

RrSG Response to ICANN Reserve Fund: Proposed Replenishment Strategy

The Registrar Stakeholder Group (RrSG) appreciates ICANN Org's request for further input on the ICANN Reserve Fund's Proposed Replenishment Strategy.¹

Background:

The RrSG understands that the Reserve Fund is intended to cover 12 months of ICANN's operating expenses and that, in line with the FY19 draft budget, the corresponding minimum target level is therefore set at US \$138 million. As a result of unbudgeted withdrawals from the Reserve Fund to cover IANA transition expenditure, the Reserve Fund has depleted to US\$ 70 million, leaving a US\$68 million shortfall that needs to be replenished.

In order to meet the required replenishment, contributions from the following have been proposed as options:

- Contribution from ICANN Org
- Auction Proceeds
- Leftover funds at the end of the new gTLD program
- Additional Funds from Contracted Parties

Target Level:

As stated in our initial comment on 30 November 2017, the majority of RrSG supports the now agreed duration of reserves being 12 months, as adopted by the ICANN Board in Feb 2018². We do, however, question the calculation of US\$138 million as the necessary budget for 12 months of what would be considered "residual" operations and not full-function operations. The RrSG notes the ongoing public comments on the ICANN Draft FY19 Operating Plan and Budget and Five-Year Operating Plan Update, and that sections of the community have questioned the level of \$138 million as appropriate for ICANN Org's operational costs over 12 months. Should the budget for operational costs be reduced, the level of the Reserve Fund should also be lower.

Moreover, RrSG suggests that it is not appropriate to set the level of the Reserve Fund on the basis of operational budget, as the main reason why a Reserve Fund would be called upon would be in the event of a winding down of ICANN's operations. When operating solely on its reserves, a significant portion of ICANN's spending would become unnecessary, including the cancellation of meetings and all associated costs (ie, venue and travel support), outreach, future projects and deep cuts in staff commencing well before the end of the 12 month period. The RrSG believes that the Reserve Fund target amount should be closer to the IANA Caretaker Budget, providing only for essential services, which would significantly reduce operational costs.

¹ <https://www.icann.org/public-comments/reserve-fund-replenishment-2018-03-06-en>

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

The RrSG would like to see ICANN Org publish a 12 month emergency contingency plan and associated costs, which the Reserve Fund target amount could then be appropriately linked to.

5 year replenishment period:

The RrSG can support replenishment over a period of 5 years, which is a reasonable length of time to spread the cost of restoring the fund to target levels, while mitigating the risk of being underfunded within a finite period. However, the RrSG is convinced that with a more accurate (and lower) target for the reserve fund, the shortfall will be less, and the RrSG anticipates that less time will be needed for the replenishment.

FUNDING SOURCES

Contribution from ICANN Org:

The RrSG completely supports ICANN Org being wholly responsible for replenishment of the Reserve Fund, be that US\$ 15 million or more. RrSG believes ICANN Org should significantly reduce its operational spending and to annually contribute sufficient surplus funds to the Reserve Fund over 5 years, and that this is an appropriate justification for reduced spending. Looking at projections for 2017 - 2020, sizable increases have occurred and are still expected for both staff headcount (+14%) and personnel costs (+37%). This is in spite of an obvious need to reduce, rather than increase spending, in keeping with the flat growth in the domain name industry, and the need to be prepared for significant one-time expenditures, like the IANA transition. In addition to the budget cuts already planned for FY19, the RrSG believes operational spending should be making further year on year reductions.³

If the Reserve Fund amount was to be reduced to a pre-agreed, realistic budget required for 12 months of emergency operations (as explained above), then it would likely already be sufficiently replenished after ICANN Org's \$15 million contribution, achieved by aggressive and appropriate reductions in overall costs.

No contribution from Auction Proceeds:

The RrSG opposes using Auction Proceeds to replenish the Reserve Fund. Under the New gTLD program, Auction Proceeds were never intended to support ICANN operations. The RrSG is concerned that this is being proposed while the potential use(s) of Auction Proceeds are the subject of ongoing community work which have not yet been finalised. It is anticipated that this work will conclude in the near future, and will further establish a clear separation between Auction Proceeds and ICANN operations. The RrSG is concerned about the potential precedent set by allowing use of Reserve Funds by ICANN Org when the operations budget has been overspent. Additionally, the Reserve Funds are primarily intended to be used by ICANN operations as a last resort in the event of impending closure. If the Reserve Fund is replenished by Auction Proceeds, and the Reserve is subsequently used for ICANN operations, then that is, in effect, indirectly using Auction Proceeds to pay for ongoing ICANN operations.

³ <https://www.icann.org/public-comments/fy19-budget-2018-01-19-en>

No contribution from Contracted Parties:

Increasing funds / fees on Contracted Parties must be clearly rejected. Contracted Parties will rationally pass these increases along to their customers, asking millions of domain name registrants around the world to bear the burden of the replenishment of ICANN Org's Reserve Fund. The market for domain names is extremely price sensitive, and operating margins are small, growth is flattening (at least, in developed markets), so it is not unreasonable to expect that this would suppress the growth of the DNS, and potentially push it in to decline.

Support for RySG response:

The RrSG has also seen and supports the Registry Stakeholder Group (RySG)'s response to the ICANN Reserve Fund: Proposed Replenishment Strategy, which is mostly making the same points and recommendations as the RrSGs.

Summary:

In summary, the RrSG would like to reiterate the necessity to reassess the 12 month operations budget amount that the Reserve Fund is based on. By doing so, the need to find contributions outside of the \$15 million from ICANN Org either significantly reduces or disappears entirely. In turn, funds from Auction Proceeds or increased fees on Contracted Parties are not appropriate to allocate to the Reserve Fund.