	V1.4
	December 23, 2008
	December 19, 2023
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The University recognizes that certain risks (in the context of this policy, risk refers to financial risk) are incidental to normal business operations. It is the general philosophy of the University to avoid intolerable risk and to limit, as far as practical, the risks associated with business activities. Accordingly, the University has developed a framework within this policy to:

- Allow for a hedging policy to be aligned with its "business" objectives;
- Choose hedging products which are effective in managing risk;
- Make hedging decisions based on the institution's objectives and tolerance for risk, rather than market conditions;
- Limit circumstances / activities that expose the University to risk from speculative activities;
- Discourage any activities that are not clear or may be interpreted as increasing risks; and

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It is the responsibility of the Office of Vice-President (Administration and Finance) ("VP (A&F)") to implement and maintain this policy and ensure its application. None of its units reporting into the VP (A&F) will engage in speculative use of derivatives.

Derivatives are used for hedging purposes solely to mitigate risk.

Office of Investments is the only unit allowed to engage in hedging activities involving the use of derivative instruments including the buying and selling of interest rate and foreign exchange derivative products. Procurement Services is the only group allowed

Interest rate risk emanates from financing and refinancing activities subject to current market rates such as swap transactions, debt maturities and floating-rate debt.

Managing interest rate risk requires an understanding of the amount at risk and the impact of changes in interest rates. The level of exposure should be determined for the University from budgeting and forecasting information supplied by operating units as part of the budgeting/forecasting process.

Foreign exchange risk emanates from foreign currency fluctuations that adversely impact the value of the University's assets, investments, capital expenditures, revenues, expenses, debt service, and other cash flows that affect earning and balance sheet accounts.

Managing foreign exchange risk requires an understanding of the amount at risk and the impact of changes in currency exchange rates. The level of exposure to be hedged should be determined between the Office of Investments and Financial Services.

Commodity risk emanates from the University's exposure to commodity markets, primarily those affecting energy prices. In a University environment, the risk is associated with electricity and natural gas price fluctuations, in excess of that assumed for budget / planning purposes.

Managing commodity risk requires an understanding of the amount at risk and the impact of changes in commodity prices. The level of exposure to be hedged should be determined in conjunction with the usage requirements forecasted by Facilities and in conjunction with Procurement Services.

Procurement Services will be the source of all commodity prices used for planning purposes. The specific commodity prices used for planning purposes are to be updated on a quarterly basis or as agreed to between Procurement Services and Analysis, Planning and Budget. The individual operating groups are to use this foreign exchange.

Derivative instruments will be used to mitigate exposures when they represent the most effective means of achieving the University's financial risk management objectives.

Wherever possible, financial risk exposures should be managed on a consolidated University basis to benefit from natural hedges.

Derivative instruments are only authorized within the following parameters:

- Derivatives are not to be used for speculation;
- Derivatives are not to be used on a levered basis (the change in the value of the derivative should not be designed to outweigh the change in value of the underlying asset or obligation);
- Derivatives are to be used as a hedge or offset to an underlying asset or obligation only;
- Derivatives should not create new exposures;
- Derivatives are not to exceed the term of the underlying asset or obligation;
- Derivatives are not to exceed the amount of the underlying asset or obligation (except to adjust for differences in tax treatment of the derivative transaction versus that of the underlying asset or obligation).

Office of Investments is authorized to use the following derivative instruments:

- Interest rate risk management:
  - Interest rate swaps
  - Forward rate agreements
  - Caps, floors and collars
  - Options and Swaptions

- Foreign exchange risk management:
  - Currency swaps
  - Foreign exchange forwards
  - Options

Procurement Services is authorized to use the following derivative instruments:

- Commodity price risk management:
  - Fixed price contracts
  - Forward contracts

- Trading authority is delegated by the CIO &Treasurer;
- As soon as practically possible after executing a transaction in the market, the member of Office of Investments who executed the transaction will produce and sign a transaction confirmation term sheet outlining the terms and conditions of the transaction to be signed by that person's supervisor;
- Office

- Trading authority is delegated by the Director Procurement Services;
- A draft of the originating agreement must be reviewed and approved by Legal Services in advance of Procurement Services entering into a derivative trade with the counterparty.
- As soon as practically possible after executing a transaction in the market, the member of Procurement Services who executed the transaction will produce and sign a transaction confirmation term sheet outlining the terms and conditions of the transaction;
- Procurement Services will receive a call from the counterparty on the same day to obtain independent verbal confirmation of the terms and conditions of the transaction;
- Procurement Services will confirm and sign the transaction confirmation term sheet and have it subsequently signed by the VP (A&F);
- Procurement Services will provide a copy of the signed term sheet to Financial Services; and
- The counterparty will provide a "contractual hard copy" confirmation of the transaction to be signed by the VP (A&F).

Procurement Services is responsible for structuring, executing, and documenting on not less than a quarterly basis, all derivative transactions to the VP (A&F).

Procurement Services is also responsible for the calculation of all cash flow settlements, and future cash flow requirements once payment amounts become known. They will affect all settlement payments or receipts and advise Financial Services accordingly.

Financial Services is responsible for determining the appropriate accounting treatment for each derivative transaction and for performing reconciliations of records and reports between Procurement Services and the University's records.

Additional verification of Procurement Services compliance with this policy should be sought from time-to-time from an independent source such as Internal Audit.

Under the authority of the VP (A&F), Office of Investments and Procurement Services are responsible for:

- The identification and quantification of the principal financial risks facing the University;
- The development and implementation of risk management strategies designed to meet the University's risk management objectives; and
- Regularly monitoring and reporting, as described under this policy, on the financial risks under management.

As outlined in the University's Signing Regulations and by-laws, the various officers are authorized:

- to approve all hedging activities/derivative transactions as long as such transactions are within the scope of this policy;
- to delegate the authority to execute any such transactions and to take such action as may be necessary or desirable to carry out the intent and purpose of the authorized hedging activity.

Explicit objectives and performance parameters must be established and documented before execution for all approved transactions.

The derivative transaction process will be as follows:

- Identification of financial exposure;
- Quantification of financial exposure;
- Design

The buyer of a cap pays an upfront premium for interest rate protection (obligation) and receives funds if rates go above a certain level but does not give up potential savings if rates go down.

Combination of buying a "cap" and selling a "floor" (obligation), effectively putting a "collar" on future interest rates.

Agreement (obligation) with counterparty to exchange interest and principal payments in one currency for payments in another currency.

Financial instrument whose value is derived from the value of some underlying assets such as government bonds, equities or currencies.

Generally, will be measured as the correlation between the change in value of an underlying asset and the change in value of a derivative instrument over a time series of data points.

Outstanding position in a particular type of security, market, or industry.

Also known as the mark-to-market value, the fair value of a derivative instrument is the cost (gain) that would be incurred to enter into a derivative contract today that has the same features as the instrument being valued. The mark-to-market value is also the cost (gain) that would be incurred to unwind the derivative instrument today at current market conditions.

A risk that may impact the financial performance of the University but that is not operational in nature. Sources of financial risk include

- Counterparty risk (Credit risk)
- Foreign exchange risk
- Interest rate risk
- Equity risk

Obligation to buy/sell another currency at a future date.

Emanates from foreign currency fluctuations that impact the value of the University's assets, investments, capital expenditures, revenues, expenses, debt service and other cash flows that affect earnings and balance sheet accounts.

Contract between two parties where one party will pay a fixed rate and the other party will pay a reference interest rate at a future time.

Hedging means mitigating financial risk exposure. To qualify as a hedge, an activity should be expected to produce a measurable economic offset to the risk relating to an asset, liability, committed transaction or probable forecasted transaction. For derivative securities, offset generally will exist if a derivative position is relatively equal and opposite of the item being hedged. To qualify in part as a hedging activity, the derivative should be structured to provide a high degree of correlation in price or cash flow movement from market changes between it and the hedged item.
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The right to purchase or sell an underlying asset at a specified price at a future date.

Time and volatility statistical estimate of the maximum mark-to-market of a transaction during its term with a 95% level of confidence

A profit-seeking activity unrelated to the primary business of the University and/or inconsistent with the protection of earnings, cash flows or value from adverse fluctuations in financial market variables. Any risk that is engaged in for its own sake and is not a business risk. For example, the use of a currency option on the future direction of a currency when the University's earnings or asset values are not otherwise affected by fluctuations in that currency. Speculative risk includes all forms of activities in which a market position is taken with the intent of profiting solely from market movements.

An option (right) to enter into a swap at a later date.