Agenda Item 4f

November 17, 2015

ITEM NAME: Quarterly Status Report – Enterprise Compliance

PROGRAM: Enterprise Compliance

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

The Enterprise Compliance Division reports quarterly to the Risk and Audit Committee about compliance oversight and monitoring activities along with a status of the 2015-17 Compliance Plan implementation activities.

This report is for the period of July 1, 2015 through September 30, 2015 and includes summary information about the following areas:

- CalPERS Conflict of Interest Code
- Personal Trading Regulation
- Compliance Education & Communication
- 2015-17 Enterprise Compliance Plan

STRATEGIC PLAN

This item supports CalPERS Strategic Plan Goal B: *Cultivate a high-performing, risk-intelligent, and innovative organization* and the 2015-17 Business Plan initiative: *Enhance Internal Controls – Develop and implement enhanced internal controls that improve compliance and reduce operational risks.* By providing effective compliance monitoring and oversight, Enterprise Compliance assists in mitigating compliance risks throughout the organization.

BACKGROUND

The Enterprise Compliance Division reports compliance related information to the Risk and Audit Committee in order to fulfill their oversight role in program and policy compliance. In June 2015, the Risk and Audit Committee approved the 2015-17 Compliance Plan designed to strengthen CalPERS compliance oversight and monitoring capabilities. The Compliance Plan is designed to position the organization to better demonstrate compliance accountability and an effective control environment.

ANALYSIS

CalPERS Compliance program promotes a culture of continuous improvement that seeks to detect, correct and prevent potential instances of noncompliance and achieve high ethical and compliance standards. The following sections summarize the quarterly status of compliance activities:

CalPERS Conflict of Interest Code

CalPERS Conflict of Interest Code (Code) was amended through the regulatory process in order to reflect CalPERS current organization structure. The approved amended Code, which identifies designated Form 700 filers, is expected to become effective in October 2015. Enterprise Compliance will notify impacted employees of any changes to their filing requirements and partner with the Legal Office to conduct informal office hours for filers to ask questions. While the amended Code is a significant change from past revisions, it is designed to provide clarity and consistency regarding designated positions for CalPERS.

Staff will begin communicating about the 2016 Annual Form 700 filing period in January 2016. As a reminder, the deadline for elected officials is March 1, 2016 and the deadline for all other filers is April 1, 2016.

Personal Trading Regulation

Manual personal trading affirmations are required to ensure coverage of personal investment accounts and transactions not eligible for the automated affirmation process. CalPERS achieved 100% compliance with manual personal trading affirmations for the period of July 1, 2015 through September 30, 2015.

In December 2015, staff will begin notifying covered persons of the annual personal trading attestation process. All covered persons, as designated in the Personal Trading Regulation, are required to annually read and attest to their understanding of the Personal Trading Regulation. In preparation for the 2016 process, staff are developing additional education materials regarding the Personal Trading Regulation.

2015-17 Enterprise Compliance Plan

The 2015-17 Enterprise Compliance Plan was designed to develop foundational focus areas and frameworks that are building blocks for the rest of the plan. These core focus areas are:

- Roles and Responsibilities
- Policy and Delegation Management
- Operating Event Management
- Education and Awareness

Roles and Responsibilities

Enterprise Compliance has partnered with key business areas to further define roles and responsibilities of those areas as well as the oversight role of Enterprise Compliance. Some of the key areas staff have been engaged in are as follows:

Enterprise Compliance Division - To lead the Compliance Plan initiatives, staff have been building and strengthening foundational capabilities within the Enterprise Compliance Division. Staff have expanded functions to include two new units, Enterprise Policy and Delegation Management and Compliance Program Oversight and Development. Both of these units are a companion to the existing unit, renamed Enterprise Ethical Standards. In addition, staff have hired six new employees with a broad education and experience background to support the program, including finance, investments, legal, operations, project management and policy development.

Embedded Compliance Liaisons – Staff have partnered with management in the Operations and Technology, and Customer Service and Support branches and begun to implement an embedded compliance function in each branch.   The Enterprise Compliance staff have developed embedded compliance team roles and responsibilities and begun training compliance liaisons throughout the programs.

Compliance Reporting – Enterprise Compliance has been identifying compliance roles and responsibilities for key groups with a role in compliance oversight. Enterprise Compliance has identified new compliance oversight groups based upon topic (e.g. policy management, integrated assurance) or role (e.g. senior leadership) and will continue to mature these structures.

Material Non-Public Information – Enterprise Compliance staff have been reviewing and clarifying the roles, responsibilities and processes regarding the receipt and use of material non-public information. This has primarily involved the roles and responsibilities of the Investment, Legal and Compliance Offices and the companion policies and procedures for the restricted trading and personal trading processes.

Enterprise Policy and Delegation Management

Enterprise Compliance has assumed responsibility for the enterprise policy management and delegation of authority functions. Staff have established standards and a framework for lifecycle management including processes, definitions, and oversight consistent with professional standards and compliance monitoring and testing. Below is a visual diagram of the linkages between delegations, policies and procedures. Staff have been partnering with key stakeholders, such as the Legal Office and Human Resources for input and have piloted the framework with the Actuarial Office.
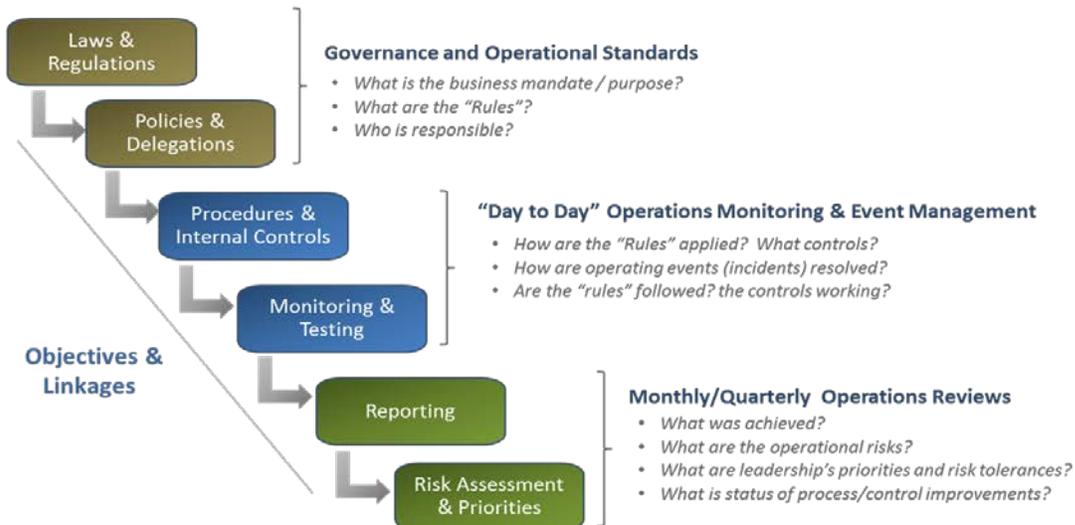
Policy and Delegation Management

Staff are in the process of establishing a policy and delegation of authority repository for ongoing management and maintenance. Additionally, staff have established a policy management working group to advise on the criteria for policy standards, development and lifecycle management. Staff have developed enhanced policy management training tools and education.

Operating Event Management

An operating event management process is a systematic way to identify, triage, and correct potential incidence of non-compliance discovered during "day to day" operations. The diagram below depicts the components of a control environment.

In order to implement the operating event management process, staff developed a training module describing the components of an effective control environment and how to implement the operating event process. This process was launched in the Operations and Technology and Customer Services and Support branches. The operating event management process will assist management in tracking incident resolutions, assess trends for future program enhancements and ensure similar incidents are consistently handled. The operating event management process can also feed into the overall operational risk assessments leading to improved operational controls.

Control Environment – Operating Event Management

Governance and Operational Standards
- What is the business mandate / purpose?
- What are the "Rules"?
- Who is responsible?

Laws & Regulations → Policies & Delegations

"Day to Day" Operations Monitoring & Event Management
- How are the "Rules" applied? What controls?
- How are operating events (incidents) resolved?
- Are the "rules" followed? the controls working?

Procedures & Internal Controls → Monitoring & Testing

Objectives & Linkages

Monthly/Quarterly Operations Reviews
- What was achieved?
- What are the operational risks?
- What are leadership's priorities and risk tolerances?
- What is status of process/control improvements?

Reporting → Risk Assessment & Priorities

BUDGET AND FISCAL IMPACTS

Not Applicable.

BENEFITS/RISKS
The establishment of an effective compliance program provides significant benefits to the organization, including:
- Proactively identifies and mitigates legal, financial, operational and reputational risks.
- Provides education and communication about compliance and ethical standards.
- Encourages a strong ethical culture committed to doing the right thing.
- Collaboration with management to develop an effective control environment.

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