

## II. Governance

### Section 16 – Risk Management

---

#### Contents

16.01	Purpose.....	1
16.02	Rationale.....	1
16.03	Policy.....	1
16.04	History.....	6

---

#### 16.01 Purpose

The Public Employees Pension Board is responsible for managing risks of the Plan. The purpose of this policy is to identify the Board’s risk management philosophy, principles, roles and responsibilities, review process and communication expectations.

#### 16.02 Rationale

A focused, systematic and integrated approach recognizes that all decisions involve management of risks. Whether in routine operations or for major initiatives involving significant resources, it is important that the risk management process be applied at all levels of operation.

The Risk Management Policy ensures that a regular documented process is in place for the management of the Plan’s foreseeable risks. Documenting the rationale for arriving at decisions strengthens accountability and demonstrates due diligence.

#### 16.03 Policy

##### Risk Management Philosophy

The Board is committed to creating and maintaining value for the stakeholders of the Plan. The Plan faces risks as the Board fulfills this commitment. Therefore, the Board is responsible for managing all foreseeable risks that could affect the operation of the pension plan and the Plan’s stakeholders. Through the risk management process, the Board identifies, measures, monitors and manages these risks in a manner that is consistent with the Board’s governance model.

## Risk Management Principles

The Canadian Standards Association has adopted the risk management principles and guidelines of the International Organization of Standardization in a National Standard of Canada. The Board recognizes the principles, recorded below, as documented in the CAN/CSA-ISO 31000-10 as those of industry best practice.

- *Risk management creates value.*

Risk management contributes to the demonstrable achievement of objectives and improvement of, for example, human health and safety, legal and regulatory compliance, public acceptance, environmental protection, financial performance, product quality, efficiency in operations, corporate governance and reputation.

- *Risk management is an integral part of organizational processes.*

Risk management is part of the responsibilities of management and an integral part of the normal organizational processes as well as of all project and change management processes. Risk management is not a stand-alone activity which is separate from the main activities and processes of the organization.

- *Risk management is part of decision making.*

Risk management helps decision makers make informed choices. Risk management can help prioritize actions and distinguish among alternative courses of action. Ultimately, risk management can help with decisions on whether a risk is unacceptable and whether risk treatment will be adequate and effective.

- *Risk management explicitly addresses uncertainty.*

Risk management deals with those aspects of decision making that are uncertain, the nature of that uncertainty, and how it can be addressed.

- *Risk management is systematic, structured and timely.*

A systematic, timely and structured approach to risk management contributes to efficiency and consistent, comparable and reliable results.

- *Risk management is based on the best available information.*

The inputs to the process of managing risk are based on information sources such as experience, feedback, observation, forecasts and expert judgment. However, decision makers should be informed of and should take into account any limitations of the data or modeling used or the possibility of divergence among experts.

- *Risk management is tailored.*

Risk management is aligned with the organization's external and internal context and risk profile.

- *Risk management takes human and cultural factors into account.*

The organization's risk management recognizes the capabilities, perceptions and intentions of external and internal people that can facilitate or hinder achievement of the organization's objectives.

- *Risk management is transparent and inclusive.*

Appropriate and timely involvement of stakeholders and, in particular, decision makers at all levels of the organization, ensures that risk management remains relevant and up-to-date. Involvement also allows stakeholders to be properly represented and to have their views taken into account in determining risk criteria.

- *Risk management is dynamic, iterative and responsive to change.*

As internal and external events occur, context and knowledge change, monitoring and review take place, new risks emerge, some change, and others disappear. Therefore an organization should ensure that risk management continually senses and responds to change.

- *Risk management facilitates continual improvement and enhancement of the organization.*

Organizations should develop and implement strategies to improve their risk management maturity alongside all other aspects of their organization.

### Risk Management Process, Terms and Definitions

The Board has adopted the risk management process, terms and definitions set out in CAN/CSA-ISO 31000-10. The Board has made slight modifications to the risk management process to highlight the attention given to Risk Assessment, Risk Management and Risk Communications within the process. A model of the Board's risk management process is attached as Appendix A. A list of relevant terms and definitions is attached as Appendix B.

## Roles and Responsibilities

The role of the Board as it applies to the risk management process is to set and approve the Board's Risk Management Policy, monitor compliance with the approved policy, review and approve the annual Risk Management Plan, delegate the tasks of risk management to the Administrator, and oversee the risk management process.

As the Board's Administrator, The Public Employees Benefits Agency's role as it applies to the risk management process is to establish operating strategies, implement policies, provides resources to support the Board, report on compliance, report on performance and conduct the day-to-day administration of the risk management process.

Ensuring the significant components of the risk management plan are documented is a primary responsibility of PEBA. The extent of documentation will depend on the magnitude and complexity of the risk issues involved, stakeholder expectations, and anticipated need to explain and reference the risk management plan and demonstrate due diligence in the future.

Specific responsibilities of the Board and PEBA are set out below.

**The Board** is responsible for:

- Providing direction on risk management;
- Approving the Board's Risk Management Policy and monitoring compliance with the approved policy;
- Ensuring that significant risks are identified, assessed and managed;
- Reviewing and approving the annual Risk Management Plan;
- Approving the Board's risk tolerance levels
- Providing leadership on risk management and assigning roles and responsibilities within the context of the Board's governance processes;
- Abiding by its Code of Conduct and Conflict of Interest procedures; and
- Ensuring that Plan stakeholders have adequate access to appropriate risk management communications.

**PEBA's Senior Management** is responsible for:

- Articulating and the tools and procedures needed to support the risk management process set out in Appendix A;

- Assigning management accountabilities and responsibilities at appropriate levels within the organization;
- Incorporating the Board’s risk management policy into the operational framework;
- Determining risk management performance indicators that align with the Plan’s performance indicators;
- Ensuring alignment of risk management objectives with the objectives and strategies of the Plan and organization;
- Ensuring legal and regulatory compliance;
- Identifying, assessing and communicating the Plan’s significant risks and risk management strategies;
- Providing a supportive environment that encourages effective risk management, sensible risk taking, and learning opportunities;
- Ensuring that the necessary resources are allocated to risk management;
- Providing clear direction on risk tolerance levels;
- Explicitly understanding and managing the level of risk associated with operational policies, plans and programs;
- Ensuring risk management is communicated to both internal and external stakeholders in such a manner that the risk information is consolidated where appropriate from a variety of sources within the organization taking into account its sensitivity;
- Abiding by its Conflict of Interest policy; and
- Ensuring that the framework for managing risk continues to remain appropriate.

#### Risk Management Board Reporting

The Board has in place two documents that apply to the risk management process. These are Risk Management Review (RMR) and a Risk Management Plan (RMP).

Annually, the Board will receive and approve a Risk Management Review. The RMR is developed and presented by PEBA and reports on the status of risk management strategies undertaken for each of the identified risks for the previous year.

Annually, the Board will receive and approve a Risk Management Plan. The RMP is developed and presented by PEBA and provides the Board with a listing of identified risks and their risk management strategies for the Plan for the upcoming years.

Both of these documents are developed by PEBA within the context of the Plan.

#### Communication

Risk management is communicated to both internal and external stakeholders. Communication should include processes to consolidate risk information where appropriate from a variety of sources within the organization taking into account its sensitivity.

Internal risk management communication and reporting ensures that:

- Key components of the risk management framework, and any subsequent modifications, are communicated appropriately;
- There is adequate internal reporting on the framework, its effectiveness and the outcomes;
- Relevant information derived from the application of risk management is available at appropriate levels and times; and
- There are processes for consultation with internal stakeholders.

External risk management communication and reporting involve:

- Engaging appropriate external stakeholders and ensuring an effective exchange of information;
- External reporting to comply with legal, regulatory, and corporate governance requirements;
- Making legally required disclosures;
- Providing feedback and reporting on communication and consultations;
- Using communication to build confidence in the organization; and
- Communicating with stakeholders in the event of a crisis or contingency.

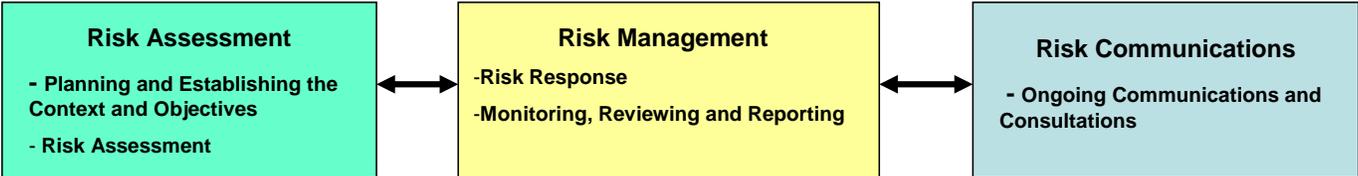
#### **16.04 History**

Approval date:	June 26, 2013; November 22, 2017
Last review:	March 28, 2018
Next scheduled review:	November 2019

APPENDIX A – Risk Management Process



3 Key Components of the 5-Step Process



## APPENDIX B – Terms and Definitions

For the purposes of the Commission's risk management program, the following terms and definitions apply (from the CAN/CSA-ISO 31000-10 standard):

**Consequence (Impact)** - outcome of an event affecting objectives

**Control** – measure (process or activity) that is modifying risk

**Event** - occurrence or change of a particular set of circumstances

**Inherent Risk** - risk prior to considering any risk treatment in place

**Likelihood** - chance of an event happening

**Monitoring** - continual checking, supervising, critically observing or determining the status in order to identify change from the performance level required or expected

**Residual Risk** - risk remaining after risk treatment

**Risk** - effect of uncertainty on objectives

**Risk Assessment** - overall process of risk identification, risk analysis and risk evaluation

**Risk Attitude** - organization's approach to assess and eventually pursue, retain, take or turn away from risk

**Risk Criteria** - terms of reference against which the significance of a risk is evaluated

**Risk Identification** - process of finding, recognizing and describing risks

**Risk Management** - coordinated activities to direct and control an organization with regard to risk

**Risk Management Framework** - set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization

**Risk Management Plan** - scheme within the risk management framework specifying the approach, the management components and resources to be applied to the management of risk

**Risk Owner** - person or entity with the accountability and authority to manage a risk

**Risk Profile** - description of any set of risks

**Risk Source** - element which alone or in combination has the intrinsic potential to give rise to risk