US Dollar (USD) Account & Foreign Exchange Risk Policy

Date Approved by Board: 2015.02.19 **Resolution No.**: 15 014

Lead Role: GM **Replaces**: N/A

Last Review Date: N/A **Next Review Date**: 2018.02.01

Policy Statement

The objective of the establishing a USD account is to manage the foreign exchange risks of BRWMSC within tolerable limits.

An effective foreign exchange risk policy does not necessarily eliminate all risks, but provides protection against risks that are unacceptable to the organization

Guidelines

EXPOSURES:

BRWMSC's exposure to US exchange rate fluctuations exist due to purchases of capital equipment and supplies in USD currency. It seeks to minimize foreign currency risk.

Foreign currency risk covers the gain or loss resulting from the change in the conversion rate of USD to Canadian dollars (CAD). The appreciation in value of the USD means more CAD is required to cover the purchase price. Anticipating the change in USD allows BRWMSC to manage costs.

However, forecasting the future direction of exchange rates is complicated. Retaining too much USD can translate to losses when its value depreciates.

HEDGING:

Hedging is one of the ways to manage foreign currency risks. It involves taking an offsetting position in a related security like forward contracts.

Hedging activities normally result in foreign exchange gains or losses.

Forward contracts allow a company to set the exchange rate at which it will buy or sell foreign currency in the future. This is normally handled by banks and foreign exchange brokers.

A simpler way of covering USD payables is buying USD ahead of the payment due date. The USD will be held in an investment account until one (1) day before it will be remitted to the payee. Depending on the transaction dates and variations in foreign currency, revaluation will be made and recorded in financial records.

POLICIES:

1. Purchases in CAD is encouraged to minimize foreign currency risk.

2. Foreign currency exposures will be reviewed at least quarterly.

3. Hedging options must be evaluated at the time the foreign currency exposure exists.
   a. Once a tender has been awarded or a Purchase Order has been issued in USD, a copy should be provided to the Accounting department.
   b. The CAO is responsible for managing foreign currency risk.
   c. Hedging decisions must be based on the following factors:
      i. Materiality of the exposure (exposures of at least $100,000)
      ii. Availability of hedge options
      iii. Availability of funding
      iv. Foreign currency trend
   d. Hedging is not a measure of forecasting accuracy but used as an insurance against foreign currency risks.
   e. Partial hedging is allowed.
   f. USD held at any point in time must not exceed USD1,000,000 without prior approval from the Board.
   g. Hedging will not be made if no offsetting exposure exists.

4. The following list of financial instruments is approved for use under this Policy:
   a. Spot contracts
   b. Forward contracts
   c. USD investment account

5. No hedge instruments will be taken for a term of more than one (1) year.

6. The CAO or delegate may execute hedging activities.

7. Hedging instructions must be supported by written documentation.

8. Hedging transactions will be made with approved banking partners.

9. The CAO or delegate will update the Board at least quarterly on foreign exchange exposures and hedging activities.