PERSONAL COMMENT OF EDWARD MORRIS

Thank you for the opportunity to comment on ICANN's FY18 Operating Plan and budget. Although a member of the GNSO Council, Chair of the NCSG Finance Committee and the NCSG Treasurer these comments are made solely in my personal capacity and do not necessarily reflect the views of these groups or any other group I may be associated with, either at ICANN or elsewhere.

First, I'd like to thank Xavier, Becky, Taryn and Jessica for their extraordinary receptiveness to community input during this year of new beginnings. It could not have been easy to adapt standing processes to meet the requirements of the new Bylaws. In retrospect, I believe that those of us in the community should have given more consideration to times and dates involved in the entire budget process, including those set by external bodies, in creating the requirements of §22.4 and §22.5 in the new ICANN bylaws. I'd like to offer my personal apology to the Finance Team in my role in the CCWG for not reaching out to you and perhaps being able to create more flexibility in the process as we rushed to complete the transition. My compliments to Finance in doing their best to both meet community concerns and as well as their new regulatory requirements this year. It was a good first effort and much appreciated.

A few comments of a general nature, before delving into specifics of this years proposed budget and operating plan:

1. With the new community powers comes responsibility, yet it is difficult to meet that responsibility when working sessions on the budget conflict with mandatory sessions of governing components of the Empowered Community. During the past two ICANN meetings, working sessions sponsored by Finance on the budget have been scheduled at the same time as working sessions or formal meetings of the GNSO Council. This needs to change.

I recognize the difficulty with scheduling at ICANN meetings. This aforementioned problem should not be insurmountable. One simple rule: budget related sessions should not be scheduled in opposition to meetings of the governing bodies of any component of the Empowered Community. Period. With the power to reject the budget comes the responsibility of contributing to and participating in all phases of the budget making process. That can't be done when budget working sessions are scheduled opposite mandatory working sessions of the governing organs of the Empowered Community. We can, need and I trust will to do better in the future.

2. I would like to commend the Finance team on the dramatically increased amount of information it now provides the community. I find the budget fascinating and greatly appreciate the level of granularity provided. It alone justifies the amount of time and money I spent earning my M.B.A. Well, almost. :)

Many community members, sadly, don't have a graduate degree in business or finance. Might I suggest, with some trepidation, that we organize a session at the autumn meeting, conducted by Finance alone or in conjunction with the community, focused on how to read the budget. Budget 101, if you will. As part of the session it might be valuable to ask the community members present what information not currently provided by Finance they would find valuable to have included in future budget and operating plan templates. This session, unlike those provided regularly by Finance, would focus on budget presentation rather than on budget planning or content. Simply put, a community with the power to reject the budget needs the tools to understand the budget holistically. Too many community members don't have that ability right now, don't understand or are unable to parse through the great amount of information Finance makes available to us. We need to give them the tools they need.

3. On a related point, one piece of information that is not readily available in a straightforward manner, and should be, is an approximation of the levels of financial support provided directly to the various units at ICANN and to the individual Supporting Organizations and Advisory Groups. We need to have this information included in the FY19 budget proposal and beyond.

Stepping away from the nomenclature associated with the multi-stakeholder model, what Finance is providing the community in its budget proposals is no more than internal financial management plans. That's good because it allows us a bit of freedom in how the budget proposals are constructed.

I appreciate the choices Finance has made in how they report proposed budgets. Portfolios are interesting reporting vehicles because they similarly are quite informative and completely lack needed detail. They tell us generally where the money is being spent but lacks the specific detail as to exactly who is spending it and where. When ICANN had more of a traditional governance structure that perhaps was all that was needed. With the Empowered Community we need more. The following is recommended:

a. In each year's budget and operating plan a staff line flow chart should be included, along with titles and text indicating areas of financial responsibility;

b. There should be budget lines for every operating unit in ICANN, aligning with the aforementioned flow chart As a member of a constituent part of the Empowered Community I need to know the yearly budgetary responsibility that can be attributed to departments headed by certain senior managers; for example, how much budgetary authority can be attributed to Legal or GDD – current reporting hints at various levels of authority (for example, the Executive Group chart on page 10 of the FY 18 proposal regarding headcount) but it is not specific enough, particularly with regards dollar amounts);

c. Separate lines attributing expenditures made by ICANN for or on behalf of each Supporting Organization and Advisory Committee should be included in the FY19 report and beyond. It is important for the community to understand the amount of money being spent by ICANN on the GNSO, ALAC, CCNSO, GAC, SSSAC, RSSAC and the ASO.

I understand that it may be difficult to attribute specific expenditures to each SO/AC. In fact, I've already been told this by some members of the Finance Department. Let's not kid ourselves, though: businesses routinely have to separate overhead and other forms of general expenditure, attribute them to specific divisions and use these figures for internal financial planning. We need to do the same.

All of this is about accountability. The Empowered Community has many powers, including that of spilling the Board or individual Board members. Implicit in these powers is the ability to persuade the Board to dismiss ICANN's CEO, CFO or any member of senior staff; the Board itself being at risk of dismissal if poor performance by staff is seen to be tolerated by the Board. The community needs precise budgetary numbers attributable to operating units or senior managers to truly evaluate their performance and hence the performance of the CEO and of the Board themselves.

In a similar vein, accurate reporting of SO/AC financial support and expenditure is essential for the community to "police" itself. In the absence of hard data, stories and rumors abound about extravagances and improper expenditures by various SOs and ACs. This does not contribute to healthy intra-community interaction. Accurate data for expenditures attributed, if possible down to the Support Group and Constituency level in the GNSO, for example, would be a great assist in helping us to establish a baseline understanding of community costs and better enable us in the community to accurately assess the potential for better fiscal self-discipline by various components of the community.

4. To help non finance experts to access the reports provided by Finance, a glossary defining various technical terms should be produced at the end of the document.

5. Finance should make a detailed analysis of all comments received during the public comment process along with notes explaining the disposition of the concerns raised. This has been requested in the past but is needed now more than ever given that an objection in a public comment to the preliminary budget proposal, one that is not rectified in the final approved budget, is a prerequisite for an SO/AC to have the right to reject the budget in whole.

As to the FY18 Budget and Operating Plan:

1. By my calculation the GNSO, and member components, account for approximately 98.2% of ICANN's income. Yet year after year, support for core operations, policymaking and research at the GNSO is level funded or worse. This year is no different, although the portfolio centered reporting structure makes it difficult to give specific numbers.

ICANN can best be described as a mid sized international non-profit corporation. Our policy development, based principally within the GNSO, although extensive for an organization of this size, is actually quite inexpensive as policy work is largely the province of volunteers. On occasion, though, as the CCWG on Accountability illustrated, outside expertise needs to be retained on a paid basis to support the Working Groups so they can deliver the type of professional outcome this organization and community needs and deserves.

Recognizing this, a request was made for the following expenditure (page 18 of Proposal) in this budget cycle:

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Additional FY18 funding for special professional services assistance in support of certain ccNSO and/or GNSO PDPs currently underway. This may take the form of some special advice, expertise or data needed to advise the PDP group in its formulation of a policy proposal to the Board.

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The budgeted amount requested was $100,000. This out of a total ICANN budget of $142,800,000. This request was rejected. I find that unconscionable and would ask staff and the Board to reconsider this decision. I feel very strongly about this line item proposal. It is needed. Unless bound by my Support Group to support this budget, **I would be inclined to favor rejecting the entire budget when it comes back to the GNSO Council if this amount is not restored to the budget prior its final adoption**.

The amount may be small but the principle is not. Close to $70 million is being budgeted by ICANN for personnel, over $27 million for professional services, yet $100,000 can not be found to provide professional expertise, as needed, for the PDP's staffed by hundreds of hard working volunteers? Policy development is a **CORE** function at ICANN and this request is essential to improving policy output. There are times when a PDP needs to reach out externally to obtain expertise not readily available within the group: the ability to purchase a study, a professional opinion or other related expertise is essential at times like these. To reject this small but needed expenditure that supports ICANN's **CORE** function simply is bad policy at at bad time. PDP's must be given the ability to obtain outside expertise, on a paid basis, as needed. The amount requested is a small amount, but it relates directly to the quality of policy output and with four major GNSO PDPD's in current operation this **CORE** request needs to be prioritized and approved. Now.

2. Similarly I strongly support the unfunded request of $300,000 for legal support in non-US locations. I appreciate this effort to bring into ICANN expertise that is not only needed but is well overdue. Only 1/3 of the world operates under the Common Law system largely prevalent in the United States and other Anglophone nations. As a multinational corporation with global interests it is reasonable to allow ICANN Legal to retain legal expertise in non U.S. locations as a matter of due course, rather than forgo that expertise now conceivably resulting in potentially larger expenses down the line as legal concerns and problems expand due to lack of initial concern, attention or understanding.

3. I approve of the approach taken in this Proposal to the Caretaker Budget.

4. Personnel costs and headcounts are a bit confusing to me and average salaries seem to be overly generous. I'm confused about how a 15% increase in total headcount correlates with a 2% decrease in travel and meetings. Is ICANN consciously saving on travel by hiring

more people in various locations? If so, a chart showing where ICANN's employees are based, by function, along with corresponding costs attributable to each location would be helpful.

With personnel expenses of $69,500,000 and a FTE headcount of 413.3 it would appear that the average compensation package, including all employees at ICANN, is $167,955 per year per person. That said, I suspect the salary structure at ICANN may be top heavy. For example, the ICANN 2015 IRS form 990 filing indicates that the top 20 salaried employees at ICANN had total net compensation packages averaging in excess of $427,000.

It would be useful for Finance to produce data, at least in aggregate form, allowing the community to know ICANN's general compensation structure, perhaps average salaries by quadrant and location, for example. Again, this has to do with accountability and with the need of the community to understand specific components of the budget before approving it. Compensation is one such component.

5. Global engagement appears to once again to be generously funded yet the KPI's are lacking. What are we getting for this money? What are the deliverables. It's fairly easy to see the expense, what is not so clear to see are the goals, benefits and desired results.

6. Conversely, Registrant services appear to be underfunded at the $600,000 level. While Registry and Registrar services are funded at approximately 4 times the level of Registrant services, it is important to remember that it is Registrants who fund much of the entire ICANN organization, through fees paid ICANN through the Registers and Registrars.

There is an urgent need for educational activities geared to Registrants, particularly those related to rights protection mechanisms. ICANN has been very active in educating trademark owners as to their rights under the applicable RPM measures yet derelict in not doing the same for Registrants. The 93.7% rate of potential Registrant abandonment of their registration attempt after receiving a TMCH Notice is very disturbing to me and likely represents a misunderstanding, in part, on the part of the potential Registrants as to the relative weight and status of the Notice. ICANN needs to "better inform, educate, service and support registrants" (per Portfolio 2.3.10) as to their rights and obligations pertaining to all rights protection mechanisms.

7. Information needs to be provided concerning ICANN's capital management. How does ICANN manage it's capital, what ROI does it receive on any short (or long) term investments it makes with its capital holdings? This information also needs to be provided for its reserve funds and any earmarked capital (such as the auction proceeds) currently being managed, in full or in part, by ICANN.

Thanks once again for this opportunity to comment on the Draft FY18 Operating Plan and Budget. I look forward to working with everyone ongoing throughout the process.

Kind Regards,

Edward Morris