ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of Public Safety and Emergency Preparedness

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account (the Royal Canadian Mounted Police Pension Plan Account), which comprise the statements of financial position as at March 31, 2015, March 31, 2014 and April 1, 2013 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years ended March 31, 2015 and March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account as at March 31, 2015, March 31, 2014 and April 1, 2013, and its financial performance and its cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of new standards as explained in notes 2 and 18 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Royal Canadian Mounted Police Pension Plan Account that have come to our notice during our audits of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly-owned subsidiaries.

Deloitte LLP[1]

[1]CPA auditor, CA, public accountancy permit No. A116129

May 14, 2015
Montréal, Canada

Clyde M. MacLellan, FCPA, FCA
Assistant Auditor General for the Auditor General of Canada

May 14, 2015
Ottawa, Canada

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2015**	March 31, 2014 (Note 18)	April 1, 2013 (Note 18)
Assets			
Investments (Note 5.1)	**$ 8,984**	$ 7,426	$ 5,933
Other assets	**10**	10	6
Total assets	**$ 8,994**	$ 7,436	$ 5,939
Liabilities			
Trade payable and other liabilities	**$ 13**	$ 11	$ 10
Investment-related liabilities (Note 5.1)	**364**	252	207
Borrowings (Notes 5.1, 9)	**535**	448	346
Due to the Public Service Pension Plan Account	**6**	5	3
Total liabilities	**$ 918**	$ 716	$ 566
Net assets	**$ 8,076**	$ 6,720	$ 5,373
Equity	**$ 8,076**	$ 6,720	$ 5,373
Total liabilities and equity	**$ 8,994**	$ 7,436	$ 5,939

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statements of Profit or Loss and Other Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2015	2014 (Note 18)
Investment income	$ 1,022	$ 926
Investment-related expenses (Note 11)	$ 22	$ 17
Net investment income	$ 1,000	$ 909
Operating expenses (Note 12)	$ 17	$ 15
Profit	$ 983	$ 894
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability (Note 18)	$ (1)	$ 1
Profit and other comprehensive income (loss)	$ 982	$ 895

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2015	2014
Fund transfers		
Balance at beginning of period	$ 4,149	$ 3,697
Fund transfers received during the period (Note 10.2)	374	452
Balance at end of period	$ 4,523	$ 4,149
Retained earnings		
Balance at beginning of period	$ 2,571	$ 1,676
Profit and other comprehensive income (loss)	982	895
Balance at end of period	$ 3,553	$ 2,571
Total equity	$ 8,076	$ 6,720

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	2015	2014
Cash flows from operating activities		
Profit	$ 983	$ 894
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	1	1
Effect of exchange rate changes on cash and cash equivalents	(4)	4
Unrealized losses on borrowings	12	1
	$ 992	$ 900
Net changes in operating assets and liabilities		
Increase in investments	$ (1,554)	$ (1,496)
Decrease (Increase) in other assets	2	(2)
Increase in trade payable and other liabilities	1	2
Increase in investment-related liabilities	112	45
Net cash used in operating activities	$ (447)	$ (551)
Cash flow from financing activities		
Proceeds from borrowings	1,369	961
Repayment of borrowings	(1,294)	(860)
Repayment to the Public Service Pension Plan Account	(23)	(21)
Advances from the Public Service Pension Plan Account	24	23
Fund transfers received	374	452
Net cash flows provided by financing activities	$ 450	$ 555
Cash flow from investing activities		
Acquisitions of property, plant and equipment	$ (2)	$ (3)
Net cash flows used in investing activities	$ (2)	$ (3)
Net change in cash and cash equivalents	$ 1	$ 1
Effect of exchange rate changes on cash and cash equivalents	4	(4)
Cash and cash equivalents at the beginning of the period	58	61
Cash and cash equivalents at the end of the period	$ 63	$ 58
Cash and cash equivalents are comprised of:		
Cash and cash equivalents held for investment purposes[A]	$ 62	$ 58
Cash held for administrative purposes[B]	1	–
Cash and cash equivalents at the end of the period	$ 63	$ 58
Supplementary disclosure of cash flow information		
Interest paid	$ (6)	$ (8)

[A] Cash and cash equivalents held for investment purposes are presented as part of fixed income in Note 5.1. Cash equivalents represent short-term deposits with a maturity of 90 days or less and are held for purposes of meeting short-term cash commitments. Cash equivalents are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

[B] Cash held for administrative purposes is included in other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended March 31, 2015

1 CORPORATE INFORMATION

The Public Sector Pension Investment Board ("PSP Investments") is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the "Act") to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* ("CFSA"), the *Royal Canadian Mounted Police Superannuation Act* (collectively the "*Superannuation Acts*"), and certain regulations under the CFSA (the "CFSA Regulations"). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan (the "Plan"), and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. The Plan and the other pension plans are herein referred to collectively as the "Plans".

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the "Fund") relates to pension obligations under the Plan for service on or after April 1, 2000 ("Post-2000 Service"). The account managed by PSP Investments for the Fund is herein referred to as the "Plan Account". PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the "Plan Accounts".

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the *Royal Canadian Mounted Police Superannuation Act*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan's ability to meet its financial obligations.

Pursuant to the *Royal Canadian Mounted Police Superannuation Act*, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund's Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)*(d)* and 149(1)*(d.2)* of the *Income Tax Act* (Canada), respectively.

PSP Investments' registered office is located at 440 Laurier street West, Ottawa, Ontario, Canada and its principal business office is at 1250 René Lévesque boulevard West, Montreal, Quebec, Canada.

2 FIRST-TIME ADOPTION OF IFRS

These are PSP Investments' first Financial Statements for the Plan Account prepared in accordance with International Financial Reporting Standards ("IFRS"). PSP Investments previously prepared financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The date of transition to IFRS was April 1, 2013.

PSP Investments' IFRS accounting policies as presented in Note 3 have been applied in preparing the Financial Statements for the year ended March 31, 2015, the comparative information and the opening Statement of Financial Position at the date of transition.

PSP Investments has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards* in preparing these IFRS Financial Statements. IFRS 1 sets out the procedures that PSP Investments must follow when it adopts IFRS for the first time as the basis for preparing its Financial Statements. PSP Investments is required to establish its IFRS accounting policies as at March 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Statement of Financial Position at its date of transition, April 1, 2013. IFRS 1 provides a number of mandatory exceptions and optional exemptions to this general principle. The effects of the transition to IFRS on equity and on profit (loss) and other comprehensive income (loss) are presented in Note 18.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below. The Financial Statements have been prepared using accounting policies specified by IFRS in effect at the end of the reporting period. These accounting policies have been used throughout all periods presented.

3.1. BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss ("FVTPL") in accordance with IFRS 9 *Financial Instruments*, including those that are formed by PSP Investments and that qualify as investment entities ("investment entity subsidiaries"). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account's financial position and operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2000 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

The Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2015.

3.2. INVESTMENT ENTITY STATUS

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances on April 1, 2013, the date of its transition to IFRS. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Act*s. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

3 SIGNIFICANT ACCOUNTING POLICIES
(continued)

3.3. INTERESTS IN OTHER ENTITIES

Management assesses control, joint control and significant influence with respect to the investees disclosed in Note 7 as follows:

(i) Control and significant influence

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) Joint control

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

3.4.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 5.1.

Borrowings under the capital market debt financing program, as described under Note 9, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. Purchases and sales are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statement of Profit or Loss and Other Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income (loss).

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in real estate, private equity, infrastructure and renewable resources, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 5.

3.4.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3.4.4. Foreign Currency Translation

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Financial assets and financial liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all financial instruments are included in investment income (loss).

3.4.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or recognize securities borrowed.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

3.4.6. Securities sold under Repurchase Agreements and Related Collateral

PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold under the repurchase agreements are not derecognized as PSP Investments retains all related risks and rewards of ownership. As such, all related income (loss) continues to be reported in investment income (loss) and obligations to repurchase the securities sold are accounted for as investment-related liabilities.

Securities sold under repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs. PSP Investments does not sell, repledge or otherwise use collateral held.

3.4.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Act*s are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Act*s. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

3.4.9. Investment Income

Investment income (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized as earned. Dividends are recognized on the ex-dividend date. Distributions from pooled funds, limited partnerships or from direct investments and co-investments are recognized as interest, dividend or realized gains (losses) as appropriate. Co-investments are investments in private entities where the investment is made in conjunction with an external manager with whom PSP Investments already has committed and delegated funds.

3.4.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 5.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and are expensed as they are incurred. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 11.

Other (net) includes dividend expense related to securities sold short and securities lending income net of fees on securities borrowed.

3.4.11. Fund Transfers

Amounts are received from the Government of Canada for the Fund and are recorded in the Plan Account.

3.5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 3.2 as well as the determination of control, joint control and significant influence as described in Note 3.3.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 5.2.3 and those regarding the assessment of risk are outlined in Note 8.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

4 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

4.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments has adopted IFRS 9 in its Consolidated Financial Statements prepared in accordance with IFRS for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 3.4.1. Additional information regarding the implementation of IFRS 9 in the year of first-time adoption of IFRS is presented under Note 18.1.

4.2. FUTURE ACCOUNTING STANDARDS

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of PSP Investments' significant accounting policies or disclosures:

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective in annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. Management is currently assessing the impact of adopting this amendment.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian $ millions)	March 31, 2015	March 31, 2014	April 1, 2013
Public markets			
Canadian equity	$ 596	$ 655	$ 651
Foreign equity	2,405	1,989	1,479
Private markets			
Real estate	1,228	902	769
Private equity	723	580	495
Infrastructure	559	469	315
Renewable resources	165	85	30
Fixed income			
Cash and money market securities	281	277	255
Government and corporate bonds	1,316	1,226	792
Inflation-linked bonds	464	358	309
Other fixed income securities	555	531	555
Alternative investments	398	216	127
	$ 8,690	$ 7,288	$ 5,777
Investment-related assets			
Amounts receivable from pending trades	$ 145	$ 52	$ 79
Interest receivable	15	15	10
Dividends receivable	7	6	5
Derivative-related assets	127	65	62
	$ 294	$ 138	$ 156
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 8,984	$ 7,426	$ 5,933
Investment-related liabilities			
Amounts payable from pending trades	$ (116)	$ (68)	$ (77)
Interest payable	(2)	(1)	(2)
Securities sold short	(38)	(51)	(33)
Securities sold under repurchase agreements	-	(45)	(43)
Derivative-related liabilities	(208)	(87)	(52)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (364)	$ (252)	$ (207)
Borrowings			
Capital market debt financing	$ (535)	$ (448)	$ (346)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ (535)	$ (448)	$ (346)
NET INVESTMENTS	$ 8,085	$ 6,726	$ 5,380

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted market prices and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and renewable resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $395 million for the Plan Account (March 31, 2014 – $302 million and April 1, 2013 – $247 million).

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $104 million for the Plan Account (March 31, 2014 – $118 million and April 1, 2013 – $20 million).

Renewable resources investments are mainly comprised of direct investments and partnerships in timberlands and agriculture.

The fair value of private markets investments is determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

5.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and other fixed income securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds. Inflation-linked bonds are fixed income securities that earn inflation adjusted returns.

Other fixed income securities consist of asset-backed securities, floating rate notes as well as private debt investments.

Fair values of government and corporate bonds, inflation-linked bonds, floating rate notes and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 16.

Private debt investments are mainly in the real estate sector in the form of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products. They also include real estate debt funds where significant portions of the value are attributed to the underlying real estate assets.

Private debt investments also include debt securities of private companies or other entities such as venture capital organizations, held mainly through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt.

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

The fair value measurement of fund investments included as part of private debt investments is described in Note 5.2.2.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

5.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which approximates fair value.

5.1.7. Interest Payable

With respect to the borrowings described in Note 5.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

5.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

5.1.9. Securities Sold under Repurchase Agreements

As described in Note 3.4.6, PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Obligations to repurchase the securities sold under repurchase agreements are recorded at cost plus accrued interest, which approximates fair value.

5.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 9. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Collateralized Debt Obligations

Collateralized debt obligations are a type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

The fair value of collateralized debt obligations is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Equity and commodity derivatives									
Listed									
Futures	$ 49	$ –	$ –	$ 100	$ –	$ –	$ 60	$ –	$ –
Options:									
Purchased	40	1	–	50	2	–	182	2	–
Written	39	–	(1)	30	–	(1)	71	–	(1)
OTC									
Forwards	27	2	(4)	–	–	–	–	–	–
Total return swaps	1,187	20	(5)	973	15	(2)	701	12	(4)
Options:									
Purchased	293	13	–	394	22	–	89	12	–
Written	298	–	(13)	437	–	(25)	87	–	(10)
Currency derivatives									
Listed									
Futures	11	–	–	5	–	–	3	–	–
OTC									
Forwards	3,201	35	(105)	2,225	12	(33)	2,422	24	(24)
Swaps	229	2	(23)	255	1	(9)	75	2	(2)
Options:									
Purchased	835	30	–	289	2	–	367	6	–
Written	847	–	(27)	252	–	(1)	342	–	(5)
Interest rate derivatives									
Listed									
Futures	559	–	–	175	–	–	94	–	–
Options:									
Purchased	3,487	1	–	1,900	1	–	357	–	–
Written	3,594	–	(1)	1,993	–	(1)	351	–	–
OTC									
Bond forwards	208	–	–	50	–	–	60	–	–
Interest rate swaps	597	10	(12)	851	3	(6)	816	2	(3)
Swaptions	3,350	13	(14)	2,263	6	(5)	198	–	–
Options:									
Purchased	401	–	–	729	1	–	125	1	–
Written	130	–	–	1,079	–	(1)	197	–	(1)
OTC-cleared									
Interest rate swaps	882	–	–	110	–	–	–	–	–
Credit derivatives[A]									
OTC									
Purchased	91	–	(2)	153	–	(3)	135	1	(1)
Sold	43	–	(1)	39	–	–	66	–	(1)
OTC-cleared									
Purchased	44	–	–	70	–	–	–	–	–
Sold	84	–	–	101	–	–	–	–	–
Total		$ 127	$ (208)		$ 65	$ (87)		$ 62	$ (52)

[A] Credit derivatives include credit default swaps and collateralized debt obligations. PSP Investments, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Listed derivatives	**$ 7,779**	**$ 2**	**$ (2)**	$ 4,253	$ 3	$ (2)	$ 1,118	$ 2	$ (1)
OTC derivatives	**11,737**	**125**	**(206)**	9,989	62	(85)	5,680	60	(51)
OTC-cleared derivatives	**1,010**	**–**	**–**	281	–	–	–	–	–
Total		**$ 127**	**$ (208)**		$ 65	$ (87)		$ 62	$ (52)

The term to maturity based on notional value for the derivatives was as follows as at:

(Canadian $ millions)	**March 31, 2015**
Less than 3 months	**$ 7,619**
3 to 12 months	**9,008**
Over 1 year	**3,899**

5.2. FAIR VALUE HIERARCHY

5.2.1. Classification

Financial assets and financial liabilities described under Note 5.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets of liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 544	$ 52	$ –	$ –	$ 596
Foreign equity	2,019	386	–	–	2,405
Private markets					
Real estate	–	–	1,228	–	1,228
Private equity	–	–	723	–	723
Infrastructure	–	–	559	–	559
Renewable resources	–	–	165	–	165
Fixed income					
Cash and money market securities	–	173	–	108	281
Government and corporate bonds	–	1,316	–	–	1,316
Inflation-linked bonds	–	464	–	–	464
Other fixed income securities	–	173	382	–	555
Alternative investments	–	102	296	–	398
	$ 2,563	$ 2,666	$ 3,353	$ 108	$ 8,690
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 145	$ 145
Interest receivable	–	–	–	15	15
Dividends receivable	–	–	–	7	7
Derivative-related assets	2	125	–	–	127
	$ 2	$ 125	$ –	$ 167	$ 294
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 2,565	$ 2,791	$ 3,353	$ 275	$ 8,984
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (116)	$ (116)
Interest payable	–	–	–	(2)	(2)
Securities sold short	(38)	–	–	–	(38)
Securities sold under repurchase agreements	–	–	–	–	–
Derivative-related liabilities	(2)	(206)	–	–	(208)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (40)	$ (206)	$ –	$ (118)	$ (364)
Borrowings					
Capital market debt financing	$ –	$ (535)	$ –	$ –	$ (535)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (535)	$ –	$ –	$ (535)
NET INVESTMENTS	$ 2,525	$ 2,050	$ 3,353	$ 157	$ 8,085

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2014 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 607	$ 48	$ –	$ –	$ 655
Foreign equity	1,587	402	–	–	1,989
Private markets					
Real estate	–	–	902	–	902
Private equity	–	–	580	–	580
Infrastructure	–	–	469	–	469
Renewable resources	–	–	85	–	85
Fixed income					
Cash and money market securities	–	–	–	277	277
Government and corporate bonds	–	1,226	–	–	1,226
Inflation-linked bonds	–	358	–	–	358
Other fixed income securities	–	220	311	–	531
Alternative investments	–	81	135	–	216
	$ 2,194	$ 2,335	$ 2,482	$ 277	$ 7,288
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 52	$ 52
Interest receivable	–	–	–	15	15
Dividends receivable	–	–	–	6	6
Derivative-related assets	4	61	–	–	65
	$ 4	$ 61	$ –	$ 73	$ 138
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 2,198	$ 2,396	$ 2,482	$ 350	$ 7,426
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (68)	$ (68)
Interest payable	–	–	–	(1)	(1)
Securities sold short	(51)	–	–	–	(51)
Securities sold under repurchase agreements	–	(45)	–	–	(45)
Derivative-related liabilities	(2)	(85)	–	–	(87)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (53)	$ (130)	$ –	$ (69)	$ (252)
Borrowings					
Capital market debt financing	$ –	$ (448)	$ –	$ –	$ (448)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (448)	$ –	$ –	$ (448)
NET INVESTMENTS	$ 2,145	$ 1,818	$ 2,482	$ 281	$ 6,726

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at April 1, 2013 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 651	$ –	$ –	$ –	$ 651
Foreign equity	1,123	356	–	–	1,479
Private markets					
Real estate	–	–	769	–	769
Private equity	–	–	495	–	495
Infrastructure	–	–	315	–	315
Renewable resources	–	–	30	–	30
Fixed income					
Cash and money market securities	–	–	–	255	255
Government and corporate bonds	–	792	–	–	792
Inflation-linked bonds	–	309	–	–	309
Other fixed income securities	–	240	315	–	555
Alternative investments	–	63	64	–	127
	$ 1,774	$ 1,760	$ 1,988	$ 255	$ 5,777
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 79	$ 79
Interest receivable	–	–	–	10	10
Dividends receivable	–	–	–	5	5
Derivative-related assets	2	60	–	–	62
	$ 2	$ 60	$ –	$ 94	$ 156
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 1,776	$ 1,820	$ 1,988	$ 349	$ 5,933
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (77)	$ (77)
Interest payable	–	–	–	(2)	(2)
Securities sold short	(33)	–	–	–	(33)
Securities sold under repurchase agreements	–	(43)	–	–	(43)
Derivative-related liabilities	(1)	(51)	–	–	(52)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (34)	$ (94)	$ –	$ (79)	$ (207)
Borrowings					
Capital market debt financing	$ –	$ (346)	$ –	$ –	$ (346)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (346)	$ –	$ –	$ (346)
NET INVESTMENTS	$ 1,742	$ 1,380	$ 1,988	$ 270	$ 5,380

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

As at March 31, 2014, listed foreign equity securities held by a non-listed fund, were classified as Level 2. During the year ended March 31, 2015, the listed securities with a fair value of $35 million were transferred to PSP Investments and classified as Level 1 as at March 31, 2015.

During the year ended March 31, 2014, listed Canadian equity securities with a fair value of $44 million classified as Level 1 were transferred to a non-listed fund held by PSP Investments. Consequently, the securities were classified as Level 2 as at March 31, 2014.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee ("VC"). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 1,116	Discounted cash flow (DCF)	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 112	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 938	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 509	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 100	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 75	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 207	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 296	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ –	Third-party pricing [E]	N/A	N/A
TOTAL		$ 3,353			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $14 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2014:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 771	DCF	Discount rate [A, B]	5.50% – 26.00% (8.50%)
				Terminal capitalization rate [A, B]	4.00% – 10.25% (6.28%)
			Direct capitalization	Capitalization rate [A, C]	4.00% – 9.50% (8.12%)
				Stabilized occupancy rate [C, D]	94.50% – 100% (97.58%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 131	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 753	DCF	Discount rate [A]	6.25% – 13.50% (9.68%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 381	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 109	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 75	DCF	Discount rate [A]	4.00% – 13.40% (11.71%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 127	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 135	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ –	Third-party pricing [E]	N/A	N/A
TOTAL		$ 2,482			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $12 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at April 1, 2013:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 688	DCF	Discount rate [A, B]	4.75% – 26.00% (8.46%)
				Terminal capitalization rate [A, B]	4.50% – 11.25% (6.71%)
			Direct capitalization	Capitalization rate [A, C]	4.50% – 9.50% (8.78%)
				Stabilized occupancy rate [C, D]	72.00% – 100% (83.39%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 81	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 464	DCF	Discount rate [A]	6.50% – 13.30% (9.33%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 376	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 122	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 85	DCF	Discount rate [A]	4.00% – 29.00% (12.77%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Credit linked notes	$ 3	Internal present value model	Default probability	90.00% – 100% (93.00%)
				Recovery rate	0% – 65.00% (40.00%)
	Fund investments	$ 105	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 64	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ –	Third-party pricing [E]	N/A	N/A
TOTAL		$ 1,988			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $11 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 2,036	$ 553	$ (198)	$ –	$ 34	$ 272	$ (22)	$ 2,675
Fixed income	311	130	(78)	(11)	7	23	–	382
Alternative investments	135	164	(42)	–	(2)	41	–	296
Total	**$ 2,482**	**$ 847**	**$ (318)**	**$ (11)**	**$ 39**	**$ 336**	**$ (22)**	**$ 3,353**

As at March 31, 2014, a private markets investment was classified under Level 3 as the fair value was determined based on significant unobservable inputs. During the year ended March 31, 2015, the investment was transferred to Level 1, as the underlying investee became publicly traded.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2014:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 1,609	$ 475	$ (302)	$ –	$ 54	$ 219	$ (19)	$ 2,036
Fixed income	315	65	(86)	(20)	21	16	–	311
Alternative investments	64	62	(2)	–	–	11	–	135
Derivative-related assets/liabilities (net)	–	1	(1)	–	–	–	–	–
Total	$ 1,988	$ 603	$ (391)	$ (20)	$ 75	$ 246	$ (19)	$ 2,482

[A] Includes Plan Account allocation adjustments.

As at April 1, 2013, two private markets investments were classified under Level 3 as their fair values were determined based on significant unobservable inputs. During the year ended March 31, 2014, such investments were transferred to Level 2 as the underlying investees indirectly held by PSP Investments became publicly traded. In the case of one of the two private markets investments, the instruments held by PSP Investments were subject to restrictions as at March 31, 2014 and could only be resold upon registration.

5.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 5.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 4% increase and 3% decrease as at March 31, 2015 (March 31, 2014 – 7% increase and 5% decrease and April 1, 2013 – 4% increase and 4% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 5.2.2. In the case of fund investments, the fair value is determined as indicated in Note 5.2.2.

6 COLLATERAL PLEDGED AND RECEIVED

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 3.4.5, 3.4.6 and 8.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase agreements as at:

(Canadian $ millions)	**March 31, 2015**	March 31, 2014	April 1, 2013
Securities lending and borrowing			
Securities lent	**$ 960**	$ 690	$ 552
Collateral held [A]	**1,035**	735	550
Securities borrowed	**38**	51	33
Collateral pledged [B]	**40**	54	33
Securities repurchase agreements			
Securities sold under repurchase agreements	**–**	45	43
Collateral pledged	**–**	45	43
Derivative contracts			
Collateral pledged	**101**	42	5
Collateral held	**12**	3	10

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $193 million for the Plan Account as at March 31, 2015 (March 31, 2014 – $173 million and April 1, 2013 – $157 million) and securities amounted to $842 million as at March 31, 2015 (March 31, 2014 – $562 million and April 1, 2013 – $393 million). All cash collateral is re-invested.

[B] The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

7 INTERESTS IN OTHER ENTITIES

7.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 3.1.

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. At March 31, 2015, 92 investment entity subsidiaries were incorporated in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2014 – 82 in North America, 13 in Europe, 9 in Oceania, 3 in Central and South America, and 1 in Africa; April 1, 2013 – 80 in North America, 10 in Europe, 5 in Oceania, and 3 in Central and South America).

In addition, PSP Investments controlled 68 investees directly or through its investment entity subsidiaries as at March 31, 2015 (March 31, 2014 – 58 investees and April 1, 2013 – 51 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence. PSP Investments determines control, joint control and significant influence as described in Note 3.3.

As at March 31, 2015

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**22%**	**Jointly controlled investee**
Acelity Inc. (formerly Kinetic Concepts, Inc.)	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**25%**	**Associate**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
Transelec S.A.	**Central and South America**	**18%**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**

As at March 31, 2014

Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	34%	Associate
AviAlliance GmbH	Europe	100%	Controlled investee
Kinetic Concepts, Inc.	North America	21%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Kaingaroa Timberlands Ltd.	Oceania	30%	Jointly controlled investee
Transelec S.A.	Central and South America	18%	Associate
Gassled	Europe	5%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
Forth Ports Limited	Europe	37%	Jointly controlled investee

7 INTERESTS IN OTHER ENTITIES (continued)

7.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

			As at April 1, 2013
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	35%	Associate
SCG Hotel CLP, L.P.	North America	100%	Controlled investee
Gassled	Europe	5%	Associate
Kinetic Concepts, Inc.	North America	21%	Associate
Transelec S.A.	Central and South America	18%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
TD Canada Trust Tower	North America	50%	Jointly controlled investee
H2O Power Limited Partnership	North America	92%	Controlled investee
DP World Australia Ltd.	Oceania	25%	Jointly controlled investee

In addition to the above, PSP Investments controls and consolidates two wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services are mainly related to raising capital used to finance private market investments within the context of PSP Investments' capital market debt program described in Note 9.

7.2. STRUCTURED ENTITIES

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 8, guarantees and indemnities under Note 16 and commitments under Note 17.

8 INVESTMENT RISK MANAGEMENT

PSP Investments has implemented an investment approach that aims to maximize rates of return without undue risk of loss. In pursuit of such an objective, PSP Investments has developed an Investment Risk Management Policy (IRM Policy) to support the management of risks incurred through the investment processes. The IRM policy, which supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), establishes the Investment Risk Management Framework (IRM Framework) with a goal of ensuring that all investments made by PSP Investments or its investment entity subsidiaries respect the risk philosophy of PSP Investments and are within the tolerances and limits of its risk appetite.

The IRM Framework requires reporting on risk to all levels of the organization. The Board of Directors and its committees oversee all risk matters and receive reporting from senior management as well as PSP Investments' independent internal auditor reporting directly to the Audit Committee.

The IRM Framework is designed to effectively manage all investment risks PSP Investments is exposed to, which include market, credit and liquidity risks, related to the implementation of the Policy Portfolio and active management activities.

8.1. MARKET RISK

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSP Investments also takes into consideration the impact of the Policy Portfolio market risk on funding risk. Funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liabilities of the Plans, which may require the contributions to the Funds of the Plans to be increased. The Policy Portfolio is reviewed at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSP Investments' long-term expectations of market conditions and other factors that may affect the funding levels of the Plans.

Active risk refers to all market risk arising from active management activities. It is managed in accordance with the Investment Risk Management Policy.

8.1.1. Measurement of Market Risk

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSP Investments uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. For investments that are not actively traded, the calculation of VaR uses securities with similar risk attributes as proxy.

In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR). Whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.1. Measurement of Market Risk (continued)

The following table shows the total VaR consisting of the Policy Portfolio VaR, the Active VaR and the diversification effect, calculated as a percentage of net investments as at the end of the period. The diversification effect captures the impact of holding different types of assets which may react differently in various types of situations and thus reduces the total VaR. The information is presented as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Policy Portfolio VaR	**20.6 %**	20.3 %	20.2 %
Active VaR	**2.6**	2.8	2.6
Total VaR (undiversified)	**23.2**	23.1	22.8
Diversification effect	**(0.9)**	(0.1)	(1.3)
Total VaR	**22.3 %**	23.0 %	21.5 %

Stress Testing

Although VaR is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Stress testing and scenario analysis are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

8.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan Account's net asset values.

The terms to maturity of the classes of financial instruments, outlined in Note 5.1, with the most significant exposure to interest rate risk were as follows as at March 31, 2015:

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 77	$ 321	$ 152	$ 269	$ –	$ 819
Corporate bonds	102	237	125	33	–	497
Inflation-linked bonds	–	102	151	211	–	464
Asset-backed securities	5	101	2	–	–	108
Private debt investments:						
Directly held	1	41	21	–	2	65
Held through funds [A]	–	–	–	–	217	217
Total investments with significant exposure to interest rate risk	**$ 185**	**$ 802**	**$ 451**	**$ 513**	**$ 219**	**$ 2,170**
Other investments [B]	**$ –**	**$ –**	**$ –**	**$ –**	**$ 446**	**$ 446**
Total fixed income	**$ 185**	**$ 802**	**$ 451**	**$ 513**	**$ 665**	**$ 2,616**

[A] Due to their nature, information in connection with the terms to maturity of fund investments included as part of private debt investments is not available.

[B] Consists of $281 million in cash and money market securities and $165 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 9.

Alternative investments as well as derivative contracts described in Notes 5.1.4 and 5.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 8.1.1.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. In October 2013, PSP Investments amended its policy to fully hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and renewable resources. PSP Investments' previous policy was to hedge a target of 50% of its foreign currency investments in non-emerging countries. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

(Canadian $ millions)	**March 31, 2015**		March 31, 2014		April 1, 2013	
Currency	**Fair Value**	**% of Total**	Fair Value	% of Total	Fair Value	% of Total
US Dollar	**$ 2,101**	**58.8 %**	$ 1,765	61.0 %	$ 1,080	53.3 %
Euro	**259**	**7.3**	249	8.6	181	9.0
Japanese Yen	**166**	**4.7**	112	3.9	81	4.0
British Pound	**160**	**4.5**	134	4.6	150	7.4
Hong Kong Dollar	**154**	**4.3**	94	3.3	73	3.6
Korean Won	**129**	**3.6**	93	3.2	55	2.7
Brazilian Real	**101**	**2.8**	91	3.1	85	4.2
Swiss Franc	**82**	**2.3**	57	2.0	27	1.3
Taiwanese New Dollar	**72**	**2.0**	44	1.5	33	1.6
Indian Rupee	**51**	**1.4**	34	1.2	25	1.2
Australian Dollar	**47**	**1.3**	36	1.3	67	3.3
South African Rand	**44**	**1.2**	28	1.0	22	1.1
Mexican Peso	**26**	**0.7**	15	0.5	17	0.9
Thai Baht	**17**	**0.5**	8	0.3	13	0.6
Others	**162**	**4.6**	132	4.5	116	5.8
Total	**$ 3,571**	**100.0 %**	$ 2,892	100.0 %	$ 2,025	100.0 %

As at March 31, 2015, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,070 million for the Plan Account (US$748 million, €57 million, £16 million, R21 million South African Rands, R$31 million Brazilian Reals and $3,068 million Colombian pesos) which were not included in the foreign currency exposure table.

8 INVESTMENT RISK MANAGEMENT
(continued)

8.2. CREDIT RISK

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities sold under repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2015, the Plan Account's maximum exposure to credit risk amounted to approximately $2 billion (March 31, 2014 – approximately $2 billion and April 1, 2013 – approximately $2 billion). This amount excludes investments in distressed debt in the amount of approximately $0.2 billion as at March 31, 2015 (March 31, 2014 – approximately $0.1 billion and April 1, 2013 – approximately $0.1 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 5.1.11 and 6, respectively, and the impact of guarantees and indemnities disclosed in Note 16.

As at March 31, 2015, the Plan Account had a net notional exposure of $5 million (March 31, 2014 – $4 million and April 1, 2013 – $8 million) to various tranches of collateralized debt obligations, of which approximately 45% (March 31, 2014 – approximately 53% and April 1, 2013 – approximately 67%) of the underlying dollar exposure was rated "Investment grade", as well as funding facilities, as described in Note 16, to support potential margin calls on the ABTNs.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for private markets investments.

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Investment grade (AAA to BBB–)	**97.5 %**	97.4 %	97.9 %
Below investment grade (BB+ and below)	**0.4**	1.0	1.0
Not rated:			
Rated by a single credit rating agency	**0.6**	0.5	0.1
Not rated by credit rating agencies	**1.5**	1.1	1.0
Total	**100.0 %**	100.0 %	100.0 %

8 INVESTMENT RISK MANAGEMENT (continued)

8.2. CREDIT RISK (continued)

8.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities sold under repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing as well as securities sold under repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 3.4.5 and 3.4.6 describe collateral requirements in securities lending and borrowing programs as well as securities sold under repurchase agreements, respectively.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 6.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

8.3. LIQUIDITY RISK

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 9 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 5.1.11.

8 INVESTMENT RISK MANAGEMENT (continued)

8.3. LIQUIDITY RISK (continued)

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2015 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities [A]				
Amounts payable from pending trades	$ (116)	$ –	$ –	$ (116)
Interest payable	(2)	–	–	(2)
Securities sold short	(38)	–	–	(38)
Capital market debt financing	(181)	(154)	(200)	(535)
Accounts payable and other liabilities	(9)	–	(4)	(13)
Total	$ (346)	$ (154)	$ (204)	$ (704)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 54	$ 45	$ 28	$ 127
Derivative-related liabilities [A]	(85)	(74)	(49)	(208)
Total	$ (31)	$ (29)	$ (21)	$ (81)

[A] Liabilities are presented in the earliest period in which the counterparty can request payment.

8 INVESTMENT RISK MANAGEMENT (continued)

8.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 8.2.1. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities sold under repurchase agreements, as described in Notes 3.4.6 and 6, are subject to similar arrangements though are not offset.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set off	Net Amount of Financial Assets Presented in the Statements of Financial Position (Note 5.1.11)	Less: Related Amounts not Set off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
As at March 31, 2015						
OTC-derivatives	**$ 127**	**$ 2**	**$ 125**	**$ 111**	**$ 9**	**$ 5**
Total	**$ 127**	**$ 2**	**$ 125**	**$ 111**	**$ 9**	**$ 5**
As at March 31, 2014						
OTC-derivatives	$ 62	$ –	$ 62	$ 55	$ 2	$ 5
Total	$ 62	$ –	$ 62	$ 55	$ 2	$ 5
As at April 1, 2013						
OTC-derivatives	$ 60	$ –	$ 60	$ 45	$ 10	$ 5
Total	$ 60	$ –	$ 60	$ 45	$ 10	$ 5

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts not Set off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
As at March 31, 2015						
OTC-derivatives	**$ 208**	**$ 2**	**$ 206 [A]**	**$ 111**	**$ 87**	**$ 8**
Total	**$ 208**	**$ 2**	**$ 206**	**$ 111**	**$ 87**	**$ 8**
As at March 31, 2014						
OTC-derivatives	$ 85	$ –	$ 85 [A]	$ 55	$ 26	$ 4
Repurchase agreements	45	–	45 [B]	–	45	–
Total	$ 130	$ –	$ 130	$ 55	$ 71	$ 4
As at April 1, 2013						
OTC-derivatives	$ 51	$ –	$ 51 [A]	$ 45	$ 5	$ 1
Repurchase agreements	43	–	43 [B]	–	43	–
Total	$ 94	$ –	$ 94	$ 45	$ 48	$ 1

[A] As described in Note 5.1.11.

[B] As described in Note 5.1.

9 CAPITAL MARKET DEBT FINANCING

PSP Investments' capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly-owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy.

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $3 billion for issuances in Canada and US $5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2015 and March 31, 2014.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program allocated to the Plan Account as at:

	March 31, 2015		March 31, 2014		April 1, 2013	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.64% and 1.21% and maturing within 17 and 359 days of issuance (March 31, 2014 – 7 and 364 days; April 1, 2013 – 31 and 191 days)	**$ 51**	**$ 51**	$ 103	$ 103	$ 61	$ 61
Short-term US Dollar promissory notes, bearing interest between 0.17% and 0.47% and maturing within 84 and 367 days of issuance (March 31, 2014 – 35 and 365 days; April 1, 2013 – 29 and 189 days)	**233**	**233**	165	166	72	72
Medium-term notes Series 1, bearing interest of 4.57% per annum and matured on December 9, 2013	**–**	**–**	–	–	71	72
Medium-term notes Series 2, bearing interest of 2.94% per annum and maturing on December 3, 2015	**51**	**51**	50	51	49	51
Medium-term notes Series 3, bearing variable interest of 3-month CDOR + 39 basis points and matured on February 16, 2015	**–**	**–**	25	25	25	25
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**65**	**66**	65	66	63	65
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**36**	**39**	36	37	–	–
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**14**	**15**	–	–	–	–
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**72**	**80**	–	–	–	–
Total	**$ 522**	**$ 535**	$ 444	$ 448	$ 341	$ 346

Interest expense, for the years ended March 31, was as follows:

(Canadian $ millions)	**2015**	2014
Short-term promissory notes	**$ 1**	$ 1
Medium-term notes	**6**	6
Total	**$ 7**	$ 7

10 EQUITY

10.1. STATUTORY RIGHTS HELD BY THE GOVERNMENT OF CANADA

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of the net assets of PSP Investments including the net profit (loss) and other comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

10.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $374 million for the year ended March 31, 2015 ($452 million for the year ended March 31, 2014) for the Fund, recorded in the Plan Account.

11 INVESTMENT-RELATED EXPENSES

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ millions)	2015	2014
Interest expense (Note 9)	$ 7	$ 7
Transaction costs	7	6
External investment management fees [A]	4	2
Other (net)	4	2
Total	**$ 22**	$ 17

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees related to certain pooled fund investments classified under alternative investments primarily related to performance, in the amount of $8 million for the year ended March 31, 2015 ($4 million for the year ended March 31, 2014). This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments.

Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $14 million for the year ended March 31, 2015 ($11 million for the year ended March 31, 2014).

12 OPERATING EXPENSES

Operating expenses allocated to this Plan Account consisted of the following for the years ended March 31:

(Canadian $ thousands)	2015	2014
Salaries and employee benefits	$ 10,618	$ 9,695
Professional and consulting fees	2,170	1,693
Premises and equipment	886	744
Market data and business applications	1,449	1,244
Depreciation of property, plant and equipment	1,151	970
Custodial fees	264	202
Other operating expenses	883	672
Total	**$ 17,421**	$ 15,220

13 ALLOCATION OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

The profit (loss) and other comprehensive income (loss) of PSP Investments is allocated to each Plan Account as follows:

13.1. INVESTMENT INCOME (LOSS)

The investment income (loss) is allocated proportionately based upon the net asset value held by each Plan Account.

13.2. EXPENSES

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the asset value of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income (loss), excluding the direct cost of investment activities listed above, for the years ended March 31, were allocated in proportion to the annual amount of net assets in each Plan Account as follows:

	2015	2014
Public Service Pension Plan Account	**72.7 %**	72.9 %
Canadian Forces Pension Plan Account	**19.6**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.1
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0 %**	100.0 %

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

14 RELATED PARTY TRANSACTIONS

14.1. CERTAIN INVESTEES

As outlined in Note 3.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 5.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and profit (loss) and other comprehensive income (loss) as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. THE GOVERNMENT OF CANADA AND GOVERNMENT-RELATED ENTITIES

Since PSP Investments is a crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 10.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 5.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and profit (loss) and other comprehensive income (loss) as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Profit or Loss and Other Comprehensive Income and was as follows:

(Canadian $ thousands)	**2015**	2014
Short-term compensation and benefits	**$ 1,008**	$ 554
Long-term compensation and benefits	**427**	658
	$ 1,435	$ 1,212

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 CAPITAL MANAGEMENT

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 10.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 8.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 9 provides information on the capital market debt financing and Note 8.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 GUARANTEES AND INDEMNITIES

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 9.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $69 million has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2015, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $1,147 million as at March 31, 2015 (March 31, 2014 – $1,223 million and April 1, 2013 – $999 million), of which $83 million has been allocated to the Plan Account (March 31, 2014 – $88 million and April 1, 2013 – $71 million) plus applicable interest and other related costs. The arrangements mature between June 2015 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $64 million as at March 31, 2015 (March 31, 2014 – $82 million and April 1, 2013 – $41 million), of which $5 million has been allocated to the Plan Account (March 31, 2014 – $6 million and April 1, 2013 – $3 million) in relation to investment transactions.

17 COMMITMENTS

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	March 31, 2015
Real estate	$ 135
Private equity	373
Infrastructure	183
Renewable resources	44
Other fixed income securities	232
Alternative investments	129
Total	**$ 1,096**

Funding in connection with the above commitments can be called upon at various dates extending until 2032.

18 FIRST-TIME ADOPTION

Upon transition to IFRS, PSP Investments has used accounting estimates under IFRS that are consistent with those applied under previous Canadian GAAP (with adjustment for accounting policy differences).

18.1. EXCEPTIONS AND EXEMPTIONS

IFRS 1 requires mandatory exceptions and permits certain exemptions from full retrospective application. PSP Investments has applied the following:

PSP Investments has determined the classification and consequential measurement of its financial assets under IFRS 9 on the basis of the facts and circumstances that existed on April 1, 2013 – the date of transition to IFRS.

Financial liabilities designated at FVTPL under IFRS 9 were accounted for at fair value under previous GAAP with all changes reported as part of profit or loss. The transition to IFRS did not result in any changes in the measurement of such financial liabilities as at April 1, 2013.

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at April 1, 2013:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Assets					
Investments	A	$ 5,777	$ 156	$ –	$ 5,933
Investment-related assets	A	156	(156)	–	–
Other assets		6	–	–	6
Total assets		$ 5,939	$ –	$ –	$ 5,939
Liabilities					
Trade payable and other liabilities	D (i)	$ 9	$ –	$ 1	$ 10
Investment-related liabilities	E	553	(346)	–	207
Borrowings	E	–	346	–	346
Due to the Public Service Pension Plan Account		3	–	–	3
Total liabilities		$ 565	$ –	$ 1	$ 566
Net assets		$ 5,374	$ –	$ (1)	$ 5,373
Equity	D (i)	$ 5,374	$ –	$ (1)	$ 5,373
Total liabilities and equity		$ 5,939	$ –	$ –	$ 5,939

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	IFRS
Assets				
Investments	A	$ 7,288	$ 138	$ 7,426
Investment-related assets	A	138	(138)	–
Other assets		10	–	10
Total assets		$ 7,436	$ –	$ 7,436
Liabilities				
Trade payable and other liabilities	D (ii)	$ 11	$ –	$ 11
Investment-related liabilities	E	700	(448)	252
Borrowings	E	–	448	448
Due to the Public Service Pension Plan Account		5	–	5
Total liabilities		$ 716	$ –	$ 716
Net assets		$ 6,720	$ –	$ 6,720
Equity	D (ii)	$ 6,720	$ –	$ 6,720
Total liabilities and equity		$ 7,436	$ –	$ 7,436

PSP Investments has made the following significant adjustments to the Statement of Profit or Loss and Other Comprehensive Income of the Plan Account for the year ended March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Investment income	A	$ 909	$ 17	$ –	$ 926
Investment-related expenses	A	$ –	$ 17	$ –	$ 17
Net investment income		$ 909	$ –	$ –	$ 909
Operating expenses		$ 15	$ –	$ –	$ 15
Profit		$ 894	$ –	$ –	$ 894
Other comprehensive income					
Remeasurement of the net defined benefit liability	D (ii)	$ –	$ –	$ 1	$ 1
Profit and other comprehensive income		$ 894	$ –	$ 1	$ 895

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

18.2.1. Notes to the Adjustments of the Statements of Financial Position and Statements of Profit or Loss and Other Comprehensive Income

(A) Consolidation of Certain Subsidiaries

Under previous Canadian GAAP, PSP Investments consolidated subsidiaries that it formed and that qualified as investment companies. Upon transition to IFRS, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities as required by IFRS 10. Instead, PSP Investments measures its investments in its subsidiaries at FVTPL in accordance with IFRS 9 as further described under Note 3.1.

Upon transition to IFRS, the presentation of the Financial Statements was adjusted as outlined in the tables above to reflect the impact of the difference described between previous Canadian GAAP and IFRS. The adjustment was made with respect to subsidiaries that are formed by PSP Investments and that qualify as investment entities.

(B) Statements of Cash Flows

Under previous Canadian GAAP, PSP Investments did not prepare a statement of cash flows. IAS 1 *Presentation of Financial Statements* requires a complete set of financial statements to include a statement of cash flows for the current and comparative periods, without exception.

(C) Disclosures

Upon transition to IFRS, PSP Investments was required to disclose information that was not previously disclosed under Canadian GAAP. The most significant of such disclosures are as follows:

(i) Certain disclosures with respect to fair value measurements under previous Canadian GAAP were expanded upon transition to IFRS as required by IFRS 13 *Fair Value Measurement*. They are presented mainly under Note 5.2.3.

(ii) Disclosures in connection with interests in other entities under Note 7 are required by IFRS 12 *Disclosures of Interests in Other Entities*.

(iii) Disclosures with respect to offsetting financial instruments under Note 8.4 are required by IFRS 7 *Financial Instruments: Disclosures*.

(D) Employee Benefits

PSP Investments has a defined benefit pension plan for the benefit of its employees hired prior to January 1, 2014. The net defined benefit liability is recorded in trade payable and other liabilities. Under previous Canadian GAAP, PSP Investments recognized actuarial gains and losses, which includes actual returns on plan assets, over the average remaining service period of active employees. IAS 19 *Employee Benefits* requires that remeasurements of the net defined benefit liability, which include actuarial gains and losses and actual returns on plan assets, are recorded against other comprehensive income (loss) as they are incurred.

(i) Impact on equity as at April 1, 2013

As at the transition date, the defined benefit pension plan had an unamortized actuarial loss of $17 million, of which $1 million was allocated to the Plan Account. As such, upon transition to IFRS, PSP Investments has increased the Plan Account's trade payable and other liabilities by $1 million and reduced equity by the same amount. At April 1, 2013, the date of transition to IFRS, such amount was allocated to the Plan Account based upon its weighted average net asset value since inception.

(ii) Impact on other comprehensive income for the year ended March 31, 2014 and equity as at March 31, 2014

During the year ended March 31, 2014, the remeasurement of the net defined benefit liability amounted to a gain of $17 million, of which $1 million was allocated to the Plan Account. This amount was recorded in other comprehensive income with an offsetting impact to trade payable and other liabilities. Such amount was allocated to the Plan Account based on the allocation described in Note 13.2.

The cumulative impact for the Plan Account of the opening equity adjustment ($1 million loss) and the March 31, 2014 adjustment ($1 million gain) is nil on both trade payable and other liabilities and retained earnings.

All other differences related to employee benefits during the year ended March 31, 2014 are not significant.

(E) Other

Borrowings have been reclassified on transition to IFRS to show the balance separately on the Statement of Financial Position.