

February 13, 2017

Item Name: Enterprise Risk Management 2016-17 Mid-Year Plan Update

Program: Enterprise Risk Management

Item Type: Information

Executive Summary

The Enterprise Risk Management Division Plan (Plan) was approved by the Risk and Audit Committee (Committee) on June 13, 2016 (Attachment 1). The Plan outlined four areas of focus that include Education and Communication, Asset Liability Management, Enterprise Risk Framework, and Leadership and Governance activities. This report updates Enterprise Risk Management Division's (ERMD) mid-year progress on achieving Plan objectives.

Strategic Plan

This agenda item supports Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. To achieve this goal, ERMD established objectives based on a framework that includes consideration of risk in decision making, planning, and prioritization of business activities.

Background

To prepare the Plan, ERMD analyzed the results of the integrated assurance risk assessment conducted with Enterprise Compliance (ECOM) and the Office of Audit Services (OFAS), the 2016-17 CalPERS Business Plan, and other inputs to identify key priorities for ERMD. ERMD will continue to coordinate with ECOM and OFAS to ensure the functions' respective activities are complementary and promote stronger integration throughout CalPERS.

Analysis

Focus areas for the Plan were designed to promote proactive collaboration with stakeholders to continue to mature enterprise risk management capabilities and develop a more risk-intelligent organization.

ERMD has made progress in each of the Plan areas of focus as summarized below:

- Education and Communication
 - The Risk Appetite Workshop was facilitated by ERMD during the January 2017 Board Offsite.
 - The Workshop included breakout session discussions on various risk appetite related topics to ascertain the Board's risk appetite and tolerances.
 - ERMD will evaluate and present findings to the Board in a follow up session to discuss findings and potential tradeoffs later this spring.
 - Based on workshop findings and additional Board feedback, ERMD will present formal risk appetite statements to the Committee in June 2017.

- **Asset Liability Management**
 - Portfolio Priorities – Asset Liability Management Considerations was presented to the Board during the July 2016 Offsite.
 - ERMD supported the Chief Financial Officer’s role as Chair of the Asset Liability Management Advisory Committee in coordination of various Board presentations and ongoing discussions in an examination and eventual reduction of CalPERS’ discount rate in December 2016.
 - ERMD participated in the review and close out of the EDHEC Phase I work that was presented to the Board during the Public Asset Class Roles, Segments and Benchmarks presentation at the January 2017 Board Offsite.
- **Enterprise Risk Framework**
 - The refined Enterprise Risk Management Dashboard (Dashboard) was presented to the Committee at the November 2016 meeting.
 - The Dashboard provides the Committee with the current rating of top risks, risk categories, and risk statements identifying Board Committee and executive owners.
- **Leadership and Governance**
 - The Enterprise Risk Management Profiles (Profiles) for each enterprise risk were presented to the Committee at the November 2016 meeting.
 - The Profiles were developed in alignment with the CalPERS 2017-2022 Strategic Plan that appears on the current Finance and Administration Committee agenda and include the functional objective, list the risk drivers and associated mitigation measures, and provide the current risk ratings.

Please refer to the full plan included as Attachment 1 for detail on each of the focus areas identified. ERMD will refresh the plan annually and adjust according to the changing risk environment and priorities.

Budget and Fiscal Impact

Funding for the proposed activities will be provided through the approved ERMD budget.

Benefits/Risks

Enterprise risk management provides CalPERS a process to effectively manage and prioritize enterprise risks that impact our ability to successfully meet business objectives. Effective enterprise risk management embeds ownership within all levels of the organization. Therefore, continuing to advance the Plan also promotes CalPERS strategic goal of becoming an increasingly risk-intelligent organization.

Without an integrated approach that includes clearly defined risk appetites and effective risk reporting tools, limited resources may not be deployed effectively, and significant risks may not be managed appropriately.

Attachment

Attachment 1 – 2016-17 Enterprise Risk Management Plan

Forrest Grimes

Chief Risk Officer

Enterprise Risk Management Division

Marlene Timberlake D'Adamo

Interim Chief Financial Officer