

# Enterprise Compliance 2017-18 Mid-Year Plan Update

Presented to  
Risk and Audit Committee  
February 2018

# Agenda

## Purpose

To provide an update on the FY 2017-18 Enterprise Compliance Plan approved by the Risk and Audit Committee (RAC) in June 2017.

## Topics

- Compliance Program Purpose and Mission
- Updated Five-Year Outlook
- 2017-18 Initiatives Status and Highlights
- Wrap-up and Q&A
- Appendix

# Compliance Program

## Purpose

Enterprise Compliance (ECOM) exists to ensure that CalPERS complies with the letter and spirit of all applicable laws and regulations, in partnership with program areas.

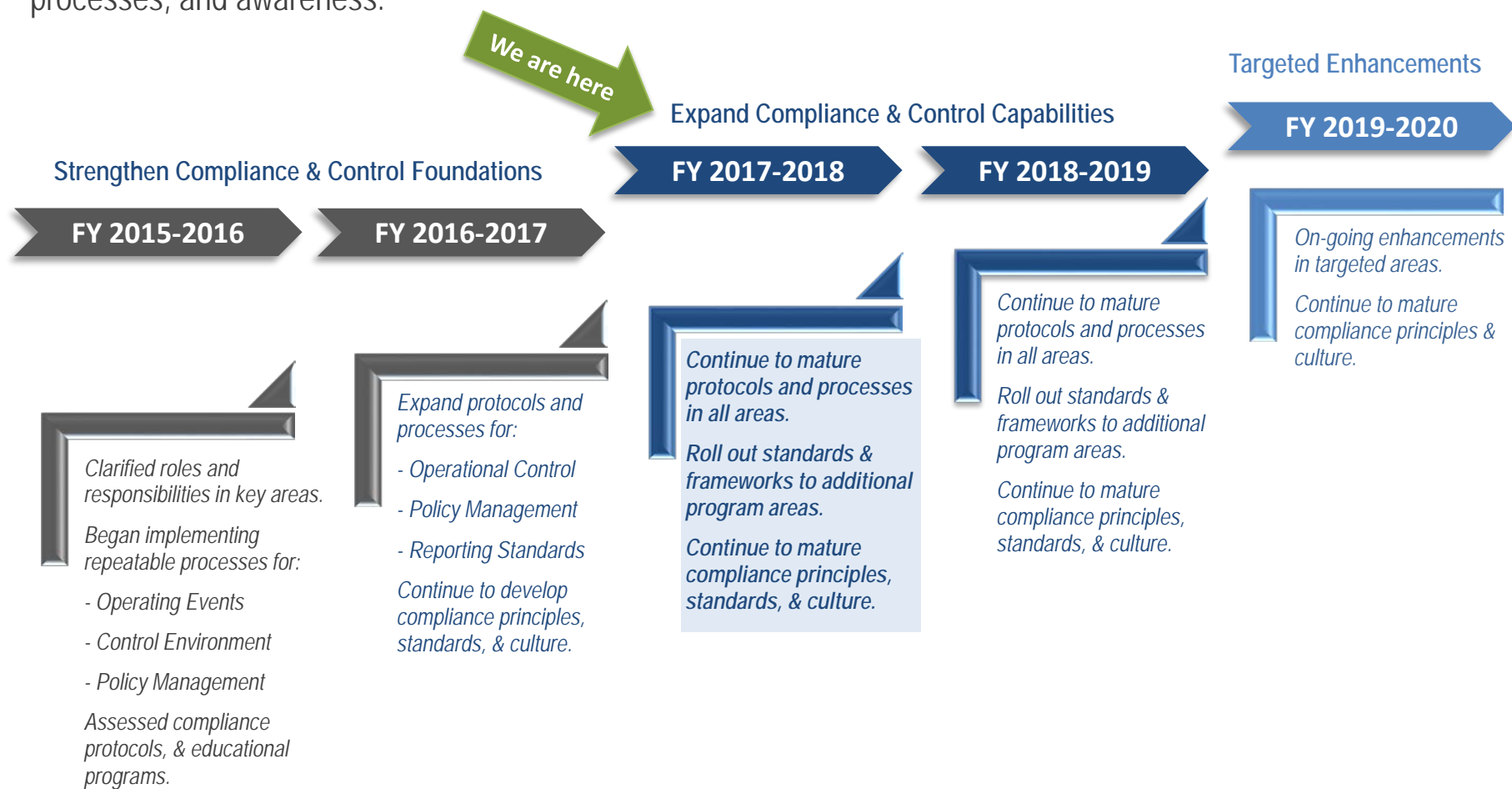
## Mission

ECOM's mission is to define and oversee a 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 programs and policies reinforce ethical decision making.
- Ensures 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 has been strengthening compliance controls, processes, and awareness.



## Enterprise Compliance Plan | FY 2017-18 Focus Areas & Initiatives

Compliance Program Areas	2017-18 Focus Areas	Development Stage
Enterprise Ethics Programs	<ul style="list-style-type: none"> <li>Conflicts of Interest</li> <li>Ethics Laws &amp; Policies Oversight</li> <li>Ethics Helpline Management</li> </ul>	
Policy & Delegation Management	<ul style="list-style-type: none"> <li>Delegation of Authority</li> <li>Policy Management</li> </ul>	
Compliance Monitoring & Oversight	<ul style="list-style-type: none"> <li>Compliance Monitoring &amp; Oversight</li> <li>Embedded Compliance Program</li> </ul>	
Communication, Education & Reporting	<ul style="list-style-type: none"> <li>Communication and Education</li> <li>Compliance Reporting</li> </ul>	

## Enterprise Compliance Plan | Enterprise Ethics Programs

Purpose: Strengthen ethics-related policies & protocols to minimize conflicts of interest

### 2017-18 Focus Areas

#### Conflicts of Interest

- Align Conflict of Interest Rules with vendor management process
  - Improve Consultant Form 700 filing processes, including assuming and leaving office reporting

#### Ethics Laws & Policies Oversight

- Evaluate CalPERS ethics-related laws and policies and revise/consolidate as appropriate\*
  - Review and revise regulations and ethics policies: Statement of Incompatible Activities (Employee & Board) and Personal Trading

#### Ethics Helpline Management

- Enhance program administration to ensure consistency across intake channels
  - Clarify investigation roles and responsibilities among key stakeholders (LEGO, HRSD, CDOP, CSS), including consistency in definitions and processes

## 2017-18 Initiatives | Enterprise Ethics Programs Highlights

Initiative	Status (July 1 – December 31, 2017)
Conflict of Interest	<ul style="list-style-type: none"><li>• Created contract review tools to improve consultant Form 700 filing processes</li><li>• Developed new training and improved communication processes to better outline vendor Form 700 roles and responsibilities for contract managers and compliance liaisons</li><li>• Enhanced reporting and outreach to all Form 700 filers</li></ul>
Ethics Laws & Policies Oversight	<ul style="list-style-type: none"><li>• Reviewed and prepared revisions to CalPERS Statement of Incompatible Activities</li><li>• Conducted review of CalPERS Conflict of Interest Code, including assessments of new classifications for potential Form 700 filer requirements</li><li>• Created a roadmap of all ethics-related policies to be combined into a single manual for clarity and ease of understanding</li></ul>
Ethics Helpline Management	<ul style="list-style-type: none"><li>• Standardized the tracking and reporting of Ethics Helpline cases in the EthicsPoint case management system</li><li>• Completed the transition from offline tracking/reporting to online tracking/reporting through EthicsPoint</li></ul>

# Enterprise Compliance Plan | Policy & Delegation Management

Purpose: Strengthen delegation & policy management practices for effective governance

## 2017-18 Focus Areas

### Delegation Management

- Align Board-approved policies and reporting with Board delegations of authority\*
  - Review current Board reporting for alignment with committee delegations of authority

### Policy Management

- Expand frameworks to include guidance on committee governance and guidelines
- Create a policy development training course and roll-out plan



## 2017-18 Initiatives | Policy & Delegation Management Highlights

Initiative	Status (July 1 – December 31, 2017)
Delegation of Authority	<ul style="list-style-type: none"><li>Developed a framework to ensure Board Committee reporting complies with Committee delegations of authority</li></ul>
Policy Management	<ul style="list-style-type: none"><li>Developed governance framework, including standardized templates for committee charters and bylaws</li><li>Developed a preliminary approach to publish on-demand policy training materials, to support CalPERS team members in navigating each step of the Enterprise policy lifecycle</li></ul>

## Enterprise Compliance Plan | Compliance Monitoring & Oversight

Purpose: Integrate compliance monitoring and oversight practices throughout the organization

### 2017-18 Focus Areas

#### Compliance Monitoring & Oversight

- Expand on enterprise compliance monitoring, oversight, and reporting activities\*
  - Conduct two to three targeted compliance reviews
  - Implement Investment Office compliance monitoring

#### Embedded Compliance Program

- Partner with embedded compliance liaisons to strengthen compliance controls, oversight, and awareness
  - Clarify roles and responsibilities among compliance liaisons

## 2017-18 Initiatives | Compliance Monitoring & Oversight Highlights

Initiative	Status (July 1 – December 31, 2017)
Compliance Monitoring & Oversight	<ul style="list-style-type: none"><li>• Implemented regular monitoring of Investment decision-making materials and incorporated reporting of Investment Policy violations to the Risk and Audit Committee</li><li>• Conducted targeted compliance reviews and compliance monitoring</li><li>• Developed framework to track legislative change implementation</li></ul>
Embedded Compliance Program	<ul style="list-style-type: none"><li>• Collaborated with Customer Services and Support and Operations and Technology liaisons to create and adopt Branch compliance plans</li><li>• Clarified roles and responsibilities for new Financial Office and Health Policy and Benefits Branch compliance liaisons</li></ul>

## 2017-18 Initiatives | Embedded Compliance Program Highlights

Initiative	Status (July 1 – December 31, 2017)
Customer Services and Support (CSS)	<ul style="list-style-type: none"><li>• Partnered with Enterprise Risk Management to successfully launch an Operational Risk Event pilot</li><li>• Conducted semi-annual my CalPERS user access review to comply with information security standards</li><li>• Partnered with Enterprise Compliance to host National Compliance Week Open House</li></ul>
Investment Office (INVO)	<ul style="list-style-type: none"><li>• Partnered with INVO's asset classes to produce and present inaugural AB 2833 (Alternative Investment Fee Transparency) Report to Investment Committee</li><li>• Worked with Global Fixed Income team to design and implement additional controls to enhance pre-trade compliance reviews</li><li>• Continued to lead INVO roadmap initiative relating to broker selection and evaluation practices; and associated reporting and governance activities</li></ul>
Operations and Technology (OPT)	<ul style="list-style-type: none"><li>• Partnered with Enterprise Compliance to conduct a targeted compliance review of procurement functions</li><li>• Developed holiday communications around CalPERS Gift Policy</li><li>• Facilitated completion of mandatory training courses in the Operations and Technology branch</li></ul>

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

Purpose: Promote an ethical and compliance aware culture through effective communication, education, and reporting

### 2017-18 Focus Areas

#### Communication & Education

- Continue to enhance compliance education and communication
  - Expand communication and education with external stakeholders to create awareness of CalPERS' compliance functions and programs

#### Compliance Reporting

- Continue to expand compliance reporting to include program operations
  - Integrate compliance liaison activities into reporting

## 2017-18 Initiatives | Communication, Education, & Reporting Highlights

Initiative	Status (July 1 – December 31, 2017)
Communication & Education	<ul style="list-style-type: none"><li>• Developed and rolled out the Compliance Discussion Guides to align Core Values with compliance principles to spur conversations on building a strong ethical culture</li><li>• Hosted Second Annual National Compliance and Ethics Week 2017, including an Executive Panel Discussion on Ethical Leadership for managers and an Enterprise Compliance open-house</li><li>• Sponsored onsite training on Compliance Metrics Development</li><li>• Published InCalPERS articles and Spark weekly posts highlighting compliance related priorities, team members and topics</li><li>• Presented CalPERS' Compliance Program at the 2017 Educational Forum</li></ul>
Compliance Reporting	<ul style="list-style-type: none"><li>• Updated the Enterprise Compliance Activity Report with additional metrics, including trend information</li><li>• Incorporated compliance activity reporting for Embedded Compliance and Risk Teams in INVO, OPT, and CSS into the Enterprise Compliance 2017-18 Mid-Year Plan Update</li></ul>

## FY 2017-18 Annual Plan Wrap Up

The 2017-18 initiatives will strengthen compliance & ethics capabilities. Efforts will achieve the following:

- Mature protocols and processes in the areas of oversight and monitoring
- Roll out standards and frameworks to additional program areas
- Continue to mature compliance principles, standards, and culture
- Develop knowledgeable compliance liaisons in additional program areas
- Improve compliance capabilities that result in strong internal control processes
- Expand and enhance reporting to include program operations

The FY 2018-19 Compliance Plan will be presented to the Risk and Audit Committee in June 2018.