



Policy

POL.COR.11.09 Commodity Price Hedging Policy

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Policy Statement

This policy governs the procedures regarding the evaluation and determination of Commodity Price Hedging for The Corporation of the Town of The Blue Mountains as required under Section 6(1) of the *Municipal Act, 2001* and Ontario Regulation 653/05.

Purpose

Price instability of some commodities required by the Town can lead to budgeting challenges and increased financial risk. The primary objective for the Town's Commodity Price Hedging Policy is to reduce financial risk by providing price stability and protection against affects of adverse market conditions.

Application

This policy applies to all Financial Agreements that are entered into by the Town for the purpose of fixing future prices through commodity price hedging, as well as to those employees responsible for the control, management, or purchasing of hedging agreements.

No person shall be permitted to engage in a commodity price hedging activity using Financial Agreements except as provided for under the terms of this policy.

Definitions

Agent means an individual or organization acting on behalf of the Town to provide advice on price hedging strategy and/or to execute agreements and transaction.

Commodity means, whether in the original or processed state, an agricultural product, a forest product, a product of the sea, a mineral, a metal, a hydrocarbon fuel, electricity, a precious

stone or other gem and other physical goods but does not include chattel paper, a document of title, an instrument, money or securities.

Commodity Price Hedging Agreement is a financial instrument to fix the cost and/or manage the financial risk associated with the purchase of a commodity.

Hedge means, in the context of this policy, the purchase of a commitment to acquire a specified quantity of a commodity, at a specific price, at some future point in time.

Town means The Corporation of the Town of The Blue Mountains.

Treasurer means the Treasurer for the Town of The Blue Mountains or their designate.

Procedures

Statutory Requirements

A commodity price hedging agreement may only be undertaken if the agreement is in compliance with the Ontario Regulation 653/05. Requirements include the following:

- a) The Financial Agreement must fix, directly or indirectly, or enable the municipality to fix the price or range or prices to be paid by the municipality of the future delivery of some or all of the commodity or the future cost to the municipality of an equivalent quantity of the commodity.
- b) The Town may enter into a Financial Agreement only for the future delivery of some or all of a commodity or the future cost of an equivalent quantity of a commodity. A financial agreement shall not be entered into for the purpose of speculative investing; and
- c) The Town is prohibited from selling or disposing of the Financial Agreement or an interest in the Agreement. An exception to this requirement exists if there is a sale or change of use of real property to which the Agreement applies or the Town ceases an activity for which the commodity was being acquired.

Statement of Commodity Price Hedging Policies and Goals

- 1. The Town will consider commodity price hedging agreements as a means of fixing, directly or indirectly, or enabling the Town to fix, the price or range of prices to be paid by the Town of the future delivery of some or all of the commodity or the future cost to the Town of an equivalent quantity, where it is advantageous for the Town to do so.
- 2. In determining whether a particular commodity price hedging agreement is advantageous for the Town, the following will be taken into account:

- a) Any and all projects of the Town are projects for which commodity price hedging agreement will be appropriate;
- b) If, at any time, it is the opinion that fixed costs and estimated costs of the Town will be reduced by virtue of the use of such an agreement.
- c) If, at the time, it is the opinion that the future price or cost to the Town of the applicable commodity will be lower or more stable than it would be without the agreement;
- d) If, at the time, the project includes a detailed estimate of the expected result of using such an agreement;
- e) If, at the time, it is the opinion that the financial and other risks to the Town that would exist with the use of such an agreement will be lower than the financial and other risks to the Town that would exist without such an agreement;
- f) If, at the time, it is the opinion that the agreement contains adequate risk control measures relating to such an agreement, such as;
 - i. Limited credit exposure based on credit rating and/ or on the degree of regulatory oversight and/ or on the regulatory capital of the other party to the agreement;
 - ii. A standard agreement;
 - iii. On-going monitoring with respect to the agreement.

Approvals

Approval by Council will be required prior to commencing a hedging program for each commodity. Approval may be sought concurrently with the initial purchase of a commodity or at some point during the term, of a commodity purchase contract. The subsequent financial agreements must be approved by the Treasurer.

Delegation of Authority

The Treasurer will have the overall responsibility for the commodity price hedging program which involve financial agreements and will have responsibility for directing/implementing the activities of the commodity price hedging program.

Notwithstanding, the Town may delegate specific authority to an "agent" of the Town. The authority delegated will be strictly governed by the terms of an agency contract that will be approved by Council.

Responsibilities

All officers and employees responsible for commodity price hedging agreements will follow the standard of care identified in this policy. No person shall be permitted to engage in a commodity price hedging activity using financial agreements except as provided for under the terms of this policy.

The Treasurer will be responsible for all activities undertaken and shall establish a system of controls to regulate the activities of staff and exercise control over those staff including:

- Establishing delegation of authority to persons responsible for commodity price hedging activities.
- Reviewing and recommending the financial and business aspects of any Financial Agreements to be utilized in hedging a commodity price;
- The signing and execution of documents on behalf of the Town and perform all other related acts with respect to Financial Agreements; and
- Ensuring that all reporting requirements identified within this Policy are met.

Reporting Requirements

In addition to information requested by Council or that the Treasurer considers appropriate, the Treasurer shall submit on an annual basis to Council a detailed report on all existing financial agreements. The report will contain the following information and documents:

- a) A statement about the status of the agreements during the period of the report, including a comparison of the expected and actual results of using the agreements;
- b) A statement indicating whether all of the agreements entered during the period of the report are consistent with the Town's statement of policies and goals relating to the use of financial agreements to address commodity pricing and costs; and
- c) A statement of transactions with financial institutions.

Exclusions

None

References and Related Policies

The Municipal Act, 2001, S.O. 2001, c.25

Ontario Regulation 653/05 - Debt-Related Financial Instruments and financial agreements

Consequences of Non-Compliance

Consequences shall be commensurate with the severity of the breach of this policy.

Review Cycle

This policy shall be reviewed on a regular basis. Amendments may be made at any time at the recommendation of the Director. The appropriate authority must approve any policy changes.