

# Framework for the FY11 Operating Plan and Budget

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## The Framework for the FY11 Operating Plan and Budget

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### **Summary Points**

- This FY11 framework sets forth the proposed focus of efforts and organizational commitments for the next fiscal year. This proposal will be modified as a result of feedback from the community and ICANN's Board, and will be considered for adoption in June, 2010.
- The need to balance competing demands on budget resources has increased in importance especially as revenue streams are not expected to grow as much as in prior years.
- Community feedback is solicited to ensure that priorities are set correctly and resources are allocated appropriately.

# 1. Introduction

One world. One Internet. Everyone connected.

An operating plan and budget outline the goals to be accomplished and the resources required to implement an organization’s strategy. ICANN’s Strategic Plan, soon to be adopted, in summary says:

ICANN is a global multi-stakeholder organization that coordinates the Internet domain name system (DNS) and addressing for the benefit of Internet users worldwide, enabling a single, interoperable Internet. ICANN’s community-developed policies govern over 180 million domain names, the allocation of one billion network addresses, and support a trillion daily DNS look-ups across 240 countries and territories, connecting billions of computers, phones, and other devices, across the Internet. DNS cyber security is a top priority. ICANN also administers the networks protocol and parameter registries for the IETF that support the operation and orderly evolution of the Internet. ICANN’s leadership and credibility derives from collaborating with thousands of companies, individuals and government participants in global Internet governance and policy development. Working largely in the background, ICANN’s centralized coordination mission is fundamental to the continued success of the Internet.

ICANN’s 2010 to 2013 Strategic Plan is pending adoption by the Board; here is the overview:

ICANN Strategic Plan 2010 to 2013 - Four Strategic Focus Areas				
Supporting... One World. One Internet. Everyone Connected.				
	DNS stability and security	Consumer choice, competition and innovation	IANA and core operations	A healthy Internet eco-system
<b>Strategic objectives</b>	<ul style="list-style-type: none"> <li>•100% DNS uptime</li> <li>•Lower DNS abuse</li> <li>•More secure top level domain (TLD) operations</li> <li>•Improved DNS resilience to attacks</li> </ul>	<ul style="list-style-type: none"> <li>•Everyone connected</li> <li>•Increased TLD options in more languages</li> <li>•Lower registration abuse</li> <li>•Increased industry competition</li> <li>•Increase valid registrations</li> </ul>	<ul style="list-style-type: none"> <li>•Flawless Internet Assigned Numbers Authority (IANA) operations</li> <li>•Improved resilience</li> <li>•Enter into a long term IANA functions contract</li> </ul>	<ul style="list-style-type: none"> <li>•One unified, global Internet</li> <li>•All stakeholders have a voice</li> <li>•Improved accountability and transparency</li> <li>•Enhanced trust in ICANN's stewardship</li> </ul>
<b>Community work</b>	<ul style="list-style-type: none"> <li>•Domain name system security extensions (DNSSEC)</li> <li>•Whois/ International Registration Data</li> <li>•Addressing Registration abuse</li> </ul>	<ul style="list-style-type: none"> <li>•IDNs</li> <li>•New gTLDs</li> <li>•IPv4/ IPv6 work</li> <li>•Registrar Accreditation</li> <li>•Registrant Rights Charter</li> </ul>	<ul style="list-style-type: none"> <li>•Monitoring of performance</li> <li>•Root scaling study</li> </ul>	<ul style="list-style-type: none"> <li>•Increasing participation</li> <li>•Contributing to international forums</li> <li>•Review SOs and ACs</li> </ul>
<b>Strategic projects</b>	<ul style="list-style-type: none"> <li>•DNSSEC implementation</li> <li>•Establish DNS CERT</li> <li>•Contingency planning &amp; exercises</li> <li>•IPv4 and IPv6 absorption</li> </ul>	<ul style="list-style-type: none"> <li>•Implement Internationalized Domain Names (IDNs)</li> <li>•Implement new TLDs</li> <li>•IPv4 monitoring/IPv6 leadership</li> <li>•Improve policy processes</li> </ul>	<ul style="list-style-type: none"> <li>•IANA infrastructure upgrade</li> <li>•Monitor Root scaling</li> <li>•Strengthen International operations and presences</li> <li>•Strengthen SO and AC Support</li> </ul>	<ul style="list-style-type: none"> <li>•Implement Community Reviews, including the Affirmation of Commitment reviews</li> <li>•Efforts to meet commitments</li> <li>•Implement impact reporting</li> <li>•Participate in Internet governance dialogues including Internet Governance Forum (IGF)</li> </ul>
<b>Staff work</b>	<ul style="list-style-type: none"> <li>•Contingency planning</li> <li>•Training for ccTLDs</li> <li>•Collaborative response</li> <li>•ccTLD and risk management education in developing countries</li> </ul>	<ul style="list-style-type: none"> <li>•Compliance</li> <li>•Supporting Organization (SO) and Advisory Committee (AC) support</li> </ul>	<ul style="list-style-type: none"> <li>•IANA</li> <li>•Board support</li> <li>•Financial operations</li> <li>•Security &amp; contingency ops</li> <li>•L Root operations</li> </ul>	<ul style="list-style-type: none"> <li>•Thought leadership</li> <li>•International forum participation</li> <li>•Build capacity &amp; strengthen partnerships across eco-system</li> <li>•Strengthen regional engagement</li> </ul>

Multi-stakeholder – Collaborative – International – Transparent – Accountable

This annual update to ICANN's three-year Strategic Plan clarifies its strategic roles and responsibilities. See <http://www.icann.org/en/planning/> for more information on the process.

Next comes the work to develop the annual Operating Plan and Budget.

ICANN's bylaws require that 45 days before adoption of the budget, a draft of the annual budget be posted to allow for community feedback. In recent years, ICANN has posted a framework of the fiscal year Operating Plan and Budget several months earlier. This allows for nearly five months of active community feedback and dialog. This also helps ensure that priorities are set correctly and that resources are assigned appropriately.

The FY11 Operating Plan and Budget covers the period from 1 July 2010 through 30 June 2011. This Framework for the FY11 Operating Plan and Budget sets forth the proposed key operational activities that are to be accomplished during the fiscal year, as well as the expected budget resources required to accomplish them.

In accordance with tenets of accountability and transparency described in the September 2009 Affirmation of Commitments, the Framework for the FY11 Operating Plan and Budget is developed to facilitate community understanding of ICANN's organizational activities and to help focus community feedback on the priorities of, and resources required for, ICANN's efforts in the year ahead.

The Framework for the FY11 Operating Plan and Budget is posted to solicit community feedback on the priorities, plans, and resource requirements for ICANN's activities for the fiscal year. Although any feedback on any aspect of the FY11 Framework is welcome, the community is requested to focus comments on the following strategically significant areas:

- Will the Strategic Plan be accomplished by the operating activities proposed? Are there specific deliverables or commitments that require more clarity? Are there some activities that should be modified to better suit ICANN's strategic mission?
- Are the organizational activities prioritized properly? Does one activity or another need more resources, and, if so, what other activities should be delayed or eliminated to fund the more important activities?
- Is the overall financial picture of ICANN balanced appropriately given its role in the Internet ecosystem? Is the contribution to the Reserve Fund enough? Are revenue sources appropriate, and set at the right level, in the context of existing expectations by the Internet community?
- Where are opportunities for cost reductions? Can some projects be curtailed or delayed to help fund higher priority activities?
- ICANN's commitment to openness and transparency will reinforce efforts of recent years to post detail-rich budget documents. What information is important to be included in the draft and final FY11 Operating Plan and Budget? Are we striking the right balance between the need for detail versus the time to prepare and digest that detail, and the relevance of such information? For the Operating Plan and Budget development effort, are we responsive to the call for accountability and transparency described in the Affirmation of Commitments?

Community feedback for the FY11 Framework is requested to be made through conference calls before Nairobi, in face to face (or through remote participation) during the ICANN Meeting in Nairobi, in conference calls after Nairobi, and in online public comment areas open 24/7 from

today until the Board adopts the budget here: <http://www.icann.org/en/public-comment/public-comment-201004-en.htm#op-budget-fy2011>.

By the 17<sup>th</sup> of May 2010, in accordance with bylaw requirements, community comments will be synthesized and the draft FY11 Operating Plan and Budget will be posted. Further community feedback on the draft FY11 Operating Plan and Budget will be solicited and then synthesized. The final FY11 Operating Plan and Budget will be submitted to ICANN's Board of Directors for final consideration and adoption at the Brussels meeting in June 2010.

## 2. Executive Summary of the FY11 Framework

ICANN's annual Operating Plan and Budget set forth the planned outcomes and goals for ICANN and the resources required to deliver on those goals.

One year ago, the FY10 Operating Plan and Budget outlined a challenging set of deliverables and commitments, and the mid-year mark of FY10 already points to a milestone year in ICANN's history. Already completed are the signing of the Affirmation of Commitments, replacing the Joint Project Agreement; processing of IDN ccTLD requests through the fast track program has begun; progress made with the New gTLD Program including more resolved drafts of the applicant guidebook (as modified and amended by community feedback); DNSSEC signing of the root will be deployed in 2010, and ICANN's internal organizational review and improvement work has made great strides in the GNSO, At Large, SSAC, ccNSO and elsewhere.

On 1 July 2009, Rod Beckstrom started his tenure as ICANN's Chief Executive Officer. Mr. Beckstrom's recent message on the ICANN website captures ICANN's recent progress in more detail. See <http://www.icann.org/en/ceo/ceo-message-24dec09-en.htm>.

As ICANN's staff, Board, and community focus attention on these attaining these and other important goals, there are also some clear challenges:

- **Completing FY10 year on budget.** ICANN has typically been able to fit operating plan activities within its expense budget. A review undertaken in December by staff and with the Board Finance Committee, shows that the FY10 budget year would naturally complete over budget by approximately \$2.8MM. Factors for this extra budget pressure include significant unanticipated legal expenses, new facilities, the need to execute rapidly on senior level hires and strategic consulting contracts, and the costs associated with delays in key programs such as the New gTLD Program. ICANN has responded to these FY10 budget pressures by seeking allocation of the \$1.5MM expense contingency by the Board, and by taking on an aggressive FY10 cost containment project. This includes cutting unnecessary costs, including changing staff policies on travel and many other items. Some planned activities have been reduced, delayed or curtailed and many planned staff positions will not be filled. While cutting costs, the staff goal is to ensure that there is ongoing delivery of ICANN's essential services. The Board Finance Committee, and Board overall, is regularly kept apprised of these activities and helps monitor the risks as well as appropriate responses to those risks.
- **Lengthening of projects.** While much progress has been made, the New gTLD program has not completed, and there has been a request for more work in several areas. So, while the implementation date of this program has not been set, more work and more expense has been identified as necessary to reach completion.
- **Balancing workloads and setting priorities.** The ICANN community, Board and staff all face a significant challenge in determining where to focus efforts. As one example, as of this writing, more than twenty working groups are currently underway in the GNSO. Is it ever appropriate to say a piece of policy or implementation work will simply have to wait until a higher priority piece of work is completed? Over the last several years, with ICANN's budget growing significantly, the challenge of establishing priorities has not gotten easier. During FY11, in a second consecutive year of limited budget growth, this challenge will be heightened.

Despite these challenges, the work plan identified for FY11 is again ambitious, and will make a significant contribution towards reaching ICANN's strategic goals. The executive management

team, the staff, the Board, and the thousands of community members critical for ICANN’s success are more ready than ever before to deliver on the FY11 Operating Plan.

The top priorities for ICANN, include:

- Ensure that efforts to expand the top-level domain space consider, before implementation, a variety of issues involved such as competition, consumer protection, security, stability and resiliency, malicious abuse, sovereignty concerns, and rights protection are adequately addressed.
- Ensure that the plan developed to enhance the operational stability, reliability, resiliency, security, and global interoperability of the DNS is regularly updated by ICANN to reflect emerging threats to the DNS.
- Remain committed to education and implementation of IPv6.
- Continue to broaden outreach, strengthen partnerships, increase global awareness of ICANN policies and activities, and encourage participation in international forums.
- Continue the successful implementation of IDN ccTLDs.

The following chart presents in the format of the four priority focus areas of the Strategic Plan, some of the proposed activities for ICANN in FY11 and called for by the ICANN community, and consistent with the Affirmation of Commitments.

Preserve DNS Security and Stability	Promote Competition, Trust, Choice, and Innovation	Excel in IANA and other Core Operation	Contribute to Shaping a Healthy Internet Ecosystem
<ul style="list-style-type: none"> <li>➤ Enhance existing DNS collaborative responses to abuse threats to DNS</li> <li>➤ Initiate efforts to establish DNS-CERT</li> <li>➤ Initiate program for annual DNS risk assessment/systemic contingency planning</li> <li>➤ Support for DNSSEC implementation</li> <li>➤ Enforce contractual provisions of agreements</li> <li>➤ Support continued enhancement of TLD Continuity program</li> <li>➤ Work w/security experts for DNS metrics</li> <li>➤ Collaborative response to threats to the DNS</li> </ul>	<ul style="list-style-type: none"> <li>➤ Complete the final version of the Applicant Guidebook</li> <li>➤ Systems to enhance registry and registrar processes</li> <li>➤ Compliance action plan for New gTLDs</li> <li>➤ Facilitate discussion of key IDN implementation issues</li> <li>➤ Establish robust support program to manage applicant questions</li> <li>➤ Monitor IPv4 and facilitate adoption of the IPv6 protocol</li> </ul>	<ul style="list-style-type: none"> <li>➤ Continue IANA excellence to strengthen services and improve performance</li> <li>➤ Continue work on root zone scaling</li> <li>➤ Strengthen alignment of ICANN outreach and stakeholder engagement</li> <li>➤ Finalize operational readiness plan, accommodate the delegation of New gTLDs and ccTLDs, including IDNs.</li> <li>➤ Engage with regional stakeholders</li> <li>➤ Implement updated cost accounting and procurement guidelines</li> </ul>	<ul style="list-style-type: none"> <li>➤ Affirmation of Commitments: Perform reviews on schedule for Accountability, Transparency, Security, Stability and Resiliency, Whois policy</li> <li>➤ Participate in international Internet governance discussions</li> <li>➤ Serve globalized technical coordination functions in public interest</li> <li>➤ External review of ccNSO and ASO</li> </ul>

Other FY11 proposed activities for ICANN are not specific to one of the four categories alone. These include activities designed to enable ICANN overall. Some of these activities are highlighted in the following chart.

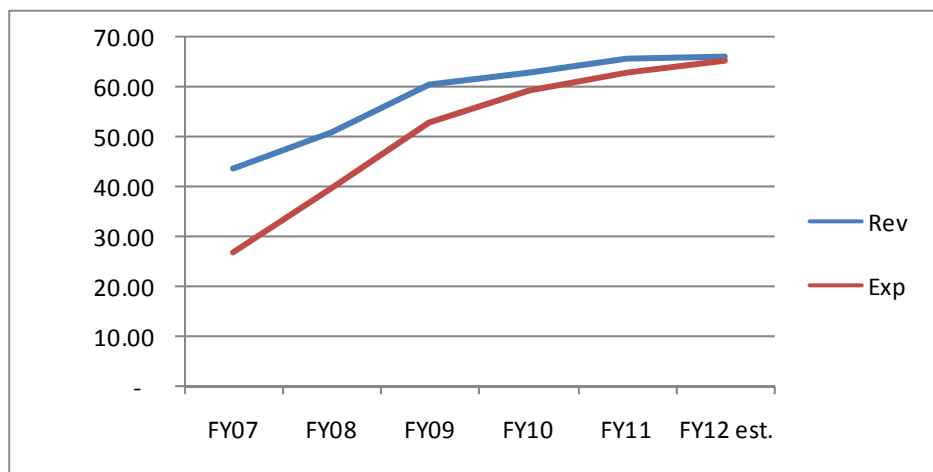


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- **Provide education training and information services to support a knowledgeable skilled international community of volunteers to support ICANN's bottom up multi-stakeholder policy development efforts**
- Monitor activities in international forums, including advising on strategy and approach to address issues or inform discussions affecting ICANN's mandate or mission
- Commit to adhere to transparent and accountable processes, fact based policy development, and cross community deliberations Continue to assess and improve ICANN Board of Directors governance
- Improve performance reporting against commitments
- Commit to perform and publish analyses of positive and negative effects of its decisions on the public, including financial impact

- **The FY11 Framework for budget balancing.** Each year, ICANN develops its budget from the bottom up. Organizational activities are identified that will honor the roadmap established by the update to the three year Strategic Plan. The costs required for these activities and the resources required to support them are estimated and this becomes the first proposed budget.

Financial resources to fund ICANN's operating activities come largely from generic registries and registrars that are accredited by, and contracted with, ICANN. In addition, Regional Internet Registries and country code top-level domain (ccTLD) registries contribute annually to ICANN. These revenue resources are matched with the first draft proposed expenditures, and the resulting calculation of change in net assets (i.e., contribution to the Reserve Fund), is evaluated for strategic relevance; and the components are adjusted accordingly. For a number of years, ICANN's revenue stream has grown year over year significantly. While RIR and ccTLD revenue has remained fairly steady, over three years Registry revenue has increased 65% and Registrar revenue has increased 17.6%. This revenue growth pattern is not continuing in FY11. The following chart shows trends in the relationship between revenue and expenses.



The current estimate of FY11 revenue is \$65.2 million, which is about a 2.5% increase over FY10. Expenses for FY11 are estimated to grow by about 6.1% over FY10, with a significant effort made in this planning to ensure increases were targeted to the highest priority activities for ICANN.

The following chart highlights these budget balancing relationships proposed in the FY11 Framework:

(in US dollars)	FY11 FRAMEWORK	FY10 FORECAST	FY10 BUDGET
Revenue	\$65,521,000	\$62,918,005	\$63,641,600
Operating Expenses	\$59,374,000	\$55,944,580	\$54,366,797
Non Cash Expenses	\$2,600,000	\$2,600,000	\$2,900,000
Contingency	\$1,500,000		\$1,500,000
Total Expenses	\$63,474,000	\$58,544,580	\$58,766,797
Change in Net assets	\$2,047,000	\$4,373,425	\$4,874,803

Given the expectation of relatively small increases in revenue, the run rate expense patterns of ICANN's core services, and the estimated expenses required to deliver on the proposed activities and commitments, this FY11 Budget Framework provides for slightly over \$2 million to be contributed to the Reserve Fund.

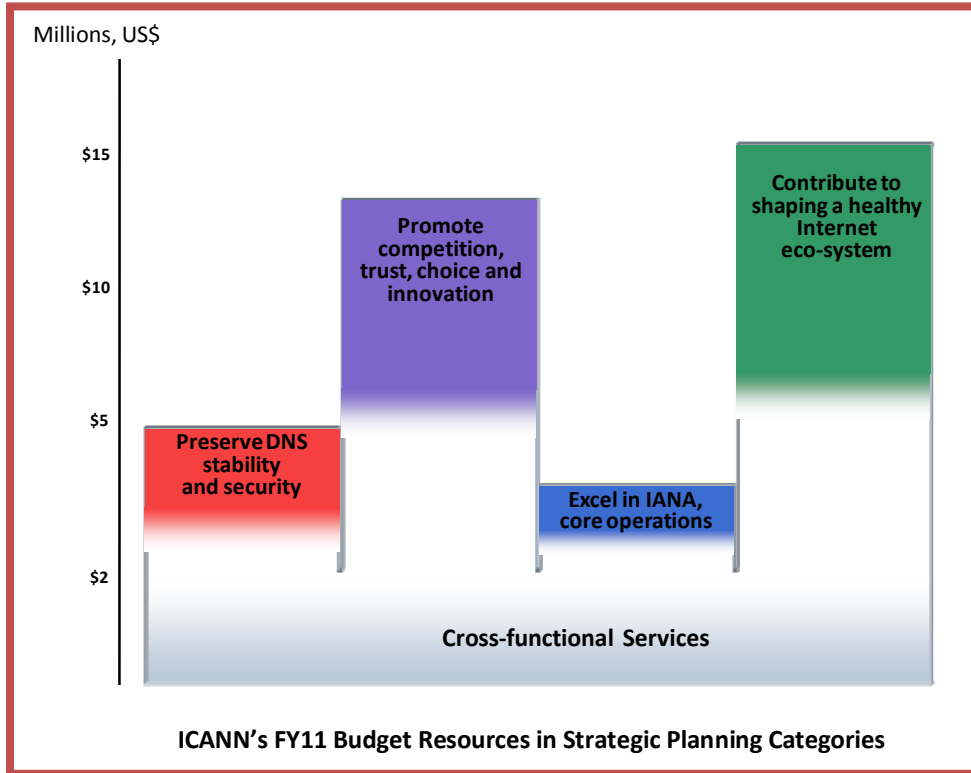
The Reserve Fund was established to be accessed only for "rainy day" emergencies. ICANN's goal has been to attain a reserve fund that is as large as one year of operating expenses within a few years. Plans are being considered to fine tune the determination of what should be the most appropriate level for the reserve fund. Questions being considered include: What types of "black swan" emergencies should be anticipated? What core operations would need to be funded if other resources are not available? For how long? More detailed information on the Reserve Fund is in Section 6.

Community members are encouraged to address this overall financial picture for ICANN in their feedback comments of the FY11 Framework.

ICANN's costs are accounted for and tracked in traditional accounting categories: departments, cost codes, and so on. Community feedback has encouraged ICANN's costs to be tracked in different views such as:

- **Functional view**, which tracks costs along the lines of ICANN's major activities, and
- **Expense Area Group (EAG) view**, which tracks costs along the lines of ICANN's stakeholders and their interest areas.

These views continue to be tracked, reported regularly, and are included in this Framework in the reference section. In addition, a new view of ICANN’s expenses is proposed in this Framework. This is a view which aligns with the four categories of the strategic plan as shown in the following chart.



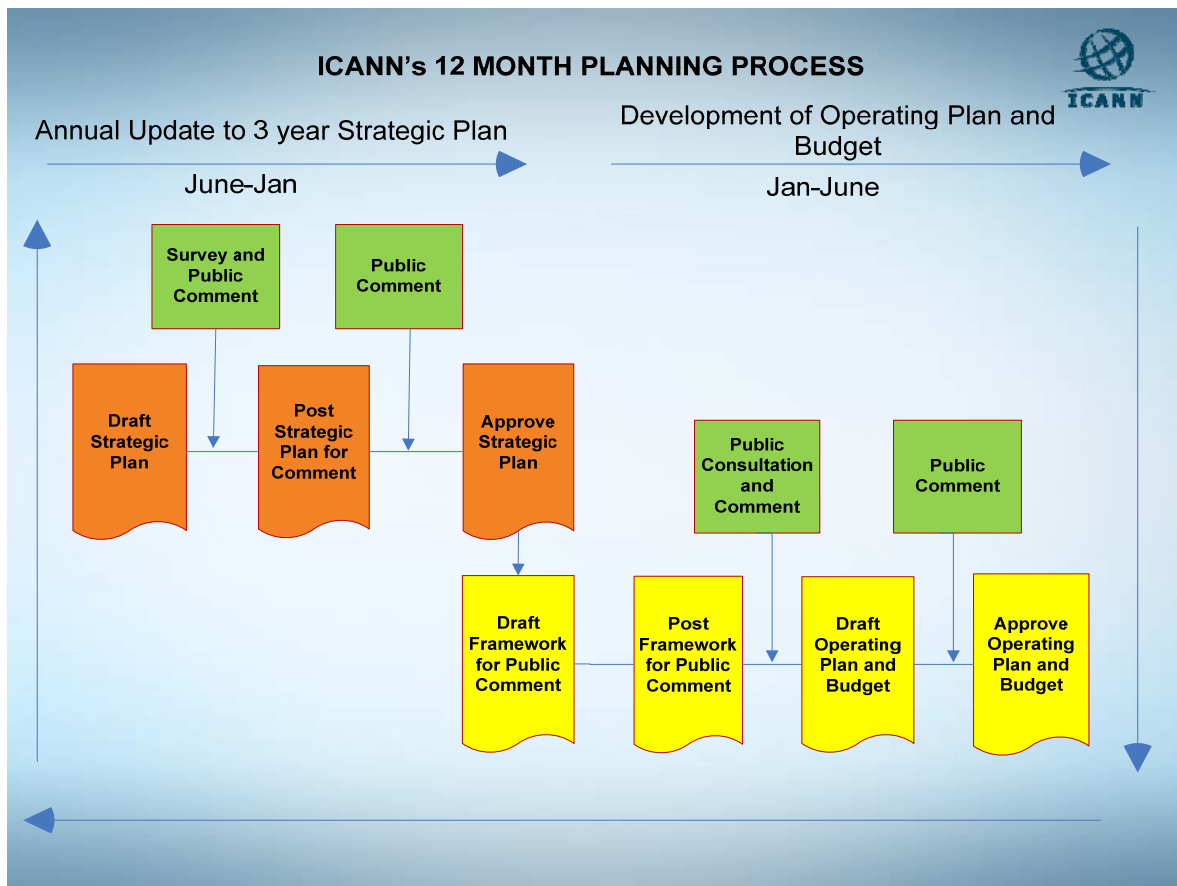
This Strategic Plan Category view of ICANN’s budget resources is designed to show the focus and prioritization of ICANN’s efforts. The resources required for each area of focus are shown more clearly, as is the cross functional nature of much of ICANN’s spending. The community is encouraged to comment on the relative priority of these activities, and the resources committed to them. Special attention is required to identify which activities must be delayed or curtailed if additional resources are required for another activity.

### 3. The Planning Process

The overarching goals for the planning process are to maximize effective community engagement, to ensure that ICANN's plans are set with the appropriate priorities and resource allocations, and to ensure financial soundness of those plans.

During the first six months of each fiscal year, planning efforts focus on the Strategic Plan. The Strategic Plan describes the organization's priorities and general goals over a three-year period. Then, in the second six months, ICANN's Operating Plan and Budget are developed which describe the activities, and resources required, to be performed in the next fiscal year.

The chart here shows the timing of strategic planning and operating planning activities at ICANN.



#### 3.1 Strategic Plan

ICANN's planning process helps keep the focus on its mission, mandate, and responsibilities, especially in light of the Affirmation of Commitments. The 2010 to 2013 Strategic Plan was developed with an intention to provide a clear and accessible vision of ICANN's strategic focus. In particular, four areas of focus are provided:

1. DNS Stability and Security
2. Consumer Choice, Competition, and Innovation

3. IANA and Core Operations, and
4. a Healthy Internet Ecosystem

Additionally, the 2010 to 2013 Strategic Plan describes five fundamental aspects of ICANN's activities, which cut across all focus areas. The five identified enablers are multi-stakeholder, collaborative, international, transparent, and accountable. A framework for the Strategic Plan was posted online and introduced to community groups at the international ICANN meeting in Seoul in November 2009. Consultations were conducted with constituencies both during and after the ICANN meeting. Additionally, a survey was conducted to assess community feedback and prioritize issues. All community feedback provided in online public fora, through online survey, and orally during meetings and conference calls was synthesized and incorporated into the final 2010 to 2013 Strategic Plan adopted by the Board.

### 3.2 Framework for the Operating Plan and Budget

The Framework for the annual Operating Plan and Budget is posted nearly five months before the final budget is submitted to the Board for adoption. This approach allows for extensive community feedback. The purpose of this Framework is to provide key parameters for the fiscal year's planning and budget, and to allow community input early in that planning and budget development process. The FY11 Framework is being posted before the Nairobi meeting to allow time to solicit community feedback before, during, and after that meeting.

### 3.3 Draft Operating Plan and Budget

In accordance with ICANN's bylaws, annually the Draft Operating Plan and Budget is posted 45 days before the beginning of the next fiscal year. The document lays out in detail the plans and budget resources required to execute those plans for the following fiscal year. The Draft FY11 Operating Plan and Budget, posted by the 17th of May, reflects the concepts of the FY11 Framework with much more specificity and clarity. The synthesis of community feedback received is incorporated. Once posted, more community feedback is solicited and then synthesized.

### 3.4 Final Operating Plan and Budget

At the June ICANN meeting, the final fiscal year Operating Plan and Budget, after further community consultation, is submitted to ICANN's Board of Directors for consideration and adoption. Once adopted, this becomes the plan and approved budget for ICANN's fiscal activities. The process for developing the FY11 Operating Plan and Budget includes nearly five months of active community involvement, is expected to reflect the priorities of the community, and will provide clarity for ICANN's operating goals and the budget resources required to achieve them.

Community feedback on the Framework for the FY11 Operating Plan and Budget is encouraged in a number of ways:

- Post a comment on the ICANN website on the FY11 Operating Plan and Budget section of the public comment page. See <http://www.icann.org/en/public-comment/public-comment-201004-en.htm#op-budget-fy2011>.
- Ask the leader of your community to schedule a conference with ICANN staff (contact Chief Financial Officer, Kevin Wilson, at [kevin.wilson@icann.org](mailto:kevin.wilson@icann.org)).
- Comment at a public session at ICANN's meeting in Nairobi (7th to 12th of March 2010) or at ICANN's meeting in Brussels (20<sup>th</sup> to 25<sup>th</sup> of June 2010).

In addition, the planning and budget team will formally seek feedback from the community by requesting conference calls with ICANN constituency groups, supporting organizations, and advisory committees throughout the nearly five-month process.

#### 4. The Framework for the FY11 Operating Plan

The proposed FY11 Operating Plan calls for an increase in expenses of 6.1% over the FY10 forecast with primary increases in the areas of security and IANA and Technology Operations. These organizational activities are briefly described below, along with the proposed key deliverables for FY11.

Organizational Activities	FY11 Framework	FY10 Forecast	FY10 Budget	FY11 Framework less FY10 Budget	
1-New gTLD Implementation and Delegation	6,770	7,400	7,605	(835)	-11.0%
2-IDN Implementation	1,140	1,300	1,256	(116)	-9.2%
<b>New gTLD / IDN efforts</b>	<b>7,910</b>	<b>8,700</b>	<b>8,861</b>	<b>(951)</b>	<b>-10.7%</b>
3-IANA and Technology Operations Improvements	5,950	4,900	5,040	910	18.1%
4-Security, Stability and Resiliency Operations(SSR)	7,250	6,500	5,755	1,495	26.0%
5-Contractual Compliance	3,360	3,400	3,155	205	6.5%
6-Core Meeting Logistics	5,230	5,210	5,190	40	0.8%
7-Constituency Support	6,270	5,720	6,041	229	3.8%
8-Policy Development Support	6,020	5,440	5,339	681	12.8%
9-Global Engagement and Increasing International Participation	7,190	7,270	6,619	571	8.6%
10-Community Travel Support	1,790	1,740	1,722	68	4.0%
11-Ombudsman	550	450	451	99	22.0%
12-Board Support	2,520	2,260	2,393	127	5.3%
13-Nominating Committee (NomCom) Support	780	750	760	20	2.6%
14-DNS Operations	2,310	2,370	1,199	1,111	92.7%
15-Administrative improvement	2,230	1,190	1,842	388	21.1%
<b>ICANN Core (w/o New gTLD)</b>	<b>51,450</b>	<b>47,200</b>	<b>45,506</b>	<b>5,944</b>	<b>13.1%</b>
	<b>59,360</b>	<b>55,900</b>	<b>54,367</b>	<b>4,993</b>	<b>9.2%</b>

The community is encouraged to provide feedback on the prioritization of these organizational activities as well as identify deliverables of importance and deliverables that can be delayed or curtailed.

## 4.1 New gTLD Implementation and Delegation

Helping to achieve ICANN's vision of a *unified global Internet that works for everyone*, the FY11 gTLD program will provide new platforms for innovation and change that will stimulate competition and increase choice for a variety of users and communities. Furthermore, new TLDs will allow industries, organizations, and communities to provide trusted services or information to their constituents and user groups while reaching new users who may have been limited by geographic or linguistic challenges.

The proposed plan for FY11 is to progress the implementation efforts of new gTLD policy recommendations, to address the remaining concerns necessary to finalize the AGB, and to complete preparations for new gTLD application processing. Assigned staff will continue to design and implement the necessary business processes and systems to support the gTLD application process. As the launch date for the program extends certain costs will continue to accrue. This has been captured as a key assumption in developing the proposed budget and, where possible, these costs have been kept to a minimum. For example, procurement of external services will be limited and the hiring of additional staff needed to manage the program will be delayed.

As the program is expected to remain revenue - cost neutral, a separate new gTLD budget amendment will be proposed before the launch of the program. Key features of this budget amendment, which will include project revenue from application fees, costs to process applications, and methods to manage financial risks are described in Section 6.

Budget resources required in FY11 for these new gTLD activities remain significant at an estimated \$6.8 million. This amount is less (about 11% less) than the FY10 budget primarily because many of the new gTLD planned projects are already complete or are near completion. Also, where possible, implementation and "go live" costs are pushed out to be included in the separately requested new gTLD Budget amendment.

In FY11, the key activities associated with the New gTLD program are:

- Finalize operational readiness activities which include developing business processes, risk management activities, customer services processes, and the TLD Application System (TAS). This also includes full time staff and other resources necessary to design and implement the program.
- Continue with community consultations to resolve open issues such as rights protections and DNS stability aspects.
- Continue work on next version of the Applicant Guidebook (AGB) including translations.
- Establish and execute an effective communication plan based on policy recommendations and stakeholder needs, including global awareness to key stakeholders. Conduct outreach activities regarding communication of the AGB process and procedures.

## 4.2 IDN Implementation

The launch of the Fast Track Process for IDN ccTLDs was a major milestone for ICANN and the Internet community in FY10. This Fast Track process will continue to be available during FY11 and until a final policy for IDN ccTLDs is developed and adopted.

The focus for IDNs will be on support for IDNA protocol implementation and guidance and support to the application layer of the Internet, including various IDN-related community initiatives such as the long-term IDN ccTLD PDP, the JIG, the Whois working groups, and the New



gTLD Program. For both the TLD and IDN processes, it is expected that new research and development areas will be undertaken in relation to the management of variant TLDs. ICANN will continue to ensure that IDN-relevant information, including best practice operational guidelines, is available at ICANN and domain name-related meetings, and will initiate participation in application development-related events to achieve a broader acceptance of new TLDs on a global scale.

Resource commitments from the FY11 Budget are expected to be \$1.1 million. The \$100k reduction from the FY10 budget reflects the lower requirements for outside consultants as the IDN ccTLD Fast Track program is under way. The resource requirements are required for FY11 to fund the ongoing operation of the requests as well as prepare for other IDN TLDs.

In FY11, key activities for IDN implementation include:

- Maintain the operation of the IDN ccTLD Fast Track process, including processing requests for strings which will result in the delegations of IDN ccTLDs in the root zone.
- Review any potential revision of the Fast Track process to ensure that it is functioning in the best interests of Internet users globally. This includes conducting a financial overview of received processing fees as compared to the cost of the request process to ensure that the process remains cost-neutral.
- Initiate an IDN compliance project to (1) review all relevant TLD registries' implementation of IDN standards, (2) communicate privately with these entities, and (3) generate publicly relevant information on IDN registration issues.
- Finalize the revision of the IDN Guidelines to be consistent with the revised IDNA protocol and any additional technical precautions that may be necessary in the launch of IDN TLDs. This was initiated in FY10, but due to the additional work that was necessary for the IDNA protocol revision, this project extends into FY11.
- Take proper steps to continue keeping IDNs secure, in regard to phishing and spoofing attacks. To date IDNs have not been compromised excessively in this way.
- Ensure that the finalized IDNA protocol revision is implemented in the processes for standard implementation and allocation of new TLDs technical standards; facilitate the completion of the IDNA protocol; and coordinate/manage amendment to the IDN Guidelines. ICANN will further look at various opportunities to support the implementation of the IDNA protocol as its revision is completed.
- Provide outreach and education at regional events, ICANN meetings, and other relevant community events to encourage participation in the opening of the top-level as well as understanding and resolving regional concerns. In this regard, focus will be shifted from previous years to incorporate events outside the traditional domain field, such as linguistics-oriented events as well as application software developer events.

### 4.3 IANA and Technology Operations Improvements

ICANN will enhance IANA and Technology Operations through a Business Excellence program for IANA and by continuing efforts to ensure that IT operations and infrastructure are robust and resilient. ICANN's internal organization must be able to fulfill the additional operational requirements accompanying new services, including DNSSEC, scaling the number of TLDs, and other online services such as the Interim Trust Anchor Repository. The IANA department must accommodate process development and execution associated with new gTLDs and IDN ccTLDs. ICANN is focusing on excellence in performance of these activities and the underlying

infrastructure elements in support of these requirements, looking beyond the conclusion of the existing contract for IANA services administered through the US Department of Commerce.

In FY11, nearly \$6 million of budget resources are required to support the strengthening of IANA and Technology Operations. The 18.1% increase over FY10, reflecting the importance of this function in ICANN's strategic plan, includes staffing with an executive director for IANA, an upgrade to the IANA infrastructure, and professional services for external reviews of IANA's RZM software as well as number resource and protocol parameter processes.

In FY11, the key deliverables for IANA and Technology Operations include:

- Make improvements to IANA infrastructure to support business continuity and major activities (e.g., root zone change management) by facilitating, monitoring, and maintaining a quality assurance function.
- Manage stakeholder relations in a measurable way by requesting feedback on IANA performance, make changes in accordance with the feedback, and publish metrics on changes and responses.
- Continue Business Excellence project and publish interim results.
- Test and implement RZM software to facilitate accurate, reliable, timely handling of root zone change requests submitted by ccTLD and gTLD registries.
- Manage root zone request processing and continue to refine process to improve efficiency and reliability.
- Improve performance reporting against published commitments.
- Improve efficiency in protocol parameter request processing.
- Manage number of resource requests and report on turnaround time performance against published commitments.
- Manage and maintain policy documentation.

#### 4.4 Security, Stability and Resiliency (SSR)

Ensuring the security, stability and resiliency (SSR) of the DNS and other unique identifiers in a changing global environment is a core part of ICANN's mission and is highlighted in the Affirmation of Commitments and in ICANN's 2010–2013 Strategic Plan. Doing so requires ICANN to collaborate effectively with other Internet stakeholders to enhance and protect the security and stability of the Internet, especially with the growth in threats to the DNS and the increase in malicious conduct that leverages the DNS.

In FY11, budget resources required to support SSR activities are estimated at \$7.3 million, a 26.0% increase over FY10's budget. The budget estimates include the costs for DNSSEC implementation, security program certifications, external audits of ICANN's security, hardening of ICANN's infrastructure, and other important activities highlighted in the Strategic Plan. Many of these SSR activities are described in more detail below:

- *Enhance ICANN efforts as overall contributor to Internet security, stability, and resiliency (SSR).* Key activities will include:
  - Ensure approval by community and Board for the annual revision of the ICANN *Plan for Enhancing Internet SSR*.
  - Support the review of ICANN's SSR activities under the Affirmation of Commitments.

- Coordinate ICANN SSR efforts with partners as identified in ICANN *Plan for Enhancing Internet SSR* and track implementation of joint actions.
- Work with key global cyber security leadership organizations, including the Software Engineering Institute, DNS-Operations, Analysis and Research Center (DNS-OARC), ARC Advisory Group, European Network and Information Security Agency (ENISA) and Forum for Incident Response Teams (FIRST) to establish metrics for DNS security, stability and resiliency.
- Ensure global engagement, awareness, and responsiveness to stakeholders. Enhance mechanisms for increased involvement in SSR activities from stakeholders based in developing countries to include leveraging ICANN Fellowships program and focused efforts within DNS/TLD SSR training and awareness programs.
- *Enhance overall Domain Name System security, stability, and resiliency. Key activities will include:*
  - Work with partners to enhance existing DNS collaborative responses to threats to or that abuse the DNS and initiation of efforts to establish a DNS-CERT.
  - Coordinate and partner in conducting a third DNS Security and Resiliency Symposium in early 2011 to identify key risks to the DNS and opportunities for community-based collaboration to improve DNS SSR.
  - Initiate a program for annual DNS risk assessment and systemic contingency planning. Establish key scenarios for DNS security, stability, and resiliency with community partners as a basis for contingency planning by fall 2010. Conduct an initial DNS risk assessment by spring 2011 with community partners. Actively participate in root server operators and technical forums and lead collaborative planning and executing root server system contingency planning and response exercises. Initiate planning for system-wide DNS SSR exercise.
- *Enhance top-level domain security, stability and resiliency. Key activities will include:*
  - Continue conduct of Attack and Contingency Response Program with five workshops in coordination with regional TLD organizations integrating DNS/TLD security lessons-learned and best practices into the curriculum. With ISOC and NSRC, continue to conduct technical Registry Operations Curriculum. Conduct security technical training with ccTLD operations staffs in three workshops.
  - Support continued enhancement of TLD Continuity Program, which includes working with the community to refine the gTLD registry contingency plan, conducting a live data escrow procedures drill by the end of 2010, and holding another collaborative exercises with key partners in spring 2011.
  - Enhance security of ICANN programs to implement new gTLD and IDN programs. Key activities will include:
    - Ensure software applications developed to support programs, particularly the top level domain application system (TAS) are secure. Conduct TAS vulnerability testing before the launch of the new gTLD process and initiate program for ongoing security assessment of all new applications associated with these programs.
    - Continue efforts to establish and implement security, stability, and resiliency evaluation processes and approaches to mitigate security stability and resiliency risk for the new gTLD application process and projected implementation.

- *Conduct and enhance ICANN's corporate information, personnel, and facilities security and business continuity programs in accordance with benchmarked international standards.* Key activities will include:
  - Ensure annual updating of ICANN security plans and monitor effective implementation of security controls and procedures.
  - Establish ICANN business continuity plan and ensure effective implementation of procedures and associated contingency planning. Conduct external audits of ICANN security and continuity to help accomplish compliance certification under appropriate global standards.
  - Conduct security and business continuity-related drills with IANA and other ICANN departments.
  - Ensure ICANN security staff has strong skills and appropriate tools and maintains currency with security threats and best practices.

#### 4.5 Contractual Compliance

In FY10, a continued, sustained increase in contractual compliance efforts resulted in timelier de-accreditation and nonrenewal of noncompliant registrars with transfer of their domain names to compliant ICANN accredited registrars. Over 20 registrars were terminated or not renewed, up from seven terminations in FY09 based upon following more well-defined rationale and guidelines. To further enhance global outreach in ICANN's contract enforcement efforts, staffing resources were assigned to the Asia-Pacific region.

In FY11, ICANN will continue to aggressively enforce the contractual provisions of registrar and registry agreements which leads to enhanced integrity of the Domain Name System and to higher levels of registrant/public trust in ICANN-accredited registrars and registries. The consumer complaint intake system and Whois data reporting problem systems will be evaluated and possibly enhanced based on feedback from users and other interested stakeholders. Additional investment in the audit function will allow ICANN to conduct its first inter-registrar transfer policy and registrar data escrow audits.

In FY11, budget resources for Contractual Compliance are estimated to be \$3.4 million, about 6.5% greater than FY10. This reflects enough resources believed to be required in order to deliver on the key activities in FY11.

Key activities for FY11 are:

- Assess, test, implement, and monitor new processes to improve overall accuracy of Whois; publish findings from the Whois Data Accuracy Study.
- Implement improvements in contractual compliance IT systems and business processes to improve data collection, analysis, and reporting while continuing to automate key functions.
- Manage, respond to, and measure the volume of incoming complaints about registrars and registries as well as Whois data inaccuracy complaints from consumers.
- Analyze WDPRS complaint data to assess trends, determine compliance actions, and publish findings to improve contract compliance enforcement.
- Analyze Whois inaccuracy audit investigation data and post UDRP transfer enforcement complaint statistics, compile compliance performance statistics, and draft semi-annual contractual compliance reports.

- Design, develop, and implement Inter-Registrar Transfer Policy (IRTP) and Registrar Data Escrow (RDE) audit plans in consultation with internal and external stakeholders.
- Perform audits (registrars for compliance with IRTP, RDE deposits for all registrars) and implement procedures for ensuring compliance with deposit schedules.
- Continue contractual compliance outreach efforts and further develop relationships with registries and registrars in Europe, Middle East, Africa, South America, and Asia Pacific regions. Establish auditor in Asia Pacific to enhance contract compliance enforcement of all registrar and registry agreements.
- Draft and execute operational readiness plan for the Contractual Compliance function to accommodate the delegation of new gTLDs and IDNs.

#### 4.6 Core Meeting Logistics

ICANN will work collaboratively with its multi-stakeholder community to strengthen regional and global engagement in the ICANN processes, as well as increase remote participation to a growing international audience. This FY11 Framework assumes little change to the current meetings approach this year and includes all staff and other costs required to support the thrice-annual ICANN and other meetings.

Resources required for Core Meeting activities in FY11 are assumed to be \$5.2 million, essentially flat from FY10.

Activities in FY11 continue to be:

- Ongoing increases in the professionalism of the three ICANN international public meetings through improved execution of AV technology and lighting, advanced stage design, sponsor and registration visibility, and remote connectivity.
- Identify and select three sites for future ICANN meetings (publish Expressions of Interest, issue RFPs, analyze proposals, conduct site visits, and similar activities).
- Effectively create and execute three ICANN international public meetings, including site selection, contracts, sponsorship, AV, graphics, and on-site support.
- Support Global and Strategic Partnerships department, including displays for sponsor areas, hotel contracts, room block management, and the like.
- Support an average of five additional meetings requested by Board, staff and communities (site selection, hotel contracts, AV, on-site support, and other related functions)

#### 4.7 Constituency Support

Changes to the makeup of the ICANN community stemming from the addition of IDNs and gTLDs will increase the number of gTLD registries and ICANN-accredited registrars around the globe, increasing industry competition and further ensuring that everyone has options for connecting to the Internet. Increased support for these constituencies continues to be a priority for ICANN, including support of gTLD registries and ICANN-accredited registrars in regions such as East Asia.

Staff is working to develop and ensure that procedures and operations to support constituencies are transparent, accountable, and accessible to effectively and efficiently serve their needs. This includes work in registrar data escrow such as the development, testing, and implementation of the data escrow audit function, creating systems to automate or to enhance automation of gTLD registry and registrar business processes, and active participation in the GNSO policy development process activities that directly impact gTLD registries and ICANN-accredited registrars.

In FY11, the proposed Constituency Support activities require budget resources of \$6.3 million up 3.8% from FY10.

Key deliverables for FY11 are:

- Coordinate global outreach to constituencies through regional events, industry functions, and leveraging opportunities through staff in regions. These are opportunities for training to further enhance participation in the ICANN processes, provide education on contractual requirements and increase opportunities for competition.
- Develop an on-boarding program for new gTLD registries.
- Continue work on operations that support gTLD registries and registrars, including creation of a registry customer relations management system and enhancements to the existing RADAR system.
- Continue to support possible revisions of the RAA and tracking of the governing contract for each registrar where appropriate; manage new requirements as necessary under alternative versions of the RAA.
- Draft and execute operational readiness plan for gTLD Registry and Registrar Liaison functions to accommodate the delegation of new gTLDs and IDNs.

#### 4.8 Policy Development Support

ICANN has continued to invest in processes to ensure that policies are developed in an open, transparent way, with relevant data and expertise brought to bear, and in a manner that is effectively and expeditious. There have been significant increases throughout the ICANN community in the volume of policy and policy management work over the past fiscal year, and this level of work is expected to continue and grow in FY11. In addition, the Board has asked that the community and staff implement structural improvement initiatives for ICANN's organizational structures. Included in this year's budget are initiatives to support the community's policy activities in the GNSO, ccNSO, ALAC, and SSAC, and for completing structural and process upgrades recommended for these entities.

Resources required for the proposed Policy Development Support activities are estimated at \$6.0 million. This amounts to a 12.8% increase over FY10 reflecting the costs required to implement policy development and implementation initiatives.

Some key deliverables in Policy Development Support for FY11 include:

- Implement the GNSO's new working group model and policy development process (PDP) to realize the GNSO improvement initiative objective of running inclusive, thoroughly-researched, well-scoped PDPs that yield effective, implementable results.
- Support development and execution of implementation plans that result from the Board's review and improvement initiatives for the ALAC, SSAC, and ccNSO, as part of ICANN's ongoing commitment to evolve and improve its structures.
- Support the design and implementation of new websites and other communications tools to improve community information sharing, collaboration, and participation in ICANN's policy-related activities.
- Provide education, training, and information services to support a knowledgeable, skilled international community of volunteers for ICANN's bottom-up gTLD and ccTLD policy development efforts.

- Provide tools (tool kit) to ensure that fair and consistent services are available to all GNSO constituencies, and develop and maintain a database of GNSO participants for transparency and accountability objectives.
- Support development and implementation of prioritization methods as well as benchmarking and self-assessment processes for ICANN's supporting organizations and advisory committees to evaluate the effectiveness of their work and identify opportunities for improvement.

#### 4.9 Global Engagement and Increasing International Participation

ICANN's global engagement work and efforts to increase international participation are integral to its day-to-day activities. Increased participation by ccTLDs in the ccNSO, increased ccTLD accountability frameworks, and increased government participation in the GAC are all examples of strengthening engagement in ICANN, and work that will continue by ICANN staff, and particularly the Global Partnerships team, in FY11. This is to ensure that all stakeholders have a voice at the table, that there is improved accountability and transparency, and to provide ongoing awareness of the importance of one unified, global Internet.

ICANN staff will work through regional entities to enhance awareness about DNS stability and security, the implementation of IDNS and TLDs, and IPv6 uptake. This includes supporting the At Large community, facilitating improved mechanisms for participation and engagement, and providing training and education to the Internet community in the growing ICANN regions. Additionally, ICANN's Global Partnership team will work in their regions to facilitate and support IANA function requests where needed.

Resources required for the proposed Global Engagement activities are estimated at \$7.2 million, up 8.6% from FY10.

Key deliverables for FY11 are:

- Conduct one-on-one briefings with governmental and regulatory representatives on local and regional levels.
- Support ccTLD interests in accountability frameworks with ICANN, and processes to achieve conclusion, as well as in participation in the ccNSO and regional ccTLD initiatives.
- Participate in events and provide presentations on ICANN at request of stakeholders, and expect increased interests in all regions.
- Participate in and monitor activities at international and regional Internet governance discussions, including information on the multi-stakeholder model, advising on strategy and approach to address issues or inform discussions affecting ICANN's mandate or mission.
- Enhance communications and reporting tools with refinement of metrics made available to the community and general public.
- Strengthen support for the GAC and continued participation by all governments in the GAC, in particular those from developing countries and territories.
- Continue to support the Fellowship program, including the alumni program.
- Continue to provide awareness to the global community on ICANN's Affirmation of Commitments and processes related to the implementation of reviews.

#### 4.10 Travel Support for ICANN Community

In FY11, ICANN will provide travel support to community members according to a published approach. The purpose of the travel funding remains to increase global awareness of ICANN and

its mission, to increase participation levels at regional and international forums, and to support those who may not otherwise be able to attend the ICANN meetings. Travel support for community members is focussed for selected members of the supporting members and advisory councils. Discussions with the community on the size and administration of this resource continue this fiscal year.

The estimated resource allocation for FY11 is \$1.8 million, up 4% from FY10.

Current activities for FY11 include coordinating the administration for airfare, lodging, and per diem for selected community members.

#### **4.11 Board Support**

The ICANN Board is an accountable and transparent structure designed to reflect the multi-stakeholder composition of the ICANN community and to react fairly and reasonably to the present and future needs of ICANN. ICANN's Board consists of 15 voting members and 6 liaisons who meet regularly by phone, and who travel to all three ICANN meetings as well as other intersessional meetings.

Resources required for Board Support activities in FY11 amount to \$2.5 million, up 5.3% from FY10. Most of the resources are required for travel for Board members.

In FY11, key functions for Board support include:

- Maintain the Board Portal, including electronic training and upgrades of the system.
- Provide administrative and travel support for all Board members at two retreats, three ICANN meetings, and as required for regularly scheduled Board meetings or appearances; provide administrative support of all Board committees.
- Effectively manage the Board calendar.
- Support the Board in its work to assess Board skills

#### **4.12 Nominating Committee (NomCom) Support**

The Nominating Committee plays a key function in contributing to the leadership competence needed to achieve all of ICANN's strategic objectives, as the committee appoints members to the ICANN Board and to three other key structures. Outreach activities, including travel, as well as outside consultant work for a fair and professional evaluation process, are both essential parts of the NomCom program.

FY11 budget for NomCom is estimated to be \$0.8 million, up 2.6% from FY10. This includes travel support for NomCom members, short listed candidates, and evaluation consultant as well as staff support for meeting preparation and follow-up, outreach documentation development, application handling, and other administrative duties.

#### **4.13 DNS Operations**

Ensuring stability and security of the DNS and other unique identifiers remains a core function and a key priority for ICANN. The work in FY11 will be to maintain the improvements to the L-root server that were implemented in FY10 and to continue to improve the L-root server monitoring and management systems. In addition, it is anticipated that FY11 will see pilot deployments of "L-Local" root server instances to further expand the L-root anycast cloud. For DNSSEC, ICANN will complete the production deployment of ICANN's DNSSEC signing infrastructure that will enable ICANN to sign the zones it is responsible for in a highly secure, reliable, and resilient manner.



The proposed FY11 budget for DNS operations is \$2.3 million, a significant percentage increase over FY10 (92.7%) This increase includes funding for the various facilities, services, and external auditing functions associated with ICANN's operation of the root key signing key, support for generic key signing activities, resources required for the proposed new gTLD program, as well as support needed to accommodate the operation of the DNSSEC efforts. In FY11, DNS Operations is proposed to undertake key activities such as:

- Operate DNSSEC root key signing key facilities designs to meet community requirements.
- Operate production-quality DNSSEC services for all zones over which ICANN has responsibility.
- Deploy pilot implementations of L-root local nodes.

#### 4.14 Organizational Improvement

ICANN will continue to maintain an appropriate organizational entity structure to serve its increasingly globalized technical coordination functions, and will ensure that decisions related to these functions are in the public interest, accountable, and transparent.

In ICANN's continued efforts to facilitate the shaping of a healthy Internet ecosystem, focus will be on providing timely support to the initiatives and reviews directed by working with:

- The Affirmation of Commitments, which contains specific provisions for periodic review of four key ICANN objectives:
  - Ensuring accountability, transparency and the interests of global Internet users;
  - Preserving security, stability and resiliency of the DNS;
  - Promoting competition, consumer trust and consumer choice;
  - Whois policy.
- The Article IV, Section 4 of the Bylaws, which contains provision for periodic reviews of the performances and operations of ICANN's Supporting Organizations, Advisory Committees, and the Nominating Committee.

Resources required for the proposed Organizational Improvement activities in this Framework are estimated to be \$2.2 million, up 21.1% from FY10. The increase is largely a response to the volume of reviews to be executed in a timely and efficient manner, per the requirements within the Affirmation of Commitments.

Key deliverables in FY11 are:

- Affirmation of Commitments review 'Accountability and Transparency' (100% planned costs)
- Affirmation of Commitments review 'Security Stability and Resiliency' (80% planned costs)
- Affirmation of Commitments review (Whois policy) (80% planned costs)
- External review of ccNSO (last payment)
- External review of ASO (60% planned costs)

#### 4.15 Ombudsman

The Ombudsman shall serve as an objective advocate for fairness and shall seek to evaluate and where possible resolve complaints about unfair or inappropriate treatment by ICANN staff, the Board, or ICANN constituent bodies, clarifying the issues and using conflict resolution tools such as negotiation, facilitation, and *shuttle diplomacy* to achieve these results.

**Ombudsman**

Pursuant to the ICANN Bylaws at Article V, Section 1, Paragraph 4:

The annual budget for the Office of Ombudsman shall be established by the Board as part of the annual ICANN budget process. The Ombudsman shall submit a proposed budget to the President, and the President shall include that budget submission in its entirety and without change in the general ICANN budget recommended by the ICANN President to the Board. Nothing in this Article shall prevent the President from offering separate views on the substance, size, or other features of the Ombudsman's proposed budget to the Board.

## 5. The Framework for the FY11 Budget

ICANN's proposed Framework for the FY11 Budget includes estimated revenues of \$65.2 million for revenue (vs. \$63.6. in FY10) a 2.9% increase over the FY10 budget, \$59.4 million in operating expenses (vs. \$54.4million in FY10), a 9.2% increase over the FY10 budget, and a 6.1% increase of FY10's forecast. After other expenses and a contingency are considered, this results in just over \$2 million contribution to Reserves.

The following table shows the framework for the FY11 proposed budget as compared to FY10's budget and FY10's forecast.

(in US dollars)	FY11 FRAMEWORK	FY10 FORECAST	FY10 BUDGET	FY11 Framework Change from FY10	
Revenue	\$65,521,000	\$62,918,005	\$63,641,600	\$1,879,400	2.95%
Operating Expenses	\$59,374,000	\$55,944,580	\$54,366,797	\$5,007,203	9.21%
Non Cash Expenses	\$2,600,000	\$2,600,000	\$2,900,000	(\$300,000)	-10.34%
Contingency	\$1,500,000		\$1,500,000	\$0	0.00%
Total Expenses	\$63,474,000	\$58,544,580	\$58,766,797	\$4,707,203	8.01%
Change in Net assets	\$2,047,000	\$4,373,425	\$4,874,803	(\$2,827,803)	-58.01%

Financial resources to fund ICANN's operating activities primarily come from generic Registries and Registrars which are accredited by, and contract with, ICANN. In addition regional internet registries and country code top level domain (ccTLD) registries contribute annually to ICANN. Current estimates of the revenue expected for FY11 is \$65.2 million, an increase of about 3% over FY10. In prior years ICANN experienced much larger growth in revenue primarily due to fixed step ups per contractual agreements. There are not contractual step ups in fees in FY11, and domain name transaction based revenue is expected to increase only slightly. As has been done in prior years, registrars and registries will be queried as to whether ICANN's estimate for transaction volumes is consistent with the assumptions used by industry experts.

### 5.1 Revenue

#### Registrar fees

Application fees, accreditation fees, and variable fees are budgeted at the same amount for FY11 as for FY10. Add Grace Period Delete (AGPD) fees, introduced in FY09, were budgeted at zero in FY09 and FY10 and are proposed to be budgeted at zero for FY11. Registrar transaction fees is set at \$0.18 per transaction year in FY11 for those who have signed the 2009 RAA (a discount of the contracted fee of \$0.25).

#### Registry Fees

Registry revenue is based upon individual contracts with each accredited Registry. The Framework uses a registry revenue estimate of \$32.4 million based upon contract terms which

include structures that include fixed fees, transaction based fees, or both. Discussions about appropriate transaction volumes to use for the FY11 budget will be held with the registry community.

### **Regional Internet Registries (RIR) Contributions**

For FY11's revenue budget, RIR contributions are expected to amount to \$823K which is the same as that used in the FY10 budget and in prior years.

### **ccTLD Contributions**

As a budget placeholder, ccTLD contributions are forecast to be \$1.6 million for FY11, the same as in the FY10 budget. Many ccTLDs have expressed support of the ICANN model and have expressed understanding of the value that the ICANN model provides. There have also been requests that ccTLDs provide more fees and/or more reliability in the structure of fees to ICANN. The mechanism for funding is determined by the ccTLDs themselves with discussions being led through the ccNSO. This year, ICANN staff will ask the ccNSO to help determine an appropriate forecast of contributions for the final FY11 budget, and consistent with consideration of overall ccTLD contribution mechanisms.

Many ccTLDs have agreements with ICANN including contracts, exchange of letters, and accountability frameworks. They can be seen on the world map at <http://www.icann.org/en/maps/cctld-agreements.htm>.

In addition, many ccTLDs without formal agreements with ICANN contribute to ICANN's revenues to demonstrate support for the ICANN process. Historical ccTLD contributions can be viewed by the world map as shown at <http://www.icann.org/en/maps/cctld-contributions-0708.htm>.

### **Other Sources of Revenue**

Other revenue for FY11 is estimated to be \$1.5M, unchanged from the FY10 budget. Other revenue is comprised of investment income and sponsorship income. Sponsorship revenue is estimated at \$500K, the same as the FY10 budget. Sponsorships are available for companies wishing to contribute to the ICANN meeting experience. Sponsoring companies receive special services during an ICANN meeting, depending on the level of sponsorship. Investment income is proposed to be budgeted at \$1.0M in FY11, unchanged from FY10's budget. ICANN's Board restricted investment Reserve Fund, which is compliant with the adopted and recently updated ICANN Investment Policy is about \$45.5 million.

Fees for new gTLDs are not included in this FY11 budget framework but are planned to be included as part of a separate new gTLD budget amendment. The separate new gTLD budget amendment will include estimates of revenue after the launch of the new gTLDs related to application and ongoing annual fees which are expected to be significant.

## **5.2 Operating Expenses**

As described previously, operating expenses over the last years have been budgeted, and spent, in accordance with what was required to deliver on each year's adopted Operating Plans. This has resulted in:

- Headcount increases from 65 in FY07 to 125 today, a 92% increase due to the increase need for policy development, IT experts, global coverage, and executive and administrative support for all functions of ICANN.

- Travel and meeting costs up from \$6.2 million in FY07 to \$10.2 million in FY10, a 64.5% increase due to more staff travel and a more professional, and costly, meeting approach.
- Professional services increases from \$5.9 million in FY07 to \$14.8 million in the FY10 forecast, a 250.8% increase. While a substantial amount of these professional services relate to the New gTLD Program, translation and interpretation costs alone have increased from about \$50 thousand to over \$1.5 million during this time period.
- Other costs have increased as well. Admin costs increased from \$3.2 million in FY07 to \$6.5 million in FY10's forecast for items such as IT and communications support and improving technology infrastructure.

The Framework for ICANN's FY11 Budget is based on a recognition that costs must be managed closely to deliver on the Operating Plan and still remain within the expected revenue constraints and tenets of fiscal responsibility.

The following chart highlights the operating expenses estimated to be required for the FY11 Operating Plan. This includes a 6.1% increase over the FY10 forecast of operating expenses. Personnel costs will not grow substantially over the exiting FY10 run rate. Travel and meetings costs assume strong cost control activities such as less business class travel and more efficient coverage of ICANN International and other meetings. Professional service cost estimates are based upon ensuring that only the most essential services are procured, and at the most cost efficient pricing. The development of the Procurement Guidelines and the Cost Accounting Guidelines as well as other management tools will help in this effort.

(in US dollars)	FY11 FRAMEWORK	FY10 FORECAST	FY10 BUDGET	FY11 Framework Change from FY10	
<b>Personnel</b>	\$26,127,000	\$24,413,493	\$23,286,968	\$2,840,032	12.20%
<b>Travel &amp; Meetings</b>	\$11,466,000	\$10,233,908	\$12,065,305	(\$599,305)	-4.97%
<b>Professional Services</b>	\$14,668,000	\$14,820,577	\$12,455,864	\$2,212,136	17.76%
<b>Administration</b>	\$7,113,000	\$6,476,602	\$6,558,660	\$554,340	8.45%
<b>Operating Expenses</b>	<b>\$59,374,000</b>	<b>\$55,944,580</b>	<b>\$54,366,797</b>	<b>\$5,007,203</b>	<b>9.21%</b>

### 5.3 Other Expenses

Other expenses include depreciation of capital expenses and bad debt expense. Depreciation is based upon ICANN's depreciation policies and capital expenditures in recent years and proposed in FY11. More details of these expenses will be provided in the draft FY11 Operating Plan and Budget to be posted by the 17th of May 2010. Bad debt expense is set up as a reserve based upon an estimate of uncollectable receivables.

### 5.4 Contingency

Individual FY11 budget items are estimated based upon the most reliable information available. In order to allow for the possibility of costs exceeding original estimates, an overall contingency

of \$1.5 million is included in the budget framework for FY11 following the level set in FY10. The Board Finance Committee will review the contingency levels again to ensure that financial risks are managed appropriately. In general, the contingency covers items such as unplanned litigation/dispute resolution, unanticipated expenses, and required new initiatives identified midyear, actual costs exceeding estimates used in the budget.

## 6 .Contribution to the Reserve Fund

Recent updates to the Strategic Plan have indicated that the Reserve Fund is to be set at a level equivalent to one year of operating expenses. This level was primarily based upon studies of comparable organizations with ICANN's risk profile. Further, the Reserve Fund was to be fully funded within a few years. To achieve this goal, adopted budgets would have to add approximately \$10 million per year to change in net assets (i.e., contribution to the Reserve Fund) until fully funded. Over the last two years, the annual budget has planned about half that amount primarily because the expectation was that costs for the new gTLD program development were required to be spent in the periods before a launch, and that funds from new gTLD applications would be set aside to replenish the Reserve Fund.

Plans are being considered to fine tune the determination of what should be the most appropriate level for the Reserve Fund. Questions being considered include: What types of *black swan* emergencies should be anticipated? What core operations would need to be funded if other resources are not available? For how long? Should Security or New gTLD programs pull from the Reserve Fund and then replenish when other sources become available? Community feedback is encouraged to address such questions.

This FY11 budget framework proposal is designed to balance competing priorities including the necessary funding for key FY11 initiatives, and balancing revenue levels from contracted and volunteer contribution sources.

When the New TLD program is launched, some portion of the recovered historical costs included in application fees will be used to increase the Reserve Fund.

## 7. Separate New gTLD Budget Amendment

The implementation of policy recommendations and development of the processes for the introduction of new gTLDs is moving forward with a collaborative effort among ICANN staff, outside consultants, and the community. In October 2008, the first draft of the New gTLD Applicant Guidebook was posted for community feedback. In October 2009, the third draft of the Applicant Guidebook was posted for community feedback. However, a launch date for the New gTLD program is not yet set, since there are unresolved questions.

While work continues on a number of initiatives during FY11, a separate budget will be established several months before the launch of New gTLD Program. The purpose of the separate budget will be to obtain approval for the revenues generated by, and the costs associated with, the launch of the New gTLD Program. Neither are included here. A separate new gTLD budget needs to be prepared and approved on a schedule different from the usual ICANN budget cycle for the following reasons:

- As was the case with the FY10 Operating Plan and Budget, uncertainty remains regarding the timing of the New gTLD Program.
- The new gTLD application process is being implemented, pursuant to policy, as a revenue-cost neutral program. Thus, the fees collected and the costs expended for new gTLD applications are to be accounted for separately from ICANN's general funds. There is not a need to obtain approval for these funds far in advance of the program, as the program will not increase ICANN's net operating budget.
- While good progress has been made in many aspects of the new gTLD implementation plan, some elements that affect cost have yet to be finalized. The final budget will depend on a final, approved implementation plan.

The separate new gTLD budget amendment will be prepared for Board approval approximately 90 days before launch of the first round of the New gTLD Program. It will contain:

- The revenue expected to be collected and the refunds expected to be paid out. The resources required to process the applications from submittal to delegation.
- The methodology that will be used to replenish the Reserve Fund with the portion of each evaluation fee associated with development costs.
- The mechanisms that will be used to process, track and report on the variable processing costs (ICANN's cost accounting methodology).
- The process by which the use of any surplus funds, if any, will be determined including soliciting community involvement in all decisions on how much, when, and for what purpose the disbursements will be made.
- If there is a shortfall, and the costs for the program exceed the revenue, the likelihood is that these costs will be passed on to applicants in subsequent rounds.

Development costs, which were projected at \$12.5 million in FY10, are expected to increase primarily due to the delay of launching the gTLD program. Additional development costs include, but are not limited to the continued work and resolution of the overarching issues highlighted in previous years, analysis of significant public commentary and the expected release of version 4 of the Applicant Guidebook, the hiring of additional staff to manage the gTLD operational program, and additional costs to finalize operational readiness processes which remain in flux until a final AGB is agreed on and published. Development costs are being minimized where



possible and the FY11 plan includes a number of mitigating steps such as the freezing of hiring additional gTLD operations staff and the reduction of outside consultants to help finalize various aspects of the program.

One minor note is that the \$100 TAS User Registration Fee reported in previous budgets and other documents has been removed. The primary purpose of this fee was to minimize frivolous registrations on the system. Other measures will be implemented to achieve this same end, while protecting confidential information submitted by applicants.

## Reference Documents

The community is encouraged to provide feedback on the types, format, and level of detail provided in the reference materials in the Framework for the FY11 Operating Plan and Budget. Providing relevant information, without spending unnecessary resources for too much or irrelevant detailed information, is important, and community feedback can help staff strike the right balance.


In recent years, more and more views of ICANN's spending and other financial information have been provided in budget documents, on Dashboard reporting, and in other reports. These reports have been developed and shared largely in response to specific requests from the community as well as in adherence with ICANN's principles of transparency and accountability. In the draft FY11 Operating Plan and Budget to be posted by the 17<sup>th</sup> of May, 2010, a number of additional views are expected to be presented as part of the entire draft budget. The alternative views of ICANN's financial information may include:

1. **Traditional Accounts view.** Shows ICANN's spending in typical accounting views such as personnel, travel/meetings, professional services, and administration.
2. **Functional Reporting view.** Shows spending by ICANN's major organizational activities such as New gTLD program, contractual compliance, SSR, IANA and core technology operations, policy development, global engagement, core meeting logistics, etc.. See example below.
3. **Expense Area Group (EAG) view.** Shows ICANN's spending by community groups in accordance with the organizational structure of ICANN such as by support for Generic TLD activities and GNSO support, Country Code support and support for ccNSO activities, Government relations and support for GAC activities, etc. See example below.
4. **Security, Stability and Resilience (SSR) view.** Shows spending across all of ICANN's functions attributable to SSR activities.
5. **Strategic priority view.** (Consider eliminating)
6. **Principle view.** (consider eliminating)
7. **Revenue source view.** Shows how ICANN's operating expenses would be allocated if based upon sources of revenue.
8. **2010 to 2013 Strategic Plan view.** Shows spending across the four categories of ICANN's focus of efforts as described in the Strategic Plan. This includes: Preserve DNS Stability and Security, Promote Competition, Trust/Choice/Innovation, Excel in IANA and other Core Operations, and Contribute to Shaping a Healthy Internet Eco-system. (See executive summary of this FY11 Framework).
9. **Multi-Year Revenue and Expense view.** This analysis shows the longer term impact of ICANN's activities on its financial position. In addition to "run rate" analyses, the impact of large programs such as the new gTLD program and the impact on various strategic decisions (e.g., pricing for fees, application pool sizes, etc.) can be analyzed. The Board Finance Committee will be reviewing these analyses in more detail over the next few months, and more work will be provided as part of the draft FY11 Operating Plan and Budget.
10. **Capital Budget.** The budget for the FY11 capital budget is set forth including explanations on the justifications for specific line items.

11. **Cash flow view.** ICANN follows accrual based accounting guidelines. A view of ICANN's financials from a cash flow perspective can be helpful especially as some expenses have no cash flow impact (e.g., bad debt and depreciation), and other cash flow uses have no expense impact (e.g., Capital items).
12. **Euro view.** ICANN is part of a global community, and although its books and records are recorded in US dollars, presenting financial information in other currencies (e.g., Euro) can be helpful.
13. **Greater than \$500k line item budgets.** ICANN's disbursement policy requires the Board of Directors to approve of expenditure items over \$500k. These items typically include ICANN international Meetings, longer term office leases, and large contracts with specific vendors.
14. **Contingency analyses.** Shows how contingency line items have been set up, accessed, and developed for the FY11 Budget.
15. **Forecasts.** Shows how the FY10 revenues and expenses are expected to end up being as compared to the FY10 approved budget.
16. **Balance sheet.** The balance sheet shows ICANN's assets, liabilities, and net assets.
17. **Other specific line items.** In the past, more details have been provided on specific items of interest to the community such as translation costs and office space rental costs.

The charts on the following pages included in this FY11 Framework are for reference and will be updated as part of the proposed Operating Plan and Budget document as appropriate.

- Comparison of ICANN's financials by year
- Comparison of ICANN's financials by year -- in Euro
- FY11 Budget Framework – Functional View Pie Chart
- FY11 Budget Framework – Expense Area Group (EAG) Pie Chart



**FY11 BUDGET FRAMEWORK SUMMARY**

(in US dollars)

	FY11 FRAMEWORK	FY10 FORECAST	FY10 BUDGET	FY09 ACTUAL	FY08 ACTUAL
<b>Registry</b>	\$32,439,000	\$31,408,675	\$32,450,600	\$24,535,521	\$19,636,365
<b>Registrar</b>	\$29,159,000	\$28,496,647	\$27,268,000	\$32,680,334	\$27,856,875
<b>RIR</b>	\$823,000	\$823,000	\$823,000	\$823,000	\$823,001
<b>ccTLD</b>	\$1,600,000	\$1,240,964	\$1,600,000	\$1,567,697	\$1,583,406
<b>Other</b>	\$1,500,000	\$948,719	\$1,500,000	\$863,498	\$833,502
<b>Revenue</b>	<b>\$65,521,000</b>	<b>\$62,918,005</b>	<b>\$63,641,600</b>	<b>\$60,470,050</b>	<b>\$50,733,150</b>
<b>Personnel</b>	\$26,127,000	\$24,413,493	\$23,286,968	\$19,768,047	\$16,746,028
<b>Travel &amp; Meetings</b>	\$11,466,000	\$10,233,908	\$12,065,305	\$10,499,628	\$9,448,853
<b>Professional Services</b>	\$14,668,000	\$14,820,577	\$12,455,864	\$12,697,774	\$8,853,969
<b>Administration</b>	\$7,113,000	\$6,476,602	\$6,558,660	\$6,533,591	\$4,697,709
<b>Operating Expenses</b>	<b>\$59,374,000</b>	<b>\$55,944,580</b>	<b>\$54,366,797</b>	<b>\$49,499,040</b>	<b>\$39,746,559</b>
<b>Bad Debt Expense</b>	\$1,400,000	\$1,400,000	\$1,400,000	\$836,917	(\$461,567)
<b>Depreciation</b>	\$1,200,000	\$1,200,000	\$1,500,000	\$947,843	\$259,034
<b>Investment loss/(gain)</b>	\$0	\$0	\$0	\$2,334,292	
<b>Non Cash Expenses</b>	<b>\$2,600,000</b>	<b>\$2,600,000</b>	<b>\$2,900,000</b>	<b>\$4,119,052</b>	<b>(\$202,533)</b>
<b>Contingency</b>	\$1,500,000		\$1,500,000		
<b>Total Expenses</b>	<b>\$63,474,000</b>	<b>\$58,544,580</b>	<b>\$58,766,797</b>	<b>\$53,618,092</b>	<b>\$39,544,026</b>
<b>Change in Net assets</b>	<b>\$2,047,000</b>	<b>\$4,373,425</b>	<b>\$4,874,803</b>	<b>\$6,851,958</b>	<b>\$11,189,124</b>

(Euro @ 1.379 USD)	FY11 FRAMEWORK	FY10 FORECAST	FY10 BUDGET	FY09 ACTUAL	FY08 ACTUAL
<b>Registrar</b>	€ 23,523,570	€ 22,776,410	€ 23,531,980	€ 17,792,260	€ 14,239,570
<b>Registry</b>	€ 21,145,030	€ 20,664,720	€ 19,773,750	€ 23,698,570	€ 20,200,780
<b>RIR</b>	€ 596,810	€ 596,810	€ 596,810	€ 596,810	€ 596,810
<b>ccTLD</b>	€ 1,160,260	€ 899,900	€ 1,160,260	€ 1,136,840	€ 1,148,230
<b>Other</b>	€ 1,087,740	€ 687,980	€ 1,087,740	€ 626,180	€ 604,430
<b>Revenue</b>	<b>€ 47,513,410</b>	<b>€ 45,625,820</b>	<b>€ 46,150,540</b>	<b>€ 43,850,660</b>	<b>€ 36,789,820</b>
<b>Personnel</b>	€ 18,946,340	€ 17,703,770	€ 16,886,850	€ 14,335,060	€ 12,143,600
<b>Travel &amp; Meetings</b>	€ 8,314,720	€ 7,421,250	€ 8,749,310	€ 7,613,940	€ 6,851,960
<b>Professional Services</b>	€ 10,636,690	€ 10,747,340	€ 9,032,530	€ 9,207,960	€ 6,420,570
<b>Administration</b>	€ 5,158,090	€ 4,696,590	€ 4,756,100	€ 4,737,920	€ 3,406,610
<b>Operating Expenses</b>	<b>€ 43,055,840</b>	<b>€ 40,568,950</b>	<b>€ 39,424,790</b>	<b>€ 35,894,880</b>	<b>€ 28,822,740</b>
<b>Bad Debt Expense</b>	€ 1,015,230	€ 1,015,230	€ 1,015,230	€ 606,900	-€ 334,710
<b>Depreciation</b>	€ 870,200	€ 870,200	€ 1,087,740	€ 687,340	€ 187,840
<b>Investment loss/(gain)</b>	€ 0	€ 0	€ 0	€ 1,692,740	€ 0
<b>Non Cash Expenses</b>	<b>€ 1,885,430</b>	<b>€ 1,885,430</b>	<b>€ 2,102,970</b>	<b>€ 2,986,980</b>	<b>-€ 146,870</b>
<b>Contingency</b>	€ 1,087,740	€ 0	€ 1,087,740	€ 0	€ 0
<b>Total Expenses</b>	<b>€ 46,029,010</b>	<b>€ 42,454,380</b>	<b>€ 42,615,500</b>	<b>€ 38,881,860</b>	<b>€ 28,675,870</b>
<b>Change in Net assets</b>	<b>€ 1,484,400</b>	<b>€ 3,171,440</b>	<b>€ 3,535,040</b>	<b>€ 4,968,800</b>	<b>€ 8,113,950</b>

