

ICANN Organization's Report of Public Comment Proceeding

ICANN Reserve Fund: Proposed Replenishment Strategy

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Section I: General Overview and Next Steps

The ICANN Reserve Fund was created in 2007 with a target level of 12 months of ICANN's Operating Expenses. Since then, operational surpluses and investment returns have been allocated to the Reserve Fund, to progressively reach the intended target level. By 2014, the Reserve Fund had reached 11 months of Operating Expenses.

Starting in 2014, withdrawals from the Reserve Fund were made to fund the IANA Stewardship Transition expenses. In total, US\$36 million were withdrawn for this purpose. Since 2014, successive budgets did not contribute any surplus due to the increase in ICANN's Operating Expenses, with the exception of FY18 during which ICANN organization allocated US\$5 million to the Reserve Fund. As a result of these two factors, the level of the Reserve Fund dropped significantly. Today, that level represents approximately six months of Operating Expenses.

Based on its fiduciary duties, and considering the significant growth and risk profile that ICANN has seen since the creation of its Reserve Fund, the Board determined that the Reserve Fund required to be reviewed, especially in light of the significant drop in its level.

The Board therefore created a working group, supported by ICANN org, which evaluated the Reserve Fund. This evaluation led to defining an updated rationale and target level for the Reserve Fund. Considering the importance of the Reserve Fund to ICANN's financial stability and sustainability, the Board determined that public input was necessary and requested ICANN org to post the analysis performed on the rationale and target level in a first consultation paper for public comment at the end of 2017.

After taking into account public comments, the ICANN Board approved, during its recent meeting in Los Angeles on 4 Feb 2018, a resolution that recommended changes to the ICANN Investment Policy to include: (a) an updated rationale for the Reserve Fund; and (b) a confirmation that the target level of the Reserve Fund will be set at a minimum of 12 months of Operating Expenses (See resolution <https://features.icann.org/confirmation-reserve-fundtarget-level>).

The Board also determined that, once the rationale and target level have been updated, further work would be required to define a strategy to replenish the Reserve Fund from its current level to its minimum target level of 12 months of Operating Expenses, which is the subject of this second consultation paper on the Reserve Fund.

After the community comments on this second consultation paper and the Replenishment Strategy has been agreed, work will commence on the mechanism required to govern access and withdrawals from the Reserve Fund. Notably, the Reserve Fund Governance should: (a) achieve strict standards of compliance with the intended purpose and agreed rationale as described in the 4 February 2018 Board resolution; (b) contain clear definitions of authority for disbursement; and (c) include controls that allow for public transparency. The Governance will be the subject of a third and final consultation paper on the Reserve Fund and will be posted for public comments in the autumn of 2018.

The most recently published level of the Reserve Fund is US\$70 million (as of end December 2017). Using the FY19 draft budget as a measurement for the 12 months of Operating Expenses, the Reserve Fund minimum level should be US\$138 million, resulting in a minimum shortfall between the currently published level and the minimum target level of US\$68 million.

The following section provides a list of the possible sources of funding that could be considered for the purpose of replenishing the Reserve Fund. The list is not an exclusive list; any alternate sourcing model proposed will also be considered:

- **Contribution from ICANN org:** Future adopted budgets could include a contribution to the Reserve Fund on an annual basis. This would require ICANN org to plan each fiscal year for expenses to be lower than funding by an amount explicitly designated for the purpose of replenishing the Reserve Fund. Given ICANN's funding constraints, contributions from ICANN org to the Reserve Fund replenishment could only result from a reduced allocation of ICANN's resources to its on-going activities, in order to produce a surplus that is allocated to the Reserve Fund. Such allocation is and needs to continue being the subject of community engagement and input.
- **Auction Proceeds:** ICANN currently has US\$104 million collected from auctions that were held as the mechanism of last resort to resolve string contention in the New gTLD program (including investment returns). This amount excludes US\$132 million relating to the auction of the .WEB string net of auction fees (<https://www.icann.org/resources/pages/ruby-glen-v-icann-appeal-2017-01-23-en>).
- **Leftover (remaining) funds at the end of the New gTLD Program:** The most recent financial projections in the FY19 ICANN budget documents for the New gTLD Program indicate that an amount of US\$82 million remains designated for covering "hard-to-predict costs", including legal risks. Should the program's risks lead ICANN to incur lower expenses than the current designated amount, then there could be excess funds at the end of the program.

- **Additional funds from Contracted Parties:** Either as a one-time fee entirely allocated to the Reserve Fund or as a fee increase allowing to generate on-going operational surpluses which would then be allocated to the Reserve Fund.

The various sources of funding can be combined into a multi-faceted replenishment strategy.

The Board has considered the above possible sources of funding (Section E), the guiding principles (Section F), and public comments made by the community on the first consultation paper (Section G), and proposes the following strategy to replenish the Reserve Fund shortfall of US\$68 million:

- The replenishment period should not exceed five years, in line with principle (i).
- Over the five-year period, the ICANN Org should plan for operational savings in order to make a contribution of US\$ 15 million in total, in line with principle (ii)
- A contribution from the Auction Proceeds should be considered. The amount under consideration would be US\$36 million, corresponding to the total amount of withdrawals from the Reserve Fund to finance the IANA Stewardship transition.
- The remaining shortfall of US\$17 million (\$68 million less \$15 million and less \$36 million above) could possibly come from one of the following sources, in no specific order of preference:
 - Contribution from leftover funds from the New gTLD Program, if any.
 - Additional contribution from ICANN org.
 - Additional contribution from the Auction Proceeds.

The shortfall is unlikely to change significantly, given that the minimum target level of US\$138 million (equivalent to 12 months of the FY19 Operating Expenses) is likely to stabilize over the foreseeable future. Nevertheless, changes could take place as a result of increased/decreased returns on invested funds, and a future increase/decrease in ICANN's annual Operating Expenses.

ICANN published the Reserve Proposed Replenishment Strategy on 6 March 2018. A Webinar with the community was held on 1 March 2018 at the start of the 50-day public comment period.

Comments were received from 11 community groups and three individuals.

All amounts referenced below are in U.S. dollars unless otherwise stated. All references to consideration of changes to the FY19 Operating Plan and Budget are suggested changes and subject to approval by the Board.

ICANN will use the comments and other feedback provided to develop our strategy in replenishing the Reserve Fund.

Section II: Contributors

At the time this report was prepared, a total of 14 community submissions had been posted to the forum. The contributors, both individuals and organizations/groups, are listed below in alphabetical order. 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
At-Large Advisory Committee	Alan Greenberg	ALAC
Country Code Names Supporting Organization – Strategic and Operational Planning Committee	Giovanni Seppia	ccNSO-SOPC
Generic Names Supporting Organization – Council	Berry Cobb on behalf of GNSO Council	GNSO
Government of India	Pradeep Verma	GOI
ICANN Business Constituency (BC)	Steve DelBianco	BC
Internet Infrastructure Coalition	Christian Dawson on behalf of the i2Coalition	i2Coalition
Intellectual Property Constituency (IPC)	Brian Scarpelli	IPC
Non-Commercial Stakeholders Group	Rafik Dammak	NCSG
Registrar Stakeholder Group	Zoe Bonython	RrSG
Registries Stakeholder Group	Paul Diaz	RySG
Karsten Manufacturing Corp	Paul McGrady	KMC

Individuals:

Name	Affiliation (if provided)	Initials
Don Smith	(none)	DS
John Poole	(none)	JP
Keven Dabney	(none)	KD

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).

To gain a better understanding of the comments submitted, and to help community members reading this report, comments were segmented thematically rather than by group or individual. The comment themes are listed below in alphabetical order. The analysis section provides a high-level assessment of the observations, questions, and requests. Responses to individual comments are provided in the tables at the end of this report.

- Auction Proceeds/Leftover (remaining) gTLD Funds
- General
- Investment Returns
- Level of ICANN contribution/Operational Savings
- Additional Funds from contracted parties
- Replenishment Strategy

Republished Comments and Responses:

On 22 June 2018, ICANN org republished this document to include public comments and their corresponding responses that were inadvertently omitted from the previous report, which was published on 30 May 2018.

The topics at issue in the omitted comments were addressed in the initial publication of the report. Below are the comments and responses that were previously omitted, followed by the complete report with all comments and responses within their corresponding topics.

Previously Omitted Comments and Responses

Ref #	Contributor	Question / Comment	ICANN Response
37	NCSG	The NCSG supports the proposed replenishment period which would see the Reserve Fund brought to the agreed target level in three to five years.	Thank you for your comment. ICANN notes that the NCSG supports replenishing the Reserve Fund. While ICANN proposed that the replenishment period should not exceed five years, ICANN notes the NCSG's suggestion of three to five years.
38	NCSG	The vast majority of ICANN's revenue comes from gTLD and ccTLD domain name registrants. The NCSG does not support ICANN imposing an additional fee or a fee increase on the contracted parties to contribute to the Reserve Fund, as these costs will either directly or indirectly be passed on to registrants. We believe, broadly, that all communities at ICANN will oppose this recommendation. Other entities which deal with dynamic markets tend to vaccinate themselves from the illusion of an endless source of income by developing a cost-based	<p>Thank you for your comment. Please see response to comment #6.</p> <p>Response to Comment #6:</p> <p>Thank you for your comment. At this time, ICANN org has not recommended that the community consider a fee increase for contracted parties. If ICANN org were to propose a fee increase, the ICANN community would be involved and consulted.</p>

		budget first, and justifying every year its budget to the providers of said income. We suggest that ICANN do the same.	
39	NCSG	We strongly oppose the proposal to take between \$36 million and \$53 million from the New gTLD Auction Proceeds fund to replenish the Reserve Fund. As we stated last December, these 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. In addition, we note that in Ruby Glen, LLC v ICANN before the United States District Court for the Central District of California, ICANN's legal counsel explicitly argued that the auction proceed funds could not be used for operating purposes: Should an ICANN auction occur, the auction proceeds are first used to offset the administrative costs of the auction. (ER920, Guidebook § 4.2 n.l.) The remainder of the auction proceeds are held in a segregated account until the Internet community develops, and the ICANN Board authorizes, a plan to use the funds for charitable purposes consistent with ICANN's mission, core values, and status as a not-for-profit entity. (Id.; SER73, Weinstein Decl. ¶ 13.) Accordingly, ICANN does not retain remaining auction proceeds for its own operational use. (Id.) Given this filing, we believe it would be inappropriate for ICANN to use auction proceeds to replenish the Reserve Fund, an activity that we consider to be an operational expense.	<p>Thank you for your comment. ICANN notes that the NCSG does not support using Auction Proceeds to replenish the Reserve Fund. Please also see response to comment #8.</p> <p>Response to Comment #8: Thank you for your comment. Please note the role of the CCWG-Auction Proceeds, as reflected in its charter: The CCWG is tasked with developing a proposal(s) for consideration by the Chartering Organizations on the mechanism that should be developed in order to allocate the New gTLD Auction Proceeds. As part of this proposal, the CCWG is expected to factor in a number of legal and fiduciary principles, due diligence requirements that preserve ICANN's tax-exempt status, as well as address matters such as potential or actual conflicts of interest. The CCWG will not make any recommendations or determinations with regards to specific funding decisions (i.e., which specific organizations or projects are to be funded or not).</p> <p>As the role of the CCWG-Auction Proceeds is not to make determination with regards to specific funding decisions, the potential use of auction proceeds for the purpose of replenishment of the Reserve Fund is not considered to be in conflict with the role of the CCWG-Auction Proceeds.</p>
40	NCSG	It is important for the community to be able to see how decisions made in relation to the Reserve Fund are being delivered and to be able to measure the	Thank you for your comment. ICANN notes the NCSG's suggestion of a quarterly report updating the

		impact. The NCSG would welcome a quarterly report updating the community on the state of the Reserve Fund.	community on the state of the Reserve Fund.
41	BC	We make one other assumption: that new fee increases for domain names are a last resort, both practically and politically. Practically, because just as ICANN is grappling with revenue short-falls on long-term business objectives, so too are Registries and Registrars. Politically, because such a cost increase would ultimately fall on Registrants.	<p>Thank you for your comment. Please see response to comment #6.</p> <p>Response to Comment #6: Thank you for your comment. At this time, ICANN org has not recommended that the community consider a fee increase for contracted parties. If ICANN org were to propose a fee increase, the ICANN community would be involved and consulted.</p>
42	IPC	1.4 Sources of Funding – The IPC supports looking to the contributions from ICANN org and leftover funds at the end of the new gTLD program as the best sources for reserve fund replenishment. We have concerns about using auction proceeds or additional funds from contracted parties. In terms of using the auction proceeds, the IPC notes that community is in the middle of a multi-stakeholder process (the CCWG on Auction Funds) that has been working hard for over a year on producing an Initial Report. We expect the report to be issued soon. If the CCWG final report recommends that some amount of the auction proceeds should be directed toward reserve replenishment then the IPC would support such a conclusion. ICANN's current budget dilemma is not a sufficient reason to circumvent the CCWG's multi-stakeholder process. About the additional funds from contracted parties, we do not support a fee increase either onetime or permanent. It is our view that any increase would come at the expense of registrants. The entire global community should not be responsible for organizational mismanagement. The	<p>Thank you for your comment. Please see response to comment #8. Please see response to comment #6.</p> <p>Response to Comment #8: Thank you for your comment. Please note the role of the CCWG-Auction Proceeds, as reflected in its charter: The CCWG is tasked with developing a proposal(s) for consideration by the Chartering Organizations on the mechanism that should be developed in order to allocate the New gTLD Auction Proceeds. As part of this proposal, the CCWG is expected to factor in a number of legal and fiduciary principles, due diligence requirements that preserve ICANN's tax-exempt status, as well as address matters such as potential or actual conflicts of interest. The CCWG will not make any recommendations or determinations with regards to specific funding decisions (i.e. which specific organizations or projects are to be funded or not).</p>

		<p>organization should be demonstrating fiscal restraint and making rational adjustments to expenses to offset the need to increase the reserve funds. A price increase should be the last resort not the first stop on the way to restoring ICANN's fiscal health.</p>	<p>As the role of the CCWG-Auction Proceeds is not to make determination with regards to specific funding decisions, the potential use of auction proceeds for the purpose of replenishment of the Reserve Fund is not considered to be in conflict with the role of the CCWG-Auction Proceeds.</p> <p>Response to Comment #6: Thank you for your comment. At this time, ICANN org has not recommended that the community consider a fee increase for contracted parties. If ICANN org were to propose a fee increase, the ICANN community would be involved and consulted.</p>
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Additional Funds from Contracted Parties

Ref #	Contributor	Question / Comment	ICANN Response
6	ccNSO	Additional funds from contracted parties could be questionable. Eventually, it would be better to increase any possible replenishment from auction proceeds.	<p>Thank you for your comment. At this time, ICANN org has not recommended that the community consider a fee increase for contracted parties. If ICANN org were to propose a fee increase, the ICANN community would be involved and consulted.</p> <p>ICANN org notes the preference indicated in the comment to use auction proceeds instead of a fee increase to replenish further the Reserve Fund.</p>
9	i2Coalition	Increasing transaction and accreditation fees for Contracted Parties is also unacceptable. Registries and Registrars would rationally be expected to pass these increases along to their customers, which ultimately asks millions of domain name registrants - mostly individuals and small businesses - to bear the burden of ICANN's mismanagement of the Reserve Fund.	Thank you for your comment. Please see response to comment # 6.
14	ALAC	3. ICANN should not shy away from seriously considering a temporary increase on per-domain registrar fees. In past years, where ICANN finances were growing, we did not hesitate to reduce registrar fees in some years. We similarly should not hesitate to increase them in this case. A US \$0.02 increase per domain per year would net ICANN roughly US \$18 million over five years. It is likely that registrars will pass this increase on to registrants, but a US \$0.02 increase per year, even if marked up by registrars, is not going to be a deterrent to registering a domain. At a nominal domain cost of US \$10.00 per year, that is just an increase of 0.2%, far less than the	Thank you for your comment. Please see response to comment # 6.

Ref #	Contributor	Question / Comment	ICANN Response
		inflation rates we see on most everything else.	
24	RySG	Additional funds from Contracted Parties The RySG is astounded to see the document even contemplate 'Additional Funds from Contracted Parties' as a possible source of funding to replenish the Reserve Fund, not least because such a suggestion goes against the document's own Guiding Principle F (iii) that 'any financial burden on contracted parties, and by default registrants, should be avoided'. For the absolute avoidance of doubt, we are firmly against the use of additional funds from Contracted Parties and the associated financial burden on registrants and would not agree to any increase of our fees as required in the applicable Registry Agreements.	Thank you for your comment. The document offered for public comment does not suggest an increase in fees to contracted parties. Section E of the document provides a list of the sources of funding theoretically available for consideration. In accordance with the principles laid out in section F, the recommended strategy for replenishment, laid out in section H, excludes any fee increase. Please also see response to comment # 6.
31	GNSO	Financial Burden on Contracted Parties and, by extension, Domain Name Registrants The GNSO Council does not support that ICANN impose a fee increase on the contracted parties to contribute to the Reserve Fund, as these costs will either directly or indirectly be passed on to domain name registrants. We anticipate all in the community will likewise oppose such an increase in fees. The GNSO Council appreciates the opportunity to share our perspectives on this important issue and we trust you will find our comments helpful. We would be happy to answer any clarifying questions that you may have regarding the contents of this document.	Thank you for your comment. Please see response to comment # 6.
35	RrSG	No contribution from Contracted Parties: Increasing funds / fees on Contracted Parties must be clearly rejected. Contracted Parties will rationally pass these increases along to their customers,	Thank you for your comment. Please see response to comment # 6.

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		asking millions of domain name registrants around the world to bear the burden of the replenishment of ICANN Org's Reserve Fund. The market for domain names is extremely price sensitive, and operating margins are small, growth is flattening (at least, in developed markets), so it is not unreasonable to expect that this would suppress the growth of the DNS, and potentially push it into decline.	
38	NCSG	The vast majority of ICANN's revenue comes from gTLD and ccTLD domain name registrants. The NCSG does not support ICANN imposing an additional fee or a fee increase on the contracted parties to contribute to the Reserve Fund, as these costs will either directly or indirectly be passed on to registrants. We believe, broadly, that all communities at ICANN will oppose this recommendation. Other entities which deal with dynamic markets tend to vaccinate themselves from the illusion of an endless source of income by developing a cost-based budget first, and justifying every year its budget to the providers of said income. We suggest that ICANN do the same.	Thank you for your comment. Please see response to comment #6.
41	BC	We make one other assumption: that new fee increases for domain names are a last resort, both practically and politically. Practically, because just as ICANN is grappling with revenue short-falls on long-term business objectives, so too are Registries and Registrars. Politically, because such a cost increase would ultimately fall on Registrants.	Thank you for your comment. Please see response to comment #6.

Auction Proceeds/Leftover (remaining) gTLD Funds

Ref #	Contributor	Question / Comment	ICANN Response
3	ccNSO	<p>We would like to highlight the following elements:</p> <p>We would like clarification as to the reason why the contribution from auction proceeds cannot exceed US\$36m. We do not agree with US\$36m limitation. We recommend the ICANN Board immediately resolve to allocate US\$68m from the Auction Proceeds fund to the Reserve Fund to completely fund the Corporation's Reserve Fund to a level of 12 months of current operational expenses.</p> <p>As this is a Reserve Fund that does not have all the resources that might be needed, we recommend the replenishment take place as soon as possible. Not restricting the contribution from auction proceeds would assist with this, which is why a reason for the apparent arbitrary limit should be provided.</p>	<p>Thank you for your comment. There is no specific limitation in place that would prevent the contribution from auction proceeds to exceed the suggested \$36 million. This amount was only used as a helpful conceptual reference to amount of depletion of the Reserve Fund that has occurred, which partially contributed to the shortfall.</p> <p>ICANN org notes the recommendation that the entire shortfall of \$68 million be replenished immediately from auction proceeds.</p>
5	ccNSO	The contribution from the leftovers of the new gTLD programme should be compulsory considering that part of the risk (and therefore the need to have a proper reserve) lies therein.	Thank you for your comment. Please see response to comment # 19.
8	i2Coalition	<p>The topic framing indicates that ICANN needs to come up with \$68 million immediately, and turns to the community to justify this decision, outlining one reasonable way of doing so -- Contribution from ICANN Org -- and at least two unreasonable and unacceptable ways of doing so.</p> <p>Instead, this exercise should illuminate the fact that ICANN has not taken a fiscally conservative approach to budgets. We recognize that the Board has set the Reserve Fund target at one year's operating budget 1, but this</p>	<p>Thank you for your comment. Please note the role of the CCWG-Auction Proceeds, as reflected in its charter: The CCWG is tasked with developing a proposal(s) for consideration by the Chartering Organizations on the mechanism that should be developed in order to allocate the New gTLD Auction Proceeds. As part of this proposal, the CCWG is expected to factor in a number of legal and fiduciary principles, due diligence requirements that preserve ICANN's tax-exempt status, as well as address matters such as potential or actual conflicts of interest. The CCWG will not</p>

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		<p>directive could Though no I2Coalition member consensus exists around the use of surplus funds for reserve replenishment, the I2Coalition membership believes strongly that the following two funding sources are off limits, and should not be considered to replenish the Reserve Fund:</p> <ul style="list-style-type: none"> • New gTLD Auction Proceeds • Additional Fees from Contracted Parties <p>New gTLD Auction Proceeds are currently the subject of existing cross community work (CCWG-Auction Proceeds), and dispositioning funds from these proceeds while this work is underway would be a blatant disregard of the community's role in managing these funds.</p>	<p>make any recommendations or determinations with regards to specific funding decisions (i.e. which specific organizations or projects are to be funded or not).</p> <p>As the role of the CCWG-Auction Proceeds is not to make determination with regards to specific funding decisions, the potential use of auction proceeds for the purpose of replenishment of the Reserve Fund is not considered to be in conflict with the role of the CCWG-Auction Proceeds.</p>
13	ALAC	<p>2. \$36 from the Auction Proceeds should be subject to a limit of 25% of available funds. If the .web funds ultimately are fully or partially available, the suggested US \$36 million could be increased to the 25% limit.</p> <p>Lastly, the ALAC notes that there are some in the community (including within At-Large) who feel that the Auction Proceeds should not be touched. The ALAC believes that the Auction Proceeds may be destined to do a lot of good, but doing so at the expense of an ICANN which is not financially stable is not wise.</p>	<p>Thank you for your comment. ICANN org notes the suggested approach of limiting the use of auction proceeds for the purpose of replenishing the Reserve Fund to 25% of the total available amount of auction proceeds.</p> <p>ICANN org notes ALAC's views that ICANN's financial stability is a priority over the benefit expected from using auction proceeds.</p> <p>Please also see response to comment # 3.</p>
18	BC	<p>Use of Auction Proceeds to Replenish the Reserve Fund</p> <p>Second, regarding use of new gTLD Auction proceeds, the BC is actively participating in the CCWG regarding use of new gTLD Auction Proceeds (CCWG-AP), which should be allowed to complete its work in defining potential</p>	<p>Thank you for your comment. ICANN notes the indication by the BC that auction proceeds should be available to replenish the Reserve Fund.</p> <p>Please also see response to comment # 8.</p>

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		<p>activities that are in support of ICANN's core mission. As to whether auction proceeds should be available to replenish the Reserve Fund, the BC recently endorsed the idea of using auction process to replenish reserves, though we did not specify an amount: "The BC reiterates our Nov-2017 suggestion that the community process on use of new gTLD Auction Proceeds should thoroughly examine using some of those proceeds to replenish the Reserve Fund."</p> <p>The \$36 million ICANN Org spent on the IANA Stewardship Transition and ICANN Accountability Enhancements was for public benefit to ensure that the multi-stakeholder community continue managing IANA and have more oversight over ICANN. The money ICANN spent helped the M-S community demonstrate to governments (USG in particular) and other stakeholders that this transition could maintain security, stability and resiliency and increase ICANN Org's accountability to the global internet community.</p> <p>However, it would be premature and inappropriate to route around the CCWG-AP process by claiming auction proceeds to address ICANN Org's deficient Reserve Fund. Further, the BC is concerned that doing so would start down a slippery slope where ICANN Org eschews fiscal discipline because it can count upon bail-outs from auction proceeds.</p>	
19	BC	<p>Use of unspent gTLD Application Funds</p> <p>Third, we recommend a re-allocation of unspent new gTLD applications funds of US \$ 17 million to the Reserve Fund.</p>	<p>Thank you for your comment. Application fees are used for the purpose of processing the evaluation of applications, including to cover "hard-to-predict costs" (for more information, please refer to</p>

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			<p>https://archive.icann.org/en/topics/new-gtlds/cost-considerations-23oct08-en.pdf.</p> <p>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 cannot be predicted, there is not yet any indication whether any application fees would be left over once the program is completed.</p> <p>ICANN notes that the GNSO considers that any leftover application fees from the New gTLD Program should be used for the Reserve Fund replenishment.</p>
22	RySG	<p>The RySG is of the view that a sole determination through this process to use "Auction Proceeds" to contribute to the ICANN Reserve Fund is not appropriate because (a) there is an ongoing multistakeholder process already underway to determine the appropriate uses of the auction funds, (b) we are of the view that the Reserve Fund must be supported from ICANN's appropriately managed operating funds and (c) because the possible uses of Auction Funds described in the New gTLD Applicant Guidebook clearly did not specifically contemplate such a use. An ICANN determination through this comment process would not only potentially undermine the multi-stakeholder process already underway, but may set the precedent of allowing the ICANN Organization to circumvent any future such multi-stakeholder process when it deems appropriate.</p> <p>With respect to the substance of using Auction Proceeds towards replenishing</p>	<p>Thank you for your comment. ICANN notes the RySG's views that the use of auction proceeds, combined with regular contributions by ICANN org, is acceptable.</p> <p>Please also see response to comment # 8.</p>

Ref #	Contributor	Question / Comment	ICANN Response
		<p>the Reserve Fund, we note that the possible uses of Auction Funds were contemplated in the new gTLD Applicant Guidebook as follows:</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.”</p> <p>Utilizing the Auction Proceeds for ICANN Org's own purposes was therefore not explicitly included as a permissive purpose in the Applicant Guidebook. However, should it be determined by the CWG Auction Proceeds process that such a use of Auction Funds is permissible AND there be a community consensus determination through this comment process on replenishment that there is a requirement for Reserve Fund top-up beyond that provided for by regular, annual contributions from ICANN Org, then the use of Auction Funds in this context may be appropriate as a</p>	

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		supplement to the regular, annual contributions from ICANN Org.	
23	RySG	<p>Leftover funds at the end of the new gTLD program.</p> <p>The prospective use of excess application fees is a clear violation of ICANN Policy, which states that application fees (for new gTLDs) should cover the costs of the program. The RySG is clearly and firmly of the view that the allowable use of the such funds is constrained to cover the costs of the implementation and execution of the new gTLD program or such other program as agreed to by a consensus of the applicants that were themselves the source of such funds.</p> <p>Additional funds from Contracted Parties</p> <p>The RySG is astounded to see the document even contemplate 'Additional Funds from Contracted Parties' as a possible source of funding to replenish the Reserve Fund, not least because such a suggestion goes against the document's own Guiding Principle F (iii) that 'any financial burden on contracted parties, and by default registrants, should be avoided'. For the absolute avoidance of doubt, we are firmly against the use of additional funds from Contracted Parties and the associated financial burden on registrants and would not agree to any increase of our fees as required in the applicable Registry Agreements.</p>	<p>Thank you for your comment.</p> <p>ICANN org notes the preference indicated in the comment that leftover gTLD funds and fee increases should not be considered.</p>
34	RrSG	No contribution from Auction Proceeds: The RrSG opposes using Auction Proceeds to replenish the Reserve Fund. Under the New gTLD program, Auction	Thank you for your comment. Please also refer to the ICANN Investment Policy, recently updated as a result of the first consultation on the Reserve Fund rationale

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		<p>Proceeds were never intended to support ICANN operations. The RrSG is concerned that this is being proposed while the potential use(s) of Auction Proceeds are the subject of ongoing community work which have not yet been finalised. It is anticipated that this work will conclude in the near future, and will further establish a clear separation between Auction Proceeds and ICANN operations. The RrSG is concerned about the potential precedent set by allowing use of Reserve Funds by ICANN Org when the operations budget has been overspent. Additionally, the Reserve Funds are primarily intended to be used by ICANN operations as a last resort in the event of impending closure. If the Reserve Fund is replenished by Auction Proceeds, and the Reserve is subsequently used for ICANN operations, then that is, in effect, indirectly using Auction Proceeds to pay for ongoing ICANN operations.</p>	<p>and target level, which led the Board to approve an update to the rationale and use of the Reserve Fund. It can be found at https://www.icann.org/resources/pages/investment-policy-2018-03-12-en.</p> <p>The use of the Reserve Fund is described as follows:</p> <p>"The Reserve Fund is ICANN's funding of last resort to cover large expenses resulting from unavoidable, unpredictable or unplanned events, which cannot be funded from ICANN's Operations.</p> <p>Illustrative examples of such events include:</p> <ul style="list-style-type: none"> - the urgent and unbudgeted replacement of large assets, or payment of large liabilities, - the undertaking of major downsizing or significant restructuring of ICANN's operations. - the occurrence of major security and stability threats and attacks. - the occurrence of unplanned large litigation and/or penalty expenses. - undertaking new and major programs resulting from a new strategic plan or exceptional unforeseen external events the recovery and continuation of operations after a disaster. [...]" <p>Please also see response to comment # 8.</p>
39	NCSG	We strongly oppose the proposal to take between \$36 million and \$53 million from the New gTLD Auction Proceeds fund to replenish the Reserve Fund. As we stated last December, these 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	<p>Thank you for your comment. ICANN notes that the NCSG does not support using Auction Proceeds to replenish the Reserve Fund.</p> <p>Please also see response to comment #8.</p>

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		<p>constrained by ongoing revenues. In addition, we note that in Ruby Glen, LLC v ICANN before the United States District Court for the Central District of California, ICANN's legal counsel explicitly argued that the auction proceed funds could not be used for operating purposes: Should an ICANN auction occur, the auction proceeds are first used to offset the administrative costs of the auction. (ER920, Guidebook § 4.2 n.l.) The remainder of the auction proceeds are held in a segregated account until the Internet community develops, and the ICANN Board authorizes, a plan to use the funds for charitable purposes consistent with ICANN's mission, core values, and status as a not-for-profit entity. (Id.; SER73, Weistein Decl. ¶ 13.) Accordingly, ICANN does not retain remaining auction proceeds for its own operational use. (Id.) 2 Given this filing, we believe it would be inappropriate for ICANN to use auction proceeds to replenish the Reserve Fund, an activity that we consider to be an operational expense.</p>	

General

Ref #	Contributor	Question / Comment	ICANN Response
7	ccNSO	<p>Assumptions We would like to know what the Reserve Fund level set at a minimum of 12 months of Operating Expenses will look like in the context of the Budget.</p> <p>Does it mean that the budget for each Fiscal Year (after the Reserve Fund is replenished) will include a figure for the Reserve Fund level for that particular year, adjusted to match the Operating Expenses? Will there be a description of the sources for replenishing the Reserve Fund in case the Operating Expenses are higher than in the previous year, or an explanation of how the excess amount will be used if Operating Expenses are budgeted lower than in the previous year, and whether the Reserve Fund will be decreased accordingly?</p> <p>From our understanding, in the event of a decrease of Operating Expenses the changes will not affect the Reserve Fund since it is set to a minimum of 12 months of Operating Expenses. In this situation the Reserve Fund will contain more than the 12 months Operating Expenses, so no actions are needed.</p>	<p>Thank you for your comment. At this time, ICANN org is targeting a level of \$138 million, or 12 months of operating expenses. The targeted Reserve Fund level will continue to be monitored each year.</p> <p>An increase in operating expenses should lead to adjusting the Reserve Fund target accordingly, and an allocation to it should be planned as a result.</p> <p>Should the Reserve Fund exceed 12 months of operating expenses, as a result of a decrease in such expenses, the Reserve Fund would still be compliant with the Investment Policy, as the comment indicates.</p>
25	KD	<p>ICANN should not be looking to replenish funds it does not need nor should it have ever dipped into such funds in the first place.</p> <p>ICANN is overstaffed, over-budgeted and not acting in the public benefit with such obscene</p>	<p>Thank you for your comment. Please be advised that the Domain Incite article cited in this comment was published on 1 April 2018, otherwise known as April Fools' Day, which is commonly regarded as an accepted opportunity for fantasist statements. None of the information included in this article is true.</p>

Ref #	Contributor	Question / Comment	ICANN Response
		<p>spending. One of ICANN's commitments is "(vi) to Remain accountable to the Internet community through mechanisms defined in these Bylaws that enhance ICANN's effectiveness." Unfortunately, ICANN's over-inflated budget and wild lavish spending has gotten out of control and ICANN needs to rein in on such inexcusable misuse and misappropriation of the Internet community's funds.</p> <p>In performing its mission, ICANN maintains "Core Values" it adheres to, not limiting to "(v) Operating with efficiency and excellence". Misuse of public funds and lavish spending only goes to show that ICANN is not operating with efficiency, and is breaking its very own core values.</p> <p>The mere request for public comment on replenishing squandered funds is a joke. The funds should have never been spent in the first place. The actions that need to be taken by ICANN is to immediately reduce it's staff and overhead. It is to stop throwing lavish parties and spending money like a rock-star band. In all Irony, a reporter, Kevin Murphy, cited a lavish event at the world famous Mar-A-Lago, which read more like a story from a tongue-in-cheek newspaper, while all being completely accurate and to the point:</p> <p>http://domainincite.com/22792-icann-heads-to-mar-a-lago-for-budget-crisis-talks</p>	<p>For further information on ICANN's budget and ICANN policies, please refer to ICANN's website at</p> <p>https://www.icann.org/resources/pages/governance/financials-en.</p>

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		<p>The not-so hilarious statement in the article stated that "to encourage participation from an increasingly weary volunteer pool, attendees will be treated to complimentary spa treatments, golfing, and the most beautiful pieces of chocolate cake, [Goran Marby] said."</p> <p>Whose money is this? Why is ICANN appropriating these reserve funds for spa treatments, golfing and beautiful pieces of chocolate cake? Especially in the middle of a budget crisis! This is not being accountable and is a complete misappropriation of public funds.</p> <p>ICANN needs to right this ship before it crashes and burns. The introduction of the new top-level-domains was an embarrassment, and ICANN seems to have no direct accountability against its core commitments and values.</p> <p>The community demands that ICANN stop spending money on wasteful things, stops spending money it does not have, and get its spending under immediate control. We as a community do not agree to "replenishing" ICANN's war chest of unneeded and unnecessary money.</p>	
28	IPC	1.7 Assumptions – ICANN's proposed replenishment strategy assumes that the reserve shortfall is unlikely to change given that operating expenses are likely to stabilize. IPC asks for more clarification for this assumption	Thank you for your comment. ICANN organization currently expects that expenses will generally stabilize, and therefore, presuming no withdrawal is necessary from the Reserve Fund, the shortfall is unlikely to change in the short term. ICANN org is focused on cost control and savings through optimizing internal

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		<p>and whether ICANN is willing to commit to building more flexibility between projected revenues over projected expenditures This commitment would go a long way toward avoiding financial crises in the future.</p>	<p>processes and procedures, while maintaining the services provided to the community. ICANN's expenses are not a function of the funding level, but rather dependent on our duty to fulfill ICANN's mission.</p> <p>It should also be noted that ICANN has never, in any given fiscal year, incurred a financial deficit.</p>
36	RrSG	<p>Summary:</p> <p>In summary, the RrSG would like to reiterate the necessity to reassess the 12 month operations budget amount that the Reserve Fund is based on. By doing so, the need to find contributions outside of the \$15 million from ICANN Org either significantly reduces or disappears entirely. In turn, funds from Auction Proceeds or increased fees on Contracted Parties are not appropriate to allocate to the Reserve Fund. Moreover, RrSG suggests that it is not appropriate to set the level of the Reserve Fund on the basis of operational budget, as the main reason why a Reserve Fund would be called upon would be in the event of a winding down of ICANN's operations. When operating solely on its reserves, a significant portion of ICANN's spending would become unnecessary, including the cancellation of meetings and all associated costs (ie, venue and travel support), outreach, future projects and deep cuts in staff</p>	<p>Thank you for your comment.</p> <p>Please see response to comment # 6</p> <p>Please see response to comment # 7</p> <p>Please see response to comment # 8</p> <p>Please see response to comment # 33</p>

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		commencing well before the end of the 12 month period. The RrSG believes that the Reserve Fund target amount should be closer to the IANA Caretaker Budget, providing only for essential services, which would significantly reduce operational costs.	
40	NCSG	It is important for the community to be able to see how decisions made in relation to the Reserve Fund are being delivered and to be able to measure the impact. The NCSG would welcome a quarterly report updating the community on the state of the Reserve Fund.	Thank you for your comment. ICANN notes the NCSG's suggestion of a quarterly report updating the community on the state of the Reserve Fund.

Investment Returns

Ref #	Contributor	Question / Comment	ICANN Response
2	JP	<p>Note 3: see comment attached as appendix below, deeming unacceptable increases in fees to contracted parties (or registrants), or encroaching on the principal of auction proceeds or application fees. However, based on the webinar presentation, there does not appear to be any prohibition against utilizing the interest generated by these funds to replenish the reserve fund.</p> <p>$\\$375000 \text{ per month} = \\4.5 million year. $\\$80 \text{ million of principal will generate } \\$4,800,000 \text{ in interest (at 6\%) per year}$ (more than what is needed).</p> <p>Accordingly, utilize interest (only) earned on one or more sources of funds already identified by the ICANN CFO or identify an additional \$4.5 in annual operational savings in order to replenish the reserve fund in 5 years to the target goal.</p>	<p>Thank you for your comment. Any earned interest is added to the Reserve Fund towards replenishment and is not factored into the budget to fund operational activities. In practical terms, the Reserve Fund is made up of financial instruments managed by an investment management firm; the returns on these investments are never taken out of the portfolio, but rather contribute to increasing it.</p> <p>Because returns are difficult to predict, none was factored in the replenishment strategy.</p>
15	ALAC	<p>4. The interest and other revenue from the reserve fund investments should be included in the replenishment calculations. Moreover, ICANN should consider using the interest and similar revenue on the other funds under management (the Auction Proceeds and the New gLTD surplus) to replenish the reserve instead of being returned to those funds.</p>	<p>Thank you for your comment. Please see response to comment # 2.</p>

Level of ICANN Contribution / Operational Savings

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1	JP	<p>3. Conclusion and Recommendation:</p> <ul style="list-style-type: none"> a. ICANN org could commit to \$250,000 per month (\$15m over 5 years) in operational savings according to the webinar presentation by the ICANN CFO (see Note 1 on page 1) b. ICANN needs an additional \$375,000 per month (375K+250K=625,000) for 5 years to replenish reserves to \$138,000,000 (see chart above). c. Only realistic options are additional operational savings or identifying funds from which interest generated would equal \$375000 monthly. <p>My comment on the ICANN FY19 budget identifies multiple sources of possible operational savings. I have only one additional suggestion for consideration to achieve operational savings- -Eliminate one of the three ICANN meetings, change to a calendar accounting year, adopt the ICANN budget for the coming calendar year at the annual meeting in Oct-Nov, and hold the second ICANN meeting approximately six months after the annual meeting.</p>	<p>Thank you for your comment. ICANN org is focused on cost control and savings through optimizing internal processes and procedures, while maintaining the services provided to the community.</p> <p>Any earned interest is added to the Reserve Fund towards replenishment and is not factored into the budget to fund operational activities.</p> <p>ICANN notes the suggestion to eliminate one ICANN meeting per year. The schedule of ICANN Public meetings is currently set in ICANN's Bylaws and the meeting formats were designed by the community's Meeting Strategy Working Group. The meeting strategy web page explains how the three meeting formats differ.</p>
4	ccNSO	<p>The ICANN Board should commit to applying the US\$15m million in proposed operational savings that has been proposed to back-fill the Reserve Fund deficit to re-funding the Auction Proceeds fund.</p> <p>Earlier in the proposal, we read that 'contributions from ICANN Org to the Reserve Fund replenishment are the result of a reduced allocation of ICANN's resources to its on-going activities, in order to produce a surplus that is allocated to the Reserve Fund'. We would like to stress the importance of the concept of optimization, which</p>	<p>Thank you for your comment. ICANN org is focused on cost control and savings through optimizing internal processes and procedures, while maintaining the services provided to the community.</p> <p>The suggested commitment of the Organization to generate \$15 million of excess over five years to replenish the Reserve Fund does create an additional incentive and requirement to further identify and realize efficiency savings. As ICANN's mission leads to address continuously evolving requirements, it</p>

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		<p>differs from the concept of 'reduced resource allocation'. Thus, the US\$15m contribution gained from ICANN Org operational savings should be also achievable by optimizing existing efforts. We would also like to understand how this part of the proposal fits into the FY19 Operating Plan and Budget.</p>	<p>is unclear that the sole generation of efficiency savings could, on its own, generate sufficient excess to allow for replenishment of the Reserve Fund.</p>
10	i2Coalition	<p>We have arrived at this situation with the Reserve Fund because ICANN has insufficiently controlled for the expansion of its budget, in an era of flat or declining proceeds. This made ICANN vulnerable to a significant, one-time event (IANA transition), and ICANN had no choice but to tap its Reserve Fund. It is therefore our position that the only appropriate Reserve Fund replenishment strategy is for ICANN to cut its existing cost structure, and contribute the surplus to the Reserve Fund over several years.</p> <p>Now is the time to decrease headcount, and get the ICANN budget down to levels that will allow it to sustain itself long term. As a point of reference, the ICANN headcount was only 246 in FY142. For FY18, budgeted headcount exploded to 4143, a headcount increase of 68%. ICANN must ONLY consider funding sources that come through rigorous cutting of the ICANN org budget over a period of years. Given that funding from registries and registrars is contractually assured, a Reserve Fund built up to the 12 month level over a period of 2-3 years, as it trims budgets to live within its means, will still provide ICANN with the fiscal stability that the community needs. One important side effect of ICANN org</p>	<p>Thank you for your comment. ICANN org is conscious of our headcount numbers and growth and continue to look for ways to perform work more efficiently, to prioritize work and decide if it still meets our strategic plan, and to ensure we have the right balance of employees versus third party providers, etc.</p> <p>As the number of registries and registrars is stabilizing and ICANN continues to increase its operational excellence and effectiveness, it is expected that the organization's resource will also stabilize. ICANN org and Board have initiated a process to prioritize activities to allow ICANN to stabilize its resources, and ensure that expenses remain below funding in the long term, while continuing to deliver on its mission. ICANN organization, Board and Community will be fully engaged in a collaborative interaction as part of the strategic planning process, to appropriately prioritize the activities of the organization.</p>

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		<p>reductions in spending is that it also reduces the amount of the overall funding level of the reserve fund.</p> <p>For instance, reducing expenses from \$138 million to \$120 million would result in the reserve fund being fully funded in just three years, assuming a worst case of steady state revenue and 4% year over year inflationary operating expense increases. Yes, such drastic cuts in spending will be difficult, but ICANN must do everything in its power to optimize the workforce in place and consider eliminating redundant positions and also utilizing skilled labor in lower cost of living areas, both in the US and outside of the US.</p> <p>ICANN has been trimming community programs that have gotten too big in the past few years. It is time to cut headcount, offices, and salaries within the staff and support organization, which is simply too large to sustain itself.</p> <p>ICANN is not a Non-Government Organization. ICANN plays a critical role in ensuring the security, stability, and resiliency of the IANA functions, and in particular, the DNS root zone. Appreciating this critical role is key to understanding the difference between ICANN and other organizations. The global economy has flourished due to the effective and centralized management of the DNS root zone. Due to the global economic importance of the DNS, ICANN needs a path to assured economic stability that is not sustained at artificial levels by stealing from unintended sources of revenue that should not and do not</p>	

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		<p>belong to it.</p> <p>We believe that this is the only responsible path for ICANN to take as it performs its function serving the global Internet community.</p>	
12	ALAC	<p>The ALAC supports this overall strategy but with the following conditions and additions:</p> <ol style="list-style-type: none"> 1. The ALAC supports the allocation of operational savings at the average level of US \$3 million per year, but with the understanding that this implicit reduction on spending budgets must be spread evenly over the entire budget. As seen in the draft FY19 budget, there is a temptation to focus reductions on specific (vulnerable) parts of the community, potentially endangering the multistakeholder model. That must not happen in this case. 	<p>Thank you for your comment. Please see response to comment # 4.</p>
16	NCSG	<p>The NCSG supports the proposed replenishment period which would see the Reserve Fund brought to the agreed target level in three to five years. The NCSG supports in principle the proposal that ICANN org make an annual contribution to the Reserve Fund through the achievement of operational savings. In the context of a tightening budget, we appreciate that ICANN will likely need to undergo an organizational restructuring in the service of its remit, and our concern is that this could impact the ICANN community and the support that we require in order to do our work. In the proposed FY19 Budget and Operating Plan, for instance, the ICANN community was targeted by ICANN for cuts. From what we understand,</p>	<p>Thank you for your comment. Please see response to comment # 4.</p> <p>In addition, it should be understood that the budget cuts that affect community (approximately \$800k for CROP, Fellowship and Wiki) were much lower in percentage and value than those directly affecting ICANN org and activities (about \$8.6 million across all departments, see section 2.5 of Document #2 in FY19 Budget).</p>

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		<p>departments were given internal targets of cuts to meet, and rather than look inward, most departments sought to cut community support. This is unacceptable. While the community should not be immune from cuts, we do ask that when ICANN is considering areas where cost-savings might be able to be achieved, first provide a rationale for the cut, and then engage in a formal community consultation before any decisions are made. It is our strongly held belief that when you cut community support, you weaken community participation in ICANN's policy development processes, and by extension, hamper ICANN's own legitimacy.</p>	
17	BC	<p>Replenishing the Reserve Fund with Annual Operating Surpluses</p> <p>First, in the five budget years FY2019 through FY2025, we recommend continuing the contribution of US \$ 5 million each year from the ICANN operating budget to the Reserve. That is a total of US \$ 25 million over 5 years.</p>	<p>Thank you for your comment. The annual contribution from ICANN Operations suggested in the replenishment strategy is \$3million, to enable a sustainable annual contribution while continuing to deliver on ICANN's mission. Allowing for a \$3 million per year contribution will require that ICANN identifies about \$6 million of savings per year in order to both contribute to the Reserve Fund and offset the mechanical effect of inflation.</p>
20	DS	<p>ICANN needs to be held accountable, just like any other corporation in the world (corporate or non-profit.) ICANN is now in a budget crunch because of its own mistakes with the gTLD program and other lavish spending. Specifically, ICANN massively scaled up its headcount to support the new gTLD program. However, the new gTLD program severely underperformed projected volumes based on ICANN's own</p>	<p>Thank you for your comment. Please see response to comment # 10.</p>

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		<p>internal budget and ICANN still continues to under estimate the future revenues from the gTLD program.</p> <p>The ICANN finance team, led by CFO Xavier Calvez massively under budgeted expected revenues from the gTLD program. ICANN scaled up staff based on these projections. And the CFO needs to be held accountable for this enormous budgeting mistake. (can you think of this happening with any public company in the US? The board would have terminated senior management a LONG time ago.)</p> <p>Why is there no accountability for the office of the CEO and CFO? Also worth noting Xavier currently makes \$373,561 per year not considering the extremely generous 401k plan (which requires no employee match.)</p> <p>The ONLY way to remedy this situation is fix what caused it. ICANN must cut staff and they must do this ASAP. Cut deep and aggressive. Consider this: by cutting headcount by 20%, 30% or even by 40% - it will have absolutely no bearing on ICANN's revenues. ICANN will still continue to receive the same amount of revenue regardless if it is a tightly controlled / elite team of professionals or if continues to be the super over bloated organization they are today. Yes, ICANN can always hire more staff in the future....but time has come to cut deep!</p> <p>This will be Göran Marby's big test to see if he will do the right thing. Cutting staff is not an easy decision – but it MUST be done to ensure ICANN has a future. It is extremely difficult to cut staff and lay off employees – but this is the only want to fix this mess. You have to reverse what got ICANN into</p>	

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		this situation in the first place - because if you don't address this problem head on and look for money elsewhere, we will be back in the very same situation a few years down the road	
21	RySG	<p>The RySG is firmly of the view that ICANN should operate in a fiscally restrained manner at all times; that is, ICANN's operating expenses should be comfortably less than, not equal to, ICANN's income in any given financial year. In this context, we note that a financially prudent ICANN will necessarily be a lower risk operation and therefore that the targeted 12 month Reserve Fund will be more than adequate to mitigate the appropriate risks. Moreover, ICANN operated in such a fiscally prudent manner will be able to work towards the targeted (12 month) Reserve Fund over a number of years and need not establish the targeted level in too short a time frame.</p> <p>The RySG is therefore of the view that it is the direction of travel, i.e. regular Reserve Fund contribution on an annual basis that is the critical factor here and not the speed of travel. Put plainly; we do not agree that the 12 month target for the Reserve Fund needs to be reached within five years. Indeed, here we reiterate our view that the 12 month target is excessive. Each year that ICANN makes a contribution to the Reserve Fund, the overall position is further de-risked from the present situation. Moreover, ICANN does not necessarily need to cover for all aspects of its operation with the Reserve Fund but rather the Reserve</p>	<p>Thank you for your comment. ICANN org is focused on cost control and savings through optimizing internal processes and procedures, while maintaining the services provided to the community.</p> <p>After taking into account public comments, the ICANN Board approved, during its recent meeting in Los Angeles on 4 February 2018, a resolution that recommended changes to the ICANN Investment Policy to include: (a) an updated rationale for the Reserve Fund; and (b) a confirmation that the target level of the Reserve Fund will be set at a minimum of 12 months of Operating Expenses (see resolution https://features.icann.org/confirmation-reserve-fund-target-level).</p> <p>ICANN looks forward to receiving community input on the possible reduction of activities and support that ICANN currently provides, in order to achieve the suggested strategy of replenishing the Reserve Fund solely through operational excess.</p>

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		<p>Fund should be targeted first and foremost towards ensuring the operation of critical core operations, such as the IANA function within PTI. With regard to the suggested Sources of funding, the RySG wishes to make the following comments:</p> <p>Contribution from ICANN Org</p> <p>The RySG is firmly of the view that the sole source of appropriate funding for the replenishment of ICANN's Reserve Fund is an ongoing, annual contribution from ICANN Org. ICANN's increase in cost base in the recent past has been excessive and ICANN must get its spending under control such that it generates an annual surplus which can and must be directed towards replenishment of the Reserve Fund. Replenishment by this mechanism could be undertaken consistent with all four guiding principles outlined in section F of the Replenishment Strategy consultation document. Moreover, a fiscally prudent ICANN will by definition have a reduced cost base such that even the generous proposed 12 month Operating Expenses target for the Reserve Fund will itself be reduced and therefore more readily achieved.</p>	
26	IPC	<p>1.5 Guiding Principles – The IPC concurs with the guiding principles. We highlight ii. “The ICANN org should make an annual contribution to the Reserve fund, without impairing its ability of carrying out its on-going operational activities in support of ICANN’s mission and the community” and note that all sectors of the</p>	<p>Thank you for your comment. ICANN org is focused on cost control and savings through optimizing internal processes and procedures, while maintaining the services provided to the community.</p> <p>Once the reserve has been replenished ICANN org will continue to evaluate</p>

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		<p>community will be affected by the necessary budget adjustments that ICANN will need to make to provide a minimum of \$3-5m USD per year to the reserves. (The IPC advises \$5m USD/year.</p> <p>ICANN has proposed \$3m USD/yr. See comments in 2.6 below.) We advise that when cuts are made, they are rational and proportional so that no single sector is adversely impacted more than another. Everyone will need to “feel the pain” to a certain degree.</p> <p>To the extent that ICANN org provides grants and assistance to third parties, ICANN should be looking at cutting support in measured ways over a few years rather than take a “slash and burn” approach that could cripple programs without giving them time to find additional sources of funding. This is particularly true for nonprofit organizations.</p>	further replenishments and the appropriate target level.
30	GNSO	<p>The GNSO Council supports the proposed replenishment period which would see the Reserve Fund brought to the agreed target level in five or less years.</p> <p>ICANN Org Contribution to the Reserve Fund</p> <p>The GNSO Council supports in principle the proposal that ICANN org make an annual contribution to the Reserve Fund through operational savings. In the context of tightening budget constraints, we appreciate that ICANN will likely need to undergo an organizational restructuring in the service of its remit, and our concern is that this could impact the entities</p>	<p>Thank you for your comment. ICANN org is focused on cost control and savings through optimizing internal processes and procedures, while maintaining the services provided to the community.</p> <p>At this point, ICANN org has not recommended a fee increase for contracted parties. If ICANN org were to propose a fee increase, the ICANN community would be involved and consulted.</p>

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		<p>within ICANN, including the GNSO Council as manager of the GNSO policy development process. Thus, we would like to reiterate, as we have done in our recent comment on the proposed FY19 Budget and Operating Plan, that GNSO policy development and coordination is a core ICANN activity that must be prioritized with respect to other ICANN activities.</p> <p>Overall, related to the ICANN budget, when ICANN is considering areas where cost savings might be able to be achieved, we ask for a defined rationale and that the community is consulted before any decisions are taken.</p> <p>Financial Burden on Contracted Parties and, by extension, Domain Name Registrants</p> <p>The GNSO Council does not support that ICANN impose a fee increase on the contracted parties to contribute to the Reserve Fund, as these costs will either directly or indirectly be passed on to domain name registrants. We anticipate all in the community will likewise oppose such an increase in fees. The GNSO Council appreciates the opportunity to share our perspectives on this important issue and we trust you will find our comments helpful. We would be happy to answer any clarifying questions that you may have regarding the contents of this document.</p>	

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33	RrSG	<p>Contribution from ICANN Org:</p> <p>The RrSG completely supports ICANN Org being wholly responsible for replenishment of the Reserve Fund, be that US\$ 15 million or more. RrSG believes ICANN Org should significantly reduce its operational spending and to annually contribute sufficient surplus funds to the Reserve Fund over 5 years, and that this is an appropriate justification for reduced spending. Looking at projections for 2017 - 2020, sizable increases have occurred and are still expected for both staff headcount (+14%) and personnel costs (+37%). This is in spite of an obvious need to reduce, rather than increase spending, in keeping with the flat growth in the domain name industry, and the need to be prepared for significant one-time expenditures, like the IANA transition. In addition to the budget cuts already planned for FY19, the RrSG believes operational spending should be making further year on year reductions.</p> <p>If the Reserve Fund amount was to be reduced to a pre-agreed, realistic budget required for 12 months of emergency operations (as explained above), then it would likely already be sufficiently replenished after ICANN Org's \$15 million contribution, achieved by aggressive and appropriate reductions in overall costs.</p>	<p>Thank you for your comment. ICANN org is focused on cost control and savings through optimizing internal processes and procedures, while maintaining the services provided to the community.</p> <p>ICANN org is conscious of our headcount numbers and growth and continue to look for ways to perform work more efficiently, identify pockets of capacity in org to prioritize work to decide if it still meets our strategic plan and is necessary, to ensure we have the right balance of employees versus third party providers, etc.</p> <p>As the number of registries and registrars is stabilizing and ICANN continues to increase its operational excellence and effectiveness, it is expected that the organization's resource will also stabilize. ICANN org and Board have initiated a process to prioritize activities to allow ICANN to stabilize its resources, and ensure that expenses remain below funding in the long term, while continuing to deliver on our mission. ICANN organization, Board and Community will be fully engaged in a collaborative interaction as part of the planning process, to appropriately prioritize the activities of the organization.</p> <p>Once the reserve has been replenished ICANN org will continue to evaluate further replenishments and the appropriate target level.</p>

Replenishment Strategy

Ref #	Contributor	Question / Comment	ICANN Response
11	GOI	<p>Dear ICANN Team,</p> <p>Please find below Comments from Government of India on Reserve Fund Replenishment Strategy:</p> <p>“In addition to proposed plan of ICANN to contribute additional \$15 million from its operational savings over the 5 - year period, the interest earned from the Operational Funds/ Reserve Funds and Temporary Funds collected from Auction Proceeds, New gTLD application fee could be used to fill the Shortfall of Reserve Fund”.</p>	<p>Thank you for your comment. Please see response to comment # 2.</p>
27	IPC	<p>1.6 Replenishment Strategy – The IPC agrees that the replenishment should not exceed 5 years and should be accomplished sooner if feasible. The IPC disagrees with the proposed amount of ICANN org's contribution from savings at \$3m USD/year and strongly recommends \$5m USD/yr. We note that this will entail larger organizational cuts and slow-to-no growth in expenses. Fiscal mismanagement got ICANN org where it is today and fiscal prudence will save it. Hard choices will have to be made but that is the core of proper business management and governance. Per our comments related to Sources of Funding above, IPC supports looking toward operational adjustments and left-over funds from the new gTLD program as the first sources for replenishment. Auction proceeds should not be considered unless the report from multistakeholder process currently underway recommends it. As a last resort, fees increases should be considered.</p>	<p>Thank you for your comment. ICANN notes the suggested annual contribution of \$5 million and agree that larger activity and support reduction would be required to achieve this level.</p> <p>ICANN also notes the IPC's indication of auction proceeds being a possible source of replenishment with a recommendation of the current CCWG-Auction Proceeds, and the indication that leftover (remaining) funds from the New gTLD Program funds could also be a possible source of replenishment.</p> <p>ICANN org is focused on cost control and savings through optimizing internal processes and procedures, while maintaining the services provided to the community.</p>

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		<p>1.7 Assumptions – ICANN’s proposed replenishment strategy assumes that the reserve shortfall is unlikely to change given that operating expenses are likely to stabilize. IPC asks for more clarification for this assumption and whether ICANN is willing to commit to building more flexibility between projected revenues over projected expenditures This commitment would go a long way toward avoiding financial crises in the future.</p>	
29	KMC	<p>As the Consultation Paper makes clear, the need for the replenishment is a direct result of two factors.</p> <p>First, ICANN’s unnecessary spending of \$36 million to fund the community deliberations around the foregone conclusion of the withdrawal of U.S. government oversight of ICANN (the so-called “IANA Transition,” which we strongly opposed). As was clear to some before the IANA Transition, and which should be obvious to all now, the IANA Transition was a manifestly bad idea that has resulted not in ICANN’s freedom from governmental interference but instead has led to an increase in governmental interference. ICANN spent \$36 million to ensure that it would not have a champion to secure its legitimate interests, such as accessible WHOIS to help prevent cybercrime, terrorism, widespread infringement, phishing, and fraud.</p> <p>Second, the further depletion of the Reserve Fund is due to ICANN’s failure to govern its own spending. ICANN should not be allowed to cover up this mistake by raiding the Auction Proceeds—it should tighten its belt and</p>	<p>Thank you for your comment. It is ICANN’s intention that its operations should be funded from annual operating funding. Exceptionally, unexpected or large costs do arise and generally would need to be funded from the Reserve Fund. This has occurred for the IANA Stewardship transition project, as indicated in this comment.</p> <p>Please also see response to comment # 8.</p>

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		<p>learn from the error, building back its Reserve Fund through fiscal responsibility.</p> <p>Third, applicants already paid a hefty \$185,000 application fee in addition to the millions of dollars brand owners spent protecting their brands in mandatory auctions as the only means to prevent sale of those brands by ICANN to windfall-seeking third-party registry applicants. Therefore, introducing new taxes on Contracted Parties to address ICANN's lavish spending appears to be a bait-and-switch since the Applicant Guidebook was clear concerning costs to operate a registry. Placing further financial burdens on Contracted Parties will not bring ICANN's spending under control. Nowhere in the list of possible uses is an option for ICANN staff to divert the Auction Proceeds to pay for the IANA Transition or to mask ICANN's failure to restrain its overspending. If such options were available, why would ICANN have gone through the farce of forming the Cross Community Working Group on New gTLD Auction Proceeds?</p> <p>As the parent company of a new gTLD applicant who had to pay more than \$2 million in auction proceeds in order to ensure that its famous PING branded top-level domain name was not sold by ICANN to another party with no rights in the trademark, the only silver lining that could be found was ICANN's promise that it intended to do some good with the Auction Proceeds. The proposal for ICANN to divert the Auction Proceeds to itself as discussed above negates that promise. ICANN should stay the course, allowing the Cross</p>	

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		Community Working Group to finish its work and should instead focus on replenishing the Reserve Fund by providing value to its applicants, by keeping the promises made to its Contracted Parties and those contained in its Applicant Guidebook, and by spending less than it makes.	
32	RrSG	<p>As stated in our initial comment on 30 November 2017, the majority of RrSG supports the now agreed duration of reserves being 12 months, as adopted by the ICANN Board in Feb 20182. We do, however, question the calculation of US\$138 million as the necessary budget for 12 months of what would be considered “residual” operations and not full-function operations. The RrSG notes the ongoing public comments on the I CANN Draft FY19 Operating Plan and Budget and Five-Year Operating Plan Update , and that sections of the community have questioned the level of \$138 million as appropriate for ICANN Org’s operational costs over 12 months. Should the budget for operational costs be reduced, the level of the Reserve Fund should also be lower. The RrSG would like to see ICANN Org publish a 12-month emergency contingency plan and associated costs, which the Reserve Fund target amount could then be appropriately linked to.</p> <p>5-year replenishment period: The RrSG can support replenishment over a period of 5 years, which is a reasonable length of time to spread the cost of restoring the fund to target levels, while mitigating the risk of being underfunded within a finite period. However, the RrSG is convinced that with a more accurate (and lower) target</p>	Thank you for your comment. Please see response to comment # 7.

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		for the reserve fund, the shortfall will be less, and the RrSG anticipates that less time will be needed for the replenishment.	
37	NCSG	The NCSG supports the proposed replenishment period which would see the Reserve Fund brought to the agreed target level in three to five years.	Thank you for your comment. ICANN notes that the NCSG supports replenishing the Reserve Fund. While ICANN proposed that the replenishment period should not exceed five years, ICANN notes the NCSG's suggestion of three to five years.
42	IPC	1.4 Sources of Funding – The IPC supports looking to the contributions from ICANN org and leftover funds at the end of the new gTLD program as the best sources for reserve fund replenishment. We have concerns about using auction proceeds or additional funds from contracted parties. In terms of using the auction proceeds, the IPC notes that community is in the middle of a multi-stakeholder process (the CCWG on Auction Funds) that has been working hard for over a year on producing an Initial Report. We expect the report to be issued soon. If the CCWG final report recommends that some amount of the auction proceeds should be directed toward reserve replenishment then the IPC would support such a conclusion. ICANN's current budget dilemma is not a sufficient reason to circumvent the CCWG's multi-stakeholder process. About the additional funds from contracted parties, we do not support a fee increase either onetime or permanent. It is our view that any increase would come at the expense of registrants. The entire global community should not be responsible	Thank you for your comment. Please see response to comment #8. Please see response to comment #6.

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		for organizational mismanagement. The organization should be demonstrating fiscal restraint and making rational adjustments to expenses to offset the need to increase the reserve funds. A price increase should be the last resort not the first stop on the way to restoring ICANN's fiscal health.	