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ICANN

8th of March, 2018

Comments by the Registrar Stakeholder Group (RrSG) on ICANN's Draft Operating Plan and Budget for Fiscal Year 2019

Dear Xavier,

The Registrar Stakeholder Group (RrSG) welcomes the opportunity to provide input on ICANN's draft Operating Plan and Budget for the fiscal year 2019<sup>1</sup>. We also thank you and your team for preparing these comprehensive documents in a more readable format compared to previous years.

We have carefully reviewed the draft Operating Plan and Budget in order to understand the implications of the proposed budget on the organization and community, and in particular its potential impact on RrSG's interests at ICANN and on our members.

Generally, we note that this budget considers flat funding growth, and makes the necessary adjustments throughout the organization. In our capacity as private businesses, this is a situation with which we are familiar, and we recognize the difficult decisions that it brings. And while we respect that this is reflected in the FY19 budget, we are of the mind that the adjustments are not sufficient to address the anticipated shortfalls.

### **Funding**

As an example, consider top line funding. Our chief concern is that the FY 2019 budget fails to recognize that overall industry growth is flat. Instead, the budget projects funding of \$138 million, which is \$3 million above the FY18 forecast of \$135 million. Much of this builds upon the 2017 figures, with projected growth in Registry and Registrar transactions fees (Doc 1, p. 10).

These revenue projections presume growth in the domain market that is not aligned with industry expectations. This sentiment is corroborated by statements made by several publicly-traded registries and registrars, and industry studies<sup>2</sup>. RrSG members report that some level of activity last year was the result of one-time events (e.g., domain speculation in the Chinese market), and not likely to recur in 2019.

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<sup>1</sup> <https://www.icann.org/public-comments/fy19-budget-2018-01-19-en>

<sup>2</sup> For example, Verisign's Domain Name Industry Brief reports 2017 growth of less than 1%, after accounting for ccTLDs. [https://www.verisign.com/en\\_US/domain-names/dnib/index.xhtml](https://www.verisign.com/en_US/domain-names/dnib/index.xhtml)

These marketplace data points indicate growth at or below your “worst case” assumptions<sup>3</sup> (Doc 2, p. 13). This incongruence between growth estimates provided by industry and the ICANN funding assumptions must be reconciled, with deference towards industry (not ICANN) assumptions.

For example, consider funding derived from Registrar Accreditation Fees. We expect that changes in the market landscape will reduce the overall number of accredited Registrars, either from retirement of entities solely established for “drop-catch” services, or via general industry consolidation. In recognition of these changes, ICANN’s projections for these fees should be reduced, or at least flat.

Taken together, these concerns represent a disconnect between ICANN funding projections, and the revenue expectations of Registrars (and presumably, gTLD Registries) from which these funds are derived. In our view, ICANN’s assessment of budgetary “risks” are too optimistic<sup>4</sup>, and actual performance for FY19 will be significant lower.

The RrSG acknowledges the new outreach efforts undertaken by ICANN Staff in recent years to develop the budget, but additional steps, including direct engagement with contracted parties on funding projections, would also be welcome.

### **Expenses**

Registrars continue to question the priority and funding levels of certain programs. Chief among these is the regional engagement program. It is still unclear what the overall objectives of this initiative is, or how its success against its goals is measured. As such, we cannot support the FY19 budget’s maintenance of FY17 and FY18 expense levels. This program should be targeted for significant reductions in FY19. Additionally, we note that the budget outlines savings to be realized via reduction in translation services to an “as-needed” basis<sup>5</sup>, and we support this change. Translation of key agreements, reports, and documents has value, but real-time audio translation of all meetings is both expensive and not justified by demand. ICANN should consider adopting some minimal demand threshold for language translation, and encourage the Community to self-support its needs in this area.

### **Prioritization of Policy Development Work**

By contrast, we note that the same page shows a freeze on expenditures for new or priority policy work. Given that this work is, in our view, the primary mission and function of ICANN, we encourage you to guard this area against any future cuts, and ensure it is appropriately resourced.

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<sup>3</sup> Doc 2, Sec. 2.2, p.13

<sup>4</sup> Doc 2, Sec. 2.4, p.18

<sup>5</sup> Doc 2, Sec. 2.5.2, p.21

More specifically, we note that FY19 draft budget does not account for development or resources towards the next round(s) of new gTLDs.<sup>6</sup> It is anticipated that the Subsequent Procedures PDP will complete its work by December 2018 with an expectation that consensus recommendations will be adopted by the Board prior to the conclusion of FY19. If ICANN does not start budgeting for start-up preparation costs, as well as for employees and professional services in FY 2019, there is no possibility that ICANN will be in a position to be ready to commence subsequent procedures in FY 2020. ICANN cannot afford to wait until after the ICANN Board approves the GNSO recommendations to start preparatory work on implementation.

### **Headcount**

With regard to overall headcount, we are not clear why ICANN is projecting growth of a additional FTEs in FY19, when compared to FY18 Projections or FY17 Actual. Given the overall industry environment where organizations are being asked to do more with less, we are not convinced these additional positions are needed. Several (7) of these new hires are allocated for the Legal/Governance team<sup>7</sup>, when compared to FY17, and it is not clear what changes are driving this growth. Furthermore, many providers note a growing trend to outsource back office functions, and believe ICANN is not fully leveraging this potential to halt the growth in headcount.

The RrSG is not yet calling for cuts to ICANN Staff, we believe the organization should strive to maintain headcount at FY17 Actual year-end levels.

### **Travel Support**

Our last area of focus is the budget allocated for sponsored travel and the Fellowship program. While we support the purpose of programs like Fellows and NextGen, we have been concerned about their growth in recent years, especially when they appear to come at the expense of core activities, such as the aforementioned gTLD policy development work. We are also concerned that not enough effort has been put into measuring the outcomes and effectiveness of these programs, required to justify the travel expense.

Finally, we encourage additional cuts to the number of people receiving sponsored travel, and raising the threshold for non-policy work that is considered for sponsored travel. In particular, we remain concerned about the increased number of government representatives receiving travel funding to participate at ICANN, especially travelers representing governments who are publicly hostile to the Multistakeholder Model, or are the subject of (International, OFAC) economic sanctions.

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<sup>6</sup> See Document #2, Section 2.5.1, on page 21

<sup>7</sup> Doc 2., Sec. 2.1.3, p. 12

Once again, many thanks to you and your team for considering RrSG comments on the proposed FY19 budget. We look forward to further engagement with you as this draft is finalized, and welcome any questions or comments you may have for us.

Best regards --

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Chair, Registrar Stakeholder Group