



Operational Strategies

The final part of this strategic plan outlines ICANN's organisational and financial evolution over 2003–2006.

To fulfill the obligations and initiatives outlined in this Strategic Plan and detailed in the MoU, ICANN must have a strong operational structure and a reliable financial basis. Several of its responsibilities are fundamental to fulfilling ICANN's mission and core values, and require the personnel and financial resources to ensure that they are not merely occasional activities. These include implementing efficient work tracking systems, improving contractual oversight and compliance, providing appropriate support to facilitate an expanding gTLD community, creating a vibrant, multi-lingual web presence, and extending global outreach of technical expertise to Internet communities in developing nations.

In this section of the Strategic Plan, we propose a structural and financial foundation that will enable ICANN to develop and maintain these initiatives, and to bring the MoU to fulfilment and closure. Performing these initiatives on this foundation will see ICANN evolving to a stand-alone entity, able to pursue the roles asked of it by the Internet community, with a funding model that will provide for that continuing service.



Priority Five: Organisational Foundations

Building an appropriate selection of effective business practices into ICANN's organisational framework will underpin ICANN's execution of the strategic priorities outlined in this Plan. These practices span governance issues, organisational structures, and operational controls.

The first set of initiatives is to consolidate ICANN's organisational structure to provide a solid footing to maintain and strengthen ICANN's operational quality. A new globally-responsive management structure is proposed (see 5a.1), together with the policies and incentives to attract the culturally diverse quality staff needed to perform ICANN's mission (see 5a.ii). While confirming that global presence, ICANN proposes to remain incorporated as a non-profit public benefit corporation in the legal jurisdiction of California, a position that it reviews annually (see 5a.iii).

ICANN's governance policies ensure that its Board fairly represents both the global and technical breadth of its stakeholder communities, a representation that is extended by the attendance of non-voting liaisons who attend Board meetings, receive Board materials and participate in Board deliberations. The transparency of the Board's actions is maintained by a range of governance policies, including those on conflicts of interest (see 5b.i). Any operational or Board decision of ICANN may be revisited through a three-tiered system of formal review (see 5b.ii). These measures among others ensure that ICANN continues to operate in the public interest, and remains uncompromised by any particular interest group (see 5b.iii).

In fulfilling its prescribed mission for the international Internet community, ICANN provides a means for converging views on technical Internet issues to be addressed in "Internet time". With more issues being resolved through the ICANN process, and more stakeholders being part of that resolution, there is a need for the transactions and projects of ICANN's policy development process and its core services to remain as streamlined and efficient as possible. To this end, ICANN proposes to invest in these processes, in two ways. High-speed transaction systems that automate operational processes where appropriate will improve client transactions, human resource requirements and information management, both internally and for ICANN's stakeholders (see 5c.i). A competent project management system will also facilitate the planning, management and reporting on the over 60 initiatives for which ICANN currently has responsibility (see 5c.ii).

5a Organisational Structure and Personnel

Consolidate ICANN's organisational structure to maintain and strengthen ICANN's operational qualities and global responsiveness.

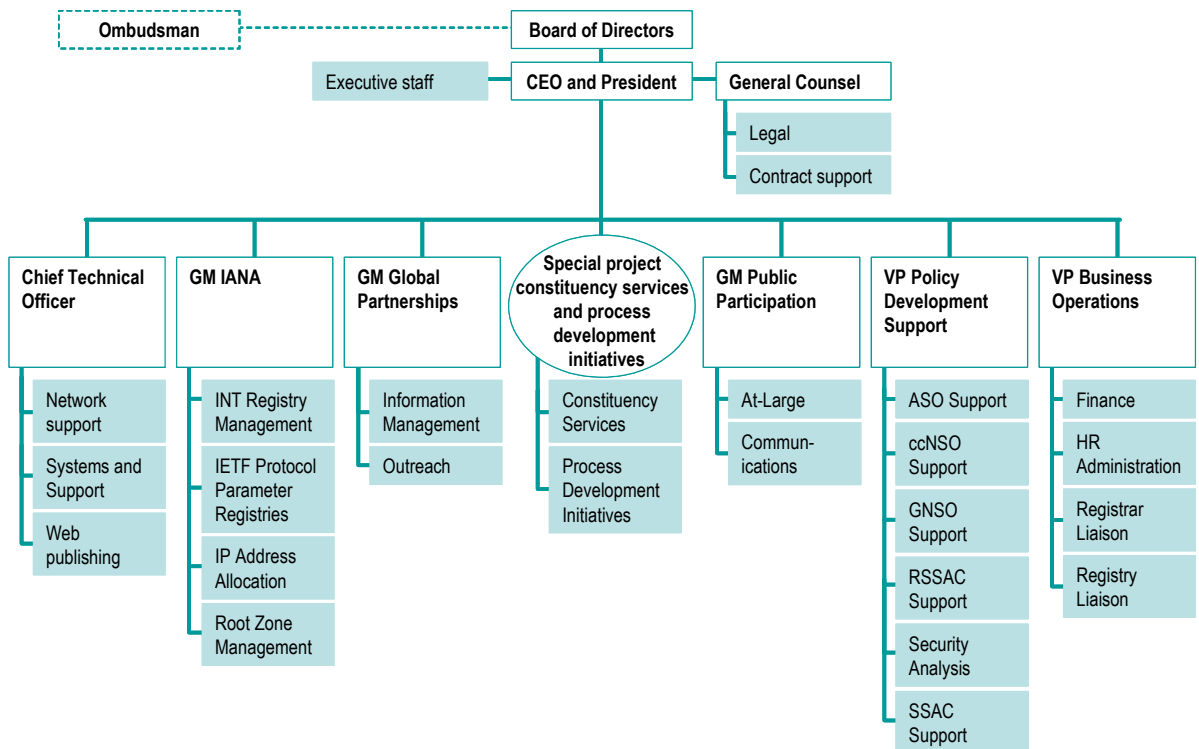
5a.i) Review the operational structure and personnel requirement, including executive compensation and management succession plan

ICANN serves many constituencies of the global Internet community. It is important that its staffing and operational structure reflect and serve their diverse needs, in so far as they relate to ICANN's mission.

The organisational structure developed through 2003-2004 has been designed to serve that purpose into the future. It enables ICANN to be more operationally efficient, to provide better support for new issues and policies being discussed by the ICANN community, and to partner with local Internet communities and related bodies in promoting effective local administration of key technical aspects of the Internet.

These benefits are being achieved in the new organisational structure by establishing a new globally-based management team with seven direct functional and business area reports to the president. At the top level, this clearly delineates ICANN's internal and external operations, establishes clear lines of accountability for key operational and strategic functions and, through the VP Policy Development Support and the GMs Global Partnerships and Public Participation, better recognises the important relationships between ICANN, the ICANN Stakeholders and the broader Internet community.

Figure 13 ICANN organisational structure, 2004



The two Vice Presidents in the new structure are the Vice President, Policy Development Support and the Vice President, Business Operations.

- The creation of the Vice President, Policy Development Support recognises the importance of the technical community and other supporting groups to ICANN. The Vice President provides high-level oversight of the liaison and staff support between the various ICANN Supporting Organisations (and their constituencies), the Advisory Committees and the technical community. The role ensures that appropriate support is provided for these organisations and committees.
- The Vice President, Business Operations is accountable for all ICANN support functions other than legal, Board Secretariat functions and information technology. This position has responsibility for controlling and reporting on ICANN finances, designs and provides metrics to monitor and assess the productivity of ICANN operations, and so has a key role in improving ICANN's planning capability and delivery standards. Another part of the role is oversight of the gTLD Registry and Registrar operations, as well as other operational areas of the organisation such as meeting management, office management, and human resource management.

Also reporting directly to the CEO are four General Manager roles:

- A new dedicated GM IANA recognises the importance of the IANA function to the Internet community. The GM IANA manages the relationships and communication between IANA and the relevant communities, as well as taking accountability for the operational efficiency and effectiveness of the IANA function.
- The GM of Public Participation & Communications is accountable for the relationship with another key stakeholder group, the wider Internet user community. Working closely with the At Large Advisory Committee, this executive assists public stakeholder communication, including the coordination of public forums and outreach for end users.
- The GM Global Partnerships maintains the important relationships that ICANN has with country level local Internet communities and related bodies. The GM ensures that ICANN facilitates an outreach to local Internet communities, especially in the developing world, to promote effective local administration of key technical aspects of the Internet.
- The Chief Technical Officer is accountable for all ICANN technology functions. Externally, this will involve engagement with the Internet technical community from a technical and networking perspective. Within ICANN, the CTO manages the IT infrastructure and day-to-day support, including the IT systems that underpin the IANA functions, as well as managing IT infrastructure and day-to-day support.

The General Counsel & Secretary will continue to support the CEO and the Board in understanding, advancing and protecting the organisation in matters of law and risk management, while providing staff support for the Board.

ICANN is also initiating a special project to address two vital areas: constituency services, identifying the ways in which ICANN's "customers" – those who deal with ICANN on both a regular or occasional basis – interact with ICANN and improving those interactions; and Process Development Initiatives, for developing initiatives to ensure that the constituency services and the various institutional processes of ICANN, such as bylaw requirements are being fulfilled and functioning properly.

ICANN has developed an internal structure along functional lines of operational responsibility and global processes. The transition to this new structure has fragmented some of the traditional

areas of responsibility within ICANN while rebuilding them along the new organisational lines. Using innovative customer service strategies, the GM of Customer Services will have the responsibility for bringing the new organisational responsibilities into alignment with the expectations of those who form ICANN's customer base – the organisations and individuals who transact directly with ICANN.

As an example, the Regional Internet number Registries and their communities interact with ICANN in a number of ways: through requests to IANA for number resource allocations; through the ASO for policy communications; through cooperative training sessions at various conferences; and through negotiations over budget and service agreements. These relationships developed prior to ICANN's newly formed organisational lines, particularly the functional distinction between operational and policy responsibility. Before, the RIRs dealt with one or two ICANN staff for all these purposes and they now interact with several. This GM's goal will be to determine the best means of ensuring that ICANN provides a consistent and predictable relationship with the RIRs, respecting the multiple institutional connections that exist.

In addition to the changing face of ICANN's working relationships, ICANN now has an increasingly complex body of policy development and institutional requirements to maintain. The GM for Process Development Initiatives responsibilities will extend to developing initiatives that ensure ICANN meets all of these requirements, that the various processes are functioning properly and effectively, and that there is appropriate support for the constituency service initiatives.

In total, execution of the strategic plan and budget require ICANN staff to grow from 30 employees at the end of FY 2003-04 to 59 employees at the end of the next fiscal year. Specific areas of growth are indicated in the documents mentioned.

A management succession plan was prepared by internal staff members. The plan is phased, providing for temporary succession in the short-term while ICANN is short-staffed and describing a more permanent succession hierarchy as projected staffing levels are achieved and quality hires are made.

5a.ii) Recruit and retain the high-quality, multi-culturally diverse staff required to ensure this operation is globally efficient and effective

The ICANN Board and staff reflect the international nature of the organisation. The staff hails from nine different countries (Australia, Denmark, France, Mongolia, the Netherlands, Niger, Taiwan, the United Kingdom, and the United States). They exhibit fluency in more than 14 languages. Similarly, the Board of Directors represents fourteen nationalities and is fluent in many languages.

To successfully serve its important tasks as a technical coordination body for the Internet, ICANN must continue to recruit and retain a diverse, high-quality and skilled staff. Additionally, by early 2005, ICANN will establish a presence in all global regions to fulfil this Strategic Plan. This will require the recruitment of appropriate staff, and the ability to coordinate the content and partnerships to deliver the necessary targeted programs.

By the end of 2004, ICANN will have 40 Full Time Equivalent (FTEs) staff members. This will increase significantly by 2005-06. All senior positions have been recruited through executive recruitment services and are publicly and internationally advertised. In filling several roles to date,

ICANN has attracted experienced executives from the technical, communications, and government sectors.

5a.iii) **Review ICANN's corporate structure and jurisdiction**

ICANN is currently incorporated under Californian law and has tax-exempt status as a non-profit, public benefit corporation under U.S. Internal Revenue Code s 501(c)(3). Under that provision, the tax-exempt status must be reviewed annually, which also provides the opportunity to re-examine both ICANN's corporate structure and the jurisdiction under which it resides.

The June 2004 review concluded that there was no advantage to changing ICANN's corporate status at this time. The review, in conjunction with the review of ICANN's revenue sources in preparation for this strategic plan has allowed for consideration of many alternatives to best prepare a solid future for ICANN as a global organisation.

5b **Corporate Governance**

Strengthen and maintain ICANN's Board representation, operations and review with a focus on contingency planning and maintaining public confidence.

5b.i) **Review the internal mechanisms that promote and ensure Board, executive management, and staff corporate responsibility**

The starting point in good corporate governance is prevention (focused on deterring and avoiding opportunity for wrongdoing, versus punishment after the fact). To this end, ICANN has detailed procedures and policies in place and enforced affecting senior management and Board members, each requiring the attention of appropriately trained staff. The policies include:

- **Rigorous recruitment practices.** ICANN is aware that although appropriate procedures and practices are a condition of good governance, it is crucial to recruit and retain directors and management who are of high ethical standards, and who have the experience, acumen, judgment and other attributes of good governance and management. To that end, ICANN's recruitment policies are being further tightened. Board members selected through the Nominating Committee process undergo rigorous due diligence. Staff recruitment includes appropriate background checking at the highest levels of industry standards.
- **Conflict of Interest Committee and Policy.** The Committee oversees disclosures by each director and officer of their business and affiliations relating to business and activities of ICANN. The Policy requires abstention from votes by interested directors and refusal from any related discussion for interested officers. A violation of the Policy may constitute "cause" for removal or termination of a director or officer's appointment.
- **Governance Committee and Policies.** The Board Governance Committee (BGC) is responsible for reviewing board performance; recommending governance guidelines in keeping with ICANN's mission as a global, private sector corporation serving in the public interest; and recommending key board positions and committee membership and chairmanship. In accordance with these duties, the BGC recently issued a statement on procedures for Board nominations. The BGC's role is that of watchdog of the Board, responsible for monitoring compliance with good, ethical governance practices by the Board as a whole.
- **Financial and accounting matters oversight.** ICANN's accountants perform a monthly review and analysis of ICANN's financial books and records, reconciling management's accounting; a yearly audit is performed by an internationally-recognised global accounting firm (historically KPMG). Among ICANN's audit committee's responsibilities are the review

of compliance of the organisation's accounting and financial management systems and reports with generally accepted accounting principles for non-profit organisations; and periodically reviewing ICANN's system of internal controls, including its risk management policy. The finance committee of the ICANN Board is responsible for consulting with ICANN's President on ICANN's annual budget process and applying appropriate scrutiny to the budget.

- **ICANN policy of openness and transparency** ICANN adheres to a policy of openness and transparency in Board decision-making, allowing ICANN's Stakeholders to review the Board of Directors' performance themselves. All Board decisions are published on the ICANN website.

5b.ii **Implement Bylaw procedures for reviewing Board, management, and staff actions**

Continue to develop, to test, and to implement accountability mechanisms to address claims by members of the Internet community that they have been adversely affected by decisions in conflict with ICANN's by-laws, contractual obligations, or otherwise treated unfairly in the context of ICANN processes.

ICANN's Bylaws provide for the following checks on Board and management power and authority; and review of decision making:

- **Reconsideration Policy:** Any person or entity materially affected by an action of ICANN may request review or reconsideration of that action by the Board, to the extent that he, she, or it have been adversely affected by (a) a staff action or inaction contradicting established ICANN policy or policies; or (b) one or more actions or inactions of the ICANN Board taken or refused to be taken without consideration of material information. All reconsideration requests are publicly posted on ICANN's website, and must be responded to in some fashion by the Board's reconsideration committee within thirty days of receipt. Since 2000, ICANN has received, evaluated, and acted on 20 such reconsideration requests.
- **Ombudsman Program:** The Bylaws provide for the Office of Ombudsman to act as a neutral dispute resolution practitioner for matters not coming under the provisions of the reconsideration policy (described above) or the IRP (described below). The Ombudsman will serve as an objective advocate for fairness, tasked with evaluating, clarifying of issues, and, where possible, resolving complaints about unfair or inappropriate treatment by ICANN staff, the ICANN Board, or ICANN constituent bodies, using appropriate conflict resolution tools.
- **Independent Review Panel:** ICANN's Bylaws mandate that ICANN have in place a process for independent third-party review of Board actions alleged to be inconsistent with the Articles of Incorporation or Bylaws of the organisation. Requests for review are to be referred to an independent review panel operated by an international arbitration provider. Three arbitration providers have emerged as suitable candidates to operate the review panel, and the qualifications and attributes of each are being reviewed currently with the intent for the organisation to make a selection in the next few months.

5b.iii) **Implement internal and external oversight to ensure that ICANN continues to operate in the public interest, and remains uncompromised by any particular interest group.**

In working to fulfill its mission, ICANN is guided in its decisions and actions by certain core values. One of these core values is ensuring the active participation and effective representation of all sectors of the Internet community. To this end, ICANN has in place both structural

protections (provisions in ICANN's Articles of Incorporation and Bylaws) and adopted policies to ensure balanced input and participation at all levels of policy development and decision-making.

Any interested member of the Internet community can have a voice to be heard within the ICANN processes. ICANN's Board and Board committees, Supporting Organisations, Advisory Committees, and other ICANN bodies all operate under principles of representation that reflect the functional, geographic, and cultural diversity of the Internet. Further, government involvement within ICANN is appropriately balanced to ensure that ICANN remains a true public/private partnership.

The broad representation within the ICANN structure ensures that each geographic, economic, functional and cultural interest group has a voice at every level, so that no particular interest group can hold sway over ICANN's decisions and outcomes. This balancing of stakeholder interests and involvement has allowed ICANN to avoid having any single stakeholder group overwhelm any decision-making process.

Board representation

ICANN's Nominating Committee also plays an important role in protecting ICANN's representational diversity. The Nominating Committee is comprised of individuals selected from a broad range of the Internet community. They are drawn from across the globe and represent a wide range of individual areas of expertise and knowledge. Their function is to ensure broad representation on the ICANN Board, to ensure that no individual stakeholder or interest group can capture ICANN, its policy development processes, or final decision making.

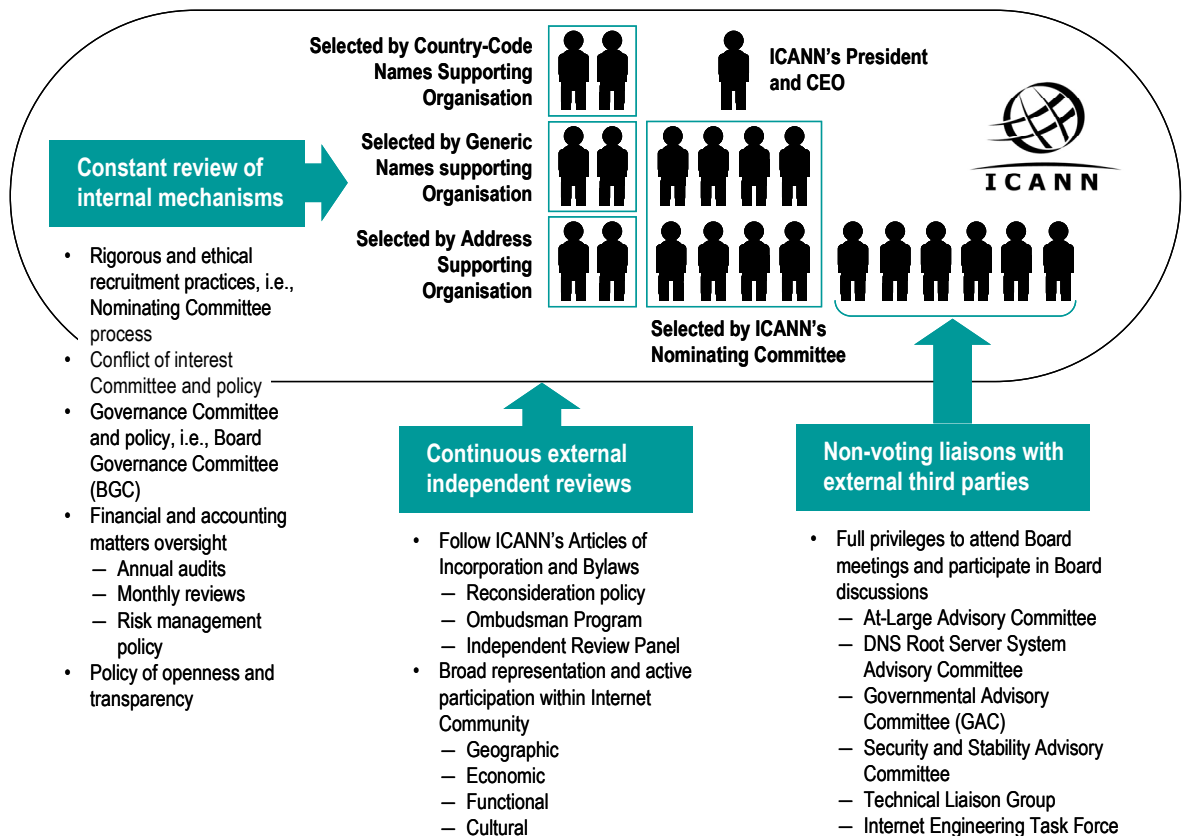
Bylaws governing representation on ICANN's Board, as well as appointment of non-voting liaisons, are structured to provide for a balance of representation, as well as a voice for each constituent group:

- Eight Board members are selected by ICANN's Nominating Committee. Nominees are evaluated based upon diversity and breadth of experience, skills, background and geographic representation.
- Two board members are selected by each of the following constituent groups, each with its own unique focus and view:
 - the Address Supporting Organisation, advising the Board on policy issues relating to the operation, assignment, and management of Internet addresses identifying the Internet's networked computers
 - the Country-Code Names Supporting Organisation, developing and recommending to the Board global policies relating to country-code top-level domains, nurturing consensus across the ccNSO's community, and coordinating with other ICANN supporting organisations, committees and constituencies
 - the Generic Names Supporting Organisation, developing and recommending to the ICANN Board substantive policies relating to generic top-level domains. GNSO inclusive constituencies include commercial and business users; gTLD Registries; Internet service and connectivity providers; non-commercial users; registrars; and intellectual property interests
- ICANN's President also serves on the Board

Figure 14 ICANN's board and corporate governance

Board liaison representation

In addition to full, voting Board members, ICANN has non-voting liaisons to the Board with full



privileges in attending Board meetings, receiving Board materials and participating in Board discussions. The role of Board liaisons is to provide an avenue for communication of the liaison's committee or supporting organisation to the Board, and also to communicate Board views back to their representative group and help foster the sharing and dissemination of information. A non-voting liaison to the Board is designated by each of the following ICANN Advisory Committees:

- the **At Large Advisory Committee**, which advises the Board on how ICANN's activities relate to the interests of individual Internet users
- the **DNS Root Server System Advisory Committee**, which advises the Board about the operation of the root name servers of the domain name system
- the **Governmental Advisory Committee (GAC)** consisting of representatives of governments; distinct economies (as recognised in international fora); and multinational governmental organisations and treaty organisations (upon invitation); which as a committee provides advice to ICANN on issues of public policy and matters within ICANN's mission of importance to national governments, distinct economies, and multinational and international treaty organisations
- the **Security and Stability Advisory Committee**, which advises the ICANN community and Board on matters relating to the security and integrity of the Internet's naming and address allocation systems
- the **Technical Liaison Group**, incorporating representatives from the ITU-T, the ETSI, the W3C and the IAB, and providing a source of technical advice to the ICANN Board on matters pertinent to ICANN's activities
- the **Internet Engineering Task Force**, which advises the ICANN Board on technical matters relating to Internet engineering and the IETF development process.

Each ICANN committee, supporting organisation, and other representative bodies adopt rules and procedures to ensure a balance of views within the entity. For individual Internet users, the

At-Large Advisory Committee provides an opportunity for representation for individual Internet users in all geographic regions, through participation in online forums and regional outreach events and, in the future, local At-Large Structures and Regional At-Large Organisations.

5b.iv) Contingency plans to ensure continuity of operations

Develop a contingency plan, reflecting the international nature of the DNS, to ensure continuity of operations in the event the corporation incurs a severe disruption of operations, or the threat thereof, by reason of its bankruptcy, corporate dissolution, a natural disaster, or other financial, physical or operational event.

ICANN has a wide range of stakeholders who rely on ICANN operations in their own strategic operating models. ICANN's contingency plans must encompass several elements to ensure continued operations of all areas of its responsibilities. Their objective is to maintain the operational stability of the global Internet.

A contingency plan has been developed that meets the requirements of the MoU. In the event of financial difficulties, or any other intervening business circumstances, an Executive Stability Committee will be formed, which will establish a multi-national, multi-stakeholder Emergency Names and Addressing Committee. Through these groups, ICANN's necessary business and technical relationships will be managed through whatever transition is required.

In the event of a natural disaster, or other catastrophic event, the contingency plan ensures ongoing operations of all of ICANN's technical functions. The details of this planning are necessarily confidential, but have been reviewed with appropriate technical and emergency management specialists.

5c Operational Controls

Develop operational processes to ensure that ICANN remains the preferred means for converging views on technical Internet issues to be addressed in "Internet time".

5c.i) Develop and sustain high-speed and efficient transactions systems, automating operational processes where appropriate.

ICANN reviewed its operating responsibilities and day-to-day procedures in December 2003 to determine areas where significant improvement could be made. Both internal and external clients were considered. After an initial period dedicated to process mapping of ICANN's activities, the evaluation team determined that three areas could immediately benefit from significant revision to operating procedures and the introduction of work processing tools:

- client transactions (such as tasks managed by the IANA function),
- the human resources function, and
- information management.

Client transactions. A significant process development effort has been undertaken to improve IANA workflow functioning in order to better serve the needs of its clients. It includes automated recognition and processing of client requests including certified identification of the requestor. The new workflow tools and procedures will be initially implemented by December 2004. These tools and processes, more fully described in Priority 1 in this document, will also be applied to other ICANN transactional processes.

Human resources. ICANN is investing to have its human resource policies, manuals, documents and processes available internally in a web-based format. The web-based format will have two benefits. First, it provides for easy and rapid dissemination of news or changes to every employee

desktop, allowing information to be more readily available to staff than a hard-copy manual that may not be read, if it could be found. Second, it makes changing and updating information more efficient. This will be especially valuable in as ICANN opens new offices and presences: Each location will have varying employment law and regulations, and it is important that both management and staff have a clear understanding of employee rights, duties and company processes regardless of their physical location. Considerable work has been done to date regarding the implementation and the tool will be deployed by June 2005.

Information management. The ICANN, technical and business communities generate significant amounts of information every week, through press releases, public and private meetings, policy development processes and technological developments. ICANN is working to collect and sort the information more efficiently so that is more easily available to those many constituents who rely on it. One initiative is towards more streamlined procedures, using electronic tools, to communicate across organisational lines. Another is to use search engines and to employ people and agencies to collect and sift information that might be of value to various constituencies. This project will be managed as an area of continual improvements with periodic review to measure progress and alter tactics.

5c.ii) Establish a project management system to facilitate the planning, management and reporting of strategic and tactical initiatives.

ICANN is presently managing over 60 initiatives. Many are described in this document and at least 37 are sufficiently complex that detailed project schedules and plans are required to manage them to a timely and successful completion. Nearly all were created for and directly benefit Internet community stakeholders.

They include:

- the GNSO policy development processes for Whois and consideration of new registry changes;
- oversight of the Transfer policy, Redemption Grace Period service and others; and
- executing agreements with the ccTLDs and with the RIRs.

These projects are presently managed through spreadsheet and other semi-automated tools. ICANN will staff a project management function and provide appropriate and necessary tools such as project scheduling software in order to efficiently manage the project processes. Progress against certain critical projects will be reported to the Board and the community at meaningful frequencies.



Funding Strategy

Developing and implementing a financial strategy to secure a predictable, adequate and sustainable revenue base to fund ICANN's strategic priorities.

This Plan outlines ICANN's strategy and initiatives for answering the demands of the Internet community for increased resources in operations and policy development support. Pursuing these initiatives will require an appropriate increase in staff and expenditure, especially in the first two years of the Plan (see section 6a).

In financing these budgeted needs, ICANN proposes to move its funding base to a more stable and sustainable model. In particular, a future funding model should include multiple revenue streams, multi-year rolling budgets, funding that is ear-marked for priorities such as Internet security and the needs of developing countries, and some means to secure a modest operating surplus to establish a reserve for contingencies. To meet these criteria, the proposed revenue structure comprises a balanced mix of contributions from gTLDs, ccTLDs and RIRs, intended to be recoverable from registrants in a transparent way, as well as alternate sources of revenue (see section 6b).

6a Budgeted Expenditure

Each of the four Principles guiding ICANN's fulfilment of these goals – stability, competition, bottom-up coordination and global representation – will require dedicated resources within an expanded operational structure. In particular, the additional resources are needed to:

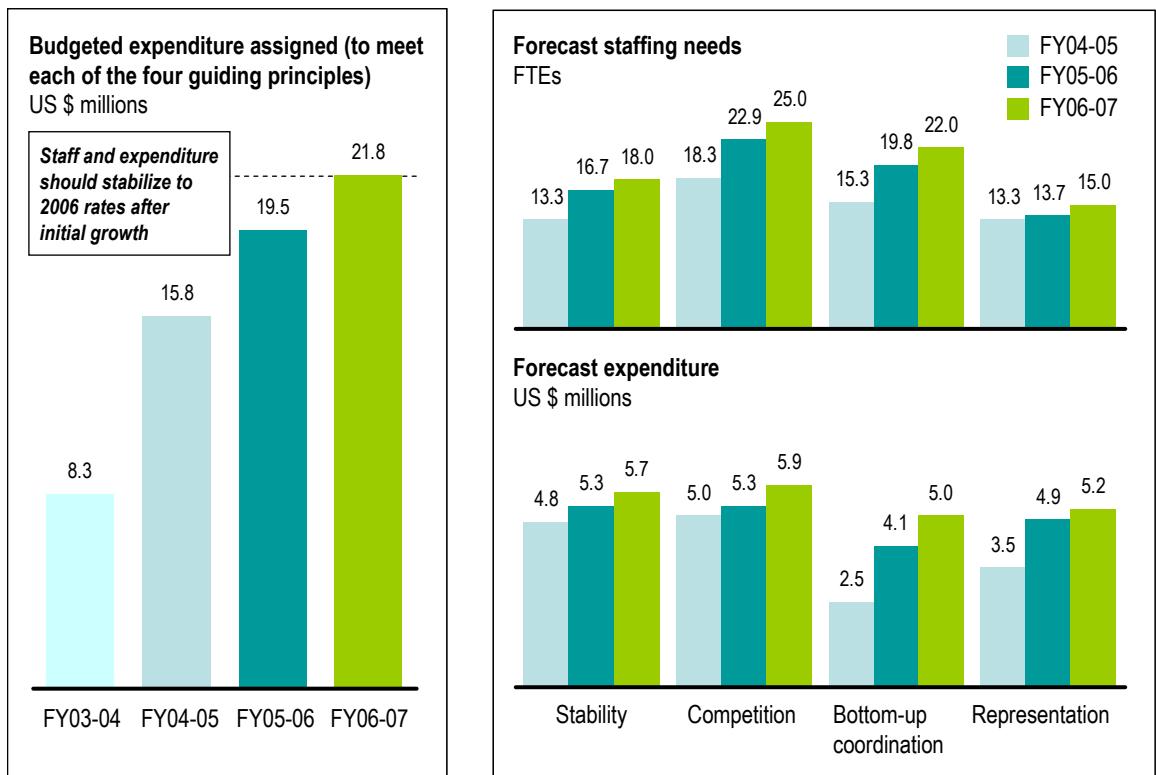
- Improve and further automate ICANN's information systems and infrastructure to support secure and stable operations;
- Improve ICANN's management systems to ensure operational workplans are appropriately resourced and follow-up mechanisms are in place;
- regionalise ICANN's resources to better serve its global community; and
- secure more staff of a quality that can accomplish the ambitious goals set out for ICANN in a complex, consensus-driven environment.

Significant additional funding is required for these and other initiatives described in this plan. Table X.1 shows the budgeted expenditure over the next three years, assigned to meeting each of the four guiding Principles. The budgeted expenditure rises from \$8.3 million in the 2003-04 fiscal year, to \$15.8 million in fiscal year 2004-05 and approximately \$22 million by fiscal year 2006-07.

Staff levels would rise in line with these increases, particularly as we add additional gTLDs and develop the appropriate support structures to meet the needs of an expanding domain name system. Table X.2 lays out the staffing needs over the next three years. Even with the increase, the proposed staffing levels are in line with comparable Internet resource providers: RIPE NCC (95 staff), APNIC (42), Nominet – .UK (“around 140”), CNR – .IT (at least 40) and the American National Standards Institute (80).

Note that ICANN’s staff and expenditure levels rise most quickly in the first two years of the plan. This is needed to establish and expand programs and infrastructure for all future work. After this investment is made, growth should stabilise at or near the rate achieved in fiscal year 2006-2007.

Figure 15 ICANN budgeted expenditure and staffing



6b Funding Sources

ICANN needs to move to a secure, predictable revenue base. This requires moving from to a more sustainable and stable model. The ICANN community has supported this move with the approval of the 2004-5 budget and the adoption of transaction-based fees in the gTLD registration sector.

Previous to this year, ICANN's revenue was generated through a process where the organisation first generated an annual, cost-based budget. The resource requirements were then allocated to some of the ICANN community's stakeholders. A majority of this funding comes from registries (gTLDs and sTLDs) and registrars (that provide gTLD and sTLD domain names). The amounts were determined through an annual negotiation. Historically, approximately 75% of ICANN's funding has been, as a practical matter, the product of this per-name registration charge that is built into the retail charges for domain name registrations. The gTLD registry and registrar payments are contractually required but the registrar contribution, as mentioned earlier, had been subject to negotiation.

The remainder of the funding has largely been voluntary contributions by DNS participants such as ccTLD registries (based on a similar, per domain name calculation) and address registries or RIRs (based on a mutually agreed upon amount). The ccTLDs typically do not have contractual relationships with ICANN, but have nonetheless participated in the annual budget exercise. There are contractual frameworks with a limited number of ccTLDs where they reliably supply some small portion of ICANN budget requirements each year.

ICANN has no capital account, some self-insurance reserves and effectively no other-purpose reserves. While there are many issues to be resolved, a future ICANN revenue structure will include the following characteristics:

- multiple revenue streams,
- multi-year, rolling budgets,
- ear-marked funding to support efforts such as network security and work in developing countries,
- revenues in excess of expenses in order to establish a reserve to address contingencies.

The budgetary guidelines developed for the Fiscal Year 2004-2005 budget offer a good discussion of the actual and potential revenue sources, and the extent to which they would fund ICANN's budget. These are calculated on the assumption that overall domain name registration will continue to grow at the 2002-03 rate of 15%. They demonstrate that the ICANN mission and objectives, including its important security initiatives, can be funded without burdening the community. Further, the funding burden will be spread increasingly and equitably across constituencies and, as alternate sources of funding are established and stabilise, there will be less reliance on per-name registration fees.

6b.i) Transaction or Billable Event Based Fees: gTLDs

The 2004-5 fiscal year's budget plans that the fees charged to registrants through registrars should be made on billable event (i.e., a per transaction) basis rather than by the current quarterly calculation. The prior method divided the portion of the ICANN budget allocated to the registrant fees by the number of total number of domain names to develop a "per name" fee. Using the earlier method, the fee could vary from quarter to quarter as the number of registrations fluctuated. In cases where the registrar sells a multi-year registration, the registrar would be out-of-pocket if the per-name fee rose over the years.

Billable event or transaction based fees (fees paid by the registrant, through the registrar, to ICANN) effectively address these issues. Billable events are all new subscriptions (adds), renewals or transfers that result in an invoice to the registrant. Since the registrar forwards fees to ICANN only upon the commitment from the registrant, the fees paid will always be directly proportional to revenues. Variability in the total number of names would not affect the fee rates. While needing to ensure a smooth transition phase, ICANN will absorb in the longer term, within reason, the variability of the process. Since the fee is charged on an event-by-event basis, the charge can more readily be passed through directly to the registrant, either as a price increase or as a separate line item charge on the registrar's invoice to the registrant.

Initially, the billable event fee will be set at a rate slightly higher than that required by the ICANN expense budget to address variability in the revenue stream due to seasonality, timing effects and multi-year subscriptions. Excess receipts (if any) will be held in ICANN's reserve account. Over a period of several years, ICANN will build a reserve fund. When reserve goals are met, a portion of the billable event fee will be eliminated.

Given the spending plan described below, ICANN, in conjunction with the registrars, has set the billable event fee to be \$0.25 per billable event. ICANN is committed to ensuring long-term certainty for the registrars in terms of that fee.

The billable event fee can be held constant for essentially two reasons. First, the 2004-5 year's expenses are part of a three-year plan where the significant increase in budget will occur during the first calendar year with smaller increases in the following two years. Therefore, any increase in budget during the next two years will be funded through other fees proportional to growth in the DNS, but will not require a change to the fee structure. Second, ICANN is working to increase revenues from other sources.

6b.ii) Registrar Support Fee: gTLDs

There are two types of expenses that ICANN incurs in meeting its obligations to registrars in providing a secure and stable DNS. The first relates to the number of domain names managed by the registrar and the transactions they generate. These are funded by the domain name transaction fees described above. The second is those expenses – such as compliance, accounting, and database maintenance – that are required to service the registrar's accreditation and vary little for each registrar, regardless of size. An equitable charging model would therefore provide for a relatively fixed registrar support fee in addition to the transaction based charges, so long as this was not burdensome for the smallest registrars.

Fee calculation

A review of the services provided by ICANN to registrars reveals that approximately 2/3 of the ICANN effort is proportional to registrar size, with the remainder spread equally for each registrar regardless of size. Applying that ratio to the registrar funding currently received by ICANN determines that \$3.8m is related to fixed registrar support services.

During the 2004-5 fiscal year, ICANN will raise \$3.8MM in funding to cover the sorts of efforts associated with each registrar regardless of size. This figure was calculated by listing the various services provided by ICANN and determining whether that service applied equally to registrars regardless of size or if the amount of service provided was proportional to the names under registration for each registrar. It was determined that approximately 2/3 of the ICANN effort is proportional to registrar size while approximately 1/3 of the services are performed equally for each registrar regardless of size. The \$3.8MM represents approximately 1/3 of the funding coming to ICANN through the registrars.

The fee will be calculated by dividing \$3.8MM by the number of registrars at the time of invoicing. For example, if that invoicing were to occur today (when there are 224 accredited registrars), the Variable Registrar Support fee would be \$16,964 per registrar. (This fee will be charged in addition to the annual accreditation fee.) However, *it is anticipated that the actual fee will be less than \$10,000* annually because:

- the number of registrars is increasing,
- the fee will be partially forgiven for certain registrars, and
- revenues received in excess of those anticipated will applied to reduce the per registrar fee.

The 2004-5 fiscal year budget contains details on the options for relief from this fee available to small registry operators and sponsors.

6b.iii) ccTLD Contributions

Contributions from ccTLD registries are currently voluntary, and based on an annual per-domain-name calculation. The 1999 Task Force on Funding recommended that the ccTLDs contribute a 35% share of ICANN's continuing revenue requirements, and past preliminary ICANN budgets have proposed an amount determined by this percentage. As that amount has never been realised, the budgeted revenue has been "written down" to the contribution actually anticipated – for example the \$5.6m target for 2003–04 was written down to \$600,000. However, several ICANN stakeholders in consultations have urged that the 35% goal should not be abandoned at this stage.

Through consultations with several ccTLD representatives, ICANN also recognises that certain values are held across much of the ccTLD community and are represented in the ccNSO. One such value is a strong interest in the self-regulation of the DNS, and through that self-regulation, the coordination and enforcement of certain, specific functions. Another is a strong sense of solidarity across and within the constituency, solidarity in support of ICANN as a single community. Large TLDs are partnering with smaller TLDs in ways that provide adequate means of support for ICANN. (This is already demonstrated in the present nomenclature where Tier I and Tier II ccTLD registries contribute different fee levels.

ICANN understands that the ccTLD community will collaborate through the ccNSO to devise a similar methodology for its ICANN contributions, agreeing that the ICANN mission and the promotion and support of the values described above require and justify an increase in that contribution. Therefore, ICANN projects an increase in contribution of \$200,000 to \$800,000 for the upcoming fiscal year and looks to the ccNSO to provide a projection of funding and fee structure for the following years.

However, in the interest of budgeting simplicity, ICANN, in the 2004-5 fiscal year, instead of listing the amount based on the Task Force on Funding calculation (\$5,611,200) and writing it down, has budgeted the collection goal (\$1,022,000). Future budget planning in cooperation with the ccTLD managers should address regularising the ccTLD contributions to ICANN's revenues.

6b.iv) Regional Internet Registries (RIR) Contributions

Voluntary contributions from RIRs are mutually agreed amounts that are negotiated annually. For fiscal year 2004-05, after discussions with RIR representatives, ICANN has budgeted RIR contributions at \$823,000, a 54% increase over the previous year's contribution and equal to 10% of ICANN's 2003–04 budgeted expenses. ICANN gratefully acknowledges as well that RIRs fund ASO meetings, some staff support for the ASO and for the ASO chair's travel and attendance at the ICANN meetings.

While negotiations have continued, the RIRs have estimated their contributions and deposited funds into escrow. Future contributions will be governed by agreements between ICANN and the RIRs and, in anticipation of those agreements, the RIRs have released some funds out of escrow following the signing of the new ASO MoU in October 2004.

6b.v) Alternate Sources of Revenue

Sound business planning dictates that ICANN should develop alternate sources of funding in order to provide a more robust revenue base. Specifically, these sources include the ccTLDs, the RIRs, the formation of new gTLDs, and other interested parties.

While ICANN expects some revenue from these sources in 2004–05, it will take a full year or more to realise significant benefits. Therefore, anticipated revenues from these sources are not applied to reduce the transaction fee for 2004–05, but ICANN will help obviate the need for increases in the future.

- With the formation of the ccNSO, ICANN is in a better position to engage ccTLD managers on the importance and appropriate structure of accountability framework agreements with ICANN. One aspect of these discussions is how to secure a more consistent base of funding from these stakeholders. ICANN is staffing a ccNSO liaison and contract support function to facilitate the formation and execution of such agreements.
- ICANN is presently engaged in a process of establishing new sponsored TLDs and has undertaken a study to determine how best to allocate new gTLDs. Where new TLDs are established, ICANN will undertake separate technical and commercial negotiations with each one. Depending upon the business model of each, ICANN will realise some reasonable revenue stream from each TLD. Those revenue models may differ significantly from the ones presently locked in with existing registries. This model also applies to the negotiations to take place for the .net registry in 2005 and other existing gTLDs in the following years.

New registry services

ICANN could derive fees from the revenue stream flowing to registries as a result of new registry services. Determining the fees associated with these new services will require significant discussion with the registry operators and sponsors and identification of compliance and administrative costs that ICANN could bear with the adoption of new registry services.

Contributions from other organisations

Several stakeholders believe that a strong, vibrant ICANN is necessary for the stability of the Internet and therefore for the stability of substantial business segments these stakeholders manage. In consultations, these stakeholders have indicated that there is a substantial opportunity for commercial organisations which benefit directly from successful operation of ICANN's functions to contribute to some of the associated costs. With that in mind, ICANN proposes to engage on funding issues with these stakeholders, with commercial entities who profit from the stability and interoperability of the Internet, and with those who underwrite those interests.

Other organisations have proposed to facilitate ICANN's outreach and development by providing or funding staffing or facilities. ICANN would earmark moneys contributed to foster global Internet outreach, Internet education, and supply needed services around the world via the Internet, consistent with its Mission.



Appendix

Completing the MoU

ICANN has a commitment to fulfilling the terms of the MoU and concluding this relationship with the US Government. The MoU requirements are:

ICANN agrees to perform the following activities and provide the following resources in support of the DNS Project, in conformity with the ICANN Board-approved mission and core values and in furtherance of its ongoing reform efforts:

1. Continue to provide expertise and advice on private sector functions related to technical management of the DNS.
2. Work collaboratively on a global and local level to pursue formal legal agreements with the RIRs, and to achieve stable relationships that allow them to continue their technical work, while incorporating their policy-making activities into the ICANN process.
3. Continue to develop, to test, and to implement processes and procedures to improve transparency, efficiency, and timeliness in the consideration and adoption of policies related to technical management of the DNS. In conjunction with its efforts in this regard, ICANN shall take into account the need to accommodate innovation in the provision of DNS services.
4. Continue to develop, to test, and to implement accountability mechanisms to address claims by members of the Internet community that they have been adversely affected by decisions in conflict with ICANN's by-laws, contractual obligations, or otherwise treated unfairly in the context of ICANN processes.
5. Collaborate with the Department on operational procedures for the root name server system, including formalisation of relationships under which root name servers throughout the world are operated and continuing to promote best practices used by the root system operators.
6. Continue to consult with the managers of root name servers and other appropriate experts with respect to operational and security matters relating to the secure and stable operation of the domain name and numbering system in order to develop and implement recommendations for improvements in those matters, including ICANN's operation of the authoritative root, under appropriate terms and conditions.
7. Continue its efforts to achieve stable agreements with ccTLD operators that address, among other things, issues affecting the stable and secure operation of the DNS, including: delegation and redelegation of ccTLDs; allocation of global and local policy-formulation responsibility; and the relationship between a ccTLD operator and its relevant government or public authority. Such efforts shall include activities to encourage greater dialogue between ccTLD operators and their respective governmental authority.

8. Continue the process of implementing new top level domains (TLDs), which process shall include consideration and evaluation of:
 - a) The potential impact of new TLDs on the Internet root server system and Internet stability;
 - b) The creation and implementation of selection criteria for new and existing TLD registries, including public explanation of the process, selection criteria, and the rationale for selection decisions;
 - c) Potential consumer benefits/costs associated with establishing a competitive environment for TLD registries; and,
 - d) Recommendations from expert advisory panels, bodies, agencies, or organisations regarding economic, competition, trademark, and intellectual property issues.

Define and implement a predictable strategy for selecting new TLDs using straightforward, transparent, and objective procedures that preserve the stability of the Internet (strategy development to be completed by September 30, 2004 and implementation to commence by December 31, 2004).
9. Continue to develop, to test, and to implement appropriate mechanisms that foster informed participation in ICANN by the global Internet community, such as providing educational services and fostering information sharing for constituents and promoting best practices among industry segments.
10. Continue to assess the operation of WHOIS databases and to implement measures to secure improved accuracy of WHOIS data. In this regard,
 - a) ICANN shall publish a report no later than March 31, 2004, and annually thereafter, providing statistical and narrative information on community experiences with the InterNIC WHOIS Data Problem Reports system. The report shall include statistics on the number of WHOIS data inaccuracies reported to date, the number of unique domain names with reported inaccuracies, and registrar handling of the submitted reports. The narrative information shall include an evaluation of the impact of the WHOIS Data Problem Reports system on improved accuracy of WHOIS data.
 - b) ICANN shall publish a report no later than November 30, 2004, and annually thereafter, providing statistical and narrative information on the implementation of the ICANN WHOIS Data Reminder Policy. The report shall include statistics on registrar compliance with the policy and information obtained regarding results of the implementation of the WHOIS Data Reminder Policy. The narrative information shall include implementation status, information on problems encountered, and an evaluation of the impact of the WHOIS Data Reminder Policy on improved accuracy of WHOIS data.
11. By June 30, 2004, ICANN shall develop a contingency plan to ensure continuity of operations in the event the corporation incurs a severe disruption of operations, or the threat thereof, by reason of its bankruptcy, corporate dissolution, a natural disaster, or other financial, physical or operational event. In conjunction with its efforts in this regard, ICANN shall work collaboratively with the Department to ensure that such plan reflects the international nature of the DNS.
12. Collaborate on other activities as appropriate to fulfill the purpose of this Agreement, as agreed by the Parties.
13. Building on ICANN's recent efforts to re-examine its mission, structure, and processes for their efficacy and appropriateness in light of the needs of the evolving DNS, collaborate with the Department to ensure that ICANN's corporate organisational documents optimally support the policy goal of privatisation of the technical management of the DNS (collaboration to be completed by March 31, 2004).
14. By December 31, 2003, develop a strategic plan that sets forth ICANN's goals for securing long-term sustainability of its critical domain name and numbering system management responsibilities, including the necessary corporate structure and financial and personnel resources to meet such responsibilities. Such plan should address, among other areas, the following items, and should include measurable objectives and milestones for achievement of such objectives:

- a) Conduct a review of corporate administrative structure and personnel requirements, including executive compensation and management succession plan (implementation of any recommendations resulting from review to be completed by March 31, 2004);
 - b) Conduct a review of internal mechanisms that promote and ensure Board of Directors, executive management, and staff corporate responsibility (implementation of any recommendations resulting from review to be completed by March 31, 2004);
 - c) Develop and implement a financial strategy that explores options for securing more predictable and sustainable sources of revenue (strategy development to be completed by June 30, 2004 and implementation to commence by December 31, 2004);
 - d) Review and augment its corporate compliance program, including its system for auditing material contracts for compliance by all parties to such agreements (implementation of any recommendations resulting from review to be completed by June 30, 2004);
 - e) Develop a collaborative program with private and intergovernmental parties to conduct outreach to governments and local Internet communities in targeted regions, including key constituencies (commence program operation by December 31, 2004);
 - f) Develop and implement an appropriate and effective strategy for multi-lingual communications (commence strategy implementation by December 31, 2004); and
 - g) Conduct review of system-wide efforts to automate operational processes (implementation of any recommendations resulting from review to be completed by June 30, 2005).
15. Provide a status report to the Department on its progress towards the completion of its tasks under this Agreement, including implementation of ICANN's strategic plan, on or before five (5) business days following the end of each six-month period that this Agreement is in effect.