

MEETING  
STATE OF CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
RISK AND AUDIT COMMITTEE  
OPEN SESSION

ROBERT F. CARLSON AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

WEDNESDAY, JUNE 20, 2018

8:30 A.M.

JAMES F. PETERS, CSR  
CERTIFIED SHORTHAND REPORTER  
LICENSE NUMBER 10063

A P P E A R A N C E S

COMMITTEE MEMBERS:

Ms. Dana Hollinger, Chairperson

Mr. Bill Slaton, Vice Chairperson

Ms. Margaret Brown

Mr. John Chiang, represented by Mr. Steve Juarez

Mr. Richard Costigan

Ms. Priya Mathur

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. Rob Feckner, Vice President

Mr. David Miller

Mr. Ramon Rubalcava

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Marlene Timberlake D'Adamo, Interim Chief Financial Officer

Ms. Melissa Azevedo, Assistant Chief Risk Officer

Ms. Beliz Chappuie, Chief Auditor

Mr. Forrest Grimes, Chief Risk Officer

Ms. Carrie Lewis, Committee Secretary

Ms. Kami Niebank, Deputy Chief Compliance Officer

A P P E A R A N C E S C O N T I N U E D

STAFF:

Ms. Renee Ostrander, Chief, Employer Account Management  
Division

Mr. Taylor Urban, Interim Controller

Mr. Justin Walker, Enterprise Compliance Assistant Chief

ALSO PRESENT:

Ms. Lisa Avis, KPMG

Ms. Bridgett Gyorfi, KPMG

Mr. Brock Romano, KPMG

I N D E X

	PAGE
1. Call to Order and Roll Call	1
2. Approval of the June 20, 2018 Risk & Audit Committee Timed Agenda	1
3. Executive Report	2
4. Consent Items	3
Action Consent Agenda Items:	
a. Approval of the February 12, 2018 Risk & Audit Committee Meeting Minutes	
5. Consent Items	4
Information Consent Agenda Items:	
a. 2018 Annual Calendar Review	
b. 2019 Annual Calendar Review	
c. Draft Agenda for the September 25, 2018 Risk & Audit Committee Meeting	
d. Quarterly Status Report - Office of Audit Services	
e. Quarterly Status Report - Enterprise Risk Management	
f. Quarterly Status Report - Enterprise Compliance Activity	
Action Agenda Items	
6. Enterprise Compliance	
a. 2018-19 Enterprise Compliance Plan	4
b. Proposed Amendments to the Personal Trading Regulation (First Reading)	31
7. Enterprise Risk Management	
a. 2018-19 Enterprise Risk Management Plan	49
8. Audit	
a. 2018-19 Office of Audit Services Plan	51
b. Independent Auditor's 2018 Annual Plan	56
Information Agenda Items	
9. Enterprise Risk Management	
a. Enterprise Risk Management Framework Review	78

I N D E X C O N T I N U E D

	PAGE
10. Summary of Committee Direction	83
11. Public Comment	84
Adjournment	84
Reporter's Certificate	85

1 P R O C E E D I N G S

2 CHAIRPERSON HOLLINGER: I'd like to call to order  
3 the meeting of the Risk and Audit Committee.

4 And the first order of business, can we please  
5 have the roll call.

6 COMMITTEE SECRETARY LEWIS: Dana Hollinger?

7 CHAIRPERSON HOLLINGER: Here.

8 COMMITTEE SECRETARY LEWIS: Bill Slaton?

9 VICE CHAIRPERSON SLATON: Here.

10 COMMITTEE SECRETARY LEWIS: Margaret Brown?

11 COMMITTEE MEMBER BROWN: Good morning.

12 COMMITTEE SECRETARY LEWIS: Steve Juarez for John  
13 Chiang?

14 ACTING COMMITTEE MEMBER JUAREZ: Here.

15 COMMITTEE SECRETARY LEWIS: Richard Costigan?  
16 Priya Mathur?

17 COMMITTEE MEMBER MATHUR: Here.

18 COMMITTEE SECRETARY LEWIS: Alan Lofaso for Betty  
19 Yee?

20 ACTING COMMITTEE MEMBER LOFASO: Here.

21 CHAIRPERSON HOLLINGER: Great. And the second  
22 order of business is the approval of the June 20th, 2018  
23 Risk and Audit Committee timed agenda.

24 Do I have a motion?

25 VICE CHAIRPERSON SLATON: Moved.

1 COMMITTEE MEMBER MATHUR: Seconded by Mathur

2 CHAIRPERSON HOLLINGER: Moved by Slaton, seconded  
3 by Mathur.

4 All those in favor?

5 (Ayes.)

6 CHAIRPERSON HOLLINGER: Any opposed?

7 No. Okay. So on to the next.

8 Ms. D'Adamo -- Timberlake D'Adamo, can you please  
9 on number 3, the executive report.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: Sure. Good morning, Risk and Committee members.  
12 I'm happy to say good morning, because we're usually in  
13 the afternoon. I have to make sure I get that in.

14 Do we want to reflect the fact that there are  
15 additional members that are joining, because we usually do  
16 that?

17 CHAIRPERSON HOLLINGER: Oh, right. Yeah, I would  
18 like to reflect that Miller and Rubalcava are present.

19 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: Thank you. Today, we have five action items and  
21 one information item. We have a rather full Risk and  
22 Audit Committee agenda planned for today. Given that it  
23 is our year-end process, and we will be presenting to you  
24 our annual plans for several branches within CalPERS.

25 Today, we will -- Enterprise Compliance will

1 present their 2018-2019 annual plan focusing on program  
2 maturity and key focus areas for the fiscal -- upcoming  
3 fiscal year. In addition, Enterprise Compliance will  
4 propose amendments to the personal trading regulation,  
5 which will require committee approval. A third approval  
6 item, or action item I should say, is the Enterprise Risk  
7 Management Division will present their 2018-2019 annual  
8 plan highlighting activities such as the risk assessment  
9 and risk measures, thresholds and reporting tools the  
10 year-end data management project and other things, other  
11 items.

12 Our -- in addition to Risk and Compliance annual  
13 plans, we also have two annual plans from the audit team.  
14 We have our OFAS presenting their annual plan for  
15 2018-2019, and our independent auditor KPMG will be here  
16 presenting their indi -- their plan for 2018-19. I'm  
17 sorry, their plan for the 2017-18 fiscal year.

18 The next Risk and Audit Committee meeting is  
19 scheduled for September 25th, 2018, and includes external  
20 audit fees, and the 2017-2018 annual compliance report.

21 Thank you, Madam Chair, this concludes my report.  
22 And I would be happy to take any questions.

23 CHAIRPERSON HOLLINGER: Any questions?

24 Seeing no questions, we'll move on to Item 4,  
25 action consent items. Can I have a motion for the



1 approval of the February 12th, 2018 minutes?

2 COMMITTEE MEMBER COSTIGAN: I'll move.

3 COMMITTEE MEMBER MATHUR: Second.

4 CHAIRPERSON HOLLINGER: Okay. First, I would  
5 like to note that Richard Costigan is here.

6 And it was moved by Costigan and seconded by  
7 Mathur.

8 All those in favor?

9 (Ayes.)

10 CHAIRPERSON HOLLINGER: Any opposed?

11 Okay. Item moves forward.

12 Nothing on item 5. These are consent items, and  
13 I've gotten no requests to remove anything from the  
14 agenda.

15 So let's move on to Item 6. And Ms. Timberlake  
16 D'Adamo on the 2018-2019 Enterprise Compliance Plan.

17 (Thereupon an overhead presentation was  
18 presented as follows.)

19 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: Great. Thank you. With me seated to my left is  
21 Kami Niebank, the Deputy Chief Compliance Officer for  
22 Enterprise Compliance. And today we are -- the annual  
23 plan for Enterprise Compliance.

24 And I just wanted to take sort of a minute to do  
25 a little bit of background, since we do have two new Board

1 members on the Committee, and to talk a little bit about  
2 what we do at this time of year, and what our annual plan  
3 looks like versus what it had looked like in previous  
4 years.

5 --o0o--

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

7 D'ADAMO: So this year, in June, we do our annual  
8 presentation of our plan. This is the fourth year of our  
9 five-year plan. So in 2015, we implemented a five-year  
10 plan.

11 --o0o--

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: And we are now entering our fourth year of that  
14 plan. The previous years we had done a review based on  
15 the compliance elements. And those of you who have been  
16 on the Committee for a while remember the seven compliance  
17 out -- elements, which are factors to consideration when  
18 doing a compliance program, measuring actually the  
19 effectiveness of a compliance program. And those stem  
20 from the Department of Justice guidelines.

21 And so this year, given our 2017-2022 strategic  
22 goals, three of which focused on enterprise risk and  
23 compliance are maturing the program -- measuring the  
24 maturity of the program, as well as doing some  
25 measurements on benchmark surveys with both internal

1 CalPERS employees and team members, as well as external.  
2 And so we have those three objectives that we have been  
3 given to work on.

4           And so in looking at those three objectives and  
5 in figuring out how to make those measurements, we  
6 actually moved our, I'll say, the presentation really of  
7 our annual plan to something that moves a little bit away  
8 from the compliance elements. And if you all remember, it  
9 focused on things like governance, and risk assessments,  
10 and behaviors and things like that to the CEB Plan

11           --o0o--

12           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: So CEB is part of an organization. It's part of  
14 Gartner, which we're familiar with. And they basically do  
15 a lot of work around measuring, consulting, research and  
16 information around the Compliance and Risk Programs. And  
17 so what we have found is that CEB has a very robust --

18           --o0o--

19           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: -- program, I'll say, or tool really that is  
21 used to measure your compliance effectiveness. And so  
22 we've decided to use the CEB tool to help us measure our  
23 maturity for our compliance program. And so on page five  
24 of the -- of the presentation, we sort of have included  
25 the way that we look at operating processes and supporting

1 processes now, which is really based on the way that we've  
2 moved towards our enterprise performance reporting.

3 And so we're really trying to align the work that  
4 we're doing, so that it looks very similar to the way that  
5 we're presenting other initiatives in other areas of the  
6 organization.

7 --o0o--

8 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

9 D'ADAMO: Slide 6 then looks at sort of how the -- and  
10 this might be a little bit familiar to those of you who  
11 have been on the Committee for a while, because this looks  
12 at the work that we do in relation to either an operating  
13 process or a supporting process. And so what we're  
14 looking at is how we're going to be measuring what we're  
15 going to be doing and how we're going to measure those  
16 initiatives for the coming year.

17 --o0o--

18 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

19 D'ADAMO: And so on slide 7 is sort of the result of the  
20 maturity assessment that we've done with CEB. And so I  
21 had wanted to take a moment here to talk a little bit  
22 about the benchmark at CEB, because it is not sort of a  
23 public agency benchmark. It's actually a private company  
24 benchmark.

25 And I did have a couple of statistics that I

1 wanted to give in terms of the -- the size of the  
2 benchmark was 115 organizations. And it really is made up  
3 of private companies that represent several -- I just have  
4 my notes here -- several billion in revenue, as well as 23  
5 percent of the benchmark represents more than 40,000  
6 employees. Thirty-nine percent represents between 10,000  
7 and 40,000 employees. And 24 percent of this benchmark  
8 represents about 5,000 or less employees.

9           So CalPERS being part of this benchmark really is  
10 one of the smaller organizations in this benchmark. And  
11 so what we -- we like the benchmark, even though it's not,  
12 you know, a perfect fit, because we are the only public  
13 agency in the benchmark. It is made up of some very  
14 highly regulated entities.

15           And so as you all know with highly regulated  
16 entities, you come with a lot of requirements and rules  
17 and things like that that have to be maintained. So we  
18 feel comfortable measuring ourself in this space because  
19 this is where we strive to be, even though we would say  
20 that we are the only public agency in this.

21           It looks like Ms. Hollinger has a question.

22           CHAIRPERSON HOLLINGER: No. Mr. Slaton.

23           I don't know. It's not working.

24           Pam.

25           VICE CHAIRPERSON SLATON: Okay. Restart.

1 (Laughter.)

2 VICE CHAIRPERSON SLATON: So let me ask, because  
3 of the nature of the companies that are in here, and as  
4 you mentioned highly regulated institutions are in there,  
5 I assume major banks and investment companies.

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
7 D'ADAMO: Sixteen percent are financial services, 13  
8 percent high tech and telecom, 13 percent are  
9 manufacturing, and 12 percent are health care and pharma.

10 VICE CHAIRPERSON SLATON: Great. So we're at a  
11 two plus right now.

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
13 D'ADAMO: Um-hmm.

14 VICE CHAIRPERSON SLATON: Where -- you know,  
15 should we be a 5, or really should we not be a 5?

16 In other words, where should we be? Where do you  
17 want us to be or think we should appropriately be?

18 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
19 D'ADAMO: So I think a 5 is, you know, being in  
20 compliance. I would say we're always striving for  
21 continuous improvement. A 5 is, you know, I think  
22 pretty -- it's a very high bar, and I don't know that, you  
23 know, there are many 5s. You might find some of the  
24 highly regulated industries that are, you know, striving  
25 towards 5, but I really think that 5 is sort of a very

1 high bar to reach.

2 I think in terms of where we are at a 2 plus with  
3 the benchmark itself being a 3, that's a very good spot  
4 for us to be, given the fact that -- you know, I spent  
5 some time talking about the maturity itself, and sort of  
6 how we viewed our assessment using the compliance elements  
7 and choosing initiatives within those compliance elements  
8 that bring us along.

9 The switch really in moving to this maturity  
10 assessment is that it is much more formal, and it is much  
11 more rigid in terms of -- as we get into the presentation,  
12 you'll see there's sort of a step ladder that it uses in  
13 order to really measure your maturity. And so as you  
14 complete items within that step ladder, you are getting  
15 more and more credit for being more and more mature.

16 And in some instances, we may do things that are  
17 sort of at the higher end, and maybe do some things or not  
18 other things at the lower end. And so you don't get full  
19 credit for a maturity if you haven't completed all of the  
20 steps within the five, the step ladder there.

21 So I think for us, a two plus is a great starting  
22 point. I think honestly for us, we really look at this  
23 maturity assessment to measure sort of where we are versus  
24 ourselves. And so what we're really looking for and in  
25 choosing the items that we're going to do as initiatives

1 in the upcoming year, is to make sure that we're moving  
2 the bar for ourselves versus sort of where are versus 115  
3 other private sector companies that, you know, might not  
4 look a whole lot like us.

5 I will add, Mr. Slaton, that as it relates to our  
6 peers, we -- we really believe that we are very far ahead  
7 in a lot of respects. We have a personal trading program.  
8 We do a lot of things that other public plans and public  
9 agencies don't do. And so we are routinely asked to come  
10 in and provide guidance, and support and talk to others  
11 about the work that we do.

12 And so in choosing the maturity assessment, we  
13 didn't really feel it would be right to sort of look at  
14 ourselves versus public pension plans, because we know  
15 that in the -- in circles that we work with, and we speak  
16 to a lot of those public pension plans, we're already  
17 ahead of what they do. So we really want to give  
18 ourselves a bar to reach, as opposed to just saying that  
19 we're -- you know, we're already ahead, so we don't really  
20 measure it.

21 Does that answer your question?

22 VICE CHAIRPERSON SLATON: Yeah. And I compliment  
23 you and your staff for being willing to put us in this  
24 bucket with this group, because it's a way for us to  
25 figure out what are the other things that we can be doing



1 that tighten the ship, so --

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO: Yes. And the reason why we chose this  
4 assessment is because it really helps to do that. And it  
5 is sort of a -- I'll sort of use the word that you said  
6 about our willingness to put us in the bucket, because it  
7 is sort of a very frank, sort of robust and rigid sort of  
8 view. And so but we feel that it's the right thing to do,  
9 and we think that it will really give the Committee great  
10 information about what we're doing, why we're doing it,  
11 and where we think we're going to be going.

12 VICE CHAIRPERSON SLATON: Good. Thank you.

13 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

14 D'ADAMO: You're welcome.

15 CHAIRPERSON HOLLINGER: Thank you.

16 Continue.

17 --o0o--

18 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

19 D'ADAMO: Okay. So here, this is exactly what I was  
20 speaking to just a moment ago about the maturity path  
21 sample. And so this is really here to give the Committee  
22 an idea of sort of what the -- how the measurement occurs.  
23 An so the gray boxes are the things that we do. The blue  
24 box is sort of what CEB has identified the thing that you  
25 need to do next in order to reach the next level, or to

1 get through to the next level. And then the gray box at  
2 level 4 is sort of something that we do, but we're not  
3 essentially getting full credit for it, because we have,  
4 you know, a couple of items -- things in item 3 to do as  
5 well.

6 So this is sort of the view of how the  
7 measurement is done. And so what you'll see is there are  
8 about 28 of these that we had -- went through and answered  
9 robust questions on, and did -- and the assessment was  
10 then given. So it's a very detailed, very rigid sort of  
11 review, which we're providing so that we can really  
12 measure sort of on a very specific basis what are the  
13 things that we need to do in order to move the program to  
14 the next level.

15 --o0o--

16 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

17 D'ADAMO: And so on page nine, we have our 2018-19 focus  
18 areas. And so those of you who have been on the Committee  
19 will see that this looks a little bit familiar, in that we  
20 then sort of list out the different objectives and goals  
21 that we're going to be doing in the upcoming year. And so  
22 in this instance, the white boxes are the items that we've  
23 identified as initiatives for us in the upcoming year.

24 And so we've listed these, whereas in previous  
25 versions, we've listed it as part of the compliance

1 elements. Here, we've listed it as our new framework, in  
2 terms of the operating processes and the supporting  
3 processes.

4 --o0o--

5 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

6 D'ADAMO: And then in slide -- so from slides 10 through  
7 13, we then take you through sort of a description of each  
8 of the initiatives that we're going to be undertaking, and  
9 where they fit in terms of those operating processes and  
10 subprocesses. And so for our ethics program, we have  
11 managed third-party risks, maintain reporting channels,  
12 and establish incentives and disciplinary measures. So  
13 these are initiatives that we're going to be working on in  
14 2018-19 that's going to help us move the program maturity  
15 forward.

16 --o0o--

17 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

18 D'ADAMO: In the policies and delegations area on the next  
19 slide, we have identified a code of conduct as something  
20 that we're going to be working on. And specifically,  
21 within that, we have include easy-to-understand guidance  
22 on we say high risk, and it really probably should mean  
23 highly sensitive policies. So here, we want to make sure,  
24 because training is something that we are really, really  
25 interested in making sure that we're doing, and we're

1 doing well.

2           We are looking to improve and add to the training  
3 on different policies and things that we're doing as an  
4 organization.

5           And then the other item here it says incorporate  
6 learning aids to increase comprehension. One of the  
7 things, and I think maybe Ms. Mathur and I talked about it  
8 at the last Risk and Audit Committee meeting is, you know,  
9 training is great, but we really feel like in a lot of  
10 respects you need to do it more frequently, and you need  
11 to do it sometimes more targeted.

12           And so some of the things that we're looking at  
13 are how do we reach people right before they have  
14 something to do, and make sure that they're trained on  
15 those things, so that there's an improved or an increased  
16 likelihood that, you know, we'll get it right. And so an  
17 example of that is right before the holiday season, we  
18 send out memorandums and information around gifts, because  
19 we know that, you know, gifts -- gift giving occurs around  
20 the holiday season. We want to make sure that people are  
21 aware of what the rules are, and what they need to do in  
22 terms of gifts.

23           In the Compliance Monitoring and Oversight  
24 Division, we have a couple of items that we've listed  
25 here. We have assessed compliance risks. And here, we're

1 going to partner with our Risk Management Office to  
2 establish a compliance risk assessment process. And we're  
3 also going to assess the compliance risks at the  
4 operational and enterprise level.

5           And then in addition to that, we're going to  
6 build mitigation plans for key compliance risks. And  
7 here, we're going to look to use the compliance risk  
8 assessment to identify those key risks, and to document  
9 risk specific mitigation programs. And so again, looking  
10 at these items, what we would say is that each of these  
11 items helps to move us further along in our maturity  
12 assessment.

13                           --o0o--

14           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

15 D'ADAMO: And on page 13 for education, communications,  
16 and reporting, we have measure organizational culture,  
17 promote a culture of integrity. Here, we're going to  
18 reinforce the importance of ethics and compliance  
19 communications. And communications is something that we  
20 spend quite a bit of time on, not because of what I had  
21 mentioned about the training, but just because we think  
22 it's really important to reach out to people and to make  
23 sure that we're visible, and we're available.

24           And then the last item we have is measure and  
25 report the program effectiveness. And so here, we've

1 highlighted benchmark our program maturity against peers,  
2 as well as provide context for metrics by analyzing trends  
3 over time.

4           So that actually concludes our presentation on  
5 the annual plan. And at this point, I or Kami would be  
6 happy to take any questions.

7           CHAIRPERSON HOLLINGER: I want to thank you for  
8 the thoroughness and the depth of this report, and thank  
9 you and staff. It's very impressive. I feel like you've  
10 left no holes, and it really is a source of comfort, and  
11 also speaks to the level of risk management that we're  
12 undertaking.

13           And I do have some questions. Mr. Slaton.

14           VICE CHAIRPERSON SLATON: So this is very for  
15 thorough. But it raises one issue in my mind and a few.  
16 This -- you talked about it when we were on page 11, which  
17 was code of conduct. And you mentioned an example of  
18 making sure when issues are going to come up you get ahead  
19 of it. You used the example of gift giving before the  
20 holidays.

21           So that raised an issue for me is what about  
22 the -- and constant training, constant exposure to this,  
23 and, you know, helps reduce risk. What about training up  
24 to us, training up to the Board? I know we have policies,  
25 very well written. You know, we have lots and lots of

1 policies. But reminding us when -- you know, on a --  
2 again, we need to be constantly trained and retrained --

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

4 D'ADAMO: Sure.

5 VICE CHAIRPERSON SLATON: -- so that we're  
6 sensitive to what we need to avoid doing in doing our  
7 jobs.

8 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

9 D'ADAMO: We would be happy to work with the Board and the  
10 Risk and Audit Committee members to provide those  
11 additional training or additional information.

12 VICE CHAIRPERSON SLATON: Yeah, I think it's just  
13 good reminders --

14 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

15 D'ADAMO: Absolutely.

16 VICE CHAIRPERSON SLATON: -- because the policy  
17 sits in a binder versus getting a reminder of issues that  
18 could trip us up, that we want to certainly avoid.

19 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: Yes.

21 VICE CHAIRPERSON SLATON: So I would just ask the  
22 Chair to consider working with you and seeing if we can  
23 come up with something that doesn't take a great deal of  
24 time, doesn't, you know, burden us too much, but at the  
25 same time accomplishes good briefings for us, as we go

1 along.

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO. Okay.

4 CHAIRPERSON HOLLINGER: Yeah, I think that's an  
5 excellent idea, especially, you know, in the area of  
6 reputation risk management. Thank you.

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

8 D'ADAMO: Should I take that down as Committee direction?

9 CHAIRPERSON HOLLINGER: Yes.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: Okay.

12 CHAIRPERSON HOLLINGER: Ms. Mathur.

13 COMMITTEE MEMBER MATHUR: Thank you. Yeah, I

14 just want to say I note that we are more than halfway  
15 through this plan, and I think -- I mean, 2 and a half  
16 plus -- 2 plus might not seem like a high number when you  
17 compare it to 5, but you've noted all the sort of special  
18 features of CalPERS, and sort of -- and how we are  
19 different from the other -- the others in the pool of --  
20 in the CEB benchmark. And what's -- what I think is  
21 particularly -- we need to always be mindful of is, of  
22 course, we want -- we want very strong compliance.

23 But there's a -- there's a sort of a cost to each  
24 marginal investment in compliance. And you can't -- we  
25 can't afford to spend unlimited amounts of money on



1 compliance. We have a budget. We have -- that we have to  
2 be mindful of. And so really assessing what is the  
3 marginal value of each additional investment, and is that  
4 going to make a meaningful impact that's commensurate with  
5 the cost of that investment?

6 And I think this team has been doing a really  
7 good job of really trying to identify high value places to  
8 invest.

9 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

10 D'ADAMO: Um-hmm.

11 COMMITTEE MEMBER MATHUR: And to me, that is --  
12 that is one of the keys. Obviously, there's some things  
13 you absolutely must do, and we're doing those. But in  
14 terms of in continual improvement towards higher and  
15 higher levels of compliance, that assessment is -- I think  
16 is such an important part of our decision making. So I  
17 really credit this team with being thoughtful, methodical,  
18 and continuing to sort of embed this within the  
19 organization.

20 Thank you.

21 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

22 D'ADAMO: And I would say -- thank you for that. I would  
23 say that in determining what to do this upcoming year, we  
24 looked at items like what are the things that are going to  
25 move us forward? What is it going to take to get those

1 things done? Where are we in our environmental cycle as  
2 an organization that really is going to help us move these  
3 particular things forward. And the thing about the  
4 year -- the upcoming year, you know, the plan, is that it  
5 is very methodical in terms of exactly what we think we  
6 need to do in order to reach those next levels.

7           And so what we're excited about is to be able to  
8 say we're at a 2 plus now, and we expect to be at a 3 or 3  
9 plus next year. And, you know, here are the things that  
10 we think we're going to do in order to move us there.

11           COMMITTEE MEMBER MATHUR: Yeah. Great. And I  
12 think the important -- sort of really important work that  
13 I've seen this group do is around culture, and sort of  
14 really trying to embed it more into the culture of  
15 CalPERS, because that will support any additional  
16 education investment technology, all of those types of  
17 things. Unless you have the culture right, those other  
18 things can't work as effectively. So that is, to me, sort  
19 of a really important key.

20           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
21 D'ADAMO: It is. And the embedded process that we have  
22 undertaken is an important one. And it's one that really  
23 sort of, you know, integrates throughout the organization,  
24 and we do have our embedded compliance and risk liaisons.  
25 And we use them to really help us to be more visible, and

1 to provide guidance, and to let individuals know that if  
2 they have questions, they have folks that they can go to.

3 And we really work very closely with those  
4 individuals to make sure that they know that we're here  
5 and we know that they're there, and that, you know, we  
6 help give them tools. A lot of times we give them a lot  
7 of tools to them help stay on top of things, monitor  
8 training, and do things like that. So it is very  
9 important to us, and that is one of our items that we've  
10 been spending a lot of time on.

11 COMMITTEE MEMBER MATHUR: Yeah. Thank you.

12 CHAIRPERSON HOLLINGER: Thank you.

13 Mr. Costigan.

14 COMMITTEE MEMBER COSTIGAN: Thank you, Madam  
15 Chair.

16 Just a couple issues. One, and I -- the gift  
17 issue, and I know that's a small point -- I actually have  
18 another question -- we already have policies for that,  
19 right?

20 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
21 D'ADAMO: Um-hmm, we do.

22 COMMITTEE MEMBER COSTIGAN: And there's the Form  
23 700s. I mean, so we're not seeing widespread abuse in  
24 that area.

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: Oh, no, no, no. And my comment was really meant  
2 to show that our view is that we like to -- we understand  
3 that, you know, having a policy is great and it's out  
4 there for folks, but a lot of times what we really want to  
5 do is we want to hit people more frequently with reminders  
6 about things. And so it's -- people understand that  
7 there's a policy that's out there, but what we really  
8 would like to do is to go, you know, at the point of time,  
9 almost like just-in-time. At the time that people -- that  
10 something is happening in the environment, we're out with  
11 a discussion, or a topic, or a reminder, or some guidance  
12 about how to handle this particular issue.

13 COMMITTEE MEMBER COSTIGAN: I mean, a couple  
14 points, and then I want to get to one. I agree with Ms.  
15 Mathur. At some point, there is a cost issue to it. And  
16 if you're a Form 700 filer, I would expect you to be aware  
17 of the rules --

18 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

19 D'ADAMO: Um-hmm. Sure.

20 COMMITTEE MEMBER COSTIGAN: -- not necessarily  
21 having you to remind someone quarterly of what the rules  
22 are. I mean, that's why we have form 700s, and other  
23 rules related to that, because that's -- it then concerns  
24 mere, or at least I'd like more, what is establish  
25 incentives and disciplinary measures actually mean, under

1 the reinforce behavioral expectations? So what are the  
2 incentives, first of all? And we already have a process  
3 for disciplinary measures. So could you expand on that  
4 for me?

5 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

6 D'ADAMO: Are you speaking from your SPB hat.

7 (Laughter.)

8 COMMITTEE MEMBER COSTIGAN: I'm just speaking  
9 that there's a process as it relates to disciplinary  
10 measures.

11 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

12 D'ADAMO: So what we were thinking about when we -- when  
13 we looked at this is in the private sector, there are --  
14 there are disciplinary measures that are -- that are  
15 involved, particularly on the personal trading side. So,  
16 for instance, in the private sector, if you have personal  
17 training violations, you have discouragement of profit as  
18 one of the dis- -- one of the things that can happen to  
19 you.

20 We actually don't have that as a tool in our  
21 toolbox. And we don't necessarily know that we need it,  
22 but what we have put in is that in our processes we've  
23 included HR now much more than we used to in terms of when  
24 we see issues or when managers have issues with employees.

25 So when we talk about establishing incentives in

1 disciplinary measures, it's thinking about -- one of the  
2 things also that we're looking at is can we embed  
3 compliance? Can that be one of the things that's a  
4 considered element as we're doing appraisals for folks or  
5 that as we're doing incentives?

6 So, you know, we have a lot of individuals that  
7 have incentives here at CalPERS. And one of the things  
8 that we would like to see, and that we've been discussing  
9 is can we include compliance measurements as part of a  
10 consideration in awarding those incentives.

11 COMMITTEE MEMBER COSTIGAN: I want to make sure I  
12 understand this.

13 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
14 D'ADAMO: Um-hmm.

15 COMMITTEE MEMBER COSTIGAN: Someone that complies  
16 with a requirement, such as form -- filing a Form 700  
17 would be incentivized to do it?

18 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
19 D'ADAMO: No, no, no. So what I'm saying is we have  
20 individuals -- say -- say I have an incentive plan or  
21 others have an incentive plan, so one of the things that  
22 we're thinking about is how can we include compliance  
23 measure? So in assessing someone for an incentive, one of  
24 the elements or questions might be, have there been any  
25 compliance issues with this individual? Do we have

1 personal trading issues? Do we have Form 700? Do we have  
2 training issues? Are they always up on their training or  
3 are they routinely late?

4 Those sort of considerations are things that we  
5 believe could be made in making those determinations  
6 around incentives.

7 COMMITTEE MEMBER COSTIGAN: So I would caution  
8 that if you are denying someone an incentive, based on a  
9 compliance issue, is that, in fact, a disciplinary issue?

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: Right.

12 COMMITTEE MEMBER COSTIGAN: I'm just saying  
13 that's something to look at, because the way this is  
14 written is establish incentives and disciplinary. And I  
15 would definitely talk with Ms. Campbell in HR --

16 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

17 D'ADAMO: Yes.

18 COMMITTEE MEMBER COSTIGAN: -- and others,  
19 because what I just heard is we'll look that if there's  
20 been compliance or non-compliance. So the inverse is if  
21 there's a compliance issue that doesn't allow you to get  
22 the incentive, was there a corresponding disciplinary  
23 action, progressive disciplinary action? Again, you can't  
24 have it either or.

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: Correct.

2 COMMITTEE MEMBER COSTIGAN: I didn't get it, so  
3 where is the document over here that says why I didn't.  
4 So I just want to caution by setting something new out,  
5 are you creating the potential for someone to challenge I  
6 didn't get fairness --

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

8 D'ADAMO: Right.

9 COMMITTEE MEMBER COSTIGAN: -- in my incentive  
10 compensation. You said I had a violation. I never had  
11 the opportunity to contest that.

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: So here is what I would say. All the work that  
14 we're doing, we are doing in coordination and in  
15 conjunction with our HR partners. And so we are actively  
16 talking about ideas around how we can incorporate those  
17 items, compliance elements really, into the appraisal  
18 process for individuals. I would agree with you that  
19 there needs to be, if you're going to penalize somebody on  
20 an incentive basis, there also needs to be sort of  
21 evidence of those issues having been brought up and  
22 discussed. And I would say that we would not embark on  
23 making any significant changes without the approval and  
24 the process completion, and the thoroughness of a process  
25 with our HR partners.



1           And again, we bring this up as an item to show  
2 sort of what are the things that are part of a mature  
3 program? And so compliance considerations is something  
4 that, at least in the maturity program that we're looking  
5 at, is something that is to be considered.

6           COMMITTEE MEMBER COSTIGAN: Okay. Thank you.  
7 Thank you, Mr. Chair.

8           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
9 D'ADAMO: Sure.

10          CHAIRPERSON HOLLINGER: Yeah, I agree. We have  
11 to make sure with any of those that we do process.

12          INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
13 D'ADAMO: Absolutely.

14          CHAIRPERSON HOLLINGER: Mr. Lofaso for Betty Yee.

15          ACTING COMMITTEE MEMBER LOFASO: Thank you, Madam  
16 Chair. Thank you Ms. D'Adamo for an interesting an  
17 valuable report. I think some of the other comments have  
18 done a really good job of putting in context what's strong  
19 performance, what's aspirational, what might be  
20 investments required for various type improvements. But I  
21 wonder if you could just paint a bit of a picture as to  
22 what things would look like if we were pushing to 4 or 5.

23                 I acknowledge fully what the potential  
24 investments might be, but just educate us what those  
25 aspirational activities might look like.

1 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

2 D'ADAMO: So I think for us pushing to a 4 or a 5 really  
3 involves the time that we need to spend to mature the  
4 things that we're doing. I think that, you know, we did a  
5 lot of work in the past year on policies. We did a lot of  
6 work on delegations. So we're doing a lot of work right  
7 now around governance. We're doing a lot of work in  
8 training.

9 So for us the items that we think we need to do  
10 are part of our plan, and it really is a function of us  
11 spending the time to develop the program, and the  
12 individuals, and the workflow really that we need in order  
13 to get their. So for instance, our embedded compliance  
14 risk and compliance liaisons is something that we've been  
15 spending quite a bit of time on. And that is important to  
16 help move us into the direction of a mature program, where  
17 we have individuals that are in the seat -- in the  
18 business essentially, that are there, that are helping to  
19 improve the culture, that are there to help with tools for  
20 measuring, and that are available to individuals to make  
21 sure that things are being done, you know, at the time  
22 that they need to be done, and that there isn't -- I'll  
23 say that it's clear.

24 So a lot of the maturity part of a program really  
25 is in spending the time to really develop those workflows

1 and processes, and the clarity of who has to do what.

2 Does that answer your question?

3 ACTING COMMITTEE MEMBER LOFASO: Yes, that's very  
4 helpful. Thank you.

5 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

6 D'ADAMO: I don't if you had anything else to say on it.

7 DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: I think  
8 an additional enhancement to get us to a 4 or 5 would also  
9 be probably a level of increased automation that we don't  
10 have, and may be very costly, like Ms. Mathur had  
11 suggested, to understand all the laws and rules that apply  
12 to us, and as those laws and rules change, having more  
13 automation for us to know how those touch our systems and  
14 our operations, so that we can -- we can make sure that  
15 we're always in compliance as those rules change.

16 And so because we are a pretty big and complex  
17 organization with a variety of systems and operations, it  
18 may be beyond our reach to get to a 5 to have all of that  
19 very just seamless and automated. There's always going to  
20 be a manual kind of interface for the different programs  
21 and areas to be able to make that happen.

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: It is important to note that automation though  
24 is one of the things that we're looking at. And so where  
25 possible, just like throughout the rest of the

1 organization, we are looking to do things more expediently  
2 and more expeditiously.

3 And so for us, automation looks like having, you  
4 know, databases and things like that. So it's having  
5 information that's sort of integrated into workflows and  
6 processes, so that things are being brought up or noted at  
7 a particular point in time as opposed to later.

8 CHAIRPERSON HOLLINGER: Okay. Thank you.

9 And seeing no further questions, this is an  
10 action item. Do I have a motion?

11 VICE CHAIRPERSON SLATON: Move it.

12 CHAIRPERSON HOLLINGER: So it's --

13 COMMITTEE MEMBER MATHUR: Second.

14 CHAIRPERSON HOLLINGER: -- moved by Slaton,  
15 seconded by Mathur.

16 All those in favor?

17 (Ayes.)

18 CHAIRPERSON HOLLINGER: Any opposed?

19 Motion carries.

20 Okay. 6b, the Proposed Amendments to the  
21 Personal Trading Regulation. And this is a first reading.

22 (Thereupon an overhead presentation was  
23 presented as follows.)

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25 D'ADAMO: Yes. We are very pleased to bring this to this

1 Committee at this time. The Personal Trading Regulation,  
2 which I talked a little bit about in the previous agenda  
3 item is the regulation that is used to govern personal  
4 trading transactions of individuals and Board members at  
5 CalPERS. And so it is a regulation that was enacted in  
6 December of 2012, and has not -- for the first time, and  
7 has not been modified or changed since then.

8 So near -- at five and a half years into the  
9 regulation, we really thought it was a great time to come  
10 back and improve upon what we've learned or integrate what  
11 we've learned in the past five and a half years, as well  
12 as make sure that we are updating the regulation to be in  
13 alignment with industry best practices and SEC guidance.

14 And so what is before you is the updated or the  
15 proposed, I should say, the regulation.

16 --o0o--

17 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

18 D'ADAMO: For us, I mentioned that, you know, we have a  
19 Personal Trading Regulation and why do we do it? We  
20 measure and monitor different aspects of personal trading  
21 regulations for individuals and Board members.

22 --o0o--

23 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

24 D'ADAMO: And for us, the reason why we do it is the  
25 recommendations, as I mentioned, align with recent SEC

1 guidance, industry standards, and to increase efficiency  
2 and effectiveness of the personal trading oversight. And  
3 that last item really is a significant one. Because as I  
4 mentioned, five and a half years into this regular -- the  
5 administration of this regulation, we've learned a lot  
6 about personal trading processes, about sort of the  
7 systems that we use, and sort of how -- what is the best  
8 way to be effective and efficient, again sort of moving  
9 toward the automation of monitoring personal trading.

10 --o0o--

11 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

12 D'ADAMO: So for us the proposed train -- the proposed  
13 changes in this regulation encompass essentially three  
14 categories, I would say. The covered person. So one of  
15 the things that we've done, and learned in the last five  
16 and a half years is that we don't need to have as many  
17 individuals considered to be covered persons. When we  
18 originally promulgated the regulation, we were very broad  
19 in terms of who was a covered person. And a covered  
20 person, as you all know, is a person that's subject to the  
21 regulation.

22 And so what we've done in the last five and a  
23 half years is really looked at the impact of the  
24 regulation on the individuals that work here, and have  
25 really made some determinations about to be really

1 targeted in terms of who this regulation needs to cover.

2           And what we've settled on are mostly folks that  
3 are in the Investment Office. Everyone in the Investment  
4 Office is in fact a covered person. And then folks that  
5 touch on investment decision making or have access to  
6 information.

7           And so one of -- again, that's one of the major  
8 changes in this -- in this regulation is to look at and  
9 revise the number of covered persons.

10                   --o0o--

11                   INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

12 D'ADAMO: The second topic, or category, of changes in  
13 this regulation is to include exchange traded funds. And  
14 this is one where we have determined that the inclusion of  
15 exchange traded funds as a covered security - and so a  
16 covered security is a security that subject to the  
17 regulation - is important because it really helps with the  
18 efficient and effective administration of the program.

19           It's very confusing because there are different  
20 types of exchange-traded funds, some of which would  
21 otherwise qualify as covered securities and others that  
22 wouldn't.

23           And so the thought here is that, one, SEC  
24 guidance is that you should include exchange-traded funds,  
25 so we're not outside of guidance that way. But by

1 including exchange-traded funds, we also will provide a  
2 lot more clarity to our covered individuals or our covered  
3 persons around what they need to pre-clear and what  
4 applies to a particular security.

5           So it's really moving towards everything is  
6 included, as it relates to the ETF space. And therefore,  
7 they have a lot more clarity around what they would have  
8 to pre-clear and what they wouldn't have to pre-clear.  
9 And we really estimate that by doing this, we will  
10 significantly cut down on the number of false positives or  
11 violations that we end up seeing, because people just are  
12 not always clear about whether or not something qualifies  
13 as an ETF. And so this is a big one for us, and I think  
14 it was very important for us to do.

15                           --o0o--

16           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

17 D'ADAMO: The next item is -- and really the last one is  
18 sort of the clarifications of the regs. Again, as I've  
19 mentioned a couple of times, it's been five and a half  
20 years since this regulation has been updated. And so  
21 really what we wanted to do is go through and streamline  
22 it and make it more clear in spots where now five and half  
23 into -- years into the administration, we know that  
24 there's sort of questions or interpretations that needed  
25 to be made.



1           And so that's one of the other categories sort of  
2 changes that we've embarked on, and improving and adding  
3 to this regulation.

4           Let's see. I think that's it for that part of  
5 the presentation. I think at this point, I'll stop and  
6 see if there's any questions.

7           CHAIRPERSON HOLLINGER: Well, thank you. We've  
8 had the benefit of experience, and for you to see in areas  
9 where we can improve. And so I really appreciate this  
10 report. And, yes, we have a question.

11           Ms. Mathur.

12           COMMITTEE MEMBER MATHUR: Thank you.

13           My question is really about the covered persons  
14 component of your proposal. And right now, could you just  
15 clarify sort of what are the different categories of  
16 covered persons that are currently included, and which  
17 ones are you thinking -- are you proposing would be  
18 excluded, and also how many people does that entail?

19           I know you still have a study to -- maybe still  
20 have the assessment to do, but do you have a sense of how  
21 many people that entails.

22           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: So I'm going to give you probable  
24 approximations, because I think that my numbers might be  
25 off by one or two here or there, but -- and I might look

1 to my team members too to make sure that they keep my  
2 honest.

3 I would say that the current number is around  
4 650. So we have around 650 individuals that are deemed to  
5 be covered persons within our Personal Trading Regulation.  
6 And on page 73 and 74 of your Board book, it actually  
7 lists sort of those categories of individuals that are --  
8 that are -- either were or proposed to be covered persons.

9 And so what we have done in looking through the  
10 past five and a half years is we've revised the covered  
11 person definition to really be more tight around folks  
12 that are involved in the investment decision making  
13 process. And so again, as I mentioned when we implemented  
14 this, it was a very broad sort of analysis that was used.  
15 And we sort of, I'll say -- well, I was going to say  
16 caught up, and I don't know if that's the right word. But  
17 we've included a lot of individuals that -- you know,  
18 because it was the first time, and we wanted to make sure  
19 that we were being thorough.

20 And so again, five and a half years in, we're  
21 really looking at the activity that we're seeing and the  
22 folks that really need to be reviewed because the other  
23 part of this is that there is a fair amount of work, when  
24 we talk about resources, that go into monitoring the  
25 transactions of individuals.

1           And so we do have electronic feeds for a lot of  
2 our individuals, where the trades are coming in, and  
3 they're being monitored electronically, and they're being  
4 flagged electronically or automatically, I should say, but  
5 we also have other instances where we have manual things  
6 and we have a lot of folks that have questions and things  
7 like that.

8           So we really wanted to keep the covered person  
9 body to those people that we really thought needed to be  
10 involved. And it is a fair amount of -- you know, it's an  
11 effort really to be a covered person. It's not something  
12 that people undertake lightly, because there are  
13 obligations and requirements that come with it. And so we  
14 want to make sure that for those people that we really put  
15 into this role, that they really need to be there.

16           And so I want to say that we've sort of gone --  
17 or the thought is, and I think we're -- the thought is  
18 that we'll go from around 650 to 250 -- to about 200, 250.

19           Okay. So we took 200 out.

20           COMMITTEE MEMBER MATHUR: So I guess my follow-up  
21 question, and I appreciate that you only want -- that we  
22 only want to cover those who should be covered. I think  
23 that is absolutely appropriate.

24           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25           D'ADAMO: Um-hmm.

1           COMMITTEE MEMBER MATHUR: I guess the question I  
2 have is, you know, this is a different organization than  
3 perhaps some financial organizations were, where we do  
4 have an executive team that might be privy from time to  
5 time to some -- some confidential investment information.  
6 I'm thinking, you know, some of our -- some of our public  
7 affairs people, for example, might know certain things  
8 about some pending investment decisions that, you know, in  
9 another company that might not be the case.

10           And I just want to make sure -- and I'm not  
11 trying to target anybody in particular, but I just want to  
12 make sure that those who have access to inside information  
13 about CalPERS investment decision making, either, in  
14 general, as a regular part of their job or even, you know,  
15 might be occasional, that they -- that we're careful about  
16 ensuring that they are reporting appropriately or that  
17 they are covered persons, if they should be.

18           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
19 D'ADAMO: Yes. I mean, we -- in making these proposals,  
20 we have looked at this information a lot of different ways  
21 and have really, I believe, made sure that the folks that  
22 we are covering are those who we think will come into that  
23 contact, and have that as part of their business. I will  
24 also add that -- and I was thinking about this early this  
25 morning, that, you know, the -- there are rules about

1 using non-public material information in trading. And so  
2 all of us whether or not we're a covered person are  
3 subject to those rules. And so we all know as individuals  
4 that may or may not, from time to time, come into  
5 information that we're not allowed to trade on that.

6 And so we think that in drawing the lines around  
7 the folks that we've drawn them around, we've covered  
8 that. But I would also note that, you know, there are,  
9 I'll say, you know, the federal rules, the SEC rules that  
10 are out there.

11 COMMITTEE MEMBER MATHUR: Okay. Thank you.

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: Sure.

14 CHAIRPERSON HOLLINGER: And we've discussed this  
15 before when we were at 650 like it was definitely  
16 overreaching to the people who had access so this really  
17 makes it a lot more efficient and easier to monitor.

18 Mr. Costigan.

19 COMMITTEE MEMBER COSTIGAN: Great. Thank you,  
20 Madam Chair. So I just have a couple concerns, as it  
21 relates to some of these changes, more towards the ETFs.  
22 So I need to understand this. The purpose of an exchange  
23 traded fund is to trade broad based indexes, asset  
24 classes, so I can trade a technology ETF where I may not  
25 be able to trade Apple on a daily basis, because you'd

1 have to Apple for a hold for 30 days.

2           What I'm trying to find out is what's the  
3 distinction, other than the fact you can trade an ETF  
4 daily, between that and a mutual fund? Because I could  
5 trade a mutual fund every 24 hours. I mean, not including  
6 the 30-day wash, but I could go into similar funds. So  
7 ETF I could trade right now. I under -- you know, which  
8 is -- that's why you use ETFs. Mutual fund only trades  
9 once a day at 4:00 o'clock.

10           So there's no problem with -- I just want to make  
11 sure. There's no problem with doing mutual funds every 24  
12 hours, is that right?

13           ENTERPRISE COMPLIANCE ASSISTANT CHIEF WALKER:

14           There we go. Good morning. Justin Walker,  
15 CalPERS team member.

16           You know, the key distinction between ETFs and  
17 mutual funds is ETFs trade on the secondary market. The  
18 price fluctuates throughout the day.

19           Much like a closed-in mutual fund, which is also  
20 a covered security, mutual funds do not trade on the  
21 secondary market. To your point, they -- the price is  
22 marked once a day. And the SEC feels that because the  
23 price can fluctuate in a day, it is -- it has the  
24 potential to be subject to the same abuses that a stock  
25 would.

1           COMMITTEE MEMBER COSTIGAN: What's the cite on  
2 the SEC, please?

3           ENTERPRISE COMPLIANCE ASSISTANT CHIEF WALKER:

4           Bear with me. So that is based on an SEC no  
5 action letter. It was National Compliance Services, Inc.  
6 And the file number for that is 132-3.

7           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

8 D'ADAMO: So what I'll add, Mr. Costigan, is that as  
9 Justin had indicated, there is SEC guidance and support  
10 for including ETFs as part of our covered securities. And  
11 so we've chosen to do that, because we find that there are  
12 ETFs that, even if they're not, you know, a covered  
13 security, or if they're -- they would -- they have the  
14 characteristics essentially that make them covered  
15 securities.

16           And so for us, the inclusion of the ETFs is  
17 really a move towards helping to clarify for our  
18 individuals our covered persons the -- what they need to  
19 do in order to be compliant with our personal trading  
20 regulation.

21           COMMITTEE MEMBER COSTIGAN: This letter -- the  
22 cite is from a September 27, 2012 case, if I'm reading --  
23 132-3, response of the Office of the Chief Counsel,  
24 Division of Investment Management.

25           ENTERPRISE COMPLIANCE ASSISTANT CHIEF WALKER:

1           That's actually November 2005.

2           COMMITTEE MEMBER COSTIGAN:   So we're going back  
3 to a letter that's 13 years old as the basis for the  
4 change in the policy.

5           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
6 D'ADAMO:   Well, I would say that the basis for the change  
7 in policy in a large respect is the fact that we have a  
8 lot of individuals that are unclear about whether or not  
9 ETFs are actually covered, meaning that something that  
10 looks like an ETF may be even might be categorized as an  
11 ETF ultimately ends up being a covered security.

12           So for us, the inclusion of ETFs is really around  
13 helping individuals to be certain about what they need to  
14 do in order to be compliant with our regulation.   And I  
15 will add that the SEC guidance is a little bit more  
16 support -- not a little bit, it's a lot of support towards  
17 indicating that we're not outside of acceptable boundaries  
18 in terms of our Personal Trading Regulation.

19           COMMITTEE MEMBER COSTIGAN:   I'm just looking at  
20 -- I mean, I just want to make sure, just writing my  
21 notes, the letter is 13 years old that we're relying on.

22           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
23 D'ADAMO:   Um-hmm.

24           COMMITTEE MEMBER COSTIGAN:   And the other is if  
25 you're now using Compliance11, which should now become the



1 basis, if you wanted to trade an ETF, the use of  
2 Compliance11 would actually determine whether it's a  
3 covered or non-covered security, rather than the  
4 blanket -- what I'm trying to get as is there's a  
5 system -- we now have a system in place that's got some  
6 flaws, but I know you all are working through that.

7 But if you were to punch in the symbol, it will  
8 tell you whether or not it's a covered security or not.  
9 The current system would do that?

10 ENTERPRISE COMPLIANCE ASSISTANT CHIEF WALKER:

11 Under the current regulations, there's some  
12 distinctions between ETFs, and that's what causes a lot of  
13 the confusion, active versus passive, ETFs versus ETNs.

14 COMMITTEE MEMBER COSTIGAN: Let me --

15 ENTERPRISE COMPLIANCE ASSISTANT CHIEF WALKER:

16 The system cannot recognize that. However,  
17 hundred the proposed regulations, when all ETFs are  
18 covered, the system will function in a fully automated  
19 manner.

20 COMMITTEE MEMBER COSTIGAN: And I guess that's  
21 why I was going to rephrase the question. Under the  
22 current policy, the distinction is between active and  
23 inactive ETFs, and the --

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25 D'ADAMO: That's one of the distinctions.

1           COMMITTEE MEMBER COSTIGAN: And the Compliance  
2 or the Schwab based system that we use is just not capable  
3 of telling us that?

4           ENTERPRISE COMPLIANCE ASSISTANT CHIEF WALKER:

5           Correct. If someone were to put in a  
6 pre-clearance request for an ETF, it would require  
7 individual on the desk to manual review it to determine if  
8 it was active or passive.

9           CHAIRPERSON HOLLINGER: Right.

10          INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: So for the way that we have it now, each ETF  
12 that would be deemed to cover security would individually  
13 have to be coded into the system in order to recognize it  
14 as a covered security, and it would be a covered security  
15 not necessarily because it was an ETF, but because it had  
16 a characteristic that made it a covered security.

17           And so with the proposed regulation in making all  
18 ETFs covered security, it's going to be a very easy and a  
19 very fast way for individuals to know right away, and  
20 whether or not a security is going to be a covered  
21 security.

22          CHAIRPERSON HOLLINGER: There was a lot of  
23 confusion, and this is where we saw a lot of, through  
24 confusion, violations. So we're trying to streamline  
25 that, so --

1 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

2 D'ADAMO: This is really an attempt to mitigate the  
3 confusion --

4 CHAIRPERSON HOLLINGER: Right. Right.

5 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

6 D'ADAMO: -- that occurs when folks aren't sure that  
7 something either is or is not an ETF, or is or is not a  
8 covered security. And so you'll have someone who won't  
9 pre-clear something, because they think that it's not  
10 required, and then they'll end up with a violation.

11 COMMITTEE MEMBER COSTIGAN: No, I understand  
12 that. I appreciate that. I mean, my concern is the fix  
13 is blanket rather than looking at fixing the system.

14 CHAIRPERSON HOLLINGER: Well, I don't think  
15 through the nuance in the automation, unless we blanket  
16 it, we can't fix it.

17 COMMITTEE MEMBER COSTIGAN: That's -- I just -- I  
18 just have concerns. The purpose of an ETF --

19 CHAIRPERSON HOLLINGER: No, I understand your  
20 concerns.

21 COMMITTEE MEMBER COSTIGAN: -- is the ability not  
22 to trade an individual stock, and to have a little more  
23 ability to work inside of your portfolio. What we're now  
24 doing is moving it out to 30 days, and it's a software  
25 issue. I understand that. And it's --

1           CHAIRPERSON HOLLINGER: Yeah, it's software  
2 issue. We can't do the code -- we can't get nuanced in  
3 our coding.

4           COMMITTEE MEMBER COSTIGAN: But Justin did dial  
5 me into a new site that actually shows the distinctions.  
6 It just requires a little more work to go through it.

7           So anyway. I know this is a first reading. I'll  
8 have more questions next time.

9           Thank you.

10          CHAIRPERSON HOLLINGER: Okay. Thank you.

11          Mr. Slaton.

12          VICE CHAIRPERSON SLATON: Maybe a clarification.  
13 Is this -- this isn't a first reading, is it? This is an  
14 action item or not?

15          INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

16 D'ADAMO: This is an action item, right.

17          VICE CHAIRPERSON SLATON: Oh, it's an action item  
18 to move the regulation process forward.

19          INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: To move -- correct.

21          VICE CHAIRPERSON SLATON: Okay.

22          INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: And so what happens is it would then go to the  
24 Office of Administrative Law.

25          VICE CHAIRPERSON SLATON: Right.

1 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

2 D'ADAMO: It would go through that process, public comment  
3 period, and then it would be promulgated, if there aren't  
4 any changes.

5 VICE CHAIRPERSON SLATON: Okay. As one person  
6 who makes many phone calls over the years to Justin Walker  
7 to try to clarify whether something is a covered security  
8 or not, I'm very much in favor of this to kind of simplify  
9 and kind of set a standard. I have found in the time I've  
10 been on this Board that the responsiveness of Compliance  
11 has been excellent. And while I have to go through a  
12 step, that step is pretty easy to do, and the timeliness  
13 of the response has been good, and has not prevented me  
14 from doing whatever I want to do from an investment  
15 standpoint.

16 So I think it's a good step to do this, good  
17 clarification, and I think it will reduce the number of  
18 phone calls that I have to call you to go over the  
19 details. So with that, I would move the action item.

20 COMMITTEE MEMBER MATHUR: Second.

21 CHAIRPERSON HOLLINGER: Okay. There's --

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: You're still welcome to make those phone calls.

24 (Laughter.)

25 VICE CHAIRPERSON SLATON: That's all right. I

1 probably will anyway, but...

2 CHAIRPERSON HOLLINGER: This item has been moved  
3 by Slaton, seconded by Mathur.

4 All those in favor?

5 (Ayes.)

6 CHAIRPERSON HOLLINGER: Any opposed?

7 Motion carries.

8 So now we're on Agenda Item 7. Mr. Grimes, your  
9 report on the 2018-2019 Enterprise Risk Management Plan.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
11 D'ADAMO: So while he's coming up with me is Forrest  
12 Grimes, Chief Risk Officer for CalPERS. He'll be  
13 presenting the Risk Management Annual Plan.

14 CHIEF RISK OFFICER GRIMES: Good morning, Madam  
15 Chair, Committee members, Board members. I think it's  
16 worthy to note that Mr. Feckner joined during the  
17 compliance plan presentation. Thank you for attending.

18 Forrest Grimes, CalPERS team. Today, what we're  
19 really doing -- oh, if I could get you to turn to page 153  
20 in your Board books, please. This is the annual  
21 Enterprise Risk Management Workplan submitted for your  
22 reviewed and approval.

23 I think that if you -- as you look at this item,  
24 you'll really note that what we're doing here is we're  
25 transitioning from really what I'm going to call

1 infrastructure development to implementation, with one  
2 exception, which is the data governance item. That's  
3 really new to the risk team, and we're really still in the  
4 planning phase of that very important element.

5 With that, I'm going to pause and see if you have  
6 questions on any of the specifics within the plan.

7 Thank you.

8 CHAIRPERSON HOLLINGER: I see no questions.

9 Continue.

10 CHIEF RISK OFFICER GRIMES: Okay. Really, we  
11 don't have anything further to present, other than the  
12 plan itself. And we would seek your approval at this  
13 time.

14 CHAIRPERSON HOLLINGER: Okay.

15 COMMITTEE MEMBER MATHUR: Move approval.

16 CHAIRPERSON HOLLINGER: Okay. Motion made by  
17 Mathur.

18 COMMITTEE MEMBER COSTIGAN: Second.

19 CHAIRPERSON HOLLINGER: Second by Costigan.

20 All those in favor?

21 (Ayes.)

22 CHAIRPERSON HOLLINGER: Any opposed?

23 Motion passes.

24 CHIEF RISK OFFICER GRIMES: Thank you very much.

25 And if I might note that we have a few of the Risk Team

1 members here. We're kind of a small but mighty team, and  
2 I would like them at least to wave to you, so that you can  
3 see who --

4 CHAIRPERSON HOLLINGER: Well, I want to thank  
5 them on -- this is a tremendous undertaking, and the  
6 thoroughness, the methodology, it's very impressive. So  
7 thank you.

8 CHIEF RISK OFFICER GRIMES: I know they're going  
9 to scurry off and start on it right away now that it's  
10 approved. So thank you for that.

11 (Laughter.)

12 CHAIRPERSON HOLLINGER: Okay. Thank you. Wave.  
13 Okay. We're waving back. Okay. Thank you.

14 So that brings us to Agenda Item 8, Ms. Chappuie,  
15 on the 2018-2019 Audit Services Plan.

16 (Thereupon an overhead presentation was  
17 presented as follows.)

18 CHIEF AUDITOR CHAPPUIE: Good morning, Madam  
19 Chair, members of the Committee. Beliz Chappuie, CalPERS  
20 team. Agenda item 8a is action item, Office of Audit --  
21 staff is requesting Risk and Audit Committee to approve  
22 Office of Audit Services proposed audit plan for fiscal  
23 year 2018-19.

24 The internal auditing standards we follow require  
25 the audit plan to be risk based to determine the



1 priorities of the internal audit activities. In  
2 conducting the risk assessment, Office of Audit Services  
3 is the third line of defense coordinated its efforts with  
4 the second line of defense, Enterprise Compliance Division  
5 and Enterprise Risk Management Division.

6 We interviewed CalPERS executive and senior  
7 management teams, and sought input from the Board members  
8 through surveys. Office of Audit Services has two audit  
9 programs, internal audits and public agency reviews. In  
10 identifying the internal audit activities and assignments,  
11 staff evaluated multiple risk factors, contribution to the  
12 organization's strategic goals, changes in the operations  
13 and regulations, impact on the financial statements,  
14 existing internal controls, and information from prior  
15 internal and external audits.

16 For the public agency reviews, Office of Audit  
17 Services plans to complete four review cycles during  
18 fiscal year 2018-19 covering one compliance area per each  
19 cycle. Using data analytics, staff will identify  
20 approximately 60 to 80 high risk agencies for review for  
21 each cycle.

22 In preparing the internal audit plan, Office of  
23 Audit Services also allocated resources to the consult --  
24 to consulting engagements, special projects, and  
25 activities related to contracted external audits and

1 reviews.

2           As required by the internal auditing standards,  
3 we'll remain responsive to the changes in the  
4 organizations operations and programs, and we'll review  
5 and update the audit plan for fiscal year 2018-19 as  
6 necessary. Any modifications to the audit plan will be  
7 communicated to the Committee through the quarterly status  
8 reports.

9           This concludes my presentation, and I'm happy to  
10 answer any questions.

11           CHAIRPERSON HOLLINGER: Ms. Mathur.

12           COMMITTEE MEMBER MATHUR: Thank you. My question  
13 is with respect to public agency reviews. For several  
14 years now, we've been using data analytics to help  
15 identify sort of the key areas we should be focusing on --  
16 and in public agency reviews.

17           Over time, can you -- can you talk about have you  
18 seen a change in the type of issues that are arising? Are  
19 you seeing -- are the same issues continuing to be  
20 prevalent, and what can we -- and are -- so I guess what I  
21 really want to do is if we can get to sort of the root of  
22 some of these problems, and address them in a systemic  
23 way, that could reduce your workload potentially.

24           CHIEF AUDITOR CHAPPUIE: We would love to see  
25 that happen as well.

1 COMMITTEE MEMBER MATHUR: Yes, yeah.

2 CHIEF AUDITOR CHAPPUIE: What we're doing -- this  
3 is the -- this will be the third year, since we  
4 implemented the new approach and we've been using the BI  
5 data, business intelligence data, in identifying these  
6 high-risk entities, and we still continue to see issues  
7 and problems. Depending on the compliance area we're  
8 reviewing, some of the issues are prone to staff turnover.  
9 Although our program staff provides a lot of resources and  
10 training to the public agencies. Certain reporting issues  
11 still come up, continue to come up.

12 And I guess audits will be a way of continuing to  
13 keep an eye on it, and going out to the public agencies,  
14 and basically showing them, you know, we're still keeping  
15 an eye on it, and we're monitoring it, and making sure all  
16 this reporting is taking place in accordance to the PERL.

17 COMMITTEE MEMBER MATHUR: Yeah, I guess -- I  
18 guess I would challenge us. And it's not the Audit  
19 Services role, but I would challenge us to think about if  
20 there are these perennial issues, to think about what  
21 requirements can we place on employers in terms of  
22 mandating new -- you know, if they have a new payroll  
23 person that they do this training immediately. And maybe  
24 we already have these things in place, and it's not --  
25 it's not sufficient, but --

1 CHIEF AUDITOR CHAPPUIE: And that's my partner  
2 here to --

3 (Laughter.)

4 COMMITTEE MEMBER MATHUR: Ms. Ostrander knows the  
5 answer to my question.

6 EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF  
7 OSTRANDER: Good morning. Renee Ostrander, CalPERS team  
8 member.

9 We do -- directly to your point, we do look at  
10 enhancing the training in areas where we do see that  
11 there's a lot of difficulty in attaining compliance. And  
12 so we target areas where we find that there's high risk  
13 and that auditors go out, and we find that there's a  
14 significant number of findings. We do target what we do  
15 for that training.

16 But Beliz is right, you do have turnover, and you  
17 have these other things that you take two steps forward in  
18 doing that training, and then you take a step back. And  
19 so you need to make sure that you catch those people. And  
20 we do try to do that.

21 Also, in some of the work that we've done with  
22 our audit resolution process, we've changed that quite a  
23 bit over the last year, and we've had quite a bit of  
24 success. One of the things that we've placed into there  
25 is where we have employers that have continual issues in a

1 particular area. We are looking at requiring training.  
2 And so kind of building that additional step in as type of  
3 a mitigation process, for that particular employer where  
4 we've noticed that we're not getting the compliance to  
5 become a habit for them.

6 COMMITTEE MEMBER MATHUR: Right. Okay. Well,  
7 that sounds good. Thank you.

8 CHAIRPERSON HOLLINGER: Thank you.

9 Seeing no further questions, this is an action  
10 item.

11 COMMITTEE MEMBER MATHUR: Move approval.

12 CHAIRPERSON HOLLINGER: Okay.

13 COMMITTEE MEMBER COSTIGAN: Second.

14 CHAIRPERSON HOLLINGER: Moved by Mathur, second  
15 by Costigan.

16 All those in favor?

17 (Ayes.)

18 CHAIRPERSON HOLLINGER: Any opposed?

19 Motion carries.

20 Now, we're on 8b, the independent auditor's 2018  
21 annual plan.

22 (Thereupon an overhead presentation was  
23 presented as follows.)

24 CHIEF AUDITOR CHAPPUIE: Beliz Chappuie again.

25 Moving on to Item 8b. This item also is an

1 action item. Staff is requesting Risk and Audit Committee  
2 to approve independent auditor KPMG's audit plan for  
3 CalPERS financial statements for fiscal year ending June  
4 30, 2018. KPMG staff is here presenting with me.

5 I'll turn it over to them to present their audit  
6 plan, and provide the Risk and Audit Committee an  
7 opportunity to ask any questions that you may have.

8 MR. ROMANO: Mic. Great. And do we need the  
9 clicker as well for advancing slides?

10 Thank you very much. Good morning, Madam Chair,  
11 Committee Members, Board members.

12 Since this is the first time KPMG is appearing  
13 before the Board, I thought before we got into our  
14 presentation we might just do a brief introduction of the  
15 team members that we have here this morning for you. So  
16 I'll get going.

17 My name is Brock Romano. I'm an audit partner in  
18 what we call our public sector line of business. That's  
19 the line of business that focuses exclusively with State  
20 and local governments. I've spent the better part of my 30  
21 plus years working within that group.

22 The last few years that -- in terms of relevant  
23 experience here in California, I've worked with several of  
24 the public agencies, either in my role as a lead audit  
25 partner, a concurring partner, and/or, what we call, a

1 GASB 68 specialist to make sure that those public agencies  
2 properly reflect their participation in your PERFs,  
3 primarily PERF A, you know, in their financial statements.

4 I've also had the pleasure of working with  
5 multiple State public employee retirement systems  
6 primarily in the northeast, Massachusetts, New Hampshire,  
7 Vermont, Maine, New York, New Jersey, and also the State  
8 of Georgia.

9 Excited to be part of the KPMG/CalPERS team  
10 presenting and meeting you folks for the first time.  
11 Looking forward to working with Management and so forth.  
12 I'll let my colleagues kind of also introduce themselves,  
13 and then we'll get into the agenda.

14 MS. AVIS: Hi. My name is Lisa Avis. I am  
15 managing director, also in the public sector line of  
16 business with KPMG. I have spent the majority of my 20  
17 years in that line of business. I've worked with several  
18 State agencies here in California. I am located just a  
19 couple blocks away in our office here in Sacramento.

20 For a couple years of my career, I actually did a  
21 fellowship with the Governmental Accounting Standards  
22 Board. And to echo Brock again, happy to be here to serve  
23 you

24 MS. GYORFI: Hi. My name is Bridgett Gyorfi. I  
25 am a senior manager in our Sacramento office. And I just

1 got back from doing a rotation in our national office in  
2 New York. And I'm excited to be working with CalPERS  
3 Management and using some of the skills that I've learned  
4 in our national office and applying them to this  
5 engagement.

6 --o0o--

7 MR. ROMANO: Thank you, Lisa. Thank you  
8 Bridgett.

9 So just moving through the agenda, I will cover  
10 the first two agenda items, the client service team and  
11 the scope of services. I'll ask Lisa to take us through  
12 the objectives all the way through risk assessment.  
13 Bridgett will spend a moment talking about our audit  
14 approach, and the focus areas.

15 I think for the folks that have been through this  
16 in the past, a lot of this will seem familiar in terms of  
17 scale and scope. And then I'll close out the meeting with  
18 a discussion about some of our independence quality  
19 standards, touch a little bit upon some of the recent  
20 county pronouncements from GASB, and then quickly wrap-up.

21 --o0o--

22 MR. ROMANO: So with that, I'm flipping into our  
23 client service team. It's a fairly robust and complicated  
24 team, as you'd imagine. I think the takeaways that I'd  
25 like to leave with the Committee is that myself, Bridgett,



1 and Lisa, along with John Hubbe, who's our concurring  
2 partner, constitute what I call the core engagement team.  
3 So it's our responsibility to coordinate the 40 to 50  
4 professionals, if you will, that are going to assist us in  
5 the conduct of this year's -- this year's audit.

6 Our team does contemplate the use of, what we  
7 call, some subject matter professionals. I think the  
8 first step that KPMG goes through, when we put together an  
9 audit team, is to understand kind of the complexities of  
10 our client, what specialized skills they might need, and  
11 then to tailor the team to reflect those needs.

12 So you'll notice on the right-hand side of our  
13 slide, we've got some subject matter professionals that  
14 encompass governments, GASBs, public employee retirement  
15 systems, specialists in investments, actuarial services,  
16 IT, and even investment valuation services.

17 Some of those folks will have, what I'll  
18 describe, as a direct involvement client facing working  
19 with members of CalPERS management. Others will be on a  
20 consultive basis to assist us in dealing with complex  
21 accounting issues as they come up, and -- as well as our  
22 subcontractors who is part of our plan.

23 So pause for a minute if there is questions on  
24 the team, and certainly invite the Committee members to  
25 make this interactive if they so desire.



1 well as communicate any of the required matters under  
2 professional standards. And then to the extent that  
3 there's any comments that we have on process improvements,  
4 internal control deficiencies. Don't like to use the  
5 word, but nonetheless that's the standard word. If there  
6 are such items, we'll write those up and have a report to  
7 this Committee at that time.

8 I just wanted to touch a little bit on timing.  
9 Normally, our timing kind of happens in distinct phases  
10 with planning and field work kind of happening separately,  
11 given -- given where we are in the calendar, that has kind  
12 morphed into one process all geared towards achieving the  
13 milestone -- the statutory reporting deadlines at the end  
14 of October, and then being able to present to this  
15 Committee for approval and issuance sometime in November.

16 The plan is to have the GASB 68 and 75  
17 deliverables issued within two to three weeks after the  
18 issuance of the CAFR.

19 So with that, I'm going to hand it off to Lisa,  
20 who's going to walk us through the next few slides.

21 Thank you.

22 --o0o--

23 MS. AVIS: Okay. Thank you, Brock.

24 So you've all been through an audit, so you're  
25 familiar with the objectives of an audit. The purpose is

1 to express an opinion on the financial statements that are  
2 prepared by management with your oversight to make sure  
3 they are fairly presented.

4 Now, in order to achieve that objective, we plan  
5 and perform the audit to provide reasonable, not absolute  
6 assurance, that those financial statements are fairly  
7 presented.

8 In order to achieve that, we test -- we design  
9 tests to look at the accounting records that are used to  
10 prepare those financial statements. We look at estimates.  
11 And I'll talk about estimates later. I mean, this is a  
12 retirement system. There's quite a few estimates that go  
13 into compiling those numbers within the financial  
14 statements.

15 As Brock had mentioned, there are several  
16 deliverables. One of them is issued in accordance with  
17 government auditing standards. And so because of that,  
18 there are some controls we have to consider and compliance  
19 with laws and regulations that are part of our audit as  
20 well.

21 --o0o--

22 MS. AVIS: So the next few slides here we'll talk  
23 about responsibilities of management of the Risk and Audit  
24 Committee and of us, KPMG. So management is responsible  
25 for the preparation of those financial statements.

1 Management is also responsible for making any adjustments  
2 that they are aware of to make sure those financial  
3 statements are fairly presented, when the report is  
4 issued.

5 Management is also responsible for maintaining  
6 internal control over the financial statement preparation.  
7 Now, we don't opine on internal control, but we are  
8 required to consider it as part of our audit. And so we  
9 would be looking at was there the reviews over the  
10 financial statements, analytical procedures performed by  
11 management over those reports that are issued.

12 Management also will provide us with access to  
13 books and records so that we can complete our audit. And  
14 then at the end of the audit, there's a representation  
15 letter we call the management representation letter that  
16 management will sign acknowledging the responsibility for  
17 these key elements within the audit.

18 The Risk and Audit Committee and management  
19 overall are responsible for the tone at the top, just  
20 setting proper tone at the top, making sure that the  
21 financial statements comply with the appropriate  
22 standards, and compliance with laws and regulations, as it  
23 relates to the financial reporting process.

24 --o0o--

25 MS. AVIS: As I had stated earlier, we plan to

1 perform the audit in accordance with generally accepted  
2 auditing standards and government auditing standards.  
3 There is also some other information issued within the  
4 CAFR. You know, the CAFR, we have a copy here. Pretty  
5 thick document.

6 And so our opinion covers the financial  
7 statements, but there is other information within the CAFR  
8 that we are required to read for consistency within the  
9 document, as it relates to the financial statements.

10 --o0o--

11 MS. AVIS: Okay. So there's quite a few bullets  
12 here. And I'm -- I'm not going to read them all, but we  
13 will maintain constant communication throughout the audit.  
14 We will be on site working with CalPERS team here. We'll  
15 have weekly status meetings. And during that time, we'll  
16 be communicating the status of our audit. If we identify  
17 any issues, that will be the time that we bring those up  
18 as well. No one like surprises at the end, so we want to  
19 maintain constant communication throughout the audit.

20 In five short months here, we'll be back here for  
21 another Risk and Audit Committee to present the results of  
22 those audits. If so, there's a variety of things that  
23 we're required to communicate, as Brock had said. Our  
24 opinion over the financial statements, and any findings,  
25 or other matters that are required to be communicated will

1 be presented at that time.

2 --o0o--

3 MS. AVIS: Okay. So moving on to materiality  
4 within our audits. So no longer is materiality just a  
5 mathematical calculation. In addition to the quantitative  
6 factors that we consider in calculating materiality,  
7 there's a lot of qualitative aspects that we consider as  
8 well.

9 So our determination of materiality, it's a  
10 matter of professional judgment. And it considers the  
11 financial information needs of the users of those  
12 financial statements. So there are several deliverables  
13 that we had mentioned. When we calculate our materiality,  
14 there are key elements. There's opinion units within  
15 those deliverables. There's key elements. So our  
16 materiality is calculated at a level to make sure that we  
17 can touch on those key elements. So it's not  
18 one-size-fits-all materiality when it comes to our audits  
19 here.

20 --o0o--

21 MS. AVIS: Okay. So we are, you know, a couple  
22 weeks into the audit here. And we're in the risk  
23 assessment phase of the audit. And so based on our  
24 initial assessment coming in, there's -- there's a few  
25 risks here that we identify as significant risks. And

1 these areas are susceptible to misstatement, either by the  
2 nature of the accounting or a rebuttal procedures from the  
3 AICPA.

4 So the first one is the risk of management  
5 override of controls. Now, this is a -- it's -- the risk  
6 will vary from entity to entity, but it is present just  
7 based on the nature of management's role and the access to  
8 books and records. And so --

9 CHAIRPERSON HOLLINGER: I'm going to interrupt  
10 you.

11 MS. AVIS: Yes. Yes, of course.

12 CHAIRPERSON HOLLINGER: We're on a timed agenda  
13 now.

14 MS. AVIS: Okay.

15 CHAIRPERSON HOLLINGER: So I want to kind of  
16 stick with that. So at this point, I'm going to ask my  
17 fellow Board members if there are any questions. And I  
18 see a few. And so -- because obviously this is not our  
19 first audit --

20 MS. AVIS: Right.

21 CHAIRPERSON HOLLINGER: -- so let's take  
22 questions from the Board.

23 Mr. Slaton.

24 VICE CHAIRPERSON SLATON: Thank you, Madam Chair.  
25 I want to go back to page 7 of 19. And I've been



1 involved in a -- from a governance standpoint in lots of  
2 audits for different organizations. And I run into this  
3 same language all the time. So I'd like you to expand on  
4 it a little bit. And that's in the KPMG responsibilities.  
5 And I see this in a lot of audits. It's not just this  
6 one.

7           So you can audit -- the audit of financial  
8 statement includes consideration of internal controls or  
9 financial reporting. But then it goes on to say, but not  
10 for the purpose of expressing an opinion on the  
11 effectiveness of the internal controls. So that always is  
12 kind of a sticking point with me that you're talking into  
13 consideration the internal controls, but you're not  
14 opining on their effectiveness. So can you expand on why  
15 that carve-out on the internal controls?

16           MR. ROMANO: Great. Thank you.

17           Well, one is a requirement and one is not a  
18 requirement. So for public companies, there is a  
19 requirement, a mandate with Sarbanes-Oxley to actually  
20 opine on internal controls. And in a non-Sarbanes-Oxley  
21 environment, there is -- there isn't a requirement, so it  
22 becomes a matter of -- a matter of judgment both in terms  
23 of time, cost, and effectiveness as to whether planning an  
24 audit to rely on controls and opine on controls is  
25 conducted.

1           So we will -- our approach will be to gain an  
2 understanding of controls. We will test some elements of  
3 controls for purposes of operating effectiveness. But the  
4 objective of the audit in a non-public environment does  
5 not include the expression of an opinion. Some of my  
6 public sector clients at the beginning of Sarbanes-Oxley  
7 when it was release debated and thought about whether they  
8 would voluntarily go through this exercise.

9           I don't recall if anyone actually did. None of  
10 my clients certainly has. That was something that  
11 CalPERS, you know, wanted or desired, you know, there is a  
12 possibility it could be incorporated into the scope of  
13 services. There would be a time and a cost element to it.

14           VICE CHAIRPERSON SLATON: Right.

15           Well, you know, I understand, you know, this is  
16 annual audit that we have.

17           MR. ROMANO: Yeah.

18           VICE CHAIRPERSON SLATON: And I understand the  
19 cost implications of opining on internal controls. But it  
20 seems to me that every some number of years it might be of  
21 value to do that, to get another pair of eyes looking at  
22 our internal controls deeper than you do in the normal  
23 audit process.

24           MR. ROMANO: Yep.

25           VICE CHAIRPERSON SLATON: Would you concur that

1 possibly that might be of value on a periodic basis?

2 MR. ROMANO: I think -- I think more information  
3 on your internal controls and its operating effectiveness  
4 is always better than less.

5 Our audit will provide testing of internal  
6 controls, short of an opinion. And we will communicate  
7 those results both to management and if there's  
8 deficiencies in our deliverables to the Risk and Audit  
9 Committee.

10 I think the one observation I would have if  
11 CalPERS were to voluntarily try to submit themselves to an  
12 opinion on internal controls, I think it would be an all  
13 in or an all out. To do it every third year or fifth  
14 year, I wonder whether you'd have the momentum and the  
15 scale to continue that. But certainly is worth  
16 contemplating and thinking about.

17 VICE CHAIRPERSON SLATON: Well, I'd ask the Chair  
18 to consider asking staff to look at that, and to see, you  
19 know, if there's value in doing that. Maybe you have an  
20 opinion already.

21 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
22 D'ADAMO: I'm waiting for Ms. Hollinger.

23 CHAIRPERSON HOLLINGER: Yes.

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
25 D'ADAMO: Yes, we can do that.

1 CHAIRPERSON HOLLINGER: Yeah.

2 VICE CHAIRPERSON SLATON: Okay.

3 CHAIRPERSON HOLLINGER: Any other questions.

4 VICE CHAIRPERSON SLATON: No, I'm seeing if he's  
5 addressing the same issue.

6 INTERIM CONTROLLER URBAN: Taylor Urban, CalPERS  
7 team member.

8 I know we have discussed this the past few years  
9 with MGO and I think the decisions was mostly that it was  
10 cost prohibitive, that the cost of the audit would go up  
11 so much for what was really gained, that I think that's  
12 where we came down.

13 VICE CHAIRPERSON SLATON: Well, I'd like the  
14 Committee to see it, and to at least see what the decision  
15 process is, and what the cost might be to do that. And we  
16 can weigh it to see if it's -- if we want to consider it.

17 CHAIRPERSON HOLLINGER: So if you can just  
18 provide us with that, that would be terrific.

19 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
20 D'ADAMO: So to be clear, we will do a review to determine  
21 whether or not we need to -- or what it would take, I  
22 guess, is the question. What it would take --

23 CHAIRPERSON HOLLINGER: Well, yeah, the cost  
24 benefit.

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: The cost benefit analysis of doing --

2 CHAIRPERSON HOLLINGER: Right.

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

4 D'ADAMO: -- a review along the lines of what Mr. Slaton  
5 has indicated.

6 CHIEF AUDITOR CHAPPUIE: A clarification  
7 question. Are we speaking for future assignments, not  
8 this current one, correct?

9 CHAIRPERSON HOLLINGER: Yes.

10 CHIEF AUDITOR CHAPPUIE: Are we going to --

11 VICE CHAIRPERSON SLATON: Well, if it creates a  
12 time problem on this one, then --

13 CHIEF AUDITOR CHAPPUIE: It does.

14 VICE CHAIRPERSON SLATON: -- I certainly  
15 understand that and would defer to staff of on that. But  
16 I think that going -- on a go-forward basis, I think we  
17 should examine that more closely to see if we believe it's  
18 of value at the end of the day to get an outside opinion  
19 regarding the effectiveness of internal controls.

20 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

21 D'ADAMO: We can do that.

22 CHAIRPERSON HOLLINGER: Okay. Thank you.

23 Mr. Costigan.

24 COMMITTEE MEMBER COSTIGAN: I'll try to be very  
25 quick. So appreciate you all being here. So just very

1 quickly, what California State agencies have you done work  
2 with?

3 MR. ROMANO: Sure. So I was the lead audit  
4 engagement partner for the City Long Beach for a few  
5 years. And in my role as concurring partner, City and  
6 County of San Francisco GASB 68 specialist. The City and  
7 County of San Francisco and LA Water District concurring  
8 partner, and probably a few others who have been --

9 COMMITTEE MEMBER COSTIGAN: But any State  
10 agencies?

11 MR. ROMANO: I'm sorry?

12 COMMITTEE MEMBER COSTIGAN: Any State agencies?

13 MR. ROMANO: I was the concurring review partner  
14 when we were the auditors for the State for the single  
15 audit work that we were doing there several years ago.

16 COMMITTEE MEMBER COSTIGAN: Sorry, for the?

17 MR. ROMANO: So we were the auditors of the State  
18 of California federal programs. And I was the concurring  
19 partner during that -- during that time period that  
20 KPMG --

21 COMMITTEE MEMBER COSTIGAN: And who was that  
22 through?

23 MS. AVIS: The State Auditor's Office.

24 COMMITTEE MEMBER COSTIGAN: Okay. So you were  
25 hired by the State Auditor.

1 MS. AVIS: Yes.

2 COMMITTEE MEMBER COSTIGAN: Okay. So just a  
3 couple quick questions on this, because I'm trying to  
4 understand the reporting. And I'm a little concerned  
5 about slide 10. Are you receiving direction? Who is your  
6 direct report? Who do you directly report to?

7 MR. ROMANO: Who do we individually?

8 COMMITTEE MEMBER COSTIGAN: Who does this  
9 contract directly report to?

10 MR. ROMANO: We've been working with General  
11 Counsel and Finance folks. I don't think we've been here  
12 long enough to have all the nomenclature down, but those  
13 are the folks that we've been working directly with.

14 COMMITTEE MEMBER COSTIGAN: And I know we're very  
15 short on time. And, Madam President -- or Madam Chair, I  
16 certainly hope we have a further discussion, more than  
17 probably before five months, because on page 10 you seem  
18 to have -- is this an actual finding or is it a view of  
19 the world?

20 MR. ROMANO: So you're talking about risk  
21 assessments?

22 CHAIRPERSON HOLLINGER: Correct.

23 COMMITTEE MEMBER COSTIGAN: Yes, because you've  
24 made -- you have three bullet points here.

25 MR. ROMANO: Sure. Sure. So the auditing

1 standards -- and the audit -- the auditing profession uses  
2 terminology that's somewhat meaningful to us. It has  
3 sometimes different meanings to the non-practitioner. So  
4 risk assessment to us is just what areas pose a potential  
5 risk to financial statement presentation. So the contents  
6 of your CAFR, are there activities in terms of processing  
7 transactions, internal controls, assumptions, things that  
8 involve management estimates, things that -- things that  
9 involve judgment that could be subject to bias, could be  
10 subject to manipulation, could be subject to override.

11           And the professional standards require us to  
12 understand those risks, so we can design appropriate audit  
13 procedures to address those risks. It doesn't mean that  
14 the -- it doesn't mean that they're occurring. It doesn't  
15 mean that there is inherent --

16           CHAIRPERSON HOLLINGER:

17           COMMITTEE MEMBER COSTIGAN: So, I'm sorry,  
18 because I know we're short on time. I just want to  
19 clarify. The language used in here is just industry  
20 language. This is not a finding, because --

21           MR. ROMANO: No, this --

22           COMMITTEE MEMBER COSTIGAN: -- as someone that  
23 looks at words, "Management is in a unique position..."

24           MR. ROMANO: That is --

25           COMMITTEE MEMBER COSTIGAN: That's just an --



1 that's industry language.

2 MR. ROMANO: Industry language.

3 COMMITTEE MEMBER COSTIGAN: Okay. Good. I  
4 just -- again, words have meaning. Very important that  
5 that be caveated somewhere, because if someone is looking  
6 at this slide, the way it actually reads is you've  
7 identified three significant risks, particularly because  
8 you talk about one of our portfolios. You don't have a  
9 discussion. You talk about high degree of judgment, which  
10 is actually what we pay staff around here for. So there's  
11 a subjective versus an objective standard, particularly in  
12 investments.

13 And so I am -- I just want to make sure, Madam  
14 Chair --

15 CHAIRPERSON HOLLINGER: No, I agree with you.

16 COMMITTEE MEMBER COSTIGAN: -- that there's  
17 additional information somewhere, because the way this is  
18 written creates uncomfort for me.

19 MR. ROMANO: Sure.

20 COMMITTEE MEMBER COSTIGAN: -- as a Board member.  
21 So thank you.

22 CHAIRPERSON HOLLINGER: And also, you know, we're  
23 a public agency, so to put something out there that you  
24 haven't made a determination would not be appropriate.

25 MR. ROMANO: Understood. Thank you.

1           GENERAL COUNSEL JACOBS: Ms. Hollinger, may I  
2 address Mr. Hollin --

3           (Laughter.)

4           CHAIRPERSON HOLLINGER: We're not married.

5           (Laughter.)

6           GENERAL COUNSEL JACOBS: I'll keep my mouth shut.

7           (Laughter.)

8           GENERAL COUNSEL JACOBS: Address the question  
9 that Mr. Costigan asked with respect to who KPMG, the  
10 independent auditor reports to. Ultimately, KPMG reports  
11 to the Risk and Audit Committee. They're going to work  
12 with the Financial Office very closely on a day-to-day  
13 basis to look at the papers, and understand how we work,  
14 and all of that, but they report to the Risk and Audit  
15 Committee.

16           COMMITTEE MEMBER COSTIGAN: Thank you

17           CHAIRPERSON HOLLINGER: Thank you. I appreciate  
18 that. Okay. Seeing no further questions, this is an  
19 action item.

20           COMMITTEE MEMBER MATHUR: Move approval.

21           COMMITTEE MEMBER COSTIGAN: Second.

22           CHAIRPERSON HOLLINGER: Okay. Moved by Mathur,  
23 second by Costigan.

24           All those in favor?

25           (Ayes.)

1 CHAIRPERSON HOLLINGER: Any opposed?

2 Okay. Motion carries.

3 We're on to number 9, Information Agenda Items,  
4 Enterprise Risk Management Framework Review.

5 Mr. Grimes.

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

7 D'ADAMO: So we have Mr. Grimes coming up again for this  
8 one.

9 CHIEF RISK OFFICER GRIMES: Hello again, Madam  
10 Chair.

11 CHAIRPERSON HOLLINGER: Hello.

12 (Laughter.)

13 (Thereupon an overhead presentation was  
14 Presented as follows.)

15 CHIEF RISK OFFICER GRIMES: Forrest Grimes,  
16 CalPERS team. I'm joined by Melissa Azevedo, who is our  
17 Assistant Chief Risk Officer as CalPERS.

18 I'd like of you turn to Board Books page 138,  
19 please. This is a diagram that you have seen in many  
20 presentations, and it's been slightly refined this time.  
21 But I would like to, as a reminder and for the newer Board  
22 members, to just kind of take a look at the journey that  
23 we've been on. We refined the risk dashboard profiles and  
24 heatmap back in November 2016.

25 In January 2017, we actually had a risk appetite

1 workshop that many of you participated in. In June of  
2 '17, we presented the risk appetite statements to this  
3 Committee. If you go down to November of '17, this is a  
4 very important element, because we've aligned the  
5 enterprise risk to the strategic goals of the  
6 organization.

7 I think that's a very important step. This has  
8 been done in collaboration with the strategic planning  
9 team. And I know that Sabrina Hutchins and her team are  
10 going to be presenting some performance updates to you  
11 next month at the off-site. And this will further  
12 solidify the alignment of the enterprise risks and the  
13 enterprise goals.

14 And so I think that's really what we're after  
15 here today. Today, we're really going to present the  
16 strategic risk measures to you, which are -- is the  
17 equivalent of the performance measures, however, on the  
18 risk side.

19 This really is an exciting thing for the risk  
20 team, because what it really does is it concludes what I'm  
21 referring to as that infrastructure phase. And it  
22 actually transitions to implementation phase, so that we  
23 can use those tools to better manage the risk to the  
24 organization.

25 Now, if there's any confusion, and if we can turn

1 to the next slide, please --

2 --o0o--

3 CHIEF RISK OFFICER GRIMES: -- the confusion is  
4 usually the difference between a performance and a risk  
5 measure, and how to really interpret those. Performance  
6 measures really are looking at how well you're doing in  
7 achieving the goals that you've set out to accomplish.

8 They're typically lagging indicators showing you  
9 how -- giving you vision into past performance. Risk  
10 measures, however, are typically leading indicators. And  
11 so they're really looking at things that could get in the  
12 way of you achieving your goals and objectives.

13 It's theoretically possible to have a performance  
14 measure that's green, and a risk measure that's yellow or  
15 red that is telling you, hey, you should look at this  
16 before it turns your performance measure yellow or red.  
17 And so that's the objective.

18 There's really kind of a couple of -- there's --  
19 we have kind of a cute example in here actually that's not  
20 related to CalPERS, but I'm going to skip it, unless you  
21 have questions on that, and really get into the risk  
22 measures that we're proposing for CalPERS. And Melissa is  
23 going to take us through that.

24 CHAIRPERSON HOLLINGER: Okay. I see no  
25 questions. Continue, Melissa.

1 CHIEF RISK OFFICER GRIMES: Okay. Thank you.  
2 I'm going to turn it over.

3 ASSISTANT CHIEF RISK OFFICER AZEVEDO: Thank you.  
4 Good morning, Melissa Azevedo, CalPERS team member.

5 I'll be providing a high level overview of  
6 today's presentation, so I'll refer you to attachments 2  
7 and 3 found on Board Books pages 147 and 153 for greater  
8 detail.

9 If you have any questions, please feel free to  
10 stop me along the way or following the presentation.

11 --o0o--

12 ASSISTANT CHIEF RISK OFFICER AZEVEDO: To develop  
13 the strategic risk measures, we aligned each of the eight  
14 enterprise risks to one of the CalPERS five strategic  
15 goals. We then worked with the program areas to identify  
16 and quantify drivers of risk in the context of the aligned  
17 enterprise risk.

18 We asked what would prevent us from meeting the  
19 strategic goal? What are the leading indicators we should  
20 monitor to prevent potential risks from occurring? As we  
21 go through each goal area, we would also like for you to  
22 ask are we measuring the right things? Will these  
23 measures help us monitor and prevent risk? Are there  
24 additional measures that we are missing?

25 The strategic goal, fund sustainability, is

1 currently aligned to the enterprise risk, pension funding,  
2 and stakeholder confidence. The stakeholder confidence  
3 risk mainly addressed the role of CalPERS as a fiduciary  
4 in the context of fund sustainability.

5 We identified and quantified those risk drivers  
6 that would impact our ability to strengthen the  
7 sustainability of the fund. As you can see on slide 5, we  
8 felt that the probability metrics currently identified in  
9 the strategic plan are better suited as strategic risk  
10 measures and monitoring impacts to funding levels.

11 At this point, I'll pause, Madam Chair, would you  
12 like for me to continue to go through the rest of the  
13 slides, or would -- I'll defer to the Committee for  
14 questions?

15 CHAIRPERSON HOLLINGER: I think in the interests  
16 of time and wanting to follow the agenda, let me defer my  
17 fellow Board members, are there any questions?

18 I don't see any. You guys have done an amazing  
19 job, and I appreciate the thoroughness of the  
20 presentation.

21 ASSISTANT CHIEF RISK OFFICER AZEVEDO: I'll just  
22 add that we'll be returning in September with our  
23 recommended thresholds for you to review.

24 CHAIRPERSON HOLLINGER: Thank you. Thank you  
25 very much.

1           So now, we're Item 10, Summary of Committee  
2 Direction.

3           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
4 D'ADAMO: Yes. Thank you. So I have taken down two  
5 items, both of which were recommended by Mr. Slaton.

6           The first was to work with the Chair of the  
7 Committee to review and perhaps perform additional  
8 training with Board members along the compliance issues  
9 that we were talking about, or elements of I'll say of the  
10 compliance plan that we were talking about earlier today.

11           CHAIRPERSON HOLLINGER: Yeah. I had on risk  
12 management, including reputation risk management, so...

13           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
14 D'ADAMO: Okay. And then the second item that I've taken  
15 down is cost-benefit analysis of the value of performing a  
16 review of the effectiveness of our internal controls --

17           CHAIRPERSON HOLLINGER: Right.

18           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
19 D'ADAMO: -- which I think is a long way of saying what we  
20 were talking about around review of internal controls.

21           CHAIRPERSON HOLLINGER: Right. And just a third  
22 observation. I think in going forward in adhering to our  
23 timed agendas, it's very important we let our presenters  
24 know, so there's an alignment between the time we've  
25 allotted for them and their presentation.



1 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

2 D'ADAMO: Yes. And I'll say I probably was guilty of that  
3 today, so I apologize.

4 (Laughter.)

5 CHAIRPERSON HOLLINGER: Okay. Okay. I have no  
6 one asked to speak. Is there anyone in the audience who  
7 wanted to speak?

8 Okay. This concludes the Risk and Audit  
9 Committee meeting. And we will be going into closed  
10 session, which will not -- as soon as the auditorium  
11 clears.

12 Ms. Mathur, when will the Board, because closed  
13 session will not take very long. Oh, I'm sorry.

14 COMMITTEE MEMBER MATHUR: So I expect if closed  
15 session goes for 15 minutes let's say 10:30 is when we'll  
16 start the Board meeting.

17 CHAIRPERSON HOLLINGER: Okay. Thank you very  
18 much.

19 (Thereupon the California Public Employees'  
20 Retirement System, Board of Administration,  
21 Risk & Audit Committee open session  
22 meeting adjourned at 10:07 a.m.)  
23  
24  
25

## 1 C E R T I F I C A T E O F R E P O R T E R

2 I, JAMES F. PETERS, a Certified Shorthand  
3 Reporter of the State of California, do hereby certify:

4 That I am a disinterested person herein; that the  
5 foregoing California Public Employees' Retirement System,  
6 Board of Administration, Risk & Audit Committee open  
7 session meeting was reported in shorthand by me, James F.  
8 Peters, a Certified Shorthand Reporter of the State of  
9 California;

10 That the said proceedings was taken before me, in  
11 shorthand writing, and was thereafter transcribed, under  
12 my direction, by computer-assisted transcription.

13 I further certify that I am not of counsel or  
14 attorney for any of the parties to said meeting nor in any  
15 way interested in the outcome of said meeting.

16 IN WITNESS WHEREOF, I have hereunto set my hand  
17 this 25th day of June, 2018.

18  
19  
20 

21  
22 JAMES F. PETERS, CSR  
23 Certified Shorthand Reporter  
24 License No. 10063  
25