



## Agenda Item 4b

December 16, 2014

**ITEM NAME:** Staff Ethical Decision-Making Policy

**PROGRAM:** Board Governance

**ITEM TYPE:** Information Consent

### **EXECUTIVE SUMMARY**

This agenda item provides information on CalPERS' commitment to an ethical work environment that is free from undue influence and informs the Committee that CalPERS has developed a staff Ethical Decision-Making Policy.

### **STRATEGIC PLAN**

This item supports CalPERS Strategic Plan goal B: Cultivate a high-performing, risk-intelligent and innovative organization.

### **BACKGROUND**

In March 2014, the Board approved revisions to the Board Governance Policy to rescind the requirement for designated staff to provide annual written certifications that they had been free from undue influence in performance of their official duties. The requirement for annual written certifications was rescinded as a result of CalPERS evaluation of the annual certification process, which had been adopted in 2012. The evaluation found the certification process lacked timeliness and was not the optimal approach in promoting an environment free from undue influence. CalPERS determined a more effective approach would be a focus on education and awareness and to ensure staff immediately report incidents of perceived undue influence for timely handling, rather than certifying in arrears about an incident or event. For these reasons, staff recommended the Board not require certifications. The Board approved revisions to the Board Governance Policy reflecting this recommendation.

The Board's approval of these revisions was based in part on staff's commitment to implement a staff policy that requires immediate reporting of any instances of undue influence and education and outreach activities to help staff become knowledgeable about undue influence and their reporting obligations. CalPERS has developed the staff Ethical Decision-Making Policy (Policy) in accordance with this commitment. A copy of the policy is attached for informational purposes as Attachment 1.

### **ANALYSIS**

The Policy prohibits any person from unduly exerting his or her influence or authority to direct staff to a specified action, decision or course of conduct that the staff person

would not otherwise, in the exercise of his or her fiduciary duty, take or make, or which is otherwise inconsistent with the staff person's fiduciary duty to CalPERS' members and beneficiaries. In addition, the Policy requires immediate reporting of any instance of undue influence, and sets forth procedures for such reporting. The Policy covers all CalPERS executives, managers, and staff, and incorporates existing escalation protocols for any reports of undue influence involving Board members, executives, or senior managers.

**BUDGET AND FISCAL IMPACTS**

Not Applicable

**BENEFITS/RISKS**

Staff developed the Policy to benefit the System by clarifying CalPERS' commitment to an environment where individuals are able to perform their duties free of undue influence. A positive commitment in writing helps to promote an ethical environment.

The risks of not developing the Policy could be lower perception by staff, the Board, and stakeholders in CalPERS' commitment to an ethical environment where decisions are fully aligned with fiduciary duty to the system's members and beneficiaries. Additionally, there may be the risk of a less clear understanding by staff and the Board on how to report any instances of undue influence.

**ATTACHMENT**

Attachment 1 - Ethical Decision-Making Policy – Attached for informational purposes.

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CHERYL EASON  
Chief Financial Officer

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MATTHEW G. JACOBS  
General Counsel