



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Planning & Policy Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	February 22, 2016
<b>SUBJECT/REPORT NO:</b>	2002 International Swaps and Derivatives Association (ISDA) Master Agreement with CIBC and other Canadian Schedule I Banks (FCS16012) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Rosaria Morelli 905-546-2424 Ext.1390
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance & Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That the General Manager of Finance and Corporate Services be authorized to execute, on behalf of the City of Hamilton, the 2002 International Swaps and Derivatives Association Master Agreement between the City of Hamilton and Canadian Imperial Bank of Commerce, as well as any related or ancillary documentation, all with content acceptable to the General Manager of Finance and Corporate Services and in a form satisfactory to the City Solicitor;
- (b) That the General Manager of Finance and Corporate Services be authorized to negotiate and execute, on behalf of the City of Hamilton, the 2002 International Swaps and Derivatives Association Master Agreement between the City of Hamilton and other Canadian Schedule I Banks, as well as any related or ancillary documentation, all with content acceptable to the General Manager of Finance and Corporate Services and in a form satisfactory to the City Solicitor;
- (c) That the General Manager of Finance and Corporate Services be authorized to take all steps necessary to give effect to subsection (a) and (b), including in order to satisfy regulatory requirements and/or to facilitate settlement of payments for outstanding and future transactions under any such executed 2002 International Swaps and Derivatives Association Master Agreements.

## **EXECUTIVE SUMMARY**

Report FCS16012 is requesting authority to execute the negotiated and updated 2002 International Swaps and Derivatives Association (ISDA) Master Agreement between the City of Hamilton (the “City”) and Canadian Imperial Bank of Commerce (CIBC). This agreement will supersede and replace the 1992 International Swaps and Derivatives Association Master Agreement dated as of January 12, 1994, between CIBC and the former Regional Municipality of Hamilton-Wentworth.

It is also being recommended that authority be delegated to the General Manager of Finance and Corporate Services to negotiate and execute additional ISDA Master Agreements with other Canadian Schedule I Banks.

***Alternatives for Consideration – Not Applicable.***

## **FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)**

Financial: None.

Staffing: None.

Legal: None.

## **HISTORICAL BACKGROUND (Chronology of events)**

A 1992 ISDA Master Agreement between the former Regional Municipality of Hamilton-Wentworth (the City of Hamilton is the successor municipality) and CIBC was signed and dated on January 12, 1994. This 1992 ISDA Master Agreement has not been used since amalgamation. Moreover, since 1994, the standard 1992 ISDA Master Agreement has been replaced with the standard 2002 ISDA Master Agreement. Accordingly, in order for the City to have in place the required documentation should it wish to enter into future derivative transactions with CIBC, it is necessary to update the ISDA Master Agreement between the City and CIBC to the 2002 version. The proposed 2002 ISDA Master Agreement between the City and CIBC will supersede and replace the 1992 ISDA Master Agreement dated as of January 12, 1994 between CIBC and the former Regional Municipality of Hamilton-Wentworth.

A 2002 ISDA Master Agreement between the City of Hamilton and Royal Bank of Canada dated as of April 18, 2012, was put in place under the authority by Council in By-Law 12-051 (refer to Report FCS11079) and in By-Law 12-094 (refer to Report FCS11079(a)).

*Purpose of ISDA Master Agreements*

The 2002 ISDA Master Agreement is the most current standardized agreement published by ISDA and is the most common internationally used master service agreement for derivative transactions. A Schedule to the ISDA Master Agreement is used to make all customizations and amendments to the standard ISDA Master Agreement. Together with the Schedule, the master agreement sets forth all the terms and conditions for the transactions.

It is standard practice to use an ISDA Master Agreement between counter-parties when entering into derivative transactions. Derivative transactions that a municipality might enter into are interest rate exchange agreements, foreign currency exchange agreements, bond forward agreements, forward rate agreements and commodity price hedging agreements. These transactions are permitted under the Municipal Act, 2001 and regulations thereunder pertaining to Debt Related Financial Instruments and Financial Agreements (O. Reg. 653/05), Bank Loans (O. Reg. 276/02), Variable Interest Rate Debentures and Foreign Currency Borrowing (O. Reg. 247/01) and Eligible Investments and Related Financial Agreements (O. Reg. 438/97) in order to hedge exposures to financial risk. The regulations prescribe a minimum credit rating for counterparties when entering into these specific agreements or derivative transactions (except for commodity price hedging agreements).

*City's Outstanding Derivative Transactions*

At the present time, the City has two interest rate exchange agreements that are outstanding. These derivative transactions were undertaken in 2012 with Royal Bank of Canada as counter-party and under the then-approved 2002 ISDA Master Agreement between the City and Royal Bank of Canada in order to hedge the variable interest rate of the (two) variable interest rate bank loans undertaken in that fiscal year. Additionally, in 2014, 2015 and early 2016, the City was able to hedge a portion of the City's diesel volume requirements by undertaking commodity price hedging agreements also with Royal Bank of Canada as counterparty and under the same 2002 ISDA Master Agreement between the City and Royal Bank of Canada.

*Having in Place more than one ISDA Master Agreement*

Significant market makers in the derivatives markets for such transactions include other Canadian Schedule I Banks. It is consistent with best practices and financially prudent to have more than one ISDA Master Agreement in place in order to have the capability to act on the best or competitive pricing when needing to enter into prescribed derivative transactions and, also, to diversify counterparty credit risk exposure thereby reducing the overall credit risk exposure to counterparties.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Under the Municipal Act, 2001 and regulations thereunder, before entering into a prescribed derivative transaction (except for commodity price hedging agreements), the

counterparty to the transaction between the municipality and the counterparty must meet a prescribed minimum credit rating requirement.

## **RELEVANT CONSULTATION**

External counsel was retained by the City of Hamilton to advise on the proposed 2002 ISDA Master Agreement between the City and CIBC and to advise on the steps to be taken with respect to CIBC in terms of obtaining a Legal Entity Identifier (LEI) and completing a Canadian “representation letter”.

City Manager’s Office – Legal Services Division was consulted in the preparation of this report and in negotiating the terms of the proposed 2002 ISDA Master Agreement between the City of Hamilton and CIBC with external counsel.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATIONS**

### Rationale:

It is consistent with best practices and prudent financial management to have more than one ISDA Master Agreement in place in order to be able to act on a more competitive quote or pricing when needing to enter into prescribed derivative transactions and, also, to diversify counterparty credit risk exposure, thereby reducing the overall credit risk exposure to counterparties.

Before entering into a transaction under an ISDA Master Agreement, such as an interest rate exchange agreement or a commodity price hedging agreement, staff would obtain at least two quotes from the approved counterparties with which ISDA Master Agreements have been executed. The City would then enter into the agreement with the said counterparty that offers the lowest quote all things being equal with regard to other considerations such as satisfying credit quality standards and credit risk exposure limits of the City.

### Approved Counterparties

Staff propose that additional ISDA Master Agreements be entered into only with those counterparties which have been approved in writing by the General Manager of Finance and Corporate Services. Approval criteria will be based on satisfying the minimum credit rating requirements in accordance with legislation, the counterparty’s credit strength as measured by credit rating and general credit standing among other market maker participants. Additionally, it is understood that the City will not permit any terms in ISDA Master Agreements with such counterparties that require collateral.

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Staff propose that the City impose an additional requirement that the counterparties be limited to major Canadian Schedule I banks. The Canadian Imperial Bank of Commerce is a Canadian Schedule I Bank; is rated “Aa3” by Moody’s Investors Service Inc., “A+” by Standard and Poor’s, “AA” by Dominion Bond Rating Service and “AA-“ by Fitch Ratings; and meets the legislated prescribed minimum credit rating requirements. Furthermore, CIBC Capital Markets, a subsidiary of CIBC, is a co-syndicate for the City’s debt issuance.

Peer Comparison

Staff contacted a major Ontario municipality and were advised that this major Ontario municipality has executed ISDA Master Agreements with at least three counterparties each of which is a major Canadian Schedule I bank.

Consistency and Uniformity for City’s ISDA Master Agreements

Some differences between the Schedules negotiated between the City of Hamilton and different counterparties are to be expected. These differences might arise because of varying systems (and other) capabilities among different Canadian Schedule I banks.

**ALTERNATIVES FOR CONSIDERATION**

N/A.

**ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN**

**Strategic Priority #2**

Valued & Sustainable Services

*WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.*

**Strategic Objective**

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

**APPENDICES AND SCHEDULES ATTACHED**

N/A.