



# Risk and Audit Committee

## Agenda Item 6d

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**February 18, 2020**

**Item Name:** Quarterly Status Report – Enterprise Risk Management

**Program:** Enterprise Risk Management

**Item Type:** Information Consent

### **Executive Summary**

The purpose of this item is to provide the Risk and Audit Committee (Committee) with an update on the second quarter activities included in the 2019-20 Enterprise Risk Management Plan (Plan) and the monitoring reports for the Strategic Risk Measures (SRMs) for the period October 1, 2019, through December 31, 2019.

### **Strategic Plan**

This agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization. The Enterprise Risk Management Division (ERMD) provides assurance to the Committee through the implementation of an effective enterprise-wide risk management program.

### **Background**

ERMD supports the Committee's responsibility to effectively oversee risk management activities at CalPERS by facilitating risk identification and monitoring to promote risk-informed decision-making. ERMD developed the Plan to communicate priorities in support of CalPERS' Strategic and Business Plans, vision, and mission. In June 2019, ERMD received Committee approval for the Plan, which aligns program initiatives to the strategic goals of Fund Sustainability and Risk Management. Progress on Plan activities for the second quarter are reported on the Plan Dashboard (Attachment 1). Attachment 1 also appears in agenda item 8c.

The monitoring and reporting of SRMs plays an essential role in providing the Committee with assurance that CalPERS enterprise risks are being adequately managed. SRMs are intended to help bridge the relationship between risk and performance reporting by providing the Committee and management team with advance warnings of events that may compromise the achievement of organizational goals.

The SRMs and tolerances provided were last reviewed by the Committee in November 2019 and are designed to provide the management team with direction on Committee risk appetite and tolerance (excluding investment risk). The status of the risk tolerances are categorized into

three levels: managed appropriately (green), monitoring required (yellow), and attention required (red). Exception reports are provided to the Committee if any of the tolerances are in yellow or red status.

## **Analysis**

Enterprise Risk Management Plan (Plan):

ERMD's significant activities and accomplishments for the second quarter of the fiscal year 2019-20 are included below. The first and second quarter activities are combined in the item 8c Mid-Year Plan Update.

### *Fund Sustainability Goal Activities:*

ERMD continued to advance Asset Liability Management within the enterprise by:

- facilitating integrating of the Pension Outlook tool into the Insight Tool, to provide sensitivity analysis for varied return and experience scenarios to allow greater Board and stakeholder planning insight.

### *Risk Management Goal Activities:*

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

- completing the 2019 Annual Enterprise Risk Assessment including updating the Risk Dashboard (Dashboard), Risk Profiles (Profiles), and Heatmap (Heatmap)
- presenting the Committee with an overview of the enterprise risk framework, highlighting the use of risk tolerances by the Committee to provide its risk appetite.
- advancing the SRMs by introducing 10-year view analysis of the funded status.
- reporting of quarterly updates to the Strategic Risk Measures dashboard.

ERMD continued to collaborate with the enterprise on the cultivation of a risk-intelligent organization by:

- collaborating with Enterprise Compliance to organize events during Compliance and Risk Week aimed at helping team members understand how to maintain a strong culture of ethics and risk-intelligence
- communicating the importance of the three lines of defense with team members by participating in the Senior Leadership Brown Bag session in December 2019.

ERMD continued to enhance our internal control framework by:

- continuing to deliver risk management training to new team members at New Employee Orientation sessions.

ERMD continued to enhance risk and compliance functions throughout the enterprise by:

- finalizing the data management communication plan and proposed implementation dates, establishing working groups for the Information Asset Policy and Data Retention Policy research, and conducting internal workshops to advance CalPERS Data Glossary updates.

## Enterprise Risk Measures:

The second quarter SRM report is provided to the Committee in this agenda item. The SRM Dashboard summarizes the status of all risk measures. An exception report, when needed, is attached to the SRM detailing the risk performance, root cause analysis, and mitigations identified as next steps to reduce the risk for those SRMs that are performing outside of the Board's risk tolerance (Attachment 2).

A review of the data reported for the second quarter found two SRMs under the strategic goal of Reduce Complexity had exceeded the risk tolerance set by the Committee and "Require Attention." An analysis and root cause of the risk can be found in the SRM detail provided in (Attachment 2). As reported in the first quarter, the strategic risk measure monitoring the funded status of the PERF over a ten-year period remains yellow and is performing below tolerance. The data for this measure is refreshed annually and will continue to be reported yellow until new data is presented in November 2020 (Attachment 2).

## Reduce Complexity:

- Proposed legislation that would reduce the plan design is currently pending
- External legislation has been introduced that could potentially increase the complexity of the plan design and would require additional CalPERS resources

## Budget and Fiscal Impacts

Not Applicable

## Attachments

Attachment 1 – 2019-20 Enterprise Risk Management Plan Dashboard

Attachment 2 – Enterprise Risk Measures Dashboard

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Forrest Grimes  
Chief Risk Officer

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Michael Cohen  
Chief Financial Officer