

ICANN BOARD PAPER NO. 2013.09.28.2b-REV 1

TITLE: New gTLD Program Historical Development Costs

PROPOSED ACTION: Board Approval

EXECUTIVE SUMMARY:

As the Board is aware, ICANN incurred and paid costs to design and prepare the launch of the New gTLD Program before ICANN received specific funding for those costs (“Historical Development Costs”). ICANN and the community recognized that funding for the Historical Development Costs should be recovered through the New gTLD Program revenue. Accordingly, funding for those costs was accounted for when the application fee was determined and a portion of those application fees is being used to “repay” ICANN. The repayment is progressive as evaluation work advances and the application fee becomes non-refundable, which began in July 2012.

In August 2013, Historical Development Costs were repaid to ICANN’s operating account in an amount of \$16,740,471, corresponding to the percentage of evaluation work completed from July 2012 until June 2013. The total amount of Historical Development Costs to be repaid to ICANN is approximately \$32.5 million.

Although it was always intended that the Historical Development Costs repaid would be transferred to the Reserve Fund, this intention was never formalized by a Board resolution.

In the interest of accountability and transparency, the proposed resolution provides clarity to, and affirms the intention of, transferring the repaid funds to the Reserve Fund.

BOARD FINANCE COMMITTEE (BFC) RECOMMENDATION:

The BFC has recommended that the Board approve the transfer to the Reserve Fund of all funds resulting from the repayment of Historical Development Costs.

PROPOSED RESOLUTION:

Whereas, ICANN incurred costs over several years to design and prepare the launch of the New gTLD Program.

Whereas, the costs incurred from October 2007 (the date of the GNSO recommendation on the New gTLD Program) to the launch of the program (“Historical Development Costs”) are to be repaid to ICANN from a portion of the New gTLD Program application fees.

Whereas the Costs are charged to the Program progressively as the evaluation work advances and the fees become non-refundable, which began in July 2012.

Whereas the Board Finance Committee has recommended that the amount of Historical Development Costs repaid to ICANN’s operating fund from the New gTLD Program be transferred to the Reserve Fund.

Resolved (2013.09.28.xx), the Board authorizes the President and CEO, or his designee(s), to take all actions necessary to transfer, when and as appropriate, from ICANN’s operating fund to ICANN’s Reserve Fund all amounts, whether already paid or to be repaid in the future, that constitute Historical Development Costs.

PROPOSED RATIONALE:

ICANN has incurred costs to define, design and prepare the launch of the New gTLD Program throughout the years preceding the launch of the Program in January 2012 (“Historical Development Costs”). (See Appendix 1.)

As part of the design of the Program, these costs, described as “Historical Development Costs,” were advanced by ICANN’s operating fund and were to be recouped through a portion of the application fee collected from applicants in the New gTLD Program. In order to ensure sufficient funds were received, the application fee included \$25,000 per application to allow for the repayment of the Historical Development Costs to ICANN. The \$25,000 amount resulted from an historical estimation of the total development costs of the program divided by 500 applications. It was also determined that the costs incurred by ICANN that would be repaid through a portion of the application fee would

be those incurred between October 2007, the date of the GNSO recommendation, and the launch of the Program in January 2012.

ICANN staff has estimated the Historical Development Costs to be approximately \$32.5 million. This amount has been communicated as part of the FY13 Budget presentation in June 2012. Its detailed documentation is currently being finalized for auditing and communication to the community.

The amount of historical development costs covered through the \$25,000 collected from actual applications received amounts to approximately \$48 million (25k * 1930 applications), before the impact of refunds. The difference between \$48 million (less refunds) and \$32.5 million contributes to the net remaining balance of the program.

The amount of repayment of the Historical Development Costs is being charged to the New gTLD Program, starting in July 2012, as the evaluation work advances and application fees become non-refundable.

Approximately \$17 million of costs charged to the New gTLD Program from July 2012 to June 2013, with a corresponding revenue to ICANN, was transferred into ICANN's operating account in August 2013.

Although it has always been the intention that the funds resulting from the repayment of the Historical Development Costs be transferred into ICANN's Reserve Fund, this intention was never formalized and authorized in a Board resolution. (See Appendix 1.)

Following the imminent initial transfer to the Reserve Fund of the already recovered Historical Development Costs now sitting in ICANN's operating account, for practical purposes ICANN intends to make quarterly transfers to the Reserve Fund as amounts are charged to the New gTLD Program account.

This resolution will have a positive impact in that it provides clarity on the management of ICANN's resources. This will have a fiscal impact on ICANN and the community as is intended. This should not have any impact on the security, stability and resiliency of the domain name system (DNS).

This is an Organizational Administrative Function that does not need public comment are this stage, as the idea that the Historical Development Costs be transferred to the Reserve Fund has previously been posted and subject to public comment.

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APPENDIX 1

Extracts from the document published by Staff on October 2008, as updated on October 2009 (“cost-considerations-04oct09-en.pdf”, <http://archive.icann.org/en/topics/new-gtlds/cost-considerations-04oct09-en.pdf>).

Page 6, Paragraph 3.1.

“Development costs. Development costs are those associated with the project that is the implementation of the GNSO policy. The development costs consist of all the program costs incurred from the date of the GNSO recommendation in October 2007 until the launch of the New gTLD Program...”

Page 7, Paragraph 3.1., below the table of Exhibit 2

“... Since these historical New gTLD Program development costs have already been expensed, this element of the evaluation fee will be used to increase ICANN’s Reserve Fund, which will help ICANN attain strategic goals for Reserve Fund size, and in effect repay funds that came from ICANN’s general budget for New gTLD Program development.”