

June 20, 2017

Item Name: Semi-Annual Enterprise Risk Reports**Program:** Enterprise Risk Management**Item Type:** Information**Executive Summary**

The purpose of this item is to provide the Risk and Audit Committee (Committee) with updates on the enterprise risk management reports. This item includes the addition of Board Risk Appetite Statements, which is the next step in refining the Enterprise Risk Management Framework as identified in the 2016-17 Enterprise Risk Management Division (ERMD) Plan.

Strategic Plan

This agenda item supports the 2012-17 CalPERS Strategic Plan Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. ERMD leads the integration of strategic and operational risk management by implementing an effective enterprise-wide risk management program and promoting a risk-aware culture.

Background

Enterprise risk management is a vital function in facilitating risk identification and monitoring activities that inform and support decision-making and resource allocation priorities at both the strategic and operational levels across the enterprise.

Over the 2016-17 Fiscal Year, ERMD partnered with the program areas and the Executive Team to implement the enhanced Enterprise Risk Management Framework (Attachment 1). As part of the implementation of the Framework, ERMD coordinated the identification and assessment of ten enterprise risks, established the Enterprise Risk Management Profiles to provide the Committee with detailed information on each risk and associated mitigation plans, and prioritized the enterprise risks as depicted in the Risk Heat Map.

ERMD conducted the Board Risk Appetite Workshop (Workshop) in January 2017 to establish a common understanding of risk appetite principles and terminology with the ultimate goal of determining the Board's risk appetite. Through a series of exercises and discussions conducted at the Workshop, the Board determined risk appetites for nine of the ten enterprise risks and provided staff with direction on the appropriate level of appetite to employ when managing CalPERS' Enterprise Risks. Pension Funding was excluded from the Workshop discussions and the appetite for this risk will be developed and implemented during the current Asset Liability Management Cycle. The results of the workshop are provided in the draft Risk Appetite Statements (Attachments 2, 3).

Analysis

In preparation for the 2017-18 annual risk assessment cycle, ERMD collected antidotal data from senior leaders on program risks through the Integrated Assurance Risk Assessment Interview

process. Additionally, ERMD will use the Risk Appetite Statements and any additional Committee feedback to provide guidance and inform senior leaders as they reassess enterprise risks and develop the appropriate risk responses given the Board's appetite.

Integrated Assurance Risk Assessments

In February and March of 2017, ERMD, Enterprise Compliance (ECOM), and the Office of Audit Services (OFAS) conducted integrated assurance risk assessment interviews. This assessment resulted in the confirmation of the current enterprise risks. Additionally, the assessment indicated the Healthcare Administration risk may require reassessment in light of evolving political uncertainties surrounding healthcare at the federal level while the Business Continuity risk assessment may decrease due to the successful implementation of the Enterprise Business Continuity Plan for CalPERS critical functions. While the enterprise risks will be formally rescored in November 2017, ERMD and the senior leadership will work collaboratively to continue to appropriately monitor and mitigate CalPERS' risks.

Enterprise Risk Management Appetite Statements

After the completion of the Board Risk Appetite Workshop in January, ERMD worked closely with the Executive team and program areas to analyze feedback provided by CalPERS Board Members. From the analysis, the Risk Appetite Statements were drafted for Committee review and feedback.

ERMD will complete the following next steps in implementation of the Risk Management Framework, incorporating any additional Committee direction.

Next Steps

The next steps in implementing the revised Framework will include:

- Reassess and continue development of the Enterprise Risks and Risk Profiles.
- Evaluate enterprise risk management performance against the Board Appetite for each identified enterprise risk.
- Present the findings of the Enterprise Risk Assessment and Risk Performance Analysis to the Committee at the November 2017 meeting.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – CalPERS Enterprise Risk Management Dashboard (November 2016)

Attachment 2 – Enterprise Risk Management Presentation

Attachment 3 – Enterprise Risk Draft Appetite Statements

FORREST GRIMES

Chief Risk Officer

Enterprise Risk Management Division

Marlene Timberlake D'Adamo

Interim Chief Financial Officer

