



Risk and Audit Committee

Agenda Item 7b

September 25, 2018

Item Name: Strategic Risk Measure Tolerances

Program: Enterprise Risk Management

Item Type: Information

Executive Summary

The purpose of this item is to provide the Risk and Audit Committee (Committee) with proposed risk tolerance levels for the Enterprise Strategic Risk Measures (SRMs) introduced in June 2018. The Enterprise Risk Management Division (ERMD) is seeking Committee review and feedback on the tolerance levels so that the SRMs can be implemented and used as a management tool allowing for more data-driven decisions by the CalPERS team.

Strategic Plan

The agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization. ERMD leads the integration of strategic and operational risk management by implementing an effective risk management program throughout the enterprise and promoting a risk-aware culture.

Background

In June 2018, the Committee was provided with recommended SRMs for fiscal year 2018-19. The SRMs are intended to provide insight and leading indications of events that may compromise the achievement of CalPERS Strategic Goals. The SRMs also provide a framework and metrics to ensure that the organization operates and manages risk in alignment with the Board's risk appetite. The suggested risk tolerance levels were developed to monitor the degree of uncertainty CalPERS is prepared to accept for each SRM based on the Board's risk appetite.

Analysis

Various methodologies were used to determine each risk tolerance level. These methodologies included: risk appetite statements, best practice research, prior performance, and cross-functional collaboration with subject matter experts most familiar with the topics and processes associated with the risk in question. ERMD worked together with the cross-functional workgroups to determine the appropriate risk tolerance levels for each strategic risk measure to

align with the Board's risk appetite. All risk tolerance levels were subsequently reviewed by the executive team and division chiefs for final consensus.

The risk tolerances are categorized into three levels: managed appropriately (green), monitoring required (yellow), and attention required (red).

Once Committee feedback has been incorporated, ERMD will present the proposed SRM reporting framework and timeline at a future Committee meeting.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – FY 2018-19 Strategic Risk Measures: Overview

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