



The Certified Employee
Benefit Specialist® Program



GBA/RPA3 Navigating the Plan Environment

Study Materials Update—October 2018

This material is required reading for purposes of the CEBS program and the national exam for the GBA/RPA 3 course administered on or after October 15, 2018.

This update covers Modules 2, 9, 10 and 11 of the Study Guide (First Printing—August 2017).

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Study Materials Update

Study Guide (First Printing—August 2018)

Module 2 Pages 2, 7, 14, 16, 29, 30, 32, 106, 107 and 113

Module 9 Replace the pages for the entire module.

Module 10 Page 55

Module 11 Page 35

Instructions

There are two types of updates:

1. Minor—Where changes are made to a small section of the text, changes are indicated in **bold**.
2. Major—Entire sections are provided as a replacement.

Study Guide Module 2

Page 2, Professional Enrichment Resources: Add the following webinar: “Canada Pension Plan Enhancement.”

Canada Pension Plan Enhancement

www.canada.ca/en/revenue-agency/news/cra-multimedia-library/businesses-video-gallery/canada-pension-plan-enhancement-webinar.html

Why View This Webinar?

This webinar provides an overview of the enhancements to CPP, effective January 1, 2019. These enhancements mean that those who contribute to CPP will receive higher benefits in exchange for making higher contributions. An objective of the enhancements is to provide a target retirement pension of 33% of a contributor’s earned income (up from 25%).

Page 7, Answer to Content Knowledge Review 1.1: Make changes to paragraphs 2 and 3 indicated in **bold** and remove what is ~~crossed out~~ to reflect changes to the target retirement pension, effective January 1, 2019.

Until January 1, 2019, CPP/QPP ~~is~~ **was** intended to provide a contributor with a retirement pension of 25% of the person’s earned income, with earned income being capped at Canada’s average industrial wage. **As a result of enhancements being made effective January 1, 2019, the target of the enhanced CPP/QPP is to provide contributors with 40 years of participation under the enhanced CPP/QPP with a retirement pension of 33% of a contributor’s earned income (up from 25%).** The existence of the CPP/QPP earned income “cap” gives more importance to private sources of retirement income such as employer-sponsored and individual retirement savings plans.

~~Proposed changes to CPP/QPP increase target benefit levels to 33% of a contributor’s earned income starting in 2019:~~ In addition to providing retirement pensions, CPP/QPP also provides disability and survivor’s pensions to those who qualify.

Page 14, Answer to Content Knowledge Review 4.2: Add the following text at the end of the answer to reflect changes in CPP contribution rates.

January 1, 2019 marks the first year of a seven-year period over which CPP/QPP contribution rates will increase each January 1. Following is the schedule for increases.

January 1	Contribution Rate Increase	Cumulative Increase Over 2018 Contribution Rate
2019	0.15%	0.15%
2020	0.15%	0.30%
2021	0.20%	0.50%
2022	0.25%	0.75%
2023	0.25%	1.00%

Contribution rates are scheduled to increase further in 2024 and 2025, by 2% each year, but only on earnings that fall between the year’s maximum pensionable earnings (YMPE) for each year and a new, higher earnings level called the yearly additional maximum pensionable earnings (YAMPE). In 2024, employees will begin contributing 4% on an additional range of earnings. This range will start at the original earnings limit (estimated to be \$69,700 in 2025) and go to the additional earnings limit, which will be 14% higher by 2025 (estimated to be \$79,400). QPP contribution rates vary, but the increases are the same as those for the CPP.

Page 16, Answer to Content Knowledge Review 5.1: Add the following commentary to the end of paragraph 2 indicated in **bold** to reflect changes to the target retirement pension, effective January 1, 2019.

Generally, an individual who has contributed to CPP/QPP for a working career of at least 40 years and whose earned income was below or equal to the YMPE throughout his or her career can expect to receive a CPP retirement pension that is 25% of the average earned income in the five years preceding retirement. **As a result of the enhancements being made effective January 1, 2019, the target of the enhanced CPP is to provide contributors with 40 years of participation under the enhanced CPP with a retirement pension of 33% of the average earned income in the five years preceding retirement.**

Page 29, Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP): Replace paragraph 4 with the following commentary to reflect changes to CPP/QPP, effective January 1, 2019.

Changes to CPP/QPP have been enacted, with the ultimate objective of increasing target benefit levels to 33% of a contributor's earned income (up from 25%). The impact of the enhancement will not be fully felt until contributors have participated in the enhanced CPP/QPP for 40 years. Meanwhile, implementation of changes to financing of the plans will occur over a seven-year period commencing January 1, 2019, when the first employee and employer contribution rate increases are effective.

Page 30, Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Funding of CPP and QPP: Add the following commentary at the end of paragraph 5 to reflect changes to CPP contribution rates, effective January 1, 2019.

January 1, 2019 marks the first year of a seven-year period over which CPP contribution rates will increase each January 1. Following is the schedule for increases.

January 1	Contribution Rate Increase	Cumulative Increase Over 2018 Contribution Rate
2019	0.15%	0.15%
2020	0.15%	0.30%
2021	0.20%	0.50%
2022	0.25%	0.75%
2023	0.25%	1.00%

Contribution rates are scheduled to increase further in 2024 and 2025, by 2% each year, but only on earnings that fall between the YMPE for each year and a new, higher earnings level, the YAMPE. In 2024, employees will begin contributing 4% on an additional range of earnings. This range will start at the original earnings limit (estimated to be \$69,700 in 2025) and go to the additional earnings limit, which will be 14% higher by 2025 (estimated to be \$79,400). QPP contribution rates vary from those of CPP, but the rate increases are the same as those for the CPP.)

Page 32, Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Amount of CPP/QPP Retirement Pension: Add the following commentary at the end of paragraph 2 to reflect changes to CPP, effective January 1, 2019.

As noted previously, CPP changes have been enacted, effective January 1, 2019, with the objective of increasing target benefit levels to 33% of an individual's earned income.

Page 106, Benefits in Action 2: Add to the end of paragraph 5 to reflect changes to the CPP target retirement pension, effective January 1, 2019.

While the CPP is being enhanced, the new CPP target pension of 33% will only be available after 40 years of participation under the higher contribution rates starting in 2019.

Page 107, Benefits in Action 2: Add to the end of the last paragraph to reflect changes to the CPP target retirement pension, effective January 1, 2019.

Keep in mind that the enhanced CPP will take some time to 'phase in' to the 33% level, after the contribution rate changes start in January 1, 2019.

Page 113, Benefits in Action 2: Make changes to paragraph 1 indicated in **bold** and remove what is ~~crossed out~~ to reflect changes to the CPP target retirement pension, effective January 1, 2019.

Maurice's enthusiasm and confidence about his financial security was in stark contrast to the new hires at Blue Sky. "Don't get me wrong; I am so happy I have these social benefits. And it is really good to know how CPP works because the principles are so fundamental to financial security—The longer you save and the more you put aside, the better off you are. CPP will probably be there for you, but you may not qualify for the full benefit. In fact, you likely won't." Maurice took another sip of his coffee before continuing. "How hard it is to qualify for the full benefit was a surprise for me; **the current CPP only provides approximately 25% of the YMPE. Even if you are making an above-average income over your career, unless you have other sources, that 25% CPP target benefit won't likely be enough to maintain the standards of living you have become used to. With OAS, you might reach 40%.**"

Study Guide Module 9

Module 9 has been reprinted. Below is a summary of the changes.

Page 2, Assigned Reading, Reading A, OSFI Risk Management Criteria: Replace with an updated reading that focuses specifically on federally regulated pension plans. Make changes indicated in **bold**.

Reading A

OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans, Study Guide Module 9, Pages **27-37**

Page 6, Key Terms: Change the last bullet indicated in **bold** and remove what is ~~crossed-out~~ to reflect addition of the *OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans* as an assigned reading.

- Rating categories for ~~quality of risk management oversight~~
- **The OSFI risk assessment framework**

Pages 25-27, Content Knowledge Review Questions 7.1 and 7.2: Replace with new questions to reflect the addition of the *OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans* as an assigned reading.

7.1 Describe the significance of the indicators used by the Office of the Superintendent of Financial Institutions (OSFI) to detect risks that impact federally regulated pension plans. Provide examples of each risk indicator. (Reading A, OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans, Study Guide Module 9, p. 31)

OSFI applies risk indicators to all plans, which are then classified into the following three tiers based on the significance of the risks:

- (1) Tier 1 indicators. Detect issues that require immediate attention and may have a significant impact on both the current state and future risk within the plan. Examples include nonremittance of contributions, contribution holidays in excess of surplus or a plan sponsor facing serious financial issues.

- (2) Tier 2 indicators. Identify potential risks with the pension plan that may lead to more serious issues. Examples include investment returns that do not meet benchmarks, large changes in membership or a high proportion of liabilities pertaining to retired members.
- (3) Tier 3 indicators. Capture situations that may require greater diligence or controls on the part of the plan administrator but may not have significant impact on risk within the plan if properly managed. Examples include whether the plan provisions contain benefits that are subject to the plan administrator's discretion (i.e., consent benefits) or if there has been a history of late filings for the plan.

7.2 Describe the first step in the OSFI risk assessment process, and identify the components of the activities reviewed within that step in the process. (Reading A, OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans, Study Guide Module 9, pp. 32-33)

The OSFI risk assessment process begins with a review of significant activities within a pension plan. Significant activities are those essential operations that a pension plan administrator undertakes to administer the plan and the fund in compliance with professional standards and regulatory requirements. These include:

- (a) Administration. Includes benefit calculations, benefit payments, payment of expenses, regulatory filings, recordkeeping, and collection and remittance of contributions to the custodian.
- (b) Communication to members. Includes website management, notices, annual statements and member education.
- (c) Asset management. Includes management of the plan's fund, asset/liability management, preparation of special financial or risk management reports, and establishment of and adherence to a statement of investment policies and procedures (SIP&P).
- (d) Actuarial (for defined benefit plans only). Includes the actuarial valuation of the plan assets and liabilities, as well as advice, analysis testing and special reports provided by the actuary at the request of the plan administrator.

Pages 29-32, Reading A: Remove these pages and replace them with the following replacement reading: Reading A, *OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans*, Study Guide Module 9, pp. 27-37.

Page 33, Benefits in Action 5: Change the description for Hubertson indicated in **bold** and remove what is ~~crossed-out~~ to reflect the addition of the OSFI *Risk Assessment Framework for Federally Regulated Private Pension Plans* as an assigned reading.

Hubertson

- A privately held ~~design and engineering construction~~ **logistics and interprovincial shipping company** with 5,000 full-time employees in Toronto, Ontario and an additional 100 employees across Quebec, Alberta and Ontario; has 4,500 union members and 500 nonunion members. Has a **federally registered** DC RPP, group insurance plan, self-insured EHC plan, dental plan and HCSA.

Page 38, Benefits in Action 5: Change the description for the Vision for Hubertson indicated in **bold** and remove what is ~~crossed-out~~ to reflect the addition of the OSFI *Risk Assessment Framework for Federally Regulated Private Pension Plans* as an assigned reading.

Vision: To be the most respected and trusted ~~construction and infrastructure development~~ **logistics and interprovincial shipping company** in Canada.

Page 49, Benefits in Action 5: Change paragraphs 1 and 3 indicated in **bold** and remove what is ~~crossed-out~~ to reflect the addition of the OSFI *Risk Assessment Framework for Federally Regulated Private Pension Plans* as an assigned reading.

“A shared understanding of the elements that contribute to quality risk management oversight will help us answer that question. I based this checklist on the OSFI Risk Management Assessment Criteria. OSFI evaluates pension funds on these six elements. I created this checklist after seeing a document that the federal Office of the Superintendent of Financial Institutions published on its website. It identified criteria used in assessing risk management for financial institutions. While designed specifically for pension plans, The criteria are equally relevant for evaluating how well this committee is positioned to provide a risk management oversight of both the pension and benefit plans. We can use these basic elements to think about where the committee is strong in its risk oversight and where it may have gaps or weaknesses. Reflect back on everything we have heard or talked about today.” Phil paused to allow people time to read through the checklist.

Phil moved to a flip chart at the front of the room and turned the top page over to an image of a scale. *“This is the rating scale OSFI uses to score pension plans that fall under their jurisdiction on the quality of their risk management function.”* **used to score the quality of risk management functions of the financial institutions under its jurisdiction.”**

Replace Module 9 with the following pages. Keep the current BIA 5 Tab and make the following changes and insert it between pages 38 and 39 of the new Module 9.

BIA 5 Tab, Make changes indicated in **bold** to reflect changes due to the addition of the OSFI *Risk Assessment Framework for Federally Regulated Private Pension Plans* as an assigned reading.

1. Read the case narrative carefully, Study Guide Module 9, pages **39** to **45**, to familiarize yourself with the context and premise of the enterprise risk management framework. As you assess the situation, consider the knowledge you bring to this risk management conversation based on the advance reading you have done in preparation for this meeting.
2. Complete the “Apply Your Knowledge” exercise on Study Guide Module 9, page **46**.
3. Complete the “Test Your Knowledge” exercise on Study Guide Module 9, pages **47** to **58**.

Thinking Through a Risk Management Lens

It would be difficult to find a benefits professional who is not familiar with the term “risk management.” Plan sponsors, plan administrators, trustees, benefits professionals and other professionals supporting retirement or benefits plan management participate in many decisions requiring them to balance risk and value to key stakeholders.

Risk management is a powerful lever, viewed as a competitive advantage, and when done well, increases probability of success. Risk management at the entity level (also called “enterprise risk management”) encompasses all areas of an entity’s exposure to risk (financial, operational, reporting, compliance, governance, strategic, reputational, etc.). It recognizes that individual risks across the entity are interrelated and can create a combined exposure that differs from the sum of the individual risks. It facilitates prioritization and management of risk exposures as an interrelated risk portfolio rather than as individual silos of risk. Risk management is embedded as a component in all critical decisions.

Thinking through a risk management lens encourages contextual thinking—understanding issues in the context of the situation from which they arise, understanding circumstances surrounding the issues, making decisions with an awareness of opportunities for creating value for stakeholders and risks that challenge the achievement of value, and developing an “appropriate” response.

The next four modules introduce core definitions, components and principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Framework (known as the COSO Framework). There is no one-size-fits-all risk management approach, and there are many risk management models to draw upon; however, the COSO Framework is robust, encompassing culture, capabilities and practices. While it focuses on a traditional corporate entity with a traditional management structure, it is intended to apply to all entities, regardless of legal structure, size, industry or geography and to be relevant at any decision-making level.

The COSO Framework can be tailored to a plan sponsor's unique business context—its industry, regulatory requirements, mandate, priorities, culture, management capacity, and regulatory and stakeholder expectations. The principles introduced are universal in their application and contribute to effective risk management practice and the risk management of any plan type.

Module 9 provides an overview of the interrelationships among the five components and the 23 related principles of the COSO Framework. The unique role of the board in enterprise risk management oversight is discussed. In the spirit of “beginning with the end in mind,” this module concludes with a look at a useful tool for assessing the quality of an entity's risk management function against standards set by the regulator of federally regulated private pension plans. While the focus of this assessment tool is on pension plans, the evaluation components and evaluation criteria can be used to inform the assessment of the risk function of any type of plan. This end-result assessment tool reinforces the relevance of the components and principles of the COSO Framework.

Assigned Reading



Appendix 1

COSO Enterprise Risk Management Framework (COSO Framework), Introduction, Pages 9-30; Glossary of Terms, Pages 110-112; Roles and Responsibilities, Pages 113-119; Risk Profile Illustrations, Pages 120-122

Reading A

OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans, Study Guide Module 9, Pages 27-37



Benefits in Action #5

“What does enterprise risk management mean for our Pension and Benefits Committee?” Study Guide Module 9, Pages 39-58



Professional Enrichment Resources

Risk management basics: What exactly is it?

<http://www.youtube.com/watch?v=BLAEuVSAIVM>

Professional enrichment resources are not tested on the national examination.

Why View This?

This YouTube video provides a simple and practical way to think about the value of risk management thinking as a life skill. It sets up the exploration of the more sophisticated COSO Framework of enterprise risk management covered in Modules 9 through 12.



Learning Outcomes

1. Explain the context and premise underpinning the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Framework (COSO Framework).
2. Explain key terms and concepts related to enterprise risk management.
3. Explain the interrelationship between enterprise risk management and strategy.
4. Explain the interrelationship between enterprise risk management and entity performance.
5. Provide an overview of the components and principles of the COSO Framework.
6. Provide an overview of the roles and responsibilities in enterprise risk management.
7. Identify considerations in the evaluation of the quality of risk management oversight.

Benefits in Action #5

“What does enterprise risk management mean for our Pension and Benefits Committee?”

1. Apply your knowledge of the COSO enterprise risk management components and principles to developing risk management capabilities in a pension and benefits committee.
2. Evaluate whether the presentation to the committee was effective in communicating the CEO’s expectation that the committee strengthen its risk management capability and in gaining buy-in to do so from committee members.



Outline of Knowledge

- A. Overview of enterprise risk management
 - 1. Context
 - a. Impact on value for stakeholders
 - b. Links to governance, strategy, internal control and performance management
 - c. Benefits of enterprise risk management
 - d. Impact on capacity to adapt, survive and prosper
 - 2. Foundational concepts
 - a. Risk and uncertainty defined
 - b. Enterprise risk management defined
 - c. Focus
 - i. Recognizing culture and capabilities
 - ii. Applying practices
 - iii. Integrating with strategy setting and its execution
 - iv. Managing risk to strategy and business objectives
 - v. Linking to creating, preserving and realizing value
- B. Relationship between enterprise risk management and entity strategy
 - 1. Mission, vision and core values
 - 2. Strategy alignment
 - 3. Strategy evaluation
 - 4. Strategy execution risks
 - a. Governance and operating models
 - b. Legal structure
 - c. Management structure

- C. Relationship between enterprise risk management and entity performance
 - 1. Risk profile, risk appetite and acceptable variation in performance
- D. Components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Framework (COSO Framework) and related principles
 - 1. Risk Governance and Culture
 - 2. Risk, Strategy and Objective Setting
 - 3. Risk in Execution
 - 4. Risk Information, Communication and Reporting
 - 5. Monitoring Enterprise Risk Management Performance
- E. Roles and responsibilities in enterprise risk management
- F. Considerations in evaluation of risk management function



Key Terms

- Enterprise risk management
- Risk uncertainty
- Entity
- Business context
- Culture
- Capabilities
- Practices
- Stakeholders
- Value
- Strategy
- Business objectives
- Internal control
- Performance management
- Organizational sustainability
- Event
- Severity
- Mission
- Vision
- Values
- Governance model
- Operating model
- Legal structure
- Risk profile
- Risk appetite
- Risk capacity
- Acceptable variation in performance
- Risk tolerance
- COSO Framework components
- The OSFI risk assessment framework

Learning Outcome



1

Explain the context and premise underpinning the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Framework (COSO Framework).

1.1 Define “enterprise risk management.” (Study Guide Appendix 1, COSO Framework, pp. 16 and 110)

“Enterprise risk management” is defined as the culture, capabilities and practices, integrated with strategy setting and its execution, that entities rely on to manage risk in creating, preserving and realizing value for stakeholders. A more in-depth look at the definition of enterprise risk management emphasizes its focus on managing risk through:

- (a) Recognizing culture and capabilities
- (b) Applying practices
- (c) Integrating with strategy setting and its execution
- (d) Managing risk to strategy and business objectives
- (e) Linking to creating, preserving and realizing value.

1.2 Define “culture,” “capabilities” and “practices” in the context of enterprise risk management. (Study Guide Appendix 1, COSO Framework, pp. 16 and 110-111)

Culture is developed and shaped by the people at all levels of an entity by what they say and do. It is people who establish the entity’s mission, strategy and business objectives and put enterprise risk management practices in place. Risk “culture” is defined as the attitudes, behaviours and understanding about risk, both positive and negative, that influence decisions and reflect the mission, vision and core values of the entity.

Enterprise risk management “capability” provides a core capability to an entity in its pursuit of competitive advantages to create value. Enterprise risk management helps the entity develop the skills needed to execute the entity’s mission and vision and to anticipate the challenges that may impede success. It enhances capacity to adapt to change and increases resilience and ability to evolve in the face of marketplace and resource constraints.

Risk “practices” are the methods and approaches deployed within an entity related to managing risk. Practices used in enterprise risk management are applied from the highest levels of an entity and flow down through divisions, business units and functions—applied to the entire scope of activities as well as to special projects and new initiatives. It is part of decision making at all levels of the entity. Practices are intended to help people within the entity better understand its strategy, what business objectives have been set, what risks exist, what the acceptable amount of risk is, how risk impacts performance and how to manage risk. In turn, this understanding supports decision making at all levels and helps to reduce entity bias.

1.3 Outline the premises that underpin the benefits of taking an enterprisewide approach to risk management. (Study Guide Appendix 1, COSO Framework, p. 9)

An enterprisewide approach to risk management is based on the premise that every entity—whether for-profit, not-for-profit or government—exists to provide “value” for its stakeholders. A related premise is that all entities face uncertainty, generally understood to be something not completely known or the condition of not being sure of something, in the pursuit of value. Effective enterprise risk management allows decision makers to balance exposure against opportunity, with the goal of enhancing the entity’s capabilities to create, preserve and ultimately realize value for stakeholders.

1.4 Define “stakeholders,” and differentiate between internal and external stakeholders. Provide examples of stakeholders in group benefit plans or employer-sponsored pension plans who stand to benefit from effective risk management practices. (Study Guide Appendix 1, COSO Framework, pp. 110-112)

“Stakeholders” are parties that have genuine or vested interest in an entity. Internal stakeholders are parties working within the entity such as employees, management and the board. External stakeholders are any parties not directly engaged in the entity’s operations but who are impacted by it, directly influenced by its environment, or influence its reputation, brand and trust. Key stakeholders in a group benefits plan or an employer-sponsored pension plan can include the employer (plan sponsor), employees (plan members), beneficiaries of the plan members, plan service providers and any relevant regulatory bodies such as the Canada Revenue Agency (CRA) or the pension regulator for the province or territory in which the plan sponsor operates.

1.5 Explain how the value of an entity is influenced by management decisions. (Study Guide Appendix 1, COSO Framework, pp. 9-10)

Management decisions, from overall strategy decisions to day-to-day decisions, can determine whether value is created, preserved, realized or eroded.

- (a) Value is created when the value of deployed resources (such as people, financial capital, technology and processes) is less than the benefits derived from that deployment.
- (b) Value is preserved when the value of resources deployed in day-to-day operations sustains created benefits. For example, value is preserved with the delivery of superior products and services, which results in satisfied customers and stakeholders.
- (c) Value is realized when stakeholders derive benefits created by the entity. Benefits may be monetary or nonmonetary.
- (d) Value is eroded when management implements strategies that do not yield expected outcomes or fails to execute day-to-day tasks.

1.6 Explain how enterprise risk management interfaces with strategy. (Study Guide Appendix 1, COSO Framework, pp. 10 and 20)

“Strategy” refers to an entity’s plan to achieve its mission and vision and to apply its core values. A well-defined strategy provides a road map for establishing business objectives and drives the efficient allocation of resources and effective decision making.

Enterprise risk management does not create the entity’s strategy, but it influences its development. It informs the entity on risks associated with alternative strategies considered and, ultimately, with the adopted strategy. It evaluates potential risks that may arise from strategy, including how the chosen strategy could affect the entity’s risk profile (specifically the types and amount of risk the entity is potentially exposed to). It also evaluates the critical assumptions underlying the chosen strategy by looking at how sensitive strategy alternatives are to changes in the assumptions (i.e., whether they would have minimal or significant effect on achieving the strategy).

1.7 Explain how enterprise risk management can influence an entity’s ability to adapt, survive and prosper. (Study Guide Appendix 1, COSO Framework, p. 13)

Every entity sets out to achieve its strategy and business objectives in an environment of change. Market globalization, technological breakthroughs, mergers and acquisitions, fluctuating capital markets, competition, political instability, workforce capabilities, and regulation, among other things, make it difficult to know all possible risks to a business strategy and business objectives. Risk is always present and always changing. While it may not be possible for entities to manage all potential outcomes of risk, they can improve how they adapt to changing circumstances. This is sometimes referred to as “organizational sustainability.” Enterprise risk management focuses on managing risks to reduce the likelihood that an event will occur, managing the impact when one does occur and adapting as circumstances dictate.

1.8 Outline benefits of integrating enterprise risk management with strategy setting and performance management processes. (Study Guide Appendix 1, COSO Framework, pp. 12-13)

The benefits of integrating enterprise risk management with an entity's strategy setting and performance management processes vary by entity. However, implementing enterprise risk management may increase the entity's ability to:

- (a) Expand the range of opportunities for creating value. Considering all reasonable possibilities, and both positive and negative aspects of risk, might surface opportunities that would not otherwise have surfaced.
- (b) Identify and manage entitywide risks. Every entity faces myriad risks that can affect many parts of the entity. Sometimes a risk can originate in one part of the entity but impact a different part. Risk management at the enterprise level allows an entity to bring together previously disparate data to respond more effectively to risks.
- (c) Reduce surprises and losses. Integration allows entities to improve their ability to identify potential risks and establish appropriate responses, reducing surprises and related costs or losses.
- (d) Reduce performance variability. For some entities, the challenge is less about surprises and losses and more about performance variability. Performing ahead of schedule or beyond expectations may cause as much concern as performing below expectations.
- (e) Improve resource deployment. Obtaining robust information on risk allows management to assess overall resource needs and enhance resource allocation.

2



Learning Outcome

Explain key terms and concepts related to enterprise risk management.

2.1 Explain how events, uncertainty and severity impact risk. (Study Guide Appendix 1, COSO Framework, pp. 15 and 110-112)

In the context of enterprise risk management, an “event” is an occurrence or set of occurrences. “Uncertainty” is the state of not knowing how potential events may or may not manifest. “Severity” is a measurement of considerations such as the likelihood and impacts of events or the time it takes to recover from events. Some risks have minimal impact on an entity, and others have a larger impact.

In the context of risk, events are more than routine transactions; they are broader factors that affect the entity such as changes in the governance and operating model, geopolitical and social influences, and contracting negotiations. Some events are readily discernable—a change in interest rates, a competitor launching a new product that affects financial viability, or a cyberattack. Other events are less evident, particularly when multiple small events combine to create a trend or condition. For instance, it may be difficult to identify specific events related to global warming, yet that condition is generally accepted as occurring. In some cases, entities may not even know or be able to identify what events may occur. The risk of an event occurring (or not) creates uncertainty.

2.2 Explain why an event with a positive outcome can also pose a risk. (Study Guide Appendix 1, COSO Framework, p. 15)

Commonly, the focus is on those risks that may result in a negative outcome, such as damage from a fire, losing a key customer, or a new competitor emerging. However, events can also have positive outcomes, and these must also be considered. Events that are beneficial to the achievement of one objective may at the same time pose a challenge to the achievement of other objectives. For example, if a company’s product launch has higher-than-forecast demand, it introduces a risk to supply chain management, which may result in unsatisfied customers if the product cannot be supplied.

Learning Outcome



3

Explain the interrelationship between enterprise risk management and strategy.

3.1 Outline the benefits of integrating enterprise risk management with strategy setting and strategy execution processes. (Study Guide Appendix 1, COSO Framework, p. 18)

When enterprise risk management, strategy setting and strategy execution processes are integrated, an entity is better positioned to understand:

- (a) How mission, vision and core values form the initial expression of acceptable types and amount of risk when setting strategy
- (b) Possibility of strategies and business objectives not aligning with the mission, vision and core values
- (c) Types and amount of risk the entity potentially exposes itself to from the strategy that has been chosen
- (d) Types and amount of risk to executing its strategy and achieving business objectives.

3.2 Define “mission,” “vision” and “core values,” and explain how they relate to an entity’s purpose. (Study Guide Appendix 1, COSO Framework, pp. 18-19 and 110-112)

“Mission” is the entity’s core purpose, which establishes what it wants to accomplish and why it exists. “Vision” is the entity’s aspirations for its future state or what the entity aims to achieve over time. “Core values” are the entity’s beliefs and ideals about what is good or bad, acceptable or unacceptable, which influence the behaviour of the entity and how it wants to conduct business. Together, these elements communicate to stakeholders the entity’s purpose. For most entities, mission, vision and core values remain stable over time, and during strategy planning they are typically reaffirmed. Yet the mission, vision and core values may evolve as the expectations of stakeholders change.

3.3 Explain the significance of alignment among strategy, mission, vision and values to enterprise risk management. (Study Guide Appendix 1, COSO Framework, p. 19)

Mission and vision help to establish boundaries for strategy and bring focus to understanding how decisions may affect strategy. Mission, vision and core value statements guide in determining the types and amount of risk an entity is likely to encounter and accept. If an entity's strategy is not aligned with its mission, vision and core values, its ability to realize mission and vision may be significantly reduced. This can happen even if the (mis)aligned strategy is successfully executed.

3.4 Describe the focus of enterprise risk management in the context of strategy execution. Provide an example. (Study Guide Appendix 1, COSO Framework, p. 20)

The focus of risk management in the context of strategy execution is on understanding the strategy as it is set out and what risks there are to its relevance and viability. There is always risk to executing strategy; a variety of techniques can be used to assess it.

For example, assume a health care provider sets a business objective of providing high-quality patient care. To assess risks associated with its execution, the provider considers risks relating to factors such as employee capability, medical care and treatment options, health care legislation requirements and health record management requirements. If these execution risks become significant enough, the health care provider may revisit its strategy and objectives and consider revisions or select other alternatives that have a more suitable risk profile.

3.5 Explain the roles of the governance and operating models in enterprise risk management. (Study Guide Appendix 1, COSO Framework, p. 21)

An entity's governance model defines and establishes authority, responsibility and accountability. It aligns the roles and responsibilities to the operating model at all levels—from the board of directors to management, divisions, operating units and functions.

An entity's operating model describes how management organizes and executes its day-to-day operations. It is typically aligned with the legal structure and management structure. Through the operating model, employees are responsible for developing and implementing practices to manage risk and stay aligned with the core values of the entity.

Both models influence the ability to identify, assess and respond to risks to the achievement of strategy.

3.6 Explain the significance of an entity's legal structure in risk management. (Study Guide Appendix 1, COSO Framework, p. 21)

How an entity is structured legally influences how it operates. A variety of factors, including size of the entity and any relevant regulatory, taxation or shareholder structures influence the suitability of different legal structures. A small entity may operate as a single legal entity, and risks can be aggregated across the entity. For large entities consisting of several distinct legal entities, risks may be segregated.

4



Learning Outcome

Explain the interrelationship between enterprise risk management and entity performance.

4.1 Explain the relationship between performance targets and level of uncertainty.

(Study Guide Appendix 1, COSO Framework, p. 23)

“Performance” describes how actions are carried out as measured against a preset target. There is always risk associated with a performance target. The level of uncertainty varies with the level of performance desired. For example, airlines have a certain amount of uncertainty about their ability to operate 100% of the flights on their schedule. They may be less uncertain that they can operate 90% or even 80% of their scheduled flights. There is a different amount of uncertainty associated with each level of performance.

4.2 Explain the concept of risk profile in the context of enterprise risk management.

(Study Guide Appendix 1, COSO Framework, pp. 23-26, 111 and 120)

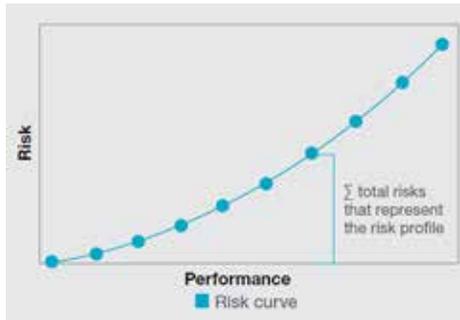
A risk profile provides a composite view of the risks for an entity as a whole or as a division, a project or an initiative. A composite view of risk allows decision makers to consider the type, severity and interdependencies of risks and how they may affect performance relative to the strategy and business objectives set.

To develop a risk profile requires an understanding of:

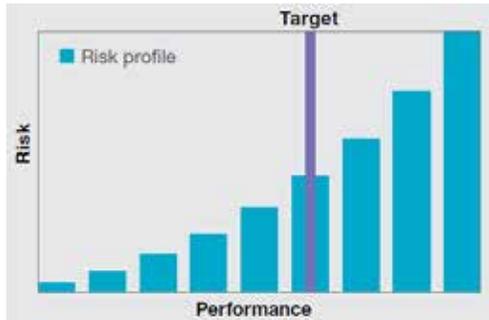
- (a) Strategy or relevant business objective
- (b) Performance target and acceptable variations in performance
- (c) Capacity and appetite for risk
- (d) Severity of the risk to the achievement of the strategy and business objective.

4.3 Interpret the following risk profiles. (Study Guide Appendix 1, COSO Framework, pp. 23-24 and 120-121)

Sample Risk Profile A



Sample Risk Profile B



There are several methods for depicting a risk profile. Every entity's risk profile is different, depending on its unique strategy and business objectives. These samples plot performance on the x-axis and risk on the y-axis.

Sample Risk Profile A graphically illustrates the composite or aggregate amount of risk associated with different levels of an entity's performance. In this risk curve, there is an upward trend; as performance increases, so does the risk level.

Sample Risk Profile B provides another illustration of a similar risk curve. This graph considers risk as a continuum of potential outcomes. Each bar represents the risk profile for a certain level of performance. The target level of performance illustrates the point at which the entity can balance the amount of risk to its desired performance.

4.4 Explain the concept of "risk appetite" and its relationship to strategy setting. (Study Guide Appendix 1, COSO Framework, pp. 23-24 and 111)

"Risk appetite" means the type and amount of risk an entity is willing to accept in its pursuit of value. Knowing the risk appetite is essential to enterprise risk management.

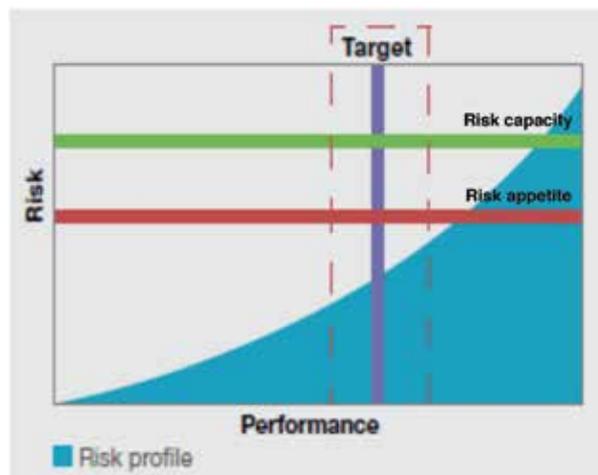
There is no universal risk appetite that applies to all entities. The first expression of risk appetite boundaries are in an entity's mission and vision statements. Developing a risk appetite statement is an exercise in finding a compromise between risks and opportunities. Risk appetite is not static; it may change over time in line with an entity's changing capabilities for managing risk. The process of selecting strategy and developing risk appetite is not linear, with one always preceding the other. Many entities develop strategy and risk appetite in parallel, refining each throughout the strategy-setting process.

4.5 Compare “risk capacity” to “risk appetite.” (Study Guide Appendix 1, COSO Framework, pp. 25 and 111)

“Risk capacity” is the maximum amount of risk that an entity is able to absorb in the pursuit of strategy and business objectives. “Risk capacity” can be plotted on any depiction of risk profile. Risk capacity must be considered when setting risk appetite, since generally an entity strives to hold risk appetite within its capacity. It is not typical for an entity to set risk appetite above its risk capacity, but in rare situations an entity may accept the threat of insolvency and failure on a given strategic direction, with the understanding that success can create considerable value.

4.6 Compare “acceptable variation in performance,” “risk appetite,” and “risk capacity” using the following risk profile. (Study Guide Appendix 1, COSO Framework, pp. 25-26 and 110)

Sample Risk Profile



This sample plots performance on the x-axis and risk on the y-axis. “Acceptable variation in performance” (sometimes referred to as “risk tolerance”) means the boundaries of acceptable outcomes relating to achieving business objectives. Acceptable variation in performance is depicted by the broken lines to the right and left of the target level of performance. It is more focused than risk appetite, illustrating both the boundary of exceeding the target level of performance and the boundary of trailing the target level of performance. Generally an entity strives to hold risk appetite within its risk capacity.

Learning Outcome

Provide an overview of the components and principles of the COSO Framework.



5

5.1 Explain the premise of the COSO Framework. (Study Guide Appendix 1, COSO Framework, pp. 27-28)

The premise of the COSO Framework is that the entity's mission, vision and core values drive the development of strategy and objectives, which in turn impact the entity's performance. Enterprise risk management is integrated into strategy planning and day-to-day decision making in an iterative way. The COSO Framework consists of five interrelated components:

- (1) Risk Governance and Culture
- (2) Risk, Strategy and Objective Setting
- (3) Risk in Execution
- (4) Risk Information, Communication and Reporting
- (5) Monitoring Enterprise Risk Management Performance.

Within these five components are a series of principles that represent the fundamental concepts and activities associated with each component. While these principles are universal and form part of any effective enterprise risk management practice, management must use judgment in applying them.

5.2 Outline the five components of enterprise risk management. (Study Guide Appendix 1, COSO Framework, pp. 27-28)

The five components are:

- (1) Risk Governance and Culture. Risk governance and culture together form a basis for all other components of enterprise risk management. Risk governance sets the entity's tone, reinforcing the importance of, and establishing oversight responsibilities for, enterprise risk management. "Culture" pertains to ethical values, desired behaviours and understanding of risk in the entity.
- (2) Risk, Strategy and Objective Setting. Enterprise risk management is integrated into the entity's strategic plan through the process of setting strategy and business objectives. With an understanding of business context, the entity can gain insight into internal and external factors and their impact to risk. An entity sets its risk appetite in conjunction with strategy setting. The business objectives allow strategy to be put into practice and shape the entity's day-to-day operations and priorities.
- (3) Risk in Execution. An entity identifies and assesses risks that may affect the ability to achieve its strategy and business objectives. It prioritizes risks according to its severity and the entity's risk appetite. The entity then selects risk responses and monitors performance for change. It develops a portfolio view of the amount of risk the entity has assumed in pursuing its strategy and business objectives.
- (4) Risk Information, Communication and Reporting. Communication is the continual, iterative process of obtaining information and sharing it throughout the entity. Relevant and quality information from both internal and external sources is used to support enterprise risk management. The entity leverages information systems to capture, process and manage data and information.
- (5) Monitoring Enterprise Risk Management Performance. An entity considers how well the enterprise risk management components are functioning over time and during times of substantial change.

5.3 Outline criteria for assessing the overall effectiveness of enterprise risk management. (Study Guide Appendix 1, COSO Framework, p. 30)

An entity should have a means to reliably provide to the stakeholders a reasonable expectation that it is able to manage risk associated with the strategy and business objectives to an acceptable level. It does this by assessing the enterprise risk management practices that are in place. Different approaches are available for assessing enterprise risk management. The entity may consider:

- (a) Whether components and principles relating to enterprise risk management are present and functioning
- (b) Whether components relating to enterprise risk management are operating together in an integrated manner
- (c) Whether controls necessary to effect principles are present and functioning
- (d) Whether components, relevant principles and controls to effect those principles that are present exist in the design and implementation of enterprise risk management to achieve strategy and business objectives
- (e) Whether components, relevant principles and controls to effect those principles that are functioning continue to operate to achieve strategy and business objectives.

During an assessment, management may also review the suitability of those capabilities and practices, keeping in mind the entity's complexity and the benefits the entity wants to attain through enterprise risk management. Factors that add to complexity may include, among other things, the entity's geography, industry, nature, extent and frequency of internal change, historical performance and variation in performance, reliance on technology and the extent of regulatory oversight.

6



Learning Outcome

Provide an overview of the roles and responsibilities in enterprise risk management.

6.1 Outline factors that impact the establishment of roles and accountability for enterprise risk management in an entity. Identify a specific example of a benefits industry model for risk management. (Study Guide Appendix 1, COSO Framework, p. 113)

In any entity, everyone shares responsibility for enterprise risk management. The leader of the entity (i.e., chief executive officer or president) is ultimately responsible and should assume ownership for the achievement of the entity's strategy and business objectives. That person should have a deep understanding of factors that may impede strategy achievement. Managers must ensure that their behaviours align with the culture. They are responsible for overseeing enterprise risk management, leveraging information systems tools and monitoring performance. Other employees are responsible for understanding and aligning to the cultural norms and behaviours, business objectives in their area and related enterprise risk management practices. The board of directors provides risk oversight to strategy achievement.

There is no one-size-fits-all approach to establishing an accountability model. The goal is to have an accountability model that offers an entity a balanced approach to managing risk and pursuing opportunities, all while enabling risk-based decision making that is free of bias.

The Office of the Superintendent of Financial Institutions (OSFI), the federal pension plan regulator, has identified a Risk Assessment Framework used in its oversight process. It offers specific guidance for implementing an accountability model, but entities must consider factors such as their size, strategy, business objectives, culture and external stakeholders. These factors within an entity's business context may establish roles across any number of different lines of accountability with specific regulatory guidance and oversight. Some entities may refer to the board of directors as a line of accountability based on its specific roles, responsibilities and accountabilities for that entity. Regardless of the number of lines of accountability, however, the roles, responsibilities and accountabilities are defined to allow for the clear ownership of strategy and risk that fits within the governance structure, reporting lines and culture.

6.2 Outline oversight practices for the Risk Governance and Culture component of the COSO Framework. (Study Guide Appendix 1, COSO Framework, p. 114)

Board-level risk oversight practices for Risk Governance and Culture include:

- (a) Assessing the appropriateness of the entity's strategy; alignment to the mission, vision and core values; and the risk inherent in that strategy
- (b) Defining the board risk governance role and structure, including subcommittees
- (c) Engaging with management to define the suitability of enterprise risk management
- (d) Overseeing evaluations of the culture and ensuring that management remediates any gaps
- (e) Promoting a risk-aware mindset that aligns the maturity of the entity with its culture
- (f) Overseeing the alignment of business performance, risk taking and incentives/compensation to balance short-term and long-term strategy achievement
- (g) Challenging the potential biases and tendencies of management and fulfilling its independent and unbiased oversight role
- (h) Understanding the strategy, operating model, industry, and issues and challenges affecting the entity
- (i) Understanding how risk is monitored by management.

6.3 Outline oversight practices for the Risk, Strategy and Objective Setting component of the COSO Framework. (Study Guide Appendix 1, COSO Framework, p. 114)

Board-level risk oversight practices for Risk, Strategy and Objective Setting include:

- (a) Setting expectations for integrating enterprise risk management into the strategic management processes, including strategy planning, capital allocation, etc.
- (b) Discussing and understanding the risk appetite and considering whether it aligns with its expectations
- (c) Engaging in discussion with management to understand the changes to business context that may impact the strategy and its linkage to new, emerging or manifesting risks
- (d) Encouraging management to think about the risks inherent in the strategy and underlying business assumptions
- (e) Requiring management to demonstrate an understanding of the risk capacity of the entity to withstand large, unexpected events.

6.4 Outline oversight practices for the Risk in Execution component of the COSO Framework. (Study Guide Appendix 1, COSO Framework, p. 115)

Board-level risk oversight practices for Risk in Execution include:

- (a) Reviewing the entity's strategy and underlying assumptions against the portfolio view of risk
- (b) Setting expectations for risk reporting, including the risk metrics reported to the board relative to the risk appetite of the entity and external enterprise risk reporting disclosures
- (c) Understanding how management identifies and communicates the most severe risks
- (d) Reviewing and understanding the most significant risks, including emerging risks and significant changes in the portfolio view of risk, specifically, what responses and actions management is taking
- (e) Understanding the plausible scenarios that could change the portfolio view.

6.5 Outline oversight practices for the Risk Information, Communication and Reporting component of the COSO Framework. (Study Guide Appendix 1, COSO Framework, p. 115)

Board-level risk oversight practices for Risk Information, Communication and Reporting include:

- (a) Establishing the information, underlying data and formats (graphs, charts, risk curves and other visuals) to execute board oversight
- (b) Accessing internal and external information and insights conducive to effective risk oversight
- (c) Obtaining input from internal audit, external auditors and other independent parties regarding management perceptions and assumptions.

6.6 Outline oversight practices for the Monitoring Enterprise Risk Management Performance component of the COSO Framework. (Study Guide Appendix 1, COSO Framework, p. 115)

Board-level risk oversight practices for Monitoring Enterprise Risk Management Performance include:

- (a) Asking management about any risk manifesting in actual performance (both positive and negative)
- (b) Asking management about the enterprise risk management processes and challenges and asking management to demonstrate the suitability and functioning of those processes.

Learning Outcome

Identify considerations in the evaluation of the quality of risk management oversight.



7

7.1 Describe the significance of the indicators used by the Office of the Superintendent of Financial Institutions (OSFI) to detect risks that impact federally regulated pension plans. Provide examples of each risk indicator. (Reading A, OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans, Study Guide Module 9, p. 31)

OSFI applies risk indicators to all plans, which are then classified into the following three tiers based on the significance of the risks:

- (1) Tier 1 indicators. Detect issues that require immediate attention and may have a significant impact on both the current state and future risk within the plan. Examples include nonremittance of contributions, contribution holidays in excess of surplus or a plan sponsor facing serious financial issues.
- (2) Tier 2 indicators. Identify potential risks with the pension plan that may lead to more serious issues. Examples include investment returns that do not meet benchmarks, large changes in membership or a high proportion of liabilities pertaining to retired members.
- (3) Tier 3 indicators. Capture situations that may require greater diligence or controls on the part of the plan administrator but may not have significant impact on risk within the plan if properly managed. Examples include whether the plan provisions contain benefits that are subject to the plan administrator's discretion (i.e., consent benefits) or if there has been a history of late filings for the plan.

7.2 Describe the first step in the OSFI risk assessment process, and identify the components of the activities reviewed within that step in the process. (Reading A, OSFI Risk Assessment Framework for Federally Regulated Private Pension Plans, Study Guide Module 9, pp. 32-33)

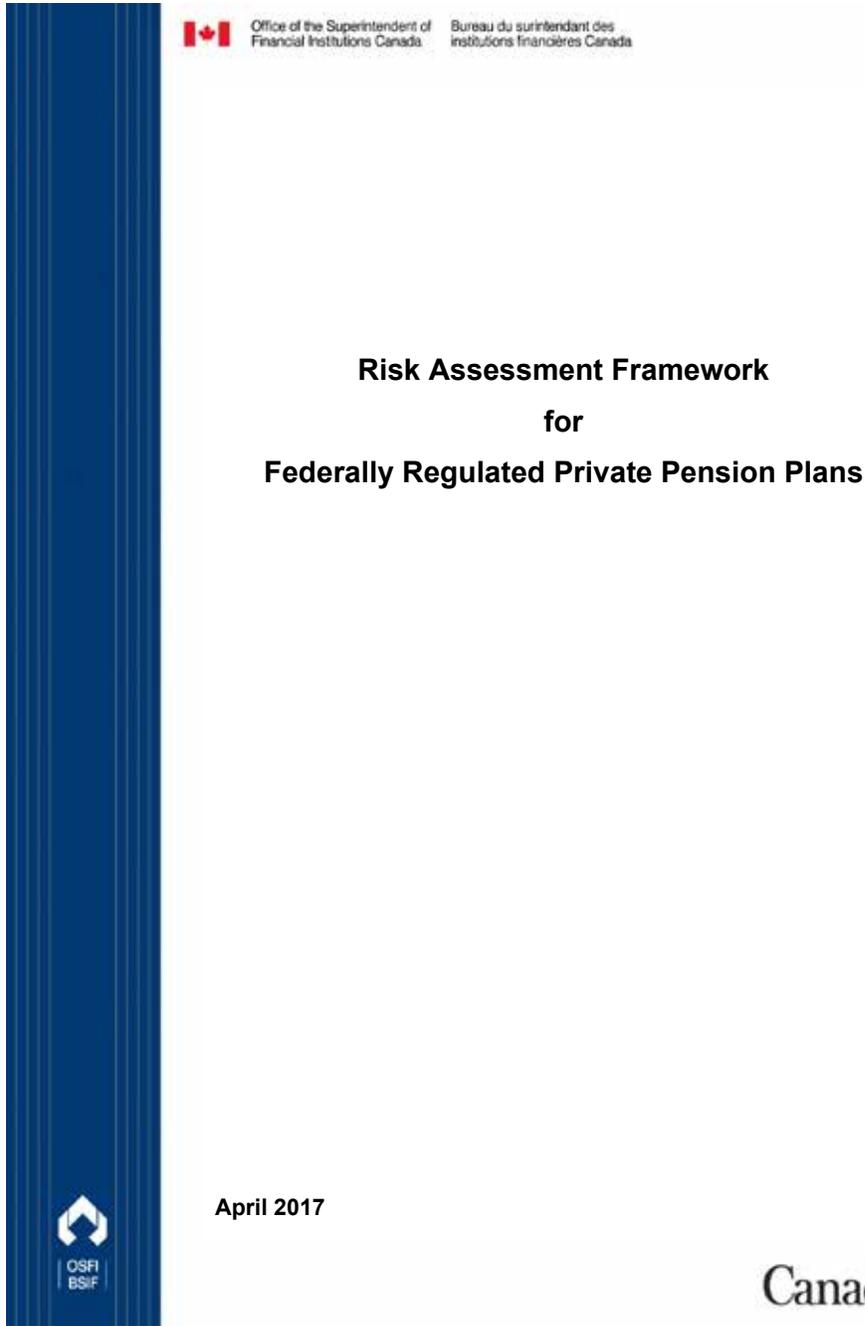
The OSFI risk assessment process begins with a review of significant activities within a pension plan. Significant activities are those essential operations that a pension plan administrator undertakes to administer the plan and the fund in compliance with professional standards and regulatory requirements. These include:

- (a) Administration. Includes benefit calculations, benefit payments, payment of expenses, regulatory filings, recordkeeping, and collection and remittance of contributions to the custodian.
- (b) Communication to members. Includes website management, notices, annual statements and member education.
- (c) Asset management. Includes management of the plan's fund, asset/liability management, preparation of special financial or risk management reports, and establishment of and adherence to a statement of investment policies and procedures (SIP&P).
- (d) Actuarial (for defined benefit plans only). Includes the actuarial valuation of the plan assets and liabilities, as well as advice, analysis testing and special reports provided by the actuary at the request of the plan administrator.

Reading

A

Risk Assessment Framework for Federally Regulated Private Pension Plans



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Risk Assessment Framework for Federally Regulated Private Pension Plans

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Risk Assessment Framework for Federally Regulated Private Pension Plans

1. Introduction OSFI's mandate includes striving to protect the rights and interests of beneficiaries¹ of federally regulated private pension plans. OSFI achieves this objective by conducting risk assessments of plans with a view of understanding the risk of loss to members' benefits under its purview, and providing timely and effective intervention and feedback. In addition, OSFI contributes to maintaining a balanced and relevant regulatory framework for federal plans, and processes those applications that request the approval of the Superintendent of Financial Institutions as required under the *Pension Benefits Standards Act, 1985* (PBSA) and the *Pooled Registered Pension Plans Act* (PRPPA).

OSFI's mandate also recognizes that the administrator is ultimately responsible for the plan's management, and that a pension plan may experience financial and funding difficulties that may result in a loss of members' benefits. Plans that meet the minimum funding requirements of the PBSA are permitted to operate with a solvency or going concern deficit. In supervising and regulating plans, OSFI acknowledges that plan administrators may need to take reasonable risks, and expects administrators to implement and follow best practices to manage those risks (e.g. as outlined in applicable pension governance guidelines²).

In assessing the possible threat of loss to members' promised benefits, OSFI's risk assessment of pension plans focuses on:

- early identification of pension plans that may have problems meeting minimum funding requirements, complying with the PBSA, or adopting policies and procedures to control and manage risk,
- prompt communication with plan administrators advising them of material deficiencies and non-compliance issues, and
- implementation of appropriate interventions to compel administrators to take corrective measures to address the deficiencies.

This document describes OSFI's Risk Assessment Framework (Framework) for federally regulated private pension plans (plans) established in respect of employees engaged in a work, undertaking or business that is subject to federal jurisdiction.

The Framework is sufficiently flexible to deal with a range of issues and plans. A Pooled Registered Pension Plan (subject to the PRPPA) is similar to a defined contribution plan (subject to the PBSA) in that the future retirement income that can be generated from the plan is a function of the value of the accumulated funds, not a promised fixed benefit level. The supervision framework therefore applies to a Pooled Registered Pension Plan (PRPP) in the same manner as for a plan that contains defined contribution provisions. References in the Framework to plans with "capital

¹ Includes members, former members and beneficiaries entitled to pension benefits or refunds under the plan.

² OSFI governance guidelines are available at www.OSFI-BSIF.gc.ca.

Risk Assessment Framework for Federally Regulated Private Pension Plans

accumulation accounts” cover plans with defined contribution provisions and PRPPs.

The Framework permits consistency while still requiring judgement to be exercised. The risk assessments performed are based on a balance of the assessor’s judgement of the risks and a consistent application of the Framework.

2. Key Principles

The following key principles form the basis of the effective application of the Framework:

- The Framework is risk-based, meaning that the degree of supervisory activity and the level and frequency of OSFI interventions will generally be commensurate with the net risk in a plan;
- Timely communication with plan administrators regarding OSFI’s concerns about risks facing the plan is essential;
- The work of professionals such as external auditors and actuaries is the basis for establishing the accuracy of financial statements and the valuation of plan liabilities; and
- OSFI expects plan administrators to administer their plans and pension funds in compliance with applicable legislation.

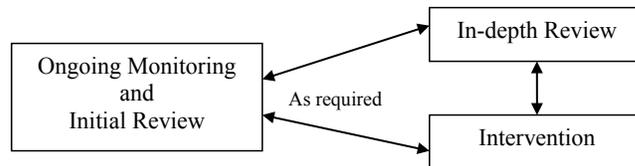
3. Benefits

The principal benefits of the Framework are:

- The separate assessment of inherent risks and risk management processes permits more systematic and consistent assessments across plans;
- Timely identification of problems before they escalate, as the process for determining risk and assessing mitigants is forward looking;
- Cost effective use of resources as supervisors focus on higher risk situations; and,
- Consistency with OSFI’s Supervisory Framework for Financial Institutions.

4. Supervisory Process

OSFI continually monitors plans and developments surrounding their employers in order to develop an understanding of how the plan works and to constantly be aware of any issues that may affect the plan’s viability. The illustration below outlines the flow of the key components in the risk assessment process. This process is applied to all plans OSFI supervises, and the components are explained more fully following the illustration.



Risk Assessment Framework for Federally Regulated Private Pension Plans

4.1 Ongoing Monitoring and Initial Review

During the ongoing monitoring and initial review component of the supervisory process, several tools are used to determine which plans may need to receive an in-depth review. Active monitoring of various indicators including media alerts, financial information and other applicable information, permits early identification of potential issues, risks or non-compliance, and increases OSFI's knowledge of the plan. At any time, issues identified through the ongoing monitoring process may trigger a more in-depth review or intervention. Tiered risk indicators, actuarial report reviews and the estimated solvency ratio (ESR) exercise are performed, providing information on areas of potential risk.

4.1.1 Tiered Risk Indicators

A series of indicators are used to detect risks based on information submitted in plan regulatory filings (filings) such as:

- Annual Information Returns (AIR)
- Certified Financial Statements and General Interrogatories (CFS)
- Actuarial Reports
- Plan Amendments

The risk indicators are applied to all plans. These indicators are a cornerstone of the risk-based approach to supervision, as the extent of risk identified determines whether further, more in-depth, assessment is required. OSFI focuses more supervisory resources on plans identified as having higher risks.

The indicators are classified into three Tiers, based on the significance of the risks that the tests capture:

- Tier 1 indicators detect issues that require immediate attention and may have a significant impact on both the current state and future risk within the plan. Examples include non-remittance of contributions, contribution holidays in excess of surplus, or a plan employer facing serious financial issues. Any plan where a Tier 1 test is triggered receives immediate attention and an in-depth risk assessment.
 - Tier 2 indicators identify potential risks with the plan that may lead to more serious issues. These include indicators such as investment returns that do not meet benchmarks, large changes in membership, and a high proportion of liabilities pertaining to retired members. These are less significant than Tier 1 issues, but if a number of the Tier II risks arise simultaneously, an in-depth risk assessment is likely to be conducted.
 - Tier 3 indicators capture situations that may require greater diligence or controls on the part of the administrator, but may not have significant impact on risk within the plan if properly managed. Examples include whether the plan provisions contain benefits that are subject to the plan administrator's discretion (i.e., consent benefits), or if there has been a history of late filings for the plan.
-

Risk Assessment Framework for Federally Regulated Private Pension Plans

4.1.2 Actuarial Report Review Pension plans that contain defined benefit provisions must submit an actuarial report annually, or triennially when the solvency ratio is 1.20 or greater. OSFI reviews actuarial reports in order to confirm that actuarial standards and OSFI requirements including specifications are met, and that there are no potential issues with minimum funding or other items. Actuarial issues are brought to the attention of the plan actuary and the plan administrator.

4.1.3 Estimated Solvency Ratio The ESR exercise monitors the solvency situation of a defined benefit or combination plan³ between the filing of actuarial reports. The ESR is OSFI’s estimate of the solvency ratio if the plan is terminated on the ESR date. The main objective of the ESR exercise is to identify plans that may have experienced a significant deterioration in their solvency position, e.g., to monitor

- the plans’ ability to meet significant increases in funding requirements, and
- that contribution holidays are taken prudently.

Intervention stemming from the ESR is risk-based, focusing on pension plans that have an ESR of less than or equal to 1.05.

4.2 In-Depth Review When the initial review establishes that a plan merits an in-depth review, the inherent risks facing the plan, the quality of risk management, financial indicators and the position of the employer(s) are assessed. An in-depth review will be necessary when the number of tiered risk indicators hits a pre-determined threshold. The assessment is documented in the Risk Assessment Summary (RAS). The RAS reflects the assessor’s judgement of the risks. As a result of this assessment, action plans are developed to address specific risks and concerns. Additionally, this in-depth review could include an examination of the plan.

4.2.1 Risk Assessment Summary A thorough knowledge of the plan provisions, financials and employer information is essential to an accurate assessment of the risk levels within the plan. The Knowledge of Plan section of a RAS evolves as new financial information, plan amendments and information related to business transactions are received.

The risk assessment process begins with a review of the significant activities within a plan. **Significant Activities** are essential operations that a pension plan administrator undertakes to administer the plan and the fund in compliance with professional standards and regulatory requirements. The following table describes the four significant activities that capture the operations of a plan. The Actuarial Significant Activity does not apply to plans that only have capital accumulation

³ A combination plan is a plan that has both defined benefit provisions and defined contribution provisions.

Risk Assessment Framework for Federally Regulated Private Pension Plans

accounts.

Significant Activity	Description
Administration	Involves the general administration of the plan. It includes items such as benefit calculations, benefit payments, payment of expenses, regulatory filings, record keeping, and collection and remittance of contributions to the custodian.
Communication to Members	Includes member communications such as website management, notices, annual statements, and member education.
Asset Management	Focuses on managing the plan's fund, asset/liability management, preparation of special financial or risk management reports, and the establishment of and adherence to a Statement of Investment Policies and Procedures.
Actuarial	Involves actuarial valuation of the plan assets and liabilities, as well as advice, analysis, testing and special reports provided at the request of the administrator.

Each significant activity gives rise to certain **inherent risks**, as a result of exposure to or uncertainty related to potential future events. The inherent risks of a plan are evaluated by considering the potential effects of an adverse impact on the pension assets, liabilities and/or the plan's ability to meet minimum funding requirements. The assessment of inherent risk is made without considering the impact of risk mitigation through the plan's risk management processes and controls. The inherent risk profile of the significant activities of a plan with defined benefit provisions may be very different from the profile of a plan with capital accumulation accounts. The following table describes each inherent risk:

Inherent Risk	Description
Investment	Applies to the plan fund only. This inherent risk takes into account the following risks: Credit: 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: Arises from changes in market rates or prices. Exposure to this risk can result from activity in markets such as fixed income (due to changes in interest rates), equity, commodity and real estate. Depending on the investment, there may also be exposure to currency risk. Liquidity: Arises from the plan's inability to obtain the necessary funds required to meet its pension obligations as they come due without incurring unacceptable losses.

Risk Assessment Framework for Federally Regulated Private Pension Plans

Pension/ Valuation	The risk that the methods and assumptions used to estimate the value of plan assets and liabilities will result in values that differ from experience. This risk may increase with a complex benefit design and inappropriate assumptions.
Operational	The risk of: deficiencies or breakdowns in internal controls or processes, technological failures, human errors, fraud, and natural catastrophes. Exposure to this risk can increase with a complex organizational structure.
Legal and Regulatory	The risk that a plan may not be administered in compliance with the rules, regulations, best practices, or fiduciary standards imposed on the plan in any jurisdiction in which the plan operates.
Strategic	The risk that arises from a plan’s difficulty or inability to implement appropriate policies or strategies required to address problems or challenges that may arise in the pension plan due to its design or structure.

Mitigation of these risks is assessed through an analysis of the risk management function within the plan. Key aspects of the quality of risk management include controls and oversight. The Controls and Oversight in place should be appropriate for the level of inherent risk. The higher the level of Inherent Risk, the more the Controls and Oversight should be robust.

- The **Controls** function involves ensuring the appropriate processes are in place to:
 - support a plan administrator to effectively carry out its activities/responsibilities;
 - mitigate the plan’s inherent risks;
 - plan, direct and control the day-to-day operations of a plan;
 - properly inform management of their responsibility for planning and directing activities of the plan;
 - support general operations; and,
 - help to achieve the strategic direction defined by the Board of Trustees/ Directors (the Board) or Pension Committee.
- The **Oversight** function provides stewardship and independent oversight for the plan. This includes the following:
 - ensuring management is qualified and competent;
 - reviewing and approving organizational and procedural controls and ensuring that these controls are working as intended;
 - ensuring that accountabilities are clear and understood;
 - ensuring that risks are identified and assessed in a timely manner;
 - ensuring that the development of policies and strategies receives appropriate consideration; and
 - ensuring that there is adequate performance reporting and review.

The Oversight function is generally performed by the Board of Directors, the Board of Trustees or by a Pension Committee.

The **Net Risk** associated with each significant activity is based on an assessment

Risk Assessment Framework for Federally Regulated Private Pension Plans

of how effectively the inherent risks are mitigated by the quality of risk management. The **Overall Net Risk** is an indication of the aggregate residual risk of the significant activities, taking into account whether risk mitigants implemented by the administrator are sufficient based on the overall level of inherent risk.

In addition to the Overall Net Risk, there are three key ratings that are used to assess the Composite Risk Rating:

- The **Solvency** rating represents the risk to member benefits if the plan were to terminate immediately. **Solvency** is not rated for plans that only provide capital accumulation accounts. For defined benefit or combination plans, the factors that are considered when rating **Solvency** include the solvency ratio based on the market value of plan assets and any current or future estimated solvency ratios provided by the plan administrator or calculated by OSFI.
- The **Ongoing Performance** rating reflects the safety of members' benefits based on a long term horizon. For plans with defined benefit provisions, it represents an estimate of the viability of the plan assuming it continues and funding requirements continue to be met. The ongoing performance rating may take into account items such as the funding ratios, trends and investment performance. For plans that provide capital accumulation accounts only, the Ongoing Performance rating focuses on the investment performance of the fund and its possible impact on members' benefits.
- The **Funding** rating addresses the plan's access to future or increased funding from the employer(s). This rating is forward looking, assessing the ability of the plan to meet minimum funding requirements over the short and long term. Factors that influence the rating include the credit ratings and financial performance of the employer(s), the outlook of the employer's industry, and the funding structure of the plan. For Negotiated Contribution (NC) plans, this rating is also used to assess the adequacy of negotiated contributions. Instances where this may be a concern will have a heavy impact on the final risk rating of the plan. It is important to stress that OSFI is focusing on the ability of the employer(s) to meet future funding requirements.

The **Composite Risk Rating (CRR)** is an assessment of the overall safety and soundness of the pension plan and the risk that the rights and interests of members may not be met.

The CRR takes into account the Overall Net Risk, Solvency (for plans with defined benefit provisions), Ongoing Performance and Funding ratings. The weighting given to each of these ratings will depend on the level of risk they represent. The CRR will be steered by those factors which represent a greater threat to the loss to members' promised benefits. OSFI considers these ratings to be a measure of the risk of a material failure of the pension plan to deliver promised benefits or fulfill its responsibilities to plan members.

The **Direction of risk** represents the expected trend in the Composite Risk Rating, taking into consideration whether there are significant issues that may not have been resolved or are likely to arise.

Risk Assessment Framework for Federally Regulated Private Pension Plans

Plans that do not require a RAS are assumed to have a Moderate and Stable CRR. The CRR of a plan provides an indication of the intervention level OSFI will consider implementing.

4.2.2 Risk Matrix

The Risk Matrix (below), summarizes the Overall Net Risk, as well as the Solvency, Ongoing Performance and Funding ratings used to determine the CRR.

Significant Activities	Inherent Risks					Quality of Risk Management		Net Risk
	Investment	Pension / Valuation	Operational	Legal and Regulatory	Strategic	Controls	Oversight	
Actuarial								
Administration								
Asset Management								
Communication to Members								
Overall Net Risk								

Solvency		Ongoing Performance		Funding	
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CRR:	
Direction:	

4.2.3 Examinations

Examinations are a tool that is used to assess the quality of controls and oversight, enhance the assessment of the financial situation of an employer and quality of the administration of a plan. The controls and oversight in place are not always known prior to an examination. The higher the level of inherent risks, the more controls OSFI would expect to be in place.

Examinations may involve a desk review of information provided by the plan administrator or an on-site examination where OSFI visits the administrator’s premises. These examinations provide OSFI with an understanding of the plan administrator’s commitment to the proper administration of the plan. On-site examinations further provide the opportunity to meet the individuals involved in plan administration, thereby improving communications between these administrators and OSFI.

4.3 OSFI

OSFI’s supervisory activities or interventions may include:

- performing an in-depth review of an actuarial report,

Risk Assessment Framework for Federally Regulated Private Pension Plans

- Intervention**
- conducting an examination of the plan,
 - requiring a revised or early filing of an actuarial report,
 - requiring additional disclosure of information to plan members,
 - requiring a plan administrator to meet with OSFI, plan members or other parties,
 - requiring freezing of portability for transfer of benefits from the plan,
 - requiring a plan administrator to conduct scenario testing,
 - exercising OSFI's right to bring an action against a plan administrator, employer or any other person,
 - issuing a Direction of Compliance,
 - removing a plan administrator and appointing a replacement administrator,
 - revoking a plan's registration, or
 - terminating a plan.
-

- 4.3.1 Watchlist** Consistent with a risk-based approach to supervision, OSFI considers the size of a plan's deficit and the employer's capacity to fund it. Pension plans that give rise to serious concerns, due to their financial condition or for other reasons, are placed on a watchlist and are monitored with greater focus. These plans are generally the target of further intervention.
-



“What does enterprise risk management mean for our Pension and Benefits Committee?”

For the past six weeks Luc hadn't been home from work before 7 p.m., spending “after hours” time trying to resolve problems arising in the administration of Hubertson's pension plan. As a member of a small HR team, he was exposed to many areas of the HR function, but his primary accountability was oversight of the day-to-day administration of the company's pension and benefit plans.

The ping of a text message roused him from the spreadsheet on his laptop screen. It was another message from his wife wondering if he would be home before the kids went to bed. “On my way now,” he responded. As he packed away his laptop, he said aloud, *“This is it. I have to bring these issues forward to Jill tomorrow.”*

Luc's thoughts on the drive home were focused on how he was going to position the apparent problems with Jill, director of human resources.

Hubertson

- A privately held logistics and interprovincial shipping company with 5,000 full-time employees in Toronto, Ontario and an additional 100 employees across Quebec, Alberta and Ontario; has 4,500 union members and 500 nonunion members. Has a federally registered DC RPP, group insurance plan, self-insured EHC plan, dental plan and HCSA.

Paul, Chief Executive Officer (CEO)

- New Hubertson CEO, committed to building risk management into business planning, decision making and operational processes. Focus has been at division level.

Andrea, Chief Financial Officer (CFO)

- Works closely with the CEO on strengthening risk management practices. Understands the impact the management style of the previous CEO had on the company culture.

Jill, Director, Human Resources, Chair of Pension and Benefits Committee

- New to Hubertson but has 15 years of HR experience.

Luc, Manager, Pension and Benefits, Member of the Pension and Benefits Committee

- Oversees day-to-day management of the pension and benefits plans, including service provider relationships. Holds the CEBS designation.

Phil, External Auditor, Clark & Brown

- Engaged to support development of stronger risk management culture and practices.

“Challenging timing,” he mused out loud. *“I’m facing significant challenges in my primary area of responsibility at Hubertson and reporting to a leader I barely know.”*

Luc put work out of his mind as he pulled into his driveway and anticipated an enjoyable evening with his family before they went to bed.

After his family was settled in for the night, he sat down to write an e-mail to Jill. Around midnight, he scanned the summary of his concerns one more time before hitting send.

In summary:

- KeptRite has been our DC RPP plan administrator since 1992. Late last year they converted our plan’s administrative processes from a paper-based system to online administration. There isn’t any documentation in the file regarding performance expectations.
- It hasn’t been a smooth transition. The number of access issues, errors in recording contributions and errors in employee records is high.
- There is the growing perception that KeptRite isn’t that progressive—it can’t offer many of the communication and reporting enhancements that other providers can.
- We haven’t initiated any remedial action in response to the difficulties with KeptRite’s pension administration services.

Knowledge you bring to the committee meeting discussions:

- Enterprise risk management
- Organizational context
- Stakeholders
- Culture
- Mission
- Vision
- Values
- Strategy
- Organizational sustainability
- Performance management
- Risk appetite
- Risk tolerance
- Event
- Severity

Before closing his laptop, he initiated a meeting request with Jill to discuss the details of his e-mail.

* * *

Jill had a morning routine that she rarely altered, but today a flat tire on her way to work had put her two hours behind. When she finally arrived at the office, she scanned her inbox, reading Luc’s e-mail first because it was marked “URGENT” in the subject line. The contents of his e-mail were concerning, and she cleared her agenda that morning to meet with him. She had heard a few rumblings about the conversion to the new online pension administration system but was caught completely off guard by the magnitude of the issues Luc raised.

“Come in, Luc.” Jill gestured for him to take a seat at the round table in her office. ***“It looks like things have snowballed suddenly. Fill me in, please.”***

“What we thought might be a few hiccups with the conversion to KeptRite’s online administration system has turned into something more serious.” Luc opened a file he brought with him and handed Jill a written report with all the documented issues categorized by theme, date and current status. She took a few minutes to review the material.

“How did this happen?” Jill sounded shocked. She knew that KeptRite had been Hubertson’s pension plan administrator since 1992 and that Keprite’s owner and Hubertson’s former CEO had been close friends for years. KeptRite aggressively promoted to Hubertson a move to a real-time, online administration system over a period of time, and the project, intended to cover an 18-month period, had begun two years ago.

“Well, I think we let the project get away from us. KeptRite said they could handle the transition seamlessly, and we gave them a lot of latitude in how they did that. Until the conversion, KeptRite service standards were excellent. There was never any uncertainty about quality, accuracy or noncompliance. Now it appears they were one of the last providers out of the gate with technology enhancements—and despite that, they were learning on the go with our account.” Luc was watching Jill’s face for a reaction, but there was none.

“Since the new system went live late last year, what started as a trickle of problems has turned into a flood of issues. As plan administrator, we have experienced difficulty accessing KeptRite’s website for the normal contribution and member termination activities. Complaints from plan participants are pouring in daily—the unreliable access to KeptRite’s website; plan contributions not recorded on a timely basis, which relates directly to our difficulty in uploading contribution reports to the website; or incorrect allocation of contributions among the members’ chosen investments.” Luc provided a few examples.

“When I convey our concerns to the KeptRite account rep, he doesn’t seem to consider them significant. He casually brushes me off and says that they’re still working a few issues out in the system. He also frequently mentions how his boss and our former CEO are such good friends.” Luc paused for Jill’s reaction, but she just nodded to him to continue.

Luc shared that he had been addressing the complaints on a one-on-one basis, so the scope of the problem was not really apparent. As he began to see the recurring patterns, the magnitude of the problems began to emerge. While one employee complaint might not appear to expose the company to unnecessary risk, when examined together, they could.

Jill cleared her throat and calmly observed, *“When I was hired, I heard through various informal channels that Hubertson had a ‘way of operating,’ and was especially known for its loyalty to its long-term vendor partners—a reflection of how the previous CEO operated. Our benefits and pension plan service providers have been accustomed to this style. While there are advantages to longstanding relationships, it sounds like we may not have done our due diligence with KeptRite for the pension plan initiative. We may have become too complacent, and based on what you’ve shared, our providers may have become too complacent as well.”*

Luc twirled a ballpoint pen in one hand as a way to channel his thoughts. *“Thinking back, our Pension and Benefits Committee may have been so comfortable with KeptRite’s past performance that we assumed those same people could deliver an online service. We shortchanged the analysis and validation processes necessary for a significant new initiative that could have minimized the risks inherent in a conversion of this nature. I’ve been around for some time now and have seen how the people on our Pension and Benefits Committee interact. Sometimes it’s challenging to keep the conversation on track. A few members in particular are quite loyal to our service providers. They sometimes rationalize employee complaints as ‘typical,’ defer to our providers, and are reluctant to question their analysis or recommendations or suggest that other members of the committee post the questions to the providers.”*

“I noticed the committee group dynamics in my first meeting as well. A few members seem be able to sway the thinking of other committee members.” Jill felt she was gaining a better understanding of the full scope of their challenges. She would bring these concerns forward to senior leadership. *“I’m going to schedule a meeting tomorrow with the CEO and CFO. We want to keep them in the loop on the status of the conversion and our general service provider concerns. Poor management of our pension plan poses risk for the company.”*

Jill normally didn’t feel frazzled, but she was still learning the ropes at Hubertson, having only joined the company three months ago. She had met with the CEO as part of her interview process, but this would be her first posthire meeting with him. She prepared a summary of Luc’s report and set up a meeting with Paul, the CEO, and Andrea, the CFO, for the first thing the next morning.

* * *

At 9:00 the next morning, Paul, Andrea and Jill were seated around the conference table.

Paul wasn't one to mince words. ***“I reviewed the report you provided, Jill. It concerns me that we're in this position with our pension plan.”*** He sipped from the glass of water in front of him before continuing. ***“Our business is inherently risky. Realizing value for our stakeholders means balancing risk and opportunity, but not at a cost that we don't have a threshold to tolerate. One of my priorities since coming on as CEO is to define and communicate our risk appetite and to strengthen our risk management capabilities. We have been building risk management into our existing governance and organizational structures, including strategic and operational processes. Granted, to date, our efforts have been largely concentrated in critical business divisions where there are major risk exposures or where the greatest time/cost savings opportunities can be achieved. We've already begun to streamline and reengineer our business processes.”***

Paul then turned his attention to the CFO. ***“Andrea, will you reach out to Phil from Clark & Brown? Clearly, we have more work to do to embed a risk management culture at Hubertson. Using the enterprise risk management model developed by COSO, or as we call it, the COSO Framework, our focus this year has been to implement a risk management framework at the division level. We need to integrate risk management practices throughout Hubertson. This shift to risk management thinking does require a change in attitudes and behaviours. We need to demonstrate that we have the structure, processes and skills to support this change in attitudes and behaviours. In another year, terms like ‘risk profile,’ ‘risk appetite’ and ‘risk capacity’ will be in everyone’s vocabulary and be part of every major decision-making process at Hubertson.”***

Andrea acknowledged Paul's comments and provided Jill some background information about Phil, the external auditor at Clark & Brown. ***“Phil has been working with us since Paul was appointed CEO. He has helped strengthen our risk management practices in both the business development and construction areas. Paul and I believe that Phil can help the Pensions and Benefits Committee. This committee needs to embrace more rigorous risk management thinking. Paul can introduce the process to the committee as well as help them to develop the skills necessary to make them more effective and efficient. A stronger risk management focus for the Pension and Benefits Committee has the potential to both address the current problems and to identify new opportunities for the committee to create value for our stakeholders.”***

Andrea continued with some additional ideas. ***“We need to focus on the vendor relationships we have on both the pension and benefits sides. Jill, as the chair of the Pension and Benefits Committee, we think you need to explore how we are managing the vendor relationships we currently have. You've only been here for three months, but I think this should be a priority for the committee. As I mentioned, the Pension and Benefits Committee can also be a vehicle for creating value for our stakeholders. Many companies think of ‘stakeholders’ as only those parties external to the company, but given your role, I'm sure you recognize that it's also important to create value for our internal stakeholders—our employees—as well.”***

In the few moments of silence that followed, Jill collected her thoughts. *“Your insights are extremely helpful. In particular, your comment about value to our stakeholders resonated with me. We are not serving our employees well if we are not optimizing our vendor relationships. Employees are a key internal stakeholder.”* Jill was eyeing the poster of Hubertson’s mission, vision and value statements hanging behind Paul’s desk as she spoke.

The image shows a poster for Hubertson. At the top, the word "Hubertson" is written in a large, white, serif font with a red roof-like shape above the 'n'. Below the logo, there are three main sections, each preceded by a red chevron symbol: "Vision", "Mission", and "Core Values". The "Core Values" section contains six bullet points arranged in two columns. The background of the poster is dark blue with a faint, light blue architectural or technical drawing overlay.

Hubertson

> **Vision:** To be the most respected and trusted logistics and interprovincial shipping company in Canada.

> **Mission:** To deliver the highest quality solutions while operating with safety, profitably and sustainability.

> **Core Values:**

- Safety First—We ensure a safe, healthy work environment and a “zero injury” culture.
- Trust and Candour—We conduct ourselves professionally, with candour, respect and integrity.
- Passion for Excellence—We do it right the first time, every time, always striving to find a better way.
- Results Oriented—We have an empowered and entrepreneurial “do whatever it takes” attitude, guided by a common framework of values, strategies and key processes.
- People-Focused Culture—We inspire and support our people to achieve their full potential.

“Risk management as a vehicle for improving decision making will be a top priority for discussion at our next committee meeting. We have some strong committee members who will be open to embracing this role.”

Paul nodded in agreement. ***“Our goal is for everyone in the company to embrace risk management and understand their roles and responsibilities in that regard. Phil will be a good resource to introduce some of the basic concepts. And Andrea, I suggest you go to the next few Pension and Benefits Committee meetings to share some of what we have been doing at the division level.”***

Andrea interjected at that point, summarizing the meeting outcome. ***“I think that’s a terrific idea, Paul. I think it’s important for the committee to have a larger business context. What do you think, Jill?”***

Jill was eager to work closely with the Pension and Benefits Committee. ***“Absolutely. Your comments will help me position enterprise risk management with the committee. We’ve had one introductory meeting since I’ve been hired. They are clearly committed.”***

“Yes, you have a pretty good group to work with.” Andrea said. ***“I’ll contact Phil once we finish here. I’ll provide him with a high-level overview of the issues we are currently facing and tell him to expect an e-mail that provides some background on the committee, member names and titles, and a brief outline of the committee roles and responsibilities.”***

“Yes, that sounds great. I’ll send that information along this afternoon,” Jill responded.

Signaling that the meeting was over, Paul rose from his chair and walked to the door. He poked his head out to catch his executive assistant’s attention. ***“Please get Tom on the line for me, will you, Helen?”***



Apply Your Knowledge

The CEO's goal for Hubertson is for everyone in the company to embrace risk management practices and to understand their roles and responsibilities in the risk management process. Both Jill and Luc have been tasked to work with Phil to implement risk management practices in the Pension and Benefits Committee. Put on your risk management consultant hat and respond to these questions:

- 1. Explain how the Pension and Benefits Committee's current way of operating is eroding value at Hubertson.** (Learning Outcome 1.5, Study Guide Module 9, p. 9; Study Guide Appendix 1, COSO Framework, pp. 9-10)

- 2. Explain how Luc could use the concepts of "events," "uncertainty" and "severity" to communicate his concerns about the problems with the administration of the pension and benefit plans.** (Learning Outcome 2.1, Study Guide Module 9, p. 12; Study Guide Appendix 1, COSO Framework, pp. 15 and 110-112)

- 3. Provide some examples of outcomes for both Hubertson and its employees when the Pension and Benefits Committee becomes more risk-aware.** (Learning Outcome 1.8, Study Guide Module 9, p. 11; Study Guide Appendix 1, COSO Framework, pp. 12-13)



Test Your Knowledge

Evaluate the Effectiveness of the Design of the Pension and Benefits Committee Meeting

Jill had been working closely with Luc to resolve the complaints brought forward by Hubertson's plan members and, with that insight, was preparing for the upcoming Pension and Benefits Committee meeting. Put on your committee member hat and evaluate what you have learned about risk management.

Check the box with the key terms covered in the Pension and Benefits Committee meeting.

- Enterprise risk management
- Risk tolerance
- Vision
- Mission
- Core values
- Risk appetite
- Risk culture
- Internal stakeholder
- Value

After Jill left the meeting with Paul, she immediately went to her office to write an e-mail to Phil. She included the names of the Pension and Benefits Committee members, a broad description of their roles, information on how members were appointed and the frequency of their meetings.

Philip Jonson

From: Jill Miller; Jillm@Hubertson.com
Sent: Fri 7/10/20XX 10:22 AM
To: Philip Jonson; PhilipJ@ClarkBrown.com

Hello Phil,

I am looking forward to working with you. I know Andrea provided you with a high-level overview of our issues. The purpose of my e-mail is to provide some background information on the Pension and Benefits Committee and its members. While our committee does consider risk in its decision making, it has been an informal approach. Our goal is to formalize the process and ensure it is aligned with the larger risk management initiative underway at the division level.

The mandate of the Pension and Benefits Committee is to provide advice and recommendations to the executive leadership team (ELT) concerning all matters related to pension and benefits, the collective agreement, and any proposed revisions or extensions of them, plus policies and proposals related to our pension and benefit plans. The committee provides guidance to the ELT and facilitates union input as well. It shares information concerning the pension plan and other nonsalary benefits.

All Pension and Benefit Committee appointments are made by the ELT. The committee chair and vice chair are chosen by the committee. The committee meets six times a year, with additional meetings called as required.

I joined Hubertson about three months ago, and the role of chair was passed to me because my predecessor held it.

Other members are:

- Anthony, Director, Information Technology, Toronto
- Mathew, Director, Multisector Services, Montreal
- Luc, Manager, Pension and Benefits, Toronto
- Mohamed, Head of Engineering and Design, Toronto
- Arthur, Director, Infrastructure Development, Calgary
- Axil, Union Representative, Toronto

We have set a special meeting for next Tuesday from 10 a.m. until noon. This is an ideal opportunity to introduce the concept of risk management and to examine some of its basic concepts. Andrea will also be attending this meeting.

I look forward to discussing how you think we could best use this time and to explore how we move forward from this meeting.

Best regards,
Jill

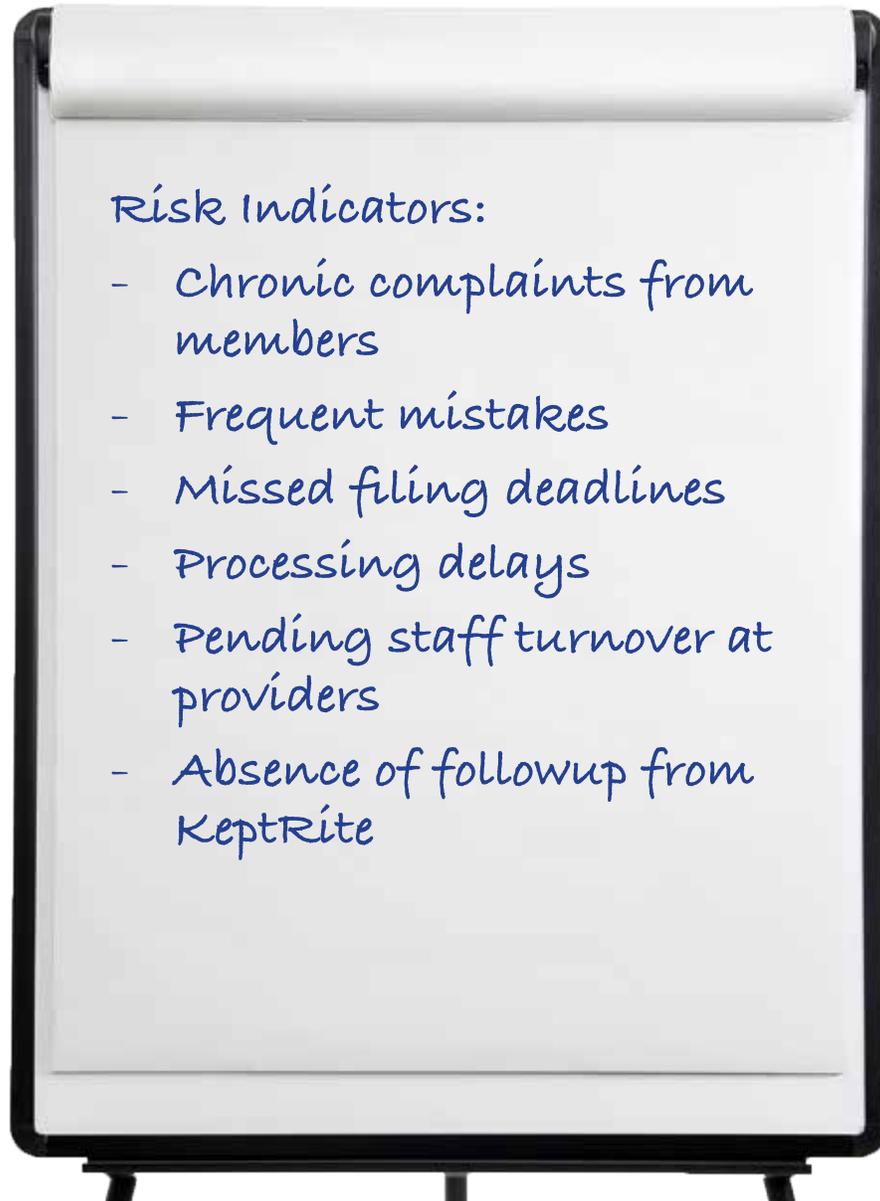
Following the initial e-mail contact, Jill and Phil had two phone calls to finalize a framework for discussion they felt would reinforce *why* the Committee needed to embrace the risk management mandate Paul had tasked them with. The meeting would focus on *what* risk management meant for them in their role as a committee member and *how* to start to move forward with that. Jill would lead the meeting, introducing Phil and leveraging her conversation with the CEO to provide the context for why Phil was attending. Luc would give his report on pension and benefit issues. Paul would introduce the topic of risk management.

Phil arrived at Jill’s office 30 minutes before the committee meeting. Along with Luc, Jill and Phil reviewed the agenda and discussed Phil’s focus one last time. Jill was a bit nervous about the meeting but felt that the CEO’s clear risk management charge to the Pension and Benefits Committee was a strong starting point. Phil had considerable expertise and experience to date with Hubertson.

The meeting started promptly at 10 a.m. After calling the meeting to order, Jill introduced Phil and explained why he was invited. Jill proceeded with a brief overview of her meeting with the CEO and CFO. She chose to use Paul’s parting message to reinforce his expectations of the committee. ***“Paul was very clear. Building a risk-aware mindset at Hubertson is one of his priorities. The focus has been at the business unit level and will be rippled out through the entire company. Our committee is expected to embrace risk management thinking in our decision-making processes. Phil’s presence here today as a resource in this area is evidence that Hubertson will invest in strengthening our capabilities.”***

Jill asked Andrea if she wanted to add anything. Andrea reiterated that the CEO was very committed to enterprise risk management, adding that while Hubertson was getting better at its risk management practices at the business unit level, there was room for improvement in the HR function, which included pensions and benefits. Andrea pointed to the poster of Hubertson’s mission, vision and value statements prominently displayed in the meeting room—the same poster that had been in the CEO’s office.

“Our internal stakeholders are important. A ‘people-focused culture’ is one of our core values. To deliver on that value, we need to provide risk management oversight of the employees’ pension and benefit plans,” Andrea stated.



Luc's presentation followed Andrea's comments. ***"Let's take a look at some of the key risk indicators. This will set the stage for why we need to address this situation,"*** Luc began.

Luc reported on all of the pension and benefit plan issues that had surfaced over the past 18 months. Luc's presentation clearly illustrated the magnitude and frequency of issues, which reinforced their potential to affect the achievement of their compensation objectives, or even worse, expose Hubertson to financial or legal risks.

Several questions about the service provider errors, plan member frustrations and concerns, and the impact on employee engagement were raised. Jill and Luc fielded responses. Unanswered questions were tabled for followup. The presentation was an eye-opener for many of the committee members. Past practice had been to think about and solve plan issues on an “as they occurred” basis.

Luc’s presentation was effective in confirming that these issues were not one-off events. Another significant issue was that the online conversion was not going as smoothly as they had assumed. This conclusion provided a perfect segue for Phil to begin his presentation. Every committee member gave him their undivided attention.

Phil took the opportunity to reference his experience working with Paul and some of the division leaders and repeated Jill’s reference to the “risk management charge” given by the CEO. Phil talked about the significance of a risk culture, risk practices and risk capabilities. He stressed the importance of integrating risk management into both strategy setting and execution. There was some discussion on how by managing risk, value for stakeholders could be preserved, realized and created; Phil noted that this was of particular importance for the pension and benefit plans. Optimizing the perceived value by plan members of Huberton’s investment in these plans depended on the committee’s sound judgment and solid decision making.

Phil answered several clarification questions about the fundamentals of risk management. He then asked the committee to reflect back over their meetings from the time the conversion was proposed to today. ***“Let’s focus on the online conversion. That will provide some insights about how you work together. Take a few minutes to think back through your meetings these past 18 months. How did the idea for the online conversion land on your meeting agenda?”*** He paused to give the group time to think about the question before asking more specific questions.

Phil had some key questions listed on a slide. ***“Let’s take a look at some of the key questions.”***

KEY QUESTIONS

- Who drove the discussion?
- Did you do a needs assessment?
- What was the basis of your decision for the system you adopted?
- How carefully was the KeptRite proposal vetted?
- What assumptions were you making about KeptRite’s capabilities?
Was everyone in agreement on the decision?
- Did you consider any other options?
- Did you set performance benchmarks?

Phil stopped there. He could see folks mentally processing all his questions.

Anthony, director of information technology, spoke up. ***“I do recall the first time the conversion topic came up. The KeptRite Account Rep was reporting at a quarterly meeting and mentioned that they were investing in new technology and would be providing online admin. One of the committee members at the time, who has since left the company, made some comments about problems he had personally experienced with the manual system. The conversation snowballed from there. By the end of the meeting, KeptRite had committed to providing a proposal.”***

Phil let Anthony’s comments sit for a few minutes before asking the obvious question. ***“Can you see where you left yourselves vulnerable in your meeting and decision-making process?”***

It was at this moment that Jill noticed some of the members looking down at their agendas as if some significant message had just appeared on the page. It was an “ah ha” moment—recognition that there had been many times over the past several months where they could have taken action as a committee to anticipate and help prevent the online conversion issues from occurring in the first place. Phil flipped to his next slide.

IMPORTANCE OF MEETING PREPARATION

Effective communication around risk management issues requires:

- Advance delivery of accurate, complete, relevant and timely information
- Adequate time to prepare for asking questions
- Adequate time for deliberation and documentation of decision making
- Full engagement of committee members

“This is a good recap of our discussion as it relates to meeting preparation that fosters risk awareness.”

Andrea intervened at this point. *“We can’t change what’s done, but this committee can work together to provide the type of risk oversight that is key to mitigating unnecessary exposure to risk. There are processes and tools that can help everyone apply risk management at their level—be it function, unit or committee, as is the case here.”*

Andrea nodded to Phil to continue.

“When risk management is integrated with strategy setting, and consideration is given to uncertainty and severity of the event when strategy is executed, the company is better positioned to both reduce performance variability and to expand the range of opportunities for creating value. While we didn’t anticipate that the pension plan’s online conversion could have generated so many hiccups, we can be more risk-aware from this point forward to reduce future surprises and losses. So the next question is: What systems need to be in place for this committee to be able to provide quality risk oversight?”

Phil walked around the table, handing out a simple checklist.

Factors influencing the quality of Pension and Benefits Committee risk management oversight

1. Committee Mandate

- Establishes clear objectives and authority for risk management activities

2. Committee Structure

- Has appropriate stature and authority and access to senior management to be effective in fulfilling its mandate

3. Resources

- Has adequate resources and appropriate collective competencies to carry out its mandate

4. Risk Management Policies, Processes and Practices

- Are appropriate given the committee's pension and benefits focus and related risks
- Are coordinated with strategic and operational policies and practices
- Are documented, communicated and integrated into the day-to-day administration of the pension and benefit plans
- Are adequate to monitor positions against approved limits for timely followup on material variances
- Are adequate to monitor trends and identify emerging risks and to respond effectively to unexpected significant events
- Are adequate to regularly review and update risk management policies, processes and practices to take into account changes in the industry and in Hubertson's risk appetite

5. Reporting Policies and Practices

- Are adequate to report regularly to senior management
- Are adequate to monitor and follow up on identified issues

6. Senior Management Oversight Policies and Practices

- Are adequate to perform periodic independent reviews of the committee risk management oversight

“A shared understanding of the elements that contribute to quality risk management oversight will help us answer that question. I created this checklist after seeing a document that the federal Office of the Superintendent of Financial Institutions published on its website. It identified criteria used in assessing risk management for financial institutions. The criteria are equally relevant for evaluating how well this committee is positioned to provide a risk management oversight of both the pension and benefit plans. We can use these basic elements to think about where the committee is strong in its risk oversight and where it may have gaps or weaknesses. Reflect back on everything we have heard or talked about today.” Phil paused to allow people time to read through the checklist.

While people were reading through the assessment, Phil walked around the table handing each participant a piece of paper. *“The application and the weighting of each of the criteria can be customized to the nature, scope, complexity and risk profile of the particular entity being evaluated,”* Phil explained.

Phil moved to a flip chart at the front of the room and turned the top page over to an image of a scale. *“This is the rating scale OSFI used to score the quality of risk management functions of the financial institutions under its jurisdiction.”*

“Based on the elements that OSFI feels comprise an effective risk management approach and the issues your plans are currently experiencing, indicate how you would score your committee’s risk oversight today. Is it strong? Acceptable? Needs improvement? Or weak? I will leave the category definitions here for you to reference.”

Quality of Committee's Risk Management Oversight

Weak	Needs Improvement	Acceptable	Strong
✓ ✓ ✓	✓ ✓ ✓ ✓		

Phil gave the committee members a few minutes to complete the assignment before taking a show of hands. Within a minute, he had recorded them on the flip chart. Of the seven committee members, four were “needs improvement” and three chose “weak.” **“Well, there you have it, folks. Are there any surprises?”** No one indicated they were surprised by the other committee members’ assessment.

“It is quite evident, based on your responses, that there is a gap between where you believe the committee should be in terms of quality of risk oversight and where you are. We can explore how to close that gap moving forward, because we only have time for a few questions now. Is there anything on the OSFI assessment itself that requires clarification?”

“The last bullet under #4 Risk Management Policies, Processes and Practices talks about Hubertson’s risk appetite,” Luc pointed out. **“Could you review that concept?”**

Phil explained to the committee that knowing Hubertson’s risk appetite is essential to enterprise risk management because it guides decisions on the types and amount of risk the organization is willing to accept in its pursuit of value. **“That decision ripples down through every level.”** He pointed to the poster on the wall.

“The vision and mission statement is the first expression of Hubertson’s risk appetite boundaries. It is all about finding a compromise between risks and opportunities and, as you can imagine and have likely experienced, risk appetite changes over time. It is affected by external and internal factors and by changes with Hubertson’s capabilities for managing risk.”

“This might explain why you find this concept challenging to grasp.” Phil pulled an article from his portfolio entitled *Defining Your Taste for Risk*, and read several excerpts to the group.

Excerpts from *Defining Your Taste for Risk*

- Few concepts of enterprise risk management have stimulated more discussion, debate and confusion than “risk appetite.”
- There is no consensus on precisely what risk appetite looks like or how it should be developed and used.
- There are no standard or regulated components or formats for a risk appetite statement.
- Different organizations’ risk appetite statements take a variety of forms, from simple one-paragraph descriptions of high-level aversion to risk taking to detailed multipage volumes outlining numerical limits for various exposures.
- The COSO Enterprise Risk Management Framework defines it vaguely as “the degree of risk, on a broad-based level, that a company or other entity is willing to accept in pursuit of its goals.”

So the question becomes: How can a company define the “degree” of “broad-based” risk that is acceptable for the company, in a way that is specific and meaningful enough to be of practical guidance for decision making but that also reflects the practical realities of making trade-offs across business objectives?

Andrea stepped in to provide some background on the ELT risk appetite discussions at the division level. ***“It is work in progress, and we are learning as we go. Paul will be bringing this work forward to staff through various communications over time, but here is one example we can all relate to.”*** Andrea pointed toward the Hubertson mission, vision and value statements on the wall. ***“All decision makers at Hubertson will not knowingly take health and safety risks or trade off health and safety performance against any other goal. It is a core value. Similarly, we regard our relationship with our employees as essential and do not accept decisions that might sacrifice results in this area for the benefit of some other objective.”***

Phil interjected. ***“Great example, Andrea.”*** He clicked on one last slide. ***“That risk appetite statement that Andrea just read would be risk-averse on this scale. The philosophy, tolerance for uncertainty and trade-off clearly communicate that the lowest risk option is the only acceptable choice in any decisions in the area of health and safety.”***

RISK APPETITE SCALE					
Rating	Philosophy	Tolerance for Uncertainty	Choice	Trade-off	
	Overall risk-taking philosophy	Willingness to accept uncertain outcomes or period-to-period variation	When faced with multiple options, willingness to select an option that puts objectives at risk	Willingness to trade off against achievement of other objectives	
5	Open	Will take justified risks	Fully anticipated	Will choose option with highest return; accept possibility of failure	Willing
4	Flexible	Will take strongly justified risks	Expect some	Will choose to put at risk, but will manage impact	Willing under right conditions
3	Cautious	Preference for safe delivery	Limited	Will accept if limited, and heavily outweighed by benefits	Prefer to avoid
2	Minimalist	Extremely conservative	Low	Will accept only if essential, and limited possibility/extent of failure	With extreme reluctance
1	Averse	“Sacred” Avoidance of risk is a core objective	Extremely low	Will select the lowest risk option, always	Never

Source: https://erm.ncsu.edu/az/erm/i/chan/library/338_Corporate_Risk_Canada_Risk_Appetite_2012.pdf

Phil brought the discussion to a conclusion. ***“Paul wants to see this committee get to a level of clarity for risk appetite that provides a reference point for ALL material decision making. In subsequent meetings, we can explore more concepts, processes and tools that will help in this role. I will leave it here today, since I’m going to take Jill pointing at her watch as a clear sign we are over time.”***

Jill and Phil compared notes about their respective observations regarding the meeting. Both acknowledged that the committee members seemed receptive to the risk management topic and to Phil’s facilitation style, but they had far more ground to cover in order to begin the process of closing their risk management gaps.

Study Guide Module 10

Page 55, Benefits in Action 6: Change the description for Hubertson indicated in **bold** and remove what is ~~crossed out~~ to reflect the addition of the OSFI *Risk Assessment Framework for Federally Regulated Private Pension Plans* as an assigned reading.

Hubertson

- A privately held ~~design and engineering construction~~ **logistics and interprovincial shipping company** with 5,000 full-time employees in Toronto, Ontario and an additional 100 employees across Quebec, Alberta and Ontario; has 4,500 union members and 500 nonunion members. Has a **federally registered** DC RPP, group insurance plan, self-insured EHC plan, dental plan and HCSA.

Study Guide Module 11

Page 35, Benefits in Action 7: Change the description for Hubertson indicated in **bold** and remove what is ~~crossed-out~~ to reflect the addition of the OSFI *Risk Assessment Framework for Federally Regulated Private Pension Plans* as an assigned reading.

Hubertson

- A privately held ~~design and engineering construction~~ **logistics and interprovincial shipping company** with 5,000 full-time employees in Toronto, Ontario and an additional 100 employees across Quebec, Alberta and Ontario; has 4,500 union members and 500 nonunion members. Has a **federally registered** DC RPP, group insurance plan, self-insured EHC plan, dental plan and HCSA.