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### **Main Agenda**

GNSO Policy Recommendations on IGO-INGO Protections (awaiting board paper and possible accompanying reference materials)

**REFERENCE MATERIALS – BOARD SUBMISSION NO. 2014.04.30.1b**

**TITLE:** **Board Member Training Plan**

**Document/Background Links**

The following attachments are relevant to the Board's consideration of the Board Training Program.

Attachment A is the ICANN Training Template.

Attachment B is the Training Task List.

Submitted By: Amy A. Stathos, Deputy General Counsel  
Date Noted: 22 April 2014  
Email: amy.stathos@icann.org

**Individual ICANN Board training template – Bruce Tonkin – 16 March 2014**

**Current Board roles:** Vice Chair of ICANN Board, Chair of Board Governance Committee, member of Board Compensation Committee

Training Area	Qualifications/Experience	Development plan
<p><b>General Board Governance</b></p>	<p><b>Courses Completed:</b></p> <ul style="list-style-type: none"> <li>• Australian Institute of Company Directors (AICD) – 3 day residential company director’s course – Jan 2000</li> <li>• ICANN anti-harassment online course - 2013</li> <li>• ICANN anti-corruptions online course – 2013</li> <li>• ICANN Board annual training session on confidentiality and conflicts of interest – Feb 2014</li> </ul> <p><b>Membership:</b> Fellow AICD</p> <p><b>Experience:</b></p> <ul style="list-style-type: none"> <li>• Board of Australian Telecommunications Users Group (ATUG) – 1997-2003 – non-profit</li> <li>• Boards of all Melbourne IT subsidiaries including ASAC, Advantate, Domainz, INWW – 2000-present – for-profit</li> <li>• ICANN Board – 2007 – present – non-profit</li> </ul>	<p>Completed general Board Governance training.</p>

<p><b>Specialized Board Governance</b></p>	<p>Board Governance Committee as above, chair of Board Governance committee since 2011.</p> <p>Board Compensation Committee – former chair of Board compensation committee.</p> <p><b>Experience:</b></p> <ul style="list-style-type: none"> <li>• Senior Executive at Melbourne IT setting up compensation and for senior staff.</li> </ul>	<p>Identify courses relevant to Board compensation committee – including topics such as CEO performance management and remuneration.</p> <p>Attend further advanced courses of company director’s conference on general Board governance.</p>
<p><b>Internet’s system of unique identifiers</b></p>	<p><b>Qualifications:</b>  B.Eng – electrical and electronic engineering  PhD – electrical and electronic engineering</p> <p><b>Experience:</b></p> <ul style="list-style-type: none"> <li>• University teaching of telecommunications and computer networking.</li> <li>• Computer system and network administrator</li> <li>• CTO at Melbourne IT, a domain name registrar 1999-present</li> </ul>	<p>Completed necessary training in this area.</p> <p>Attendance at IETF meetings from time-to-time is recommended.</p>

<p><b>ICANN's structures and processes</b></p>	<p>Strong knowledge of ICANN structures and processes.</p> <p><b>Experience:</b></p> <ul style="list-style-type: none"> <li>• Attended all ICANN meetings since March 2001</li> <li>• Member of registrars constituency from 2001 to present</li> <li>• Chair of GNSO Council from 2002 to 2007</li> <li>• Active in policy development within .au ccTLD community from 2000 - present</li> <li>• Member of SSAC from 2002-present</li> </ul>	<p>Completed necessary training in this area.</p> <p>Attendance at RIR regional meetings and IETF meetings from time-to-time is recommended.</p>
<p><b>ICANN Board tools</b></p>	<p>Strong familiarity with all ICANN Board tools.</p> <p><b>Experience:</b></p> <ul style="list-style-type: none"> <li>• Using tools as an ICANN Board member since 2007.</li> </ul>	<p>Completed necessary training in this area.</p>

## Task List for ICANN Board Members

This list outlines the tasks, skills, and knowledge needed by members of the ICANN Board of Directors. It is to be used to develop training material and to design training programs for Board Members.

### 1. Description, Organization, and Functions

a. Description. Describe ICANN in terms of its mission and its core values. Describe the general history of ICANN from its founding through the Affirmation of Commitments.

b. Organization. Relate organization of ICANN to its mission, identifying supporting organizations, advisory committees, and external advisory mechanisms. Describe Ombudsman. Describe staff.

1) Address Supporting Organization. Describe the mission, organization, and functions of the ASO.

2) Generic Names Supporting Organization. Describe the mission, organization, and functions of the GNSO.

3) Country-Code Names Supporting Organization. Describe the mission, organization, and functions of the CCNSO.

c. Functions. Identify the 3 primary functions of ICANN and relate them to its mission.

1) Coordinate the allocation and assignment of the three sets of unique identifiers for the Internet.

a) Describe the allocation and assignment of Top Level Generic and Country Code Domain Names. Describe how the names resources are administered and managed by the elements of the GNSO and the CCNSO.

b) Describe the allocation of Internet Protocol (IP) Numbers and Autonomous System (AS) Numbers. Describe how the number resources are administered and managed by the elements of the ASO.

c) Describe the assignment of Protocol Port and Parameter Numbers.

2) Describe the evolution of the DNS root name server system. Describe the coordination of the operation of the DNS root name server system including relationship between root server operators and ICANN.

3) Describe the bottom up policy development process, highlighting the features that lead to the development of reasonably and appropriately related policy to the allocation and assignment of the three sets of unique identifiers for the Internet.

### 2. Policy Development Process

a. Address Supporting Organization. Describe the policy development processes that produce regional policies, globally coordinated policies, and global policies. Describe their relation to the IANA function.

b. Generic Names Supporting Organization. Describe the policy development processes that produce policies for the allocation, administration and management of generic names. Describe their relation to the IANA function.

c. Country-Code Names Supporting Organization. Describe the policy development processes that produce policies for the allocation, administration and management of country code names. Describe their relation to the IANA function.

3. Accountability and Transparency. Describe the mechanisms used by ICANN to enable the accountability and transparency of ICANN and its functions. Include a description of review mechanisms; publication of records, reports, and documents; and appeals mechanisms.

#### 4. The ICANN Board of Directors

- a. Describe the ICANN Board of Directors to include type and number of members, their source of appointment, and term.
- b. Describe the functions of the board as they relate to the functions of ICANN.
- c. Describe the responsibilities, roles, and duties of board members, including their relationship to staff and the general community. Differentiate between work of the board and work by board members.
- d. Describe the purpose of committees, differentiating between statutory committees, governance committees, and oversight committees. Describe the purpose and types of Board Work Groups.

#### 5. Work of the ICANN Board

- a. Describe the purpose and use of strategic direction and guidance.
- b. Describe the purpose and use of oversight and monitoring.
- c. Describe the types of board meetings, requirements for notice, and quorum. Describe the basic parliamentary procedure used in board meetings.
- d. Describe the difference between board resolutions and sense of the board. Describe how and when each would be used.
- e. Describe the purpose and use of board workshops and retreats.

#### 6. ICANN Board Members

- a. Describe the qualifications, role, responsibilities, and duties of board members. Describe duty of care and fiduciary responsibility. Describe the legal protections of board members.
- b. Describe what constitutes a conflict of interest for a board member. Describe what actions are taken by the individual board member, other board members, and the board as a whole when identifying and resolving conflicts of interest.
- c. Describe the Code of Conduct for ICANN Board members and the role of individual board members, other board members, and the board as a whole regarding adherence to the code.
- d. Describe the system to evaluate the performance ICANN board members.
- e. Describe the duties of ICANN board members as it relates to conduct in the work place issues.

#### 7. Board Tools and Support

- a. Describe the organization of the Board Support Secretariat.
- b. Describe travel and administrative support provided for and to board members.
- c. Describe the procedures to obtain the various forms of travel and administrative support.
- d. Describe the types of training to include initial training, recurring training, leveling training, and continuing training. Describe duties of board members in administering their individual training program.
- e. Describe the hardware and software tools available for board members to collaborate, manage documents, and to facilitate meetings. Describe the board email lists, their purpose, etiquette, and appropriate use. and the etiquette and use of these email lists.

**ICANN BOARD SUBMISSION NO. 2014.04.30.1c**

**TITLE:** **Review of Board Compensation**

**PROPOSED ACTION:** **For Board Action**

**Document/Background Links**

Please find the following attachments:

Attachment A is Towers Watson's Report, dated April 2014, on ICANN Board Compensation

Attachment B is a redline of proposed Bylaws revisions required if the Board decides to approve offering compensation to non-voting Board liaisons.

Submitted By: Amy A. Stathos, Deputy General Counsel  
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# Internet Corporation for Assigned Names and Numbers (ICANN)

Board of Directors Compensation Considerations

**A presentation to ICANN's Compensation Committee**

April 2014

Privileged and confidential communications with Legal Counsel

[towerswatson.com](http://towerswatson.com)

## Introduction

- In October 2013, ICANN's Compensation Committee ("Committee") asked staff to engage Towers Watson to re-evaluate the reasonableness of the structure of its outside director compensation program, including the level of compensation, which was originally established for the Board Chair in 2010 and the remaining Board members in 2011
- The scope of this report includes an update of the reasonableness review of total annualized cash compensation and pay program structure for outside (non-executive) directors.
- Board members are "disqualified persons" under Intermediate Sanctions rules of Internal Revenue Code Section 4958 and compensation paid to them can be eligible to earn the presumption of reasonableness only if a committee of authorized, independent persons approves their compensation
  - This report does not address the roles of ICANN non-voting Board liaisons who are not "disqualified persons" subject to the Intermediate Sanctions rules of Internal Revenue Code Section 4958 but who have similar responsibilities to Board members and serve as appointed representatives for ICANN constituent groups
- The objective of the report is to provide the Board with data to set and justify that the total compensation paid to the Board members is reasonable

## Introduction *continued*

- ICANN is an international, nonprofit, multi-stakeholder organization. It is responsible for the stability and interoperability of the DNS, the distribution of IP addresses and accurate recordation of protocol parameters
- Furthering this mission requires ICANN to serve a diverse stakeholder base in a transparent manner
- Over the past 15 years, both the Internet and ICANN have grown in complexity. In coming years, as the Internet becomes even more accessible to people around the globe, ICANN expects the volume of work to grow at even a faster pace than it has in recent years
- Service on ICANN's Board involves global responsibilities, necessitates a substantial time commitment which also involves international travel and requires individuals with skills and experience across a broad range of areas

## Nonprofit Board Compensation Trends

- Compensation paid for service on nonprofit boards is rare, reported by 16% of nonprofit organizations in the 2012-13 NACD Nonprofit Governance Survey<sup>1</sup>; however, there are benefits to compensating nonprofit board members:
  - Promotes economic diversity, giving members an opportunity to serve who might otherwise be unable to do so
  - Promotes professionalism rather than amateurism
  - Attracts the most qualified and able individuals
  - Awards in a tangible way valuable personal time and contributions made for the mission
  - Promotes more risk taking
  - Stimulates better attendance at board and committee meetings
  - Holds board members more accountable for performance
- However, the Attorneys General in several states are scrutinizing nonprofit Board of Director pay

<sup>1</sup>While 33% of large organizations reported compensating Board Directors

## It is important that compensation be comparable to that of other nonprofit organizations and not deemed excessive by the IRS

### Overview of Internal Revenue Code Section 4958

#### Background – Excess Benefit Transactions and Rebuttable Presumption

- Certain “disqualified persons,” including directors, of a §501(c)(3) organization like ICANN may be assessed excise taxes if they are involved in an excess benefit transaction
- An excess benefit transaction is any transaction in which the director receives an economic benefit from ICANN that is greater than the consideration, including services performed, that the director provides to ICANN
- IRS rules provide for a “rebuttable presumption” process that results in the *presumption* that compensation paid to a disqualified person, including a director, is reasonable
- The presumption is triggered if ICANN complies with three requirements:
  - Compensation is approved by an authorized body of ICANN whose members are free of financial conflict of interest regarding the compensation being reviewed
  - The authorized body considers “appropriate data as to comparability” prior to making its decision
  - The authorized body documents its decision making process adequately and within a reasonable amount of time after the decision

# Overview of Internal Revenue Code Section 4958

## Overview of Internal Revenue Code Section 4958 (continued)

### Nature and Effect of the Presumption

- When established, the presumption imposes on the IRS the burden of showing that comparability data relied upon are not valid, which is a substantial benefit in any dispute with the IRS
- If all directors are compensated, it may make it difficult to trigger the presumption
- However, while the IRS considers the presumption to be a “best practice,” it is not a legal requirement

## Overview of Internal Revenue Code Section 4958 *continued*

### Suggested Process If Presumption Cannot be Established

- Directors agree not to receive more than “reasonable compensation” for their services (“reasonable compensation” is an amount paid by like organizations for like services under like circumstances)
- ICANN follows a process in setting compensation that is reasonably calculated to prevent the payment of more than reasonable compensation
  - This is a process that follows the presumption to the extent possible
- It is essential that ICANN retain and rely upon custom market-comparability studies conducted by independent valuation consultants
- The valuation consultants should issue a report that meets the requirements of a “reasoned opinion” of valuation counsel for purposes of the IRC § 4958 rules
- The consultants should be on hand and available to discuss their reports when compensation is being set
- The valuation process and the opinion should be reviewed annually

# Overview of California Nonprofit Corporations Code

## Background

- California Nonprofit Corporations Code protects volunteer/unpaid directors of nonprofit corporations against personal liability for acts. Specifically, no cause of action for monetary damages may be asserted against a director or officer of a California Nonprofit Corporation qualifying under §501(c)(3) on account of any negligent act or omission occurring:
  - Within the scope of that person's duties as a director acting as a board member, or officer acting in an official capacity
  - In a manner that the person believes to be in the best interest of the corporation; and in the exercise of his or her policymaking judgment
  - Limitation only applies if the corporation maintains a general liability insurance policy of at least \$1 million (for a corporation with an annual budget in excess of \$50,000) in force both at the time of the injury and at the time that the claim is made. Limitation is also subject to carve-outs for self-dealing transactions, intentional or willful gross negligence, fraud and other bad faith action



# Overview of California Nonprofit Corporations Code

## *continued*

### **Background (*continued*)**

- Compensated directors of California nonprofit corporations are still protected against personal liability for failure to discharge their obligations as a director, subject to the following:
  - Conduct is subject to the “business judgment rule,” requiring directors to act in good faith, with reasonable inquiry and in the best interests of the corporation and exercising reasonable care as an ordinarily prudent person under like circumstances
  - Does not protect directors against liability for self-dealing actions or participation in tortious conduct
  - California Nonprofit Corporations Code also provides that directors of a nonprofit public benefit corporation, without regard to compensation, must be indemnified by the corporation if successful on the merits in defense of any proceeding

# Background and Methodology

## Defining a Comparable Market for ICANN's Board of Directors

- Similar to the framework for examining ICANN's executive compensation, we have assembled a peer group of for-profit and nonprofit organizations that we believe will serve as the best benchmark for outside director compensation at ICANN
- The peer group analysis was supplemented with data from published surveys
- We consider market data sources covering the following comparable markets to be relevant:
  - For-profit general industry companies of similar size (revenue)
  - Nonprofit organizations of similar size and complexity, particularly global, multi-stakeholder organizations

Comparability Data Sources Reviewed
<ul style="list-style-type: none"><li>• TWDS 2012 Report on Director Compensation Policies and Practices</li><li>• NACD 2012- 2013 Nonprofit Board Governance Survey</li><li>• NACD 2012-2013 Director Compensation Report</li><li>• Select Form 990s (Nonprofit organizations)</li><li>• Select Proxy Reports (For-profit companies)</li></ul>

## Board Compensation – Form of Compensation

- **Form of Compensation:** In terms of the structure of outside director compensation, organizations often provide one or more of the following:
  - **Annual retainer:** flat fee intended to cover annual board service; often paid annually or in quarterly installments; typically differentiated between normal directors and the independent chairman (if any)
  - **Board meeting fee:** per meeting fee paid for attendance at board meetings; reduced fee is often paid for telephonic meetings; all outside directors typically receive the same fee
  - **Committee retainer:** annual fee paid for committee service; often differentiated by committee and the associated workload/complexity; often differentiated between committee members and committee chairs; especially demanding committees may receive a premium
  - **Committee meeting fee:** per meeting fee paid for attendance at committee meetings; reduced fee is often paid for telephonic meetings; all outside directors typically receive the same fee
  - **Equity grant:** among publicly-traded, for-profit organizations, it is common to provide annual grants of restricted stock and/or stock options
- The chart below illustrates the typical method of payment for Board service:

Role/Service	Meeting Fee Only	Retainers Only	Meeting Fees & Retainers
Chairman of the Board	0%	57%	43%
Board Service	0%	58%	41%
Committee Member	47%	46%	7%
Committee Chair	1%	96%	2%

Source: 2012 TWDS Board of Directors Compensation Policies and Practices - U.S.  
Audit Committee data used for Committee Member and Committee Chair

## Board Compensation – Amount of Compensation

- To determine reasonable compensation levels, we have focused on the average of median *cash* compensation based on the following rationale:
  - Nonprofit directors have less risk associated with their role than public company directors (e.g., legally required SEC disclosure requirements, stock exchange requirements, and risks associated with public ownership)
    - As a result, the median compensation of nonprofit companies is nearly always below for-profit companies
  - Equity is not available to nonprofit organizations
- Due to the complexity of ICANN’s business and the need to attract and retain qualified leadership, both for-profit and nonprofit data are appropriate as the talent does reside within many sectors
- The chart below summarizes our findings:

Source*:	Cash		
	25th %ile	Median	75th %ile
2012-2013 NACD General Industry (For-Profit) <sup>1</sup>	\$36,934	\$54,967	\$81,884
Public Company Peer Group (For-Profit)	\$32,500	\$49,500	\$60,152
990 Analysis (Nonprofit)	\$6,180	\$21,875	\$32,263
<b>Average**</b>	<b>\$25,000</b>	<b>\$45,000</b>	<b>\$60,000</b>

\* Data reflects a blend of "Micro" segment - Revenues of \$50M < \$500M and "Small Companies" segment - Revenues of \$500M < \$1.0B

\*\*Average data rounded to the nearest \$5,000.

## Board Compensation – Amount of Compensation: *Nonprofit Boards*

- Peer group compensation data were collected from each company's most recently filed Form 990 and are presented on the following page
  - The peer group of nonprofits who pay their outside directors is comprised of nonprofit peers identified in the executive compensation framework plus additional organizations identified in prior analyses
  - Eight of the organizations in the executive compensation framework do not pay their Board members and are not included in this analysis
- Due to the particular reporting requirements in the Form 990s, we can only determine total compensation figures for the Board members of the peer group organizations
  - Data such as annual retainers and meeting fees are not reported separately
  - Board roles such as Committee Chairs and Committee members are not disclosed; due to limited role disclosure, the peer group data are summarized as follows:
    - Chair of the Board
    - Average of all other directors – this excludes the Chair of the Board and includes all other Board roles (Vice Chair, Committee Chair, Committee members and regular Board members)

## Details of Select Nonprofits

Organization	Year of 990	Revenue (\$000s) <sup>4</sup>	# of Dirs Receiving Compensation <sup>5</sup>	Outside Chairman Avg Pay	Avg Director Pay (non-Chair)	Estimated Total Board Cost
Intl Financial Reporting Stds. Foundation <sup>3</sup>	2011	\$41,974	18	--	\$35,442	\$637,955
American Inst of Certified Public Accountants <sup>3</sup>	2011	\$213,213	3	\$20,000	\$21,875	\$63,750
Financial Accounting Foundation <sup>1</sup>	2011	\$46,294	14	--	\$48,170	\$674,375
CNA Corporation	2010	\$125,894	15	\$33,500	\$17,571	\$279,500
Int. Institute of Tropical Agriculture <sup>2</sup>	2011	\$47,427	15	--	\$4,309	\$64,638
Intl Food Policy Research Institute	2011	\$81,713	11	\$15,900	\$7,360	\$89,500
Ithaca Harbors Inc.	2011	\$64,199	9	\$9,376	\$5,000	\$49,376
Logistics Management Institute	2010	\$192,015	11	\$50,615	\$31,900	\$369,615
Analytic Services Institute	2010	\$123,666	10	\$40,000	\$31,111	\$320,000
Altarum Institute <sup>3</sup>	2011	\$66,418	12	\$55,625	\$28,841	\$372,875
Riverside Research Institute	2010	\$86,931	7	\$48,165	\$32,625	\$243,915
Institute for Study Abroad	2011	\$44,311	6	\$2,500	\$2,500	\$15,000
Rand Corporation <sup>3</sup>	2011	\$287,428	11	\$7,957	\$3,492	\$42,879
Society for HR Management <sup>3</sup>	2011	\$101,873	12	\$35,000	\$17,727	\$230,000
SRI International <sup>3</sup>	2011	\$588,914	10	\$180,000	\$50,206	\$631,853
<b>75th Percentile</b>		<b>\$158,954</b>	<b>13</b>	<b>\$48,778</b>	<b>\$32,263</b>	<b>\$371,245</b>
<b>Average</b>		<b>\$140,818</b>	<b>11</b>	<b>\$41,553</b>	<b>\$22,542</b>	<b>\$272,349</b>
<b>Median</b>		<b>\$86,931</b>	<b>11</b>	<b>\$34,250</b>	<b>\$21,875</b>	<b>\$243,915</b>
<b>25th Percentile</b>		<b>\$55,813</b>	<b>10</b>	<b>\$14,269</b>	<b>\$6,180</b>	<b>\$64,194</b>

**Notes:**

The American Bar Association, included in the 2011 analysis, did not report any trustee compensation in its most-recent Form 990.

<sup>1</sup> FAF approved a revised governance structure approved by the Board of Trustees in 2008 creating a new Chairman position; Chairman is also an Officer

<sup>2</sup> Board Chair information reported for partial year only

<sup>3</sup> Organizations included in the Executive Framework

<sup>4</sup> Reflects most up to date revenue figures available

<sup>5</sup> Includes Directors receiving compensation and outside chairmen only

# Details of Select For-profits

Company	FYE Revenue (\$mm)	# of Outside Board Members	Fees Earned or Paid in Cash			Audit Committee		Compensation Committee		Nominating / Governance Committee	
			Retainer	Median Total Cash Compensation Paid Board Member	Chairman Extra Retainer	Committee Extra Retainer	Chairman Extra Retainer	Committee Extra Retainer	Chairman Extra Retainer	Committee Extra Retainer	Chairman Extra Retainer
Ancestry.com Inc.	\$400	7	\$30,000	\$32,000	--	\$5,000	\$8,000	\$4,000	\$6,000	\$2,000	\$3,000
ComScore, Inc.	\$255	6	\$25,000	\$31,000	--	\$10,000	\$8,000	\$5,000	\$5,000	\$1,000	\$2,000
Digital River Inc.	\$386	5	\$60,000	\$60,152	\$50,000	\$5,000	\$15,000	\$4,000	\$11,000	--	\$10,000
Intermap Network Services Corp.	\$274	7	\$20,000	\$43,000	\$30,000	\$7,500	\$7,500	\$5,000	\$5,000	\$5,000	\$2,500
iPass Inc	\$126	6	\$20,000	\$49,500	\$20,000	\$5,000	\$10,000	\$5,000	\$5,000	\$5,000	\$5,000
j2 Global Communications Inc.	\$371	5	\$60,000	\$57,500	--	--	\$20,000	--	\$15,000	--	\$15,000
Limelight Networks, Inc.	\$180	6	\$25,000	\$27,500	\$25,000	\$5,000	\$10,000	\$2,000	\$8,000	--	--
Unwired Planet	\$0	7	\$40,000	\$83,000	\$20,000	\$15,000	\$15,000	\$9,000	\$6,000	\$5,000	\$5,000
QuinStreet, Inc.	\$305	6	\$34,000	\$51,000	--	--	\$15,000	--	\$15,000	--	\$15,000
Travelzoo Inc.	\$151	3	\$30,000	\$66,000	--	--	\$30,000	--	--	--	--
ValueClick Inc.	\$661	5	\$25,000	\$32,500	--	--	\$20,000	--	\$7,500	--	\$7,500
VeriSign, Inc.	\$874	5	\$40,000	\$77,500	\$100,000	\$25,000	\$15,000	\$20,000	\$10,000	\$10,000	\$5,000
Web.com Group, Inc.	\$408	6	\$25,000	\$43,500	\$8,000	\$7,500	\$5,000	\$4,000	\$3,000	\$1,500	\$1,500
75th Percentile:	\$400	6	\$40,000	\$60,152	\$40,000						
Average:	\$338	6	\$33,385	\$50,319	\$36,143						
50th Percentile:	\$305	6	\$30,000	\$49,500	\$25,000						
25th Percentile:	\$180	5	\$25,000	\$32,500	\$20,000						

**Footnotes:**

\* "Total cash compensation" for the typical director is based on the median value reported in the "fees earned or paid in cash" column of the director summary compensation table included in the most recent proxy statement. Directors serving in board leadership positions (chairs of the Audit, Compensation, Risk and Governance committees, lead director and/or chairman) are excluded from determining the median value. Similarly, directors that did not serve the entire year, but are otherwise included in the director summary compensation table in the proxy, are excluded from determining the median value.

## Board Compensation – Amount of Compensation: Other Considerations – Time Commitment

- When considering the introduction of compensation, it is important to consider relative time commitment
  - ICANN's Board currently holds three in-person meetings each year, each of which are six to seven days in length and require international travel, 10 special telephonic meetings, and three in-person retreats, each of which are two to three days in length (not including travel)
  - The chart below compares ICANN Board meetings to other organizations

Item	BoardSource Nonprofit	Towers Watson Nonprofit	NACD Nonprofit	Towers Watson For-Profit	ICANN (2013)*
Board Meetings Per Year (in person and telephonic)	7.4 <i>(average)</i>	6 <i>(median)</i>	5.8 <i>(average)</i>	7 <i>(median)</i>	15
Avg. Board Meeting Time	3.3 hours	--	4.9 hours	--	2 - 2.5 hours
*Avg. # of Committee Meetings for each Committee	--	3.6	3.7	4.3	8.2
Annual Retreat Prevalence	52%	--	--	--	3

- All ICANN directors serve on at least one Committee, but typically serve on at least two committees. In addition, Board work outside of the above average number of meetings for 2013 has increased significantly which was considered in developing the recommendation.
  - Board meetings include international travel which is not represented in the chart above but was considered in the final recommendation



# Conclusions

## Reasonableness

- The vast majority of not-for-profit organizations continue to provide no compensation to Board members
- While select organizations have chosen to compensate their Board members, stakeholder attention and (potential) regulatory developments keep the number of organizations limited
- Unlike executive compensation, director compensation among nonprofit organizations may not always be directly related to company size, time commitment and level of responsibility
- Based on applicable market data and consideration of time commitment, we feel that it would be reasonable to pay outside directors \$40,000 to \$45,000 annually for board service

## Conclusions *continued*

- **Form and Amount**

- Offer annual cash retainer of \$40,000 - \$45,000 for outside directors and continue \$75,000 for the Chairman of the Board; allow directors to elect whether or not they would like to receive the retainer
  - Principle #1: **Comparable amounts**. Approximates median of comparable for-profit and nonprofit market levels; Chairman of Board are typically compensated at higher levels to recognize the additional responsibilities and time commitment that is often required; mitigates perception that compensation would be the primary reason someone would join the Board; supports participation by directors in developing countries. This Principle as it relates to the Chair of the Board may also apply to the Chair for the New gTLD Program Committee.
  - Principle #2: **Keep it simple**. Single fee avoids administrative hassles of meeting fees (e.g., what constitutes a meeting, tracking telephonic meeting fees) and avoids perception that directors are holding meetings or establishing committees for financial gain. Additional compensation for Committee Chair work is intended to recognize the additional time and effort spent by the Chairs to prepare for committee meetings. Current ICANN Board members serve on multiple Committees and often in Chair roles. This supports a single increased fee for all Board members and elimination of a separate fee for Committee Chairs.
  - Commit to reviewing Board compensation regularly (both in terms of the practice itself, as well as compensation levels). We understand the current work plan calls for a view every two years.

## Notes on Nonprofit Peer Group

- The following organizations included in the executive framework do not pay their outside Board members:
  - American Enterprise Institute for Public Policy
  - Brookings Institute
  - Carnegie Institution of Washington
  - Center for Strategic and International Studies, Inc.
  - Heritage Foundation
  - Internet Society
  - National Academy of Sciences
  - World Resources Institute

## Notes on Survey Sources

- *Proxy peer group*: Data represent 13 for-profit companies with median revenues of \$338 million
- *Form 990 Research*: Data represent 15 nonprofit organizations with median revenues of \$86 million
- *NACD General Industry*: Data represent a blend of "Micro" segment - Revenues of \$50M < \$500M and "Small Companies" segment - Revenues of \$500M < \$1.0B. 304 and 298 companies participated in the NACD's 2012-2013 Director Compensation Report (median revenues \$253 and \$681) respectively

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**Article VI, Board of Directors**

**Section 3. CRITERIA FOR SELECTION OF DIRECTORS**

ICANN Directors shall be:

1. Accomplished persons of integrity, objectivity, and intelligence, with reputations for sound judgment and open minds, and a demonstrated capacity for thoughtful group decision-making;
2. Persons with an understanding of ICANN's mission and the potential impact of ICANN decisions on the global Internet community, and committed to the success of ICANN;
3. Persons who will produce the broadest cultural and geographic diversity on the Board consistent with meeting the other criteria set forth in this Section;
4. Persons who, in the aggregate, have personal familiarity with the operation of gTLD registries and registrars; with ccTLD registries; with IP address registries; with Internet technical standards and protocols; with policy-development procedures, legal traditions, and the public interest; and with the broad range of business, individual, academic, and non-commercial users of the Internet; and
- ~~5. Persons who are willing to serve as volunteers, without compensation other than the reimbursement of certain expenses; and~~
56. Persons who are able to work and communicate in written and spoken English.

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**Section 9. NON-VOTING LIAISONS**

1. The non-voting liaisons shall include:
  - a. One appointed by the Governmental Advisory Committee;
  - b. One appointed by the Root Server System Advisory Committee established by Article XI of these Bylaws;
  - c. One appointed by the Security and Stability Advisory Committee established by Article XI of these Bylaws;

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d. One appointed by the Internet Engineering Task Force.

2. ~~Subject to the provisions of the Transition Article of these Bylaws, t~~ the non-voting liaisons shall serve terms that begin at the conclusion of each annual meeting. At least one month before the commencement of each annual meeting, each body entitled to appoint a non-voting liaison shall give the Secretary of ICANN written notice of its appointment.

~~3. Non-voting liaisons shall serve as volunteers, without compensation other than the reimbursement of certain expenses.~~

34. Each non-voting liaison may be reappointed, and shall remain in that position until a successor has been appointed or until the liaison resigns or is removed in accordance with these Bylaws.

45. The non-voting liaisons shall be entitled to attend Board meetings, participate in Board discussions and deliberations, and have access (under conditions established by the Board) to materials provided to Directors for use in Board discussions, deliberations and meetings, but shall otherwise not have any of the rights and privileges of Directors. Non-voting liaisons shall be entitled (under conditions established by the Board) to use any materials provided to them pursuant to this Section for the purpose of consulting with their respective committee or organization.

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## Section 22. COMPENSATION

1. Except for the President of ICANN, who serves ex officio as a voting member of the Board, each of the Directors shall be entitled to receive compensation for his/her services as a Director. The President shall receive only his/her compensation for service as President and shall not receive additional compensation for service as a Director.

2. If the Board determines to offer a compensation arrangement to one or more Directors other than the President of ICANN for services to ICANN as Directors, the Board shall follow a process that is calculated to pay an amount for service as a Director that is in its entirety Reasonable Compensation for such service under the standards set forth in §53.4958-4(b) of the Treasury Regulations.

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3. As part of the process, the Board shall retain an Independent Valuation Expert to consult with and to advise the Board regarding Director compensation arrangements and to issue to the Board a Reasoned Written Opinion from such expert regarding the ranges of Reasonable Compensation for any such services by a Director. The expert's opinion shall address all relevant factors affecting the level of compensation to be paid a Director, including offices held on the Board, attendance at Board and Committee meetings, the nature of service on the Board and on Board Committees, and appropriate data as to comparability regarding director compensation arrangements for U.S.-based, nonprofit, tax-exempt organizations possessing a global employee base.

4. After having reviewed the expert's written opinion, the Board shall meet with the expert to discuss the expert's opinion and to ask questions of the expert regarding the expert's opinion, the comparability data obtained and relied upon, and the conclusions reached by the expert.

5. The Board shall adequately document the basis for any determination the Board makes regarding a Director compensation arrangement concurrently with making that determination.

6. In addition to authorizing payment of compensation for services as Directors as set forth in this Section 22, the Board may also authorize the reimbursement of actual and necessary reasonable expenses incurred by any Director and by non-voting liaisons performing their duties as Directors or non-voting liaisons.

7. As used in this Section 22, the following terms shall have the following meanings:

(a) An "Independent Valuation Expert" means a person retained by ICANN to value compensation arrangements that: (i) holds itself out to the public as a compensation consultant; (ii) performs valuations regarding compensation arrangements on a regular basis, with a majority of its compensation consulting services performed for persons other than ICANN; (iii) is qualified to make valuations of the type of services involved in any engagement by and for ICANN; (iv) issues to ICANN a Reasoned Written Opinion regarding a particular compensation arrangement; and (v) includes in its Reasoned Written Opinion a certification that it meets the requirements set forth in (i) through (iv) of this definition.

(b) A "Reasoned Written Opinion" means a written opinion of a valuation expert who meets the requirements of subparagraph 7(a) (i) through (iv) of this Section. To be reasoned, the opinion must be based upon a full disclosure by ICANN to the

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valuation expert of the factual situation regarding the compensation arrangement that is the subject of the opinion, the opinion must articulate the applicable valuation standards relevant in valuing such compensation arrangement, and the opinion must apply those standards to such compensation arrangement, and the opinion must arrive at a conclusion regarding the whether the compensation arrangement is within the range of Reasonable Compensation for the services covered by the arrangement. A written opinion is reasoned even though it reaches a conclusion that is subsequently determined to be incorrect so long as the opinion addresses itself to the facts and the applicable standards. However, a written opinion is not reasoned if it does nothing more than recite the facts and express a conclusion.

(c) "Reasonable Compensation" shall have the meaning set forth in §53.4958-4(b)(1)(ii) of the Regulations issued under §4958 of the Code.

8. Each of the non-voting liaisons shall be entitled to receive compensation for his/her services as a non-voting liaison. If the Board determines to offer a compensation arrangement to one or more non-voting liaisons, the Board shall approve that arrangement by a required three-fourths (3/4) vote. Compensation for non-voting liaisons is not subject to the Treasury Regulation standards detailed above.