

**ICANN BOARD SUBMISSION No. 2022.07.13.1a**

**TITLE:** Reserve Fund Investment Policy Update

**PROPOSED ACTION:** For Board Consideration and Approval

**EXECUTIVE SUMMARY:**

The Board is being asked to approve an update to the [ICANN Investment Policy](#) to expand the allowable investment options for the Reserve Fund. The new investment options being added include Emerging Market Bonds, Floating Rate Bank Loans and Commodities. These new options increase the investment diversification of the Reserve Fund and improve the strategy, risk, and efficiency due to the changes in the market environment.

The update to the Investment Policy is prudent to ensure that ICANN org properly monetizes funds and achieves low-risk capital growth. (See redline of Investment Policy as Attachment A to the Reference Materials for this Board paper.)

**ICANN ORGANIZATION AND BOARD FINANCE COMMITTEE (BFC) RECOMMENDATIONS:**

Both ICANN organization and the BFC recommend that the Board approve the proposed revisions to the ICANN Investment Policy.

**PROPOSED RESOLUTION:**

Whereas, both ICANN organization and the Board Finance Committee have recommended that the Board approve an update to the ICANN Investment Policy to expand the allowable investment options for the Reserve Fund to include Emerging Market Bonds, Floating Rate Bank Loans and Commodities.

Resolved (2022.07.13.xx), the Board approves the proposed revisions to the ICANN Investment Policy to include: additional investment options of Emerging Market Bonds, Floating Rate Bank Loans and Commodities.

**PROPOSED RATIONALE:**

Adopting the suggested modifications to the ICANN Investment Policy is in the public interest because it will expand the available investment options to optimize potential

returns within acceptable risk parameters, which is also consistent with ICANN's mission.

This action is very likely to have a positive financial impact on ICANN in that the additional investment options should yield higher earnings.

This action will not have an impact on the security, stability, or resiliency of the domain name system.

This is an Organizational Administrative function that does not require public comment.

Submitted by:	Xavier Calvez
Position:	SVP Planning and CFO
Date Noted:	28 June 2022
Email:	<a href="mailto:xaver.calvez@icann.org">xaver.calvez@icann.org</a>

**ICANN REFERENCE MATERIALS No. 2022.07.13.1a  
ATTACHMENT A**

**Investment Policy, Updated July 2022**

**INTRODUCTION**

This statement of investment policy has been adopted by the Board of Directors of the Internet Corporation for Assigned Names and Numbers (ICANN) to provide guidelines for the investment of cash on hand (funds).

As ICANN's activities have become more complex and more visible with the expansion of the domain name system (DNS), it continuously improves its capabilities to plan for the future, to manage and mitigate its exposure to risks, with a high sense of financial responsibility and discipline. This has led ICANN to adopt and live by the simple principle of never spending more than it can afford. ICANN therefore ensures that its expenses never exceed its funding.

**TYPES OF FUNDS**

For the purposes of managing investment risk and to optimize potential returns within acceptable risk parameters, the investment of funds is divided into three pools of assets.

**1) Operating Fund**

This is used to fund the operations of ICANN including all items in the ICANN Board approved annual budget. The Operating Fund is set at a level necessary to fund a minimum of three months expected operating expenses. Amounts in the Operating Fund that exceed this minimum shall be considered for transfer into either of the Reserve Fund and/or the Supplemental Fund for Implementation of Community Recommendations, or evaluated for investment.

**2) Supplemental Fund for Implementation of Community Recommendations (SFICR)**

The SFICR is used to fund projects and initiatives that were specifically approved to be funded in the annual planning and budget process. The funding of these projects by the SFICR occurs, as approved by the Board, when the size, complexity, and length of the project create a challenge to be solely funded by annual funding. The SFICR is funded through Board-approved allocations from the Operating Fund. The use of the SFICR to fund incremental projects is approved by the Board, typically through and in parallel with the adoption of the annual operating plan and budget. The SFICR shall only be utilized to fund projects approved by the ICANN Board. Amounts in the SFICR that exceed approved projects and initiatives will be evaluated for investment.

**3) Reserve Fund**

This is ICANN's funding of last resort to cover large expenses resulting from unavoidable, unpredictable or unplanned events, which cannot be funded from ICANN's Operations. Illustrative examples of such events include:

- the urgent and unbudgeted replacement of large assets, or payment of large liabilities
- the undertaking of major downsizing or significant restructuring of ICANN's operations
- the occurrence of major security and stability threats and attacks
- the occurrence of unplanned large litigation and/or penalty expenses
- undertaking new and major programs resulting from a new strategic plan or exceptional unforeseen external events
- the recovery and continuation of operations after a disaster

ICANN recognizes that it is impossible to foresee all possible events that can trigger large, unavoidable, unpredictable or unplanned expenses, which cannot be funded from ICANN's Operations. As a result, the list above is considered illustrative and non-limitative.

ICANN, like many organizations, is exposed to natural disasters, economic fluctuations and regulatory changes. However, unlike any other organization, ICANN's mission has led the Organization and its multistakeholder model of governance to be subject to the constant changes that affect the Internet, driven by demographic, governmental, economic and technical factors.

No matter how well ICANN plans, manages risks and applies financial discipline, it is highly exposed to unpredictable events that may have an overwhelming impact on its on-going activities, which are supported by its Operating Fund.

In this environment, the only financial resource available to ICANN to face the negative impacts of any events outside of its daily activities, is its Reserve Fund.

The use of any Reserve Fund is restricted by actions of the Board of Directors. The Board of Directors has delegated to the Board Finance Committee (BFC) the authority to act on behalf of the Board of Directors to release funds from the Reserve Fund to pay for items of an emergency nature.

#### **4. Hierarchy of the Funds**

The funds, based on their nature and purpose, reflect the following hierarchy for priority, considering their contribution to ICANN's financial sustainability:

First, the Operating Fund needs to always be at or above its minimum level to enable daily operations. Then, the Reserve Fund must be at above its target level to ensure financial sustainability and resilience to unforeseen events. Finally, the SFICR can be allocated funds as is deemed useful to support ICANN's project activity.

Any shortfall or excess in any of the funds should be addressed respecting the above hierarchy. If each and all minimum target levels are reached or exceeded, any excess fund can be allocated in the manner considered most appropriate.

#### **PURPOSE OF THE ICANN INVESTMENT POLICY**

The purpose of the ICANN Investment Policy is to:

1. Describe the philosophy of the Investment Policy that will guide investment management decisions.

2. Define and assign the responsibilities of all involved parties including the ICANN Board of Directors, the ICANN Chief Financial Officer (CFO) and personnel, and the Investment Management Company (as defined below).
3. Describe the general investment principles for investment of the funds including the size of the funds, the suggested levels of risk, the expected return on investment, the suggested liquidity level, the expected asset allocation strategy, the expected global focus, and suggested allowable and restricted asset classes.
4. Establish a basis for evaluating and reporting investment results and compliance with the Investment Policy.
5. Clarify the methods by which the Reserve Fund will be funded as well as the process by which the Reserve Fund can be accessed for emergency requirements.

## **PHILOSOPHY OF THE ICANN INVESTMENT POLICY**

The philosophy of the ICANN Investment Policy is to:

- Ensure that funds held by ICANN are invested wisely with due fiduciary care.
- Ensure that funds are safe and held securely to minimize risk of loss to the fullest extent possible.
- Ensure that funds earn appropriate returns commensurate with the level of risk and real rates of return that can offset the effects of inflation over a market cycle.
- Ensure that funds remain liquid enough to be accessible to handle the needs of ICANN's operations (Operating Fund, Supplemental Fund for Implementation of Community Recommendations) and the needs of ICANN, if any (Reserve Fund).
- Ensure clarity on the amounts to be held in the funds.
- Ensure clarity on the method(s) to access the funds for expenditure.

## **AREAS OF RESPONSIBILITY**

### **Board of Directors**

The Board of Directors of ICANN shall oversee the ICANN Investment Policy, including the:

- Creation and approval of the ICANN Investment Policy.
- Periodic maintenance and updating of the Investment Policy.
- Approval of allocation to the Reserve Fund and SCIFR, based on recommendations by the BFC.
- Delegation to the BFC specific duties and responsibilities related to the monitoring of the Investment Policy, including:
  - Approval of the Investment Management Company.
  - Directing the CFO to monitor the Investment Management Company, monitor the performance of the funds, and the compliance with the Investment Policy.
  - Monitor the performance of the Reserve Fund and Operating Fund.
  - Monitoring ICANN's compliance with the Investment Policy.
  - Periodically evaluating ICANN's current risk tolerances and investment objectives.
  - Periodically reporting to the full Board on ICANN org's compliance with the Investment Policy.
  - Approve disbursements from the Reserve Fund.

## **ICANN Org**

ICANN's CFO, with the assistance of certain ICANN personnel, shall take certain steps to oversee the administration of the Investment Policy, including:

- Monitor and direct all activities related to the Operating Fund, including funding daily operations.
- Recommend the Investment Management Company.
- Monitor the activities of the Investment Management Company.
- CFO to ensure that BFC is made aware that any amounts not required for the Operating Fund are presented to the BFC with proposed recommendations. BFC to evaluate the proposed recommendations from the CFO and to make recommendations to Board of Directors.
- Respond to monthly status reports on the performance of the Reserve Fund.
- Periodically report to the Board of Directors on the performance of the Reserve Fund.
- Periodically report to the Board of Directors on the liquidity and performance of the funds, and compliance with the Investment Policy.

## **The Investment Management Company**

The Investment Management Company shall take certain steps to oversee the Operating, SFICR, and Reserve Funds including:

- Hold fiduciary responsibility for all assets in the Operating and Reserve Funds.
- Comply with all guidelines and limitations set forth in the Investment Policy.
- Manage, analyze and oversee the execution of investment decisions including buying, selling, and holding of individual securities for all asset types in all asset classes.
- Report monthly to the ICANN CFO on the performance of the Operating, SFICR, and Reserve Funds, and compliance with the Investment Policy, as well as the overall credit quality, duration and cash flow of the investment portfolio.
- Communicate any major changes to economic outlook, market conditions, investment strategy, credit downgrades or any other factors that affect implementation of the investment process.
- Be available to report periodically to the Board of Directors on the performance results and cash flow projections of the Operating, SFICR, and Reserve Funds, including comparisons with approved industry benchmarks.
- Be available to report periodically to the Board of Directors on the compliance with the Investment Policy.
- Inform the Board of Directors regarding any significant changes including changes to the investment management company, its financial strength, significant decline in assets under management, the U.S. Securities and Exchange Commission (SEC) investigations, material litigation, changes in portfolio management personnel, ownership structure, investment philosophy, and investment processes.
- Provide ICANN with all requisite monthly and quarterly reports, including, but not limited to:
  - Credit ratings, downgrades/upgrades
  - Sector allocations
  - Maturity/Duration distribution
  - Total rates of return (CFA Institute's GIPS)

- Reports of any realized and unrealized capital gains/losses
- Transactions
- Benchmark comparisons

## **GENERAL INVESTMENT PRINCIPLES**

### **Pools of Funds**

ICANN's investment funds will consist of three pools of funds: the Operating Fund, Supplemental Fund for Implementation of Community Recommendations (SFICR) and the Reserve Fund.

The Operating Fund, sometimes called the Working Capital Fund, is the pool of funds that is used for ICANN's day-to-day operations. The Operating Fund will not be Board restricted and will be used to fund operating expenses of ICANN, including payroll and accounts payable. All disbursements at ICANN shall comply with Board-approved disbursement guidelines and financial controls. The Operating Fund will be replenished by ICANN's revenues, and can also be replenished by the Reserve Fund if the Board determines that it is necessary.

This Supplemental Fund for Implementation of Community Recommendations (SFICR) is used to fund projects and initiatives that were specifically approved to be funded in the annual planning and budget process. The funding of these projects by the SFICR occurs, as approved by the Board, when the size, complexity, and length of the project create a challenge to be solely funded by annual funding.

Disbursements out of the Reserve Fund are restricted by the Board.

### **Size of Funds**

The size of the funds should be addressed in consideration of the Hierarchy of Funds described in the paragraph 4 of the Section "TYPES OF FUNDS".

The size of the Operating Fund, Supplemental Fund for Implementation of Community Recommendations (SFICR) and the Reserve Fund shall be reviewed on an annual basis as part of the budget preparation process.

The Operating Fund shall contain enough funds to cover ICANN's expected expenditures for three months. Periodically, any funds in excess of this will be transferred to the Reserve Fund.

The Supplemental Fund for Implementation of Community Recommendations (SFICR) shall align to the Board approved balance that is approved during the annual budget process.

The Reserve Fund is expected to reach and maintain a level of funds to maintain a minimum of 12 months of expected expenditures.

### **Investment Horizon and Objectives**

The Operating Fund and Supplemental Fund for Implementation of Community Recommendations (SFICR) have a short-term horizon and a principal preservation objective to

meet working capital needs. The Reserve Fund has a medium investment horizon and a conservative-moderate investment objective to enhance return on assets while maintaining the preservation of capital.

### **ESG (Environmental, Social, and Governance)**

In addition to financial considerations and investment criteria included in this investment policy for the Reserve Fund, investment decisions should integrate Environmental, Social, and Governance factors, as appropriate. The manager's proprietary ESG rating will be used to evaluate securities that are rated at the mid-point or higher of its ESG rating scale so that at least 80% of the investments are rated at or above the midpoint of each firms' proprietary rating scale.

### **Guidelines: Risk Level of Funds**

Although there are many ways to measure risk, this investment policy primarily measures risk as the possibility of losing nominal asset value in a fund over a given period of time. Historical performance and volatility measures are indicators of its risk profile. A fund with very little risk would never incur losses as measured over any historical period. A fund with moderately low risk would not incur losses over most historical periods. A fund with greater risk might have incurred losses in certain historical periods.

The Operating Fund and Supplemental Fund for Implementation of Community Recommendations (SFICR) will have a conservative risk profile focusing on capital preservation with minimal principal fluctuation.

The Reserve Fund will have a conservative-moderate risk profile that is moderately low risk. The historical performance of the fund should have a very low probability of losses over any given five-year period.

### **Expected Investment Return (%) of Funds**

Funds shall be invested in assets that are expected to yield the greatest investment return given the risk profile, cash flow needs, and other parameters of the fund. Historical performance and volatility measures are indicators of its risk profile and how the fund may perform under different market conditions.

Investments in the Operating Fund and SFICR are expected to earn rates of return commensurate with a principal preservation fund. The BOAML 3 Month LIBID is considered an appropriated performance benchmark for a rate of return.

The Reserve Fund is expected to earn rates of return commensurate with a moderately low risk portfolio. The performance objective of the investments is to provide a total investment return in excess of the performance of the agreed upon composite benchmark. A comparison shall be made with relevant market benchmarks as well as the composite returns for other peer groups with similar philosophies. The appropriate benchmark is a function of the asset classification currently in place and may consist of a balanced or weighted average index underlying such asset classes. The total return is expected to rank above the median versus a manager universe with a similar asset mix.

The Reserve Fund should preserve the real (inflation-adjusted) purchasing power of the Reserve Fund's assets while maximizing real income. Real income is defined as the sum of dividends, interest, and realized gains/losses less the inflation rate as measured by CPI (Consumer Price Index) over a market cycle or rolling 10- year period.

### **Guidelines: Liquidity Level of Funds**

Liquidity is a measure of whether the assets of the fund can be sold for cash without a significant realized principal loss. A highly liquid fund would not suffer losses even if there were an immediate sale of the assets of the fund. A moderately liquid fund would not suffer significant losses even if the assets were sold over a period of time of less than one year.

Investments in the Operating Fund and SFICR will be highly to moderately liquid. ICANN will communicate regularly as to its cash flow needs in order for the Investment Management Company to modify the portfolio accordingly. ICANN will be responsible for advising the Investment Management Company in a timely manner of ICANN's distribution requirements from any managed portfolio or fund. The Investment Management Company is responsible for providing adequate liquidity to meet such distribution requirements. ICANN's CFO will be responsible for communicating the cash flow requirements to the Investment Management Company in a timely manner.

ICANN will not borrow funds from any institution to leverage the portfolio or for speculative purposes. ICANN may enter reverse repurchase agreements with prior approval from the CFO to provide short-term liquidity, if necessary.

The Reserve Fund is suggested to be moderately liquid. Reserve Fund assets do not need to be sold for cash except in an emergency. The Reserve Fund may invest in money market instruments and SEC 2a-7 money market funds. It is suggested that the Reserve Fund be liquid enough to realize one-third of its value without significant loss within 30 days, two-thirds of its value without significant loss within two months, and all of its value without significant loss within six months. A significant loss is defined as more than 15% realized loss. Losses in excess require BFC and Board approval.

### **Permissible Investment Vehicles**

The Investment Management Company may recommend investments in actively managed and/or passive strategies that invest in marketable securities. These strategies may be institutional mutual funds, exchange traded funds, collective trusts or commingled funds. The underlying security holdings must be transparent. The strategies must be non-lending portfolios.

### **Expected Asset Classification/Portfolio Mix and Allocation Constraints of Funds**

The asset classification/portfolio mix guides the Investment Management Company to create a portfolio that best reflects the risk posture, expected return, and other investment parameters described in the Investment Policy. The categories of classification described, and the measurements expected to be complied with, in this Investment Policy are a percentage of multiple asset classes including cash equivalents, bonds, equities and additional asset classes such as real estate and commodities. In addition, the allocation constraints allow the Investment Manager to rebalance the portfolio within a risk-controlled framework and should avoid market-

timing changes. Rebalancing should not incur losses or administrative burdens. Portfolio rebalancing is required at least semi-annually and may be as frequent as quarterly or monthly.

The Operating Fund and SFICR portfolio diversification will be a tool for minimizing risk while maintaining liquidity. No more than 5% of the portfolio will be invested with any one issuer, with the exception of the U.S. Treasury and its Federal Agencies for which no limit will be imposed.

Government Sponsored Enterprise (GSE) issued mortgage-backed securities will be limited to 5% per issue basis rather than per issuer. Each FNMA or FHLMC mortgage backed security must have different underlying mortgages and a different CUSIP number.

GSE debentures will be limited to 20% per issuer.

Asset backed securities will be limited to 5% per issue basis rather than per issuer. Each asset-backed issue must have a different trust, different underlying collateral and different CUSIP number.

Money market fund investments will be limited to a maximum of 5% of the specific fund's total assets.

The Reserve Fund's Normal Asset Allocation is 65% Global Bonds and 35% Global Equities, Real Estate and Commodities. The Asset Allocation is a long term asset allocation target. The Investment Management Company will manage a Tactical Asset Allocation Non-Lending Portfolio consistent with the allocations within the Allowable Investment Range. The portfolio will be rebalanced generally to maintain the allocations. The Investment Management Company may also rebalance in response to changes in economic and market conditions, liquidity requirements or provide defensive positioning to improve downside protection. Market timing is not permissible. The table below indicates the asset allocation ranges:

<b>Asset Class</b>	<b>Normal Asset Allocation</b>	<b>Allowable Investment Range</b>
Global Fixed Income	65%	45%-85%
Global Equities, Real Estate, Commodities	35%	15%-55%

#### **Guidelines: Global Focus of Funds**

ICANN's funds are to be invested in well diversified assets that perform well in terms of return on investment and also are invested safely to reduce the risk of loss on the portfolio. Safety and performance are the most important priorities. The ICANN Investment Policy assumes that a well-diversified portfolio designed for investment performance and safety should contain a significant amount of investments in non-US assets and are also based in non-US dollar denominated currencies.

The Investment Policy recognizes that ICANN is a U.S.-based organization, but it also must recognize that ICANN has a distinctly global focus. The funds that ICANN invests in should reflect the global nature of ICANN. The actual assets allocated to non-U.S.-based assets and non-U.S. dollar denominated investments shall be suggested by the Investment Management Company and approved by the ICANN CFO.

The Operating Fund and SFICR may be denominated in their functional currencies to meet operating needs but does not require a significant global focus.

The Reserve Fund is suggested to have a significant global focus. The Investment Policy enables the Reserve Fund to invest in global assets. Actual allocations are to be monitored by the Board and may be subject to further limitations between developing and emerging foreign markets consistent with ICANN's risk profile.

### **Guidelines: Asset Classes of Funds**

The Investment Policy requires the Investment Management Company to recommend particular active and/or index fund managers, institutional mutual funds, exchange traded funds, collective trusts or commingled funds, categories of investments, etc., that comply with the Investment Policy principles and guidelines.

### **Operating Fund and SFICR Allowable Assets**

#### **Cash, Cash Equivalents, and Money Market Instruments, and Investment Grade Fixed Income Securities**

- Checking accounts in acceptable investment grade financial institutions
- Certificates of Deposit – issued by acceptable investment grade financial institutions
- U.S. Government Treasury securities
- U.S. Agency securities – obligations issued or guaranteed by an agency of the U.S. government
- Commercial Paper – issued by corporations possessing the highest rating issued by Moody's or Standard & Poor's (A1/P1)
- Corporate notes and bonds
- Mortgage backed bonds
- Asset backed securities (e.g., auto and credit card)
- Sovereign Governments, Agencies and Supranationals
- Local Authorities
- Institutional mutual funds, exchanged traded funds or commingled funds which invest in fixed income securities, Money market instruments, and SEC 2a-7 money market funds
- Floating rate securities have a stated final maturity of up to 5 years. Floating rate securities have interest rates linked to a well-recognized money market index such as the Treasury Bill, SOFR, LIBOR or Federal Funds with coupon resets daily, weekly, monthly, quarterly, semi-annually or annually are eligible investments.

#### **Eligibility criteria**

- All eligible securities must carry at least one credit quality rating from Moody's, Standard & Poor's, Fitch, or DBRS. In the case of split ratings, the lower of the ratings will be considered the overall credit rating.
- The Investment Manager's responsibility for assessing the credit quality of eligible securities is ongoing on a daily basis and is not limited to credit quality at the time of purchase.

- All eligible securities must be senior notes or senior classes of the capital structure of the issuer or the senior tranche or class of the collateralized issue. Notes, tranches or classes, preferred shares and equities that are all junior to senior notes of all eligible issuers are prohibited.
- Floating rate securities have a stated final maturity of up to five years. Floating rate securities have interest rates linked to a well-recognized money market index such as the Treasury Bill, SOFR, LIBOR or Federal Funds with coupon resets daily, weekly, monthly, quarterly, semi-annually or annually are eligible investments.
- Fixed rate securities are limited to three and one half years stated final maturity or three and one half year weighted average life (WAL).
- All investments will be U.S. dollar (USD) denominated.
- The funds may be invested with a moderate global focus if the securities are USD, meet the principles of the investment policy, and are eligible assets.
- Environmental, Social, and Governance (ESG) - In addition to financial considerations and investment criteria included in this Investment Policy, investment decisions should integrate ESG factors, as appropriate. The Investment Manager's proprietary ESG rating will be used to evaluate securities that are rated at the mid-point or higher of its ESG rating scale so that at least 80% of the investments are rated at or above the midpoint of each firms' proprietary rating scale.

**List of eligible securities (see Appendix A for credit ratings and portfolio diversification limits)**

a - United States Treasury Securities

Marketable securities that are direct obligations of the U.S., issued by and guaranteed as to principal and interest by the U.S. Treasury and supported by the full faith and credit of the U.S.

b - United States Government Agency Securities

Federal Agency Securities

Certain corporations wholly owned by the U.S. Government such as Government National Mortgage Association (GNMA) or the Small Business Association (SBA) issue debt securities that are backed by the "full faith and credit" of the U.S. Government.

c - Government Sponsored Enterprises (GSEs)

Enterprises chartered by Congress to fulfill a public purpose, but privately owned and operated are not government agencies despite government sponsorship. GSEs include, but are not limited to the Federal Farm Credit Banks (FFCBs), the Federal Home Loan Banks (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA).

d - Tri-Party Repurchase Agreements

Tri-party repurchase agreements (repos) will be transacted only with financial institutions that are rated a minimum of A3 by Moody's or A- by S&P. All transactions must be fully collateralized by U.S. Treasury, U.S. Federal Agency obligations, GSEs, money market instruments, or corporates eligible within this policy. Collateral must be market-priced greater than the invested

amount on a daily basis (minimum of 102%). Up to a maximum of 10% of the portfolio may be invested with one counterparty. Transactions are limited to 15-day maturities.

#### e - Money Market Funds

Institutional money market funds that comply with SEC 2a-7, offer daily liquidity and do not have a fluctuating net asset value (NAV). Enhanced cash, LIBOR Plus funds that are not SEC 2a-7 compliant and whose net asset value (NAV) may fluctuate are not permissible as money market funds.

#### f - Money Market Instruments

Short-term obligations of financial institutions and corporations including but not limited to commercial paper, asset-backed commercial paper (ABCP), time deposits, certificates of deposit (CDs). Instruments must have a minimum short-term rating of A-1 by S & P or P-1 by Moody's.

#### g - Corporate Debt Instruments

Unsecured promissory notes issued by corporations or financial institutions including but not limited to Medium-Term Notes, Deposit Notes, 144(a) Securities, Eurodollar Notes and Yankee Notes and Bonds must be rated at least Baa3 by Moody's or BBB- by S&P or equivalent.

#### h - Non-U.S. Sovereign, Supranational Organizations or International Agencies

Notes, bonds or debt instruments issued by non-U.S. sovereigns that are direct obligations of the sovereign or supported by the full faith and credit of that sovereign are eligible investments. Supranational organizations or international agencies including but not limited to World Bank (WLDB), Asian Development Bank, Inter-American Development Bank, Agency for International Development (AID) are eligible investments. All investments must have a minimum long-term debt rating of Aa3 by Moody's or AA- by S&P or equivalent. All securities must be U.S. dollar denominated.

#### i - Non-US Governmental or Federal Agencies

Senior debentures of any governmental or federal agency which obligations are guaranteed by the sovereign nation or represent the full faith and credit of the sovereignty must have a minimum rating of Aa3 by Moody's or AA- by S&P or equivalent. All securities must be U.S. dollar denominated.

#### j - Local Governments or Authorities

Debt obligations of provinces, states, municipalities or local governments guaranteed by a governmental body must have a minimum long-term debt rating of Aa3 by Moody's or AA- by S&P or equivalent. All securities must be U.S. dollar denominated.

#### k - Asset-Backed Securities (ABS)

ABS are bonds, including commercial paper, backed by the monthly cash flows associated with consumer and business receivables that are packaged by a company and sold in the securities markets. Securities supported by assets, such as automobile loans, truck loans, credit card receivables, rate reduction bonds, floorplans and other loans or assets that are owned by the issuer and, usually, placed with a trustee. Assets that are second liens, home equity loans, manufactured housing with long stated final maturities and are sensitive to prepayment changes and extension risk are not eligible. Eligible securities must be senior notes, have a Weighted Average Life (WAL) of three and one half years or less, must be rated at least Aa3 by Moody's or AA- by S & P or equivalent.

## I – U.S. Municipal Obligations or Local Authority

Direct obligations of or obligations fully guaranteed by a state, territory, or a possession of the U.S. must have a minimum rating of A3 by Moody's or A- by S&P or equivalent.

Pre-Refunded bonds or Escrowed to maturity for principal and interest by U.S. Treasury and/or U.S. Federal Agency securities are eligible investments.

Approved credit enhancements for securities when issuer's standalone credit rating is A3 by Moody's or A- by S&P or higher and subject to a 5% per issuer limit include:

- Bank Letter of Credit (LOC), irrevocable and unconditional, rated A-1 by S&P or P-1 by Moody's or equivalent. Limited to 5% of portfolio value per LOC provider.
- Insurance by any monoline insurer rated Aa3 by Moody's or AA- by S&P or equivalent. Limited to 5% of portfolio value per insurer.

### **Average Portfolio Credit Quality**

- The portfolio will maintain a minimum weighted average portfolio quality of A3 by Moody's and A- by Standard & Poor's.

### **Accounting**

- Potential investments should be analyzed in light of ICANN's tax-exempt status as a nonprofit public benefit corporation. This Investment Policy permits trading securities (realizing gains/losses) by the Investment Manager within specific constraints.
- All portfolio managers must notify the CFO immediately to obtain pre-authorization in order to realize a net loss in any given month. Any material event that affects the value of the portfolio must be reported immediately.
- If the portfolio's exposure to an individual issuer is increased in excess of 5% the portfolio manager will contact the CFO within 48 hours to continue to hold the bonds or will have the discretion to sell bonds to reduce the exposure to below 5%.
- For investment accounting purposes the portfolios will be subject to Statement of Financial Accounting Standards Board Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations."

### **Reserve Fund Allowable Assets (see Appendix B for credit ratings and portfolio diversification limits)**

#### **Fixed Income Securities**

- U.S. Government and Agency Securities (e.g., GNMA and FNMA)
- Global Corporate Notes and Bonds
- Mortgage Backed Bonds
- Asset Backed Securities (e.g., Auto and Credit Card)
- Sovereign Governments and Supranationals
- Local Authorities and non-U.S. Agencies
- Institutional mutual funds or commingled funds which invest in fixed income securities, money market instruments, and SEC 2a-7 money market funds

- Floating rate securities have a stated final maturity of up to five years. Floating rate securities have interest rates linked to a well-recognized money market index such as the Treasury Bill, SOFR, LIBOR or Federal Funds with coupon resets daily, weekly, monthly, quarterly, semi-annually or annually are eligible investments.
- Floating rate bank loans that are senior, secured floating rate debt of U.S. companies
- Emerging Market Bonds denominated in local currency

### **Non-Investment Grade Fixed Income Securities**

No more than 10% of the total portfolio may consist of U.S. marketable securities rated below investment grade (limited to BB and B rated), and may include high yield, notes, bonds, 144A, fixed rate and floating rate securities including senior, secured floating rate debt of U.S. companies with an average credit quality of investment grade (BBB) but holds some BB/B rated debt.

In the event that registered institutional mutual funds, exchange traded funds, collective trusts or commingled funds hold fixed income securities below investment grade, the Investment Management Company and ICANN CFO will monitor the allocation and take the appropriate action to reduce the allocation consistent with ICANN's moderately low risk profile.

### **Average Portfolio Credit Quality**

The weighted average credit quality of the fixed income portfolio shall be A2/A.

### **Equity Securities, Real Estate, and Commodities**

- Common Stocks
- Preferred Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- Stocks of Non-US Companies (Ordinary Shares)
- Stocks of REITs
- Non-Lending Institutional Mutual Funds, Exchange Traded Funds, Collective Trusts or Commingled Funds which invest in securities as allowed in this statement
- Diversified basket of Commodities

There shall be no direct investments in non-marketable securities.

### **Prohibited Assets and Transactions**

Prohibited securities include auction rate securities, auction rate preferred stock and perpetual preferreds, securities with short-puts on bonds with long stated final maturities, collateralized bond obligations (CBOs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), collateralized trusts that have embedded leverage, interest only securities (IOs), super POs and principal only securities (POs), residuals, credit default swaps (CDS), tiered indexed bonds and two –tiered indexed bonds, mortgage backed securities. Floating rate securities with embedded interest rate caps, collars, inverse interest rate relationships, leverage floaters, and indices not directly correlated with money market interest rate movements are not permitted. Securities with deferred interest payments, extendible maturities at issuer's option, structured investment vehicles (SIVs), and subordinated issues are not eligible for the investment portfolio.

- There will be no margin purchases; short sales; options, uncovered call options, puts, or straddles; letter stock; illiquid securities; direct ownership of real estate or mortgages; international securities unless listed on a national exchange; or direct interest in gas, oil or other mineral exploration or development programs and hedge funds
- Private Placements
- Credit default, interest rate and commodity swaps
- OTC Options
- Limited Partnerships
- Venture-Capital Investments
- Real Estate Properties
- Derivative Investments
- Hedge funds
- Short Selling
- Margin Transactions
- 

In certain circumstances, institutional mutual fund, exchange traded funds, collective trusts or commingled fund investments may engage in transactions that include prohibited transactions for the purpose of hedging operations to minimize transaction costs, rebalancing and replicating the benchmark.

In the event that institutional mutual funds, exchange traded funds, collective trusts or commingled funds hold prohibited assets defined above, the Investment Management Company will notify the CFO and monitor the holdings and take the appropriate action to reduce exposures consistent with ICANN's moderately low risk profile.

### **Securities Lending**

This policy prohibits ICANN from undertaking a Securities Lending Program. Institutional mutual funds, exchanged traded funds, collective trusts or commingled funds must be non-lending portfolios.

### **Fair Value of Investments**

The Investment Management Company must make all investments in securities and funds that have readily determinable fair values. All fair value measurements must be consistent with ASC 820 (FAS 157) which defines fair value and establishes a framework for measuring fair value (market value).

### **Ethics and Conflicts of Interest**

All Board Members, the CFO, and the Investment Management Company personnel shall comply with all applicable conflicts of interest policies and otherwise refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Any known or suspected violations must be disclosed to ICANN's General Counsel.

### **APPROVAL OF DISBURSEMENTS FROM THE RESERVE FUND**

The Reserve Fund is the pool of investments held by ICANN for the purpose described in the Introduction section of this document. The Reserve Fund is funded by any assets not required for use by ICANN's Operating Fund. Use of any funds from the Reserve Fund is restricted by action of the Board of Directors of ICANN. The Board at its sole discretion and judgment shall determine whether an emergency exists for purposes of releasing funds from the Reserve Fund.

Due to the nature of a requirement to release funds from the Reserve Fund, it may be necessary to make a rapid decision. For this reason, the Board of Directors has delegated to the Board Finance Committee (BFC) the authority to act on behalf of the Board of Directors of ICANN to disburse funds of up to \$5 million from the Reserve Fund. Any such action by the BFC will be communicated to the full Board of Directors within seven days of such action.

### **PERIODIC REVIEW/APPROVAL OF POLICY AND EXCEPTIONS**

This policy will be subject to periodic review by the CFO and BFC. Specific elements to be reviewed include:

1. Appropriate operating fund limits (currently three months' operating expenses)
2. ICANN's investment objectives and risk tolerances
3. Allowable and permitted investments
4. Portfolio asset allocation and mix
5. Portfolio benchmarks
6. Portfolio rebalancing

Exceptions to this policy require BFC and Board approval as necessary. All exceptions should be communicated by the ICANN CFO to the BFC within a 48-hour period, or as soon thereafter as is practicable, including details of appropriate action to be taken.

Any intended exceptions to this Investment Policy by an external manager must be documented by written approval from ICANN's Chief Financial Officer prior to execution of the transaction. In the event that any unintended exceptions to this Investment Policy do occur, it will be reported to ICANN as soon as the external Investment Manager becomes aware of the violation. Actions to eliminate any unauthorized exception to this Investment Policy will be cured immediately and at the expense of the external Investment Manager. If an investment rating for a security is reduced below the minimums set by this Investment Policy, the external investment manager will contact ICANN immediately and an action plan will be agreed upon by both parties.

### **APPENDIX A – OPERATING FUND and SFICR**

## ELIGIBLE INVESTMENTS AND CREDIT QUALITY

All eligible securities must carry at least one credit quality rating from Moody's, Standard & Poor's, Fitch, or DBRS. In the case of split ratings, the lower of the ratings will be considered the overall credit rating. The Investment Manager's responsibility for assessing the credit quality of eligible securities is ongoing on a daily basis and is not limited to credit quality at the time of purchase.

### Senior Securities

All eligible securities must be senior notes or senior classes of the capital structure of the issuer or the senior tranche or class of the collateralized issue. Notes, tranches or classes, preferred shares and equities that are all junior to senior notes of all eligible issuers are prohibited.

### Floating Rate Securities

Floating rate securities whose interest rates are linked to a well-recognized money market index such as the Treasury Bill, SOFR, LIBOR or Federal Funds with coupon resets daily, weekly, monthly, quarterly semi-annually or annually are eligible investments. Stated final maturities permissible up to five years.

### Fixed Rate Securities

Fixed rate securities are limited to three and one half years stated final maturity or three and one half year weighted average life (WAL).

### Environmental, Social, and Governance (ESG)

In addition to financial considerations and investment criteria included in this Investment Policy, investment decisions should integrate ESG factors, as appropriate. The Investment Manager's proprietary ESG rating will be used to evaluate securities that are rated at the mid-point or higher of its ESG rating scale so that at least 80% of the investments are rated at the midpoint or above of the firms' scale.

### Issuer Exposure

Per Issuer	5% of portfolio per issuer; no per issuer limit for U.S. Treasury and Federal Agency Securities
Per Repurchase Agreement	10% maximum per counterparty
Per ABS, MBS, CMBS, CMO trust issue	5% of the portfolio per trust, different collateral, different CUSIP
Money Market Funds	5% of specific money fund's assets
Per GSE Debenture Issuer	20%

**Table of Eligible Investments and Credit Ratings**

<b>Eligible Investments</b>	<b>Minimum Credit Quality</b>	<b>Additional Limits</b>	<b>Diversification Limits (%) Portfolio</b>
<b>a - US Treasury Securities</b>	NA		100%
<b>b - US Government Agency Securities Federal Agency Securities</b>	NA		100%
<b>c - US Government Sponsored Enterprises (GSEs)</b>	NA	20% per issuer	100%
<b>d - Tri-Party Repurchase Agreements</b>	Counterparty rated A3/A-	102% collateral; 15 days; 10% per counterparty	20%
<b>e - SEC 2a-7 Money Market Funds</b>	NA	5% of money fund's assets	25%
<b>f - Money Market Instruments (CP, ABCP, CD)</b>	A-1/P-1		50%
<b>g - Corporate Debt Instruments (MTN, 144a, notes, bonds)</b>	Baa3/BBB-		45% >A rated 15% BBB rated
<b>h - Non-US Sovereign Supranational Organizations International Agencies</b>	Aa3/AA-	U.S. dollar denominated	40%
<b>i - Non-US Governmental Agencies Federal Agencies</b>	Aa3/AA-	U.S. dollar denominated	30%
<b>j - Local Governments or Authorities</b>	Aa3/AA-	U.S. dollar denominated	25%
<b>k - Asset-Backed Securities (ABS)</b>	Aa3/AA-	Assets that are second liens, home equity loans, manufactured housing with long stated final maturities or extension risk are excluded.	15%
<b>l - US Municipal Obligations Local Authority</b>	A3/A-		15%
<b>Credit Enhancements</b> - Bank Letter of Credit (LOC), Irrevocable and unconditional - Monoline insurance	A-1/P-1  Aa1/AA+	5% per issuer limit - Irrevocable and unconditional LOC, 5% of portfolio per LOC or liquidity provider. - 5% of portfolio per insurer	
<b>Currencies</b>		- All eligible investments will be U.S. dollar-denominated.	
<b>Average Portfolio Quality</b>	A3/A-		
<b>Average Portfolio Duration</b>		To be determined.	

## APPENDIX B – RESERVE FUND

### ELIGIBLE INVESTMENTS AND CREDIT QUALITY

All eligible securities must carry at least one credit quality rating from Moody's, Standard & Poor's, Fitch, or DBRS. In the case of split ratings, the lower of the ratings will be considered the overall credit rating. The Investment Manager's responsibility for assessing the credit quality of eligible securities is ongoing on a daily basis and is not limited to credit quality at the time of purchase.

#### Floating Rate Securities

Floating rate securities whose interest rates are linked to a well-recognized money market index such as the Treasury Bill, SOFR, LIBOR or Federal Funds with coupon resets daily, weekly, monthly, quarterly semi-annually or annually are eligible investments. Stated final maturities permissible up to five years.

#### Non-Investment Grade Fixed Income Securities

No more than 10% of the total portfolio may consist of U.S. marketable securities rated below investment grade (limited to BB and B rated), and may include high yield, notes, bonds, 144A, fixed rate and floating rate bank loans that are senior, secured loans to U.S. companies.

#### Environmental, Social, and Governance (ESG)

In addition to financial considerations and investment criteria included in this Investment Policy, investment decisions should integrate ESG factors, as appropriate. The Investment Manager's proprietary ESG rating will be used to evaluate securities that are rated at the mid-point or higher of its ESG rating scale so that at least 80% of the investments are rated at the midpoint or above of the firms' scale.

#### Table of Asset Allocation and Allowable Investment Ranges

	Targeted Strategic Asset Allocation	Allowable Investment Range
<b>Equities, Real Estate &amp; Commodities</b>	<b>35%</b>	<b>15% - 55%</b>
US Equities –Large Cap	12%	2% - 22%
US Equities –Small Cap	4%	0% - 9%
Non-US Equities –Developed	9%	3% - 16%
Non-US Equities –Developed Small Cap	2%	0% - 8%
Non-US Equities –Emerging	4%	0% - 9%
Global Real Estate	2%	0% - 3%
Commodities	2%	0% - 3%
<b>Fixed Income</b>	<b>65%</b>	<b>45% - 85%</b>

US Aggregate Bond	27%	15% - 35%
US Intermediate Inflation Protection (US)	12%	2% - 22%
Inflation Protection (US)	0%	0% - 22%
Inflation Protection (Non-US)	12%	2% - 22%
Long US Government	5%	0% - 10%
Long US Credit	0%	0% - 10%
US High-Yield	2%	0% - 11%
Emerging Market Bonds	3%	0% - 5%
US Leveraged Loans	4%	0% - 6%

### Table of Eligible Investments and Credit Ratings

Eligible Investments	Minimum Credit Quality
US Government Agency Securities Federal Agency Securities	NA
Corporate Debt Instruments (MTN, 144a, notes, bonds)	A
Mortgage-Backed Bonds	
Asset-Backed Securities (ABS)	Aa3/AA-
Non-US Sovereign Supranational Organizations International Agencies	Aa3/AA-
Non-US Governmental Agencies Federal Agencies	Aa3/AA-
Local Governments or Authorities	Aa3/AA-
Institutional Mutual Funds which invest in Fixed Income Securities	
Money Market Instruments (CP, ABCP, CD)	A-1/P-1
SEC 2a-7 Money Market Funds	NA
Floating Rate Bank Loans	B/BB
Emerging Market Bonds	B/BB

<b>Non-Investment Grade Fixed Income Securities</b> (high yield notes, bonds, 144a, fixed rate and floating rate securities)	B/BB
<b>Common Stocks</b>	
<b>Preferred Stocks</b>	
<b>Convertible Notes and Bonds</b>	
<b>Stocks of Non-US Companies</b>	
<b>Stocks of REITs</b>	
<b>Non-Lending Institution Mutual Funds, Collective Trusts, Exchange Traded Funds or Commingled Funds</b>	
<b>Diversified Basket of Commodities</b>	
<b>Currencies</b>	
<b>Average Portfolio Quality</b>	A2/A-

**ICANN BOARD SUBMISSION NO. 2022.07.13.1b**

**TITLE:** Revisions to the Board Governance Guidelines

**PROPOSED ACTION:** For Board Consideration and Approval

**EXECUTIVE SUMMARY:**

In its role of “[r]ecommending to the Board corporate governance guidelines applicable to the ICANN as a global, private sector corporation serving in the public interest”, the Board Governance Committee (BGC) is tasked with “review[ing]...the existing governance guidelines, and bring ideas and recommendations for adjustments in these guidelines to the Board for its consideration.” ([BGC Charter](#), §§ I.F and II.F.1). Following a fulsome review of the existing Board Governance Guidelines (Guidelines), the BGC is recommending certain updates to the Guidelines to align with current Board practices and to further enhance the Guidelines’ enforcement mechanism.

**BOARD GOVERNANCE COMMITTEE (BGC) RECOMMENDATION:**

The BGC recommends that the Board adopt the revised Board Governance Guidelines, attached as Attachment A to the Reference Materials.

**PROPOSED RESOLUTIONS:**

Whereas, the Board Governance Committee (BGC) is responsible for “[r]ecommending to the Board corporate governance guidelines applicable to the ICANN as a global, private sector corporation serving in the public interest”, which includes “review[ing]...the existing governance guidelines, and bring ideas and recommendations for adjustments in these guidelines to the Board for its consideration.” ([BGC Charter](#), §§ I.F and II.F.1).

Whereas, the BGC has conducted a fulsome review of the [existing Board Governance Guidelines](#) (Guidelines) and has recommended updates to the Guidelines to align with current Board practices and to further enhance the Guidelines’ enforcement mechanism.

Whereas the BGC recommends that the Board adopt the revised Board Governance Guidelines.

Resolved (2022.07.13.XX), the Board adopts the revised Board Governance Guidelines.

**PROPOSED RATIONALE:**

Adopting the revised Board Governance Guidelines is consistent with ICANN's commitments to ensuring legitimacy and sustainability of the ICANN multistakeholder model by ensure that the Board members are operating at the highest ethical standards.

The Board Governance Committee (BGC) has recommended that the Board Governance Guidelines be updated to align with current Board practices and to further enhance the Guidelines' enforcement mechanism. Because these revisions are not material changes to current practices, a public comment process is not required. The BGC has indicated that it will continue to evaluate the Guidelines and may recommend further revisions in the future as appropriate.

This decision is within the public interest and consistent with ICANN's mission as it is expected to positively impact the ICANN community by ensuring that ICANN is operating to the highest ethical standards.

The action is not expected to have a fiscal impact on ICANN organization.

This is an Organizational Administrative Function that does not require Public Comment.

Submitted By: Amy A. Stathos  
Date: 6 July 2022  
Email: amy.stathos@icann.org

# Governance Guidelines

(As amended 13 July 2022 )

## Board Governance Guidelines

### Introduction

Over the course of the existence of Internet Corporation for Assigned Names and Numbers (ICANN), the Board, consisting of voting Directors and non-voting liaisons (collectively the Board or Board members) has developed governance policies and practices to help it fulfill its responsibilities to ICANN and its stakeholders. These Board Governance Guidelines (Guidelines) provide a structure within which the Board and the organization can effectively pursue ICANN's Mission. The Board intends that these Guidelines serve as a flexible framework within which the Board may conduct its business, not as a set of binding legal obligations. These Guidelines should be interpreted and followed in the context of all applicable laws, and ICANN's Articles of Incorporation, Bylaws, policies and processes. The Guidelines are subject to future refinement or changes as the Board may find necessary or advisable.

### Role of the Board

The Mission of ICANN is to ensure the stable and secure operation of the Internet's unique identifier systems. The fundamental responsibility of Directors (as defined below) is to exercise their business judgment to act in what they reasonably believe to be the best interests of ICANN and for the benefit of the Internet community as a whole. Actions of the Board should reflect the Board's collective action after taking due reflection.

It is the duty of the Board to oversee management's performance to ensure that ICANN in **accordance with law** efficiency and effectiveness, in a fiscally responsible and accountable manner. The Board is also responsible for overseeing the development of ICANN's Operating Plan and Strategic Plan (each as defined in the Bylaws).

In performing its Mission, ICANN must operate in a manner consistent with the Bylaws for the benefit of the Internet community as a whole, carrying out its activities in and obligations in conformity with relevant principles of international law, international conventions and applicable local law, through open and transparent processes that enable competition and open entry in Internet-related markets.

Specifically, ICANN commits to do the following (the "Commitments"):

- Preserve and enhance the administration of the Domain Name System (DNS) and the operational stability, reliability, security, global interoperability, resilience, and openness of the DNS and the Internet;

- Maintain the capacity and ability to coordinate the DNS at the overall level and work for the maintenance of a single, interoperable Internet;
- Respect the creativity, innovation, and flow of information made possible by the Internet by limiting ICANN's activities to matters that are within ICANN's Mission and require or significantly benefit from global coordination;
- Employ open, transparent and bottom-up, multistakeholder policy development processes that are led by the private sector (including business stakeholders, civil society, the technical community, academia, and end users), while duly taking into account the public policy advice of governments and public authorities. These processes shall (A) seek input from the public, for whose benefit ICANN in all events shall act, (B) promote well-informed decisions based on expert advice, and (C) ensure that those entities most affected can assist in the policy development process;
- Make decisions by applying documented policies consistently, neutrally, objectively, and fairly, without singling out any particular party for discriminatory treatment (i.e., making an unjustified prejudicial distinction between or among different parties); and
- Remain accountable to the Internet community through mechanisms defined in the Bylaws that enhance ICANN's effectiveness.

Additionally, the following core values (“Core Values”) should guide the Board's decisions and actions in the conduct of its business:

- To the extent feasible and appropriate, delegating coordination functions to or recognizing the policy role of, other responsible entities that reflect the interests of affected parties and the roles of bodies internal to ICANN and relevant external expert bodies;
- Seeking and supporting broad, informed participation reflecting the functional, geographic, and cultural diversity of the Internet at all levels of policy development and decision-making to ensure that the bottom-up, multistakeholder policy development process is used to ascertain the global public interest and that those processes are accountable and transparent;
- Where feasible and appropriate, depending on market mechanisms to promote and sustain a competitive environment in the DNS market;
- Introducing and promoting competition in the registration of domain names where practicable and beneficial to the public interest as identified through the bottom-up, multistakeholder policy development process;
- Operating with efficiency and excellence, in a fiscally responsible and accountable manner and, where practicable and not inconsistent with ICANN's

other obligations under these Bylaws, at a speed that is responsive to the needs of the global Internet community;

- While remaining rooted in the private sector (including business stakeholders, civil society, the technical community, academia, and end users), recognizing that governments and public authorities are responsible for public policy and duly taking into account the public policy advice of governments and public authorities;
- Striving to achieve a reasonable balance between the interests of different stakeholders, while also avoiding capture; and
- Subject to the limitations set forth in Section 27.2 of the Bylaws, within the scope of its Mission and other Core Values, respecting internationally recognized human rights as required by applicable law. This Core Value does not create, and shall not be interpreted to create, any obligation on ICANN outside its Mission, or beyond obligations found in applicable law. This Core Value does not obligate ICANN to enforce its human rights obligations, or the human rights obligations of other parties, against other parties.

These Commitments and Core Values are intended to apply in the broadest possible range of circumstances. The Commitments reflect ICANN's fundamental compact with the global Internet community and are intended to apply consistently and comprehensively to ICANN's activities. The specific way in which Core Values are applied, individually and collectively, to any given situation may depend on many factors that cannot be fully anticipated or enumerated. Situations may arise in which perfect fidelity to all Core Values simultaneously is not possible. Accordingly, in any situation where one Core Value must be balanced with another, potentially competing Core Value, the result of the balancing must serve a policy developed through the bottom-up multistakeholder process or otherwise best serve ICANN's Mission. (See Bylaws, Section 1.2(c).)

Some of the Board's key responsibilities are to ensure that ICANN's ethics are managed effectively, that ICANN as a whole (as well as individual Board members and personnel) operates pursuant to the highest ethical standards, that ICANN complies with applicable laws, and that ICANN considers adherence to best practices in all areas of operation. In overseeing the development of ICANN's strategy, the Board has a responsibility to ensure that strategic work and business plans do not give rise to risks that have not been assessed by ICANN's executive management. To that end, the Board has a role in overseeing executive management in the assessment and governance of enterprise risk management and sound information technology planning to meet the long-term needs of ICANN.

Directors are individuals who have the duty to act in what they reasonably believe are the best interests of ICANN and are not representatives of the entity that selected them, the Empowered Community (EC, as further defined in Section 6.1(a) of the Bylaws),

their employers, or any other organizations or constituencies. (See Bylaws, Section 7.7.)

## Board Composition and Selection; Independent Directors

1. **Board Size.** The Board has 16 voting members (Directors) and four non-voting liaisons (Liaisons) (collectively Directors and Liaisons referred to as Board members). Only Directors shall be included in determining the existence of quorums, and in establishing the validity of votes taken by the Board.
2. **Selection of Board Members.** Board Members are selected in accordance with the procedures set forth in Sections 7.2, 7.8 and 7.9 of the Bylaws. Specifically, the Empowered Community is the sole designator of ICANN and designates, within the meaning of Section 5220 of the California Corporations Code, all Directors (except for the President ex officio) following their nominations by the Nominating Committee, Supporting Organization or At-Large Community (as these terms defined in the Bylaws), as applicable.
3. **Board Membership Criteria.** The Nominating Committee, Supporting Organizations and the At-Large Community seek to ensure that the Board is composed of members who in the aggregate display diversity in geography, culture, skills, experience and perspective. In accordance with Section 7.3 of the Bylaws, the Board is to be comprised of individuals that meet the following requirements:
  - Accomplished persons of integrity, objectivity, and intelligence, with reputations for sound judgment and open minds, and a demonstrated capacity for thoughtful group decision-making.
  - Persons with an understanding of ICANN's Mission and the potential impact of ICANN decisions on the global Internet community, and committed to the success of ICANN.
  - Persons who will produce the broadest cultural and geographic diversity on the Board consistent with meeting the other criteria set forth in Section 7.3 of the Bylaws.
  - Persons who, in the aggregate, have personal familiarity with the operation of gTLD registries and registrars, with ccTLD registries, with IP address registries, with Internet technical standards and protocols, with policy-development procedures, legal traditions, and the public interest and with the broad range of business, individual, academic, and non-commercial users of the Internet.
  - Persons who are able to work and communicate in written and spoken English.

No official of a national government or a multinational entity established by treaty or other agreement between national governments may serve as a Director, and no person who serves in any capacity (including as a Liaison) on any Supporting Organization council will simultaneously serve as a Director or Liaison. In addition, persons serving in any capacity on the Nominating Committee will be ineligible for selection to positions on the Board and no person who served on the EC Administration will be considered for nomination or designation to the Board, nor serve simultaneously on the EC Administration and as a Director or Liaison. (See Bylaws, Section 7.4.)

In order to ensure broad international representation on the Board, the nomination of Directors by the Nominating Committee, each Supporting Organization and the At-Large Community shall comply with all applicable diversity provisions of the Bylaws or of any memorandum of understanding referred to in the Bylaws concerning the Supporting Organization.

4. **Removal.** Any Director designated by the Empowered Community may be removed without cause: (i) by the Empowered Community pursuant to and in compliance with the procedures in Section 3.1 or Section 3.2 of Annex D of the Bylaws, as applicable, or (ii) following notice to that Director, by a three-fourths (3/4) majority vote of all Directors; provided, however, that (x) each vote to remove a Director shall be a separate vote on the sole question of the removal of that particular Director; and (y) such removal shall not be effective until the Secretary has provided notice to the EC Administration (as defined in the Bylaws) of the Board's removal vote and the requirements of Section 6.4 of the Bylaws have been met.

The Board may remove any Director who has been declared of unsound mind by a final order of court, or convicted of a felony, or been found by a final order or judgment of any court to have breached any duty under Sections 5230 through 5239 of the California Corporations Code, and in the case of such removal, the Secretary shall promptly notify the EC Administration in writing, with a copy to the body that nominated such Director, and shall promptly post such notification to the Website. The vacancies created by such removal shall be filled in accordance with Article 7, Section 7.12(a) of the Bylaws.

All Directors (other than the President) may be removed at the same time by the Empowered Community by the EC Administration delivering an EC Board Recall Notice (as defined in the Bylaws) to the Secretary pursuant to and in compliance with Section 3.3 of Annex D of the Bylaws. The vacancies created by such removal shall be filled by the EC in accordance with Article 7, Section 7.12(b) of the Bylaws.

With the exception of the Liaison appointed by the Governmental Advisory Committee, any Liaison may be removed, following notice to that Liaison and to the organization by which that Liaison was selected, by a three-fourths (3/4)

majority vote of all Directors if the selecting organization fails to promptly remove that Liaison following such notice. The Board may request the Governmental Advisory Committee to consider the replacement of the Liaison appointed by that Committee if the Directors, by a three-fourths (3/4) majority vote of all Directors, determines that such an action is appropriate. (See Bylaws, Section 7.11.)

5. **Pre-Service Letter.** As a condition to sitting on the Board, each Director other than the President ex officio shall sign a pre-service letter pursuant to which such Director: (i) acknowledges and agrees to the Empowered Community's right to remove the Director at any time and for any reason following the processes set forth in the Bylaws; (ii) acknowledges and agrees that serving as a Director shall not establish any employment or other relationship (whether to ICANN, the Empowered Community, any ICANN body entitled to nominate a Director, or any of their agents) that provides any due process rights related to termination of service as a Director; and (iii) conditionally and irrevocably resigns as a Director automatically effective upon communication to the Director or, in the case of Board recall, communication to the Board of a final determination of removal following the processes set forth in the Bylaws (See Bylaws, Section 7.2(f)).
6. **Term Limits.** The Board has determined that it is in the best interest of ICANN and its stakeholders to strike a balance between Board continuity and Board evolution. Board members who serve on the Board for an extended period of time are able to provide valuable insight into the operations and future of ICANN based on their experience with, and understanding of, ICANN's Mission, history, policies and objectives. However, term limits ensure that the Board will continue to evolve with the infusion of fresh ideas and new perspectives. At present, Board members are not allowed to serve more than three consecutive, three-year terms on the Board, other than the President and CEO. A person selected to fill a vacancy in a term shall not be deemed to have served that term. The term as Director of the person holding the office of President will be for as long as, and only for as long as, such person holds the office of President and CEO. (See Bylaws, Sections 7.8(e) and (f).)
7. **President; Board Chair and Vice-Chair.** The Board selects ICANN's President and CEO, Chair and Vice-Chair in the manner that it determines to be in the best interests of ICANN. The Board shall annually elect a Chair and a Vice-Chair from among the Directors. The President and CEO, who serves as an ex officio Director, is not eligible to be the Chair or Vice-Chair of the Board. (See Bylaws, Sections 7.2(d) and 15.2.)
8. **Post-Service Limitation.** The Board has resolved that any and all Board Members who approve any new gTLD application shall not take a contracted or employment position with any company sponsoring or in any way involved

with that new gTLD for 12 months after the Board made the decision on the application. (See Resolution 2011.12.08.19.)

Following a Board Member's service on the Board, such Board Member will not disclose or otherwise use any confidential information of ICANN or confidential information of any third party obtained through the Board member's service on the Board. In addition, a former Board member should not benefit, directly or indirectly, from the knowledge gained or decisions taken while a Board member after ceasing to be on the Board.

## Board Meetings; Involvement of Senior Management and Independent Advisors

9. **Board Meetings – Frequency.** The Board will generally hold regularly scheduled meetings throughout the year and will hold additional special meetings as necessary, subject to a minimum of four Board meetings per year. In addition, the Board generally has informal meetings from time to time to review and discuss ICANN's operations and policy matters. Each Board member is expected to attend both scheduled and special meetings, except if unusual circumstances make attendance impractical,
10. **Board Meetings – Notice; Agenda.** At least seven days in advance of each Board meeting (or if not practicable, as far in advance as is practicable), a notice of such meeting and, to the extent known, an agenda for the meeting will be posted on the ICANN website. Board meeting agendas will be set by the Chair of the Board, following consultation with ICANN management and taking into account suggestions from other members of the Board.
11. **Advance Distribution of Materials.** All information relevant to the Board's understanding of matters to be discussed at an upcoming Board meeting should be distributed in writing or electronically to all members in advance, whenever feasible and appropriate. Each Board Member is expected to review this information in advance of the meeting to facilitate the efficient use of meeting time. Each Board Member is expected to be prepared for Board meetings and provide appropriate and constructive input on matters set forth in the agenda. The Board recognizes that certain items to be discussed at Board meetings are of an extremely sensitive nature and that the distribution of materials on these matters prior to Board meetings may not be appropriate.
12. **Board Meetings – Attendance.** Board members must attend all scheduled meetings of the Board, including meetings called on an *ad hoc* basis for special matters, unless prior apology has been submitted to the Chair or the Secretary. Meetings require the minimum quorum as specified in the Bylaws. Subject to the Bylaws, Board Members may participate in a meeting of the Board or any committee of the Board through use of: (i) conference telephone or similar communications equipment, provided that all Board Members participating in such a meeting can speak to and hear one another; or (ii)

electronic video screen communication or other communication equipment. Management is encouraged to invite ICANN personnel to any Board meeting at which their presence and expertise would help the Board have a full understanding of matters being considered, however invited attendees do not count toward the required quorum. Invited attendees are not permitted to vote.

13. **Implementation of Decisions.** Board decisions that are to be implemented by ICANN should be communicated in a clear and understandable manner and, when determined appropriate by the Board, with implementation timelines. The Board will monitor and oversee management's implementation of such Board decisions.
14. **Board Meetings – Minutes.** The minutes of each Board meeting shall be prepared by or under the direction of the Secretary as soon as practicable following the meeting, for approval by the Board at its next Board meeting, if feasible, or as soon thereafter as is practicable.
15. **Access to Employees.** The Board should have access to ICANN organization's Executive Team members to ensure that Board members can ask all questions and glean all information necessary to fulfill their duties. The President and CEO, together with the Board, have developed a protocol for making inquiries to the Executive Team.
16. **Access to Independent Advisors.** The Board and its committees have the right at any time to retain independent outside auditors and financial, legal or other advisors. Individual Directors may not retain outside advisors without prior Board or committee approval, as applicable. ICANN will provide appropriate funding, as determined by the Board, to compensate those independent outside auditors or advisors, as well as to cover the ordinary administrative expenses incurred by the Board and its committees in carrying out their duties. It is expected that ICANN organization will assist the Board and committees in retaining outside advisors.
17. **Compensation Consultant Independence.** The Compensation Committee has sole authority to retain and terminate compensation consultants that advise the Compensation Committee, as it deems appropriate. It is the policy of the Compensation Committee that any compensation consultant retained by the Compensation Committee must be independent of ICANN management. It is expected that ICANN organization will assist the Compensation Committee in retaining outside advisors.
18. **Executive Sessions of Non-Management Directors.** The non-management Board members will meet regularly in executive session, i.e., without management present. These executive sessions will be called and chaired by the Chair of the Board and, in the absence of the Chair, by the Vice-Chair of the Board. These executive session discussions may include such topics as the Chair (or Vice-Chair, as applicable) determines.

## Accountability and Review; Public Meetings

19. **Annual Report.** The Board shall publish, at least annually, a report describing its activities including an audited financial statement and a description of any payments made by ICANN to Board members (including reimbursements of expenses). This report will be prepared and sent to each member of the Board and to such other persons as the Board may designate, no later than one hundred twenty (120) days after the close of ICANN's fiscal year. (See Bylaws, Section 22.3.) The Board will oversee and ensure the integrity of this annual audited financial statement report. In doing so, the Board will ensure that it has an effective Audit Committee, made up of independent Directors.
20. **Ombudsman.** Pursuant to Article 5 of the Bylaws, ICANN maintains an Office of Ombudsman, to be managed by an Ombudsman and to include such support from the organization as the Board determines is appropriate and feasible. The principal function of the Ombudsman is to provide an independent internal evaluation of complaints by members of the ICANN community who believe that the ICANN staff, the Board or an ICANN constituent body has treated them unfairly. The Ombudsman shall serve as an objective advocate for fairness, and shall seek to evaluate and where possible resolve complaints about unfair or inappropriate treatment by ICANN staff, the Board, or ICANN constituent bodies, clarifying the issues and using conflict resolution tools such as negotiation, facilitation and "shuttle diplomacy" to achieve these results. The Office of Ombudsman shall publish on an annual basis a consolidated analysis of the year's complaints and resolutions, appropriately dealing with confidentiality obligations and concerns. The annual report will be posted on ICANN's website. (See Bylaws, Article 5.) The Office of the Ombudsman shall also review reconsideration requests and provide the Board Accountability Mechanisms Committee with its substantive evaluation of such reconsideration requests, as provided in the Bylaws, unless the Office of the Ombudsman has recused itself in accordance with the Bylaws. (See Bylaws, Article 4.2.)
21. **Requests for Reconsideration.** Subject to the provisions of the Bylaws, any person or entity materially affected by any Board or staff action or inaction if such affected person or entity believes the action contradicts established ICANN Mission, Commitments, Core Values and/or policies, by actions or inactions of the Board or staff that such affected person or entity believes has been taken without consideration of material information, or by actions or inactions of the Board or staff that such affected person or entity believes has been taken as a result of the Board's or staff's reliance on false or inaccurate relevant information, may request review or reconsideration of that action or inaction. The EC may file a request for reconsideration if the matter relates to the exercise of the powers and rights of the EC. (See Bylaws, Section 4.2.)
22. **Independent Review.** Subject to the provisions of the Bylaws, any legal or natural person, group, or entity including, but not limited to the EC, a

Supporting Organization, or an Advisory Committee (collectively, Claimant) that has suffered an injury or harm as a result of a Covered Action (as defined in the Bylaws) may seek independent review of that Covered Action to the extent the Claimant believes it violated ICANN's Articles of Incorporation or Bylaws. (See Bylaws, Section 4.3.)

## Performance Evaluation; Development and Succession Planning

**23. Annual President and CEO Evaluation.** The Chair of the Compensation Committee leads the Compensation Committee in conducting a review of the performance of the President and CEO at least annually. The Compensation Committee establishes the evaluation process for the review of the President and CEO's performance. The evaluation results are reviewed and discussed with the non-management Board members, and the results are communicated to the President and CEO. The Board Governance Committee, from time to time, is to review and advise on the effectiveness of the relationship between the President and CEO and the Board.

**24. Development and Succession Planning.** A primary responsibility of the Board is planning for President and CEO succession and overseeing the identification and development of executive talent. The Board, with the assistance of the Compensation Committee and working with the President and CEO and the human resources department, oversees executive officer development and corporate succession plans for the President and CEO and other executive officers to provide for continuity in senior management.

The Board will maintain an emergency succession contingency plan should an unforeseen event such as death or disability occur that prevents the President and CEO from continuing to serve. The plan will identify the individuals who would act in an emergency and their responsibilities. The contingency plan is to be reviewed by the Board annually and revised as appropriate.

The Board may review development and succession planning more frequently as it deems necessary or desirable.

**25. Board and Committee Self-Evaluation.** The Board Governance Committee is responsible for facilitating periodic evaluations of the performance of the Board and each of its members. To assist in the process, the Board should maintain an annual work plan that shows the required annual activities. This work plan also guides the number and timing of meetings as well as agenda formation.

Each Board committee should conduct an annual review of its charter, as well as an annual performance evaluation. Evaluation results should be reported to the Board. Each committee's report generally should include an assessment of the committee's compliance with the principles set forth in these Guidelines,

the committee's charter and identification of areas in which the committee could improve its performance, including an assessment of whether the committee is constituted with Board members with the required skills necessary for that committee.

26. **Reviews of Supporting Organizations and Advisory Committees.** The Board will cause a periodic review of the performance and operation of each Supporting Organization, each Supporting Organization council, each Advisory Committee (other than the Governmental Advisory Committee), and the Nominating Committee by an entity or entities independent of the organization under review. The goal of the review, to be undertaken pursuant to such criteria and standards as the Board directs, will be to determine: (i) whether that organization has a continuing purpose in the ICANN structure; and (ii) if so, whether any change in structure or operations is desirable to improve its effectiveness. These periodic reviews will be conducted no less frequently than every five years, based on feasibility as determined by the Board. (See Bylaws, Section 4.4.)

## Board Compensation

27. **Board Compensation Review.** The Board will periodically review the compensation paid to Board members that are eligible for it and have elected to receive compensation, and whether it is in the best interest of ICANN to increase or decrease the amount of such compensation. In doing so, the Board will follow a process that is calculated to pay an amount for service as a Director that is not an excess benefit under the standards set forth in Section 4958 of the Internal Revenue Code of 1986, as amended. As part of the process, the Board will retain an independent compensation expert to consult with and to advise the Board regarding Board member compensation arrangements and to issue to the Board a reasoned written opinion from such expert regarding the ranges of reasonable compensation for any such services by a Board member. After having reviewed the expert's written opinion, the Board will have the opportunity, if needed, to meet with the expert to discuss the expert's opinion and to ask questions of the expert regarding the expert's opinion, the comparability data obtained and relied upon, and the conclusions reached by the expert. The Board will adequately document the basis for any determination the Board makes regarding a Board member compensation arrangement concurrently with making that determination. (See Bylaws, Section 7.22.)

## Board Committees

28. **Number, Type and Composition of Committees.** The Board may establish or eliminate Board committees as it deems appropriate, except as required or prohibited by law. Each committee will perform its duties as assigned by the Board in compliance with the Bylaws and the committee's charter.

The Board may also delegate certain functions to committees, except for those matters specifically reserved by law or by the Bylaws to be handled by the Board. Any delegation must be specifically included in the committee charter approved by the Board.

The composition of each committee will be determined from time to time by the Board with due regard to the relevant experience, expertise and skills of committee members. Only Directors may be appointed to a committee of the Board as voting members, provided, that a Liaison may be appointed as a liaison to a committee consistent with their non-voting capacity. If a person appointed to a committee of the Board ceases to be a Board member, such person will also cease to be a member of any committee of the Board. The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee. Committee members may be removed from a committee at any time pursuant to the provisions of the Bylaws. Unless appointed by the Board, the selection process for each committee chair will be set forth in each committee charter. (See Bylaws, Article 14.)

29. **Committee Meetings and Agenda.** The chair of each committee is responsible for developing, together with relevant ICANN organization, the committee's general agenda. The chair and committee members will determine the frequency and length of committee meetings consistent with the committee fulfilling its obligations as set forth in the committee's charter.
30. **Other Board Groups Meetings.** In addition to Board Committees, the Board may establish other Board groups such as Board Working Groups, Caucuses, and Ad-hoc Groups. The cadence, length, and manner in which the meetings are conducted (e.g., whether the meetings should be recorded, whether minutes should be produced for the meetings) are determined by the chair of each Board Group.

## Board Education

30. **Board Member Orientation and Continuing Education.** The Board Governance Committee and ICANN organization are responsible for Board member orientation programs and for Board member continuing education programs to assist Board members in maintaining skills necessary or appropriate for the performance of their responsibilities.
  - a. A formal induction and orientation programs are designed to familiarize new Board members with ICANN's businesses, strategies and policies (including these Guidelines) and to assist new Board members in developing the skills and knowledge required for their service.

- b. Continuing education programs for Board members may include a combination of internally developed materials and presentations, programs presented by third parties, and financial and administrative support for attendance at qualifying university or other independent programs. These programs should include training on Conflicts of Interest and Confidentiality.

## Board Workshops

31. **Purpose of Workshop.** The Board will periodically hold workshops in conjunction with ICANN organization to, among other things, facilitate discussion about ICANN's overall strategic focus.
- a. At each workshop, or as often as reasonably feasible, the Board should set aside time to discuss legitimate needs, interests and expectations of ICANN's stakeholders.
  - b. Once every two years the Board should, in conjunction with management, ensure that the strategic focus aligns with ICANN's stated purpose, discuss and agree on ICANN's main value drivers, and assess continued engagement with all stakeholders.

## Board Policies

32. **Compliance with Existing Policies.**
- a. Each Board member must comply with the terms and conditions of these Guidelines and policies adopted by the Board, including the Board Conflicts of Interest Policy and Code of Conduct.
  - b. A Board Member who knowingly violates these Guidelines, the Board Conflicts of Interest Policy or Code of Conduct may be subject to a system of graduated sanctions, commencing with a formally recorded warning, leading to a written reprimand, and as a result of repeated offenses leading to removal from the Board. Nothing in these Guidelines will limit the ability of the Board to remove a Board member pursuant to Bylaws and to the extent permitted by applicable law.
  - c. If a Board Member believes that there has been a violation of these Guidelines by Board, the Board Member should raise the violations to the Board Governance Committee, who shall review the alleged violations and recommend action as appropriate.

## Review

33. **Review of Governance Guidelines.** The policies and practices memorialized in these Guidelines have developed over a period of years. The Board expects

to review these Guidelines periodically, as appropriate. Such a review should generally include an assessment of the Board's compliance with these Guidelines, as well as identification of areas in which the Board could improve its performance.

#### Archive

- [Governance Guidelines \(18 July 2018\)](#) – superseded by Governance Guidelines effective 13 July 2022
- [Governance Guidelines \(18 October 2012\)](#) – superseded by Governance Guidelines effective 18 July 2018

**REFERENCE MATERIALS - ICANN BOARD SUBMISSION NO. 2022.07.13.1b**

**TITLE:** **Revisions to the Board Governance Guidelines**

**DOCUMENTS**

The following attachment is relevant to the Board's consideration of the proposed revisions to the Board Governance Guidelines:

Attachment A is the proposed revised Board Governance Guidelines in redlined format.

Submitted By: Amy A. Stathos  
Date: 6 July 2022  
Email: amy.stathos@icann.org