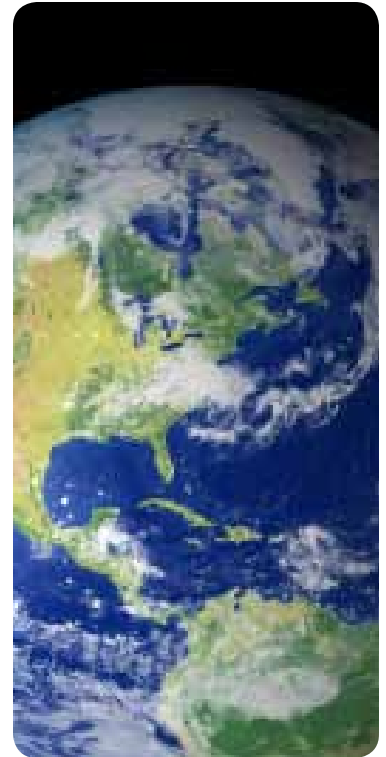


Silicon Valley Bank >

A Member of SVB Financial Group

Guide To Foreign Exchange Policy



Guide to Foreign Exchange Policy

Companies planning to operate in the global marketplace should prepare for the inevitable risks associated with foreign currency exchange. A variety of solutions — forwards, options, non-deliverable forwards and foreign currency accounts — can help reduce the surprises that foreign exchange rates create in your company's 10K or 10Q financial statements. However, before you outline a foreign exchange (FX) risk management plan, you should create a formal policy for the management of foreign exchange exposure. This process will help you examine accounting and cash flow implications, but will take into consideration your risk tolerance and corporate goals.

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An FX policy should be a streamlined document that is easy to read and provides practical guidance. FX policies are generally tailored to the specific needs of the company, although all policies should provide a framework for corporate decision making, while providing specific guidelines for implementing FX risk management. Upon completion, the company's board should approve the policy. It is important to remember that a policy is a living document and should be reviewed on an annual basis to ensure that it meets current corporate objectives.

Most policies should include these four common components:

1. Objectives

Objectives should be clear, concise and relevant. They should include the financial goals, exposures to be hedged, management's tolerance for risk and may even specify dollar amounts to be hedged. Certain questions should be addressed, such as whether to hedge cash flow, balance sheet or earnings.

2. Responsibilities

This section should specify which individual(s) in the organization have authorization to hedge on behalf of the company. The latest trend has been to keep most of FX

risk management functions in one central office. You also should identify: 1) who are the members of the foreign exchange committee and how often the committee meets, 2) who reviews derivatives and when derivatives are reviewed, and 3) what levels of management approval are needed for various exposures (i.e., short-term versus long-term risk) and trades.

3. Control

This is an operational issue that typically should define operational aspects such as reporting responsibilities, mark-to-market results, when and who should inform management of FX activity, how trades are confirmed and by whom, and whether the FX manager is within counterparty credit limits. You may also include documentation requirements for FAS133 and FAS52 accounting purposes.

4. Strategies

This section typically includes the types of derivative products that can be used. Can you only use forwards? Do you want to buy options or sell options? Can you use a combination of options to reduce premiums? All of these parameters must be defined and explicitly approved. Specify whether you will use a passive approach or whether your authorized individual(s) may use some discretion in a more active style.

Note that a company's policy is an internal document that it and its employees must manage. Third parties such as banks follow the directions of the company's employees and not the policy itself.



Sample Foreign Exchange Policy and Procedures

I. STATEMENT OF PURPOSE

The purpose of this policy is to establish parameters for ABC Corporation governing the management of foreign currency exposures. ABC Corporation is exposed to foreign currency rate fluctuations in the normal course of its business. A portion of our revenue, expense and capital activities are transacted in foreign currencies.

The objective of currency management is to minimize, to the extent possible, any effect the fluctuation in foreign exchange rates on ABC Corporation's earnings or fair values of assets and liabilities, without exposing ABC Corporation to any risks associated with transactions, which could be regarded as speculative.

Foreign currency risk management covers the identification of currency exposures, risk measurement and the actions employed to mitigate such risks. Currency risk mitigation entails cash flow management or utilizing hedging instruments to protect against volatility of earnings or the U.S. dollar (USD) equivalent of cash flows associated with changes in foreign exchange rates.

II. SCOPE

This policy applies to ABC Corporation and its subsidiaries (hereinafter referred to as "the Company").

III. POLICY GUIDELINES

1. The Company uses derivative instruments, primarily forward contracts, to hedge foreign currency exposures. Other hedging instruments such as plain vanilla options, risk reversals and participating forwards will be used only in special circumstances as described in Section VI.A,

Policy Exceptions. The maturity of a forward contract should be no longer than one year.

2. The Company will hedge its known exposures if it is determined that changes in foreign exchange rates are to have a material impact on earnings or fair values of assets and liabilities.

3. The Company does not use derivative contracts for speculative purposes.

4. The Company applies hedge accounting based upon the criteria established by SFAS #133, "Accounting for Derivative Instrument and Hedging Activities," whereby the Company designates its derivatives as fair value hedges, cash flow hedges or hedges of the foreign exposure of a net investment in a foreign operation (net investment hedge).

5. The Company estimates the fair value of derivatives based on quoted market prices and records all derivatives on the balance sheet at fair value.

6. The Company will hedge the fair value exposure of recognized foreign currency denominated assets or liabilities, or previously unrecognized firm commitment. For derivative instruments that are designated as fair value hedge, the Company recognizes its gains and losses, as well as the offsetting gains or losses of the hedged items, in earnings in the current period.

7. The Company will hedge exposures to the variability in the U.S. dollar equivalent of anticipated foreign exchange cash flows. These exposures arise from forecasted revenue and expenses that are denominated in non-U.S. dollars. For derivatives instruments that are designated as cash flow

This sample foreign exchange policy has been prepared by SVB based on its employees' experiences and observations. The policies and provisions are suggested language that reflect those experiences and observations. This is intended as a guide to assist a company in drafting its own policies that reflects the needs, appropriate risks, appropriate foreign exchange activities, appropriate risk management strategies and reporting procedures as determined by the company's management, board of directors, advisors (including tax, accounting and legal advisors). Companies should have any policy, including any proposed foreign exchange policy (whether or not guided by this sample) reviewed by their advisors and consultants as well as their management and board of directors.



hedges, the after-tax gain or loss from the effective portion of the instrument is reported as a component of “Accumulated Other Comprehensive Income (Loss)” in stockholders’ equity, and is reclassified into earnings in the same period or periods in which the hedged item is recognized in earnings.

8. The Company hedge net investment in certain foreign subsidiaries whose functional currency is the local currency. For derivative instruments that are designated as net investment hedges, the Company records the effective portion of the gain or loss on the derivative instrument together with the changes in the hedged items in “Cumulative Translation Adjustment” as a separate component of stockholders’ equity.

9. The Company will establish procedures for measuring and predicting the Company’s entire foreign exchange exposure on a periodic basis. The results will be reported to management so that they are aware of the potential exposure and may choose to take steps to limit these exposures.

10. The Foreign Exchange Policy will be generally implemented, reviewed and monitored by the Foreign Exchange Review Committee (FXC) that shall consist of the chief executive office, chief financial officer and the corporate treasurer.

11. The Company will only enter into derivative contracts with financial intuitions with a Standard and Poor’s Issuer Credit grade of BBB or better.

IV. TREASURY STRUCTURE, RESPONSIBILITY AND AUTHORITY

The corporate treasury department will be responsible for the execution of all foreign exchange transactions for the Company. Exceptions to corporate treasury executing the foreign exchange transactions may be made based on regulatory restrictions.

This policy recognizes that the corporate treasury department is not a profit center and any activities that might be perceived as speculative trading is in violation of this policy.

Corporate treasury will:

1. Execute transactions in accordance with this foreign exchange policy.
2. Monitor results of all hedging activity.
3. Report results of foreign exchange activity to the FXC at least quarterly, based on gain/loss thresholds.
4. Provide mark to market (MTM) information to the FXC and the accounting function monthly, within three days of the business month end.
5. Provide information on realized gains and losses to the FXC and the accounting function within three days of the business month end.
6. Run an MTM report of outstanding derivatives weekly. If any MTM report shows a change in unrealized losses of greater than U.S. \$100,000, then this report will be sent to the FXC within one day of the MTM report being run.
7. Send all trade confirmations directly to the assistant treasurer from the financial institution of the foreign exchange contract.
8. Provide all contracts-related information to the accounting function within three days of the business month-end.

The chief financial officer, corporate treasurer, assistant treasurer and the FX treasury manager shall individually have the authority to enter into foreign exchange contracts in the Company name and on its behalf within the guidelines set forth in this policy. The corporate treasurer will authorize any other individuals to be able to enter into



foreign exchange contracts in the Company's name. Any exceptions to this policy must be approved, in writing, by the chief financial officer. A signed dealing mandate will be sent to all financial institutions.

A. Responsibility of the Board of Directors: The board of directors has the following responsibilities with respect to the management of the Company's foreign exchange exposure:

- Review and approval of the Company's foreign exchange policy.
- Review of one monthly foreign exchange report per quarter to determine whether the foreign exchange activity adheres to the established foreign exchange policy, and whether the performance of the hedging strategies are reasonable given the objectives of the Company and the current economic and financial environment.

B. Responsibility of the Chief Financial Officer: The chief financial officer has the following responsibilities with respect to the management of the Company's foreign exchange exposure:

- Review and approval of the Company's foreign exchange policy.
- Approval of all relationships with banks and other financial institutions established by the treasury manager for the purpose of conducting foreign exchange business.

Review each foreign exchange position and monthly reports for foreign exchange compliance and performance. Approval in advance of all foreign exchange transactions that are not consistent with the guidelines prescribed in this policy. He or she must notify the board of directors of such transactions.

The chief financial officer will implement control systems and procedures that provide for an appropriate level of segregation of duties related to the conducting and accounting for foreign exchange activity.

C. Responsibility of the Treasury Manager: The treasury manager has the following responsibilities with respect to the management of the Company's foreign exchange exposure:

- Conduct foreign exchange activity that has been authorized and approved by the Company. This includes buying and selling foreign exchange spot and forward contracts and executing wire transfers.
- Conduct monthly reviews of foreign exchange positions and enter into new contracts as necessary.
- Preparation of the reports specified in this Foreign Exchange Policy for management review.

V. REPORTING

A. Report Contents: The Treasury Department will prepare, and the chief financial officer will review, a Monthly Foreign Exchange Report on accounting exposures that contains the following information:

1. The net transaction exposure of the Company by currency and recommendations of appropriate hedging actions.
2. Number of transactions (contracts purchased and sold) made during the month.
3. Summary of the current open foreign exchange contracts and explanation of the strategy behind the open positions.
4. Results of positions that have been closed during the month.
5. Reasons for and amounts of violations of or exceptions to the foreign exchange policy in the portfolio.
6. Status of any foreign exchange positions that might require management attention.



7. The Foreign Exchange Report will contain information for all transactions occurring during the month whether or not they have been fully settled as of the end of the month.

8. The Foreign Exchange Report will contain a management summary that will describe the status of the hedged positions and significant transactions made during the previous month. The management summary should be presented in a manner that will allow the chief financial officer and the board of directors to determine whether foreign exchange activity during the month has adhered to the Company's foreign exchange policy.

9. The treasury manager will prepare and the chief financial officer will review a quarterly report that measures economic exposure to foreign exchange risk. The measurement of economic exposure will comprise the foreign currency components of forecast revenue, cost of sales, operating expenses and tax provisions.

B. Report Distribution: The monthly Foreign Exchange Report will be distributed to the chief financial officer, corporate treasurer and assistant treasurer. Once per quarter, the report will go to the board of directors for review.

VI. INTERNAL ACCOUNTING CONTROLS

The treasury manager is responsible for recommending and the corporate treasurer is responsible for approving all hedging strategies. Only the chief financial officer, corporate treasurer, assistant treasurer, and the treasury manager shall have the authority to enter foreign exchange contracts that will provide foreign exchange coverage. The controller is responsible for implementing internal control procedures, accounting entries and ensuring that procedures are followed.

Once the chief financial officer has approved a hedging strategy, the treasury manager is authorized to execute the contracts with an approved bank. The following procedures shall be followed:

1. All transactions will be recorded immediately upon execution on the FX Contract Log kept by the treasury manager. The aggregate amount of hedge contracts by currency should not deviate from the approved covering action.

2. Immediately upon execution, the treasury manager will provide all details of each contract to the controller and send the bank a written contract confirmation listing the pertinent details of the contract: currency, amount, spot and forward rates, value date and purpose of hedge. These contracts shall be crosschecked against the FX exposure log sheet. These confirmations will be used as the primary means of checking the accuracy of the confirmation issued by the banks.

3. Bank confirmation of foreign exchange transactions will be sent directly to the controller. The controller, or designated person, shall keep a log of incoming confirmations, filed by bank. If the confirmation has not been received within 10 working days after the execution date of the contract, the controller will personally contact the bank to verify that the trade is on the bank's records and request a confirmation in writing from the bank.

4. The controller shall compare the bank's record of the transaction with the Company-originated confirmation. If the two records concur, the controller will sign the bank confirmation and return it to the appropriate bank (keep copies of the signed confirmation for the controller's and treasury manager's files). If there is a discrepancy, the controller will personally contact both the bank and the treasury manager to determine whose records are in error. The chief financial officer shall be notified of all discrepancy occurrences.



5. At the end of the month, the controller, or a designated person, shall review all incoming and outgoing cash transfers pertaining to foreign exchange. The controller shall ensure that the appropriate amounts were received/paid on the appropriate dates. Specifically, cash transfers related to FX contracts should be reconciled with the Monthly FX Contract Summary and supported by copies of the confirmations. The same procedure shall be performed at the end of each quarter for the entry supporting unrealized gains / losses on open FX contracts.

VII. REVIEW OF FOREIGN EXCHANGE MANAGEMENT

A. Policy Exceptions: This policy provides guidelines for the management of the foreign exchange hedging. Under some circumstances, foreign exchange transactions that are appropriate for the Company and entirely within the spirit of this Foreign Exchange Policy as described in the Objectives section may not fall within the prescribed quantitative guidelines contained in this Foreign Exchange Policy. When the treasury manager determines that a foreign exchange transaction is in the best interest of the Company and is consistent with the objectives of this Foreign Exchange Policy, the transaction is permitted even though it is not consistent with the quantitative guidelines, subject to the following controls.

- Whenever a transaction is made that is an exception to the quantitative guidelines, the chief financial officer must approve the transaction in writing prior to execution.
- It will be reported to the chief executive officer and the board of directors in the monthly FX Report as required by Section IIA of this policy.
- If the policy is breached, the chief financial officer must be notified immediately. The chief financial officer is then responsible for notifying the board of directors of the breach of policy, either immediately or in the quarterly Foreign Exchange Report, at his or her discretion.

B. Policy Review:

- This Foreign Exchange Policy will be reviewed annually, at a minimum, to ensure that it remains consistent with the overall objectives of the Company and current with financial trends.
- The Foreign Exchange Policy may be reviewed and updated more frequently if conditions dictate.
- Proposed amendments to the Foreign Exchange Policy should be prepared by the treasury manager, and should be reviewed and ratified by the chief executive officer, chief financial officer and the board of directors.

Fx Policy Approved by:

FULL NAME

TITLE

DATE



Glossary

Cash Flow Hedge

A cash flow hedge is a hedging relationship in which the variability of the hedged item's cash flow is offset by the cash flows of the hedging instrument. In addition, the hedged item is a forecasted transaction or balance sheet item with variable cash flows. To qualify for cash flow hedge treatment, a key requirement is that exposure involves the risk of an uncertain (i.e. variable) cash flow.

Currency Options

By paying an upfront premium, over-the-counter option contracts give clients the right to buy or sell a foreign currency at a predetermined rate (strike price) at a specific time frame in the future. If exchange rates shift to the buyer's advantage at the option expiry date, the buyer can exercise this option. If exchange rates are not favorable on the expiry date, the buyer may choose to forfeit the option.

Currency Swap

A currency swap is a foreign exchange agreement between two parties to exchange a given amount of one currency for another and, after a specified period of time, to give back the original amounts swapped. Currency swaps can be negotiated for a variety of maturities up to at least 10 years and allow for locking in currency rates in the spot market and the forward market. Swaps are an effective tool to manage cash flows and hedge against maturity dates.

Dealing Mandates

A letter signed by the corporate treasurer and assistant treasurer which lists those who are authorized to enter into foreign exchange contracts. This also includes immediate verbal and written notification of the change in status of any employee authorized to conduct foreign exchange business.

Derivatives to Avoid

In the opinion of Silicon Valley Bank's Foreign Exchange Group, it is inappropriate to use derivative financial instruments which can be characterized or defined as leveraged, or which cannot be marked-to-market easily. The use of historical rate rollovers on expiring forward contracts should be avoided as these delay or disguise accrued gains or losses. Avoid mark-to-market or cash settlement at initial contract maturity.

Fair Value Hedge

A fair value hedge is a hedge of the exposure to a change in fair value of a recognized asset, or liability, or of an unrecognized firm commitment attributable to a particular risk.

Foreign Currency

The company is U.S.-based; therefore the term "foreign currency" refers to all currencies other than the U.S. dollar.

Forward Contracts

Forward and forward window contracts are used to lock in exchange rates (a forward rate) for a specific future date, or for a range of dates (a window). Forward contracts are often used as a tool to eliminate the impact of adverse currency moments and to protect profit margins. A forward rate is calculated by taking the spot rate and adding or subtracting forward points. Forward rates are determined by the interest rate differential between the countries of the two currencies which are being exchanged.

Foreign Exchange Contract

An agreement made to convert one currency into another currency at a specific rate on a specific date. The term in this policy includes spot and forward contracts, as well as options. Options give the purchaser the right, but not the obligation to purchase a currency within a specified time frame. The chief financial officer, corporate treasurer or the assistant treasurer prohibits selling an option to an institution unless it is part of an underlying structure that has been approved.



Foreign Exchange Exposure

A foreign exchange exposure may arise when assets or liabilities are denominated in foreign currencies. These assets and liabilities include, but are not restricted to cash, buildings, plant and equipment, receivables, payables (including purchase orders) and securities.

Mark-to-Market Report

A report showing the current losses or gains should the Company have to close out its outstanding contracts.

Monthly Accounting Foreign Exchange Rates

Internal foreign exchange rates will be established each fiscal month based on the closing rates on the last business day of the prior month. They are derived from the rates available at 8 a.m. EST on Bloomberg. Should this Wednesday be a holiday, then the rates will be issued on Tuesday.

Budget or forecast rates are established quarterly, based on the spot rate and three-month forward points from Bloomberg. Should Bloomberg be unavailable, rates will be calculated as the average forecast inputs from a minimum of two foreign exchange or bank institutions instead. The rates must be reviewed and approved by the chief financial officer, corporate treasurer or assistant treasurer.

Non-Deliverable Forwards

Non-deliverable forwards (NDFs) are used in emerging financial markets where standard forward contracts and foreign currency options do not exist and where currency convertibility is restricted. NDFs allow for hedging future currency exposures through a synthetic forward transaction. Contracts are settled in cash and are calculated using the difference between the contracted NDF rate and prevailing spot rate on a predetermined fixing date.

Speculate

To enter into transactions not directly related to a foreign exchange exposure. Additionally, speculating also arises from anticipating that a foreign exchange rate will move in one direction, and not entering into a contract to protect the Company, where an exposure exists.

Spot Contracts

Spot contracts are typically used for foreign currency payments for immediate delivery or for converting foreign currency receipts into U.S. dollars. Spot rates are prevailing market rates. By convention, spot contracts are binding agreements that lock in the purchase or sale price of foreign currency for delivery and payment within two business days.

Swap

An agreement in which two parties exchange specified amounts of two different currencies and repay the amount at a specified future date at a predetermined rate that reflects interest payments and repayment of the principal.

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