2015 – 17 Enterprise Compliance Plan

Semi-Annual Status Report

Presented to
Risk and Audit Committee
April 19, 2016

CalPERS | Enterprise Compliance

Agenda

Purpose

Provide an update on the 2015 – 17 Enterprise Compliance Plan approved by the Risk and Audit Committee (RAC) in June 2015.

Topics

- Recap of Enterprise Compliance Plan

- Compliance Plan Focus Areas

- Organization Structure for Enterprise Compliance

- Implementation Plan for Functional Areas

- Status Highlights

- Recap and Q&A
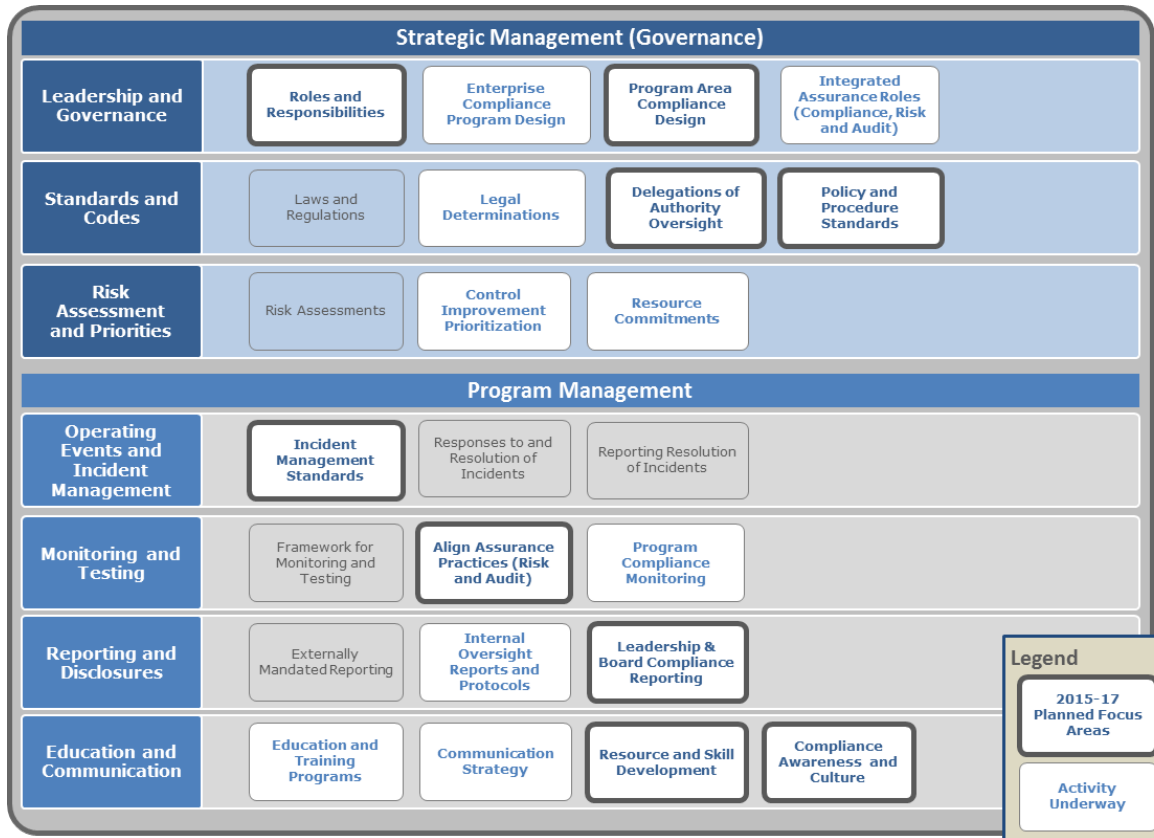
CalPERS | Enterprise Compliance

Recap | Five-Year Outlook

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

Recent Work

Design . . . Build . . . Enhance

| FY 2014-2015 | FY 2015-2016 | FY 2016-2017 | FY 2017-2018 | 2018 to 2020 |

Foundations
Framework Design

2018 to 2020
Targeted Improvements
(Business as Usual)

On-going enhancements in targeted areas

Continue to mature compliance principles & culture

Expand Capabilities to Add'l Program Areas

Continue to mature protocols and processes in all areas

Roll out protocols and processes to additional program areas

Continue to mature compliance principles & culture

Expand Capabilities in Key Program Areas

Expand protocols and processes for:
- Operational Control
- Policy Management
- Reporting Standards

Continue to develop compliance principles & culture

Strengthen Compliance & Control Foundations

Clarify roles and responsibilities in key areas

Build repeatable processes for:
- Operating Events
- Control Environment
- Policy Management

Develop compliance protocols & educational programs

Defined Compliance Plan

Defined Compliance Roadmap

Defined enhancements to controls for investment trading

Socialized Compliance Roadmap with Management

Compliance Plan Focus Areas

Activity is underway on the compliance elements that support the 2015-17 Focus Areas.

Elements of Compliance Program

Strategic Management (Governance)			
Leadership and Governance	Roles and Responsibilities	Enterprise Compliance Program Design	Program Area Compliance Design · Integrated Assurance Roles (Compliance, Risk and Audit)
Standards and Codes	Laws and Regulations	Legal Determinations	Delegations of Authority Oversight · Policy and Procedure Standards
Risk Assessment and Priorities	Risk Assessments	Control Improvement Prioritization	Resource Commitments

Program Management			
Operating Events and Incident Management	Incident Management Standards	Responses to and Resolution of Incidents	Reporting Resolution of Incidents
Monitoring and Testing	Framework for Monitoring and Testing	Align Assurance Practices (Risk and Audit)	Program Compliance Monitoring
Reporting and Disclosures	Externally Mandated Reporting	Internal Oversight Reports and Protocols	Leadership & Board Compliance Reporting
Education and Communication	Education and Training Programs	Communication Strategy	Resource and Skill Development · Compliance Awareness and Culture

Legend
- 2015-17 Planned Focus Areas
- Activity Underway

Demonstrate Compliance Effectiveness

2015-17 Focus Areas

Roles and Responsibilities
- Restructure Enterprise Compliance
- Compliance Governance
- Integrated Assurance

Policy & Delegation Management
- Framework and Repository
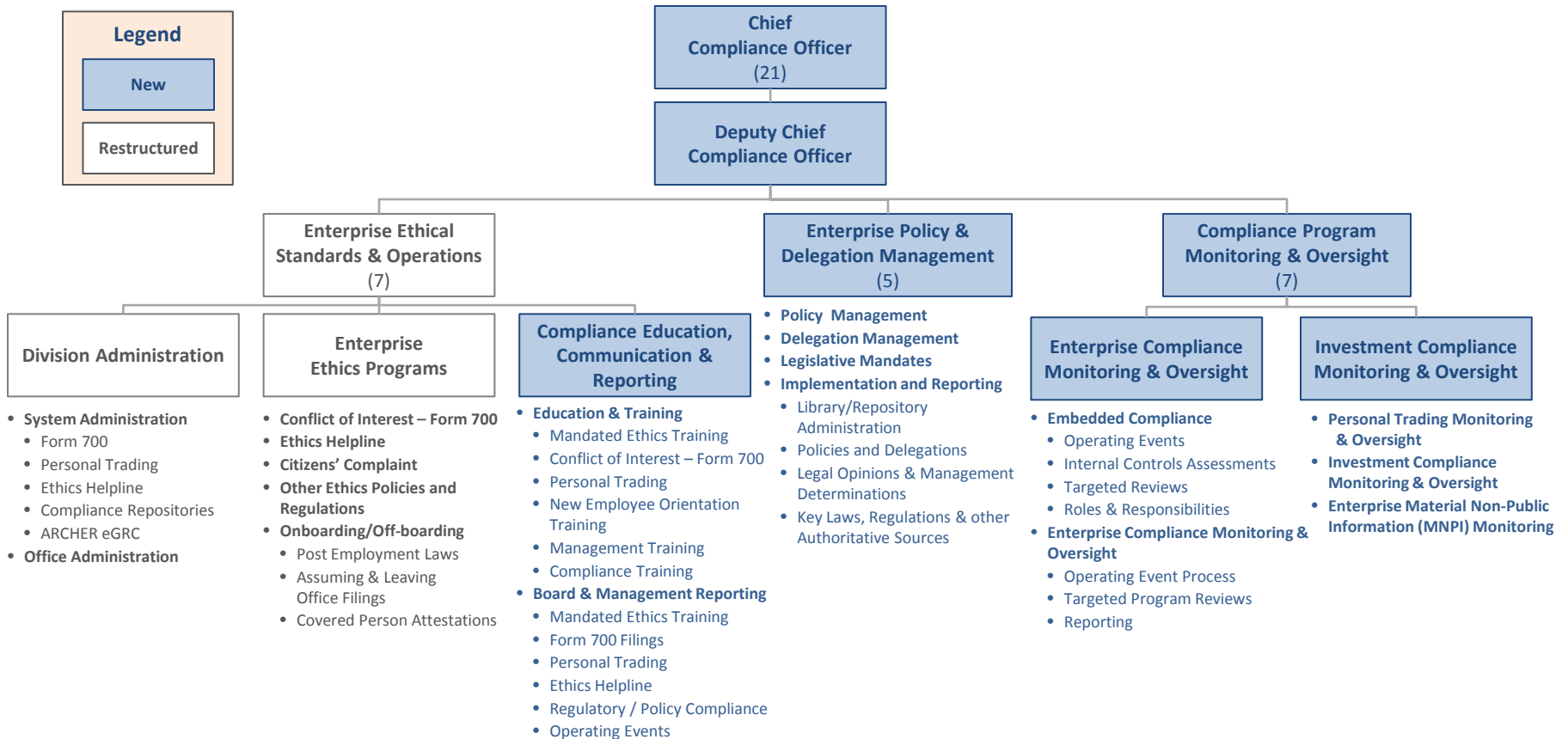- Policy Life Cycle Management

Embedded Compliance Implementation
- Operating Event Management
- Risk Assessment and Priorities
- Internal Control Enhancements

Education and Awareness
- Culture of Compliance
- Communication Plan
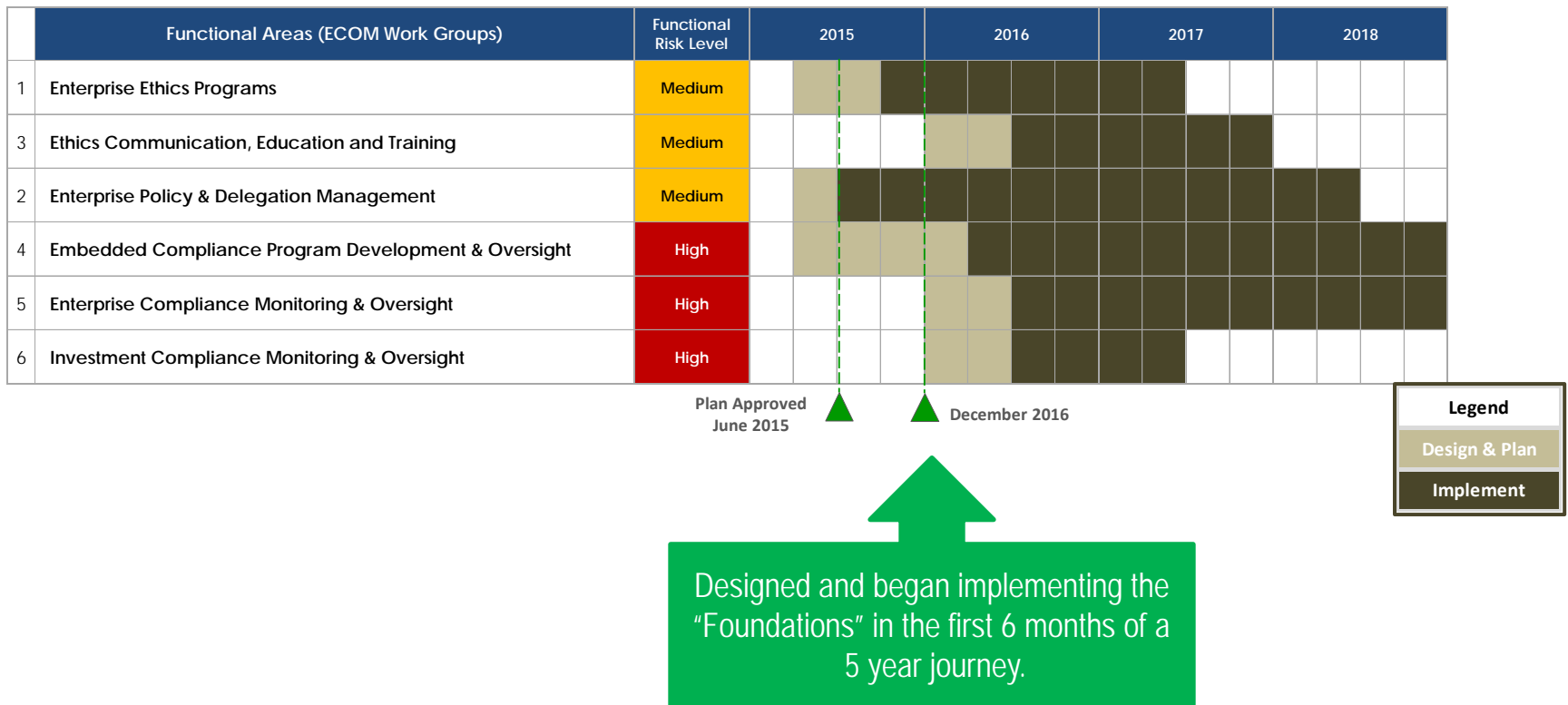- Education Plan

CalPERS | Enterprise Compliance

Organization Structure for Enterprise Compliance

Reorganized responsibilities and hired new staff between July and December 2015.
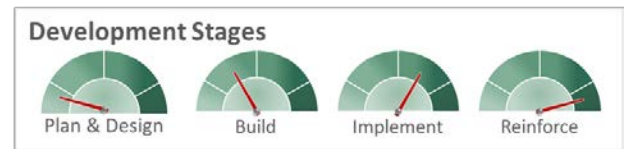
Legend

| New |
| Restructured |

Chief Compliance Officer (21)

Deputy Chief Compliance Officer

Enterprise Ethical Standards & Operations (7)

Division Administration

- **System Administration**
  - Form 700
  - Personal Trading
  - Ethics Helpline
  - Compliance Repositories
  - ARCHER eGRC
- **Office Administration**

Enterprise Ethics Programs

- **Conflict of Interest – Form 700**
- **Ethics Helpline**
- **Citizens' Complaint**
- **Other Ethics Policies and Regulations**
- **Onboarding/Off-boarding**
  - Post Employment Laws
  - Assuming & Leaving Office Filings
  - Covered Person Attestations

Compliance Education, Communication & Reporting

- **Education & Training**
  - Mandated Ethics Training
  - Conflict of Interest – Form 700
  - Personal Trading
  - New Employee Orientation Training
  - Management Training
  - Compliance Training
- **Board & Management Reporting**
  - Mandated Ethics Training
  - Form 700 Filings
  - Personal Trading
  - Ethics Helpline
  - Regulatory / Policy Compliance
  - Operating Events

Enterprise Policy & Delegation Management (5)

- **Policy Management**
- **Delegation Management**
- **Legislative Mandates**
- **Implementation and Reporting**
  - Library/Repository Administration
  - Policies and Delegations
  - Legal Opinions & Management Determinations
  - Key Laws, Regulations & other Authoritative Sources

Compliance Program Monitoring & Oversight (7)

Enterprise Compliance Monitoring & Oversight

- **Embedded Compliance**
  - Operating Events
  - Internal Controls Assessments
  - Targeted Reviews
  - Roles & Responsibilities
- **Enterprise Compliance Monitoring & Oversight**
  - Operating Event Process
  - Targeted Program Reviews
  - Reporting

Investment Compliance Monitoring & Oversight

- **Personal Trading Monitoring & Oversight**
- **Investment Compliance Monitoring & Oversight**
- **Enterprise Material Non-Public Information (MNPI) Monitoring**

CalPERS | Enterprise Compliance

Implementation Plan for Functional Areas

Defined an initial implementation plan for each functional area with ECOM management team to clarify priorities and develop program/project management discipline.

Overview of Implementation Plans for Compliance Teams

	Functional Areas (ECOM Work Groups)	Functional Risk Level	2015	2016	2017	2018
1	Enterprise Ethics Programs	Medium				
3	Ethics Communication, Education and Training	Medium				
2	Enterprise Policy & Delegation Management	Medium				
4	Embedded Compliance Program Development & Oversight	High				
5	Enterprise Compliance Monitoring & Oversight	High				
6	Investment Compliance Monitoring & Oversight	High				

Plan Approved June 2015 ▲   ▲ December 2016

Legend

Design & Plan

Implement

Designed and began implementing the "Foundations" in the first 6 months of a 5 year journey.

CalPERS | Enterprise Compliance

Status Highlights

	Accomplishments	Next 6 months	Stage
Enterprise Ethics Program	Amended and implemented Conflict of Interest Code to streamline Form 700 designated positions	Improve oversight of vendor Conflict of Interest disclosures	Reinforce
	Developed compliance activity reports for management and executives	Assess and enhance enterprise ethics policies, procedures, and monitoring	Build
Ethics Communication, Education & Training	Partnered with management to ensure completion of mandated training due by December 31, 2015	Comprehensively review and report on all mandated training	Reinforce
	Developed a compliance and education plan and began rollout of an enhanced compliance program, including launch of Spark page and updated Intranet	Launch Annual Compliance Training	Plan & Design

Development Stages

Plan & Design   Build   Implement   Reinforce

CalPERS | Enterprise Compliance

Status Highlights

	Accomplishments	Next 6 months	Stage
Enterprise Policy & Delegation Management	Assumed policy and delegation management functions; Pilot in Actuarial Office	Create repository for policies and delegations	Implement
	Developed policy & delegation management frameworks (tools) and a policy governance structure	Implement policy life cycle standards and controls	Build
Embedded Compliance Program Development & Oversight	Began implementation of embedded compliance program in CSS and OPT	Continue to develop embedded compliance roles and priorities and monitor effectiveness	Build
	Launched compliance management groups to implement an Integrated Assurance model	Build compliance oversight and monitoring functions	Build

Development Stages

Plan & Design   Build   Implement   Reinforce

CalPERS | Enterprise Compliance

Status Highlights

	Accomplishments	Next 6 months	Stage
Enterprise Compliance Monitoring & Oversight	Formed function and defined roles and responsibilities	Begin implementation of targeted reviews of focused program area functions	Build
	Began developing tools and frameworks for monitoring compliance	Develop compliance monitoring and reporting guidelines, and begin monitoring compliance activities in focused program areas	Build
Investment Compliance Monitoring & Oversight	Enhanced personal trade monitoring, reporting and education	Continue to enhance personal trading protocols, education and reporting	Build
	Began enhancing information barrier practices and clarifying roles and responsibilities of Enterprise Compliance and Investment Compliance (ICOR) functions	Continue to enhance protocols related to material non-public information (information barriers) and investment compliance monitoring & oversight	Build

Development Stages

Plan & Design   Build   Implement   Reinforce

CalPERS | Enterprise Compliance

Recap and Q&A

Key foundational capabilities started during the first 6 months:

- Recruited and started to enhance the responsibilities of the Enterprise Compliance Office
- Defined and started to enhance Integrated Assurance functions (Three Lines of Defense)
- Established Policy and Delegation Management function within Enterprise Compliance Office
- Launched embedded compliance functions

The next semi-annual update will focus on strengthening compliance foundations.

- Refine compliance plan to match risks and resources
- Hire and onboard additional staff
- Continue to clarify roles and responsibilities (Three Lines of Defense)
- Educate and communicate – culture of compliance
- Continue to implement and enhance compliance capabilities

FY 2016 – 18 Compliance Plan will be presented to Risk and Audit Committee in June 2016.

CalPERS | Enterprise Compliance