



Risk and Audit Committee Agenda Item 9a

June 20, 2018

Item Name: Enterprise Risk Management Framework Review

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 Framework, including the development of the Strategic Risk Measures (SRMs). This item includes the proposed SRMs that will serve as leading risk indicators by monitoring when a risk poses a threat to achieving the organization's strategic goals. The development of risk measures is the final step in the Risk Management Framework infrastructure enhancement and aligns CalPERS' Enterprise Risks to the Strategic Plan. (Attachment 1)

Strategic Plan

This agenda item supports the 2017-22 CalPERS Strategic Plan-Goal Risk Management: Cultivate a risk-intelligent organization. The Enterprise Risk Management Division (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.

The SRMs serve as both a communication and reporting tool in support of enterprise risk management and organizational performance. (Attachment 2) The monitoring and reporting of SRMs play an important role in assisting the Enterprise and the Board in understanding the relationship between risk, culture, and performance. The quantitative and qualitative analysis of the risk measures provides management with the data and information needed to make sound business decisions as the organization continues to take appropriate risks to achieve its goals. The reporting of SRMs are intended to provide advanced warnings of events that may compromise the achievement of strategic goals as many of the risk measures are leading indicators.

A modified version of the CalPERS' 2017-22 Strategic Plan Alignment Map is included to show how the Enterprise Risks and SRMs align to the Strategic Goals. (Attachment 3)

Analysis

Cross-functional workgroups were assembled to collaboratively develop the SRMs and included Risk Management, Strategic Planning, subject matter experts, and senior leaders. These groups identified the potential risks which could prevent the achievement of each strategic goal. SRMs were then developed to measure each of the previously identified risks. Once created, the SRMs were presented to the Executive Team and Division Chiefs for final review.

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 finalizing and implementing the Strategic Risk Measures include:

- Use the Risk Appetite Statements to set SRM thresholds.
- Finalize SRM reporting process and structure, in conjunction with Enterprise Strategy and Performance.
- Present recommended thresholds to RAC.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – Enterprise Risk Management Framework Review

Attachment 2 – 2017-18 Strategic Risk Measures: Overview

Attachment 3 – 2017-22 Strategic Plan Alignment Map (FY 2017-18)

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