual risk exposures to the organization. Each risk domain was assigned to a board committee in support of the changes to the delegation resolutions for risk management oversight.

Enterprise Risk Management Dashboard

In the October 2014 reporting period, the overall risk landscape remained relatively stable. The Dashboard (Attachment 1) includes 30 risk domains that were reviewed and updated by the ERM to illustrate the current risk environment. Specifically, the following updates were made:

- Pension Reform Implementation risk domain was discontinued with the implementation of the reforms.
- Investment Controls & Systems decreased from elevated risk to moderate risk level due to a further developed risk register, and significant progress made towards risk response strategies.
- Information Security domain changed from “decrease” to “constant” due primarily to increased security threats facing the financial industry.
- Actuarial Policies /Practices domain changed from “constant” to “increase” due to actuarial practice that may change over time.
- Definitions for Information Security, Legislative/Regulatory and Organization domains were updated.

Top Risk Report

- The Top Risk Report (Attachment 2) presents each top risk identified and the pertinent mitigation strategies and metrics. Based on the mitigation efforts implemented for the Financial Reporting and Asset Allocation risk domains and resulting reduction in risk, these two risk domains were removed from the list of top risks and Health Care Costs and Physical Security Controls emerged as new top risks based on their current risk ranking.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

The Dashboard and Top Risk Report assists the Board to more effectively oversee enterprise risk management at CalPERS. Aligning risk domains to the Board Committees will engage committee member involvement in enterprise risk management by presenting risk information to their committees. The risk identification and recalibration process brings awareness to management to ensure that risk response strategies are in place to achieve business objectives and reduce risk. There are no known risks associated with this Information Item.

ATTACHMENTS

Attachment 1 – Enterprise Risk Management Dashboard
Attachment 2 – Top Risk Report

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