



**Finance, Audit & Risk Management Committee – November 30, 2017**  
**Item 7c – Financial Instruments Policy**  
**Lisa Taylor**

<b>Agenda Item</b>	Item 7c, Finance, Audit & Risk Management (FARM) Committee, November 30, 2017
<b>Purpose</b>	For the FARM Committee Approval and Recommendation for Approval to the Board of the proposed Financial Instruments Policy: Foreign Exchange Risk Management.
<b>Key Message</b>	<ul style="list-style-type: none"> <li>• The proposed Financial Instruments Policy provides policy guidelines as to key principles, as well as the acceptable and appropriate hedging strategies the Corporation should engage to mitigate currency risk.</li> <li>• The proposed policy strengthens the Corporation’s risk management toolkit with respect to exposure to currency risk.</li> </ul>
<b>Areas of note/ Key issues</b>	<ul style="list-style-type: none"> <li>• Historically currency risk has not been a significant risk for Waterfront Toronto. In the majority of cases, contracts are procured and established in Canadian dollars.</li> <li>• The Corporation now has at least one major foreign vendor for which it is more prudent and cost effective for Waterfront Toronto to manage the associated currency risk directly.</li> <li>• The key components of the proposed attached policy are as follows: <ul style="list-style-type: none"> <li>○ Overview – page 2.</li> <li>○ Policy Guiding Principles: Appetite for Foreign Currency Risk Management – page 2.</li> <li>○ Hedging Strategy Options – page 3.</li> <li>○ Approvals and Authorization Levels – page 4.</li> <li>○ Accounting Implications – page 4.</li> <li>○ Risk Monitoring – page 4.</li> </ul> </li> <li>• The approvals and authorization levels in this policy will be incorporated into the Corporation’s Delegations of Authority (Board approved June 13, 2017), which establishes management approval thresholds and execution authorities in accordance with By-Law No. 1.</li> </ul>
<b>Expected Outcome</b>	<p>The FARM Committee will:</p> <ul style="list-style-type: none"> <li>• Approve Waterfront Toronto’s Financial Instruments Policy, including the update of the relevant provision to the Delegations of Authority, and</li> <li>• Recommend this for approval by the Board of Directors.</li> </ul>
<b>Key Takeaways/ Next Steps</b>	<ol style="list-style-type: none"> <li>1. Approval of the Financial Instruments Policy by the Board of Directors on December 7, 2017.</li> <li>2. Update the Delegations of Authority to incorporate the approvals and authorization levels in the Financial Instruments Policy.</li> </ol>



# **WATERFRONT TORONTO**

## **FINANCIAL INSTRUMENTS POLICY: Foreign Exchange Risk Management**

Date: November 22, 2017

## A. Overview

This Financial Instruments Policy provides policy guidance with respect to the management of foreign exchange risk management for Waterfront Toronto (or “the Corporation”). From time to time, particularly as the Corporation looks globally to partners and suppliers in carrying out its mandate, Waterfront Toronto will become exposed to contracts which may be denominated in a foreign currency. While this is uncommon, in some cases it may be more prudent and cost-effective for Waterfront Toronto to manage this risk directly than impose this risk on its third party supplier.

This policy will cover the following areas:

- Guiding Principles and Appetite for Risk;
- Financial instruments options;
- Approvals and authorization levels;
- Accounting implications; and
- Risk reporting.

## B. Policy Guiding Principles: Appetite for Foreign Currency Risk Management

Waterfront Toronto employs an enterprise-wide approach to risk management.

Foreign currency risk is the risk that the fair value or future cash flow of Waterfront Toronto’s relevant financial instruments (such as a contract with a foreign vendor) will fluctuate because of changes in foreign currency. Due to the nature of Waterfront Toronto’s project funding being fixed, this potential fluctuation in the value and cost of a vendor contract needs to be managed to prevent adverse budget impacts.

Waterfront Toronto will employ a conservative appetite towards the management of foreign currency risk.

The following guiding principles should be abided by with respect to managing foreign currency risk:

- Financial instruments are to be used to hedge, mitigate or reduce risk exposures, unless the risk reduction is determined to be cost ineffective or otherwise not prudent;
- Financial instruments may not be used for speculative purposes;
- Management discretion, upon assessment, should determine the required financial risk management tactics, i.e. some cases may require systematic hedging (100%) and some selective hedging (some);
- Financial instruments and contracts should be constructed to minimize future liquidity and cash flow risks,
- The following risks should be considered for each financial instrument transaction:
  - Market Risk
  - Counter-Party Risk
  - Liquidity Risk; and
  - Refinancing Risk,
- All financial instruments and hedging activities will be employed in a manner consistent with this Policy,
- All financial instruments must comply with existing financing agreements.
- All financial instruments will be tracked and monitored monthly, and reported on to the Finance, Audit & Risk Management Committee on a quarterly basis.

## C. Financial Instrument Hedging Options

As a risk mitigation measure and subject to internal assessments, the Corporation may pursue any one or a combination of hedging options with any of the major Canadian financial institutions as follows:

Hedging Strategy Options	Description	Pros	Cons
<b>A. No Hedging</b>	No hedging option (spot rate) may be employed if overall contract amount is less than CAD\$2 million.	Simple and easy to administer.	Fully exposed to exchange rate fluctuations (up or down).
<b>B. Foreign Currency Purchase</b>	Upfront bulk purchase of some/all of the required foreign currency at the spot rate when the foreign exchange rate is favourable to the Corporation. Amount of foreign currency purchased may be invested by the Corporation subject to its Treasury and Cash Flow Management Processes & Procedures.	Allows you to lock in a favourable exchange rate today if rates are forecast to increase.	Requires set up of foreign denominated bank account. Assumes you have excess cash on hand to pre-purchase. Requires investment of excess foreign currency to maximise interest income.
<b>C. Forward Exchange Contract</b>	An agreement to convert one currency (say CAD\$) into another currency (say \$USD) at a fixed exchange rate and future date, both of which are agreed upon today/ at time contract entered into.	Sets the future price of my currencies today. No premium to pay. Flexible hedging time periods (one month to two years, longer if required)	Cannot benefit from a favourable currency move. Cannot be cancelled except by taking a reverse position.
<b>D. Collar</b>	Similar to a Forward Exchange Contract, however ensures a ceiling and floor price on the currency, as opposed to one fixed rate.	Strong gain potential. Limited loss potential. No premium to pay.	Capped gain potential.

**E. Approvals and Authorization Levels**

Consistent with Waterfront Toronto’s Delegations of Authority covering approval thresholds and execution authorities, the following establishes the specific authorization limits for transactions involving financial instruments for hedging purposes. All transactions must be undertaken within the context of the budgets, projects, corporate plan and strategic plan approved by the Board of Directors, and other corporate policies.

<b>Value in Equivalent Canadian Dollars</b>	<b>Tier One Approval <sup>(a)</sup></b>	<b>Tier Two Approval <sup>(b)</sup></b>
Up to CAD\$1 million		X <i>CFO and any one of CPO, CSO, CDO</i>
Greater than CAD\$1 million	X <i>CEO</i>	X <i>any one of CFO, CPO, CSO, CDO</i>

(a) Tier One approval is Chief Executive Officer (CEO).

(b) Officers comprising Tier Two are:

- Chief Financial Officer (CFO),
- Chief Project Officer (CPO),
- Chief Strategy Officer (CSO),
- Chief Development Officer (CDO), and
- Other Chief officers of the Corporation as may be appointed from time to time.

**F. Accounting Implications**

All transactions involving financial instruments will be recorded and disclosed in the Corporation’s financial statements in accordance with the relevant Canadian Public Sector Accounting Board and/or International Financial Reporting Standards (IFRS), other relevant regulatory requirements, and best industry practices. The Corporation must record all the relevant transactions on a marked-to-market (MTM) at least quarterly, with any unrealized remeasurement gains or losses flowing through the Statement of Remeasurement Gains and Losses.

**G. Risk Monitoring**

All material foreign currency risk exposures will be identified, recorded and mitigation measures documented by the Corporation’s Enterprise Risk Taskforce through its corporate-wide risk register. This risk register is reviewed at least annually by the Finance, Audit & Risk Management Committee.

At least quarterly, through the interim and annual financial statements, management will provide an update to the Finance, Audit and Risk Management Committee with respect to the current status of the Corporation’s currency exposure and mitigation measures.

## Glossary of Terms:

- **Collars:** Collars are used to provide bounds around the maximum gain and maximum loss in a given position. The primary benefit of a collar option is to limit downside risk, at the cost of limiting upside potential.
- **Counterparty:** The offsetting party in an exchange agreement.
- **Counterparty Risk:** The risk that the counterparty will fail to perform its contractual obligations either in whole or part (also known as credit risk).
- **Financial or Derivative Instrument:** Any form of derivative which, for the purposes of the Company's hedging strategies, would commonly include forward contracts, swaps (either interest rate or cross-currency) and options.
- **Foreign Exchange Contracts:** Foreign Exchange forward contracts are used to lock in an exchange rate for a specified future date (or series of dates) to either purchase or sell foreign currency.
- **Foreign Exchange Risk:** Risk of changes to the value of an investment or cash flows due to a change in foreign currency exchange rates.
- **Hedge:** Making an investment to reduce the risk of adverse price movements in an asset.
- **Liquidity Risk:** Risk of being unable to meet short term financial demands, normally due to the inability to convert an asset to cash without a loss of capital and/or income in the process.
- **Market Risk:** The risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Market risk includes exposure to changes in interest rates, foreign exchange rates and commodity prices.
- **Refinancing Risk:** The risk that the Company would be unable to refinance existing obligations when due.