

ICANN Staff Remuneration Practices – FY2012 (1 July 2011 through 30 June 2012)

As of 1 December 2011

The overarching objective of ICANN's remuneration framework is to ensure remuneration provided is competitive globally and that it provides staff with appropriate motivation for high performance toward agreed objectives. The remuneration philosophy aims to:

- Attract and retain high caliber staff
- Ensure it is competitive
- Ensure it is transparent

Role of the Board of Directors in Overseeing Remuneration for ICANN Staff

The Board of Directors of ICANN provides the overarching compensation philosophy for ICANN management and staff. The Board Compensation Committee provides approved direction for the compensation of officers, the Ombudsman, and the President and CEO in conjunction with the full Board of Directors. The Compensation Committee meets regularly.

Remuneration Components

ICANN is a global organization and remuneration for staff is designed to be consistent with local practices where staff members are located. As such, not all components listed below apply to all staff members:

- Base salary
- At risk (bonus) eligibility based on position and achievement of goals and objectives
- Time off benefits (vacation, holiday, sick time, bereavement, jury service, and the like)
- Health and welfare benefits (medical, dental, vision, life insurance, accidental and dismemberment, and the like)
- Retirement benefits
- Housing allowance

Philosophy and History

The goal of the ICANN remuneration program is to pay salaries that are competitive for comparable positions at organizations similar to ICANN in activities, scope, complexity and responsibility for the purpose of attracting and retaining the necessary talents and skills to execute ICANN's mission. Frederic W. Cook and Co., a noted compensation consultant, was asked in 2004 to conduct a review of the executive compensation program at ICANN as objective third-party experts and issue recommendations with respect to the program going forward. This was consistent with the undertaking in the then applicable U.S. Department of Commerce memorandum of understanding with ICANN dated 17 September 2003 (*see* http://www.icann.org/en/general/amend6-jpamouappendixes_17sep03.htm), for ICANN to conduct a review of the executive remuneration program. The report, having analyzed data for about 1,000 similarly sized for-profit and nonprofit enterprises, found, inter alia, that:

ICANN has no direct peers in the high technology industry; however, its closest labor market counterparts are for-profit technology companies of similar size.

Based on our experience, these technology companies have different compensation structures than non-profit organizations. Both for-profit and non-profit companies have base salaries, annual performance bonuses, and basic employee benefit programs. However, for-profit companies also have lucrative long-term incentives, most often in the form of stock options or real/phantom equity that cannot be matched in the non-profit sector. (ICANN does not seek to match these long-term incentives in its remuneration program.)

The consultant noted that there were no real direct peers in the non-profit industry due to the unique nature of ICANN's business.

Implementation of the program was not acted upon at that time due to ICANN's financial position. But in July 2005, the ICANN Board passed a resolution establishing the ICANN Board Remuneration Committee (later renamed the Board Compensation Committee). The following year, following stabilization of ICANN's financial position, the Board of Directors, at the recommendation of the Board Compensation Committee, considered a revised report of Frederic W. Cook and Co., an expert compensation consultant, and as a result of a market study undertaken by Frederic W. Cook and Co. (using data from Watson Wyatt (now Towers Watson) and Radford), the Board determined the appropriate comparator for ICANN staff remuneration is the for-profit marketplace of companies of a similar size and complexity. The scope of their review included:

- Provision of comparable market data in for profit organizations
- Provision of comparable market data in not-for-profit organizations
- Provision of comparable market data used in the United States
- Provision of comparable market data used in Belgium
- Provision of comparable market data on base salaries of like roles
- Provision of comparable market data on bonus payments of like roles
- Provision of comparable market data on employee benefits of like roles
- Provision of comparable market data on other employee incentives of like roles

The survey evaluated remuneration paid by several thousand participating organizations of a similar size to ICANN. The ICANN Board approved the recommendation of the Remuneration Committee that ICANN's remuneration guiding principles should be:

- a. Market qualified base salaries.
- b. Market qualified benefits.
- c. At risk (bonus) payments based on individual performance outcomes.
- d. Commitment to continued payment in the salary span of 50th to 75th percentile of for-profit market place of companies of a similar size and complexity to ICANN (the actual salary within this band determined by the individual's experience and talent and market position).
- e. Extension of at risk (bonus) opportunities to all employees.
- f. CEO accountability to deliver all principles within the approved ICANN budget.

Base Salary

In deciding to remunerate at between the median and 75th percentile of the distribution of salaries paid by for-profit organizations, the Board sought to that ensure that ICANN is competitive for labor when recruiting to its needs. The Compensation Committee is in the process of updating this analysis to ensure that current comparable benchmarks are considered.

ICANN does not meet the remuneration levels offered by more than 25 percent of the employers with whom it directly competes for talent. The Board also recognizes that considering the potential future exigencies facing the organization, some flexibility to the principles may be necessary in certain circumstances.

Further, it is recognized that the organization may have to pay outside of these arrangements in the rare circumstances where “the specialized nature of the role, the risk to the organization, the driving market forces or other supportable logic present significant issues to [ICANN’s] on-going performance.”

Each year, the Board reviews compensation for the President and all corporate officers. Remuneration of staff is reviewed each year by executive management consistent with the directives from the Board of Directors.

This annual compensation review is conducted under the framework established by the Board. ICANN uses a global expert compensation consulting firm to provide comprehensive market data for benchmarking (currently Towers Watson). The market study is conducted each year before the salary review process. Estimates of potential compensation adjustments are made during the budgeting process based on the current market data. The budget is then ratified as part of ICANN’s overall budget planning process.

At-Risk Component

ICANN’s at-risk (bonus) compensation program is designed to provide incentives to staff for the accomplishment of specific goals and objectives throughout the year that have been identified as being of significant importance or adding value to the overall ICANN effort.

Most staff members participate in the at risk compensation program. Participation, and level of participation, is determined by senior management. The Board has approved a framework whereby certain staff members are eligible for 10 percent of base compensation as at-risk payment, 20 percent for managers and specialists and 30 percent for executives. The more senior a staff member is the more of her/his compensation is allocated to the at-risk component. It is fair and reasonable to expect employees (especially managers and executives) to deliver on their responsibilities, and where they fail to deliver, not to enjoy the financial benefits.

The annual available at-risk compensation is calculated at the level of participation (expressed as a percent) times the base annual salary at the beginning of the measurement period. Officers’ annual basis percentage was set by the Board of Directors. The remaining staff at-risk compensation levels are set by the CEO. The CEO’s at-risk compensation by contractual agreement is reviewed once each year by the Board of Directors.

Most participants have an opportunity to earn a portion of their annual at risk compensation three times each year. The plan is built around the milestone management trimester system that is part of the Performance Management Program. Once the level of participation is determined, the at risk compensation for any given trimester period can be determined. The at-risk compensation for a trimester is prorated to the length of the trimester. For example, if an individual is eligible for up to a 10

percent of base pay in at risk compensation, and the annual base pay for the individual is \$50,000 at the beginning of the trimester, the following would apply:

If a trimester is 124 days long, or 124/365ths of a year equal to 34 percent of the annual bonus opportunity, the at risk compensation available during this period for the individual referenced above would be \$50,000 (annual base salary) times 10 percent (the level of participation) times 34 percent (the length of the trimester) - $\$50,000 \times 10 \text{ percent} = \$5,000 \times 34 \text{ percent} = \$1,700$.

An individual cannot earn more than at risk compensation available for the period. Actual at-risk compensation earned and paid is based on the recommendation of the manager. In most cases the recommendation reasonably reflects the score achieved for the trimester in the milestone management process.

At risk compensation is typically paid within 45 days of the end of the trimester. Staff must be working for ICANN on the date the payment is made in order to receive the payment. Individuals whose working relationship with ICANN has ended before the payment date are generally not eligible for payment. Recommendations for at-risk compensation payments are approved by either the COO or the CEO before payment, and in the case of the CEO, is separately approved by the Board of Directors. Participants must work at least 35 percent of the trimester period to be eligible for an at-risk payment, including those who are on leave for any portion of a trimester. Any at risk payment recommended is prorated for the length of the trimester period worked.

Time Off Benefits

Time off benefits include vacation time, public holidays, sick time, bereavement leave, jury service pay, and any other paid time off required by law. Payments for these benefits are made in lieu of base pay for the benefit day(s) and are reported as part of base compensation.

Health and Welfare Benefits

Health and welfare benefits include health insurance programs (such as medical, dental or vision plans), life insurance, accidental death and dismemberment insurance, travel accident and other relevant insurances as appropriate. The types and levels of programs provided are based on competitive and regional practices as well as local law. Every effort is made to treat staff equitably based on competitive practices. This includes providing certain staff with benefit compensation in lieu of buying benefits directly for that staff member when such purchases are not practical or available to ICANN.

Retirement Benefits

Retirement benefits are provided to staff based on competitive and regional practices as well as local law. Every effort is made to treat staff equitably based on competitive practices. This includes providing certain staff with compensation directly in lieu of contributing to a retirement scheme where such contributions are not practical or available to ICANN. Where ICANN contributes to a retirement program all contributions are made during the term of the staff member's employment. ICANN does not accrue any liability for retirement benefits to be paid at a staff member's retirement.

Housing Allowance

In some instances, housing allowances may be provided to key staff members when the staff member is asked to work in a location that makes commuting from the staff member's permanent home impractical, or where a staff member is relocated at ICANN's request. The housing allowance is

negotiated and is not intended to cover the full cost of maintaining two households. Any housing allowance provided is reported as taxable compensation as appropriate.

Reporting

Compensation is reported as required for staff members to the appropriate applicable jurisdiction(s). ICANN is guided in the preparation of its United States annual tax return on Form 990 (the 990).

Additional Information

The following individuals are officers of the corporation. Accordingly, their remuneration for FY2011 is explained in detail here.

President and Chief Executive Officer

Rod Beckstrom was appointed ICANN's President and Chief Executive Officer, as well as a member of the Board of Directors, effective 1 July 2009.

Mr. Beckstrom entered into an employment agreement with ICANN effective 1 July 2009 for a term of three years. Under the terms of the agreement Mr. Beckstrom is to be paid a base salary of \$750,000 per year, is eligible for additional at-risk compensation of up to \$195,000 per year, and is provided coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan that ICANN makes available to all its U.S. based employees.

Chief Operating Officer

Mr. Akram Atallah was appointed as Chief Operating Officer effective 20 September 2010. Mr. Atallah's compensation consisted of a base salary of US\$350,000 per year which was increased to US\$402,500 per year effective 1 September 2011, additional at-risk compensation of up to 30 percent of base per year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan that ICANN makes available to all its U.S. based employees.

General Counsel and Secretary

Mr. John Jeffrey was appointed as General Counsel and Secretary on 2 September 2003. Mr. Jeffrey's compensation at the beginning of the fiscal year consisted of a base salary of US\$304,175 per year which was increased to US\$349,801.25 per year effective 1 September 2011, additional at-risk compensation of up to 30 percent of base pay per year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan that ICANN makes available to all of its U.S. based employees.

Senior Vice President, Stakeholder Relations

Mr. Kurt Pritz was appointed as Vice President, Business Operations on 2 September 2003. Mr. Pritz was appointed Senior Vice President, Services on 13 December 2006, which later changed to Senior Vice President, Stakeholder Relations. Mr. Pritz' compensation at the beginning of the fiscal year consisted of a base salary of US\$295,837.50 per year which was increased to US\$324,012.50 per year effective 1 July 2011, additional at-risk compensation of up to 30 percent of base pay per year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan that ICANN makes available to all of its U.S. based employees.

Chief Financial Officer

Mr. Atallah served as interim Chief Financial Officer from 1 July 2011 through 8 September 2011, but was not provided any additional compensation for performing these services in addition to his services as Chief Operating Officer.

Mr. Xavier Calvez hired on 8 September 2011, and was formally appointed by the Board as Chief Financial Officer on 17 September 2011. Mr. Calvez' compensation consists of a base salary of US\$250,000 per year, additional at-risk compensation of up to 30 percent of base per year, and coverage under vacation, health and welfare plans including medical, dental, vision, life insurance and a 401(k) retirement plan that ICANN makes available to all its U.S. based employees.