

## **RySG comments on ICANN Draft FY16 Operation Plan & Budget**

The gTLD Registries Stakeholder Group (RySG) appreciates the opportunity to provide comments on the ICANN Draft FY16 Operation Plan & Budget (Draft Budget). We thank the ICANN Finance Team and all of members of ICANN Staff who contributed to the Draft Budget.

### **General Comments**

We first want to express our strong appreciation for the following: “this year’s version includes data on ALL projects to be carried out by the organization during FY16”. Prior to the FY15 Budget, costs were only provided down to the Portfolio Level. In the FY15 Budget costs were provided for a small sampling of projects. As the RySG has noted in the past, for most categories of expenses costs at the Portfolio level are at much too high a level to allow for the community to determine whether or not they are adequately projected. Being able to review costs at the project level is a huge improvement and one we have been asking for the past several years.

We also want to express our strong appreciation for this: “this year’s draft Operating Plan & Budget is offered to public comment more than seven weeks earlier than last year”. We believe that this will be the first time in modern ICANN history that the draft budget is posted for public comment with sufficient lead time to public comments to actually affect the budget before the Board acts on it. This is a very significant step in the budgeting process and we thank ICANN staff and in particular the Finance Team for all the hard work they did to make this happen.

Despite these improvements, the RySG also needs to note that once again ICANN’s draft Operating Plan and Budget was created without any apparent cost-based justification for the various expenses. Each year the community asks ICANN to rationalize its costs, but each budget merely presents projected expenses. Given the improvements in project reporting and opportunity for meaningful public input, we expect ICANN to rationalize its expenses in the FY17 budget. It should begin by engaging contracted parties as soon as possible in a review of the cost justification of all domain name-related fees.

### **Specific Concerns about the FY16 Draft Operating Plan & Budget**

#### **ICANN Operations**

From the table in section 1.1 on page 7 we note the following: increases of 10% and 14.8% are projected in revenue and expenses respectively for FY16. As we have communicated in previous budget comment periods, we are concerned about current year expenses exceeding revenue. We believe that this is even more of a concern when it is a recurring pattern over multiple years. From page 15, we understand that the excess expenses for FY16 (\$12.8M) will come from the reserve fund and we note that there is more than sufficient funds to cover the excess in FY16, but we do not believe that such deficit spending is a sound practice.

We note in Table 3 on page 10 that the best estimate of total FY16 revenue (\$13.4M) was calculated by taking the average of the high and low revenue estimates. Not knowing whether this approach was used in previous years and, if it was, how successful it was, it is difficult to assess whether it is reasonable. Considering the fact that original revenue estimates for FY15 had to be revised downward significantly, we definitely recommend a conservative approach.

Regarding the initiative titled ‘USG stewardship transition (pre- and post- IANA contract)’ on pages 14 & 15, the RySG understands that this initiative includes the ICANN accountability effort being worked by the CCWG Accountability as well as other efforts in addition to the IANA stewardship transition such as the AOC. We also understand that no substantive recommendations have yet been made for the transition or the accountability initiatives, so it is clear that this could be little more than a very rough estimate. At the same time, based on

the current directions of both the CWG Stewardship and the CCWG Accountability, we believe that this budget item should be monitored closely as more details become known to ensure that sufficient funds are available to implement the final recommendations of both efforts. In this regard we agree with the classification of the 'Uncertainty of the USG Transition Expenses' as high risk. (See our comments below for Goal 5.2, Portfolio 5.2.7.)

## **New gTLD Program**

The RySG has the following questions about the New gTLD Financial Summary beginning on page 17:

- Where is the money that was set aside for litigation risks? (\$60K / application resulted in a total amount of over \$100M.)
- Is the current best guess that there will be a surplus of \$89.3M excluding litigation risk funds and last resort auction funds?

## **FY16 draft Operating Plan & Budget**

It would be very useful to have a complete listing of strategic objectives with their goals, portfolios and projects with the dollar amounts for each. This would give a complete view of the total budget in one place and could be accompanied by various charts that would show the relative areas of expenses. The project cost spreadsheet accompanying the Draft Budget could probably be modified to do this. A simpler and possibly preferable way to do this would be to combine all the tables of objectives in Section 4 with the dollar totals for each portfolio. The spreadsheet could then be referred to for further detail at the project level.

### Goal 2.1 - Foster and coordinate a healthy, secure, stable, and resilient identifier ecosystem (pp. 35-36)

The following metric is proposed: "% of GDD Service Level Targets met across multiple departments including GDD Operations, Customer Service and IANA departments". We recommend that each of the departments should be measured separately in addition to combined measurements.

### Goal 2.3 - Support the evolution of domain name marketplace to be robust, stable and trusted (pp.40-43)

The second paragraph on page 41 says: "We will measure progress towards achieving this goal by developing a Technical Reputation Index. This Index is intended to reflect the trust and confidence of the Internet community in the Domain Name Marketplace." Will the measures be developed with the community as stated in other places of the operating plan? We think that should be the case and that it should be stated.

The description for 'Portfolio 2.3.2 Domain Name Services' on page 41 is "Domain Name Services ongoing operations and Industry Engagement". This is terribly broad and therefore insufficient. Ongoing operations of what specific domain name services?

Regarding Portfolio 2.3.8, is this where any GDD staff "Advisories" would be supported? If so, we don't see any budget allocation. As noted in several conversations with staff, these advisories often result in significant implementation costs for registries that were not anticipated in their own annual budgets. The RySG would appreciate more clarity about these initiatives so we can better plan for them.

We have several questions/comments about projects for 'Portfolio 2.3.14 Registry Services' listed in the spreadsheet of project costs that accompanies the Budget document:

- We note that no funds are budgeted for Project 31783 (AROS Maintenance Budget FY16). What happened to AROS? It was an effort that the RySG supported in response to registrars' requests and

seemed to be moving ahead for a while but appears to have been dropped with no announcement or explanation.

- No funds are planned for Project 31787 (IGO/INGO Policy Implementation FY16). Recognizing that the task of implementing GNSO policy recommendations for protection of IGO/INGO names is still ongoing, why is this a zero budget item? Is this covered by Projects 32062 (IGO/INGO Policy Implementation - retrofit TMCH & TMDB FY16) and/or 32063 (IGO/INGO Policy Implementation - IGO TMCH record fees FY16)? That doesn't appear to be the case considering these two projects appear to be restricted to the TMCH.
- \$100K is budgeted for Project 31790 (RSTEP Panel Stipend FY16). How was this cost estimate determined? Considering the large increase in the number of gTLD registries and the fact that the number of RSEPs has increased significantly, is this amount enough? In fact, ICANN has yet to publish the fees for RSTEPS and/or a cost-based justification of those fees.
- No funds are included for Project 31791 (Thick Whois Communication Plan FY16) or for Project 32065 (Thick Whois policy implementation FY16). Is it accurate to assume that the Thick Whois Policy will not be implemented in FY16?
- No funds are budgeted for Project 32050 (Authorization Process for Release of Two-Character Labels FY16). Realizing that this is a very hot issue as we approach the end of FY15 and not likely to be fully resolved before FY16 begins, why is this a zero budget item?
- No funds are budgeted for Project 32053 (Registry Services Document Translation FY16). Can we conclude that there is no plan to translate any Registry Services Documents in FY16? We note that there are RySG members who would greatly benefit from translation services.
- No funds are planned for Project 32059 (GDD Portal FY16). We find this alarming considering the problems that have occurred in FY15 with the GDD Portal.

#### Goal 3.1 - Ensure ICANN's long-term financial accountability, stability and sustainability (pp. 44-46)

As far as we can tell, the issue of cost benefit analysis is not addressed anywhere in this section and we think it should be. The community repeatedly has called for such analysis over the years, and this was a specific recommendation of the ATRT 2 (Rec. #12.2).

Furthermore, staff's plan to deliver financial model enhancements to achieve Key Success Factors within three years seems unaccountably slow. Why is this taking so long?

On page 46 the description of 'Portfolio 3.1.5 Support Operations' says: "Various programs and projects that support functional operations." This seems extremely inadequate for a budget item of \$22M.

#### Goal 3.2 - Ensure structured coordination of ICANN's technical resources (pp. 46-47)

The description for 'Portfolio 3.2.2 IT Infrastructure and Service Scaling' is: "Work towards a top-tier global IT infrastructure performing at 99.999% uptime and have ICANN recognized by the global community as having technical excellence and thought leadership." Because this portfolio is budgeted at \$20.3M it would be helpful to list the projects that are included.

#### Goal 4.1 - Encourage engagement with the existing Internet governance ecosystem at national, regional and international levels (pp. 50-51)

Is the goal to 'encourage' or 'empower' or both? Note the use of different words in the goal statement in the title and the table. Encouraging and empowering have very different implications.

Goal 4.3 - Participate in the evolution of a global, trusted, inclusive multistakeholder Internet governance ecosystem that addresses Internet issues (pp. 53-54)

\$0 is budgeted. Does that mean that ICANN is not going to participate in the IG ecosystem in FY16 (e.g., IGF, ISOC, etc.)? Or is the amount just below \$50,000 and rounded down to the nearest tenth of a million?

Goal 5.2 - Promote ethics, transparency and accountability across the ICANN community (pp. 57-59)

We have several questions regarding 'Portfolio 5.2.7 IANA Functions Stewardship Transition & Enhancing ICANN Accountability' on pages 58-59 of the Budget document and more particularly from the accompanying project cost spreadsheet:

- Is the \$4.7M estimated for Project 27000 (Transition of U.S. Government Stewardship of IANA functions at ICANN) just intended to cover the Stewardship transition costs for FY16 without any of the associated accountability costs that may be incurred?
- What is included in Project 28350 (IANA Transition - General Cost Tracking)? \$100K for cost tracking seems excessive.
- Regarding Project 28351 (Document strengthened relationship with policy and advisory bodies), based on the \$600K estimated cost for all of the elements of this project, what did staff expect to be needed with regard to strengthening relationships with the IETF, NRO, ccTLD registries and gTLD registries? (Is this simply a case of having to develop a draft budget for the transition before any of the details are known? If so, we understand that.)
- Is Project 28352 (Maintain Security and Stability of Implementation of Root Zone Updates) specific to the transition are just a part of ongoing root zone services? In other words, would this project be essentially the same with or without the transition?

## **Appendix**

We note the explanation of Registrar Fees in Section 5.3 but are curious as to why there is not an explanation of Registry Fees.

## **Recommendation for Future Consideration**

One of the difficulties of ICANN's current process for capturing and reporting expenses is that it is not possible for community members to review and analyze costs on a functional basis. For example, if the GNSO wanted to see and analyze all costs supporting gTLD policy development work, that is presently not possible to do directly so a request would have to be made to the ICANN Finance Team to prepare a custom report.

A real example of this occurred this year that related to the IANA Stewardship Transition: In the IANA Stewardship CWG, the question was raised about how much it costs ICANN to provide the IANA services; because costs are not captured or reported on a functional basis, the CWG requested a report of all FY15 IANA costs; the Finance team then performed a special analysis and produced the report. The ICANN Finance Team and specifically Xavier Calvez, ICANN CFO, were very responsive to the request as well as to questions asked about the report.

The RySG believes though that in the longer term, there should be greater transparency of expenses so that community members can readily examine costs for specific functions without having to request a special analysis. We understand that this is not a trivial task and are not requesting that it be done for FY16, but we request that ICANN begin a process to explore the most cost efficient and effective way to do that in the years ahead. We think that this would be a key step in the continuing effort to improve ICANN's transparency.

The complexity of reviewing expenditures is illustrated in the spreadsheet provided for costs of portfolios and their associated projects. There does not appear to be any particular pattern for numbering or naming projects so it is very challenging to try to find all projects related to a specific function. Just to cite one example, there