

# Report of Public Comment Proceeding

## ICANN Reserve Fund – Public Comment on Rationale and Target Level

**Publication Date:** 8 January 2018

**Prepared By:** Xavier Calvez

### Public Comment Proceeding

Open Date:	12 October 2017
Close Date:	30 November 2017
Report Due Date:	22 December 2017

### Important Information Links

<a href="#">Announcement</a>
<a href="#">Public Comment Proceeding</a>
<a href="#">View Comments Submitted</a>

**Staff Contact:** Xavier Calvez

**Email:** [xavier.calvez@icann.org](mailto:xavier.calvez@icann.org)

### Section I: General Overview and Next Steps

The purpose of this public comment was to offer an updated Rationale and Target Level of the ICANN Reserve Fund for public comment and input for transparency in its management of public funds.

The input collected during this public comment process will be reviewed and considered by the ICANN Board.

Based on the outcome of the public comment process on the defined Rationale and Target Level, further work will be performed on the Governance of the Reserve Fund (allocation to / withdrawal from, periodic reviews,...) and further community and public input will be solicited.

### Section II: Contributors

*At the time this report was prepared, a total of 13 community submissions had been posted to the forum. The contributors, both individuals and organizations/groups, are listed below in chronological order by posting date with initials noted. To the extent that quotations are used in the foregoing narrative (Section III), such citations will reference the contributor's initials.*

#### Organizations and Groups:

Name	Submitted by	Initials
ccNSO SOP	Giovanni Sepia	
Registries Stakeholder Group	Stephane Van Gelder	
At Large Advisory Committee	ICANN At-Large Staff	
i2Coalition	Jay Sudowski	
Intellectual Property Constituency	Lori Schulman	
Business Constituency	Steve Del Bianco	
Registrars Stakeholder Group	Zoe Bonython	
Non-Commercial Stakeholder Group	Rafik Dammak	
GNSO Council	Berry Cobb (ICANN Staff)	

#### Individuals:

Name	Affiliation (if provided)	Initials
John Poole	None	
Sebastien Bachollet	None	
William Michael Cunningham	None	
Stephen Deerhake	Member of the ccNSO SOP WG	

### Section III: Summary of Comments

*General Disclaimer: This section intends to summarize broadly and comprehensively the comments submitted to this public comment proceeding but does not address every specific position stated by each contributor. The preparer recommends that readers interested in specific aspects of any of the summarized comments, or the full context of others, refer directly to the specific contributions at the link referenced above (View Comments Submitted).*

This public comment proceeding was offering and soliciting comments on the Rationale and Target Level of the ICANN Reserve Fund. The 13 statements submitted were broken out into 64 itemized comments, and categorized.

The comments submitted addressed the following topics:

- the methodology utilized to analyze and evaluate the rationale and target level of the Reserve Fund (9 comments),
- the Rationale for the Reserve Fund (12 comments),
- the Target Level of the Reserve Fund (15 comments),
- the potential sources of replenishment of the Reserve Fund from its current level to a target level (13 comments),
- the matter of a need for reserves specifically for PTI or IANA functions (5 comments),
- other matters, including the need for a separate policy for the Reserve Fund, potential vehicles in which the Reserve Fund could be invested in, operating costs reductions, limitations on how to access the Reserve Fund, and other topics (10 comments).

Comments on Methodology: these comments address:

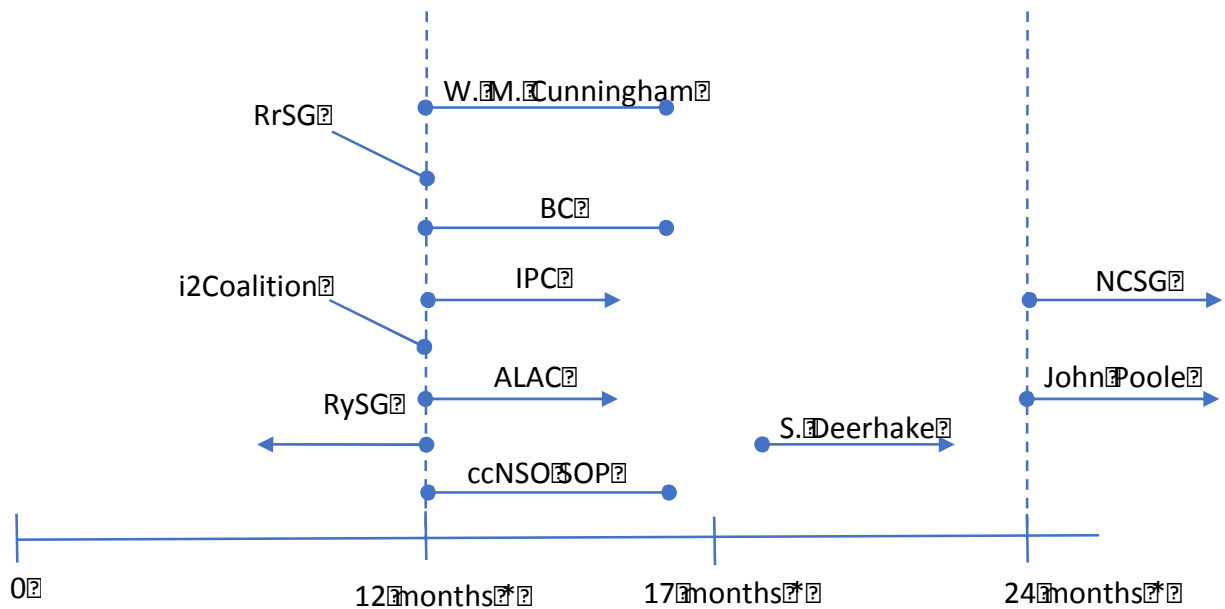
- (i) the benchmarking: type of organizations selected, number and variety of organizations selected.
- (ii) the description and explanation of the “5 consequential events” used in the analysis of rationale and target level.
- (iii) the prioritization of ICANN’s activities if certain of the consequential events should occur and available funds would require the use of the Reserve Fund.
- (iv) further validation of the costs used to evaluate the impact of the consequential events,
- (v) the lack of consideration of non-monetary aspects of ICANN’s activities.

Comments on the Rationale: these comments address:

- (i) additional considerations of risk faced by ICANN.
- (ii) the need for further historical operating expenses and headcount data.
- (iii) additional analyses of the historical considerations that led to the creation of the Reserve Fund.
- (iv) additional explanation of the need for funds in case certain would occur.
- (v) support to the need for and the importance of a Reserve Fund.

Comments on Target level: these comments are summarized in the following graph.

## Representation of Comments Submitted on Target Level



\*: Number of Months of Operating Expenses. If measured using the FY18 Budget of US\$142m, 12 months represents US\$142m and 24 months represents US\$284m.

Comments on replenishment: these comment address:

- (i) the levels of importance and urgency of a replenishment strategy
- (ii) the use or prevented use of the various possible sources of replenishment (from operations surplus (as a result of expenses reductions), from auction proceeds, from potential new gTLD program excess fees, from fee increases), and their level of priority.

Other comments: these comment address:

- (i) the need for financial reserves in support of PTI/IANA functions.
- (ii) the need for a strategic reserve, separate from the Reserve Fund.
- (iii) the investment types in which the Reserve Fund could be invested in or not invested in.
- (iv) the need for a Reserve Fund policy that is separate from the ICANN Investment Policy.
- (v) governance mechanisms to control the use of the Reserve Fund.

## Section IV: Analysis of Comments

*General Disclaimer:* This section intends to provide an analysis and evaluation of the comments submitted along with explanations regarding the basis for any recommendations provided within the analysis.

Analysis and preliminary responses to the comments submitted are provided in a separate document in appendix to this report.

Following the review by the Board of the comments submitted and the responses suggested to such comments, a second public comment will be organized, which will aim at offering suggested governance mechanisms for the Reserve Fund.

Ref #	Organization/ Individual	Comment (full text)	Category	ICANN Response
1	John Poole	For example, without more information, the comparison of ICANN to CIRA, or Nominet, appears ludicrous.	Methodology	ICANN recognizes that the comparison to other organizations has the limitations resulting from the uniqueness of ICANN's specific role. The data relative to other organizations is offered as information and illustration, and not necessarily as an indication of best practice, or target position that ICANN should retain. ICANN also determined that, though more research could have allowed to identify more relevant data points, no further research time should be dedicated for this purpose.
2	John Poole	ICANN is a unique global organization with immense exposure and unknown, unquantifiable, potential liabilities due to: 1) end of the U.S. government (IANA) contract; and 2) expansion of new gTLDs beginning in 2014 (adding complexity to a system often increases fragility or vulnerabilities). In addition, ICANN is (along with Verisign) one of the most important root server operators upon which the global internet DNS depends. Malicious threats and vulnerabilities, some attacking (or hijacking) the DNS root < <a href="https://en.wikipedia.org/wiki/DNS_hijacking">https://en.wikipedia.org/wiki/DNS_hijacking</a> >, continue to appear. Network science and technology will continue to evolve, as will vulnerabilities. Research, defense, security, continual improvements, and "incident recovery", cost money, and catastrophic incident insurance coverage is probably not a viable option. Issues such as have arisen with the Root Zone KSK Rollover, are just the tip of the iceberg. Any event that forced ICANN to seek protection under Chapter 11 of the U.S. Bankruptcy Code could very well end ICANN's role in "coordinating" the internet.	Rationale	Though we believe this comment confirms the elements of rationale that ICANN offered for comments, it also provides more specific description of risks. We believe the risks mentioned in this comment are relevant to further improve the description of the rationale for the Reserve Fund, and ICANN will evaluate whether and how to integrate some of this input into the description of the rationale for the Reserve Fund.
3	John Poole	For the reasons above, I would suggest, at a minimum, an "operating reserves fund < <a href="http://www.nonprofitaccountingbasics.org/reporting-operations/about-operating-reserves-nonprofits">http://www.nonprofitaccountingbasics.org/reporting-operations/about-operating-reserves-nonprofits</a> >" of 24 months Opex.	Target Level	Thank you for this input. On the basis of the high level evaluation performed by ICANN to assess the amount of reserve necessary, based on the risks and consequential events considered, a reserve of a minimum of 24 months could not be justified. In addition, the suggested approach of confirming the current target level of a minimum of 12 months of operating expenses, would allow to grow the reserve to 24 months, should it be deemed necessary.
4	John Poole	In addition, I suggest ICANN consider creating a "strategic reserves fund < <a href="https://en.wikipedia.org/wiki/Strategic_reserve">https://en.wikipedia.org/wiki/Strategic_reserve</a> >" of \$200 million--funded from the auction proceeds (\$235M) and application fees (\$128M)--of which \$100 million could be released for disbursement after five years if there proves to be "no need" for that level of "strategic reserves," with the balance released five years thereafter if not needed.	Other	Thank you for offering this additional input. ICANN has, so far, not considered creating a strategic reserve, in addition to the current Reserve Fund and Operating Fund. As the suggestion of creating a strategic reserve is associated with the existence and potential use of the auction proceeds that ICANN holds as a result of auctions held as a mechanism of last resort to sort out competing applications to the new gTLD program, ICANN will offer this input to the ICANN Board and to the cross community working group on auction proceeds, which is currently working on developing objectives for the use of such auction proceeds.
5	ccNSO-SOP	The Reserve Fund paper should be improved in terms of its readability. For instance, the table on page 6, containing the cost of 'consequential events' and the five scenarios, remains difficult to understand. Furthermore, we would like to see more granular information on how the Reserve Fund is calculated and distributed, as well as what kind of 'operating expenses' should be covered by the Fund. We believe that in the event of certain contingencies, specified functions could be ceased immediately, while others would need to continue for a defined period of time. These functions should be identified and assessed accordingly from a financial perspective;	Methodology	Thank you for this input. ICANN recognizes that the work produced by the Board working group contains information, like the table referenced in this comment, that is complex. In the interest of transparency, despite the risk of offering a potentially difficult information to understand, ICANN believed that this data was relevant to illustrate and document the rationale, and also provide the basis for the target level. We note however that such information should receive an expanded amount of communication for a better understanding.
6	ccNSO-SOP	The Reserve Fund should not be used for any other purposes except safeguarding ICANN's ability to fulfil its core mission, which is to ensure the stability and security of the Internet's unique identifier systems. The draft paper appears to be an attempt to broaden the scope of the use of the Reserve Fund and possible projects to be funded by it.	Rationale	Thank you for this input. ICANN agrees with the statement that the Reserve Fund should only be used for purposes that are consistent and limited to ICANN's mission. ICANN believes that none of the elements of rationale offered contradicts this statement and principle. ICANN welcomes the opportunity to discuss further with the ccNSO SOP Working Group the driver to the concern expressed in this comment, and will follow up directly.
7	ccNSO-SOP	We believe that there should be one reserve fund for ICANN and a separate one for PTI. Alternatively, if ICANN wants only one reserve, then it should consist of two sections, one for ICANN and one for PTI, in which the rationale for the reserve measures for each can be specified before they are merged. We think that it would be important to retain PTI functions longer than those of ICANN;	Other	Thank you for this input. The matter of a reserve supporting the IANA functions was discussed by the cross-community working group on the IANA stewardship transition but no conclusion was reached. The suggestion relative to reserves supporting the IANA functions, or PTI, will be shared with the Board for its consideration.
8	ccNSO-SOP	As already highlighted in several ccNSO-SOP comments on the ICANN FY Operating Plan and Budget, we recommend any reserve fund approach be based not only on an in-depth assessment of the various risks and contingencies that may impact the organisation, but also – and mainly – be accompanied by a regular review of the expenses, including exercises to optimise costs and, eventually, cut side activities that are not falling into ICANN's core scope of work;	Other	Thank you for this input. While ICANN agrees with the general benefit and usefulness of regular review of expenses and cost optimization as a matter of good management practice, it also believes that this does not replace the need for a reserve fund, which is intended to cover for large unplanned expenses of an immediate or short term nature.
9	ccNSO-SOP	We would appreciate more information on the ICANN investment policy. We would recommend considering investment in an office building for personal use, which could be used on the one hand as a mortgage in case of lack of other risk funds, and which would, more importantly, reduce operating costs;	Other	Thank you for this input. The idea of investing the Reserve Fund or part of it in tangible assets will be evaluated and presented to the ICANN Board.
10	ccNSO-SOP	We support the use of the new gTLD auction fee to replenish the Reserve Fund. At the same time, we recommend ICANN develop a long-term plan to replenish the Fund, should a situation arise in which its resources are used and there are no new gTLD auction funds. We also believe that the contingency fund for new gTLDs could be transferred to the Reserve Fund at some point when there is no further risk of legal proceedings;	Replenishment	Thank you for this input. The use of auction proceeds and of potential unused remaining funds from the new gTLD program as potential solutions for the replenishment of the Reserve Fund is noted.
11	ccNSO-SOP	We believe that a 12 to 17-month operating expenses reserve fund appears to meet the current best practices, insofar as the operating expenses to be covered by such a fund support the key activities for which ICANN is mandated by the DNS community. However, more details on which functions are covered and for what period of time would help in understanding the final fund figure;	Target level	Thank you for this input. The support of the ccNSO SOP to a Reserve Fund of a minimum of 12 months and maximum of 17 months is noted. ICANN believes it is consistent with the recommended approach to leave the current ICANN Investment Policy unchanged. On the matter of the expenses covered, the Reserve Fund would generally be used to cover for expenses that are required for ICANN to pursue its mission.

Ref #	Organization/ Individual	Comment (full text)	Category	ICANN Response
12	ccNSO-SOP	The Rationale in Section F, Rationale, needs additional clarification and discussion. Specifically: o 'The list of possible Consequential Events for which the Reserve Fund is considered to be an expected source of funding includes, but not limited to, the following'. The 'not limited to' should be excluded. The list itself is already uncertain; 'not limited to' may leave room to use the Reserve Fund for other types of expenses;	Methodology	Thank you for this input. The analysis of consequential events referred to in this comment was performed as a support to establish both the rationale and provide some basis for the definition of a reasonable target level. It was not however intended to reflect a finite list of possible events that would trigger the need for a Reserve Fund. This list is considered illustrative rather than exhaustive. We therefore believe that the wording that includes "but not limited to" is relevant and appropriate to emphasize the academic nature of the analysis of consequential events performed, which did not attempt to identify exhaustively the events that would trigger a need for use of the Reserve Fund. Such objective was considered unrealistic.
13	ccNSO-SOP	'Replenishing Operating Fund levels depleted by unbudgeted and unmitigated short-term events or maintenance and replacement of assets, or payment of liabilities'. What are some examples of such unbudgeted events? 'Undertaking major downsizing or significant restructuring of ICANN's operations'. What might be the reason for downsizing/significant restructuring of operations and what steps and actions would such downsizing/restructuring include? 'Undertaking new and major programs resulting from a new strategic plan or exceptional unforeseen external events'. Funding of any new and major programme resulting from a new Strategic Plan should be planned and discussed more carefully. Therefore the wording 'a new strategic plan' should be removed. The rest should be clarified. What are some examples of new and major programmes resulting from exceptional unforeseen external events? The calculation of total cost for the shut-down scenario is not clear and needs additional clarification. A description of what steps/actions the scenario includes and under which circumstances it might be implemented would be desirable. = The explanation, based on the description of the scenario, should address why one-year Operation is included in the calculation and why all the operational costs are required for such a period of time. = We would also like to know why the scenario includes the costs associated with other Consequential Events, especially costs associated with Consequential Events 1 and 5.	Rationale	Please find below a list of examples, one for each of the consequential events inquired about in the comment: "unbudgeted events": such event could be an earthquake which would require ICANN to replace in the short timeframe assets and equipments required for the on-going operations. "downsizing or significant restructuring of ICANN's operations": the reason for the need to downsize or restructure ICANN could be a significant reduction of ICANN's funding in a short timeframe, or a reduction of ICANN's mission such that the existing operations would require to be reduced significantly. "new and major program resulting from a new strategic plan or exceptional unforeseen external events": examples are a program like the current round of new gTLDs, or the IANA stewardship transition. The calculation of the shut down scenario is admittedly a high level and subjective estimate, using a normative assessment of commonly accepted restructuring practices. The approach considers both the time required to shut down an operation, and the costs associated with a shut down, notably personnel severance and contract termination penalties. ICANN determined that a more detailed and substantiated analysis of potential shut down costs would require more time and resources than were available at the time the analysis was performed.
14	ccNSO-SOP	Regarding the cost calculation table, we would appreciate more information on the following points: o The estimate of costs per occurrence for Consequential Events 1, 3, 4, 6 seems reasonable. However, additional benchmarking would be helpful to prove the figures; The estimate of costs for Consequential Event 2 (Restructure/Downsize/Shutdown) is not clear. An explanation of the level to which operations are to be downsized and what required steps or actions would be needed is necessary (see earlier comment to the Rational). The estimate of costs for Consequential Event 5 is not clear. How was the cost of major/significant projects estimated? The calculations of total costs for Low, Medium, and High scenarios need clarification. During what period of time are the number of occurrences used to calculate total cost supposed to happen? Is this statistically reasonable and confirmed?	Methodology	In performing the estimation of costs in the analysis referred to in the comment, ICANN intended to achieve reasonableness and not accuracy. The research required to provide more detailed documentation and relevant benchmarking was not considered affordable and worthwhile. See also the response to comment #13. The estimate of cost for consequential event 5 was primarily based on the experience that ICANN has in recent years, namely: (i) the new gTLD program for which the development costs are estimated at USD 30 million, (ii) the IANA stewardship transition which costs are evaluated at USD 36 million. The estimate of USD 30 million per event was therefore considered reasonable. The period of time considered for the occurrence of events is 5 years. The indication of this period is missing from the document submitted for public comments and should have been included. ICANN considers this reasonable since its experience actually contains 2 instances of a "major/significant project" within the past 5 years, and this was not deemed to require confirmation, nor does ICANN believe there would statistical data available for such confirmation.
15	ccNSO-SOP	Considering current domain name market trends, and possible future scenarios in which domain names are not as successful as they have been over the past two decades, the ccNSO-SOP working sub-group believes that it is of paramount importance for ICANN to establish a long-term plan for an adequate reserve fund that could ensure the continuity and reliability of ICANN core tasks. The proposed use of the new gTLD auction fee to replenish such a fund is one option, but this working sub-group recommends ICANN evaluate other options should the auction fee fund not be available. The members of this working sub-group remain available to share their expertise on the building and management processes for the Reserve Fund.	Replenishment	Thank you for this input and offer. ICANN agrees with the importance to establish a long term plan for an adequate reserve fund. As indicated in the introduction of the document submitted for public comment, ICANN intends to design governance mechanisms for the Reserve Fund, inclusive of provisions relative to replenishment, disbursement, delegation of authority,... as a second step, following this public comment and the actions that the ICANN Board may take as a result. ICANN welcomes the opportunity to solicit the knowledge and expertise of the ccNSO SOP members at that time.
16	Sebastien Bachollet	ICANN Board undertakes a new Reserve Fund Project (10 Board members supported by ICANN's executives). 5 scenarii are considered.  All take into account the following "list of possible Consequential Events for which the Reserve Fund is considered to be an expected source of funding includes, but not limited to, the following: 1. Replenishing Operating Fund levels depleted by unbudgeted and unmitigated short-term events or maintenance and replacement of assets, or payment of liabilities, 2. Undertaking major downsizing or significant restructuring of ICANN's operations. 3. Mitigating major security and stability threats and attacks. 4. Covering unplanned legal costs. 5. Undertaking new and major programs resulting from a new strategic plan or exceptional unforeseen external events. 6. Continue operations after a disaster."Comments (possible events)  [I add number before each item for ease of comment] 1. Replenishing Operating Fund levels depleted by unbudgeted and unmitigated short-term events or maintenance and replacement of assets, or payment of liabilities, 2. Undertaking major [unplanned and unbudgeted] downsizing or significant restructuring of ICANN's operations. 3. Mitigating [unbudgeted] major security and stability threats and attacks. 4. Covering unplanned legal costs. 5. Undertaking new and major programs resulting from a new strategic plan [to be setup urgently] or exceptional unforeseen external events. 6. Continue operations after a disaster."	Methodology	Thank you for the suggestions offered in this comment. The edits suggested to add "unplanned and unbudgeted" or "unbudgeted" were not included in the original language and are not considered relevant as the events are considered, by nature, impossible to plan or budget for.

Ref #	Organization/ Individual	Comment (full text)	Category	ICANN Response
17	Sebastien Bachollet	<p>Considering factors specifically related to ICANN's operational and risk profile as well [as] factors related to market trends, ICANN Organization estimated the cost of each of the</p> <p>Consequential Events and</p> <p>5 scenarii were taken into account and quantified</p> <p>1. Scenario low, \$35m</p> <p>a. Current ICANN position, \$62m</p> <p>2. Scenario largest single occurrence, \$105m</p> <p>3. Scenario medium, \$135m</p> <p>4. Scenario shut-down, \$198m</p> <p>5. Scenario high, \$255m</p> <p>The proposal target is between scenario 3 (\$135m) and scenario 4 (\$198m).</p> <p>Comments (scenarii)</p> <p>To study and to compare ICANN scenarii and benchmark, it could have been useful to get some additional data like:</p> <ul style="list-style-type: none"> <li>• Evolution of the annual operating expenses for the last 5 years and (if possible) the budget for the next 3 to 5 years,</li> <li>• Evolution of the number of employees for the last 5 years and (if possible) the budget for the next 3 to 5 years,</li> <li>• Evolution of the reserve fund for the last 5 years and (if possible) the projection for the next 3 to 5 years.</li> </ul> <p>It could have been useful to have more information about the shutdown scenario. If ICANN have to shutdown, can we really see a new need for operational funds, and other expenses aside to shutdown ICANN?</p> <p>If ICANN just needs the fund to shutdown the organization it is almost the same level that scenario 3 – medium.</p> <p>à First conclusion: Target level \$135m to \$140m.</p>	Rationale	<p>Evolution of ICANN's Operating Expenses (excluding new gTLD program expenses) for the last 5 years:</p> <p>FY13: 68.8 million FY14: 93.6 million FY15: 106.2 million FY16: 124.5 million FY17: 134.4 million</p> <p>Evolution of ICANN's number of employees for the last 5 years (end of period):</p> <p>FY13: 201 FY14: 296 FY15: 326 FY16: 359 FY17: 387</p> <p>Evolution of ICANN's Reserve Fund for the last 5 years:</p> <p>FY13: 55.7 million FY14: 85.2 million FY15: 85.6 million FY16: 71.0 million FY17: 61.6 million</p> <p>ICANN does not currently produce projection for this data for the next 3 to 5 years.</p> <p>Regarding the shut down scenario, also refer to the answer to comment #13. The need of funds in the scenario of a shut down is to cover the expenses to be incurred to shut down (operating costs during the period of shut down, personnel severance, penalties for termination of contracts).</p>
18	Sebastien Bachollet	<p>Comments (general)</p> <p>The multi-stakeholder part of the ICANN structure seems not to have been taken into account in this project. Part of the work is done at "no or small cost" by community members.</p> <p>How it can be taken into account? It needs to be studied in more depth.</p>	Methodology	<p>Thank you for this comment. ICANN agrees that the elements of ICANN's activities that do not have a financial impact have not been taken into account in this analysis.</p>
19	RySG	<p>Overall, it is the RySG's opinion that the proposed Rationale and Target Level fail to convince and we request the New Reserve Fund Project and Board Finance Committee to consider the following comments.</p> <p>The report cites two historical reasons for setting up the Reserve Fund in 2007: (1) ICANN's dependence on the timely collection of domain name registration fees from a small group of contracted parties; and (2) providing resources to defend ICANN's multi-stakeholder governance model against possible litigation.</p> <p>The RySG is missing a thorough evaluation of these historical motivations, which takes into account changes and evolutions since the creation of the Reserve Fund, and therefore asks the Board Committee to complete the report with:</p> <ul style="list-style-type: none"> <li>• An analysis of historical revenue data for the period 2007-2017;</li> <li>• An assessment of changes in the registry/registrar landscape since 2007 and of whether this has changed the potential of a small group of contracted parties to 'exert undue influence over ICANN';</li> <li>• An overview of non-IANA transition related legal expenses in defence of the ICANN multistakeholder model for the period 2007-2017.</li> </ul>	Rationale	<p>Thank you for the comment.</p> <p>While the document offered to public comment included historical reference to some of the elements of rationale that had been documented at the time the Reserve Fund was created, the document intends to offer an updated rationale that is different.</p> <p>ICANN does not believe that the evaluation of the historical motivations that led to the creation of the Reserve Fund in 2007 would help evaluate the reasonableness of the updated rationale offered for public comment, and considers as a result that it is not a worthwhile use of ICANN's resources at this time.</p>
20	RySG	<p>The 2012 Benchmarking study on how not-for-profit and other organizations set their Reserve Funds found that chosen target levels widely vary between 3 and 24 months of the organization's operating expenses. The RySG would like additional details on the organizations that were included in this benchmarking exercise (who they are, how they relate or contrast with ICANN's situation) and considers an insight in the rationale behind their decisions to set a lower or a higher target level essential for this exercise.</p> <p>The New Reserve Fund Project, in turn, identified 'a few comparable organizations [...] to help benchmark [it's own] analysis, from within and outside the DNS industry.' The RySG would like to understand the choice for the three organizations (CIRA, Nominet, ASTM) and considers it essential that the report provides the grounds on which they were selected for this comparison.</p> <p>The Rationale proposed by the New Reserve Fund Project indicates that the Reserve Fund is considered to be an expected source of funding for 'undertaking major downsizing or significant restructuring of ICANN's operations'. To evaluate this rationale, the RySG would like to receive further information from ICANN on what plans to downsize, restructure or "rightsize" the organization are in place, being developed, planned or expected for the next few years.</p>	Methodology	<p>The benchmark study that is referred to in the comment and is mentioned in the document offered for public comment consisted in preliminary research of literature relative to reserve funds, readily available on various accessible websites. Examples used are:</p> <p><a href="http://www.nonprofitaccountingbasics.org">www.nonprofitaccountingbasics.org</a> <a href="http://www.grantspace.org">www.grantspace.org</a></p> <p>On such websites, indications such as "A commonly used reserve goal is 3-6 months' expenses. At the high end, reserves should not exceed the amount of two years' budget." can be found and were used to provide preliminary information to the Board working group.</p> <p>The grounds on which the organizations used in the benchmarking section were chosen are limited to the availability of the information, which was shared by these organizations or was available, and that the activity of these organizations was considered sufficiently similar to ICANN, in certain respects, to be a relevant data points. It is understood however that the list of 3 organizations retained by ICANN is not considered a representative sample from a statistical standpoint (since it is a much too small sample), and does not have the ambition to be comprehensively representing a full range of reserve fund sizes commonly encountered.</p> <p>Regarding request on plans to downsize, restructure of "rightsize" the organization, ICANN has of course no such plans at this stage. The point of considering this event is that the Reserve Fund is the funding source of last resort to cover for expenses resulting from risks that can not be planned for. As a result, the list of consequential events, including the shut down or restructuring, are theoretical risks, not planned events, that, in the event they occur, the organization would be able to face by using its reserve fund.</p>
21	RySG	<p>According to the proposed Rationale the Reserve Fund is expected to provide the financial resources to allow ICANN to 'continue operations after disaster'. The RySG recommends that ICANN documents and quantifies what resources would be required to continue operations 'in survival mode', where the organization keeps providing its core function without revenue.</p> <p>For the above reasons the RySG is of the opinion that the proposed Rationale insufficiently justifies the \$142M target level for the ICANN Reserve Fund (12 months), let alone that it provides valid arguments why a reserve fund of \$200M or more (17 months) could be needed.</p>	Rationale	<p>Thank you for the suggestion offered. ICANN agrees that the analysis suggested would provide a relevant data point. It considers that it is an exercise that would require an amount of resources that ICANN does not have available at this time. In addition, while imperfect and incomplete, the amount of analysis performed allows to define a rationale and a target level, and is therefore considered an acceptable compromise between accuracy and limited resources.</p>
22	RySG	<p>The RySG is further concerned that the ICANN org does not address, in its report or rationale, the viable option of better controlling costs as a method of bolstering the reserve fund. Fiscal constraint should be a necessary approach in the present and future budgets in order to continue adding to the reserve fund. The \$5M recently added to the fund is a good start and could be more in the following years based on some realistic belt tightening.</p>	Other	<p>Thank you for the comment. As indicated in the introduction of the document offered for public comment, this document is designed to focus on information supporting the rationale and target level, and the information relative to governance, and replenishment is intended to be offered as a next step.</p> <p>ICANN notes the proposed mechanism of cost control to contribute to the replenishment of the Reserve Fund.</p>

Ref #	Organization/ Individual	Comment (full text)	Category	ICANN Response
23	RySG	With regard to replacing the almost \$36M spent on the IANA transition, the ICANN organization should look to the auction proceeds fund before the corpus is distributed by the community.	Replenishment	Thank you for the comment. ICANN notes the suggestion to replenish the Reserve Fund from Auction Proceeds for at least an amount corresponding to the depletion resulting from the IANA stewardship transition expenses.
24	RySG	ICANN should strive to retain no more than one year of expenses. When determining the level of expenses, however, ICANN organization should look at a fiscally restrained budget and not the current budget with over \$140M in expenses.	Target level	Thank you for the comment. ICANN notes the suggestion that the Reserve Fund should not exceed 12 months, and that the ICANN Operating expenses should be lower than the FY18 budget of \$142m.
25	ALAC	The ALAC strongly supports having the Reserve Fund at the level of 12 months expenses, and higher if there is a practical way of achieving that without unduly impacting ICANN's ability to provide necessary services, ensure the current and ongoing security, stability and resiliency of the DNS, and adequately support its ACs and SOs.	Target Level	Thank you for the comment. ICANN notes the agreement of ALAC with the suggested target level of a minimum of 12 months of Operating Expenses.
26	ALAC	Since the Reserve Fund level is clearly tightly coupled to the level of ICANN operational expenses, any discussion of the reserve should have included a recent history and projection of ICANN operational expenses along with the employee/contractor levels and the Reserve Fund levels over the same period.	Methodology	Please refer to the comment #21 and its answer.
27	ALAC	At whatever level the Reserve Fund target is set, ICANN must publish a plan on how and when this will be achieved. Given that the proposed target level(s) are significantly above the current Reserve Fund level, and it is unrealistic to believe that we will sustain or exceed this year's return-to-reserve of \$5m, ICANN should expeditiously investigate alternative methods of building the reserve to ensure ICANN's future stability.	Replenishment	Thank you for the comment. As indicated in the introduction of the document offered for public comment, this document is designed to focus on information supporting the rationale and target level, and the information relative to governance, and replenishment is intended to be offered as a next step. ICANN notes the recommendation to investigate alternative methods to build the reserve.
28	i2Coalition	We appreciate the detailed analysis completed to determine a healthy level for the Reserve Fund. However, we disagree with the conclusion that no change is required to the current investment policy. We believe that the Reserve Fund should not be a part of another policy, but have its own standalone policy with binding requirements upon the ICANN Staff and Board to ensure that the Reserve Fund is adequately funded year over year, as a matter of budget priority. It should also include provisions that disallow ICANN from raising fees on registrants (via contracted parties) in order to replenish shortfalls in the Reserve Fund.	Other	Thank you for the comment. ICANN notes the suggestions made for creating a separate policy document for the Reserve Fund, for requirements that the Reserve Fund is adequately funded, and for a restriction that the replenishment does not result in raising fees on registrants. ICANN believes that it is integrate the policy of the Reserve Fund within the framework of its broader Investment Policy, which governs all aspects of ICANN's financial resource management, due to the dependencies with the Operating Fund. ICANN also believes that using a single policy does not impair the ability and requirement to ensure adequate funding of the Reserve Fund, in support of long term financial sustainability.
29	i2Coalition	Rather than raising fees, ICANN should fund the Reserve Fund from existing revenue streams. Such a fiscally conservative approach will require the ICANN organization to carefully balance and budgetary increases with the need to continue to properly and adequately allocate money for the Reserve Fund.	Replenishment	Thank you for the comment. ICANN notes the suggestion to allocate funds to the Reserve Fund from existing revenue streams, and to not raise fees.
30	i2Coalition	Finally, the standalone policy should also contain separate and enhanced Reserve Fund targets specifically related to the PTI and IANA administration budgets. At the very least, there should be a priority allocation of financial resources within the Reserve Fund that is specifically allocated to PTI and IANA functions, ensuring that critical Internet services will continue to function in the face of any disruption the ICANN organization.	Other	Thank you for this input. Please refer to comment #7 and its answer.
31	i2Coalition	The Reserve Fund investment policy should be written to meet and maintain a 12-month level. The recommendation to increase the funding level to 17 months is excessive and not realistic, given that funding from registries and registrars is contractually assured. A Reserve Fund maintained at the 12 month level will provide ICANN with the fiscal stability that the community needs.	Target Level	Thank you for the comment. The recommendation in the document submitted for public comment is to leave unchanged the target level of the Reserve Fund, which is defined as a minimum of 12 months of Operating Expenses. The document does not suggest to increase the Reserve Fund to 17 months.
32	i2Coalition	The Reserve Fund investment policy should also contain specific language that limits ICANN's ability to access these funds. This language should be specific, transparent, and subject to community review. In particular, the funds then should be limited only for reasonable mitigation activities. The i2coalition specifically recommends the following limitations: 1. ICANN should not access more than 10% of the Reserve Fund's actual balance (not recommended funding level) in a period of 30 days without written justification and board approval. 2. If ICANN reasonably anticipates accessing the Reserve Fund in consecutive months, or more than 2 out of every 3 months, a comprehensive budget and spending review must be conducted. 3. Use of funds must be justified and address both supply and demand issues. This approach ensures there is not excessive spending and that budgets are taken seriously and seen as firm caps for spending. From the demand perspective, in the event of a dramatic decrease in revenues, which would necessitate accessing the Reserve Fund, it is critical that ICANN implement austerity provisions to adjust for this decline in revenue as quickly as possible to limit continual access to the reserve.	Other	Thank you for the suggestions, which are noted for future reference. As indicated in the introduction of the document submitted for public comment, ICANN intends to design governance mechanisms for the Reserve Fund, inclusive of provisions relative to replenishment, disbursement, delegation of authority,... as a second step, following this public comment and the actions that the ICANN Board may take as a result.
33	i2Coalition	ICANN is not an ordinary 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 should create a separate Reserve Fund policy, which reflects the findings of its own analysis and the input of the community. This will, put ICANN on a path to assured economic stability. We believe that taking a firm and proactive approach to the Reserve Fund best mitigates possible financial risk ICANN might face as it performs its function serving the global Internet community.	Rationale	Refer to comments #28 and #32 and their respective answers.
34	GNSO-IPC- Intellectual Property Constituency	The IPC supports the conclusion that a minimum of 1 year's budget be the target goal for ICANN's reserve fund as this level comports with industry best practice.	Target Level	Thank you for the comment.
35	GNSO-IPC- Intellectual Property Constituency	We applaud the designation of an additional USD \$5 million by the Board to the reserve fund and recognize some hard budgeting choices will have to be made in order to replenish the fund at a reasonable pace. As we are still experiencing the after-effects of the IANA stewardship transition and the uncertainties of where the new gTLD program is heading, ICANN's diminished reserves present significant risk should the organization be exposed to another unforeseen, adverse economic event. We believe that it would be helpful to the community for ICANN to have a specific replenishment plan in place in support of the different scenarios for the reserve, whether it be for 1 year, 18 months or 2 years, and what the corresponding impacts will be on operating expenses. IPC suggests that this be done in the final draft.	Replenishment	Thank you for the input. ICANN notes the suggestion that a replenishment plan is needed. Please also refer to comment #32 and its answer.



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36	GNSO-IPC- Intellectual Property Constituency	Although industry best practice for nonprofit organizations generally is to maintain 1 year of minimum reserves, ICANN is no ordinary nonprofit and its role in the global economy suggests that its operating reserves be much more robust. For example, the draft reserve fund report notes that Nominet keeps a minimum of 2 years' operating expenses in its reserve. Over the course of time, ICANN should aspire to this goal as well. Ideally, ICANN would implement a plan that brings the reserve fund up to the 1 year of operating expenses benchmark and, when that target is reached, conduct another assessment to determine whether advancing the fund to the 18 months or 2 years benchmarks would be more appropriate given the realities of the changing domain industry.	Target Level	Thank you for the comment.
37	GNSO-IPC- Intellectual Property Constituency	At this stage, IPC believes that if ICANN were to adopt anything more than a 1 year's operating expense target today, it would be impractical from a replenishment perspective. Some have suggested that the new gTLD auction proceeds could be used for replenishment. However, it is our understanding that current restrictions on the use of the auction proceeds prevent them from being used for the reserve fund. As this is the case, we suggest a phased approach to determining new funding levels once the 1 year minimum target has been reached.	Replenishment	Thank you for the comment. The potential use of auction proceeds for the replenishment of the Reserve Fund is being discussed by the Cross Community Working Group on Auction Proceeds. There is no identified restriction for the Board to the use of the Auction Proceeds in furtherance of ICANN's mission.
38	GNSO-BC- Business Constituency	We are pleased to note the detailed analysis completed thus far to determine a healthy level for the reserve fund, that is consistent with organizational norms. We concur that the reserve fund should contain 12 to 17 months of operating expenses. However, we disagree with the conclusion that "no change is therefore recommended at this time."	Target Level	Thank you for the comment.
39	GNSO-BC- Business Constituency	1. The investment policy, at the very least, should be updated to reflect a recommendation that the reserve fund meet and maintain a 17-month level.	Target Level	Thank you for the comment.
40	GNSO-BC- Business Constituency	2. The reserve fund should have its own standalone policy and binding requirements upon ICANN to ensure that the reserve fund is adequately funded year over year, as a matter of budget priority.	Other	Thank you for the comment. Please refer to comment #28 and its answer.
41	GNSO-BC- Business Constituency	3. There should be separate and enhanced Reserve Fund targets specifically related to the PTI and IANA administration budgets.	Other	Thank you for the comment. Please refer to comment #7 and its answer.
42	GNSO-BC- Business Constituency	As a practical matter, ICANN is not an ordinary Non-Government Organization (NGO). Rather, ICANN plays a critical role in ensuring the security, stability, and resiliency of the IANA functions, and in particular, the DNS root zone. 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 must first update the investment policy to reflect the findings of the analysis undertaken by ICANN. Specifically, this part of the investment policy should be updated: The Reserve Fund is expected to reach and maintain a level of funds to maintain a minimum of 12 months of expected expenditures. 2 Should be updated as follows: The Reserve Fund shall be adequately funded with a minimum of 12 months of expected expenditures, but ideally 17 months of expected expenditures. Any year-over-year increases in expected expenditures shall be added to the Reserve Fund by the commencement of ICANN's fiscal year.	Target Level	Thank you for the input.
43	GNSO-BC- Business Constituency	For reason already mentioned above, the Reserve Fund Management Policy (RFMP) should be a standalone policy not subsumed into another policy. Such a policy should contain language that is formally adopted by the Board and binds ICANN to regular and routine funding of the Reserve Fund. We believe that taking a firm and proactive approach to the Reserve Fund best mitigate possible financial risk ICANN might face as it performs its function serving the global Internet community.	Other	Thank you for the comment. Please refer to comment #28 and its answer.
44	GNSO-BC- Business Constituency	The BC also believes that a Reserve Fund for core technical IANA functions that ICANN maintains via PTI and the RZMA with Verisign should be funded at substantially increased levels relative to the overall ICANN organization. Specifically, adopting a reserve fund for PTI/IANA functions that covers 36 months of expected expenditures would be an extremely prudent thing to do, given the global reliance upon the DNS root and other IANA functions. Such an enhanced reserve fund, dedicated to PTI/IANA would ensure the long-term continuity of the critical technical functions that ICANN undertakes, even if ICANN encounters some unanticipated, catastrophic event that effectively results in the shutdown of ICANN's policy making and compliance functions.	Other	Thank you for the comment. Please refer to comment #7 and its answer.
45	GNSO-BC- Business Constituency	The BC recommends that all community reviews of using out-of-budget ICANN funding, such as the new gTLD Auction Proceeds, should include a thorough examination of a first line charge to replenish the Reserve Fund (where depleted for necessary and sufficient reasons approved by the board) for implementation. As the CCWG-Auction Proceeds is still underway, this discussion is timely.	Replenishment	Thank you for the comment.
46	RrSG	The RrSG considers that the proposed ICANN Reserve Funding proposal is well thought out and researched. The use of comparisons to other not-for-profits was appropriate. Estimates of what is needed in reserve are by their nature a series of deductions based on foreseen contingencies. Consequently deliberations about the optimal size of a reserve fund must reflect a number of considerations. What are the reasonable risks? How long must the organization be able to run without revenues? How independent should the ICANN structure be from its sources of revenue? What is lavish and what is a prudent? The Registrars recognize that opinions will differ on reasonable grounds, and as a group they have clear interests to advance and concerns to express.	Methodology	Thank you for the comment.
47	RrSG	Registrars' concerns The Registrars are concerned with two questions: the size of the reserves, and therefore the duration of the time that ICANN should be expected to run without further revenues, and the sources of the money intended as reserves: what sources should be used, in what order, and what sources should not be used.	Target Level	Thank you for the comment.
48	RrSG	Duration of reserves There was no support whatever for a duration of reserves longer than 12 months. Some members considered that even 12 months of funding at current expenditure levels was excessive for the intended purpose of the reserves. Those members stated a preference that the reserves be held strictly for the purpose of winding down ICANN in the event that that becomes necessary. A majority of RrSG members considered that a twelve month reserve suitable for the purpose of running the organization was reasonable.	Target Level	Thank you for the comment. ICANN notes that a majority of members of the RrSG considered a 12-month reserve suitable, while some considered it excessive.
49	RrSG	Sources of the reserves It was the strong feeling of the Registrars that ICANN was living on a rich diet, that administration was top-heavy, and this in turn generated a wariness towards allowing one-time uses of reserve funds to make up for budget deficits. It was recognized that benefits once extended, and habits once ingrained, would render it difficult to roll back or restrain.	Other	Thank you for the comment.

Ref #	Organization/ Individual	Comment (full text)	Category	ICANN Response
50	RrSG	<p>Of supreme importance, Registrars also state their opposition to any proposed increase (temporary or permanent) in Registrar per-domain fees to replenish the reserve fund. Replenishing and maintaining the fund must be incorporated in to ICANN's budget, and shortfalls should not be borne by registrants, but by cutting expenses elsewhere in the organization. In this regard it was proposed that, for greater transparency on the expense side, Registrars request that ICANN-Finance identify Board expenses directly related to Board governance activities as distinct from those of representing ICANN in various venues.</p> <p>Second, registrars expressed concern that ICANN should not use the gTLD auction proceeds for purposes of replenishing the reserves. The group considers that such an act would run counter to the stated purpose of the gTLD auction proceeds and could set a dangerous precedent for future ICANN funding. If once registrars allowed such a practice, it is believed that ICANN would tend to make a habit of over-spending its budget, drawing down the reserves to cover the shortfall, then replenishing the reserves from the auction fund, thereby turning auction proceeds into an additional source of funding to cover ICANN over-expenditure.</p>	Replenishment	<p>Thank you for the comments.</p> <p>The opposition to replenishing reserves with increases of Registrar per domain fees is noted. See also answer to comment #15.</p> <p>Regarding the use of auction proceeds:</p> <ul style="list-style-type: none"> <li>- the comment suggests that this would lead ICANN to over-spend its budget. As a matter of information, please note that (i) ICANN consistently applies a principle of establishing and maintaining a balanced budget (positive "Change in Net Assets", please refer to Financials on ICANN.org).</li> <li>(ii) ICANN has never generated a deficit (presumably as a result of the principle stated in (i)).</li> <li>- the comment suggests that ICANN should not use auction proceeds to replenish reserves because this would then allow ICANN to use auction proceeds as an additional source of funding by offsetting deficits with draw-downs from reserves. It should be noted by the RrSG that the rationale offered for the Reserve Fund indicates that its purpose is to be the "funding of last resort to cover large expenses resulting from unavoidable, unpredictable or unplanned events which cannot be funded from ICANN's Operations" (excerpt from the Reserve Fund document submitted to public comment, page 8). This principle, combined with the above principle of maintaining balanced budgets, allows to prevent ICANN to fund deficits from reserves.</li> </ul> <p>However, for these principles to be effective, the governance of the Reserve Fund need rely on appropriate control mechanisms.</p> <p>This comment is therefore also relevant input to the next step of the Reserve Fund update process, which started with this public comment on the rationale and target level of the Reserve Fund, and will be followed by a second process focused on the replenishment and the governance of the</p>
51	RrSG	<p>According to the New gTLD Auction Proceeds Discussion Paper, Updated[1]the complete set of uses of the auction proceeds have not finally be agreed upon, but no one has contemplated auction proceeds should be used for establishing reserves. It cited the New gTLD Applicant Guidebook as follows:</p> <p>"The purpose of an auction is to resolve contention in a clear, objective manner. It is planned that costs of the new gTLD program will offset by fees, so any funds coming from a last resort contention resolution mechanism such as auctions would result (after paying for the auction process) in additional funding. Any proceeds from auctions will be reserved and earmarked until the uses of funds are determined. Funds must be used in a manner that supports directly ICANN's Mission and Core Values and also allows ICANN to maintain its not for profit status.</p> <p>Possible uses of auction funds include formation of a foundation with a clear mission and a transparent way to allocate funds to projects that are of interest to the greater Internet community, such as grants to support new gTLD applications or registry operators from communities in subsequent gTLD rounds, the creation of an ICANN-administered/community based fund for specific projects for the benefit of the Internet community, the creation of a registry continuity fund for the protection of registrants (ensuring that funds would be in place to support the operation of a gTLD registry until a successor could be found), or establishment of a security fund to expand use of secure protocols, conduct research, and support standards development organizations in accordance with ICANN's security and stability mission." New gTLD Applicant Guidebook –Section 4.3.</p>	Replenishment	<p>Thank you for the comment. This is relevant input for the next step of the Reserve Fund update process as indicated in the answer to comment #15 and #37.</p>
52	RrSG	<p>Third, the Registrars considered that, independently of the preceding considerations, other reserves should be used in priority to auction funds, namely the funds set aside as litigation reserves. Accordingly, the registrars consider that a reserve policy must address the issue of the priority of use of various reserve funds: in what order they should be drawn down, and they consider that unused litigation reserves should be used before registrars are called upon to top up general reserves.</p>	Replenishment	<p>Thank you for the comment.</p> <p>It should be noted that the new gTLD program applicant guidebook has not led to the creation of a specifically governed "litigation reserve". However, the application fees collected were fully segregated, and are exclusively used for the purpose of processing the evaluation of applications, including to cover "hard-to-predict costs" (for more information, please refer to <a href="https://archive.icann.org/en/topics/new-gtlds/cost-considerations-04oct09-en.pdf">https://archive.icann.org/en/topics/new-gtlds/cost-considerations-04oct09-en.pdf</a>). Such costs include, among others, costs incurred to mitigate the effects of risks. Risks costs could include, among others, litigation and other legal defense costs. As the new gTLD program is still on-going, and risk-related can not be predicted, there is not yet any indication whether any application fees would be left over once the program is completed. ICANN notes that the RrSG considers that any leftover application fees from the new gTLD program should be used for the Reserve Fund replenishment, before "registrars are called upon to top up general reserves".</p>
53	William Michael Cunningham	<p>It is our belief that recent security issues will hamper ICANN's ability to generate revenue. The Reserve Fund is not only entirely appropriate but increasingly important. Therefore we suggest the following:</p>	Rationale	Thank you for the comment.
54	William Michael Cunningham	<p>We concur with the analysis that shows "that the target level for the ICANN Reserve Fund should be of a minimum of 12 months and a maximum of 17 months of operating expenses."</p>	Target level	Thank you for the comment.
55	William Michael Cunningham	<p>Given this, the Investment Policy should be modified in the following manner: "Debt or equity investments in companies that operate in a manner that is inconsistent with ICANN's overall mission of keeping the Internet secure, stable and interoperable shall not be made. This might include, for examples, companies that oppose net neutrality or companies that support or create software and hardware tools that make the internet less secure, stable and interoperable. A document listing companies that fail this criteria will be developed and posted on ICANN's website."</p>	Other	Thank you for the suggestion.
56	Stephen Deerhake	<p>1. ICANN (non-PTI/IANA) needs at a minimum 18 months of reserve funding at the current budget level.</p>	Target level	Thank you for the comment.
57	Stephen Deerhake	<p>2. Per the recommendation made by the GNSO Business Constituency, "There should be separate and enhanced Reserve Fund targets specifically related to the PTI and IANA administration budgets". This recommendation is echoed in the submission of the ccNSO-SOP, which states "...there should be one reserve fund for ICANN and a separate one for PTI."</p> <p>3. With respect to the separate reserve fund for PTI/IANA administration budgets, I concur with the submission of the GNSO Business Community that this reserve should cover 36 months "...of expected expenditures."</p>	Other	Thank you for the comment. See also response to comment #7.
58	Stephen Deerhake	<p>4. I concur with the ccNSO-SOP "...that it is of paramount importance for ICANN to establish a long-term plan for an adequate reserve fund that could ensure the continuity and reliability of ICANN core tasks."</p>	Rationale	Thank you for the comment. See also response to comment #15.
59	Stephen Deerhake	<p>5. I fully support the use of the new gTLD auction fee proceeds to fund the two (ICANN and PTI/IANA) reserve funds as a priority over any other use of these funds.</p>	Replenishment	Thank you for the comment.
60	Stephen Deerhake	<p>It is of paramount importance that ICANN protect itself (and especially, the PTI/IANA function) from a global "Black Swan" event, which seems more likely with each passing day.</p>	Rationale	Thank you for the comment.

Ref #	Organization/ Individual	Comment (full text)	Category	ICANN Response
61	NCSG - Non-Commercial Stakeholders Group	The Non-Commercial Stakeholders Group (NCSG) welcomes the opportunity to comment on the current state of the ICANN Reserve Fund. We have carefully considered the current status of the fund, along with the proposed revisions to its target level, and would like to provide input into both. In short, we are supportive of the proposal but would encourage the Board to go further in order to provide ICANN with a sufficient level of protection to preserve its capacity to deliver on its important mission in the event of unforeseen financial shortages, the imposition of significant fines, or other legal and regulatory risks. In this comment, we will outline why we believe the current proposal is a step in the right direction but somewhat insufficient, and offer pragmatic recommendations that we believe deserve further consideration by ICANN.	Rationale	Thank you for the comment.
62	NCSG - Non-Commercial Stakeholders Group	In 2014, the ICANN Reserve Fund stood at US\$85 million corresponding to 11.5 months of operating expenses. As of 30 June 2017, the Reserve Fund was depleted to US\$62 million. ICANN projects that the Reserve Fund will further deplete to approximately US\$58 million by the end of June 2018, corresponding to 4.8 months of operating expenses. In principle we agree with ICANN staff that the organisation should set a target level for the ICANN Reserve Fund that it be sufficient to cover a minimum of 12 months and a maximum of 17 months of operating expenses. However, given the organisation's unusual risk profile, we would encourage the organisation to set a target level for the Reserve Fund of a minimum of 24 months of operating expenses. This recognises the special and important role that ICANN plays in coordinating and setting policy for the Domain Name System, the very backbone behind modern, networked communications, and could cushion exposure to potential regulatory action, including under the European Union's General Data Protection Regulation whose potential impact on ICANN is significant.	Target level	Thank you for the comment. It should be noted that, while the detailed analysis suggested a range of possible level of the Reserve Fund from 12 to 17 months, the proposed approach is to leave the current Investment Policy unchanged in reflecting a target level of "a minimum of 12 months of operating expenses", without setting a maximum. ICANN notes the suggestion that the target level should be a minimum of 24 months of operating expenses.
63	NCSG - Non-Commercial Stakeholders Group	We believe that there is only one way to replenish the Reserve Fund to meet this target level of 24 months of operating expenses, and that is to cut spending and put the savings into the Reserve Fund. We understand that there is a proposal to take funds from the New gTLD Auction Proceeds fund, and we do not support that idea. Those funds are supposed to be sequestered, and we feel it is a fundamentally unsound practice to dip into those funds to top up the Reserve Fund. To do so would make ICANN more vulnerable to a financial crisis since its ongoing expenditure would no longer be constrained by ongoing revenues. However, there are many ways in which ICANN could cut funding: <ul style="list-style-type: none"> <li>● Review the effectiveness of the various fellowship programmes (including the ICANN fellowship, NextGen@ICANN, coaching, and community onboarding programmes), which has ballooned in the recent past, and assess its benefits in terms of bringing active participants into the ICANN community. The resources might be instead allocated to provide targeted funding to support and appropriately retain volunteers who are productive contributors to ICANN working groups;</li> <li>● Review global stakeholder engagement activities to ensure that they are all closely aligned with ICANN's mission, and cut any activities that do not meet the criteria;</li> <li>● Cut funding on contracts at ICANN, ensure diligent oversight, and more competitive bidding for any procurement. Adding more transparency to those processes will help;</li> <li>● Freeze hiring and do a review of staff salaries, performance bonuses, and staff travel. ICANN is a generous employer, but it has been frequently noted to us that staff do not always spend ICANN funds diligently. Particular attention should be focused on senior executives; and</li> <li>● Examine the resources allocated to the stakeholder groups and advisory committees at ICANN to ensure they are reasonable and appropriate, and are targeted to support volunteers who are contributing to ICANN's core mission and policy development.</li> </ul>	Replenishment	Thank you for the comment. The suggestions that auction proceeds should not be used for replenishment of the Reserve Fund, and that any replenishment should come from operations excesses generated through reduced spending are noted. The suggestions offered on how to optimize spend and allow to generate savings are noted. ICANN suggests that the NCSG also participates and contributes to the upcoming FY19 Operating Plan and Budget public comment, which will discuss some of the suggestions provided in this comment.
64	NCSG - Non-Commercial Stakeholders Group	5. During the GNSO Council meeting in Abu Dhabi, ICANN's Chief Financial Officer stated that ICANN's funding is "stabilizing" – that is to say, income has stopped growing. The registrar community appears to feel it is trending downwards, judging from the discussion in the GNSO Council meeting. We feel very strongly that the time is now for the organisation to reconsider unnecessary expenditure and to work to build a strong Reserve Fund that can support the organisation should income begin to decline. Given ICANN has lost 15% of its fee-paying registrars this quarter alone, we think this is a very real possibility.	Rationale	Thank you for the comment. See also response to the comment #63 and its answer. The loss or reduction of on-going funding, including from Registrars, as resulting from changes to the DNS marketplace, have consistently been a primary contributing reason to the need for a Reserve Fund. It has been and continues to be a key driver in the Reserve Fund rationale offered previously and currently to the existence and level of the Reserve Fund.