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FORWARD CONTRACT FACT SHEET

Definition

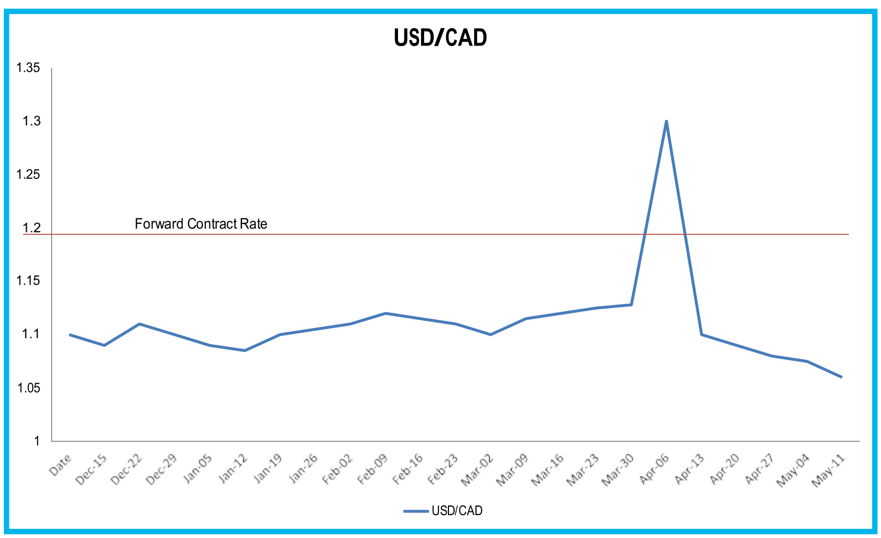
A forward contract is an agreement between two parties giving the buyer an obligation to purchase an asset (and the seller an obligation to sell an asset) at a set price at a future point in time.

Understanding Forward Contracts

The function of a forward contract is simply to mitigate the risk for companies or individuals with FUTURE foreign currency payables and receivables. All markets around the world have grown increasingly volatile over time; the currency market is no exception. This increased volatility can translate into significant risk for future currency transactions for Canadians doing business abroad as the future Canadian dollar value of the transaction is unknown. By any definition, the term “risk” should embody uncertainty or unknowns, and when removing uncertainty, you are removing risk. By locking in a rate of exchange, sometimes as far out as a year into the future, a forward contract will ensure that you or your organization know exactly what the true value of your deal is right down to the penny, essentially protecting against the volatility of the currency markets.

An Example of a Forward Contract

Let’s take for example a Canadian exporter who is selling $500,000 worth of goods into the United States and will not receive payment for these goods for three months. In today’s currency market, it is not unusual for the Canadian dollar to fluctuate six cents against the US dollar over a three-month period. In dollar terms, a loss of six cents for the Canadian exporter translates into a loss of $30,000 Canadian. This loss can be avoided through the use of a Forward Contract.



When is a Forward Contract for you?

If you are a company or individual with future foreign payables or receivables, a forward contract will guarantee you a foreign exchange rate regardless of any intervening currency market volatility. Not sure if a forward contract is for you? Call any of our Payline foreign exchange experts at 1-888-989-4636 for some advice!