DUBLIN – FY17 Operating Plan & Budget WG
Sunday, October 18, 2015 – 17:00 to 20:00 IST
ICANN54 | Dublin, Ireland

XAVIER CALVEZ: ...We should talk about. As part of the next step, what we will try to do by the end of next week is circulate the follow up actions that we will have come up with, and we will also circulate that with the rest of our finance community distribution list so that everyone has the benefit of the outcome. Next. Just a reminder on the purpose and also how we're going to organize this, this is not a formal consultation, nor do any of you have any specific role of representation. Your input is your personal input and is taken as a contribution to the conversation to brainstorming, to input into the process.

This is a free conversation for all of us. Certainly you either have interest or competence or both into this process, and we would like to make sure we benefit from that interest, leverage it into valuable interaction. Our first instance last year was very productive. We are very early in the process, which is a good thing, because now we have a bit of time to plan. Don't hesitate to comment, to propose criticism, positive or negative, of the process we're going to talk about. Feel free to provide your input. The desired outcome is to be able to contribute into defining assumptions for the Budget.

It's going to help us also understand each other a little more – what are the expectations, what are the constraints that we come up with when, if you ask for something, for example, that we know we don't have, we'll let you know, "This is what we don't have," so that you'll understand a little bit better as well the information that we can produce, that we can't use, and what we can do to improve that. The desired outcome is to try to define a set of assumptions for the Budget for FY17 and provide input so that over the next few months we can develop a draft of the Budget. Timeline. Carole, please?

CAROL CORNELL: Hi. Wherever possible I gave everybody a hard copy of that, so even though you mightn't be able to see it on the screen, we did put it in the deck and we'll be bringing more of those around, so if you'd like another one, great.

XAVIER CALVEZ: The timeline – I will start looking at this timeline by anchoring it on the public comment period. The public comment period is currently slated to start the 5th of March and finish at the end of April. This is about 55 days, and it's really the keystone step of the process, because everything that happens before then it designed to produce the draft that will be provided. Everything that happens after that is the result of the public comments that

we will have received. That period is not slated about two weeks earlier than it was last year – the beginning of the PCP last year was March 18th. This is not March 5th. Last year was already seven weeks earlier than the year before.

So earlier March, until the end of April. In order to be able to produce a draft of the Budget by March 5th, we need between mid-October, now, and March 5th to produce the draft, which means going backwards in time. Before we produce the draft for pubic comment it would have been reviewed by the BFC. They'll review the information produced. We will have briefed the BFC along the way, but the BFC systematically reviews the draft at a high level, is provided with an understanding of the content information prior to its posting for public comment.

Prior to that, of course, we will have a finalization of the entire document, and we will look at the content of the document later during the Workshop. Therefore, during the month of February we'll finalize all the input from the departments, the reviews with the management of the company will be finalized, and the full presentation will be finalized. This is, as you remember, about 70 pages of information, plus the breakdown of the Budget, of the Expense Budget, by objective, goal, portfolio and project.

This year, as you remember, it was approximately 300 projects, a bit more, that we've broken down between their cost components, personnel, travel, professional services,

ICANN | 54
Dublin
18-22 OCTOBER 2015

administrative costs, and capital. We also provided FT, full-time equivalent information at the portfolio level. For the first time last year, we came to the limit of providing granular information, because it was becoming confidential – not because we couldn't produce it – but because it was becoming confidential.

So we had to take out full-time equivalent information at the project level, because we realized we were actually giving salary information on personnel. For those of you who've been in this for a long time, we've never come to not being able to produce information because it was confidential, but because we didn't have it, so that was a first. The prior step to that, which is laid out here in brown, I think, up to the end of November, is the Operating Plan update. This year, for the first time, we have the update of the Five-Year Plan as a step in the process.

Year two of the Five-Year Plan is FY17, so we'll need to look at what we had in year two of the Five-Year Plan, look at what the achievements will have been at the end of FY16 – and remember, this is going to be a projection; we're going to try and project where we're going to finish at the end of FY16 – and that will be our starting point for the update of year two of the Five-Year Plan, which is FY17. Carole will speak more about that later. But this is the first time we're going to do this, but it's an important step, because it precedes developing the One-Year Operating Plan…

Sorry, let me remind you – our Five-Year Operating Plan is developed at the portfolio level. We take the Five-Year Operating Plan at the portfolio level, and then translate it into a One-Year Operating Plan at the project level. That's the step going from five-year to one-year – going from portfolio to pen, and then that One-Year Operating Plan at the project level will be quantified in terms of costs, giving now to us the Budget, and we will develop that from mid-November through early January. We'll then have management reviews, to be able to finalize the draft numbers.

I'm expecting that we'll have iterations. What happens is that when the departments submit their Budget, we need to make sure we arrive at a total that corresponds to the total of the company level that we can afford. What we have tried to do this year is create a more stringent process of target definition. So it's a tool. To try to be more efficient in planning is to define targets up-front, so that those are being used by the department, as: "Okay, this is my limit!" and then developing an Operating Plan and trying to not exceed that limit in the submission of the plan. There could be exceptions, but we're going to want to be looking very tightly at the exceptions.

So when we're going to round up every departments' submissions we're going to arrive at a total and probably need to iterate once or twice with those who may have exceeded their target, to see whether this is an exception we accept to reflect in

ICANN | 54
Dublin
18-22 OCTOBER 2015

the Budget. Where we plan today, if someone is above their target, they'll have to come down below. That's what happens prior to the publication on the 5th of March. Any questions? Any thoughts? Any ideas on those phases at this stage?

After the PCP, on closing of the PCP, we will consolidate all the comments. We will immediately organize calls with representatives of the submitters of the comments to go over those comments in an interactive fashion during a call. It may seem a bit redundant to go over the comments that have been provided in writing, as turned out to be quite a useful step of making sure we all understand the comments. By the way, there are Board Members participating to this call. I have assigned, last year, each Board Member to one call, minimum. We had at least one Board Member to each call to participate, to understand, ask questions and be involved in the reading of the comments.

We had Cherine who was assigned to the At-Large review of comments, Chris Disspain was for the ccNSO, and so on and so on. We will repeat that. The staff will use that input received during the call to develop draft answers to the public comments, which will then be reviewed by the Board Member that participated in the call at the beginning of the process, for quality control. Once that review will have happened, we'll provide a consolidated list of public comments to the Board, so

they understand what the responses are, and they can provide input as to adequacy. We'll then publish the responses to the public consolidated list of comments, with the suggested response.

We'll publish that as fast as possible, in ideally early June. This year, from memory, we've done it June 5th – this year I mean for the FY16 process. It's done early before the ICANN Meeting, but it's about two weeks before, so at least the community ha a bit of time to look at how the comments have been addressed. It will be particularly important in the future, that phase, with the accountability mechanisms on the Budget that are being formulated today; that are obviously very much in development.

But those processes or those accountability mechanisms, changes, are suggesting that there's an escalation process after the public comment, that the community can go through in order to ensure the comments are adequately taken into account and reflected into the Budget. If they're not, then the community has mechanisms to be able to require the organization to take the comments into account. We'll need the time to do that before the Board approves, ideally.

Then Board approval at the end of June, usually during an ICANN Meeting, but it doesn't have to be, even though from a formal standpoint it's a nice thing to do. At least, a number of community members have expressed the fact that that the

Board approves the Budget during an ICANN Meeting is welcomed. Any questions? Comments? Thoughts? Tijani?

TIJANI BEN JEMAA: Thank you Xavier. It's not really a substantive comment, but about having the Budget published before it is approved by the Board, let's say, a week before. You said it is good for the community to know how the comments were reflected in the Final, but it it's useless for them, because they cannot do anything with that. It is good, but I don't think it's used. Perhaps with the new accountability mechanisms it will be useful.

XAVIER CALVEZ: I agree. That makes sense. Yes. Please?

MARY UDUMA: I want to just draw you back to where you said Five Year-Operating is at the portfolio level. Maybe you want to substantiate what the portfolio level is. Then what Tijani has said, at least with the new thing we are looking at, it might be very useful. It might not be for the members of the ACs, but if it gets to their leaders, they will be able to get feedback on that at least. I think it's still very useful.

XAVIER CALVEZ: That's the purpose, yes.

MARY UDUMA: So what do you mean by "portfolio level"? Is it that it's the GNSO portfolio level? Or at the ICANN corporate department level? Is it the community portfolio, or department portfolio?

XAVIER CALVEZ: In the structure of the management information that we provide, we have five strategic objectives, 16 goals, and approximately 55 to 60 portfolios.   So it's a breakdown that corresponds to activities within each goal that contribute to the achievement of the goal. The granularity that that represents depends a bit on the goal and the objectives, and also on the type of activity. For example, I can tell you that there is a portfolio for the Finance and Procurement Operations, for example, my department. It's lumped into one portfolio. But some portfolios are a bit more granular.

Some are sometimes including a lot of different operations. It will depend on the level, and that's the level of the Five-Year Operating Plan.   Then the One-Year Operating Plan is at the project level. If you look at the FY16 Budget, there is a document that shows you the entire list of projects, grouped by portfolio, grouped by goal, grouped by objective.   So you can see the

granularity of what the portfolios represent. We'll talk more about it a little later. Carole, go ahead.

CAROLE CORNELL: I also want to say that it is the same format for the last several years, so there is some consistency, and even some of the portfolio titles are the same, but each portfolio has a written description as to what is contained within, and even in FY16, the list of projects that support each portfolio is available, so we can make sure that there is a continual link between all those levels, and that ties to the Five-Year original Plan. We've been doing a red line periodically to ensure that the portfolio names, as much as possible, carry from year to year.

XAVIER CALVEZ: [Taryn] is going to kill me, but what we're going to try to do this year is… [Taryn] is going to confirm… Is you will see this list of projects and portfolios. We're going to try and put what the amount was in FY16 in front of FY17, so that we start having, in that view, the evolution of costs, year-on-year. So part of our challenge is that it will be budget to budget. It won't necessarily be actual to budget, because we don't have it. Nor do we produce forecasts within the year at the project level, which would be ideal, but is not yet the case. So it will be budget to budget.

Now, when you look at how we deliver the Budget, at least for FY15, that has been closed, we had our actual costs relatively close to our budgeted costs – within close distance. So it's an okay approximation, if you see what I'm saying, to show budget to budget. It's better than nothing. It's not as good as if we'd have a detailed estimate. So it's a bit of a middle-ground. But that will be useful. That will also mean that we'll need to reconcile the portfolios year-on-year – which portfolio may have disappeared? Which new portfolio may have been created? I think that would be a useful trend. Chris?

CHRIS: Yes. Suddenly, the absolute amounts are... I won't say meaningless – but compliance $100 million, $200 million, whatever, it's the relative amount. But even budget to budget is okay, because it's where we see the difference, and we see an alarming up or down, then we just check against actuals and that's okay.

XAVIER CALVEZ: Good. Yes, please Mary?

MARY UDUMA: Okay, and it's also helpful, even if you are putting the actual Y15, and budget to budget, FY16 and FY17, it will be very, very helpful

ICANN | 54
Dublin
18-22 OCTOBER 2015

when you're making some comparison. You don't have to do the actual [unclear 00:23:01], because by the time you put in this, you don't have the actual for FY16. But if the information for FY15, it will really help when people are interpreting your project.

XAVIER CALVEZ: Unfortunately, we don't have the actuals by project. That's a big… Neither by portfolio. I know. I have the same frustration as you do. That's why I'm mentioning budget to budget, because we don't have the actuals. The main reason is because we do not track the time of staff by project. It doesn't mean that we can't do it in the future, but right now we don't. That's the piece of information that's missing for us to be able to produce the actual cost by project. Because the rest, we do – travel, professional services, every single invoice is coded by project. So we have the rest of the costs, but we don't have personnel.

That's a big process to put in place – those who do it, who have done it, know that it's an extremely demanding exercise, and it requires a cultural change, or process change, and a system support that will require those who don't want to report their time on a weekly or monthly basis, to actually do it. This is what we're talking about. This is a big step for us. But your input and influence about how much this is important and needed can help convince. To be fair, we have had a number of conversations on the topic in the past few weeks and months, including with the

Board. So this is not just a vague idea, this is a real topic. Any more comments or questions or comments at this stage?

Let's start on revenue. Mike and Cyrus are here. We'll go through the first few slides of revenue, but this is clearly an area where we need our input, insights on volumes, on trends. We'll start by showing data that we have from FY16 actuals versus FY15 Budget. How did we do? How does that compare to the Budget of FY16 then? How do we use that knowledge to start defining assumptions together on what the assumptions of FY17 should be? Becky, do you want to drive us through this?

BECKY NASH: Sure. This is Becky Nash.   This first slide is about the principles and approach for FY17. Primarily, we want to stress realistic estimates based on historical trends, and using estimated baseline scenarios for the New gTLD Program.   New gTLD transaction levels estimated using growth pattern of earlier launched strings, delegation dates estimated from contracting dates and deadlines, and legacy transaction levels based on historical trends, using our quarterly billing seasonal trends, and assuming no change to fee schedules in FY17.

The next slide is a comparison of our FY15 revenue, actual versus Budget, and our FY16 Budget. Primarily, we have two drivers from revenue versus the number of domain name registrations,

and the number of parties under contract with ICANN. For FY15 actuals we have total revenue of $102 million, versus total revenue Budget of $104 million. So fairly close and on target, but we break down here the components by the registry transaction-based fees, and the registrar transaction based fees, along with the fixed fees both for registry and registrar.

When we go and look at the FY16 Budget that was set, revenue was $113 million, and you can see the actuals of FY15 versus FY16 Budget. We have growth there because we did come in under Budget for FY15 in the registry. You can see then for registrar it's quite on par where we have the 15 actuals of $39 million versus $40 million in the FY16 Budget. So looking at the FY16 Budget being the launching point for reviewing how we're doing, to look forward into the FY17 Budget.

SPEAKER: These are the figures without the New gTLD Program?

BECKY NASH: That's correct. This is the ICANN operations.

XAVIER CALVEZ: To be clear though, when we say without the New gTLD Program, it's without the application fees' revenues and without the application processing costs.   But there are new gTLD

transactions and fees here, for those who've been delegated into the root and are in the contract. When we say new gTLDs, they are the new registries in here, for the new TLDs. Thank you for coming. Go ahead Becky.

BECKY NASH: The next slide identifies the...

XAVIER CALVEZ: Sorry, Ron has a question.

RON [SHERWOOD]:   Before you move off the last slide, can you bounce back? I'm new with this, and I'm curious. What stands out here for me is the fixed fees and the registries; seeing it dropping from $17 million to $12 million in FY15, and then jumping up to $20 million. What drives that number assumption, and why is it less and then why is it growing?

XAVIER CALVEZ: When we established the Budget 15, you have to put that back in time. That was approximately in March 2014. We thought then that the number of registries into the root would be at a level starting three months later, July 1st, at a level it was not at. It was lower. The actual year of 2015 we started it at a lower

number of registries, relatively significantly. We never caught up throughout the year. Basically, Becky has those numbers – maybe you want to go there Becky? Yes. We thought we would be at 344 registries at the beginning. This is not correct, Becky. I think we were at a lower number. But I know those are correct.

We ended up with a much lower number of registries at the end of the year than what we thought we would. That's the difference, because each registry generates $25,000 of fixed fee, or [$62.50 00:31:40] per quarter. So when we have a lower number of registries throughout the year, you multiply that by [$62.50] and you see that you will always get a lower number.

Can you go back to the dollar value a little earlier? That amount is something we predicted fairly well in advance. Because we could see the trends of delegation into the root. They were not catching up with our Budget assumptions, and we had started lower, we finished lower, and we therefore had the lower number. So that's the difference between this and that.

Now, the 20 is presuming a start of the year and an end of the year of the number of registries through delegations into the root. This year, we have a little bit more TLDs in the root at the beginning of the FY than we had budgeted for which is why our revenue for Q1 is a bit higher than the Budget, because of that. It's very mechanical. This is not that it went from 17 to 12 – it's that we were budding for 17, but we had 12 because we had a

lower amount of TLDs into the root, and this is simply right-sizing on the basis of the actual number of registries, and also continuing the growth, simply because we have more TLDs being delegated into the root.

We know the number we'll reach. It's in the range of 1,100 TLDs, so if you want to go to the volumes Becky? Next. The FY16 Budget, we started the year at 679. We planned to start the year at 602. That's why we're above right now. We're planning to finish at 945. We don't know for sure – and Cyrus's is working a lot on that – if we're going to effectively finish at 945, or if we're going to continue delegating TLDs into the root at the original plan.

SPEAKER: If I can…? Additional clarification? If the original assumption for the 15 Budget was 1,000, and that derived at $17 million revenue estimate, and we're saying the FY16 Budget estimate is only 945 registries, but that's at $20 million, has the fee gone up?

XAVIER CALVEZ: No. It's simply because… Look, here the assumption was a ramp-up like this. So it's very low at the bottom…

SPEAKER:	Timing of the revenues? I get it. Little bit of a catch-up and then timing.

XAVIER CALVEZ:	I'm glad you're checking. We have one mistake here, it should be $155.3 million of transactions. We took a slightly different version of that number, but it is an error – it should be $155.3. Thank you Mike for correcting us. You've commented on that already? No? Okay. This is the volume of transactions. We've had a lot of conversations altogether in the past on what those numbers are, as well a what those numbers are. Just as a reminder for everyone, the billable amount of transaction is billable by ICANN, and it's different than the total number of transactions, simply because we have that 50,000 transaction threshold.

It can be billed only those on the new gTLDs, the transactions that occur during a quarter, during which the threshold of 1,000 transactions has been crossed. That threshold is measured over a four quarter cumulative period. If you have 10,000 in one quarter, 10,000 in another quarter, another 10,000 in the third quarter, you have 30,000. None of that is billable. If you have 21,000 in the fourth quarter, then the TLD becomes billable. The amount billable is 21,000 - the number of transactions that occur during the quarter where the threshold has been crossed.

So it's not 50, it's 1,000, in my example – it's 21,000, because that's the number of transactions that occurred during the quarter, during which the threshold was exceeded. It doesn't make planning very easy, by the way.

So, how right or wrong have we been? You can see that when we planned 16 million of transactions, we planned that we would have 11 of billion, so it's a ratio of 2:3. What it turns out to have been in 16 is 1-2 per cent. When we planned for 16 a few months ago, we said, "It's probably going to be more like 1:3, so we'll continue to monitor that to see, effectively, what is the ration that we're trending towards in terms of billable over total?" Right now, if we would continue on this trend, in actuals, we would be on the safe side because we budgeted for less.

Now, having said that you can see that we had half the amount of transactions that we thought. Of course, it's largely driven also because we had less registries, but not only. It's also because we had planned for an average number of transactions per registry, higher than it turned out to be. You can see that in 16, with a lot more registries, we're planning the same amount that we had planned in 15 – a lot more registries. So the question is, is this realistic? In two days from now, the registries will have reported their numbers for Q1. We'll know a little bit the trend of the quarter.

We have the transaction numbers for July and August, but we'll get to September in a couple of days, the registries report their transaction numbers by registrar by the 20th, almost the end of the previous quarter. We will start having some transfer for Q1. With Giovanni in the ccNSO SOP Working Group, we had a meeting this afternoon where a few ccTLDs provided facts on their registration revenue trends. I think notably those in Europe see stagnation of registrations, or increase of registration. We have not seen that as of yet, as you can see.

This is basically a two per cent growth, versus Budget, and as I indicated earlier to the ccNSO, the Budget was planning for a 1-1.5 per cent growth over 14. So this is basically a three per cent growth over 14, of the G's. Yes, Giovanni?

GIOVANNI SEPPIA: Yes. Indeed, we spoke about this pattern that we have been investigating for two years now, at especially a European level, via CENTR, regarding a decrease in the growth of ccTLDs. Also, we have spotted a similar pattern for new gTLDs in Europe, and also some historical gTLDs. We've been investigating this a lot. Much depends on the different markets, because there are some local factors that are impacting the different markets. But we've seen, at least for Europe – not the European Union; we're talking about broader Europe – that is indeed something that is happening.

As we said during today's ccNSO Meeting, there's come a point analyzed widely by CENTR, in 2017 we'll see that the deletion rate is going to be higher than registration rate. So 2017 is seen, as present, with the current data that's been assessed so far, as the most critical year for European ccTLDs. What I'd also like to point out is that we are very much looking forward in Europe for the assessment we're making, to see the first renewal rates of the new gTLDs. Because in Europe, the new gTLDs didn't have the uptake, some of them, and this is something we've been receiving as feedback from most of the biggest European registrars.

On the contrary, some of them pointed out to us that at some point in the near future, they will consider to stop promoting some of the new gTLDs, because they see there's no market. That applies also to some of the more geographically linked TLDs. I think that the coming two or three years will be very much critical for understanding where the domain name market is going.

XAVIER CALVEZ: Mike, I have a question for you – if you can try to retrieve that information. Can you retrieve the renewal rate that we're assuming in our model for the…? Do you remember that? Or do you have that off the top of your head? I have another question, also relative – d do we have transaction data by geographic…

Giovanni was pointing to geographic specificities, but I don't think we have a lot of that, and I didn't know if you could help us address that?

MIKE ZUPKE:

This is Mike. I don't know if this is being recorded, or if there are people participating remotely... Anyway, thanks for the question. The answer to the question about the renewal rate is it's more complicated than just having a number, and that in part is a result of the meeting that we had several months ago, at one of these meetings. We came in and we said, "Well, we think maybe a number of 75, if we exclude all the ones we think are being given away free," and people here said, "We think that's a little bit aggressive," so we reduced the number. I think we said, "Fine, we'll say it's 50 per cent, and we'll just exclude the ones we think are being given away free, to the extent of being given away free.

So in our numbers we started with that methodology. What I'm doing right now is we think towards the future. I'm being a little agnostic to whether some things are renewal or a new registration, which I know is probably frustrating to people who are looking at this from a marketplace perspective, but from a revenue perspective, to me a renewal is the same thing as a creation. So I'm looking at the aggregate trend as I'm doing it

now. It seems to be a little bit more reliable and a lot less tedious, in terms of trying to do the calculation.

That was our best thinking, and that's the result of what we got from people in the community.. In terms of the geographic question, I think I have so much I could learn from ccTLDs. I picked up a few tidbits today that were really helpful. I don't have a crystal ball. I think what I heard today from some of the members of the ccNSO is probably better than anything I would be in a position to share. I don't have any region-specific information nor ccTLD information.

XAVIER CALVEZ: Which means that therefore, for the moment, we're not projecting registrations on the basis of geographic distinctions. It's a g market and we look at it from global perspectives. Yes? Chuck has a question.

CHUCK GOMES: Thanks, and thanks to Mike and Giovanni for the input. The renewal rates – and I think everybody already knows this – for a TLD domain name that's been renewed once, seems to run higher than those who are the first time around for renewal. That will come into play a little bit more in future years than it will now, but it will affect some of FY17, I think.

XAVIER CALVEZ: Correct, and we'll start building more and more experience as time goes by on the renewal rates and the trends, and the speed also of ramp-up of the TLDs. Becky, can you put up the slide with the numbers? We have some averages that we've pulled out. The legacy TLDs are 18, and the average is 8.4 million of transactions, but of course there's such a range between .com being so big, and some others being so small that the average is not necessarily that meaningful. The averages that are below are a little more interesting.

For ICANN, the 3.6 million of registrations that you've seen earlier were billable in FY15 come from 21 TLDs, out of, at the end of the year, we had precisely 678 TLDs in the root, by the end of the year. At the beginning of the year it was a bit less than 300, but at the end of the year it was 678. But obviously this is a very young market, no question, but 21 TLDs, which means an average of 171,000 transactions during the FY for those TLDs that were billable. Sorry, no – this is the billable number of transactions. There are a bit more transactions for those TLDs because the thresholds of 50,000.

But I think it's useful for all of us to understand and certainly you have more data, more experience rates, that you can share – we'd very much welcome that, because that would be helpful for

us to send projections in the… Mike, any comments, questions? No?

MIKE ZUPKE: I just wondered whether it's worth doing a side exercise with an upper and lower bound in this unknown area, because it's probably not so significant in terms of the overall Budget numbers.

XAVIER CALVEZ: Fairly simple. $3.4 million of transactions is $800,000 Budget of revenues? Quarter, 25 cents? Now, the 7.6 million generates 18 cents per the registrars, and there's no threshold there, right? So it's about $1.5 or so. So the new gTLDs in FY15 have generated approximately $2.3 million of revenues. This is less than two per cent of our revenue in 16. So two per cent of the revenue in 16, it's not huge, but of course we're all – not because of ICANN's revenues – but we're all hoping that it's going to grow, from the perspective that this is the market growing.

But yes, it's a very small number of our revenue, which I indicated last year. Because a lot of people were saying, "Your assumptions are too aggressive, this is dangerous." It was dangerous to an extent. The impact was relatively small. We had more application fees from registrar applications in FY15 than we had revenues from the new gTLDs. Sorry, I'm excluding

the fixed fees. I'm talking just about the transactions. Any comments or questions about those numbers?

So those of you who participated in the process last year may remember how we formulated our assumptions for the revenue. We had a baseline scenario. We had a high and a low scenario, and we of course modulated the assumptions across those three scenarios. From memory, if anyone was in on the Budget presentation last year, we had, for example, transaction volumes on legacy TLDs that were going from zero per cent on the low scenario, two per cent on the base, and three or four per cent on the high. Something like that. We were on two per cent. We were on the Budget, more or less.

So application fees. We have several sections; registrar accreditation. We have application fees. This year, for the Budget, we assumed 60 applications of new registrars, and we're already much past that. It's at 550 last year. We normally had 50, 60 year on year, before last year. Are we going to have another 550? Of course, we don't know, but we will assume a number of new accreditations in FY17. This generates $3,500 of fee per application, and we'll have a high and low scenario.

Accreditation fees, this is the $4,000 per accredited registrar, per year, so that one is simply a result of the number of registrars that will come out of the number of new accreditations that we will determine there. In simple terms, if we start the year at

ICANN | 54
Dublin
18-22 OCTOBER 2015

1,500 registrars, and we assume that this is going to 100 new registrars, then we'll have 1,600 registrars; 1,500 at the beginning, 1,600 at the end, times 4,000 – very easy, and very straightforward.

The per registrar variable fee, this fee is really annoying! First of all, it's fixed, even though it says "variable fee", it's fixed. It's fixed at 3.4 million and has been for a while, but it's variable per registrar, because that 3.4 million total is divided by the number of registrars through a mechanism that changes every quarter, just to make it simple. I hate this fee. It's not that we don't want it, it's that I hate the mechanism of it, and we've had earlier discussions with the registrar.

Well, not very early discussions. I had one conversation with James Bladel from GoDaddy: "Do you guys care if this fee is fixed or variable? Because for us it's such a pain in the neck." It's a $2,000 or $2,500 fee per year, per registrar, so of course the big registrars don't care, one way or another. The smaller ones do, a little bit, but variability on top of that, it goes from either $2,000 or $2,500. It doesn't make a huge amount of difference, but it's an absolute pain in the neck to calculate.

MIKE ZUPKE: Xavier, if I could? So if it was merely just dividing the number by all the registrars, it obviously wouldn't be that hard, but there's a

formula for giving partial forgiveness to registrars who meet certain criteria? That's where the pain in the neck comes in.

XAVIER CALVEZ: Absolutely, and the effect of that calculation is relatively minimal. Mary?

MARY UDUMA: Is it that when you have a new registrar, then you recalculate, because the amount is fixed, year in, year out? Then you accredit a new registrar, you recalculate what everybody in the group…?

XAVIER CALVEZ: Correct. It's a bit more complicated than that, as Mike indicated, but in principle you're right. So then transaction volumes – this is legacy TLDs. So far, we have split assumptions between legacy and new TLDs, just because it's a very different population in terms of maturity and growth and so on. We have honestly made it relatively simple for this to simply say, "What is the growth rate, year on year?" Mike and Cyrus and Krista from the Registry Team used their knowledge at the time to try to determine a growth rate. Now I have a legal hat and a disclaimer: we need to be really careful in the way we formulate assumptions relative to the legacy growth of transactions.

ICANN | 54
Dublin
18-22 OCTOBER 2015

A large player in that number is a quoted, listed company on the stock market, and we cannot make assumptions that could be interpreted by the public as a statement, to be clear, for Verisign on their future activities and revenues, and therefore stock price. So we have retained an approach, which we cannot really depart from, to look at historical trends of transactions, notably for .com, and use that number to be projected linearly the following year.

This is the least committing methodology to determine the growth rate of the legacy TLDs, because it's preventing us from making market assumptions on behalf of Versign, that will affect their result in stock price. Any questions so far? Then, the new TLDs. We have discussed that a little bit. Mike, do you want to try to explain a little bit more how you try to define assumptions on the new TLDs, with Krista?

MIKE ZUPKE: I assume you're really talking about the fixed fee component, or both?

XAVIER CALVEZ: Both fixed, and transactions, really.

MIKE ZUPKE: I'm going to try and channel Krista, because most of the intelligence has gone through all of the strings that are some place in the process, and try to come up with estimated dates for delegation, which is a trigger point for the fixed fee. Putting in intuition, and also things that we hear, and having conversations with people who might be applicants, or people who have been through the process already, who have multiple strings… I guess what I'm saying is we do our best to try and estimate when we think people are going to try and get to their delegation date.

It's been shown in the past, since she and I have been responsible for that part of it, we're probably a little bit on the conservative side sometimes, where we're looking at this and we think… Say for example, while we think .brands are probably going to wait until the last minute – obviously, it's not that general of a statement – but we find there's actually been very genuine enthusiasm for a lot of people to delegate. That's where I think you end up with the low, the baseline, and the high as, "Okay, where do we think is…?"

What would be the worst case is if everybody waited until the very last day to do it, and then the high scenario is that everybody clambers to be first. The farther we get down this process, the less it matters. That's the fixed fee, and that's of course accounts for $25,000 a year for every TLD that gets delegated. Boss is telling me I've got to stop now, okay!

ICANN | 54
Dublin
18-22 OCTOBER 2015

CYRUS NAMAZI: No, no, you said it really well. I'm Cyrus Namazi, also part of the team that works on putting the revenue projection model together. I just wanted to add to what Mike was saying. This is a process we also followed last year. We actually have done a TLD by TLD analysis to determine, based on some of the know or hard facts or assumptions, for instance, an applicant has a finite amount of time to sign a contract from the time they get invited. So they get into an analysis. Then from the time they become contracted, they also have a finite amount of time to become delegated. The delegation is the trigger point in time when the fees start kicking in.

So we have a model for each one of these, believe it or not. There are hundreds of TLDs. Yes, we had a bump in there, as Mike mentioned, because a lot of the brands had waited until the last minute to sign their contracts. I think it was in June, if I'm not mistaken. A few months ago. That also opens up the 12-month window from when they have to be delegated. Some of it may be shifted in time, but keep in mind that the predominate contributing figure is still the fixed fee. Then I think it lends to a certain level of accuracy, at least for the whole year.

XAVIER CALVEZ: The model basically gives us a number of TLDs by the end of each quarter, as a result of those dates being predicted on the TLD by TLD basis, so that when you look at our quarterly reports, for example, you may find that the revenue is not necessarily linear, because we use the result of the model that predicts TLD delegations on a by month basis, and therefore quarters may be looking different for the fixed fee as a result, or the growth of the fixed fee. Yes, Lesley?

LESLEY COWLEY: Thanks Xavier. So am I correct in thinking that the transaction based fees from registries is the biggest proportion of ICANN income?

XAVIER CALVEZ: Yes. It's approximately $49 million for FY15. It's nearly 50 per cent.

LESLEY COWLEY: I think what you were just saying is that currently a large proportion of that is Verisign, and because of the issues around the market, it's difficult to affect that, which I understand. Have we explored organizations that must be in a very similar position in terms of where you need information to inform your own planning, because if that were public, that could be market-

ICANN | 54
Dublin
18-22 OCTOBER 2015

sensitive? It strikes me that even small variations in that income would have quite a material effect on the overall revenue for ICANN.

Also, I I worry about making assumptions based on historical growth averages when the market is as volatile as it is, and iIncreasingly, I think will be, going forward.

XAVIER CALVEZ: We use as much public information as there is, relative to Verisign. So if Verisign would say… Let me be very clear, and Chuck, pardon me if we are speaking like if you're not here, but jump in as much as you'd like. If Verisign would say, for example, "We're expecting a five per cent growth," we have the ability, if we would like, to reflect that. Whether we want to do it or not is a different question, because we may want to be more conservative than what Verisign would provide as input. This is why the historical trend is a non-committing approach, if you see what i'm saying.

Now, when I say non-committing, with the limits of the past, it's not always telling you the future. It's also why we felt that using scenarios, low and high, was helping us in feeling that sensitivity, and being able to sense, on that basis, two per cent of $50 million is $1 million. The bottom line is this is how we measure

that sensitivity. It's not very elaborate, not very detailed. So far it's been okay. Cyrus?

CYRUS NAMAZI: This is Cyrus again. That's a great point that you raised, Lesley, and I just wanted to echo what Xavier was saying; that we also track publicly available information. A lot of our contracted parties that pay fees to ICANN are publicly traded, and they do provide guidance to the investment community, and we track that, and go back and put that into our model to see how closely it's tracking. So far, we've been doing this exercise, Mike, for 18 months or so, that we really have a very detailed model, and it's proven to be accurate, for what it's worth.

XAVIER CALVEZ: Thank you. Sébastian?

SÉBASTIAN BACHOLLET: Sébastian Bachollet. I have one question about our application fee and accreditation fee. I can just decide to withdraw the need for the viability or the… I don't know the term in English for the new registrar. I was wondering if there was more study about the fact that for some regions, those fees are very high, and are difficult to create new registrars, namely in Africa and Latin America. I would like very much that we study that, because it

could be one way to have more registrars in this region. If we have more registrars, we may hope to have more registries in the possible future new round of gTLDs. Thank you.

XAVIER CALVEZ: Valid topic, but a little bit outside of our planning exercise, and certainly from a planning standpoint, the application fee, and accreditation fees are relatively… I shouldn't say small. The application fees are relatively small, usually, outside of the outliers type of years, like last year. The accreditation fees represent approximately $6 million of fees for ICANN. Basically, $6 million is an average of 1,500 registrars. It's 1,500 times $4,000 dollars. So this is the extent or impact of that fee. That's the extent of our assumptions on the revenues. Cyrus?

CYRUS NAMAZI: This is Cyrus again. I just wanted to address Sébastian's point. Your point is very well taken, and to the extent that we can, we do try to take away these so-called barriers that keep some of these, what we've come to call under-served region, from becoming accredited or becoming registries. For instance, an example of it is that last month, our Board actually waived the commercial general liability insurance requirement has been in existence since the beginning of time, back in 1999.

That, from our study in the two rounds of public comments, it proved to be one of the contributing impediments to some of these regions not being able to rise to the level of, for instance, becoming accredited. To actually changed the fee structure on a regional basis is a very sensitive topic, and probably the best left-footed policy engine to address. I don't think it's in our remit. But to the extent that we can, we try to bring the barriers down. Thanks.

XAVIER CALVEZ: Thank you. Can we bring the revenue planning to a close? Cyrus and Mike, thank you very much for participating. This is useful. Next, USG stewardship transition. No, you can't leave now! It's going to be very simple. Next slide please. I'll introduce it quickly, but Trang will bring us through a couple of slides that will help us understand a bit where we are, and what we need to do.

Just a few thoughts on the USG stewardship transition planning. FY16 initiatives, cost, we have $7 million budgeted for the cost of the transition, not for the planning of FY17, but for the cost of the transition. We're going to monitor those costs tightly. It will also lead us to have more insights on 17.

The status of the proposals between ICG and the CCWG will of course impact the amount of information available throughout

our planning process. I want to remind everyone that we're intending to publish a draft on the 5th of March, so in four and a half months, and that of course what we publish on the 5th of March is being developed in the weeks prior to that.

The PTI implementation model will have an impact, when it materializes, on the costs of ICANN. An example of that question is if the operations of the PTI need to be very separated from the ICANN operations, that may create costs that may not be present if the operations are more integrated, as an example.

So this is a question that, until answered, will require maybe on our end, from a planning standpoint, some assumptions. Differently, the less information we have at the time we need to plan, the more assumptions we'll need to do, and the more information we have, the less uncertainty we'll have. This is what this bullet point, more or less, three is saying. I'm assuming that somewhere by mid-January we'll have to stop any changes to our assumptions, so that we can produce the draft. We're going to freeze the assumptions more or less by mid-January. What will we know then? That's the question.

We will need to plan for implementation activities and costs, and post-implementation activities and costs, because I'm assuming that there will be an impact on FY17 of both. I'm not assuming that all the implementation activities will necessarily always be

ICANN | 54
Dublin
18-22 OCTOBER 2015

completely finished by the end of June. There may be some that continue.

Implementation Team. Trang represents the Implementation Team. The way we're planning to organize ourselves is Trang and her team will own the assumptions relative to the impact of the USG transition on the ICANN Budget. So PTI and accountability mechanisms as well. Whatever assumption we make, this is something that Trang's team will own.

This is helping us. It's detail, but this is very important, that we have one source of assumptions relative to that topic, so that we ensure that we have a prominent correlation between what makes its way into the Budget and the project management. Of course, Trang is in every meeting on the topic right now, so she knows everything about what there is to know at any point in time. I'm not trying to put pressure on you. Okay. So that's the environment under which we are… Yes, Giovanni, and then Trang will start on her slides.

GIOVANNI SEPPIA: Giovanni Seppia, .eu, for the record. I just have a very basic question, which is how much of what you just explained to us is known to those who are in the accountability and transition process? I think it is essential for some of the Chairs or Co Chairs of the three key Working Groups to be well conscious of the

ICANN | 54
Dublin
18-22 OCTOBER 2015

implication and the timeframe for the Budget implications. So it's really something that they need to be aware of, and at some point they should be aware that if they change the [cars 01:13:53] at the very last minute, sorry, but they should have thought about that earlier.

XAVIER CALVEZ: I'll let Trang respond further on that, but… And Chuck, is that an old hand, or a new hand?

CHUCK GOMES: That's a new hand.

XAVIER CALVEZ: Give me a second, and we'll get to you in a second. From a methodology standpoint, at any point in time there's always assumptions, and there's always discrepancies with these assumptions. If we close by the end of January we'll know a bit more, a bit less. As you know well, a Budget is obsolete the day after it's been approved. Now, having said that, I'm not disputing the point that you're making, which is very important, which is it's important that the groups that are working now know the impact of decisions and timing.

I view the planning process as a recipient of the information available from the process, rather than as a driver of it. Meaning

by that that I'm not expecting that the CCWG is going to need to work faster, just because Xavier needs information to put into a document. I know that's not what you're...

GIOVANNI SEPPIA: No, no, I have a…

XAVIER CALVEZ: I have ambitions, but not that much.

GIOVANNI SEPPIA: No, that will never happen. I have a follow up question, because I've been involved in the Accountability Working Group since the beginning, and having seen all the iterations of the first proposal, the second proposal – one element that I believe is very much under-estimated is the impact on any budget of a certain new configuration of the accountability mechanism.

What I'm now saying is that if, for implementing the new accountability mechanism, there is a provision, an estimate that to implement that you need $20 million, I think that there should be, again, an awareness of those involved at a high level that if the Budget implications are so high, at some point the Budget is not sufficient to meet certain wishes of the community.

So I think that this is really crucial, because I see a lot of committees, and committees are added, and there are costs that anybody can assume are going to be there. Again, I understand that at some point you close, there are some assumptions, and that's it. I'm saying that there should be an awareness around that it's not that you're asking a multi-billionaire, who has nothing to do in his life, and is just rich, to fund some mechanism. But there is a Budget any Accountability Working Group has to cope with.

XAVIER CALVEZ: I'll put it in different words. If the team that works on it with the community would know that an option is costing $5 million and another option is costing $20 million, that should be an input into their thinking, at least – not necessarily the decision, but certainly the thinking. It's a very good point, and for us it's a little bit difficult to adequately support that process of evaluation and decision, because it's a decision on the fly.

Meaning, it's an input on the fly to be able to say, "if you have this option, I think it's going to cost $5 million, or if you have that option, it's going to cost $20 million." It's not easy to produce that information on an ongoing basis, but this is something…

ICANN | 54
Dublin
18-22 OCTOBER 2015

GIOVANNI SEPPIA: No. That I understand, but at least at high-level, to pass on a message for the long-term sustainability of the model, because again we are now having a situation where ICANN may afford a certain model, but in five years' time, if the partner in that, for instance, has been seen in Europe regarding registration trends is going all around the world, the ICANN Budget will not be able to afford a certain model.

XAVIER CALVEZ: Absolutely, and we are at a point where logically, and expectedly, the revenue of ICANN is not growing at the same speed anymore, and nor should it, either, by the way. But therefore, that means that our capacity to absorb significant costs change is limited as well. I'm not trying to push back the question on you, but you guys have input into the CCWG work, into the comments that they take into account. Please don't hesitate to pass on those messages, especially for those of you who have insights on the planning process, who have the understanding of the implications, from a planning standpoint. This is an extremely useful message to pass. This is a very good point. Thank you. Chuck?

CHUCK GOMES: Thanks. I want to first of all reinforce something that Giovanni suggested. It would be very good if Xavier, you and Carole and

your team communicated to the Chairs of both groups the deadline that's going to happen in January, where things have to be relatively fixed. Because then the extent is in their control. They can shoot for those dates and understand that you're going to have to make some assumptions at that point to meet the March 5th delivery date for the draft Budget.

Now, with regard to that, that cut-off in January – and you probably already thought of this – but at that time, if there are a couple of key variables that aren't finalized yet, I would think it might be possible, obviously a lot more work – but it might be possible to work on different variations of those key factors so that if those are decided after the January cut-off, but in enough time before the march 5th publication of the draft Budget, you could just plug-in or just make minor variations of one of the alternative scenarios that you had. Am I thinking right on that? Is that one way that it may be approached?

XAVIER CALVEZ: It makes sense. I'm looking at Trang because I can't… I've had this discussion about scenarios, and will need to determine how we translate that. I would expect that the approach that you're citing, I'm translating it in simple words in terms of scenarios. It's definitely something that we should consider. I think that it will likely be necessary to do that. One thought that I want to put in your mind is with the amount of granularity that we produce

the Budget with today, it's very difficult to introduce anything at the end of the process.

How am I breaking it down by project? How am I breaking it down by categories of cost, in just three or five minutes, and say, "There's a plug"? Now we are providing information from an Operating Plan's basis, with described objectives, with timing, with categories of costs, at the line item level. If I want to be able to provide you with cost by project, I have to have captured it by project. This is not a piece of cake. This is a cruise ship, not a dinghy boat – to be clear. We can't change the steering on the fly at the very end.

Having said that, therefore planning for scenarios may be an approach that we can take at the beginning with as much insights as possible as to what the variations of those scenarios can be between each other, and hope that we should do well. I was taking this image with Trang, who knows that program very well. You guys may remember the Budget of FY13. You remember, we produced that Budget together in the middle of the application window for the new gTLDs. If you remember, I produced three scenarios for the New gTLD Program – 500 applications, 1,000 applications, 2,000 applications.

Luckily, one of the scenario was very close to reality. Of course, it wasn't just by luck, because I knew how many applications were coming through. So the 2,000 scenario was not [hazard

ICANN | 54
Dublin
18-22 OCTOBER 2015

01:09:10]. The question is, are we going to be as insightful this time? I don't know. In concept, your idea, Chuck, is definitely something we're thinking through now. I should let you comment now.

CHUCK GOMES: Can I follow up with that? I think the community, and I'll speak for myself right now, is going to be understanding if those last-minute changes don't have the same level of detail in the draft Budget that you're doing with everything else. For example, if to get the draft Budget out on the 5th of March, on some of the accountability issues in particular, you can't do it to the project level like you're doing with everything else, I for one would understand that situation, because of the lateness of the decisions being made. Thanks.

XAVIER CALVEZ: I appreciate that, Chuck, and I appreciate the flexibility. It's also been commented since that until the very last minute, we'll try to make at least comments on the information that is either taken into account, or not taken into account in the numbers, so that we can at least inform as much a possible the process.

TRANG NGUYEN: Thank you. Yes, I just want to add to what you just said, Xavier. I think that scenario planning is an inevitable reality.   I think you're going to have to get there. But I think that some of that work needs to be coordinated with the discussions that we would have with the operational communities that defined these requirements. I know you said that earlier, but I just wanted to echo that. I think it's definitely something that we'll have to do as a result of the FY17 planning process. But that work actually, I think the discussions around that, need to happen within the operational community.

XAVIER CALVEZ: Yes, absolutely. Thank you. Tijani?

TIJANI BEN JEMAA: Thank you Xavier.   I do think this discussion is not very productive, since nothing is sure, as you know. We cannot make real production. What is the need need of the discussion if we cannot have any new element? As you know, all those who are on the CCWG, we may have the transition happen at the timelines already established. We can have it done perhaps with a delay, and it cannot happen at all. So there is no need to spend time trying to find solutions, since we don't know what will happen. So I think that we have to continue working like this,

make some productions, as Xavier said, and we'll see what will happen. That's all.

XAVIER CALVEZ: I'll just say, Tijani, that this is why this discussion is productive – because you just defined three scenarios. We've agreed that we will do scenarios, and then you just defined three scenarios. Now, some others, not being in this room, say, "We should not have a scenario under which the transition does not go on." People have said that. You see, there's a debate there.

But for me, it's very useful to have this conversation, because I think we are going down the path that scenarios may be the right approach, and that those scenarios will be defined on the basis of the knowledge at the time, that needs to be shared and informed by the conversations and the operational community who works on those projects. So then we're all aligned, up to a point.

TRANG NGUYEN: Xavier, this may be a good segue to the timeline?

XAVIER CALVEZ: It is. That's exactly what I was going to say. Let's go over your slides.

TRANG NGUYEN: Thank you. I just have a couple of slides and a couple of points I want to go over. We've been talking a lot about the timing of the FY17 Budgeting and planning process, and I just wanted to show this slide, which some of you may have seen is the slide that's been shown to the community in various sessions and calls. We've taken a look at what are some of the scenarios that could happen, depending on when the proposals would be finalized. We've illustrated here four different scenarios.

The one on top is essentially a scenario where the proposals would be finalized this month, or early November, in which case, as you can see, we would have the four months of implementation that we need, plus some addition above our time, in case we need that. The second scenario that you see is if the proposals get finalized in December. What that means is we would just have enough time for the four months of implementation work, and then anything that gets finalized after that would be in the red zone in terms of implementation. The vertical line that you see on the right hand side is September 30th of 2016, which is when the IANA contract is set to expire.

In terms of the FY17 planning process, you can see here how that would be impacted by when the proposals would get finalized, if the scenario planning and the assumptions have to be locked down by mid-January, truly we would have to be looking at the

proposals being finalized by the end of the year to make that happen. Then just really briefly, the only thing I want to touch on on this slide is from our implementation perspective, how we're working on that, given the timeline that you just saw.

On the last slide, you saw the three phases – the proposal phase being the first bar, the dark blue bar being the second phase, which is the US Government approval phase, and then the third phase being the implementation phase. From an implementation perspective, during the proposal development phase, really the only thing that we could do is some administrative prep. We can do some high-level timelines, such as the one that you see here. We can identify internal resources that will be working on these projects. We can engage with the community to see how we may continue to engage with them during the implementation phase.

But there's not much actual work that we could do during this phase. It's not until the proposals get finalized that we'll understand the scope of what it is that we need to implement, and then start to define more detailed project plans and timelines, et cetera. So from an implementation perspective, the finalization of the proposal is also very important for us to star tot get any work done. The implementation phase, obviously, is the phase where we'd be able to do a lot of the final

implementation of the requirement, once the US Government signs off on the proposals.

Prior to that, through some planning, we can do some pre-work, but we can't cross over the line of implementation, because by doing so we'd be assuming that the US Government is going to approve the proposals. So that's what I wanted to cover on these slides.

XAVIER CALVEZ: Trang, without asking you to commit to anything, can we look at January, and what happens then, or what will happen then, as per this plan? This is the December scenario, right? So if everything happens by the end of December?

TRANG NGUYEN: Right, that's the scenario for December. Basically, we can pick a couple of line items perhaps. With regards to the PTI entity, by then we would have clarity on whether or not what's in the CWG and ICG proposal is in fact what we would need to implement. Now, I know that there are some discussions within the CWG, and they're keen on trying to get started on implementation conversations.

Perhaps that conversation could be started soon, and out of that conversation, some additional clarity could present itself. In

which case, we may be able to build on that. But again,I don't want to speak for the CWG. They have a session going on on Wednesday morning, when I believe they're going got talk about that.

XAVIER CALVEZ: Thank you. Cherine?

CHERINE CHALABY: Cherine Challaby. Thank you. Just a comment. It took us a long time to get the Budget approved on time and get all the comments responded to, and we got Board Members responding to comments and with the changes. I'm just concerned if we complicate it – and I came in late, and I apologize for that – but if we're going to have a lot of scenarios and a lot of changes, and that causes the Budget to overrun and we don't finish on time, that would not be a good thing, especially when the world is looking at us from an accountability and governance and…

So we need to make sure that whatever we do, the Budget has to be approved by the end of the year, right? That's very important. So I'm concerned the complication of the scenarios could cause some delays there.

XAVIER CALVEZ: Thank you Cherine. That's a helpful guidance, for sure. From my perspective, the only thing that we know is that we will not know everything at the time we stop. Bottom line, there's always going to be something that we don't know, and I'd rather cut it off a little bit earlier, on the basis of assumptions, so that we allow ourselves to complete the planning on time, rather than wait just one week more, and one week more, for something that's not necessarily going to make a difference anyway.

Certainly I think that I know the BFC – and I take this opportunity to recognize that Asha Hemrajani is here with us, and Bruno as well, and that's now four Board Members, three of which are Finance Committee Members, who are now with us. I know in the BFC, for sure, the Board Members are very keen on ensuring that we keep producing the information, validating the information on time. It's a sign of responsibility, it's a sign of accountability, and I think you all agree, generally speaking, with that. Again, I think that it will not make a huge amount of difference to wait another two weeks to get something.

Now, it could be exactly at the time where something is not known, and then two weeks later it is known. But hopefully, we will not be that in the dark two weeks before, versus two weeks after. As you know, we've looked at it together earlier today. We have zero flexibility in the timing. There's no buffer anywhere.

This is running against the clock. Chuck, you have a comment or a question?

CHUCK GOMES: Yes, a couple of things, and thanks, Cherine, for your comment. I don't know when you came into the room, but when I was talking about the scenario approach, I was looking at the January/February timeframe, before the draft Budget is published on March 5th. I can fully understand how, if we're still working with scenarios, come May, we have a problem. So I just wanted to clarify that. Secondly, I wanted to ask this question: in regard to the stewardship transition, there seems to be very solid support across the board, even good indicators from NTIA that the recommendations of the CWG are supported.

So am I naïve to think that more preparation for implementation can happen with regard to PTI and the associated elements, can be done then with the accountability work? I understand a lot more definition is needed on the accountability recommendations, but with regard to the stewardship transition, it seems to me more advanced work can be done, understanding that you can't actually implement it until you have NTIA's approval. Am I being naïve on that?

XAVIER CALVEZ: Since you're asking...! No, so part of the challenge is when it comes to implementation, the level of information that you need is of a different nature. Trang knows that very well, and will give us her views further. But yes, the proposals are much more advanced. When you were starting your comment, I was already getting my answer ready on one topic. Yes, the PTI proposal is relatively finalized. There's a huge question that's not clear as of yet, from an implementation standpoint. Full separation of IANA in the PTI? Operational separation? Or no separation? You could have the PTI in either case.

If it's no separation, meaning that we have integrated systems, integrated teams, you don't break out finance, you don't break out HR – I have already made the calculation, four months ago, and Jonathan and Lise's request. It was $600,000. Of course, that was on the basis of 24 hours of work. It's not a Budget, but it was an estimate. This is very simple. This is what we have today and we keep it the way it is. By the way, why do you want to break something that works? But that's not what is currently the approach. But if we say we want a big separation, a full separation, we ned to break out the system.

We need to implement new systems, we need to negotiate new contracts, we need to transfer assets. Paul knows it means selling assets. It means evaluating those assets, assigning a price to it. So there are complications associated with the

implementation of a fully separated PTI. Of course, the needle can be anywhere in the middle. That creates complications that then makes the planning also difficult. Now, I think what you indicated, Chuck, is actually common sense, and certainly there is a bit more information and there is a bit more grounds to be able to formulate assumptions, but up to a point, is my point.

CHUCK GOMES: If I can follow up? I know this is a topic that's on the CWG Agenda for Wednesday, but it seems to me a good thing for the CWG to work on between now and the end of the year – certainly before January – the questions you're asking. They are implementation issues and implementation questions, and they are critical, like you say. But there's no reason why between now and the end of the year, CWG couldn't recommend answers for those questions.

TRANG NGUYEN: Chuck, this is Trang. If I could address your question or comment? I agree, and I think we've exchanged emails about this too. I am also of the mind that the sooner that we can get started on some of these implementation items, even if it's just pre-work or planning, the better position we'll be in. Because we do have a fixed date of September 30th of next year.

As it relates to the PTI and some of the CWG implementation items, I agree. We've had some conversations with Jonathon

and Lise as well, with regards to how we work with them, what we can work on with them at this point in time, and they seem open to specifically one of the items that we raised with them, which was PTI.

I think they're open to having some discussions amongst themselves. I know the Wednesday morning meeting they have scheduled is one where they will be talking a lot about this. So I'm looking forward to the outcome of that meeting. We have started conversations with the CWG Leadership with regards to implementation and how best to move forward, as soon as possible.

XAVIER CALVEZ: Rudi and then Asha.

RUDI VANSNICK: I'm just thinking about the worst case being the full separation. Do you plan to have a simulation of what costs could be, so that you have at the end a trigger for being able to create a Budget? Because at the end, if in March, you need to have a Budget fixed, you have to go to simulations anyway, if...

XAVIER CALVEZ: As we said, probably around early December, mid-December, we'll need to define what position we take and whether we do

scenarios, what scenarios, and including the answer, or a few different answers to the question of how separated the operations will be. Then we can inform that, yes. I think we're confirming the same point, which is that we're going to need to probably take some positions on what the options are. Mine and everybody's common sense is that hopefully there is one scenario that we can assume is the most likely, and then have little plan Bs and possible plan Cs to have possible changes to that plan A under different possibilities.

Then you can give a bit more weight and also work on a bit more of a granular plan A scenario, with maybe a bit less granular a plan B or plan C, in case those would actually be the likely outcome. I will make one comment on the planning process. I'll tell you I'm much more concerned with May and June than with January through February. My point being when we come to submit to the BFC the final Budget, it will be mid-June. By that time, we'll know a lot more. Do we start planning now with the real assumptions?

So I'm much more concerned with that, because it will be a lot more difficult to make the community understand that we have a budget that's based upon five-month old assumptions where we knew this much. Now we know maybe everything. That's' the biggest concern that I have. Rudi and then Mary.

RUDI VANSNICK: May I just continue on that? That's the reason why I'm asking for simulations, because with simulations you could have a simulation on a plan. The moment you get more information you can correct the simulation and have a clearer or better view on what it could be.

XAVIER CALVEZ: I completely agree. Asha and then Mary.

ASHA HEMRAJANI: Thank you Xavier. This is Asha Hemrajani, ICANN Board Member, for the record. Hi Chuck, how are you? Are you still there? Okay, then maybe we'll come back to me, because I wanted to ask a question. Come back to me later.

XAVIER CALVEZ: Mary?

MARY UDUMA: Thank you. I like the idea of simulations when the uncertainties were both under contingencies, when you are planning. So as the information comes, you redistribute and you're not held back by such new information. Again, we've been here since 2014, right?   That's when you started handling the issue of stewardship transition. So there would have been a trend. So

with the trend, we'd have given us a good base to make some projections, but you can say for sure this is what you're projecting, but you could also provide the contingencies which you'd have when you're simulating to redistribute. Thank you.

XAVIER CALVEZ: Thank you. Cherine?

CHERINE CHALLABY: I want to get a sense of what are we talking about? Are we talking that 80 per cent of the Budget is anyway fixed, and the scenarios are on the 20 per cent? Or are we talking about the entire Budget has to be changed? Question number one. Question number two, Chuck mentioned these scenarios. Sorry again for coming late, I didn't participate in… These scenarios will go up to the 5th of March, and the plan is on the 5th of March. Just to publish a Budget with one scenario only?

Then what will happen if you don't have that information. The worry I have is if it keeps going until June, and which will make us really miss our deadline. I think we have to take some decision, and be courageous about that, at one point, sooner rather than later.

XAVIER CALVEZ: Let me try to clarify something we've tried to discuss. I think that if we can formulate scenarios or simulations – I think it's the same thing – let's say by mid-January, on options that we are hoping are the most likely possible scenarios, then we stop the input at that point, then we produce the Budget with maybe a plan A, plan B and plan C. I think we don't impair the timing or the chances to respect the timing, if we do that at that time.

But if we push out the dates until we know something better or more, then we will. I think that in my view it's a matter of how granular and how early we can formulate the options relative to those scenarios, and at some point we just say, "We stop, we don't change anything, and now we produce the Budget," and leave it at that.

CHERINE CHALLABY: Sorry, that was question number two. Question number one, can you give us a feel? Are we talking about 80 per cent, like we talked abouy, with paying rent, salaries, bills and all of that? That is fixed, irrespective of the scenario. How much… No? You think that's going to change completely as well?

XAVIER CALVEZ: Yes. If I look at the Budget by category of cost – personnel, travel, professional services, admin – I think everything will change. If I look at it by department, I think some departments

will be less affected than others. If I look at IT for example, total separation, no separation, IT will be drastically impacted. Our capital expenses will be drastically impacted. I'll tell you, at the small level of finance, our Finance Team will be impacted, whether we have a lot more or a lot less separation. I think it's an impactful decision.

My idea is – and we've done that before – is to have a scenario A that's comprehensive, and a scenario B that only formulates the change, that then you can add together the two pieces if it's plan B. if it's plan B, you add the numbers for plan A with the change that plan B drives. If it's plan C, you define plan C as what is the change between plan A and plan C, and I'm formulating the change and C materializes, then I add plan A and plan C together. I'm expecting that this is the simplest we can get it. The level of complication will be how granular we go – by project, by month, by line item, by person, and so on.

I think that's as simple as we can make it, knowing to a certain extent it's producing three Budgets. So I'm hoping we can have the most level of granularity for plan A, and a lesser amount of granularity for plans B and C. But you know what? Think about it. If we say it's plan B, everyone is going to say, "What's the headcount of ICANN under plan B in the FY1?". Where is this headcount] going? It starts to get pretty quickly granular to have a valuable amount of information. It's this balance that

ICANN | 54
Dublin
18-22 OCTOBER 2015

we'll need to find. I will not be shy of asking your help, all of you here, to help educate the rest of the community on that challenge.

Because we'll need that help, all together. We'll be through this all together. It's not going to be that easy, and I think we'll need the help of everyone – the Board, of course, who's already there, but all of you in that process to educate the rest of the community on the challenge. Chuck is back. You accept the challenge? Good. You don't know what you're signing up for, Chuck, as of yet. You're back. Asha has a question for you. Then I have Jimson.

ASHA HEMRAJANI: Hello Chuck. How are you? I wanted to ask you about a comment that you made about ten minutes ago, when I first wanted to ask you a question. You said something about the CWG and the scenario that they would accept or think is most likely. Can you repeat that point you made? Do you remember what you were saying? Because I want to discuss that a bit.

CHUCK GOMES: Well, if I'm understanding which part of what I said you're talking about, what we were really talking about with regard to scenarios were the ones that Xavier mentioned. Correct me if you were referring to something else, but Xavier had mentioned

several scenarios with regard to PTI. The one extreme being complete separation, or very minimal physical separation. Those variations were what I was talking about.

Now, my suggestion really was that between now and the end of the year, as soon as before the end of the year as possible, is that the CWG try to come to terms with those different variations so that we know before we get to January which one it's going to be.

In that case, we wouldn't even need different scenarios in January. We would have picked one. I think that's realistic. You have to be careful when you're talking about a full community supporting the thing. But my own feeling is that we could do that. Now, the whole idea of scenarios that I was talking about, if we get to January when the cut-off for the Budget to be finalized to meet the March 5th deadline, there are still two or three factors that are not totally decided. That's what I was talking about scenarios – one for each so that when we do get that decided, hopefully in February, it's not too much work to plug in one like Xavier was talking about, at that point, or plug in some combination of them, as he just described, which was exactly the way I was thinking.

I was just trying to suggest a way that if some decisions are made after the January cut-off, we can still be prepared so that we can react to them in short order before March 5th. I have no idea

whether I responded to your question, Asha, or not, so please let me know.

ASHA HEMRAJANI: You did, Chuck, and you were spot on. I think you've also mentioned the challenge, which is whether or not this decision can be made by January.

XAVIER CALVEZ: Jimson, and then I would suggest we close that… Sorry, Lesley after Jimson.

JIMSON OLUFUYE: Where by nature of Budget is an assumption, so crystal clear. It infers that we look at all possible scenarios and then put them into perspective. We said earlier that we needed the community to have understanding. I think the methodology we have engaged is quite good. That is an instituted, early warning system, carrying the community along. I know the impact of that in the business community constituency – that is for FY16, wherein I could quickly clear out a number of issues.

So we can easily carry our constituency along. I would just advise that it's important – because this transition is quite key – maybe here's a need for more focus, maybe a small team, for staff and part of this Working Group, to really focus more on

those trends and assumptions as time goes on, so that the rate of response can be much faster. Thank you.

XAVIER CALVEZ: I think that makes sense, Jimson, thank you.   I appreciate it. Lesley?

LESLEY COWLEY: I've listened very carefully to this conversation, which has been quite extensive. It strikes me that we're just getting rather over-complicated, because we are talking really just about the Budget. It just so happens that we're also talking about the transition at the same time, and the timings just do not work together, I think. I'd be very surprised if the transition discussion completed in time for you to put perfect numbers in the Budget.

Maybe this is the year where we need to just finalize a Budget, and when the transition costs increases or whatever clearer then it has to be revised. It would be great if the times fitted. I suspect they will not. It would be great if the costs would be clear. I suspect they will not be.

XAVIER CALVEZ: I agree, and I disagree at the same time. What I mean by that is I would like to keep it as simple as possible. I think the issue that we have is a bit of this timing issue that I was trying to point out

earlier, which is at the time we're going to approve the Budget with certain numbers, we will know a lot more than the time we established it. There could be a very big discrepancy there. Then I will say that I'm also very ambitious. I would like to get it as right as possible, and those scenarios, I'm hoping that one will be really close to the one that will turn out to be.

One of the reasons being, and you all who participate in this process know it well, but those who participate less count also on it, is that this process is a key process for accountability and transparency. The approach that we take there is, I think, very important. Of course, I'm bias, but I know you are a little bit as well. I think we'll need to be a smart as possible, but be very disciplined on keep it simple, and keep it on time. Asha and Cherine just stepped out, but I'll tell you that both of them, in different ways, keep us harnessed on that. They're of extreme support in ensuring that we keep things on time.

LESLEY COWLEY: I agree Xavier. I think the danger is we're complicating the Budget with policy, and they don't necessarily go always hand-in-hand.

XAVIER CALVEZ: Thank you. I was going to suggest that we stop here for a little break, so that we can sustain ourselves. Paul, thank you for

coming. There are food bags there. Chuck, we want to make you jealous of our festive dinner that Giovanni will not share with anyone, because he's been looking forward to this dinner for a while now. We have little bags here with food. We'll go over the rest. What I suggest is we take a five-minute break to get the food, reconvene, and I'm suspecting that if we can go up to 20:15, that would be the very end of it, if that's okay with you guys.

[break]

XAVIER CALVEZ: Chuck, we're starting over. We're on this slide, 21, and it's slide 21 out of 42. We don't have another 21 slides to go. There are a few appendixes, and we'll try to go relatively quickly through it.

SPEAKER: We're going to talk about process, lessons learnt from FY16, FY17 requirements and content, format and calendar. I think I've sent a reminder to many of you; that the Five-Year Operating Plan and the Annual Operating Plan are linked. Earlier today, you guys have been talking about different scenarios.

It will be interesting how we incorporate some of those into the Five-Year Plan, because we're talking about Budget here, but then if you switch it over to Five-Year Operating Plan, I'm not

sure how many of those scenarios we would be able to fully flesh out to any level of degree, because we won't know enough at this early stage, or between now and January, to really flesh out different scenarios, other than a high-level set of assumptions, so we'd have to think about how that would be planned. Maybe it would be referenced to the different scenarios, but then the Five-Year Operating Plan would have to take on a different context once that timing gets fully fleshed out.

But it's important to know the Five-Year Operating Plan had phasing for each one of those goals. The FY16 process had the following lessons learned. This list is not exhaustive, but these are the high-level ones, and we'd love to know if there is other input you think we should focus on, apart from the ones we've currently flagged and identified. What we should continue was Annual Operating Plan [unclear 02:12:59] derived from the Five-Year Operating Plan.

Second, advanced schedules, like early start, early community interaction, earlier public comment periods, and the current FY17 schedule that you looked at was again two weeks earlier than before. It allows for more public comment time period. It's a 55-day one instead of 45, because there are two documents you would want to comment on.

Next, interactive engagement, face-to-face Working Group sessions. This is a good example where we're continuing doing

more of that. Just listening to the dialogue, it's amazing how much good dialogue we've had even today, so this is, I think, a big success as a start. Next, improved communication on public comment and draft responses.

Last year we took every one of those comments and wrote a response for every single point raised, as well as we had a number of telephone conversations with the different groups and asked to flesh out a little bit more fully what those comments were. We had a good and better understanding on both sides as to what the issues and thoughts were, and it made us do a more comprehensive inclusion into the Budget and/or satisfying everyone's questions and comments..

Next, the involvement of Board in public comment process improving Board accountability. Asha said even in many of those calls last year, just having the Board involved earlier and more involved in the process was also considered something we want to continue and received positive feedback in the process last year. What things should we improve? One is interaction with community was limited to SOs and AC Members, needing to expand and participation.

One of the things we did for this very meeting, and also for the 22nd September session, which was the kick-off, was we didn't just invite the finance community or SO/ACs, we invited everyone in the public. We announced it more. We actually had the most

participation ever, and we had a good dialogue, so that's another example. But this is something we want to continue, in raising the participation involvement at all levels.

Communication on the USG transition, monitoring and costs, this is something we've talked about here. But it came up earlier in the longer-term scenario planning last year, so it's good that it is continued through, but it is another area we want to continue to watch. Lastly, integrate more and better the KPIs on the planning process.

The KPIs were in the early development when we did last year's, and when we did the Five-Year Operating Plan, and they're continuing to evolve and develop, as we'll get into later on in the slides. But how much of that, and how much should it be included, and how heavily should it be? That would be something I think we'd love to hear more feedback on as we go. Having said that, are there any other comments, lessons learned, on what we should continue or what we need to improve upon at this point?

XAVIER CALVEZ: For those who participated heavily in the process, anything we've missed on what we should continue, so that make sure we do? Or what worked well? We've listed a few things, but if we've missed anything, let us know.

Certainly looking at what we should improve is something that I would like to make sure we... I'm slightly frustrated that we do have a relatively short list of what we should improve, but this should be fed by your input, and of course don't hesitate, because this is the right time for us to have this information – now we can do something about it. So if there's anything in mind, please let us know. Whether we can or not is dependent upon the feasibility of the idea, but the idea is what we need at this stage. Chuck, you have your hand up?

CHUCK GOMES: This came up in the process last year, and that is that in the case of projects that have very large dollar amounts, it would be very helpful if those were broken down into some smaller components. Then when you're talking about a $10 million project, that's not very helpful at the detail that's given. I just wanted to bring that one up again. I know it's going to take longer, and it's probably not going to happen this cycle, but I hope we're continuing to work on a functional display of the costs, like we talked about last year too.

XAVIER CALVEZ: When you say to break down into more granular information, do you mean like the USG transition, for example?

CHUCK GOMES:	Sure. That would be an example. I don't know. I don't have any specific idea of how that should be broken down, but when you're talking about multi-million dollars' worth of expenses for one project – and there are several like that – it would be helpful if it was broken down into smaller parts. Otherwise, it's hard to really comment on it and evaluate it.
XAVIER CALVEZ:	Understood. You made that comment last year, and I agree. In concept, there's no question that it would be better, so we'll work on that. Not trying to give a limitation to doing that, just so that you understand, when we produce the information today, we produce it at the level of project. So merging a spreadsheet in which you have several tabs – one tab per type of cost, like personnel, travel and so on. In columns you have the month.

In lines you have "trip number one" "number two trip" "number three for the travel." You have "staff number one" "staff number two" "staff number three" for the personnel, and each line, except for personnel, is tagged with a project number, which is a project that's been created in work front, at task, in our application management system.

That self-generates a number, and that number is the one that we use then in that Excel spreadsheet to tag the line item of the Budget. For personnel, each position is separately broken out

into percentages of allocation by project. So each manager takes staff and says, "I think this person is going to work on that list of projects." It assigns percentages, and of course it adds up to 100 per cent. We do that for every month. You imagine the size of the spreadsheet. You know why then [Taryn] is dying each time I change anything. I don't know if you imagine the number of spreadsheets that that represents – the number of tabs and the number of line items?

I know Paul, for sure, knows that. So it is a very heavy exercise. The reason I'm pointing that out is simply because modulating the level of granularity, based on the project, into the mechanics of spreadsheets is very difficult. Either we have the data and we line it up across all the resources, or we don't and then we are at the level above. So the reason I'm saying that is because when you look at data by project, in our budget, when you see project number 31,000 and we tell you there's this much personnel, travel, professional services and so on, the data comes to us.

It comes to us by department. It's one spreadsheet for one department, broken down by each of the categories of cost, each of the projects. Then we line up the spreadsheets across all the departments, in total, and then we drill – we, meaning [Taryn] – drills… I don't do anything! We hope it's manual, so that we don't make mistakes.

We drill on one project, and we're going to say, "Okay, so on that project, adding 62 departments" – 62! We couldn't make it simple and have five! – "Across 62 departments we're going to aggregate the data for that one project. Chuck, the reason I'm going into this process at a certain level of detail is that I just want you guys to understand the level of complexity that we're dealing with, and that's currently manual – manual meaning Excel-based.

Now, having said that, it doesn't mean that we cannot focus on certain larger projects, and try maybe, for example, the dimension that we could do is break it down by function. We could say, "Project X, that's $10 million in total, broken down into $5 million of personnel, $1 of travel," and so on. We could then start breaking it down by function, meaning how much does Finance contribute to it? How much does Legal contribute to it? It doesn't really tell you what we are doing, but at least we are telling you who's doing it, which helps, I think, to a certain extent.

That's something we could do relatively easily. It's more information. It's valuable information, I think. Producing the next level down in projects, which is the tasks, is not something that she'll let me ask. And it's not… We just can't do it, because we can't add that level of granularity into the spreadsheets without breaking the whole system. That, we can't do. Mary?

MARY UDUMA: Thank you very much for painting this scenario. For the community, if you just show the summary, the one that will pop up is the $10 million, the $15 million, the $20 million. But if there's a little breakdown of, "Okay, opening three hubs, $10 million. Hub A cost this much, this one, this one…" It's more information than just putting in summaries. It's the summaries that I think Chuck is referring to.

As for the detail, the tasks is for your own internal planning. I don't think at this level it's required. So you do that with your CEO, and those other things. But you summarize at a point and then build up the big thing, or the concise thing you normally publish. So it's the additional… Jjust the addition of the second-level, not the last-level of it. I think that's what Chuck is referring to. Thanks.

CAROLE CORNELL   Hi. This is Carole. I live in the project management world within ICANN, and part of the challenge we have – and it's just to give some context a little further – you have to have an agreed upon set of parameters in terms of time and phasing, which is what we would need to feed to get that level of full-bucket granularity.

We are trying hard to find the balance with this, because if you come to something that's very community-driven, that time

window sometimes ends up being a variable. If you then add the next complexity, if very staff-oriented, and then you have to continually re-adjust where those priorities of resources go, and how you put that into each scenario you might consider, and when you're pulling your Budget estimate together, which is then how how you're going to track the forecasting going forward.

The reason I say that is I think we do have a tool where we could spend more time at it, but we're still looking at what's the right balance of prioritization of doing that against the return of what the output and deliverables are. Because if you spend a lot of time doing some of that administration of forecasting, that takes a little bit more time, you might get an end result. But then the deliverables might slow down, as to how you produce them. We're trying to find a balance.

I think we'll continue to work on it to make it a crossover. We don't get very many requests for individual projects, other than a high-level cost per project. That makes it a little bit, "How would you forecast when they start trending?" I think Chuck's point, if you picked the higher level for the biggest ones, there's some scenario work we could do there.

XAVIER CALVEZ: We'll get to Jimson in just a second. We want you to understand the level of information that we're dealing with, and how we're dealing with it. We're not trying to push back on the request. The point is, what I think we take as an action is to commit to formulating an approach for larger projects that let the community have more information on those larger projects. I don't know which projects, I don't know what threshold we'd apply, or if we do the top ten and stop at ten, for example.

Trying to find a manageable scope of project, but we commit to suggest an approach of producing more information on a selection of larger projects, so that at least we address that concern, and it's not [unclear 02:29:14] before, and not just Chuck – others as well. It's completely logical. Absolutely. When you have a $10 million project and it's broken down into nothing, you just don't know. At the opposite side, you have seen, we have projects that have $100,000, and many. So the level of granularity, by the way, hopefully you appreciate that complexity.

When you have 62 departments, that means we have approximately 40 budget owners. A budget owner is an individual person, a manager. Synchronizing a similar approach of breaking down the activities by project across 40 people is what Carole is pulling her hair out with. It's not easy. Therefore, the discrepancies that you see between the very small projects

and the very large projects are a result of that disparity and variety. By the way, breaking down projects in Contractual Compliance versus in GSE is a different exercise. So we're a very diverse organization, even internally.

Anyway, enough on that. We do want to talk about overall cost. We will look at an update of the IANA operations costs. In March we provided the FY15 Budget information. We have produced an updated information. We will produce a quarterly information on that. Jimson had a point to make.

JIMSON OLUFUYE: Yes. On lessons learnt, I think the idea of pulling all the constituency Budget requests into one basket was quite okay. At least as it came, at that crucial point, in FY16. So we can see that with regard to any new thing that comes in, it can be easily defined and you can just put it in a basket. Secondly, looking at the fairly established structure of budgeting right now, and for the fact that we mentioned the ERP system, we need to talk about budgeting an ERP system. I'm wondering whether we need to accelerate the process of onboarding a budget ERP system that could help through with this process going forward.

XAVIER CALVEZ: A few questions have popped up on that. We don't have an ERP today, thus the Excel spreadsheets. We have the Budget for that,

because it's been approved by the Board to be able to… We are intending to spend it. Becky and a number of us have experience in implementing systems. We've not necessarily always done that well in the past at ICANN. We want to do that well this time. It takes planning, it takes a lot of analysis, process documentation, requirements, implementation and testing and so on.

So we have a very well laid-out process to get there. Accelerating it is not something that I want to do. I don't want to risk messing it up. By the way, to be very clear, there is no way we can implement it for the purpose of the FY17 planning process. So what we're hoping is that we'll have managed to implement it by the time we plan for FY18. Yes, Mary?

MARY UDUMA: Mary again. Somebody just asked a question of whether you plan to do a half-year review of FY16? I don't know whether you've done that for FY15, to help us with lessons learnt for FY17?

[TARYN]:   Hi, this is [Taryn]. We have a process in place right now where we do quarterly forecasting with our Budget owners to try to reassess where we think we're going to land at the end of the year. We have that process in place. It's relatively new within ICANN. We've done one in FY15 that was officially publicized.

But we plan to do them on a quarterly basis and share that information with the community.

JIMSON OLUFUYE: I want to ask another question, or add a contribution. Because the review basically means handling some incidences during execution of the activities within the year ,and it basically goes in hand with the Board approval of the revised Budget.

XAVIER CALVEZ: Thank you. Asha and Bruno also know that we review those updates when we have them with the Board Finance Committee, which helps us receive the guidance of the Board on where we are and where we're going, and so on. I just want to point out as well that we do quarterly stakeholder calls as well, during which we provide insight on the trends of the year, when we have them, whether on the revenues or expenses. That is also information that we produce on a quarterly basis. The last one happened on October 6th for the Q1 activity. Anything we haven't touched on what we can improve? Chris?

CHRIS: A couple of quick process points on these. One is on the format or the style of the Budget. It's always a surprise when it comes out – whether it's going to be a document style or a PowerPoint

style, and over the last five years it's varied between about 19 pages and 90. Maybe some advance discussion on that, or chapters, or sections, before numbers go on, so we can help there…

XAVIER CALVEZ: Let's do that now then, because this is the time. The past two year we've produced a Word document, and an Excel spreadsheet at the same time. The Word document has the Operating Plan and the top section is a high-level description of revenues, costs, variance analysis and so on. Then the Operating Plan portfolio by portfolio, with a list of projects. All that is in Word. Then we have an Excel spreadsheet with the whole breakdown by project with the amounts for personnel, travel, professional services, admin and total. That's on the Excel spreadsheet, and usable as an Excel spreadsheet – not a PDF of an Excel.

So time for your feedback on Word, of PowerPoint, or Excel, or a different format? We're open to anything at this stage. There are possible limitations, practically speaking, but if you have anything in mind… Just to finish on that, our idea at this stage is to continue the same thing that we've done in FY16, unless you tell us otherwise.

CHRIS: I prefer the Word version. I think it's slightly too verbose, and along with the Excel that you had in the last and the year before. But I was always thinking I'd need to sit down with five editions and look at some of the chapters, and there are charts that are in some and not in others, or are in the appendix. So to actually go down to that level, I was thinking. Even in the Word versions, in some years there are charts that aren't in other years, to my recollection. There's a little exercise there, but take the best of the five years, and for us to have some input pre…

XAVIER CALVEZ: From that perspective, it would be helpful if… Since you seem to have gone through the exercise… If we leave aside last year and this year, because the format is similar, and that's the basis that we would want to use – if you have already in mind, or the ability to go back to what you think is the best of the previous years that we've not replicated, and you think we should, that would be really useful for us. I can do it, but to be honest we're a bit bias now, because the format that we produce now is what we think is "best". So an additional input on that would be really helpful, so that we at least can consider additional or different formats for information produced. Giovanni?

GIOVANNI SEPPIA: Regarding the format – because this has been quite a sensitive topic over the years at the level of the ccNSO SOP Working Group – we always recommend consistency in the format to facilitate the production of input in a timely manner to ICANN. In the past two years, we found ourselves very comfortable with the format of the Word document with the Excel file. So we would really appreciate if you can continue like that. Thank you.

XAVIER CALVEZ: Thank you, so marginal, or specifically justified changes to the format, is basically what you're saying at this stage. I don't think it's necessarily inconsistent with what Chris is suggesting, because if there's a specific edition of a table or template, we can consider it and hopefully it helps the information. We have a comment from [Filippe] and then Tijani. Can someone read the comment from [Filippe] please?

FACILITATOR: Sure. "General comment from my part: I'm impressed with the overall process and working methods to make up the Budget. The linkage between projects, programs and the strategic links to the actuals and invoices and manpower, et cetera, even if some ways to forecast for X revenue can be improved. Anyway, time will bring advice. I still have one big frustration however, and that is the overall amount of ICANN's Budget to fulfill its

mission and the absence of any impact of the comments of the community on that aspect."

XAVIER CALVEZ: So the overall amount meaning the overall amount is too large? I'm assuming that's the comment?

FACILITATOR: Correct.

XAVIER CALVEZ: Thank you [Filippe] for that overall comment. There are various pieces into it, so thank you for that. On the ICANN size of the Budget, one of the great additions over the past years into our Budget process is that it's not just a Budget anymore – it's an Operating Plan. This is why there is value – even though it may sometimes be challenging – there's value in you guys having both the Operating Plan and the amounts associated to it, which is what the Budget is. The Budget is simply a quantification of an action plan in a point of time.

What do we take out of the Operating Plan? What do we stop doing in order to reduce the Budget of ICANN? I'm not being facetious in that, it's a reasonable question and it needs to be something that we formulate for ourselves. The linkage of the Operating Plan and Budget to the Strategic Plan allows us to

know exactly how much we're spending on which objective. Which objective should we reduce our focus on is a challenging exercise. We are a challenging community, from the perspective that take a single item out of the Strategic Plan. You will find many people say, "You need to do more!"

Then you take the next item and: "You need to do more. You don't do enough!" What is enough is a very relative notion. What is too much is a relative notion. At least we have been trying to provide visibility as to how much resources we're allocating to what activity to achieve what objective. Now, I think this is a tool that we've had now for two years. I think we are all collectively getting better at utilizing that information to exactly answer the question that [Filippe] is asking.

What we all know a well is it is very difficult to do less. Everybody always wants to do more. It's natural that this community collectively wants to do better. We want to do more outreach. We want to bring in more people. It's natural. Summarization, that's their purpose. This is what we need. But this is not helping our Budget or spend in getting smaller. Right now we have a natural limitation, which is our amount of revenue. Of course, like any normally conceived organization, we're trying to not spend more than we're making, and that's our natural limitation, which forces prioritization and choices, and this is really important.

But at this stage, it's a matter now of deciding what part of the Strategic Plan do we either stop supporting, or support less? This is a challenging exercise. I will simply tell you – and Asha and Bruno are my witnesses – that the Board has very strongly expressed the will that the organization, the staff, prioritizes the work, and provides visibility to the Board as to priorities, and as to any new activity, its impact on the organization, and what needs to be stopped in order to carry out that new activity.

I think that this helps managing priorities. This helps containing the Budget. It doesn't honestly help reducing it, certainly, so to [Filippe's] point, where the Budget is too large – because I'm assuming that's the substance of the comment – it's not helping us in reducing, as of yet, the Budget, but if we would have less revenue because suddenly the registrations are dropping, which happens in certain TLDs, we would have to do it.

JIMSON OLUFUYE: Probably it could be the issue of cost minimization. I remember I had a meeting yesterday between regional organizations, ICANN and [NSRC 02:47:14] regarding capacity building. The options we identified for the case of Africa was like training the trainers, so that ICANN does not spend more on capacity building, by sending its staff or maybe [NSRC] staff, and instead use the local trainers within the continent.

XAVIER CALVEZ: That's one of many ideas that help us leverage the community to do more training with less resources. We've used a lot of the ccTLDs' help, by the way, to do trainings, for example, as well. The cc's are the boots on the ground across the world, right? So there's been a lot of that. Honestly, creativity and innovation and those types of activities is sometimes coming out of constraints, of, "We can't do it, but we think we should, so how do we do it for less? And better? And more efficiently?" And so on. So this is all a healthy exercise. [Filippe], thanks for your answer, "Prioritizing in a good way to focus a Budget." Yes, thank you. Tijani?

TIJANI BEN JEMAA: Always forgetting about me. Xavier, when you said that we have to see what part of the Strategic Plan we have to support more or support less, you mean that we have to see how to modify the scale. That's okay. Coming back to for the format Chris raised, I am quite happy with the actual format. I think that text in Word and a table in Excel is, in my point of view, the best way.

I don't mind if all is in Word, but I know it's more difficult for you to use it, because Excel is much better for calculations, et cetera. As a user of this document, I don't mind, but I know for you it's better to use the Excel for the tables, so I don't think it's

ICANN | 54
Dublin
18-22 OCTOBER 2015

something that may bother me, or may make me find difficulty in using it. Thank you.

XAVIER CALVEZ: Any more comments on the format? Rudi?

RUDI VANSNICK: Not on the format, but we are still on the lessons learnt. I was just wondering, as we have been splitting it up into objectives, goals, projects, do we have a view on goals or objectives that were not met, although the Budget was not exhausted?

XAVIER CALVEZ: Small question, but large answer.   What we're trying to implement in order to have a better answer to that question is the KPIs are helping, because this is a measure of effectiveness, which is why it's so important in our management system to actually have those KPIs. I'm expecting that the phase of the Five-Year Operating Plan update we're going to go through now is going to be a very helpful, healthy exercise for us to go through, because it's going to force us to look at what we said we would achieve by the end of FY16, year one of the plan, and what we will have achieved by then.

I think this is where the value of having a Strategic Plan and to revise it will come out; is force us to look objective by objective,

goal by goal, portfolio by portfolio, as to have we achieved what we said we would achieve? We have to realize that ICANN has engaged into this exercise, and I know [Filippe] and Giovanni and a number of others know well how complex it is to go from nothing to a fully blown Strategic and Operating Plan. We are at the beginning of this era at ICANN of using the Strategic Plan and basically the tools to map our future; how we're handling it, how much it costs, how we're measuring progress.

We're at the beginning of that. I think we'll get smarter and smarter and better and better as we go, and there is a natural path of ramp-up and competence and effectiveness in that process. So today we have a relatively fluffy answer to the question that you asked, but with more tools we're expecting also to have more accuracy to that answer. So to that point, without making commitments that we cannot, Carole and I were having this conversation about four hours ago. Are we going to ask every Budget owner to define a target at the end of FY17 for their KPI?

That starts linking the deliverables to the resources and the plan. That's where we need to go. So just have a better dashboard yesterday, the 20th of August. This is all fresh. There's a learning curve. This is the direction. How fast are we going to go down that path is going to be a question of efforts, of training, of

resources, and of lack of disruption like the USG transition or others.

LESLEY COWLEY: Two other thoughts. This is where I think the KPIs will help us. I also think to your question, do we have a list of what we've delivered? The difficulty on that is we could tell you what the words meant, we deliver those words, but quite often we get feedback that wasn't fully the intent. In other words, we have to really be good at what we think the outcome or what success looks like, and we agree on what success looks like as the factor, not just necessarily the KPI, and/or did we execute the words on the page for the deliverable.

It's something the community will need to be more involved in as well. So feedback on that is really helpful, and I would say this is a good point to say the more feedback, the better we'll get at it.

GIOVANNI SEPPIA: Just to add to that, the reason why I'm asking it is it helps us, the community, in understanding if projects and objectives that we were talking of, as a community, into how small it can be to see if we have made a mistake in our approach. It's coming from the results, from you, that we can't say, "Okay, this was definitely not a good approach, because we didn't attend to the goals that are

in the full picture of ICANN." That's quite important for us, for our FY request.

XAVIER CALVEZ: Absolutely. That makes a lot of sense. By the way, measuring the effectiveness of our performance against delivering the plan, if that's not called accountability, I don't know what is. Go ahead.

SPEAKER: If I understand well, the Budget is based on objectives. It's objectives-based budgeting. You don't think there's a risk that when you concentrate on objectives, compared to program-based budgeting, there's a risk that you can, by goal, eliminate some programs that are so important to ICANN, but unfortunately the program hasn't been able to meet the objective of ICANN, whereas the program in itself is important for the visibility of ICANN.

Say, for example, an outreach program in Africa. When you concentrate on objectives you might see… I'm just citing an example: because the objective is not being met through the objective-based budgeting, ICANN might decide, "Okay, let us stop the outreach in Africa." For example.

Whereas, when you concentrate on program-based budgeting, on your program-based budgeting, you can improve if something is not being able to meet the goals. You improve on the program to make it successful. Whereas, in contrast to objectives, you might say, "Okay, the objectives are not being met, so let's eliminate this program itself." There's a risk there.

XAVIER CALVEZ: I completely agree. That's a very good point. I think that honestly this is where the prioritization exercise needs to consider many criteria to define what the priorities are. Because it's not because the program is not achieving the objectives that it should be eliminated. Maybe it should be double-downed on, as opposed to being eliminated. This is why the tools of planning, being able to measure costs, but also results, output, outcomes, and this is what the KPIs are helping us do – make smarter decisions about the question as to whether we should stop or continue.

The more we are resource-constrained, as any organization, the more we're going to need to make choices, and they will always be those activities that don't either matter for everyone, or matter for a few, that we're going to have to cut, simply because there's something "more important". I think our ability to formulate the criteria of what's more important and should be prioritized over something that's less important and should be

ICANN | 54
Dublin
18-22 OCTOBER 2015

stopped is key, so that we are at least making transparently the choices of prioritizing something over the other. I agree with you that it's not a simple objective met, great objective not met, cut. It's more complicated than that.

You took an example of outreach in Africa. This is the type of thing that we need to put efforts on for as long as it takes to make more and more progress, because if we said 10 per cent and we reached only eight, we're going to stop? No, we need to do more to catch up on the two per cent. So not a definite answer either way, but I think your point is very important on the way we prioritize. Who did I miss? We need to move, right? Next. We're not going to do everything, but I want to get at least to the IANA costs.

Very quick, this is something that we had in the quarterly stakeholder call. This is simply to represent how our financials are structured. We have the ICANN operations revenues. This is the $100 million of expenses that we've seen. We have baseline expenses that are financed, funded by our revenues. This is about $100 million of expenses. We have initiatives that are reserve-fund funded. They are not funded by our revenue. We dip out of our reserves, dig out of our reserves to pay for these initiatives. It has to be exceptional.

We then have the New gTLD Program – completely separate, both in terms of revenues and expenses, and both of course

generate the funds that we have, either reserve fund and operating fund here, or new gTLD application fees unspent, and auction proceeds on this side. Yes?

SPEAKER: One small question. The auction money – where does that fit in the whole picture?

XAVIER CALVEZ: Here. Next. That's what I just said. Baseline funded by revenue, initiatives funded by reserve fund. Let's move on. This was the content of the Budget presentation. We talked about formats and so on. I'll skip that. You wanted to go over that Five-Year Operating Plan Carole? Or have we talked about it?

CAROLE CORNELL: Can I just go to one slide? That's great. Sorry. This is where we agree that we're going to forecast the summary of results, and we're going to provide a list by objective. I'm just acknowledging that we've taken that on and understood that to be a factor. This is to say this is the format that we used last year. The things that you see in red are the areas that would be changed, which we said is like portfolio, or update a key performance indicator, or update a dependency, or update a 17-20, last four years of the [thread 03:01:32].

XAVIER CALVEZ: This is not necessarily meant to be legible, but this is just a snapshot out of the Word document that we discussed earlier, that we produced last year, that you can find on our website. Carole has taken, for example, the goal 1.1. This is what we produced last year that provides the list of projects, and we're going to basically take all that same format and provide an update on each of the elements that describe the goal 1.1. The list of portfolios, the KPIs, the dependencies, as Carole said, and the breakdown by project.

CAROLE CORNELL: This is where I'd like to say, the concern that I heard earlier, when we started talking about the USG transition and how that would be incorporated, that is where a challenge that we will need to flesh out more and come back to at a later time, as to what that impact is, because I don't know how you'd do it in this scenario exactly.

XAVIER CALVEZ: That's part of the complexity in the scenario-making, is do we do it at that level? Probably not. Next. We have one...

CAROLE CORNELL: Xavier, you wanted to go over IANA more again, but this is the end of the deck for where we are right now.

XAVIER CALVEZ: We have one action for Chris, which is for him to list things that he's seen in other Budget presentations that we may want to consider adding. We have talked about finding an approach to provide more granular information on the larger projects, so we have more insight on those. Of course, we have determined together that we will probably try to formulate scenarios for the USG transition, with a constraint of, one, keeping it simple, and keeping it on time. Formats, we're probably going to keep the Word and the Excel, the combination of the two together, for now. What else? We've discussed a few other things.

We'll put a list together of the actions in the comments, and we'll circulate it with you guys and ask you to validate that we've not missed anything, at least from your perspective. Then we'll circulate that by the end of the week to the entire finance community distribution list. There's a few of you who are not on that list.

We have an email distribution list of anyone over the past four years who's been interested in the process, that then get an email update on: "We're scheduling an email on the planning," "This is the presentation…" You guys are hopefully not too

ICANN | 54
Dublin
18-22 OCTOBER 2015

loaded with those emails, but you receive them. Honestly, you can ignore the emails if you don't care, but at least if you do, you have them.

Those of you who are not on that list, please give us a business card so we can add your email into that distribution list and you will receive them. Whatever actions we've missed just now, we'll add them into the list and circulate it.

CAROLE CORNELL: Xavier? The one about communications, while we're here in Dublin, regarding IANA potential costs is another key action, I think.

XAVIER CALVEZ: Yes. We need also to go back to the CCWG and CWG Co Chairs on explaining to them the impact of timing from a planning standpoint, so at least they're aware. Thank you. Let's go to the slides on the IANA costs please. Not necessarily in the same format – and we'll show you the appendix a little later – in March we produced the IANA costs for FY15 Budget.

We used the Budget at the time to produce the IANA costs. We have now done it also for actual 15, and for the Budget of 16. Our commitments that we made a few weeks ago are that on a quarterly basis we'll also produce the actual costs of the IANA, so

that at least the whole community has visibility on that. That was a topic of interest by everyone.

Whoever has seen it may remember the three categories of cost. It's an aggregated level here. We have more details than that, and it's in the appendix. We have direct costs. For example, this is the department of IANA. Elise Gerich's team has 12 people who do IANA all the time. Those are very direct costs. It's the [unclear 03:06:45] audit of the IANA functions. It's very direct costs, exclusively related to the IANA function.

Then there are direct costs that are shared resources. Take IT, for example, IT supports the IANA operation but also supports other departments. That's a shared resource, and there are direct activities that IT supports. We've tried to extract those and allocate amounts, or use direct costs, if they were direct. If they were not direct we used allocation to determine how much those resources cost.

Then there are support function allocations – call that overheads, call that SGNA, call that administrative types of cost. This is the cost ofHR, the cost of finance, allocation of CEO time and so on. It's overheads. You can see the total amount in millions of dollars associated with each of those cost buckets for each of the periods. So the budget was $6.3 [dilated 03:07:54] by being $6.5. In the Budget for 16 it's $7.5 million.

The increase is in personnel. There is, from memory, one more person in IANA, and there's also salary increases that impact the costs, and inflation. And in direct costs there are also half a million more of direct costs. You have any insights, [Taryn], on what mainly drives that?

[TARYN]: I'm currently looking into what areas specifically are driving that increase, so we can provide that information.

XAVIER CALVEZ: We know there's a little bit of IT.

[TARYN]: Yes, but we'd like to see exactly…

XAVIER CALVEZ: The overheads are relatively constant at this stage. This is an aggregated level. Becky, can you bring us to the appendix? It's not very legible, but it's more detail, so that you know what level of detail there is behind it. Of course, we'll send everyone the presentation so that everyone has it. This is the assumptions that are supporting the calculation of the IANA functional costs. Next. More assumptions. More. This is the detail of the support functions allocations. This is the detail of all the costs.

This is a less legible version of the same information that we saw earlier. You'll have that in the presentation that we'll send, and this is also, for now at least, the format as per which we'll produce the information on a quarterly basis. So that information will be available. On a quarterly basis, it will be the actuals. Rudi, and then we'll try to stop there.

RUDI VANSNICK: Very quickly, what I didn't see in the appendix is any legal costs. Are there any legal costs? Are they in the Budget?

XAVIER CALVEZ: Are you asking about the IANA?

RUDI VANSNICK: Yes, because that could change in the future, because you probably will need a legal department. That's why I'm asking. I didn't see any of the legal part in the actual costs.

XAVIER CALVEZ: Personal opinion, I'm hoping we're not going to have a separate legal department supporting IANA. Having said that, there is legal cost in here, in the direct shared costs. There are legal costs here, and there are legal costs here as well, in the allocations. Tijani?

TIJANI BEN JEMAA: But Xavier, there will be a separated legal cost, because you have a separate Budget for PTI, so you will have necessarily… No, we are speaking about PTI, and PTI have…

CHERYL LANGDON-ORR: Understood, Tijani, but not a separate legal department. It would still be an allocation in a shared cost.

TIJANI BEN JEMAA: I don't know how, Cheryl, because if you have a specific budget for PTI, everything should be there.

XAVIER CALVEZ: No, but you're confusing, Tijani, whether there are separate departments. Two legal departments with two different managers, two different sets of headcounts. Or, if there's one department, for which we take a fraction of the cost, it goes into the PTI Budget, and the rest remains in the operations. That's what we're talking about.

[TARYN]: Or that charge-back.

XAVIER CALVEZ: Right, or allocations. But in this case it will be effectively an invoice with an amount, because it's two different legal entities.

GIOVANNI SEPPIA: That would reduce the costs of the legal department of ICANN.

XAVIER CALVEZ: Maybe, maybe not. What are the incremental costs associated with having another legal entity, versus how much are you sharing resources between two? The answer may not necessarily be the same, depending upon the activities of the department. I can tell you that I'm presuming that for Finance, for example, the costs will be higher. We will share resources. [Taryn] and Becky and I, we will share ourselves over the PTI and ICANN. We're going to have an audit to do. That's separate from the current audit that we do. That's another $15k - $20k, right there. We're going to have this meeting twice. Two dinners for Giovanni!

Okay guys, we've gone through a lot today. We've done over time. I really want to thank you for your input, for being present. That's been… I know it's a lot of effort on your agendas that are already quite full, but this has been really helpful to us. We've had a lot of input. I'm hoping you also have more insights as to what the process is going to look like, how much input we're going to need from you, and how much help we're going to need from you, to also talk to your colleagues across the organization,

to let them understand the challenges, the needs and the output of the process. Asha?

ASHA HEMRAJANI: First of all, thank you Xavier. I want to thank each and every one of you for spending three and a half, four hours here, locked in this room. Secondly, I also want to echo what Xavier just said. Please go back to your communities and explain the challenges we're facing with the Budget, and not only the challenges, but rather the fact that we take community involvement and community input extremely seriously. We want your input, we need your input, and we are going to incorporate your input. I want to make sure that every part of all of our communities, all our communities, understand that this is a collaborative, cooperative exercise – not being done in isolation. Thank you very much.

XAVIER CALVEZ: Thank you. Goodnight.

[END OF TRANSCRIPTION]