



Risk and Audit Committee Agenda Item 7a

February 12, 2018

Item Name: Enterprise Risk Management 2017-18 Mid-Year Plan Update

Program: Enterprise Risk Management Division

Item Type: Information

Executive Summary

The purpose of this item is to provide the Risk and Audit Committee (Committee) with the mid-year update of activities in the Enterprise Risk Management Plan for the period July 1, 2017 through December 31, 2017.

Strategic Plan

This agenda item supports CalPERS Strategic Plan Goal: Cultivate a Risk-Intelligent Organization. Enterprise Risk Management provides assurance to the Board through the implementation of an effective enterprise-wide risk management program and the continued cultivation of a risk-intelligent organization.

Background

ERMD developed the 2017-18 Enterprise Risk Management Plan (Plan) to communicate priorities in support of CalPERS' Strategic and Business Plans, vision, and mission. In June 2017, ERMD received Risk and Audit Committee approval for the Plan, which aligns program initiatives to the strategic goals of Fund Sustainability and Risk Management:

Asset-Liability Management (ALM)

Focusing on the Pension Funding Enterprise Risk, ERMD coordinates efforts with the Financial Office (FINO), Actuarial Office (ACTO), and Investment Office (INVO) to set pension funding risk appetite, develop reporting metrics, and help to facilitate a cross-functional and stakeholder approach to addressing long-term funding solutions. ERMD continues to advance the current ALM Cycle that will culminate in the implementation of Board-adopted ALM-related changes in July 2018.

Enterprise Risk Management Framework

As we continue to mature the Enterprise Risk Management Framework, ERMD partners with the program areas to conduct the annual enterprise-wide risk assessment, develop and implement Key Risk Indicators, and implement an internal control framework to document internal controls and monitor operational risk events.

Risk Awareness

To cultivate a risk-intelligent organization, ERMD works with our internal partners to train and educate our fellow CalPERS' team members on the importance of risk management and personal accountability towards reporting risk.

The ERMD team created a new dashboard to aid in tracking progress made on Plan initiatives for current and future reporting (Attachment 1).

Analysis

ERMD significant activities and accomplishments for the first half of fiscal year 2017-18 include:

Fund Sustainability

As prescribed in the Asset Liability Management Policy CalPERS' asset liability management program is overseen by the Asset Liability Management Committee (ALMAC). ERMD Chaired ALMAC during this reporting period and coordinated efforts with the Financial Office (FINO), Actuarial Office (ACTO), Investment Office (INVO), Legal Office (LEGO), and Communications and Stakeholder Relations Office (CSR) to facilitate an inclusive cross-functional and stakeholder oriented approach to addressing long-term funding solutions. Key ALM accomplishments include:

- Release of FY 2016-17 investment returns
- Board Workshop on use of leverage in strategic asset allocation decisions
- CalPERS Educational Forum sessions on:
 - Path Towards Sustainable System
 - Focus on the Future
 - Role Clarity in Pension Design
- Board ALM Workshop
- Amortization Policy 1st reading
- Board adoption of:
 - Strategic asset allocation mix
 - Actuarial assumptions
 - Discount rate

ERMD continues to advance the current ALM Cycle that will culminate in the incorporation of Affiliate Funds and implementation of Board-adopted ALM-related changes in July 2018.

Risk Management

ERMD matured enterprise internal control systems by:

- developing an Operational Risk Event Framework to track and analyze internal control failures at the program-level. Risk Liaisons throughout the enterprise were trained on the identification of internal controls and the reporting process.
- completing the Operational Risk Event Pilot to track and analyze internal control failures at the program-level, ending December 2017. The risk team anticipates full implementation will continue over the next two years as the team works with the individual programs to train team members on internal controls and the reporting process.
- continuing to develop and refine integrated assurance maps to identify and assess controls within the three lines of defense.

ERMD continued to collaborate with the enterprise on the Enterprise Risk Management Framework by:

- completing the annual enterprise risk assessment with the Senior Leadership and Executive Team by reviewing and re-assessing the current enterprise risks and updating the Enterprise Risk Profiles, Dashboard and Heat Map.
- submitting the State Leadership Accountability Act report to the Department of Finance in December 2017
- developing and initiating an enterprise risk training plan and communication plan to inform CalPERS' team members on the importance of risk management and personal accountability towards reporting risk.

In the second half of fiscal year 2017-18, ERMD will partner with the program areas to develop Key Risk Indicators as visualized on the Enterprise Risk Management Framework Implementation graphic (Attachment 2). ERMD intends to monitor risk at the strategic-level by identifying and tracking drivers that hinder our ability to achieve the goals set forth in the CalPERS 2017-22 Strategic Plan. Using the Risk Appetite Statements finalized by the Committee in June 2017, ERMD will work with executive leadership to finalize and provide the Committee with the indicators, recommended thresholds, and a dashboard reporting template in June 2018.

Attachments

Attachment 1 – 2017-18 Enterprise Risk Management Plan Dashboard

Attachment 2 – Enterprise Risk Management Framework Implementation

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