

Funding Forecast Assumptions for Fiscal Years 2022-2026

December 2020



Introduction

This document has been prepared as part of the development of the Internet Corporation for Assigned Names and Numbers (ICANN) Five-Year Operating and Financial Plan for the fiscal years (FYs) 2022-2026, which runs from 1 July 2021 through 30 June 2026. The primary objective of this document is to outline the various funding-related assumptions and projections included in its Five-Year Operating and Financial Plan. This document also supports ICANN's efforts to achieve the financial goals outlined in the ICANN Strategic Plan for Fiscal Years 2021-2025, specifically Goal 5.2: "to develop reliable and predictable funding projections."¹

This document contains forward-looking information that represents ICANN org's attempt to conservatively estimate its future levels of funding. It reflects ICANN org's intent to concurrently maximize its expected funding levels and the chances that future funding is higher than its projections would suggest. The forward-looking information contained in this paper is based upon what ICANN org believes are reasonable assumptions derived from the most current information available at the time of publication. However, use of such forward-looking information involves risks and uncertainties. As a result, actual funding levels could differ materially from those projected in this document in any given year.

It is important to note that the funding assumptions and forecasts presented in this document have been prepared during unprecedented and uncertain times due to the COVID-19 pandemic. The World Bank suggests that the current pandemic is likely to have triggered the deepest global recession since World War II, and the first pandemic-related global recession since 1870.² The true depth and duration of the ongoing economic recession and potential spillover effects on the DNS industry are yet to be fully understood. In light of these circumstances and as good practice, a number of forecast scenarios, each with varying assumptions and thresholds that depict plausible viewpoints of how ICANN's funding might evolve over the five-year horizon, have been included in this document.

This document describes ICANN's 'base-case' funding assumptions, along with 'low' and 'high' funding assumptions and further outlines the prospective impacts that these assumptions have on ICANN's funding.³ Consistent with its approach towards

¹ Targeted outcomes as part of this strategic goal include the development of reliable and predictable five-year funding projections based on a sound understanding of the evolution in the domain name marketplace and realistic assumptions, as well as the use of data about the directions and trends in the market to effectively guide the organization. ICANN org's Strategic Plan for Fiscal Years 2021-2025 is available via: <https://www.icann.org/en/system/files/files/strategic-plan-2021-2025-24jun19-en.pdf>

² World Bank. 2020. Global Economic Prospects, June 2020. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-1553-9. License: Creative Commons Attribution CC BY 3.0 IGO. Further details are available via: <https://www.worldbank.org/en/publication/global-economic-prospects>

³ Id. The World Bank has taken a similar approach in forecasting the impacts of the COVID-19 global recession on global economic growth. In its June 2020 publication on 'Global Economic Prospects' the World Bank acknowledges that "near-term global growth projections are subject to an unusual degree of uncertainty". The

developing funding forecasts, ICANN org’s funding forecast assumptions and outputs are regularly evaluated and calibrated as additional data becomes available.⁴

ICANN org uses a wide range of information to develop multiple scenarios that incorporate various assumptions of growth or decline for each of its funding categories. These assumptions are developed for the specific purpose of creating reasonably conservative funding assumptions. They are not intended to convey ICANN org’s views or positions on any specific aspect of the Domain Name System (DNS) ecosystem. Other parties may use the same information but for different purposes, which can lead them to draw different conclusions.

This document is divided into three sections:

Section 1, Industry Context: This section provides an overview of key factors that have had significant effect on the DNS industry during the past five years, along with corresponding assumptions related to the potential evolution of the DNS marketplace. Both elements inform the development of ICANN’s funding forecasts through FY2026.

Section 2, Funding Forecast Assumptions: Information in this section summarizes the ‘low’, ‘base-case’, and ‘high’ scenario assumptions used by ICANN org to develop the funding projections for FY2022-2026, and for each of the org’s funding categories. ICANN org’s primary sources of funding are generated from domain name registration activities through various fixed, transaction, and variable fees paid by registries and registrars, along with application fees and other sources of funding such as Address registry and Country code top-level domain (ccTLD) contributions.

Section 3, Funding Forecast Summary: This section features detailed forecast data at the ‘low’, ‘base-case’, and ‘high’ scenarios across each of ICANN’s funding categories.

publication further notes that “since uncertainty around the outlook remains exceptionally high, alternative scenarios help illustrate the range of plausible global growth outcomes in the near term.”

⁴ A detailed description of ICANN’s funding forecasting approach is available as part of the appendix.

1. Industry Context

This section includes data and key factors that have had significant bearing on the evolution of the DNS industry over the past five years. It is important to note that the complexity of the industry means that some of the factors presented may produce mixed effects. The analysis below derives from a report produced by an independent market analyst to assist ICANN with developing its funding projections for FY2022-2026.⁵

A. Industry maturation and the unfolding impacts of the COVID-19 pandemic

Entering the new decade, the overall domain name market remains on an uptrend at a global scale, while seeing somewhat lower levels of expansion than experienced prior.

Figure 1 illustrates the trendline for domain name registrations before and after the introduction of new generic top-level domains (gTLDs)⁶ into the marketplace. This sector of the market expanded quickly after its initial rollout, and subsequently underwent some volatility in 2017 before once again becoming more stable in 2018.

During 2019, all three sectors of the domain name industry, consisting of legacy gTLDs⁷, country code top-level domains (ccTLDs)⁸, and new gTLDs, continued to experience positive growth. However, in many market segments the double-digit growth rates seen in earlier years is gone. Overall market expansion is down to single digits, with some ccTLDs and gTLDs flatlining or even shrinking, which may signal a shift from a period of rapid expansion to one of steady industry maturation.⁹

⁵ ICANN evaluates a wide range of factors when developing its funding projections, including recent and expected marketplace developments likely to have an impact on supply-side and demand-side conditions. To this end, ICANN engaged with the DNS industry analyst, ZookNIC Inc., to develop a summary of historical and forecast marketplace trends for the purposes of supporting the development of its funding projections for the period between FY2022-2026. The key trends summarized herein, including those on the potential impacts of the COVID-19 pandemic on the DNS industry, represent those identified by the consultant through interviews conducted with various industry representatives, privately gathered input, a review of historical domain name transaction data, and various publicly available industry information (e.g. investor statements, regulatory filings, news profiles, etc.).

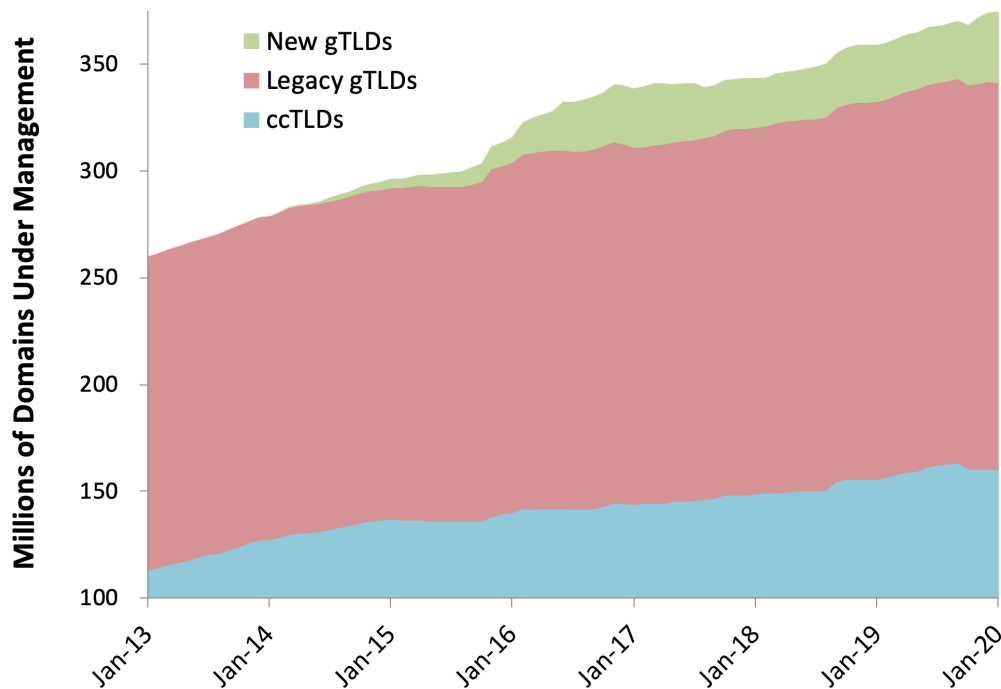
⁶ This segment corresponds to those gTLDs launched since October 2013.

⁷ This document includes .aero, .asia, .biz, .cat, .com, .coop, .info, .jobs, .mobi, .museum, .name, .net, .org, .post, .pro, .tel, .travel, and .xxx in its definition of Legacy gTLDs.

⁸ ccTLDs largely match ISO two-letter designations for countries and other territories. ccTLDs are derived largely from ISO 3166-1 alpha-2 country codes.

⁹ It is important to recognize that the overall growth in the number of domains across all three sectors of the industry is influenced by the broad categorizations used, the global scale of observation, as well as the likelihood of other unknown variables influencing marketplace growth. Significant differences are also likely to exist in market behavior at the TLD, registrar, and regional/country level.

Figure 1: Number of Domains by Category, 2013-2020



Source: ZookNIC Domain Counts for legacy gTLDs, ccTLDs and new gTLDs

Since the onset of the COVID-19 pandemic in early 2020, the volume of total domains under management has been stable, and in some cases has increased slightly. These trends, however, are uneven. Many legacy gTLDs, ccTLDs, and new gTLD registry operators, as well as larger registrars, reported steady or higher than expected growth, while others noted slowdowns and decreased demand.

While the pandemic has disrupted and introduced recession conditions to the global economy, the scale of the impact of the COVID-19 pandemic on the domain name marketplace remains uncertain and potentially wide-ranging (see Box A below for more details). Past experiences, such as the dot com bust in 2000, demonstrate that demand for domain names is shaped by the fortunes of the technology economy and macro-economic conditions.¹⁰ Such conditions can have important implications for the growth expectations of different segments of the domain name industry in light of the COVID-19 pandemic if, for instance, registrants become focused on subsistence rather than expansion.

The extent to which the COVID-19 pandemic alters global supply chains, drives economic contraction, or shifts previous face-to-face activities to online interactions are all key questions in shaping continued demand for domain names. At present, however, uncertainty remains high and caution towards future growth is common throughout the industry.

¹⁰ Zook, M.A. (2005). *The Geography of the Internet Industry: Venture Capital, Dot-coms and Local Knowledge*. Blackwell Publishers

Box A: Potential wide-ranging effects of the COVID-19 pandemic on the DNS industry

The true depth and duration of the ongoing recession and its potential spillover effects on the DNS industry are yet to be fully understood.

At the third quarter of 2020 and at an overall level, the total number of domains under management (DUMs) continues to track fairly normally and in some cases, with slightly elevated growth rates. The ecosystem of market actors also appears stable since the onset of the pandemic, with no tectonic shifts in size and composition. This suggests a neutral to slightly positive effect from the COVID-19 pandemic on the DNS industry. While encouraging, this view is admittedly myopic and must be tempered by a number of caveats, including but not limited to:

First, uncertainty abounds about the longer-term effects of the pandemic both in terms of the wider economy and on the demand for domains. A common question is whether this current period of resiliency in domain name registrations represents simply a delayed reaction with bigger impacts likely to unfold in the months to come. Many industry actors are closely tracking trends within their customer base for indicators of demand covering new domain registrations and renewals of currently registered domains. Thus far, a number of industry actors have expressed cautious optimism in a stable DNS market barring any further widespread economic disruptions.

Second, how will the global-scale observation of apparent resiliency in domain name registrations manifest itself at the sub-level? Will decisions to register and renew domains vary greatly across gTLD types, or across regions of the world? For example, will the underlying intent and goals of registrants be focused on subsistence and keeping operations steady; or on growth and expansion with an interest in experimenting? The prevalence of either of these goals, among many other considerations, have the potential to impact the growth trajectory of gTLDs.

Third, notwithstanding any sustained near-term growth in domains under management, industry actors have anecdotally pointed to lower levels of demand for the various value-added services also offered by domain name registrars. Thus, healthy growth in domain name registrations might belie stagnancy or decline in providers' ancillary services such as cloud storage, web hosting, or website builder businesses, all of which would typically offer higher profit margins than domain name registration services. One possible effect of this would result in some registrars (and resellers) becoming less financially stable, which could then trigger further service provider consolidation.

In consideration of the above points and given the high level of uncertainty over the future, ICANN has chosen to adopt the good practice of evaluating a number of forecast scenarios, each with assumptions depicting diverging yet plausible impacts of the COVID-19 pandemic on ICANN's future funding levels. Section 2 of this report will further detail these forecast scenarios and assumptions.

B. Ongoing advantages of domains in building digital presence

A key driver behind the growth in demand for domain names is the importance of establishing and maintaining an online presence, which remains a key part of contemporary life and the digital economy. Despite competition from alternative technologies, the strategic advantages of domains have continued to resonate. Among the foundations that underlie this strategic advantage are codified rules and standards, greater control relative to other third-party-owned digital presence platforms, and the wide footprint of existing domains through which online identity has been established.

A unique competitive advantage of the domain name industry is its codified set of rules and global standards to govern individual addresses, which has thus far proven difficult to replicate. In addition, the DNS is a clear leader in user-controlled, decentralized identification. While alternative platforms such as social media may offer utility initially, the license rules and lack of extensive codified standards of these systems impose significant constraints on adopters. Lastly, the popularity of such alternative platforms can rise and fall depending on the fate of its sponsor. In contrast, the DNS and domain names are a key technical part of Internet navigation and have served as such for many years. While exclusive use of platforms such as social media may work for individuals or small enterprises, most business cannot afford to be without the valuable digital real estate associated with having a domain name.

It is nonetheless important to acknowledge that alternative technologies along with shifting demographics and user behavior have the potential to represent a drag on the future demand for domain names. To date, the extent of this challenge is uncertain as it depends on evolving user behavior and generational norms.

While there is not a well-established trend at present, the COVID-19 pandemic is likely to affect domain name industry players in one of two ways. First, as financial pressures increase, demand for domains (beyond those absolutely core to online identity) may soften as firms and individuals seek to minimize cost. Second, precisely because the COVID-19 pandemic is changing the ways businesses and society operate (e.g., more online activity and the digital transformation of many practices) there may be increased demand for domain names.

C. Market actor dynamism and industry consolidation

Efforts by market actors to expand their sales channels and range of domain offerings have been a key market enabler during the past five years. Such activity has resulted in both the global expansion of sales channels and wider diversity of models, languages, and customer segments addressed through these channels. For instance, turnkey package retailing, which is designed to make domain names immediately useful by bundling DNS setup, hosting, email, design templates, and online advertising strategies into the purchase of domains, is reported to have steadily grown to become a dynamic growth segment in the market.

Beyond rolling out new offerings and expanding channels, market actors have also been experimenting with finding new functions for domain names.¹¹ The extent to which any of these experiments will continue, and if so, be successful in contributing to a future increase in domain name registration volumes is unclear. What is clear, however, is that these activities reflect continued innovation within the domain name industry.

For market actors, ensuring scale in business operations has also been a key priority, particularly in light of the pressures arising from maturing domain name registration growth rates and the various legal and contractual requirements for maintaining their entities in good standing. Owing to the expansion of the DNS namespace, TLD registry operators are now in greater competition with each other for access to registrar sales channels. This shift is apparent in the marketing of TLDs where, for instance, the placement of promotional banners within a registrar website is increasingly considered as a premium. In such an environment, registrars may increasingly prefer the economies of scale offered through partnerships with registry operators overseeing a portfolio of TLDs, leading to the potential exclusion and consolidation of other registry operators operating at a relatively smaller scale.

An increasing pace of merger and acquisition activity in the marketplace can be viewed as being at least partly linked to this pressing requirement for operational scale. As more established DNS industry actors seek to acquire other entities, industry consolidation has established cross-ownership across large parts of the supply chain and resulted in bringing together previously disparate platforms for domain registration and promotional activity.

The COVID-19 pandemic may only serve to further accelerate such industry consolidation. There are some early indications that the demand for incremental value-added services offered by registrars and resellers may be softening as registrants seek to minimize costs. While still unfolding, a potential effect of this development could be to make some market operators targets for further merger and acquisition activity. The industry-wide impacts, if any, resulting from the recent amendments of Registry Agreements among some legacy TLDs are yet uncertain.

D. Expanding reach via domain name resellers

Resellers are deemed by some market actors to be an important channel for expanding their market reach, particularly in smaller developing world markets. The lower start-up and operating costs associated with becoming a reseller versus an ICANN-accredited gTLD registrar are viewed as being better suited for the smaller developing world markets.

¹¹ Some areas of experimentation include allowing for ‘TLD hacks’ such as a web browser command to be triggered via a domain name, offering bulk registrations of number series domain names to facilitate Internet of Things device communication, use of domains for purposes such as tracking inventory and products such as piece of artwork. Other proposals envision domain rentals for short periods, i.e. less than one year, or the idea of registering a domain with no expiry periods. Some private actors have explored bundling domains with a blockchain and blockchain wallets to create secure IDs. While this is not intended to be a comprehensive list, it demonstrates the wide range of innovation and experimentation continuing to take place within the DNS industry.

At the same time, resellers provide broader access to often highly fragmented local markets than registrars might otherwise have by expanding via a direct presence. And some resellers may choose eventually to become registrars themselves.

The importance of resellers within the industry has been further demonstrated during the COVID-19 pandemic with many registrars working hard to engage with and maintain resellers as active partners.

E. Regional disparity in domain penetration rates

Significant differences remain in the levels of domain name registrations across regions. Some, such as North America and Europe, have relatively high domain name penetration rates per capita. These regions have long represented the core markets for domain names, and as these markets have matured, there are fewer ‘easy’ opportunities for growth. Lower average growth rates in these mature markets are balanced by the experience of a number of other countries where demand for domain names is much less developed historically, particularly those with emerging economies and increasing per capita incomes.

While specific experiences vary by country, relatively higher growth rates have been observed over the past five years within regions having lower per capita domain registration rates, as outlined in Figure 2.

Figure 2: Domain Registrations per 1,000 People by ICANN Region

Region	2014	2019	Average Annual Growth Rate 2014-19
North America	251.6	285.1	3.2%
Europe	134.4	153.4	3.0%
Latin America and the Caribbean	18.3	20.9	3.5%
Asia/Australia/Pacific	17.9	20.8	3.9%
Africa	3.0	3.9	8.0%

Source: ZookNIC Domain Counts for Legacy gTLDs, ccTLDs and New gTLDs

Countervailing hypotheses can be proposed regarding the COVID-19 pandemic’s potential effects on future domain penetration rates by region. Among these is the potential for the current trend of higher growth rates in historically underpenetrated and emerging regions to continue over the upcoming five-year period, as individuals and businesses that currently do not have a digital presence seek to establish one. This is counterbalanced by the perspective that the pandemic has the potential to disrupt the economies of emerging countries disproportionately, thus leading to a slowdown in domain uptake growth rates. The promotion and fulfillment of demand within key

markets remains an important challenge to re-attaining the high growth rates previously seen by the DNS industry.

F. Incomplete Universal Acceptance for IDNs and new gTLDs

Universal Acceptance (UA) is the concept that all domain names and email addresses – in any language, script, or character length (e.g., .pф, .PHOTOGRAPHY) – are accepted equally by all Internet-enabled applications, devices and systems. Achieving Universal Acceptance remains a key challenge for the DNS industry. Difficulties remain in meeting this goal particularly for Internationalized Domain Name (IDN) TLDs, longer TLDs (some applications assume TLDs longer than three characters to be errors), as well new gTLDs that have just started operating.

Unfortunately, many of the problems associated with Universal Acceptance are widely distributed through the various components and functions upon which the Internet is built, like standards, operating systems, programming languages, and applications/websites. It is further impacted by how a wide array of actors (independent developers, Internet Service Providers, public and private organizations, educational institutions, etc.) configure their systems, thereby making it difficult to accept, validate, process, store, and display IDN domains in the same manner as non-IDN domains.

From an end user’s perspective, even one bad experience with a rejected email or a failed web form suggests that such domains are less viable. At present, even proponents of IDN gTLDs have reported having to compromise by using non-IDN email addresses in order to bypass issues such as ‘inboxing’, or the ability to have one’s email reliably received.

Universal Acceptance represents a key opportunity to expand the adoption of domains in new markets. An independent study commissioned by ICANN identified a “virtuous circle” of benefits offered by greater Universal Acceptance¹². In spite of the COVID-19 pandemic, incremental progress is expected to continue towards resolving many of the challenges hindering Universal Acceptance¹³. Such efforts may gradually reveal the opportunity that exists within new markets with historically low rates of domain name

¹² The report by independent analyst Analysys Mason highlights a range of social, cultural and economic benefits that could be derived from implementing universal acceptance. The study notes the opportunity to spur new domain registrations, which would then increase the benefits of universal acceptance itself while concurrently drawing in more speakers of languages not using Latin scripts onto the Internet. Further details are available via: <https://uasg.tech/wp-content/uploads/2017/04/Unleashing-the-Power-of-All-Domains-White-Paper.pdf>.

¹³ The Universal Acceptance Steering Group’s FY2020 universal acceptance readiness report outline the results of its time-series study to evaluate the ability of the top 1,000 websites globally to accept email addresses based on a variety of top-level domains (TLDs), including new, long, and IDN TLDs. The study also evaluated non-ASCII mailbox names represented in Unicode. The study notes continued increase in acceptance rates across all categories of email addresses since its first study in 2017. Further details are available via: <https://uasg.tech/wp-content/uploads/2020/09/UASG-FY20-Readiness-Report-20200917.pdf>.

adoption, as their constituents are the primary users of IDN domains. This may trigger further industry growth in the years ahead.

G. Addressing DNS security threats

An ongoing challenge to the industry involves concerns of how to effectively address the most unsavory parts of the DNS market that take advantage of existing vulnerabilities in systems and processes. With the risk that it only takes one or two bad actors to tarnish the reputation of the entire DNS industry, strengthening security and addressing related bad actors remains a key task for industry players. Any increase in security threat vectors by which attacks can occur (such as the use of IDN characters to imitate ASCII characters) can result in a loss of credibility for domain names and the entire industry, resulting in real and lasting damage. The stakes are high as domains and TLDs constitute the most visible portion of the DNS.

Such incidents can confound efforts to expand the DNS. For example, if domains from a gTLD are flagged as sources of abuse, for instance, then systems managers may simply block the TLD in its entirety and be more suspicious about configuring their networks to work with any others.

The need to further strengthen DNS security is a challenge to be addressed by the entire industry, regardless of role. This forecast assumes, at a minimum, that confidence and trust in the industry and its overall impact on demand for domains will remain relatively constant. To date, this risk has not fundamentally altered the underlying demand for domains, but the topic of DNS abuse remains a key issue for the industry going forward.

H. Disparity in global regulatory regimes

Governments constitute an important stakeholder within the domain name industry. They bring valuable depth to conversations about prohibited content, intellectual property, defamation, levels of free/restricted speech, as well as varying perspectives on the necessary stringency of enforcement regimes, among many other topics. However, the wide and differing approaches globally also impose a challenge on how to achieve industrywide balance.

For instance, European Union regulation 2017/2394, or the “Consumer protection cooperation regulation,”¹⁴ references “domain registries and registrars” directly in specifying the powers of national enforcement authorities to request information about rogue traders or when there are breaches of consumer law. Consumer protection legislation that has been enacted by governments in other parts of the world, may not explicitly denote such expectations of domain name registries and registrars.

¹⁴ Further details are available via: <https://eur-lex.europa.eu/eli/reg/2017/2394/oj>.

While the direct effects of global differences in regulatory regimes on the demand for domain names is uncertain, the variance in governments' stances regarding DNS policy and operations has the potential to fracture the DNS ecosystem. To date, these differences have not fundamentally altered the underlying demand for domains, but they remain a concern going forward.

2. Funding Forecast Assumptions

Any forecasting exercise must rely on assumptions generated from factors that may affect the future development of a marketplace. Because such assumptions are by definition hypothetical and the number of potential scenarios virtually infinite, a well-accepted way to consider marketplace uncertainty in forecasting is to select a number of projection variants depicting a range of plausible but divergent results. Creating several forecast scenarios, each with varying assumptions and thresholds representing viewpoints of the future, allows ICANN org to evaluate the relative impacts of such assumptions on ICANN’s funding.

Considering the extended timeline encompassed by the Five-Year Operating and Financial Plan for FY2022-2026, ICANN is developing three discrete forecast scenarios to accommodate for a range of alternate eventualities.

ICANN’s highest-confidence estimate or ‘base-case’ funding scenario has been historically utilized as basis for the organization’s annual budget. As a principle, ICANN takes a conservative approach towards developing its funding forecasts, which is considered when developing its ‘base-case’ funding projections.

In addition, ICANN also develops ‘low’ and ‘high’ funding scenario estimates to consider alternate values for assumptions that have a financial impact on the organization’s funding, thereby providing lower and upper bound values in its projections. While the organization does not rely on these to plan its operations, such ‘low’ and ‘high’ funding scenarios are helpful to develop contingency plans considering the possibility that such scenarios become reality.

In this section, we provide a qualitative (see Figure 3) and quantitative (see Figure 4) assessment of the potential impacts of the various industry trends presented in Section 1 on ICANN’s funding categories between FY2022-2026. This assessment includes the delineation of ‘low’, ‘base-case’, and ‘high’ funding forecast scenarios.

Figure 3: Market Trends and Qualitative Assessment of Expected Impacts on ICANN Funding Scenarios

Industry Trend	Qualitative Forecast Statements (as per Section 1)		Potential Impact on ICANN Funding Scenarios
Maturing DNS market	A. Industry maturation and the unfolding impacts of	The overall domain name market remains on an uptrend at a global scale while seeing somewhat lower levels of domain volume expansion than experienced prior,	High impact: The extent to which the COVID-19 pandemic alters demand across both legacy gTLDs and new gTLDs, contributes to slower growth in or even contractions of economies, or shifts previous face-to-face activities to online interactions remain key

	the COVID-19 pandemic	<p>which may signal a shift from a period of rapid expansion to one of steady industry maturation.</p> <p>While the pandemic has disrupted and introduced recession conditions to the global economy, at the third quarter of 2020 and at an overall level, total number of domains under management has continued to track pre-existing growth trends and, in some cases, has increased slightly.</p> <p>Nonetheless, the scale of future impacts of the COVID-19 pandemic on the domain name market over the forecast horizon remains uncertain.</p>	<p>unknowns that could impact these forecast assumptions. At present uncertainty remains high.</p> <p>At the 'base-case' and 'high' funding scenarios, this forecast assumes that domain name transaction volumes will continue to grow over the five-year horizon, albeit at varying levels. The forecast further assumes that domain transactions will not witness any long-lasting dislocations arising from the current economic recession.</p> <p>To account for the risk of a prolonged global economic recession further accelerating DNS industry maturation, the 'low' scenario factors progressive decline in transaction volumes over the entire five-year forecast period. The 'low' funding scenario also features fewer total accredited registrars and registry operators, while the 'base-case' and 'high' funding scenarios depict a slight increase in the base of ICANN registrars and relatively lower rates of attrition among gTLD registry operators.</p>
Growth in digital platforms and participation	B. Ongoing advantages of domains in building digital presence	<p>A domain's role in building digital presence will provide a steady source of demand, particularly for registrants interested in asserting control over their online brand. Other systems for digital identity and content hosting, such as social media, do present competition but can also act as complementary platforms.</p>	<p>High impact: Domains will remain a key enabler for Internet presence and online identity over the forecast period. Domain name transaction volumes will accordingly continue to see positive growth momentum over the forecast period, albeit at varying levels.</p> <p>In the 'base-case' and 'high' funding scenarios, this forecast assumes that the COVID-19 pandemic will change the ways businesses and society operate for the long-term (e.g., triggering more online activity, digital transformation of many practices) thus leading to an increased demand for domain names, albeit at</p>

		Wholesale migration to any alternative platforms for digital presence will depend on many factors, including the extent to which user behavior and generational norms evolve.	<p>varying levels. The 'low' scenario factors progressive decline in transaction volumes owing in part to a potential increase in the rates of migration to alternative platforms that negate the need for domain names.</p> <p>In addition, the roughly 2% subset of ICANN's annual funding currently derived from the voluntary contributions of various ccTLDs and Regional Internet Registries (RIR) is expected to remain constant relative to these organizations' prior contributions.</p>
Evolving DNS service provider ecosystem	C. Market actor dynamism and industry consolidation	<p>Market actors will remain dynamic.</p> <p>Beyond rolling out new offerings and expanding sales channels, some have also been experimenting with finding new functions for domain names. Ensuring scale in business operations has also been a key priority.</p> <p>Market consolidation within the industry will continue and create market efficiencies that support the domain industry.</p>	<p>Moderate impact: Domain name market actors will continue to expand their sales channels and range of domain offerings both organically (via geographic expansion, new products/services, new reseller partnerships, etc.), and via merger and acquisition activity.</p> <p>Over the upcoming five-year period, the 'low' funding scenario forecasts fewer total accredited registrars and registry operators, as the COVID-19 pandemic will serve to further accelerate industry consolidation.</p> <p>The 'base-case' and 'high' funding scenarios depict flat-to-moderate growth in the base of ICANN registrars, along with relatively lower rates of attrition among registry operators.</p>
	D. Expanding reach via domain name resellers	Resellers are an important channel for expanding market reach by providing broader access to often highly fragmented local markets. A subset of resellers may choose eventually to become registrars themselves.	

Uneven global dispersion of domain names	E. Regional disparity in domain adoption rates	There remain significant differences in domain name penetration levels across regions of the globe. While specific experiences vary by country, relatively higher growth rates have been observed over the past five years in regions with lower per capita domain registration rates.	Moderate impact: This forecast assumes that regions with relatively lower per capita domain registration rates will experience higher growth rates through the upcoming forecast period, as individuals and businesses that currently do not have a digital presence seek to establish one. This forecast also assumes that in spite of the COVID-19 pandemic, stepwise progress will continue towards resolving many of the challenges hindering Universal Acceptance (UA).
	F. Incomplete Universal Acceptance for IDNs and new gTLDs	Universal Acceptance (UA) represents a key opportunity to expand the adoption of domains in new markets. Efforts to resolve existing challenges will gradually reveal the opportunity that exists in new markets that have historically low rates of domain name adoption who are also the primary users of IDN domains. This will trigger further growth in the years ahead.	At the 'base-case' and 'high' funding scenarios, this forecast assumes that domain name transaction volumes will see positive growth, albeit at varying levels. Domain transactions will not witness any marked long-lasting dislocations within a specific region arising from the current economic recession. To account for the probability of muted progress in Universal Acceptance of domains, and a flattening or decline of domain name uptake rates from within underserved markets owing to a disproportionately negative impact of the pandemic on developing countries, the 'low' scenario factors progressive decline in domain transaction volumes.
Targeting growing digital security risk	G. Addressing DNS security threats	Given its potential for causing a drag on demand for domains, a cohesive approach to address DNS security is a real challenge for the entire industry, regardless of role.	Low Impact: To date, regulatory measures to target digital security risk have not fundamentally altered the underlying demand for domains, but the topic of DNS abuse and the risk of industry fragmentation arising from disparate regulatory regimes remain key challenges to the industry going forward.

	H. Regional differences in global regulatory regimes	Disparities in global governmental regulations impacting the DNS industry are viewed as a risk leading to potential industry fracture. However, the direct effects of any such differences on the demand for domain names is yet to be established.	This forecast assumes that confidence and trust in the industry and its overall impact on demand for domains will remain largely constant and have a largely neutral impact on demand for domain names over the forecast period.
--	--	---	--

Source: ICANN forecast and analysis, December 2020

In general terms, each of the three funding scenarios further detailed in Figure 4 below can be described as follows:

- **Base-case scenario:** Representing the funding outcome deemed most likely to occur, this scenario takes a conservative appraisal of the growth of ICANN’s accredited registrar base and domain name transaction volumes, along with retention of the current fee values. The scenario assumes that domain transactions do not witness any long-lasting dislocations arising from the current global economic recession¹⁵. On the whole, this scenario leverages historical growth values and is aligned closely with global Gross Domestic Product (GDP) growth trends, thereby implying an overall steady state of growth in a maturing industry.
- **Low funding scenario:** Since uncertainty around the future outlook of the industry remains high in light of the COVID-19 pandemic, the ‘low’ scenario illustrates a plausible depressed forecast outcome should the depth, duration, and spillover effects of the ongoing economic recession impact the DNS industry more severely than currently assumed per the base-case scenario. Beyond the retention of the current fee values, this scenario factors in a decrease in all drivers to ICANN’s funding – from the total number of contracted parties to the volume of domain name transactions. The decrease for each driver, individually, is plausible though considered unlikely. The

¹⁵ This perspective is well-aligned with the International Monetary Fund’s (IMF) June 2020 macroeconomic forecast considering the impacts of the COVID-19 pandemic on global GDP growth. In its baseline forecast, the IMF projects a deep economic downturn in CY2020. Global activity is expected to recover starting in the third quarter of CY2020 and gradually strengthen thereafter. In CY2021, global GDP levels are projected once again to exceed the levels previously attained in CY2019. Further details are available via: <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>.

decrease in all of the combined drivers within this scenario reflects a contraction of the entire DNS marketplace.

- High funding scenario:** This scenario combines increases across all the drivers to ICANN’s funding, except for a marginal decline in the number of registries and the retention of the current fee values. The growth rates in this scenario therefore depict an optimistic view of resurgent growth in the overall DNS marketplace, total size of the accredited registrar base, and domain name transactions. This scenario also reflects expectations of a positive effect from the COVID-19 pandemic on domain name transaction volume due to increased online activity and the digital transformation of many practices, continued expansion of the accredited registrar base and range of domain offerings, increased uptake of domains from forthcoming launches, campaigns, and from within underpenetrated economies, and continued progress towards the resolution of Universal Acceptance and DNS security-related issues.

Figure 4: Market Trends and Quantitative Assessment of Expected Impacts on ICANN Funding Scenarios

Category	Funding Type	‘Low’ Scenario	‘Base-case’ Scenario	‘High’ Scenario
Legacy gTLDs	Transaction-based Fees	-1.0% 5-year compound annual growth rate (CAGR), reflecting marketplace contraction assumptions and further amplified by the COVID-19 pandemic. Projected decrease in transaction fees equivalent to 4 percentage points ¹⁶ below	2.8% 5-year CAGR, which is equal to the average transaction-based fee growth rates for legacy gTLDs since the launch of the New gTLD Program ¹⁶ . As historical growth in this category has tended to mirror global GDP growth momentum, the overall trendline remains in-	7.0% 5-year CAGR, reflecting resurgent growth in the marketplace and a net-positive effect from the COVID-19 pandemic on domain name transactions. Projected increase in transaction volume equivalent to 4 percentage points ¹⁶ above the forecast

¹⁶ In formulating quantitative forecast scenarios, ICANN is mindful not to create contradictory expectations and unduly influence the viewpoints of shareholders of publicly traded entities operating within the DNS industry. Accordingly, whenever available and relevant, the assumptions presented are derived from historical trends or otherwise based on conservative estimations. For instance, the growth rate described in the ‘base-case’ scenario represents the average Legacy gTLD transaction fee growth rate since the launch of the New gTLD program. For its lower and upper bound scenarios, ICANN has conservatively selected a threshold of 4 percentage points below and 4 percentage points above projected global GDP rates for FY2022-26, respectively.

		forecast global Gross Domestic Product (GDP) growth rate trend for FY2022-26 ¹⁷ .	line with the forecast GDP growth rate trend for FY2022-26 ¹⁷ .	global GDP growth rate trend for FY2022-26 ¹⁷ .
New gTLDs	Fixed Fees	990 TLDs delegated by end of FY2026, a decline of 166 (or -14%) from the start of FY2022 ¹⁸ .	1,092 TLDs delegated by end of FY2026, a decline of 64 (or -5%) from the start of FY2022 ¹⁸ .	1,132 TLDs delegated by end of FY2026, a decline of 24 (or -2%) from the start of FY2022 ¹⁸ .
	Transaction-based Fees	-3.0% 5-year CAGR, reflecting declining transaction volumes and accounting for occurrences such as relatively lower renewal rates from a subset of new gTLDs that heavily discount domain names for greenfield purchases, and rapid maturation of the marketplace which is	4.4% 5-year CAGR reflecting assumed annual growth rates in low-to-mid single digits. Overall trendline in-line with forecast for global GDP growth rate trend for FY2022-26 ¹⁹ .	9.0% 5-year CAGR reflecting resurgent annual growth in high single digits, based on the assumed improvement in market awareness, increased online activity and the digital transformation of many practices spurred in part by the COVID-19 pandemic, continued expansion of registrar sales channels and range of domain offerings, increased uptake of domains from forthcoming launches,

¹⁷ For an assessment of forecast global GDP growth rates over the 5-year forecast period, ICANN consulted The Economist Intelligence Unit's (EIU) world summary forecast (September 2020 update) which covers the forecast horizon between CY 2020-2025. Data tables are provided as an appendix to this document. A detailed description of the assumptions utilized by the EIU is available at: <https://gfs.eiu.com/Article.aspx?articleType=gef&articleId=1140156097>. ICANN assumes that global GDP growth rates during the second half of its FY2026, which covers the period from 1st January to 30th June 2026, do not diverge significantly from trends and values denoted by the EIU for CY 2025.

¹⁸ These scenarios do not assume any further TLD delegations arising from the potential resumption of the New gTLD program. While there is ongoing work and an intent to launch a subsequent round, the timing of its release remains unclear and potential impact(s) on funding indeterminate. Given this, ICANN has deemed it prudent not to assume any prospective impacts from a subsequent round across the described scenarios.

		further amplified by the COVID-19 pandemic ¹⁹ .		campaigns, and from within underpenetrated economies, and continued progress towards the resolution of Universal Acceptance and DNS security-related issues ¹⁹ .
Registrar Accreditation	Application Fees	Reflects 0 new registrar accreditation applications annually from FY2022-FY2026.	Reflects 28 new registrar accreditation applications annually from FY2022-FY2026.	Reflects 60 new registrar accreditation applications annually from FY2022-FY2026.
	Accreditation Fees	Registrar base sees further consolidation, declining by 458 accreditations which equates to a decrease of -20% over the forecast period. Overall base ranges from 2,328 at the start of FY2022 to 1,870 at the end of FY2026.	Registrar base increases by 1% over the forecast period. Overall base ranges from 2,328 at the start of FY2022 to 2,356 at the end of FY2026.	Registrar base increases by 13% over the forecast period. Overall base ranges from 2,328 at the start of FY2022 to 2,628 at the end of FY2026.
	Per-registrar Variable Fees	\$3.4 million annually, consistent with prior years.	\$3.4 million annually, consistent with prior years.	\$3.4 million annually, consistent with prior years.

Source: ICANN forecast and analysis, December 2020

¹⁹ Given their relatively lower domain transaction volumes and more fragmented market composition, New gTLDs have thus far demonstrated higher levels of transaction volume volatility in comparison to Legacy gTLDs. Accordingly, to account for this likelihood of fluctuations, the 5-year CAGR being projected for New gTLD transaction volume across 'low' and 'high' scenarios demonstrate a broader range of variance in comparison to Legacy gTLD transaction volumes.

3. Funding Forecast Summary

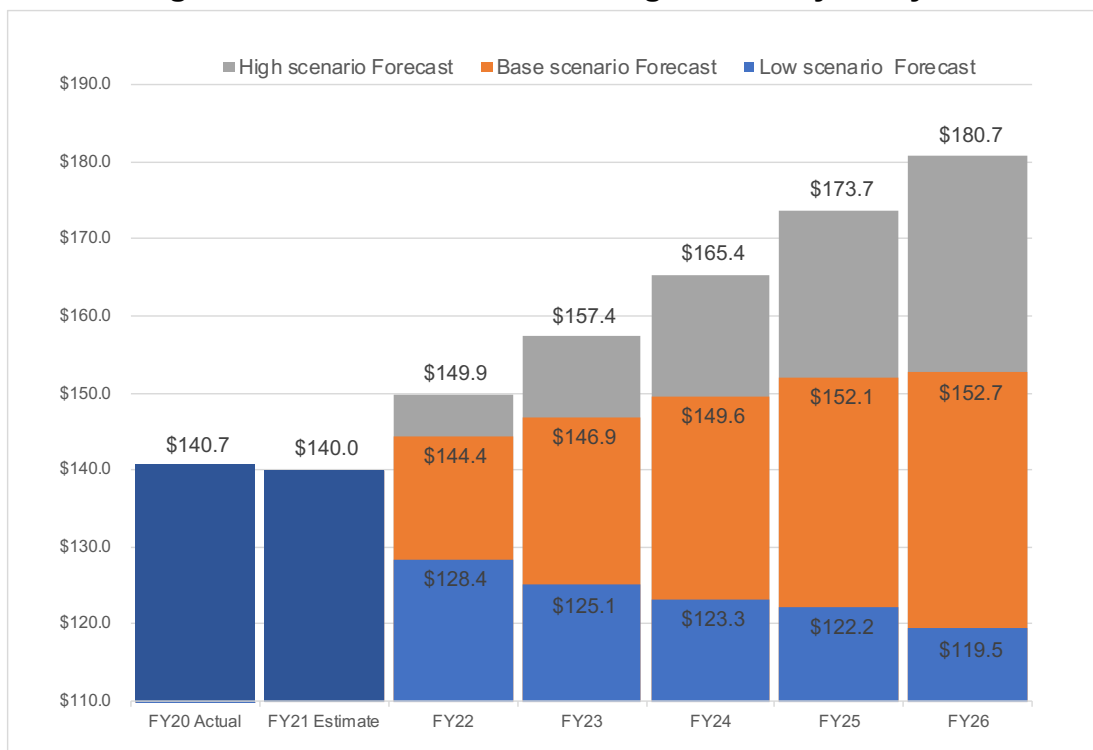
This section provides a summary of forecast outcomes at the ‘low’, ‘base-case’, and ‘high’ scenarios across each of ICANN’s funding categories.

As outlined in Figure 5 below and further detailed in Figures 6, 7, and 8, from actual funding of \$140.7 million in FY2020 and an updated ‘base-case’ estimate of \$140.0 million in FY2021²⁰, ICANN’s total funding in FY2022 is projected to range between \$128.4 million (at the ‘low’ funding scenario) and \$149.9 million (at the ‘high’ funding scenario), with a ‘base-case’ funding forecast of \$144.4 million.

By the end of FY2026, total funding is projected to range from \$119.5 million (at the ‘low’ funding scenario) and \$180.7 million (at the ‘high’ funding scenario), with a ‘base-case’ funding projection of \$152.7 million.

Considering all three scenarios over the FY2022-2026 forecast period, 5-year CAGR for ICANN’s funding is projected to range from -1.8% (at the ‘low’ funding scenario) and 4.8% (at the ‘high’ funding scenario), with a ‘base-case’ 5-year CAGR of 1.4%.

Figure 5: ICANN Forecast Funding Sensitivity Analysis



Source: ICANN forecast and analysis, December 2020

²⁰ The FY2021 total funding value of \$140.0 million presented herein represents ICANN’s updated ‘base-case’ funding estimate utilizing FY2021 Q1 actual values, which varies slightly from the adopted FY2021 budget of \$129.3 million. A detailed comparison between the updated FY2021 ‘base-case’ estimate and the adopted FY2021 budget is outlined in Appendix B.

Figure 6: ICANN FY2022-FY2026 Forecast Funding at the ‘Base-case’ Scenario

<i>(Values in USD millions unless otherwise denoted)</i>	FY2021²⁰	FY2022	FY2023	FY2024	FY2025	FY2026
Transactions						
Registry Transaction Fees - Legacy	\$51.4	\$52.8	\$54.3	\$55.8	\$57.3	\$58.7
Registry Transaction Fees – New gTLD	\$4.9	\$5.1	\$5.3	\$5.6	\$5.8	\$6.1
Registrar Transaction Fees - Legacy	\$32.2	\$33.4	\$34.4	\$35.4	\$36.3	\$37.2
Registrar Transaction Fees – New gTLD	\$4.0	\$4.2	\$4.4	\$4.6	\$4.8	\$5.0
Subtotal	\$92.6	\$95.5	\$98.5	\$101.4	\$104.2	\$107.0
Volume: Legacy Transactions (in millions)	179.1	185.4	191.1	196.5	201.6	206.7
Volume: New gTLD Transactions (in millions)	22.4	23.5	24.5	25.6	26.7	27.9
New gTLD Average Billable Rate (%)	87%	87%	87%	87%	87%	87%
Registry Fixed Fees	\$29.1	\$28.5	\$28.1	\$27.8	\$27.6	\$27.3
Registrars Accreditation						
Application Fees	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Accreditation Fees – Annual	\$9.5	\$9.4	\$9.4	\$9.4	\$9.4	\$9.4
Per Registrar Variable Fees	\$3.4	\$3.4	\$3.4	\$3.4	\$3.4	\$3.4
Subtotal	\$13.2	\$12.9	\$12.9	\$13.0	\$13.0	\$13.0
Count of Total Registrars at end of Year	2,328	2,356	2,357	2,358	2,359	2,360
Other Funding						

<i>(Values in USD millions unless otherwise denoted)</i>	FY2021²⁰	FY2022	FY2023	FY2024	FY2025	FY2026
Meeting Sponsorships, Contributions, and Other	\$5.2	\$7.4	\$7.4	\$7.4	\$7.4	\$5.4
<u>ICANN Total Funding</u>	\$140.0	\$144.4	\$146.9	\$149.6	\$153.1	\$152.7

Source: ICANN forecast and analysis, December 2020; Totals may not add up due to decimal rounding.

Figure 7: ICANN FY2022-FY2026 Forecast Funding at the ‘Low Scenario

<i>(Values in USD millions unless otherwise denoted)</i>	FY2021²⁰	FY2022	FY2023	FY2024	FY2025	FY2026
Transactions						
Registry Transaction Fees - Legacy	\$51.4	\$46.2	\$45.2	\$44.7	\$44.4	\$44.3
Registry Transaction Fees – New gTLD	\$4.9	\$3.9	\$3.7	\$3.5	\$3.4	\$3.3
Registrar Transaction Fees - Legacy	\$32.2	\$29.1	\$28.4	\$28.1	\$28.0	\$27.9
Registrar Transaction Fees – New gTLD	\$4.0	\$3.2	\$3.1	\$3.0	\$2.9	\$2.9
Subtotal	\$92.6	\$82.4	\$80.3	\$79.2	\$78.7	\$78.4
Volume: Legacy Transactions (in millions)	179.1	161.7	158.0	156.2	155.5	155.0
Volume: New gTLD Transactions (in millions)	22.4	17.9	17.0	16.4	16.1	15.8
New gTLD Average Billable Rate (%)	87%	86%	86%	85%	85%	84%
Registry Fixed Fees	\$29.1	\$27.3	\$26.4	\$25.7	\$25.2	\$24.8
Registrars Accreditation						

<i>(Values in USD millions unless otherwise denoted)</i>	FY2021²⁰	FY2022	FY2023	FY2024	FY2025	FY2026
Application Fees	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Accreditation Fees – Annual	\$9.5	\$7.8	\$7.5	\$7.5	\$7.5	\$7.5
Per Registrar Variable Fees	\$3.4	\$3.4	\$3.4	\$3.4	\$3.4	\$3.4
Subtotal	\$13.2	\$11.2	\$10.9	\$10.9	\$10.9	\$10.9
Count of Total Registrars at end of Year	2,328	1,884	1,880	1,877	1,873	1,870
Other Funding						
Meeting Sponsorships, Contributions, and Other	\$5.2	\$7.4	\$7.4	\$7.4	\$7.4	\$5.4
ICANN Total Funding	\$140.0	\$128.4	\$125.1	\$123.3	\$122.2	\$119.5

Source: ICANN forecast and analysis, December 2020; Totals may not add up due to decimal rounding.

Figure 8: ICANN FY2022-FY2026 Forecast Funding at the ‘High’ Scenario

<i>(Values in USD millions unless otherwise denoted)</i>	FY2021²⁰	FY2022	FY2023	FY2024	FY2025	FY2026
Transactions						
Registry Transaction Fees - Legacy	\$51.4	\$54.7	\$58.4	\$62.4	\$66.7	\$71.4
Registry Transaction Fees – New gTLD	\$4.9	\$6.3	\$7.1	\$7.8	\$8.5	\$9.2
Registrar Transaction Fees - Legacy	\$32.2	\$34.3	\$36.7	\$39.2	\$42.0	\$45.0
Registrar Transaction Fees – New gTLD	\$4.0	\$5.2	\$5.8	\$6.3	\$6.8	\$7.3
Subtotal	\$92.6	\$100.5	\$108.0	\$115.8	\$124.0	\$132.8

<i>(Values in USD millions unless otherwise denoted)</i>	FY2021²⁰	FY2022	FY2023	FY2024	FY2025	FY2026
Volume: Legacy Transactions (in millions)	179.1	190.6	203.8	218.0	233.3	249.7
Volume: New gTLD Transactions (in millions)	22.4	28.8	32.2	35.2	37.8	40.6
New gTLD Average Billable Rate (%)	87%	88%	88%	89%	90%	90%
Registry Fixed Fees	\$29.1	\$28.8	\$28.6	\$28.5	\$28.4	\$28.3
Registrars Accreditation						
Application Fees	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Accreditation Fees – Annual	\$9.5	\$9.6	\$9.8	\$10.0	\$10.3	\$10.5
Per Registrar Variable Fees	\$3.4	\$3.4	\$3.4	\$3.4	\$3.4	\$3.4
Subtotal	\$13.2	\$13.2	\$13.4	\$13.7	\$13.9	\$14.1
Count of Total Registrars at end of Year	2,328	2,388	2,448	2,508	2,568	2,628
Other Funding						
Meeting Sponsorships, Contributions, and Other	\$5.2	\$7.4	\$7.4	\$7.4	\$7.4	\$5.4
<u>ICANN Total Funding</u>	\$140.0	\$149.9	\$157.4	\$165.4	\$173.7	\$180.7

Source: ICANN forecast and analysis, December 2020; Totals may not add up due to decimal rounding.

Appendix A: Economist Intelligence Unit, Global Economic Outlook, 2016-2025

GDP Average Growth Rates (Percent Change)				
	Actual	Estimate	Forecast	
	2016-2019	2020	2021	2022-2025
Real GDP growth (market exchange rates)				
World	2.7	-5.2	4.5	3.0
OECD	2.1	-6.5	4.1	2.2
Non-OECD	4.0	-2.9	5.3	4.3
North America	2.3	-5.4	4.0	2.2
Europe	2.1	-7.5	5.1	2.3
Euro area	1.9	-8.6	5.4	2.2
Asia & Australasia	4.4	-2.4	5.1	4.1
Latin America	(0.1)	-8.2	3.4	2.5
Middle East & North Africa	1.9	-5.9	1.7	3.0
Sub-Saharan Africa	1.9	-4.7	1.6	3.8

Source: The Economist Intelligence Unit, World Summary, September 2020 update. Retrieved from <https://gfs.eiu.com/Article.aspx?articleType=gef&articleId=860156069&secID=0>

Appendix B: Adopted FY2021 Budget and Updated FY2021 Forecast Estimate based on FY2020 Q4 Actuals

<i>(Values in USD millions unless otherwise denoted)</i>	Adopted FY2021 Budget (as of FY2020 Q2 Actuals)	Updated 'Base-case' FY2021 Forecast Estimate (as of FY2021 Q1 actuals)
Transactions		
Registry Transaction Fees – Legacy	\$47.7	\$51.4
Registry Transaction Fees – New gTLD	\$4.5	\$4.9
Registrar Transaction Fees – Legacy	\$29.7	\$32.2
Registrar Transaction Fees – New gTLD	\$3.5	\$4.0
Subtotal	\$85.5	\$92.6
Volume: Legacy Transactions (in millions)	165.2	179.1
Volume: New gTLD Transactions (in millions)	19.5	22.4
New gTLD Average Billable Rate (%)	93%	87%
Registry Fixed Fees	\$28.4	\$29.1
Registrars Accreditation		
Application Fees	\$0.0	\$0.2
Accreditation Fees – Annual	\$8.4	\$9.5
Per Registrar Variable Fees	\$3.4	\$3.4
Subtotal	\$11.8	\$13.2
Count of Total Registrars at end of Year	1,977	2,328
Other Funding		
Meeting Sponsorships, Contributions, and Other	\$3.6	\$5.2
ICANN Total Funding	\$129.3	\$140.0

Source: ICANN forecast and analysis, December 2020; Totals may not add up due to decimal rounding.

Appendix C: ICANN’s Approach to Funding Forecasting

A. What are ICANN’s aims in forecasting its future funding levels?

ICANN’s funding forecasting efforts serve the purpose of ensuring that the ICANN organization (ICANN org) is able to sustainably carry out its mission in the public interest amidst shifts in the macroeconomic environment and continued Domain Name System (DNS) industry evolution. The intent is to allow the ICANN org to plan for a level of activity and expenses that minimize the risk that funding would be lower than expenses in the future.

Efforts to generate and regularly iterate funding projections as part of its budget development process reflect ICANN’s org’s commitment to utilize market data in estimating future funding levels in adherence to principles of strict financial responsibility and conservatism. While it may be challenging to predict long-term economic impacts arising from near-term developments, as a steward of public funds ICANN is committed to ensuring its activities are planned with fiscal responsibility. Reliable and predictable funding projections that are based on a sound understanding of the evolution in the domain name marketplace and realistic assumptions forms a key component of that commitment.

Given the risk of new or changing market conditions, actual funding could differ materially from the projections in this document in any given year. ICANN org therefore regularly updates and reviews its funding projections to accommodate operational changes or unforeseen events.

B. What funding sources are covered by ICANN’s forecast?

ICANN’s primary funding sources are generated from domain name registration activities and DNS services. Funding sources covered as part of ICANN’s forecasting efforts are described in the table below:

Funding Source	Fee Category	Description
Registrar-level Fees	Application fees	A total of 28 applicants sought to receive ICANN registrar accreditation in the period between 1 July 2019 and 30 June 2020. A one-time application fee of USD 3,500 is paid at the time of application by applicants seeking to become an ICANN-accredited registrar.
	Annual accreditation fees	A total of 2,449 registrars are accredited by ICANN as of 30 June 2020. Annual accreditation fees are fees that all registrars are required to pay annually to maintain accreditation. The fee is USD 4,000 per year. Registrars have the option of paying the annual accreditation fee in quarterly installments of USD 1,000.

	Per registrar variable fees	A fixed amount of USD 950,000 quarterly or USD 3.8 million annually is equally divided among all registrars that have at least been accredited for one full quarter or have made at least one transaction, taking into consideration the forgiveness factor ²¹ . A discount of 10% is granted to all registrars operating under the 2013 Registrar Accreditation Agreement (RAA).
	Transaction-based fees	Transaction-based fees are assessed on each annual increment of an add, renew, or a transfer transaction that has survived a related add or auto-renew grace period. This fee will be billed at USD 0.18 per transaction for registrars operating under the 2013 RAA (resulting from a USD 0.20 base fee, discounted by 10% to USD 0.18).
Registry-level Fees	Fixed fees Transaction fees	There are 1,184 TLDs delegated as of 30 June 2020. Registry-level fees for each of these TLDs are described in the respective registry agreements. Based on those agreements, registries pay to ICANN fees via a fixed fee, transaction-based fee, or both. These fees are due quarterly and are billed 30 days following the end of each calendar quarter. To learn more about registry-level fees, please refer to Article 6 of the gTLD Base Registry Agreement. ²² Registry operators not contracted on the gTLD Base Registry Agreement may have slightly different language and references.
Other Funding	Meeting sponsorships	ICANN receives sponsorships from parties in return for providing exhibition space and advertisements at ICANN meetings.
	Country code top-level domain (ccTLD) contributions	ccTLD operators contribute on a voluntary basis to ICANN. The Country Code Names Supporting Organisation (ccNSO) maintains guidelines offered to ccTLD operators that decide to contribute financially to ICANN. These guidelines suggest amounts of voluntary contributions based on the number of domain names under management ²³ .

²¹ To be eligible for forgiveness, the registrar must have less than 350,000 gTLD names under its management and registered no more than 200 attempted adds per successful net add in any TLD. Forgiveness will be granted each quarter to all registrars that qualify.

²² The gTLD Base registry Agreement is available via: <https://www.icann.org/resources/pages/registries/registries-agreements-en>

²³ The guidelines for voluntary contributions of ccTLDs to ICANN is available via: https://ccnso.icann.org/sites/default/files/filefield_42805/guidelines-cctld-contributions-27nov13-en.pdf

	Address registry contributions	ICANN coordinates with the Regional Internet Registries (RIRs), which are responsible for the assignment and administration of Internet addresses. RIRs contribute annually to ICANN.
	Security, stability and resiliency (SSR) Initiative contributions	ICANN receives contributions in support for activities that preserve and enhance the security, stability and resiliency of the Domain Name System.

C. What funding sources are excluded from ICANN’s forecast?

Excluded from the forecasting effort are funds relating to ICANN’s New gTLD Program and auction proceeds, as these are non-recurring sources of funding associated with the launch of the New gTLD Program.

New gTLD Program funds correspond to the unspent portion of the New gTLD Program application fees collected from applicants during the application window in 2012. These application fees were paid by applicants seeking to become a new gTLD registry operator for a particular TLD. These funds are used to evaluate the applications and to cover “hard-to-predict” costs, including risks.

Auction proceeds are generated from ICANN-authorized service provider auctions as the method of last resort to resolve string contention in the New gTLD Program. Auction proceeds will be reserved and earmarked until the ICANN Board determines a plan for the appropriate use of the funds after consultation with the community. The Cross Community Working Group on New gTLD Auction Proceeds (CCWG-AP) is currently developing recommendations on how to allocate these proceeds.

D. How does ICANN develop its funding forecasts?

ICANN’s funding forecasts are developed through the following activities:

1. Marketplace scan: As a foundation for its funding projections, ICANN org updates its funding model within the wider context of key industry drivers and inhibitors. Trends expected to impact the domain name industry marketplace over the forecast horizon are uncovered through a marketplace scan exercise.

As part of this activity, ICANN org engages with an independent market analyst to obtain various DNS industry experts’ insights into the future. A sample of industry experts are selected for participation considering a requirement for representation by geographic region, nature of business, and size of entity, and are subsequently invited to participate in an in-depth qualitative interview.

ICANN org supplements this independent market review with ongoing information gathering with its contracted parties on industry developments, such as viewpoints

relating to the anticipated spillover effects of the COVID-19 pandemic on the DNS industry.

Insights gathered through this effort are further informed by a review of historical ccTLD and gTLD registration data as well as various publicly available information, such as investor statements, regulatory filings, and news profiles of DNS industry participants.

2. Formulation of assumptions: ICANN org periodically reviews its existing forecast assumptions and updates its projections, as required, based on the latest domain name industry data and the size of its contracted party base.

ICANN org conducts time-series analysis to forecast future domain transaction volumes, which is defined as the sum of domain name additions, renewals, and transfers. A wide range of datasets are considered when conducting such projections, which include but are not limited to, the volume of domain name transactions, additions, renewals, transfers, and domain names under management. ICANN org evaluates such datasets for legacy gTLDs and new gTLDs, separately.

New gTLDs are further segmented and analyzed based on the size of their total domain portfolio. Mid-to-long-term forecasts for domain name transaction growth rates also take into account wider macro-economic projections, specifically global GDP growth rates as published by reputable sources.

ICANN org applies a judgmental forecasting approach when evaluating and projecting changes to the size of its contracted party base. Given visibility on the status of applicants and existing contracted parties, individuals within the organization's Global Domains and Strategy division provide information on the changes most likely to occur over the forecast period in terms of new registrar accreditations and terminations, as well as incremental TLD delegations and terminations. Values utilized in ICANN's forecasts may also reflect actual historical averages for these specific funding categories.

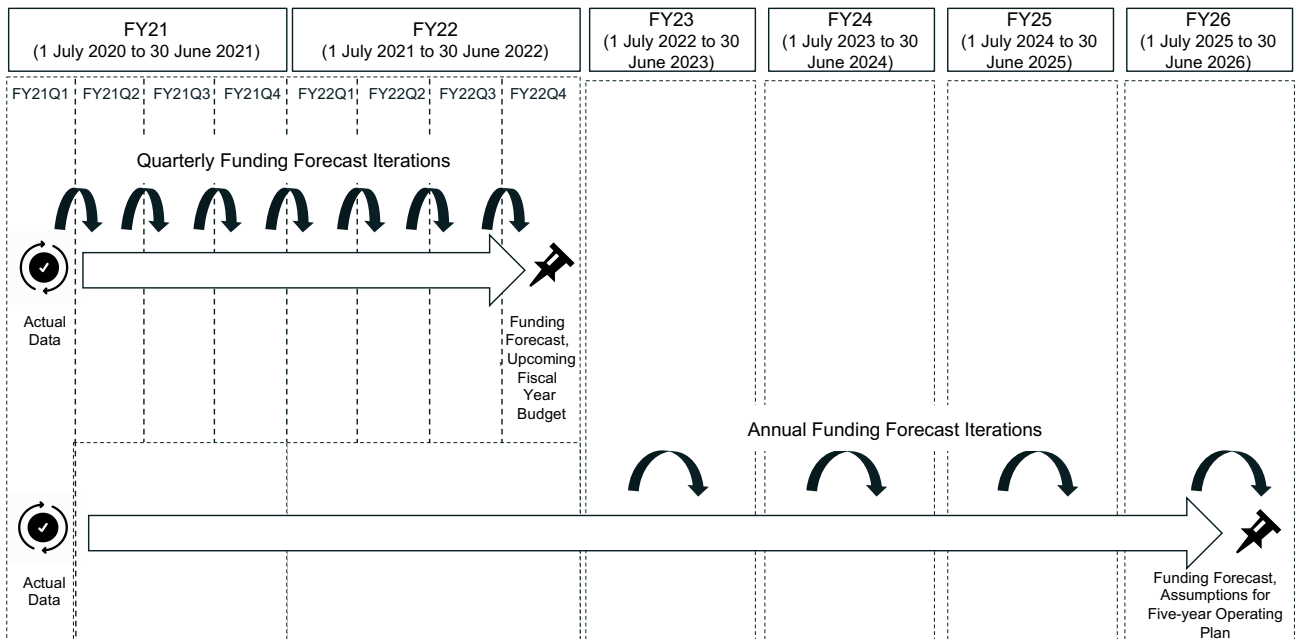
3. Forecast generation: Any forecasting exercise requires reliance upon assumptions generated on factors that may affect the future development of a marketplace. Creating several forecast scenarios, each with varying assumptions and thresholds representing viewpoints of the future, offer a measure of the sensitivity of a resulting forecast outcome based on such assumptions. They also provide context on the prospective impacts of various marketplace events that may be deemed to be plausible but improbable.

As a principle, ICANN takes a conservative approach towards developing its funding forecasts, which is considered when developing its ‘base-case’ projections. In addition, ICANN also develops ‘high’ and ‘low’ scenario estimates to consider alternate values, thereby providing upper and lower bound values in its projections. While the organization does not rely on these to plan its operations, such ‘high’ and ‘low’ scenarios are helpful to develop contingency plans that address the possibility that such scenarios become reality.

E. How often does ICANN iterate its funding forecasts?

ICANN produces its funding forecasts as an input to two separate internal budget planning activities – namely the generation of the organization’s annual budget for its upcoming fiscal year and the development of funding assumptions for its rolling five-year operating plan. The development of the funding projections that inform ICANN’s annual budget for its upcoming fiscal year covers a forecast horizon of approximately 7 quarters (or roughly 21 months). Such forecasts are reviewed and updated on a quarterly basis until the conclusion of the said fiscal year.

In parallel, ICANN org also develops longer-term projections that extends its annual fiscal year budget forecast by a further 4 years, resulting in a forecast horizon of roughly 69 months. This longer-term forecast, utilized in the organization’s rolling five-year operating plan, is updated on an annual basis. The following illustration depicts the expected funding forecast refresh cycles for the two aforementioned budget planning activities over the course of ICANN’s FY2021 fiscal period.



F. Historically, how have ICANN’s adopted budgets tracked in comparison to its actual funding levels?

The accuracy of ICANN’s adopted budgets versus actual funding levels over the past five fiscal years are presented in the table below:

Fiscal Year (FY)	Adopted Budget <i>(in USD millions)</i>	Actual Funding <i>(in USD millions)</i>	Variance, Actual Funding vs. Adopted Budget (%)
FY2016	\$ 112.9	\$ 125.7	+11.3%
FY2017	\$ 132.4	\$ 135.9	+2.6%
FY2018	\$ 142.8	\$ 134.7	-5.7%
FY2019	\$ 137.6	\$ 136.4	-0.9%
FY2020	\$ 140.1	\$ 140.7	+0.4%