

ICANN's draft paper on the Reserve Fund for public comment
ccNSO-SOP comment
23rd November 2017

Introduction

The ccNSO Strategic and Operational Planning (SOP WG) welcomes the opportunity to comment on ICANN's Reserve Fund paper.

The goal of the ccNSO-SOP is to coordinate, facilitate, and increase the participation of ccTLD managers in ICANN's strategic and operating planning processes, as well as its budgetary processes. At its face-to-face meeting on 29th October 2017 at ICANN60, the ccNSO-SOP decided to hold a small working group session to comment on the ICANN draft paper on the Reserve Fund. The paper was published on 12th October 2017 and is open for public comment until 30th November 2017 (<https://www.icann.org/public-comments/reserve-fund-2017-10-12-en>).

Working sub-group members

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ccNSO-SOP input

We are grateful for the opportunity to comment on the ICANN Reserve Fund paper.

We acknowledge the efforts that have been made by ICANN since 2007 to establish a Reserve Fund with a 12-month operating expenses target. At the same time, we would respectfully like to highlight the following issues:

- 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;
- 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.
- 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;
- 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;

- 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;
- 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;
- 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;
- The Rationale in Section F, Rationale, needs additional clarification and discussion. Specifically:
 - *'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;
 - *'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?
- Regarding the cost calculation table, we would appreciate more information on the following points:
 - 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?
 - 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.

Conclusion

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.