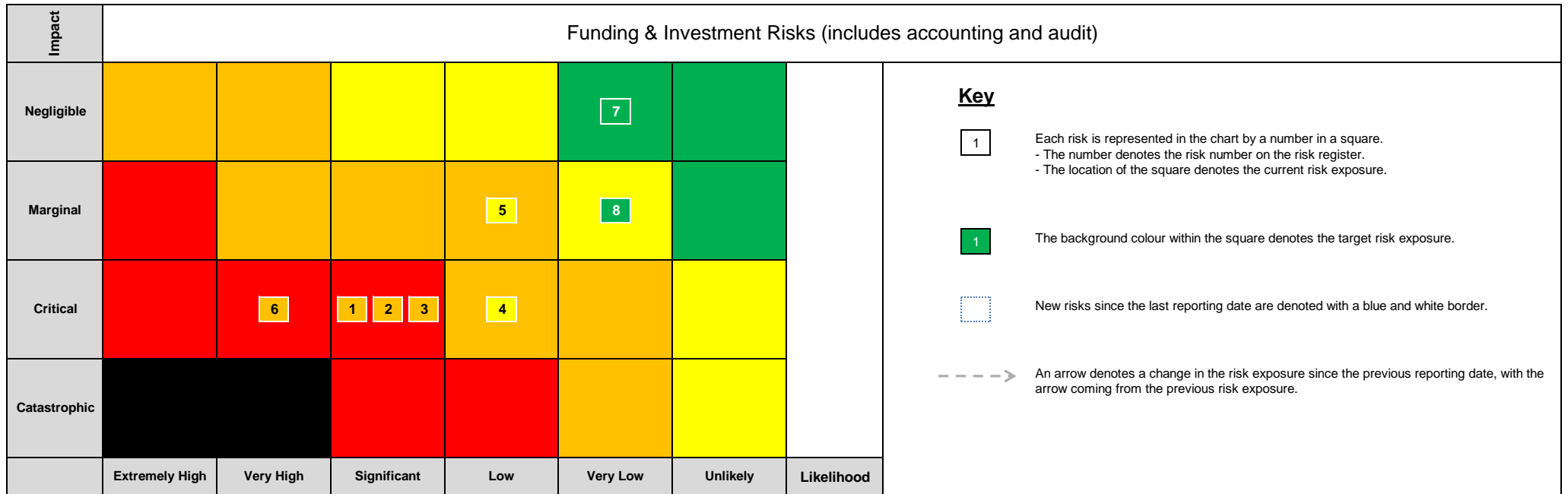


# Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



**Clwyd Pension Fund - Control Risk Register**  
**Funding & Investment Risks (includes accounting and audit)**

**Objectives extracted from Funding Strategy Statement (5/2015) and Statement of Investment Principles (6/2015):**

- F1 Achieve and maintain assets equal to 100% of liabilities within reasonable risk parameters
- F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- F6 Ensure net cash outgoings can be met as when required
- F7 Minimise unrecoverable debt on employer termination.

Risk no.	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Significant	Red	1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low	Orange	☹️ Current likelihood 2 too high	1 - This risk will be considered and quantified in more detail as part of the 2016 Actuarial Valuation including building a framework to monitor employer risk	CPFM	30/9/16 2016	14/04/2016	Critical	Significant	Red	
2	Funding level reduces, increasing deficit	Movements in assets and/or liabilities (as described in 3,4,5) in combination	F1 / F2 / F3 / F4 / F5 / F7	Critical	Significant	Red	See points within points 3,4 and 5	Marginal	Low	Orange	☹️ Current impact 1 too high ☹️ Current likelihood 1 too high	See points within points 3,4 and 5	CPFM	30/09/2016	14/04/2016	Critical	Significant	Red	
3	Investment targets are not achieved therefore reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	F1 / F2 / F3 / F4 / F7	Critical	Significant	Red	1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of investment opportunities available.	Critical	Low	Orange	☹️ Current likelihood 1 too high	1 - The impact of the assumptions will be considered and quantified in more detail as part of the 2016 Actuarial Valuation 2 - Review of flight path strategy following valuation 3 - Review of investment strategy following valuation	Pension Finance Managers	30/09/2016	14/04/2016	Critical	Significant	Red	
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low	Orange	1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee.	Marginal	Very Low	Yellow	☹️ Current impact 1 too high ☹️ Current likelihood 1 too high	1 - This risk will be considered and quantified in more detail as part of the 2016 Actuarial Valuation 2 - Review of flight path strategy following valuation	Pension Finance Managers	30/09/2016	14/04/2016	Critical	Low	Orange	
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50/50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Low	Orange	1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low	Yellow	☹️ Current likelihood 1 too high	1 - Assumptions and experience will be considered as part of the 2016 valuation.	Pension Finance Managers	30/09/2016	14/04/2016	Marginal	Low	Orange	
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), tax treatments, results of the EU referendum, MIFIDII and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Critical	Very High	Red	1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS	Marginal	Low	Orange	☹️ Current impact 1 too high ☹️ Current likelihood 2 too high	1 - Fund has no control over this except through responses to consultations etc. There are tax changes proposed by Government which could adversely affect membership.	CPFM	30/09/2016	14/04/2016	Critical	Very High	Red	
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs	F1 / F6	Negligible	Very Low	Green	1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding liquid assets 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low	Green	☺️	1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place).	Pension Finance Managers	30/09/2016	14/04/2016	Negligible	Very Low	Green	
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low	Yellow	1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely	Green	☹️ Current likelihood 1 too high	1 - Employer risk management framework to be developed	Pension Finance Managers	31/12/2016	14/04/2016	Marginal	Very Low	Yellow	