

FY 2016-17 Enterprise Compliance Mid-Year Plan Update

Presented to
Risk and Audit Committee
February 2017

Agenda

Purpose

Provide an update on the FY 2016 – 17 Enterprise Compliance Plan approved by the Risk and Audit Committee (RAC) in June 2016.

Topics

- Compliance Program Purpose and Mission
- Updated Five-Year Outlook
- 2016-17 Initiatives Status and Highlights
- Wrap-up and Q&A
- Appendix

Compliance Program

Purpose

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

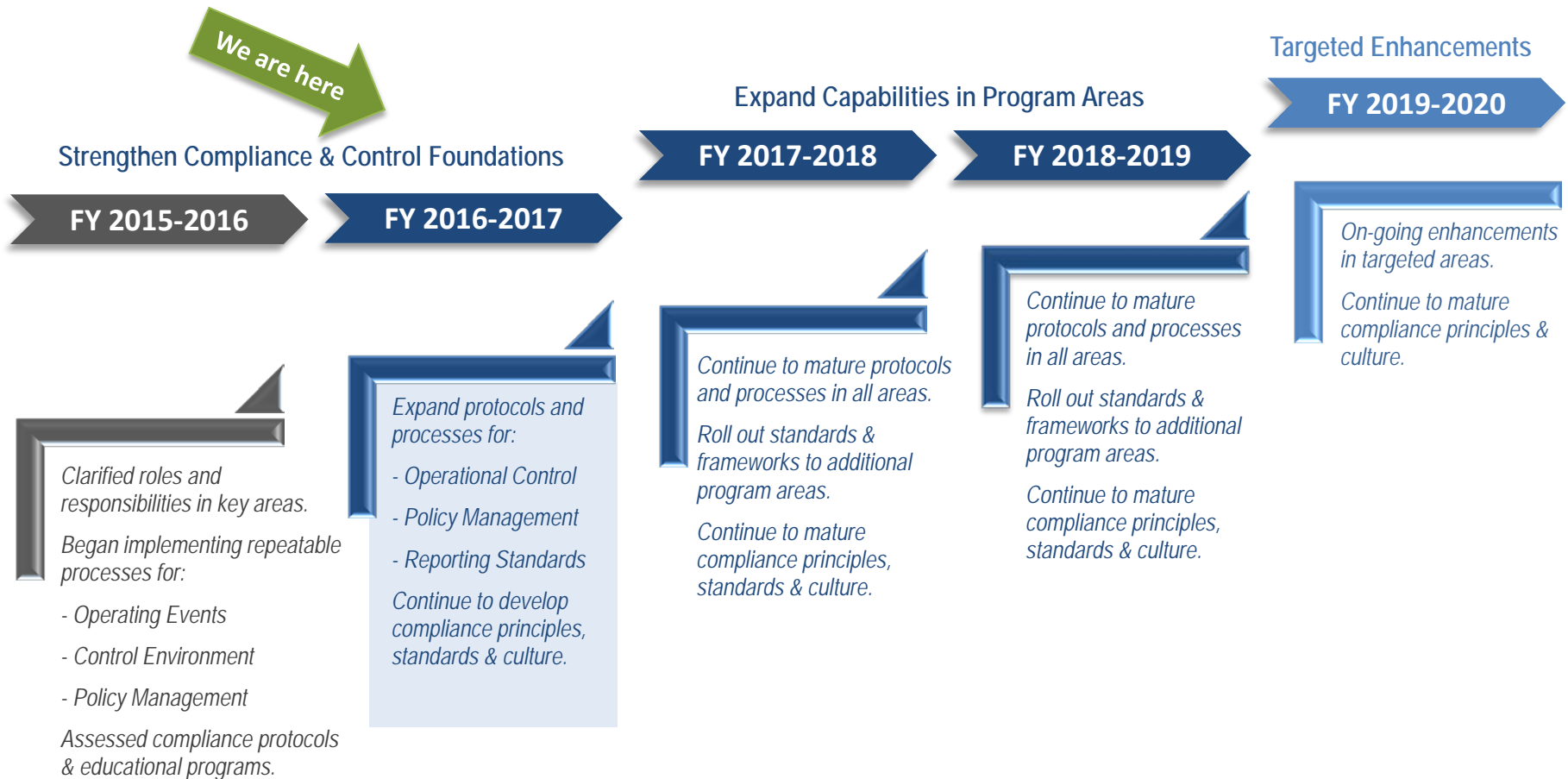
Mission

The Enterprise Compliance Division's mission is to define and oversee CalPERS Compliance Program that:

- Promotes a positive control environment
- Prevents, detects, and responds to issues of non-compliance
- Serves as a resource for guidance about compliance and ethical issues
- Ensures program and policies reinforce ethical decision making
- Ensures that CalPERS meets its fiduciary, regulatory, and contractual obligations
- Creates and maintains a culture of honesty and integrity
- Encourages a commitment to doing the right thing

Updated Five-Year Outlook – Enterprise Compliance Maturity

Since the launch of the Compliance Plan in FY 2015-16, the team began strengthening the effectiveness and maturity of compliance capabilities and will phase implementation over a period of 5 years.



Enterprise Compliance Plan | FY 2016-17 Focus Areas & Initiatives

The initiatives in the 2016-17 plan will improve compliance effectiveness and establish defined, repeatable processes that are continuously evaluated for efficacy.

Compliance Focus Areas	FY 2016-17 Initiatives	Development Stage
Enterprise Ethics Programs	<ul style="list-style-type: none"> Conflict of Interest Ethics & Whistleblower Administration Ethics Policies Development & Oversight 	
Compliance & Ethics Communication, Education & Reporting	<ul style="list-style-type: none"> Education & Training Communications (Culture & Awareness) 	
Enterprise Policy & Delegation Management	<ul style="list-style-type: none"> Enterprise Policy Management Implementation Enterprise Delegation Management 	
Enterprise Compliance Monitoring & Oversight	<ul style="list-style-type: none"> Embedded Compliance Development & Implementation Program Monitoring, Oversight & Reporting Investment Compliance Monitoring, Oversight & Program Reporting Personal Trading Monitoring & Oversight 	

Enterprise Compliance Plan | Enterprise Ethics Programs

The purpose of the FY 2016-17 Enterprise Ethics Programs initiatives is to enhance ethics-related policies and practices.

Enterprise Ethics Programs Initiatives

- **Conflict of Interest:** Improve processes for monitoring and reporting Form 700 disclosures required by the Conflict of Interest Code (§ 560).
- **Ethics & Whistleblower Administration :** Review and improve Ethics and Whistleblower processes to improve administration, monitoring and reporting.
- **Ethics Policies Development & Oversight:** Evaluate CalPERS ethics-related policies and identify opportunities to improve education, compliance protocols and oversight.

FY 2016-17 Initiatives | Enterprise Ethics Programs Highlights

Goal/Purpose: Enhance ethics-related policies and practices.

Initiative	Accomplishments	Next 6 Months
Conflict of Interest	<ul style="list-style-type: none"> Enhanced and streamlined Conflict of Interest – Form 700 program communications and reporting. Audited and reconciled Vendor/Consultant Conflict of Interest – Form 700 disclosure filings. Began bi-monthly Conflict of Interest – Form 700 training for all new designated employees. 	<ul style="list-style-type: none"> Implement Ethics Training system enhancements and improve process, tracking and reporting. Improve communications, training, and education related to Conflict of Interest – Form 700 program.
Ethics & Whistleblower Administration	<ul style="list-style-type: none"> Consolidated Ethics Helpline to six reporting categories to align with industry standards. Developed system enhancements to improve Ethics Helpline complaint tracking and reporting. 	<ul style="list-style-type: none"> Improve Board and management reporting using system enhancements. Engage business partners to develop investigations process, framework, and program enhancements.
Ethics Policies Development & Oversight	<ul style="list-style-type: none"> Hired a new manager and formulated a plan to prioritize ethics policy reviews. 	<ul style="list-style-type: none"> Review existing ethics policies, including CalPERS Gift Policy, and develop new policies based on Enterprise needs and industry standards. Provide trainings related to conflict of interest and outside employment.

Enterprise Compliance Plan | Compliance & Ethics Communication, Education & Reporting

The purpose of the FY 2016-17 Compliance & Ethics Communication, Education & Reporting initiatives is to mature a comprehensive compliance education and training curriculum.

Compliance & Ethics Communication, Education & Reporting Initiatives

- **Education & Training:** Develop effective compliance & ethics communications and education & training curriculum for team members as well as management/oversight reports.
- **Communications (Culture & Awareness):** Enhance communication programs that reinforce compliance policies and procedures, and CalPERS' commitment to an ethical culture.

FY 2016-17 Initiatives | Compliance & Ethics Communication, Education & Reporting Highlights

Goal/Purpose: Mature a comprehensive compliance education and training curriculum.

Initiative	Accomplishments	Next 6 Months
Education & Training	<ul style="list-style-type: none"> • Kicked off development of six informal discussion guides to facilitate compliance and ethics discussions. • Developed compliance onboarding training for all new executives and senior leaders. • Completed two compliance trainings with business partners, including completion of formal compliance academy training by two compliance managers. 	<ul style="list-style-type: none"> • Conduct three sessions of Annual Compliance Training for Executives and Senior Managers, with a focus on gifts, travel, and outside employment. • Finalize compliance and ethics discussion guides and development of a communication and implementation plan. • Develop recommendations for updating/replacing the current enterprise ethics training module.

FY 2016-17 Initiatives | Compliance & Ethics Communication, Education & Reporting Highlights

Goal/Purpose: Mature a comprehensive compliance education and training curriculum.

Initiative	Accomplishments	Next 6 Months
<p>Communications (Culture & Awareness)</p>	<ul style="list-style-type: none"> • Established the Enterprise Compliance Spark page with a large following of nearly 500 employees. • Conducted an enterprise-wide Compliance and Ethics Survey, with participation by more than 1,000 employees, in order to assess and establish an awareness of compliance at CalPERS. • Held first ever Compliance & Ethics Week and featured a local expert guest speaker to lead a discussion about ethics in the workplace. • Partnered with CalPERS Idea Factory Group and implemented a challenge seeking ideas for how to positively support a culture of compliance at CalPERS. • Published two articles on Inside CalPERS on the topic of Compliance & Ethics, featuring the Chief Financial Officer and Chief Compliance Officer. • Published Covered Persons and Form 700 requirements to CalPERS job announcements to proactively raise awareness of related potential requirements of employment. 	<ul style="list-style-type: none"> • Continue to engage employees via the Enterprise Compliance Spark page and increase membership. • Develop a communication strategy based on the Compliance and Ethics Survey results to increase compliance awareness and engagement. • Pursue recognition strategies for promoting compliance and ethics workplace champions. • Continue with quarterly articles featuring CalPERS Executives on the topic of Compliance and Ethics. • Develop additional communication to raise awareness of the CalPERS Five-Year Compliance Plan.

Enterprise Compliance Plan | Enterprise Policy & Delegation Management

The purpose of the FY 2016-17 Enterprise Policy & Delegation initiatives is to enhance ethics-related policies and practices.

Enterprise Policy & Delegation Management Initiatives

- **Enterprise Policy Management Implementation:** Establish a comprehensive policy management framework and implement throughout the organization.
- **Enterprise Delegation Management:** Establish delegations of authority standards and consistently apply throughout the organization.

FY 2016-17 Initiatives | Enterprise Policy & Delegation Management Highlights

Goal/Purpose: Implement policy and delegation management frameworks.

Initiative	Accomplishments	Next 6 Months
Enterprise Policy Management Implementation	<ul style="list-style-type: none"> Implemented new policy framework and requirements to Enterprise. Developed and finalized policy standards, and educated program areas on the new policy framework and requirements. Reviewed and provided feedback on 67 policies. Collaborated with 18 program areas on policy development and analysis. 	<ul style="list-style-type: none"> Kick off development of formal policy development and management curriculum. Develop additional tools for use by program areas to communicate and educate employees about new policies. Explore systems to strengthen policy management and connect policies to laws, regulations, standards, and delegations of authority. Enhance internal controls and monitoring of policy governance.
Enterprise Delegation Management	<ul style="list-style-type: none"> Developed and finalized delegations of authority standards. Updated all delegations of authority for Executives and Senior Managers to align with new standards. Conducted delegations of authority training for Executives. 	<ul style="list-style-type: none"> Conduct a review of delegations of authority to prepare for Board committee delegation review cycle. Kick off development of Enterprise Governance Standards.

Enterprise Compliance Plan | Compliance Monitoring & Oversight

The purpose of the FY 2016-17 Enterprise Compliance Monitoring & Oversight initiatives is to implement compliance monitoring and oversight protocols and processes.

Compliance Monitoring & Oversight Initiatives

- **Embedded Compliance Development & Implementation:** Continue implementing compliance functions and frameworks in identified program areas. Begin rollout of embedded compliance functions and frameworks in additional program areas.
- **Program Monitoring, Oversight & Reporting:** Develop and begin implementation of oversight, monitoring and reporting frameworks.

FY 2016-17 Initiatives | Enterprise Compliance Monitoring & Oversight

Goal/Purpose: Implement compliance monitoring and oversight protocols and processes.

Initiative	Accomplishments	Next 6 Months
Embedded Compliance Development & Implementation	<ul style="list-style-type: none"> Identified permanent compliance liaisons for CSS and OPT. Embedded compliance staff for CSS and OPT were hired. Developed “two-tiered” embedded compliance implementation program – focusing on (1) assisting liaisons with development of embedded compliance operating manuals and (2) providing foundational compliance training to newly hired embedded compliance staff. 	<ul style="list-style-type: none"> Identify liaisons and begin rollout of embedded compliance functions in FINO and BPPP. Finalize embedded compliance operating manuals for CSS and OPT. Begin training newly hired embedded compliance staff.
Program Monitoring, Oversight & Reporting	<ul style="list-style-type: none"> Finalized compliance targeted review framework and began socialization with senior leadership. Developed comprehensive inventory of all Board and Legislative mandated reports and began assigning responsibilities and controls for each report. 	<ul style="list-style-type: none"> Conduct initial compliance targeted review. Complete list of all Board, legislative and external agency mandated reports and review and monitor for compliance with required mandates. Develop processes, procedures, and tools to ensure compliance with CalPERS Statement of Incompatible Activities requirements for outside employment.

Enterprise Compliance Plan | Investment Compliance Monitoring & Oversight

The purpose of the FY 2016-17 Investment Monitoring & Oversight Program initiatives is to implement investment compliance monitoring and oversight protocols and processes.

Investment Compliance Monitoring & Oversight Initiatives

- **Investment Compliance Monitoring, Oversight & Reporting:** Assess and implement effective Information Barrier protocols. Develop reports on investment compliance monitoring to enable the Risk and Audit Committee to fulfill its delegated duties.
- **Personal Trading Monitoring & Oversight:** Enhance personal trading protocols, education and reporting. Assess and enhance Personal Trading education materials and integrate with the annual compliance training program.

FY 2016-17 Initiatives | Investment Compliance Monitoring & Oversight

Goal/Purpose: Implement compliance monitoring and oversight protocols and processes.

Initiative	Accomplishments	Next 6 Months
Investment Compliance Monitoring, Oversight & Program Reporting	<ul style="list-style-type: none"> Formed investment compliance workgroup to meet regularly to review and discuss investment compliance priorities and initiatives. 	<ul style="list-style-type: none"> Finalize investment compliance operations manual, to include surveillance, testing and other controls. Develop and present reports on investment compliance monitoring to the Risk and Audit Committee.
Personal Trading Monitoring & Oversight	<ul style="list-style-type: none"> Developed educational resources and escalation procedures for personal trading regulation violations resulting in a 95% decrease in violations since January 2016. Added six additional designated brokerage options resulting in 84% of all Covered Accounts on automatic data feeds. Audited disclosed Covered Accounts and eliminated over twenty closed or redundant account listings. Began monthly Personal Trading Regulation training for all new Covered Persons. 	<ul style="list-style-type: none"> Amend CalPERS Personal Trading Regulations to align with industry best practices.

Wrap-up and Q&A

The FY 2016-17 initiatives will strengthen compliance & ethics capabilities. Efforts will achieve the following:

- Improve processes and policies for Conflict of Interest reporting and Ethics and Whistleblower administration.
- Increase awareness of CalPERS' compliance initiatives and strengthen team member knowledge of laws and policies.
- Implement policy and delegation standards and provide tools for policy lifecycle management.
- Grow and mature CalPERS' embedded compliance program and expand compliance monitoring and oversight processes.

The next semi-annual update will focus on the following:

- Accomplishments for 2016-17 Compliance Plan initiatives.
- Identifying new compliance initiatives for Fiscal Year 2017-18.

FY 2017 – 18 Compliance Plan will be presented to the Risk and Audit Committee in June 2017

Appendix – From the 5 year Plan

- Elements of the Compliance Program & Focus Areas
- Integrated Assurance Model (Three Lines of Defense)
- CalPERS Enterprise Governance Model

Compliance Focus Areas | Elements & Goal of the Compliance Program

Compliance Elements

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

Demonstrate Compliance Effectiveness

Continue to expand capabilities started in FY 2015-16 in key focus areas

- Roles and Responsibilities
- Policy & Delegation Management
- Embedded Compliance Implementation
- Education & Awareness (Culture of Compliance)

Expand focus areas for FY 2016-17

- Laws and Regulations
- Risk Assessment and Priorities
- Resolution and Reporting of Incidents
- Monitoring and Testing (Targeted Reviews)
- External Reporting

Legend

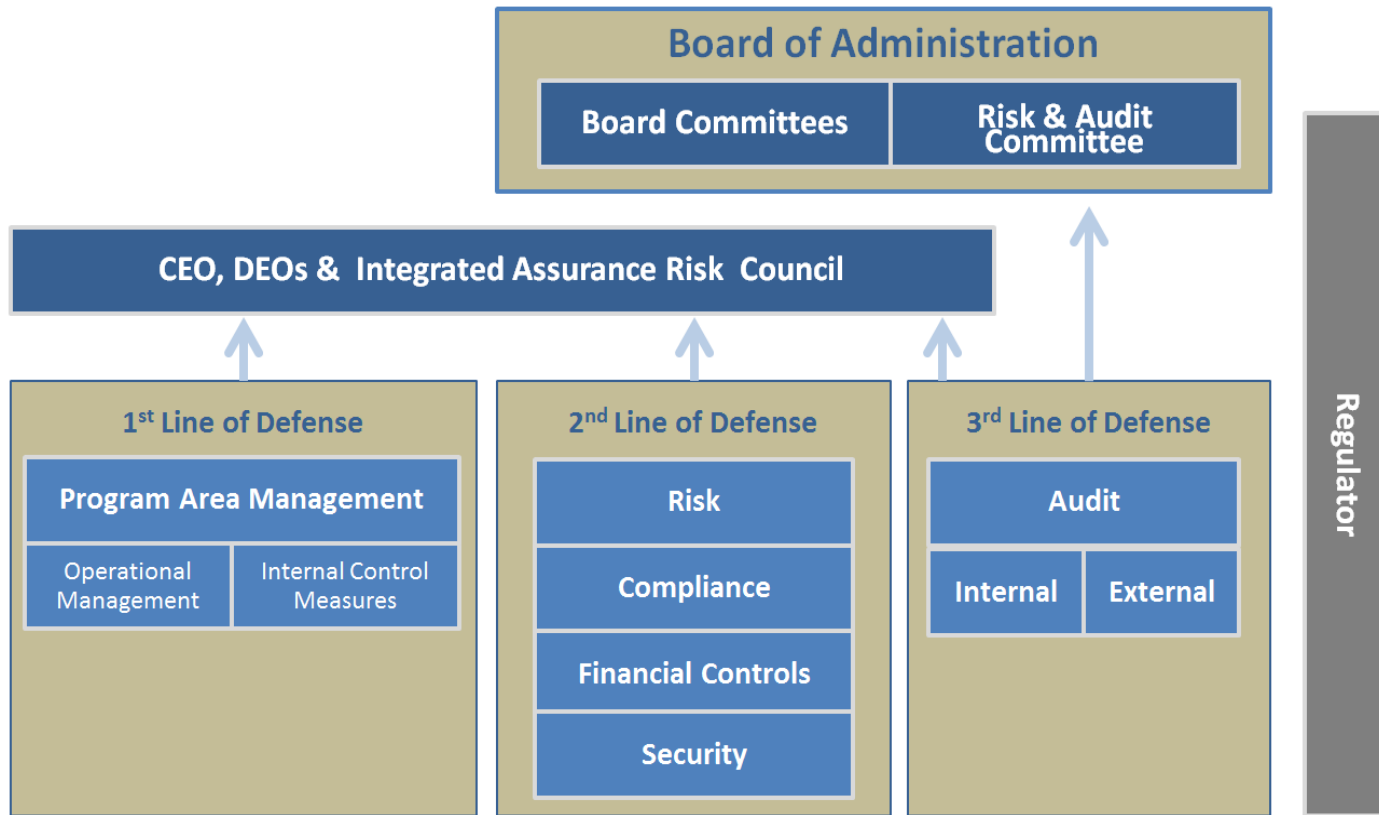
2016-17 Focus Areas

Activity Underway

Roles & Responsibilities | Integrated Assurance Model

Continue to clarify roles and responsibilities to ensure a culture of compliance.

The Three Lines of Defense



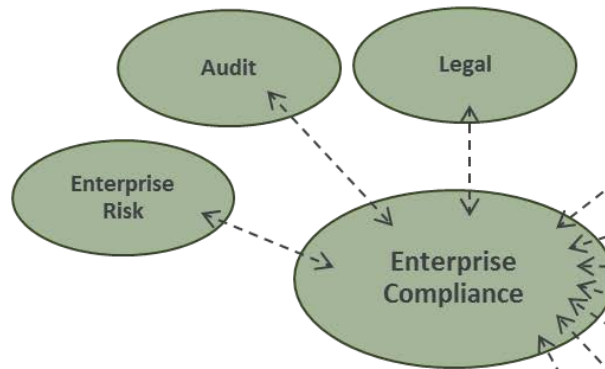
Roles & Responsibilities | CalPERS Enterprise Compliance Governance Model

Continue to expand the partnerships and strengthen compliance roles & responsibilities expected in the integrated assurance model.

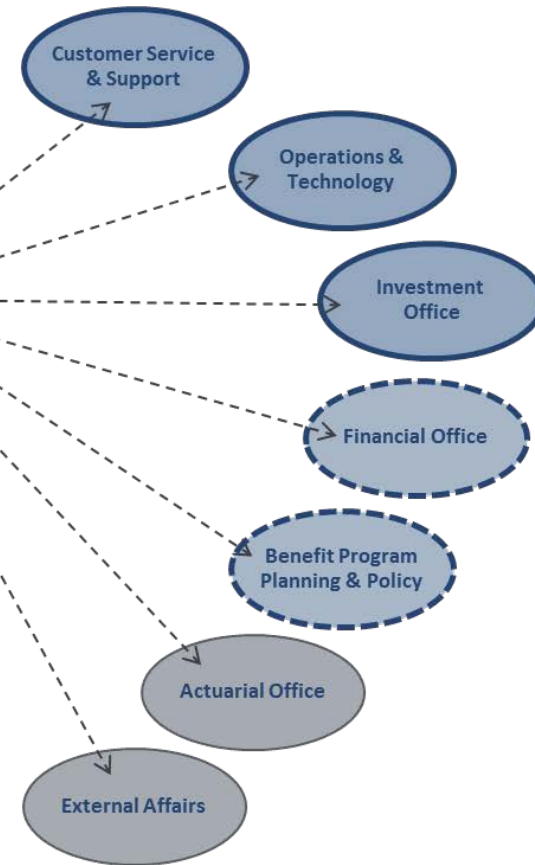
Leadership & Oversight



Enterprise Assurance Functions



Program Areas



Strengthen Foundations

2016-17 Focus Areas

Strengthen the compliance dialogue with leadership.

Strengthen relationship and capabilities with enterprise assurance functions.

Continue to build-out centralized compliance functions in programs with major operational complexity.

Expand compliance capabilities in additional programs in 2016-17.