

<b>Committee:</b> Financial Investment Board	<b>Date:</b> 29 November 2019
<b>Subject:</b> Risk Register for Financial Investment Board	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
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## **Summary**

This report reviews the key Risk Register for the Financial Investment Board. The Risk Register details the key risks that the Board has identified alongside a risk score which indicates the likelihood of a risk being realised together with the potential impact to the organisation and the appropriate mitigations. Responsible officers have conducted a preliminary review of the Risk Register and do not recommend that any changes are made to the risk scores on the Risk Register. The narrative “risk update” and “latest note” on associated actions has been updated where necessary. Officers do not recommend that any new risks are added to the register and neither do they advise that any existing risks should be removed.

The Risk Register is included at Appendix 2 with risk updates highlighted. The Risk Register is reviewed semi-annually by the Financial Investment Board and more frequently by officers, who report any material changes or new risks identified in between reviews on an exceptions basis.

## **Recommendations**

Members are asked to:

- review the existing risks and actions present on the Financial Investment Board’s Risk Register, and confirm that appropriate control measures are in place;
- confirm that there are no further risks relating to the services overseen by the Financial Investment Board.

## **Main Report**

### **Background**

1. The Financial Investment Board instituted a Risk Register on 22 March 2018 to help identify and manage the strategic risks facing the Board in discharging its responsibilities to oversee the City’s non-property investments. The current Risk Register, as agreed by the Board on 3 July 2019, is included as Appendix 2.
2. The Financial Investment Board should review the register semi-annually. Officers review the register more frequently and report any material changes between reviews on an exceptions basis to the Board. This is in line with standard risk review procedures across the rest of the City of London Corporation.

3. At its meeting on the 3 July 2019, the Board agreed amendments to the Risk Register to ensure it adequately captured risks emanating from asset pooling in the Local Government Pension Scheme, responsible investment, and cybersecurity.

## **Review of Risks**

4. The method of assessing risk reflects the City of London's standard approach to risk assessment as set out in its Risk Management Strategy approved by the Audit and Risk Management Committee in May 2014. The City of London Corporation risk matrix, which explains how risks are assessed and scored, is attached at Appendix 1 of this report. Risk scores range from one, being lowest risk, to the highest risk score of thirty-two. These scores are summarised into 3 broad groups, each with increasing risk, and categorised "green", "amber" or "red".
5. The Risk Register to be reviewed is set out in Appendix 2. This contains seven risks as summarised below:
  - a. Fund's asset allocation is unable to meet liabilities or expenditure requirements – overall risk score of amber (8)
  - b. Fund managers fail to achieve the targeted investment returns – overall risk score of amber (8)
  - c. Service provision withdrawal or liquidation of partner organisations –overall risk score of green (4)
  - d. External events, including cybersecurity incidents, threaten the solvency of counterparties the Corporation has lent to – overall risk score of green (4)
  - e. Inaccurate cash flow modelling for Corporation as a whole – overall risk score of green (4)
  - f. Lack of understanding of the regulatory requirements or inadequate oversight of operations and developments at the London CIV lead to regulatory fines or financial damage – overall risk score of green (2)
  - g. Failure to deliver responsible investment leads to reputational or financial damage – overall risk score of green (4)

## Update on risks

6. Each risk in the register has been reappraised by the responsible officer within the Corporation who is referred to as the 'Risk Owner' in the register. Officers have reviewed the register for the Financial Investment Board and do not consider that the risk environment has changed materially since the Board last reviewed the register in July 2019. Updates to each risk have been provided where relevant and highlighted on the register. The risks affected are CHB FIB 01, CHB FIB 02, CHB FIB 03, CHB FIB 05, CHB FIB 06 and CHB FIB 07.
7. Risks 1 and 2 are currently considered to have an "amber" risk score and warrant special attention.
  - a. Risk 1: Financial markets have generally rallied thus far in 2019 following heightened volatility at the end of 2018. Although this has resulted in an increase in the valuations of the City's three funds over the course of the year, the City is a long-term investor and has a greater concern for the

performance of the Funds over the multi-year time horizon. As at 30 September 2019, the three funds are outperforming their absolute return targets over all time periods assessed (three months, one year, three years and five years).

- b. Risk 2: The Financial Investment Board continually monitors and interrogates individual fund manager performance, reviewing managers' returns at each Board meeting and engaging managers where necessary in between meetings. Since the last review of the Risk Register in July, officers and Members have met with Harris, Veritas and C Worldwide and are expected to meet with Artemis and Lindsell Train on 28 November 2019.
8. As a result, officers do not consider that these risks have changed significantly since the last review. They continue to remain the most serious risks on the register and require active risk management by Members and officers. All other risks continue to have a "green" risk score.
  9. Officers have also considered whether any new risks have emerged since the last review. Although the Board's operating environment continually changes officers have determined that the existing register captures the material risks facing the Board and enables the Board to concentrate on the most prescient risks.

## **Conclusion**

10. The risks overseen by the Financial Investment Board are primarily of low likelihoods but represent substantial impact, particularly with regards to financial loss and reputational damage. The Board is requested to confirm that appropriate control measures are in place for these risks and that there are no other risks that should be added to the Risk Register.

## **Appendices**

- Appendix 1 - City of London Corporation Risk Matrix
- Appendix 2 – Financial Investment Board Risk Register

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