

Comments from the Internet Infrastructure Coalition (i2Coalition)



On ICANN Reserve Fund: Proposed Replenishment Strategy

Introduction

The i2Coalition appreciates the opportunity to provide comments on the draft document addressing the ICANN Reserve Fund.

The i2Coalition's diverse membership represents both large and small Internet infrastructure providers such as web hosting companies, software services providers, data centers, registrars and registries. The i2Coalition has several key goals within ICANN, but chief among them is continuing to build a voice for underrepresented parts of the Internet ecosystem – in particular web hosts, data centers and cloud infrastructure providers – and ensuring that accountability and transparency are paramount. The i2Coalition brings unique representation to ICANN as it is made up of companies representing the broad ecosystem of Internet infrastructure companies.

Our comments focus on our overall disagreement with the way that this replenishment exercise is being brought to the community.

Background

We understand that the most recently published level of the Reserve Fund is US \$70 million (as of end December 2017). We know that using the FY19 Draft Budget as a measurement for the 12 months of Operating Expenses, the Reserve Fund minimum level would be US \$138 million, resulting in a minimum shortfall between the currently published level and the minimum target level of US \$68 million.

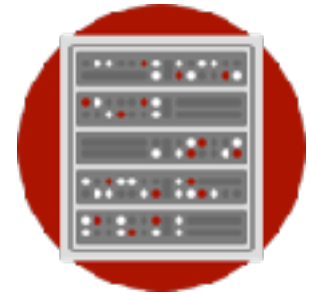
The following categories are then presented in order to determine from where that amount of money will be drawn:

- Contribution from ICANN Org
- Auction Proceeds
- Surplus funds from the new gTLD program
- Additional Fees from Contracted Parties

Target Level Of The Reserve Fund

The topic framing indicates that ICANN needs to come up with \$68 million immediately, and turns to the community to justify this decision, outlining one reasonable way of doing so -- Contribution from ICANN Org -- and at least two unreasonable and unacceptable ways of doing so.

Instead, this exercise should illuminate the fact that ICANN has not taken a fiscally conservative approach to budgets. We recognize that the Board has set



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the Reserve Fund target at one year's operating budget¹, but this directive could be read to link the Reserve Fund target to the level of the caretaker budget, rather than the full fiscal plan. This would presumably be lower than the \$68 million "deficit" in the current Reserve Fund.



Funding Sources For Reserve Replenishment

Though no i2Coalition member consensus exists around the use of surplus funds for reserve replenishment, the I2Coalition membership believes strongly that the following two funding sources are off limits, and should not be considered to replenish the Reserve Fund:

- New gTLD Auction Proceeds
- Additional Fees from Contracted Parties

New gTLD Auction Proceeds are currently the subject of existing cross-community work (CCWG-Auction Proceeds), and dispositioning funds from these proceeds while this work is underway would be a blatant disregard of the community's role in managing these funds.

Increasing transaction and accreditation fees for Contracted Parties is also unacceptable. Registries and Registrars would rationally be expected to pass these increases along to their customers, which ultimately asks millions of domain name registrants - mostly individuals and small businesses - to bear the burden of ICANN's mismanagement of the Reserve Fund.

Replenishment Through Cost Control

We have arrived at this situation with the Reserve Fund because ICANN has insufficiently controlled for the expansion of its budget, in an era of flat or declining proceeds. This made ICANN vulnerable to a significant, one-time event (IANA transition), and ICANN had no choice but to tap its Reserve Fund. It is therefore our position that the only appropriate Reserve Fund replenishment strategy is for ICANN to cut its existing cost structure, and contribute the surplus to the Reserve Fund over several years.

Now is the time to decrease headcount, and get the ICANN budget down to levels that will allow it to sustain itself long term. As a point of reference, the ICANN headcount was only 246 in FY14². For FY18, budgeted headcount exploded to 414³, a headcount increase of 68%. ICANN must ONLY consider funding sources that come through rigorous cutting of the ICANN org budget over a period of years. Given that funding from registries and registrars is contractually assured, a Reserve Fund built up to the 12 month level over a period of 2-3 years, as it trims budgets to live within its means, will still provide ICANN with the fiscal stability that the community needs. One important side effective of ICANN org reductions



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¹ <https://www.icann.org/resources/board-material/resolutions-2018-02-04-en#2.a>

² <https://www.icann.org/news/blog/want-to-learn-more-about-icann-s-financials>

³ <https://www.icann.org/en/system/files/files/adopted-opplan-budget-fy18-15aug17-en.pdf>

in spending is that it also reduces the amount of the overall funding level of the reserve fund.

For instance, reducing expenses from \$138 million to \$120 million would result in the reserve fund being fully funded in just three years, assuming a worst case of steady state revenue and 4% year over year inflationary operating expense increases. Yes, such drastic cuts in spending will be difficult, but ICANN must do everything in its power to optimize the workforce in place and consider eliminating redundant positions and also utilizing skilled labor in lower cost of living areas, both in the US and outside of the US.

ICANN has been trimming community programs that have gotten too big in the past few years. It is time to cut headcount, offices, and salaries within the staff and support organization, which is simply too large to sustain itself.

ICANN is not a Non-Government Organization. ICANN plays a critical role in ensuring the security, stability, and resiliency of the IANA functions, and in particular, the DNS root zone. Appreciating this critical role is key to understanding the difference between ICANN and other organizations. The global economy has flourished due to the effective and centralized management of the DNS root zone. Due to the global economic importance of the DNS, ICANN needs a path to assured economic stability that is not sustained at artificial levels by stealing from unintended sources of revenue that should not and do not belong to it.

We believe that this is the only responsible path for ICANN to take as it performs its function serving the global Internet community.

Concluding Comments

Thank you for the opportunity to comment. We look forward to continuing to work with the group as it moves toward finalizing its work.



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