

**ICANN  
Foreign Exchange Risk Management Policy  
May 2009**

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## 1. Purpose

This Foreign Exchange Risk Management Policy establishes guidelines for The Internet Corporation for Assigned Names and Numbers and its subsidiaries' ("ICANN" or the "Company") to manage its foreign exchange risks. This policy describes how the Company defines, measures and mitigates its exposures and assigns responsibilities for managing ICANN's FX risk management program. It also establishes accounting guidelines for foreign exchange derivative instruments in accordance with U.S. generally accepted accounting principles (GAAP).

## 2. Scope

This policy applies to ICANN and its subsidiaries worldwide.

## 3. Objectives and Strategy

It is the Company's objective to identify its material foreign currency exposures and to manage those exposures with appropriate derivative instruments or non-derivative alternatives. In general, the Company seeks to minimize the volatility of non-functional currency fluctuations on a consolidated basis. More specifically, the Company wants to manage (1) the volatility that non-functional currency fluctuations can potentially have on cash flows and operating margins; (2) the potential impact of marking to market non-functional currency exposures and derivatives through the income statement; and (3) the cost of its FX risk management program. The appropriate balancing of these factors is subject to management discretion and will vary as business and financial conditions evolve. The Company will not speculate on FX hedging transactions.

## 4. Definitions

### 4.1 Foreign Currency Rates

For purposes of financial statement re-measurement and f/x transaction accounting, month end Balance Sheet Rates and Income Statement Rates will be identified and communicated by the Chief Financial Officer. The Company will use Oanda as the recognized source to find this information.

### 4.2 Reporting Currency

The reporting currency is the currency in which a Company prepares its financial statements. ICANN's reporting currency is the US dollar.

#### 4.3 Functional Currency

The functional currency is the currency of the primary economic environment in which an enterprise operates. It is used to define the currency in which an entity's financial statements will be measured prior to consolidation into the parent in US dollars. The Chief Financial Officer will assign functional currency designations following FAS 52 criteria.

#### 4.4 Non-Functional Currency

Any currency that is not the designated functional currency of an entity is a non-functional currency.

#### 4.5 Re-measurement Exposure

FAS 52 requires that non-functional currency denominated monetary assets and liabilities (i.e., cash, accounts receivable, other receivables, debt, accounts payable, short-term intercompany loans and notes payable) be denominated in an entity's functional currency prior to translation. Gains or losses resulting from re-measurement are reflected in the income statement on a monthly basis.

#### 4.6 Transaction Exposure

Transaction exposure occurs when a Company has a non-functional currency monetary asset or liability, firm commitment or forecasted exposure that will be exchanged at a later date for the Company's local currency.

#### 4.7 Translation Exposure

FAS 52 requires that functional currency financial statements be consolidated and expressed in the parent Company's reporting currency. Gains and losses resulting from "translation" of the net investment in subsidiaries are reported and accumulated from period to period as a separate component of shareholders' equity in Other Comprehensive Income.

#### 4.8 Speculation

Speculation is defined as transactions engaged in solely for purposes of profiting from foreign exchange market movements.

## **5. FAS 133 and FAS 52 Accounting**

There are several types of foreign currency exposures that generate FX risk that may result in FX risk management activities by the Company. In general, the nature of the risk being hedged is the volatility risk that fluctuations in foreign exchange rates may have on fair values or cash flows during the term of the hedge. For some of these exposures, derivative instruments may be designated as fair value and cash flow hedges subject to compliance with the requirements of FAS No. 133, FAS 138 and FAS 149. Other exposures such as those covered under FAS 52 do not qualify as hedgeable items under FAS No. 133 although ICANN may consider these exposures in its risk management programs.

In general, FAS 52 primarily covers balance sheet hedging. In balance sheet hedging, changes in the fair value of derivatives and non-functional currency exposures flow directly through net assets. Under FAS 133, a not-for-profit company should recognize the change in fair value of all derivatives as a change in net assets in the period of change. In a fair value hedge, the changes in the fair value of the hedged item attributable to the risk being hedged also are recognized. However, because of the format of their statement of financial performance, not-for-profits are not permitted special hedge accounting for derivatives used to hedge forecasted transactions.

## **6. Authorized Hedged Exposures, Derivative Instruments, and Limitations**

### **6.1 Hedged Exposures**

The Company has remeasurement balance sheet exposures, which refer to the changes in the value of non-functional-currency-denominated monetary assets and liabilities (i.e. cash, accounts receivable, accounts payable, intercompany loans, etc.) subject to FAS 52 re-measurement between the time an exposure is recognized on the financial statements and is eventually settled. FX gains or losses resulting from remeasurement exposures flow directly into the income statement, usually into other income.

The Company is also exposed to forecasted transactions, which are generally governed by FAS 133. In this instance, the change in the value of the non-functional forecasted transaction between the time at which the transaction is anticipated and the time at which that transaction is later recorded in the financial statements is an exposure. These exposures generally impact operating margins

The Company may also be exposed to the foreign currency risk of a change in value of an unrecognized firm commitment (a contract with a penalty

clause) between the rate at which the contract is signed and the rate at which that firm commitment is recognized on the balance sheet. These exposures are accounted for under FAS 133 and can also impact margins.

In order to manage its current FX exposures, the Company may hedge all net non-functional currency monetary asset and liability exposures in excess of \$500,000 using instruments and strategies authorized by this policy. Furthermore, selected non-functional currency firm commitments in excess of \$500,000 and forecasted non-functional currency exposures above \$500,000 per annum may also be hedged per the terms of this policy. The Company will not hedge its net investment exposures since these exposures do not currently exist and have no cash flow impacts on the Company at this time.

## 6.2 Authorized Derivative Instruments

The Company may use derivative instruments authorized by the Foreign Exchange Risk Management Committee. The following derivatives are approved for use:

Forward contracts  
Purchased plain vanilla options

Use of any derivative not specifically identified above is prohibited unless this policy is amended or written approval is received from the Chief Financial Officer.

## 6.3 Limitations

The following limitations establish guidelines for entering into hedging transactions:

- The Chief Operating Officer and/or the Chief Financial Officer are authorized to buy and sell currencies and enter into derivative transactions. The Accounting Manager will be responsible for verifying the details of all derivative transactions with the bank. In no event will one person enter into derivative transactions also verify the same transaction.
- Acceptable counterparties will have at least a minimum S&P or Moody's senior debt rating of single A or single a-2.
- Net aggregate credit exposure for a single counterparty will not exceed a fair market value of \$1,000,000.
- The maximum maturity of any derivative is 12 months from the date of trade.
- Derivative positions that hedge non-functional currency balance sheet and firm commitment transactions shall not exceed 100% of the exposure. For forecasted transactions, hedges shall not exceed 80% of the anticipated

- exposure.
- Derivative positions will not exceed 100% of the exposures.

## **7. Responsibilities**

All foreign exchange exposure management functions will be centralized at corporate in order to achieve greater economies of scale in conducting spot and hedging transactions, minimize transaction costs, and control the use of derivatives and accounting treatment for hedging transactions.

### **7.1 Board Finance Committee**

The Board Finance Committee has the overall responsibility for reviewing and approving the Company's foreign exchange exposure management policy. This Committee has created the Foreign Exchange Risk Management Committee to assist it in establishing risk management policies and guidelines to oversee the Company's use of derivatives.

### **7.2 Foreign Exchange Risk Management Committee**

The Foreign Exchange Risk Management Committee is composed of the Chief Operating Officer and Chief Financial Officer and will have the following responsibilities:

- Specifying authorized strategies and permitted use of and limitation on derivatives.
- Ensuring policies, strategies, procedures, and controls are documented in writing.
- Establishing a framework for monitoring the results of hedging activities.
- Evaluating and approving new types of significant transactions and derivative instruments.
- Recommend to the Board Finance Committee all changes to the FX policy.
- Reviewing periodic reports on derivative activities and effectiveness of foreign exchange exposure management program.
- Meet quarterly to review this policy and the results of the Company's foreign exchange exposure management program.

### **7.3 Chief Financial Officer**

The Chief Financial Officer will have the following responsibilities for managing the foreign exchange exposure management program:

- Oversee all foreign exchange hedging and spot transactions, control systems and procedures.

- Ensure trading is separated from verifying and accounting activities.
- Along with the Chief Operating Officer and/or Chief Executive Officer, approve all counterparty relationships.
- Recommend suggestions to the Board Finance Committee when significant changes are needed in the FX policy.
- Determine FX rates appropriate for planning, budgeting, and accounting for current and forecasted transactions.
- Ensure that FAS 52 and FAS 133 accounting treatments are being applied properly.
- Supervise the entry of all FX transactions into the accounting system.
- Ensure that proper internal controls are in place for trading, verifying and accounting for transactions.
- Designate functional currencies for foreign subsidiaries in accordance with FAS 52
- Review on an ongoing basis the status of foreign currency exposures and hedging transactions.
- Oversee the preparation of periodic performance measurement reports for the Foreign Exchange Risk Management Committee.

## **8. Internal Controls**

It is the responsibility of the Chief Financial Officer to ensure overall compliance with ICANN's system of controls over the procedures for approving, executing and monitoring foreign exchange derivative transactions. Elements of control include:

### **8.1 Senior Management Oversight**

Ensure that a quarterly performance measurement report for the Foreign Exchange Risk Management Committee that summarizes the results and effectiveness of the foreign exchange exposure management program is prepared.

### **8.2 Approved Counterparties and Authorization**

Designated individuals may only enter into foreign exchange derivative contracts with counterparties approved in writing by the Chief Financial Officer. All financial counterparties shall receive a letter from the Chief Financial Officer that contains the following:

- A list of all employees who are authorized to conduct FX transactions on behalf of the Company.
- A list of employees who are authorized to transfer funds, change delivery instructions, or modify any critical aspects of the banking relationship.
- Standard delivery instructions for proceeds from foreign exchange

transactions.

### 8.3 Documentation

Trading tickets and all required documentation should be completed on the same day that the trade was executed.

### 8.4 Trading Activities

All derivative trades with financial institutions must be documented using a trade ticket. Copies of completed trade tickets will be forwarded directly to the verifier who will either issue a written or electronic confirmation to the counterparty on a timely basis. This activity cannot be handled by the person conducting the trading. Discrepancies will be investigated in a timely manner but no later than 10 days following the trade date. All names of authorized traders will be submitted and acknowledged by the bank in writing.

### 8.5 Accounting

The Chief Financial Officer will have responsibility for recording all activity related to foreign exchange derivative contracts during the month that the activity occurs.

## 9. Reporting

The Chief Financial Officer will prepare a quarterly report for the Foreign Exchange Risk Management Committee and any reports needed for the Board Finance Committee showing the following information:

- A comparison of the performance of actual hedging activities to an approved benchmark.
- Open positions of derivatives by type, showing notional amounts, maturity dates, fair market values and items hedged or linked.
- Individual derivative by type for all transactions conducted during the most recent period.
- Gains or losses realized on any derivative that were terminated early.
- Any other information that the Foreign Exchange Risk Management Committee might periodically want to monitor.
- The status of any foreign currency positions or derivatives that might require management attention, including all transactions that were exceptions or violations to this policy.
- List of all counterparty agreements in existence with ICANN.

## 10. Policy Exceptions

This policy provides the guidelines for managing hedging transactions. If this policy is inadvertently breached, the Chief Financial Officer should be notified immediately.

Under certain circumstances, transactions that are not specifically authorized in this policy may be appropriate. Prior to executing any transaction that is not allowed under this policy, the following steps must be taken:

- The proposed exception must be approved in writing by the Chief Financial Officer for all exceptions. The Board Finance Committee will be notified of all exceptions within 3 business days.