



## ICANN – informal background paper

### Financial and staff situation of ICANN

#### 1. *General description of the issue*

- (i) Despite being a non-profit corporation, ICANN's revenue appears to be growing at an exceptional rate. Revenues increased from \$18 million in 2005 to \$66 million in 2010. During the same period, expenses increased from \$14 million to \$59 million. ICANN has to date generated a significant surplus: \$46 million was invested in 2010 in stocks and bonds, whereas its cash assets amounted to \$17 million. Moreover, the recently agreed new gTLD programme is projected to nearly double ICANN's expenses and revenue.
- (ii) ICANN's staff also increased significantly, from 36 in 2005 to 125 in 2010, during which time staff costs increased from \$4 million to \$25 million.
- (iii) During these same periods however, ICANN's tasks have largely remained unchanged, even if the scale of some activities (e.g. new gTLDs) has grown in comparison with earlier years. Overall, therefore, a basic analysis of the financial situation of ICANN suggests an underlying governance problem. Even if the major cost and staff expansion in the past years was possible to justify, there remains a legitimate concern over the apparent lack of a proper monitoring mechanism for this financial evolution. Put simply, there seems to be no effective governance mechanism in place to keep finances checked.

#### 2. *Possible initiatives*

The financial and staff situation of ICANN is not a stand alone problem. The underlying governance issue must be solved first. Nevertheless, the following solutions are suggested:

- (i) Create some form of independent control mechanism in relation to ICANN's finances to ensure that ICANN's funds are used in keeping with ICANN's public interest, non-profit and charitable status;
- (ii) Review existing models (e.g. the European Commission and the dot.eu Registry) which have been designed to identify and transfer any operating surplus resulting from non-profit registry operation.
- (iii) Identify an appropriate public interest beneficiary for any surplus funds, giving consideration to public good, addressing for instance development issues (especially

digital divide issues).

### **3. Possible implementation**

- (i) **Enhance independent control mechanism of ICANN's finances:** this could be partly achieved by strengthening the role of the Audit Committee of the Board.
- (ii) **Use the experience of the European Commission with control over dot.eu Registry:** EURid is also a non-profit, independent organization. The Commission operates under the "arm's length" approach towards the Registry. Nevertheless, by having a team in place to review various activities of EURid on an on-going basis, the Commission managed to keep costs and operations of the Registry reasonably checked. A similar model could be developed for ICANN.
- (iii) **Allocate part of excessive surplus and revenue for charity purposes.** Beyond a reasonable "contingency fund", there is no legitimate reason to continue to build a growing financial surplus at ICANN, especially if a large proportion is then only used to fund investments on the stock and bond markets. In addition, as a complementary measure, the fees which ICANN charges for its services could be decreased to limit the growth of revenue. This would also provide an incentive to ICANN's management to limit costs.

### **4. Timeline for implementation of these modifications**

a) The role of the Board audit committee should be reviewed by the GAC at its next meeting in Senegal, taking into account the need for ICANN to stabilise its revenue growth and achieve a better balance of "fiscal neutrality" more appropriate for a non-profit public interest corporation.

b) The GAC should initiate discussion with the Board in Senegal on the options for transferring any operating surplus to an appropriate public interest goal as decided in the spirit of multistakeholder approach. Different goals may be identified, for instance strengthening standardisation or financing the activities of bodies involved in Internet governance