

Financial Contributions of ccTLDs to ICANN
Report of the Financial Working Group to the ccNSO
Council

November 17, 2013

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Financial Contributions of ccTLDs to ICANN

Report of the Financial Working Group

Background and Context

Since the creation of ICANN in 1999, the financial contribution of the ccTLD's to ICANN has been regularly a topic for intense discussions within the ccTLD community and between the ccTLD community and others, including ICANN.

Initially (1999-2003) the discussion focused around a proportional contribution by the ccTLD community towards ICANN's budget (35 % of the total budget) on a per domain name basis or total number under management¹.

In April 2005, just after the ccNSO had become fully operational, the ccNSO Council resolved to establish a working group to consider possible models for ccTLDs to pay fees to ICANN. This WG proposed the current guideline for ccTLD Managers Financial Contribution to ICANN, which was adopted by the ccNSO on 09 March 2007².

In June 2009, in the context of the discussions around the introduction of IDN ccTLDs, ICANN introduced a new tool, the Expense Area Group (EAG) analysis and reporting to show how ICANN expenditures were spent, for example on the ccTLD community and the ccNSO. The community welcomed this tool and welcomed the opportunity to finally discuss with ICANN the methodology and allocation of its acclaimed expenses on ccTLDs and the ccNSO.

At the March 2010 ICANN meeting in Nairobi, the ICANN CEO suggested that ccTLDs needed to increase their financial contributions to ICANN and a figure \$10 to \$12 million was mooted as a possible target. This figure appeared to be based on the EAG reported in ICANN's Operational Plan and Budget FY 2010. Accordingly, approximately 17% of ICANN's expenses were on ccTLD's. In response to these developments, the ccNSO formed the Financial Working Group (FinWG) in November 2010 with its members and chair being named early in 2011 (see Appendix 1). The FinWG's mandate included:

“a. to discuss with ICANN (i.) the amounts attributed to ccTLDs and (ii) the underlying attribution method(s) to attempt to establish which of those amounts and method(s) are reasonable and may be acceptable to the ccTLD community

b. to discuss with ICANN a methodology for individual ccTLDs to use to calculate a fair and equitable voluntary financial contribution to ICANN and propose such a methodology to the ccTLD community. (see Appendix 1 for the full mandate)

¹ The 35 % is based on 1999 advice of the Task Force on Funding, accordingly the ccTLD community should contribute 35 %, the gTLD registries and registrars 65 % and the IP address registries 10% of ICANN's budget: see for example: <http://archive.icann.org/en/financials/cctld-contribution-formula-10may00.htm>

² <http://ccnso.icann.org/about/files/guideline-cctld-contribution.pdf>

The FINWG then set about addressing these two key aspects of its mandate: trying to both establish what amounts expended by ICANN might be attributed to ccTLDs and the review of potential models for determining what amount of contribution individual ccTLDs might be asked to make.

Assessing the Value of ICANN to the ccTLD Community

The FinWG began by requesting that ICANN provide the EAG information on various ICANN activities of specific relevance to the review, the cost of IANA operations for example. Following a number of delays, ICANN indicated at the June 2012 Prague meeting that the EAG was not the appropriate tool for assessing the amounts it spends on ccTLD's and the ccNSO. At the same time the FinWG also conducted a survey of ccNSO members on those aspects of ICANNs operations that were seen to be of value to the ccTLD community and resources ccTLD's spend on ICANN. The results of this survey were presented to the community at the March 2012 Costa Rica meeting.³

This led to the development of the conceptual 'value exchange model', an approach which is centred around the principle that the ICANN/ccTLD relationship is reciprocal, not one way, that is, that while ccTLDs receive benefits from ICANN, ICANN also receives benefits from ccTLDs. Beginning in Toronto in October 2012 and also in Beijing in April 2013, this model was elaborated and refined to include three value categories: specific, shared and global. More importantly, ICANN was able to provide detailed financial information for the 'Specific' and 'Shared' categories, with these estimates being based on proxies which were later reviewed by FinWG members and judged to be reasonable. The model also reflected the amounts ccTLD's spent on ICANN activities, in particular as part of the "Shared" value, for example, sponsoring of ICANN meetings. A significant development was the acknowledgement by the ICANN CEO that in the most difficult to measure category, 'Global', the contributions by ccTLD members are equivalent to the contributions made by ICANN to the ccTLD community. The table on the next page illustrates the 'value exchange model' and includes the financial information provided by ICANN, with the overall financial benefit to the ccTLD community by ICANN being estimated at \$3.5 million per year.

³ See <http://costarica43.icann.org/meetings/sanjose2012/presentation-ccnso-finance-wg-holland-13mar12-en.pdf>

VALUE EXCHANGE MODEL

Conceptual Value Categories and Associated Benefits

(thousands of \$US)

Estimated Annual ccTLD Benefit

SPECIFIC

Are easily identifiable; directly support ccTLDs

Policy support	\$334
Secretariat support	\$232
Travel support	\$094
Overheads 25%	<u>\$165</u>
Sub-total	\$825

SHARED

Shared Tangible benefits to ccTLDs that are shared within the ICANN community

Governance (2 members on ICANN board)	\$377
ICANN Meetings	\$906
ccTLD meeting hosting costs	(\$750)
IANA	\$1800
IDNs	<u>\$384</u>
Sub-Total	\$2717

GLOBAL

ICANN = ccTLDs

The benefits are for the Internet eco –system or global infrastructure, less tangible and in most cases hard to quantify for both ICANN and ccTLDs. ICANN and the ccTLD community have acknowledged that the value both add in this category is equivalent. Examples of Global Benefit include:

ccTLDs: provide best example of ‘multistakeholder model’ - international community in 130+ countries, providing ‘boots on the ground’ for ICANN, helping fund IGF & national internet fora, fostering domestic internet policy development etc.

ICANN: supports DNSSEC, IPv6; structure allows ccTLDs to input into global policy development; interact with GAC and rest of community etc.;

<i>TOTAL VALUE PROVIDED BY ICANN TO ccTLDs</i>	<i>\$3542</i>
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Review of Contribution Methodologies and Models

The WG also reviewed a number of possible models that ccTLDs might use to determine their individual level of contribution, might be used to by ccTLDs including

- Voluntary banded
- CENTR
- Sponsorship/contract
- Fixed registry fee
- Fixed fee + ‘taxation’ fee
- Benefit based
- Fee for service
- Case by case

All FinWG members expressed the view that any recommendation to the ccTLD community would need to recognize that any contribution by a ccTLD would remain voluntary, in recognition of the sovereignty of the ccTLDs in respect to ICANN. Through its review the WG determined that the voluntary banded model represented the fairest approach on which to base these voluntary contributions. Some members of the WG and of the community expressed the view that an approach based on a simple ‘cents per domain under management’ or related to the number of domain names under management would be viewed to be a ‘tax’. However, the fundamental principles of a voluntary contribution, self-selection, and value exchange clearly contradict such a claim.

In an effort to be as open and transparent as possible about its deliberations and direction, the FinWG has met 13 times since 2011, updated the ccNSO at every meeting and held two ‘webinars’ for the ccTLD community as a whole. It has also been able to update and dialogue with many other SO/AC’s in the ICANN community on the progress of its work, including the GAC and the ICANN Board. The working group benefited greatly from the feedback it received as a result of these exchanges. It was also able to review the situation with ICANN executives. It was especially pleased with the comments ICANN’s CEO, Fadi Chehadé made publicly on his blog in March of 2013 following a meeting with some ccTLD managers:

“ICANN’s focus should not be on the amount of ccTLD financial contributions, rather emphasis needs to be placed on areas where we can collaborate, as true partners. Working together must take priority over financial considerations that have been stumbling blocks in the past. We share a common goal of bringing value to the Internet and its users – individuals, businesses, citizens and organizations – that is possible through cooperation, alignment of our technical and operational performance, and support of the multistakeholder model.”

The result of this overall process is a proposed ccNSO guideline, which includes a set of principles and specific bands with suggestions associated with those bands, which is included in Annex A. In developing

the principles and specific bands, the FinWG has taken into careful consideration the wide variety of arrangements in place between ICANN and individual ccTLDs: some are purely voluntary; some are supported by a letter while others take the form of a contractual commitment.

The proposed guideline is intended to replace the current guideline that was adopted by the ccNSO Council on 02 March 2007, and became effective 09 March 2007. Attached is also an estimate of the total contribution that might result based on two different sets of assumptions: *all* ccTLDs make a contribution based on the suggested levels and, alternatively, if only those ccTLDs who actually made a contribution in 2010/11 make contribution payments.

Appendix 1

Proposed Guideline for Voluntary Contributions of ccTLDs to ICANN

- ICANN and the ccNSO each recognize the value the ccTLD community and ICANN bring to their relationship
- ICANN and the ccNSO recognize and acknowledge the value exchange model, with specific, shared and global value categories, which has been developed cooperatively, as the basis to allocate expenditures
- The ccNSO recognizes that ICANN undertakes expenditures that are of direct and specific benefit to the ccNSO community and recommends that ICANN be reasonably compensated for these costs
- Consistent with its public interest mandate and not-for-profit status, ICANN is encouraged to continue to its efforts to improve its management practices and be cost efficient
- ccTLDs function in a wide variety of operating environments using differing business and governance models
- The ccNSO has developed the attached 'banded model' for voluntary contributions to ICANN, however, the level of contribution that any ccTLD registry makes to ICANN should continue to be determined between ICANN and the individual ccTLD manager
- Where a ccTLD agrees to initiate payment of contributions or to an increase in contributions, either as a result of the adoption of this guideline or in time, after reaching a higher band, these amounts could be phased in annually or over a period of three to five years
- Where a Registry is responsible for managing more than one ccTLD, it will have the option of determining its ICANN contribution on the basis of either
 - the total domains under management, or
 - the sum of the contributions of the individual ccTLDs
- ICANN and the ccNSO have agreed to have a discussion on the need to review the model and its results, after a minimum period of five (5) years.

Revenue Bands

<u>Band</u>	<u>Domains Under Management</u>	<u>Suggested Voluntary Contribution</u> (\$US)
Band A	Greater than 5 million	\$225,000
Band B	2.5 million to 5 million	\$150,000
Band C	1 million to 2.5 million	\$ 75,000
Band D	500, 000 to 1 million	\$ 25,000
Band E	250,000 to 500,000	\$ 15,000
Band F	50,000 to 250,000	\$ 10,000
Band G	Less than 50,000	\$ 500

Appendix 2

Charter ccNSO Finance Working Group Adopted by ccNSO Council 19 October 2010

1. Background

At its meeting in Nairobi, Kenya, in March 2010, the ccNSO Council

- a) noted the gap between ccTLD contributions to ICANN in ICANN's fiscal year 2009 and the amount ICANN attributed to ccTLDs according to ICANN expense area group analysis;
- b) noted that ccTLD contributions to ICANN have risen by almost 150% over time;
- c) reaffirmed the current ICANN ccTLD contribution guidelines, developed by the ccNSO in 2006 (<http://www.ccnso.icann.org/announcements/announcement-09mar07.htm>); and
- d) committed to entering into dialogue with both the community and ICANN on the issues of ccTLD contributions and ICANN expenses attributable to ccTLDs.

The ccNSO Council resolved to set up a working group on the issues set out in a) above.

Furthermore, the ccNSO Council noted the need to increase the coordination, facilitation and participation of ccTLD managers in the financial aspects of ICANN's planning and budgetary processes.

2. Objective

The objective of the working group is:

- I.)
 - a. to discuss with ICANN (i.) the amounts attributed to ccTLDs and (ii) the underlying attribution method(s) to attempt to establish which of those amounts and method(s) are reasonable and may be acceptable to the ccTLD community
 - b. to discuss with ICANN a methodology for individual ccTLDs to use to calculate a fair and equitable voluntary financial contribution to ICANN and propose such a methodology to the ccTLD community.
- II.) to coordinate, facilitate, and increase the participation of ccTLD managers in the financial aspects of ICANN's strategic and operational planning and budgetary processes.

The WG may as part of its activities sub II.) above take a position and provide input to the public comments fora and relate to ICANN or other Supporting Organisations and Advisory WG's on its own behalf. The ccNSO Council and individual ccTLD managers collectively or individually, will be invited to endorse or support the position or input of the WG.

3. Scope

The scope of activities of the working group is to do whatever it deems relevant and necessary to achieve its objective whilst taking into account, amongst other things, the current ICANN ccTLD contribution guidelines ICANN's expense area group analysis, and yearly overviews of ccTLD contributions.

The working group will take a proactive role in fostering participation and input from the ccTLD community and provide regular feedback to the ccNSO on its progress.

In achieving its objective the WG will undertake, but is not limited to, the following activities:

- Coordinate its activities with the activities of the Strategic and Operational Planning Working Group (SOP WG);
- Organising ccTLD focused sessions at ICANN events on financial aspects of ICANN's planning and budgetary processes;
- Disseminate and summarise information relevant to the financial aspects ICANN's planning and budgetary processes.

4. Chair, Members, Experts and Support

Membership of the working group is open to all representatives of ccTLD managers (members and non-members of the ccNSO) who meet the following criteria:

- An ongoing long-term commitment to actively participate in the activities of the working group;
- An involvement in financial area of the ccTLD they represent;
- An ability and willingness to attend face- to face meetings.

The chair of the ccNSO and chair of the SOP WG are appointed ex-officio.

Members of the working group will be appointed by the ccNSO Council taking into account the background of the applicants to reflect the diversity of the ccTLD community.

Regional Organisations may nominate a representative, to be appointed to the working group by the ccNSO council as an observer.

The chair of the working group shall be appointed by the ccNSO Council at the nomination of the members of the working group. The chair, members and observers and experts, if any, of the working group will be listed on the webpage of the working group.

At the request of the chair of the working group, the ccNSO Council may also appoint experts to the working group. Experts are not considered members, but otherwise are entitled to participate on equal footing.

The term of the initial members of the WG ends at 30 June 2012. The term of additional members is two (2) years and ends on 30 June in the second year of their appointment. Members of the WG may be reappointed for a maximum of two (2) more subsequent periods (maximum of 3 terms) At least one of the members on the WG will be a member of the ccNSO Council.

5. Review of charter and activities of the WG

A review of this charter and activities will take place in June 2012 or when considered necessary, for instance when the general ICANN process will change and affects the charter of the WG. One of the criteria for review will be increased participation of ccTLDs in the ICANN planning processes.

6. Reporting

The chair of the working group will report regularly to the ccNSO Council, ccNSO members and the ccTLD community on its progress and at an appropriate time produce a Final Report on its recommendations in respect to items 2 l a) and b) above.

7. Omission in or unreasonable impact of Charter

The chair of the working group shall exercise reasonable discretion in the event that this charter does not provide sufficient guidance and/or the impact of the charter is unworkable with respect to the conduct of business of the working group.

Appendix 3

List of Financial Working Group Members

Mohamed Ibrahim, .so	Lesley Cowley, .uk	Mathieu Weill, .fr
Vika Mpisane, .za (Vice Chair)	Lise Fuhr, .dk	Roelof Meijer .nl
Mary Uduma, .ng	Juhani Juselius, .fi	Eduardo Santoyo, .co
Henry Chan, .hk	Sieger Springer, .nl	Rolando Toledo, .pe
Keith Davidson, .nz	José Mondragón, .mx	Byron Holland, .ca (Chair)
Minjung Park, .kr (Observer)	Peter Van Roste, CENTR (Observer)	

Appendix 4

REVENUES based on RECOMMENDED CONTRIBUTION BANDS

(thousands of \$US)

<u>BAND</u>	<u>Number of cc's in BAND</u>	<u>Contribution per cc</u>	<u>Contribution Revenue</u>
A > 5M	5	\$225	\$1125
B: 2.5M to 5M	8	\$150	\$1200
C: 1M to 2.5M	13	\$75	\$975
D: .5M to 1M	11	\$25	\$275
E: 250K to 500K	9	\$15	\$135
F: 50K to 250K	26	\$10	\$260
G < 50K	<u>183</u>	\$0.5	<u>\$92</u>
TOTAL	229		\$4062

Appendix 5

Summary Comments of Financial Working Group on Recommended Contribution Guideline

Proposal is Directly Related to Benefits ccTLDs receive from ICANN

- The approach recommended recognizes that only a portion of ICANN expenditures are for the benefit of the ccTLD community so they are only being asked to make a contribution in respect of these costs
- FinWG members validated the specific data on benefits provided by ICANN directly with ICANN staff
- The ‘Value Exchange Model’ recognizes the important role played by ccTLDs in supporting ICANN and the multistakeholder Internet governance model; with 142, and increasing, active members from almost as many countries or territories, the ccNSO represents the best example of the multistakeholder model at work
- Notwithstanding the voluntary nature of the contribution regime, a high level of cooperation and of voluntary payments are expected – the ccTLD community will in fact be making a substantial contribution to ICANN and the multistakeholder model of Internet governance.

There is Flexibility to Address Individual Circumstances

- Where registries face increases in contribution payments, it is being recommended that these be phased in over three to five years
- Where registries operate multiple domain names, such as in the case of IDNs, the option of being considered a single registry or multiple registries for contribution purposes has been recommended.

Process for Developing the Recommended Regime was Rigorous, Open and Inclusive

- The approach developed by the FinWG was open to all ccNSO members, and the WG followed a protracted and open consultation process, keeping its community regularly updated on the nature and direction of its deliberations –
- Some 13 FinWG meetings were held, along with two ‘webinar’s for the ccTLD community as a whole, and the ccNSO Council was updated at every meeting.

The Allocation of the Suggested Contribution is Fair and Equitable

- All ccTLDs are being asked to make a contribution, regardless of their size, as they all benefit from their relationship with ICANN
- The burden of the payments made is expected to be skewed towards larger registries, a progressive and fair distribution of contribution costs; if all made a contribution in accordance with the recommended band schedule, then the top 11% of ccTLD registries would pay 81% of contributions
- The sovereignty of ccTLDs is not affected as the contribution proposal remains voluntary

Contribution Regime Sends 'Right' Signals to ICANN on Financial Management

- The ccNSO thrust of encouraging ICANN cost efficiency and prudent financial management is encouraged as ICANN is not being incentivized to increase its spending because the recommended level of contribution will not increase if ICANN expenditures increase
- The payments made by the largest registries are not 'open ended' – there is a cap on the contribution they are being asked to pay, regardless of the number of domains under management.