



BUSINESS BRIEFS PUBLISHED BY TD BANK FINANCIAL GROUP

## Foreign Exchange Services: The convenient way to do business worldwide, with reduced risk

*These days, your best customers, suppliers and opportunities could be across the street or across the ocean. Knowing how to manage your foreign exchange needs can help you reduce risk, save money and improve your cash flow.*

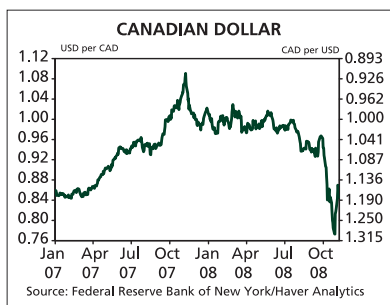
One effective way to protect your business against currency risk could be hedging. If you are making or receiving payments in a foreign currency the hedging process allows you to secure a forward contract to purchase (or sell) a specified amount of foreign currency at a fixed exchange rate on a contracted future date.

A hedging transaction can eliminate the uncertainty of currency fluctuations and potentially save your business thousands of dollars.

For example, you recently purchased inventory in the United States for US\$500,000 which you need to pay for in three months. You are concerned that the value of the Canadian dollar will decline over the next three months, increasing your final cost. Let's assume for the purposes of this example that today the Canadian dollar is trading at 1.2045 versus the U.S. dollar. The final cost of purchase will depend on how you choose to proceed:

### Option 1: Take your chances

You decide to wait until the transaction closes at the end of three months and purchase U.S. dollars at the prevailing rate on that date. From the chart to the right you can see that currency movements over a three month period can be significant, exposing you to additional cost. You will not know what the exact cost of your purchase is until the closing date.



### Option 2: Protect yourself

You decide to book a forward contract which locks in the exchange rate for a future date. You enter into an agreement to purchase US\$500,000 at a rate of 1.2015 for settlement in three months time. Upon maturity you would pay C\$600,750 and receive US\$500,000 for the purchase of your inventory, eliminating the risk associated with currency fluctuations. Regardless of the direction of the currency over this period, the cost to purchase your property is locked in.

In another situation, you are selling inventory to a customer in the United States and will be receiving payment in U.S. dollars in three months. If the value of the Canadian dollar goes up in that time, the final payment amount you receive in Canadian dollars would be less than you accounted for at the time of the sale. You can protect yourself against a rising Canadian dollar by securing a forward contract to sell the U.S. dollars you receive at a specified rate and better manage your cash flow.

**Contact a TD Canada Trust Small Business Advisor to discuss your foreign currency exchange needs. They can introduce you to one of our Foreign Exchange Specialists who can make it easy and convenient for your business to buy or sell more than 30 currencies at competitive rates – from your desktop, over the phone or at your branch.**

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