



Montréal, April 29, 2023

Mr. John Williamson, M.P.
Chair, Standing Committee on Public Accounts
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6 Canada

Re: Public Sector Pension Investment Board's response to the Standing Committee on the Public Sector Pension Investment Board's Special Examination with regards to the second recommendation, due April 30, 2023.

Dear Mr. Williamson,

Please find enclosed the Public Sector Pension Investment Board's response to the House of Commons Standing Committee on Public Accounts regarding Recommendation 2 of 3 from the Special Examination Report.

Original Recommendation: PSP Investments should provide the Committee with a report outlining the implementation of its new enterprise-wide model risk management framework.

The attachment provides the actions taken to implement the enterprise-wide model risk management framework.

Should you wish to discuss any aspect of our report, we would be pleased to meet with you.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'D. Orida', written over a light blue circular stamp.

Deborah Orida

President and Chief Executive Officer
Public Sector Pension Investment Board

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PSP Investments’ Response to the Standing Committee on Public Accounts

The Standing Committee on Government Public Accounts provided recommendations to PSP Investments based on the Special Examination Report. Recommendation #2 to PSP Investments was “PSP Investments should provide the Committee with a report outlining the implementation of its new enterprise-wide model risk management framework.”

PSP Investments agreed to develop and progressively implement an enterprise-wide model validation framework. In addition to models covering valuation and risk management, the corporation has included in its framework models used at the total fund level including characterization of asset classes, portfolio construction, rebalancing, and allocation activities. The corporation believes that the current scope of its model framework covers the main quantitative models that entail a risk for its activities and will continue to reassess the scope as it evolves. The following table outlines the main pillars of the framework and the actions taken for its implementation.

Framework Pillar	Actions taken to implement the recommendation
Governance	<ul style="list-style-type: none"> • Implementation of a corporate procedure outlining the principles that apply to the governance of quantitative models covered by the framework • Definition of framework ownership and scope • Establishment of a committee comprising members of different groups, to ensure appropriate validation, documentation, controls, and independent review of the models • Standardization of model definition, model inventory and materiality assessment, roles, and responsibilities throughout the model lifecycle
Model Risk Assessment methodology	<ul style="list-style-type: none"> • Classification of models using a combination of quantitative and qualitative criteria, including materiality and complexity
Model Validation Methodology	<ul style="list-style-type: none"> • Definition of a review cycle for each model • Prioritization of model validation based on complexity and materiality • Independent and effective review including challenge of the model soundness and fit for purpose • Validation by replication and benchmarking
Model Risk Management activities	<ul style="list-style-type: none"> • Review of existing and new models, and governance practices • Monitoring of the progress of model validation exercises • Reporting to Management and CFRO