

Comment re: [ICANN Reserve Fund: Proposed Replenishment Strategy](#)

1. ICANN's Quandary (source of slides below: ICANN.org):

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Shortfall

- Target level = 12 months of Operating Expenses
 - Operating Expenses in Draft FY19 Budget: US\$138m for 12 months
- Amount of Reserve Fund as of 31/12/2017 (most recently published): US\$70m
- Shortfall: US\$68m

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Guiding principles

- Appropriate replenishment period: 5 years.
- Contribution from ICANN Org not compromising delivering its mission.
- Avoid burden on contracted parties and by default registrants.
- Take into account existing public comments

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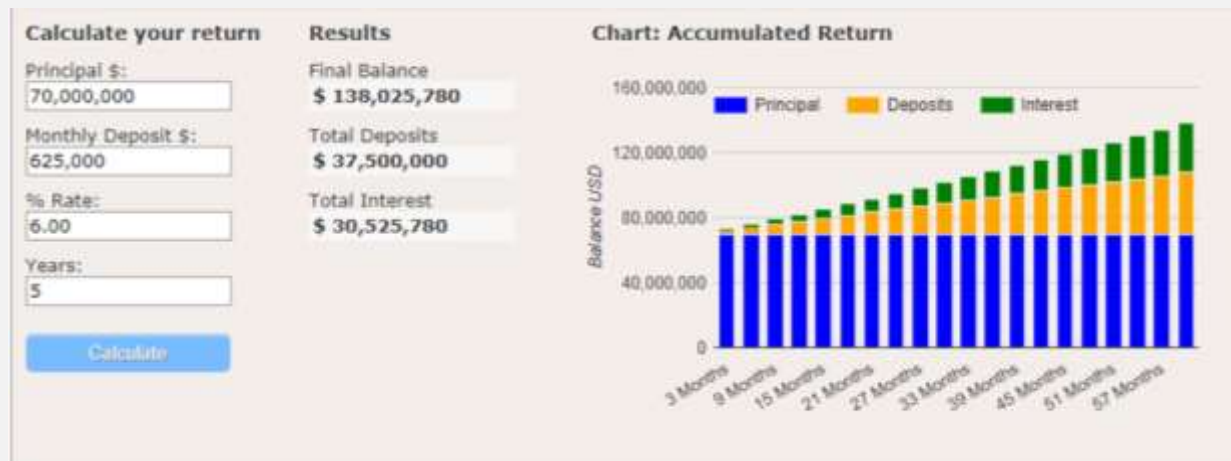
Replenishment strategy considered

- Replenishment period not to exceed 5 years (principle #1)
- Over 5 years, ICANN Org operational savings to contribute US\$15m (principle #2)
- New gTLD Auction Proceeds: US\$36m, for IANA Stewardship Transition expenses
- Remainder shortfall of US\$17m (68 less 15 less 36):
 - Additional ICANN Org contribution from operational savings
 - Additional auction proceeds allocation
 - Additional funds from fees on contracted parties

Note 1: *\$15M / 5 years = \$3million per year or \$250,000 per month

Note 2: ICANN CFO stated during the webinar that ICANN's historical annual rate of return on invested funds (for the past 5 years) has been 6%

2. Run the numbers:



3. Conclusion and Recommendation:

- ICANN org could commit to \$250,000 per month (\$15m over 5 years) in operational savings according to the webinar presentation by the ICANN CFO (see Note 1 on page 1)
- ICANN needs an additional \$375,000 per month (375K+250K=625,000) for 5 years to replenish reserves to \$138,000,000 (see chart above).
- Only realistic options are additional operational savings or identifying funds from which interest generated would equal \$375,000 monthly.

Note 3: see comment attached as appendix below, deeming unacceptable increases in fees to contracted parties (or registrants), or encroaching on the principal of auction proceeds or application fees. However, based on the webinar presentation, there does not appear to be any prohibition against utilizing the interest generated by these funds to replenish the reserve fund. \$375,000 per month = \$4.5 million year. \$80 million of principal will generate \$4,800,000 in interest (at 6%) per year (more than what is needed).

Accordingly, utilize interest (only) earned on one or more sources of funds already identified by the ICANN CFO or identify an additional \$4.5 in annual operational savings in order to replenish the reserve fund in 5 years to the target goal.

My [comment on the ICANN FY19 budget](#) identifies multiple sources of possible operational savings. I have only one additional suggestion for consideration to achieve operational savings-*Eliminate one of the three ICANN meetings, change to a calendar accounting year, adopt the ICANN budget for the coming calendar year at the annual meeting in Oct-Nov, and hold the second ICANN meeting approximately six months after the annual meeting.*

Respectfully submitted,

John Poole, domain name registrant, and Editor, DomainMondo.com

Appendix below.

Appendix: from a comment submitted by Kurt Pritz (former ICANN CSO) re: ICANN FY19 budget (see link below)(emphasis added)--

Reserve fund. Recent discussions have suggested these solutions to restore the former reserve fund level.

- 1) increased contracted party fees
- 2) use of auction funds
- 3) use of gTLD application fees

Each of these is unacceptable.

First, the reserve fund can be replenished over many years; there is no rush. The important metric is not the amount of annual replenishment but the direction. So long as ICANN establishes and manages to a budget with an annual surplus, that is fine. We need not pay it all back in 2, 4 or more years.

The reserve fund was created to protect against the cessation of funds, not against unexpected expenses. Unexpected expenses should be managed by the CEO. If funds are drained by an unexpected need, those funds must be replaced by reducing some other internal use of the funds. The organization must be managed to accommodate that. CEOs are faced with these issues every year and deal with them in this way. If ICANN does this also, then a positive cash flow can be maintained.

Use of excess applications fees is a clear violation of ICANN policy that states that application fees should cover application costs. I don't see any allowable use of the funds beyond a refund to applicants or the funding of a program agreed by a consensus of the applicants.

Similarly, **use of auction funds to fund a reserve requires community approval.** I, for one, can not imagine a worse use of funds that to reserve them against the occurrence of ICANN budget dilemma.

The exhaustion of reserve funds occurred due to the fiscal mismanagement of the IANA transition and inexplicable over-estimation of registry fees. Both of these lessons should have caused the Board and staff to implement better management controls and judgment.

Finally, increasing registry and registrar fees reminds me of my water company. They enforced strict conservation practices and (gasp!) their revenue went down. So they proposed to raise water rates and the community rained down on them – complaining of bloated overhead and staffs. The rate increase was beaten back.

When contracted parties first agreed to per domain registration fees, then CEO Paul Twomey promised (paraphrasing), "ICANN's fate is tied to yours - as your revenue increases, so will ours, if your revenue decreases, ICANN will suffer that with you."

The "shortfall" in revenue is nothing but a management error in judgment when budgeting. That error should not result in a fee increase. It violates the original commitment made when the contracted parties supported ICANN by approving per domain registration fees.

<https://mm.icann.org/pipermail/comments-fy19-budget-19jan18/2018q1/000016.html>