



## Risk and Audit Committee Agenda Item 4f

June 20, 2017

**Item Name:** Quarterly Status Report - Enterprise Compliance Activity

**Program:** Enterprise Compliance

**Item Type:** Information Consent

### **Executive Summary**

Enclosed is the Quarterly Status Report on CalPERS Compliance Activity for the period of January 1, 2017 through March 31, 2017. As part of the Enterprise Compliance plan, the team continues to improve their compliance monitoring and oversight capabilities and expand upon the Risk and Audit Committee reporting information. New this quarter, are reports on Consultant Statements of Economic Interest and Investment Compliance Monitoring. Additionally, the methodology for Personal Trade transaction reporting has also been enhanced.

### **Strategic Plan**

This item supports the CalPERS 2017-22 Strategic Plan Goal: *Cultivate a risk-intelligent organization* and the strategic objective of providing enhanced compliance and risk functions throughout the enterprise.

### **Background**

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 Enterprise Compliance Division reports compliance related information each quarter to the Risk and Audit Committee in order to fulfill their oversight role in program and policy compliance.

### **Analysis**

The team has provided key observations regarding the Statement of Economic Interests (Form 700), Personal Trade Monitoring, Investment Compliance Monitoring, and Ethics Helpline. A summary of the analysis is provided below, and additional information can be found in Attachment 1.

#### *CalPERS Statement of Economic Interests – Form 700: Board and Employee*

At the end of Third Quarter FY 2016-17, no Form 700 Assuming Office Filers were past due, and two Form 700 Leaving Office filers were past due. The two past due filers are no longer with CalPERS and have been sent Non-Filer Notifications. There were 52 total Assuming/Leaving Office filers who filed during Third Quarter FY 2016-17.

#### *CalPERS Statement of Economic Interest – Form 700: Consultant*

During Third Quarter FY 2016-17, the Compliance team conducted a reconciliation of consultants across the enterprise to identify overdue Form 700 filers. These consultants were notified of their obligation to file, and received individual assistance to understand filing requirements. At the end of Third Quarter FY 2016-17, there were 34 past due consultant filers, and 24 that filed.

This reporting period, the Compliance team has improved its notification and outreach processes to reduce the amount of past due filers and increase knowledge of the disclosure requirements. Bi-weekly education sessions and office hours are held for all Form 700 filers to attend.

#### *Personal Trade Monitoring*

Forty-two Quarterly Transaction Affirmations were due on February 2, 2017, with four affirmations past due and none outstanding at the close of the reporting period. There were 24 Initial Personal Trading Affirmations due during the reporting period, with two affirmations past due and none outstanding at the close of the reporting period.

In an effort to give a clearer picture of overall Personal Trading volume, Enterprise Compliance enhanced its reporting methodology to exclude cash, open-ended mutual funds, and municipal bond transactions occurring in Covered Accounts. In previous quarters, all activity, including transactions in cash and non-covered securities was reported. There were 1,713 total transactions posted during Third Quarter FY 2016-17, using the enhanced methodology.

The Enterprise Compliance Division continues to see a decrease in the number of Personal Trading Regulations violations since the beginning of last year. This decrease is likely due to increased education, communication and reporting, including recently introduced monthly Personal Trading Regulations education for all new Covered Persons. There was an uptick of violations in January 2017 which was the result of one Covered Person not understanding the reporting requirements for non-publicly traded securities. This person has since received individual training.

#### *Investment Compliance Monitoring*

New in Third Quarter FY 2016-17, the Compliance team is reporting Investment Office Policy Exceptions, in an effort to support the Risk and Audit Committee's delegation to oversee the effectiveness of investment policy compliance. During the reporting period, there were no new or existing policy exceptions.

#### *Ethics Helpline*

The overall volume of ethics related complaints received during the reporting period were in line with recent trends. The majority of complaints received through the Ethics Helpline involve Retirement Benefits Fraud or Abuse (RBFA). This has been the trend since the inception of Ethics Helpline reporting.

During the Third Quarter FY 2016-17, 67 percent of the reported claims fell into the RBFA category. The closure rate for ethics related complaints closed during Third Quarter FY 2016-17 averaged 87 days, as compared to 46 days in Second Quarter FY 2016-17.

**Budget and Fiscal Impacts**

Not Applicable.

**Benefits and Risks**

Not Applicable.

**Attachments**

Attachment 1:

Quarterly Status Report – CalPERS Compliance Activity – Third Quarter FY 2016-17

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