



# Management Employees Pension Board

## Enterprise Risk Management Policy and Framework

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# Management Employees Pension Plan Enterprise Risk Management Policy

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# **1. POLICY STATEMENT**

## **1.1 Statement**

The Management Employees Pension Board (MEPB) shall employ an Enterprise Risk Management Framework and Processes to identify and manage key risks that may threaten achievement of the policy and business objectives of the Management Employees Pension Plan (MEPP).

## **1.2 Purpose**

The purpose of this policy is to ensure that the management of MEPP's risks is done with considered judgment and discipline, considers all material exposures to all types of adverse events, and recognizes the inherent limitations of such management.

For this purpose, MEPB will utilize, as appropriate, the COSO Enterprise Risk Management - Integrated Framework and ISO Standard 310000 Risk Management Principles and Guideline.

## 2. ENTERPRISE RISK MANAGEMENT FRAMEWORK

### 2.1 Business Processes

The business processes which expose the MEPP to risk are as follows:

<b>Table 2.1</b>			
<b>MEPP Business Processes Subject to Risk</b>			
	<b>Business Process</b>	<b>Responsibility</b>	<b>Description</b>
1	Actuarial	Aon	actuarial valuation of the plan's assets and liabilities
2	Asset Management	AIMCo	management of plan's fund, assets and liabilities; preparation of financial and risk management reports; adherence to a Statement of Investment Policies and Procedures
3	Administration & Operation	APS	daily administration of the plan; benefit calculations and payments; expense payments; regulatory filings; record keeping; collection and remittance of contributions to the custodian
4	Communication to Members	APS	website management; issuing of notices and annual statements; member education
5	Policy Development	MEPB	environmental scanning and policy development
6	Ethical Values	MEPB	ethics and standards
7	Performance monitoring	MEPB	performance measures and reporting processes to monitor and enhance performance of the Board, its staff, APS, AIMCo and external consultants
8	Regulatory Compliance	APS; AIMCo; Aon	compliance with statutory and regulatory requirements and laws
9	Policy Compliance	MEPB	compliance with established policies and procedures
10	Records Management	APS	capturing, maintaining, archiving and efficiently accessing Board records
11	Legal Liability	APS	minimizing exposure to risk of litigation or other events
12	Recruitment and Retention	APS	are effectively attracting, developing and retaining the right people (MEPB members and staff)
13	Knowledge Transfer and Succession Planning	MEPB	the preservation and transfer of knowledge through development or succession planning
14	Business Planning and Execution	MEPB	maintaining realistic and accurate information for business planning, processes; allocating talent and resources for execution; monitoring and evaluation for performance enhancement
15	Cost Management	APS	budgetary and cost management processes and controls
16	Electronic Data Integrity/ Security/ Privacy Protection	APS; AIMCo	adequate controls over data accuracy, data access and data storage; adequate cyber risk controls for privacy and confidentiality of member information
17	Financial Health Governance	MEPB	review and updating of Investment Policy and Funding Policy

## 2.2 Framework

The MEPB risk management framework will comprise the following elements:

<b>Table 2.2</b>	
<b>Enterprise Risk Management Framework and Process Components</b>	
<div style="border: 1px solid black; padding: 2px; display: inline-block;">contained in this document</div>	<ol style="list-style-type: none"> <li>1. policy</li> <li>2. roles and responsibilities</li> <li>3. procedures for processes</li> <li>4. risk assessment metrics</li> <li>5. risk tolerance and appetite statement</li> <li>6. risk categories</li> <li>7. risk register</li> <li>8. risk map/matrix</li> <li>9. risk owners</li> <li>10. key risks</li> <li>11. key risk indicators and dashboards</li> <li>12. key risk mitigation plans</li> <li>13. format for presenting to the Board</li> <li>14. procedures for monitoring and communication</li> </ol>
	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p style="margin: 0;">Risk Management Processes</p> <ol style="list-style-type: none"> <li>1. risk identification</li> <li>2. risk quantification</li> <li>3. risk prioritization</li> <li>4. risk mitigation</li> </ol> </div>

## 2.3 Risk Categories

The risk categories to be used for identifying and classifying adverse events are as follows:

<b>Table 2.3</b>	
<b>MEPB Risk Categories</b>	
<b>Systematic Risk</b>	
Credit Risk	The risk that a counterparty to a Plan asset will not pay an amount due as called for in the original agreement and may eventually default on an obligation.
Market Risk	The risk that there will be changes in market rates or prices. Exposure to this risk can result from activity in markets such as changes in interest rates, foreign exchange, equity, commodities and real estate.
Liquidity Risk	The risk that the Plan will be unable to obtain the necessary funds required to meet its obligations as they come due without incurring unacceptable losses.
Funding Risk	The risk that contributions to the Plan will be less than forecasted or required.
Sponsor Risk	The risk of sponsor insolvency or potential adverse financial impact due to sponsor-related events.
<b>Non-Systematic Risk</b>	
Strategic Risk	The risk that the Plan's design or structure may make implementation of policies or strategies to address problems or challenges difficult.
Pension Valuation Risk	The risk that the methods and assumptions used to estimate Plan assets and liabilities will result in values that differ from experience. This risk may increase with a complex benefit design and the appropriateness of assumptions.
Operational Risk	The risk of deficiencies or breakdowns in internal controls or processes; technological failure; human errors; fraud; and natural catastrophes.

Human Resource Risk	Discontinuity, dysfunction, inadequacy or inefficiency in human capital.
Legal and Regulatory Risk	The risk that the Plan may not be administered in compliance with the rules, regulations, best practices, or fiduciary standards imposed on the Plan.
Governance Risk	The risk associated with failures in oversight, internal controls and overall Plan management.

## 2.4 Risk Assessment Metrics

### 2.4.1 Systematic Risks

The following risk assessment ranges shall be employed in assessing Systematic Risk.

Consequence	Rating	Criteria / Examples
Catastrophic	5	>\$450 million
Major	4	\$200 - \$450 million
Moderate	3	\$10 - \$200 million
Minor	2	\$3 - \$10 million
Insignificant	1	<\$3 million

Likelihood	Rating	Annual Probability
More than Likely	5	> 50%
Likely	4	20% - 49%
Unlikely	3	5% - 20%
Very Unlikely	2	1% - 5%
Rare	1	<1%

Velocity	Rating	Metric
< 1 week	5	Instant
< 1 year	4	Quick
1 - 3 years	3	Medium
3 - 5 years	2	Slow
>5 years	1	Very Slow

Knock-On Reputational Effect	Rating
Catastrophic	5
Serious	4
Moderate	3
Slight	2
No Effect	1

### 2.4.2 Non-Systematic Risk

The following risk assessment ranges shall be employed in assessing Non-Systematic Risk.

Consequence	Rating	Criteria / Examples
Catastrophic	5	>\$10 million
Major	4	\$5 - \$10 million
Moderate	3	\$1 - \$5 million
Minor	2	\$100,000 - \$1 million
Insignificant	1	<\$100,000

Likelihood	Rating	Annual Probability
More than Likely	5	> 50%
Likely	4	20% - 49%
Unlikely	3	5% - 20%
Very Unlikely	2	1% - 5%
Rare	1	<1%

Velocity	Rating	Metric
< 1 week	5	Instant
1 week - 3 months	4	Quick
3 - 6 months	3	Medium
6 months - 1 year	2	Slow
> 1 year	1	Very Slow

Knock-On Reputational Effect	Rating
Catastrophic	5
Serious	4
Moderate	3
Slight	2
No Effect	1

### **3. ROLES AND RESPONSIBILITIES**

#### **3.1 The Board**

- a) adopts, by resolution, the MEPB Risk Management Policy
- b) reviews the Policy and program on an annual basis
- c) approves the procedures related to risk management
- d) provides direction on risk appetite and tolerance
- e) provides direction on the evolution of these processes and identifies priority areas of focus in risk mitigation
- f) receives annual reports and presentations from Key Risk Owners
- g) ensures that as part of the annual audit, performed by the Office of the Auditor General of Alberta (OAG), that compliance with this policy has been achieved

#### **3.2 Plan Board Staff**

- (a) conducts day-to-day risk management as identified in this policy
- (b) establishes, conducts, documents and maintains MEPB's Risk Management Framework and Processes and all documents related thereto
- (c) ensures that the risk management components are monitored, communicated and updated as required
- (d) provides management oversight on MEPB's risk portfolio and risk management processes
- (e) ensures that the Board reviews the Policy and program, annually
- (f) ensures that the Board receives annual risk reporting and presentations from Key Risk Owners where applicable
- (g) liaises with key risk owners
- (h) monitors and reports on key risk indicators
- (i) ensures that as part of the annual audit, performed by the external auditors, that compliance with this policy has been achieved

#### **3.3 Key Risk Owners**

- (a) implements the mitigation and control of key risks
- (b) reports on its mitigation and control efforts and results to the Plan Board staff
- (c) reports on key risk indicators to the Board

## **4. PROCEDURES**

### **4.1 The Plan Board Staff will:**

- (a) administer, document and update MEPB's Risk Management Framework and Processes
- (b) periodically consult with Key Risk Owners on Risk Response and Control
- (c) periodically obtain Key Risk Indicator(s) from Key Risk Owners
- (d) prepare a report on the above to the Director
- (e) annually liaise with and report to the External Auditor on all of the above

### **4.2 A Key Risk Owner will:**

- (a) prepare a Risk Response and Control plan for its Key Risk
- (b) select an appropriate Key Risk Indicator to periodically measure its Key Risk
- (c) periodically consult with and report to the Plan Board Staff on its Key Risk Response and Control plan

### **4.3 The Board of Directors will:**

- (a) receive and approve the Enterprise Risk Management Framework and Processes from the Plan Board Staff
- (b) periodically reconsider this Enterprise Risk Management Policy and Framework
- (c) periodically determine MEPB's risk appetite and risk tolerances
- (d) periodically re-conduct the risk identification and risk assessment processes
- (e) receive the Enterprise Risk Management Framework and Processes from Key Risk Owners

### **4.4 The External Auditor will:**

- (a) receive the Key Risk Indicators and other relevant ERM documentation from the Plan Board staff
- (b) audit the Enterprise Risk Management Framework and Processes for compliance with this Policy
- (c) report on the above to the Board



## 5. REPORTING

The most up-to-date versions of the following ERM documents will be provided to the Board, upon request, for its review, discussion and revision:

- Enterprise Risk Management Policy (including Statement of Risk Appetite)
- Enterprise Risk Management Working Documents
  - Risk Register
  - Risk Matrix
  - Key Risk Schedule and Mitigation Plan
- Annual ERM Reporting to the Minister

## 6. REVIEW

The MEPB Enterprise Risk Management Policy and Working Documents will be reviewed annually by the Board and revised as appropriate.

**Approved:** June 23, 2017 (M 17:06-02:01)  
**Effective:** July 17, 2017  
**Amended:** October 26, 2017 (M 17:10:04)

## 7. COMMUNICATION

The MEPB Enterprise Risk Management Policy shall be posted to the MEPP website, [www.mepp.ca](http://www.mepp.ca).

The Board believes that transparent communications between itself and the Plan Stakeholders (i.e. members, employers and the Trustee) can help build understanding and trust in this relationship.

Conveying information about enterprise risks, and the management thereof, educates the Stakeholders on factors that affect benefit security and variability of the funding costs. As well, they are made more aware of general risks that are faced by MEPP and other public sector pension plans.

Good communication helps Stakeholders appreciate the funding or other decisions made by the Trustee and the Board.

## 8. DEFINITIONS

**Compliance** - Used with “objectives”: having to do with conforming with laws and regulations applicable to MEPB.

**Component** - There are thirteen enterprise risk management components: the ERM policy, roles and responsibilities, procedures for processes, risk tolerance and appetite statement, risk categories, risk register, risk map/matrix, risk owners, key risks, key risk indicators and dashboards, key risk mitigation plans, format for presenting to the Board, and procedures for monitoring and communication.

**Control** - A policy or procedure that is designed to decrease the likelihood or impact of an adverse event.

**Event** - An incident or occurrence, from sources internal or external to MEPB, that affects achievement of MEPB’s objectives and integrity of the MEPP.

**Impact** - Result or effect of an event (also called Severity). There may be a range of possible impacts associated with an event. The impact of an event can be positive or negative relative to MEPB’s related objectives.

**Inherent Limitations** - Those limitations of enterprise risk management. The limitations relate to the limits of human judgment; resource constraints, and the need to consider the cost of controls in relation to expected benefits; the reality that breakdowns can occur; and the possibility of management override and collusion.

**Internal Control** - A process, effected by MEPB, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Integrity effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations.

**Key Risk** - A condition or potential event within MEPB’s risk management worthy of attention that may represent a perceived, potential, or real shortcoming, or an opportunity to strengthen enterprise risk management to provide a greater likelihood that the entity’s objectives will be achieved.

**Likelihood** - The probability that a given event will occur. MEPB will express likelihoods in annual probabilities.

**Policy Objectives** - MEPB’s strategic and business objectives.

**Reputational Risk** - the knock-on effect of an event on MEPB’s reputation or that of the MEPP.

**Systematic Risk** - The risk related to market economic and political events.

**Non-Systematic Risk** - The risk, unique to MEPB, in governing and administering the Plan.

**Risk** - The potential that an event, action or inaction will threaten MEPB's ability to achieve its policy objectives. Risk is described in terms of its likelihood of occurrence and potential impact or magnitude. Categories of risk in MEPB include:

- **Credit Risk** - The risk that a counterparty to a Plan asset will not pay an amount due as called for in the original agreement and may eventually default on an obligation.
- **Capital Market Risk** - The risk that there will be changes in market rates or prices. Exposure to this risk can result from activity in markets such as changes in interest rates, foreign exchange, equity, commodities and real estate.
- **Liquidity Risk** - The risk that the Plan will be unable to obtain the necessary funds required to meet its obligations as they come due without incurring unacceptable losses.
- **Sponsor Risk** - The risk of sponsor insolvency or potential adverse financial impact due to sponsor-related events.
- **Strategic Risk** - The risk that the Plan's design or structure may make implementation of policies or strategies to address problems or challenges difficult.
- **Pension Valuation Risk** - The risk that the methods and assumptions used to estimate Plan assets and liabilities will result in values that differ from experience. This risk may increase with a complex benefit design and the appropriateness of assumptions.
- **Operational Risk** - The risk of deficiencies or breakdowns in internal controls or processes; technological failure; human errors; fraud; and natural catastrophes.
- **Legal and Regulatory Risk** - The risk that the Plan may not be administered in compliance with the rules, regulations, best practices, or fiduciary standards imposed on the Plan.
- **Human Resource Risk** - Discontinuity, dysfunction, inadequacy or inefficiency in human capital.
- **Governance Risk** - The risk associated with failures in oversight, internal controls and overall Plan management.

**Risk Appetite** - a verbal or graphical expression of the amount of risk (in terms of an event's likelihood and impact) that MEPB is willing to take on in pursuit of its mission and objectives for MEPP.

**Risk Assessment** - The systematic measurement of the identified risks, as to their likelihood, impact, velocity and reputational effects.

**Risk Identification** - The systematic identification of all possible adverse events.

**Risk Indicator** - A metric used by an organization to provide an early signal of increasing risk exposures in various areas of the enterprise.

**Risk Map or Matrix** - A data visualization tool for communicating specific risks an organization faces.

**Risk Mitigation** - Actions or decisions by management that will change the likelihood or impact of an adverse event. Options include retaining the risk (either completely or partially), accepting the risk (where mitigation is not cost-effective), avoiding the risk (by withdrawing from or ceasing the activity), reducing the likelihood (by increasing preventive controls), reducing the consequences (by emergency or crisis response), and/or transferring the risk (by outsourcing, insurance, etc.).

**Risk Owner** - Any individual who is responsible for the management, monitoring and control of an identified risk, including the implementation of the selected responses.

**Risk Register** - A list of all risks identified that includes additional information about each risk (e.g. the nature of the risk, likelihood and consequences, the risk owner, mitigation measures)

**Risk Tolerance** - Metrics that describe MEPB's relative risk aversion and better define MEPB's overall Risk Appetite.

**Severity** - see Impact



## Management Employees Pension Board Enterprise Risk Appetite Statement

### 1. General

The Management Employee Pension Board (“MEPB”) established its Enterprise Risk Management (“ERM”) function in 2015 to better identify, assess and manage the risks arising from governing the Management Employee Pension Plan (“the Plan”). By establishing a systematic approach to identifying, assessing and managing risk, MEPB intends to continually improve the Plan’s governance, accountability and overall performance.

As part of MEPB’s ERM Framework, this Risk Appetite Statement articulates the level and type of risk MEPB will accept for the Plan and for itself as administrator. This statement is the result of a considered assessment of how various risks may affect the Plan’s objectives and MEPB’s ability to achieve them.

MEPB manages two fundamentally different types of risk, adopting the generally accepted definitions of Systematic and Non-Systematic Risks.

Systematic Risk arises from market, economic or political events that affect all investors and pension plans, not just our Plan. Non-Systematic Risk arises from events which are unique to MEPB and the Plan, including non-systematic risk arising from the service suppliers upon which MEPB is dependent.

MEPB’s categories of risk are as follows.

#### **Systematic Risks**

**Market Risk** - The risk that there will be changes in market rates or prices. Exposure to this risk can result from activity in markets such as changes in interest rates, foreign exchange, equity, commodities and real estate.

**Credit Risk** - The risk that a counterparty to a Plan asset will not pay an amount due as called for in the original agreement and may eventually default on an obligation.

**Liquidity Risk** - The risk that the Plan will be unable to obtain the necessary funds required to meet its obligations as they come due without incurring unacceptable losses.

**Funding Risk** - The risk that contributions to the Plan will fall short of those planned or required.

**Sponsor Risk** - The risk of sponsor insolvency or potential adverse financial impact due to sponsor-related events.

## **Non-Systematic Risks**

**Strategic Risk** - The risk that the Plan's design or structure may make implementation of policies or strategies to address problems or challenges difficult.

**Pension Valuation Risk** - The risk that the methods and assumptions used to estimate Plan assets and liabilities will result in values that differ from experience. This risk may increase with a complex benefit design and the appropriateness of assumptions.

**Operational Risk** - The risk of deficiencies or breakdowns in internal controls or processes; technological failure; human errors; fraud; and natural catastrophes.

**Legal and Regulatory Risk** - The risk that the Plan may not be administered in compliance with the rules, regulations, best practices, or fiduciary standards imposed on the Plan.

**Human Resource Risk** - Discontinuity, dysfunction, inadequacy or inefficiency in human capital.

**Governance Risk** - The risk associated with failures in oversight, internal controls and overall Plan management.

## **2. Risk Appetite**

MEPB considered a number of factors to determine its tolerance for each of the above risks. This Risk Appetite Statement characterizes MEPB's tolerance for each risk as either very low, low, moderate or healthy, in accordance with the following definitions.

**Very Low Appetite** - MEPB is not willing to tolerate any material exposure to loss. Controls are substantial, with three lines of defence against non-conformance.

**Low Risk Appetite** - MEPB is willing to tolerate only events that will not seriously impede its objectives. Controls are designed to be effective to a high confidence level.

**Moderate Risk Appetite** - MEPB is willing to tolerate certain types of events that may delay or disrupt its objectives. Controls and monitoring are in place and are generally effective.

**Healthy Risk Appetite** - MEPB is willing to tolerate certain categories of events that cause serious delay or disruption to its short term objectives if expected rates of return or other benefits justify the risk taken.

### 3. MEPB Risk Appetite by Risk Category

Following is MEPB's risk appetite by event category.

RISK APPETITE		
Risk	Category of Events	Risk Appetite
<b>Systematic</b>	Market Risk	Healthy
	Credit Risk	Moderate
	Liquidity Risk	Healthy
	Funding Risk	Moderate
	Sponsor Risk	Low
<b>Non-Systematic</b>	Strategic Risk	Low
	Pension Valuation Risk	Low
	Operational Risk	Low
	Legal and Regulatory Risk	Low
	Human Resource Risk	Low
	Governance Risk	Low

Generally, MEPB's risk appetite for investment risk and other economic or political risks is moderate to healthy, whilst its risk appetite for MEPB's own managerial and administrative risks is low.

### 4. Review

The MEPB Enterprise Risk Appetite Statement shall be reviewed along with the ERM Policy and Framework on an annual basis.