

2015-17 Enterprise Compliance Plan

Risk and Audit Committee

June 16, 2015

Agenda

Purpose

- Provide an overview of the Enterprise Compliance program plan and initiatives.

CalPERS Strategic and 2015-17 Business Plans

- Goal B: Cultivate a high-performing, risk-intelligent and innovative organization
- Business Initiative: Enhance Internal Controls – Develop and implement enhanced internal controls that improve compliance and reduce operational risks

Topics

- Background and Motivation
- Mission, Current State and Five-Year Outlook
- Compliance Governance Model and Elements of Program
- 2015-17 Plan Highlights

Background and Motivation for the Compliance Plan

Business and Operating Environment Changes

- Increased demands, changes and complexities in laws, rules, regulations and standards
- Higher expectations for management and boards to understand capabilities for preventing noncompliance as well as to promote control improvements
- Control agencies are increasing the level of rigor/accountability expected in management

Top Compliance Industry Priorities*

- Manage and revise policies and procedures
- Ensure compliance of vendors or business partners
- Demonstrate compliance effectiveness to regulators, auditors, and increasingly, to boards

Compliance Growth

- Compliance programs continue to expand in response to changes in the business and operating environment

** 2015 Financial Services Industry Compliance Benchmark Study by SAI Global*

Enterprise Compliance Mission

Purpose

The purpose of Enterprise Compliance is to ensure that CalPERS maintains compliance with the letter and spirit of all applicable laws, regulations and policies in partnership with program areas.

Mission

Enterprise Compliance mission is to define and oversee CalPERS Compliance Program to:

- Promote a positive control environment;
- Prevent, detect, and respond to issues of non-compliance;
- Serve as a resource for guidance about compliance and ethical issues;
- Ensure program and policies reinforce ethical decision making;
- Ensure that CalPERS meets its fiduciary, regulatory and contractual obligations;
- Create and maintain a culture of honesty and integrity; and
- Encourage a commitment to doing the right thing.

Enterprise Compliance Program - Where We are Today

Current State

- Administer ethics policies, procedures and reporting such as:
 - Statement of Economic Interests (Form 700) – annual, assuming and leaving office
 - Personal Trading Platform
 - CalPERS Ethics Helpline and Citizen's Compliant processes (Citizen Complaint Act of 1997)
 - Travel Transparency
 - Contract Disclosures
 - Ethics Training Programs
- Established the Investment Compliance and Operational Risk function responsible for:
 - Investment Policies and Delegations
 - Compliance Monitoring and Reporting
 - Operating Event Management
- Collaborate with Audit Services and Enterprise Risk to establish annual plans for these integrated assurance functions

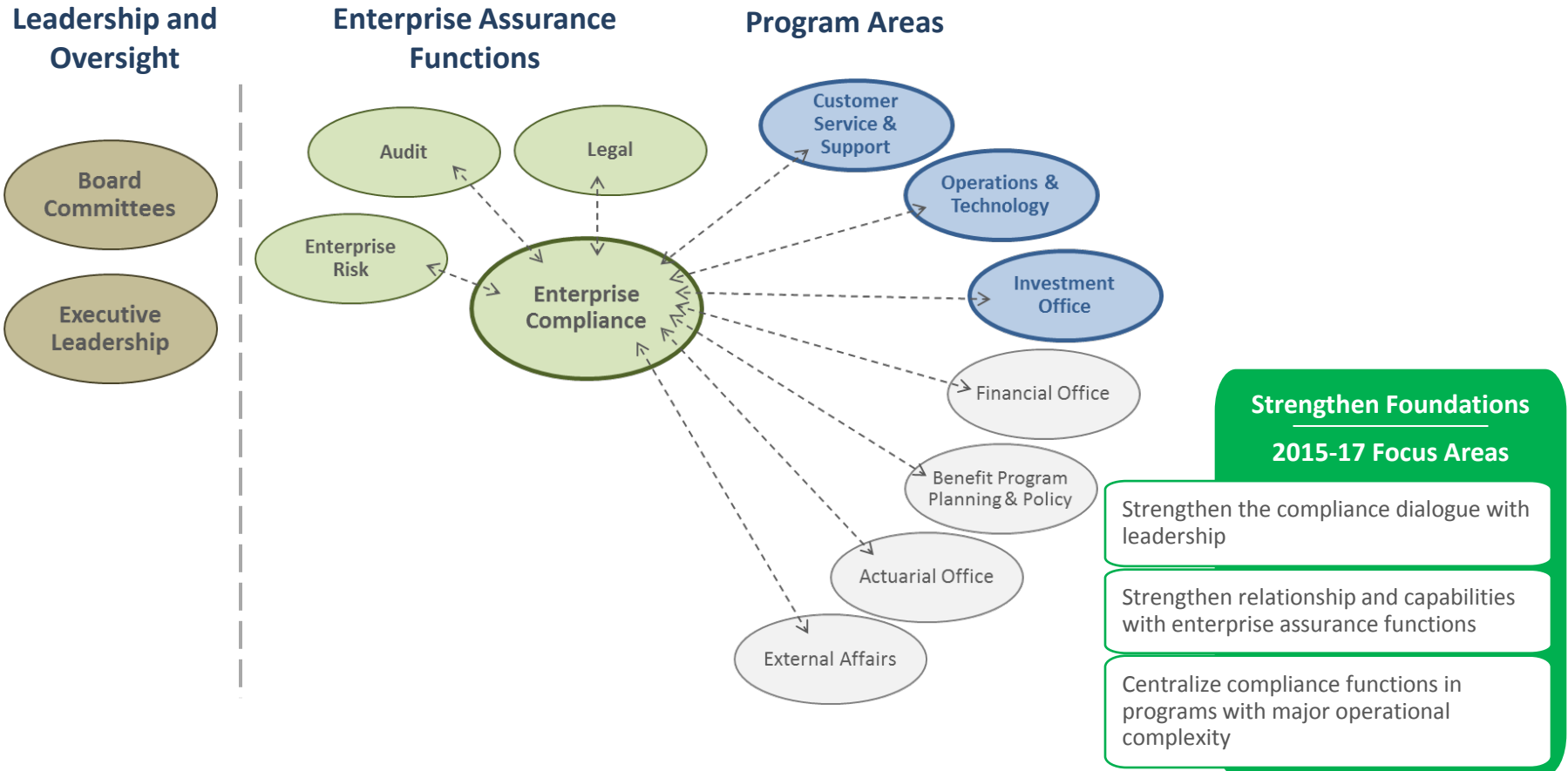
Five-Year Outlook – Enterprise Compliance Plan

The organization changes needed to mature compliance capabilities within CalPERS are expected be phased in during the next three to five years.



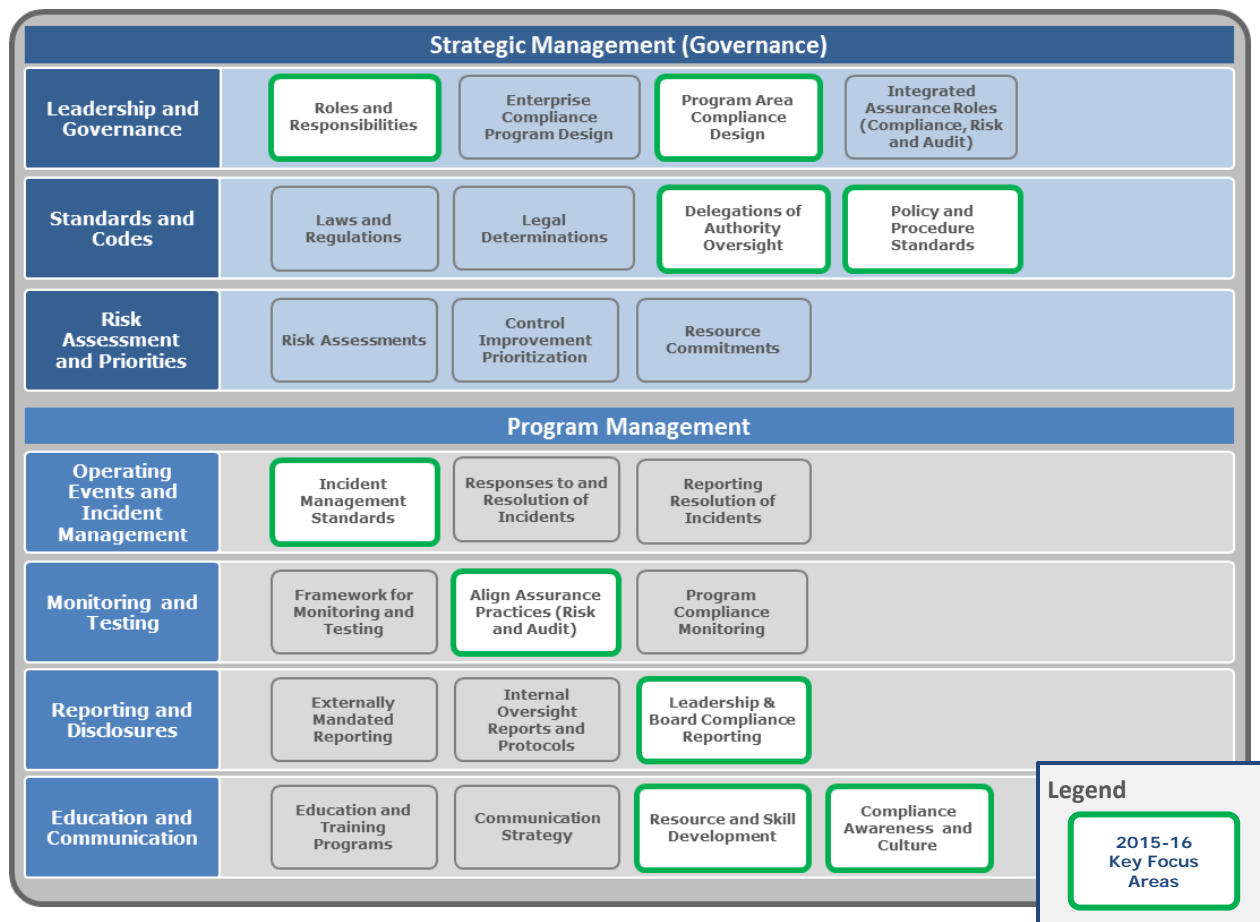
CalPERS Enterprise Compliance Governance Model

Enterprise compliance will establish partnerships and implement clear compliance roles and responsibilities expected in an integrated assurance model.



Enterprise Compliance Program Elements

The core elements of an effective compliance program describe the framework underlying the five year plan.



Demonstrate Compliance Effectiveness

2015-17 Focus Areas

Roles and Responsibilities

Policy & Delegation Management

- Framework and Repository

Operating Event Management

- Repeatable processes
- Assess risks and priorities
- Enhance controls

Education and Awareness

- Culture of Compliance

Highlights – 2015-17 Enterprise Compliance Plan

Clarify leadership roles and responsibilities

- Strengthen the compliance dialogue with leadership
- Continue partnership and collaboration with integrated assurance functions
- Build and strengthen program area compliance functions

Develop and begin implementation of foundational frameworks

- Operating events and internal control assessments
- Policy management framework and repository (policies, procedures, delegations and guidelines)
- Monitoring and reporting standards
- Enhance information barrier protocols

Enhance compliance-aware culture and capabilities

- Focus on talent development for compliance
- Promote and demonstrate a Culture of Compliance
- Enhance communication and education activities

Appendix

2015-17 Compliance Objectives

Enterprise Compliance Program	
Leadership and Governance	June 2016
<ul style="list-style-type: none"> • Roles and Responsibilities – Define compliance oversight, advisory and decision making roles; ensure that control functions are aligned and effective governance practices are in place. • Integrated Assurance – Collaborate with integrated assurance functions (compliance, risk and audit) to clarify roles and align control effectiveness practices. • Embedded Compliance – Establish and mature program area compliance functions in sizeable operational areas (e.g. CSS, OPT, and INVO). 	
Standards and Codes	June 2016
<ul style="list-style-type: none"> • Laws & Regulations – Refine protocols for documenting legal determinations and management decisions. • Policy Management – Establish a policy management framework and repository for policies; assist in identifying and closing gaps. • Delegations of Authority – Review existing management delegations and align with roles, responsibilities and policies. • Ethical Standards and Culture – Promote CalPERS ethics policies and practices to ensure a culture of compliance and controls. • Information Barriers (Securities Trading) – Implement policies and practices to safeguard material nonpublic information, and ensure effective information barriers are in place. 	
Monitoring and Testing	June 2016
<ul style="list-style-type: none"> • Compliance Monitoring: Conduct targeted compliance monitoring of key business activities using established internal control guidelines and protocols. (e.g. employer/service contracts and operational control standards). 	

2015-17 Compliance Objectives (cont.)

Enterprise Compliance Program	
Operating Events and Incident Management	June 2016
<ul style="list-style-type: none"> • Operating Event Management- Establish consistent protocols to escalate, monitor and resolve potential internal control weaknesses (operations, reporting and compliance). 	
Risk Assessments and Priorities	June 2017
<ul style="list-style-type: none"> • Risk Assessment – Develop a risk based assessment framework that establishes priorities for enhancing/sustaining the compliance program. • Compliance Priorities - Identify and prioritize opportunities for control enhancements and eliminate ineffective, redundant or inefficient controls. 	
Reporting and Disclosures	June 2017
<ul style="list-style-type: none"> • Oversight Reporting: Review and refine reporting protocols to ensure appropriate disclosure and oversight is in place as well as ensure external reporting requirements are satisfied. 	
Education and Communication	June 2017
<ul style="list-style-type: none"> • Culture of Compliance: Develop protocols that reinforce CalPERS commitment to compliance functions and promotes a compliance aware culture. • Education and Training: Develop training to increase understanding of an effective system of compliance/controls and develop skills. 	