TD Securities

Spot Contracts

A spot contract is an agreement to buy or sell one currency in exchange for another. The contracts settle within 2 business days at a price based on the prevailing "spot exchange rate" – the current value of one currency compared to another.

Understanding Spot Rates

The market convention calls for the C$/US$ exchange rate to be quoted in terms of the amount of C$ needed to buy one US$. This is also referred to as "interbank terms".

If it takes 0.9434 US$ to buy one C$, it will take 1.0600 C$ to buy one US$. (1÷0.9434=1.0600).

How a Spot Contract can benefit your business
A spot transaction allows a company to buy or sell currency as needed. The spot market is highly liquid and prices are easily determined.

Forward Contracts

A Forward Contract allows you to buy or sell one currency against another, for settlement at a predetermined date in the future. "Hedging" future cash can help protect your company against fluctuations in the currency markets and may minimize the risk of dealing abroad.

Flexibility to meet your foreign exchange needs

TD Securities offers two types of Forward Contracts:

Outright Contract
You take delivery of your forward currency on a specific date in the future

Forward Time Option
Allows you to settle your contract at any time within a predetermined period. The total amount of the contract can be settled in partial increments within that period until the entire amount is delivered. This feature is available in all commonly traded currencies.

On January 2, you know that you require a total of US$950,000 sometime in April. The exact dates are unknown therefore you can enter into a Forward Time Option contract which allows you to fix the price on January 2 and take delivery of the U.S. dollars, anytime between April 1 and April 30.

Forward Contracts... continued

Foreign Exchange

How a Forward Contract can benefit your business

- Protects against risk exposure from movements in the foreign exchange market
- Enjoy flexibility, convenience and cost effectiveness by consolidating a number of small forward requirements into one larger contract
- No additional transaction fees

Understanding Forward Rates

The market convention calls for the C$/US$ exchange rate to be quoted in terms of the amount of C$ needed to buy one US$. This is also referred to as "interbank terms".

If it takes 0.9434 US$ to buy one C$, it will take 1.0600 C$ to buy one US$. (1÷0.9434=1.0600).

If you are buying US$: U.S. (assuming lower interest rates than Canada)	
Spot (C$ it takes to buy US$)	1.0020[1]
Premium	0.0030
3-Month forward price	1.0050

Resources

Forward Premium: Is allocated to the currency of the country that has a lower interest rate.

Forward Discount: Is allocated to the currency of the country that has a higher interest rate.

[1] Rates are for illustration purposes only A CSF contract is subject to margin obligations. You are required to provide a margin deposit to the Bank, in cleared funds "up front". The Initial Margin deposit covers the foreign exchange risk to the Bank and acts as security for your obligation to the Bank under the CSF contract.The initial margin is debited from your bank account the day of booking a CSF contract. Cash balances, overdraft protection and/or a line of credit may be used to facilitate the margin requirement. Every day, the Bank monitors the company's CSF contract(s) daily on a "mark-to-market" basis. If the market experiences adverse movements against the CSF contract while a CSF contract is outstanding, you may be required to "top up" the Initial Margin deposit. You have 24 hours to provide the Bank with sufficient margin following a margin call.

SPT_CONTRACTS.08/13